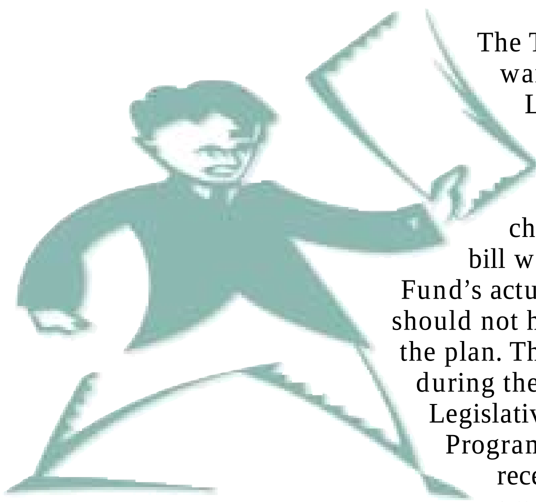
Report Card
TEACHERS' FUND FOR RETIREMENT JANUARY 2003

TFFR Proposes Legislation



The TFFR Board has forwarded one bill to the Legislature for its consideration during the 2003 session. The administrative changes included in this bill were reviewed by the Fund's actuarial consultant and should not have an actuarial cost to the plan. This bill was also studied during the interim by the Legislative Employee Benefits Programs Committee and received a favorable recommendation. A complete bill draft is available at the Retirement and Investment Office. You may also view the entire bill and a summary of the bill status as it moves through the session at www.discovernd.com/rio.

Senate Bill 2057 (LC30052.0200)

• Clarifies and updates the definition of salary to reflect the various types of salary and bonus payments that are eligible or not eligible for TFFR benefit calculation purposes.

• Updates dual membership guidelines for retirement plan participation and benefit calculations for individuals whose job duties require participation in TFFR and/or NDPERS.

• Modifies the 700 annual hour limit that a retiree may return to TFFR covered employment and continue to receive monthly benefits. Bases the annual hour limit on length of contract duties.

9 month contract	=	700 hours
10 month contract	=	800 hours
11 month contract	=	900 hours
12 month contract	=	1,000 hours

Substitute teaching, extracurricular duties, and continuing professional development do not apply to the annual hour limit.

• Incorporates federal tax law changes (EGTRRA 2001) to allow TFFR to accept eligible rollovers from traditional IRAs, qualified 401(a) and 401(k) plans, 403(b) tax sheltered annuity plans, and governmental 457 deferred compensation plans, for the purchase of TFFR service credit.

• Allows a participating employer to purchase up to three years of service credit on behalf of a member. The member must not be given the option between an employer service purchase and an equivalent amount in cash. To be eligible, the member's age plus service must be equal to or greater than 77; or the member must be at least age 55 with three years of service credit.

• Replaces the 5-year Term Certain and Life Option with a 20-year Term Certain and Life Option to provide a longer time period for beneficiary coverage.

• Adds a Partial Lump Sum Distribution Option (PLSO) for members eligible for an unreduced retirement annuity to provide a lump sum cash payment in exchange for a permanent monthly benefit reduction.

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RIO
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The Best of Times

Fay Kopp
Deputy Executive Director

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair..."

So wrote British novelist Charles Dickens in the opening sentence of his famous novel, *A Tale of Two Cities*. He was, of course, referring to the French revolution in the 1700s, not the pension troubles of the 2000s.

Undoubtedly, the 1980s and 1990s could be considered the "best of times" for pension plans. Double-digit investment returns made everyone cheerful. Teachers were happy because pension benefits improved. Employers were happy because retirement contributions remained steady and there were enough new teachers to replace retiring teachers. The TFFR Board and Legislature were happy because the financial soundness of the plan improved too.

So what's happening now? Unfortunately, the "best of times" are becoming the "worst of times" for many pension plans. Investment gains began disappearing in 2000, and have been replaced by investment losses. The result? All around the country, pension funds like TFFR are seeing deteriorating funding levels.

In North Dakota, your TFFR plan currently has a funded ratio of about 92%, which dropped from 96% last year. The funded ratio is a measure of financial health for a pension plan and refers to the ratio of assets to liabilities. The charts on page 4 show how the funded ratio has grown over the years, while at the same time plan improvements were being made.

However, because all investment losses have not yet been reflected in the actuarial measurements, we expect TFFR's funded ratio to continue to decline in the future. That is why the TFFR Board has not proposed any benefit improvements during this legislative session. The Board is closely monitoring the financial condition of the Fund and is continuing to explore alternatives like increasing contribution rates to deal with potential future funding shortfalls.

