

Retirement TODAY

ND Teachers' Fund for Retirement

JANUARY 2012

2011 Actuarial Report Long Term Funding Improvement Expected

Each year, TFFR has an actuarial valuation performed to determine if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time and identifies emerging trends.

The July 1, 2011 report was recently delivered to the TFFR Board by the plan's actuarial consultant, Segal Company. The 2011 report reflects plan changes made by the 2011 Legislature. Here are membership, financial, and actuarial details from the report.

Membership

As of July 1, 2011, the TFFR plan included 18,807 active, inactive, and retired members. There were 10,004 active members, an increase of 97 members from last year. Total payroll for active members was \$488.8 million, an increase of 5.1% from the previous year.

There were 6,933 retirees and beneficiaries, an increase of 261 retirees over last year. Total annual benefits paid was \$133.6 million, an increase of 6.7% from the previous year.

Financial

Total contributions in FY 2011 totaled \$85 million, compared to \$78 million in FY 2010. Total distributions including benefit payments, refunds, and administrative expenses, totaled \$132 million, compared to \$129 million last year. The plan's cash

flow (contributions minus benefit payments, refunds, and expenses) as a percentage of market value of assets is -2.7%, an improvement over the -3.5% figure from last year. The scheduled increases in the member and employer contribution rates will further improve the cash flow percentage.

Assets

The market value of assets increased from \$1.44 billion to \$1.73 billion as of June 30, 2011. However, actuarial calculations are based on the actuarial value of assets, not market value. Actuarial value reflects an asset smoothing approach which averages investment gains and losses over 5 years. The actuarial value of assets decreased from \$1.84 billion to \$1.82 billion. Actuarial value of assets is 106% of the market value.

Continued on page 3

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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.



TFFR Receives Award

The ND Teachers' Fund for Retirement has received the 2011 Public Pension Coordinating Council Recognition Award. This award is designed to recognize and commend public employee retirement systems that meet professional standards for both pension plan administration and funding.

Memo to Members

Worth the Wait

Growing up, I remember sitting on the gray kitchen bench waiting (for what seemed like an eternity) for Mom's homemade buns to finally come out of the oven after a long day of watching the bread making process. (I suppose I wanted to make sure I got my share before my 9 siblings gobbled them all up). As I got older, I joined classmates waiting impatiently for the bell to ring so we could rush out the door to play at recess. Years later, I remember standing by the time clock at my first "real" job waiting until exactly seven minutes before the hour to "punch in" since that was the earliest we were allowed to clock in and not get in trouble.

Like you, I've spent plenty of time waiting. Sometimes, of course, time moves too slowly, and other times, much too quickly. But it always seems to be the hardest to wait when you've worked really hard on something important for a long time. Clearly, you want to see the results – and you want to see them now!

So what does all of this have to do with TFFR? Well, now that funding improvement actions have been approved by the 2011 Legislature, we have to wait to see the funding progress become a reality. And frankly, it's hard to wait for the ultimate payoff ... a financially secure retirement plan for all TFFR members.

This newsletter contains financial, investment, and actuarial information as of July 1, 2011. As you can see on page 4, the last 10 years have been challenging in terms of investment earnings to help fund the TFFR pension program. Certainly this is in no small part due to a decade of turmoil in the financial markets which culminated in the 2008-09 recession. When the markets



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Deputy Executive Director -
Chief Retirement Officer

rebounded, TFFR posted investment gains of 13.9% in 2010 and 24.2% in 2011. And while these returns are excellent, they are not enough to offset the earlier losses.

