

REPORT Card

ND TEACHERS' FUND FOR RETIREMENT

JANUARY 2013

TFFR Funding Level Declines in 2012, But Long Term Projections Show Improvement

Each year, TFFR has an actuarial valuation performed to determine if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time and identifies emerging trends.

The July 1, 2012 report was recently delivered to the TFFR Board by the plan's actuarial consultant, Segal Company. Here are some details from the report.

Membership

As of July 1, 2012, the TFFR plan included 10,014 active members, which is a slight increase over last year. Total payroll for active members was \$505.3 million, an increase of 3.4%.

There were 7,151 retirees and beneficiaries, which is an increase of 3.1% over last year. Total annual benefits paid were \$135.3 million, an increase of 6.9%.

Financial

Member and employer contributions in FY 2012 totaled \$88.8 million compared to \$85 million in 2011. Total distributions, including benefit payments, refunds, and administrative expenses, was

\$139.3 million compared to \$132 million last year.

Assets

The market value of assets decreased from \$1.73 billion to \$1.65 billion as of June 30, 2012. However, actuarial calculations are based on the actuarial value of assets which averages investment gains and losses over five years. The actuarial value of assets decreased from \$1.82 billion to \$1.75 billion in 2012.

Actuarial Results

TFFR's actuarial accrued liability (AAL) increased from \$ 2.75 billion to \$2.87 billion. The unfunded actuarial accrued liability (UAAL) increased from \$927 million to \$1.1 billion, as 2008-09 investment losses continue to be recognized.

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Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.

New State Superintendent serves on TFFR Board

Newly elected State Superintendent of Schools Kirsten Baesler began her term on January 1, 2013. As part of her responsibilities, she will also begin serving as an ex-officio member of the TFFR Board. We look forward to working with her in managing the TFFR retirement benefits program for all active and retired North Dakota educators.



Memo to Members

Predicting TFFR's Future

"The consequences of our actions are so complicated, so diverse, that predicting the future is a very difficult business indeed."

Spoken by Professor Albus Dumbledore in *Harry Potter and the Prisoner of Azkaban*, by J.K. Rowling

Maybe I watched too many Harry Potter movies (dare I admit to all 8 of them?) over the Christmas holidays while putting together jigsaw puzzles with my "home-for-the-holidays-college-age-daughter." But there were just too many mornings when I woke up with various lines from the books/movies bouncing around in my head. (Thanks Professor Dumbledore, Professor McGonagall, Harry, Ron, and Hermione, and all the rest of the students and staff at Hogwarts School.)

So today, as I was trying to clear away the cobwebs and write to you about the future of TFFR, what popped into my head but the words of Professor Dumbledore. As he explained to Harry Potter in Book 3: *"The consequences of our actions are so complicated, so diverse, that predicting the future is a very difficult business indeed."*

Funding a retirement plan isn't about magic. It's about math. It's about solving the actuarial funding equation: **Benefits + Expenses = Contributions + Investment Earnings** over the lifetime of the plan. Unfortunately, there are



Fay Kopp
Interim Executive Director –
Chief Retirement Officer

a number of unknown and ever changing variables in the equation that make it difficult to solve. How many active contributing teachers will there be in the future? What will their salaries be? When will they retire? How long will benefits be paid? What will investment performance be over the next 30-50 years? What about inflation?

Many assumptions are used in calculating the amount of funds needed to pay pension benefits to past, present, and future teachers and administrators. Demographic and economic factors are determined, monitored, and periodically adjusted. The TFFR Board and its actuarial consultant work very hard to develop appropriate assumptions using both past experience, and future expectations. While it is impossible to determine exactly what will happen from year to year, by looking at a range of potential

outcomes, it helps to identify the best course of action.

As you recall, the TFFR Board, with valuable input from member and employer groups, determined a few years ago that the best course of action to ensure the financial stability of the TFFR plan was to make changes to contribution rates and benefits. These changes were approved in the 2011 legislative session and are being phased in over a number of years. The changes are expected to increase assets and reduce liabilities over the long term.

Unlike Harry Potter, I don't have a magic wand to wave or a crystal ball to predict TFFR's future. However, actuarial calculations done by highly educated and experienced mathematicians show that because of the actions taken, if long term actuarial assumptions are met, the future sustainability of the TFFR plan is good, and funding levels are expected to reach around 90% in about 30 years.

