

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1102

2001 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1102

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1102 A

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 2/1/01

Tape Number	Side A	Side B	Meter #
2	X		1901-END
		X	0-734
Committee Clerk Signature <i>Robin L. Small</i>			

Minutes:

**REP. M. KLEIN** called the hearing to order with all members present.

In favor:

**FAY KOPP, DEPUTY EXECUTIVE DIRECTOR, ND RETIREMENT AND INVESTMENT OFFICE, TEACHER'S FUND FOR RETIREMENT**

Please see attached testimony.

**REP. M. KLEIN** asks how many teachers are retired right now? **KOPP** replies that there is approximately 4,800. **REP. M. KLEIN** asks what is the average retiree pay? **KOPP** replies that it is \$997.00 per month. **REP. M. KLEIN** asks what is the range from high to low? **KOPP** replies that it is about \$100.00 to \$3000.00 per month. **REP. M. KLEIN** asks about a substantial raise. **KOPP** replies that it is similar to last session.

**REP. GRANDE** states that she is concerned about ongoing increases on these. **GRANDE** also reads from the minutes in a previous meeting with **KOPP**. **KOPP** is quoted in the meeting as

saying something different to what she is saying now. REP. GRANDE talks about what the fund is sitting at now, its a step by step thing. Looking at this very conservatively. Talking about pre funded health. KOPP comments that all would do the same thing, providing for benefit increases. REP. GRANDE talks about the 2% dropping to a 1%, the vulnerability. KOPP states that other calculations could be made.

REP. KROEBER states that the .75 is not tied to the COLA. KOPP agrees. REP. KROEBER asks if this has been reviewed with the committee? KOPP then refers to STEVE COCHRANE.  
STEVE COCHRANE, CFA, EXECUTIVE DIRECTOR, ND RETIREMENT AND INVESTMENT OFFICE, TFFR

COCHRANE states to the committee 8% actuarilly assumed rate of return.

REP. M. KLEIN asks what was it last year? COCHRANE replies that it was an actuarial gain of over 13%.

REP. GRANDE asks about the \$97 million over funded, the funding ratio at its current level, and at 101%, so we are just barely overfunded with the \$97 million? COCHRANE replies that they are confusing two different issues. One is how do we determine the level of unfunded liability.

REP. M. KLEIN asks if they are comfortable with a .39 margin? COCHRANE replies that he is.

REP. MEIER asks about a flex rate consideration. COCHRANE replies that there are several different levels.

REP. BELLEW asks if there were any other ways that were looked at to fund this portion of the bill? COCHRANE replies that they did not look at increasing the employers contribution rates.

They strictly looked at the margin, because actuarially that is the source that is traditionally used that is used for benefit plans.

REP. M. KLEIN asks for the benefit for the new freshmen please gives us those percentages, contribution rates. COCHRANE states that they are 7.75% for the employees as well as the employers.

In favor:

JOE WESTBY, NDEA

WESTBY states that they support the recommendations from the interim committee, their concerns are satisfied. Likes that it protects the annuity. NDEA stands in support of this bill.

In favor:

TOM TUPA, NDRTA

Please see attached testimony.

REP. M. KLEIN asks if there was ever a time that they were not approved basically in the essence that you brought them to us, did you ever have a problem getting them approved? TUPA replies that he can not remember a time when those proposals were adjusted.

REP. KLEMIN asks about the health care plan. How would that apply to a retired teacher that didn't need health care? TUPA replies that at sometime the program could become mature.

In favor:

LARRY KLUNDT, EXECUTIVE DIRECTOR OF THE ND COUNCIL OF  
EDUCATIONAL LEADERS, NDCEL

Please see attached testimony.

In favor:

Page 4

House Government and Veterans Affairs Committee

Bill/Resolution Number HB 4401 A

Hearing Date 2/1/01 1108

**BARBARA EVANSON, TFFR BOARD TRUSTEE, REPRESENTING ACTIVE**

**TEACHERS**

Please see attached testimony.

**REP. M. KLEIN** asks TFFR to give the committee another report on the adhoc and the two dollar pre funded arrangement so they can go over it.

In favor:

**HOWARD SNORTLAND, CHAIRMAN OF THE RETIRED TEACHERS ASSOC.**

**SNORTLAND** talks about a formula for the retired teachers. Talks to the committee about when he was in Fargo and what they came up with.

There was no opposition.

The committee had no action on this bill at this time, it will be taken up at a later date.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1102 B

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 2/16/01

Tape Number	Side A	Side B	Meter #
1	X		558-4810
2	X		0-318
Committee Clerk Signature <i>Robin J. Small</i>			

Minutes:

REP. M. KLEIN called the committee to order, with all members present.

COMMITTEE WORK:

REP. GRANDE and REP. KROEBER submit their versions of amendments to the bill.

General discussion. REP. DEVLIN asks REP. KROEBER about the benefit committee and their recommendations. Would this amendment be going against what the committee has approved.

