# Report Card

TEACHERS' FUND FOR RETIREMENT MAY 1999

## TFFR Legislation Passes!

## Retirement Benefits Improved

*See related articles inside…*

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

*Teachers' Fund for Retirement*
*State Investment Board*



**ND Retirement and Investment Office**
1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, ND toll free: 1-800-952-2970
Relay ND: 1-800-366-6888



*Scott Engmann receives NDEA's Adrian R. Dunn Friend of Education Award. Pictured left to right: Luella Dunn, Scott Engmann and Joe Westby, NDEA Executive Director.*

# Executive Director Announces Retirement

After 36 years of public service in North Dakota, Scott Engmann has announced plans to retire on June 30, 1999. Scott has been the Executive Director of RIO / TFFR since 1981. Prior to that time, he served in various administrative positions with the ND Division of Vocational Rehabilitation for 11 years and taught for six years in Harvey, Mohall, and Minot.

Under Scott's leadership:

- Major improvements to the TFFR plan were initiated and implemented.
- Newsletters and educational programs for TFFR members were designed.
- State-of-the-art computer systems were developed to efficiently administer the plan.
- Quantitative investment performance measurement was introduced.
- Investment portfolio optimization strategies were implemented.
- TFFR and SIB offices were successfully merged to create the Retirement and Investment Office (RIO).
- The "Carver" model of board governance was instituted with the SIB and TFFR Boards.

On a national level, he served as President of the National Council on Teacher Retirement (NCTR) in 1996, and Chairman of the Public Pension Coordinating Council (PPCC) in 1998. He has served as an officer on numerous committees and organizations dealing with public pension plan administration.

Scott was recently selected by the North Dakota Education Association to receive the Adrian R. Dunn Friend of Education Award. This award is given to individuals, who through their leadership, acts and support, have proven to be true friends of education, educators, and students.

During his lengthy and distinguished career, Scott was a tireless advocate for all TFFR members. He dedicated himself to the service of the citizens of North Dakota and participants of the retirement system. We thank Scott for his service, and wish him well in his new career… retirement.

# Over the Rainbow

*Fay Kopp*
*Retirement Officer*

I just got back from a trip. A trip to the Land of Oz, that is. Or so it felt during these three and one half months of the 1999 Legislature. To be honest, there were times when we wanted to click our heels and go home. But, I think we found that brains, courage, and heart all have a place – both in getting to Emerald City and in getting a benefit increase passed for TFFR members. And when working together as a team – like Dorothy, Scarecrow, Lion, and Tin Man – much can be accomplished. I left Emerald City with a much better understanding of the legislative process, and how it works "over the rainbow." It was exciting, a bit scary, yet a wonderful experience.

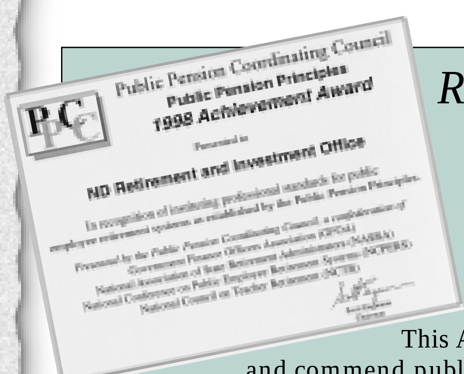
My trip to the Land of Oz was taken with a great leader of your retirement plan – Executive Director Scott Engmann. He's taken this trip many times, and as he was showing me the ropes, I'll admit that I felt an awful lot like "Toto" following along on his heels.

During the 1999 Legislative Assembly, I was proud to represent the TFFR Board and work with not just one, but a whole team of wizards – intelligent, courageous, and caring people – whose combined efforts serve to improve teachers' retirement benefits. Representatives from NDEA, NDCEL, and NDRTA all played an important role in assuring the legislators that the bills affecting your retirement plan were good ones. Active and retired members did your part by contacting legislators and voicing your support. It worked and SB2069 passed!

But, I must be honest. There really is "no place like home." For it's back at home where retirement legislation passed becomes reality to the many TFFR members who depend on our biennial trip to improve retirement plan benefits. Back at home, (on this side of the rainbow) the RIO staff is developing computer programs, updating publications, forms and procedures, and responding to the many questions from members and employers about the legislative changes.

It will take us some time to unpack from this trip. Please be patient.