Although pension plans are facing some pretty tough times these days, as a member of a defined benefit plan sponsored by the state of ND, your pension benefits are guaranteed. Today's teachers who retire in the future will receive benefits calculated under a formula defined in state law using the 2.0% benefit multiplier. Retirees currently drawing pension benefits will continue to receive the lifetime benefits they have earned.

TFFR has been in existence for 90 years. As long term investors, we've experienced both up and down markets, and we'll experience more in the future. But through it all, pension checks have been paid each month. This will continue, through both "the best" and "the worst" of times.

Annual Actuarial Report Shows Losses

Each year, TFFR's actuary, Gabriel, Roeder, Smith & Company (GRS), performs an actuarial valuation. Simply put, an actuarial valuation is a mathematical means of determining 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 TFFR plan represents 16,433 active, inactive, and retired members. The average age of the 9,931 active members was 44.5 years; average service was 14.4 years; and average annual salary was $35,052. As of June 30, 2002, there were 5,054 retirees and beneficiaries receiving average benefits of $1,152 per month.

According to the 2002 actuarial report, the member and employer contribution rate of 7.75% each is sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) in level payments over a period of 20 years. The margin between the 7.75% statutory rate and the rate necessary to fund the UAAL is 1.66%. This margin decreased from 3.76% last year, mainly because of recognized investment experience losses.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio last year was 96.4%, while it is 91.6% this year. This decrease is also due to recognized investment experience losses.

Because of the 5-year smoothing method that TFFR uses, all net investment losses have not yet been reflected in the actuarial measurements. As these losses are recognized over the next four valuations, TFFR's actuary expects the margin to turn negative and the funded ratio to continue to decrease.

The fund's actuarial consultant and TFFR Board are keeping a close watch on the situation. Options for dealing with future funding issues are being discussed.

Your TFFR Board Members

Pictured left to right, back row: Barb Evanson, Mark Sanford, Kathi Gilmore.
Front row: Norm Stuhlmiller, Paul Lofthus, Clarence Corneil, Wayne Sanstead.

The TFFR Board is made up of two elected officials and five Governor-appointed trustees representing the active and retired membership. The Board is charged with the policy administration of the retirement program and must perform in the interest of all plan participants and beneficiaries.

School Administrators
Mark Sanford, Grand Forks
TFFR Board President
Term expires 6/30/2005

Active Teachers
Barb Evanson, Bismarck
Term expires 6/30/2004

Paul Lofthus, Grand Forks
Term expires 6/30/2006

Retired Teachers
Norm Stuhlmiller, Bismarck
Term expires 6/30/2003

Clarence Corneil, Dickinson
Term expires 6/30/2007

Elected Officials
Kathi Gilmore, State Treasurer
Term expires 12/31/2004

Wayne Sanstead, State Supt.
Term expires 12/31/2004

Pension Software Study

The TFFR Board recently approved a study of the computer system the agency uses to administer the pension program. TFFR currently uses a system built in 1985 to maintain membership accounts, employer reporting, member services, and benefit claims payments. Due to the increasing difficulty and cost to update and maintain the nearly 20-year-old system, the agency is considering an upgrade or replacement.

Results from the feasibility study conducted by MSI Consultants showed that significant benefit could be derived by replacing the current mainframe pension management system with either commercial off-the-shelf software or custom built software. This would improve service to TFFR members, increase reliability of data, provide tools for improving staff productivity, and enhance system integration capabilities.

TFFR is continuing to explore various pension software solutions and has requested budget approval to pursue a replacement system.

