# RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT JUNE 2004


# Retiree Re-employment Changes Being Studied

TFFR recently submitted a study bill to the interim Legislative Council Employee Benefits Programs Committee for consideration in the 2005 legislative session. The study bill reenacts IRS compliance language and contains changes to retiree re-employment provisions.

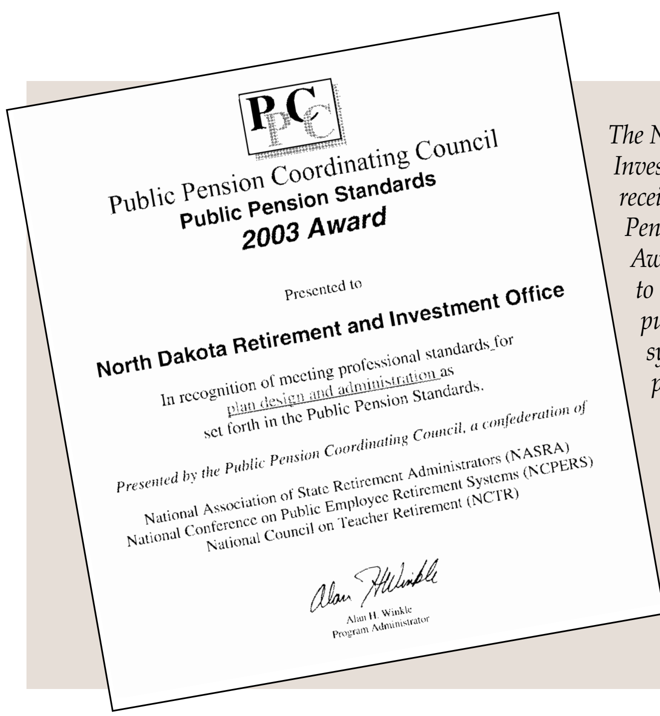
Under current law, after a 30-day waiting period, a retiree may return to TFFR covered employment for a maximum number of hours and continue to receive a monthly retirement benefit. The maximum annual hour limit is based on length of contract duties.

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

Substitute teaching, extracurricular duties, and continuing professional development do not apply to the annual hour limit.

Proposed legislative changes would require employer and employee contributions to be paid on all salary received by the retiree under all re-employment situations (except substitute teaching). Employers would follow the same employer payment plan model for retired members as they follow for active members. The retiree would not earn additional service credit, member contributions would not be refunded, and the retirement benefit would not be adjusted (unless the retirement benefit is suspended and re-retirement occurs).

*continued inside*




*The ND Retirement and Investment Office has again received the prestigious Public Pension Principles Achievement Award. This award is designed to recognize and commend public employee retirement systems that adhere to high professional standards.*

*ND RIO qualified for this achievement award based on compliance with specific principles in the areas of plan design and administration.*

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# *Honesty is the Best Policy*

*Fay Kopp*
*Deputy Executive Director*

Maybe it's the Mother's Day card I put in the mail last week. Or the phone conversation a few days ago. Or maybe (probably) it's because when issues get cloudy, I find myself thinking of what Mom drilled into my head over the years.

1. Honesty is the best policy.
2. When the going gets tough, get going on a plan.

*Sound familiar?*

As reported to you in previous newsletters, TFFR, like most individual and institutional pension plans around the country experienced severe investment losses in 2001-03. Pension funds like TFFR count on investment earnings of at least 8% annually to generate enough income to pay future retirement benefits.

In all honesty, TFFR didn't generate the investment returns needed. As a result, TFFR's funding level decreased from over 100% in 2000, to 85% in 2003. Our actuary has projected that TFFR's funding condition will probably continue declining as deferred investment losses are recognized.

In addition to the investment losses, people are living longer and teachers are retiring earlier. As a result, a large generation of retired teachers will need contributions from a population of working age teachers that is shrinking continuously due to declining student population. This active member decline also has negative funding consequences.

But there is a bright side to this picture. Since the July 1, 2003 actuarial report was delivered to TFFR in November 2003, the markets have rebounded and are performing exceptionally well. In fact, for the calendar year (January 1, 2003 - December 31, 2003), TFFR earned 27.4% on investments. For fiscal year-to-date (July 1, 2003 – April 30, 2004), TFFR has earned an estimated 17.0%.

How long will the market rally last? How will it change TFFR's funding picture?

While no one can predict the future, we do know the past year of TFFR record performance is helping to ease the pension funding situation. In fact, should the markets eventually return to a more "normal" level, it is possible that over the long term, TFFR funding ratios could also return to a healthy level.

TFFR Board members, as fiduciaries for the pension trust fund, are focusing on how to address TFFR funding issues. In the past six months, they have worked with member and employer interest group representatives (NDEA, NDCEL, NDRTA, and NDSBA). The Board and Benefits Committee has closely studied the problem, monitored investment progress, and considered the possible legal and actuarial implications of increasing contributions and/or reducing benefits.

The TFFR Board and Benefits Committee concluded that unless future investment earnings make up all that has been lost in the past three years, it may be prudent, at some point in the future, to make changes to the TFFR contribution rate and/or benefit structure. This would improve the funding level and overall financial health of TFFR and help to sustain the essential elements of the existing defined benefit structure.