REP. KROEBER replies that is correct. REP. KROEBER then reviews his amendment with the committee. REP. GRANDE then further reviews her amendments. REP. KROEBER then talks about the proposal and the .38 margin. REP. GRANDE talks about the multiplier, and

REP. METCALF states that there is a teacher shortage in this state, and there may be another message here. The benefit committee consists of SENS. KILZER, URLACHER,

KREBSBACH and C. NELSON. Also REPS. KEMPINICH, AARSVOLD, KROEBER,

Page 2

House Government and Veterans Affairs Committee

Bill/Resolution Number HB 1102 B

Hearing Date 2/16/01

GRANDE and FROSETH. REP. KROEBER states to the committee that he wants a minority report done. REP. DEVLIN motions to accept the majority amendments, seconded by REP. BELLEW. The roll call vote was taken with 11 YES, 4 NO and 0 ABSENT AND NOT VOTING. The motion carries. REP. DEVLIN then motions for a DO PASS AS AMENDED, seconded by REP. GRANDE. The roll call vote was taken with 11 YES, 4 NO and 0 ABSENT AND NOT VOTING. The motion carries. The CARRIER of the bill is REP. GRANDE. Later on that morning, the committee was brought back to order. The chairman needs the minority report motioned in order to have one done. REP. KROEBER then motions to prepare a minority report, with the minority amendment, seconded by REP. CLEARY. The roll call vote was taken with 4 YES, 10 NO and 1 ABSENT AND NOT VOTING (REP. BRUSEGAARD). The motion exists. The committee clerk then will prepare a majority report and a minority report. The committee was then dismissed.

HB 1102: Majority Report Do Pass As Amended 11-4

CARRIER: REP. GRANDE

HB 1102: Minority Report Do Pass As Amended 4-10

CARRIER: REP. KROEBER



2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1102 C

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 2/21/01

Tape Number	Side A	Side B	Meter #
1	X		0-1752
Committee Clerk Signature <i>John L. Small</i>			

Minutes:

REP. M. KLEIN called the committee to order with all of the members present.

ACTION:

REP. DEVLIN motioned to reconsider the bill, seconded by REP. CLARK. A voice vote was taken with the majority passing it.

General discussion.

REP. DEVLIN motions to accept the amendments, seconded by REP. CLARK. A voice vote was taken with the majority passing them. REP. DEVLIN then motions for a DO PASS AS AMENDED, seconded by REP. CLARK. The roll call vote was taken with 15 YES, 0 NO and 0 ABSENT AND NOT VOTING. The motion carries. The CARRIER of the bill is REP. GRANDE. REP. KROEBER then reconsiders the minority report if it needs to be.

HB 1102: DO PASS AS AMENDED 15-0

CARRIER: REP. GRANDE

## FISCAL NOTE

Requested by Legislative Council

12/14/2000

Bill/Resolution No.: HB 1102

Amendment to:

**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.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>	\$0	\$0	\$301,500	\$0	\$301,500	\$0
<b>Expenditures</b>	\$0	\$0	\$0	\$0	\$0	\$0
<b>Appropriations</b>	\$0	\$0	\$0	\$0	\$0	\$0

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

**2. Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

There will be no cost to the state to provide the benefit increases in HB 1102 since it will be funded through actuarial reserves in the trust fund. The additional benefit payments to retirees are taxable and will result in additional income and sales taxes being paid to the state.

**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.*

Revenues are the result of income and sales taxes being paid on the additional retirement benefits paid to retired teachers.

**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.*

NA

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

NA

Name:	Fay Kopp	Agency:	ND Retirement & Investment Office
Phone Number:	328-9895	Date Prepared:	12/19/2000

10069.0205  
Title.0300

Prepared by the Legislative Council staff for  
Representative Grande - Majority Report  
February 14, 2001

VR  
2/16/01

HOUSE AMENDMENTS TO HB 1102      HOUSE GVA 2/16/01  
Page 1, line 9, after "two" insert "and two hundredths"

Page 1, line 20, after "dollars" insert "and twenty-five cents" and after "dollar" insert "and twenty-five cents"

Page 1, line 21, remove "In addition, an"

Page 1, remove lines 22 and 23

HOUSE AMENDMENTS TO HB 1102      HOUSE GVA 2/16/01  
Page 2, remove lines 1 and 2

Renumber accordingly

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1102

Page 2, line 2, replace "first of each year" with "1, 2001. In addition, an individual who is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive a seventy-five hundredths of one percent increase of the individual's current monthly benefit with the increased benefit payable each month thereafter beginning on July 1, 2002."

Renumber accordingly

Date: Feb. 16<sup>th</sup>, 2001

Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB1102

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken accept the amendment (majority)

Motion Made By Devlin Seconded By Bullen

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP KROEBER		✓
VICE CHAIR GRANDE	✓				
REP BELI EW	✓				
REP BRUSEGAARD	✓				
REP CLARK	✓				
REP DEVLIN	✓				
REP HAAS	✓				
REP KASPER	✓				
REP KLEMIN	✓				
REP MEIER	✓				
REP WIKENHEISER	✓				
REP CLEARY		✓			
REP HUNSKOR		✓			
REP METCALF		✓			

Total (Yes) 11 No 4

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

Date: Feb. 17<sup>th</sup>, 2001

Roll Call Vote #: 2

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1102

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass As Amended

Motion Made By Devlin Seconded By Grande

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP KROEBER		✓
VICE CHAIR GRANDE	✓				
REP BELLEW	✓				
REP BRUSEGAARD	✓				
REP CLARK	✓				
REP DEVLIN	✓				
REP HAAS	✓				
REP KASPER	✓				
REP KLEMIN	✓				
REP MEIER	✓				
REP WIKENHEISER	✓				
REP CLEARY		✓			
REP HUNSKOR		✓			
REP METCALF		✓			

Total (Yes) 11 No 4

Absent \_\_\_\_\_

Floor Assignment Rep Grande

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

REPORT OF STANDING COMMITTEE-DIVIDED (430)  
February 16, 2001 2:43 p.m.