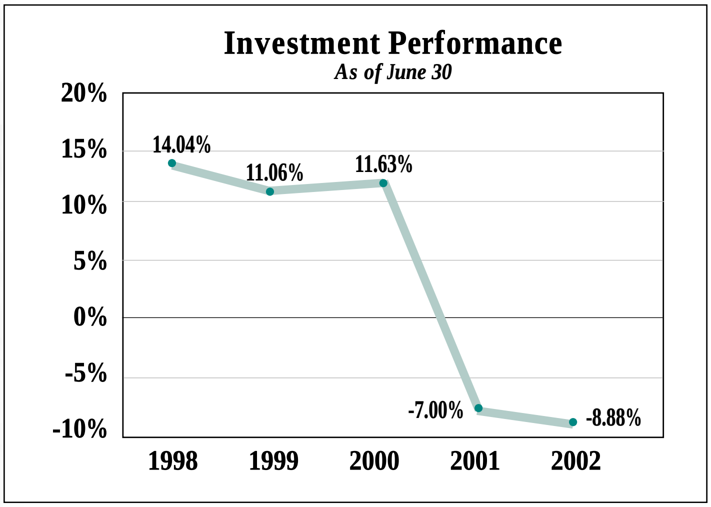
Clarence Corneil

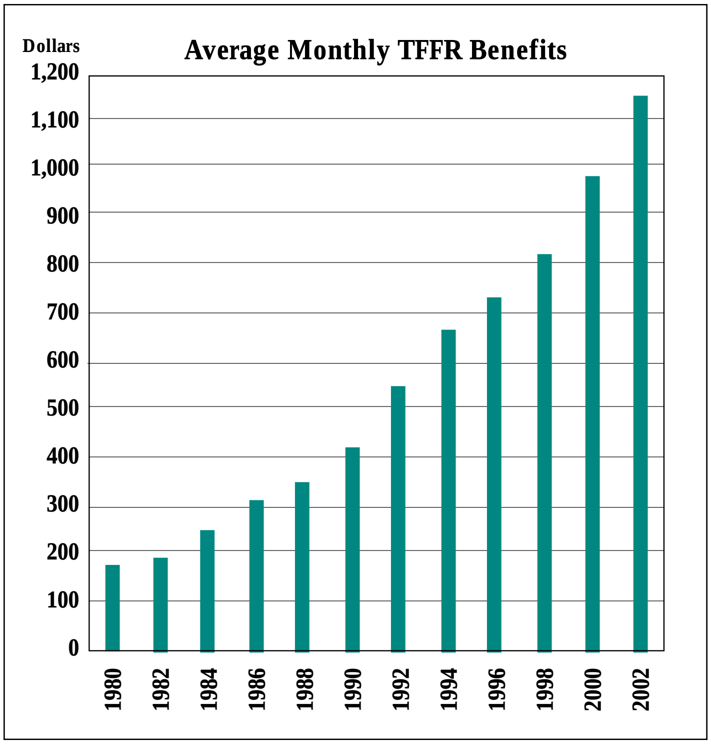
Corneil Appointed to TFFR Board

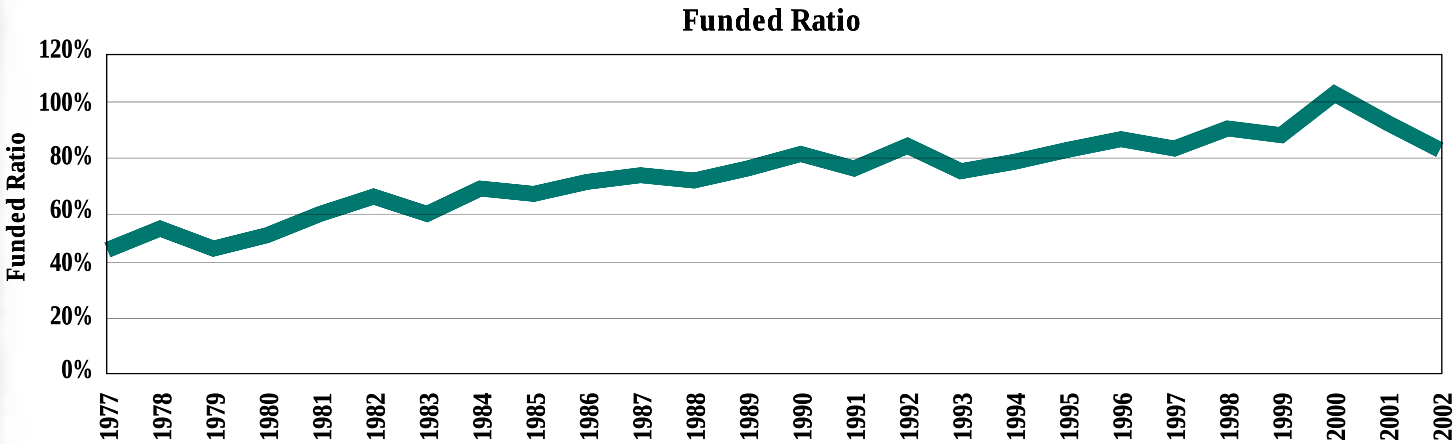
Governor Hoven appointed Clarence Corneil of Dickinson to a five-year term on the TFFR Board beginning July 1, 2002. He represents retired teachers and also serves on the TFFR Benefits/Services Committee.

