SPECIAL Edition

MAY 2010

ND TEACHERS' FUND FOR RETIREMENT

TFFR Funding Improvement Proposals Submitted for Interim Legislative Study

The TFFR Board is recommending legislative proposals designed to keep TFFR financially strong and sustainable for past, present, and future ND educators.

TFFR's funding situation was outlined in the December 2009 newsletter. A webcast presentation is also available on the TFFR website at www.nd.gov/rio/tffr/legislation. Here is a brief recap.

TFFR faces a significant funding challenge as a result of the 2008-09 financial market downturn. Without action, TFFR's funded level is expected to decline from its 2009 level of 78% to about 50% within the next 5 years, and steadily deteriorate in the future.

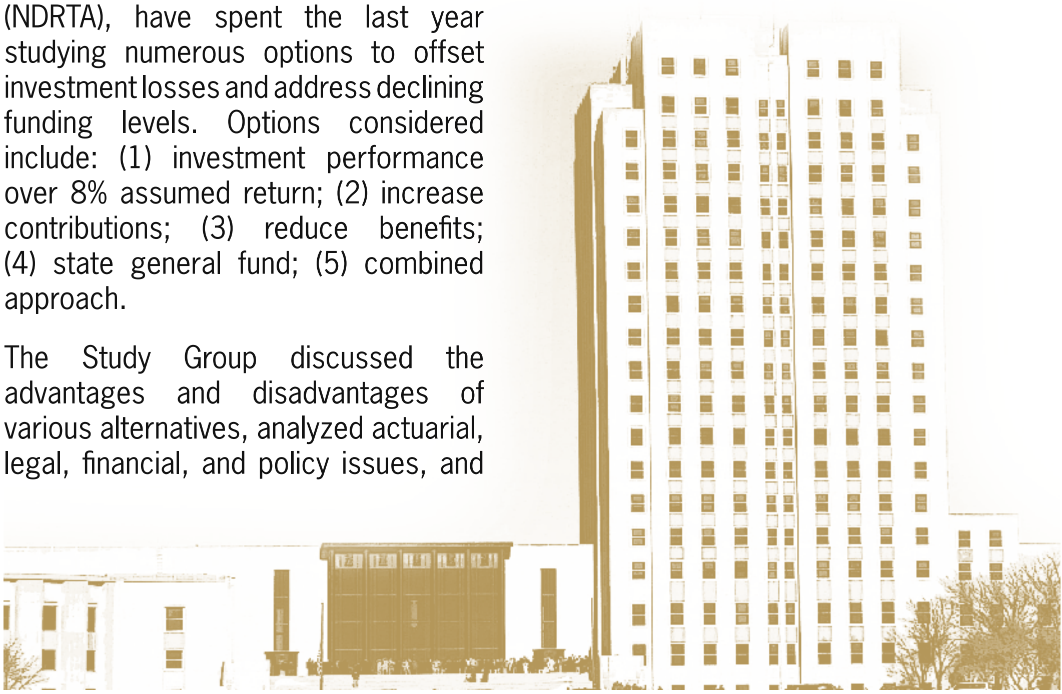
Assuming variable investment returns for the 2009-10 fiscal year, plus 8% returns in the future, chart 1 on page 4 shows projected TFFR funding levels with no other changes. As this newsletter goes to print, current estimated fiscal year to date investment performance is over 20%. As you can see from chart 1, even with a 16% or greater return this year, and 8% returns every year in the future, TFFR funding levels are projected to decline to unacceptable levels.

TFFR's challenge is to stop this downward trend, stabilize funding, and over the long-term, improve funding levels.

The TFFR Board, along with representatives from the ND Education Association (NDEA), ND Council of Educational Leaders (NDCEL), ND School Boards Association (NDSBA), and ND Retired Teachers Association (NDRTA), have spent the last year studying numerous options to offset investment losses and address declining funding levels. Options considered include: (1) investment performance over 8% assumed return; (2) increase contributions; (3) reduce benefits; (4) state general fund; (5) combined approach.

The Study Group discussed the advantages and disadvantages of various alternatives, analyzed actuarial, legal, financial, and policy issues, and seriously considered the impact on members, employers, and the State. The Group focused on developing proposals which would reflect the following core principles:

- Restore the financial health of the TFFR plan for past, present, and future ND educators.
- Maintain adequate retirement security.
- Share responsibility for funding improvement with employees, employers, and the State.
- Phase changes over time.
- Protect benefits of those employees closest to retirement.