Module No: HR-29-3733  
Carrier: Grande  
Insert LC: 10069.0205 Title: .0300

**REPORT OF STANDING COMMITTEE (MAJORITY)**  
**HB 1102: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman) A**  
**MAJORITY** of your committee (Reps. M. Klein, Grande, Bellew, Brusegaard, Clark,  
Devlin, Haas, Kasper, Klemin, Meler, Wikenheiser) recommends **AMENDMENTS AS**  
**FOLLOWS** and when so amended, recommends **DO PASS**.

Page 1, line 9, after "two" Insert "and two hundredths"

Page 1, line 20, after "dollars" Insert "and twenty-five cents" and after "dollar" Insert "and  
twenty-five cents"

Page 1, line 21, remove "In addition, an"

Page 1, remove lines 22 and 23

Page 2, remove lines 1 and 2

Renumber accordingly

The reports of the majority and the minority were placed on the Seventh order of business on  
the calendar for the succeeding legislative day.



10069.0207  
Title 0400

Adopted by the Government and Veterans  
Affairs Committee - Minority Report  
February 16, 2001

VR  
2/16/01

HOUSE AMENDMENTS TO HB 1102      HOUSE GVA 2/16/01  
Page 1, line 9, after "two" Insert "and fifteen hundredths"

Page 1, line 19, replace "two" with "three"

Page 1, line 20, after "dollars" Insert "and fifty cents" and after "dollar" Insert "and seventy-five cents"

Page 1, line 21, remove "In addition, an"

Page 1, remove lines 22 and 23

HOUSE AMENDMENTS TO HB 1102      HOUSE GVA 2/16/01  
Page 2, remove lines 1 and 2

Renumber accordingly

Date: Feb. 16<sup>th</sup>, 2001

Roll Call Vote #: 3

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1102

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Prepare a Minority Report to Kroeber Amendments

Motion Made By Kroeber Seconded By Clary

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN		✓	REP KROEBER	✓	
VICE CHAIR GRANDE		✓			
REP BELLEW		✓			
REP BRUSEGAARD					
REP CLARK		✓			
REP DEVLIN		✓			
REP HAAS		✓			
REP KASPER		✓			
REP KLEMIN		✓			
REP MEIER		✓			
REP WIKENHEISER		✓			
REP CLARY	✓				
REP HUNSKOR	✓				
REP METCALF	✓				

Total (Yes) 4 No 10

Absent 1

Floor Assignment Rep. Kroeber

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

REPORT OF STANDING COMMITTEE-DIVIDED (430)  
February 16, 2001 3:07 p.m.

Module No: HR-29-3746  
Carrier: Kroeber  
Insert LC: 10069.0207 Title: .0400

**REPORT OF STANDING COMMITTEE (MINORITY)**  
HB 1102: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman) A  
MINORITY of your committee (Reps. Cleary, Hunsakor, Metcalf, Kroeber) recommends  
AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS**.

Page 1, line 9, after "two" insert "and fifteen hundredths"

Page 1, line 19, replace "two" with "three"

Page 1, line 20, after "dollars" insert "and fifty cents" and after "dollar" insert "and  
seventy-five cents"

Page 1, line 21, remove "In addition, an"

Page 1, remove lines 22 and 23

Page 2, remove lines 1 and 2

Renumber accordingly

The reports of the majority and the minority were placed on the Seventh order of business on  
the calendar for the succeeding legislative day.

Date: 2-21-01

Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB1102

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_  
or  
☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Reconsider

Motion Made By Devlin Seconded By Clark

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN			REP KROEBER		
VICE CHAIR GRANDE					
REP BELLEW					
REP BRUSEGAARD					
REP CLARK					
REP DEVLIN					
REP HAAS					
REP KASPER					
REP KLEMIN					
REP MEIER					
REP WIKENHEISER					
REP CLEARY					
REP HUNSKOR					
REP METCALF					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

## PROPOSED AMENDMENTS TO HOUSE BILL NO. 1102

Page 2, line 2, after the period insert the following:

"This annual benefit adjustment is conditioned on an actuarial test performed annually by the Board's actuarial consultant to determine the actuarial adequacy of the statutory contribution rate. If the actuarial valuation shows that there was a shortfall between the actuarially determined benchmark contribution rate and the statutory rate, then the Board has the authority to reduce or suspend the conditional annual benefit adjustments. The actuarial adequacy test shall be deemed to have been failed if one or more of the following are true: (1) the shortfall is greater than 0.60% in any year; (2) the shortfall is greater than 0.30% in any two consecutive years; or (3) a shortfall exists in three consecutive years. The Board shall report the results of the actuarial test annually to the Employee Benefits Programs Committee."

