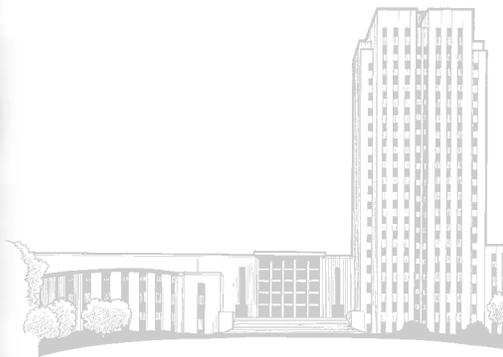


Report Card

TEACHERS' FUND FOR RETIREMENT

JUNE 2003



TFFR Legislation Approved

New TFFR provisions become effective August 1, 2003 with the legislative approval of Senate Bill 2057. Members can contact TFFR for additional information about these provisions or review updated publications on our website. Here are highlights of the major plan changes.

Salary Definition Clarified

TFFR takes a broad view of eligible salary for purposes of determining retirement contributions and benefits. Eligible salary typically includes a teacher's base contract salary, plus additional pay for extra duties like coaching, extra-curricular activities, adult education, driver's education, in-staff subbing, summer school, etc. However, any fringe benefit or payment expressly prohibited by state statutes is not eligible TFFR salary.

Recently approved legislation updates the definition of salary to clarify whether certain special kinds of compensation are included as eligible salary. Here are the basics:

- Eligible salary includes earnings for teaching, supervisory, administrative, and extra-curricular services, and bonus amounts paid to members for performance, retention, experience, and other service-related payments.
- Eligible salary does not include fringe benefits; insurance programs; payments for unused leave; early retirement incentive pay, severance pay, or other payments conditioned on or made in anticipation of retirement or termination; teacher's aide pay, referee pay, bus driver pay, janitorial pay; amounts received by a member in lieu of previously

employer-provided benefits or payments made on an individual selection basis; recruitment bonuses; and other benefits or payments the Board determines to be ineligible TFFR salary.

- The annual compensation limit that can be taken into account for calculating contributions paid to or benefits paid from the plan was increased, as authorized by federal law.

Dual Membership Guidelines

Dual membership provides portability to members with service in TFFR and the Public Employees Retirement System (PERS), and/or the Highway Patrolmen's Retirement System (HPRS). For vesting and retirement eligibility, the years of service in these systems will be added together, with service not to exceed one year of credit in any fiscal year.

Example: A teacher age 58 with 25 years of TFFR service credit and 2 years of PERS service credit is eligible to retire under the Rule of 85. Age 58 + Service credit 25 + 2 = 85.

Employees working multiple jobs in a school district that requires participation in TFFR and PERS will be reported to both systems based on job duties.

Example: Teacher A – Full time teacher's aide Sept.-May (Report to PERS) Also teaches summer school (Report to TFFR)

Teacher B – Part time teacher's aide Sept.-May (meets PERS minimum; report to PERS) Also teaches one class Sept.-May (Report to TFFR)



**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**

*Teachers' Fund for Retirement
State Investment Board*

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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 inside

A Matter of Trust

For centuries, trust law has been consistent – trust fund assets belong to trust fund beneficiaries. In other words, money held in public pension funds (like TFFR) belongs to the employees (like active and retired teachers) of state and local governments. The people entrusted to make decisions about trust fund assets are trustees (like the TFFR Board).

There are certain legal responsibilities, called fiduciary duties, which are imposed upon trustees. Bound by both federal and state law, trustees must set policy and make decisions for the exclusive benefit of the participants and beneficiaries of the fund.

TFFR differs from many other state agencies in that the funds they expend come from a fiduciary trust rather than the state's general fund. Because of this fiduciary requirement, the Board can only make two kinds of payments: (1) benefit payments called for by the plan, and (2) normal and reasonable expenses necessary to administer the plan.

So what's the big deal?

Every so often, we hear suggestions about how trust fund assets should be spent. Here are a few ideas that came up during the last legislative session:

- Mandating pension fund investments in economically targeted



Fay Kopp
Deputy Executive Director

investments in ND which could violate the exclusive benefit rule and endanger the qualified status of the plan.

- Contracting for professional services (like investment provider, actuarial, and benefit consultants) to be made under policies which may not be appropriate for a pension trust fund.
- Requiring payment of administrative fees for services which may not be considered normal and reasonable.

