MICROFILM DIVIDER

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SFN 2053 (2/85) 5M

GREAT SEAL STATE OF NORTH DAKOTA

ROLL NUMBER

DESCRIPTION

2046

2007 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2046

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: 1/18/07

Recorder Job Number: 1372

Committee Clerk Signature Veronica Sparling

Minutes:

All members of the committee were present.

Sen. Dever, Chairman, opened the hearing on SB 2046 and mentioned that there was a fiscal note on the bill of 10 million dollars, $96, 000 from the state.

Faye Kopp, Deputy Executive Director of ND Retirement and Investment Office, the agency that administers the Teachers' Fund For Retirement, introduced the bill. She was testifying on behalf of the Teachers' Fund For Retirement Board in favor of SB 2046. See attachment # 1.

Senator Nelson asked if 15 years ago tier one people were basically at pier two levels. Over the last 15 years of TFFR the benefits have been increased to where they are now. So they are where they were at 15 years ago.

Faye responded that was true with the exception of the 2% multiplier. That would remain in place for the tier two employees. That provision is the same. However that 2% isn't as valuable to them as it is for the current members because it's spread out over about 5 year final average salary. The 2% using a 5 year final average salary comes to about1.9%. The other provisions would be more what they were like 10-15 years ago. Sections 4 and 5 are to maintain qualification status with the federal government.

Senator Dever mentioned that this fiscal note is ongoing. Faye confirmed that.

Senator Lee asked about the rule of 90 and 88 and when we switched from one to the other.

Faye responded that we have had the rule of 85 since 1989. We had the rule of 90 before the rule of 85. The State Public Employees Retirement System did have the rule of 88.

Senator Dever mentioned that this bill comes to us because of recent changes in the stock market. He asked if the fund would be in trouble without this bill.

Faye said the fund is not in crisis, this is to plan ahead. It would decline without changes being made.

Senator Oehlke asked how much a participant in the plan can contribute.

Faye responded that under current law an employee contributes 7.75% of their current salary so there is no maximum dollar amount. Under this bill an employer would contribute 8.75%, no cap.

Senator Oehlke asked whether employees may contribute more than 7.75% at this time.

Faye responded that they may not.

Senator Lee asked what would happen if someone retired in her school district and then went to work part time in Minnesota.

Faye responded that they would still get their TFFR retirement benefits, and would get their salary from Minnesota and possibly build up their retirement plan in that state as well.

Senator Lee asked if each of the two states has its own retirement plan or is it a national retirement plan.

Faye responded that each has its own plan; it's not a national plan.

Senator Horne expressed concern that the teachers in the future will have to work longer and get less in retirement. It seems it will be hard to hire new teachers if that is the case.

Faye said that even though they are working longer, people are living longer too. Benefits will be somewhat less but will feel somewhat the same because it is under the 2% multiplier. She doesn't feel it will affect recruitment because new teachers are not looking that closely at the benefits offered.

Senator Nelson mentioned that Social Security has also changed the age of receiving benefits from 65 to 67. With people living longer we can't assume that everything is going to stay the way it is. We assumed a rolling average of 5%. 911 changed that and we had to recover from the negative 8%.

Senator Lee asked when the changes were made, were they made with the assumption that everything would stay the same?

Faye responded they did assume an 8% return but also thought the fund could weather the ups and downs. No one could anticipate the three down years.

Senator Nelson remarked that the TFFR has a much more elderly group as members as compared to the PERS fund.

Support: - Nancy Sand, ND Education Association, spoke in support of the bill. She did express concern about the increased cost to the school district employers. She feels this will make a difference for young people entering the teaching field. She feels it is important to educate new teachers about retirement and benefits.

Senator Dever asked if the average teachers' salary in ND is about 37,000.00 and asked what the cost to the school district would be.

Nancy said the 37,000.00 was probably the 2005-2006 figure, and that the districts have a variety of ways to fund teacher salaries. She is also hopeful that the provisions in SB 2200 will provide money for increased salaries.

Senator Lee asked if some districts pay all or part of the employee contribution as part of their compensation package.

Nancy responded that some districts do. Some pay a flat dollar amount, and if they are on that system, they have been grandfathered in, the others are on a percentage. Some of them with a flat dollar amount have chosen to increase the amount. Some districts pay all of it, some pay part of it.

Senator Lee mentioned that the average compensation for ND teachers, that is benefits and salary, is over $50.000.00. She wanted that to go on record.

Senator Horne asked if the additional cost to teachers of $300.00 would apply only to new teachers.

Nancy said if the amount the district had to pay was increased, it could result in less money being available for teacher salaries and that would be across the board.

Nancy explained that the eligibility for vesting, the time they can retire, and the requirement by the school board to pay the additional 1% applies to every teacher.

Senator Horne asked if he were teaching, this could cause a $300.00 average increase in what he could put into the fund.

Nancy replied there is no increase required on behalf of the teacher. The increase is for the employer and the school district.

Support: - Ken Tupa, representing the North Dakota Retired Teachers Association, spoke in favor of SB 2046. See attachment #2.

Senator Nelson mentioned there had been no increase for retirees for awhile. She asked when an increase is anticipated.

Ken responded that in 2001 money was so tight and everyone had to make a sacrifice; there was a small increase in 2002. There hasn't been one since. It will be revisited in the future when the fund improves.

Support: - Doug Johnson, Executive Director of the North Dakota Council of Educational Leaders, spoke in support of the bill. He said when the bill was reviewed by their membership in September they voted in favor of the bill to keep the fund viable in the future. The one change they would suggest would be that the 1% increase in employers' contribution would be accounted for in determining the minimum salary for districts that are paying both sides of the district. (Mentioned on tape at 45:32)

Opposition: -

Neutral: - Bev Neilson, Assistant to the Executive Director of the ND School Board Association, spoke in a neutral position on SB 2046. She recognizes the need to keep this fund healthy. She wanted to mention a few things to consider if they do decide to pass this bill. One concern of school boards is that the 10 million dollars won't be going to salaries or to support staff. If PERS increases do pass, employees in school districts who are members of PERS will be picking that up as well. Teachers understand that this 1% will not be going to salaries but a lot of times that opinion doesn't make its way down to the local negotiating units and boards get beat up pretty badly. It's rarely included when they say that the board gave them a 3% increase. It does not include these types of required increases. If you pass this increase on to the board, she is hoping they will look at other expenses that are coming through on bills that will add expenses to school districts.

Bev also mentioned that we actually pay TFFR on TFFR. The retirement benefit gets added on and retirement is paid on it again. This makes the benefit continue to grow which eats away at the money available for other things. Paying retirees their retirement benefits plus a salary when they come back is not ideal but it was a compromise they made because of the shortage of available teachers. The eighty million dollars proposed by the Governor's Commission on Educational Improvement is a windfall for schools, but the first 35 million goes to pay for equity leaving 45 million. Now nearly 10 million dollars will go for this which leaves 35 million which is about what is available every biennium. The windfall gets eaten away. She asked that they keep that in mind in whatever committee they are serving as well as in their deliberations on the floor.

Senator Dever said he understands that we can't reduce benefits but if the fund improves to a certain point the 1% can be backed off or reversed.

Bev said that she wasn't sure. It has never happened and may even be impossible.

Opposition: -

Neutral: -

Chairman Dever closed the hearing on SB 2046.

Committee will act on this bill at a later date.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: 1/25/07

Recorder Job Number: 1952

Committee Clerk Signature *Veronica Spaling*

Minutes:

All members of the committee were present.

Chairman Dever opened discussion on SB 2046.

Senator Nelson explained the "heartburn" is with the tiered system. The main reason for this bill is to get the fund back into a stable position so somewhere down the line retirees can have a raise.

Senator Dever remarked that the 1% will be assessed against the employer.

Senator Nelson said that is the "heartburn." It doesn't seem right that the additional 1% falls to the employer to pay.

Senator Lee asked how the problem could be fixed and not just the symptom. Can the law be changed?

Senator Nelson responded that Wayne said it is a constitutional issue. There was discussion about how a plan takes a down market harder when it is not on a rolling-years set up, but it also recovers faster.

Senator Dever asked without the bill, where are we long term?

Senator Nelson said without the bill, the fund is in trouble.

Senator Oehlke said it is down 5 million.

Senator Nelson said without the bill, it is in trouble, with the bill it will look good in 2016.

There was discussion on the fund as is, and the fund with the bill. If it is not changed, there will be a big problem in 30 years.

Senator Dever asked if anyone offered any amendments.

Senator Lee said that Doug Johnson asked that the committee consider counting the additional 1% towards the minimum salary. That was the only thing she had noted as a potential amendment. She said both the Employee Benefits Committee and the Retirement Committee trustees have come forward and recommended this for passage. They have done a lot of research. She would trust their input and would like to see it passed.

Senator Dever said if they are adding 1%, minimum salary is $22,500.00 then you are talking about $225.00.

Senator Lee feels that is an Education Committee discussion.

Senator Dever said it is only dealing with $22,500.00 so he thinks retirement should be ..

(I could not hear the tape.)

Senator Lee made a motion to pass SB 2046 and rerefer it to Appropriations Committee.

Senator Oehlke seconded the motion.

Roll Call Vote: Yes 6 No 0 Absent 0

Carrier: Nelson

FISCAL NOTE

Requested by Legislative Council
04/23/2007

Amendment to: SB 2046

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$28,000	$5,000	$50,000	$0
Appropriations	$0	$0	$28,000	$5,000	$50,000	$0

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
$0	$0	$0	$3,000	$0	$2,769,000	$6,000	$0	$4,944,000

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB2046 (with Conf Com amendments adopted 4/20/07) requires employer contributions on re-employed retirees; and beginning 7/1/08 increases employer contributions by .50% and reduces benefits for new hires. Estimated fiscal impact is $2.8 million for 2007-09, and $5 million for 2009-11 biennium.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 3 increases TFFR employer contributions from 7.75% to 8.25% on all active members' salaries beginning 7/1/08 ($2.2 million for 2007-09 biennium). Sections 10 and 11 require employer contributions of 7.75% on all reemployed retirees' salaries beginning 7/1/07 and 8.25% beginning 7/1/08 ($0.6 million for 07-09 biennium). Total approximately $2.8 million for 2007-09 biennium, and $5.0 million for 2009-11 biennium. Estimates are based on assumptions and calculations from TFFR's actuarial consultant. Fiscal impact may be more or less depending on number and actual salary paid to active and retired members.

Section 15 provides $5,000 special funds appropriation for TFFR to implement this bill.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Total expenditures by state, counties, and school districts resulting from increased employer contribution rates are estimated at $2.8 million for 2007-09 biennium.

5 state agencies or institutions currently employ about 100 TFFR participating members (1%) and would be required to pay the increased employer contributions of approximately $28,000 for the 2007-09 biennium. Youth Correctional Center ($7,560), School for Deaf ($4,760), School for Blind ($3,640), Division of Independent Study ($7,560), and Career and Technical Education ($4,480).

13 counties currently employ 13 county superintendents (0.13%) who are TFFR participating members and would be required to pay the increased employer contributions of approximately $3,000 for the 2007-09 biennium.

226 school districts, special education units, vocational centers, and other public education entities employ the majority of TFFR participating members (98.87%) and would be required to pay the increased employer contributions of $2.769 million for the 2007-09 biennium and $4.944 million for the 2009-11 biennium.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 15 provides a $5,000 special funds appropriation for TFFR for system programming and other administrative costs to implement provisions of the bill (2007-09 only).

A general fund appropriation increase would also be required for the five state agencies and institutions affected by this bill. Estimated amount of appropriations is $28,000 for 2007-09 biennium (see above Expenditures). However, HB 1078, which allows Career and Tech Ed employees to elect to transfer from TFFR to PERS has been approved, therefore increased appropriations to CTE for SB 2046 may not be needed.

Name:	Fay Kopp	**Agency:**	ND Retirement & Investment Office
Phone Number:	328-9895	**Date Prepared:**	04/23/2007

FISCAL NOTE

Requested by Legislative Council
03/28/2007

Amendment to: SB 2046

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$20,274	$0	$21,929	$0
Appropriations	$0	$0	$20,274	$0	$21,929	$0

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
$0	$0	$0	$0	$0	$571,051	$0	$0	$617,678

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB2046 (with House amendments 3/27/07) requires employer contributions of 7.75% on reemployed retirees' salaries, and incorporates federal tax law changes. Fiscal impact to state, school districts, and other TFFR employers is estimated to be $591,325 for 2007-09 biennium.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Sections 4 and 5 require employer contributions of 7.75% on re-employed retirees' salaries (estimate 175 retirees X 7.75% X $21,800 average retiree salary X 2 years = $591,325 for 2007-09 biennium.

Fiscal impact may be more or less depending on actual number of re-employed retirees and actual salary paid to retirees.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Total expenditures by state, school districts, and other TFFR employers is estimated to be $591,325 for 2007-09 biennium.

2 state agencies or institutions (Division of Independent Study and School for the Deaf) currently employ 6 retirees and would be required to pay employer contributions. (estimate 6 retirees X 7.75% X 21,800 average retiree salary X 2 years = $20,274 for 2007-09 biennium.

School districts, special education units, vocational centers, counties, and other public education entities employ retirees and would be required to pay employer contributions. (estimate 169 X 7.75% X 21,800 average retirees salary X 2 years = $571,051 for the 2007-09 biennium.

Fiscal impact may be more or less depending on actual number of re-employed retirees and actual salary paid to retirees.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

A general fund appropriation increase may be needed if state agencies or institutions (who have TFFR members), employ TFFR retirees in the future. Estimate $20,274 for 2007-09 biennium.

Name:	Fay Kopp	**Agency:**	ND Retirement & Investment Office
Phone Number:	328-9895	**Date Prepared:**	03/28/2007

FISCAL NOTE

Requested by Legislative Council
03/13/2007

Amendment to: SB 2046

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$90,998	$5,000	$94,513	$0
Appropriations	$0	$0	$90,998	$5,000	$94,513	$0

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
$0	$0	$0	$11,829	$0	$8,996,994	$12,287	$0	$9,344,532

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB2046 increases TFFR employer contributions by 1%, requires employer contributions on reemployed retirees, and reduces benefits for new TFFR members employed after 7/1/07. Fiscal impact to state, counties, and schools is estimated to be $9.1 million ($9,099,821) for 2007-09 biennium.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Sec 3 increases TFFR employer contributions from 7.75% to 8.75% on all active members' salaries (estimate $420 million annual salaries X 1% = $4.2 million for 2007-08). Sec 10 and 11 require employer contributions of 8.75% on all reemployed retirees' salaries (estimate 175 retirees X 8.75% X $21,800 average retiree salary = $0.3 million for 2007-08). Total approximately $4.5 million in increased employer retirement contributions for 2007-08. Total $9.1 million ($9,099,821) for 2007-09 biennium. Estimates are based on assumptions and calculations from TFFR's actuarial consultant.

Section 15 provides $5,000 special funds appropriation for TFFR to implement this bill.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Total expenditures by state, counties, and school districts resulting from increased employer contribution rates to TFFR are estimated at $9.1 million ($9,099,821) for 2007-09 biennium.

5 state agencies or institutions currently employ 100 TFFR participating members (1%) and would be required to pay the increased employer contributions. They are Career and Tech Ed, Div. of Independent Study, School for Blind, School for Deaf, and Youth Correctional Center. $9,099,821 X 1% state entities = $90,998 for 2007-09 biennium.

13 counties currently employ 13 county superintendents who are TFFR participating members (0.13%) and would be required to pay the increased employer contributions. $9,099,821 X 0.13% counties = $11,830 for the 2007-09 biennium.

226 school districts, special education units, vocational centers, and other public education entities employ the majority of TFFR participating members (98.87%) and would be required to pay the increased employer contributions. $9,099,821 X 98.87% school districts = $8,996,994 for the 2007-09 biennium.

Estimates are based on assumptions and calculations from TFFR's actuarial consultant.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 15 provides a $5,000 special funds appropriation for TFFR for system programming and other administrative costs to implement provisions of the bill (2007-09 only).

A general fund appropriation increase would also be required for the five state agencies and institutions affected by this bill. Estimated amount of appropriations is $90,998 for 2007-09 biennium (see above Expenditures). However, HB 1078, which allows CTE employees to elect to transfer from TFFR to PERS has been approved, therefore increased appropriations to CTE for SB2046 may not be needed.

Name:	Fay Kopp	**Agency:**	ND Retirement & Investment Office
Phone Number:	328-9895	**Date Prepared:**	03/13/2007

FISCAL NOTE

Requested by Legislative Council
01/16/2007

REVISION

Bill/Resolution No.: SB 2046

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$96,984	$5,000	$100,703	$0
Appropriations	$0	$0	$96,984	$5,000	$100,703	$0

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
$0	$0	$0	$12,608	$0	$9,588,793	$13,091	$0	$9,956,501

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB2046 increases TFFR employer contributions by 1%, requires employer contributions on reemployed retirees, and reduces benefits for new teachers and administrators hired after 7/1/07. Fiscal impact to state, counties, and school districts is estimated to be $9,698,385 for 2007-09 biennium.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Sec 3 increases TFFR employer contributions from 7.75% to 8.75% on all active members' salaries (estimate $420 million annual salaries X 1% = $4.2 million for 2007-08). Sec 10 and 11 require employer contributions of 16.5% on all reemployed retirees' salaries (estimate 175 retirees X 16.5% X $21,800 average retiree salary = $0.6 million for 2007-08). Total approximately $4.8 million in increased employer retirement contributions for 2007-08. Total $9,698,385 for 2007-09 biennium. As salaries for active and reemployed retirees increase, the amount of employer contributions to TFFR will increase.

Section 15 provides $5,000 special funds appropriation for TFFR to implement this bill.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Total expenditures by state, counties, and school districts resulting from increased employer contribution rates to TFFR are estimated at $9,698,385 for 2007-09 biennium.

5 state agencies or institutions currently employ 100 TFFR participating members (1%) and would be required to pay the increased employer contributions. They are Career and Tech Ed, Div. of Independent Study, School for Blind, School for Deaf, and Youth Correctional Center. $9,698,385 X 1% state entities = $96,984 for 2007-09 biennium.

13 counties currently employ 13 county superintendents who are TFFR participating members (0.13%) and would be

required to pay the increased employer contributions. $9,698,385 X 0.13% counties = $12,608 for the 2007-09 biennium.

226 school districts, special education units, vocational centers, and other public education entities employ the majority of TFFR participating members (98.87%) and would be required to pay the increased employer contributions. $9,698,385 X 98.87% school districts = $9,588,793 for the 2007-09 biennium.

Estimates are based on assumptions and calculations from TFFR's actuarial consultant.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 15 provides a $5,000 special funds appropriation for TFFR for system programming and other administrative costs to implement provisions of the bill (2007-09 only).

A general fund appropriation increase would also be required for the five state agencies affected by this bill. Estimated amount of appropriations is $96,984 for 2007-09 biennium (see above Expenditures).

Name:	Fay Kopp	**Agency:**	ND Retirement & Investment Office
Phone Number:	328-9895	**Date Prepared:**	01/16/2007

FISCAL NOTE
Requested by Legislative Council
12/26/2006

Bill/Resolution No.: SB 2046

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$96,984	$5,000	$100,703	$0
Appropriations	$0	$0	$0	$5,000	$0	$0

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
$0	$0	$0	$12,608	$0	$9,588,793	$13,091	$0	$9,956,501

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB2046 increases TFFR employer contributions by 1%, requires employer contributions on reemployed retirees, and reduces benefits for new teachers and administrators hired after 7/1/07. Fiscal impact to state, counties, and school districts is estimated to be $9,698,385 for 2007-09 biennium.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Sec 3 increases TFFR employer contributions from 7.75% to 8.75% on all active members' salaries (estimate $420 million annual salaries X 1% = $4.2 million for 2007-08). Sec 10 and 11 require employer contributions of 16.5% on all reemployed retirees' salaries (estimate 175 retirees X 16.5% X $21,800 average retiree salary = $0.6 million for 2007-08). Total approximately $4.8 million in increased employer retirement contributions for 2007-08. Total $9,698,385 for 2007-09 biennium. As salaries for active and reemployed retirees increase, the amount of employer contributions to TFFR will increase.

Section 15 provides $5,000 special funds appropriation for TFFR to implement this bill.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Total expenditures by state, counties, and school districts resulting from increased employer contribution rates to TFFR are estimated at $9,698,385 for 2007-09 biennium.

5 state agencies or institutions currently employ 100 TFFR participating members (1%) and would be required to pay the increased employer contributions. They are Career and Tech Ed, Div. of Independent Study, School for Blind, School for Deaf, and Youth Correctional Center. $9,698,385 X 1% state entities = $96,984 for 2007-09 biennium.

13 counties currently employ 13 county superintendents who are TFFR participating members (0.13%) and would be required to pay the increased employer contributions. $9,698,385 X 0.13% counties = $12,608 for the 2007-09

biennium.

226 school districts, special education units, vocational centers, and other public education entities employ the majority of TFFR participating members (98.87%) and would be required to pay the increased employer contributions. $9,698,385 X 98.87% school districts = $9,588,793 for the 2007-09 biennium.

Estimates are based on assumptions and calculations from TFFR's actuarial consultant.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 15 provides a $5,000 special funds appropriation for TFFR for system programming and other administrative costs to implement provisions of the bill (2007-09 only).

A general fund appropriation increase would be required for the five state agencies affected by this bill.

Name:	Fay Kopp	**Agency:**	ND Retirement & Investment Office
Phone Number:	328-9895	**Date Prepared:**	12/29/2006

Date : 1-25-07
Roll Call Vote # : ~~2046~~ 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

Senate Government and Veteran Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ____________

Action Taken do pass and re refer

Motion Made By Lee Seconded By Oehlke

Senators	Yes	No	Senators	Yes	No
Senator Dick Dever - Chairman	✓		Senator Robert Horne	✓	
Senator Dave Oehlke – VC	✓		Senator Richard Marcellais	✓	
Senator Judy Lee	✓		Senator Carolyn Nelson	✓	

Total (Yes) 6 No 0

Absent 0

Floor Assignment Nelson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
January 26, 2007 2:04 p.m.

Module No: SR-18-1373
Carrier: Nelson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2046: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2046 was rereferred to the **Appropriations Committee**.

2007 SENATE APPROPRIATIONS

SB 2046

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 02-05-07

Recorder Job Number: 2822

Committee Clerk Signature	Alice Delzer

Minutes:

Chairman Holmberg opened the hearing on SB 2046 at 8:00 am on February 6, 2007 regarding Teacher Fund Retirement. During the hearing **Vice Chairman Grindberg** conducted the hearing as Chairman Holmberg had to leave to testify regarding another bill.

Faye Kopp, Deputy Executive Director North Dakota Retirement and Investment Office presented written testimony (1) and gave oral testimony in support of SB 2046. She also explained the attachments she handed out.

Senator Grindberg asked the committee to refer to the fiscal note on this bill.

Senator Seymour had questions regarding the contributions employees pay.

Senator Robinson had questions regarding unfunded liability and if the board is content with this issue.

Senator Bowman had questions regarding property tax increase to local school districts.

Senator Kilzer asked about the board considering paying half and half for future teachers.

Senator Wardner had questions regarding retirement.

Bev Nielson, NDSBA gave oral testimony in support of SB 2046.

Nancy Sand, NDEA gave oral testimony in support of SB 2046.

Senator Grindberg closed the hearing on SB 2046.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 02-05-07

Recorder Job Number: 2822

Committee Clerk Signature	Alice Delzer

Minutes:

Chairman Holmberg opened the hearing on SB 2046 regarding Teachers Fund Retirement. He stated throughout the interim the issue had to be how to make the fund solvent into the future in light of all the court ruling as to what they can do and what they can't do, and I'm guessing that the School Board Association came in and said we don't oppose the bill but just remember that the dollar amount is going to be part of compensation that will not be available for salaries. What is the committee's wishes on SB 2046.

Senator Wardner moved a DO PASS, Senator Krebsbach seconded.

Discussion followed.

Senator Kilzer said he really thinks that for the future the increase should be half employer and half employee because of the increased benefits. I am going to vote no on a do pass.

Chairman Holmberg said if you recall through the interim one of the problems that isn't coming before the Legislature this session because the people decided they weren't going to push it is the retired teachers who have no access to any of this. They have been frozen at 2001. You recall 2001 we increased benefits, we changed the multiplier, and immediately the stock market dropped and the fund has really taken a dip. He further discussed these issues, and felt during the next biennium we'll be looking at this again.

Senator Bowman expressed concern over tax increase by local school districts. He stated in his particular school district we support the whole thing, and I can't support that.

Senator Robinson discussed what we had done in the past for the teachers and said he will support this bill. I share the concerns voiced in this committee and this is a serious issue for our state, I would hope as the bill progresses through the session, we need to do something. We can't leave here ignoring this problem. It is making some progress, and I will support this bill.

Chairman Holmberg stated that action had been taken in 1977. He also stated that NDEA supported this bill in their testimony earlier during the interim. They supported that bill but they were also aware that money is coming out of their salaries.

Senator Krebsbach stated she understands the concerns and it concerns her too on the re-employment of teachers looking to the teacher as well to fund it. However, we cannot do it on the current retirees. The law prohibits us from doing it. We could, however, for future retirees we could look at it. The future teachers, however, aren't contributing in the fact that they are going from a rule of 85 to 90, also they are going from an investment period of 3 years to 5 years. We did not hear an awful lot from the school boards in regard to what is being done with the extra 1% increase and I know that that's going to take some money out of their negotiating powers for their salaries in the future. And as was stated the school districts pay both the employee and employer share as well.

Senator Wardner stated the new hires are going to contribute. They're going to be 5 years longer. I would just like to mention in response to Senator Bowman, what happens at the local issue is a negotiated thing. Not every school district is where the school board picks up the whole tab on the retirement.

Senator Kilzer stated raising it does two bad things. First of all, it makes it a permanent thing. You're not going to keep it at 50%. And the other thing is changing the 50/50 % formula brings it in as another negotiating item down the road.

Discussion ended. **A roll call vote was taken resulting in 10 yeas, 3 nays, 1 absent. The motion carried. Senator Nelson from GVA will carry the bill.**

The hearing on SB 2046 closed.

Date: 2-5-07
Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046.

Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken do pass

Motion Made By Wardner Seconded By Krebsbach

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm		✓	Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann			Senator Larry J. Robinson	✓	
Senator Tom Fischer		✓	Senator Tom Seymour	✓	
Senator Ralph L. Kilzer		✓	Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) ~~7~~ ~~8~~ 10 No 3

Absent ~~#~~ 1

Floor Assignment ~~S~~ ~~B~~ A. Sen Nelson.

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2046: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (10 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). SB 2046 was placed on the Eleventh order on the calendar.

2007 HOUSE GOVERNMENT AND VETERANS AFFAIRS

SB 2046

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2046

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: March 1, 2007

Recorder Job Number: 4768

Committee Clerk Signature	Morgan Pennett

Minutes:

Fay Kopp: Testimony Attached.

Rep. Grande: On your testimony on Page 2. When you make the statement will then gradually decline given the absence of modifications and ratios. As I look through it the actuary that is put out, on your substance, is this just the 8% returning to the 14%. That will get rid of the bump. When you come back without any changes at all with the 8% return up tot eh 80% for that. If you go to the assumption rate of 8.45% by 2021 we are in the 90's. By 2036 we are at 106%. How far out do we have to go?

Fay Kopp: The decline that I am referring to is attachment F. If you look at our funded ratio today, which is an actuarial value of 75%? You will notice that the ratio will increase in 2007-2010, etc up to 84%. From there on in, in ten years we are at 84% and we start dropping. In 15 years we are at 83%. In 20 years we are at 82%. It starts slowly declining. I am basing that decline on actuarial value. That is based on an 8%. You are correct that if we would get 8.5%, which I am praying that happens, with the change being made by this bill our actuarial status would improve. However, if we only get 7.5% for the next 30 years and we don't make any changes, what will happen? You can see what the numbers are in attachment F. Anything greater or less than that is going to be reflected in our funding level. The other issue is that this only shows the funding level. If we only get an 8% return, and we make no changes, our unfunded liability where it is currently $500 million, will be close to $1 billion at the end of this 30 year period. That itself just continues to grow out of control because the contribution rates that are going into the plan are not enough to pay the normal pot and interest. You kind of have to start moving backwards. Does that answer your question?

Rep. Grande: It does if we stay with the 8% assumption. Even if you went to the 8.5%, we lose that margin and go positive by 2021?

Rep. Kasper: Beings we are at this point where we are talking about the investments, 2001 – 2003, do one of these handouts show what the actual returns to the fund were from 2000-2006?

Fay Kopp: One of them shows what the actuarial returns were and that would be attachment D. It's not going to be the actual market return that the investment director would be reporting, but you use the actuarial method that is in place and these are the numbers that you are going to be looking at. Attachment D would show that in 2001, the market return was a negative 7.6%. The investment board would have reported it as a negative 8.8%.

Rep. Kasper: On that chart if you look at 2000 where you have a market of 13.3%, in 2001 you are down to a negative 7.6%. That really is a 20% market reduction, is it not? What I'm wondering if you could provide is during 2000 to 2006, I would like to be able to see the actual asset value at year end or whenever you calculate the value at one point in time. Then I would like to see the annualized return, not actuarial, not smooth, I want to see the actual return and the fund balances.

Fay Kopp: We will provide that to you.

Fay Kopp: Testimony continued.

Rep. Kasper: In SB 2046, are you addressing changes in the law to address the Attorney General's opinion that we were just talking about so that down the road that if this would get into a similar circumstance you would be able to take action that would be found to not be unconstitutional?

Fay Kopp: This bill does not address the question that you have asked. I am not sure if it changes statute would allow this. We do have our legal council here from the Attorney General's office and they might be able to shed more light on this from a legal perspective. This bill does not address that.

Rep. Kasper: Your testimony says public pension obligations in ND are contract obligations, terms of which are contained in the law. That tells me that if we have problems in the law that are contracts, if we amend the law we should be able to change the problem. There is a difference between statute and the constitution. I'm guessing you will need clarification on that.

Fay Kopp: Would you like this addressed now?

Rep. Haas: Hold that question and please proceed.

Fay Kopp: Testimony continued.

Rep. Grande: Which section are we in the bill when we are talking about these changes here?

Fay Kopp: Sections 10 and 11.

Fay Kopp: Testimony continued.

Rep. Kasper: How many total employee numbers are in TFFR that are currently actively employed?

Fay Kopp: There are about 9,800 active contributing TFFR members.

Fay Kopp: Testimony continued.

Rep. Schneider: How long is the current employer contribution rate been at 7.75%?

Fay Kopp: It has been in effect since 1997.

Rep. Schneider: I understand that you had a few bad years earlier this decade. I'm wondering if it is a possibility to bounce back without putting this undue burden on the local school districts and jeopardize their future salaries.

Fay Kopp: Certainly we wish that wonderful return in the next five to ten years would help improve our funding to the level where it needs to be. However, most of the projections show that getting the return hat we got in the 1990's are going to be much more difficult in the decades ahead. Added to that, we have some of these other issues that are working against us. We have increasing mortality, earlier retiring, and a declining number of active teachers. Those are all things that are working against us and making it harder to get out of it. We have also run these projections saying what would happen if we got 8.5%? Well then certainly a lot of things go away in 10-15 years. It still takes a long time. Even at a 8.5% it's 15 years away. There is also a reasonable likelihood that our returns could be 7.5%. That only starts to make the picture we have today look that much worse. I hope that you are right. I think that we all hope that if returns are better then expected, then TFFR's funding level would just improve that much faster.

Rep. Schneider: When it was changed in 1997 was it lowered or raised?

Fay Kopp: It was increased from 6.75% to 7.75%. The primary reason that it was raised was to fund an increase in the benefit multiplier at that time. At the time our multiplier was about 1.55%. Employers and employees agreed that a 1% increase would help improve the benefits of the retirement plan and would fund that. That is what the contribution rate did at that time. There was an improvement in benefits that resulted from that.

Rep. Froseth: This assumption of a decline in members, is that projected to 2046 also? It seems to me that we are declining a lot faster than that, especially in rural areas. I look for a 15-20% at closure of our smaller schools. It just seems that the half percent isn't enough.

Fay Kopp: We worked with BPI. We have been looking at their projections for the last 5 and 10 years. In fact for awhile in the late 1990's and the early 2000's we were looking at projections. We were using a 1% decline over the long term. As they continued fine tuning their projections, while there may be a much greater declining number of students for that to catch up is going to take a little big longer time. Unless the district closed because then there is a larger drop-off. Our drop is going to take a little bit longer. We are continuing to monitor that. We are looking at half a percent over that 30 year period. Certainly some years we have seen great decline. Other years from a TFFR membership perspective, we have not seen a great decline. We are trying to keep track of that.

Rep. Amerman: In the Tier 1 and Tier 2 scenario, the new members come around and have these different changes, can they ever get to Tier 1?

Fay Kopp: Under this legislation they would remain Tier 2 forever. That is not to say that if the funding levels improved in 10 or 15 years, we couldn't come back and improve the benefits. That is a possibility. As this is, there is no trigger point and they would be that forever.

Rep. Kasper: If you go back to your testimony on page 5, you are talking about the general rule employees and the critical shortage employees. If I recall, these are areas that in the last number of legislative sessions we have modified statute to encourage these types of employees to go back to work. Am I correct?

Rep. Haas: I don't think it necessarily encouraged these people to go back to work. What was done in the last few sessions was that in some areas it is going to be very difficult to find teachers to fill some of the positions. The legislator made the decision to allow them to make some declarations on some of these needed areas. Those were the areas where this was going to be permissive. Some think that perhaps this has gone too far.

Rep. Kasper: That was not where my question was going.

Fay Kopp: Teachers have always been allowed to return to work. What it was that they were tied to a social security cap. Whatever they allowed you go to back under that that is the dollar amount that we allow. WE changed that in the 1990's because social security was bent to go to 20,000 and things like that. TFFR did not want to be that permissive so they went to an hours limit. The basic intent was to continue to work halftime. There were some refinements there. In a later session there were concerns from the districts that said what do we do about administrators. They work under a 12 month contract. For administrators, we did loosen that up. It was always pretty liberal in that respect.

Rep. Kasper: I don't think this is a problem. I think this is a good thing. I think it helps solve problems in critical areas. Where I was going with my question is your amendments on requiring a 16.5% employer contribution for these types of employees. First of all the number of employees we are talking about is about 2% of the employees in your group. 200 means roughly 2% of your 9,800. That is a small number compared to your large group. When you are going to require the employer to increase that contribution to 16.5%, to me that is going to discourage the employers from hiring these types of people. This means that we are going to get back potentially into the critical shortage area where we don't have teachers. The employers are going to say we aren't going to double our contribution so therefore they won't employ them. That is where I see a problem in you proposal.

Fay Kopp: Certainly the provision to require those employer contributions probably will remove the financial incentive that currently exists. One of the exhibits I have shown , you will see what employers have hired the employees. There are some large school, there are some small schools, you are right. In many cases it will now financially cost more to hire those retiree's. With that said, had they hired an active teacher, they would have already been paying the employer side of it. For those school districts that pay all or a portion of the employee contribution, it really puts them where they were before had they hired an active teacher instead of a retired one. Now that is not all school districts. About half of them pay the sub. This might hurt the group that doesn't from a financial perspective.

Rep. Kasper: Your assumption is an error. You are assuming that a school district could go out and hire a full time employee to solve the need that they have. I think that it is an erroneous assumption. These retired employees are going back to work are probably filling positions that school boards can't find to fill without them being there.

Fay Kopp: I think in many cases you are correct. I do not dispute that at all. What I am saying is by this happening, there is an impact on TFFR. What our job is to try and protect the financial solvency of this plan. By trying to make it whole, that is one of the assumptions that we need to make. Yet I recognize that it is almost unrealistic. For the funding of TFFR we believe it is an appropriate method.

Rep. Kasper: You are saying that it is an impact for TFFR? If that employee goes back to work part time, and there is a 16.5% contribution being made, is that employees benefits going to increase at all?

Fay Kopp: No, that employee's benefits would not increase for two reasons. One is that legally because it is all an employers' responsibility, there does not need to be a benefit improvement. If there were a benefit improvement, there would be even more of a cost implication to TFFR. Now whatever dollars we are taking in are going to go directly to that retiree. It is not going to help neutralize or offset the loss that TFFR is taking. Also, I would envision that even more teachers would retire even sooner because they would know if they went back to work their benefits would increase again.

Rep. Kasper: Then where is the negative impact on the fund if you don't pay out anymore benefits and you get more money in?

Fay Kopp: The negative impact on the plan may exist because evidence shows that the retiree's that have increased and returned to work show that some retiree's are probably retiring sooner then they would have. Therefore we are paying out benefits a year or two sooner then we would have if it had not been put into provision. So the 16.5% is part of an offset. It does not cover the actuarial loss taken. I can not say that with any certainty exactly who would have retired and when. Evidence shows and has been supported that many of them retire because they know they can go back because of the shortage.

Rep. Haas: In a sense they are double dipping?

Fay Kopp: They are drawing out and not paying into the plan. In the case of the retiree that means the employer would be paying in if they chose to hire that retiree.

Rep. Froseth: The fiscal note says $9.9 million to the school districts. You are limited to the probability that it would come probably out of their salary negotiations? I see that as probably a big negotiation paying off.

Fay Kopp: Maybe NDA would want to respond to that better than I could. However, I will say that from communications that we have had with the members, it appears that they acknowledge that that is what they are going to do. Is everyone going to like it? No. If it is going to be a negotiating difficulty I anticipate that.

Rep. Wolf: On the returns, does that include long term subs because they don't actually have a contract.

Fay Kopp: No. In fact there is an exclusion in the law. Earlier there was no change and it did include subbing. The limit does not apply to the long term subs. There is no contract.

Rep. Wolf: Even if they sub the whole school year?

Fay Kopp: As long as there is no contract or written agreement.

Rep. Wolf: You mentioned that the Attorney General's opinion says that unless there is an increased benefit you can't increase, did you ever look at it and see that it may be unconstitutional for this as well and for the new people coming into that. Did you ever look at increasing their share too?

