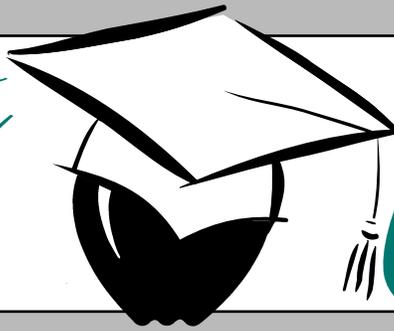


Report



Card

TEACHERS' FUND FOR RETIREMENT

DECEMBER 2000

Toll Free Number Available Nationwide

RIO's toll free number is now available throughout the continental U.S. and Canada. This change will expand service to many of our members living outside of North Dakota. Call us toll free at 1-800-952-2970.



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Teachers' Fund for Retirement
State Investment Board

TFFR Board of Trustees

Mark Sanford, *President*

Barb Evanson Paul Lofthus
Norman Stuhlmiller H.L. "Curly" McLain
Kathi Gilmore Wayne Sanstead

RIO Administrative Office

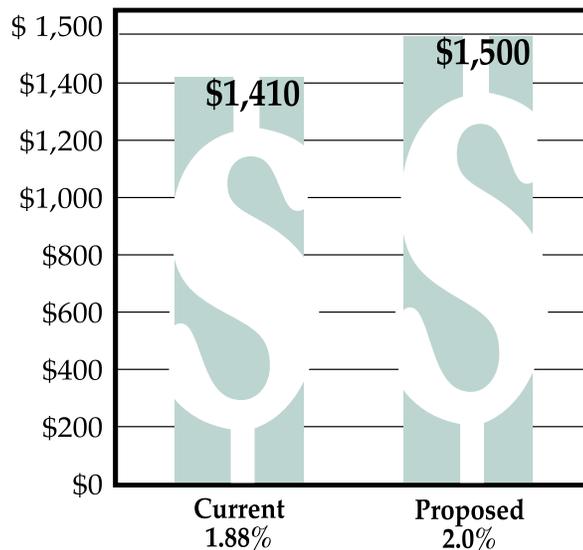
Steve Cochrane, *Executive Director/CIO*
Fay Kopp, *Deputy Director/Retirement Officer*
Shelly Schumacher, *Editor*

ND Retirement and Investment Office

1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, Toll free: 1-800-952-2970
www.discovernd.com/rio

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.

How will the TFFR legislative proposals affect you?



Estimated monthly benefit for a member who retires July 1, 2001 with 30 years of service credit and a final average salary of \$30,000. See inside for a full description of the legislative proposals.

1990 Then and Now

	1990	2000
Active Members	9,547	10,025
Active Average Age	41	44
Average Annual Salary	\$24,211	\$32,223
Covered Payroll	\$231 million	\$323 million
Retired Members	4,047	4,827
Retiree Average Age	74	73
Average Monthly Benefit	\$415	\$970
Retirement Formula	1.275%	1.88%
Member and Employer Contribution Rate	6.75%	7.75%
Number of Employers	368	287
Value of Trust Assets	\$450 million	\$1.4 billion

2000

The TFFR Backpack



Like you, I've seen some new types of school gear this year. In addition to lined paper, # 2 pencils, and a 24 pack of crayons, students this year seem to be very interested in glittery gel pens, insulated lunch packs, and fancy backpacks. You know, the kind with special compartments for cell phones, water bottles, and CD players. Judging from the looks of the kids marching into school each day, hauling around a school bag is no small chore anymore.



Fay Kopp
Deputy Executive Director

Toting a retirement system's backpack is no small chore anymore either... especially as it gears up for a legislative session. Let's investigate the contents of "The TFFR Backpack."

ACTUARIAL REPORTS

During the past year, TFFR underwent a number of actuarial studies:

- Each year, an *Actuarial Valuation Report* is prepared to describe the financial condition of the Fund, assess the adequacy of the current contributions, analyze changes in the funding requirements, and determine the margin (if any) in employer rate available for benefit improvements. According to the fund's actuary, Watson Wyatt, as of July 1, 2000, the margin between the employer rate mandated by law and the rate necessary to fund the UAAL in 20 years is 6.28 percent. This margin increased substantially... mainly because of the revision in the method used to compute the actuarial value of assets and strong investment performance. As a result, the UAAL was eliminated and the TFFR's funded ratio increased from 88.6 percent to 101.6 percent. Hooray!

