

NDTFFR Funding Update

The Issue

Like other investors around the country, NDTFFR experienced significant investment losses as a result of the 2008-09 global recession. A major loss of assets coupled with increasing liabilities (longer life expectancy, salary increases, and benefit changes) had a substantial impact on TFFR's long term funding outlook. Prior to the market meltdown, TFFR's funded level was about 80%. As of the July 1, 2012 actuarial valuation report, TFFR's funded level was 61%. The unprecedented decline in the global markets and the accompanying recession, along with the projected gradual economic recovery, accelerated the need for TFFR to make changes.

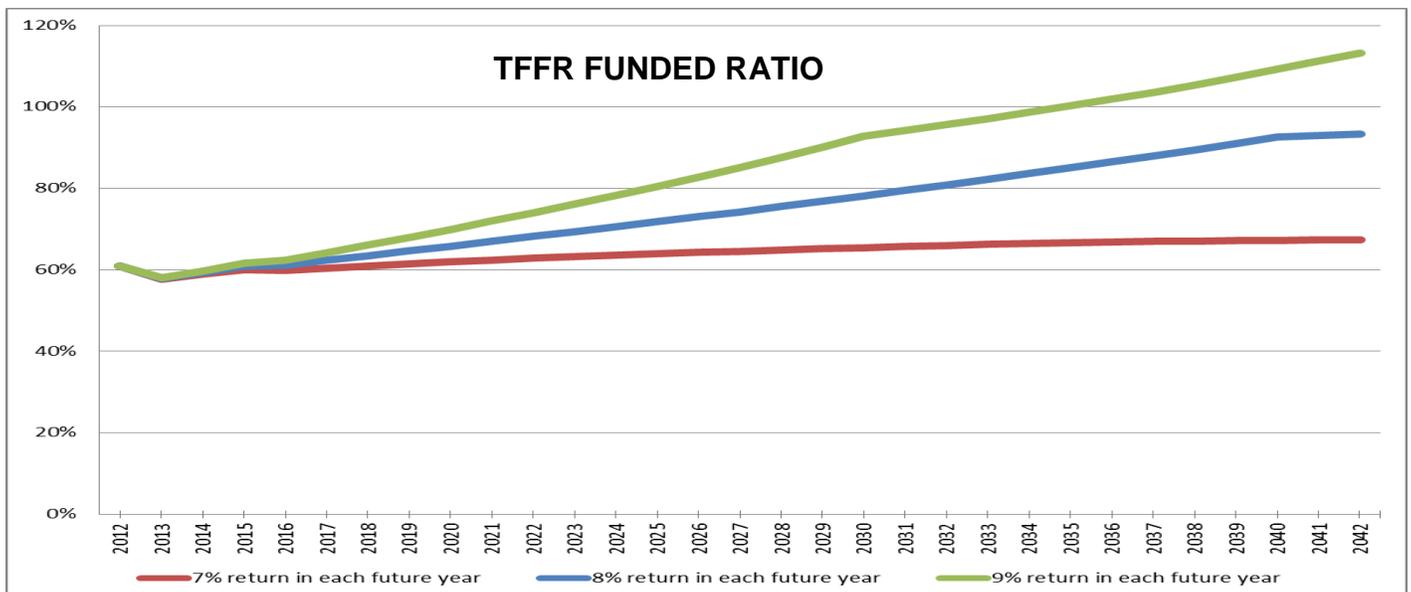
TFFR has the funds needed to pay current pension benefits when they are due. However, looking long term, there was a projected shortfall in the funding of TFFR benefits. TFFR's challenge was to stop the downward trend, stabilize funding, and improve funding levels.

The Plan

During 2009-10, the TFFR Board of Trustees, with input from member and employer interest group representatives, developed a legislative proposal to improve TFFR's funded status. The plan included member and employer contribution increases, and benefit changes for certain non grandfathered and new members of the plan. (See TFFR benefit summary on reverse page.) The plan was studied by the interim Legislative Employee Benefits Programs Committee during the 2010 interim, and given a favorable recommendation. The plan (HB 1134) was then carefully considered and approved by the 2011 Legislature, and signed by the Governor.

The Result

TFFR funding levels are expected to improve in the future. However, until all of the 2008-09 investment losses are recognized in actuarial valuations over the 5-year smoothing period, and until the increased member and employer contributions flow into the plan beginning 7/1/12, funding progress will not be reflected in the valuation reports. As you can see from the exhibit below, with 2011 legislative changes, plus 8% investment returns (middle line) in the future, TFFR's funded level is projected to reach over 90% in about 30 years. If returns are greater (top line) or less (bottom line) than 8%, funding progress will take more or less time. Due to legislative action taken in 2011, TFFR's long term funding outlook is positive, and benefits are secure for past, present, and future ND educators.



TFFR Plan Summary

	Tier 1 Grandfathered	Tier 1 Non- Grandfathered	Tier 2 All
Employee Contribution Rates (active and re-employed retirees)			
7/1/10 - 6/30/12	7.75%	7.75%	7.75%
7/1/12 - 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%
Employer Contribution Rates			
7/1/10 - 6/30/12	8.75%	8.75%	8.75%
7/1/12 - 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%
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			
X Final Average Salary	2%	2%	2%
X Service Credit	3 yr FAS Total years	3 yr FAS Total years	5 yr FAS Total years
Disability Retirement			
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit	Yes	Yes	Yes
Death/Survivor Benefits			
Refund of account value or Life Annuity to survivor based on member's vesting status.	Yes	Yes	Yes

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Tier 1 is a member who has service credit in the TFFR plan prior to 7/1/08.

- **Tier 1 Grandfathered** is a member, who as of 6/30/13, is less than 10 years away from retirement eligibility. Grandfathered member must be vested, and either age 55 or have a combined total of service credit and age which equals or exceeds 65 on 6/30/13.
- **Tier 1 Non Grandfathered** is a member, who as of 6/30/13, is more than 10 years away from retirement eligibility. Nongrandfathered member is less than age 55 and has a combined total of service credit and age which is less than 65 on 6/30/13.

Tier 2 is a member who began participation in the TFFR plan on 7/1/08 or after.

*Contribution rates are in effect until TFFR reaches 90% funded level, then rates reduce to 7.75% each.

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