## *Retirement System Receives Award*

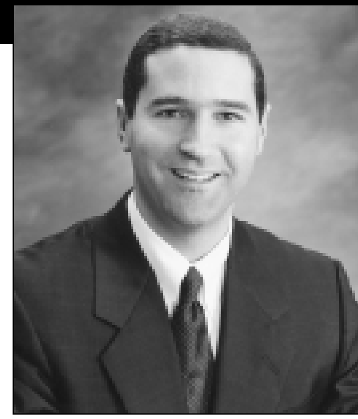



Once again, the ND Retirement and Investment Office received the prestigious Public Pension Principles Achievement Award from the Public Pension Coordinating Council (PPCC).

This Achievement Award is designed to recognize and commend public employee retirement systems that adhere to high professional standards.

Qualification for the award is based on compliance with 19 specific principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, audits, investments, and disclosures to plan members and the public.

You can be proud that your retirement system is among this elite group of award recipients.



*Steve Cochrane*
*Investment Director*

# Management Changes Made

The State Investment Board (SIB) has selected Steve Cochrane to succeed Scott Engmann as Executive Director – Investment Director. Steve joined the RIO staff as Investment Director in 1997. He received his BSBA and MBA degrees from the University of Florida, is a Chartered Financial Analyst (CFA), and has been active in the public pension investment arena for over 20 years. In addition to assuming the Executive Director duties, he will continue to assist the SIB in implementing the pension and insurance trust investment programs.

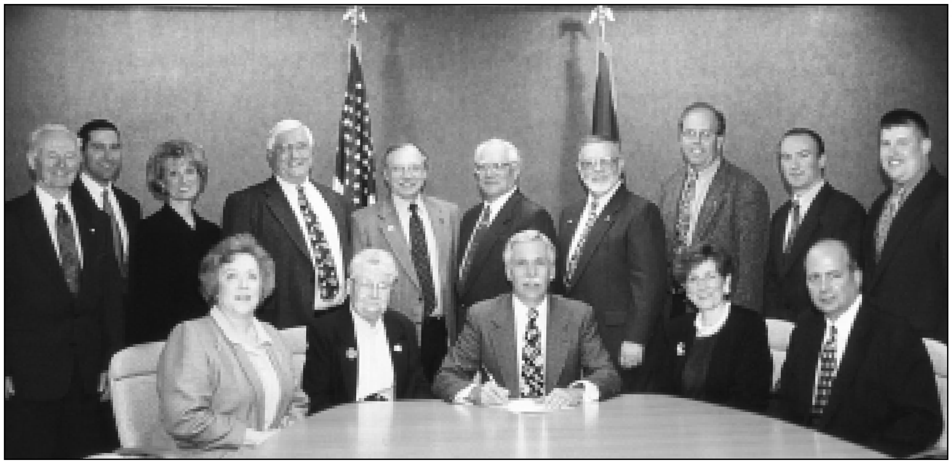
Fay Kopp, currently RIO's Retirement Officer, will become Deputy Executive Director – Retirement Officer. A graduate of Valley City State College, Fay is a former public school teacher. She joined TFFR as a Benefits Counselor in 1989, and has supervised retirement program activities for the past eight years. Besides assisting the Executive Director, she will continue to work with the TFFR Board in administering the retirement program for teachers.

According to Steve Cochrane, *"Scott's retirement provides us with an opportunity to reorganize the RIO management structure. With Fay Kopp defining the role of Deputy Executive Director and the addition of a Supervisor of Retirement Services, our office will be well-equipped to meet the needs of both active and retired TFFR members in the new millennium."*

# TFFR Legislation Passes!

The 1999 Legislative Assembly passed legislation to improve TFFR members' retirement benefits. The approval of Senate Bill 2069 increases the retirement multiplier from 1.75 percent to 1.88 percent for TFFR members retiring on or after July 1, 1999.

Sponsored by the TFFR Board, this bill supports the Board's primary goal of providing a replacement income of 60 percent of final average salary. The new multiplier will replace 56.4 percent of a career teacher's final average salary compared to a replacement income of only 30 percent in 1981. The annual dollar cost for this improvement is approximately $6.2 million per year. The cost is being paid from actuarial reserves in the Trust Fund incurred because of higher than assumed investment returns.



*Representatives from the TFFR Board, RIO staff, NDEA and NDRTA witness Governor Schafer signing SB2069.*

The multiplier increase will create sizable differences in your future monthly retirement benefits.

