

# Retirement TODAY

ND Teachers' Fund for Retirement

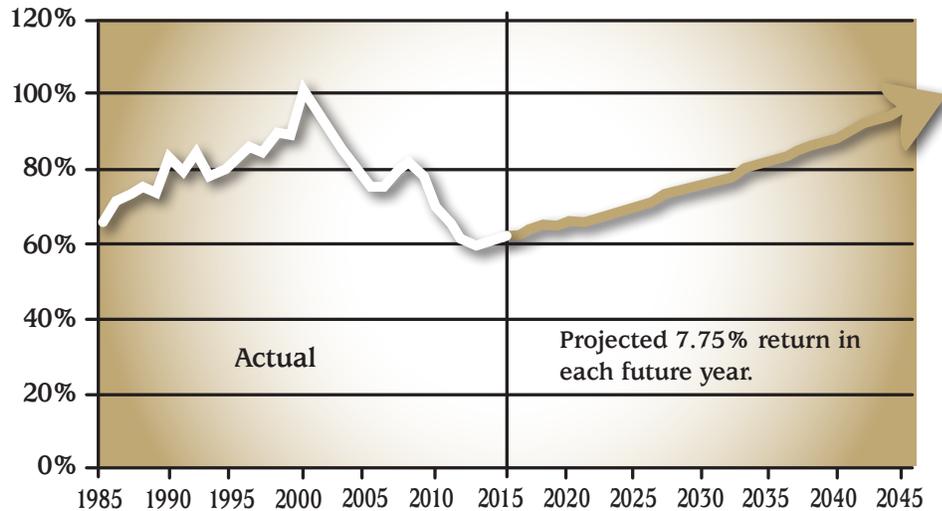
JANUARY 2016

## 2015 Valuation Shows Little Change in Funding Level

NDTFFR's annual valuation, which measures its overall financial health, was recently completed by the plan's actuarial consultant, Segal Company. A very important measure of TFFR's financial health is the amount of money available (assets) to pay all promised pension benefits for current and future retirees (liabilities).

The annual actuarial report provides a financial "snapshot" status of the TFFR plan, and shows the plan's funded ratio decreased slightly from 61.8% last year to 61.6% as of July 1, 2015. This slight reduction

TFFR Funded Ratio



was due primarily to the actuarial assumption changes made as a result of TFFR's Actuarial Experience Study conducted earlier this year. The most significant assumption changes include: 1) Updated mortality tables to reflect mortality improvements; and 2) Reduction in the plan's long term investment return assumption from 8.0% to 7.75%. (See July 2015 member newsletter for details of Experience Study changes and impact.) Although the TFFR plan remains under funded, we are optimistic that funding improvement will occur gradually over time.

### Membership

As of July 1, 2015, the TFFR plan included 10,514 active members, which is an increase of 209 (2%) active members over last year. There were 8,025 retirees and beneficiaries which is an increase of 278 (3.5%). There were also 2,267 inactive members in the plan. Total

membership increased from 20,222 to 20,806 (2.9%).

### Financial

Member and employer contributions in FY 2015 totaled \$152.5 million compared to \$121.0 million last year. Total distributions, including benefit payments, refunds, and administrative expenses, was \$174.2 million compared to \$163.8 million last year.

### Assets

The market value of assets increased from \$2.09 billion to \$2.14 billion as of June 30, 2015. However, actuarial calculations are based on the actuarial value of assets which averages investment gains and losses over five years. The actuarial value of assets increased from \$1.94 billion to \$2.13 billion in 2015.

### Actuarial Results

As of July 1, 2015, TFFR's actuarial accrued liability (AAL) increased from

(Continued on page 5)

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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.

