

# Retirement TODAY

ND Teachers' Fund for Retirement

DECEMBER 2009

## ND TFFR Funding Challenges: What does the Future Hold?

Unprecedented financial market declines in 2008-09 hit investors of all kinds very hard. NDTFFR is no exception, and the market downturn had a significant impact on the financial stability of the plan. For TFFR benefits to be sustainable, adequate contributions from employees and employers must be received. Those contributions are then invested during an employee's working career with the goal of providing sufficient funding to pay the benefit amount determined under ND statutes. When investment markets are hurt by low or negative returns, TFFR's ability to fund benefits is also lowered. Addressing TFFR funding challenges will require shared actions and support from

employees and employers over the long term.

### What Happened?

As you can see from Chart 1 on page 3, TFFR investments have generally been very strong over time due to the State Investment Board's long term investment strategy, professionally managed portfolio, and well diversified assets. Unfortunately, like other investors (individual, corporate, and public pension systems), TFFR experienced significant investment losses in the past year. Reflecting this market turmoil, the TFFR portfolio returned -27.3%, which is well below our 8% investment return assumption. Market value of assets decreased from about \$1.8 billion to \$1.3 billion as shown in Chart 2.

These investment losses have a substantial impact on TFFR's long-term funding outlook. A plan's funded status refers to the amount of assets the plan has compared to the cost of benefits earned (assets / liabilities). TFFR's funded level is calculated based on an actuarial value of assets which recognizes 20% of each year's investment gain or loss over a 5-year smoothing period. Market value is the actual value of assets.



When investment earnings decline, funding levels also decline as shown in Chart 3. According to TFFR's most recent actuarial valuation report dated July 1, 2009, TFFR's current funding level is nearly 78% (based on actuarial value) or about 54% (based on market value). Actuarial projections show TFFR's funded level will drop to less than 50% within 5 years, and continue declining in the future, even if we earn 8% every year going forward.

Actuarial analysis shows that current statutory contribution rates of 7.75% for members and 8.25% for employers (8.75% effective 7/1/10) are insufficient to amortize TFFR's unfunded liability over 30 years. TFFR's contribution rate shortfall declined to -2.53% in 2009, and is projected to steadily worsen to about -14.0% as investment losses are recognized over the next few years.

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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.*

Continued on page 2

# What does the Future Hold?

From page 1

Unfortunately, it is highly unlikely that investments alone will return TFFR to actuarial balance. In fact, it would take future returns averaging 10-11% over the long term to resolve the funding deficit.

While TFFR's long term funding outlook is not good news, please be assured there is no immediate concern of the plan's ability to make benefit payments each month. TFFR has over \$1.3 billion in assets to meet annual net expenses of about \$120 million per year.

## Next Steps?

A TFFR Funding Improvement Study Group has been formed which includes TFFR Board, stakeholder groups (NDCEL, NDEA, NDRTA, NDSBA), RIO staff, actuarial consultant, and Attorney General's Office. The Study Group is meeting to conduct a top-to-bottom analysis of funding improvement options, consider advantages and disadvantages of various alternatives, receive actuarial cost information, consider legal issues, and formulate legislative plans.

TFFR funding improvement actions will likely require **shared sacrifice** – both members and employers may need to collectively contribute to the funding solution to ensure pensions are on a sustainable path forward following this economic crisis.

Additionally, actions will need to be **phased in over time**. Funding shortfalls will not be solved in one legislative session, or with a couple good years of investment returns (although the market recovery currently underway is a good start). Pension funds are built for the long haul, but will need time to recover.

**Possible changes** under consideration include:

- Member and employer contribution increases (total 8% to 10% phased in over a number of years with trigger point for reducing rates when adequate funding levels are met).
- Benefit reductions for new employees (retirement eligibility, benefit multiplier, retiree re-employment, disability provisions, are some of the changes being discussed).
- Other possible benefit changes and/or revenue sources.

The TFFR Board believes it is in the best financial interests of members and employers to begin taking funding improvement actions sooner, rather than later.