During these challenging and volatile economic times, we know our members have concerns about their retirement. Please be assured that TFFR will continue to monitor, address, and communicate TFFR's financial health to you now and in the future.

No matter what the future holds for TFFR, as Hagrid said to Harry Potter in Book 4: *"What's comin' will come and we'll meet it when it does."*

Summary of 2013 Legislative Proposals

The 63rd Legislative Assembly began on January 8, 2013. As of this writing, there have been four bills filed that are expected to directly affect the TFFR plan.

- **SB 2061**

The TFFR Board submitted SB 2061 (interim study bill no. 99) which includes technical corrections and administrative updates to the TFFR plan. The changes are not expected to have an actuarial effect on the plan, and were not submitted for funding improvement purposes. The bill: (1) Updates the definition of actuarial equivalent to more clearly describe its use in pension calculations. (2) Defines normal retirement age as the age a member becomes eligible for monthly lifetime unreduced retirement benefits as currently described in state statutes. (3) Clarifies vesting provisions and incorporates federal tax law changes for compliance with federal statutes or rules. (4) Adds a 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. The bill was studied during the interim by the Legislative Employee Benefits Programs Committee and was given a favorable recommendation.

Other bills affecting TFFR:

- **SB 2331**

SB 2331 requires a re-employed retired member's benefit to be actuarially adjusted to provide an increase in benefit based on the total amount of retired member contributions paid to TFFR during their re-employment.

- **HB 1203**

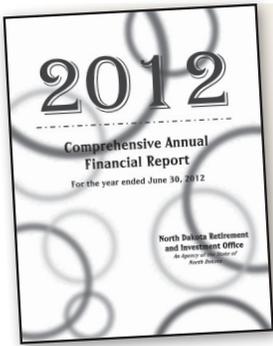
HB 1203 eliminates the requirement for TFFR member contributions to be paid on the salary earned by re-employed retirees effective July 1, 2013.

- **HB 2030**

HB 2030 (interim study bill no. 43) maintains the 11.75% member contribution and 12.75% employer contribution rates approved by the 2011 Legislature until the Fund reaches 100% funded ratio (not 90% as provided in current law). Once full funding is achieved, contribution rates would be reduced to 7.75% for members and 7.75% for employers.

The bills and additional information on legislative proposals affecting the TFFR plan can be found on the TFFR website at http://www.nd.gov/rio/TFFR/Legislation/default_2013.htm or the ND Legislative Council website at <http://www.legis.nd.gov/assembly/63-2013/regular>.