At this time, the TFFR Board is not proposing legislation that would change the retirement contribution and/or benefit structure. However, the Board is:

• Closely monitoring investment performance and giving the markets a chance to recover and stabilize before making any long term decisions affecting members and employers.

• Conducting an actuarial experience study and asset liability modeling study in 2004-05 which will give updated information to judge the status of the system.

• Filing a study bill with the interim Legislative Council Employee Benefits Programs Committee to reenact IRS compliance language and require employee and employer contributions for retirees who return to work. (See related article on front page.)

• Developing an alternative legislative plan should future investment returns be average or poor, and TFFR funding condition projected to worsen. The alternative plan includes employer contribution changes and benefit changes FOR NEW HIRES ONLY.

*While your pension benefits are secure and will be paid to you at retirement as promised, it's going to take time, a strong economy, and healthy market conditions before we see TFFR's funding level improve.*

And that's the best plan we have for now. Honest.

## *Retiree Re-employment Changes Being Studied*

*(continued from cover story)*

However, the retiree could continue receiving their monthly TFFR retirement benefit and could also receive salary from the school district without forfeiting the retirement benefit.

Proposed legislation would also remove the June 30, 2005, sunset provision and make permanent the option for retirees to return to TFFR covered employment full time in critical shortage areas and continue receiving retirement benefits. A one-year waiting period is required if the member retired after January 1, 2001. Employer and employee contributions would also be required on all salary received by the retiree.

The number of TFFR retirees who return to teach continues to increase. (See chart on this page for summary statistics.) The TFFR Board believes changes to the current retiree return to work provisions are needed. Why?

1. TFFR is concerned that members may be retiring earlier than they normally would because of their ability to return to work on a part time basis and not having to pay retirement contributions on the salary they receive. Generally speaking, early retirement incentives negatively affect the funding of TFFR.

2. TFFR is also concerned that employers may be using retirees (because no retirement contributions are required) to fill vacant positions instead of hiring new employees. This results in TFFR "losing" the employer contribution that would be paid if a new employee were hired instead of a retiree. Additionally, in some cases, if young teachers are not able to find teaching positions in the state, they leave to teach elsewhere.

3. TFFR believes that using the retirement system to deal with the teacher shortage problem may not be the best avenue for addressing teacher shortages because of its resulting negative impact on TFFR.

4. Due to the increasing number of members that are retiring earlier than expected, and their positions not being replaced by new employees, TFFR experiences a small actuarial loss. Requiring member and employer contributions to be paid on salaries of retirees who return to work should help to neutralize the impact of earlier retirement and fewer contributing members.

### Retiree Re-employment Summary Statistics

| | 1999 | 2004 |
|---|---|---|
| Number of retirees who returned to teaching* | 26 | 92 |
| Superintendents/Administrators | 9 | 26 |
| Teachers | 17 | 66 |
| Average age | 62 | 60 |
| Average salary | $13,000 | $22,000 |

**Includes retirees who returned to teach under the general rule, critical shortage area exception, or suspend and recalculation option.*

## TAX WITHHOLDING REMINDER

Since your TFFR benefits are subject to federal and state taxation, don't forget to periodically review your tax withholding election. If your tax withholding is not adequate, you may have to pay estimated taxes during the year or a tax penalty at year end.

You may elect no withholding, specify withholding based on marital status and allowances, or specify withholding plus an additional amount. You may also have North Dakota state taxes withheld from your retirement benefit. Keep in mind we can not withhold taxes for another state.

If you would like to start, change, or stop tax withholding, contact our office for a tax withholding form.

## RE-EMPLOYMENT NOTIFICATION FORM

A TFFR Retired Member Employment Notification Form must be completed EACH year a retiree is hired by a TFFR employer. The completed form must be signed by both the employer and retiree, and returned to TFFR within thirty days.

Failure to notify TFFR may result in the loss of one month's annuity benefit. In addition, employers are subject to a penalty of $250 for failure to file required reports/forms with TFFR and foundation payments can also be withheld until the TFFR requirements are met.

It is important that retirees, employers, and TFFR work together to make sure retiree re-employment is handled correctly.

# Pension Software Project Continues

After evaluating the reponses to the ND RIO Request for Proposal, the pension software upgrade contract was awarded to CPAS Systems Inc.

Contract negotiations were completed and the template software installed in a test environment. The next step is to develop the functional specifications and customize the system to meet TFFR's needs. The conversion and implementation of the new software is scheduled for completion by June 30, 2005.

# Staff Members Receive Certifications

*Pictured left to right: Denise Weeks, CRC; Shelly Schumacher, CRC; Fay Kopp, CRA; Paula Brown, CRC*

The International Foundation for Retirement Education (InFRE) provides designations for Certified Retirement Counselors (CRC) and Certified Retirement Administrators (CRA). The professionals that earn these designations must be trained to understand the complex array of retirement plans, benefits, and investment options facing workers today. Individuals earning the CRC or CRA certification follow a code of ethics, meet annual continuing education requirements, and are recognized as part of an elite group of dedicated and knowledgeable retirement industry professionals.

Currently, TFFR has three Certified Retirement Counselors and one Certified Retirement Administrator on staff. These individuals have made a commitment to their profession and to the membership of TFFR.

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