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TFFR Legislative Proposals

The TFFR Board has submitted three bill drafts to the Legislative Employee Benefits Programs Committee (LEBPC) for interim legislative study.

Bill No. 54 - Base Funding Improvements (p. 2)
Bill No. 55 - Base Plus+ Funding Improvements (p. 3)
Bill No. 56 - Administrative/Technical Changes (p. 4)

Legislative proposals are described in this newsletter. Complete bill drafts are available on the TFFR website.

The LEBPC will begin its study of the bills this spring and request technical and actuarial review. The Committee will also hold public hearings. By November 2010, the Committee will give each proposal a favorable, unfavorable, or no recommendation. The TFFR Board will then consider the LEBPC recommendations and submit funding improvement legislation to the 2011 Legislative Assembly.

Bill No. 54 - Base Funding Improvements

Submitted by the TFFR Board, Study Bill No.54 would make the following contribution and benefit changes to improve TFFR's long term funding levels. Chart 2 shows the impact of these changes under variable investment return rates for the 2009-10 fiscal year. As you can see, if these changes are approved by the Legislature, and if TFFR earns at least 16% this year, plus 8% returns in the future, funding levels are projected to reach nearly 80% at the end of the 30-year projection period.

Increase employee and employer contributions
Currently employee contribution rates are 7.75% of salary and employer contribution rates are 8.75% (effective 7/1/10). Bill No. 54 would increase contribution rates 8%, shared equally between employees (4%) and employers (4%). The rate increases would be phased in over two bienniums:

	Current 7/1/10	*Proposed 7/1/12*	*Proposed 7/1/14*
Employee	*7.75%*	*9.75%*	*11.75%*
Employer	*8.75%*	*10.75%*	*12.75%*

Increased contribution rates would be effective until TFFR reaches a 90% funded level on an actuarial basis at which time both employee and employer rates would be reduced to 7.75%.

In dollar terms, employee and employer contribution increases are estimated to increase TFFR revenues an additional $40 million each year after rates are phased in ($20 million employee + $20 million employer).

Require re-employed retirees to pay employee contribution rates
Bill No. 54 would also require all re-employed retirees to pay employee contributions on all salary earned beginning 7/1/12. The pension benefit paid to a re-employed retiree would not increase as a result of the additional contributions paid (unless the retiree's benefit was suspended because the annual hour limit was exceeded).

Modify disability benefits
This proposal increases the disability vesting requirement from 1 year to 5 years, and changes the benefit calculation to using actual service credit earned instead of the 20 year minimum. The change would be effective 7/1/13 for all non-retired employees.

Modify eligibility for unreduced retirement benefits and reduction factor for reduced retirement benefits for certain employees
TFFR currently has two tiers of participating members. Tier 1 employees are all members of the system prior to June 30, 2008 who have not taken a refund. Tier 2 employees are those who began TFFR participation after June 30, 2008. The differences in the two tiers relate to their eligibility for and calculation of retirement benefits. Tier 1 employees can retire when they reach the Rule of 85, 3 year vesting, and 3 year final average salary calculation. Tier 2 employees can retire when they reach the Rule of 90, 5 year vesting, and 5 year final average salary calculation. Both membership tiers use the multiplier of 2.0% in calculating retirement benefits.

Bill No. 54 would modify eligibility for unreduced retirement benefits and the reduction factor for calculating reduced retirement benefits for certain employees. Tier 1 employees who are less than 10 years away from retirement eligibility would be grandfathered under current retirement eligibility provisions and would not be affected. Tier 1 employees who are more than 10 years away from retirement eligibility, Tier 2 employees, and future employees would not be grandfathered so would be affected by the unreduced and reduced retirement benefit changes.

Continued on page 3

Grandfathered Employees
To identify which employees are within 10 years of retirement eligibility, Bill No. 54 establishes grandfathering criteria as follows: Tier 1 employees who are vested (3 years of service credit) and at least age 55 OR have the Rule of 65 or greater (age + service) on 6/30/13 would be grandfathered under current retirement eligibility provisions (i.e. Rule of 85).

Examples:

- Tier 1 employee is age 57 with 4 years of service. Yes, employee is grandfathered since vested and over age 55.
- Tier 1 employee is age 45 with 20 years of service. 45 + 20 = 65 Yes, employee is grandfathered since total is 65 or over.
- Tier 1 employee is age 40 with 15 years of service. 40 + 15 = 55 No, employee is not grandfathered since total less than 65.