# Memo to Members



**Fay Kopp**  
NDTFFR Chief Retirement Officer  
NDRIO Deputy Executive Director

## Getting Retirement Right

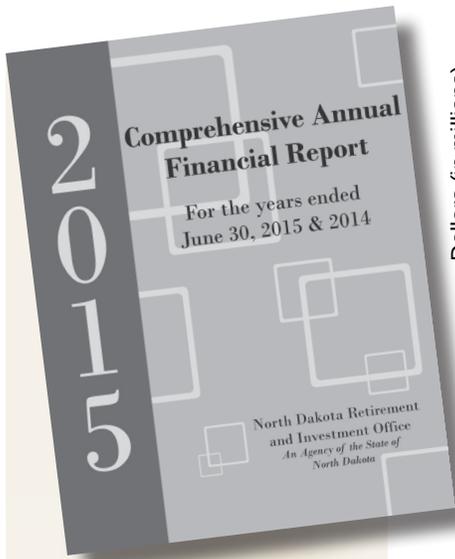
Most of the time when I write this newsletter article, I am compelled (in the interests of complete transparency) to tell you about the financial challenges facing your retirement plan, and what is being done to address them. In this edition, I would also like to focus on the many positive aspects of your NDTFFR retirement plan, and how it will help you "Get Retirement Right."



- **Lifetime Financial Protection.** TFFR members are provided a lifetime defined benefit (DB) that can't be outlived. This means retired teachers shouldn't have to face the possibility of slipping into poverty and having to turn to taxpayer-funded public assistance, Medicaid, or social services. Your TFFR benefits provide a stable retirement income designed to replace about 60% of pre-retirement wages for a career teacher with 30 or more years of service. Coupled with Social Security benefits, a retired teacher should receive 80-90% of preretirement income.
- **Stable Source of Revenue for ND's Local Economies.** In 2015, NDTFFR paid about \$168 million in pension benefits, and about 84% of those benefits are paid to ND residents. Much of these payments are spent in ND, supporting jobs throughout the state. Plan payments also help to support the services provided by local, state and federal governments through the taxes paid on these pensions.
- **Employer-Employee Shared Responsibility.** The TFFR plan requires both members and school districts to share responsibility for the cost of pension benefits which provides valuable incentives for both to adequately fund the plan.
- **Professionally Managed and Pooled Assets.** Research shows that professionally managed and pooled assets earn greater returns and reduce investment risk through highly diversified portfolios. For the 5 and 30 year periods ended June 2015, your NDTFFR pension fund generated strong net investment returns of 10.9% and 8.4% respectively, exceeding investment benchmarks. Pooling of pension assets reduces investment fees and administrative costs which make your retirement plan efficient and economical.
- **Lower Costs.** TFFR prefunds its pension liabilities to lower overall retirement costs. As of July 1, 2015, about 62% of TFFR's liabilities are prefunded. The majority of pension benefits are paid from investment earnings because pension assets are pooled, professionally invested, and coupled with employee and employer contributions. Since 1990, TFFR investment earnings comprised 57% of total revenues.
- **High Quality Member and Employer Services.** Experienced and caring retirement program staff members work with members and employers to explain, process, and pay claims in a cost effective and timely manner. Customer service ratings reflect high satisfaction and scored 3.8 (4.0 scale).
- **Recruit and Retain Quality Educators.** A reliable and well-funded pension plan is the foundation for a stable retirement. NDTFFR's pension plan helps ND public schools recruit and retain quality educators.

A secure and stable retirement matters to ND's dedicated teachers and administrators. This is possible due to TFFR's plan design, professional plan management, strong investment performance, and outstanding customer service. We'll continue to do our best to help you "Get Retirement Right."