This is important because:

- A financially strong TFFR plan with competitive benefits is an important tool used by ND school districts to attract and retain quality ND educators.
- TFFR provides lifetime financial security to over 6,500 currently retired educators, and nearly 10,000 more future retirees.
- Pension benefits received by retirees are spent in the state and local community. This spending ripples through the state in the form of jobs, tax revenues, and economic impact.

The TFFR Board plans to submit a range of funding improvement options for study by the interim Legislative Employee Benefits Programs Committee (LEBPC) by April 1, 2010 deadline. The LEBPC will then review the study bills, get technical/actuarial review, hold public hearings, and give each proposal a favorable, unfavorable, or neutral recommendation by November 2010. Finally, the TFFR Board will consider the LEBPC recommendations and submit a funding improvement bill to the 2011 Legislative Assembly which begins in January 2011.

The TFFR Board cannot make any guarantees as to what will happen to pension benefits in the future. While the Board plans to submit legislative proposals aimed at addressing shortfalls and stabilizing funding, it is the responsibility of the ND Legislature to decide what changes, if any, will be made to address declining funding levels. If legislative changes are made, they would typically take effect on July 1, 2011 or after. However, it is also likely that such legislation would contain a delayed effective date of 2012 or later to allow time for employee and employer decision making, negotiating, budgeting, and implementation. Employees should not make hasty retirement decisions until more details are known. Both active and retired members should closely monitor 2011 legislation for potential impact on the TFFR plan.

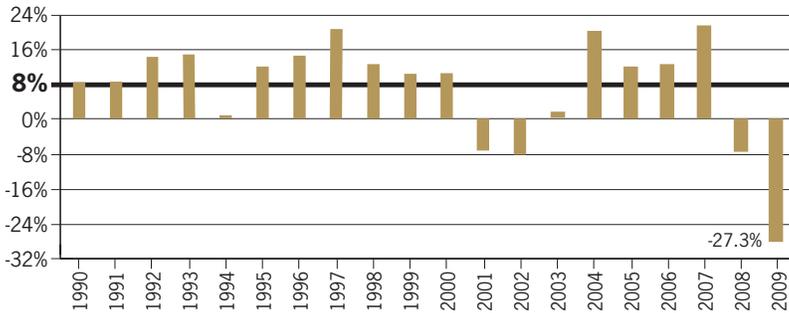
Please visit TFFR's website for newsletters, presentations, and legislative information ([www.nd.gov/rio](http://www.nd.gov/rio)). A member update will also be sent to you next spring with more detailed information about legislative proposals under consideration. As always, feel free to call or email our office to discuss questions or concerns (1-800-952-2970 or [rio@nd.gov](mailto:rio@nd.gov)).

# 2009 Annual Report Summary

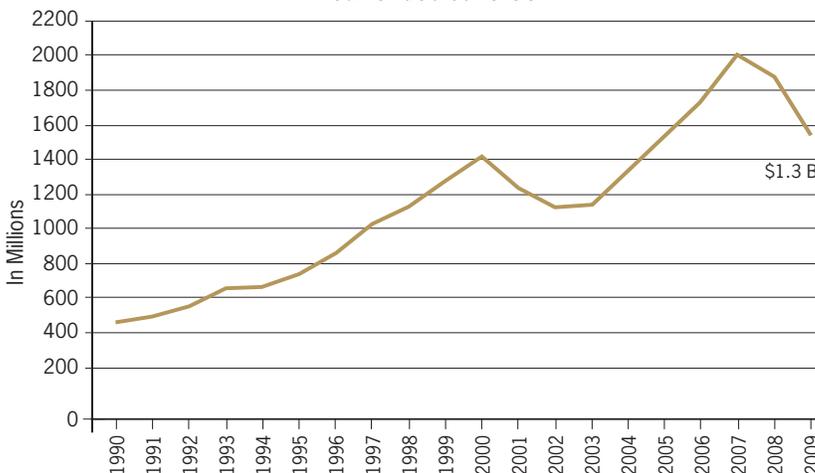
NDRIO's Comprehensive Annual Financial Report (CAFR) has been published and provides a detailed look at investment, financial, actuarial, and statistical information. The report continues to receive the Certificate of Achievement for Excellence in Financial Reporting. Summary information for this year's report which covers July 1, 2008 – June 30, 2009 is shown below. The complete report is posted on the NDRIO website at [www.nd.gov/rio](http://www.nd.gov/rio).



