Retirement TODAY
ND Teachers' Fund for Retirement
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Funding Improvement Legislation Approved

TFFR Faces Future with Confidence

In the past few years, TFFR has reviewed the complex details of its funding condition with active and retired teachers, administrators, school board members, state officials, legislators, and others interested in the plan. Without a doubt, the negative impact from the unprecedented 2008-09 financial market decline reversed the funding progress TFFR had made up to that point. Consequently, as fiduciaries of the trust fund, the TFFR Board developed a plan to strengthen the financial condition of the retirement fund for past, present, and future ND educators. While there is currently not a funding crisis, it is important that reasonable, measured changes take place soon to ensure TFFR's long term solvency.

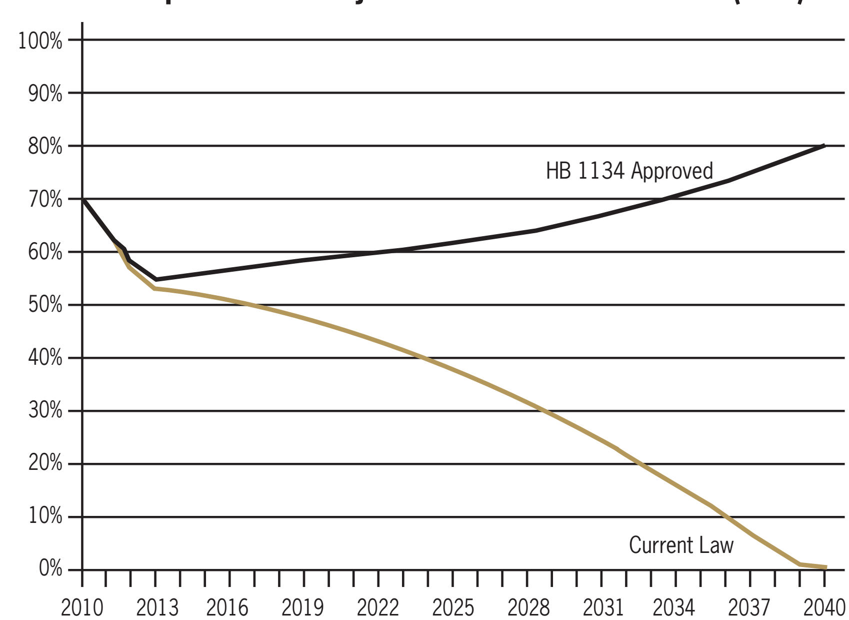
The funding plan is found in HB 1134, and was the result of comprehensive study and compromise by the TFFR Board and member and employer stakeholder groups (NDEA, NDCEL, NDSBA, NDRTA). The group was committed to developing a cooperative solution that respects the competing demands of both employees and employers, and is sustainable for both the short and the long term.

After serious consideration and debate by the 2011 Legislature, HB 1134 was approved as originally proposed. The increased member and employer contributions, plus member benefit changes included in the bill, are expected to improve TFFR's funding condition. Details of the bill are described in more detail on the following pages.

How will this legislation improve TFFR's long term funding outlook? The chart below shows the actuarial impact of the changes outlined in HB 1134. As you can see, without any changes, TFFR assets would be exhausted within 30 years. With HB 1134 changes, plus 8% returns in the future, TFFR's funded level is projected to reach about 80% in 30 years. Keep in mind, however, that future investment returns of greater or less than 8% will change the timing and look of TFFR's long-term funding picture.

Prior to the effective dates of the various legislative changes, TFFR staff will be working on implementation plans which will be reflected in presentations, publications, forms, processes, and pension software changes. During the transition period, staff may be unable to provide individual estimates under every scenario until computer programs are modified and tested which will take time. Please be patient and know that we will do our best to provide you with adequate information to assist you.

Comparison of Projected TFFR Funded Ratios (AVA)



Understanding 2011 Legislative Changes

Most retirees are not directly affected by TFFR changes approved by the 2011 legislature unless they return to TFFR covered employment. Here is a summary of the recently approved contribution and benefit changes that were included in TFFR's funding improvement proposal.