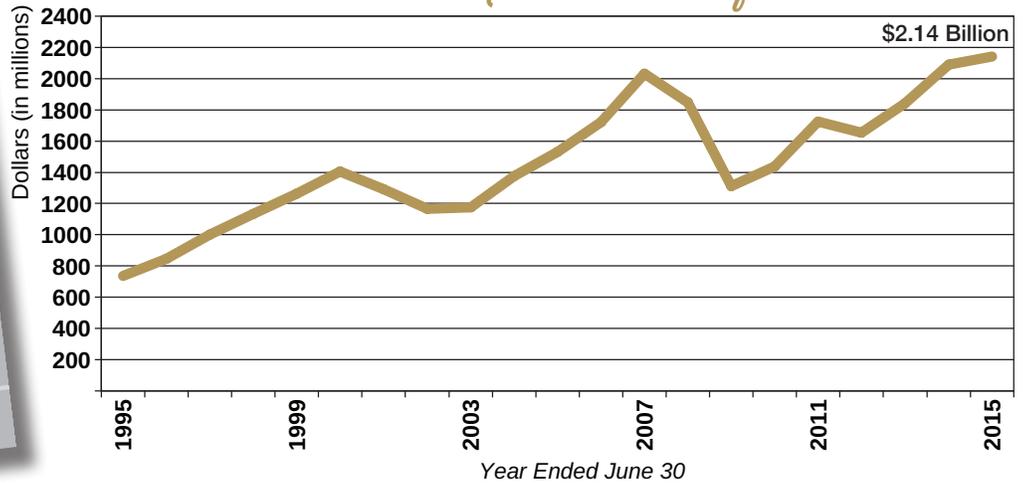
# 2015 Annual Report Summary



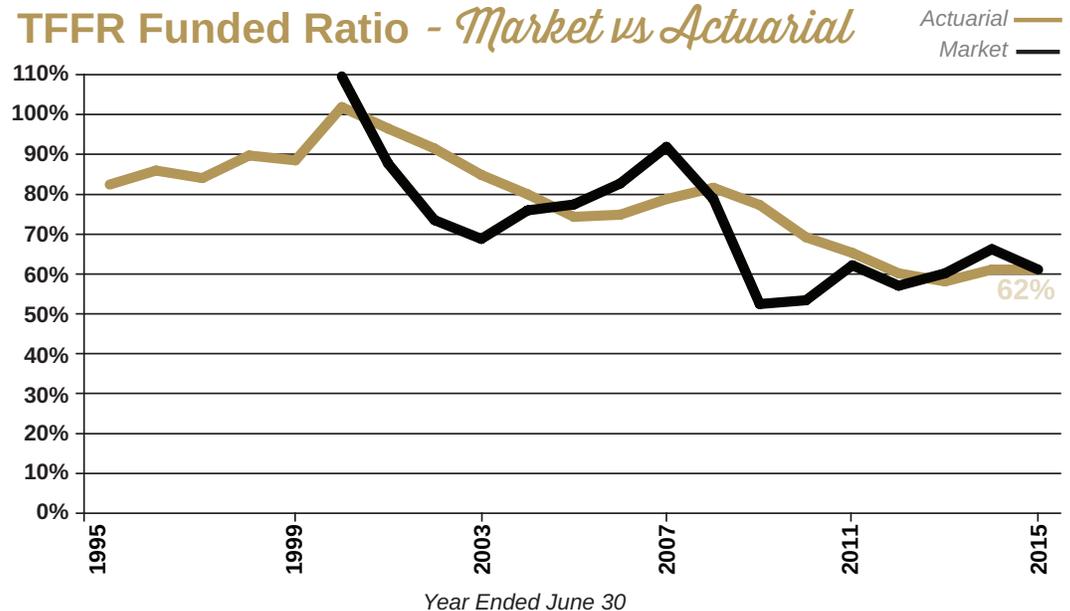
NDRIO's annual Comprehensive Annual Financial Report (CAFR) has been published for fiscal year July 1, 2014 – June 30, 2015.

The report provides a detailed look at investment, financial, actuarial, and statistical information. The 2015 CAFR, actuarial report, and audit report are posted on the NDRIO website at [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications) or by request to our office.