These types of ideas interfere with the fiduciary responsibilities of the TFFR Board. Any mandate that requires trust fund assets to be used in a manner inconsistent with their true purpose – that of providing lifetime retirement income for ND public school teachers – must be opposed by your TFFR Board of Trustees.

It really is a matter of "trust."

TFFR Legislation Approved

(continued from cover story)

Employees currently having both jobs reported to one system may either continue under the old law (which required multiple jobs to be reported to the retirement system with the most service credit) or change to the new law. ***If you fall into this category, please contact TFFR for an election form.***

At retirement, dual members will be given the option of receiving their retirement benefits from TFFR and the alternate retirement plan under one of the following calculations:

1. Each retirement system will use its three highest salaries in the computation of final average salary and all the service credit earned in its system; or
2. The retirement systems will combine salaries to create the final average salary; however, the service credit recognized can not exceed one year in any fiscal year. If overlapped service credit occurs, only one of the retirement systems will recognize the credit.

Retiree Limits Modified

Retirees may return to TFFR covered employment under several options. Under the General Rule, after 30 days elapse from the retirement date, a retiree may return to TFFR covered employment for a maximum number of hours and continue to receive TFFR retirement benefits. Contributions will not be paid to TFFR and the monthly retirement benefit will not be affected. The annual hour limit has changed from 700 hours per year to an annual hour limit based on length of employment. In addition, extracurricular duties and professional development will not be counted in the limit.

- 9 month contract = 700 hours
- 10 month contract = 800 hours
- 11 month contract = 900 hours
- 12 month contract = 1000 hours

Under other options, a retiree may return to teach and exceed the annual hour limits. Contact the administrative office or visit our website for additional information.



Norman Stuhlmiller

Norm Stuhlmiller Re-Appointed

Governor Hoeven recently re-appointed Norman Stuhlmiller to the TFFR Board for another five-year term from July 1, 2003 - 2008. Norm has been a trustee since 1995 and represents retired members. Norm also represents the TFFR Board on the State Investment Board.

Congratulations Norm, and thanks for your dedication and commitment to North Dakota's fine educators.

Purchase Payment Options

Active TFFR members who meet certain conditions are eligible to purchase service credit. For payment of service credit purchases, TFFR may accept eligible rollovers, direct rollovers, and trustee to trustee transfers of *tax deferred funds* from an eligible retirement plan including a 401(a), 403(a), 401(k), 457 governmental plan, 403(b) tax sheltered annuity plan, or a traditional IRA (not Roth IRA). The rollover amount cannot exceed the amount due for the service credit purchase.

If eligible, cost information and retirement benefit estimates with and without the service purchase can be sent to you. After reviewing the information, if you decide to purchase service credit using rollover funds, a "Rollover Request for Service Credit Purchases" form must be completed and returned with the payment. The plan administrator currently holding the funds may also require you to complete forms to process the rollover to TFFR.

New Retirement Options

When you retire, you must decide how you want your monthly annuity benefits paid. TFFR provides you with a number of different options. Each option provides you with lifetime retirement payments that vary with the degree of survivor benefits available – regular single life, 100% or 50% joint and survivor, 5 or 10 year term certain, or level income in conjunction with any of the regular options.

Recent legislation will expand your choice of retirement options.

- The 5-year term certain and life option will no longer be available to retiring members. However, this option will be replaced with a 20-year term certain option to provide beneficiary coverage for a longer time period. Your annuity will be actuarially reduced to reflect the cost of the option.
- A partial lump sum option plan will also be added to the menu of options available to future retirees eligible for an unreduced retirement

annuity. This option will allow retiring members to take a partial lump-sum distribution equal to twelve times the regular single life annuity benefit. The partial lump sum is payable in addition to the monthly retirement benefit. However, the monthly benefit will be actuarially reduced (approximately 10%). Retiring members may still choose one of the optional forms of payment except the level income option. A retiring member may either roll over the partial lump sum to an IRA or another eligible retirement plan, or receive it directly. If a member elects to receive the partial lump sum directly, the taxable portion will be taxed as ordinary income and subject to automatic 20% federal tax withholding.

Example: Sally Teacher retires on August 1, 2003 with the Rule of 85. Sally's single life annuity benefit is \$1,700 per month. Sally may elect the regular single life annuity option and receive \$1,700 per month for life, OR receive a partial lump sum distribution (PLSD) of \$20,400 (\$1,700 X 12) and a lifetime benefit of \$1,530 per month. If Sally wants to provide a continuing benefit to a beneficiary under a joint and survivor or term certain option, the \$1,530 will again be actuarially reduced.