*Example:*
*Retiree eligible for Rule of 85*
*$30,000 high 3 annual salaries*
*30 years service, age 55*

*Current multiplier – $1,312 month*
*1.88 percent multiplier – $1,410*

## Retirement Benefits Improve!

If you are considering retiring this year and would like an updated benefit estimate, contact the administrative office. For those not retiring this year, the benefit estimate included on your 1999 Annual Statement (which will be sent to you in September) will reflect the 1.88 percent multiplier.

## A Quick Glimpse... *1999 Legislation Affecting TFFR Members*

**PASSED – SB2069**

- Increases the benefit multiplier from 1.75 percent to 1.88 percent for all future retirees.
- Provides a postretirement benefit increase for all annuitants and beneficiaries receiving a benefit equal to an amount calculated by taking $2 per month multiplied by the member's number of years of service credit plus $1 per month multiplied by the number of years since the member's retirement.

**PASSED – SB2204**

Allows certified new employees of the Department of Public Instruction (hired after January 2001) to make an irrevocable election to participate in TFFR or NDPERS.

**PASSED – SB2282**

Allows a retired member to return to teaching, for up to one year, without losing any benefits if at least 50 percent of the salary earned by that person is placed in an educational foundation.

**PASSED – SB2070**

- Names member's spouse as primary beneficiary unless written consent from the spouse to name an alternate beneficiary and requires spousal consent to member's choice of benefit option.
- No longer recognizes the conversion of fringe benefits to salary.
- Reduces vesting and eligibility for benefits from five to three years.
- Changes early retirement reduction from age 65 to the earlier of age 65 or Rule of 85.
- Removes availability of partial service retirement.
- Modifies purchase of service credit provisions and allows purchase of "air time."

**WITHDRAWN – SB2392**

Provides retired TFFR members with a monthly credit toward health insurance premiums for the State Health Plan administered by NDPERS.

## Spousal Consent Required

In North Dakota, a married person's pension plan is considered to be property of the marriage. Consequently, upon death or divorce, a pension plan may be divided or distributed to a spouse.

The passage of Senate Bill 2070 requires a married TFFR member to name his/her spouse as beneficiary or provide written spousal approval of an alternate beneficiary. It also requires the member's spouse to consent in writing to the form of payment option elected by the member at retirement. This protects a spouse's rights to a member's retirement benefit in case of divorce or death.

Keep in mind that most TFFR members already name their spouse as beneficiary to their retirement account. But for those members who do not, spousal consent will be required to name a non-spouse.

This change goes into effect on August 1, 1999. To implement this legislation, our office will mail all active and inactive members a new beneficiary form later this summer. At that time, you will need to either name your spouse as beneficiary OR name an alternate beneficiary. If you name an alternate beneficiary, your spouse must consent in writing. If you are married and have not named a beneficiary, your spouse will be considered to be beneficiary of your retirement account.

In addition, any claims for retirement, disability, survivor or refund benefits signed after August 1, 1999 will need to have spousal consent. If spousal consent is not obtained, the form of benefit payment option will be the 50 percent Joint and Survivor Option.

*What percentage of your final average salary (FAS) will you receive under the new 1.88 percent formula?*

| Years of Service | Percent of FAS |
|---|---|
| 5 | 9.4% |
| 10 | 18.8% |
| 15 | 28.2% |
| 20 | 37.6% |
| 25 | 47.0% |
| 30 | 56.4% |
| 35 | 65.8% |
| 40 | 75.2% |

## Vesting Period Reduced

Vesting is the number of years of service needed to earn the right to draw a retirement benefit. Effective August 1, 1999, the vesting period for TFFR members will be reduced from five years to three years of credited service. All current member accounts with three or four years of service credit will be converted from nonvested members to vested members at that time.

A lower vesting schedule should improve portability of benefits since it will allow short-term teachers to vest and become eligible for pension benefits sooner. This change will also allow teachers who terminate with three or more years of service to have the option of either selecting a deferred monthly annuity or a refund. Members who terminate with less than three years of service may only elect a refund.

Please remember, however, that a terminated member who selects the refund option will receive the member assessments paid plus six percent interest. The refundable balance does not include employer contributions or investment earnings that are used in paying retirement benefits and satisfying the unfunded liability.