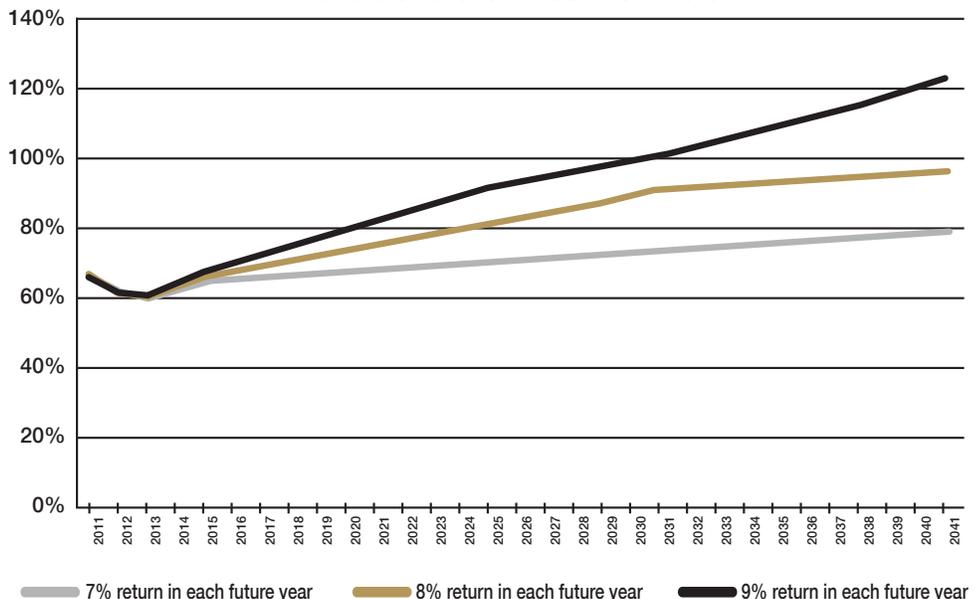
With the recent legislative developments and two years of positive investment performance, some would have expected TFFR funding levels to begin improving right away. Unfortunately, that is not the case, and the 2011 actuarial report shows TFFR's funding level declined this year. Until all of the

2008-09 investment losses are recognized in actuarial valuations over the 5-year smoothing period, and until the increased member and employer contributions begin to flow into the plan (beginning 7/1/12), funding progress will not be reflected in the valuation reports.

On the bright side, though, looking out over the long term, TFFR funding levels are expected to improve in the future. This is great news for active and retired members. Take a look at the "Projected Funded Ratio" graph below. The middle gold line illustrates that if future investment returns are 8%, over the long term, TFFR should reach 90% funded level in about 20 years. You can also see that if returns are greater (top line) or less (bottom line) than 8%, funding progress will take more or less time. In each scenario, time is an important factor.

I wish TFFR could just fast forward through this turbulent economic period. But I've learned that pension funding improvement (like Mom's homemade buns) is just going to take time. I also believe securing a financially strong pension plan for our state's active and retired educators is well worth the wait.

Projected TFFR Funded Ratio (AVA Basis)
Variable future investment returns



2011 Actuarial Report

From page 1

Actuarial Results

TFFR's actuarial accrued liability (AAL) increased from \$2.64 billion to \$2.75 billion, which includes a decrease of \$24 million (from the retirement eligibility changes in HB1134). The unfunded actuarial accrued liability (UAAL) increased from \$795 million to \$927 million, as 2008-09 investment losses continue to be recognized.

As of July 1, 2011, TFFR's funded ratio (comparison of actuarial value of assets to actuarial accrued liability) decreased from 70% to 66%. This means TFFR currently has about 66 cents for every one dollar it needs to pay present and future benefits earned by members. However, the funded ratio using market value and reflecting all past investment gains and losses, increased from about 55% to 63%.

There is currently a contribution deficiency of -4.41% of payroll. However, when including the legislatively approved 8% increase in the statutory contribution rates and comparing that to the annual required contribution rate, there would no longer be a contribution deficiency.

Funding Projections

The actuary has determined that the legislative changes approved by the 2011 legislature should improve TFFR's funding status over the long term, if all other actuarial assumptions are met. As you can see from the chart on page 2, if TFFR earns 8% investment returns in the future, the plan's funded level should reach 90% within 20 years. If long term returns are greater than 8%, funding progress will be reflected sooner. However, if long term returns are less than 8%, funding improvement will take longer. This chart also illustrates that while the 2011 funded ratio shows a decline from previous years, over the long term, significant funding progress is expected, and shortfalls are eliminated.

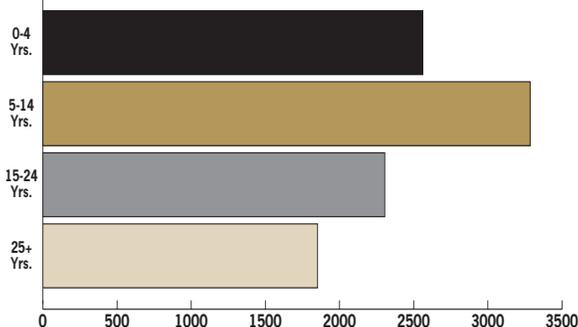
The complete 2011 actuarial report is available on the TFFR website at www.nd.gov/rio/TFFR/Publications or by request to the TFFR office.