Fay Kopp: Yes, the board certainly did consider that option of saying what would happen if new employees had to pay a higher rate. As we look at that, two things came to mind. One is that they would be paying a higher rate for lesser benefits that they are going to have to wait longer to receive. We would then envision that it would cause more difficulty in recruiting and or repaying your younger teachers. You might get them there but then when they find out what is going on, I'm not sure how they would feel about that. It is difficult to keep teachers for that first five years. The other thing that is the employer has been talking to some of the business managers, they indicated that it would be a nightmare for them to try and maintain that. It would become a negotiating nightmare.

Rep. Wolf: Does TFFR have automatic increases for retirement, or how do you do that?

Fay Kopp: Like PERS, TFFR does not contain a provision for automatic cost of living adjustments as to when funding levels permitted based on legislative approval. We were not at 100% funding level when we were providing for retiree increases. It was kind of a three pronged approach. We had a history of being under funded. We were trying to improve our funding and continue to approve the retiree benefits. All indicators show that we were going the right way and now they aren't.

Rep. Grande: Substitute teachers are not in TFFR. If you don't have a contract you aren't in TFFR. That long term sub never pays in so this bill could never effect them unless they get a contract. On page 7 of your testimony, when I go into the definitions of the TIER 2 members, the fourth bullet point is where my question is.

Fay Kopp: No, the third bullet shows that the retirement is at age 65. For example if you don't have the rule of 85 or 90, you can get a full, unrated benefit at age 65 if you have under current law, three years of service for TIER 2. However, under current law you can get a reduced retirement benefit at age 55. That reduction is 6% per year for every year that you are under age 65. Reduced retirement eligibility is still at age 55 but you would have to have 5 years of service instead of 3 to be eligible.

Nancy Sand: *NDEA is in support of SB 2046. For the reasons that we believe that it is important to have a stable fund for the future. Rep. Froseth asked about the additional contributions by the employer and that is what I'm going to talk about. We are very well aware of that. I can't imagine that it will not. Our members are aware of that. They will simply have to deal with it. Some school districts could have enough money to just do it. For others, it will be a significant issue at the bargaining table. That is where it will be addressed. Our preference would be for all members in the fund to be on the same plan. We understand the need to create a different TIER at this time. When I entered the fund, I entered with a different multiplier and contribution. It would be our hope that one day those people who are currently in the new Tier 2, might also have those numbers changed to their benefit. Ultimately they will achieve that. Hopefully the funds will be able to do that and we don't know, just as we didn't know 15-20 years ago that those kinds of changes might be made. As far as the retiree's go, we do know that the school district has been able to have some people come back and continue to teach. These are the positions that the school district may have had concerns about filling. We also know that there are a number of young people out there that we hope to attract into the profession. That to is a consideration. In terms of those people who are currently employed, a school district cannot simply say that they are too expensive and they don't want that person back. That person is currently employed as a teacher. They are under* *the same continuing contract as anyone else. It would effect a future hiree not a current person. This bill has gone through extensive scrutiny and analysis over the past several months. NDEA has analyzed it and we are supporting it. We also have a number of retired and pre retired teachers who belong to our organization. I checked with that number and that is 1,000 people. I took a pre retirement membership because I could get it for less. I have done that. Those folks who are in those categories do support this bill as well and they understand what it does. I believe the administrators are supporting the bill, even though they I know the implication of the cost to them. They understand the need for stabilizing the funds for the future. The retired teacher organization is also in support of the bill. The Employee Benefits committee reviewed this plan and heard testimony. That was all done before the bill was even introduced in the legislator. It has undergone a lot of analysis by a lot of different groups who have taken a long look at the history of the funds.*

Rep. Wolf: How do you form the opinion? I am a member of NDEA and you mentioned that the members support this. I don't recall ever being asked or seeing anything asked of the members.

Nancy Sand: Our process for supporting a legislation begins with the interim committee called the government relations commission made up of members of our affiliation. That committee prepares an agenda. That is forwarded to our board of directors. If the NDEA board approves the agenda, then that is forwarded to the representative assembly. That is a delicate body that comes from local associations.

Ken Tupa: Testimony attached.

Doug Johnson: *I'm here in support of SB 2046. The ND council of education leaders follows the same procedures to a certain extent that the NDEA does in developing its positions. We go through a resolution process that reviews those. It is finally adopted by our board in the*

October meeting. During the representative assembly in September we have taken the position to support SB 2046. Specifically, the second Tier that is being applied. We know that this creates some difficulties for school districts as far as the additional increase. One of the things that our board did say that it is important for those school districts to be able to count that towards their salaries. The other issue is of course with our retired members. This is supposed to express on them to a certain extent because it does increase the amount of payment that is going to be going in to help the school boards pay that difference. However, after reviewing that for the representative assembly, the process that we have adopted is because we still continue to support this bill and hope that you will give this bill a do pass.

Rep. Amerman: I'm not familiar with your organization, what is the makeup of that?

Doug Johnson: Our organization is 9 affiliated associations, the principals, superintendents, athletic directors, the county superintendents, the special education directors, and so forth.

Bev Neilson: *I am with the ND School Board Association. In full disclosure we recommend all the public school boards, we did not have a specific resolution on this issue. We are working off of unfunded mandates, resolutions, and policies. The reason I am getting up in a neutral position is because we had many discussions during our assembly concerning the implications of the bill. I wanted to pass those along to you. We think it is really unfortunate that the fund is in the position that it is in. We also think it is unfortunate that a healthy retirement fund is not considered a benefit for the teachers. It falls to the local school boards. To stress Rep. Froseth's question earlier, we have gone through this before. Regardless of what you hear today when we go to negotiations in the spring, every district is negotiating for their own district with their own board. There is always the reluctance to take things that are passed in law as obligations and consider those increases in compensation. We anticipate that there will be some trouble and there will be districts who will want to prove to the board why they can afford* *to do this increase. That will just be a negotiations issue. We will have to be prepared for that. We are glad that it came up today so that the legislators are aware of that. This is $10 million. It is not going to go to teacher salaries or to support staff. The way the Employee Benefits Committee hearing during the interim went was we began to have a feeling that there was going to be a choice that we were going to have to make which would have been using the ability to hire retired people. We would either lose the ability to hire retiree's or to asceed the 16.5% contribution. Why don't we just ask the board for the employer share? We have been getting quite a few calls on this. We have retired people under contract. Their budgets are very tight. A 16.5% increase on this salary is going to be a difficulty for them but they can't afford to not renew this. In addition you have heard this morning about PERS benefits and increases there that are going to fall to employers and school districts. We will be absorbing those. The last thing that I would like to address is something that we have heard floating around this session. Because of the generous appropriation for K-12 is $80 million, which we are happy with. It is kind of like when you are expecting a refund for your taxes and in your mind you have actually spent it before you get it. I just need to say that when we are looking at the $80 million and thinking if the districts can afford to absorb this. First we would have to remove about $35 million of that. Then if we take $10 million out because it has to go to the increases of TFFR, we are left with $35 million which is about what we are normally appropriated. You will see many bills like this that will effect school districts. We just would like you to keep in mind all of these types of things. We are not saying that we can't do this because if this is the only way that the funds can be healthy, and we are the only ones that can do it, then we will do it. We would just like everyone to acknowledge that this is $10 million that is not coming from the general fund.*

Rep. Schneider: Do you have a breakdown of the school districts and how the $10 million is divvied up?

Bev Neilson: I don't have that with me. They are available. I only brought it in because this is an additional expense for districts.

Rep. Schneider: How do you think this will potentially effect the property tax issue?

Bev Neilson: The property tax sort of rolls into all the funding issues. It is part of our concern with a lot of things that we are asked to do that we aren't being funded for. If at the same time we are going to have a reduced ability to raise funds locally, then it just falls to the state to be very diligent. If we are going to not have the ability to raise property taxes as much as we have in the past, then that responsibility falls to the rest of the state. Someone said that if it is more than the 3.5% you have to increase your mills.

Rep. Haas: I'm talking about current law.

Bev Neilson: Correct.

Rep. Grande: Is there any way to break this out with each of the different things being done to 1% in the Tier 2. Can you break that out for me?

Rep. Haas: What she is asking is that if we just did the 1% on the employer side, and did the 16.5% for returning retirees, and did not do the Tier 2, what is the difference?

Bev Neilson: The effect on TFFR? I can get that to you. It has not been prepared yet.

Rep. Haas: Is there any more testimony on SB 2046? If not we will close the hearing on SB 2046.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2046

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: March 8, 2007

Recorder Job Number: 4745

Committee Clerk Signature	Morgan Leintz

Minutes:

Rep. Haas: We are going to take up SB 2046. There is a lot of discussion on this bill. It was a long hearing. In visiting with committee members we have two amendments to be presented. Some of the concerns that were expressed to me by committee members were that they didn't think we should have for those teachers coming back to employment after they are retired, that the board should have to pay their share. Rep. Froseth has an amendment that does that.

Rep. Froseth: The reason behind my amendment is because after we heard this bill I walked over to SB 2200. I got in on the last hour of that hearing. There were several small schools that testified in saying that they are only getting about 2% increases in their reimbursement from their money under 2,200. In small schools, with small enrollments, it amounts to about $2,000. Then I got home over the weekend and talked to a school board member and he said that the 16.5% will probably eat up most of that money. I got to thinking that if I had this amendment drafted that it would cut back on the school boards obligation to this. So the school board won't be paying that 16.5% on the retired teachers that come back into the systems. Until they meet the hours, the teachers won't pay in their 7.5%. But the school boards will. They will reach their minimum hours that the teachers will have. That is what this amendment does. I took my original copy up to legislative council and had the amendment drafted. I don't have a copy of the re-engrossed bill. The only other thing is that the expiration date might need some clarification after the actuary has reviewed some changes.

Rep. Haas: The expiration date simply says that when the fund reaches 95% actuarial soundness the 1% comes off and the school board share goes back to 7.75%. There was concern about that. It is reasonable. In my discussion with Fay Kopp that does not have any negative impact.

Rep. Froseth: That is 30 years down the road.

Rep. Haas: Yes it is going to take awhile.

Rep. Froseth: I move this amendment.

Rep. Grande: I Second that.

Rep. Haas: Is there discussion?

Rep. Wolf: Is there going to be an actuarial affect on not having that required?

Rep. Haas: It will be very insignificant. We are talking about 196 teachers that have come back to employment compared to 8,000 active teachers in the fund. We are talking about 7.75% of the salary of those 190 some teacher.

Rep. Wolf: Why did you choose 95% of the actuarial value?

Rep. Haas: Rep. Froseth and I talked about that with Fay. She said it should be a relatively high percent but 100% was not necessary. That is basically where we got it.

Rep. Froseth: The reason we have to get this out of committee today is because the Employee Benefits Committee will have to review this before we can send it to appropriations. The actuary will take a couple of days before they can do that. We would like to get it out of committee today. They should probably have it in the committee on Monday or Tuesday.

Rep. Haas: Is there any other discussion on the amendment? If not we will take a voice vote on the amendment. All in favor say 'aye' all opposed say 'no'. The motion carries.

Rep. Grande: The amendment I have has to deal with Tier 1 and Tier 2. My concern is that with the provision of having 2 types of teachers. We have those that are new and how they are going to do it. Then we have the current teachers and the retiree's. I didn't want to put up too much of a divide. All that this amendment does is takes out the 5 year and turns it to 10. The 2 Tier will be in place and they will definitely add 2 years like all teachers.

Rep. Amerman: I'm glad Rep. Grande addressed my concerns because I wasn't going to vote for the bill. There is friction in the bill. The main reason I don't like the two tier system is that all these newly hired coming on will have less benefits and they have absolutely nothing to do with the problem. They are going to help correct what has been going on. I've never been a fan of the 2 tier system. I think this helps.

Rep. Grande: I Move the amendment.

Rep. Dahl: I Second that.

Rep. Haas: I appreciate the comments. The TFFR board of directors considered this long and hard. They had a tremendous amount of input from the teachers association, the administrators, and the school boards. They may not have been enthusiastic overjoyed with 100% support for all these changes. I think that all of the organizations involved realized that something had to be done to strengthen this fund. So they came to consensus. Is there any other discussion on the amendment? If not we will take a voice vote on the amendment. All in favor say 'aye' opposed say 'no'. The motion is carried. We have the amended bill before us, what are the wishes?

Rep. Wolf: I move a do pass as amended with a re referral to appropriations.

Rep. Schneider: I Second that.

Rep. Wolf: I was just curious about the bill so I sent out an email through our internal email system. I sent it out to the schools in Minot. I attached the bill and sent out a little blurb about the differences and changes because I wanted feedback. Every person that I got a response back said they didn't really like the bill but they understand the need for doing it. They understand the affect of what it is going to have on salary increases.

Rep. Haas: Is there any other discussion? If not we will take a roll call vote on a do pass as amended and re referred to appropriations on SB 2046. The do pass motion passes with a vote of 9-4-0. Is there a volunteer to carry this bill?

Rep. Wolf: I will.

Adopted

70068.0204
Title.

Prepared by the Legislative Council staff for Representative Grande
March 7, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

Page 3, line 18, replace "five" with "three"

Page 3, line 20, replace "five" with "three"

Page 5, line 24, after "member" insert "or a tier two member"

Page 5, line 27, remove "When a tier two member has paid"

Page 5, remove lines 28 through 30

Page 10, line 4, replace "five" with "three"

Renumber accordingly

70068.0203
Title.

Prepared by the Legislative Council staff for Representative Froseth
March 7, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

Page 1, line 10, remove "and" and after "appropriation" insert "; and to provide an expiration date"

Page 7, line 24, replace "to the fund sixteen and five-tenths percent per annum of the salary of the" with "the employer contributions required by section 15-39.1-09 on the salary of the retired member both before and after the retired member reaches the annual hour limit."

Page 7, remove lines 25 through 28

Page 8, line 30, replace "to the fund sixteen and five-tenths percent per annum of the salary of the" with "the employer contributions required by section 15-39.1-09 on the salary of the retired member."

Page 8, remove line 31

Page 10, after line 10, insert:

"**SECTION 16. EXPIRATION DATE.** Section 3 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety-five percent based upon the actuarial value of assets. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 3 of this Act."

Renumber accordingly

Date: 3-8-07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. "Click here to type Bill/Resolution No."

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number SB 2046

Action Taken move amendment .0203

Motion Made By Rep Froseth Seconded By Rep. Grande

Representatives	Yes	No	Representatives	Yes	No
Rep. C. B Haas Chairman			Rep. Bill Amerman		
Rep. Bette Grande VC			Rep. Louise Potter		
Rep. Randy Boehning			Rep. Jasper Schneider		
Rep. Stacey Dahl			Rep. Lisa Wolf		
Rep. Glen Froseth					
Rep. Karen Karls					
Rep. Jim Kasper					
Rep. Lisa Meier					
Rep. Dave Weiler					

Total (Yes) ______ No ______

Absent ______

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

Date: 3-8-07

Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. "Click here to type Bill/Resolution No."

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number SB 2046

Action Taken Move amendment

Motion Made By Rep Grande Seconded By Rep Dahl

Representatives	Yes	No	Representatives	Yes	No
Rep. C. B Haas Chairman			Rep. Bill Amerman		
Rep. Bette Grande VC			Rep. Louise Potter		
Rep. Randy Boehning			Rep. Jasper Schneider		
Rep. Stacey Dahl			Rep. Lisa Wolf		
Rep. Glen Froseth					
Rep. Karen Karls					
Rep. Jim Kasper					
Rep. Lisa Meier					
Rep. Dave Weiler					

Total (Yes) ________ No ________

Absent ________

Floor Assignment ________

If the vote is on an amendment, briefly indicate intent:

Date: 3-8-07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. "Click here to type Bill/Resolution No."

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number SB 2044

Action Taken DO pass as amended & Re-referred to Approp

Motion Made By Rep Wolf Seconded By Rep Schneider

Representatives	Yes	No	Representatives	Yes	No
Rep. C. B Haas Chairman	X		Rep. Bill Amerman		X
Rep. Bette Grande VC		X	Rep. Louise Potter	X	
Rep. Randy Boehning		X	Rep. Jasper Schneider	X	
Rep. Stacey Dahl	X		Rep. Lisa Wolf	X	
Rep. Glen Froseth	X				
Rep. Karen Karls	X				
Rep. Jim Kasper	X				
Rep. Lisa Meier	X				
Rep. Dave Weiler		X			

Total (Yes) 9 No 4

Absent 0

Floor Assignment Rep. Wolf

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2046: Government and Veterans Affairs Committee (Rep. Haas, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (9 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). SB 2046 was placed on the Sixth order on the calendar.

Page 1, line 10, remove "and" and after "appropriation" insert "; and to provide an expiration date"

Page 3, line 18, replace "five" with "three"

Page 3, line 20, replace "five" with "three"

Page 5, line 24, after "member" insert "or a tier two member"

Page 5, line 27, remove "When a tier two member has paid"

Page 5, remove lines 28 through 30

Page 7, line 24, replace "to the fund sixteen and five-tenths percent per annum of the salary of the" with "the employer contributions required by section 15-39.1-09 on the salary of the retired member both before and after the retired member reaches the annual hour limit."

Page 7, remove lines 25 through 28

Page 8, line 30, replace "to the fund sixteen and five-tenths percent per annum of the salary of the" with "the employer contributions required by section 15-39.1-09 on the salary of the retired member."

Page 8, remove line 31

Page 10, line 4, replace "five" with "three"

Page 10, after line 10, insert:

"**SECTION 16. EXPIRATION DATE.** Section 3 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety-five percent based upon the actuarial value of assets. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 3 of this Act."

Renumber accordingly

2007 HOUSE APPROPRIATIONS

SB 2046

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2046

House Appropriations Committee
Education and Environment Division

☐ Check here for Conference Committee

Hearing Date: March 19, 2007

Recorder Job Number: 5245

Committee Clerk Signature	Shirley Branning

Minutes:

Chairman Wald: Called the meeting to order to hear SB 2046, Teachers' Fund for Retirement (TFFR) by introducing **Representative C.B. Haas**, District 36.

Representative Haas: This bill came out of the GVA committee with a 9-4 Do Pass. The Actuarial Analysis (See handouts # 1 and 2, SB 2046) was distributed and briefly explained.

Vice Chairman Monson: The 1% contribution, is that just for returning teachers?

Representative Haas: This is for active teachers, future teachers and those retired and returning to work. It would go from 7.75% to 8.75% with no additional contribution from teachers.

Representative Hawken: Do we have any idea of where the money will come from?

Representative Haas: It is a $4.5m a year increase in retirement benefits for local school boards. At the local level, it must be understood during negotiations that this will take affect. Only about 200 teachers are retired and going back to work.

Vice Chairman Monson: The counties show that it will have a fiscal impact on them, where does that come in?

Representative Haas: It might be the County Superintendents of Schools.

Vice Chairman Monson: When you go from the rule of 85 to the rule of 90, is that being factored into this actuarial study?

Representative Haas: Yes, it is.

Representative Martinson: TFFR lost money three years in a row. Wouldn't you think they would replace the people who were managing the fund?

Representative Haas: In the last three years the returns were less.

Chairman Wald: When did it change from 90 to 85?

Representative Aarsvold: I was always under the impression that the Investment Board blended all of those funds into one portfolio, is that not the case? How can it be that the other retirement funds have well compared to TFFR?

Representative Haas: In response to Representative Martinson's comment about returning teachers. It is becoming more and more difficult to hire teachers in remote areas and that is what is causing the escalation of retired teachers coming back to work. TFFR has fewer teachers paying into the fund each year.

Fay Kopp, Deputy Executive Director, North Dakota Retirement and Investment Office: (See handout #3, SB 2046) provided testimony in support of SB 2046. The focus is on improving TFFR's funding level by increasing assets and reducing future liabilities.

Representative Martinson: If you were only getting 5% and were assuming 8% why didn't you change your assumption of 8 to 5 or lower?

Kopp: The fund came through the three worst years on record; we needed to see what a few more years did. We have exceeded the 8% but it hasn't been enough to withstand the actuarial loss.

Representative Aarsvold: How does TFFR compare to Public Employees Retirement System (PERS)?

Kopp: They are both managed by the Investment Board, so we use the same money managers; asset allocation is somewhat different between the two.

Representative Hawken: When we say we are putting this on the employers' side, it will affect teachers' salaries by 1%.

Kopp: Yes, we do believe that is correct.

Representative Martinson: So we are having a hard time attracting new teachers, so let's reduce their benefits. That seems right.

Bev Nielson, Assistant Executive Director, North Dakota School Boards Association: This bill does not contain an appropriation from the state to help cover that $10m. Of the $80m, $45m will go just to at risk schools; this $10m will come off of the $45m, leaving it at $35m which is what we normally get in an average session.

Chairman Wald: We are taking $9m of the table; will that be taken into consideration on the salary schedule?

Nielson: That is a function of negotiations and will be because the funds will not be available to schools.

Nancy Sand, North Dakota Education Association (NDEA) Representative: The 1% will be an issue at the negotiating table. In as much as we that, we feel that this bill is necessary.

Chairman Wald: When was the multiplier changed to 2.0? Why was it changed?

Representative Klein: In 2001.

Sand: The fund was likely OK at that time.

Tom Tupa, North Dakota Retired Teachers' Association Representative: We supported the original bill and now go on record to support the bill in its amended form. It brings some stability to the fund. The alternative could be a disaster particularly on contract issues.

Chairman Wald: The Attorney General's opinion is frustrating. Why single out a particular group in society and say we can't change it because of contract law, yet in the private sector we make those changes because of necessity?

Aaron Webb, Assistant Attorney General: Assigned to represent TFFR, and available to answer any questions. Under public employees, the contract is controlled by statute under North Dakota Statues. In the private sector, it is an agreement between the employer and employee.

Chairman Wald: Can we amend it into the bill to make it the same as it is with the rest of society?

Webb: Promises are made to employees currently under the plan. You can make changes for incoming members; those are permissible because there is no contract protected there.

Dr. Doug Johnson, North Dakota Council of Educational Leaders: The Council has supported SB 2046 from beginning to end.

Representative Martinson: We always want to answer these tough questions with more money when the real problem is poor management. It will cost us $10m. We expect our current teachers and teachers who are in school to make up the deficit.

Representative Aarsvold: Addressing **Dr. Johnson**, of the retirees would a significant portion of those be administrators?

Dr. Johnson: Possibly 200, or 20%.

Chairman Wald: Has there been any discussion within your organization to change your asset allocations?

Kopp: Yes, the TFFR board did modify the asset allocations about 2 years ago when we did the last study. There are 10 different asset plans.

Steve Cochrane, Executive Director North Dakota Retirement and Investment Office and Chief Investment Officer of the State Investment Board: Offered an explanation of the investment process. The program focuses around two co-mingled funds consisting of PERS, TFFR; we also have Job Services, Bismarck Police, and Bismarck employees. Most of the funds we manage come to us through statutory requirements that are contractual. TFFR is a little close to half of the pool.

Chairman Wald: Do you counsel these groups and tell them their plans may be too risky? What kind of advice do you give these groups?

Cochrane: Our job is to be a facilitator. TFFR is liability sensitive.

Chairman Wald: What was the yield on the entire fund?

Cochrane: For FY 2006, the net return was 13.18%. With TFFR the fund returned on a net basis 14.97% because their asset allocations is a bit more aggressive and the stock market outperforms the bond market.

Chairman Wald: When the market is good, they reap the benefits and when it goes down, we have to bail them out.

Vice Chairman Monson: Steve, what are other states' retirement systems doing?

Cochrane: A lot of public funds would have similar circumstances. Many are facing more dramatic under funded situations than we are. It affected all plans, it is a very challenging liability because teachers stay on the job for 30 or more years and retire early.

Representative Klein: Looking at SB 2200, what did you have contracted out that you don't do anymore?

Cochrane: Software, that is completed now.

Vice Chairman Monson: You or the board had some legislation last session that tried to fix this problem and we killed it. Is that right.

Kopp: There has been nothing in the last couple of sessions that relates to the funding of the plan.

Chairman Wald: How would your group feel if we had legislation that said asset allocation has to mirror that of the entire fund? You get your share on the upside but you want us to come and bail you out on the downside.

Kopp: TFFR does have the authority to set the asset allocation, based on its own funding needs for the plan.

Vice Chairman Monson: Why is TFFR in bigger trouble than PERS? Is it because they were more aggressive and lost a little more in some of the poorer years or is it because they are going back to work, are the benefits too rich. What is your opinion?

Cochrane: The teachers fund liability structure is more challenging than PERS because teachers typically stay in the program longer and retire earlier.

Vice Chairman Monson: Does PERS have a rule of 85? Is there a difference in the longevity of employment between state employees and teachers?

Cochrane: Yes.

Kopp: The average teacher in North Dakota has 30 years of employment while an average state employee has 20 or 25 years. Also, in the teaching profession there are 70% females and 30% males. Females live longer than males so we pay out benefits for a longer period of time. PERS can better withstand the losses than the teacher system; there are differences in the liability structure.

Chairman Wald: Do you have the same settlement options as PERS?

Kopp: Our retirement options are very similar to PERS.

Chairman Wald: Because of time, we have to close the hearing and move to full committee hearings.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2046

House Appropriations Committee
Education and Environment Division

☐ Check here for Conference Committee

Hearing Date: March 23, 2007

Recorder Job Number: 5530

Committee Clerk Signature	Shirley Branning

Minutes:

Chairman Wald: Called the meeting to order to consider amendments to SB 2046 by calling on **Representative Klein,** carrier of the bill.

Representative Klein: I will move amendment .0207 on SB 2046. The change is to make the school board pay its share of the retirement when they hire a retired teacher.

Vice Chairman Monson: That includes those that have already been hired?

Bev Nielson, Assistant Executive Director, and North Dakota School Boards Association: The Attorney General only said that you can't make the employee pay but the employer will pay for all, even the current ones.

Chairman Wald: What is the fiscal impact?

Representative Klein: It is about $500,000 that it would put into the fund.

Vice Chairman Monson: I'll second the motion.

Chairman Wald: called for a voice vote on the amendment, motion carried.

Representative Klein: Move a **Do Pass** as amended.

Vice Chairman Monson: Second

Chairman Wald: Further discussion? Call the roll

Vote: 6 Yes, 0 No 1 Absent Motion Carried **Carrier: Representative Klein**

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2046

House Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: March 23, 2007

Recorder Job Number: 5552

Committee Clerk Signature	Shelly M. Aurd

Minutes:

Chm. Svedjan opened the hearing on SB 2046.

Rep. Klein distributed and moved to adopt amendment .0207. Rep. Wald seconded the motion.

Rep. Klein reviewed amendment .0207 (Attachment A) and explained that this bill deals with the Teachers Fund for Retirement which is down to 75% funded. Several sessions ago we raised the multiplier, and changed from the rule of 90 to the rule of 85. And not too long ago we made the decision to allow retired teachers to come back and teach without even the teacher or the school board paying into the fund. There are now more people drawing on the fund than are paying in and that is the problem.

Rep. Klein continued by saying that SB 2046 starts a slow movement making the school boards pay for these retired teachers who come back.

The motion to adopt amendment .0207 carried by a voice vote.

Rep. Klein motioned for a Do Pass as Amended to SB 2046. Rep. Wald seconded the motion.

Rep. Kempenich: What is the fiscal note now with this amendment?

Rep. Klein: This amendment would basically add between $350,000 and $450,000 into the fund per year. There are no general funds involved here.

Rep. Kempenich: The old fiscal note was $9 million to the school districts.

Rep. Klein: This amendment has completely changed that.

Rep. Monson: That number is up in the air. The average salary of these returning retired teachers is about half of what the top teachers are paid. This number could be around $500,000.

Rep. Wald: We never seem to learn that when we have a little bit of a cushion they come in and want a better retirement plan and without the proper contributions on both sides. One of these days I hope we learn that when we get a cushion, let's keep that cushion in the bank for the thing we experience in the last four or five years that everybody suffered in their investment portfolio – not just teachers. It's upsetting that we are now going to bail them out because of poor asset allocation management (Ref. 4:34).

Rep. Kroeber: Declining enrollment in schools you have less teachers so you have less money being contributed to the fund. This has had a considerable impact on the fund.

Rep. Klein: This is one option that GVA Committee laid out and has the least impact of all the options. All it says is that if you're hiring back a retired teacher, you're going to have to pay into the fund.

Rep. Kroeber: When we hire teachers back part time, the teacher did not pay into the fund and neither did the board. The teacher did not have any increased benefits either. The amendment only has board pay teachers' part?

Rep. Klein: That's correct.

Rep. Kroeber: This does not increase any benefits for the teacher?

Rep. Klein: That's correct.

Rep. Kroeber: It will take a longer time to get the fund back to a full-funded liability. If we get a rate over eight percent, the fund can turn around and be fully funded.

Rep. Klein: The current rate is about 13.5%, so it's coming back.

The motion for a Do Pass as Amended to SB 2046 carried by a roll call vote of 21 ayes, 0 nays and 3 absent and not voting. Rep. Klein was designated to carry the bill.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2046

House Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: March 26, 2007

Recorder Job Number: 5568

Committee Clerk Signature	Holly N. Aurd

Minutes:

Rep. Klein motioned to reconsider SB 2046. Rep. Wald seconded the motion.

Rep. Klein explained that there was an error in the amendments. The amendments were to have every teacher who comes back to teach after retirement, that the school board pays in the 7.75 percent. Somehow when the amendment was drafted, it only addressed the teachers who went over the 700 hundred hours. This new amendment corrects that.

The motion to reconsider SB 2046 passed by a voice vote.

Rep. Klein motioned to adopt amendment .0209. Rep. Wald seconded the motion.

Rep. Klein distributed and reviewed amendment .0209 (Attachment A). The last amendment removed lines 23 – 28. That has been corrected and now removes lines 26 – 28.

Rep. Carlson: We've taken out the 1 percent on all employees and are just doing it for retired employees now?

Rep. Klein: Yes.

The motion to adopt amendment .0209 carried by a voice vote and the amendment was adopted.

Rep. Klein motioned for a Do Pass as Amended. Rep. Wald seconded the motion.

Rep. Kroeber: The board brought forth changes they felt were necessary to take and to work on the fund. By not addressing those changes, I hope that if the fund doesn't perform the way it should that we keep in mind that we did not make the changes that the board had requested.

The Do Pass as Amended motion to SB 2046 carried by a roll call vote of 23 ayes, 1 nay and 0 absent and not voting. Rep. Klein was designated to carry the bill.

Chm. Svedjan recessed the Full House Appropriations Committee until 6 pm.

Attachment A

70068.0207
Title.

Prepared by the Legislative Council staff for
Representative Klein
March 23, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

In lieu of the amendments adopted by the House of Representatives as printed on pages 950 and 951 of the House Journal, Senate Bill No. 2046 is amended as follows:

Page 1, line 1, remove "create and enact two new subsections to section 15-39.1-04 of the North"

Page 1, line 2, remove "Dakota Century Code, relating to definitions under the teachers' fund for retirement; to"

Page 1, line 3, replace "subsection 1 of section 15-39.1-09," with "subsection 4 of"

Page 1, line 4, remove "subdivision c of subsection 1 of section 15-39.1-10.3," and replace "sections" with "section"

Page 1, line 5, remove "15-39.1-11, 15-39.1-12, and 15-39.1-15," and after the fourth comma insert "and"

Page 1, line 6, remove "and subsection 2 of section 15-39.1-33"

Page 1, line 7, remove "employer contributions and"

Page 1, remove line 8

Page 1, line 10, after the first semicolon insert "and" and replace "application, and to provide an appropriation" with "a legislative council study"

Page 2, remove lines 22 through 31

Page 3, remove lines 1 through 7

Page 3, line 8, replace "Section" with "Subsection 4 of section"

Page 3, remove lines 10 through 30

Page 4, remove lines 1 through 7

Page 4, remove lines 17 through 30

Page 5, remove lines 1 through 13

Page 5, remove lines 22 through 30

Page 6, remove lines 1 through 24

Page 7, line 19, remove the overstrike over "~~required~~" and remove "member"

Page 7, line 20, remove "required by section 15-39.1-09"

Page 7, line 21, remove the overstrike over "~~The employer shall pay the~~"

Page 7, remove the overstrike over line 22

Page 7, remove lines 23 through 28

Page 8, line 30, replace "sixteen" with "seven" and replace "five-tenths" with "seventy-five hundredths"

Page 9, replace lines 24 through 31 with:

"**SECTION 7. LEGISLATIVE COUNCIL - TEACHERS' FUND FOR RETIREMENT INVESTMENT STUDY.** The legislative council shall consider studying, during the 2007-08 interim, the investment of teachers' fund for retirement assets, reallocation of assets, and the appropriateness of investment guidelines developed by the teachers' fund for retirement board of trustees. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-first legislative assembly."

Page 10, remove lines 1 through 10

Renumber accordingly

Date: march 23, 2007
Roll Call Vote #:

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2046

House **Appropriations Education and Environment Division**

☐ Check here for Conference Committee

Legislative Council Amendment Number .0207

Action Taken Do pass as amended

Motion Made By Rep. Klein **Seconded By** Rep. Monson

Representatives	Yes	No	Representatives	Yes	No
Chairman Wald	✓		Representative Aarsvold:	✓	
Vice Chairman Monson	✓		Representative Gulleson	✓	
Representative Hawken					
Representative Klein	✓				
Representative Martinson:	✓				

Total **Yes** 6 **No** 0

Absent 0

Floor Assignment Rep. Klein

If the vote is on an amendment, briefly indicate intent:

Do pass as amended

Date: 3/23/07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2044

House Appropriations Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 70068.0207

Action Taken Adopt amendment 0207

Motion Made By Klein Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) ______ No ______

Absent ______

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

Voice Vote carries

Date: 3/23/07
Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

House Appropriations Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 70068.0207

Action Taken Do Pass as amended

Motion Made By Klein Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Gulleson	✓	
Representative Hawken	—				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	—		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew	✓		Representative Kerzman	—	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 21 No 0

Absent 3

Floor Assignment Klein

If the vote is on an amendment, briefly indicate intent:

Date: 3/26/07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

House Appropriations Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Reconsider SB 2046

Motion Made By Klein Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) No

Absent

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Voice Vote - Carries

70068.0209
Title.

Prepared by the Legislative Council staff for
Representative Klein
March 26, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

In lieu of the amendments adopted by the House as printed on pages 950 and 951 of the House Journal, Senate Bill No. 2046 is amended as follows:

Page 1, line 1, remove "create and enact two new subsections to section 15-39.1-04 of the North"

Page 1, line 2, remove "Dakota Century Code, relating to definitions under the teachers' fund for retirement; to"

Page 1, line 3, replace "1 of section 15-39.1-09," with "4 of"

Page 1, line 4, remove "subdivision c of subsection 1 of section 15-39.1-10.3," and replace "sections" with "section"

Page 1, line 5, remove "15-39.1-11, 15-39.1-12, and 15-39.1-15," and after the fourth comma insert "and"

Page 1, line 6, remove ", and subsection 2 of section 15-39.1-33"

Page 1, line 7, remove "employer contributions and"

Page 1, remove line 8

Page 1, line 10, after the first semicolon insert "and" and replace "application, and to provide an appropriation" with "a legislative council study"

Page 2, remove lines 22 through 31

Page 3, remove lines 1 through 7

Page 3, line 8, replace "Section" with "Subsection 4 of section"

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Page 4, remove lines 1 through 7

Page 4, remove lines 17 through 30

Page 5, remove lines 1 through 13

Page 5, remove lines 22 through 30

Page 6, remove lines 1 through 24

Page 7, line 19, remove the overstrike over "~~required~~" and remove "member"

Page 7, line 20, remove "required by section 15-39.1-09"

Page 7, line 21, remove the overstrike over "~~The employer shall pay the~~"

Page 7, remove the overstrike over line 22

Page 7, line 24, replace "sixteen" with "seven" and replace "five-tenths" with "seventy-five hundredths"

Page 7, line 25, remove "Once the"

Page 7, remove lines 26 through 28

Page 8, line 30, replace "sixteen" with "seven" and replace "five-tenths" with "seventy-five hundredths"

Page 9, replace lines 24 through 31 with:

"**SECTION 7. LEGISLATIVE COUNCIL - TEACHERS' FUND FOR RETIREMENT INVESTMENT STUDY.** The legislative council shall consider studying, during the 2007-08 interim, the investment of teachers' fund for retirement assets, reallocation of assets, and the appropriateness of investment guidelines developed by the teachers' fund for retirement board of trustees. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-first legislative assembly."

Page 10, remove lines 1 through 10

Renumber accordingly

Date: 3/26/07
Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

House Appropriations Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 70068.0209

Action Taken Adopt amendment 0209

Motion Made By Klein Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) ______________ No ______________

Absent ______________

Floor Assignment ______________

If the vote is on an amendment, briefly indicate intent:

Voice Vote – carries

Date: 3/24/07
Roll Call Vote #: 3

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

House Appropriations Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 70068.0207

Action Taken Do Pass as Amended

Motion Made By Klein Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Gulleson	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber		✓
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew	✓		Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 23 No 1

Absent 0

Floor Assignment Klein

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2046, as amended, Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (23 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2046, as amended, was placed on the Sixth order on the calendar.

In lieu of the amendments adopted by the House as printed on pages 950 and 951 of the House Journal, Senate Bill No. 2046 is amended as follows:

Page 1, line 1, remove "create and enact two new subsections to section 15-39.1-04 of the North"

Page 1, line 2, remove "Dakota Century Code, relating to definitions under the teachers' fund for retirement; to"

Page 1, line 3, replace "1 of section 15-39.1-09," with "4 of"

Page 1, line 4, remove "subdivision c of subsection 1 of section 15-39.1-10.3," and replace "sections" with "section"

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Page 1, line 6, remove ", and subsection 2 of section 15-39.1-33"

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Page 1, line 10, after the first semicolon insert "and" and replace "application, and to provide an appropriation" with "a legislative council study"

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Page 5, remove lines 22 through 30

Page 6, remove lines 1 through 24

Page 7, line 19, remove the overstrike over "~~required~~" and remove "<u>member</u>"

Page 7, line 20, remove "<u>required by section 15-39.1-09</u>"

Page 7, line 21, remove the overstrike over "~~The employer shall pay the~~"

Page 7, remove the overstrike over line 22

Page 7, line 24, replace "sixteen" with "seven" and replace "five-tenths" with "seventy-five hundredths"

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"**SECTION 7. LEGISLATIVE COUNCIL - TEACHERS' FUND FOR RETIREMENT INVESTMENT STUDY.** The legislative council shall consider studying, during the 2007-08 interim, the investment of teachers' fund for retirement assets, reallocation of assets, and the appropriateness of investment guidelines developed by the teachers' fund for retirement board of trustees. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-first legislative assembly."