Employer Service Purchase

Under current law, teachers are allowed to purchase service credit for use toward retirement eligibility. Beginning August 1, 2003, employers will also be able to purchase service credit on behalf of TFFR members under the following conditions.

1. The member may not be given the option to choose between an employer service purchase and an equivalent

amount paid in cash. As long as the member has no "cash-or-deferred" choice, the member is not taxed on the purchase.

2. The member must be eligible or nearly eligible for retirement. To be eligible, either the sum of the member's age plus service credit must be at least 77, or the member must be at least age 55 with at least three years of service credit.

3. The employer may purchase a maximum of three years of credit for the member under guidelines developed by the employer.

4. The purchase price must be determined on an actuarially equivalent basis which takes into consideration the member's age, salary, and increase in benefits.

5. The employer must pay the purchase price in a lump sum prior to the member's retirement. The service credit purchased will then be added to the member's account. However, the actual dollars do not become a part of the member's account value.

To implement this new provision, employers will need to develop specific guidelines in deciding for whom they will purchase service. TFFR is not itself a party to the agreement between the employer and the member. In general, TFFR will provide the purchase price to the employer, and if the service is purchased, TFFR will credit the service to the member.

Any employer interested in purchasing service credit on behalf of a member should contact the Administrative Office for a cost estimate and employer service purchase form.

Defined Benefit Retirement Plan Advantages

- Members do not assume the risk in a poor investment market
- Benefits are predictable
- Benefits are based on pre-retirement income
- Rewards long service employees
- Members cannot outlive benefits
- Provides survivor and disability benefits

TFFR Pension is Taxable Income

In retirement, most, if not all, of your TFFR retirement benefit is taxed as regular income. Many of you have made tax deferred contributions to TFFR and no taxes are paid until retirement benefits begin or a refund is issued.

If you have previously taxed contributions in your account, you will receive them back tax free. However, the IRS has determined that this amount must be spread out over the retiree's lifetime. If a joint and survivor retirement option is selected, the amount received tax free will be spread out over both lives. TFFR calculates the non-taxable portion based on the IRS' Simplified General Rule

which, in most cases, is a very small amount when compared to the taxable portion of the retirement benefit.

At retirement, you have three options for tax withholding:

No taxes withheld. The retiree must pay the taxes at year end or file quarterly estimated taxes. Remember, if your withholding or estimated tax payments are not sufficient, you may be subject to an IRS penalty.

Standard withholding. TFFR will withhold federal tax based on marital status and number of exemptions.

Additional withholding. You may have TFFR withhold more than the standard amount because of other retirement income that cannot have taxes withheld.

Model 3 Discontinued

TFFR has three basic models relating to employer payment of member retirement contributions. Model 1 allows the tax deferral of member contributions under a salary reduction plan. Model 2 allows all or a percentage of the member contributions to be paid by the employer in lieu of a salary increase. Model 3 allows a certain dollar amount to be paid by the employer in lieu of a salary increase. Special provisions apply to state agencies, counties, college teachers grandfathered under old laws, and employers that have not adopted a model.

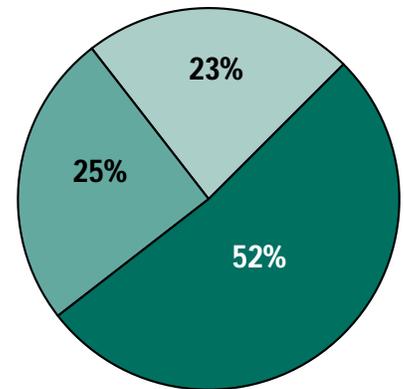
Model 3 has been difficult for employers and teachers to understand, negotiate, and implement. These difficulties have resulted in TFFR and tax reporting errors. At their March meeting, the TFFR Board approved a policy no longer allowing employers to select Model 3. However, any employers currently paying member contributions under Model 3 may continue as a closed group. The policy goes into effect July 1, 2003.

School District Audit Cycle Completed

In 2003, the Internal Audit Division completed the first cycle of school district audits for TFFR compliance and found most schools in compliance.

The top five errors:

- Salary reported in wrong fiscal year
- Service credit incorrectly calculated
- Employees reported without a written agreement
- Extra-curricular duties not reported
- Fringe benefits reported as salary



Audit Findings

- 52% In Compliance
- 25% Generally in Compliance
- 23% Not in Compliance

School district compliance audits help TFFR ensure that salary and service credit is reported correctly to TFFR. These audits uncover errors that, if not corrected, could result in a member receiving an incorrect retirement benefit or refund. The timely correction of errors allows a TFFR member to rely on the benefit estimates and account information provided by TFFR for retirement planning purposes.