## Early Retirement Reduction Changed

Have you ever wondered what would happen to your retirement benefit if you left your teaching position in North Dakota and did not have the Rule of 85?

The approval of Senate Bill 2070 may make the early retirement reduction less than what it is under current statutes for retiring members. Effective August 1, 1999, the six percent early retirement reduction will be changed from age 65 to the Rule of 85 or age 65, whichever occurs first.

*Example: Member age 60 with 24 years of service retires. Under current law, the member would take a 30 percent reduction in benefits or defer retirement for one year until reaching the Rule of 85. Under new legislation, the member will take only a six percent reduction in benefits or can still defer retirement for one year until reaching the Rule of 85. (As another alternative, the member will also be able to purchase the additional year of service credit needed as "air time." See related article on service purchase rules.)*

As you can see, this change may help those members who have not yet reached the Rule of 85 and are faced with an unplanned retirement resulting from school closings, consolidations, or cutbacks.

### Retiree Health Insurance Bill Withdrawn

Senate Bill 2392 created a teachers' retiree health fund to be administered by the Public Employees Retirement System (NDPERS). It was designed to help retired TFFR members pay for their health insurance by providing a monthly credit toward health insurance premiums for the group insurance program administered by NDPERS.

Funding for the bill was an ongoing State General Fund appropriation of approximately $3,879,200 for the biennium. Due to concerns over the funding mechanism and worries that financing this bill would instead come out of the TFFR fund's actuarial margin (thereby affecting the benefit increase bill), this bill was withdrawn.

O

# Changes Made to Service Purchase Rules

The approval of Senate Bill 2070 modifies purchase of service credit provisions to bring the plan into compliance with changes in federal pension law. It also removes certain restrictions and allows additional types of service credit to be purchased. These changes are effective August 1, 1999.

The most significant change allows active TFFR members with five years of North Dakota teaching credit to purchase up to five years of "air time." Air time is service credit that may be purchased for use towards Rule of 85 eligibility and in the calculation of TFFR benefits. Air time is not related to previous teaching service.

Other service purchase rule changes:

- No longer requiring members to be vested to purchase out of state service credit and removing the year for year requirement to purchase out of state service credit.
- Allowing members to purchase approved leave of absences, and ND and out-of-state private or parochial school teaching service.
- No longer allowing members to purchase college credit.

**ESTIMATED COST TO PURCHASE SERVICE CREDIT**
**ACTUARIAL EQUIVALENT COST PER YEAR OF SERVICE**
**EFFECTIVE AUGUST 1, 1999**

| SALARY | AGE | | | | | |
|---|---|---|---|---|---|---|
| | 30 | 35 | 40 | 45 | 50 | 55 |
| $20,000 | $2,300 | $2,600 | $3,000 | $3,400 | $3,900 | $4,200 |
| 25,000 | 3,000 | 3,300 | 3,700 | 4,200 | 4,800 | 5,300 |
| 30,000 | 3,500 | 3,900 | 4,500 | 5,100 | 5,800 | 6,400 |
| 35,000 | 4,100 | 4,600 | 5,200 | 5,900 | 6,700 | 7,400 |
| 40,000 | 4,700 | 5,300 | 6,000 | 6,800 | 7,700 | 8,500 |
| 45,000 | 5,200 | 5,900 | 6,700 | 7,600 | 8,600 | 9,500 |
| 50,000 | 5,800 | 6,600 | 7,400 | 8,400 | 9,600 | 10,600 |

- Removing the one-year time limit to purchase legislative credit and professional educational organization credit.
- Removing limits on the amount of additional service credit that can be purchased by a member with the exception of "air time."

Remember that for most kinds of service that can be purchased, the purchase price is determined actuarially. The actuarial equivalent cost calculation takes the following into consideration:

- Current and retirement age
- Current final average salary
- Number of years until the Rule of 85
- Increase in benefits resulting from purchase
- Current retirement formula
- Actuarial cost factor

The only cases that the cost is not at the actuarial equivalent cost is a refund repurchased within five years of returning to teach, or military service covered under USERRA or VRRA.

Contact the administrative office after August 1 for a cost statement and retirement benefit estimates calculated with and without purchasing service credit. By comparing the estimates and cost, you can decide if you wish to purchase additional service credit.