Page 10, remove lines 1 through 10

Renumber accordingly

2007 SENATE GOVERNMENT AND VETERANS AFFAIRS

CONFERENCE COMMITTEE

SB 2046

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☒ Check here for Conference Committee

Hearing Date: 4-11-07

Recorder Job Number: 5912

Committee Clerk Signature	Veronica Sparling

Minutes:

Senator Krebsbach opened the conference committee on SB 2046.

Roll was taken and all members were present.

Senator Krebsbach asked if someone from the House would explain what changes they made to the bill and why they were made.

Representative Klein said there was quite a bit of discussion in the House Government and Veteran Affairs Committee. To begin with Employee Benefits Committee discussed it and had a close vote on it. After that vote at least one individual came to Representative Klein and said if he had known what it was about he would have voted against it. When it came to the appropriations section we were trying to salvage what we could out of it because it was not going to come out of the subsection with a do pass recommendation. He then went back and talked to Representative Haas and the people on the committee. He asked what was the minimum they could work with. Some things had changed. Now he understands the fund is earning in the neighborhood of 14%. They did add some language about taking a look at reallocating because when they compared it with the PERS fund they were in a much more aggressive stance and when the market went south it got hit a little harder. To get it out of that committee and get it passed on the floor they just took the minimum stance which is teachers coming back to work. When we started this system we changed from the rule of 90 to the rule of 85 back in 1997. We increased the multiplier the next session. Then we passed legislation to allow retired teachers to come back without paying in or the school board paying in to the fund. His perception was it was going to be restricted to science, math, and other hard-to-fill positions. That has been changed. He understands there are only two elementary ed and phy ed that are not considered critical shortage areas. We started with 5 teachers coming back and now there are over 200 that are coming back and teaching and not paying in to the fund and neither is the school board. Our idea was to at least make those pay in. We can't go back and make the teachers pay in; that was an inferred contract with the Attorney General that we had. But there was nothing to keep us from making the school board pay in. We opted for that option.

Senator Krebsbach: If I am not mistaken that was part of the bill that was recommended by the TFFR. So that part you retained.

Representative Klein: That is correct. We also added some language about them taking a look at the allocation. One of the major problems is there are very few new teachers coming into the system. It is not like the PERS fund that is adding people continually. There are fewer and fewer teachers and as it moves along we are concerned about the direction it is going.

Senator Krebsbach said they are all concerned about where it is heading.

Representative Monson expressed concern about the fiscal note as the bill came from the Senate. It wasn't costly for the state but it was for the school districts. As it came from the Senate it was almost $9 million in added cost to the schools. Many schools don't have a lot of wiggle room in their budgets especially the small schools. As SB 2200 is right now there is a 2% increase in funding to some of the schools but the second year even though it is showing 3½ the conference committee is tinkering with that minimum but after declining enrollment some of these schools are actually going backwards. They do depend on some retired teachers coming back to teach part time. That is one way they can reduce their staffing needs. This causes more cost for them. This would drop the fiscal note for schools from $9 million down to $571,000.00. In some cases that is split between about 200 teachers. This would reduce the burden on the schools. The fund is out of the doldrums and is doing about 14%. The return for the last year is maybe enough to turn it around and bring it back up. We are fully cognizant of the fact that if we don't do something and it goes back south again we've got a bigger problem two years from now. I guess we are kind of counting on the fact that the economy isn't doing too bad and maybe in the next two years it will continue to do fairly well. By doing a small step like this we are not putting a big burden on the schools and at the same time maybe it will come out of the doldrums by itself.

Senator Krebsbach: I certainly hear what you are saying however I do have some difficulty in the fact that this did go through the interim committee of Employee Benefits and there was no discussion at that time from the school districts about the cost. The other thing that I want to say is that when it came to putting in teachers in critical shortage areas I believe that some school districts were abusing the policy in hiring these teachers to avoid doing some of this so that's why we had to make the change we did. The intent for retired teachers to return to work was not to come back as full time teachers just the way they once were and get out of paying this. That's part of the reason this fund was going south, part of the reason, not all of it, but a part of it. We are trying to look at this thing as a whole because we want this system to work.

Senator Nelson: A few months ago we had another meeting of Employee Benefits. We looked at the first set of House amendments that came from the policy committee. None of the people on this committee were on that policy committee so we can't hear what their recommendations were. But I think we would have been OK with what was going on there because there was an actuarial study that went along with it but we have not seen an actuarial study on what appropriations did to this bill. To me that's maybe kind of skirting the issue of what we are supposed to be doing anyway. Unless it's actuarially sound and it benefits the fund, we are not supposed to be looking at it.

Representative Gulleson: Part of the discussion when we had this bill in committee we were provided with a list of 5 options that could be considered. I think the bill in its original form was one of those options. It might be helpful for us to get a list of those options as we discuss.

Senator Krebsbach: We would certainly be willing to look at all of those options.

Senator Nelson: I asked the House a question; Why did you feel there was a need for a study of how the asset allocation is made when every 3-5 years that is by their own rules done?

Representative Klein: Part of the reason was when we looked at the asset allocation of the PERS fund and this one. They were much more aggressive. That's why they took a bigger hit between the two. That was one of the reasons one of the individuals wanted to say you should look at. And there were several others. I believe Representative Gulleson was looking at possibly rolling this system over into the…

Representative Gulleson: Just as part of discussion, I think it was Representative Aarsvold who was telling about his retirement funds in TIA CREF. The discussion that followed was: is there any opportunity for North Dakota at some point to consider looking at being part of a bigger retirement fund? We just thought it would be appropriate to look at all options, to study it at some point and see what is available.

Representative Klein: My real concern, and I don't know if my colleagues share this, is if we take the original as proposed back to the floor we will lose it.

Senator Krebsbach: Representative Klein, I have a question. How did it come out of GVA?

Representative Klein: It came out of GVA with a do pass and I don't recall the vote. But as it moved along there was considerable discussion and some of it went way back to things that happened some years ago and ... I am just concerned.

Senator Krebsbach: I hear what you are saying but I look at it from this standpoint, and I have heard the stories about what they had to do to the fund back in 1980 and all of that, but this is the solution that the board came up with to solve <u>their</u> problem at this time. And that's where I'm having trouble with the House's understanding of this bill.

Senator Lee: That is one of my concerns also. The bill that was brought to us, to policy and appropriations on this side and also to the House was a proposal that all of the stakeholders supported. If the people who are directly involved, who are paying in and getting money out, think that that is an appropriate solution, why would I think that I had a better idea? After it has gone through Employee Benefits and it has been reviewed by all the parties. And I am not comfortable at all with the study because I don't think that the legislature should be telling these funds what they should be investing in any more than I think I should be telling you what you should invest in or vice versa. The PERS fund and this fund are entirely different, the pool of people who are affected by it are a different demographic group and each of them has been managing their affairs and should be permitted to do that with the oversight of Employee Benefits who, if I don't misunderstand, supported what was brought forward to us in the first place. I trust Employee Benefits also to have done good work and provide recommendations to us that are well thought out and well researched. I have a struggle with overturning something that the people who are directly affected thought was acceptable.

Senator Krebsbach: The other part that was removed was the new tier for educators. Would you care to address that?

Representative Klein: I think part of the reason there is the accounting and the separating the two where you'd have the one teacher who is under the old system keeping track of that one and then the new ones waiting until the rule of 90 before they can retire and that got some discussion in our committee too.

Senator Krebsbach: I hear what you are saying, however, I guess I can go back to when the existing plan was less than that when they started and as the fund grew to be able to handle it, we increased the benefit. And hopefully that's what can happen with the Tier One teachers now, if we were to go along with the recommendation.

Senator Nelson: I remember back when we had multiple benefit plans. They were all under the same system but if you retired before this date you got this amount, if you retired under this one you got this amount, it went up and up and up and you and I remember the OSHA plan under PERS that or Oasis Plan where these poor little old ladies were getting their $104.00 per month or whatever it was. We have had multiple types of plans going. Just a comment because TIA CREF was mentioned: my mother and my husband are both under that plan. My husband takes a set amount so that wasn't impacted by the 2001 2003 thing, but my mother was on an annuity plan and at the re-basising right after that she took a $250.00 per month hit. They took the hit immediately. With our teachers, they were able to roll that out. They are on a 5 year rolling plan and it got blended in and there was no change. They kept getting what they got. People under TIA CREF took a major hit of up to a quarter of their pension after that happened and they are still crawling out of it. They are not up to where they were before. I think it sounds good in some ways but then you see an example like that.

Senator Krebsbach: We have established the groundwork. We have major work ahead.

Senator Nelson: Representative Gulleson, could we get copies of the 5 options you referred to?

Senator Krebsbach: We will recess until we are called back together again on SB 2046.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☒ Check here for Conference Committee

Hearing Date: 4-12-07

Recorder Job Number: 5963

Committee Clerk Signature	Victoria Sperling

Minutes:

Senator Krebsbach convened the conference committee on SB 2046 and noted that all the conferees are present. She asked if there was any new information to present.

Senator Nelson presented information she had received by e mail. See attachment # 1. She felt the last column figure is like comparing apples and oranges. Back in 1989 there was a legal list for TFFR investments that did not included equities. They could only invest in certain things and they were all extremely low risk types of things. In 1989 they took off that legal list and allowed them to be in equities. Now the PERS fund has never had that restriction that I know of and they are also a younger fund, having been formed in 1977. TFFR was started in 1913. In the early days you paid a maximum of $50.00 per year into the fund, then after you were going to become a "career" teacher you paid $200.00 per year into the fund. It stayed at that for a long period of time. There are people still living who retired under that system where they did not pay very much in. Therein lies part of the problem. You have a new fund with very few retirees comparatively versus a fund where you have an aging population that you are still paying on. The thing I found interesting is if you start in 2000 (see attachment # 1) and you see both funds are fully funded at that point in time PERS was at 115% and TFFR was at 101%. Then you drop down to where we are today. PERS is minus 26.3 and TFFR is minus 26.2.

There is not much difference in performance over that 6 year period. TFFR seems to be faring 0.1% better. There are all sorts of ways you can look at things but that is kind of what I was looking at here to see why are we honing in on this one fund and making a comparison between the two when really the comparison is quite level.

Senator Krebsbach: It is actually static compared to what it always has been is what you are saying, am I correct there?

Senator Nelson: I think so.

Senator Krebsbach: Are there any questions about the comparisons that Senator Nelson just presented?

Representative Gulleson: I am not sure of those percentages that you quoted, the minus 26 and the minus…

Senator Nelson: I subtracted 75.4 from 101.6, and I subtracted 88.8 from 115.1.

Representative Gulleson: What was the difference again?

Senator Nelson: 26.3 and 26.2 which is pretty equal over that rambunctious period. It is like they said an older fund, a 1913 fund coming in on 95 years old.

Representative Monson: See attachment # 2. The actuarial analysis refers to bill #68 which is the bill number this had during the summer. That number was carried onto the top of the bill 70<u>68</u>.0200. Looking at this, it was a telling bit of information. When we looked at that the funded ratio in July 1, 2016 with no changes we would be funded at 84%. If we were to adopt the bill as I understood it in its entirety the way the board recommended it would be at 86%. When we looked at that and saw the cost of doing nothing versus the cost of charging our schools basically $9,000,000.00 for the next biennium we said why don't we maybe just take a little risk here and let it ride for a time. For the returning teachers we put them at the half of the contribution, the board payment but not the teacher payment. One other thing that I want to stress is more and more schools are paying both halves of teacher retirement. They have gone to that to give them money that's tax free. It has become a more popular practice. In light of that, if the board was to pay both halves of the teachers' retirement, you could increase that by quite a bit. You could add 15.5% to the cost of that retired teacher coming back if we were to adopt the full blown, both halves of the retirement. I guess you can't for the existing teachers.

Senator Krebsbach: The new tier teachers we can. But that isn't even part of the plan right now. I'm not sure I should say that because I haven't researched that but there was a thought that perhaps you could change it on the new tier but that I have not explored.

Representative Monson: See attachment # 3, page 4. We are looking at the funded ratio and again it was 84% funded versus 85.9% and this was updated I believe, this is the difference between October 24th, 2006 and March 19th, 2007 and just the fact that in those few months the fund was returning a higher rate of return. We went from ah..., I guess it's about the same. It didn't change here. I thought we had gone up a little bit.

Senator Nelson: We saw that part too for 2016 which is 10 years out but we were looking at 2036 the 30 year funding plan which is the normal thing over which we were trying to work. With no changes you still had an infinite funding period. Whereas with this new plan you are down you are down in 2036 to a 1.3 years to be fully funded in 2036 with the plan that was issued in SB 2046. It's kind of like a mortgage. You pay the first couple of years on a mortgage and you are still paying what your principle was because all these other expenses. It's not until you have been paying for a couple of years where you actually see the principle going down. That seems to me to be the same thing that's happening here. Over a ten year period you don't see a whole lot except to go infinite on no changes into 25.8 years versus... Then by the time you get to 2036 you're still at infinite on one plan but you are down to 1.3 years on the other. I think that's where we are looking. These new teachers are going to teach for 30 years and we need to have it going there.

Senator Krebsbach: If I am not mistaken too by the time we get out to that 30 year period doing nothing it seems to me we are up at an unfunded liability. The 30 year projection from the 15 year projection of 420 million to 947 million so this is what we are trying to head off. In all fairness it sounds pretty good to leave it alone for 15 years but from there on we are really headed for troubled waters.

Representative Monson: I guess our opinion was that two years of not doing anything looking at this probably isn't going to sink the ship, especially when probably our fund is actually funded better than many others around the nation. Even at today's level we are in the upper half.

Representative Klein: Upper ten percent.

Representative Monson: So we didn't think there was necessarily a crisis situation in that we maybe could just do a little bit here to speed the process up a little bit without costing our school districts any money or very little money. And seeing what the next two years bring, fully realizing that in two years if things go south we're going to have to do something more. We thought this was at least, with the numbers that we are getting now that we could probably ride this out for a couple of years and see what happens.

Representative Klein: The other thing that we wanted to… I believe that when we opened that door to retired teachers coming back and not paying in, that gave them the option of not hiring a new teacher who would be paying into the system. Our belief was that when we handled that in the House that that would be a handful of teachers, a couple of dozen, three dozen at the most. Now we are at 200plus teachers. If that keeps growing I think closing that door is going to make the school board say "well, we are not going to save anything in hiring a retired teacher we might as well bring in a new teacher." So that was one of the thoughts behind our plan.

Senator Krebsbach: That will solve part of the problem, however, if it is the school district that is paying both the shares, they are still going to save half of that retirement.

Senator Nelson: They will be paying at a lower rate ...

Senator Lee: I relate more to Human Services issues because I've spent a lot of my life in that area. With nurses, let's parallel them with teachers. We have many of them that are retiring (the Baby Boomers) and we don't have people to replace them. My understanding is that we are in the same boat with educators, that we are not graduating as many teachers. Part of it I think is that there are so many more choices of professions than there were 40 years ago. We have a real serious crunch in medical providers and in educators in being able to fill those spots. That is one of the reasons why we did this if I remember correctly to allow the retiring teachers to be rehired because we didn't have anybody. There we have experienced good teachers that are willing to come back on a part time basis. I think supply is an issue here because on one hand we might say that it is no longer a benefit to take a retired teacher instead of a new one. I don't think we always have a new one available and I think the smaller schools and the rural schools may struggle a bit more with that than the urban ones do.

Senator Lee then used an example of getting behind on escrow and being reassessed at a higher rate to explain that they would rather do something now with the fund rather than take a bigger hit later. (Audio meter 16:30 to 19:19:00) Everything has to be at least as good as it is today for everything to stay stable for the next two years. We don't have any wiggling room with that and that makes me a little anxious.

Senator Krebsbach: I have another concern that I would like to express at this time. That is from the standpoint of the retired teachers. It has been a number of years since we have done any adjustment for them on their benefit. If we do nothing it is going to be many years out in the future before we will be able to do any adjustment for them. A lot of the teachers retiring today may say, "well, that's not so bad," but 10-15 years down the road they are going to want some adjustment and maybe before that. That's the reason I think we should address it now, not 2 years from now or 4 years from now.

Representative Gulleson: There were a couple other options that we had looked at. One was reducing that 1% to 0.5%. The other one was in allowing the 1% increase but when the funded ratio got to 95%...

Senators Lee and Krebsbach: That was very good, I liked that.

Representative Gulleson: So there are some other things that we can talk about.

Senator Nelson: Do they have a copy of what GVA sent to Appropriations? It is an intermediate step that we don't get to see. What came out of GVA might be interesting to look at.

Senator Nelson: Employee Benefits based their recommendation on this 0300 version. They still had the Tiers in. They still had the 5 year average. On return to teaching they had that you had to go back into Tier Two.

Senator Krebsbach: That was after the result of the March 19th meeting of the committee.

Senator Nelson: This is the bill I think that the interim meeting was based on, this version. And we didn't have a whole lot of problems...

Senator Lee: There were some good things in there.

Representative Gulleson: Representative Haas had outlined as options.

Senator Nelson: From the Senate version they changed the vesting from 5 years back to 3 years. This March 7, 2005 version looks like they changed vesting to 3 years. They changed the returning people to only the employer share and they put the expiration date on.

Senator Krebsbach: And that's where the fund reached the 95% funded ratio ...

There was discussion about the details of what had been changed. (Audio meter 24:00)

Senator Krebsbach: Fay, what would the actuarial results indicate as to when a fund is in a secure position? Is it 75, 85, 95%? About where?

Fay Kopp, Deputy Executive Director of the North Dakota Retirement & Investment Office,: The general pool that they've used is somewhere around the 90 to 100%. It does vary.

Representative Klein: You also had provided us information on a number of funds in various states and what their ratio was. Would you be able to dig that out for us again please?

Fay Kopp: So you want to compare the teachers' fund with other public pension plans?

Representative Klein: No, mostly the teachers' funds in other states.

Fay Kopp: Yes, I can provide that for you.

Senator Krebsbach recessed the conference committee on SB 2046 until further call.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☒ Check here for Conference Committee

Hearing Date: 4-13-07

Recorder Job Number: 6020

Committee Clerk Signature	Veronica Spalding

Minutes:

Senator Krebsbach reconvened the conference committee on SB 2046 and noted that all the conferees were present.

Senator Nelson thanked Fay Kopp, Deputy Executive Director of the North Dakota Retirement & Investment Office, for providing the information they needed on the teachers' retirement funds in other states. See attachment A.

Senator Nelson: It is interesting to note that most of those listed above North Dakota (on page 2, line #32) a good share of those are teachers' funds. I wonder if they didn't have the legal list and few other things going.

Senator Krebsbach: And they may have made adjustments to their plans in recent years too.

Senator Nelson: Fay had an interesting comment. Some these show up at 100% funded but it is also a mandate that they be 100% funded. When they are not something kicks in whether it is the state or the employer and they become 100% funded. It is an automatic. But as Wayne explained to us we don't have anything automatic in our Century Code that allows us to do that. Had we, we wouldn't be having this discussion.

It could have been done 2 years ago, maybe 3.

Senator Lee said she also appreciated the information and she finds it very interesting and she feels it is important to sort out the teachers' funds when they look at it. I am really concerned about evaluating our position as compared to others because we need to evaluate our funds compared to itself and what we think our own goals should be for this fund. I look back at _____ a few years ago and other states when we were one of three or four states that were in a positive budget situation and yet we probably would have been fourth in the country but I don't know that we would have wanted to be considered in that batch of 46 that weren't making the grade. Although I find it interesting, I think it is very helpful to see and I appreciate it, I think it's real important that we not be distracted by the fact that we maybe we look like we are pretty well off because as we compare to what. It's sort of like they've got one nostril above water and we've got both nostrils above water but maybe we'd like to be at least dog paddling. I'd like to see us making some progress towards the other shore.

Senator Krebsbach proposed an amendment for discussion. See attachment # 1.

Senator Nelson mentioned that this proposed amendment goes back to version 0200.

Senator Krebsbach: explained how this took into account the 5 options that Representative Gulleson had referred to the last time this committee met. See attachment # 2. We took the 1% increase at the level from 95 down to 90 which is on page …

There was discussion to understand the changes this amendment would make. Audio meter 6:25. The amendment went back to the Senate version which was 0200. In essence it took the numbers out. It would sunset when the fund reached a 90% funding level instead of the 95% which is what House Government and Veteran Affairs committee did.

Senator Krebsbach explained how the amendment addresses each of the options on attachment # 2. For option #2 they felt it was best to leave it at 1% until they could see the unfunded liability declining.

Representative Monson asked if they would still have a two tiered system.

Senator Krebsbach: Yes.

Senator Nelson: That won't be the first time we've had a two tier system.

Fay Kopp: And that has not been a real problem.

Representative Klein: Yes, I think it is.

Fay Kopp: Nobody brought this up before.

Senator Krebsbach: It is part of the solution to the problem that comes from them.

Senator Lee: There are parts of the private sector that have two tiered systems because they have recognized the challenges of maintaining retirement benefits for someone. She cited United Airlines as an example. For people coming in new they understand what the program is going to be because otherwise there wouldn't be an employer, so I don't think that this is something without some precedent in the private sector.

Representative Klein: So basically you have taken option 1 in this list (attachment #2) and you've changed from 95% to 90%, and you left the two tiers in.

Senator Krebsbach: Yes, and the 1% upon all teachers is in, including returning teachers. (See option #2 on attachment #2.)

Representative Monson: Sure it's a lot more than 1% though. I cannot find 15-39.1-09 in this bill. I find references to it but I do not find ...

Senator Nelson: Section 3, page 2. (See line 27-28.)

Representative Monson: OK

Senator Krebsbach: And that is where the teachers' salary is at 7.75 per annum and the employers' share is changed from 7 to 8.75.

Representative Klein: So the teachers will remain at 7.75 and the employers will go up?

Senator Krebsbach: That's right, 1%.

Representative Klein: Which essentially takes another chunk out of the amount of money of the education bill.

Senator Krebsbach: Well, it's been discussed, it's been reviewed by the Teachers' Associations, it's been reviewed by all of the facts and I personally have not had one school board member complain about it to me.

Senator Nelson: My school board which probably has the most teachers in it, they realize it's probably going to be a hit but it's part of the negotiations that goes on. Do you get the money now or do you get the money later.

Senator Krebsbach: So that is the amendment that we are proposing.

Representative Monson: We don't have a new fiscal note on this one but I am assuming the fiscal note is still going to be to the schools $9 million.

Representative Klein: It's going to be more than that.

Senator Krebsbach: No, the fiscal note should not have changed.

Representative Monson: But it will be 9.

Fay Kopp: It will be higher than the House Appropriations.

Representative Monson: To the schools it is still going to be a $9 million hit. It is all well and good to say that it will be part of the negotiations, but I have been there and done that and it doesn't pay the bills for a teacher. That is what most of the beginning teachers are looking at. How am I going to pay back my student loans, I need the money in my pocket. They aren't going to be real happy if they are told by the board, "Well, you are just going to have to take less money in your pocket because we have to make your retirement full and whole." Some of those teachers are not going to stay in this profession for very long and they are probably going to move out of state. When they come out of college they are not looking at their retirement system, they are looking at "how do I pay back my loans, how do I put gas in my car, how do I put food on the table?"

Senator Klein: Let's take some time to look at this.

Senator Lee: I appreciate what Representative Monson is saying, but I think we also have to consider our obligation to the teachers already retired and make sure we do not default. We haven't made any adjustments to their benefits in a long time. I think that is a part of the picture as well. I am very conscious of what it means to the school boards. I know that Representative Monson is certainly right when he says that young people coming out of college aren't always thinking about their retirement but this is something that they will be glad somebody else was thinking of if we do it right.

Representative Klein: Again when I look at some of these others, I don't see a real serious problem with this time.

Senator Lee: I look at the figures we looked at yesterday for 30 years down the road. She felt teachers would be concerned about that.

Senator Krebsbach: What amount can we save by doing the separate tier for the new teachers?

Representative Monson: While Fay is looking that up… Several times I've heard that we haven't addressed a change in the teachers benefits for "a long time." How long has it been?

Representative Klein: 2001

Representative Monson: I thought it was 2001. Six years is not a long time.

Senator Krebsbach: You are looking at 6 years and you are looking at the next two years there will be no adjustment. And the promise does not look good for the next 10 years or more.

Fay Kopp: See attachment # 3 page 4 and page 5. She explained the projections 19:10 – 19:50 on the audio meter. There is improvement out 10 years but the real changes are apparent when you look out 30 years.

Representative Monson: These are based on 8% actuarial returns?

Fay: Yes.

Senator Krebsbach: What has been our average return over 10 years? Over 30 years?

Fay: About 8.5 average.

Representative Monson: Before 2000 what was the 10 year return? Of course then we didn't have the same kind of mix either. What was the 10 year return from 1990 to 2000?

Steve Cochrane, Executive Director of North Dakota Retirement & Investment Office: It was a little higher than that.

Representative Klein: Since 2003 we have been looking at what? 12? 14?

Steve Cochrane: The last 3 years the teachers' fund has been about 15.8%.

Senator Krebsbach: Is the five year vesting back in this bill?

Fay: Yes.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☒ Check here for Conference Committee

Hearing Date: 4-16-07

Recorder Job Number: 6057

Committee Clerk Signature	Veronica Sparling

Minutes:

Senator Krebsbach reconvened the conference on SB 2046 and noted that all conferees were present.

Senator Krebsbach: We have a proposed amendment from the House.

Representative Klein: Version 0211 (see attachment #1) increases the board's contribution by ¼% for all teachers. It adds the rule of 90 for new teachers and increases their contribution by ¼%. It adds a sunset clause that when the fund reaches 90% the ¼% drops off. Basically it would add about 2 ¼ million to the fund.

Senator Nelson: Then there are the additions for the returning retired teachers here?

Representative Klein: Yes. The board would also pay the full 8% for the returning retired teachers.

Senator Krebsbach: The Senate had set it to 3-5 years for vesting, the House amended it to three years. Would it be ok with the House to change that back to 5 years?

Senator Klein: I did not add that but I think we would be agreeable to it.

Senator Nelson: I would like to hear from the fund to see what they think the actuarial impact will be.

Senator Krebsbach: We can do that. The other thing I would like to see is if there could be some way to trigger in the employer portion to automatically trigger to 1% if the actuarial impact does not come up to the level where it should be. I don't have the proper wording and I think we are going to have to do some research to get that done. What I am trying to say is I hate for us to have to deal with this again down the road if there is a way to avoid it. It may be difficult to take care of it within this version.

Senator Nelson: Maybe because these new Tier II teachers will be on a contract with the 1/4, ¼ and subsequent teachers would be under ½, 1/2.

Senator Krebsbach: That's right, we are increasing theirs ¼ so that will help *(I couldn't* hear the *audio*...it. (Audio meter 4:30.)

Senator Krebsbach: Do you have any idea what the drop from 1 to ¼ would do to the dollars that would be coming in in the biennium?

Fay: There would not be that many teachers that would be impacted. There certainly would be some.

Senator Krebsbach: That is going to come down the road, 5 to 10 years from now when the others retire and are replaced.

Fay: Right.

Representative Klein: The other piece of information that was provided that I asked for is the number of school boards that pay both sides. See attachment # 2.

Senator Nelson: Of the schools that are listed here, could we also get the updated list of those schools that do not pay Social Security.

There was discussion that there used to be about 20, now there are about 12. Fay said she would not have access to that information but maybe someone at the ND Education Association might have it. There was discussion about how that would be allowable. They were given a choice and they could be in or out. There was also discussion about some districts having extra money and yet just hoarding it rather than paying their teachers better. That was one of the reasons the rule was passed that required them to spend down to a certain percentage of their budget.

Senator Krebsbach: Would the House be open to consider ½ , and ½ for new teachers? That way we would really be coming closer to the one.

Representative Monson: I don't know if you even want to give me any time to think about it. You may not even get this one out of me tomorrow.

Representative Klein: I visited with the GVA people and a number of people that have been involved on this and I really think I have pushed it as far as I can go. There were at least five that said, "Don't even bother, bring it to the floor and kill it." I said, "Let's talk." So...

Senator Nelson: You wouldn't have a problem with 5 year vesting.

Representative Klein: I don't think so.

Senator Nelson: So we have a 5 year vesting and 5 years average salary. She would like to see the actuarial for 30 years out.

Fay: I don't have that with me but I can get it.

Representative Monson: I did some quick calculating here as far as the fiscal note. Just what we had proposed here, to me looks like the ¼ % is going to cost our schools $2.25 million. By adding the retired teachers it was about $2.75 million if we pass it the way Representative Klein has it drafted here. I don't believe the vesting is going to make any difference as far as the money.

Representative Gulleson: More importantly then this would take that funded ratio that we looked at, the 2006, 2016 ... It won't get us to the 2036 but it will get us well into 2022 or so with a much stronger funded balance.

Representative Klein: With what the fund has been doing in the last 1 ½ to 2 years I think if we get another chance to look at this thing it will look considerably better.

Senator Krebsbach: It will do some self correcting?

Representative Klein: Yes.

Representative Monson: The rest of the fiscal note as I calculated should cost the state about $43,000.00... for School for the Deaf, Division of Independent Study, etc. (I think they pay teachers' retirement.)

Senator Krebsbach: I think what we need to do is get a fiscal note on that portion and also get a projection as to where we would be with the state funds. She recessed until the committee would be called together again.

Senator Nelson: Who is going to write up the proposed changes?

Representative Klein: I will get that changed.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☒ Check here for Conference Committee

Hearing Date: 4-17-07

Recorder Job Number: 6092

Committee Clerk Signature	Monica Sparling

Minutes:

Senator Krebsbach reconvened the conference committee on SB 2046 and noted that all conferees were present. She distributed attachment #1 and Fay Kopp, Deputy Executive Director of the North Dakota Retirement & Investment Office, was asked to explain it.

Fay: The information came from TFFR's actuarial consultant on this case. It covered the amendment that was distributed yesterday that increases the employer contribution from 7.75 to 8% on both active teacher salaries and retired teacher salaries. It requires an increased contribution from members from 7.75 to 8% on new hires to the Tier II and it retains all the other Tier II benefit provisions, the Rule of 90, 5-year FAS, 5 year vesting and it has a sunset on that employer rate of 90%. She explained the information on attachment #1.

Senator Nelson: Essentially the ¼% on new hires doesn't do much.

Fay: Not for a very long period of time.

Senator Nelson: I was remembering when I was on the TFFR board and I remembered there were some restrictions on there with the Government Accounting Standards Board standards. I asked Fay about it and this is what she put in writing. See attachment # 2. UAAL stands for Unfunded Actuarially Accrued Liabilities. I wanted you to have that for your files as an example of what could happen if we do nothing.

Senator Krebsbach: Another bit of information that I think I should pass along to you is there has been a lot of discussion between the educators on the fact that they do not feel it is fair to put the additional ¼% on the new members. If I could ask you, Gloria, to explain what you discussed in the past on this issue when your board was making a decision in determination of which way to go.

(Audio meter 5:30) **Gloria Lokken**, President of North Dakota Education Association: Over the past six years we have been reviewing options when we look at the funding of TFFR and in those options there were many times when we addressed an increased contribution for our new members and new hires. And that was always defeated from … any position that we could see that might in some way enhance the fund and still be somewhat fair to the new hires because it could be changed later down the road when the fund was more fully funded … the Tier II that we proposed in the beginning. And even with that when our members looked at it that was pushed back because of the impact to our new hires. They came to a realization that perhaps that could be changed with good returns and so on but the extra pay for new hires would ……*(I could not hear the audio.)*

Senator Krebsbach: I guess this committee is something that I am looking at for the fact that it is not against any rules or regulations for us to do it however the TFFR board has declined that type of means of increasing.

Senator Krebsbach: As I said at our first meeting, this is a complicated issue.

Senator Lee: Gloria, was it the TFFR board or the membership of your association that didn't support this change?

Gloria: It was the TFFR board of which we have members of service and there are membership also that would not. Our board never formally acted on it but the input I got from members across the state was that they would not want new members paying more.

Senator Lee: Is it a greater priority for them to have a solvent fund and actually be able to pay retired teachers or is it a greater priority to make sure that nobody has to give any more money than they already are?

Gloria: It's a greater priority that the fund is solvent and that's why we put in Tier II.

Senator Lee: But if Tier II doesn't float here, are they not willing to consider other options that might be brought forward?

Gloria: With the increase in employer contributions which we all hate actually because that money comes from the pool of money that is available for salaries and benefits. Our members understand that will impact their ability to increase their salary. They do understand that so they feel they are all paying for that whether it comes from the employer side or their direct employment. So I think they feel they are making a contribution for a raise.

Senator Lee: It's a long way from the 15.2% that I pay in for my Social Security.

Representative Klein: Well, I think we have made a reasonable offer to move this off. If that is not acceptable, I just feel the body won't support anything beyond this. This, as far as I'm concerned, is pretty much stretching it. They didn't even want this. So those are your alternatives.

Senator Krebsbach: I have to say that your body did not get a chance to vote on the original bill. It was out of committee that it ...

Representative Monson: As I was thinking about the increased requirement for increased payments from the boards, this is hitting smaller schools harder than it is the big schools. The student teacher ratio is lower in smaller schools. It is not quite fair.

Senator Krebsbach: I'm hearing what you are saying but the thing that I find amazing is that I have not heard from these schools that they are against this proposal. That is where I am having tough deliberation.

Representative Monson: I don't know that they really looked at the fiscal note. I don't know that it has soaked in yet to them. Maybe it has. The superintendents are knowing it but I'm not so sure that our school board members as a whole understand that this is going to take a few million dollars out of their pocket and some of these smaller schools especially with 2200 and we don't know where 2032 is going, but if we cap their ability to re coup some tax money they could be really in a box. It's going to be tight budgets the way it is on some of those, especially the rural areas or the smaller schools. To ask them to pay on their teachers, they don't have a lot of teachers but when you increase it just 1% or ½ % or whatever it's going to be and especially if they are paying both halves of it. We are putting them in a box. I'm willing to myself take a chance that it will look a lot better two years from now if the economy continues. Of course if it doesn't, if it turns down, but right now I think indications are we are going to be in fairly good shape. Oil is not going to go down and at least the state of North Dakota I don't think is going to be hurting for revenue two years from now. Although we have to use the numbers that economy.com give us and... I just don't know if we have to panic and I don't even know if I can support what we have thrown out there.

Representative Gulleson: I think I need some clarification here on how the two parts of this proposed amendment would be. I understand the increased employer contribution of 25%. For future hires ... Is that only for future hires? That's the only category that the teacher would be required to pay anything. Is that right?

Senator Nelson: That's right.

Representative Gulleson: And then the language in here changing that new Tier for future hires back to the Rule of 90. That is a significant change. We are at 85 right now, right?

Representative Klein: That's right.

Senator Nelson: You are looking at that sheet and seeing "reaches 90%." That is when it becomes 90% funded we take off this employer contribution. It wasn't the Rule of 90. They do have the Rule of 90 in for the new tier but 10 years ago the current teachers have the Rule of 90 also. When we were able to increase the fund we were able to change that and the vesting period and those things that we would hope happens with the benefits. We hope things come in better than 8% but part of that 8% has got to go somewhere down the line to some retirees who haven't had a pay raise for a long time. It has been 2001 since they've gotten a bump in their retirement pay. It doesn't look like they are going to get one for an infinite amount of time according to this.

Representative Gulleson: How long was the period of time after it was adjusted to the Rule of 90 that you could roll it back?

Fay: In 1989 the board changed from the Rule of 90 to the Rule of 85. Member and employer contributions increased to pay for that benefit improvement. Contributions went from 6.25 to 6.75 in 1989 to fund the Rule of 85.

Senator Krebsbach: That was a change made because there was an agreement within the teachers' group that they wanted the increased benefit. With all of this my concern is that none of us know the future and they went with an averaging of 8% which, you have your ups and downs. This has been done quite scientifically with the actuarial study. My concern is the fact that if we do not do the right thing today, we are going to be going back to the teachers' group and the school board saying we've got to increase it this much more because we are really going the wrong direction. And I think if we bite the bullet in this session it's a lot easier if we see these trends changing to reduce. But it is more difficult than ever to increase again.

Senator Nelson: My concern would be if we had to do it again we would be introducing a Tier III. We are having enough trouble looking at what kind of software systems are out there so the people can do a little bump on a few. My preference would have been, if we were in a spirit of some sort of compromise, raise everybody to a half and skip the employee contribution on the new hires.

Senator Krebsbach: That would bring in more dollars quicker.

Senator Nelson: Even if we had to offset it a year, that would at least give people time to consider what they wanted to do. It would get us on the way and it would perhaps solve a few problems down the road because you would have some significant money coming.

Senator Krebsbach: Would you like to move your amendments?

Senator Nelson: I can have them prepared.

Senator Krebsbach: That would be something worthwhile for us to look at.

Senator Lee: I would like to have that also on the table for us to discuss. I hear about the resistance for the first time from the entering teachers. I would be very interested in hearing from the people who represent the various groups on this. It sounds to me like maybe Senator's Nelson's proposal is a little bit closer to what was agreed to by the parties involved when this was being discussed before the session and what was before the Employee Benefits Committee whose opinion I certainly respect. I think I have a question. If this fund ended up because of economic circumstances really taking a dip, would there be the risk of the Legislature being asked to provide some funding to be able to bail this fund out? I think that is something to think about too.

Representative Klein: That happened before.

Senator Lee: That is what kind of scares me. I understand what the House members are saying. I'm concerned about what Representative Monson is saying also, but I just fear that the potential is there for greater changes having to be made a couple of years or four years down the road that will be more painful for people and if the economy is taking a dip so that that happens it is going to be harder for everybody to accept the change at that time. It seems appropriate that we at least continue our discussion about how we might be able to ease into making this fund a little more solvent now and how to do it fairly. Everybody bites just a little bit of a bullet, we can guarantee that there will be retirement funds available for the entering teachers when they retire and for the current ones. Maybe at some point there will be a crack at giving them a raise. It isn't right that we should be going on 10 years before we look at some kind of benefit. The way this projection is, there is no way we are going to get retired teachers any raise in benefits in the foreseeable future.