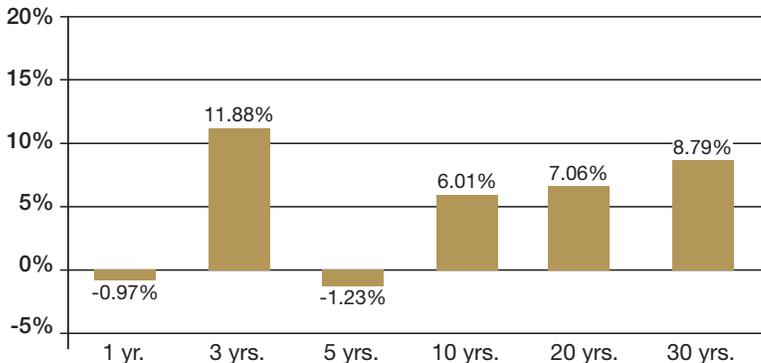




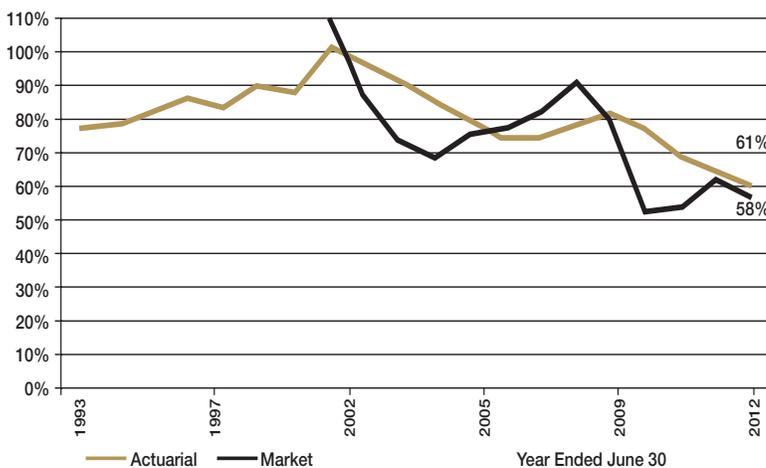
2012 Annual Report Summary

NDRIO's annual Comprehensive Annual Financial Report (CAFR) has been published for fiscal year July 1, 2011 – June 30, 2012. The report provides a detailed look at investment, financial, actuarial, and statistical information. The 2012 CAFR, actuarial report, and audit report are posted on the NDRIO website at www.nd.gov/rio/TFFR/Publications or by request to our office.

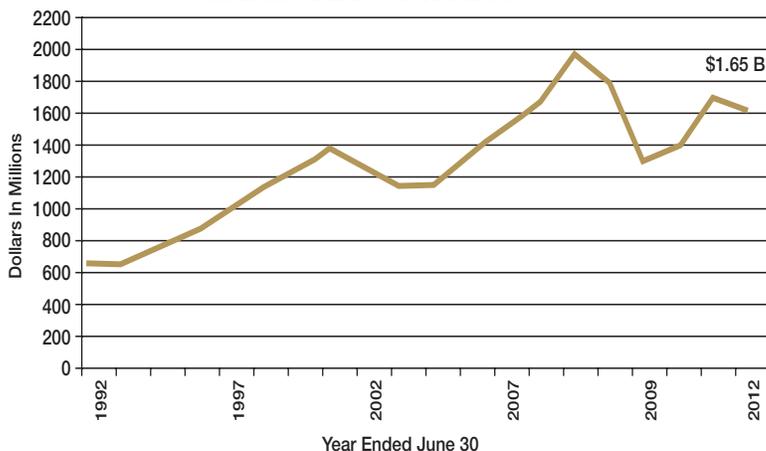
TFFR Investment Performance - Average Fiscal Year Ended June 30, 2012



TFFR Funded Ratio - Market vs. Actuarial



Market Value of TFFR Assets



Statement of Assets as of June 30, 2012

ASSETS

Equities	\$812,749,740
Fixed Income	370,045,662
Real Assets	315,768,906
Private Equity	104,823,271
Invested Cash	21,082,755
Receivables	17,913,941
Other Assets	14,372,393
Total Assets	\$1,656,756,668

LIABILITIES

Accounts Payable	\$1,985,912
Accrued Expenses	607,086
Other Liabilities	14,011
Total Liabilities	2,607,009
Net Assets on June 30, 2012	\$1,654,149,659

Changes in Assets During Fiscal Year 2012

CASH POSITION

Net Assets on June 30, 2011 **\$1,726,179,317**

-ADDITIONS-

Member Contributions	\$40,254,562
Employer Contributions	46,126,193
Other Additions	2,427,849
Investment Income(Loss)	(21,511,524)
Total Additions	\$67,297,080

-DEDUCTIONS-

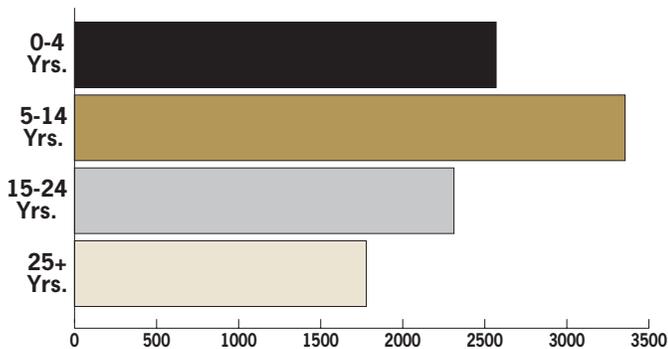
Benefits Paid	\$135,250,568
Refunds	2,479,194
Administrative Expenses	1,596,976
Total Deductions	\$139,326,738