In determining eligibility for grandfathering provisions, the employee's actual age and service credit (including any purchased service credit paid before 6/30/13) would be calculated to the nearest thousandth (0.000).

Grandfathered Employee Eligibility – Tier 1 vested member						
	TFFR Service Credit on 6/30/2013					
Member age on 6/30/2013	5	10	15	20	25	30+
25	No	NA	NA	NA	NA	NA
30	No	No	NA	NA	NA	NA
35	No	No	No	NA	NA	NA
40	No	No	No	No	NA	NA
45	No	No	No	Yes	Yes	NA
50	No	No	Yes	Yes	Yes	Yes
55+	Yes	Yes	Yes	Yes	Yes	Yes

Non-grandfathered Employees
Tier 1 employees who do not meet the above grandfathering criteria, all Tier 2 employees, and all future employees would be non-grandfathered employees. Effective 7/1/13, non-grandfathered employees would have the following benefit changes:

• Unreduced benefit eligibility
Non-grandfathered employees would need to work longer in order to qualify for unreduced retirement benefits. Effective 7/1/13, non-grandfathered employees could not retire with unreduced benefits until a minimum of 60 years of age and the Rule of 90. If, however, they do not have the Rule of 90, they would need to continue working, or defer drawing benefits until they reach the Rule of 90, or age 65. This proposal increases the retirement eligibility age from the Rule of 85 (non-grandfathered Tier 1 employees) or Rule of 90 (Tier 2 employees) to Minimum Age 60 and the Rule of 90 or Minimum Age 65 for those employees who do not reach the Rule of 90.

Examples:

1) Grandfathered Tier 1 member, age 50 @ 25 yrs service credit on 6/30/13.
Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018
Proposed: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018
NO CHANGE

2) Nongrandfathered Tier 1 member, age 40 @ 15 yrs service credit on 6/30/13.
Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2028
Proposed: Elig Age 60 + 35 yrs (R95) in 2033
\+ 5 YR DIFFERENCE

3) Nongrandfathered Tier 2 member, age 31 @ 5 yrs service credit on 6/30/13.
Current: Elig Rule 90 @ age 58 + 32 yrs (R90) in 2040
Proposed: Elig Age 60 + 34 yrs (R94) in 2042
\+ 2 YR DIFFERENCE

• Reduced benefits
Current statutes allow a vested member to be eligible to retire before normal retirement age and receive reduced retirement benefits if the employee is age 55 or older. This proposal does not change the minimum age 55 eligibility requirement for receiving reduced benefits, but it does increase the 6% per year reduction factor to 8%. That is, effective 7/1/13, if a non-grandfathered member elects to take an early reduced retirement benefit, the retirement benefits will be reduced by 8% from the earlier of age 65 OR the later of either age 60 or Rule of 90.

Bill No. 55 - Base Plus+ Funding Improvements

Study Bill No.55, also submitted by the TFFR Board, includes all of the same provisions that are in Bill No. 54 plus a request for $75 million appropriation from the State's General Fund to further reduce TFFR's unfunded liability.

Chart 3 shows the impact of Bill No. 55 and illustrates the effect of the additional $75 million lump sum payment on TFFR funding levels under variable investment return rates for the 2009-10 fiscal year. As you can see, if this proposal is approved and TFFR earns at least 16% this year, plus 8% returns in the future, funding levels are projected to reach nearly 90% at the end of the projection period which would allow employee and employer contribution rates to be reduced to previous levels.