Effective August 1, 2011
Technical Changes

HB 1133 includes technical and administrative changes which will become effective August 1, 2011. These changes are not expected to have an actuarial impact on the plan.

The bill clarifies the definition of beneficiary to include any person, estate, trust, or organization designated in writing by a participating member. HB 1133 also modifies death benefit payment provisions to clearly describe to whom, under what conditions, and what amount of death benefits should be paid. If no beneficiary is named or no spouse exists, TFFR will no longer pay death benefits directly to surviving children or heirs at law. In such cases, death benefits will be paid to the deceased member's estate. Additionally, the 60 monthly payment option is eliminated for beneficiaries of a deceased non-retired member. Beneficiaries will either receive a lump sum payment or a lifetime monthly annuity (if eligible).

HB 1133 also clarifies the definition of eligible retirement salary by removing retention, experience, and service related bonuses from being automatically included as eligible retirement salary. The TFFR Board, on a case by case basis, can determine if special payments are eligible retirement salary for benefit calculation purposes.

Finally, the bill incorporates federal tax law changes for qualified governmental plans.

Effective July 1, 2012 and July 1, 2014
Employee and Employer Contribution Increases

HB 1134 increases contribution rates for all employees and employers a total of 8%, shared equally between employees (4%) and employers (4%). The rate increases will be phased in as follows:

	Current	Effective 7/1/12	Effective 7/1/14
Employee	7.75%	9.75%	11.75%
Employer	8.75%	10.75%	12.75%
Total	16.50%	20.50%	24.50%

The increased employee and employer contribution rates will be effective until TFFR reaches 90% funded level on an actuarial basis at which time the contribution rates will be reduced to 7.75% each.

Effective July 1, 2012
Employee Contributions Required on Re-Employed Retirees

Employee contributions will also be required to be paid by re-employed retirees on all salary earned beginning July 1, 2012. The pension benefit paid to a re-employed retiree will not increase as a result of the additional contributions paid (unless the retiree's benefit was suspended because the annual hour limit was exceeded.) However, the retiree contributions will be included in the retiree's guaranteed account value. Employer contributions will continue to be paid.

Effective July 1, 2013
Benefit Changes

TFFR currently has two tiers of participating members. Tier 1 employees are those who were members prior to June 30, 2008. Under current provisions, 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 are those who began TFFR participation after June 30, 2008. Tier 2 employees can retire when they reach the Rule of 90, 5 year vesting, and 5 year final average salary calculation. Both Tiers use the 2.0% multiplier in calculating benefits.

Unreduced Retirement Benefits

HB 1134 allows grandfathered Tier 1 employees (those within 10 years of retirement) to remain under current provisions (i.e. Rule of 85) to qualify for unreduced retirement benefits.

However, non-grandfathered Tier 1 employees, Tier 2 employees, and all future employees will be required to work or wait longer in order to qualify for unreduced retirement benefits. Effective July 1, 2013, non-grandfathered Tier 1, Tier 2, and new employees can retire with unreduced benefits at minimum age 60 with the Rule of 90. If, however, they do not have the Rule of 90, unreduced retirement is still available at age 65.

Reduced Retirement Benefits

Current statutes allow a vested member to be eligible to retire before normal retirement age and receive reduced retirement benefits if age 55 or older. HB 1134 does not change the minimum age 55 eligibility requirement, but it does increase the 6% per year reduction to 8% per year reduction for non-grandfathered members.

Disability Retirement Benefits

HB 1134 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. This change is effective July 1, 2013 for all non-retired employees.

Memo to **Members**

The best way out is always through.