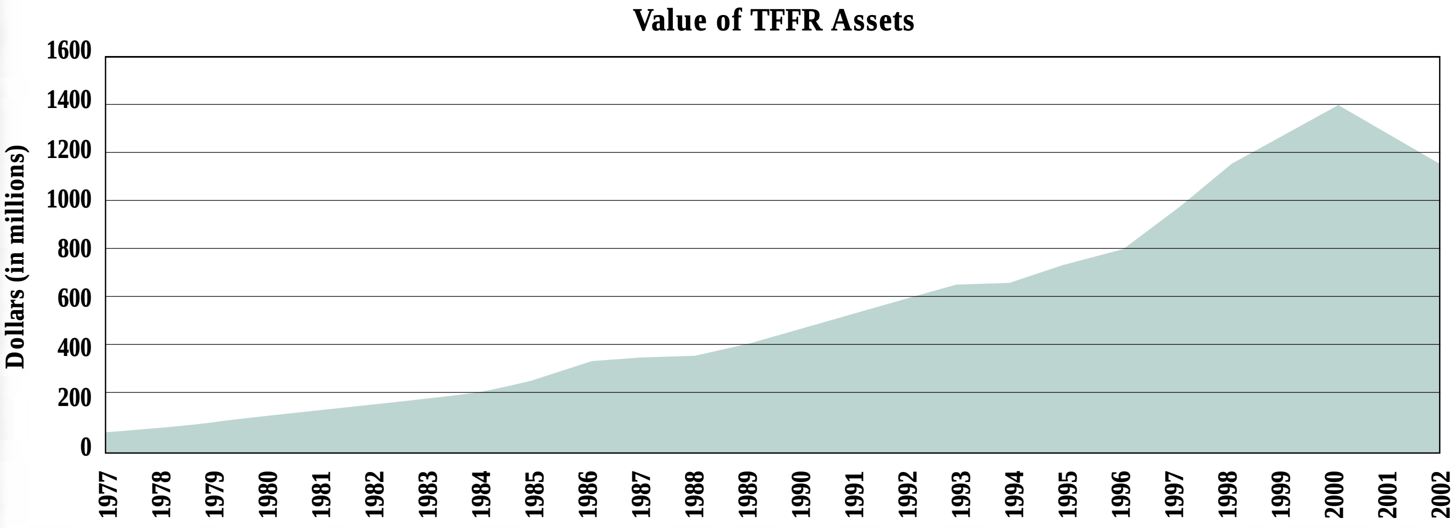
Mr. Corneil retired in 1997 from Dickinson Public Schools. His teaching career of 38 years consisted of 13 years as a Science/Math teacher and 25 years as Elementary Principal and Central Office Director. During his career, he received many honors including Teacher of the Year, the Golden Apple Award, and the National Distinguished Principal Award. He has also held leadership roles in several professional organizations and is currently President of the ND Retired Teachers Association.

2002 Annual Report Summary









TFFR Financial Statements

STATEMENT OF ASSETS AS OF JUNE 30, 2002

ASSETS	
Equities	$ 744,103,649
Fixed Income	231,816,092
Real Estate	105,982,182
Private Equity	40,322,264
Invested Cash	25,684,813
Invested Securities Lending	58,369,414
Receivables	11,268,242
Other Assets	7,248,921
Total Assets	$ 1,224,795,577
LIABILITIES	
Accounts Payable	$ 827,630
Accrued Expenses	219,170
Securities Lending	58,369,414
Other Liabilities	9,798
Total Liabilities	$ 59,426,012
Net Assets on June 30, 2002	**$ 1,165,369,565**

CHANGES IN ASSETS DURING FISCAL YEAR 2002

CASH POSITION	
Net Assets on June 30, 2001	$ 1,290,662,140
ADDITIONS	
Member Contributions	$ 27,244,008
Employer Contributions	27,243,542
Other Additions	1,927,615
Investment Income	(110,415,541)
Total Additions	$ (54,000,376)
DEDUCTIONS	
Benefits Paid	$ 67,482,482
Refunds	2,743,408
Administrative Expenses	1,066,309
Total Deductions	$ 71,292,199
Net Decrease	**$ 125,292,575**
Net Assets on June 30, 2002	**$ 1,165,369,565**

Social Security Benefits

Choosing when to begin receiving Social Security benefits is an important decision. Full Social Security benefits are payable based on birth year. No matter what your "full" retirement age is, reduced benefits may start as early as age 62.