# Other Bills Affecting TFFR Benefits

## New DPI Teachers Granted Choice

As a result of the passage of Senate Bill 2204, certified new employees of the Department of Public Instruction (hired after January 2001) will be allowed to make an irrevocable election to participate in either TFFR or NDPERS for their retirement plan. This option is not offered to the State Superintendent of Public Instruction position who must continue to be a member of TFFR. The bill allows retired TFFR members to be employed by DPI, as well as any other ND state agency, without forfeiting their TFFR benefits.

## Returning To Teach

Normally, if a retired member wants to return to work for a public school or other TFFR employer, he/she must wait until 60 calendar days elapse from the TFFR retirement date. The retiree can then return to covered employment for a maximum of 90 working days and continue to receive a monthly TFFR benefit.

The approval of Senate Bill 2282 modifies these provisions so that a retired member can return to teaching for up to one year without having his/her retirement benefits suspended if the retired member elects to have at least 50 percent of his/her earnings paid to an educational foundation. A school district's educational foundation must be a nonprofit or charitable organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

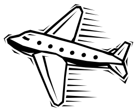
This change will not become effective until the TFFR Board receives a letter ruling from the IRS that it does not jeopardize the qualified status of TFFR. We do not anticipate this happening until mid-2000. If the bill does become effective, there will be a 'two year sunset' on the legislation. Because of the potential for increased costs, this will give the Board and its actuary time to determine how many members are using the provision, and if the cost will be substantial to the fund.

During the upcoming year, the TFFR Board will also be undertaking a complete study of all return to teach provisions.

# What To Do...

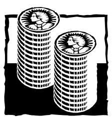
*TFFR Member:*
*"It's spring. I've been thinking about retiring for awhile, but haven't quite made up my mind. I attended a TFFR Preretirement Seminar a couple years ago and a Benefits Counseling Session last year, so I know what to expect.*

*WHAT?????*
*You said the Legislature just approved increasing the benefit multiplier to 1.88 percent? I'm outa here!"*



***Here's what to do:***

• Contact a TFFR Benefits Counselor to calculate benefit options and amounts.

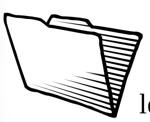


• Schedule appointments to discuss your retirement plans with an accountant, financial planner, tax advisor, insurance agent, attorney, Social Security Representative.

• Evaluate options for health insurance coverage available after retirement.

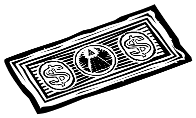
• Notify the school district of your intent to retire.

• Submit a Notice of Separation form to TFFR with the applicable documentation including: proof of age, proof of beneficiary's age (if selecting joint and survivor option), proof of marriage (if spouse is more than 10 years younger than you), current year teaching contract, extra pay documentation, early retirement agreement OR resignation and acceptance, and current Social Security benefit estimate (if considering level income option).



• TFFR will review your salaries and service credit and may contact your employer for salary verification. We will then send you the following forms for signature: enrollment for retirement benefits, designation of beneficiary, W-4P tax withholding, and direct deposit authorization.

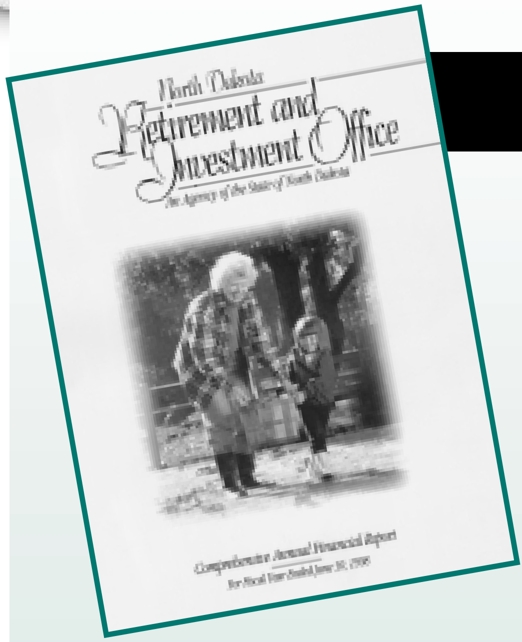
• Select your benefit payment option, complete, and return all retirement forms.



• Wait to have your first benefit payment directly deposited to your bank.