Renumber Accordingly

VR  
2/21/01

HOUSE AMENDMENTS TO HB 1102      HOUSE GVA 2/21/01

Page 2, line 2, after the underscored period insert "This annual benefit adjustment is conditioned on an actuarial test performed annually by the board's actuarial consultant to determine the actuarial adequacy of the statutory contribution rate. The board shall report the results of the actuarial test annually to the employee benefits programs committee. If the actuarial valuation indicates a shortfall between the actuarially determined benchmark contribution rate and the statutory rate, the board may reduce or suspend the conditional annual benefit adjustments. The actuarial adequacy test fails if one or more of the following are true:

1. The shortfall is greater than six-tenths of one percent in any year;
2. The shortfall is greater than three-tenths of one percent in any two consecutive years; or
3. A shortfall exists in three consecutive years."

Renumber accordingly

Date: 2-21-01

Roll Call Vote #: 2

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB1102

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Accept the Amendment

Motion Made By A. Klein Seconded By Clark

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN			REP KROEBER		
VICE CHAIR GRANDE					
REP BELLEW					
REP BRUSEGAARD					
REP CLARK					
REP DEVLIN					
REP HAAS					
REP KASPER					
REP KLEMIN					
REP MEIER					
REP WIKENHEISER					
REP CLEARY					
REP HUNSKOR					
REP METCALF					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

Date: 2-21-01

Roll Call Vote #: 3

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1102

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass As Amended

Motion Made By Devlin Seconded By Clark

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP KROEBER	✓	
VICE CHAIR GRANDE	✓				
REP BELLEW	✓				
REP BRUSEGAARD	✓				
REP CLARK	✓				
REP DEVLIN	✓				
REP HAAS	✓				
REP KASPER	✓				
REP KLEMIN	✓				
REP MEIER	✓				
REP WIKENHEISER	✓				
REP CLEARY	✓				
REP HUNSKOR	✓				
REP METCALF	✓				

Total (Yes) 15 No 0

Absent \_\_\_\_\_

Floor Assignment Grande

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



REPORT OF STANDING COMMITTEE

HB 1102: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (16 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1102 was placed on the Sixth order on the calendar.

Page 2, line 2, after the underscored period insert "This annual benefit adjustment is conditioned on an actuarial test performed annually by the board's actuarial consultant to determine the actuarial adequacy of the statutory contribution rate. The board shall report the results of the actuarial test annually to the employee benefits programs committee. If the actuarial valuation indicates a shortfall between the actuarially determined benchmark contribution rate and the statutory rate, the board may reduce or suspend the conditional annual benefit adjustments. The actuarial adequacy test fails if one or more of the following are true:

1. The shortfall is greater than six-tenths of one percent in any year;
2. The shortfall is greater than three-tenths of one percent in any two consecutive years; or
3. A shortfall exists in three consecutive years."

Renumber accordingly

2001 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1102

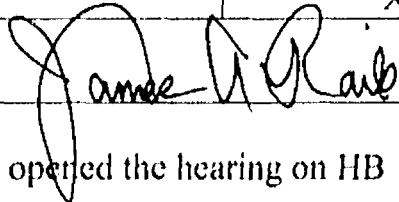
# 2001 SENATE STANDING COMMITTEE MINUTES

## BILL/RESOLUTION NO. HB 1102

Senate Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date March 9, 2001

Tape Number	Side A	Side B	Meter #
1		X	32.6-End
2	X		0.0-50.0
March 15, 2001 2	X		28.2-End
March 15, 2001 2		X	0.0-5.9
Committee Clerk Signature 			

Minutes: **Chairman Krebsbach** opened the hearing on HB 1102 which relates to the computation of benefits under the teachers' fund for retirement; and to provide for application. **Fay Kopp**, Deputy Executive Director, North Dakota Retirement and Investment Office, appeared before the committee. A copy of her written testimony is attached. **Senator T. Mathern** inquired what specifically is the additional protection that was placed on by the house. **Ms. Kopp** indicated the change that was made by the house, in the original version of the bill it called for basically a guaranteed annual adjustment of .75%. The actuaries and all consultants indicated that it probably would not be necessary for there to be any condition or provisional mechanism. So, in the initial version of the bill that the board presented it did not include an annual actuarial test to be conducted. The house in taking a look at it said no, we would like to build in an additional feature that would serve as a safety net. They built in this conditional provision so that each year an additional annual actuarial test needs to be conducted to be sure that the board can continue paying out that benefit. Representative Joe Kroeber, district 48