– Robert Frost, U.S. poet (1874 – 1963)

Fay Kopp
Deputy Executive Director - Chief Retirement Officer

This was not an easy year. At various times throughout the year, I found myself thinking about a particular quote. To make sure I got the words right, I even did a quick internet search. First stop: Bartlett's Familiar Quotations. (Good grief, how many of you have Bartlett's bookmarked as one of your internet favorites?) There I found the line I was looking for, "The best way out is always through," from the poem, "A Servant to Servants," written by Robert Frost in 1914. (Personal thanks to my high school English teacher for that random poetry assignment some 30 years ago.)

The best way out is always through.

For years, I've thought of it as kind of a personal motto used when things got tough and I wanted to throw in the towel. I never would have guessed I would be writing about it today as it relates to TFFR. But it just makes sense - the only way out of a pension funding shortfall is to work through it - with active and retired teachers, administrators, school boards, legislators, and other interested parties. Those affected found common ground and worked together on funding improvement legislation. No shortcuts or quick fixes, but over time, the funding deficit is expected to shrink due to the legislative changes approved.

The best way out is always through.

Recognizing the source of TFFR's funding shortfall is important – primarily investment losses as a result of the global recession, coupled with longer life expectancies, higher salary increases, and past benefit changes. But knowing what caused it doesn't solve it. What will improve the funding picture are the changes included in TFFR's legislative package. Additional revenue from employees and employers, and reducing liabilities by requiring employees to work longer before retirement, will help TFFR get through this. These weren't easy decisions to make, and won't be easy to experience. But the changes will result in gradually improved funding progress in the years ahead.

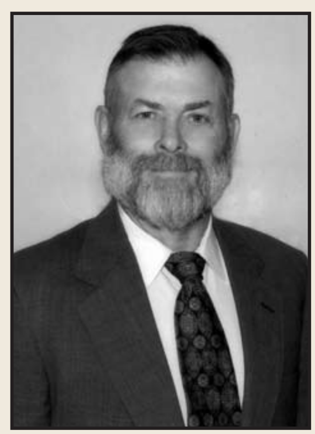
The best way out is always through.

Staying the course can be difficult, especially during the wild mood swings experienced in the financial markets in the past decade. Today, the markets are strong, and TFFR anticipates positive investment performance for the fiscal year ending June 30, 2011 (about 20% as of this writing). As a pension plan, we are in it for the long haul. Changes to asset allocation, investment strategies, and investment managers have been made in the past and will continue to be made in the future. We will continue to professionally manage a diversified portfolio and use well established investment policies to prudently invest TFFR assets.

The best way out is always through.

The future is likely to include new challenges. But somewhere between the power of perseverance observed by Robert Frost, and Mom's advice to "put one foot in front of the other," I believe over time, TFFR will get through it.

Gessner Re-Appointed To Board



Governor Dalrymple has re-appointed Mike Gessner to another five-year term on the TFFR Board. A math teacher at Minot High School, Gessner has been a TFFR trustee since 2005 and represents active teachers on the Board. Mr. Gessner also represents TFFR on the State Investment Board. We appreciate his dedication to North Dakota educators.

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

RIO Administrative Office

John Geissinger,
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

Defined Contribution Plan Legislation Failed

Although the bill was not approved by the 2011 Legislature, HB 1258 would have closed the existing TFFR Defined Benefit plan (DB) to new hires after June 30, 2012. The bill also created a TFFR Defined Contribution plan (DC) for new teachers and administrators employed July 1, 2012 or after. Contribution rates for the DC plan would have employees contributing 7.75% of salary and employers contributing 8.75% of salary. Under the DC plan, employees would select investment choices, and upon termination, employees would elect the distribution method for the accumulated DC plan balance.

According to actuarial review of the bill, had HB 1258 passed (without increased funding), the long term financial status of the current DB plan would have been negatively affected. This would occur because, over time employees in the closed DB plan would retire or terminate, and new employees would participate in the new DC plan. As the number of active participants declines in the DB plan, the total payroll declines, and contributions paid into the plan also drops. This reduces the amount of funds to pay off the unfunded liability of the DB plan.

HB 1258 was not approved in 2011. However, there was significant discussion relating to this topic, and similar legislation is likely to be considered in the future.