REPORTCard

JULY 2012 ND TEACHERS' FUND FOR RETIREMENT

Proposals Submitted for Interim Legislative Study

The interim Legislative Employee Benefits Programs Committee received the following bill drafts relating to TFFR. The bills have been sent to TFFR's actuarial consultant for technical and actuarial analysis. Public hearings on the bills will be scheduled for later this summer. The bills are available on the TFFR website at www.nd.gov/rio/TFFR.

Bill No. 99
The TFFR Board submitted Bill No. 99 which includes technical corrections and administrative updates to the TFFR plan.

- Updates the definition of actuarial equivalent to more clearly describe its use in pension calculations.
- Defines normal retirement age as the age a member becomes eligible for monthly lifetime unreduced retirement benefits as currently described in state statutes.
- Clarifies vesting provisions for compliance with federal statutes or rules.
- Incorporates other federal tax law changes to maintain compliance with federal statutes or rules.
- Adds savings clause which allows TFFR Board to adopt terminology to comply with federal statutes or rules subject to approval of the legislative employee benefits programs committee.

Bill No. 43
Another bill submitted for interim study is Bill No. 43, sponsored by Rep. Louser.

- Maintains the higher TFFR member and employer contribution rates approved by the 2011 Legislature until the Fund reaches 100% funded ratio (not 90% as provided in current law and described in the 2011 legislative article on page 3). Once full funding is achieved, contribution rates would be reduced to7.75% for members and 7.75% for employers.

Corneil Re-Appointed To Board

Governor Dalrymple has re-appointed Clarence Corneil to another five-year term on the TFFR Board. Mr. Corneil retired from Dickinson Public Schools after 38 years of service. He has been a TFFR trustee since 2002 and represents retired teachers on the Board. Mr. Corneil also serves on the State Investment Board. We appreciate his commitment to serve North Dakota educators as a TFFR Board trustee.

Memo to Members

We Are Not Alone

Fay Kopp
Interim Executive Director –
Chief Retirement Officer

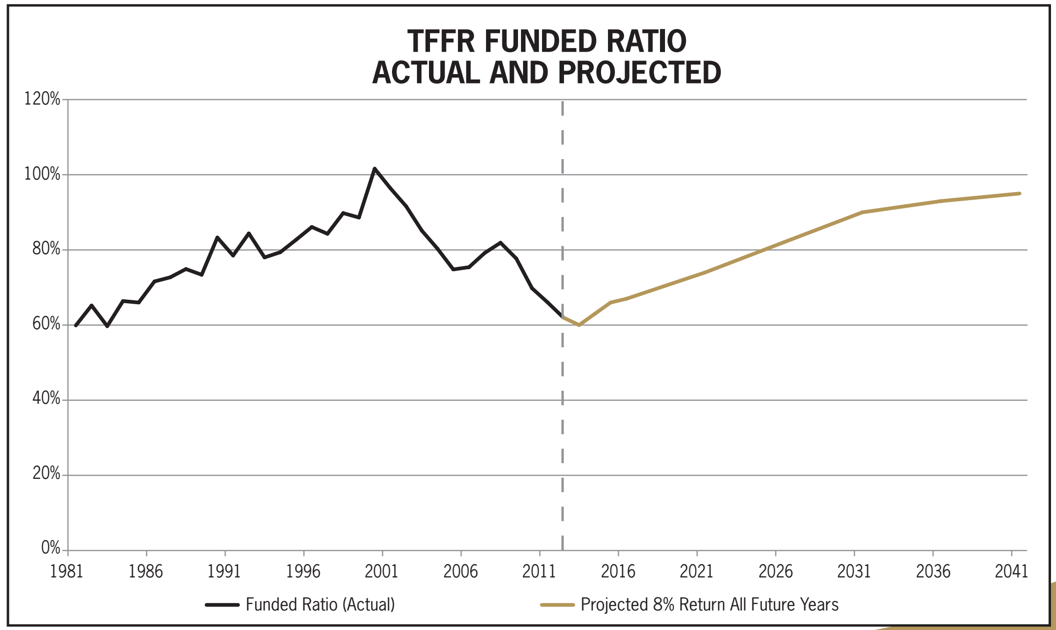
NDTFFR is not alone. The financial market meltdown in the past decade negatively impacted funding levels of pension plans, not just here in North Dakota, but all over the country. To offset investment losses, the NDTFFR Board recommended, and the 2011 Legislature approved, significant increases in member and employer contributions and benefit changes for non grandfathered employees. These changes were designed to improve funding levels over the long term. This is not "news" to members who have been reading TFFR newsletters, monitoring the website, and attending retirement presentations.

What you may not realize, however, is that public pension plans in other states, counties, and cities are addressing similar funding challenges in similar ways. Some plans have approved increased contributions – employee, employer, and/or state. Others have modified benefit structures, raised retirement eligibility ages, lowered benefits, and eliminated retiree cost of living adjustments. While there are a few plans that have yet to do so, the vast majority of states have enacted changes in their retirement plans designed to ensure their long-term sustainability. In doing so, plans recognize that time and patience will be needed to restore previously strong pension funding levels.