Membership Statistics - June 30, 2011

ACTIVE MEMBERS

Avg Annual Salary	\$48,857
Avg Age	Age 43.9
Avg Service	13.8 yrs
Oldest Active Member	Age 80
Most Service	45.6 yrs

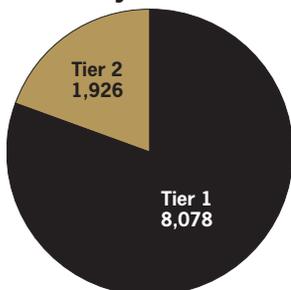
Active Members by Service



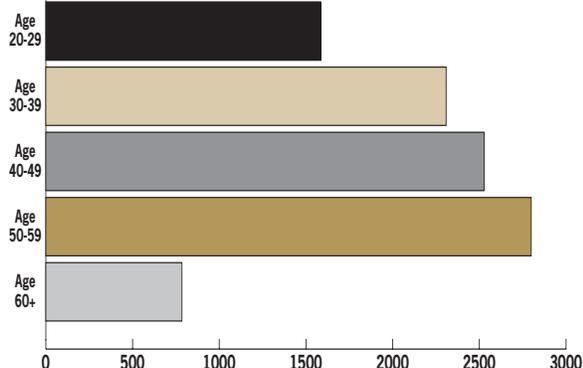
RETIRED MEMBERS

Avg Annual Pension	\$19,272
Avg Current Age	Age 71
Avg Age at Retirement	Age 59
Avg Service	27 yrs
Oldest Retiree	Age 106
Most Service	57.5 yrs