CHART 1 TFFR Funded Ratios (AVA)
Current Plan - No Changes

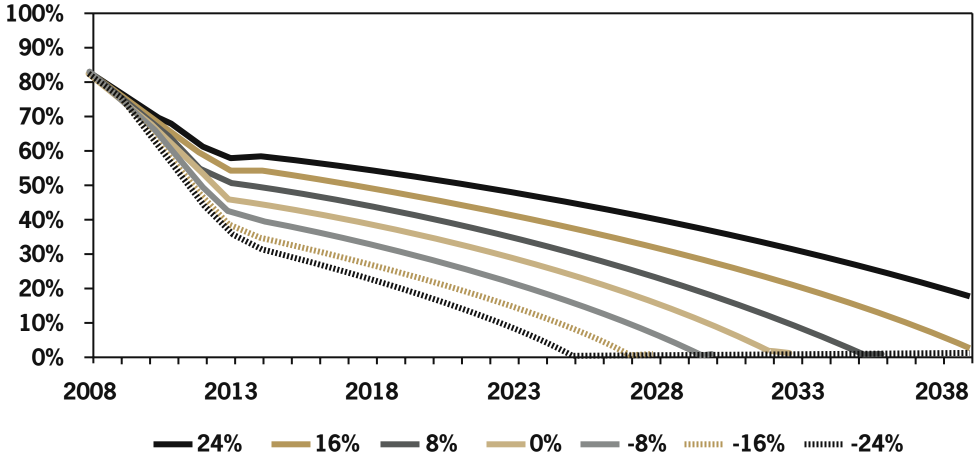


CHART 2 TFFR Funded Ratios (AVA)
Bill No. 54 - Base Contribution & Benefit Changes

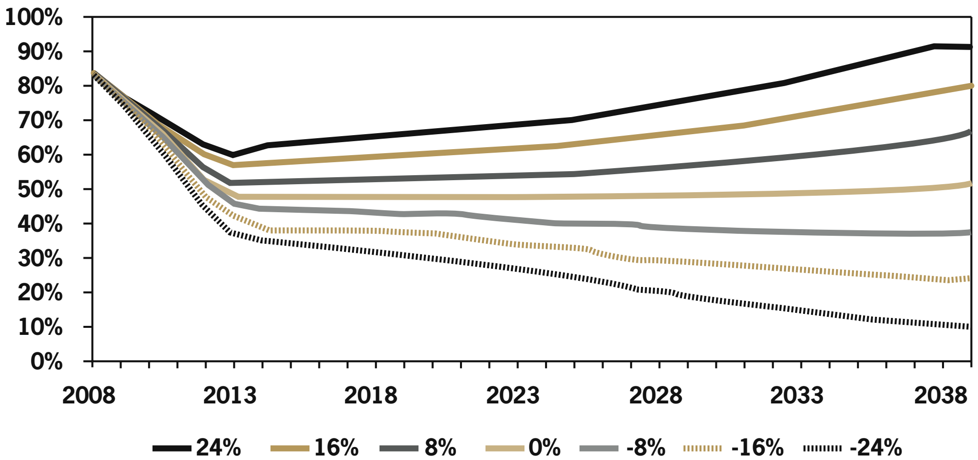
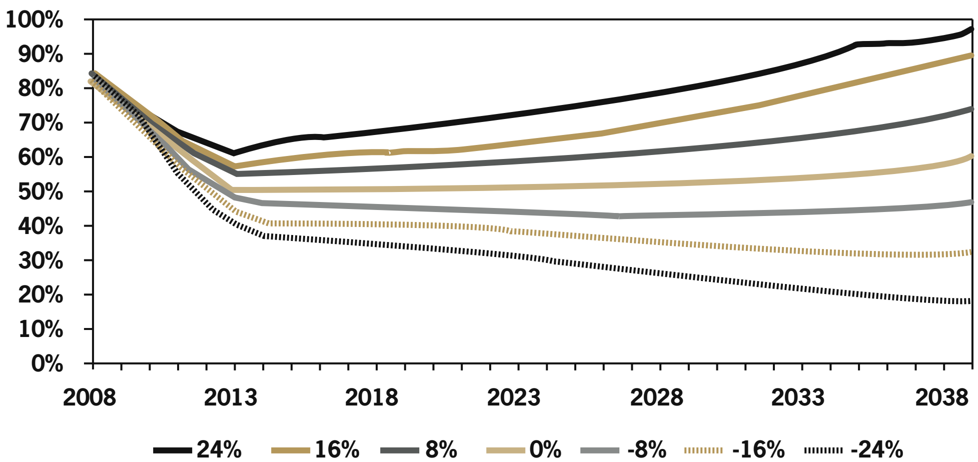


CHART 3 TFFR Funded Ratios (AVA)
Bill No. 55 - Base Contribution & Benefit Changes
PLUS $75 Million State Appropriation



Bill No. 56 - Administrative Changes

Study Bill No. 56, submitted by the TFFR Board, would make technical and administrative changes to the TFFR plan. This bill is not expected to have an actuarial impact on the plan.

- Clarify the definition of beneficiary.