Representative Klein: We need to remember these retirement funds are supposed to be funded by the people involved in it and the employers and if we keep putting it on the employer it's not a retirement fund, it ends up being a tax-payer subsidized system. I don't think that was what was intended.

Senator Lee: Would you explain to me why you say it is tax-payer subsidized? Because it is public funds coming out of the school board pocket too? or why are you saying..

Representative Klein: Well, part of it, but again like what happened 15 – 20 years ago when the state had to put money into it to keep it above board, that still has a bad feeling.

Senator Lee: I don't want to do that again. Whatever we decide I think we have to do it right today so we don't have that risk.

Representative Klein: Then I think that part of the idea should be the employees should raise their contribution too instead of putting it all on the employer.

Senator Nelson: Then we have to convince the Attorney General that we can do that because he said we can't.

Representative Klein: Well you can't for the older ones but for the new ones you can and that's what this amendment would do.

Senator Krebsbach: Representative Klein, I want to remind you of this sheet here. See attachment # 3. All of these are paying both sides now.

Representative Gulleson: Did the Council of Education Leaders take a position on this?

Doug Johnson, Executive Director of North Dakota Council of Education Leaders: We took a position where we would support increasing employer contribution from 7.75 to 8.75 creating a new tier of reduced benefits members for TFFR members as of July 1st, 2007 which will include the Rule of 90, 5 year vesting, 5 year salary base and 5 year average. Allowing school districts for purpose of determining minimum salary to include the employee's half of TFFR and the determination of minimum salary for school districts paying both sides of TFFR.

Bev Nielson, Assistant to the Executive Director of the North Dakota School Board Association: We are the only ones who aren't actually recipients of the fund. Administrators of course are recipients. I've actually had a couple of superintendents who have said to me just give us the money and we'll put it on salaries. But, everybody has their own opinion. Our association doesn't have a position directly related to this bill. The fact is whatever goes into TFFR does not go into salaries. While people say that they accept that, that doesn't keep them from hounding at the negotiation table or boycotting businesses or whatever else happens during negotiations. It needs to be clear and understood that this will not go to salaries. When we fuss again next session, "the salaries are low," we have to understand that it was the decision of the body to put this money somewhere other than salaries. That is our frustration. Everybody can agree and yet the argument continues to be that our salaries are too low. Anything that is mandated by law to go to TFFR is money that won't go to increased health insurance or to salaries or to support staff salaries or to anything else. We have gotten squeezed into a box here too. That is the only thing that we have said consistently. In some districts that are not doing well under 2200, particularly in the second year of the biennium, there may be no way because 1% may be all that they have if they have that.

Representative Monson: That all sounds good that it isn't going to go into the salaries. OK, let's say that it doesn't go into salaries, but then how are we going to attract new teachers to this state without getting salaries up there? If the board can't put it on the front line for those new teachers; they really are not thinking about retirement. They need the money in their pocket to pay their loans, etc. Thirty years from now they are going to say, "I wish I had paid more attention to my retirement." But they don't. We need to keep the teachers here. We need to get their salaries higher so they can pay their bills.

Senator Lee: For the record it is important to note that the average compensation salary and benefits for a teacher in North Dakota is now $51,693.00 for 185 days of work. That means they have quite a few days left that if they want to have an additional way to earn money, they have that option. It isn't that we are uncompetitive. We have raised that base salary $8,500.00 in the last several years. It is not fair to say that all the salaries are terribly low. That $51,693.00 is DPI information.

Representative Monson: Part of that is because obviously we have a disproportionate number of teachers that are at the high end of the salary schedule that are close to retirement.

Senator Krebsbach: Back at the time when we reduced the Rule of 90 to the Rule of 85 one of the benefits we thought at that time is some of the more high paying teachers would be retiring and they would be replaced with lower paid new teachers. That is part of the answer to your question, Representative Monson, because the new teacher starting isn't starting at the level an existing teacher is. The one thing I am trying to avoid is for the fund to have to come back to us as a legislative body saying we absolutely need help. What happened back prior to my day still lives on so strongly and it has not been good for the education field and it has not been good for us. They have constantly had that held over their heads. I don't like to see that continue. We will meet in the morning.

Senator Krebsbach recessed the meeting.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2046

Senate Government and Veterans Affairs Committee

☒ Check here for Conference Committee

Hearing Date: 4-18-07

Recorder Job Number: 6115, 6125

Committee Clerk Signature	Veronica Sperling

Minutes:

JOB # 6115

Senator Krebsbach: We will reconvene the conference committee on SB 2046 and note that all the conferees are or will be in attendance. I believe we have some motions that are being prepared.

Senator Lee: I move that the House recede from their amendments and we further amend to include the sunset proposed in the amendment.

Senator Nelson: Second.

Senator Krebsbach: The gist of the amendment is that the House recedes from their amendment and we further amend to include the sunset clause that was added by the House. It would be the version that we sent to you with the sunset. See attachment #1.

Roll Call Vote: Yes: 4 (3 Senators and 1 Representative); **No: 2** (2 Representatives)

Senator Nelson: I have a proposal. I had drawn what we discussed yesterday. This particular amendment puts a ½ % on all TFFR employees. It doesn't put it on until July 1, 2008.

Representative Monson: Employees or employers?

Senator Nelson: It would be the employer share of TFFR employees because some school districts have some non-TFFR people. They have PERS people. This would be strictly TFFR enrolled employees. It takes the employers share of the retirees returning to teaching effective July 1, 2007 and it puts the expiration date on the ½% at 90% the July following when it gets to 90%. The implementation date of the1/2% would be July 1, 2008. That would give a chance to school districts to adjust their contracts and time to take a look at any changes they might have to make to their software and give them some budgeting flexibility that it couldn't affect next year's budget for the retiring teachers but retired teachers coming back but it would not for others. We also received some information dealing with the numbers of returning retired teachers and what their actual costs are and how many school districts would be affected. There are 99 employers employing TFFR retirees at the present time. See attachment # 2.

Senator Lee: Those sheets (attachment #2) also show that it costs the districts $1,783.00 per returning retiree per year. If they employ three teachers, it is $5000.00 which is not a huge number for any budget to absorb. I think one of the other important things that it indicates in that data (attachment #4) is it talks about the fact that there was a $70.00/month increase in 2001 and an $8.00/month increase for retired teachers in 2002 and there has been nothing since that time. If we don't enhance this fund there will not be any kind of cost of living increase for the retired teachers who are current beneficiaries of this plan. That is an issue as well when most retirement plans would have at least some modest increase. I think it is important to look at what we are doing for the current retired teachers as well as what we can count on for the ones to follow.

Senator Krebsbach: Fay, could you please explain this sheet to us?

Fay: (See attachment # 3.) Column 4 shows the actuarial valuation based on the amendment proposed by Senator Nelson (0212). The amendment proposed by Representative Klein (0211) is called Amendment 2 and is in column 3. Column 2 shows the actuarial valuation with no change to the current plan. Column 5 shows the valuation of what the TFFR board proposed which is the original SB 2046. Page 2 shows the impact on employer contributions on an annual basis. The amendment from Senator Nelson shows that for the biennium it would be .3 plus 2.5 or a 2.8 million dollar impact on the school district compared to the amendment from Representative Klein shows about 2.7. It is nearly the same and that is a result of delaying it for one year.

Senator Krebsbach: We will be in recess.

JOB # 6125

Senator Krebsbach: We will reconvene on SB 2046. We were presented amendments today. One we rejected, the other one we did not act on.

Representative Klein: I had a chance to look at these two proposals and there is really very little difference. I would move to pass amendment 0211.

Representative Monson: Second.

Representative Klein: My amendment basically moves ¼ of a percent. It includes the retired teachers coming back and it started with new teachers that they also increased by ¼%, move back to the rule of 90 and put a sunset clause on it.

Senator Krebsbach: And their vesting is at 5 years?

Representative Klein: Vesting at 5 years. That stayed the same.

Representative Monson: If it is in order I would make a motion to further amend to change that contribution by those Tier II teachers so that they pay the same rate as all the rest of the teachers. I thing the folks from NDEA had a little heartburn with that.

Senator Krebsbach: We would then vote on the substitute amendment first I believe, would we not? Are you presenting that as a substitute or further amend?

Everyone: Further amend.

Representative Monson: Maybe it isn't in order yet then. Because we haven't adopted that amendment. Unless you...

Senator Krebsbach: I have to stop and think here. If Representative Klein is willing to accept that as a further amendment...

Representative Klein: I would be willing to accept that.

Senator Nelson: Now which number are you talking about?

Representative Klein: 0211.

Senator Krebsbach: Do we have actuarials on just that alone?

Senator Nelson: That is the second column. (Actually it is column #3 on page 1 of attachment #3.)

Representative Klein: That is what I was comparing when I had a chance today to look at those two. There was very little difference between them.

Senator Nelson: My concern would be in the 10 year projections the funding period is still way out at 50. I guess I've got a concern about the state bonding authority. Even though even with the one that I presented it's at almost 40. That's 10 years difference and the one gets to 90% two years earlier which is a sizable chunk of change even though it's out a few years. Granted, it doesn't look like it's a whole lot but I think some of the repercussions are there that I have a concern about.

Representative Klein: Basically I believe we can sell this to the House. If we do many more changes, in fact, there has been some talk, bring it to the floor and kill it. So, I think we are close enough we can take a look at it again two years from now but right now I think this is all I can push.

Senator Krebsbach: You never know what the body will accept or reject and if they reject the conference committee report we come back down here again.

Representative Klein: It's very possible but I think their idea was to kill the bill then.

Senator Krebsbach: Well, that might be but I have to remind you that there are things in here other than that and there are some federal requirement changes that we are looking at as well. So I would say that if they tried to kill the bill that would be totally irresponsible. If they reject the conference committee report, that's another story.

Roll Call Vote: Yes 2 No 4

Senator Nelson: I would move 0212 (see attachment #1) with two amendments. They see a little bit of problem on page two even though an effective date is listed for 2008 our wording on page 2, line 24-25 says 2007 and just to make it so we know that the teachers stay in Tier I until the beginning of the fiscal year 2008 we need to make those two changes. Page 2 of amendment 0212, line 24 and line 25 says July 1, 2007. That should be 2008. And so should June 30th in the next line be 2008 because Section 2 doesn't take effect until 2008.

Senator Krebsbach: So your amendment would be revised to give <u>that</u> correction to it.

Senator Nelson: Correct. And I would move <u>the amended 0212</u>.

Senator Lee: Second.

Senator Krebsbach: That virtually changes it to ...

Senator Nelson: ¼% offset for one year. ½% but not kicking in until July 1 of 2008. And no contribution by the teacher.

Senator Krebsbach: This is compromising quite a bit. This is delaying a year, this is bringing it down a half a percent,

Senator Nelson: And giving the 90% sunset.

Senator Krebsbach: I feel it's more than a fair compromise in view of the fact that the Senate definitely wanted to stay with the 1%.

Senator Lee: I think one of the most important things about how this bill came out of the Senate and actually came through Government and Veteran Affairs is the fact that that's the way the stakeholders approved it. And I just don't think it's our right as legislators to stand in the way of the parties who are actually involved in this issue who had worked together to come up with a way to make this fund more solvent and be able to see some potential benefits to current as well as retiring teachers in the future. I think we have a responsibility to consider what they asked us to do. Employee Benefits had approved that proposal as well. For that reason I consider this a major change of position on our part in moving to the half a percent when I couldn't see any reason not to do what we were being asked to do in the first place. So I do hope that we might be able to see over way through this for the benefit of the teachers.

Representative Monson: It looks like the fiscal note would then be roughly 4 ½ million on the K-12 schools and 45,000.00 on the state.

Representative Monson: It would be a fourth of that but then of course down the road 2009 2011 it would be 4.5 million.

Senator Lee: If we get to 2009 and we find that wonderful things are happening, we can revisit this issue at that time and I would think that the TFFR board would want to come back if they thought that we were now making some significant gains and they saw that there was an opportunity to level this off. They want to serve their members well also. This would at least give us the biennium to consider the track record and a year's worth of implementation to consider. I think there is some real merit to that also. We could see where the economy of the state continues to go.

Senator Krebsbach: Further discussion? Hearing none will the clerk please call the role on 0212 with the correction on page 2.

Roll Call Vote: Yes 5 No 1

#/

70068.0210
Title.

Prepared by the Legislative Council staff for Conference Committee
April 12, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

That the House recede from its amendments as printed on pages 1197 and 1198 of the Senate Journal and pages 1188-1190 of the House Journal and that Senate Bill No. 2046 be amended as follows:

Page 1, line 10, remove "and" and after "appropriation" insert "; and to provide an expiration date"

Page 7, line 24, replace "<u>to the fund sixteen and five-tenths percent per annum of the salary of the</u>" with "<u>the employer contributions required by section 15-39.1-09 on the salary of the retired member both before and after the retired member reaches the annual hour limit.</u>"

Page 7, remove lines 25 through 28

Page 8, line 30, replace "<u>to the fund sixteen and five-tenths percent per annum of the salary of the</u>" with "<u>the employer contributions required by section 15-39.1-09 on the salary of the retired member.</u>"

Page 8, remove line 31

Page 10, after line 10, insert:

"**SECTION 16. EXPIRATION DATE.** Section 3 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 3 of this Act."

Renumber accordingly

Date : 4-18-07 (1:30 pm.)
Roll Call Vote # : 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

Senate Government and Veterans Affairs Committee

☒ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken amend 2046

Motion Made By Lee **Seconded By** Nelson

Senators	Yes	No	Representatives	Yes	No
Senator Krebsbach	✓		Rep. Klein		✓
Senator Lee	✓		Rep. Monson		✓
Senator Nelson	✓		Rep. Gulleson	✓	

Total (Yes) 4 **No** ~~0~~ 2

Absent 0

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

House recede
further amend to include sunset clause that was added by the House

70068.0211
Title.

Prepared by the Legislative Council staff for
Conference Committee
April 16, 2007

#1

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

That the House recede from its amendments as printed on pages 1197 and 1198 of the Senate Journal and pages 1188-1190 of the House Journal and that Senate Bill No. 2046 be amended as follows:

Page 1, line 7, after "employer" insert "and employee"

Page 1, line 10, remove "and" and after "appropriation" insert "; and to provide an expiration date"

Page 2, line 30, after "teacher" insert "who", after "a" insert "tier one", and overstrike "and"

Page 2, line 31, after "annum" insert "and every teacher who is a tier two member of the fund must be assessed upon the teacher's salary eight percent per annum"

Page 3, line 4, remove "eight" and overstrike "and seventy-five hundredths" and insert immediately thereafter "eight"

Page 7, line 24, replace "to the fund sixteen and five-tenths percent per annum of the salary of the" with "the employer contributions required by section 15-39.1-09 on the salary of the retired member both before and after the retired member reaches the annual hour limit."

Page 7, remove lines 25 through 28

Page 8, line 30, replace "to the fund sixteen and five-tenths percent per annum of the salary of the" with "the employer contributions required by section 15-39.1-09 on the salary of the retired member."

Page 8, remove line 31

Page 10, after line 10, insert:

"**SECTION 16. EXPIRATION DATE.** Section 3 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 3 of this Act."

Renumber accordingly

5:30pm.

Date : 4-18-07 (5:30pm)
Roll Call Vote # : 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

Senate **Government and Veterans Affairs** Committee

☒ Check here for Conference Committee

Legislative Council Amendment Number (0211)

Action Taken Klein amendment

Motion Made By Klein Seconded By Monson

Senators	Yes	No	Representatives	Yes	No
Senator Krebsbach		✓	Rep. Klein	✓	
Senator Lee		✓	Rep. Monson	✓	
Senator Nelson		✓	Rep. Gulleson	~~✓~~	✓

Total (Yes) 2 No 4

Absent

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

0211

#/

70068.0212
Title.

Prepared by the Legislative Council staff for Senator Nelson
April 17, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

That the House recede from its amendments as printed on pages 1197 and 1198 of the Senate Journal and pages 1188-1190 of the House Journal and that Senate Bill No. 2046 be amended as follows:

Page 1, line 10, remove "and" and after "appropriation" insert "; to provide an effective date; and to provide an expiration date"

Page 3, line 4, overstrike "seventy-five" and insert immediately thereafter "<u>twenty-five</u>"

Page 6, line 22, replace "<u>2007</u>" with "<u>2008</u>"

Page 7, line 24, replace "<u>to the fund sixteen and five-tenths percent per annum of the salary of the</u>" with "<u>the employer contributions required by section 15-39.1-09 on the salary of the retired member both before and after the retired member reaches the annual hour limit.</u>"

Page 7, remove lines 25 through 28

Page 8, line 30, replace "<u>to the fund sixteen and five-tenths percent per annum of</u>" with "<u>the employer contributions required by section 15-39.1-09 on</u>"

Page 10, line 5, replace "This" with "Sections 1, 6, 10, 11, 12, 14, and 15 of this" and replace "applies" with "apply"

Page 10, line 6, after "2007" insert ", and sections 2, 3, 4, 5, 7, 8, 9, and 13 apply to salaries earned on and after July 1, 2008"

Page 10, after line 10, insert:

"**SECTION 16. EFFECTIVE DATE.** Sections 1, 6, 10, 11, 12, 14, and 15 of this Act become effective on July 1, 2007, and sections 2, 3, 4, 5, 7, 8, 9, and 13 of this Act become effective on July 1, 2008.

SECTION 17. EXPIRATION DATE. Section 3 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 3 of this Act."

Renumber accordingly

70068.0215
Title.0500

Prepared by the Legislative Council staff for
Senator Nelson
April 19, 2007

4-19-07
1 of 2

PROPOSED AMENDMENTS TO SENATE BILL NO. 2046

That the House recede from its amendments as printed on pages 1197 and 1198 of the Senate Journal and pages 1188-1190 of the House Journal and that Senate Bill No. 2046 be amended as follows:

Page 1, line 10, remove "and" and after "appropriation" insert "; to provide an effective date; and to provide an expiration date"

Page 2, line 24, replace "2007" with "2008"

Page 2, line 25, replace "2007" with "2008"

Page 3, line 4, overstrike "seventy-five" and insert immediately thereafter "twenty-five"

Page 6, line 22, replace "2007" with "2008"

Page 7, line 24, replace "to the fund sixteen and five-tenths percent per annum of the salary of the" with "the employer contributions required by section 15-39.1-09 on the salary of the retired member both before and after the retired member reaches the annual hour limit."

Page 7, remove lines 25 through 28

Page 8, line 30, replace "to the fund sixteen and five-tenths percent per annum of" with "the employer contributions required by section 15-39.1-09 on"

Page 10, line 5, replace "This" with "Sections 1, 6, 10, 11, 12, and 15 of this" and replace "applies" with "apply"

Page 10, line 6, after "2007" insert ", and sections 2, 3, 4, 5, 7, 8, 9, and 13 apply to salaries earned on and after July 1, 2008"

Page 10, after line 10, insert:

"**SECTION 16. EFFECTIVE DATE.** Sections 1, 6, 10, 11, 12, 14, and 15 of this Act become effective on July 1, 2007, and sections 2, 3, 4, 5, 7, 8, 9, and 13 of this Act become effective on July 1, 2008.

SECTION 17. EXPIRATION DATE. Section 3 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent

2 of 2

funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 3 of this Act."

Renumber accordingly

5:30pm

Date : 4-18-07 (5:30p.m.)
Roll Call Vote # : 2

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

Senate Government and Veterans Affairs **Committee**

☒ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken Nelson amend 0212 with corrections on page 2

Motion Made By Nelson **Seconded By** Lee

Senators	Yes	No	Representatives	Yes	No
Senator Krebsbach	✓		Rep. Klein		✓
Senator Lee	✓		Rep. Monson	✓	
Senator Nelson	✓		Rep. Gulleson	✓	

Total (Yes) 5 **No** 1

Absent 0

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

REPORT OF CONFERENCE COMMITTEE

SB 2046: Your conference committee (Sens. Krebsbach, J. Lee, Nelson and Reps. Klein, Monson, Gulleson) recommends that the **HOUSE RECEDE** from the House amendments on SJ pages 1197-1198, adopt amendments as follows, and place SB 2046 on the Seventh order:

That the House recede from its amendments as printed on pages 1197 and 1198 of the Senate Journal and pages 1188-1190 of the House Journal and that Senate Bill No. 2046 be amended as follows:

Page 1, line 10, remove "and" and after "appropriation" insert "; to provide an effective date; and to provide an expiration date"

Page 2, line 24, replace "<u>2007</u>" with "<u>2008</u>"

Page 2, line 25, replace "<u>2007</u>" with "<u>2008</u>"

Page 3, line 4, overstrike "seventy-five" and insert immediately thereafter "<u>twenty-five</u>"

Page 6, line 22, replace "<u>2007</u>" with "<u>2008</u>"

Page 7, line 24, replace "<u>to the fund sixteen and five-tenths percent per annum of the salary of the</u>" with "<u>the employer contributions required by section 15-39.1-09 on the salary of the retired member both before and after the retired member reaches the annual hour limit.</u>"

Page 7, remove lines 25 through 28

Page 8, line 30, replace "<u>to the fund sixteen and five-tenths percent per annum of</u>" with "<u>the employer contributions required by section 15-39.1-09 on</u>"

Page 10, line 5, replace "This" with "Sections 1, 6, 10, 11, 12, and 15 of this" and replace "applies" with "apply"

Page 10, line 6, after "2007" insert ", and sections 2, 3, 4, 5, 7, 8, 9, and 13 apply to salaries earned on and after July 1, 2008"

Page 10, after line 10, insert:

"**SECTION 16. EFFECTIVE DATE.** Sections 1, 6, 10, 11, 12, 14, and 15 of this Act become effective on July 1, 2007, and sections 2, 3, 4, 5, 7, 8, 9, and 13 of this Act become effective on July 1, 2008.

SECTION 17. EXPIRATION DATE. Section 3 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 3 of this Act."

Renumber accordingly

SB 2046 was placed on the Seventh order of business on the calendar.

2007 TESTIMONY

SB 2046

L
Attachment #1

SENATE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
SB 2046

Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office
January 18, 2007

- **SB 2046 Overview**

Improving TFFR's financial condition is the focus of SB 2046. As many of you are aware, over the past six years, TFFR's funding level has declined and unfunded liability has increased. This was due primarily to the stock market decline which caused investment returns to be well below assumed rates in fiscal years 2001, 2002, and 2003. There were, of course, other contributing factors including benefit improvements for active and retired members, changes in assumptions due to members retiring earlier, living longer, higher salaries, declining number of active teachers, and other actuarial factors. Fortunately, investment returns in 2004, 2005, and 2006 have improved dramatically, but not enough to offset the earlier losses.

In the past few years, the TFFR Board has been reviewing various options for improving its funding position. The Board conducted an actuarial experience study and asset allocation study; analyzed actuarial calculations and projections; conducted an actuarial audit to confirm that the financial condition of the fund is accurate; received advice and information from the Attorney General's Office on the constitutionality of possible employee benefit and contribution changes; and received input from member and employer interest groups (NDEA, NDCEL, NDRTA, and NDSBA).

As a result, the Board has submitted SB 2046 for your consideration. SB 2046 embodies the Board's plan to strengthen TFFR's long-term financial condition. The proposal:

1) Increases employer contributions on active teachers' salaries.
2) Requires employer contributions on reemployed retirees' salaries.
3) Reduces benefits for future new teachers and administrators.
4) Incorporates federal tax law changes to comply with IRS requirements.

- **2006 Actuarial Report Summary**

Each year, TFFR's actuary, Gabriel, Roeder, and Smith (GRS) performs an actuarial valuation. An actuarial valuation is a mathematical means of determining if the contributions paid by members and employers, along with the investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time, and warns of possible future problems and issues. The report is presented to both the TFFR Board and to the interim Legislative Employee Benefits Programs Committee.

Key findings from the July 1, 2006 report: TFFR's funded ratio is 75.4% (based on actuarial value) or 83% (based on market value); market value of TFFR assets is $1.7 billion, unfunded actuarial accrued liability (UAAL) is about $510 million; infinite funding period; and negative contribution margin is -4.54%.

Based on the 8% investment rate assumption used by TFFR, short term projections show a slightly increasing funded ratio and decreasing unfunded liability. However, long-term projections show a slow decline and decreasing funded ratios and increasing unfunded liability in the absence of modifications to contribution rates or benefits. Also, the continued trend of early retirements and longer life expectancy, and declining number of active teachers contributing into the plan reduces the likelihood of future long term improvement.

Attachment A – 2006 Actuarial Valuation – Executive Summary
Attachment B – Funded Ratio
Attachment C – Market and Actuarial Values of Assets
Attachment D – Estimated Yields Based on Actuarial and Market Value of Assets
Attachment E - Unfunded Actuarial Accrued Liability (UAAL)
Attachment F – Projected Funded Ratios and Margin

- **<u>What does SB 2046 Not Do?</u>**

SB 2046 does not reduce existing benefits for current members and retirees.

TFFR's legal counsel, the ND Attorney General's Office (AG), has advised the Board that due to the contract clause found in both the federal and state constitutions, the Attorney General's Office believes that changing retirement provisions could be problematic and may be found unconstitutional by the Supreme Court. Because of this advice, the TFFR Board proposal does not include changes to "legally protected" benefits or contributions of existing active and retired members, but does contain changes for future active members and for employers.

Members, employers, legislators, and other interested parties have asked TFFR often over the past few years whether or not retirement benefits can be reduced. Because of the AG interpretation, TFFR has responded that benefit changes that would disadvantage the members could not be made. For example, increasing active members' retirement contributions (unless there is a corresponding benefit increase), reducing the 2.0% multiplier, changing the Rule of 85, vesting schedule, benefit calculation factors, or other provisions of the retirement plan to the detriment of the active members, would probably not be allowable. This AG interpretation applies to retired members' benefits as well. For example, reducing retirees' monthly benefit payments, requiring retiree contributions under re-employment provisions, or changing other provisions of the retirement plan to the detriment of the retirees, would probably not be allowable.

While the ND Supreme Court has not specifically ruled whether or not these particular benefit or contribution changes are constitutional, the position of the AG office is that active and retired members' benefits would probably be protected due to the contract clause. TFFR's legal counsel from the AG office is available should you have questions relating to these legal issues.

- **<u>What does SB 2046 do?</u>**

SB 2046 is a comprehensive plan designed to increase assets and reduce liabilities.

1) Increases employer retirement contributions beginning July 1, 2007

Under current law, member and employer contribution rates total 15.5% (7.75% employee and 7.75% employer). **Section 3** increases the employer contribution rate from 7.75% to 8.75% of active members' salaries, and therefore increases total contributions into the Fund to 16.5% (7.75% member and 8.75% employer).

The higher employer contribution rate is applicable to the salaries of all active members. Based on expected active member payroll, a 1% employer contribution increase equals about $4.2 million more in FY 2008 (from $32.4 million to $36.6 million), or about $8.4 million for the 2007-09 biennium.

On the surface, an employer contribution rate increase might appear to only impact employers. However, the TFFR Board recognizes that such a rate increase also impacts teachers. Salary, retirement, and other benefits are all part of the total compensation package offered to employees. Therefore, an increase in employer retirement contributions will likely reduce the total funds available for future salary increases.

Across the country, employer contribution rates are rising. In fact, the most recent Public Fund Survey for fiscal year 2005 showed the average employer contribution rate was 8%. Employer rates are predicted to continue rising as more plans phase in higher contribution rates already approved by board or state legislatures, and as other boards and legislatures meet to consider higher rates to address funding issues.

Attachment G – Projected Employer Contribution Effect

2) Requires employer retirement contributions on reemployed retirees beginning July 1, 2007.

For many years, ND has allowed public school teachers and administrators to return to work after retirement. Under current law, retirees may return to teach and continue receiving their TFFR retirement benefits under certain employment limitations. The limits apply to TFFR covered employment which includes teaching, supervisory, and administrative services in a ND public school or state institution. The limits do not apply to non contracted substitute teaching; teaching in a public college, university, or private school; employment outside of education; or employment outside of ND.

General Rule

After a 30-day waiting period, a retiree may return to TFFR covered employment for a maximum number of hours in a fiscal year (July 1 – June 30) and continue to receive a monthly TFFR retirement benefit. The maximum annual hour limit is based on length of contract duties as follows:

9 month contract = 700 hours
10 month contract = 800 hours
11 month contract = 900 hours
12 month contract = 1,000 hours

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

The retiree will continue to receive their monthly TFFR retirement benefit; the retiree will receive salary and benefits from the employer; and no retirement contributions are required to be paid.

So far in 2006-07, (as of 12/06), there are 169 retirees who have returned to teach part time under the general rule. These retirees are working half time or less and are teaching in nearly every subject area including Business, Consumer Science, Counseling, Elementary Ed, English, Foreign Language, Health, Library, Math, Music, Phy Ed, Science, Social Studies, Special Ed, Summer School, Technology Coordinators, and other teaching positions. There are also retired administrators employed part time as Superintendents, Principals, and Directors (Athletic, Special Ed, etc.).

Exception A – Critical Shortage Area (CSA)

A retiree may return to TFFR covered employment in an approved critical shortage area and exceed the annual hour limitation (work full time) without losing retirement benefits. If the employee retired on or prior to January 1, 2001, no waiting period is required. However, if a retiree's retirement date is after

January 1, 2001, a one-year waiting period is required. The retiree may perform non contracted substitute teaching during the one-year waiting period. Critical shortage areas are determined each year by the Education Standards and Practices Board (ESPB). For the 2006-07 school year, ESPB has designated all areas except for elementary education and physical education as critical shortage areas. Each year the retiree must re-apply for this critical shortage area exception.

Like the General Rule, the retiree will continue to receive monthly retirement benefits, the retiree will receive salary and benefits from the employer, and no retirement contributions are required to be paid.

So far in 2006-07 (as of 12/06), there are 10 retirees who have returned to teach under the critical shortage area exception. These retirees are working full time in the areas of Consumer Science (1), Counselor (1), English (2), Math (2), Music (1), Science (1), Social Studies (1), and Superintendent (1).

Exception B – Benefit Suspension and Recalculation

After a 30-day waiting period, a retiree may return to TFFR covered employment and exceed the annual hour limitation (work full time). Under this option, a retiree's TFFR benefits are suspended the first of the month following the month the retiree reaches the annual hour limit. At that time, employer and employee contributions must be paid on any salary earned after the annual hour limit based on the employer's TFFR payment model. Upon the retiree's re-retirement, the monthly benefits may be recalculated depending upon the number of years the retiree is re-employed. If the retiree re-retires with:

- Less than 2 years of additional earned service credit - the retiree will receive the discontinued benefit plus benefit increases granted during the benefit suspension and a refund of any additional employee contributions paid plus interest.
- 2-5 years – the retiree will receive the greater of the discontinued annuity, plus additional years at the new multiplier, plus benefit increases granted during the suspension OR all the years recalculated at the new multiplier, less an actuarial offset for the amount of benefits already paid.
- 5 or more years – the retiree will receive the greater of the calculation above or the retirement benefit recalculated using all the years at the new multiplier with no actuarial offset.

So far in 2006-07 (as of 12/01/06), there are 4 retirees who have returned to teach under the benefit suspension and recalculation exception. These retirees are working full time as Counselor (1), Principal (2), and Superintendent (1).

TFFR is concerned about the growing number of retirees who are returning to work in public schools, and its small, but increasing financial impact on the Fund.

Current retiree re-employment provisions may be encouraging members to retire earlier than they otherwise would have which increases the cost to the Fund. Additionally, when an employer hires a retiree, the retiree is presumably taking the place of another teacher who would have been a TFFR participating member, which also produces a small loss.

To address these financial implications, **Sections 10 and 11** of SB 2046 require employers to contribute 16.5% of the re-employed retiree's salary for those retirees who return to work under the general rule and critical shortage options. Employer contributions would be reduced to 8.75% if the retiree exceeds annual hour limit under general rule and member contributions become due. These sections also require notification within 30 days that the retiree has returned to covered employment.

Requiring 16.5% employer contribution on re-employed retirees' salaries equals about $631,000 in FY 2008, or about $1.3 million for the 2007-09 biennium. This figure is dependent upon the number of retirees who return to teach in covered positions and the salary they receive.

Attachment G - Projected Employer Contribution Effect
Attachment H - TFFR Re-employed Retirees Summary Statistics 2000-07
Attachment I - TFFR Re-employed Retirees – by Option
Attachment J - TFFR Re-employed Retirees – by Job Type
Attachment K - TFFR Re-employed Retirees – by Hours Contracted
Attachment L - TFFR Re-employed Retirees – by Subject/Position
Attachment M - TFFR Re-employed Retirees – by Participating Employers

3) Creates new tier of reduced member benefits for new TFFR members (and returning refunded members) employed on or after July 1, 2007.

Sections 2, 4, 5, 7, 8, 9, 12, 13 define and outline benefits for two groups (tiers) of TFFR members.

Tier 1 members include all current active, inactive, or retired members who have TFFR service credit on July 1, 2007. Tier 1 members who do not refund their service credit would maintain the current TFFR benefit structure and member contribution rates.

Tier 2 members include all new members and returning refunded members who are employed on or after July 1, 2007. Tier 2 members would have the following benefit changes:

- Rule of 90 (instead of Rule of 85).
- 5-year vesting (instead of 3-year vesting).
- Unreduced retirement eligibility would be age 65 and 5 years of service (instead of age 65 and 3 years) or Rule of 90.

- Reduced retirement eligibility would be age 55 and 5 years (instead of age 55 and 3 years).
- Final average salary would be computed as a 5-year average (rather than as a 3-year average) which reduces the benefit amount.

Example – FAS Comparison
assume 4% increases, $40,000 final salary, 30 yrs service

3 year FAS = $23,414 year
5 year FAS = $22,547 year
Difference = $ 867 year, or 3.7% reduction in annual benefits

A new tier of benefits for new teachers and administrators acknowledges that the pension environment and TFFR have undergone major changes over the last decade. There are fewer active members, and they are retiring earlier, living longer, and have higher salaries. Future new hires would have to work longer before qualifying for normal retirement benefits, and their benefit amount would be reduced because of the final average salary calculation.

4) Removes automatic refund requirement and incorporates federal tax law changes to comply with IRS qualification requirements.

All changes reflect federal law updates and compliance with IRS regulations. **Section 1** increases the maximum annual compensation limit that can be used in benefit calculations ($220,000 in 2006, and indexed to inflation in $5,000 increments thereafter). **Section 4** updates minimum distribution requirements. **Section 6** increases the maximum annual benefit limitations ($175,000 in 2006, and indexed to inflation in $5,000 increments thereafter). **Section 12** removes automatic refund requirement for non vested inactive members and updates rollover provisions.

5) Application and Appropriation

Section 14 clarifies that this bill applies to salaries earned on and after July 1, 2007. **Section 15** provides TFFR an appropriation of $5,000 to implement provisions of this bill.

- **Fiscal Impact on Employers and State**

Fiscal impact to state, counties, and school districts is estimated to be nearly $9.7 million for the 2007-09 biennium. Of this amount, approximately $96,984 would need to be appropriated for general fund agencies, $12,608 would be from counties, and $9,588,793 would be from school districts.

Attachment G – Projected Employer Contribution Effect
Fiscal Note

- **Actuarial Impact on TFFR**

If SB 2046 is approved, TFFR is projected to achieve a zero UAAL and a 100% funded ratio within about 30 years (based on current actuarial assumptions, including 8% investment return assumption and future membership declines of 0.5% per year).

Item	July 1, 2006 Current Valuation	July 1, 2016 No Changes	July 1, 2016 With SB 2046
Funded Ratio	75.4%	84.0%	86.0%
UAAL	$509.9 million	$482.5 million	$420.5 million
ARC	12.29%	10.17%	8.28%
Margin	-4.54%	-2.42%	0.47%
Funding Period	Infinite	Infinite	24.8 years

Item	July 1, 2006 Current Valuation	July 1, 2036 No Changes	July 1, 2036 With SB 2046
Funded Ratio	75.4%	82.4%	100.4%
UAAL	$509.9 million	$947.3 million	-$20.1 million
ARC	12.29%	10.35%	2.37%
Margin	-4.54%	-2.60%	6.38%
Funding Period	Infinite	Infinite	0.0 years

Attachment N - October 19, 2006 GRS letter

- **Summary**

The TFFR Board recognizes that employer contribution increases and benefit reductions for new hires will be difficult for teachers, administrators, and school districts to manage. However, the Board believes that both members and employers share the responsibility of these changes that will preserve the long-term financial stability of the TFFR trust fund.

SB 2046 is a proactive, modest, and balanced approach to addressing TFFR's funded status without harming legally protected pension benefits for active and retired members. If this legislative package is enacted and actuarial and investment assumptions are met, the financial condition of the TFFR plan strengthens and remains stable for decades to come.

The interim Legislative Employee Benefits Programs Committee reviewed this bill and gave it a "favorable" recommendation. Please support the changes included in SB 2046, and give it a "do pass" recommendation.

