

# RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT

JANUARY 2004



## 2003 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.

As of July 1, 2003, the TFFR plan represented 16,602 active, inactive, and retired members. The average age of the 9,916 active members was 44.8 years; average service was 14.6 years; and average annual salary was \$37,105. There were 5,177 retirees and beneficiaries receiving average benefits of \$14,439 per year. While active membership is declining, the number of retired members has grown an average of 2.2% per year over the last 10 years. Currently, there are 1.9 active members for each retiree (down from 2.3 ten years ago), and the ratio of active to retired members continues to slowly decrease.

According to the 2003 actuarial report, the member and employer contribution rate of 7.75% each is no longer sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 20 years. The margin between the rate mandated by

law and the rate necessary to fund the UAAL in 20 years is -1.19%. This margin decreased from 1.66% 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 91.6%, while it is 85.1% this year. This decrease is also due to the recognized investment experience losses.

Because of the 5-year smoothing method that TFFR uses, all investment losses have not yet been reflected in the actuarial measurements. As these losses are recognized over the next four valuations, it is expected that the negative margin will continue to increase and the funded ratio will continue to decrease, in the absence of changes in the benefit and contribution structure of TFFR and in the absence of other experience gains or losses.

The TFFR Board is concerned about the financial soundness of the plan, and is considering various options for dealing with future funding issues. The Board will be discussing alternatives with member and employer interest groups in the next few months.

#### TFFR Board of Trustees

Mark Sanford, *President*

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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.*

# Facts Are Stubborn Things

*"Facts are stubborn things; and whatever may be our wishes, our inclinations, or the dictates of our passions, they cannot alter the state of facts and evidence."*

John Adams  
2nd President of the United States (1797-1801)



Fay Kopp  
Deputy Executive Director

The past few years have been difficult ones for our nation, our state, and TFFR. The problems are rooted in the economic woes our country has faced and three years of "bear market" investment losses. Here are a few facts that cannot be ignored:

**FACT #1:** TFFR benefit funding comes from three sources:

- Employee contributions (7.75% statutory rate)
- Employer contributions (7.75% statutory rate)
- Investment Earnings (8.00% earnings assumption)

**FACT #2:** In the past three years, annual investment returns have not met the 8% assumed rate. Due to the smoothing approach used by TFFR, losses (and gains) are phased in over 5 years.

1999	11.06%
2000	11.63%
2001	-7.00%
2002	-8.88%
2003	2.28%

**FACT #3:** As a result, the fund's investments have dramatically decreased in value. See chart on page 3 which illustrates how the market value of assets has declined from its high of \$1.4 billion in 2000 to \$1.175 billion in 2003.

**FACT #4:** The 2003 actuarial valuation shows a funded ratio of 85.1%, a decrease from the previous year's 91.6%. See table on page 3 which shows a history of TFFR's funded ratio. The funded ratio is expected to continue to decrease as deferred investment losses are recognized.

**FACT #5:** The 2003 actuarial valuation shows a negative margin of -1.19%. This means the current contribution rates may no longer be sufficient to fund TFFR benefits.

**FACT #6:** Declines in student population are expected to lead to declines in the active membership of TFFR which will have serious negative consequences. Ten years ago, the ratio of active members to retired members was 2.3 to 1. Today there are 1.9 active members for each retiree. This trend is expected to continue.

**FACT #7:** We don't know what the future will hold. Although we can hope for some relief in the shape of a strong stock market rally, the current surge is nowhere near strong enough to lift pension funds out of their difficulties.

*Facts are stubborn things.*

Proper funding and healthy investment returns are very important to the financial soundness of TFFR. However, unless future investment returns make up all that has been lost in the past three years, or unless there is a change in the contribution structure, like many retirement plans around the nation, TFFR may be facing serious funding shortfalls in the years ahead.

The TFFR Board and State Investment Board are closely monitoring investment strategy and results. In addition, the TFFR Board is analyzing other options including increasing contribution rates to stabilize the long-term funding of the plan. Members will be kept informed about the Board's recommendations through member newsletters. However, any plan changes must be studied by the interim Legislative Employee Benefits Programs Committee, and approved by the Legislative Assembly.

*Yes, unfortunately, facts are very stubborn things.*



## Administrative Rules Hearing

A public hearing has been scheduled for January 15, 2004, to address proposed amendments to ND Administrative Code Title 82. The purpose of the proposed amendments is to implement new state statutes.