- Clarify the definition of eligible retirement salary. The bill would remove retention, experience, and service related bonuses from being automatically included as eligible retirement salary. It would also clarify that the TFFR Board, on a case by case basis, can determine if certain special payments are eligible retirement salary for benefit calculation purposes.

- Modify outdated death benefit payment provisions to clearly describe to whom, under what conditions, and what amount of death benefits should be paid to a beneficiary, spouse, or estate. Under proposed amendments, TFFR would no longer pay death benefits directly to surviving children or heirs at law when no beneficiary is named or no spouse exists. Death benefits would be paid to the estate which would then be responsible for paying any death benefits as required under ND probate law. Additionally, the sixty (60) monthly payment option would be eliminated for beneficiaries of a deceased non-retired member. Multiple beneficiaries would receive the death benefits as a lump sum payment. If only one beneficiary named, death benefits would be paid as a lifetime monthly benefit or lump sum payment.

- Incorporate federal tax law changes as they relate to qualified governmental plans.

Other Study Bills Affecting TFFR Program

Bill No. 2 – Defined Contribution Plan for New Employees

Submitted by Rep. Wald, Bill No. 2 would close the existing TFFR defined benefit pension plan to new hires after 7-31-11. The bill also creates a TFFR defined contribution plan for new teachers and administrators employed 8-1-11 or after which would be administered by the TFFR Board.

Rates for the defined contribution plan would be the same as the current rates for the defined benefit plan with employees contributing 7.75% of salary and employers contributing 8.75% of salary. Under the defined contribution plan, employees would be responsible for selecting investment choices from a variety of options. Employees would immediately vest in 100% of the employee contributions and would vest in 50% of the employer contributions after 2 years, 75% of the employer contributions after 3 years, and 100% of the employer contributions after 4 years of service. Upon termination of employment, employees would elect the distribution method for the accumulated balance accrued in the defined contribution plan.

Bill No. 39 – Retirement Eligibility Change for New Employees

Bill No. 39, submitted by Rep. Drovdal, would create a third membership tier for new employees and returning refunded employees effective 7-1-2011. Tier 3 would contain the following benefit provisions:

- 5 year vesting requirement.
- Eligibility for unreduced retirement at age 65 only (no Rule of 85 or 90).
- Eligibility for reduced retirement at age 62 (reduction factors range 16% - 30%).
- Benefit would be calculated based on 2.0% multiplier, high 5 final average salary calculation, and total years of service credit.

Bill No. 40 – Retirement Formula Change for New Employees

Also submitted for study by Rep. Drovdal, Bill No. 40 would create a third membership tier for new employees and returning refunded employees effective 7-1-2011. Tier 3 would contain the following benefit provisions:

- 5 year vesting requirement.
- Eligibility for unreduced retirement at Rule of 90 or age 65.
- Eligibility for reduced retirement at age 55 (reduction of 6% per year from the earlier of Rule of 90 or age 65).
- Benefit would be calculated based on 1.88% multiplier, high 5 final average salary calculation, and total years of service credit.

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State Investment Board Update

It is with deep sadness that we share with you that Steve Cochrane, Executive Director and Chief Investment Officer (CIO) for the ND Retirement and Investment Office (RIO) and ND State Investment Board (SIB), recently passed away. Steve was a talented and well-respected investment professional who served as the state's CIO for over 13 years, and our agency's director for 11 years. His expertise and friendship will be greatly missed.

In the meantime, please be assured that the SIB has a long-term strategic investment program in place. Investment operations continue to run smoothly and without disruption. Pension and insurance trust fund investment policies are implemented by outside managers hired by the SIB; no funds are managed internally. Those outside investment managers will continue to be monitored by experienced SIB staff and external investment consultant, with appropriate action taken by the SIB as needed.

Decisions on selecting a new Executive Director/CIO rest with the SIB. At their meeting on April 23, the SIB:

- Established an Executive Committee to search for an interim Executive Director/CIO until a permanent replacement can be found.

- Established a Search Committee to look for a permanent Executive Director/CIO.

- Authorized a special audit to verify the assets and controls of the program. Assigned SIB Audit Committee with responsibility for selecting independent audit firm and defining scope of audit.

- Affirmed Fay Kopp as acting Executive Director for agency operations. Connie Flanagan, Fiscal & Investment Officer, will continue to handle investment program operations, with additional assistance from the SIB's investment consultant, Callan Associates, as needed.