Net Increase(Decrease) **(72,029,658)**

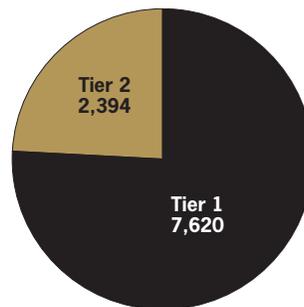
Net Assets on June 30, 2012 **\$1,654,149,659**

Membership Statistics - June 30, 2012

Active Members by Service



Active Members by Tier



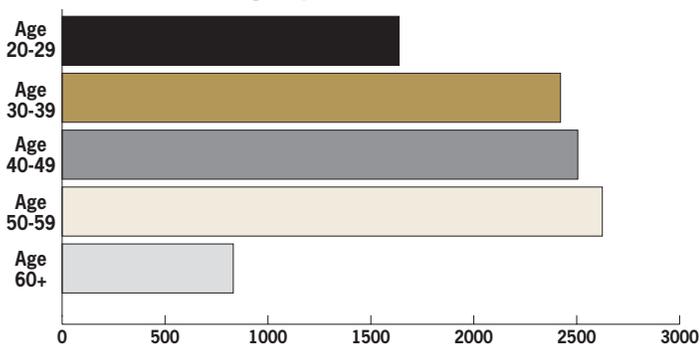
ACTIVE MEMBERS

Avg Annual Salary	\$50,458
Avg Age	Age 44
Avg Service	14 yrs
Oldest Active Member	Age 80
Most Service	46 yrs

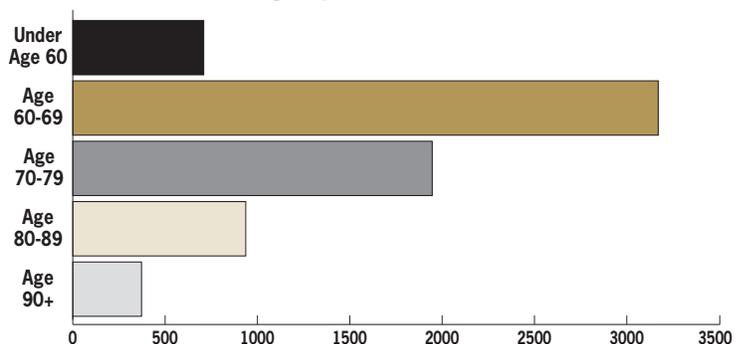
RETIRED MEMBERS

Avg Annual Pension	\$19,968
Avg Current Age	Age 71
Avg Service	27 yrs
Oldest Retiree	Age 107
Most Service	57.5 yrs

Active Members by Age



Retired Members by Age



2012 Actuarial Report

From page 1

As of July 1, 2012, TFFR's funded ratio (comparison of assets to liabilities) decreased from 66% to 61%. This means TFFR currently has about 61 cents for every one dollar it needs to pay present and future benefits earned by members.

Funding Projections

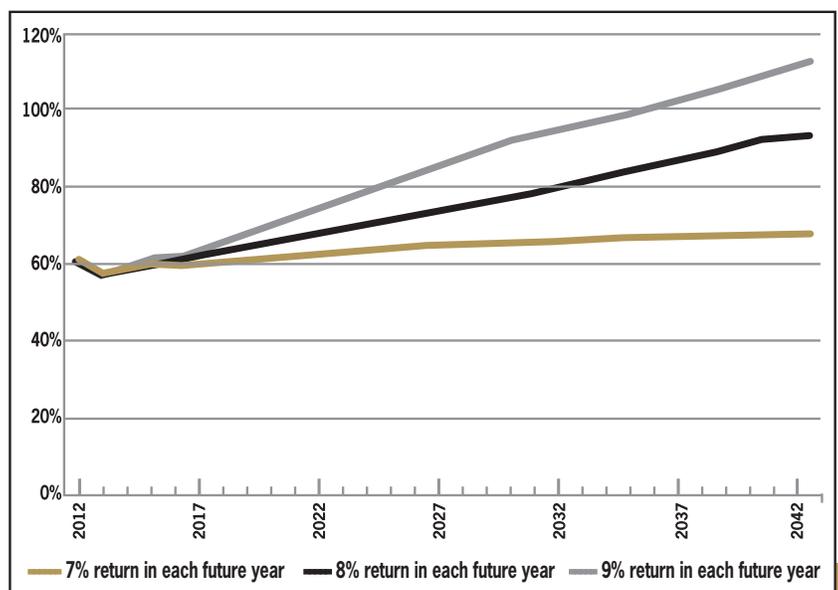
The actuary has determined that the legislative changes approved by the 2011 Legislature are expected to improve TFFR's funding status over the long term, if actuarial assumptions are met. While the 2012 actuarial results reflect a funding level decline, this is projected to begin turning around once 2008-09 investment losses are completely smoothed into future actuarial valuations, and as increased member and employer contributions begin to flow into the system.

