

REPORT Card

DECEMBER 2009

ND TEACHERS' FUND FOR RETIREMENT

ND TFFR Funding Challenges:

What does the Future Hold?

Unprecedented financial market declines in 2008-09 hit investors of all kinds very hard. NDTFFR is no exception, and the market downturn had a significant impact on the financial stability of the plan. For TFFR benefits to be sustainable, adequate contributions from employees and employers must be received. Those contributions are then invested during an employee's working career with the goal of providing sufficient funding to pay the benefit amount determined under ND statutes. When investment markets are hurt by low or negative returns, TFFR's ability to fund benefits is also lowered. Addressing TFFR funding challenges will require shared actions and support from

employees and employers over the long term.

What Happened?

As you can see from Chart 1 on page 3, TFFR investments have generally been very strong over time due to the State Investment Board's long term investment strategy, professionally managed portfolio, and well diversified assets. Unfortunately, like other investors (individual, corporate, and public pension systems), TFFR experienced significant investment losses in the past year. Reflecting this market turmoil, the TFFR portfolio returned -27.3%, which is well below our 8% investment return assumption. Market value of assets decreased from about \$1.8 billion to \$1.3 billion as shown in Chart 2.

These investment losses have a substantial impact on TFFR's long-term funding outlook. A plan's funded status refers to the amount of assets the plan has compared to the cost of benefits earned (assets / liabilities). TFFR's funded level is calculated based on an actuarial value of assets which recognizes 20% of each year's investment gain or loss over a 5-year smoothing period. Market value is the actual value of assets.

When investment earnings decline, funding levels also decline as shown



in Chart 3. According to TFFR's most recent actuarial valuation report dated July 1, 2009, TFFR's current funding level is nearly 78% (based on actuarial value) or about 54% (based on market value). Actuarial projections show TFFR's funded level will drop to less than 50% within 5 years, and continue declining in the future, even if we earn 8% every year going forward.

Actuarial analysis shows that current statutory contribution rates of 7.75% for members and 8.25% for employers (8.75% effective 7/1/10) are insufficient to amortize TFFR's unfunded liability over 30 years. TFFR's contribution rate shortfall declined to -2.53% in 2009, and is projected to steadily worsen to about -14.0% as investment losses are recognized over the next few years.

Unfortunately, it is highly unlikely that investments alone will return

Continued on page 2

TFFR Board of Trustees

Mike Gessner, President, Active Trustee
Kim Franz, Active Trustee
Bob Toso, Active Trustee
Clarence Corneil, Retired Trustee
Lowell Latimer, Retired Trustee
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer

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.nd.gov/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.

What does the Future Hold?

From page 1

TFFR to actuarial balance. In fact, it would take future returns averaging 10-11% over the long term to resolve the funding deficit.

While TFFR's long term funding outlook is not good news, please be assured there is no immediate concern of the plan's ability to make benefit payments each month. TFFR has over \$1.3 billion in assets to meet annual net expenses of about \$120 million per year.

Next Steps?

A TFFR Funding Improvement Study Group has been formed which includes TFFR Board, stakeholder groups (NDCEL, NDEA, NDRTA, NDSBA), RIO staff, actuarial consultant, and Attorney General's Office. The Study Group is meeting to conduct a top-to-bottom analysis of funding improvement options, consider advantages and disadvantages of various alternatives, receive actuarial cost information, consider legal issues, and formulate legislative plans.

TFFR funding improvement actions will likely require **shared sacrifice** – both members and employers may need to collectively contribute to the funding solution to ensure pensions are on a sustainable path forward following this economic crisis.

Additionally, actions will need to be **phased in over time**. Funding shortfalls will not be solved in one legislative session, or with a couple good years of investment returns (although the market recovery currently underway is a good start). Pension funds are built for the long haul, but will need time to recover.

Possible changes under consideration include:

- Member and employer contribution increases (total 8% to 10% phased in over a number of years with trigger point for reducing rates when adequate funding levels are met).
- Benefit reductions for new employees (retirement eligibility, benefit multiplier, retiree re-employment, disability provisions, are some of the changes being discussed).
- Other possible benefit changes and/or revenue sources.

The TFFR Board believes it is in the best financial interests of members and employers to begin taking funding improvement actions sooner, rather than later.

This is important because:

- A financially strong TFFR plan with competitive benefits is an important tool used by ND school districts to attract and retain quality ND educators.
- TFFR provides lifetime financial security to over 6,500 currently retired educators, and nearly 10,000 more future retirees.
- Pension benefits received by retirees are spent in the state and local community. This spending ripples through the state in the form of jobs, tax revenues, and economic impact.