Because this is a legislative year, a member whose last date of employment is in May 1999 is eligible for benefits beginning June 1, 1999 under the 1.75 percent multiplier, OR beginning July 1, 1999 under the 1.88 percent multiplier. Since for most members, a July 1 retirement date is most beneficial, benefits will be calculated and enrollment forms sent using that date. However, you should compare your retirement benefits using both a June 1 or July 1 retirement date. Any retiring member that signs a July 1 enrollment form is electing the 1.88 percent multiplier and forfeiting the June 1 benefit and the retiree postretirement benefit increase.

If all forms and documentation are in on time, benefits will be paid to you on August 1, retroactive to your retirement date.

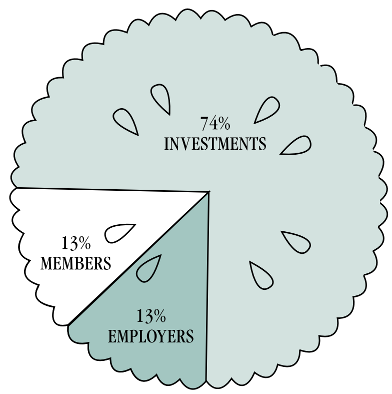



*TFFR continues to be in sound financial condition. The financial, investment and membership information provided illustrates our success. Prudent investment management and excellence in benefit administration ensure that your benefits are safeguarded and will be delivered as promised.*

## MEMBERSHIP SNAPSHOT

| | |
|---|---|
| Active Members | 9,896 |
| Average annual salary | $30,156 |
| Average age | 43.5 |
| Average service | 14 years |
| Retired Members and Beneficiaries | 4,585 |
| Average monthly benefit | $810 |
| Average age | 74 |
| Average service | 28 years |

WHERE THE MONEY CAME FROM




Income

# 1998 ANNUAL REPORT SUMMARY

*1998 Annual Financial Report is available to members and employers upon request.*

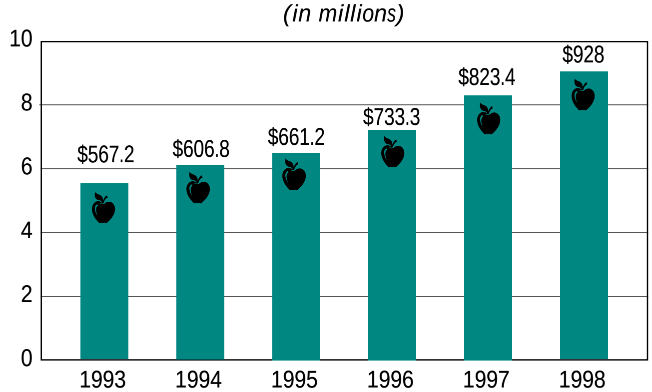
## STATEMENT OF ASSETS AVAILABLE FOR BENEFITS
**AS OF JUNE 30, 1998**

| | |
|---|---|
| **ASSETS** | |
| Equities | $ 679,737,854 |
| Fixed Income | 335,756,679 |
| Real Estate | 67,925,847 |
| Venture Capital | 6,112,738 |
| Invested Cash | 31,033,091 |
| Invested Securities Lending | 96,816,244 |
| Receivables | 9,504,381 |
| Other Assets | 4,457,889 |
| **Total Assets** | **$ 1,231,344,723** |
| **LIABILITIES** | |
| Accounts Payable | $ 961,190 |
| Accrued Expenses | 88,643 |
| Securities Lending | 96,816,244 |
| Other Liabilities | 9,402 |
| **Total Liabilities** | **97,875,479** |
| **NET ASSETS ON JUNE 30, 1998** | **$ 1,133,469,244** |

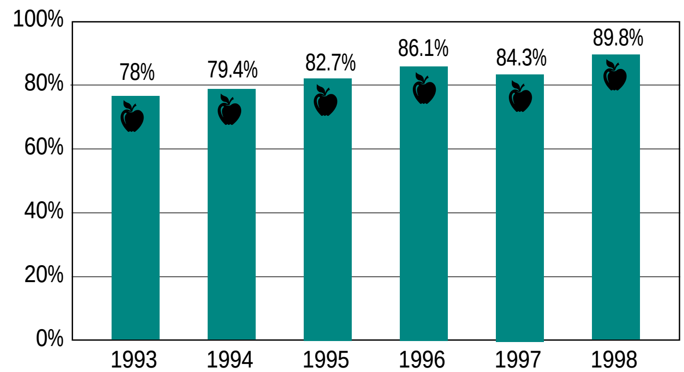
## STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR BENEFITS
**DURING FISCAL YEAR 1998**