As you can see from the chart on the right, if TFFR earns 8% investment returns in the future (black line), the plan's funded level should reach over 90% in about 30 years. If long term returns are greater than 8%, funding

progress will be reflected sooner. However, if returns are less than 8%, funding improvement will take longer.

The complete 2012 actuarial report is available on the TFFR website at www.nd.gov/rio/TFFR/Publications or by request to the TFFR office.

Projected TFFR Funded Ratios (AVA Basis)



TFFR Plan Changes Soon Become Effective

Plan modifications approved by the 2011 Legislative Assembly impact TFFR contribution rates and member benefits.

Contribution rate increases are effective for all TFFR members and employers on July 1, 2012 and July 1, 2014.

Various benefit changes also become effective July 1, 2013. To determine which members are grandfathered, on June 30, 2013, TFFR non-retired members will be divided into two groups based on age and service credit (calculated to the nearest thousandth 0.000).

- Grandfathered members include those who are within 10 years of retirement: vested Tier 1 members who are age 55 or greater OR have the Rule of 65 or greater on 6/30/13. Grandfathered members will have current retirement eligibility provisions and will be eligible for unreduced benefits at the Rule of 85 or age 65 (or reduced benefits at age 55).

- Non-grandfathered members include those who are more than 10 years away from retirement on 6/30/13 and all Tier 2 members. Non-grandfathered members will work or defer longer before unreduced retirement eligibility or take a larger benefit reduction if they retire early. Non-grandfathered members will be eligible for unreduced benefits at minimum age 60 with the Rule of 90 or age 65 (or reduced benefits at age 55).

- Non-grandfathered active members may purchase service credit before 6/30/13 to be grandfathered, if the member meets the purchase eligibility requirements outlined in state law. Purchased service needs to be paid in full by 6/30/13 for the credit to be

CONTRIBUTION RATES

	Employer	Member	Total	Increase
7/1/10	8.75%	7.75%	16.5%	—
7/1/12	10.75%	9.75%	20.5%	+4%
7/1/14	12.75%	11.75%	24.5%	+4%

Note: Increased rates will be in effect until TFFR reaches 90% funded ratio; then rates will be reduced to 7.75% each.

used in the grandfathering determination. Please note the actuarial cost to purchase service credit increases significantly, particularly for a non-grandfathered Tier 1 member, if the service purchase allows you to be grandfathered and eligible to retire at the Rule of 85, instead of minimum age 60 with the Rule of 90. Members should disregard any previous service purchase estimates. Contact the TFFR office as soon as possible if you are interested in receiving a service purchase estimate.

TFFR staff continues to work on implementation of 2011 legislation. We appreciate your patience during this transition period. Please contact the TFFR office if you have any questions about how these changes may affect you, or if you would like personal benefit estimates.

SUMMARY OF TFFR PENSION BENEFITS FOR MEMBERSHIP TIERS

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 yrs	3 yrs	5 yrs
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
X Final Average Salary (FAS)	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years

What Teachers Want to Know

How do I change my address?

Requests for address changes must be made by the member in writing and can be mailed or faxed to the administrative office. A TFFR address change form found on the TFFR website can be used OR a signed letter from the member is also acceptable.

How do I change my beneficiary designation?

Active members may change their beneficiary by completing a Member Action Form found on the TFFR website. Keep in mind if you are married, you must name your spouse as primary beneficiary unless you have written spousal consent to name another beneficiary. If you are not married or have spousal consent, you may name any person or persons, organization, or your estate as your beneficiary.