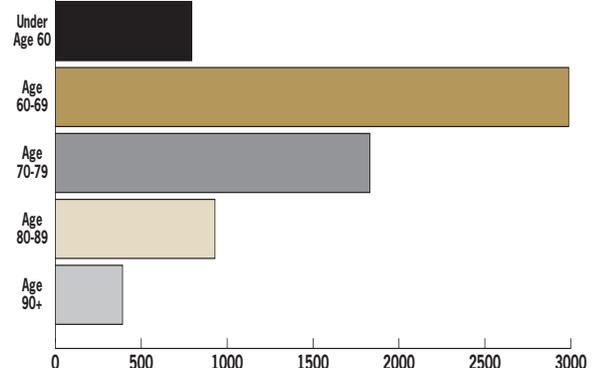
Active Members by Tier



Active Members by Age

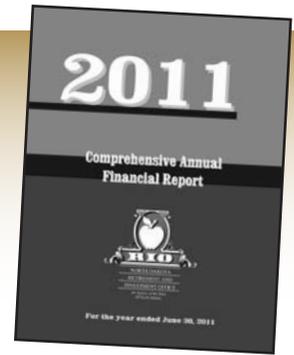


Retired Members by Age

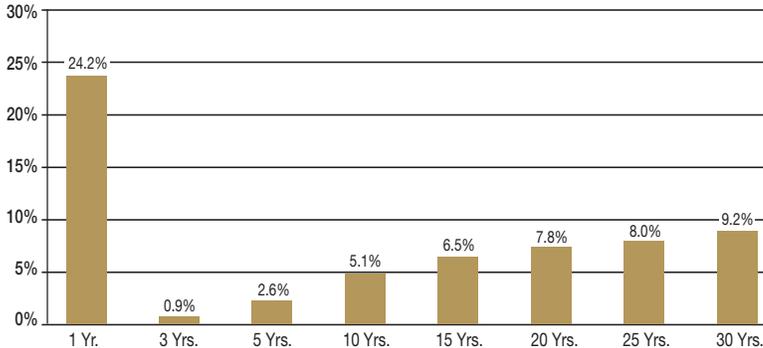


2011 Annual Report Summary

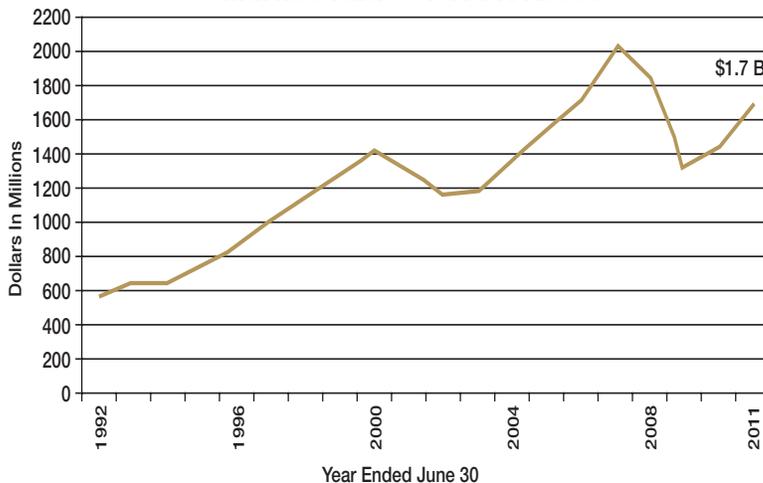
NDRIO's annual 2011 Comprehensive Annual Financial Report (CAFR) has been published and provides a detailed look at investment, financial, actuarial, and statistical information. Here are a few charts and graphs from this year's CAFR which covers July 1, 2010 – June 30, 2011. The 2011 CAFR, actuarial report, and audit report are posted on the NDRIO website at www.nd.gov/rio/TFFR/Publications or by request to our office.



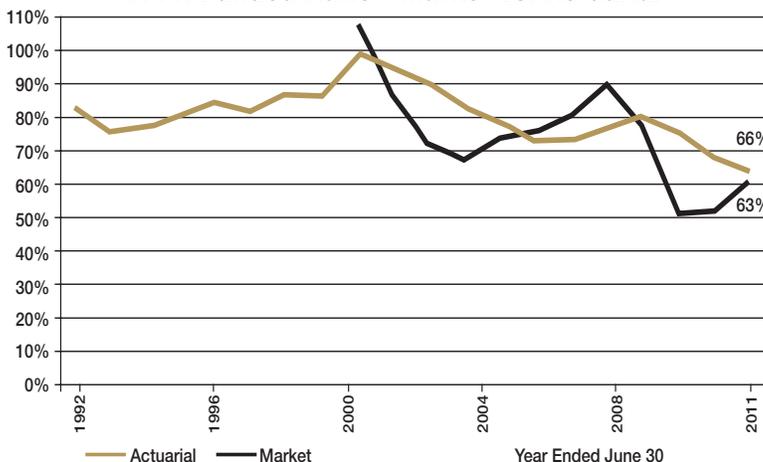
TFFR Investment Performance - Average Fiscal Year Ended June 30, 2011



Market Value of TFFR Assets



TFFR Funded Ratio - Market vs. Actuarial



Statement of Assets as of June 30, 2011

ASSETS	
Equities	\$1,049,479,984
Fixed Income	395,005,152
Real Estate	174,937,685
Alternative Investments	63,012,510
Invested Cash	15,900,962
Receivables	18,298,952
Other Assets	12,368,625
Total Assets	\$1,729,003,870

LIABILITIES	
Accounts Payable	\$2,196,925
Accrued Expenses	616,348
Other Liabilities	11,280
Total Liabilities	2,824,553
Net Assets on June 30, 2011	\$1,726,179,317

Changes in Assets During Fiscal Year 2011

CASH POSITION	
Net Assets on June 30, 2010	\$1,437,949,843
-ADDITIONS-	
Member Contributions	\$38,869,260
Employer Contributions	44,545,433
Other Additions	1,508,557
Investment Income	334,956,231
Total Additions	\$419,879,481
-DEDUCTIONS-	
Benefits Paid	\$127,435,564
Refunds	2,210,738
Administrative Expenses	2,003,705
Total Deductions	\$131,650,007
Net Increase	288,229,474
Net Assets on June 30, 2011	\$1,726,179,317

Important Notice

On December 16, 2011, a duplicate TFFR monthly payroll file was processed in error by the Bank of ND. The error was promptly discovered, and the additional December deposit reversed. TFFR benefit recipients on direct deposit should see a debit and a credit entry on your December bank statement effective December 19.

We sincerely apologize for any inconvenience this may have caused you. Please be assured that the Bank of ND has implemented procedures to make sure this does not happen again. If you have any questions contact the administrative office.