| | |
|---|---|
| **CASH POSITION** | |
| Net Asssets on June 30, 1997 | $ 1,001,037,886 |
| **ADDITIONS** | |
| Member Assessments | 23,326,328 |
| Employer Contributions | 23,326,328 |
| Purchased Service Credit | 759,105 |
| Investment Income | 132,187,852 |
| **Total Additions** | **$ 179,599,613** |
| **DEDUCTIONS** | |
| Benefits Paid | 43,706,492 |
| Refunds | 2,671,933 |
| Administrative Expenses | 789,830 |
| **Total Deductions** | **47,168,255** |
| **NET INCREASE** | **$ 132,431,358** |
| **NET ASSETS ON JUNE 30, 1998** | **$ 1,133,469,244** |

## FUNDING PROGRESS
*Actuarial Value of Plan Assets*
*(in millions)*

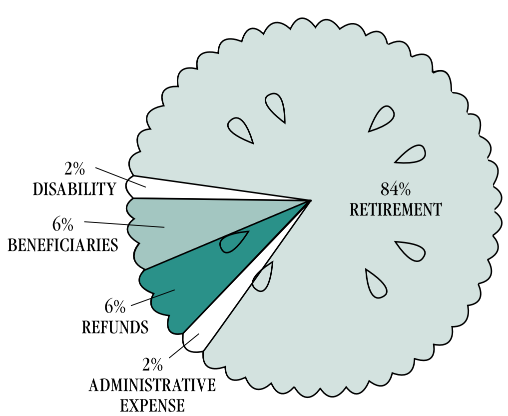



## FUNDING PROGRESS
*Funded Ratio*

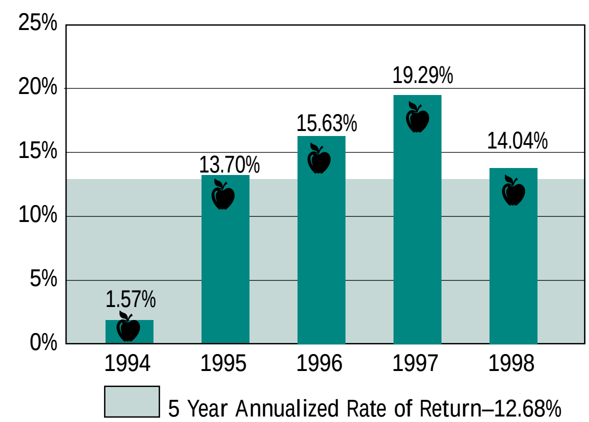



*Expenses*

WHERE THE MONEY WENT




## INVESTMENT PERFORMANCE
*Rates of Return For Fiscal Year Ended June 30, 1998*



# *It's Been Fun!*

*A letter from Scott Engmann…*

Dear TFFR Members:

These past 19-plus years have been so much fun that it is hard to believe they have gone by. I have been very fortunate to have met and worked with so many wonderful people. So many, that I am not going to attempt to name them for fear of forgetting someone. Over this period of time, the retirement plan has changed a great deal – all for the better. The improvements came because of the hard work by the TFFR Board, State Investment Board, various organizations that represent the members, and of course, the Legislature.

It is now time to pass the torch to a younger generation with new ideas and energy. As announced elsewhere in this newsletter, I am retiring on June 30, 1999. I will miss many aspects of working here at the Retirement and Investment Office – mostly the people. I appreciate your kind words and support I have received over the years. I think we can all be proud of what we have accomplished. I am sure that Steve and Fay will continue to work with the membership to make the goals of your retirement plan a reality.

Thanks for letting me be a part of your life.

Scott

## *Bulletin Board*

• All retirement publications and forms are being updated with legislative changes. A revised member handbook will be mailed to members this summer.

## *Web Site Coming*

*RIO is currently in the process of developing a web site. The site will include information about our agency, the TFFR Board, legislation, investments, membership and employer information, plan benefits, publications, forms and much more. We hope to be up and running in the next month or two, so watch for our new online address!*

*We've got lots of information in store for you, but it may not be available all at once. Keep checking back!*


BULK RATE
US POSTAGE
**PAID**
PERMIT NO. 325
BISMARCK, ND
58501

**NORTH DAKOTA**
**RETIREMENT AND**
**INVESTMENT OFFICE**
*Teachers' Fund for Retirement*
*State Investment Board*
1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100