Yes…Patience. Unfortunately, one of the most common traits of our world today is just the opposite… Impatience. Technology has advanced to such a degree that the word "instant" is applied to almost everything from soup to suntans. Eating meals is identified in terms of "fast food," with express breakfasts, quick lunches, and dinners-to-go. "Snail mail" and print publications are becoming obsolete, with individuals and businesses utilizing faster and more efficient means of communication like e-mail, e-news, and other web-based technologies. Social media? Try Facebook, Twitter, and You Tube. Instant messaging. Instant alerts. Instant results.

But not "instant pension funding improvement." Unfortunately, quick pension fixes are not available at fast food drive up windows in ND or anywhere else. With the legislative changes approved in 2011, funding recovery is expected to occur gradually over time – after the 2008-09 investment losses are smoothed into actuarial calculations and after increased retirement contributions begin to flow into the system. The chart below shows actual TFFR funding levels from 1981-2011. It also shows estimated funding levels in the future. As you can see, it will likely take 20-30 years before TFFR reaches 80%-100% funding levels, if the plan meets all actuarial assumptions, including the 8% investment return assumption.

The slow economic recovery and ongoing global market volatility make a long-term focus particularly important for pension plans, here in ND and elsewhere. NDTFFR is not alone in needing time for the changes made to show positive results.



Legislative Changes Soon Go Into Effect

TFFR provides a reliable defined pension benefit to the state's public school teachers and administrators. However, due to a funding shortfall created by the huge downturn in the financial markets in 2008-09, legislation (HB1134) was approved in 2011 to set in motion a long term solution. The solution impacts all TFFR members to some degree, and provides a grandfathering provision relating to the benefit changes for members who are close to retirement.

Employee and Employer Contribution Increases

Contribution rates will increase a total of 8%, shared equally between employees (4%) and employers (4%). The rate increases will be phased in as follows:

	Current	Effective 7/1/12	Effective 7/1/14
Employee	7.75%	9.75%	11.75%
Employer	8.75%	10.75%	12.75%
Total	16.50%	20.50%	24.50%

The increased employee and employer contribution rates will be effective until TFFR reaches 90% funded level on an actuarial basis at which time the contribution rates will be reduced to 7.75% each.

Since TFFR retirement benefits are part of a teacher's total compensation package (salary and benefits), TFFR contribution rate increases likely were a discussion point as teachers and employers negotiated salary increases for the 2012-13 school year. Please visit with your employer to understand how the increased employee contribution will impact your salary.

Employee Contributions Required on Re-Employed Retirees

Effective July 1, 2012, the 9.75% employee contribution will be required on all salary earned by re-employed retirees performing TFFR covered employment. The pension benefit paid to a re-employed retiree will not increase as a result of the additional contributions paid (unless the retiree's benefit was suspended because the annual hour limit was exceeded.) However, the retiree contributions will be included in the retiree's guaranteed account value.

Benefit Changes Effective July 1, 2013

TFFR currently has two tiers of participating members. Tier 1 employees are those who were members prior to June 30, 2008. Tier 2 employees are those who began TFFR participation after June 30, 2008.

HB1134 modified the benefits for certain members by increasing the retirement eligibility age for unreduced retirement benefits and increasing the reduction factor for calculating reduced retirement benefits. Tier 1 employees who are less than 10 years away from retirement eligibility will be grandfathered under current retirement eligibility provisions. Tier 1 employees who are more than 10 years away from retirement eligibility, Tier 2 employees, and future employees will not be grandfathered.

A Tier 1 grandfathered member is one who, as of June 30, 2013, is vested (3 years of service credit) and is at least 55 years of age or has a combined total of years of service and age which is 65 or greater.

A Tier 1 non-grandfathered member is one who does not qualify as a Tier 1 grandfathered member.

HB 1134 Grandfathering Status Worksheet for Tier 1 Employees

Your actual age and service credit (including purchased service made before 6/30/13 and any eligible dual service with NDPERS) will be calculated to the nearest thousandth (0.000) according to information on file at TFFR.

	Examples (1)	(2)	(3)	(4)	You
Age on 6/30/13	44.333	55.297	44.333	65.222	________
Service on 6/30/13 +	21.258	3.000	19.000	2.000	________
Total	65.591	58.297	63.333	67.222	________
Grandfathered?	Yes	Yes	No	No	________

If you are a Tier 1 employee, vested and age 55 or older, you are grandfathered.
If you are a Tier 1 employee, vested and above total is 65 or greater, you are grandfathered.

Unreduced Retirement Benefits

Grandfathered Tier 1 employees remain under current provisions (i.e. Rule of 85) to qualify for unreduced retirement benefits.

However, non-grandfathered Tier 1 employees, Tier 2 employees, and all future employees will be required to work or wait longer in order to qualify for unreduced retirement benefits. Non-grandfathered Tier 1, Tier 2, and new employees can retire with unreduced benefits at minimum age 60 with the Rule of 90. If, however, they do not have the Rule of 90, unreduced retirement is still available at age 65. Employees may not begin receiving unreduced benefits until age 60, even if they reach the Rule of 90 at an earlier age. Since TFFR benefits are based on total service and a final average salary, future retirees working longer will likely receive a higher monthly benefit for life.