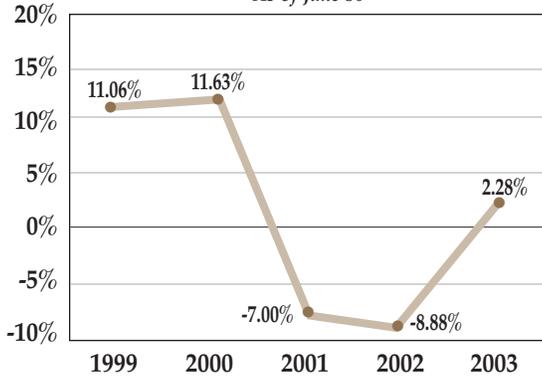
The proposed rules address the Teachers' Fund for Retirement definitions; dual membership provisions; employer service purchase; rollover contributions for the purchase of service credit; benefit payment options; actuarial factors; and Qualified Domestic Relations Orders.

A copy of the proposed rules may be viewed online at [www.discovernd.com/rio](http://www.discovernd.com/rio) or may be requested by writing or calling the Retirement and Investment Office. Oral or written comments will be accepted until February 17, 2004.

# 2003 ANNUAL REPORT SUMMARY

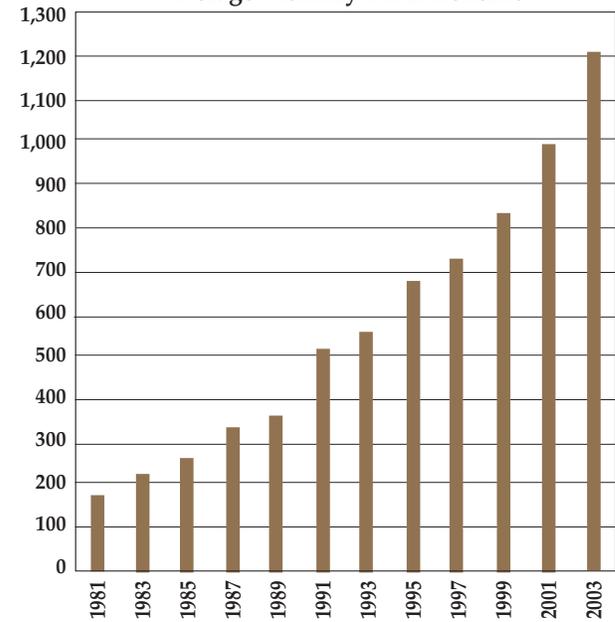
## Investment Performance

As of June 30

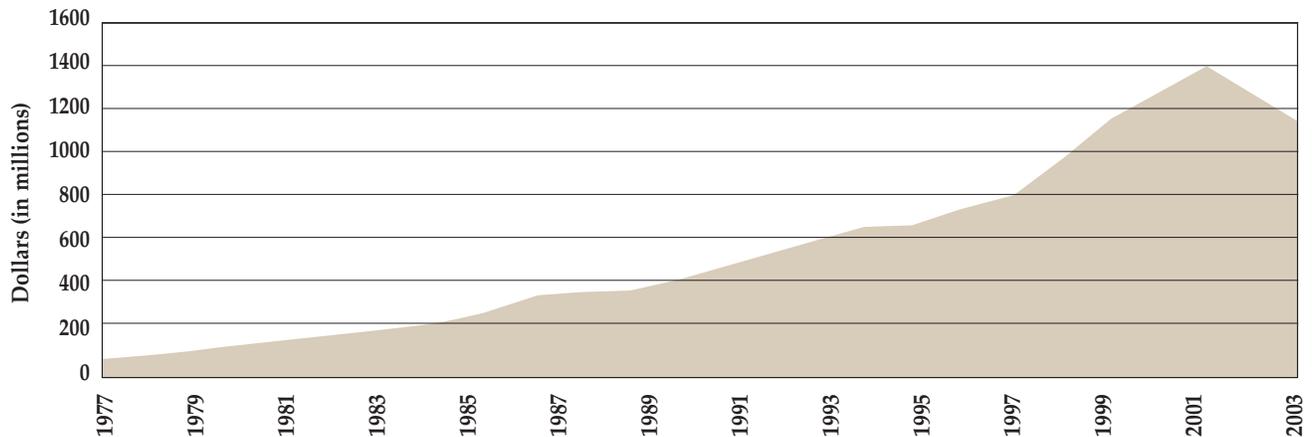


## Average Monthly TFFR Benefits

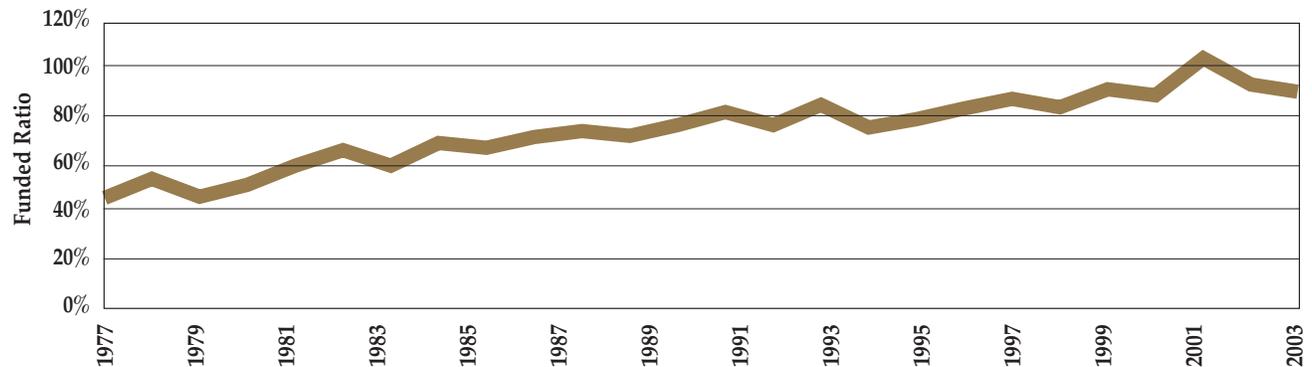
Dollars



## Value of TFFR Assets



## TFFR Funded Ratio



## Dental Premium Rate Increase

Retirees participating in the North Dakota Public Employees Retirement System Voluntary Dental Plan will experience a premium increase effective January 1, 2004. Overall, the cost of dental insurance has increased due to high plan utilization and the increased cost of dental services.

Accordingly, the premium rates must keep pace. Effective January 1, 2004, your monthly dental premium to maintain your current level of coverage will be as follows:

Level of Coverage	Retiree		COBRA	
	Current Rate	New Rate 1/1/04	Current Rate	New Rate 1/1/04
Member	\$ 27.72	\$ 29.64	\$ 28.27	\$ 30.23
Member & Spouse	53.40	57.09	54.47	58.23
Member & Child(ren)	62.16	66.45	63.40	67.78
Family	87.84	93.90	89.60	95.78

*No action is required on your part unless you want to stop the coverage or make changes that will affect your level of coverage.*

• You may decrease your level of coverage at any time. Call or visit the NDPERS website at [www.discov-](http://www.discov-)

[ernd.com/ndpers](http://www.ndpers.com) to obtain a Voluntary Dental Enrollment/Change form. The application must be signed, dated, and returned to the NDPERS office no later than the 15th of any given month in order for coverage to become effective on the 1st of the month following.

• Do not call the NDPERS office if you want to cancel your coverage. To cancel, you must submit a written request to NDPERS. Include your

name, social security number and effective cancellation date. The request for cancellation must be received in the NDPERS office no later than the 15th of the month in order to cancel coverage the 1st of the following month. No mid-month or retroactive cancellations are allowed.