- TFFR also went through an *Actuarial Experience Study*. Conducted every five years, this study improves the reliability of actuarial valuations by reviewing actual plan experience over the last five years to see how closely it compares to assumed plan experience. Watson Wyatt recommended, and the Board

approved, a number of changes to the actuarial assumptions and methods currently being used.

- Also conducted every five years, Watson Wyatt performed an *Asset/Liability Modeling (ALM) Study*. This study evaluates the effectiveness of current and alternative asset allocations on funding levels, contribution levels, and investment risk and return. As a result of this study, the Board made changes to their asset allocation mix. The new portfolio is designed to meet the actuarial needs of TFFR as we face a likely future of declining school enrollments and possible reductions in the teacher workforce. (See "Investment Update" newsletter, August 2000.)

- To ensure that the actuarial assumptions, actuarial cost method, valuation results, and contribution rates are accurate and appropriate, every 10 years an *Actuarial Audit* is conducted by an independent actuary. Buck Consultants was selected to perform the actuarial audit of TFFR's current actuary, Watson Wyatt. The Buck report states that they found the work done by Watson Wyatt to be accurate, reasonable, and performed in accordance with generally accepted actuarial principles and practices.

INVESTMENT REPORTS

According to Steve Cochrane, Executive Director and Chief Investment Officer, TFFR earned 11.63 percent for the year ended

June 30, 2000. For the five-year period, TFFR earned 14.24 percent. Double-digit investment returns continue to build the fund's value in excess of actuarial expectations. TFFR is achieving the investment results expected through its asset allocation strategy.

FINANCIAL REPORTS

TFFR continues to be in sound financial condition and is capable of meeting future benefit requirements. Once again, an unqualified opinion was issued by independent auditors, Brady Martz, regarding our financial statements.

GOLD MEDALS

The office received two prestigious achievement awards last year:

- GFOA Certificate of Achievement for excellence in financial reporting
- PPCC Achievement Award for high standards in pension plan administration.

LEGISLATIVE PROPOSALS

TFFR is requesting that the multiplier be increased to 2.0 percent for active teachers, and a monthly benefit increase for retirees and beneficiaries. We are also proposing a number of administrative changes.

A SHINY PENNY FOR GOOD LUCK!

We have completed the TFFR homework assignments and will load the results of the actuarial, financial, and investment reports and awards into our TFFR Backpack. This valuable information supports the legislative proposals the TFFR Board plans to present to the 2001 Legislative Assembly.

We hope to replace the contents of our backpack with signed legislation and good news for active and retired members. Watch for updates which will be posted on the RIO website at www.discovernd.com/rio.

FICA Tax Issue Update

As reported in the May 2000 TFFR newsletter, a participating school district has been undergoing an Internal Revenue Service (IRS) audit relating to its tax deferred retirement programs. As part of the audit, the IRS reviewed the method the employer uses to pick-up employee contributions to TFFR. This employer elected to pay the employee contribution to TFFR in lieu of a future salary increase. According to information TFFR received from its technical consultant in the 1980's, the amount of employee contribution paid by the employer as part of the pick-up should not be subject to FICA taxes.

However, the IRS auditor conducting the audit has been suggesting that this type of pick-up is subject to FICA taxes for both the employer and the employee.

To respond to this issue, TFFR and the Public Employee's Retirement System (PERS), retained an attorney in Washington D.C. who specializes in employee benefits and taxation issues. Numerous discussions have been held with the school district, the district IRS office, the national IRS office, the Attorney General's Office, special tax counsel, and technical consultants.

In addition, both the TFFR and PERS Boards have filed state legislation to address this situation. This legislation would change the TFFR plan to allow participating employers the option of adopting either a "contributory" or noncontributory" plan. The end result would be the same for most employers and employees.

- The contributory approach provides for employer contributions and employee contributions at the current levels. For example, a school district following this approach would pay the employer contribution (7.75%) and the teacher would pay the employee contribution (7.75%) under a salary reduction method. The employer contribution would not be subject to either Federal Income Tax (FIT) or FICA tax. The employee contribution would not be subject to FIT, but would be subject to FICA tax.

- The noncontributory approach provides that the employer would pay the entire retirement contribution (15.5%). There would not be an employee contribution under this plan. For employers who select this method, the normal application of federal IRC rules will result in the employer contribution not being subject to FIT or FICA taxes. Since there is no employee contribution, there is no FIT or FICA tax.