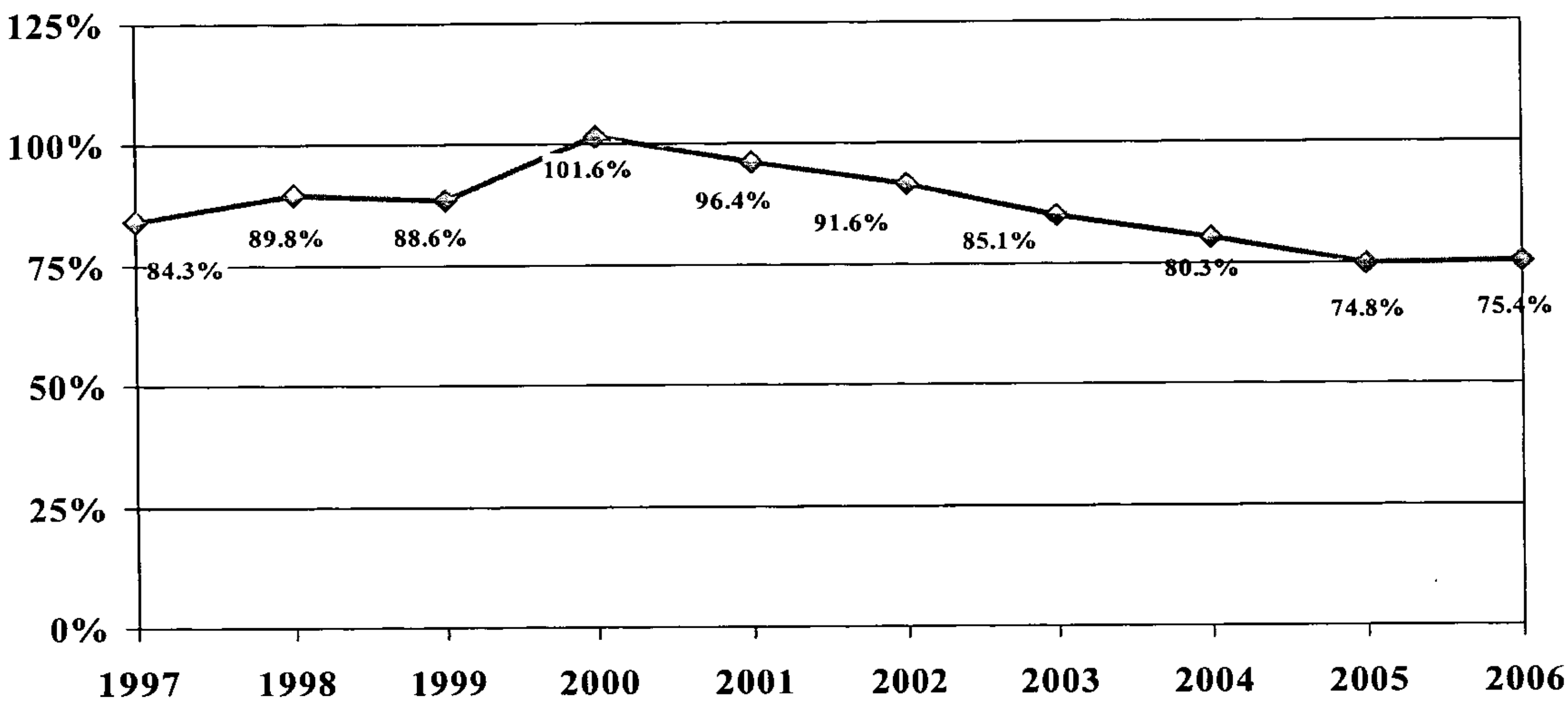
ATTACHMENT A

Executive Summary

Valuation Date:	7/1/2006	7/1/2005
Fiscal Year Ending:	6/30/2007	6/30/2006
Membership		
• Number of		
- Active Members	9,585	9,801
- Retirees and Beneficiaries	5,893	5,586
- Inactive, Vested	1,409	1,377
- Inactive, Nonvested	143	168
- Total	17,030	16,932
• Payroll	$390.1 million	$386.6 million
Statutory contribution rates		
• Employer	7.75%	7.75%
• Member	7.75%	7.75%
Assets		
• Market value	$1,720.3 million	$1,530.2 million
• Actuarial value	1,564.0 million	1,469.7 million
• Return on market value	14.6%	13.3%
• Return on actuarial value	8.5%	3.3%
• Ratio - actuarial value to market value	90.9%	96.0%
• External cash flow %	-1.8%	-1.6%
Actuarial Information		
• Normal cost %	11.31%	11.31%
• Unfunded actuarial accrued liability (UAAL)	$509.9 million	$495.5 million
• Funded ratio	75.4%	74.8%
• Funding period	Infinite	Infinite
GASB 25 ARC		
• Amortization period	30 years	30 years
• Amortization method	Level % (2.00%)	Level % (2.00%)
• Calculated contribution rate	12.29%	12.12%
• Margin	-4.54%	-4.37%
Gains/(Losses)		
• Asset experience	$6.7 million	$(67.4) million
• Liability experience	(1.7) million	(5.8) million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	0.0 million	(63.3) million
• Total	$5.0 million	$(136.5) million

ATTACHMENT B

GASB #25 Funded Ratio
(Actuarial Assets ÷ Actuarial Accrued Liabilities)

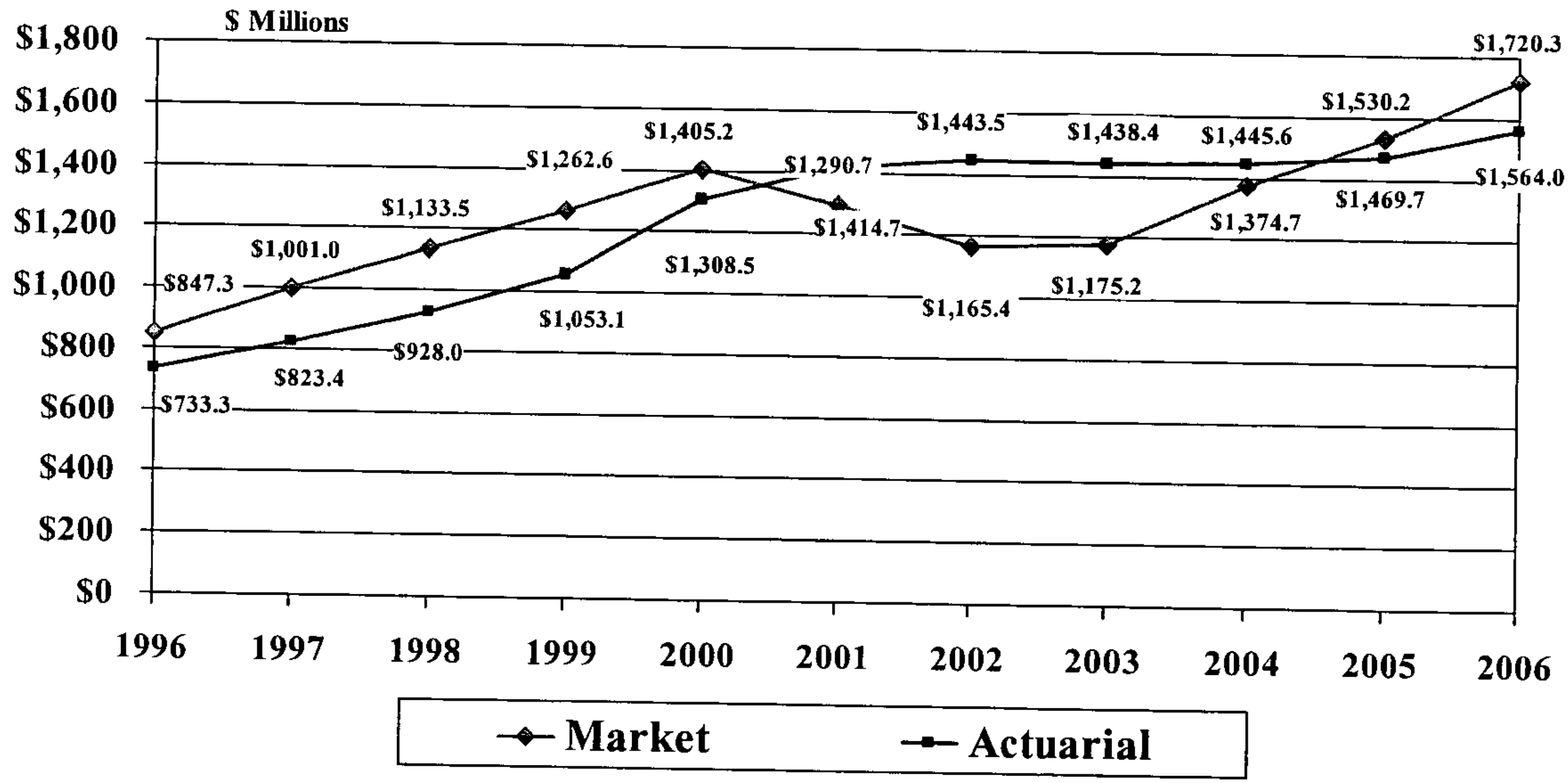


Benefit increases reflected in 1997, 1999, and 2001

Assumption changes reflected in 2000 and 2005

GRS

Market and Actuarial Values of Assets

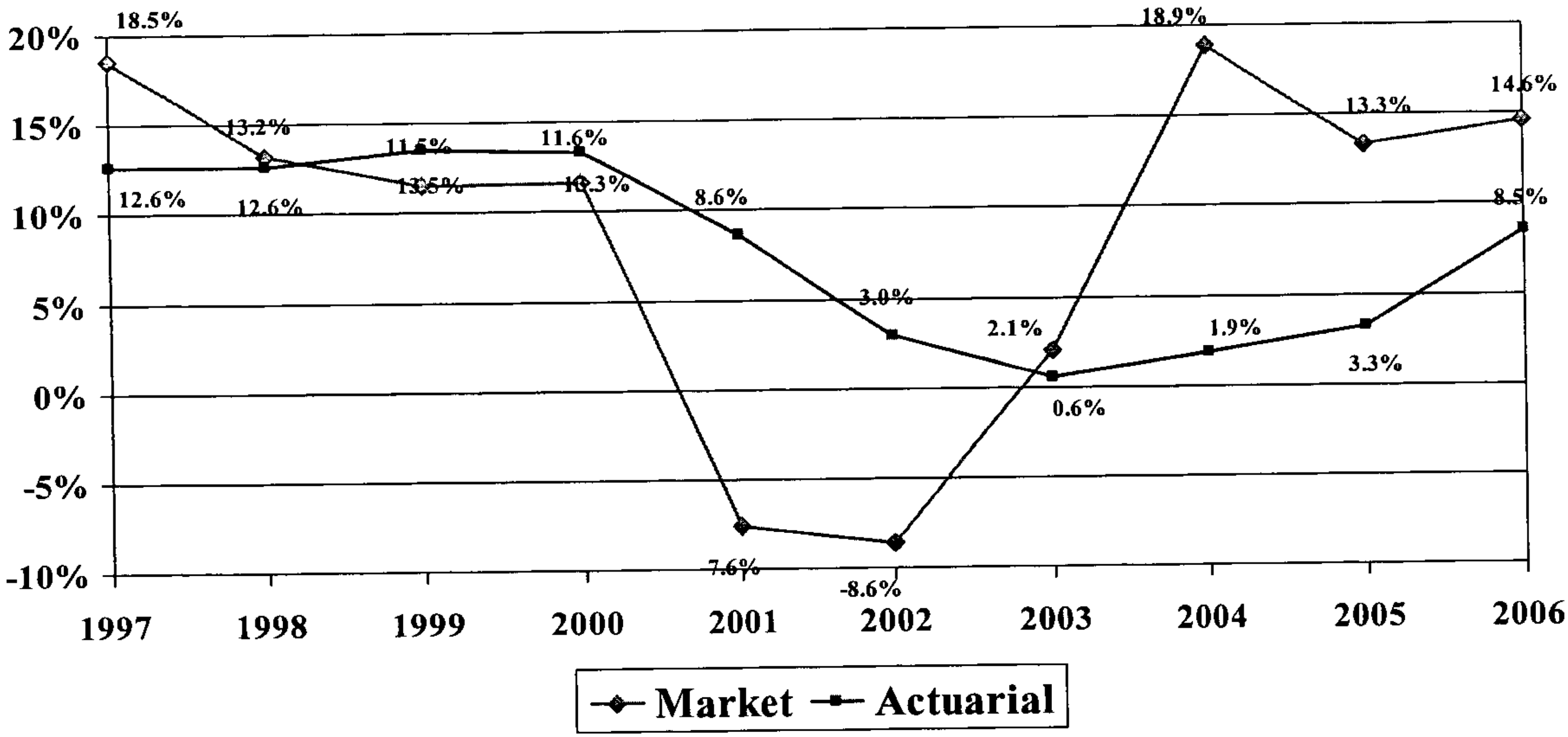


ATTACHMENT C

GRS

ATTACHMENT D

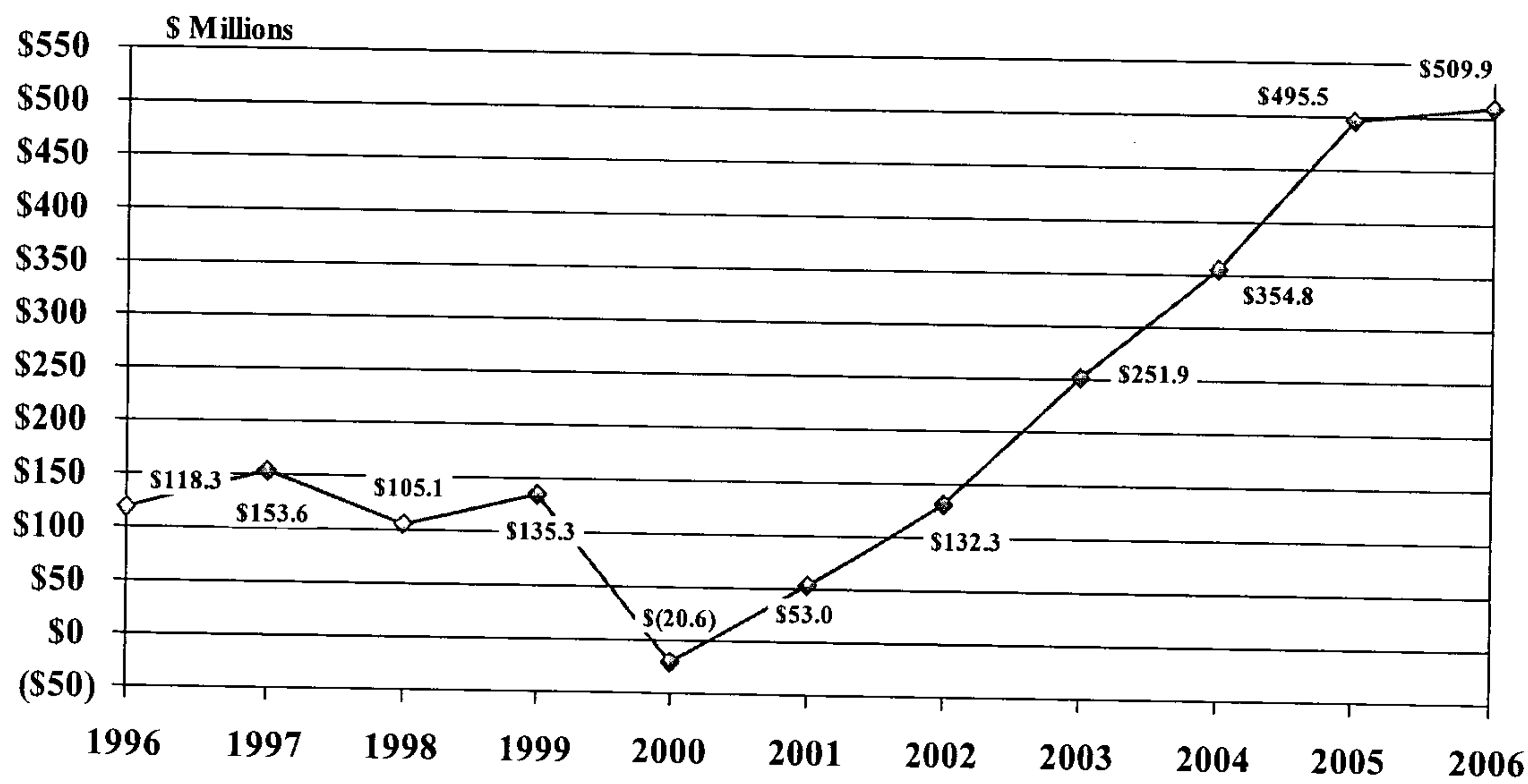
Estimated Yields Based on Actuarial and Market Value of Assets



GRS

ATTACHMENT E

UAAL



GRS

ATTACHMENT F

Projected Funded Ratios and Margin
(Assumes 8.00% Annual Market Returns for All Future Years; and Assumes 0.5% Annual Decrease in Active Membership)

Valuation Year	Funded Ratio (AVA)	Funded Ratio (MVA)	Margin
2006	75%	83%	-4.54%
2007	78%	83%	-3.85%
2008	81%	84%	-2.92%
2009	83%	84%	-2.43%
2010	84%	84%	-2.17%
2011	84%	84%	-2.22%
2016	84%	84%	-2.42%
2021	83%	83%	-2.52%
2026	83%	83%	-2.57%
2031	82%	82%	-2.59%
2036	82%	82%	-2.60%

ATTACHMENT G

North Dakota Teachers' Fund for Retirement

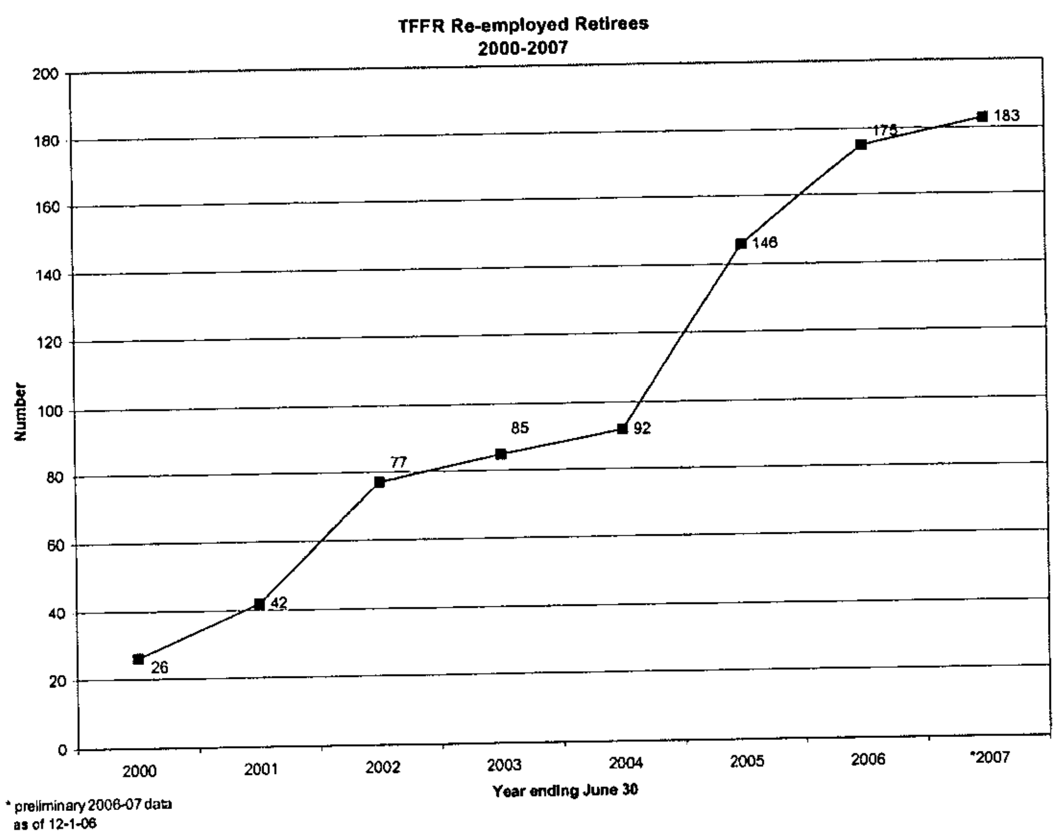
Projected Employer Contribution Effect of SB 2046
(Projections Based on July 1, 2006 Actuarial Valuation)

Fiscal Year	No Change (Employer Contributions at 7.75%)	Under SB 2046			Increase Due to SB 2046
		Regular Employer Contributions at 8.75%	Reemployed Retirees at 16.50%	Total under SB 2046	
(1)	(2)	(3)	(4)	(5)	(6)
FY 2008	32,375,812	36,553,336	630,873	37,184,209	4,808,397
FY 2009	32,910,367	37,156,865	643,490	37,800,355	4,889,988
FY 2010	33,538,947	37,866,553	656,360	38,522,913	4,983,966
FY 2011	34,259,847	38,676,689	669,487	39,346,176	5,086,329

ATTACHMENT H

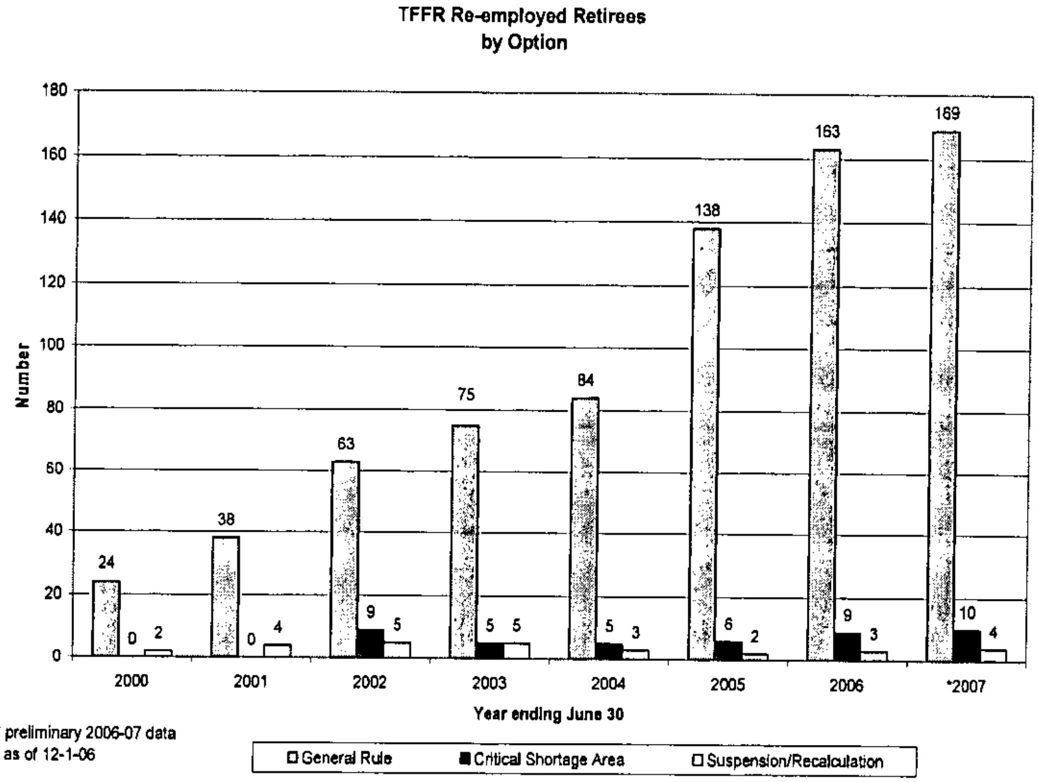
*2006-07 RETIREE REEMPLOYMENT SUMMARY STATISTICS

Total number of Re-employed Retirees		**183**
Superintendents	24	
Administrators	31	
Teachers	128	
General Rule	169	
Critical Shortage Area	10	
Suspend and Recalculate	4	
Average Age	59	
Average Salary	$23,000	

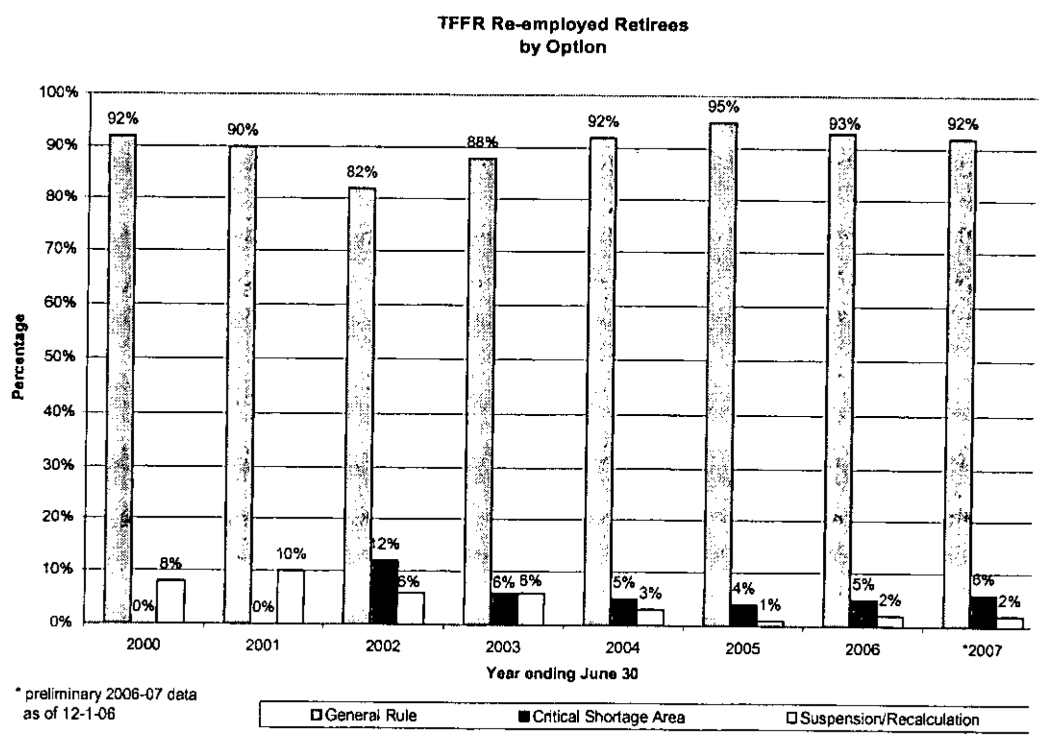


*preliminary data as of 12/1/06

ATTACHMENT I

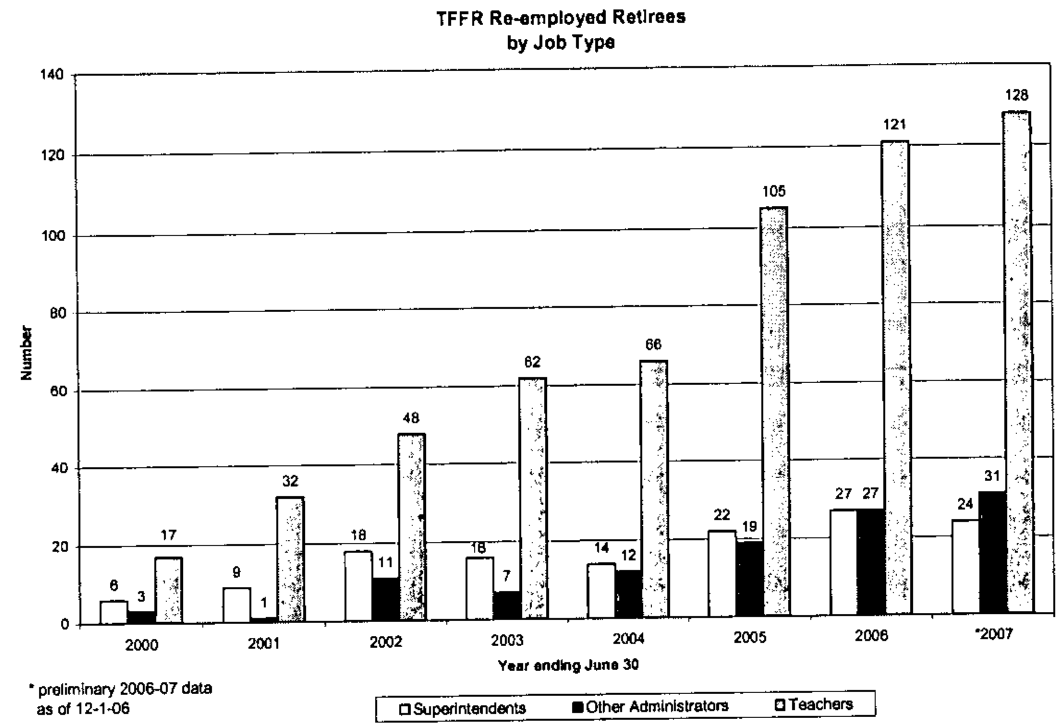


* preliminary 2006-07 data
as of 12-1-06

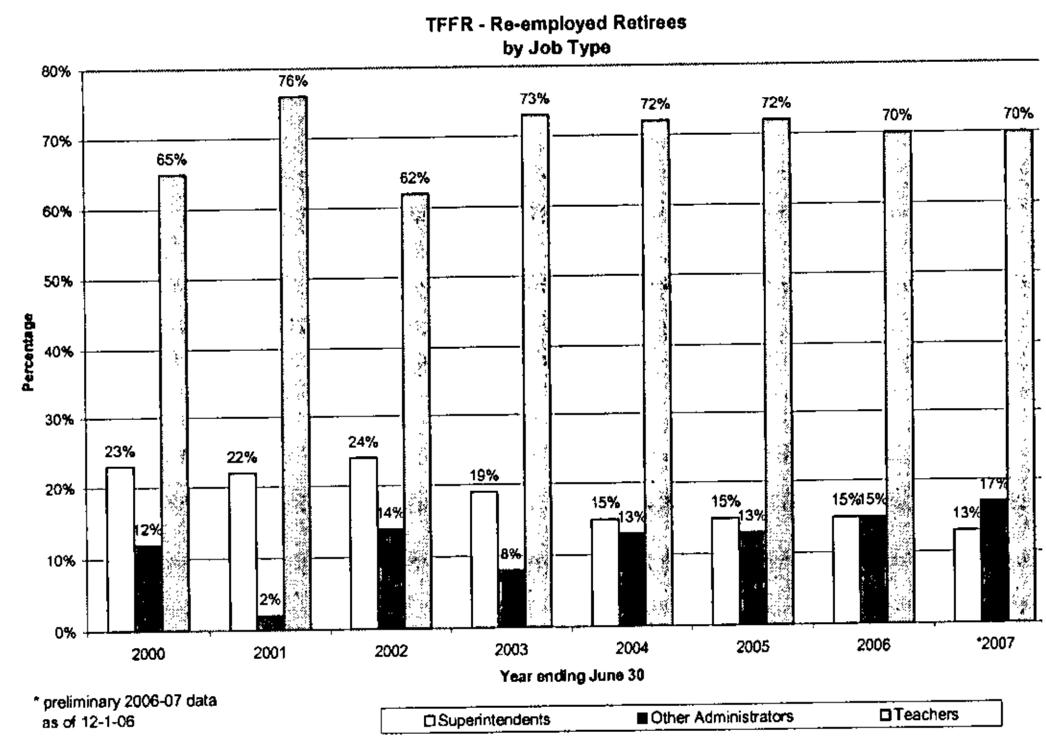


* preliminary 2006-07 data
as of 12-1-06

ATTACHMENT J



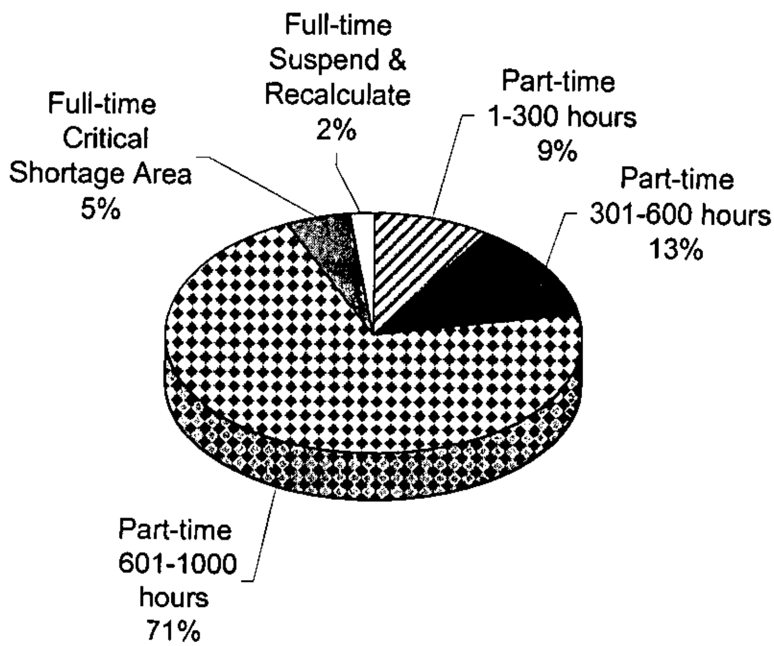
* preliminary 2006-07 data as of 12-1-06



* preliminary 2006-07 data as of 12-1-06

ATTACHMENT K

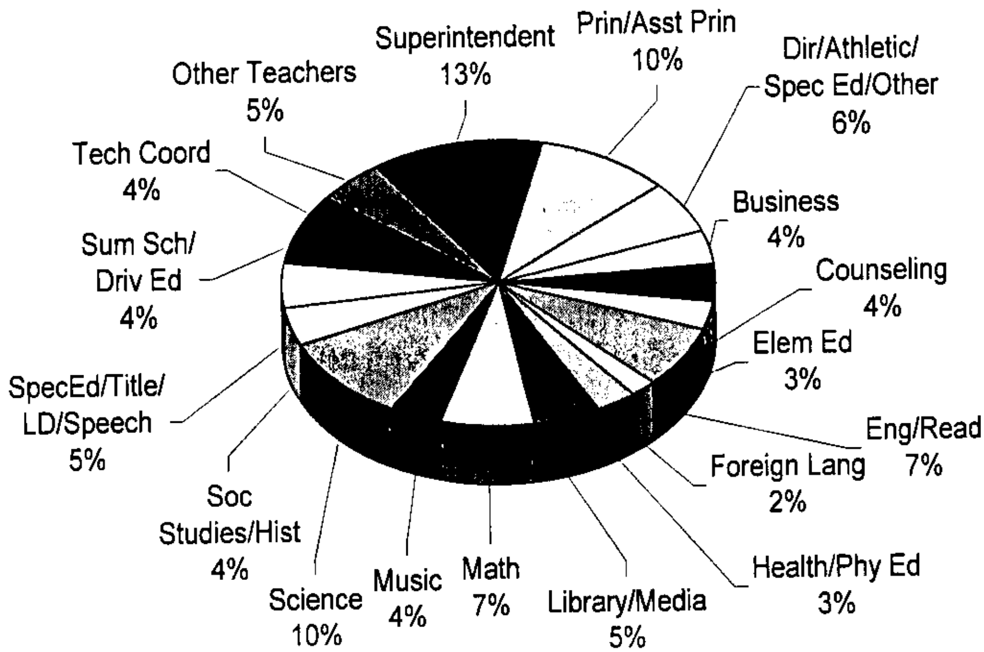
TFFR RE-EMPLOYED RETIREES
By Hours Contracted



Hours Contracted	Re-employed Retirees #	%
Part time – General Rule	#	%
1 – 300 hours	16	9
301 – 600 hours	23	13
601 – 1000 hours	130	71
Full time		
Critical Shortage Area	10	5
Suspend & Recalculate	4	2
Total Re-employed Retirees (3 teaching in 2 districts)	**183**	**100 %**

ATTACHMENT L

TFFR RE-EMPLOYED RETIREES
BY SUBJECT/POSITION



Subject or Position	Re-employed Retirees #	%
Business	7	4
Counseling	7	4
Elementary Ed	5	3
English/Reading	13	7
Foreign Language	4	2
Health/Phy Ed	5	3
Library/Media	9	5
Math	13	7
Music	8	4
Science	18	10
Social Studies/History	8	4
Spec Ed/Title/LD/Speech	10	5
Summer School/Drivers Ed	7	4
Tech Coordination	7	4
Other Teachers	10	5
Total Retired Teachers	131	71
Superintendent	24	13
Principal/Asst Supt	19	10
Director/Athletic	12	6
Total Retired Admin	55	29
Total Re-employed Retirees	**186**	**100%**

(3 teaching in 2 school districts)

*preliminary data as of 12/01/06

ATTACHMENT M

TFFR Retirees Employed by Participating Employers
2006-07

School Districts	#
Adams	
Alexander	3
Anamoose	1
Apple Creek Elementary	
Ashley	
Bakker Elementary	
Baldwin Elementary	
Beach	
Belcourt	
Belfield	1
Bell Elementary	
Beulah	
Billings County School	
Bisbee/Egeland	
Bismarck	8
Bottineau	
Bowbells	1
Bowman	1
Burke Central	2
Carrington	
Cavalier	
Center-Stanton	
Central Cass	
Central Elementary	
Central Valley	3
Dakota Prairie	
Devils Lake	
Dickinson	5
Divide Co School – Crosby	4
Dodge Elementary	
Drake	1
Drayton	2
Dunseith	
Earl Elementary	
Edgeley	
Edinburg	2
Edmore	1
Eight Mile	
Elgin/New Leipzig	
Ellendale	
Emerado Elementary	
Enderlin	2
Eureka Elementary	
Fairmount	
Fargo	10
Fessenden-Bowdon	1
Finley-Sharon	
Flasher	
Fordville Lankin	
Fort Ransom Elementary	
Fort Totten	2
Fort Yates	1
Gackle-Streeter	
Garrison	1
Glen Ullin	2
Glenburn	
Golden Valley	1
Goodrich	1
Grafton	3
Grand Forks	1
Grenora	1
Griggs County Central	2
Halliday	
Hankinson	
Harvey	
Hatton	
Hazelton – Moffit	
Hazen	1
Hebron	
Hettinger	2
Hillsboro	2
Hope	
Horse Creek Elementary	
Jamestown	1
Kenmare	4
Kensal	
Killdeer	
Kindred	
Kulm	1
Lakota	1
LaMoure	
Langdon	
Larimore	1
Leeds	
Lewis and Clark	
Lidgerwood	1
Linton	
Lisbon	
Litchville-Marion	2
Little Heart Elementary	
Lone Tree Elementary	
Maddock	
Mandan	1
Mandaree	
Manning Elementary	
Manvel Elementary	2
Maple Valley	2
Mapleton Eleementary	
Marmarth Elementary	
Max	
Mayville – Portland CG	2
McClusky	1
McKenzie County School Dist	
Medina	1
Menoken Elementary	
Midkota	3
Midway	2
Milnor	
Minnewauken	4
Minot	
Minto	2
Mohall-Lansford-Sherwood	
Montefiore	
Montpelier	
Mott-Regent	1
Mt. Pleasant	1
Munich	2
Napoleon	1
Nash Elementary	
Naughton Rural	
Nedrose	
Nesson	
New Elementary	
New England	3
New Rockford-Sheyenne	1
New Salem	
New Town	1
Newburg United	
North Border School-Walhalla	2
North Central of Barnes	
N Central of Towner-RL	2
North Sargent	
Northern Cass	
Northwood	
Oakes	1
Oberon Elementary	
Page	
Park River	1
Parshall	
Pettibone	
Pingree – Buchanan	4
Pleasant Valley Elementary	1
Positive Action Consortium	
Powers Lake	2
Richardton	
Richland	
Robinson	
Rolette	1
Roosevelt	2
Rugby	1
Sargent Central	
Sawyer	1
Scranton	2
Selfridge	2
Sheldon	1
Sims Elementary	
Solen – Cannonball	1
South Heart	1
South Prairie Elementary	
Southern	2
Spiritwood Elementary	1
St. John's School	4
St. Thomas	4
Stanley	1

School Districts (cont)	#
Starkweather	
Steele – Dawson	2
Sterling Elementary	
Strasburg	1
Surrey	1
Sweet Briar Elementary	
Tappen	
TGU	
Thompson	2
Tioga	
Turtle Lake – Mercer	1
Tuttle – Pettibone	3
Twin Buttes Elementary	
Underwood	2
United	1
Valley	1
Valley City	
Velva	3
Wahpeton	2
Warwick	
Washburn	
West Fargo	
Westhope	
White Shield	1
Wildrose	
Williston	2
Wimbledon – Courtenay	
Wing	2
Wishek	
Wolford	1
Wyndmere	
Yellowstone	2
Zeeland	

County Superintendents	
Billings County	
Bottineau County	
Grant County	
LaMoure County	
Logan County	
McHenry County	
McKenzie County	
Morton County	
Nelson County	
Rolette County	
Slope County	
Ward County	
Williams County	1

Special Education Units	
Burleigh County Special Ed.	1
Dickey Lamoure Special Ed.	
East Central Special Ed.	
GST Educational	
Lake Region Special Ed.	
Lonetree Special Ed.	
Northern Plains Special Ed.	2
Oliver – Mercer Special Ed.	
Peace Garden Special Ed.	
Pembina Special Ed.	
Rural Cass Co Special Ed.	
Sheyenne Valley Special Ed.	
Souris Valley Special Ed.	1
South Cen Prairie Spec Ed.	
South Valley Special Ed.	
Southwest Special Ed.	
Upper Valley Special Ed.	
West River Student Services	1
Wil-Mac Special Ed.	