The TFFR Board plans to submit a range of funding improvement options for study by the interim Legislative Employee Benefits Programs Committee (LEBPC) by April 1, 2010 deadline. The LEBPC will then review the study bills, get technical/actuarial review, hold public hearings, and give each proposal a favorable, unfavorable, or neutral recommendation by November 2010. Finally, the TFFR Board will consider the LEBPC recommendations and submit a funding improvement bill to the 2011 Legislative Assembly which begins in January 2011.

The TFFR Board cannot make any guarantees as to what will happen to pension benefits in the future. While the Board plans to submit legislative proposals aimed at addressing shortfalls and stabilizing funding, it is the responsibility of the ND Legislature to decide what changes, if any, will be made to address declining funding levels. If legislative changes are made, they would typically take effect on July 1, 2011 or after. However, it is also likely that such legislation would contain a delayed effective date of 2012 or later to allow time for employee and employer decision making, negotiating, budgeting, and implementation. Employees should not make hasty retirement decisions until more details are known. Both active and retired members should closely monitor 2011 legislation for potential impact on the TFFR plan.

Please visit TFFR's website for newsletters, presentations, and legislative information (www.nd.gov/rio). A member update will also be sent to you next spring with more detailed information about legislative proposals under consideration. As always, feel free to call or email our office to discuss questions or concerns (1-800-952-2970 or rio@nd.gov).

2009 Annual Report Summary

NDRIO's Comprehensive Annual Financial Report (CAFR) has been published and provides a detailed look at investment, financial, actuarial, and statistical information. The report continues to receive the Certificate of Achievement for Excellence in Financial Reporting. Summary information for this year's report which covers July 1, 2008 – June 30, 2009 is shown below. The complete report is posted on the NDRIO website at www.nd.gov/rio.

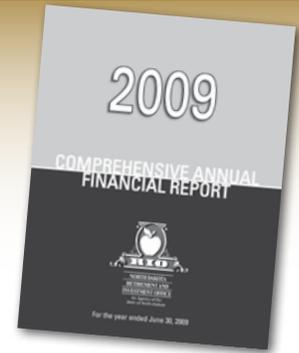


CHART 1 – TFFR Investment Performance
Year ended June 30

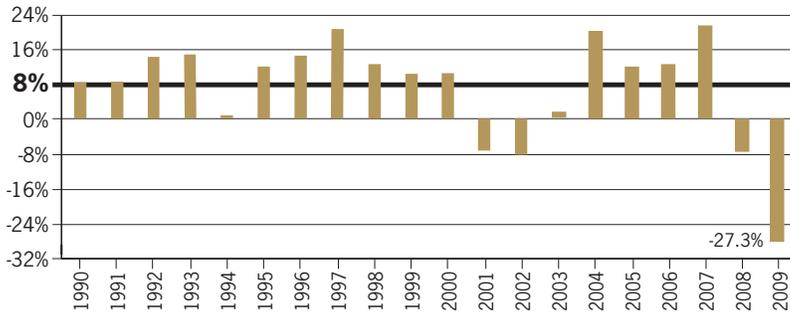


CHART 2 – Market Value of TFFR Assets
Year ended June 30

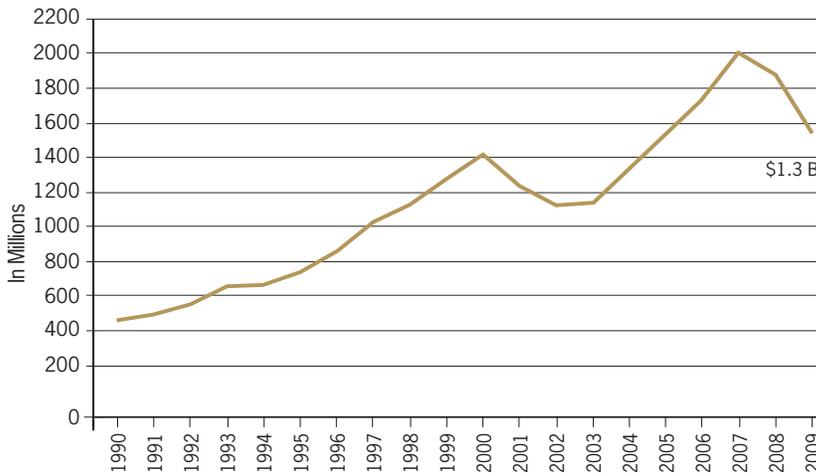
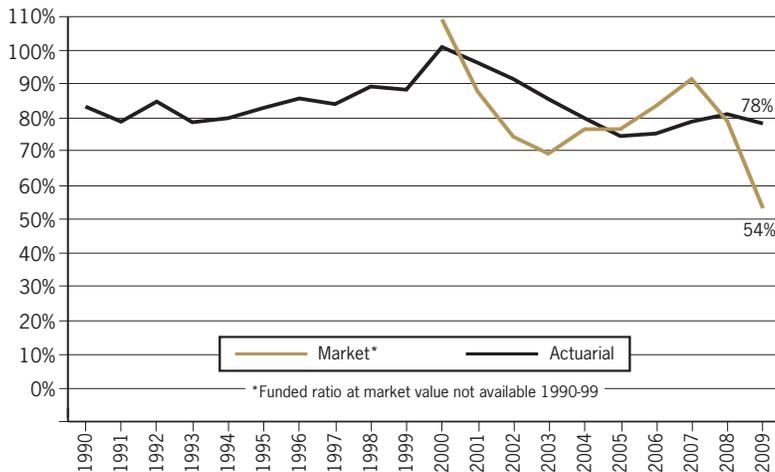