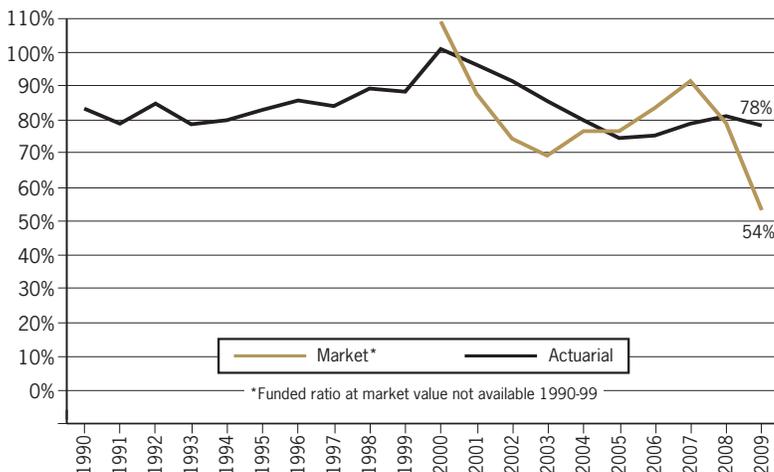
**CHART 1 – TFFR Investment Performance**  
Year ended June 30



**CHART 2 – Market Value of TFFR Assets**  
Year ended June 30



**CHART 3 – TFFR Funded Ratio**  
Year ended June 30



## Changes in Assets During Fiscal Year 2009

### CASH POSITION (in millions)

**Net Assets on June 30, 2008** **\$1,846.1**

#### ADDITIONS

Member Contributions	34.7
Employer Contributions	37.5
Other Additions	2.2
Investment Income/Loss	(492.8)
<b>Total Additions</b>	<b>(418.4)</b>

#### DEDUCTIONS

Benefits Paid	114.0
Refunds	2.3
Administrative Expenses	1.7
<b>Total Deductions</b>	<b>118.0</b>

**Net Decrease** **(536.4)**

**Net Assets on June 30, 2009** **\$1,309.7**

## Statement of Assets as of June 30, 2009

### ASSETS (in millions)

Equities	662.3
Fixed Income	394.9
Real Estate	142.9
Alternative Investments	71.1
Invested Cash	13.6
Invested Securities Lending	6.8
Receivables	15.4
Other Assets	11.8
<b>Total Assets</b>	<b>1,318.8</b>

### LIABILITIES

Accounts Payable	1.7
Accrued Expenses	.5
Securities Lending	6.8
Other Liabilities	.1
<b>Total Liabilities</b>	<b>9.1</b>

**Net Assets on June 30, 2009** **\$1,309.7**

# Memo to Members

## All We Really Need To Know...

Each time I read ***“All I Really Need to Know I Learned in Kindergarten,”*** by Robert Fulghum, I tend to relate it to whatever issue is foremost on my mind. Recently, when I ran into that timeless essay, I was thinking about TFFR funding challenges and options to restore its financial health. So, naturally, I did what the author advised, and tried to apply the lessons to TFFR. Not surprisingly, I found many of the lessons really do ***“hold true and clear and firm.”*** Here are a few examples:

### ***Share everything.***

TFFR has a history of sharing. Over the years, both employees and employers have shared in making retirement contributions to maintain a financially sound retirement system for ND educators as an important employee benefit. Employees and employers have also jointly increased retirement contributions to fund increased benefits (for example, Rule of 85 in 1989 and increased multiplier in 1997).