Vocational Centers	
N Valley Career & Tech. Ctr	1
SE Region Career/Tech Center	
Sheyenne Valley Area Voc. Ctr.	

State Agencies & Institutions	
Div of Independent Study	4
ND School for the Blind	
ND School for the Deaf	2
ND Youth Correctional Center	
State Brd/Career & Tech Ed	

Colleges/Universities	
Bismarck State College	
ND State College of Science	
ND State University	
Valley City State University	

Other	
Fargo Catholic Schools	
ND High School Activi Assn.	
ND Education Assn.	
Valley City Teacher Center	

Total TFFR Participating Employers **245**

99 Employers Employing TFFR Retirees

183 TFFR Retirees Employed (3 retirees working in 2 school districts)

* preliminary 2006-07 data as of 12-1-06

ATTACHMENT N

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October 19, 2006

Rep. Matthew M. Klein, Chairman
Employee Benefits Programs Committee
c/o Allen Knudson
Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: Bill No. 70068.0100 – TFFR Bill

Dear Rep. Klein:

As requested, we have reviewed and analyzed Bill 68, a bill requested by the Teachers' Fund for Retirement (TFFR). Bill 68 would, if enacted, increase the employer contribution rate, change certain benefit-related provisions of the plan with respect to teachers hired in the future, increase the required contributions paid on behalf of reemployed retirees, and make certain other technical changes. Bill 68 would be effective on July 1, 2007.

Background

As the committee is aware, the 7.75% employer contribution rate that is set in the statutes is less than the actuarially calculated Annual Required Contribution (ARC) determined in accordance with Government Accounting Standards Board Statement No. 25 (GASB 25). For FY 2006, the ARC is 12.29%, as determined in the July 1, 2006 actuarial valuation. Based on actuarial projections using the current actuarial assumptions, including the assumed 8.00% investment return rate, the Unfunded Actuarial Accrued Liability (UAAL) will, after a brief decrease over the next five years, begin increasing again. Over 30 years, if plan experience follows these assumptions, the UAAL will close in on $1.0 billion. This situation is principally due to the investment-related actuarial losses in FY 2001 - FY 2003. Bill 68 is the TFFR Board's proposal on how best to modify the plan so that TFFR will be projected to achieve a zero UAAL and a 100% funded ratio within about 30 years.

Second Tier with Benefit and Benefit Eligibility Reductions

Section 2 of Bill 68 adds two new definitions to NDCC Section 15-39.1-04. This section creates a second tier of members: those hired on or after July 1, 2007. A member will be placed in Tier 2 if the member does not have credit for service earned before July 1, 2007. All other members will be in Tier 1.

The following changes will be made for members in Tier 2:

- Current members are vested after three (3) years of service. Tier Two members will be vested after five (5) years of service.
- Current members are eligible for an unreduced retirement benefit if their age plus their years of service is greater than 85 (Rule of 85). The Rule of 85 will be replaced with a Rule of 90 for Tier 2 members.
- Unreduced retirement is also available to current members who have reached age 65 and who have credit for three years (3) of service. For Tier 2 members, the provision requires age 65 with five (5) years of service.
- Reduced retirement is available for members who do not meet one of the two conditions just discussed, but who are 55 with three (3) years of service. Bill 68 changes this to 55 with five (5) years of service for Tier 2 members.
- Retirement benefits for current members are based on their years of service and on their Final Average Monthly salary (FAMS). For current members, the FAMS is an average of their three (3) highest fiscal-year salaries. Bill 68 changes the definition of FAMS for Tier 2 members to an average of their five (5) highest salaries. Therefore, for Tier 2 members, the FAMS is usually lower, and never more than, the FAMS that would have been determined under current law. This will result in lower retirement benefits for Tier 2 members.

These changes are made in Sections 4 (amending NDCC 15-39.1-10), 5 (amending NDCC Section 15-39.1-10.3, 7 (amending NDCC Section 15-39.1-11), and 8 (amending NDCC Section 15-39.1-12). Section 9 amends NDCC Section 15-39.1-15. It provides that a Tier 1 member who leaves covered employment, takes a refund, and returns to active membership after July 1, 2007 will be a Tier 2 member. This is true even if the member redeposits the withdrawn amount with interest, and has the forfeited service restored.

Section 13, amending NDCC Section 15-39.1-33, makes conforming changes to the rules for employer service purchases for Tier 2 members.

These changes only affect Tier 2 members; no changes are being made for Tier 1 members.

Increased Employer Contribution Rate

Section 3 of Bill 68 amends NDCC Section 15-39.1-09, increasing the employer contribution rate from 7.75% to 8.75%. This higher employer contribution rate is applicable to the salaries of all members, not just Tier 2 members. We estimate that this section of the bill will increase employer contributions for FY 2008 by $4.2 million, from $32.4 million to $36.6 million.

Contributions by and on Behalf of Reemployed Retirees

Sections 10 and 11 of the bill require the employer to make the entire 16.50% contribution requirement (7.75% for the member contribution and 8.75% for the employer contribution rate) when reemploying a retired TFFR member who does not reenter the plan as an active member. Section 10 amends NDCC 15-39.1-19.1, which deals with retired members who return to work on a part-time basis (under the annual hours limit). Before such a retiree reaches the hours limit, the employer must pay the entire 16.50% contribution. If the retiree works more than the hours limit, then the retiree must begin contributing at the regular member rate of 7.75% and the employer would then contribute the regular 8.75%. Currently, no contributions are required from either the retiree or the employer if the retiree does not exceed the annual hours limit.

Section 11 amends NDCC 15-39.1-19.2, dealing with retired teachers who return to work in a critical shortage area and exceed the annual hours limit. The employer of such a reemployed retiree would be required to contribute 16.50% of the member's salary. Currently, neither the retiree nor the member contributes to TFFR if the retiree is reemployed in a critical shortage area.

Both Section 10 and Section 11 of the bill require the retiree and the employer to notify TFFR when a retiree returns to work. (Previously, notification was only required when the hours threshold had been reached.)

We understand that these sections of the bill are intended to eliminate a financial incentive that some employers might have for employing a retiree (or two retirees for one position), rather than employing a new teacher. If an employer hires a retiree, the employer currently does not have to pay any contributions to TFFR if the retiree does not reach the hours threshold or if the retiree is employed in a critical shortage area. While the number of such rehired retirees is small, the number has been growing. Based on information provided by TFFR, there were 26 reemployed retirees in FY 2000, while in FY 2006 there were 175 such members. Since the average salary for such reemployed retirees was $21,000 in FY 2006, this provision of the bill would increase combined member and employer contributions by over $600,000 (16.50% x $21,000 x 175 members). This amounts to almost a 1.0% increase in contributions received with no increase in liability or benefits.

Encouraging schools to hire retirees may have two other undesirable effects:

- It may cause some members to retire earlier than they might have otherwise, in order to take advantage of this provision. That would cause a small actuarial loss to TFFR.

- It may result in North Dakota losing some of its young teachers to out-of-state systems. If this happens, TFFR would lose the contributions that the young teacher and her/his employer would make, part of which would be used to pay down the unfunded actuarial accrued liability.

Other Provisions

Section 1, amending NDCC Section 15-39.1-04(9): This section is being amended to update references to Section 401(a)(17) of the Internal Revenue Code (IRC). Under the bill, Section 15-39.1-04(9) refers to IRC Section 401(a)(17) as in effect on *July 1, 2007*, rather than as in effect on *August 1, 2005*. Section 401(a)(17) limits the compensation that can be used in a qualified retirement plan. None of the active TFFR members has a salary large enough to be affected by this limit. The change is being made at the request of the plan's legal advisor. No material changes have been made to Section 401(a)(17) since August 1, 2005. This section of the bill also changes the references to several other IRC sections—Sections 125, 132(f), 401(k), 403(b), 414(h), and 457—in a similar fashion. This section of the bill has no actuarial or administrative consequences.

Section 4, amending NDCC Section 15-39.1-10(4): In addition to the substantive changes for Tier 2 members discussed above, this section also makes a change similar to the one made by Section 1. A reference to IRC Section 401(a)(9) "in effect on August 1, 2005" is changed to "in effect on July 1, 2007." IRC Section 401(a)(9) describes distribution requirements for qualified retirement plans. The change is being made at the request of the plan's legal advisor. No material changes have been made to Section 401(a)(9) since August 1, 2005. There is no actuarial or administrative effect.

Section 6, amending NDCC Section 15-39.1-10.6: This section is being amended to update references to Section 415 of the Internal Revenue Code, so that the NDCC section refers to IRC Section 415 as in effect on July 1, 2007, rather than August 1, 2005. Section 415 sets certain maximum benefit amounts payable for a qualified retirement plan. Currently, these limitations do not affect any TFFR members. The change is being made at the request of the plan's legal advisor. No material changes have been made to Section 415 since August 1, 2005. The section of the bill has no actuarial or administrative consequences.

Section 12, amending NDCC Section 15-39.1-20: This section makes a change similar to Section 1 above, changing a reference to IRC Section 401(a)(31) "in effect as of August 1, 2005" to "in effect as of July 1, 2007." The reasons for the change have been discussed above. Section 401(a)(31) codifies the rollover and plan-to-plan transfer rules.

In addition, Section 12 of Bill 68 eliminates the requirement to automatically refund the accumulated member contributions when a nonvested member terminates service. This change is being made because plans are no longer permitted to automatically cash out these balances, unless the default option is to transfer the balance to an IRA that the plan establishes for the benefit of the member. This was the substance of one provision of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), amending Section 401(a)(31) and only recently effective for TFFR.

This section of the bill has no actuarial consequences, and the RIO staff believes that this will be less burdensome than the alternative of establishing these default IRA accounts.

Section 14 makes the legislation effective on July 1, 2007. Section 15 appropriates an unspecified (in the copy we received) amount to the Retirement and Investment Office, in order to implement the bill.

Actuarial Impact

We have shown below results from two projections of some key actuarial statistics. One projection is made assuming no change in the benefit or contribution provisions throughout the projection period. The other is made assuming enactment of Bill 68. Both sets of projections are based upon the current actuarial assumptions, including the 8.00% net investment return assumption. Both projections assume there are no future actuarial gains or losses, other than those arising from investment return. Both projections assume future active membership declines 0.50% per year each year in the future.

First, we have shown the results projected ten years, to July 1, 2016. Current valuation information is shown for comparison.

Item	July 1, 2006, Current Valuation	July 1, 2016, No Changes	July 1, 2016, With Bill 68
Funded Ratio	75.4%	84.0%	86.0%
UAAL	$509.9 Million	$482.5 Million	$420.5 Million
ARC	12.29%	10.17%	8.28%
Margin	-4.54%	-2.42%	0.47%
Funding Period	Infinite	Infinite	24.8 years

The Margin shown above is the difference between the statutory contribution rate and the ARC. It is the result of subtracting the ARC from 7.75% (or 8.75% under Bill 68). A negative margin represents a shortfall, and a positive margin indicates the statutory contribution is sufficient. The funding period is the theoretical number of years required to amortize the UAAL, using the statutory contribution rate.

You can see that under Bill 68, the projection shows a positive margin within ten years. However, we can also look out further. Shown below are results from a thirty-year projection, to July 1, 2036.

Item	July 1, 2006, Current Valuation	July 1, 2036, No Changes	July 1, 2036, With Bill 68
Funded Ratio	75.4%	82.4%	100.4%
UAAL	$509.9 Million	$947.3 Million	-$20.1 Million
ARC	12.29%	10.35%	2.37%
Margin	-4.54%	-2.60%	6.38%
Funding Period	Infinite	Infinite	0.0 years

As you can see, under Bill 68, the projections show TFFR in a barely overfunded position in thirty years, with a funded ratio just over 100%. Comparing the 10-year and 30-year projections shows that, with no change to the provisions, the actuarial measurements slowly worsen. After reaching 84.0% funded in 2016, the funded ratios start to fall slowly, and the ARC slowly increases.

We believe this legislation, or similar legislation is desirable. Although superior returns could ultimately bring the ARC below the statutory 7.75% contribution rate, even without enacting this bill, we believe it is prudent to take action now. There is a real risk that long-term returns could be less than 8.00%, and we do not believe it is wise to count on superior returns for the next thirty years.

It may be worth observing here that the 1.00% employer contribution rate increase is modest, compared to the changes we have seen many other systems need to make. For example, the legislature in another state is phasing in a 5.25 percentage point increase in the employer contribution rate for its statewide teacher system over seven years, from 8.65% to 13.90%. Another statewide system—one covering teachers and general state employees—has its employer contribution rate determined actuarially each year, rather than fixed by law. It has seen the employer contribution rate for teachers increase from 9.95% to 22.01%, while the employer contribution rate for state employees has increased from 5.59% to 20.77%.

The public fund survey sponsored by the National Council on Teacher Retirement and the National Association of State Retirement Administrators shows that the median employer contribution rate for plans covering Social Security eligible employees (teachers and general state employees) has increased 2.0 percentage points between the 2002 survey and the most recent (2005) survey. The median is now 8.0%.

Other Issues

Bill 68 will add slightly to administrative complexity. It will require some changes by the Retirement and Investment Office and/or the employers to:

- Determine whether members belong to Tier 1 or Tier 2
- Add a new field to the active member database to identify the member's tier
- Modify various programs to reflect the differences between benefits and vesting for Tier 1 and Tier 2 members
- Determine whether a new employee is a reemployed retiree, and if so, whether the retiree has reentered TFFR active membership, or meets the annual hours exception or the critical shortage exception
- Add a new field or fields to track the status of reemployed retirees
- Ensure that the correct employer contribution is made on the salary of a reemployed retiree
- Make changes to member brochures and to other communication pieces

We view these as minor items compared to the significant improvement in funded status that should result under Bill 68.

If you have any questions about our comments, please do not hesitate to call or write.

Sincerely,

J. Christian Conradi

J. Christian Conradi
Senior Consultant

Enclosures

cc: Ms. Fay Kopp, Deputy Executive Director, Retirement and Investment Office

2039\2006\Leg\TFFR Bill (68)\CommentsBill68.doc

Attachment #2

Senate Government and Veterans Affairs Committee

January 18, 2007

Same given to House

Ken Tupa

SB 2046

Chairman Dever and members of the Senate Government and Veterans Affairs Committee, my name is Ken Tupa; I am here before you this morning representing the North Dakota Retired Teachers Association and to encourage your favorable consideration of SB 2046.

The North Dakota Retired Teachers Association represents retired members and beneficiaries of retired members of TFFR receiving a monthly annuity from the fund. Nearly all of our members made a career of educating children, and when they retired, began receiving their monthly annuity based on years of service, final average salary calculations and the current multiplier.

The one thing all 5900 retirees and beneficiaries have in common, besides educating, is their retirement annuity from TFFR. When teachers begin teaching in North Dakota, they begin earning service credit and contributing a percentage of their salary to their retirement annuity along with their employer. When a teacher nears retirement, there is satisfaction and comfort knowing he or she can expect to receive a predictable monthly annuity upon which retirement expenses and lifestyles may be planned.

SB 2046 makes proactive adjustments to maintain the long-term viability of the TFFR, continuing to ensure retired teachers, and future retired teachers can depend on a secure retirement annuity.

Thank you, Chairman Dever and members of the committee, for the opportunity to appear before you this morning. I will be happy to answer questions you may have.

North Dakota Retired Teachers Association
www.aptnd.com/rta
P.O. Box 447
Bismarck, ND
58502-0447
701-221-7766

attachments were same as those on Jan 18, 2007

HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
SB 2046

Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office
March 1, 2007

SB 2046 Overview

Improving TFFR's financial condition is the focus of SB 2046. As many of you are aware, over the past six years, TFFR's funding level has declined and unfunded liability has increased. This was due primarily to the stock market decline which caused investment returns to be well below assumed rates in fiscal years 2001, 2002, and 2003. To determine how to best address this situation, during the past few years, the TFFR Board conducted an actuarial experience study, asset allocation study, and analyzed future actuarial projections; conducted an actuarial audit to confirm that the financial condition of the fund is being accurately reported; received advice and information from the Attorney General's Office on the constitutionality of possible employee benefit and contribution changes; and received input from member and employer interest groups (NDEA, NDCEL, NDRTA, and NDSBA).

As a result, the TFFR Board has submitted SB 2046 for your consideration. SB 2046 embodies the Board's plan to strengthen TFFR's long-term financial condition. The proposal:

1) Increases employer contributions on active teachers' salaries.
2) Requires employer contributions on reemployed retirees' salaries.
3) Reduces benefits for future new teachers and administrators.
4) Incorporates federal tax law changes to comply with IRS requirements.

- **2006 Actuarial Report Summary**

Each year, TFFR's actuary performs an actuarial valuation to determine if the contributions paid by members and employers, along with the investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time, and warns of possible future problems and issues. The report is presented to both the TFFR Board and to the interim Legislative Employee Benefits Programs Committee.

Key findings from the July 1, 2006 report: TFFR's funded ratio is 75.4% (based on actuarial value) or 83% (based on market value); market value of TFFR assets is $1.7 billion, unfunded actuarial accrued liability (UAAL) is about $510 million; infinite funding period; and negative contribution margin is -4.54%.

Based on the 8% investment return assumption used by TFFR, actuarial projections show TFFR's condition should improve somewhat in the next few years, but will then gradually decline again in the absence of modifications to contribution rates or benefits. Also, the continued trend of early retirements and longer life expectancy, and declining number of active teachers contributing into the plan reduces the likelihood of future long term improvement.

Of great concern to future and current retirees is whether TFFR will be able to continue making benefit payments. Actuarial projections show that TFFR will be able to pay all of the promised benefits for many years into the future. Even in 30 years, assuming 8% future earnings, assets are still projected to be more than 10 times annual distributions. On the other hand, the problem is real, even if not immediate.

Attachment A – 2006 Actuarial Valuation – Executive Summary
Attachment B – Funded Ratio
Attachment C – Market and Actuarial Values of Assets
Attachment D – Estimated Yields Based on Actuarial and Market Value of Assets
Attachment E - Unfunded Actuarial Accrued Liability (UAAL)
Attachment F – Projected Funded Ratios and Margin

- **<u>What caused TFFR's funding level to decline from 2000 to 2006?</u>**

Major contributing factors according to 2006 actuarial report:

1) Investment markets in fiscal years 2001, 2002, and 2003

Average actuarial return for last 6 years was 4.9% (based on market value, net of fees)
Asset-Liability Study put chances of such low returns at 5% -- once-in-a-century event
Net impact: actuarial asset losses of $316.8 million over 6-year period

***Note**: According to the most recent Public Fund Survey made up of the nation's largest public retirement systems, the ND TFFR has outperformed the average public fund over the past 6 years (based on market value, gross of fees, for fiscal years ending June 30, 2001-2006):*

	Survey	*NDTFFR*
3 year average	*12.54%*	*16.58%*
6 year average	*4.79%*	*5.83%*

After three years of investment returns that did not meet TFFR's 8% investment return assumption (2001, 2002, and 2003), in the past three years (2004, 2005, and 2006), TFFR has experienced outstanding returns ranking well into the top decile of all public funds measured by our *investment consultant. Returns for this fiscal year-to-date are positive and encouraging. While returns have improved dramatically, unfortunately, it is not enough to offset the earlier losses.*

2) Benefit improvements in 2001

   Ad hoc cost-of-living adjustment for retirees
   Formula multiplier for nonretired members increased from 1.88% to 2.0%
   Combined impact: $93.9 million increase in UAAL

   Note: *At the time, this appeared to be prudent. TFFR was overfunded by $20.6 million; market assets were $96.7 million greater than actuarial assets. The total cushion was greater than the cost of benefits.*

3) Changes in actuarial assumptions in 2005

   2005 Experience Study
   Revised salary increase rates, retirement rates, and termination rates
   All changes increased liabilities
   Net impact: $63.3 million increase in UAAL

   Note: *The projected continuing decline in number of active members, along with members receiving higher salary increases, members retiring earlier, members living longer, and fewer members leaving before retirement, is expected to make it more difficult for TFFR to improve its funding situation.*

4) Other Factors
   Liability losses and effect of negative amortization (contributions applied to amortize the UAAL are insufficient)
   Impact: $56.5 million increase in UAAL

Total increase in UAAL of $530.5 million (less $20.6 million overfunded in 2001) equals current $509.9 million UAAL as of 7/1/06 valuation.

- **<u>Are there any legal concerns with SB 2046?</u>**

According to an analysis conducted by TFFR's legal counsel, the ND Attorney General's Office, public pension obligations in North Dakota are contractual obligations, the terms of which are contained in the law (TFFR statutes). Based on current law, the AG office believes it is likely that the ND Supreme Court would find it unconstitutional (a violation of the contract clause) for the Legislative Assembly to detrimentally change a member's pension rights without providing a comparable corresponding benefit. Based on this analysis, the State could not modify the TFFR plan benefits to the member's detriment for retired members, active members, and vested inactive members without a corresponding benefit.

However, the State could modify the TFFR plan for nonvested inactive members and future active members (new hires) since there are no contract rights to protect.

As introduced, SB 2046 makes no changes to the contractually protected member's pension benefits and rights. Because the employer is a political subdivision (school district), state agency, or state institution, the employer does not have contract clause protection, so requiring or increasing employer contributions would be allowable. Future active members also have no contract clause protection, so reducing benefits for that group would be allowable.

- **What does SB 2046 do?**

SB 2046 is a comprehensive plan designed to improve TFFR's funding level by increasing assets and reducing future liabilities.

1) Increases employer retirement contributions beginning July 1, 2007

Under current law, member and employer contribution rates total 15.5% (7.75% employee and 7.75% employer). **Section 3** increases the employer contribution rate from 7.75% to 8.75% of active members' salaries, and therefore increases total contributions into the Fund to 16.5% (7.75% member and 8.75% employer).

The higher employer contribution rate is applicable to the salaries of all active members. Based on expected active member payroll, a 1% employer contribution increase equals about $4.2 million more in FY 2008 (from $32.4 million to $36.6 million), or about $8.4 million for the 2007-09 biennium.

On the surface, an employer contribution rate increase might appear to only impact employers. However, the TFFR Board recognizes that such a rate increase also impacts teachers. Salary, retirement, and other benefits are all part of the total compensation package offered to employees. Therefore, an increase in employer retirement contributions will likely reduce the total funds available for future salary increases.

Across the country, employer contribution rates are rising. In fact, the most recent Public Fund Survey for fiscal year 2005 showed the average employer contribution rate was 8%. Employer rates are predicted to continue rising as more plans phase in higher contribution rates already approved, and as other boards and legislatures meet to consider higher rates to address funding issues.

2) Requires employer retirement contributions on reemployed retirees beginning July 1, 2007.

For many years, ND has allowed public school teachers and administrators to return to work after retirement and continue receiving their TFFR retirement benefits under certain employment limitations. The limits apply to TFFR covered employment, but do not apply to non contracted substitute teaching; teaching in a public college, university, or private school; employment outside of education; or employment outside of ND.

General Rule

After a 30-day waiting period, a retiree may return to TFFR covered employment for a maximum number of hours in a fiscal year (July 1 – June 30) and continue to receive a monthly TFFR retirement benefit. The maximum annual hour limit is based on length of contract duties as follows:

9 month contract = 700 hours
10 month contract = 800 hours
11 month contract = 900 hours
12 month contract = 1,000 hours

The retiree will continue to receive monthly TFFR retirement benefits; the retiree will receive salary and benefits from the employer; and no retirement contributions are required to be paid.

So far in 2006-07, (as of 12/06), there are 169 retirees who have returned to teach part time under the general rule. These retirees are working half time or less and are teaching in nearly every subject area including Business, Consumer Science, Counseling, Elementary Ed, English, Foreign Language, Health, Library, Math, Music, Phy Ed, Science, Social Studies, Special Ed, Summer School, Technology Coordinators, and other teaching positions. There are also retired administrators employed part time as Superintendents, Principals, and Directors (Athletic, Special Ed, etc.).

Exception A – Critical Shortage Area (CSA)

A retiree may return to TFFR covered employment in an approved critical shortage area and exceed the annual hour limitation (work full time) without losing retirement benefits. If a retiree's retirement date is after January 1, 2001, a one-year waiting period is required. Critical shortage areas are determined each year by the Education Standards and Practices Board (ESPB). For the 2006-07 school year, ESPB has designated all areas except for elementary education and physical education as critical shortage areas. Each year the retiree must re-apply for this critical shortage area exception.

Like the General Rule, the retiree will continue to receive monthly retirement benefits; the retiree will receive salary and benefits from the employer; and no retirement contributions are required to be paid.

So far in 2006-07 (as of 12/06), there are 10 retirees who have returned to teach under the critical shortage area exception. These retirees are working full time in the areas of Consumer Science (1), Counselor (1), English (2), Math (2), Music (1), Science (1), Social Studies (1), and Superintendent (1).

Exception B – Benefit Suspension and Recalculation

After a 30-day waiting period, a retiree may return to TFFR covered employment and exceed the annual hour limitation (work full time). Under this option, a retiree's TFFR benefits are suspended when the retiree reaches the annual hour limit. At that time, employer and employee contributions must be paid on any salary earned after the annual hour limit. Upon the retiree's re-retirement, the monthly benefits may be recalculated depending upon the number of years the retiree is re-employed.

So far in 2006-07 (as of 12/01/06), there are 4 retirees who have returned to teach under the benefit suspension and recalculation exception. These retirees are working full time as Counselor (1), Principal (2), and Superintendent (1).

Retiree Re-employment Concerns

TFFR is concerned about the growing number of retirees who are returning to work in public schools, and its small, but increasing financial impact on the Fund. Current retiree re-employment provisions may be encouraging members to retire earlier than they otherwise would have which increases the cost to the Fund. Current provisions also provide a financial incentive for employers to hire a retiree (or two retirees for one position). When an employer hires a retiree, the retiree is presumably taking the place of another teacher who would have been a TFFR participating member which produces a small actuarial loss since part of the contributions help pay down the UAAL.

To offset the actuarial loss TFFR is experiencing due to members retiring earlier and the vacancies not being filled by active contributing members, **Sections 10 and 11** require employers to contribute 16.5% of the re-employed retiree's salary for those retirees who return to work under the general rule and critical shortage options. Employer contributions would be reduced to 8.75% if the retiree exceeds annual hour limit under general rule and member contributions become due.

The 16.5% employer contribution would be required on the salaries of all re-employed retirees – both those retirees who are currently employed with the district and are re-hired on or after July 1, 2007, as well as new retirees who are hired on or after July 1, 2007.

TFFR recognizes that retirees fill an important need in many school districts. While SB 2046 does not eliminate or reduce re-employment options, it does make it more expensive than it used to be for school districts to hire retirees.

Requiring 16.5% employer contribution on re-employed retirees' salaries equals about $631,000 in FY 2008, or almost $1.3 million for the 2007-09 biennium. This figure is dependent upon the number of retirees who return to teach in covered positions and the salary they receive.

Attachment H - TFFR Re-employed Retirees Summary Statistics 2000-07
Attachment I - TFFR Re-employed Retirees – by Option
Attachment J - TFFR Re-employed Retirees – by Job Type
Attachment K - TFFR Re-employed Retirees – by Hours Contracted
Attachment L - TFFR Re-employed Retirees – by Subject/Position
Attachment M - TFFR Re-employed Retirees – by Participating Employers

3) Creates new tier of reduced member benefits for new TFFR members (and returning refunded members) employed on or after July 1, 2007.

A new tier of benefits for new teachers and administrators acknowledges that the pension environment and TFFR have undergone major changes over the last decade. There are fewer active members, and they are retiring earlier, living longer, and have higher salaries. Future new hires would have to work longer before qualifying for normal retirement benefits, and their benefit amount would be reduced because of the final average salary calculation.

Sections 2, 4, 5, 7, 8, 9, 12, 13 define and outline benefits for two groups (tiers) of TFFR members.

Tier 1 members include all current active, inactive, and retired members who have TFFR service credit on July 1, 2007. Tier 1 members who do not refund their service credit would maintain the current TFFR benefit structure and member contribution rates.

Tier 2 members include all new members and returning refunded members who are employed on or after July 1, 2007. Tier 2 members would have the following benefit changes:

- Rule of 90 (instead of Rule of 85).
- 5-year vesting (instead of 3-year vesting).
- Unreduced retirement eligibility would be age 65 and 5 years of service (instead of age 65 and 3 years) or Rule of 90.
- Reduced retirement eligibility would be age 55 and 5 years (instead of age 55 and 3 years).
- Final average salary (FAS) would be computed as a 5-year average (rather than as a 3-year average) which reduces the benefit amount.

  Example – FAS Comparison
  assume 4% increases, $40,000 final salary, 30 yrs service
  3 year FAS = $23,414 annual retirement benefits
  5 year FAS = $22,547 annual retirement benefits
  Difference = $ 867 year, or 3.7% reduction in annual benefits

4) **Removes automatic refund requirement and incorporates federal tax law changes to comply with IRS qualification requirements.**

All changes reflect federal law updates and compliance with IRS regulations. **Section 1** increases the maximum annual compensation limit that can be used in benefit calculations ($220,000 in 2006, and indexed to inflation in $5,000 increments thereafter). **Section 4** updates minimum distribution requirements. **Section 6** increases the maximum annual benefit limitations ($175,000 in 2006, and indexed to inflation in $5,000 increments thereafter). **Section 12** removes automatic refund requirement for non vested inactive members and updates rollover provisions.

5) **Application**

Section 14 clarifies that this bill applies to salaries earned on and after July 1, 2007.

6) **Appropriation**

Section 15 provides TFFR an appropriation of $5,000 to implement provisions of this bill.

- **Fiscal Impact on Employers and State (See fiscal note)**

Fiscal impact to state, counties, and school districts is estimated to be nearly $9.7 million ($9,698,385) for the 2007-09 biennium. Of this amount, about $12,608 would be from counties and $9,588,793 would be from school districts and other TFFR employers. Approximately $96,984 would need to be appropriated for general fund state agencies and institutions including the Department of Career and Technical Education, Division of Independent Study, School for the Blind, School for the Deaf, and Youth Correctional Center.

Note: *Above estimates are based on assumptions and calculations from TFFR's actuarial consultant. Actual amounts would be calculated based on actual salary of TFFR members employed by state agencies, state institutions, counties, school districts, and other TFFR employers for the 2007-09 biennium. Also, If HB 1078 passes, TFFR members employed by Career and Technical Education will have the option to transfer retirement plan membership from TFFR to PERS, and the increased appropriation to CTE for SB 2046 may not be needed.*

Attachment G – Projected Employer Contribution Effect

- **Actuarial Impact on TFFR**

If SB 2046 is approved, TFFR is projected to achieve a zero UAAL and a 100% funded ratio within about 30 years (based on current actuarial assumptions, including 8% investment return and future member decline of 0.5% per year).

Item	July 1, 2006 Current Valuation	July 1, 2016 No Changes	July 1, 2016 With SB 2046
Funded Ratio	75.4%	84.0%	86.0%
UAAL	$509.9 million	$482.5 million	$420.5 million
ARC	12.29%	10.17%	8.28%
Margin	-4.54%	-2.42%	0.47%
Funding Period	Infinite	Infinite	24.8 years

Item	July 1, 2006 Current Valuation	July 1, 2036 No Changes	July 1, 2036 With SB 2046
Funded Ratio	75.4%	82.4%	100.4%
UAAL	$509.9 million	$947.3 million	-$20.1 million
ARC	12.29%	10.35%	2.37%
Margin	-4.54%	-2.60%	6.38%
Funding Period	Infinite	Infinite	0.0 years

Attachment N - October 19, 2006 GRS letter

- **Summary**

The TFFR Board recognizes that employer contribution increases and benefit reductions for new hires will be difficult for teachers, administrators, school districts and the state to manage. However, the Board believes that both members and employers share the responsibility of these changes that will preserve the long-term financial stability of the TFFR trust fund.

SB 2046 is a proactive, modest, and balanced approach to addressing TFFR's funded status without harming legally protected pension benefits for active and retired members. If this legislative package is enacted and actuarial and investment assumptions are met, the financial condition of the TFFR plan strengthens and remains stable for decades to come.

The interim Legislative Employee Benefits Programs Committee reviewed this bill and gave it a "favorable" recommendation. Please support the changes included in SB 2046, and give it a "do pass" recommendation.

#1

#1

Funded Ratio
1991 - 2006

TFFR PERS

	TFFR	PERS	Dif
1991	78.5%	100.7%	22.2%
1992	84.4%	100.9%	16.5%
1993	78.0%	99.7%	21.7%
1994	79.4%	98.9%	19.5%
1995	82.7%	102.7%	20.0%
1996	86.1%	104.0%	17.9%
1997	84.3%	108.9%	24.6%
1998	89.8%	111.3%	21.5%
1999	88.6%	108.8%	20.2%
2000	101.6%	115.1%	13.5%
2001	96.4%	110.6%	14.2%
2002	91.6%	104.2%	12.6%
2003	85.1%	98.1%	13.0%
2004	80.3%	94.0%	13.7%
2005	74.8%	90.8%	16.0%
2006	75.4%	88.8%	13.4%

EMPLOYEE BENEFITS PROGRAMS COMMITTEE
REPORT TO THE 60TH LEGISLATIVE ASSEMBLY
REGARDING PROPOSED SENATE BILL NO. 2046

#2

Date: October 24, 2006

nsor: TFFR Board of Trustees

,osal: Major provisions of the bill draft:

1. Incorporate federal tax law changes to comply with Internal Revenue Service requirements.
2. Increase employer retirement contribution rates by 1 percent, from 7.75 to 8.75 percent of active members' salaries. The employee contribution remains at 7.75 percent.
3. Require employer contributions of 16.5 percent of a reemployed retiree's salary.
4. Provide that if a member elects a refund, the member waives any right to participate in the fund under the same membership provisions that existed when the refund was taken.
5. Create a new tier (Tier II) of reduced member benefits for TFFR members employed on or after July 1, 2007, by:
   a. Modifying normal retirement benefit eligibility for new members (Tier II) to age 65 and five years of service or the Rule of 90 rather than the eligibility for current members (Tier I) of age 65 and three years of service or the Rule of 85.
   b. Modifying the final average salary calculation for new members (Tier II) to provide for a five-year final average salary calculation rather than the three-year final average salary calculation for current members (Tier I).
   c. Modifying the vesting schedule for new members (Tier II) to five years of service rather than the vesting schedule of three years of service for current members (Tier I).
   d. Modifying the early retirement eligibility for new members (Tier II) to age 55 and five years of service rather than age 55 and three years of service for current members (Tier I).
   e. Modifying the employer service purchase conditions for new members (Tier II) to age 55 and five years of service and a Rule of 82 rather than age 55 and three years of service with a Rule of 77 for current members (Tier I).

The committee amended the bill at the request of the TFFR Board of Trustees to provide a $5,000 special funds appropriation from TFFR to pay administrative costs to implement provisions of the bill.

Actuarial Analysis: The following chart compares TFFR without provisions of Bill No. 68 and with sions of Bill No. 68, as amended, over 10 and 30 years. The projections are based on current rial assumptions, including an 8 percent net investment return and active membership declining by .5 percent per year.

Item	July 1, 2006, Current Valuation	July 1, 2016, No Changes	July 1, 2016, With Bill No. 68
Funded ratio	75.4%	84.0%	86.0%
Unfunded actuarial accrued liability	$509.9 million	$482.5 million	$420.5 million
Annual required contribution	12.29%	10.17%	8.28%
Margin[1]	-4.54%	-2.42%	0.47%
Funding period[2]	Infinite	Infinite	24.8 years
Item	**July 1, 2006, Current Valuation**	**July 1, 2036, No Changes**	**July 1, 2036, With Bill No. 68**
Funded ratio	75.4%	82.4%	100.4%
Unfunded actuarial accrued liability	$509.9 million	$947.3 million	-$20.1 million
Annual required contribution	12.29%	10.35%	2.37%
Margin[1]	-4.54%	-2.60%	6.38%
Funding period[2]	Infinite	Infinite	0.0 years

[1]The margin is the difference between the statutory contribution rate and GASB's annual required contribution. It is the result of subtracting the annual required contribution from 7.75% (or 8.75% under Bill No. 68). A negative margin represents a shortfall and a positive margin indicates the statutory contribution is sufficient.

[2]The funding period is the theoretical number of years required to amortize the unfunded accrued actuarial liability using the statutory contribution rate.

Committee Report: Favorable recommendation.