On December 1, our office was notified that the IRS is no longer pursuing the FICA issue with the school district and will not make the district pay Social Security taxes on the part of the employee retirement contributions that the district "picks-up." As a result, the TFFR Board will be reviewing with its legal counsel and technical consultants whether to move forward with proposed legislation. We will keep you updated on the Board's actions.

TFFR Outreach Services Still Time to Register!

BENEFITS COUNSELING SESSIONS

Individual 30-minute benefits counseling sessions are available to all members to discuss TFFR benefits and other retirement concerns. Call to schedule an appointment today... 1-800-952-2970 or 701-328-9886.

Bismarck	January 23-24, 2001
West Fargo	February 7-8, 2001
Minot	February 20-21, 2001
Rugby	February 22, 2001

PRE-RETIREMENT SEMINARS (4 PM TO 7 PM EACH DAY)

The six-hour pre-retirement planning seminars cover TFFR benefits, financial planning, estate planning, Social Security benefits, health insurance and adjusting to retirement. To register for a pre-retirement seminar, complete and return the registration form.

Please select one:

Bismarck – January 10-11, 2001 Wahpeton – March 13-14, 2001

Name: _____ SSN: _____

Address: _____

City: _____ State: _____ Zip: _____

Home phone: _____ Work phone: _____

Will your spouse/guest be attending? Yes No

If your spouse/guest is also a teacher, please provide SSN: _____

Mail to: ND Retirement and Investment Office
P.O. Box 7100, Bismarck, ND 58507-7100

New Service

A "New Account Notice" will be sent to retirees before payment of their first benefit. The notice will include:

- Amount of gross and net monthly benefit
- Amount of any retroactive back benefits
- Amount of deductions
- Summary of account value
- Beneficiary designation
- Direct deposit information

In addition, retirees will receive a "Benefit Change Notice" when any of the following occur:

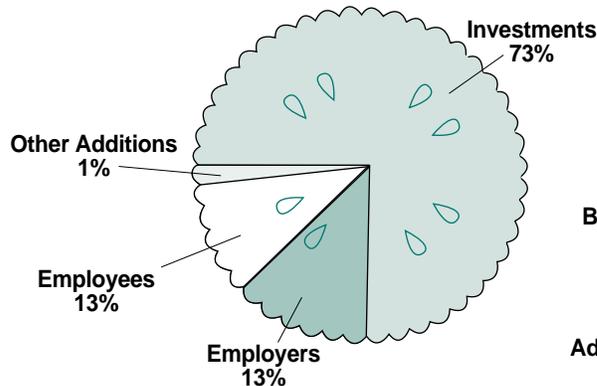
- Change in gross and/or net monthly benefit
- Change in payroll deductions (tax withholding, health insurance premium, etc.)
- Change in beneficiary designation
- Change in direct deposit information

Retirees will receive this notice before an adjusted benefit is deposited into their account.

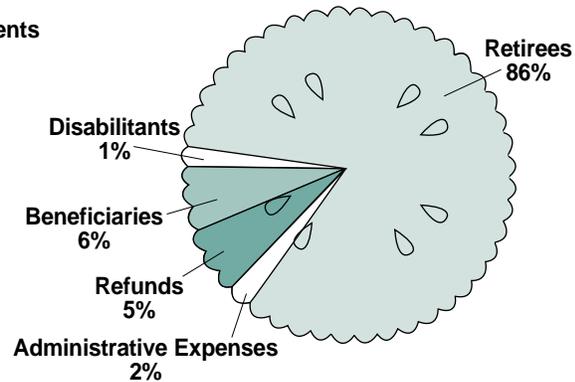
We hope these new services provide more timely and useful benefit information. Providing the retiree these notices will satisfy a need frequently requested from the membership.

TFFR INCOME AND EXPENSES FOR THE FISCAL YEAR ENDING JUNE 30, 2000

WHERE THE MONEY CAME FROM



WHERE THE MONEY WENT



STATEMENT OF ASSETS AS OF JUNE 30, 2000

ASSETS	
Equities	\$ 786,964,157
Fixed Income	388,362,325
Real Estate	141,679,262
Private Equity	43,099,955
Invested Cash	27,586,864
Invested Securities Lending	104,357,294
Receivables	12,770,767
Other Assets	<u>6,297,658</u>
Total Assets	\$ 1,511,118,282
LIABILITIES	
Accounts Payable	\$ 1,352,612
Accrued Expenses	126,369
Securities Lending	104,357,294
Other Liabilities	<u>35,567</u>
Total Liabilities	\$ 105,871,842
Net Assets on June 30, 2000	\$ 1,405,246,440