Now, due to investment losses resulting from the worst market meltdown since the Great Depression, the TFFR Board plans to submit a range of legislative study proposals to restore TFFR's financial health. Legislative proposals will likely reflect shared sacrifices involving members and employers. Such proposals could include contribution increases from employers, contribution increases from current employees, future benefit changes for new employees, and other possible changes or



Fay Kopp,  
Deputy Executive Director -  
Chief Retirement Officer

revenue sources. While current benefits can't be reduced for retirees, it is highly doubtful that TFFR will be able to fund retiree benefit increases or supplemental retiree payments in the future.

Sharing the financial responsibility of adequately funding the TFFR plan for current and future ND educators will be difficult, but necessary, in order to ensure that lifetime pension benefits are secure.

### ***Play fair.***

The TFFR Board recognizes that ND educators are in varying stages of their career: newly-hired, mid-career, ready-to-retain, already retired. Likewise, school boards and other employers have differing budget priorities and needs.

The TFFR Board is working on legislative proposals to address funding shortfalls that are cooperative and respect the competing demands of employees and employers. The Board is seeking solutions that will provide a

reasonable balance of all the factors involved – cost, stability, timing, and benefit adequacy. This is no easy task, and all stakeholders may need to be part of the solution.

### ***Put things back where you found them.***

This is the central issue and the TFFR Board's #1 priority. TFFR needs to get back to adequate funding levels – minimum of 80%, but preferably 100% – over the long term. While this is not an immediate crisis, it is a serious situation. Without action, TFFR's unfunded liability will continue to increase and funded ratio will continue to decrease. The longer we wait to take action, the more it will cost. We need to use time to our advantage, and begin making changes now in order to get funding levels back to where they were.

The TFFR Board and TFFR Funding Improvement Study Group are dedicated to working on behalf of members and employers to provide for the financial health and stability of NDTFFR. Addressing TFFR's funding shortfall is important, and we are committed to a comprehensive solution that is sustainable for both the short and the long term.

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And finally, on a lighter note, ***“warm cookies and cold milk really are good for you.”***



# Federal Tax Withholding

The American Recovery and Reinvestment Act of 2009 (also known as the stimulus package) contained provisions which may have changed the amount of taxes withheld from your retirement benefits during 2009 and 2010. These changes may also affect your 2009 and 2010 federal tax returns. The two provisions of this package we want to bring to your attention are the **Making Work Pay Credit** and the **Economic Recovery Payment**. Additional information regarding both provisions was included in the 2009 TFFR Annual Statement recently mailed to you.



We encourage you to consult your tax advisor, the IRS, or Social Security for information about how the “Making Work Pay Credit” and “Economic Recovery Payment” will affect your individual tax situation.

Since the 2009 tax year is complete, you can no longer adjust your tax withholding for 2009. However, if you wish to adjust your tax withholding to increase the amount of taxes withheld for 2010, you may obtain a substitute W-4P form by calling the TFFR office at 1-800-952-2970, or downloading a form from the RIO website at [www.nd.gov/rio](http://www.nd.gov/rio). If you believe your tax withholding is sufficient, no action is necessary.



## ACHIEVEMENT AWARD

The ND Teachers' Fund for Retirement has received the 2009 Public Pension Principles Recognition Award for Administration. This award is designed to recognize and commend public employee retirement systems that meet professional standards for pension plan administration.

## TFFR Board

The TFFR Board is dedicated to ensuring a financially secure pension fund for the benefit of North Dakota's active and retired public school teachers.



Front row, from left: Clarence Corneil, Mike Gessner, Lowell Latimer. Back row: State Treasurer Kelly Schmidt, Bob Toso, State Superintendent Wayne Sanstead, Kim Franz.



**NORTH DAKOTA  
RETIREMENT AND  
INVESTMENT OFFICE**  
*Teachers' Fund for Retirement  
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## Watch for TFFR Retiree Payments and Mailings

December 1, 2009	Regular monthly retirement benefit paid
December 7, 2009	<b>Supplemental retiree payment notice mailed</b>
December 15, 2009	<b>Supplemental retiree payment paid (2009 Leg.)</b>
December 23, 2009	Annual retiree statement mailed
January 1, 2010	Regular monthly retirement benefit paid
January 31, 2010	1099 tax forms mailed