There are advantages and disadvantages to taking your Social Security benefits before full retirement age. The disadvantage is that the benefit is permanently reduced. The advantage is that the benefits are paid for a longer period of time. Contact Social Security before retirement to discuss your options.

AGE TO RECEIVE FULL SOCIAL SECURITY BENEFITS

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

TFFR Outreach Schedule

There is still time to schedule an appointment for the remaining 2002-03 outreach programs. Individual 30-minute benefits counseling appointments are available to discuss TFFR benefits and other retirement concerns. The six hour pre-retirement planning seminar covers TFFR benefits, financial planning, estate planning, Social Security benefits, and health insurance. The two-day seminar is held from 4-7 p.m. each day. To register, call 1-800-952-2970 or 328-9886.

Bismarck Benefits Counseling
January 29-30, 2003

West Fargo Benefits Counseling
February 5-6, 2003

Jamestown
Pre-Retirement Seminar
February 12-13, 2003

Retirement Contributions

Teachers often ask questions about payment of retirement contributions. This article describes TFFR's current employer payment plans, or models.

As you know, every teacher is required by law to contribute 7.75% of their salary to TFFR. This employee contribution is added to the member's account value. The employee contribution can be paid by the employer in lieu of a salary increase or deducted from salary on a before or after tax basis. The employer is also required to pay 7.75% of salary. This amount is referred to as the employer contribution and is not a part of the member's account value.

How employee contributions are treated by TFFR is determined by the employer payment model which is commonly determined through the employee and employer negotiation process. Once a model is selected, all TFFR employees must follow the same model and must be treated equally. If no model is adopted, employee contributions are deducted after federal and state taxes are withheld.

- **MODEL 1:** Employee contributions are deducted before federal and state taxes are withheld.

- **MODEL 2** (all)**:** Employer pays 7.75% of the employee contributions in lieu of a salary increase. This amount is added to the contract salary to determine retirement salary. All of the employee contributions are tax-deferred.

- **MODEL 2** (partial)**:** Employer pays less than 7.75% of the employee contributions in lieu of a salary increase. *Example: Employer agrees to pay employee contributions at 4%. This amount is added to the contract salary to determine retirement salary and applied to the member's tax deferred retirement account total. The remaining 3.75% is deducted from the employee's pay on an after tax basis.*

- **MODEL 3:** Employer pays a fixed dollar amount of the employee contributions in lieu of a salary increase. *Example: Employer agrees to pay $1,000 of the employee contributions. The $1,000 is added to the contract salary to determine retirement salary and applied to the member's tax deferred retirement account total. The remaining employee contributions to total 7.75% are deducted from the employee's pay on an after tax basis.*

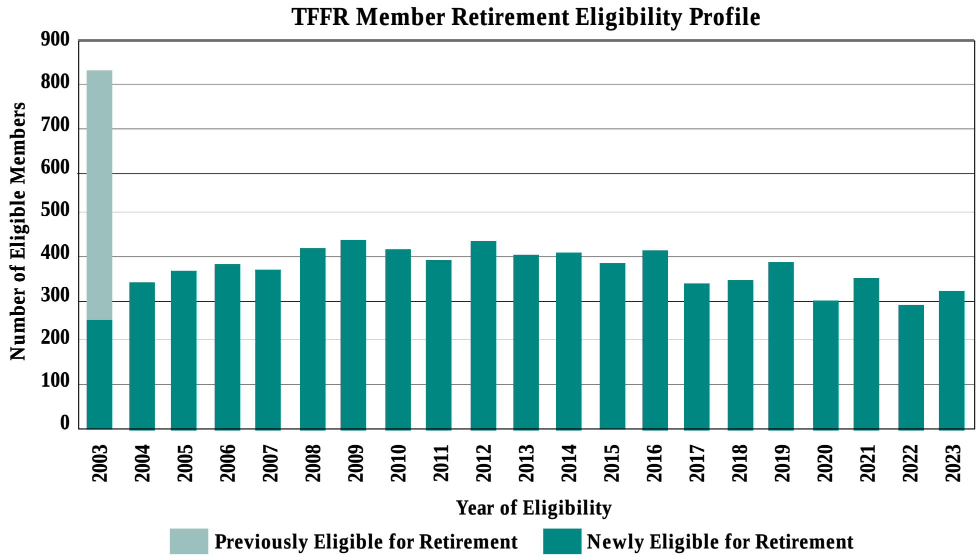
Prior to changing the manner in which employee retirement contributions are paid, we encourage employees and employers to contact TFFR for a model comparison analysis. This analysis will show how the model change will impact the district and the employees.