Disaster Recovery Plan Completed

The Retirement and Investment Office recently completed the agency's disaster recovery plan. The plan's primary objectives are to protect resources and employees, safeguard RIO's vital records, and guarantee the continued availability of essential services.

Since the early 1990s, RIO has been using a document imaging system to process retirement paperwork and safeguard member records. Although the imaging system has not eliminated all paper, it has dramatically decreased the volume of data we keep in paper form. In the event of a disaster such as a fire, rest assured that your retirement data is safe and accessible. The imaging system has also improved our service to you over the years. Having your retirement documents at our fingertips has allowed for a faster response to member inquiries.

TFFR Outreach Services

BENEFITS COUNSELING PROGRAM

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

Williston	August 19, 2003
Kenmare	August 20, 2003
Tioga	August 21, 2003
Hazen	September 10, 2003
Napoleon	September 11, 2003
Lakota	September 16, 2003
Grand Forks	September 17-18, 2003
Langdon	September 23, 2003
Rugby	September 24, 2003
Mott	September 24, 2003
Harvey	September 25, 2003
Wahpeton	September 30, 2003
Valley City	October 1, 2003
Jamestown	October 2, 2003
Beach	October 15, 2003
Dickinson	October 16, 2003
Minot	November 17-18, 2003
Fargo	December 3-4, 2003
Bismarck	January 14-15, 2004
West Fargo	February 4-5, 2004

PRE-RETIREMENT SEMINARS

The six hour pre-retirement planning seminars cover TFFR benefits, financial planning, estate planning, Social Security benefits, and health insurance. The one-day seminars are held from 8:45 am to 3:45 pm with an hour lunch (on your own). The two-day seminars are held from 4-7 pm each day. To register, complete the registration form and return it to the administrative office.

West Fargo	August 14, 2003
Minot	August 21, 2003
Grand Forks	October 8-9, 2003
Bismarck	January 28-29, 2004

Pre-retirement Seminar Sites (please select one):

West Fargo Minot Grand Forks Bismarck

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



Pension Software Project Continues

Due to increasing costs involved in operating the outdated mainframe computer system we use to administer the pension program, TFFR has been working with MSI Consultants to study replacement or upgrade options. The first two phases of the project have been completed.

Phase 1 – A feasibility study considered TFFR's business and technical environment, and evaluated replacement or upgrade options. Results of the study showed that significant benefit could be derived by replacing the current mainframe pension management system with commercial pension software. This would improve service to TFFR members, increase the reliability of data, provide tools for improving staff productivity, and enhance system integration capabilities.

Phase 2 – A vendor comparison review of four qualified vendor software solutions allowed TFFR to evaluate vendor software capabilities, understand vendor architecture and technical requirements, and evaluate software upgrade, modification and maintenance requirements.

The 2003 Legislature recently approved the agency's operating budget which includes replacing TFFR's current pension administration system. Based on the results of the first two phases of the study and subsequent legislative approval, the TFFR Board plans to move forward on the project. Requests for Proposal (RFP) will be developed and distributed later this summer. We hope to begin transition to a new solution in the Spring of 2004.

Retirement Options for Reservists

When a TFFR member is called to active military duty, a "Member Action" form should be completed to notify TFFR of the military leave.

Once we are notified that a member has returned to TFFR covered employment, we will determine if the member is eligible to purchase military service credit under the Uniformed Services Employment and Reemployment Rights Act (USERRA). The cost to purchase will be calculated and a request for payment will be sent to the employer and/or member.

Model 1 or No Model	Member pays employee contribution (7.75% of lost salary) Employer pays employer contribution (7.75% of lost salary)
Model 2 All	Member pays 0 Employer pays employer and employee contribution (15.5% of lost retirement salary)
Model 2 Partial or Model 3	Member and employer each pay their part of employee contribution (7.75% of lost retirement salary) Employer pays employer contribution (7.75% of lost retirement salary)

The table details who is responsible for payment if a member elects to purchase lost service credit and/or salary under USERRA.

Website Hits and Highlights

Two calculators have been added to our website. Check out the retirement benefit calculator and the service purchase cost calculator at www.discovernd.com/rio.

In April 2003, our website received almost 2,000 visits totaling 23,200 hits. The top five pages viewed were:

1. Retirement benefit calculator
2. Legislative summary
3. Frequently asked questions
4. News
5. Service purchase cost calculator

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