CHART 3 – TFFR Funded Ratio
Year ended June 30



Changes in Assets During Fiscal Year 2009

CASH POSITION (in millions)

Net Assets on June 30, 2008	\$1,846.1
ADDITIONS	
Member Contributions	34.7
Employer Contributions	37.5
Other Additions	2.2
Investment Income/Loss	(492.8)
Total Additions	(418.4)
DEDUCTIONS	
Benefits Paid	114.0
Refunds	2.3
Administrative Expenses	1.7
Total Deductions	118.0
Net Decrease	(536.4)
Net Assets on June 30, 2009	\$1,309.7

Statement of Assets as of June 30, 2009

ASSETS		(in millions)
Equities		662.3
Fixed Income		394.9
Real Estate		142.9
Alternative Investments		71.1
Invested Cash		13.6
Invested Securities Lending		6.8
Receivables		15.4
Other Assets		11.8
Total Assets		1,318.8
LIABILITIES		
Accounts Payable		1.7
Accrued Expenses		.5
Securities Lending		6.8
Other Liabilities		.1
Total Liabilities		9.1
Net Assets on June 30, 2009		\$1,309.7

Memo to Members

All We Really Need To Know...

Each time I read **“All I Really Need to Know I Learned in Kindergarten,”** by Robert Fulghum, I tend to relate it to whatever issue is foremost on my mind. Recently, when I ran into that timeless essay, I was thinking about TFFR funding challenges and options to restore its financial health. So, naturally, I did what the author advised, and tried to apply the lessons to TFFR. Not surprisingly, I found many of the lessons really do **“hold true and clear and firm.”** Here are a few examples:

Share everything.

TFFR has a history of sharing. Over the years, both employees and employers have shared in making retirement contributions to maintain a financially sound retirement system for ND educators as an important employee benefit. Employees and employers have also jointly increased retirement contributions to fund increased benefits (for example, Rule of 85 in 1989 and increased multiplier in 1997).

Now, due to investment losses resulting from the worst market meltdown since the Great Depression, the TFFR Board plans to submit a range of legislative study proposals to restore TFFR's financial health. Legislative proposals will likely reflect shared sacrifices involving members and employers. Such proposals could include contribution increases from employers, contribution increases from current employees, future benefit changes for new employees, and other possible changes or revenue sources. While current



Fay Kopp,
Deputy Executive Director -
Chief Retirement Officer

benefits can't be reduced for retirees, it is highly doubtful that TFFR will be able to fund retiree benefit increases or supplemental retiree payments in the future.

Sharing the financial responsibility of adequately funding the TFFR plan for current and future ND educators will be difficult, but necessary, in order to ensure that lifetime pension benefits are secure.

Play fair.

The TFFR Board recognizes that ND educators are in varying stages of their career: newly-hired, mid-career, ready-to-retain, already retired. Likewise, school boards and other employers have differing budget priorities and needs.

The TFFR Board is working on legislative proposals to address funding shortfalls that are cooperative and respect the competing demands of employees and employers. The Board is seeking solutions that will provide a reasonable balance of all the factors involved – cost, stability, timing, and

benefit adequacy. This is no easy task, and all stakeholders may need to be part of the solution.

Put things back where you found them.

This is the central issue and the TFFR Board's #1 priority. TFFR needs to get back to adequate funding levels – minimum of 80%, but preferably 100% – over the long term. While this is not an immediate crisis, it is a serious situation. Without action, TFFR's unfunded liability will continue to increase and funded ratio will continue to decrease. The longer we wait to take action, the more it will cost. We need to use time to our advantage, and begin making changes now in order to get funding levels back to where they were.

The TFFR Board and TFFR Funding Improvement Study Group are dedicated to working on behalf of members and employers to provide for the financial health and stability of NDTFFR. Addressing TFFR's funding shortfall is important, and we are committed to a comprehensive solution that is sustainable for both the short and the long term.