CHANGES IN ASSETS DURING FISCAL YEAR 2000

CASH POSITION	
Net Assets on June 30, 1999	\$ 1,262,584,076
ADDITIONS	
Member Assessments	\$ 25,528,245
Employer Contributions	25,527,734
Other Additions	2,515,798
Investment Income	<u>146,477,426</u>
Total Additions	\$ 200,049,203
DEDUCTIONS	
Benefits Paid	\$ 53,583,271
Refunds	2,788,019
Administrative Expenses	<u>1,015,549</u>
Total Deductions	\$ 57,386,839
Net Increase	\$ 142,662,364
Net Assets on June 30, 2000	\$ 1,405,246,440

SUMMARY OF PROPOSED LEGISLATION

The accompanying bills were studied by the Legislative Employee Benefits Programs Committee during the interim and received a favorable recommendation from the Committee. The July 1, 2000 actuarial valuation results show adequate reserves available to fund the plan improvements contained in these legislative proposals. Complete bill drafts are available at the Retirement and Investment Office.

HB 1102

- Increases the benefit multiplier from 1.88 percent to 2.00 percent for all future retirees.
- Provides a monthly postretirement benefit increase for all retired members and beneficiaries equal to \$2 multiplied by the retired member's years of service credit plus \$1 multiplied by the number of years since the member's retirement, plus an additional guaranteed 0.75 percent monthly benefit increase for all annuitants each year.



Wishing you a
warm and wonderful
Holiday Season!

*From the staff at the
North Dakota Retirement
and Investment Office*

HB 1101

- Clarifies the definition of "contract" and "teacher."
- Allows limited disclosure of retirement-related information to a member's employer, state and federal agencies, and member interest groups approved by the TFFR Board.
- Modifies retiree return to teach provisions:
 - Shortens the waiting period that must elapse from the retirement date before a retiree may return to TFFR covered employment from 60 days to 30 days.
 - Modifies the amount of time a retiree may return to covered employment from a maximum of 90 days at 4 or more hours a day to a total of 700 hours in a fiscal school year.
 - Improves the recalculation of benefits for a retiree who returns to covered employment, exceeds the 700 hours limitation, and re-retires.

Less than 2 years of additional service credit – discontinued benefit plus benefit increases granted during the benefit suspension, plus refund of additional assessments paid plus interest.

2 - 5 years – greater of discontinued benefit, plus additional years at the new multiplier, plus benefit increases granted during the suspension, OR all years recalculated at the new multiplier, less an actuarial offset for the amount of benefits already paid.

5 or more years – greater of the calculation above or the retirement benefit recalculated using all the years at the new multiplier with no actuarial offset.

HB 1097

- Allows employers the option of adopting either a "contributory" or "noncontributory" plan for payment of retirement plan contributions.

Other bill affecting TFFR:

- Allows retired teachers who have been receiving a retirement benefit for at least one year to return to TFFR covered employment without loss of their TFFR benefits in critical shortage areas, as determined by the TFFR Board. (*Sponsor – Senator Holmberg*)

Sanford Re-appointed to Board



Dr. Mark Sanford

Governor Schafer re-appointed Dr. Mark Sanford to the TFFR Board of Trustees for a five-year term beginning July 1, 2000. Dr. Sanford, Superintendent of Grand Forks

Public Schools, has been a TFFR board member since 1992 and represents active school administrators. He also represents TFFR on the State Investment Board and currently serves as President of both boards.

Thank you, Mark, for your continued service to all TFFR members – both active and retired.

Meet the Member Services Division

The staff of the Member Services Division is trained to counsel and assist members, retirees and beneficiaries with questions on TFFR benefit options including retirement, disability, survivor, refund and purchase of service credit. We encourage you to use this valuable resource that is only a telephone call away.



Pictured, left to right: Estelle Kirchoffner, Denise Weeks, Shelly Schumacher, Paula Brown.

In Remembrance

Margaret L. Gillen, former Executive Secretary for the Teachers' Fund for Retirement, passed away September 12, 2000 at the age of 93. Ms. Gillen worked in the field of education for almost 50 years and served the Fund from 1970-1976.

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



RESORTED
STANDARD
US POSTAGE
PAID
PERMIT NO. 325
BISMARCK, ND
58501