Row	Description	No Model	Model 1	Model 2 (All)	Model 2 (Partial)	Model 3 (Partial)
A	Percentage or Dollar Amt. to be Tax Deferred	0	7.75%	7.75%	4.00%	$ 1,000
B	Contract / Additional Salary	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
C	Retirement Salary Reported to TFFR	20,000.00	20,000.00	21,680.22	20,833.33	21,000.00
	Calculation for TFFR Retirement Salary	B	B	B ÷ (1 – A)	B ÷ (1 – A)	B ÷ (1 – A)
D	Employer Contributions due to TFFR	1,550.00	1,550.00	1,680.22	1,614.58	1,627.50
	Calculation for Employer	C x 7.75%	C x 7.75%	C x 7.75%	C x 7.75%	C x 7.75%
E	Tax Deferred Member Contributions	0	1,550.00	1,680.22	833.33	1,000.00
	Calculation for Tax Contributions	A x C	A x C	A x C	A x C	A
F	Taxed Member Contributions	1,550.00	0	0	781.25	627.50
	Calculation for Taxed Contributions	D – E	D – E	D – E	D – E	D – E
G	Total Member Contributions	1,550.00	1,550.00	1,680.22	1,614.58	1,627.50
	Calculation of Total	E + F	E + F	E + F	E + F	E + F
H	Member's Take Home Pay (Before Taxes)	18,450.00	18,450.00	20,000.00	19,218.75	19,372.50
	Calculation for Take Home Pay	B – F	B – F	B – F	B – F	B – F
I	Reportable Income for Federal & State Taxes	20,000.00	18,450.00	20,000.00	20,000.00	20,000.00
	Calculation for Taxable Income	B	B – E	B	B	B
J	Reportable Wages Reported to FICA	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
	Calculation for FICA Taxable Income	B	B	B	B	B

Retirement Eligibility Profile

Currently 824 members are eligible for non-reduced retirement benefits (Rule of 85 or age 65). Beginning in 2004, TFFR begins an upward trend in the number of members who become newly eligible for retirement each year.

TFFR staff is preparing for these record number retirement years and needs your help. As you near retirement, please take the opportunity to visit with a retirement benefits counselor. A retirement checklist has also been created to assist you.



Year Before Retirement Checklist

9-12 months:

❑ Schedule a TFFR Benefits Counseling Session.
(See TFFR Member Services Directory)

❑ Complete any TFFR service credit purchases.

❑ Schedule appointments to discuss your retirement plans with:
- Accountant
- Financial Planner
- Tax Advisor
- Insurance Agent
- Lawyer
- Social Security Representative

❑ Study options for health insurance coverage available after retirement; evaluate costs and needs.

6-9 months:

❑ Review TFFR Notice of Termination and begin to gather necessary documentation:
- Proof of Age
- Proof of Beneficiary's Age
- Current Year Teaching Contract
- Extra Pay Documentation
- Early Retirement Agreement or Resignation and Acceptance
- Current Social Security Benefit Estimate

3-6 months:

❑ Notify school district of your intent to retire.

❑ Submit Notice of Termination form to TFFR with the applicable documentation.

❑ Upon receipt, TFFR will review your salaries and service credit.

1-3 months:

❑ TFFR will send the following forms to you for signature:
- Retirement Enrollment
  (If married, spouse signature required.)
- Designation of Beneficiary
- W-4P Tax Withholding
- Direct Deposit Authorization

30 days:

❑ Complete and return retirement forms.

LEGISLATION *(continued from cover page)*

This option allows a member to make a one time election at retirement to receive a lump sum payment equal to 12 times the amount of the Single Life Annuity payable at the same time the monthly retirement annuity begins.

The monthly retirement option selected is actuarially reduced to reflect the partial lump sum payment. Generally, the actuarial reduction for a PLSO is approximately 10 percent.

This option is not available to members who select the level income option, members receiving disability benefits, or to beneficiaries of deceased members.

Example: Jane retires on August 1, 2003 with the Rule of 85. Her Single Life Annuity Benefit is $1,700 per month. She may elect the regular retirement option and receive $1,700 per month for life or receive a Partial Lump Sum Distribution of $20,400 ($1,700 x 12) and a lifetime benefit of $1,530 per month.

Retirees using the PLSO may also select a Joint & Survivor Option or Term Certain Option to provide a continuing benefit to a beneficiary. These options would require another actuarial reduction to the $1,530.

Visit our website for information from the North Dakota Retirement and Investment Office...

www.discovernd.com/rio