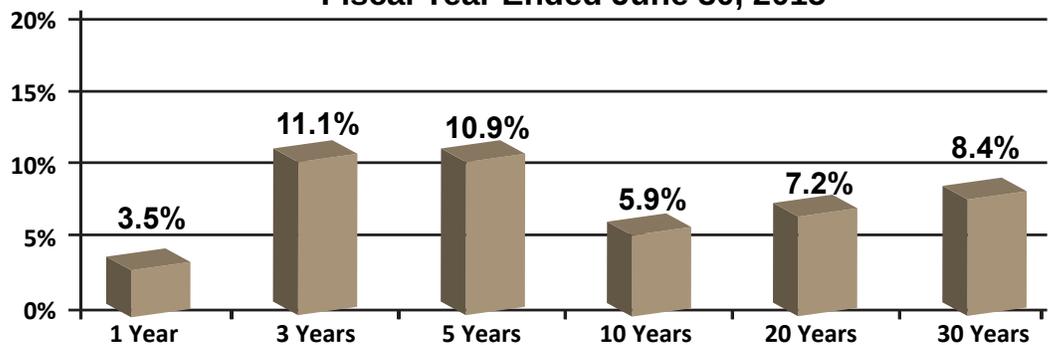
## Market Value of TFFR Assets



## TFFR Funded Ratio - Market vs Actuarial



## TFFR Net Investment Performance Fiscal Year Ended June 30, 2015



## Statement of Net Position as of June 30, 2015

<b>Assets</b>	
Equities	\$1,114,412,547
Fixed Income	480,175,754
Real Assets	389,351,436
Private Equity	81,662,078
Invested Cash	29,631,182
Receivables	32,186,131
Other Assets	18,964,788
<b>Total Assets</b>	<b>\$2,146,383,916</b>
Deferred Outflows Related to Pensions	<b>\$76,002</b>

<b>Liabilities</b>	
Accounts Payable	\$3,244,085
Accrued Expenses	1,193,136
Other Liabilities	8,722
<b>Total Liabilities</b>	<b>\$4,445,943</b>
Deferred Inflows Related to Pensions	<b>\$93,175</b>

**Net Position on June 30, 2015**      **\$2,141,920,800**

## Changes in Net Position During Fiscal Year 2015

**Cash Position**  
 Net Position on June 30, 2014      **\$2,090,415,057**  
*(Restated due to implementation of GASB 68)*

<b>-Additions-</b>	
Member Contributions	\$72,268,451
Employer Contributions	78,422,098
Other Additions	1,773,213
Investment Income (Loss)	73,204,806
<b>Total Additions</b>	<b>\$225,668,568</b>

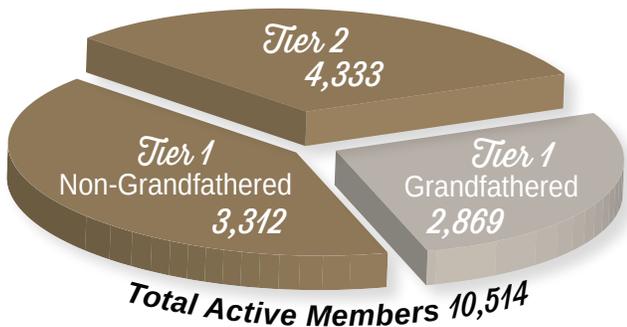
<b>-Deductions-</b>	
Benefits Paid	\$168,349,762
Refunds	3,889,671
Administrative Expenses	1,923,392
<b>Total Deductions</b>	<b>\$174,162,825</b>

**Total Change in Net Position**      **\$ 51,505,743**

**Net Position on June 30, 2015**      **\$2,141,920,800**

## Membership Statistics – June 30, 2015

### Tier Membership



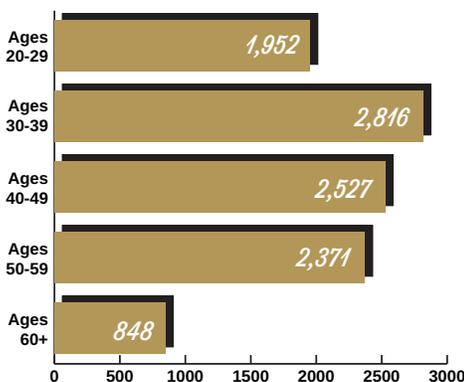
#### Active Members

Avg Annual Salary . . . . . \$56,095  
 Avg Age . . . . . Age 43  
 Avg Service . . . . . 12 yrs  
 Oldest Active Member . . . . . Age 79  
 Most Service . . . . . 48 yrs