appeared before the committee. A copy of his written testimony is attached. Questions were offered by **Senators Kilzer and Wardner**. **Barb Evanson**, Trustee for the NDTFFR appeared before the committee to present testimony in support of HB 1102. A copy of her written testimony is attached. **Tom Toupa** representing the North Dakota Retired Teachers Association came before the committee offering testimony mostly in support of HB 1102 with a few alternate suggestions. A copy of his written testimony is attached. **Senator Wardner** indicated that the committee had previously discussed margins. You indicated to the committee that if percentages were used it would use up all of the margins. **Senator Wardner** indicated he was thinking something different. **Senator Wardner** was thinking for just the next two years. **Senator Wardner** continued asking questions with responses being offered by **Mr. Toupa**. **Senator C. Nelson** indicated that looking at the breakdown on who is retired and then looking at the 2900 members you have in your organization. She indicated that this bill happened to be part of the discussion in the Cass County Retired Teachers Association. She got that report real quick. They don't agree with you, and so she is asking, it looks like the split is 2200 to 2500 of older retirees to younger retirees. If you are representing the older group she can see why you want that particular plan. If indeed the majority of your organization is the younger group they want the other plan. **Howard Snortland**, Legislative Chairman for the Retired Teachers Association. He indicated that his organization has supported all through the years the goal of getting the multiplier to 2.0 even at the cost to retirees. Concern arose over the gap between lower pensions and better pensions. They urged the adoption of a formula to help ease this problem. The formula was adopted and things have gone well until this bill. We object to this because of the cost being too great and the benefits too low. **Max Laird**, President NDEA and active member of the TFFR appeared before the committee. He indicated that with the information he has

provided the committee he and his organization feel that this bill is a good bill and he would encourage a Do Pass on HB 1102. **Dale Koppelman**, retired teacher, appeared before the committee and indicated that he too supports HB 1102. **Fay Kopp** came forward once more to respond to questions from **Senator Kilzer** and **Senator Wardner**. There was nothing further at this time. **Chairman Krebsbach** closed the hearing on HB 1102. The committee adjourned for the day. On March 15, 2001 the committee held a discussion of HB 1102. **Chairman Krebsbach** indicated that she and **Senator Wardner** had some amendments drafted. The amendments are to retain exactly what the bill has. The only change they are proposing to the committee is that the .75 benefit be limited to the next two years. The year of 2001 and the year 2002. Their idea for this is first of all it has been a position taken that we do not continue on a COLA basis or in this case a CABA. It is an ongoing type of benefit and benefits such as this we have always looked at in doing on a biennial basis. In addition to that there has been an awful lot of discussion as to how the extra dollars in the fund should be allocated. Her feeling was that this would give time for the TFFR board to really review but to do some good analysis, come back to the employee benefits committee, and in that two year period rework the system if need be. Maybe it will be a continuation of the practice that's been in place now. **Senator C. Nelson** indicated that she respectfully disagree with your amendments but you're not surprised at that. She thinks the time has come and perhaps we all who have been involved with this process over the last several years should have looked ahead and said okay when we get there what are we going to do. We didn't and we should have. We are here and she thinks that when you look at what is happening out there in the rest of the real world that this CABA program, this would have been something that could have been at least in the system. She indicated she liked it the way it was when it was talked about last summer and she liked it the way it came in in the first

place. She still likes it better that way. **Senator T. Mathern** wondered if this required any sort of comment from the employee benefits committee. **Chairman Krebsbach** asked Fay Kopp with the Retirement and Investment Office to take the podium. **Fay Kopp** indicated that she had visited with Senator Krebsbach and indicated she would provide the committee with some information relative to this bill. She gave the members of the committee a hand out which she explained. **Senator T. Mathern** inquired if the board was opposed to the amendment. **Ms. Kopp** indicated that the board has not met so she could not relay any feelings regarding this. **Senator Wardner** offered comments on the large margin left based on the amendments proposed. **Chairman Krebsbach** indicated that she liked Ms. Kopp's comment about looking at this as a delayed implementation because she does believe that in the interim as we look at this possibly there is the possibility of going at 1. rather than at .75. Discussion continued with **Senators Wardner, C. Nelson, T. Mathern, Chairman Krebsbach, and Senators Dever and Kilzer** participating (Tape 2, Side A, Meter #'s 41.9-56.7). **Senator Kilzer** moved the adoption of the proposed amendments, seconded by **Senator Dever**. Roll Call Vote indicated 4 Yeas, 2 Nays. The motion prevailed. A motion for Do Pass as amended was made by **Senator Kilzer**, seconded by **Senator T. Mathern**. Comments were offered by **Senators Wardner, Krebsbach, Senator T. Mathern and C. Nelson** (Tape 2, Side A, Meter #'s 59.3-End and Side B, Meter #'s 0.0-4.9). Roll Call indicated 6 Yeas, 0 Nays, and 0 Absent or Not Voting. **Senator Kilzer** will carry the bill.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1102

Page 2, line 1, replace "first of each year" with "1, 2001. An individual who on June 30, 2002, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive a seventy-five hundredths of one percent increase of the individual's current monthly benefit with the increased benefit payable each month thereafter beginning on July 1, 2002"

Page 2, line 7, replace "adjustments" with "adjustment"

Page 2, line 9, after the underscored semicolon insert "or"

Page 2, line 11, replace "; or" with an underscored period

Page 2, remove line 12

Renumber accordingly

Roll Call Vote #:

**BILL/RESOLUTION NO.**

HB 1102 (Engrossed)