**

And finally, on a lighter note, **“warm cookies and cold milk really are good for you.”**



Leaving TFFR Employment?

Teachers face employment changes due to events such as school closings or consolidations, moving out of state, changing careers, or other personal reasons. TFFR staff is frequently asked about the options available regarding the teacher's retirement benefits. Members have three options as follows.

● Refund Account Value

A refund will close your TFFR account and you forfeit the right for any future retirement benefit. Tier 1 membership status will also be lost, and if you return to TFFR employment, you will be a Tier 2 member. If you refund your TFFR account value, you will receive your member contributions (including service purchase payments) plus interest. Refunds are issued once a month and require a 120 day waiting period from your last day of work unless the waiting period is waived by TFFR. To apply for a refund, submit a refund application to TFFR.

● Defer Vested Retirement Benefit

A vested member who leaves TFFR employment prior to retirement age may defer drawing monthly retirement benefits rather than take a refund. Tier 1 members may defer retirement benefits until the Rule of 85, age 55, age 65 or any date in between. A Tier 2 member may

defer retirement benefits until the Rule of 90, age 55, age 65 or any date in between. If you are not vested, you may only refund your account value. To defer retirement benefits, submit a notice of termination form to TFFR.

Tier 1 Retirement Eligibility

Vesting - 3 years of TFFR service

Early reduced retirement - age 55-64

Non-reduced retirement - age 65 or Rule of 85

Tier 2 Retirement Eligibility

Vesting - 5 years of TFFR service

Early reduced retirement - age 55-64

Non-reduced retirement - age 65 or Rule of 90

● Begin Retirement Benefit

When you retire, you may elect to begin your lifetime monthly TFFR benefit. To draw a monthly pension, you must be vested and eligible (see retirement eligibility requirements above).

To begin the retirement process, submit a notice of termination form. Upon receipt, your account will be reviewed and TFFR retirement enrollment forms will be sent to you.

Annual Statewide Pre-Retirement Seminars

As all workers digest the impact of the recent economic downturn and its affect on personal and retirement savings, one thing still holds true – the decision to retire should only be made after serious consideration of the many financial and nonfinancial factors affecting retirement.

To help ND educators in their planning, TFFR hosts statewide pre-retirement seminars. All teachers are invited to attend. The full day pre-retirement planning seminar covers TFFR benefits, financial planning, estate planning, Social Security benefits, PERS health insurance, and adjusting to retirement.

The 2010 seminars will be held in Minot on July 1, 2010 and Fargo on July 14, 2010. The seminars begin at 8 am and conclude at 4:30 pm. *Each site will be limited to 100 participants, so register early.* Call 1-800-952-2970 or 328-9886 or complete and return the attached registration form.

STATEWIDE PRE-RETIREMENT SEMINAR REGISTRATION FORM

July 1, 2010 - Minot

July 14, 2010 - Fargo

Name _____

Address _____

City _____ State _____ Zip _____

TFFR Person ID _____

Home Telephone _____ Work Telephone _____

E-mail _____

Will your spouse/guest also be attending? ___ Yes ___ No

Name of spouse/guest _____

Is your spouse/guest also a teacher? ___ Yes ___ No

TFFR Person ID _____

Return to: **ND Retirement and Investment Office**
PO Box 7100, Bismarck, ND 58507-7100
or e-mail information to: rio@nd.gov



**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

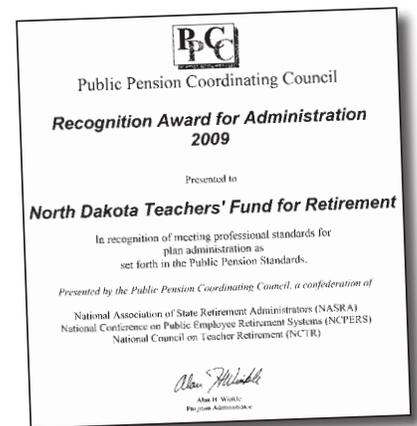
PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT NO. 325
BISMARCK, ND
58501

TFFR Board

The TFFR Board is dedicated to ensuring a financially secure pension fund for the benefit of North Dakota's active and retired public school teachers.



*Front row, from left: Clarence Corneil, Mike Gessner, Lowell Latimer.
Back row: State Treasurer Kelly Schmidt, Bob Toso, State Superintendent Wayne Sanstead, Kim Franz.*



ACHIEVEMENT AWARD

The ND Teachers' Fund for Retirement has received the 2009 Public Pension Principles Recognition Award for Administration. This award is designed to recognize and commend public employee retirement systems that meet professional standards for pension plan administration.