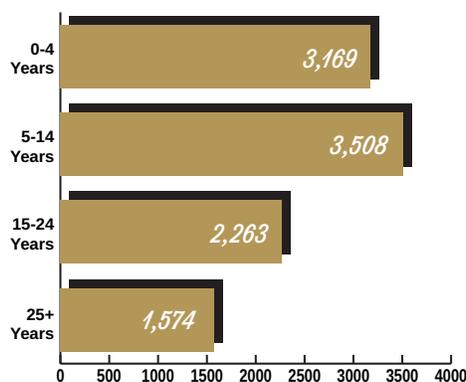
#### Retired Members

Avg Annual Pension . . . . . \$22,104  
 Avg Current Age . . . . . Age 71  
 Avg Service . . . . . 27 yrs  
 Oldest Retiree . . . . . Age 108  
 Most Service . . . . . 57.5 yrs

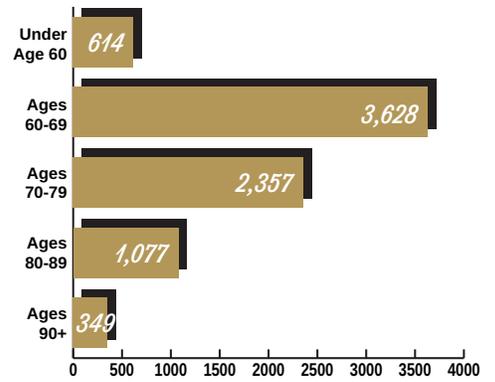
### Active Members by Age



### Active Members by Service



### Retired Members by Age



\$3.14 billion to \$3.45 billion. The unfunded portion of the actuarial accrued liability (UAAL) increased from \$1.20 billion to \$1.32 billion. Therefore, TFFR's funded ratio (comparison of assets to liabilities) on an actuarial basis decreased slightly from 61.8% to 61.6%. This means TFFR currently has about 62 cents for every one dollar it needs to pay present and future benefits earned by members. TFFR's funding level reflects modified actuarial assumptions which were approved by the Board after an Actuarial Experience Study was conducted. Had these actuarial assumption changes not been made, TFFR's funded level would have increased.

investment losses have been completely smoothed into actuarial valuations, and increased member and employer contributions are beginning to flow into the system. Therefore, long term funding progress is expected.

As you can see from the chart on page 1, if TFFR earns 7.75% investment returns in the future, the plan should be nearly fully funded in about 30 years, if all actuarial assumptions are met. Member and employer contribution rates will be reduced to 7.75% each when 100% funding is achieved. If long term returns are greater than 7.75%, funding progress will be reflected sooner. However, if returns are less than 7.75%, funding improvement will take longer.

### Funding Projections

Benefit and contribution changes approved in 2011 are expected to improve TFFR's funding status, if actuarial assumptions are met over the long term. 2008-09

A long term focus is important in financing pensions. Due to legislative action, TFFR's long term funding outlook is positive, and benefits are secure for past, present, and future ND educators.

The complete 2015 Actuarial Valuation and Experience Study reports are available on the TFFR website at [www.nd.gov/rio/tffr/publications](http://www.nd.gov/rio/tffr/publications) or by request to our office.

## Understanding Your 1099R Tax Form

TFFR retired members and beneficiaries receiving monthly benefits are sent a 1099R Tax Form each January. You will need this form to file your annual tax return. Make sure you keep your address current so you receive this important tax document in a timely manner. If you need a duplicate 1099R, please contact the TFFR office.

