

RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT

JUNE 2003

TFFR Legislation Approved

Retirees continue to contact our office inquiring whether they will receive an increase in their monthly retirement benefit this summer. As discussed in past newsletters, due to the poor investment markets in the past three years, TFFR legislation for 2003 did not contain a retiree benefit increase. Consequently, your monthly TFFR retirement benefit will not increase this year.

The legislative approval of Senate Bill 2057 did modify retiree return to teach limits. To review the other provisions of Senate Bill 2057, members can contact TFFR or visit our website at discovernd.com/rio.

Retiree Return To Teach Limits Modified

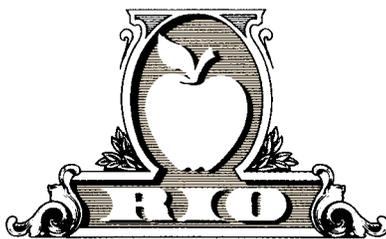
Retirees may return to TFFR covered employment under several options. The General Rule is by far the most common. Under the General Rule, after 30 days elapse from the retirement date, a retiree may return to TFFR covered employment for a maximum number of hours and continue to receive TFFR retirement benefits. Employer and employee 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 return to work options, a retiree may return to teach and exceed the annual hour limits. Contact the administrative office or visit our website for additional information.



**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**

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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.

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 investments in ND which could violate the exclusive benefit rule and



Fay Kopp
Deputy Executive Director

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."



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.



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.

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.

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.

In retirement, you have three options for tax withholding:

No taxes withheld. The retiree must pay 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.

If you wish to change your tax withholding election, please contact TFFR for a "W-4P Tax Withholding" form or download the form from our website.

Defined Benefit Retirement Plan Advantages

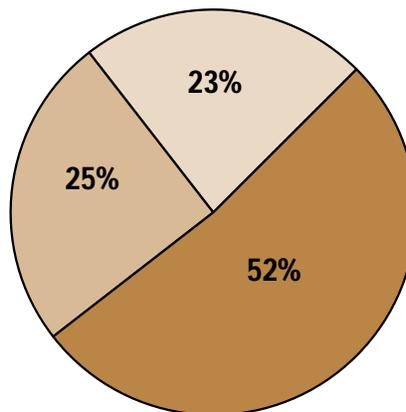
- *Members do not assume the risk in a poor investment market*
- *Benefits are predictable*
- *Benefits are based on pre-retirement income*
- *Rewards long service employees*
- *Members cannot outlive benefits*
- *Provides survivor and disability benefits*

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.

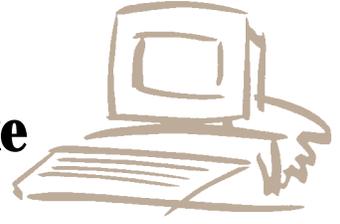
Disaster Recovery Plan Completed

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.

www.discovernd.com/rio

Website Hits & Highlights



The RIO website continues to grow. Two new calculators have been added, and 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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