#3

HOUSE APPROPRIATIONS COMMITTEE – EDUCATION DIVISION
SB 2046 (AMENDED)

Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office
March 19, 2007

- **SB 2046 Overview**

Improving TFFR's financial condition is the focus of SB 2046. As many of you are aware, over the past six years, TFFR's funding level has declined to about 75% and unfunded actuarial accrued liability (UAAL) has increased to nearly $510 million. This was due primarily to the stock market decline which caused investment returns to be well below assumed rates in fiscal years 2001, 2002, and 2003. While investment returns have improved dramatically, and we continue to rank well into the top decile of all public funds measured by our investment consultant, it is not enough to offset the earlier losses. Additionally, the projected continuing decline in number of active members, along with members receiving higher salary increases, members retiring earlier, members living longer, and fewer members leaving before retirement, is expected to make it more difficult for TFFR to improve its funding situation.

To determine how to best address this situation, during the past few years, the TFFR Board conducted and analyzed the results of an actuarial experience study, asset allocation study, and future actuarial projections; conducted an actuarial audit to confirm that the financial condition of the fund is being accurately reported; received advice and information from the Attorney General's Office on the constitutionality of possible employee benefit and contribution changes; and received input from member and employer interest groups (NDEA, NDCEL, NDRTA, and NDSBA). As a result, the TFFR Board has submitted SB 2046 for your consideration.

- **What does SB 2046 do?**

SB 2046 is a comprehensive plan designed to improve TFFR's funding level and reduce its UAAL by increasing assets and reducing future liabilities.

1) Increases employer retirement contributions beginning July 1, 2007

Under current law, member and employer contribution rates total 15.5% (7.75% employee and 7.75% employer). SB 2046 increases the employer contribution rate from 7.75% to 8.75% of active members' salaries, and therefore increases total contributions into the Fund to 16.5% (7.75% member and 8.75% employer).

The House GVA Committee added a sunset provision to SB 2046. Under the sunset provision, the employer contribution rate would revert from 8.75% to 7.75% once the TFFR funded ratio reaches 95%. Based on current actuarial assumptions, including the 8% net investment return assumption, this is expected to occur around 2032, unless investment returns are greater or less than the 8% assumed rate, or other actuarial gains or losses are experienced. The higher employer contribution rate is applicable to the salaries of all active members. Based on expected active member payroll, a 1% employer contribution increase equals about $4.2 million more in FY 2008 (from $32.4 million to $36.6 million), or about $8.4 million for the 2007-09 biennium.

On the surface, an employer contribution rate increase might appear to only impact employers. However, the TFFR Board recognizes that such a rate increase also impacts teachers. Salary, retirement, and other benefits are all part of the total compensation package offered to employees. Therefore, an increase in employer retirement contributions will likely reduce the total funds available for future salary increases.

2) Requires employer retirement contributions on reemployed retirees beginning July 1, 2007.

To offset the actuarial loss TFFR is experiencing due to members retiring earlier and the vacancies not being filled by active contributing members, SB 2046, as amended, requires employers to contribute 8.75% of the re-employed retiree's salary for those retirees who return to work under the general rule and critical shortage options. Last year, public schools and other TFFR employers employed about 175 retired teachers and administrators with an average salary of almost $22,000. So far this school year, there are about 200 re-employed retired teachers and administrators.

TFFR recognizes that retirees fill an important need in many school districts. While SB 2046 does not eliminate or reduce re-employment options, it does make it more expensive than it used to be for school districts to hire retirees. On the other hand, the employer would be making retirement contributions anyway if they were able to hire a nonretired teacher for the vacancy.

Requiring 8.75% employer contributions on re-employed retirees' salaries equals about $335,000 in FY 2008, or almost $ 676,000 for the 2007-09 biennium. This figure is dependent upon the number of retirees who return to teach in covered positions and the salary they receive.

3) Creates new tier of reduced member benefits for new TFFR members (and returning refunded members) employed on or after July 1, 2007.

A new tier of benefits for new teachers and administrators acknowledges that the pension environment and TFFR have undergone major changes over the last decade. There are fewer active members, and they are retiring earlier, living longer, and have higher salaries. Future new hires would have to work longer before qualifying for normal retirement benefits, and their benefit amount would be reduced because of the final average salary calculation.

Tier 1 members include all current active, inactive, and retired members who have TFFR service credit on July 1, 2007. Tier 1 members who do not refund their service credit would maintain the current TFFR benefit structure and member contribution rates.

Tier 2 members include all new members and returning refunded members who are employed on or after July 1, 2007. Tier 2 members would have the following benefit changes:

- Rule of 90 (instead of Rule of 85).
- Final average salary (FAS) would be computed as a 5-year average (rather than as a 3-year average) which reduces the benefit amount.

- **<u>Fiscal Impact on Employers and State (See amended fiscal note)</u>**

SB 2046 provides TFFR a one-time special funds appropriation of $5,000 to implement provisions of this bill.

Fiscal impact to state, counties, and school districts is estimated to be nearly $9.1 million ($9,099,821) for the 2007-09 biennium. Of this amount, about $11,830 would be from counties and $8,996,994 would be from school districts and other TFFR employers. Approximately $90,998 would need to be appropriated for general fund state agencies and institutions including the Department of Career and Technical Education (CTE), Division of Independent Study (DIS), School for the Blind, School for the Deaf, and Youth Correctional Center (YCC).

Estimates are based on salary increase and other actuarial assumptions and calculations from TFFR's actuarial consultant. Actual amounts would be calculated based on actual salary of TFFR members employed by state agencies, state institutions, counties, school districts, and other TFFR employers for the 2007-09 biennium.

Note: HB 1078, which allows CTE employees to elect to transfer from TFFR to PERS, has been approved. Therefore increased appropriations to CTE for SB 2046 may not be needed.

- **Actuarial Impact on TFFR**

If SB 2046 as amended is approved, TFFR is projected to become nearly 100% funded within about 30 years (based on current actuarial assumptions, including 8% investment return and future member decline of 0.5% per year).

Item	July 1, 2006 Current Valuation	July 1, 2016 No Changes	July 1, 2016 With SB 2046
Funded Ratio	75.4%	84.0%	85.9%
UAAL	$509.9 million	$482.5 million	$424.2 million
ARC	12.29%	10.17%	8.38%
Margin	-4.54%	-2.42%	0.37%
Funding Period	Infinite	Infinite	25.8 years

Item	July 1, 2006 Current Valuation	July 1, 2036 No Changes	July 1, 2036 With SB 2046
Funded Ratio	75.4%	82.4%	98.7%
UAAL	$509.9 million	$947.3 million	$65.7 million
ARC	12.29%	10.35%	3.04%
Margin	-4.54%	-2.60%	4.71%
Funding Period	Infinite	Infinite	1.3 years

- **Summary**

The TFFR Board recognizes that employer contribution increases and benefit reductions for new hires will be difficult for teachers, administrators, school districts and the state to manage. However, the Board believes that both members and employers share the responsibility of these changes that will preserve the long-term financial stability of the TFFR trust fund.

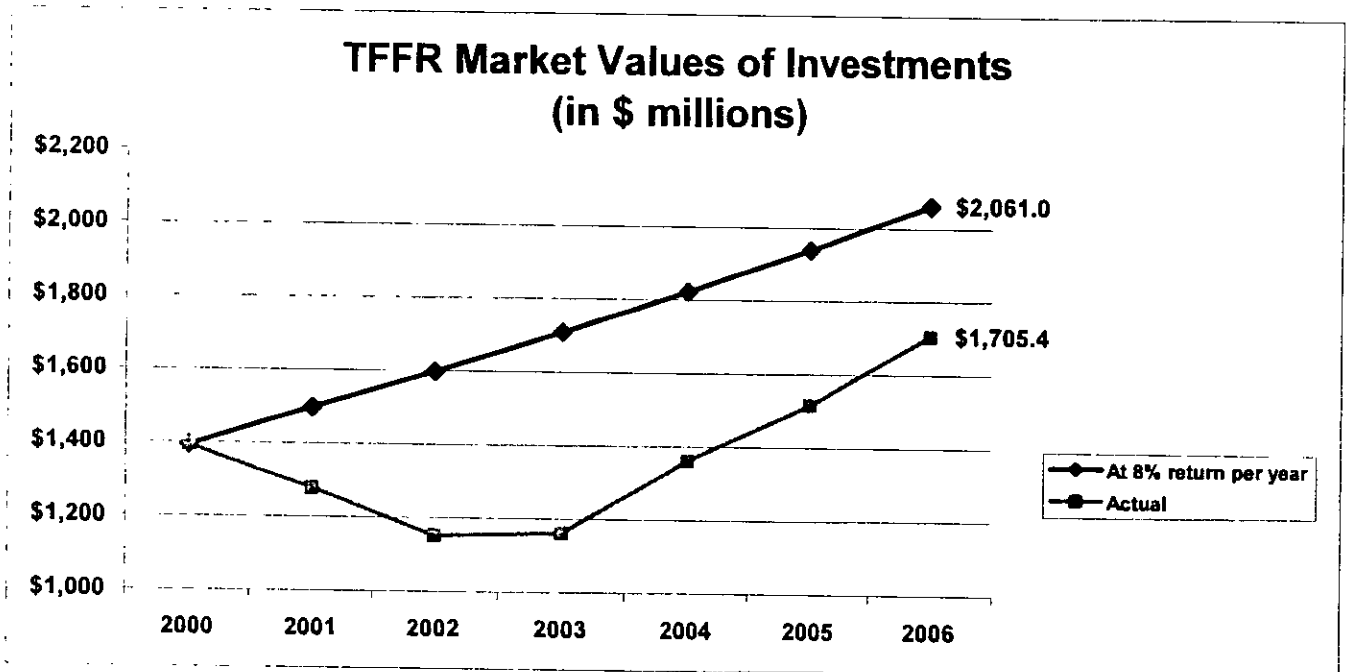
SB 2046 is a proactive, modest, and balanced approach to addressing TFFR's funded status without harming legally protected pension benefits for active and retired members. If this legislative package is enacted and actuarial and investment assumptions are met, the financial condition of the TFFR plan strengthens and remains stable for decades to come.

Please support the changes included in SB 2046, and give a "do pass" recommendation.

ND Teachers' Fund for Retirement

	2000	2001	2002	2003	2004	2005	2006
Market Value of Assets on June 30 ($ millions)	$ 1,405.2	$ 1,290.7	$ 1,165.4	$ 1,175.2	$ 1,374.7	$ 1,530.2	$ 1,720.3
Market Value of Investments on June 30 ($ millions)	$ 1,394.3	$ 1,279.2	$ 1,153.3	$ 1,162.7	$ 1,361.5	$ 1,515.9	$ 1,705.4
Annual Return (net of fees)	11.63%	-7.00%	-8.88%	2.33%	19.30%	13.35%	14.80%

Note: Market Value of Assets represents the total assets of the fund less the total liabilities of the fund at the end of each fiscal year. Market Value of Investments represents the total value of only the invested assets of the fund. Investments are a portion of the total Market Value of Assets. Annual returns are calculated on the Market Value of Investments only.



The chart above compares the actual investment market values of the fund over the six year period with the invesment market values that would have been achieved had the fund earned 8% each year. Note that the shortfall is approximately $350 million which is reflective of the actuarial "loss" for this time period.

attachment A

PUBLIC FUND SURVEY

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Actuarial Funding Levels:

- Click here to switch to Ascending, click here to switch to Descending
- Then click column headings to sort
- Click single 'Plan Name' to view report for selected record
- View graph showing funding levels and liabilities
- Click here to Scroll through Plans alpha by State

	Actuarial Funding Ratio	Actuarial Assets (000's)	Actuarial Liabilities (000's)	Unfunded Liability (Surplus) (000's)
Aggregate for the 124 Plans shown here	85.9%	$2,254,612,148	$2,625,305,539	$370,693,391

No.	State	Plan Name	Actuarial Funding Ratio	Actuarial Assets	Actuarial Liabilities	Unfunded Liability (Surplus)	Actuarial Valuation Date	for FY ending
1	WV	West Virginia Teachers	24.6	$1,627,355	$6,617,708	$4,990,353	6/30/2005	6/30/2005
2	IN	Indiana Teachers	43.4	$7,065,299	$16,264,893	$9,199,594	6/30/2005	6/30/2005
3	OK	Oklahoma Teachers	49.3	$7,470,400	$15,143,400	$7,673,000	6/30/2006	6/30/2006
4	CT	Connecticut SERS	53.3	$8,517,677	$15,987,547	$7,469,870	6/30/2005	6/30/2005
5	IL	Illinois SERS	54.4	$10,494,148	$19,304,646	$8,810,498	6/30/2004	6/30/2005
6	MO	Missouri DOT and Highway Patrol	55.5	$1,521,143	$2,740,438	$1,219,295	6/30/2006	6/30/2006
7	RI	Rhode Island ERS	55.8	$5,444,368	$9,762,675	$4,318,307	6/30/2004	6/30/2005
8	AK	Alaska Teachers	60.9	$2,640,642	$4,334,585	$1,693,943	6/30/2005	6/30/2006
9	LA	Louisiana SERS	61.5	$6,673,500	$10,847,062	$4,173,562	6/30/2005	6/30/2005
10	IL	Illinois Teachers	62.0	$36,584,889	$58,996,913	$22,412,024	7/1/2006	6/30/2006
11	CT	Connecticut Teachers	65.3	$9,846,700	$15,070,500	$5,223,800	6/30/2004	6/30/2005
12	IL	Illinois Universities	65.4	$14,175,100	$21,688,900	$7,513,800	6/30/2006	6/30/2006

13	AK	Alaska PERS	65.7	$4,658,413	$7,087,191	$2,428,778	6/30/2005	6/30/2006
14	LA	Louisiana Teachers	67.5	$13,088,358	$19,390,781	$6,302,423	6/30/2006	6/30/2006
15	HI	Hawaii ERS	68.6	$8,914,839	$12,985,989	$4,071,150	6/30/2005	6/30/2005
16	KS	Kansas PERS	68.8	$11,339,293	$16,491,762	$5,152,469	12/31/2005	6/30/2006
17	NV	Nevada Police Officer and Firefighter	68.9	$3,715,422	$5,394,511	$1,679,089	6/30/2006	6/30/2006
18	MN	St. Paul Teachers	69.6	$905,293	$1,299,832	$394,539	6/30/2005	6/30/2005
19	MA	Massachusetts Teachers	69.6	$17,074,000	$24,519,000	$7,445,000	1/1/2002	12/31/2003
20	ME	Maine State and Teacher	69.7	$6,964,597	$9,999,250	$3,034,653	6/30/2005	6/30/2006
21	NM	New Mexico Teachers	70.4	$7,457,500	$10,591,800	$3,134,300	6/30/2005	6/30/2005
22	MT	Montana Teachers	70.8	$2,497,507	$3,527,000	$1,029,500	7/1/2005	6/30/2005
23	WA	Washington PERS 1	70.8	$9,707,000	$13,704,000	$3,997,000	9/30/2005	6/30/2006
24	NH	New Hampshire Retirement System	71.1	$3,575,641	$5,029,877	$1,454,236	6/30/2003	6/30/2004
25	OK	Oklahoma PERS	71.4	$5,654,276	$7,914,658	$2,260,382	7/1/2006	6/30/2006
26	SC	South Carolina RS	71.6	$21,625,510	$30,217,471	$8,591,961	7/1/2005	6/30/2006
27	CO	Colorado State & School	72.9	$31,721,141	$43,505,716	$11,784,575	12/31/2005	12/31/2005
28	KY	Kentucky Teachers	73.1	$14,857,600	$20,324,700	$5,467,100	6/30/2006	6/30/2006
29	MS	Mississippi PERS	73.5	$18,321,063	$24,928,464	$6,607,401	6/30/2006	6/30/2006
30	KY	Kentucky ERS	74.6	$5,983,974	$8,018,069	$2,034,095	6/30/2004	6/30/2005
31	MN	Minnesota PERF	74.7	$12,495,207	$16,737,757	$4,242,550	6/30/2006	6/30/2006
32	ND	North Dakota Teachers	74.8	$1,469,700	$1,965,200	$495,500	7/1/2005	6/30/2005
33	OH	Ohio Teachers	75.0	$58,008,050	$77,371,024	$19,362,974	6/30/2006	6/30/2006
34	OH	Ohio School Employees	75.6	$9,542,000	$12,627,000	$3,085,000	6/30/2006	6/30/2006
35	NV	Nevada Regular Employees	76.5	$15,566,606	$20,344,635	$4,778,029	6/30/2006	6/30/2006
36	MI	Michigan Municipal	76.7	$4,731,400	$6,164,800	$1,433,400	12/31/2004	12/31/2005
37	WA	Washington Teachers Plan 1	77.6	$8,450,000	$10,894,000	$2,444,000	9/30/2005	6/30/2006
38	NJ	New Jersey PERS	78.0	$27,368,472	$35,071,664	$7,703,192	6/30/2006	6/30/2006

39	TX	City of Austin ERS	78.0	$1,398,800	$1,794,200	$395,400	12/31/2004	12/31/2005
40	CO	Colorado Municipal	78.0	$2,358,719	$3,022,624	$663,905	12/31/2005	12/31/2005
41	NJ	New Jersey Teachers	78.0	$35,422,800	$45,439,278	$10,016,478	6/30/2006	6/30/2006
42	NJ	New Jersey Police & Fire	78.4	$20,364,246	$25,989,699	$5,625,453	6/30/2006	6/30/2006
43	IL	Chicago Teachers	79.0	$10,506,471	$13,295,876	$2,789,405	6/30/2005	6/30/2005
44	AR	Arkansas Teachers	80.4	$8,817,000	$10,973,000	$2,156,000	6/30/2005	6/30/2005
45	MD	Maryland PERS	80.4	$12,287,942	$15,291,091	$3,003,149	6/30/2006	6/30/2006
46	MO	Missouri Non-Teachers	80.5	$2,218,638	$2,756,833	$538,195	6/30/2006	6/30/2006
47	OH	Ohio Police & Fire	80.9	$9,337,462	$11,545,050	$2,207,588	1/1/2004	12/31/2005
48	VA	Virginia Retirement System	81.3	$40,372,000	$49,628,000	$9,256,000	6/30/2005	6/30/2006
49	CA	Contra Costa County	82.0	$3,673,858	$4,481,243	$807,385	12/31/2004	12/31/2005
50	AZ	Arizona Public Safety Personnel	82.1	$4,886,963	$5,951,937	$1,064,974	6/30/2005	6/30/2005
51	MO	Missouri Teachers	82.6	$24,801,644	$30,037,130	$5,235,486	6/30/2006	6/30/2006
52	TX	Texas Municipal	82.7	$12,486,100	$15,095,200	$2,609,100	12/31/2005	12/31/2005
53	MA	Massachusetts SERS	82.8	$16,210,981	$19,575,338	$3,364,357	12/31/2003	12/31/2005
54	AR	Arkansas PERS	83.4	$4,949,000	$5,936,000	$987,000	6/30/2006	6/30/2006
55	PA	Pennsylvania School Employees	83.6	$51,122,100	$61,129,400	$5,028,500	6/30/2005	6/30/2006
56	CA	San Diego County	83.6	$6,263,019	$7,495,294	$1,232,275	6/30/2006	6/30/2006
57	AL	Alabama Teachers	83.6	$19,248,207	$23,027,338	$3,779,131	9/30/2005	9/30/2005
58	WV	West Virginia PERS	83.6	$3,404,650	$4,072,548	$667,898	7/1/2005	6/30/2005
59	MI	Michigan Public Schools	83.7	$38,784,000	$46,317,000	$7,533,000	9/30/2004	9/30/2005
60	AL	Alabama ERS	84.0	$8,935,358	$10,634,976	$1,699,618	9/30/2005	9/30/2005
61	MN	Duluth Teachers	84.1	$270,926	$322,229	$42,443	7/1/2006	6/30/2006
62	AZ	Phoenix ERS	84.2	$1,511,553	$1,795,514	$283,961	6/30/2005	6/30/2005
63	MD	Maryland Teachers	84.2	$21,575,451	$25,617,484	$4,042,033	6/30/2006	6/30/2006
64	MI	Michigan SERS	84.5	$10,149,000	$12,004,000	$1,855,000	9/30/2004	9/30/2005

65	VA	Fairfax County Schools	84.9	$1,643,020	$1,935,582	$292,562	12/31/2004	6/30/2005
66	AZ	Arizona SRS	84.9	$22,973,000	$27,063,000	$1,847,000	6/30/2005	6/30/2006
67	MO	Missouri State Employees	85.3	$6,836,567	$8,013,205	$1,142,684	6/30/2006	6/30/2006
68	NE	Nebraska Schools	85.6	$5,335,197	$6,234,658	$899,461	7/1/2005	6/30/2005
69	CA	California Teachers	85.7	$121,882,000	$142,193,000	$20,311,000	6/30/2005	6/30/2006
70	CA	LA County ERS	85.8	$29,497,485	$34,375,949	$4,878,464	6/30/2005	6/30/2006
71	MO	St. Louis School Employees	86.3	$935,300	$1,084,400	$149,100	1/1/2005	12/31/2005
72	RI	Rhode Island Municipal	87.2	$886,965	$1,017,254	$130,289	6/30/2003	6/30/2005
73	CA	California PERF	87.3	$183,680,000	$210,310,000	$26,630,000	6/30/2005	6/30/2006
74	TX	Texas Teachers	87.3	$94,218,000	$107,911,000	$13,693,000	8/31/2006	8/31/2006
75	SC	South Carolina Police	87.4	$2,774,606	$3,173,930	$399,324	7/1/2005	6/30/2006
76	OH	Ohio PERS	87.6	$50,452,000	$57,604,000	$7,152,000	12/31/2004	12/31/2005
77	CO	Denver Schools	87.9	$2,693,686	$3,065,855	$372,169	1/1/2006	12/31/2005
78	MT	Montana PERS	88.3	$3,459,084	$3,919,313	$460,229	6/30/2006	6/30/2006
79	IA	Iowa PERS	88.4	$19,144,037	$21,651,122	$2,507,085	6/30/2006	6/30/2006
80	ND	North Dakota PERS	88.8	$1,314,500	$1,480,500	$166,000	6/30/2006	6/30/2006
81	KY	Kentucky County	90.7	$6,511,562	$7,180,784	$2,500,268	6/30/2004	6/30/2005
82	VT	Vermont Teachers	90.7	$1,354,006	$1,492,150	$138,144	6/30/2005	6/30/2005
83	TN	TN Political Subdivisions	91.9	$3,605,529	$3,923,475	$317,946	7/1/2005	6/30/2005
84	MN	Minnesota Teachers	92.1	$19,035,612	$20,679,111	$1,643,499	6/30/2006	6/30/2006
85	NM	New Mexico PERF	92.1	$10,863,895	$11,800,861	$936,966	6/30/2006	6/30/2006
86	MN	Minneapolis ERF	92.1	$1,513,389	$1,643,140	$129,751	7/1/2004	6/30/2004
87	UT	Utah Noncontributory	92.2	$13,065,512	$14,166,548	$1,101,036	12/31/2005	12/31/2005
88	PA	Pennsylvania State ERS	92.9	$26,794,000	$28,852,000	$2,058,000	12/31/2005	12/31/2005
89	NC	Charlotte Firefighters	94.1	$274,948	$292,341	$17,393	7/1/2004	6/30/2004
90	IL	Illinois Municipal	94.6	$19,698,401	$20,815,060	$1,116,659	12/31/2005	12/31/2005
91	WY	Wyoming Public Employees	95.1	$4,843,861	$5,091,763	$247,902	1/1/2006	12/31/2005

92	TX	Texas ERS	95.2	$21,780,437	$22,884,917	$1,104,480	8/31/2006	8/31/2006
93	ID	Idaho PERS	95.2	$9,177,100	$9,638,800	$461,700	7/1/2006	6/30/2006
94	MO	Missouri Local	95.3	$3,224,174	$3,383,153	$158,979	2/28/2006	6/30/2006
95	MN	Minnesota State Employees	96.2	$8,486,756	$8,819,161	$332,405	6/30/2006	6/30/2006
96	IN	Indiana PERF	96.4	$10,471,937	$10,858,322	$386,385	7/1/2005	6/30/2006
97	SD	South Dakota PERS	96.7	$5,668,500	$5,859,900	$191,400	6/30/2006	6/30/2006
98	GA	Georgia ERS	97.2	$13,134,472	$13,512,773	$378,301	6/30/2005	6/30/2005
99	TX	Houston Firefighters	97.6	$1,922,000	$1,970,000	$48,000	7/1/2002	6/30/2005
100	VT	Vermont State Employees	97.8	$1,148,908	$1,174,796	$25,888	6/30/2005	6/30/2005
101	GA	Georgia Teachers	98.0	$46,836,895	$47,811,214	$974,319	6/30/2005	6/30/2006
102	NY	New York State Teachers	98.8	$74,074,300	$74,961,100	$886,800	6/30/2005	6/30/2006
103	NC	North Carolina Local Government	99.3	$13,377,297	$13,466,189	$88,892	12/31/2004	6/30/2005
104	WI	Wisconsin Retirement System	99.4	$66,209,400	$66,622,300	$412,900	12/31/2004	12/31/2004
105	NY	New York City ERS	99.6	$40,088,213	$40,236,258	$148,045	6/30/2003	6/30/2005
106	TN	TN State and Teachers	99.8	$23,627,160	$23,666,967	$39,807	7/1/2005	6/30/2005
107	NY	NY State & Local ERS	100.0	$118,197,000	$118,197,000	$0	4/1/2006	3/31/2006
108	NY	NY State & Local Police & Fire	100.0	$21,953,000	$21,953,000	$0	4/1/2006	3/31/2006
109	WA	Washington School Employees Plan 2/3	100.0	$1,747,400	$1,747,400	$0	9/30/2005	6/30/2006
110	WA	Washington LEOFF Plan 2	100.0	$3,329,100	$3,329,100	$0	9/30/2005	6/30/2006
111	WA	Washington Teachers Plan 2/3	100.0	$4,411,200	$4,411,200	$0	9/30/2004	6/30/2006
112	NY	New York City Teachers	100.0	$32,817,102	$32,827,541	$10,439	6/30/2004	6/30/2005
113	WA	Washington PERS 2/3	100.0	$12,274,100	$12,274,100	$0	9/30/2004	6/30/2006
114	DC	DC Police & Fire	100.0	$1,427,800	$1,427,800	$0	10/1/2002	9/30/2004
115	DC	DC Teachers	100.0	$917,800	$917,800	$0	10/1/2003	9/30/2004
116	DE	Delaware State Employees	101.7	$5,998,746	$5,901,172	($97,574)	6/30/2006	6/30/2006

117	TX	Texas LECOS	101.7	$720,307	$708,437	($11,870)	8/31/2006	8/31/2006
118	CA	San Francisco City & County	103.8	$11,299,997	$10,885,455	($414,542)	6/30/2004	6/30/2005
119	OR	Oregon PERS	104.2	$51,382,600	$49,294,000	($2,088,600)	12/31/2005	6/30/2006
120	TX	Texas County & District	104.4	$13,441,414	$12,872,100	($569,314)	12/31/2005	12/31/2005
121	FL	Florida RS	105.6	$117,159,615	$110,977,831	($6,181,784)	7/1/2006	6/30/2006
122	NC	North Carolina Teachers and State Employees	108.1	$47,383,509	$43,827,854	($3,555,655)	12/31/2004	6/30/2005
123	ME	Maine Local	109.2	$1,726,776	$1,581,198	($145,578)	6/30/2005	6/30/2006
124	WA	Washington LEOFF Plan 1	113.1	$4,800,000	$4,243,000	($400,000)	9/30/2005	6/30/2006

*Funds with an unfunded liability of zero use the aggregate cost actuarial valuation method. Under this method, the actuarial value of liabilities is equal to the actuarial value of assets and no unfunded liability is identified.

#2

Possible changes to SB 2046

1. Remove the 1% increase when the funded ratio is 90% instead of 95%.

2. Make the increase .5% instead of 1%.

3. Whatever we do, the board contribution for those retired teachers coming back to work after having retired <u>must be a requirement.</u>

4. If you really want to test the system, contrary to the Attorney General's opinion, increase the board's and teacher's contribution each by .5%. This would be for all active members and hew hires. (I really don't recommend this but it seemed some of you wanted to live on the edge and try it.)

5. Remove the Tier II structure but leave the 1% increase in employer contributions in place. Some people have expressed a dislike for the two tier structure.

#3

GRS

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March 6, 2007

Ms. Fay Kopp
Deputy Executive Director
North Dakota Retirement & Investment Office
P.O. Box 7100
Bismarck, ND 58507-7100

Re: Supplemental Projections for SB 2046 - TFFR Bill

Dear Fay:

As requested, attached are two tables that show key actuarial measurements, projected to 2016 (Table 1) and 2036 (Table 2). The tables show the projected results if each one of the three major changes made by SB 2046 were enacted by itself, without the other pieces:

- The new tier of benefit and eligibility provisions for future new hires (column 3)
- The addition of 1.00% to the employer contribution rate (column 4)
- The requirement that employers contribute to TFFR 16.50% of the pay of reemployed retirees (column 5)

For comparison, Column 2 shows the projected results with no changes in the contribution or benefit structure, and Column 6 shows the results under SB 2046, with all three pieces combined.

The five measurements shown are:

Funded Ratio: The ratio of the actuarial value of assets to the actuarial accrued liability

UAAL: The unfunded actuarial accrued liability, which is the result of subtracting the actuarial value of assets from the actuarial accrued liability

ARC: The Annual Required Contribution determined in accordance with Government Accounting Standards Board Statement No. 25 (GASB 25).

Margin: The result of subtracting the ARC from the statutory contribution. A negative margin indicates that the statutory contribution is smaller than required under the accounting statement. Note that in some projections, the statutory contribution is 7.75%, and in others it is 8.75%.

Funding Period: This is the theoretical period required to amortize the UAAL, based on the statutory contribution being received. A result of Infinite indicates the statutory contribution rate is not sufficient to ever amortize the UAAL.

This letter should be read in conjunction with our earlier letter to the Employee Benefits Programs Committee on Bill 68 dated October 19, 2006.

The projections utilize the same methodology and assumptions used in preparing our earlier letter. They are based upon the current actuarial assumptions, including the 8.00% net investment return assumption. All projections assume there are no future actuarial gains or losses, other than those arising from investment return, and assume future active membership declines 0.50% per year each year in the future.

Following is a reconciliation of changes in the ARC in 2016 and 2036 under SB 2046, showing the effect of each component.

	2016	2036
1. Projected ARC under Current Law in Year	10.17%	10.35%
2. Savings from New Tier	-0.97%	-3.25%
3. Savings from 1.00% Additional Contribution	-0.80%	-4.18%
4. Savings from Contribution on Reemployed Rets.	-0.12%	-0.60%
5. Projected ARC under SB 2046	8.28%	2.37%

Note: The columns may not sum exactly to Item 5, because of interplay between the pieces.

The following table shows a reconciliation of the projected Unfunded Actuarial Accrued Liability in 2016 and 2036:

	2016	2036
1. Projected UAAL under Current Law in Year	$ 482.5	$ 947.3
2. Savings from New Tier	5.2	(302.0)
3. Savings from 1.00% Additional Contribution	(58.4)	(583.0)
4. Savings from Contribution on Reemployed Rets.	(8.8)	(82.4)
5. Projected UAAL under SB 2046	$ 420.5	$ (20.1)

Note: Amounts shown in Millions.

Note that the pieces of the bill may interact, so that the savings from Bill 2046 as a whole may differ slightly from the sum of the savings of the three separate pieces.

Also note that, initially, the adoption of the new tier by itself would increase the UAAL. We realize this is a counterintuitive result. The actuarial accrued liability (AAL) is defined as the present value of future benefits for current members, less the present value of future normal costs. The adoption of the new tier lowers the future normal costs without changing the present value of future benefits for current members. This causes the AAL and the UAAL to increase. However, as you can see, this anomaly disappears over time, as the portion of the membership belonging to the new tier increases.

If you have any questions about our comments, please do not hesitate to ask.

Sincerely,

J. Christian Conradi

J. Christian Conradi
Senior Consultant

Enclosures

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North Dakota Teachers' Fund for Retirement

Table 1 - SB 2046 Projections
As of July 1, 2016 (10-Year Projection)
(Based on July 1, 2006 Actuarial Valuation)

Item	No Benefit or Contribution Changes	Only New Benefit Tier for Future Hires	Only Add 1.00% to Employer Contribution Rate	Only Require 16.50% Employer Contibutions for Reemployed Retirees	SB 2046 (All Three Changes Combined)
(1)	(2)	(3)	(4)	(5)	(6)
Funded Ratio	84.0%	83.8%	85.9%	84.2%	86.0%
UAAL	$482.5 Million	$487.7 Million	$424.1 Million	$473.7 Million	$420.5 Million
ARC	10.17%	9.20%	9.37%	10.05%	8.28%
Margin	-2.42%	-1.45%	-0.62%	-2.30%	0.47%
Funding Period	Infinite	Infinite	43.8 years	Infinite	24.8 years

Page 5

North Dakota Teachers' Fund for Retirement

Table 2 - SB 2046 Projections
As of July 1, 2036 (30-Year Projection)
(Based on July 1, 2006 Actuarial Valuation)

Item	No Benefit or Contribution Changes	Only New Benefit Tier for Future Hires	Only Add 1.00% to Employer Contribution Rate	Only Require 16.50% Employer Contibutions for Reemployed Retirees	SB 2046 (All Three Changes Combined)
(1)	(2)	(3)	(4)	(5)	(6)
Funded Ratio	82.4%	87.0%	93.2%	83.9%	100.4%
UAAL	$947.3 Million	$645.3 Million	$364.3 Million	$864.9 Million	-$20.1 Million
ARC	10.35%	7.10%	6.17%	9.75%	2.37%
Margin	-2.60%	0.65%	2.58%	-2.00%	6.38%
Funding Period	Infinite	22.2 years	9.3 years	Infinite	0.0 years

#2

2006-07 TFFR
(Includes Educational Units Regularly Tracked By NDEA)

100% OF TEACHER CONTRIBUTION PAID AS A BENEFIT
(Model 2 - All)

Anamoose
Beach
Belcourt
Billings Co
Bisbee-Egeland
Bottineau
Bowman County
Burleigh Co Sp Ed
Carrington
Cavalier
Center-Stanton
Central Elem
Central Valley
Devils Lake
Drake
Drayton
Dunseith
East Central Sp Ed
Edinburg
Eight Mile
Enderlin
Eureka
Fairmount
Fessenden-Bowdon
Finley-Sharon
Fort Ransom
Fort Totten
Garrison
Griggs Co Central
GST Sp Ed
Harvey
Hatton
Hazen
Hettinger
Hope
Lake Region Sp Ed
Lewis & Clark
Lidgerwood
Lisbon
Maddock
Maple Valley
Mapleton
McClusky
McKenzie Co
Milnor
Minnewaukan
Nedrose
New Public
New Rockford-Sheyenne
Newburg United
North Sargent
North Valley CTE
Northern Cass
Northwood
Oliver-Mercer Sp Ed
Page
Peace Garden Sp Ed
Pleasant Valley
Richland
Roosevelt
Rural Cass Sp Ed
Scranton
SE Region CTC
Selfridge
Sheldon
Sheyenne Valley Sp Ed
Sheyenne Valley CTE
Sims
Solen-Cannonball
South Valley Sp Ed
St John
Surrey
TGU
Underwood
Valley City
Wahpeton
Warwick
West Fargo
Westhope
Williston
Wilmac Sp Ed
Wolford
(82 Educational Units)

PERCENTAGE OF TEACHER CONTRIBUTION PAID AS A BENEFIT
(Model 2 - Partial)

Baldwin	3.875%
Divide Co	6.75%
Flasher	3.00%
Glenburn	4.875%
Killdeer	3.00%
May-Port CG	2.25%
Medina	0.775%
ND School for Blind	4.00%
ND School for Deaf	4.00%
ND YCC	4.00%
Thompson	6.25%
United	1.937%

(12 Educational Units)

FLAT DOLLAR AMOUNT PAID AS A BENEFIT
(Former Model 3)

Note: TFFR has discontinued this Model, but districts currently using this Model are allowed to continue.

Ashley	$600
Kenmare	$1,500
Leeds	$1,800
Minto	$1,000
New Salem	$1,650
Oberon	$2,100
Rugby	$1,500
Wishek	$1,205

(8 Educational Units)

TEACHER PAYS OWN CONTRIBUTION - CONTRIBUTION IS TAX SHELTERED (Model 1)

Adams
Alexander
Apple Creek
Belfield
Bell
Beulah
Bismarck
Bowbells
Burke Central
Central Cass
Dakota Prairie
Dickey-Lamoure Sp Ed
Dickinson
Dodge
Edgeley
Edmore
Elgin-New Leipzig
Ellendale
Emerado
Fargo
Fordville-Lankin
Ft Yates
Gackle-Streeter
Glen Ullin
Golden Valley
Goodrich
Grafton
Grand Forks
Grenora
Halliday
Hankinson
H-M-B
Hebron
Hillsboro
Jamestown
Kensal
Kindred
Kulm
Lakota
Lamoure
Langdon Area
Larimore
Linton
Litchville-Marion
Little Heart
Lone Tree
Mandan
Mandaree
Manning
Manvel
Max
Menoken
Midkota
Midway
Minot
M-L-S
Montefiore
Montpelier
Mott-Regent
Mt Pleasant
Munich
Napoleon
Nash
Naughton
Nesson
New England
New Town
North Border
North Central (Rogers)
Oakes
Park River
Parshall
Pettibone-Tuttle
Pingree-Buchanan
Powers Lake
Richardton-Taylor
Rolette
Sargent Central
Sawyer
Souris Valley Sp Ed
South Heart
South Prairie
Southern
St Thomas
Stanley
Starkweather
Steele-Dawson
Sterling
Strasburg
Tappen
Tioga
Turtle Lake-Mercer
Tuttle-Pettibone
Twin Buttes
Upper Valley Sp Ed
Valley
Velva
Washburn
West River Sp Ed
White shield
Wimbledon-Courtenay
Wing
Wyndmere
Yellowstone
Zeeland
(105 Educational Units)

TEACHER PAYS OWN CONTRIBUTION - CONTRIBUTION IS NOT TAX SHELTERED (Model 0)

Bakker
Earl
Horse Creek
Marmarth
North Central (Rock Lake)
Robinson
Spiritwood
Sweet Briar
(8 Educational Units)

Source: TFFR

u:\n\TFFR\06-07 list

#/

North Dakota Teachers' Fund for Retirement

Table 1 - Projections of Variations on SB 2046
Increase Employer Contribution Rate 0.25%
Sunset Employer Rate Increase after Plan Reaches 90% Funded
Increase Member Contribution Rate 0.25% for Future Hires (No Sunset)
Employer Contributions Required on Reemployed Retirees
New Tier for Future Hires (Rule of 90; 5-Year FAS; 5 Year Vesting)
(Based on July 1, 2006 Actuarial Valuation)

As of July 1, 2016 (10-Year Projection)		
Item	No Change	Proposal
(1)	(2)	(3)
Funded Ratio *	84.0%	84.5%
UAAL	$482.5 Million	$465.1 Million
ARC *	10.17%	8.83%
Margin *	-2.42%	-0.83%
Funding Period *	Infinite	50.1 years
Year When Sunset Provision Ends (Last Fiscal Year with Increase)	N/A	2035

As of July 1, 2036 (30-Year Projection)		
Item	No Change	Proposal
(1)	(2)	(3)
Funded Ratio *	82.4%	91.8%
UAAL	$947.3 Million	$408.2 Million
ARC	10.35%	5.23%
Margin	-2.60%	2.52%
Funding Period	Infinite	10.1 years
Year When Sunset Provision Ends (Last Fiscal Year with Increase)	N/A	2035

Note: Projections assume 8.00% investment return net of administrative and investment expenses each year.
Note: Projections assume 0.50% decrease in number of active members each year.
Note: Projections assume no actuarial gains or losses, other than from investments, during projection period.