CORRECTED (if checked) Copy 2 - File this copy with your state, city, or local income tax return, when required

PAYER'S name, street address, city, state, and ZIP code <b>ND TEACHERS' FUND FOR RETIREMENT 1930 BURNT BOAT DRIVE BOX 7100 BISMARCK ND 58507-7100</b>		1 Gross distribution #1	OMB No. 1545-0119	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S Federal identification number		2a Taxable amount #2a	2015 Form 1099-R	
Account number (see instructions)	RECIPIENT'S name (first, middle, last) street address, city, state, and ZIP code	2b Taxable amount not determined	3 Capital gain (included in box 2a)	4 Federal income tax withheld #4
6 Net unrealized appreciation in employer's securities	9a Your percentage of total distribution	7 Distribution code(s)	8 Other	5 Employee contributions #5
10 Amount allocable to IRR within 5 years	11 Year of design. Roth contrib.	12 State tax withheld #12	9b Total employee contributions	14 State distribution
15 Local tax withheld	16 Name of locality	13 State/Payer's state no.	17 Local distribution	

Form 1099-R Department of the Treasury - Internal Revenue Service

**Box 1**  
Total TFFR pension benefit paid to you in 2015.

**Box 2a**  
Amount of Box 1 that is taxable to you.

**Box 12**  
Amount withheld for ND State taxes.

**Box 4**  
Amount withheld for Federal Taxes.

**Box 5**  
Amount of Box 1 that is not taxable. This amount is not reported on your tax return.

## Tax Withholding Reminder

You have the option to withhold federal and North Dakota state income tax from your TFFR retirement benefit. This is to remind you that you may change your tax withholding election at any time. 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.

Your current withholding election will remain in effect until you file a new tax withholding form with TFFR. 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](http://www.nd.gov/rio). If you believe your tax withholding is sufficient, no action is necessary.

Your decision on tax withholding is an important one. You may wish to discuss it with a qualified tax advisor.



**NORTH DAKOTA  
RETIREMENT AND  
INVESTMENT OFFICE**  
*Teachers' Fund for Retirement  
State Investment Board*

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## New Financial Reporting Standards

The Governmental Accounting Standards Board (GASB) has approved new rules that will change the way public retirement systems (i.e. NDTFFR) and employers (i.e. school districts, cities, counties, and the state) will account for and disclose pension information beginning with employer's June 30, 2015 financial statements.

### Here are some key points regarding these new financial reporting requirements.

- GASB changes were designed to increase transparency, consistency, and comparability of pension information.
- New GASB requirements do not affect TFFR's funded ratio, or statutory contribution requirements. New requirements do not change the actual pension liability – only where and how pension costs are accounted for in financial statements.
- GASB 68 requires the entities that are actually making the pension contributions (i.e. school districts) to report their proportionate share of the collective net pension liability, regardless of whether the entities are legally required to fund the plan. The ND Legislature has the legal authority to set member and employer contribution rates, and employers are liable for paying those contributions.
- TFFR is providing most of the required GASB 68 information needed by school districts including actuarial and financial calculations, template footnote disclosures, and audited schedules.
- The presence of a large number on the employer/school district balance sheet which represents unfunded pension costs could give the incorrect impression that school districts have a large debt that must be paid immediately. That is not the case. Pension costs are paid off over long periods through regular contributions to the retirement plan.
- Steps are being taken to reduce TFFR's net pension liability. Increased member and employer contributions, benefit changes, and solid investment performance is expected to show positive funding results.



*NDTFFR partnered with NDPERS, the State Auditor's Office, plan actuaries, and plan auditors to help employers understand and implement the new GASB reporting requirements. Additional information about the new GASB standards is available on the TFFR website at [www.nd.gov/rio/tffr/employers](http://www.nd.gov/rio/tffr/employers).*