• You may enroll or increase your level of coverage during one of the following "qualifying events." Contact the NDPERS office to obtain an enrollment form.

- Date of retirement which is the last day of employment or date of first retirement check
- Retiree's 65th birthday or eligibility for Medicare
- Retiree's spouse's 65th birthday or eligibility for Medicare
- The last date of coverage in a dental plan provided by the retiree's or spouse's employer. This includes loss of coverage due to death of, or divorce from a spouse as well as the completion of COBRA continuation coverage
- Marriage
- Birth, adoption, or legal guardianship

If you have any questions, please contact NDPERS at 701-328-3900 or toll free at 1-800-803-7377 if you are outside the Bismarck-Mandan calling area.

## TFFR FINANCIAL STATEMENTS

### STATEMENT OF ASSETS AS OF JUNE 30, 2003

ASSETS	
Equities	\$ 769,229,604
Fixed Income	203,349,406
Real Estate	109,451,910
Private Equity	52,189,986
Invested Cash	23,855,378
Invested Securities Lending	53,373,514
Receivables	10,891,084
Other Assets	<u>7,388,155</u>
Total Assets	\$ 1,229,729,037
LIABILITIES	
Accounts Payable	\$ 824,172
Accrued Expenses	244,481
Securities Lending	53,373,514
Other Liabilities	<u>38,392</u>
Total Liabilities	\$ 54,480,559
<b>Net Assets on June 30, 2003</b>	<b>\$ 1,175,248,478</b>

### CHANGES IN ASSETS DURING FISCAL YEAR 2003

CASH POSITION	
<b>Net Assets on June 30, 2002</b>	\$ 1,165,369,565
ADDITIONS	
Member Contributions	\$ 28,851,110
Employer Contributions	28,850,725
Other Additions	2,508,233
Investment Income	<u>24,500,197</u>
Total Additions	\$ 84,710,265
DEDUCTIONS	
Benefits Paid	\$ 72,044,977
Refunds	1,729,764
Administrative Expenses	<u>1,056,611</u>
Total Deductions	\$ 74,831,352
<b>Net Increase</b>	<b>\$ 9,878,913</b>
<b>Net Assets on June 30, 2003</b>	<b>\$ 1,175,248,478</b>

# How to Read a Retirement Notice

You will receive a Retirement Notice when a change occurs to your account. You can initiate a change for such things as tax withholding or change the financial institution receiving your direct deposit. This notice will also be generated by TFFR for changes in the federal tax withholding tables or PERS health insurance premium rates. We also send this notice to all retirees in late December to provide preliminary year to date tax information. You will receive final tax reporting information on a 1099R each January.