North Dakota Teachers' Fund for Retirement

Table 2 - Compare Projected Contributions under Variation of SB 2046
Increase Employer Contribution Rate 0.25%
Sunset Employer Rate Increase after Plan Reaches 90% Funded
Increase Member Contribution Rate 0.25% for Future Hires (No Sunset)
Employer Contributions Required on Reemployed Retirees
New Tier for Future Hires (Rule of 90; 5-Year FAS; 5 Year Vesting)
(Based on July 1, 2006 Actuarial Valuation)

Employer Contributions			
Fiscal Year Ending June 30,	No Change	Proposal	Increase
(1)	(2)	(3)	(4)
2008	$ 32.4	$ 33.7	$ 1.3
2009	$ 32.9	$ 34.3	$ 1.4
2010	$ 33.5	$ 34.9	$ 1.4
2011	$ 34.3	$ 35.7	$ 1.4

Member Contributions				
Fiscal Year Ending June 30,	No Change	Proposal	Increase	
(1)	(2)	(3)	(4)	
2008	$ 32.4	$ 32.4	$ -	100,000
2009	$ 32.9	$ 33.0	$ 0.1	
2010	$ 33.5	$ 33.7	$ 0.2	400,000
2011	$ 34.3	$ 34.5	$ 0.2	

Note: All dollar amounts in millions

#2

Nelson, Carolyn C.

From: Kopp, Fay L.
Sent: Tuesday, April 17, 2007 1:11 PM
To: Nelson, Carolyn C.
Subject: GASB

As we discussed this morning...

The Government Accounting Standards Board (GASB) requires that governmental pension plan sponsors disclose whether they are making their annual required contributions (ARC) to pension plans and if they are able to amortize unfunded actuarial accrued liabilities (UAAL) within 30 year period.

NDTFFR currently is not making its ARC (TFFR has negative contribution margin of -4.54%) and its UAAL is not being amortized within 30 year period (TFFR has infinite funding period). This must be disclosed in comprehensive annual financial report of TFFR and State. Therefore it is possible that the State's bond rating could be negatively impacted in the future.

Thanks for your ongoing TFFR support.

Fay Kopp
Deputy Executive Director
ND Retirement & Investment Office
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www.nd.gov/rio
mailto:fkopp@nd.gov

#2

2006-07 RE-EMPLOYED TFFR RETIREES
(as of 12/1/06)

Total number of re-employed TFFR retirees 183

By Position:

Superintendents	24
Administrators	31
Teachers	128

By Re-employment Option:

General rule (part time)	169
Critical Shortage area (full time)	10
Suspend and recalculate (full time)	4

Average Age: 59
Average Salary: $23,000

Average employer cost (TFFR employer contribution) per re-employed retiree
$23,000 x 7.75% employer rate = $1,783 per re-employed retiree

Total estimated employer cost of re-employed retirees
$1,783 x 183 retirees = $326,290

Average employer cost of re-employed retirees per TFFR employer:
$326,290 / 245 TFFR employers = $1,332 per employer

Cost per school district:
Calculated by taking average cost per retiree ($1,783) times number of retirees employed. See attached list of employers and the number of retirees employed by each.

Examples:

Large School District – Bismarck
Active teachers employed = 876
Retired teachers employed = 8
TFFR cost of re-employed retirees = $1,783 x 8 = $14,264

Medium School District – Rugby
Active teachers employed = 51
Retired teachers employed = 1
TFFR cost of re-employed retirees = $1,783 x 1 = $1,783

Small School District – Pingree/Buchanan
Active teachers employed = 12
Retired teachers employed = 4
TFFR cost of re-employed retirees = $1,783 x 4 = $7,132

#3

North Dakota Teachers' Fund for Retirement

Table 1 - Projections of Variations on SB 2046
Including Proposed Conference Committee Amendments 2 and 3
(Based on July 1, 2006 Actuarial Valuation)

As of July 1, 2016 (10-Year Projection)				
Item	No Change to Current Plan	Proposed Amendment 2 (70068.0211)	Proposed Amendment 3	Original SB 2046 (TFFR Board Proposal)
(1)	(2)	(3)	(4)	(5)
Funded Ratio	84.0%	84.5%	84.7%	86.0%
UAAL	$482.5 Million	$465.1 Million	$458.1 Million	$420.5 Million
ARC	10.17%	8.83%	8.79%	8.28%
Margin	-2.42%	-0.83%	-0.54%	0.47%
Funding Period	Infinite	50.1 years	39.8 years	24.8years
Year When Sunset Provision Ends (Last Fiscal Year with Increase)	N/A	2035	2033	N/A

As of July 1, 2036 (30-Year Projection)				
Item	No Change to Current Plan	Proposed Amendment 2 (70068.0211)	Proposed Amendment 3	Original SB 2046 (TFFR Board Proposal)
(1)	(2)	(3)	(4)	(5)
Funded Ratio	82.4%	91.8%	93.0%	100.4%
UAAL	$947.3 Million	$408.2 Million	$347.5 Million	($20.1) Million
ARC	10.35%	5.23%	4.99%	2.37%
Margin	-2.60%	2.52%	2.76%	6.38%
Funding Period	Infinite	10.1 years	8.6 years	0.0 years
Year When Sunset Provision Ends (Last Fiscal Year with Increase)	N/A	2035	2033	N/A

Note: Projections assume 8.00% investment return net of administrative and investment expenses each year.
Note: Projections assume 0.50% decrease in number of active members each year.
Note: Projections assume no actuarial gains or losses, other than investment gains and losses, during projection period.

North Dakota Teachers' Fund for Retirement

Table 2 - Compare Projected Employer Contributions under Variations of SB 2046 Including Proposed Conference Committee Amendments 2 and 3

(Based on July 1, 2006 Actuarial Valuation)

		Employer Contributions			
Fiscal Year Ending June 30,		No Change to Current Plan	Proposed Amendment 2 (70068.0211)	Proposed Amendment 3	Original SB 2046 (TFFR Board Proposal)
(1)		(2)	(3)	(4)	(5)
2008	Total	$ 32.4	$ 33.7	$ 32.7	$ 37.2
	Increase	$ -	$ 1.3	$ 0.3	$ 4.8
2009	Total	$ 32.9	$ 34.3	$ 35.4	$ 37.8
	Increase	$ -	$ 1.4	$ 2.5	$ 4.9
2010	Total	$ 33.5	$ 34.9	$ 36.0	$ 38.5
	Increase	$ -	$ 1.4	$ 2.5	$ 5.0
2011	Total	$ 34.3	$ 35.7	$ 36.8	$ 39.3
	Increase	$ -	$ 1.4	$ 2.5	$ 5.0

Note: All dollar amounts in millions

#4

TFFR RETIREE STATISTICS

Number of Retirees:	5,893 (as of 6/30/06)
Average Monthly Benefit:	$1,383
Average Years of Service:	28 years
Average Years Retired:	13 years
Average Age:	74 years

Last Retiree Benefit Increase (approved in 2001 session):
July 1, 2001 average increase - $70 per month
July 1, 2002 average increase - $8 per month

Next Projected Retiree Benefit Increase: UNKNOWN

- **IF** projected retiree benefit increase is based on **90% TFFR Funded Ratio** (assuming 8% average investment returns, 0.5% decrease in active membership, and no other actuarial gains or losses):

	Year Funded Ratio Estimated at 90%	Years since 2001 increase
No changes	N/A	N/A
0.25% contribution increase*	2035	34 years
0.50% contribution increase*	2032	31 years
0.75% contribution increase*	2029	28 years
1.00% contribution increase*	2027	26 years

*Employer contribution increase plus tiered benefits (R90, 5 vest, 5 FAS)

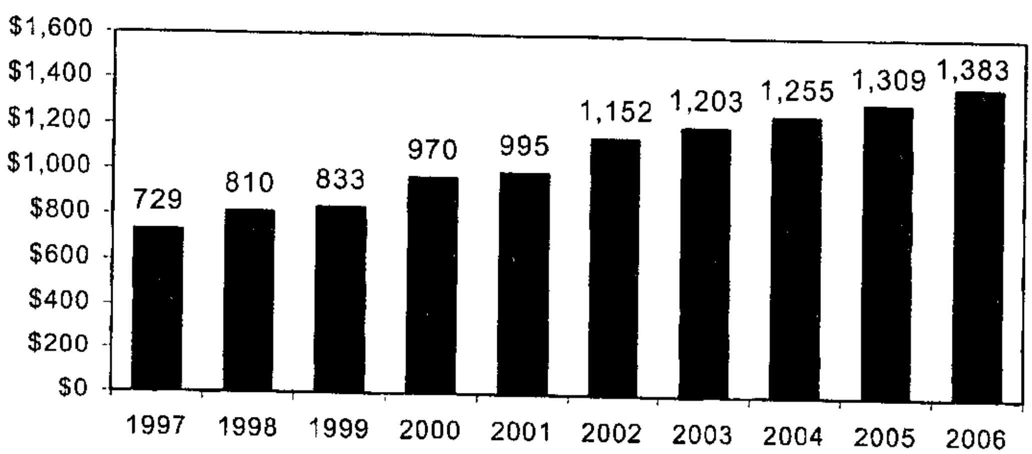
- **IF** projected retiree benefit increase is based on **Positive Actuarial Margin,** it could be approximately 10 years before the above dates.???

Schedule of Retired Members by Monthly Benefit

Monthly Benefit Amount (1)	Total (2)	Female (3)	Male (4)
Under $100	46	38	8
$ 100 - 199	125	87	38
200 - 299	189	133	56
300 - 399	271	228	43
400 - 499	289	241	48
500 - 599	301	241	60
600 - 699	309	257	52
700 - 799	254	208	46
800 - 899	195	154	41
900 - 999	228	170	58
1000 - 1199	542	383	159
1200 - 1399	492	320	172
1400 - 1599	498	287	211
1600 - 1799	449	271	178
1800 - 1999	438	249	189
2000 - 2199	310	161	149
2200 - 2399	258	128	130
2400 - 2599	190	83	107
2600 - 2799	150	63	87
2800 - 2999	102	35	67
3000 & Over	257	60	197
Total	5,893	3,797	2,096

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Valuation Year		Years of Service							
		< 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	> 34	TOTAL
1997	Number of Retirees	99	391	436	511	984	976	1,065	4,462
	Average Monthly Benefit	223	209	332	505	645	954	1,113	729
	Average Years of Service	6	12	17	22	27	32	39	28
1998	Number of Retirees	108	397	429	518	1,002	1,046	1,085	4,585
	Average Monthly Benefit	190	258	375	559	722	1,075	1,207	810
	Average Years of Service	6	12	17	22	27	32	39	28
1999	Number of Retirees	124	396	423	528	973	1,056	1,068	4,568
	Average Monthly Benefit	199	252	385	585	747	1,108	1,235	833
	Average Years of Service	6	12	17	22	27	32	39	28
2000	Number of Retirees	137	403	438	554	1,030	1,156	1,109	4,827
	Average Monthly Benefit	223	325	455	683	897	1,279	1,417	970
	Average Years of Service	6	12	18	22	27	32	39	28
2001	Number of Retirees	146	404	416	545	1,012	1,174	1,080	4,777
	Average Monthly Benefit	235	401	455	696	942	1,311	1,442	995
	Average Years of Service	6	12	17	22	27	32	39	28
2002	Number of Retirees	171	412	417	567	1,066	1,332	1,089	5,054
	Average Monthly Benefit	318	354	519	804	1,080	1,513	1,651	1,152
	Average Years of Service	6	12	17	22	27	32	39	28
2003	Number of Retirees	187	420	409	585	1,076	1,409	1,091	5,177
	Average Monthly Benefit	259	391	533	826	1,140	1,592	1,716	1,203
	Average Years of Service	6	12	17	22	27	32	39	28
2004	Number of Retirees	206	426	399	597	1,130	1,513	1,102	5,373
	Average Monthly Benefit	264	398	545	879	1,212	1,657	1,751	1,255
	Average Years of Service	6	12	17	23	27	32	39	28
2005	Number of Retirees	230	431	403	615	1,182	1,612	1,113	5,586
	Average Monthly Benefit	272	377	577	887	1,281	1,722	1,833	1,309
	Average Years of Service	6	12	17	23	27	32	38	28
2006	Number of Retirees	269	436	417	627	1,254	1,750	1,140	5,893
	Average Monthly Benefit	276	399	607	938	1,351	1,804	1,938	1,383
	Average Years of Service	6	13	17	23	28	32	38	28



Attachments same as those 1-18-07

SENATE APPROPRIATIONS COMMITTEE
SB 2046

Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office
February 5, 2007

SB 2046 Overview

Improving TFFR's financial condition is the focus of SB 2046. As many of you are aware, over the past six years, TFFR's funding level has declined and unfunded liability has increased. This was due primarily to the stock market decline which caused investment returns to be well below assumed rates in fiscal years 2001, 2002, and 2003. To determine how to address this situation, during the past few years, the Board conducted an actuarial experience study, asset allocation study, and analyzed future actuarial projections; conducted an actuarial audit to confirm that the financial condition of the fund is being accurately reported; received advice and information from the Attorney General's Office on the constitutionality of possible employee benefit and contribution changes; and received input from member and employer interest groups (NDEA, NDCEL, NDRTA, and NDSBA).

As a result, the Board has submitted SB 2046 for your consideration. SB 2046 embodies the Board's plan to strengthen TFFR's long-term financial condition. The proposal:

1) Increases employer contributions on active teachers' salaries.
2) Requires employer contributions on reemployed retirees' salaries.
3) Reduces benefits for future new teachers and administrators.
4) Incorporates federal tax law changes to comply with IRS requirements.

- **2006 Actuarial Report Summary**

Each year, TFFR's actuary performs an actuarial valuation to determine if the contributions paid by members and employers, along with the investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time, and warns of possible future problems and issues. The report is presented to both the TFFR Board and to the interim Legislative Employee Benefits Programs Committee.

Key findings from the July 1, 2006 report: TFFR's funded ratio is 75.4% (based on actuarial value) or 83% (based on market value); market value of TFFR assets is $1.7 billion, unfunded actuarial accrued liability (UAAL) is about $510 million; infinite funding period; and negative contribution margin is -4.54%.

Based on the 8% investment return assumption used by TFFR, actuarial projections show TFFR's condition should improve somewhat in the next few years, but will then gradually decline again in the absence of modifications to contribution rates or benefits. Also, the continued trend of early retirements and longer life expectancy, and declining number of active teachers contributing into the plan reduces the likelihood of future long term improvement.

Of great concern to future and current retirees is whether TFFR will be able to continue making benefit payments. Actuarial projections show that TFFR will be able to pay all of the promised benefits for many years into the future. Even in 30 years, assuming 8% future earnings, assets are still projected to be more than 10 times annual distributions.

Attachment A – 2006 Actuarial Valuation – Executive Summary
Attachment B – Funded Ratio
Attachment C – Market and Actuarial Values of Assets
Attachment D – Estimated Yields Based on Actuarial and Market Value of Assets
Attachment E - Unfunded Actuarial Accrued Liability (UAAL)
Attachment F – Projected Funded Ratios and Margin

- **What caused TFFR's funding level to decline from 2000 to 2006?**

Major contributing factors according to 2006 actuarial report:

1) Investment markets in fiscal years 2001, 2002, and 2003

   Average actuarial return for last 6 years was 4.9% (based on market value, net of fees)
   Asset-Liability Study put chances of such low returns at 5% -- once-in-a-century event
   Net impact: actuarial asset losses of $316.8 million over 6-year period

   ***Note**: According to the most recent Public Fund Survey made up of the nation's largest public retirement systems, the ND TFFR has outperformed the average public fund over the past 6 years (based on market value, gross of fees, for fiscal years ending June 30, 2001-2006):*

	Survey	*NDTFFR*
3 year average	*12.54%*	*16.58%*
6 year average	*4.79%*	*5.83%*

   After three years of investment returns that did not meet TFFR's 8% investment return assumption (2001, 2002, and 2003), in the past three years (2004, 2005, and 2006), TFFR has experienced outstanding returns ranking well into the top decile of all public funds measured by our *investment consultant. Returns for this fiscal year-to-date are positive and encouraging. While returns have improved dramatically, unfortunately it is not enough to offset the earlier losses.*

2) Benefit improvements in 2001

   Ad hoc cost-of-living adjustment for retirees
   Formula multiplier for nonretired members increased from 1.88% to 2.0%
   Combined impact: $93.9 million increase in UAAL

   Note: *At the time, this appeared to be prudent. TFFR was overfunded by $20.6 million; market assets were $96.7 million greater than actuarial assets. The total cushion was greater than the cost of benefits.*

3) Changes in actuarial assumptions in 2005

   2005 Experience Study
   Revised salary increase rates, retirement rates, and termination rates
   All changes increased liabilities
   Net impact: $63.3 million increase in UAAL

   Note: *The projected continuing decline in number of active members, along with members receiving higher salary increases, members retiring earlier, members living longer, and fewer members leaving before retirement, is expected to make it more difficult for TFFR to improve its funding situation.*

4) Other Factors
   Liability losses and effect of negative amortization (contributions applied to amortize the UAAL are insufficient)
   Impact: $56.5 million increase in UAAL

Total increase in UAAL of $530.5 million (less $20.6 million overfunded in 2001) equals current $509.9 million UAAL as of 7/1/06 valuation.

- **<u>Are there any legal concerns with SB 2046?</u>**

According to an analysis conducted by TFFR's legal counsel, the ND Attorney General's Office, public pension obligations in North Dakota are contractual obligations, the terms of which are contained in the law (TFFR statutes). Based on current law, the AG office believes it is likely that the ND Supreme Court would find it unconstitutional (a violation of the contract clause) for the Legislative Assembly to detrimentally change a member's pension rights without providing a comparable corresponding benefit. Based on this analysis, the State could not modify the TFFR plan benefits to the member's detriment for retired members, active members, and vested inactive members without a corresponding benefit. However, the State could modify the TFFR plan for nonvested inactive members and future active members (new hires) since there are no contract rights to protect.

As introduced, SB 2046 makes no changes to the contractually protected member's pension benefits and rights. Because the employer is a political subdivision (school district), state agency, or state institution, the employer does not have contract clause protection, so requiring or increasing employer contributions would be allowable. Future active members also have no contract clause protection, so reducing benefits for that group would be allowable.

- **<u>What does SB 2046 do?</u>**

SB 2046 is a comprehensive plan designed to improve TFFR's funding level by increasing assets and reducing future liabilities.

1) Increases employer retirement contributions beginning July 1, 2007

Under current law, member and employer contribution rates total 15.5% (7.75% employee and 7.75% employer). **Section 3** increases the employer contribution rate from 7.75% to 8.75% of active members' salaries, and therefore increases total contributions into the Fund to 16.5% (7.75% member and 8.75% employer).

The higher employer contribution rate is applicable to the salaries of all active members. Based on expected active member payroll, a 1% employer contribution increase equals about $4.2 million more in FY 2008 (from $32.4 million to $36.6 million), or about $8.4 million for the 2007-09 biennium.

On the surface, an employer contribution rate increase might appear to only impact employers. However, the TFFR Board recognizes that such a rate increase also impacts teachers. Salary, retirement, and other benefits are all part of the total compensation package offered to employees. Therefore, an increase in employer retirement contributions will likely reduce the total funds available for future salary increases.

Across the country, employer contribution rates are rising. In fact, the most recent Public Fund Survey for fiscal year 2005 showed the average employer contribution rate was 8%. Employer rates are predicted to continue rising as more plans phase in higher contribution rates already approved, and as other boards and legislatures meet to consider higher rates to address funding issues.

2) Requires employer retirement contributions on reemployed retirees beginning July 1, 2007.

For many years, ND has allowed public school teachers and administrators to return to work after retirement and continue receiving their TFFR retirement benefits under certain employment limitations. The limits apply to TFFR covered employment, but do not apply to non contracted substitute teaching; teaching in a public college, university, or private school; employment outside of education; or employment outside of ND.

General Rule

After a 30-day waiting period, a retiree may return to TFFR covered employment for a maximum number of hours in a fiscal year (July 1 – June 30) and continue to receive a monthly TFFR retirement benefit. The maximum annual hour limit is based on length of contract duties as follows:

9 month contract = 700 hours
10 month contract = 800 hours
11 month contract = 900 hours
12 month contract = 1,000 hours

The retiree will continue to receive monthly TFFR retirement benefits; the retiree will receive salary and benefits from the employer; and no retirement contributions are required to be paid.

So far in 2006-07, (as of 12/06), there are 169 retirees who have returned to teach part time under the general rule. These retirees are working half time or less and are teaching in nearly every subject area including Business, Consumer Science, Counseling, Elementary Ed, English, Foreign Language, Health, Library, Math, Music, Phy Ed, Science, Social Studies, Special Ed, Summer School, Technology Coordinators, and other teaching positions. There are also retired administrators employed part time as Superintendents, Principals, and Directors (Athletic, Special Ed, etc.).

Exception A – Critical Shortage Area (CSA)

A retiree may return to TFFR covered employment in an approved critical shortage area and exceed the annual hour limitation (work full time) without losing retirement benefits. If a retiree's retirement date is after January 1, 2001, a one-year waiting period is required. Critical shortage areas are determined each year by the Education Standards and Practices Board (ESPB). For the 2006-07 school year, ESPB has designated all areas except for elementary education and physical education as critical shortage areas. Each year the retiree must re-apply for this critical shortage area exception.

Like the General Rule, the retiree will continue to receive monthly retirement benefits; the retiree will receive salary and benefits from the employer; and no retirement contributions are required to be paid.

So far in 2006-07 (as of 12/06), there are 10 retirees who have returned to teach under the critical shortage area exception. These retirees are working full time in the areas of Consumer Science (1), Counselor (1), English (2), Math (2), Music (1), Science (1), Social Studies (1), and Superintendent (1).

Exception B – Benefit Suspension and Recalculation

After a 30-day waiting period, a retiree may return to TFFR covered employment and exceed the annual hour limitation (work full time). Under this option, a retiree's TFFR benefits are suspended when the retiree reaches the annual hour limit. At that time, employer and employee contributions must be paid on any salary earned after the annual hour limit. Upon the retiree's re-retirement, the monthly benefits may be recalculated depending upon the number of years the retiree is re-employed.

So far in 2006-07 (as of 12/01/06), there are 4 retirees who have returned to teach under the benefit suspension and recalculation exception. These retirees are working full time as Counselor (1), Principal (2), and Superintendent (1).

Retiree Re-employment Concerns

TFFR is concerned about the growing number of retirees who are returning to work in public schools, and its small, but increasing financial impact on the Fund. Current retiree re-employment provisions may be encouraging members to retire earlier than they otherwise would have which increases the cost to the Fund. Current provisions also provide a financial incentive for employers to hire a retiree (or two retirees for one position). When an employer hires a retiree, the retiree is presumably taking the place of another teacher who would have been a TFFR participating member which produces a small actuarial loss since part of the contributions help pay down the UAAL.

To address these financial implications, **Sections 10 and 11** require employers to contribute 16.5% of the re-employed retiree's salary for those retirees who return to work under the general rule and critical shortage options. Employer contributions would be reduced to 8.75% if the retiree exceeds annual hour limit under general rule and member contributions become due. These sections also require notification within 30 days that the retiree has returned to covered employment.

Requiring 16.5% employer contribution on re-employed retirees' salaries equals about $631,000 in FY 2008, or almost $1.3 million for the 2007-09 biennium. This figure is dependent upon the number of retirees who return to teach in covered positions and the salary they receive.

Attachment H - TFFR Re-employed Retirees Summary Statistics 2000-07
Attachment I - TFFR Re-employed Retirees – by Option
Attachment J - TFFR Re-employed Retirees – by Job Type
Attachment K - TFFR Re-employed Retirees – by Hours Contracted
Attachment L - TFFR Re-employed Retirees – by Subject/Position
Attachment M - TFFR Re-employed Retirees – by Participating Employers

3) Creates new tier of reduced member benefits for new TFFR members (and returning refunded members) employed on or after July 1, 2007.

A new tier of benefits for new teachers and administrators acknowledges that the pension environment and TFFR have undergone major changes over the last decade. There are fewer active members, and they are retiring earlier, living longer, and have higher salaries. Future new hires would have to work longer before qualifying for normal retirement benefits, and their benefit amount would be reduced because of the final average salary calculation.

Sections 2, 4, 5, 7, 8, 9, 12, 13 define and outline benefits for two groups (tiers) of TFFR members.

Tier 1 members include all current active, inactive, or retired members who have TFFR service credit on July 1, 2007. Tier 1 members who do not refund their service credit would maintain the current TFFR benefit structure and member contribution rates.

Tier 2 members include all new members and returning refunded members who are employed on or after July 1, 2007. Tier 2 members would have the following benefit changes:

- Rule of 90 (instead of Rule of 85).
- 5-year vesting (instead of 3-year vesting).
- Unreduced retirement eligibility would be age 65 and 5 years of service (instead of age 65 and 3 years) or Rule of 90.
- Reduced retirement eligibility would be age 55 and 5 years (instead of age 55 and 3 years).
- Final average salary (FAS) would be computed as a 5-year average (rather than as a 3-year average) which reduces the benefit amount.

  Example – FAS Comparison
  assume 4% increases, $40,000 final salary, 30 yrs service

  3 year FAS = $23,414 annual retirement benefits
  5 year FAS = $22,547 annual retirement benefits
  Difference = $ 867 year, or 3.7% reduction in annual benefits

4) Removes automatic refund requirement and incorporates federal tax law changes to comply with IRS qualification requirements.

All changes reflect federal law updates and compliance with IRS regulations. **Section 1** increases the maximum annual compensation limit that can be used in benefit calculations ($220,000 in 2006, and indexed to inflation in $5,000 increments thereafter). **Section 4** updates minimum distribution requirements. **Section 6** increases the maximum annual benefit limitations ($175,000 in 2006, and indexed to inflation in $5,000 increments thereafter). **Section 12** removes automatic refund requirement for non vested inactive members and updates rollover provisions.

5) Application

Section 14 clarifies that this bill applies to salaries earned on and after July 1, 2007.

6) Appropriation

Section 15 provides TFFR an appropriation of $5,000 to implement provisions of this bill.

- **Fiscal Impact on Employers and State (See fiscal note)**

Fiscal impact to state, counties, and school districts is estimated to be nearly $9.7 million ($9,698,385) for the 2007-09 biennium. Of this amount, about $12,608 would be from counties and $9,588,793 would be from school districts and other TFFR employers. Approximately $96,984 would need to be appropriated for general fund state agencies and institutions including the Department of Career and Technical Education, Division of Independent Study, School for the Blind, School for the Deaf, and Youth Correctional Center.

Note: *Above estimates are based on assumptions and calculations from TFFR's actuarial consultant. Actual amounts would be calculated based on actual salary of TFFR members employed by state agencies, state institutions, counties, school districts, and other TFFR employers for the 2007-09 biennium. Also, If HB 1078 passes, TFFR members employed by Career and Technical Education will have the option to transfer retirement plan membership from TFFR to PERS, and the increased appropriation to CTE for SB 2046 may not be needed.*

Attachment G – Projected Employer Contribution Effect

- **Actuarial Impact on TFFR**

If SB 2046 is approved, TFFR is projected to achieve a zero UAAL and a100% funded ratio within about 30 years (based on current actuarial assumptions, including 8% investment return and future member decline of 0.5% per year).

Item	July 1, 2006 Current Valuation	July 1, 2016 No Changes	July 1, 2016 With SB 2046
Funded Ratio	75.4%	84.0%	86.0%
UAAL	$509.9 million	$482.5 million	$420.5 million
ARC	12.29%	10.17%	8.28%
Margin	-4.54%	-2.42%	0.47%
Funding Period	Infinite	Infinite	24.8 years

Item	July 1, 2006 Current Valuation	July 1, 2036 No Changes	July 1, 2036 With SB 2046
Funded Ratio	75.4%	82.4%	100.4%
UAAL	$509.9 million	$947.3 million	-$20.1 million
ARC	12.29%	10.35%	2.37%
Margin	-4.54%	-2.60%	6.38%
Funding Period	Infinite	Infinite	0.0 years

Attachment N - October 19, 2006 GRS letter

- **Summary**

The TFFR Board recognizes that employer contribution increases and benefit reductions for new hires will be difficult for teachers, administrators, school districts and the state to manage. However, the Board believes that both members and employers share the responsibility of these changes that will preserve the long-term financial stability of the TFFR trust fund.

SB 2046 is a proactive, modest, and balanced approach to addressing TFFR's funded status without harming legally protected pension benefits for active and retired members. If this legislative package is enacted and actuarial and investment assumptions are met, the financial condition of the TFFR plan strengthens and remains stable for decades to come.

The interim Legislative Employee Benefits Programs Committee reviewed this bill and gave it a "favorable" recommendation. Please support the changes included in SB 2046, and give it a "do pass" recommendation.

Handout #2

SB 2046
March 19, 2006

GRS

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March 13, 2007

Ms. Fay Kopp
Deputy Executive Director
North Dakota Retirement & Investment Office
P.O. Box 7100
Bismarck, ND 58507-7100

Re: Analysis of Amendments to SB 2046 - TFFR Bill

Dear Fay:

As requested, we have reviewed and analyzed the impact of the two amendments to SB 2046 that you faxed late last week. This letter should be read in conjunction with our earlier letter to the Employee Benefits Programs Committee on Bill 68 dated October 19, 2006.

Provisions of SB 2046 (Amended)

The amendments make the following changes to SB 2046:

1) The vesting period for Tier 2 employees is changed back to three years, the same as for Tier 1 employees and the same as under current law. The amendments also remove the retirement eligibility changes that SB 2046 would have made for Tier 2 employees, except for the change from Rule of 85 to Rule of 90, which is kept in the amended bill.

2) A sunset provision is added to the 1.00 percentage point increase in the employer contribution rate made by SB 2046. Under the sunset provision, the employer contribution rate, which would be raised from 7.75% to 8.75% by SB 2046, would revert to 7.75% once the TFFR funded ratio has reached 95%.

3) The employer contribution rate for reemployed retirees is changed from 16.50% before the hours limit is reached under SB 2046 (the sum of the employee and employer contribution rates) to 8.75% (the employer contribution rate). The employer of a reemployed retiree in a critical shortage area would also be required to contribute at the regular employer contribution rate, rather than the 16.50% originally required under SB 2046. The 8.75% rate would be reduced to 7.75% once the plan reaches the 95% funded target. Under current law, employers are not required to contribute until the hours limit is reached, and they are not required to contribute at all if the retiree is reemployed under the critical-shortage rules.

Therefore, the amended version of SB 2046 would contain the following non-technical changes:

- The creation of a new tier of members (Tier 2 members) who are those employed on or after July 1, 2007. Members employed before that date would be Tier 1 members.
- Retirement benefits for Tier 2 members would be based on a five-year average salary, rather than the three-year average salary used for Tier 1 members.
- Tier 2 members who retire before reaching age 65 and whose age plus service is 90 or greater would be eligible for unreduced retirement benefits. This is called the Rule of 90. As under current law, Tier 1 members would be eligible once their age plus service is 85 or larger (Rule of 85).
- The employer would have to contribute on the salaries of all reemployed retirees at the regular employer rate, whether before or after the retiree had passed the hours threshold.
- The employer contribution rate would be increased from 7.75% to 8.75%, subject to the sunset provision above.

Actuarial Analysis

Based on our projections, the plan would reach a 95% funded ratio as of the July 1, 2032 valuation both under SB 2046 as originally introduced and under SB 2046 as amended.

The following two tables compare projected actuarial measurements as of 2016 and 2036 under current law, SB 2046 as originally introduced, and SB 2046 as amended. The five measurements shown are:

Funded Ratio: The ratio of the actuarial value of assets to the actuarial accrued liability

UAAL: The unfunded actuarial accrued liability, which is the result of subtracting the actuarial value of assets from the actuarial accrued liability

ARC: The Annual Required Contribution determined in accordance with Government Accounting Standards Board Statement No. 25 (GASB 25).

Margin: The result of subtracting the ARC from the statutory contribution. A negative margin indicates that the statutory contribution is smaller than required under the accounting statement. Note that in some projections, the statutory contribution is 7.75%, and in others it is 8.75%.

Funding Period: This is the theoretical period required to amortize the UAAL, based on the statutory contribution being received. A result of Infinite indicates the statutory contribution rate is not sufficient to ever amortize the UAAL.

The projections utilize the same methodology and assumptions used in preparing our earlier letter. They are based upon the current actuarial assumptions, including the 8.00% net investment return assumption. All projections assume there are no future actuarial gains or losses, other than those arising from investment return, and assume future active membership declines 0.50% per year each year in the future.

Projected Results as of July 1, 2016			
Item	No Changes	SB 2046 (Before Amendments)	SB 2046 (amended)
Funded Ratio	84.0%	86.0%	85.9%
UAAL	\$482.5 Million	\$420.5 Million	\$424.2 Million
ARC	10.17%	8.28%	8.38%
Margin	-2.42%	0.47%	0.37%
Funding Period	Infinite	24.8 years	25.8 years

Projected Results as of July 1, 2036			
Item	No Changes	SB 2046 (Before Amendments)	SB 2046 (amended)
Funded Ratio	82.4%	100.4%	98.7%
UAAL	\$947.3 Million	-\$20.1 Million	\$65.7 Million
ARC	10.35%	2.37%	3.04%
Margin	-2.60%	6.38%	4.71%
Funding Period	Infinite	0.0 years	1.3 years

As you can see, the amendments made to SB 2046 have a modest effect on the results. The plan does not become 100% funded by 2036, but it is very close. Note that the change in the margin is partially due to the change in the statutory contribution rate, in turn due to the sunset. I.e., in measuring the margin under the version of SB 2046 originally introduced, we are comparing the ARC to an 8.75% statutory rate, while under the amended version, we are comparing the ARC to a 7.75% statutory rate.

Other Comments

The amendment providing for the sunset in the additional 1.00% employer contribution rate is not, in our view, clear enough about the timing. In practice, the Board will learn when the funded ratio has reached 95% after we complete and present the actuarial valuation, usually in mid-November. It seems to me that, in order to avoid changing the contribution rate in the middle of a fiscal year, with its attendant administrative complications, it would be preferable to make the rate decrease effective on the July 1 that follows the first valuation that shows a 95% funded ratio. The way Section 16 is written, it is not clear that the Board has this latitude.

3 YR. VESTING

It will be possible under the amended version of SB 2046 for a Tier 2 member to be eligible for a retirement benefit after just three years of service. However, the bill requires computing a five-year average of the member's salaries to determine the benefit. In such a case, we believe it makes the most sense for the benefit to be based on an average of all of the member's non-zero fiscal year salaries during the time employed. The bill should be modified to handle this situation, unless it is concluded that the Board has the authority to handle this under either a formal rule or an administrative policy.

If you have any questions about our comments, please do not hesitate to call or write.

Sincerely,

J. Christian Conradi

J. Christian Conradi
Senior Consultant

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North Dakota Teachers' Fund for Retirement

Projected Employer Contribution Effect of SB 2046 (Amended)

(Projections Based on July 1, 2006 Actuarial Valuation)

		Under SB 2046			
Fiscal Year	No Change (Employer Contributions at 7.75%)	Regular Employer Contributions at 8.75%	Reemployed Retirees at 8.75%	Total under SB 2046	Increase Due to SB 2046
(1)	(2)	(3)	(4)	(5)	(6)
FY 2008	32,375,812	36,553,336	334,554	36,887,890	4,512,078
FY 2009	32,910,367	37,156,865	341,245	37,498,110	4,587,743
FY 2010	33,538,947	37,866,553	348,070	38,214,623	4,675,676
FY 2011	34,259,847	38,680,472	355,031	39,035,503	4,775,656

Handout #1

March 19, 2006

Senate Bill 2046

Actuarial Analysis

a. As of July 1, 2006:

- TFFR's funded ratio was 75.4% based on actuarial value
- Market value of TFFR assets was $1.7 billion
- Unfunded actuarial accrued liability (UAAL) was $510 million
- Current funding period (without changes) is 'infinite'
- Negative contribution margin is minus 4.54%

b. Investment returns were well below assumed rates in fiscal years '01, '02 and '03

- Stock market decline-losses of $316.8 million over 6 years
- Benefit improvements in 2001- $93.9 million

The Fix - - - SB 2046

a. Increases employer retirement contributions by 1%
b. Requires employer retirement contribution on re-employed retirees
c. Creates new tier of future retirees with altered member benefits for new TFFR members
   - Rule of 90 instead of 85
   - Final average salary computed as 5 year average instead of 3
d. The bill also provides that, when the fund reaches a 95% funded ratio, the additional employer contribution of 1% will be removed. This refers to the ratio of the actuarial value of the assets to the actuarial accrued liability.

Expected Result

With these changes, TFFR is projected to achieve a zero UAAL and a 100% funded ratio within about 30 years based on current actuarial Assumptions of:

8% investment returns
Future member decline of .5% per year