Proposed Administrative Rule Changes

The ND Teachers' Fund for Retirement (NDTFFR) will hold a public hearing to address proposed new rules and amendments to Title 82 of the N.D. Administrative Code relating to NDTFFR definitions, veterans' rights, contributions, retirement benefits, and disability benefits. The hearing will be held at 1:00 p.m. on Thursday, January 26, 2012, in the Peace Garden Room of the State Capitol, in Bismarck, ND.

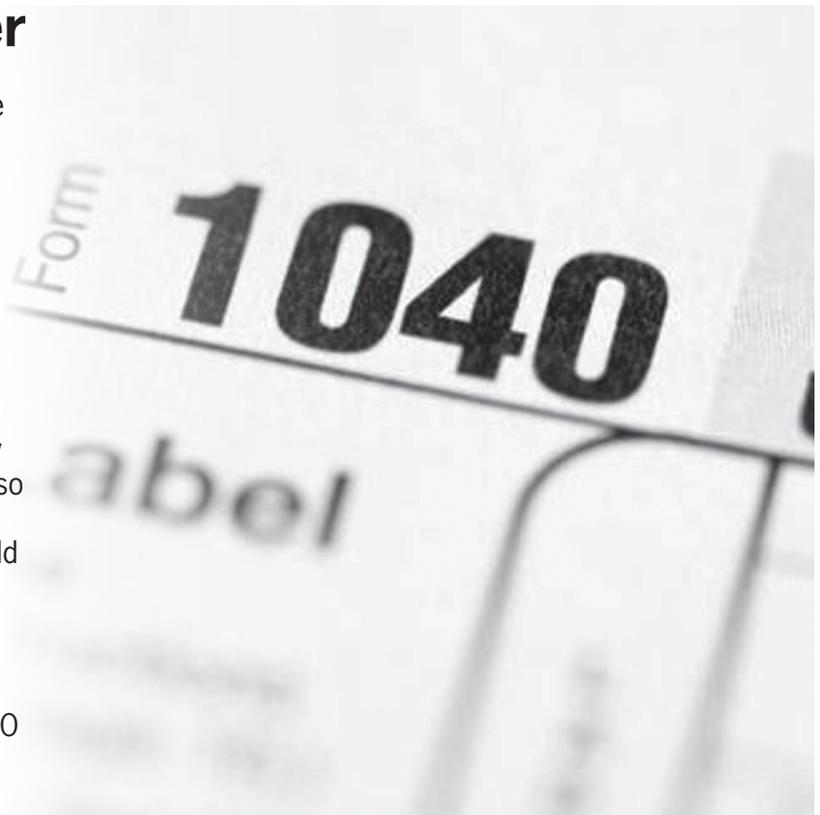
The proposed rules are available on the NDTFFR website at www.nd.gov/rio/tffr/Administrative_Rules_Changes or a copy of the proposed rules may be requested by contacting the ND Retirement and Investment Office, 1930 Burnt Boat Drive, P.O. Box 7100, Bismarck, ND 58507, or phone 701-328-9885. Written or oral comments may be submitted to the above address until 5:00 p.m. on February 10, 2012.

Tax Withholding Reminder

Withholding federal and North Dakota state income tax from your TFFR retirement benefit is optional. However, since your TFFR benefits are subject to federal and state taxes, 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 do not withhold taxes for another state.

If you wish to adjust your tax withholding, you may obtain a W-4P tax withholding form by contacting the TFFR office, or downloading a form from the RIO website at www.nd.gov/rio. If you believe your tax withholding is sufficient, no action is necessary.





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Asset - Liability Study Completed

The TFFR Board hired Callan Associates, SIB investment consultant, to conduct an asset - liability study and to assist in developing a new asset class framework. Because pension benefits are projected to occur over a long period of time, TFFR has a long-term investment horizon and asset allocation policy. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset - liability analysis to assist the Board in determining an acceptable volatility target and an optimal asset allocation policy. The asset-liability analysis considers both sides of the balance sheet in order to estimate the potential impact of various asset class mixes on the plan.

After a lengthy study process, the TFFR Board approved the following policy asset mix utilizing a new asset class framework (shown below). The new policy mix contains meaningful allocations to each of the broad economic factor categories: growth, income/capital preservation, inflation sensitivity, and provides flexibility to accommodate potential investments in new strategies as they arise. While the Board did not make major changes, the new asset mix reduces equity exposure, and includes more real assets to provide additional diversification and risk control.

TFFR Target Asset Allocation - New