How can I find out the value of my retirement account?

Annual statements are sent to active and inactive members each August and should be kept as a permanent record. However, at any time you may request an updated account copy by contacting the administrative office.

I am a vested member considering leaving North Dakota. What are my options with my retirement account?

As a vested member, you have two options: 1) Take a refund of your account value. A refund can either

be paid to you or rolled over to an eligible retirement plan. 2) Leave your money in TFFR and defer drawing retirement benefits until you are eligible for retirement. Deferred benefit estimates can be obtained by contacting the administrative office.

I am leaving North Dakota to teach in another state. Can my TFFR account be rolled over to the qualified retirement system in that state?

The taxable portion of your TFFR refund can be rolled over to another eligible retirement plan if they accept rollovers. Since not all qualified plans accept rollovers, you need to discuss this with your new retirement plan.

Is the salary I earn from coaching included in the amount reported to TFFR?

Yes. Salary is defined as earnings in eligible employment for teaching, supervisory, administrative, and extracurricular duties.

If I am teaching in one school district then substitute teach for another school district, will the subbing income be reported to TFFR?

If there is no contract or written agreement to perform the substitute teaching duties, the income is not reportable to TFFR. However, if a contract or written agreement exists for the substitute teaching, the income is reportable to TFFR.

I teach for a school district and drive bus occasionally. Is the salary for the bus driving reported to TFFR?

No. Bus driving pay is not included in reportable salary for TFFR.

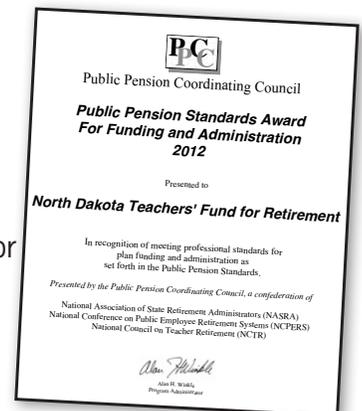
State Superintendent Sanstead Retires

Long time State Superintendent of Schools Dr. Wayne Sanstead retired December 31, 2012. Dr. Sanstead served 28 years in this capacity, and was the nation's longest serving Chief State School Officer. He was recently honored by the TFFR Board for his 28 years of service on the TFFR Board, as well as his 46 years of legislative and executive branch leadership. The Board and staff wish Dr. Sanstead and his wife, Mary Jane, a long and happy retirement.



TFFR Receives Award

The ND Teachers' Fund for Retirement has received the 2012 Public Pension Coordinating Council Recognition Award. This award is designed to recognize and commend public employee retirement systems that meet professional standards for both pension plan administration and funding.





**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**
*Teachers' Fund for Retirement
State Investment Board*

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**STATEWIDE PRE-RETIREMENT SEMINAR
REGISTRATION FORM**

July 10 - Grand Forks July 17 - Bismarck

Name _____

Address _____

City _____ State _____ Zip _____

TFFR Person ID _____

Home Telephone _____ Work Telephone _____

E-mail _____

Will your spouse/guest also be attending? ___Yes ___ No

Name of spouse/guest _____

Is your spouse/guest also a teacher? ___Yes ___ No

TFFR Person ID _____

Return to: **ND Retirement and Investment Office**
PO Box 7100, Bismarck, ND 58507-7100
or e-mail information to: rio@nd.gov

**Annual Statewide
Pre-Retirement Seminars**

You know you should be planning and/or revisiting your current retirement plan but need some motivation. Feedback from a participant that attended a TFFR Pre-Retirement Seminar might be just the incentive you need. *"The seminar was very helpful and informative. I feel like I have some direction now to be better prepared for my retirement years."*

To help ND educators in their planning, TFFR hosts statewide pre-retirement seminars. All teachers are invited to attend. The full day pre-retirement planning seminar covers TFFR benefits, financial planning, estate planning, Social Security benefits, PERS health insurance, and adjusting to retirement.

The 2013 seminars will be held in Grand Forks on July 10, 2013, and in Bismarck on July 17, 2013. The seminars begin at 8 am and conclude at 4:30 pm. Each site will be limited to 75 participants, so register early. To register, call 1-800-952-2970 or 328-9886 or complete and return the attached registration form.