## Committee

**or**

☐ Conference Committee

10069.0503

## Adopt Amendments

Сектор Девел

[illegible]

2

0

## Floor Assignment

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



Date: 3/15/01  
Roll Call Vote #: 2

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1102 (Engrossed)

Senate GOVERNMENT AND VETERAN'S AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_  
or  
☐ Conference Committee

Legislative Council Amendment Number 10069.0503

Action Taken Move Do Pass as Amended

Motion Made By Sen. Kilzer Seconded By Sen. T Mathern

Senators	Yes	No	Senators	Yes	No
Senator Karen Krebsbach, Chr.	✓		Senator Carolyn Nelson	✓	
Senator Dick Dever, Vice-Chr.	✓		Senator Tim Mathern	✓	
Senator Ralph Kilzer	✓				
Senator Rich Wardner	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen. Kilzer

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

**REPORT OF STANDING COMMITTEE**

**HB 1102, as engrossed: Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman) recommends AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1102 was placed on the Sixth order on the calendar.

Page 2, line 1, replace "first of each year" with "1, 2001. An individual who on June 30, 2002, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive a seventy-five hundredths of one percent increase of the individual's current monthly benefit with the increased benefit payable each month thereafter beginning on July 1, 2002"

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Page 2, line 11, replace "; or" with an underscored period

Page 2, remove line 12

Renumber accordingly

2001 TESTIMONY

HB 1102

**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
HOUSE BILL NO. 1102**

**Sponsor:** Board of Trustees

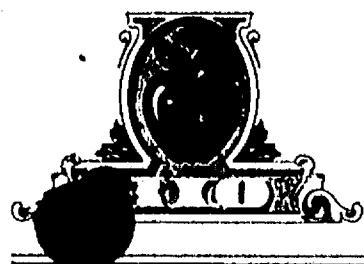
**Proposal:** Increases the benefit multiplier from 1.88 to 2.00 percent; provides a postretirement benefit increase of \$2 per month multiplied by a member's number of years of service credit plus \$1 per month multiplied by the number of years since the member's retirement; also provides for an automatic benefit increase of five-tenths of one percent of an individual's current monthly benefit, and the increased benefit would be payable each month beginning on July 1 of each year of the ensuing biennium and beyond.

The committee amended the proposal at the request of the board to increase the automatic increase from five-tenths of one percent of an individual's current monthly benefit to seventy-five hundredths of one percent of an individual's current monthly benefit.

**Actuarial Analysis:** The reported actuarial cost of the proposal is 4.83 percent of total covered compensation. The reported actuarial cost of the proposal, as amended, is 5.89 percent of total covered compensation. Thus, if Bill No. 69 is enacted, the remaining margin in the Teachers' Fund for Retirement will be .39 percent ( $6.28 - 5.89 = .39$ ). The actuarial cost impact of the proposed changes are summarized in the following table:

Item	Initial Valuation	Ad Hoc Benefit Improvement (\$2/Month x Service, Plus \$1/Month Per Year Retired)	2.00% Multiplier	Combination of Ad Hoc Benefit Improvement and 2.00% Multiplier	Bill No. 69 as Drafted, With Ad Hoc Benefit Improvement, 2.00% Multiplier and 0.5% Automatic Cost-of-Living Increase	Bill No. 69 as Amended, With Ad Hoc Benefit Improvement, 2.00% Multiplier, and .75% Automatic Cost-of-Living Increase
1. Normal cost	9.82%	9.82%	10.29%	10.29%	10.63%	10.81%
2. Unfunded actuarial accrued liability (millions)	\$(20.6)	\$12.0	\$28.4	\$61.0	\$118.2	\$148.9
3. 20-year contribution rate	1.47%	2.42%	3.36%	4.30%	6.30%	7.26%
4. Margin	6.28%	5.33%	4.39%	3.45%	1.45%	0.39%
5. Expected employer contribution (millions)	\$5.0	\$8.2	\$11.4	\$14.6	\$21.4	\$25.0
6. Increase in expected employer contribution (millions)	0.00%	0.95%	1.89%	2.83%	4.83%	5.89%
7. Increase in expected employer contribution (millions)		\$3.2	\$6.4	\$9.6	\$16.4	\$20.0
8. Funded ratio	101.6%	99.1%	97.9%	95.5%	91.7%	89.8%
9. Funding period (years)		0.6	1.7	3.8	8.9	16.6

**Committee Report:** Favorable recommendation. This proposal would allow future changes without legislative involvement.



# ND Retirement and Investment Office

Teachers' Fund for Retirement  
State Investment Board

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Executive Director

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## TESTIMONY ON HB 1102 GOVERNMENT AND VETERANS AFFAIRS COMMITTEE

Fay Kopp, Deputy Executive Director  
ND Retirement and Investment Office  
February 1, 2001

House Bill 1102 was submitted by the Teachers' Fund for Retirement (TFFR) Board. This bill amends the benefit formula, and provides retirement benefit adjustments for retired teachers and beneficiaries.