Reduced Retirement Benefits

Current statutes allow a vested member to be eligible to retire before normal retirement age and receive reduced retirement benefits if age 55 or older. HB 1134 did not change the minimum age 55 eligibility requirement, but it did increase the 6% per year reduction to 8% per year reduction. Non-grandfathered member's benefits will be reduced by 8% from the earlier of age 65 OR the later of either age 60 or Rule of 90.

Disability Retirement Benefits

HB 1134 increased the disability vesting requirement from 1 year to 5 years, and changes the benefit calculation to using actual service credit earned instead of the 20 year minimum. This change affects all non-retired employees.

Administrative Rule Changes Approved

Administrative rules changes to Title 82 of the N.D. Administrative Code relating to NDTFFR definitions, veterans' rights, contributions, retirement benefits, and disability benefits were recently approved and are effective July 1, 2012. A summary of the rule changes is available on the NDTFFR website.

Q: How will the 2% increase in employee contributions on 7/1/12 impact my paycheck?

A: If you pay your TFFR contributions through a salary reduction plan, you may see a decrease in your take home pay unless a salary increase of 2% or more was negotiated. If your employer has agreed to pay the entire 9.75%, your take home pay should not decrease and may increase to reflect any additional salary increase that was negotiated. If your employer was picking up all or a portion of the 7.75% employee contribution and did not agree to pick up the additional 2% employee contribution, you may see a decrease in your take home pay unless a salary increase of 2% or more was negotiated.

Q: How can I find out if I will be grandfathered?

A: The easiest way is to complete the grandfathering calculation worksheet found in this newsletter. If your "Rule of" calculation results in a value between 64 and 66, or if you are unsure of the calculation, you may wish to contact TFFR for a more exact calculation. Your grandfathered member status will be confirmed on your TFFR annual statement that is scheduled to be sent out in the fall of 2013.

Q: On June 30, 2013 I will have the Rule of 64. Can I purchase service credit to reach the Rule of 65 to be grandfathered?

A: Assuming you have eligible service that can be purchased, you may purchase the credit. However, the purchase must be completed prior to June 30, 2013 for it to be counted for the grandfathering calculation. Keep in mind the actuarial cost to purchase service credit increases significantly if the purchased service allows you to be grandfathered and eligible to retire at the Rule of 85, instead of minimum age 60 with the Rule of 90. Contact TFFR for an estimate.

Can I Afford To Retire?

If you have plans to retire in the next few years, one question you need to answer is: "Can I afford to retire?" The following list of activities will help you evaluate the affordability of your retirement.

- Identify your retirement income sources.
- Determine if your retirement income will cover expenses.
- Evaluate the best time to start Social Security benefits.
- Take into account your eligibility for Medicare begins at age 65.
- Estimate how inflation might affect expenses after 15 years in retirement.
- Determine if you need to work for pay in retirement.

Attending a TFFR benefits counseling session is a great first step as you begin evaluating the affordability of retirement. During your counseling session, TFFR retirement benefit estimates are created using a variety of projection scenarios.

TFFR Benefits Counseling appointments fill up fast, so if you would like to attend an individual session, contact us immediately. Due to very high demand, preference will be given to those who have not recently attended a counseling session. The following sites have been selected for the individual 30-minute benefits counseling appointments to discuss TFFR benefits and other retirement concerns. Call 701-328-9886 or 800-952-2970 to schedule an appointment today.

Bottineau	August 29, 2012
Williston	September 12, 2012
Minot	September 13, 2012
Harvey	September 18, 2012
Wahpeton	September 19, 2012
West Fargo	September 20, 2012
Grand Forks	September 26-27, 2012
Devils Lake	October 3, 2012
Dickinson	October 30, 2012
Fargo	November 7-8, 2012
Valley City	November 28, 2012
Beulah	November 28, 2012
Jamestown	November 29, 2012
Minot	December 6, 2012
Bismarck	January 16, 2013

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Interim Appointments Made

Effective June 1, 2012, the State Investment Board (SIB) appointed Fay Kopp as Interim Executive Director and Darren Schulz as Interim Chief Investment Officer (CIO) of the Retirement and Investment Office (RIO). RIO staff administers both the pension program for ND educators and the investment program for various ND pension and insurance trust funds. The Executive Director/CIO position was previously held by John Geissinger, who resigned effective May 31 so he and his wife could relocate closer to family in Connecticut.

The SIB also established a Committee to lead the search for a permanent replacement. The Committee includes representation from the various SIB client groups and includes Lt. Governor Drew Wrigley, Chair; State Treasurer Kelly Schmidt; State Land Commissioner Lance Gaebe; TFFR trustee Bob Toso; and PERS trustee Mike Sandal.

Please be assured the funds entrusted to the SIB are well positioned and are in good hands with a very qualified and experienced staff, board, investment managers, and consultants working together to prudently invest trust fund assets.