Here is an explanation of how to read and verify the information on a Retirement Notice:

**A.** Check your name, address, social security number, retirement date, and service credit.

**B.** The amounts in the "Previous" column breakout the monthly benefit for the previous month.

**C.** The amounts in the "Effective" column breakout the monthly benefit for the next month.

**D.** The amounts in the "Year to Date" column show the totals from January 1 to the date the notice was printed.

**E.** This amount includes the contributions, purchases, and interest accumulated before retirement. Your account value is the minimum amount guaranteed to you or your beneficiaries.

**F.** This is the amount of gross benefits you have received since beginning retirement.

**G.** Your primary beneficiary is shown. Even if no additional benefits will be paid to your beneficiary, it is important to name a beneficiary for contact purposes.

**H.** If your retirement benefit is paid by direct deposit, your financial institution's routing number and your account number are shown.

**I.** The reason the notice was created is shown here.

**J.** The following is a description of your benefit payment option.

*Note: At the bottom of page two is the date the notice was printed. Example shows only the top portion of page 2.*

PAGE 1

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
TEACHERS' FUND FOR RETIREMENT  
RETIREMENT BENEFIT NOTICE**

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone: 701-328-9885  
Toll Free: 1-800-952-2970  
Web Site: [www.discovernd.com/rio](http://www.discovernd.com/rio)

**A** JOE TEACHER  
1001 ANY STREET  
ANY TOWN ND 58501-9999

SSN: 111-11-1111  
Option: NS  
Retire Date: 06/01/2000  
Service Years: 30.000

	MONTHLY BENEFIT		EFFECTIVE 01/1/2004	YEAR-TO-DATE
	<b>B</b> PREVIOUS	<b>C</b>		
GROSS MONTHLY BENEFIT				
Monthly Non-Tax Amount	\$ 2500.00	\$ 2550.00	\$ 30000.00	
Taxable Amount	50.00	50.00	600.00	
Deductions:	2450.00	2500.00	29400.00	
Federal Tax Withholding	367.50	375.00	4410.00	
ND State Tax Withholding	77.18	78.75	926.16	
Health Insurance Premium	400.00	400.00	4800.00	
Dental Insurance Premium	50.00	50.00	600.00	
NET MONTHLY BENEFIT				
Account Value at the Time of Retirement:	\$ 1605.32	\$ 1646.25	\$ 19263.84	
Total Amount Received Life-To-Date:	\$ 80,000.00	\$ 80,000.00	\$ 80,000.00	
	\$ 45,000.00	\$ 45,000.00	\$ 45,000.00	

**G** JANE TEACHER

**F** PRIMARY BENEFICIARY(IES)

Only the first four beneficiaries are printed. Contingent beneficiary information is not displayed. It is on file at the Administrative Office.

**H** DIRECT DEPOSIT

Financial Institution #: 999999999 Personal Account #: 111111111111

PAGE 2

**I** COMMENTS

This notice reflects:

- (2) a change in your monthly benefit.
- (3) the recent change to your direct deposit information.
- (4) the recent change to one or more of your payroll deductions.

**J** OPTION DESCRIPTION

Single Life Annuity - This plan provides you a monthly benefit for life. There is no monthly provision for your beneficiary under this option.

# TFFR Board Responsibilities

The seven-member TFFR Board of Trustees is charged by state law with the administration of the TFFR retirement program. Trustees must perform their fiduciary responsibilities in the interest of all plan participants and beneficiaries. Responsibilities include:

- Establish investment policy and asset allocation
- Hire actuarial and medical consultants
- Conduct actuarial valuations and studies
- Pay benefits and consultant fees
- Develop retirement policy and administrative rules
- Submit proposed legislative changes
- Determine appropriate levels of service to TFFR members.



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

## Did You Know?

- 60% of the 5,177 TFFR retirees are female
- 16 current TFFR retirees are over 100 years of age and 97 are under age 55
- 16 individuals have retired with over 50 years of service credit
- 92% of monthly retirement benefits are paid via direct deposit
- 81% of TFFR retirees have a ND address
- \$72 million in retirement benefits was paid in 2003

1930 BURNT BOAT DRIVE  
P.O. BOX 7100  
BISMARCK, ND 58507-7100  
Teachers' Fund for Retirement  
State Investment Board  
**INVESTMENT OFFICE**  
**RETIREMENT AND**  
**NORTH DAKOTA**



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