### SECTION 1. AMENDMENT. (Page 1, Line 9)

- Increases the benefit multiplier from 1.88% to 2.00% for all future retirees.
- One of the TFFR Board's primary goals is to provide a replacement income equal to 60 percent of the final average salary (FAS) of a career employee who has 30 or more years of credited service. Increasing the benefit multiplier to 2.0% will meet that goal.
- A 2.0% multiplier will make TFFR pension benefits more competitive with other statewide teacher plans in attracting and retaining teachers in ND.
- Example: Estimated retirement benefit of a teacher who retires on July 1, 2001, with 30 years of service credit.

Formula	Annual Salary	Annual Benefit	Monthly Benefit	\$ Inc.	% Inc.
1.88%	\$30,000	\$16,920	\$1,410		
2.00%		18,000	1,500	\$90	6.4%
1.88%	\$45,000	\$25,380	\$2,115		
2.00%		27,000	2,250	\$135	6.4%
1.88%	\$60,000	\$33,840	\$2,820		
2.00%		36,000	3,000	\$180	6.4%

\*Less applicable state and federal income taxes.

## SECTION 2. NEW SECTION. (Page 1, Line 17)

- Another goal of the TFFR Board is to provide both ad hoc and automatic benefit adjustments for retired members and beneficiaries to provide income protection and assist retirees in accessing affordable health insurance. This goal reflects the growing concern by the TFFR Board over how the impact of inflation, long life expectancies, and rising health care costs will affect a teacher's retirement plans and retirement income.
- Undoubtedly, inflation will erode the value of retirees' financial resources over time. To offset this inflationary effect, many public sector plans across the country provide post employment pension adjustments to retired workers. In fact, according to the most recent survey (2000) put out by the National Retired Teachers Association (NRTA), approximately two-thirds of statewide teacher plans across the nation provide some sort of automatic or guaranteed benefit increase adjustments. Of the states, 32 have automatic retiree adjustments and 11 have ad hoc retiree adjustments. The remainder uses some other approach. States have adopted a wide range of approaches in providing annual increases for retired educators. Some are pegged to the Consumer Price Index. Others provide a specified percentage, while still others are dependent on the investment gains of the retirement fund. Some states that have an automatic retiree increase blend it with an ad hoc adjustment or some other "catch up" provision to benefit individuals who have been retired the longest and have suffered the greatest loss of purchasing power.
- Today, in order to be competitive with other states in attracting and retaining teachers in ND and in order to provide assurance to current and future retirees that their purchasing power will be protected, the TFFR Board is suggesting the Legislature consider a plan to begin building a Benefit Protector. The Benefit Protector is an annual, fixed rate retiree increase, which would be paid in addition to the ad hoc retiree increase. This type of guaranteed increase assures retirees that their benefits will be adjusted to offset at least some portion of the impact of inflation, allowing for better planning by retirees. They also allow the cost of the retiree increase to be prefunded.
- The Benefit Protector Increase being proposed in HB1102 is an annual, fixed rate adjustment equal to 0.75% of the retiree's current monthly benefit. The actuaries would calculate the cost of this guaranteed retiree adjustment into the overall cost of the plan much like they have done with the Rule of 85 or increases in the benefit multiplier. Unlike the Social Security annual COLA, the proposed TFFR annual adjustment is not tied to changes in the Consumer Price Index (CPI). The Board is not proposing an unlimited COLA that could pose risk in times of runaway inflation.

- The Base Increase, or ad hoc Increase being proposed, is the same formula that was approved in 1999. The increase is calculated by taking two dollars per month multiplied by the member's number of years of service credit plus one dollar per month multiplied by the number of years since the member's retirement for all annuitants receiving a benefit on June 30, 2001. As in the past, this type of benefit adjustment is designed to provide the greatest benefit increase to career teachers who have been retired the longest.

- Example:

*Member retired in 1991 with 30 years of service credit  
Current benefit on 7/1/2000 - \$1,000 per month*

*2001 retiree increase ( $\$2 \times 30 \text{ yrs} + \$1 \times 10 \text{ yrs} = \$70$ )  
+  $(.75\% \times \$1,000 = \$7.50) = \$77.50$  monthly increase  
New Benefit on 7/1/2001 = \$1,077.50*

*2002 retiree increase  $(.75\% \times 1,077.50) = \$8.08$  monthly increase  
New Benefit on 7/1/2002 = \$1,085.58*

*2003 (and future years). Possible ad hoc increase every 2 years  
and guaranteed 0.75% increase each year.*

- The Board believes that using a two-pronged approach will allow older retirees with low benefits to continue building their retirement benefit with the base increase component. It will also allow all retirees – both current and future – to begin protecting their purchasing power through the 0.75% Benefit Protector component. Over time, if actuarial margins build, the Board could return to the Legislature to request an increase to the guaranteed Benefit Protector percentage. It may not amount to much now, but in the future, the Benefit Protector percentage could help combat the increasing costs of health insurance and other consumer needs.
- Currently, TFFR pays out \$4.8 million per month to TFFR annuitants, or nearly \$58 million each year. The proposed benefit increase would increase the amount being paid each month to about \$5.2 million per month, or \$62.4 million each year. A retired teacher's average monthly benefit would increase from about \$997 per month to \$1,075 per month, an increase of \$78 per month or 7.8%.

*See Attachment A – Proposed Benefit Increase by County*

- Of the \$58 million being paid each year, over 82% or \$49 million is sent to North Dakota addresses. The retiree benefit increase being proposed would increase the amount sent to retirees living in ND by \$3.7 million. Because retirement benefit payments to retirees are taxable, this proposal will result in additional income and sales taxes being paid to the state's general fund totaling approximately \$160,672 per year or \$301,344 per biennium.

*See Attachment B – Economic Impact*

## **FUNDING THE BENEFIT IMPROVEMENTS**

- According to Watson Wyatt, TFFR's actuarial consultant, the current actuarial margin available for plan improvements is 6.28%. The TFFR Board proposes that the cost of HB 1102 be paid from the actuarial margin. Watson Wyatt has analyzed this bill and calculated the cost to be 5.89% of total covered compensation. Passage of this bill would still leave 0.39% of margin unspent. No General Fund monies, nor additional retirement contributions, are needed to fund this benefit improvement package.
- Why use the actuarial margin to fund this bill? The TFFR Board believes that increases in the multiplier should be made out of existing margins, so that an increase in the employer contribution rate would not be required. Further, when there has been sufficient margin to support a multiplier increase, the board has also supported granting a benefit adjustment for existing retirees. This year, because the margin is sufficient to pay for both of these benefit improvements, the Board has expanded its goal to include protecting the purchasing power of TFFR benefits for both current and future retirees.
- At first glance, there may be some concern that the Fund will not be able to afford a guaranteed 0.75% retiree benefit adjustment in the future. According to Watson Wyatt, using the actuarial margin to fund the bill is a conservative and prudent approach, especially given the fact that the margin is determined by comparing the current 7.75% employer contribution rate with the contribution required to pay the plan's normal cost and to amortize the unfunded actuarial accrued liability over 20 years in level payments. Many systems have used either longer amortization periods, or amortization payments that are scheduled to increase each year with payroll, or both.
- Another important point to consider is the fact that a commitment to an automatic fixed-rate retiree benefit adjustment is really no different from earlier legislative commitments to a higher multiplier or to the Rule of 85. In each of these benefit enhancements, the costs were prefunded. The cost for the provisions outlined in HB 1102 would also be prefunded. That is, the value of the multiplier increase and guaranteed retiree increase will be reflected in TFFR's normal cost and actuarial accrued liability. Since TFFR is funded by fixed member and employer contribution rates of 7.75%, the practical effect is that there will be less margin available in future years than if retiree increases were only granted on an ad hoc basis. The automatic retiree increase can be viewed as using a portion of the margin to provide small increases for current and future retirees for all future years, rather than providing a larger one-time increase for current retirees only. The added feature of a guaranteed retiree adjustment creates no more extra risk for TFFR's long term health than does a multiplier increase, for example. A specified percentage formula permits a reliable calculation of plan costs by the Fund's actuary.



- In addition, this approach allows the cost of the bill to be spread among current and future generations of teachers who will also benefit from such a benefit adjustment. This concept is known as intergenerational equity. And just like several generations of citizens might share the costs of financing a school building, for example, it is a common and prudent practice to spread the financing of a pension trust over several generations. Similar to a school building, a benefit enhancement has a very long useful life, serves many generations, is very expensive, and uses long-term financing to pay for it.
- Also consider that TFFR uses a conservative actuarial approach called "smoothing" to phase in differences between actual and expected investment earnings which provides a cushion against future downturns in the market. Because year-to-year returns can fluctuate dramatically, the actuary recognizes only 20% of each year's return differential over a five-year period thereby averaging annual returns over a longer period of time. This commonly used and effective actuarial approach allows TFFR to maintain consistency and adequacy of returns.
- TFFR's diversified investment policy continues to be highly effective. The Board is mindful, nevertheless, that TFFR operates in a dynamic economic environment. The challenges of investing TFFR funds strategically to achieve above average returns balanced with controlled risk in an increasingly complex and competitive global economy are greater than ever. The Board strives to minimize the impact of these external influences by diversifying among a broad range of asset classes and by employing portfolio managers with recognized expertise in managing each of these asset classes. Because the Board maintains sound discipline and prudent investment management practices, TFFR remains solid, year after year.

*See Attachment C – Actuarial Summary*

*Attachment D – Asset Allocation*

*Attachment E -- Investment Performance and Smoothing Approach*

## SUMMARY

- As the competition for teachers accelerates, the TFFR Board believes it is important to include retirement plan features comparable to those found in other states: a 2.0% multiplier, a base retiree increase, and a modest fixed-rate annual retiree adjustment, all funded through TFFR's actuarial margin.
- HB 1102 does not create any extra risk for TFFR's long-term health. Using the actuarial margin to fund HB 1102 is based on actuarially and financially sound principles that are conservative and prudent. This approach has been effectively used to fund legislative improvements in the past. All of the provisions in the bill provide for a specified fixed benefit adjustment, and therefore permit a reliable prediction of plan costs by the actuary.
- HB 1102:
  - Allows ND to be more competitive with other state retirement systems in attracting and retaining teachers.
  - Begins to address current and future retiree concerns over the impact of inflation, long life expectancies, and rising health care costs.
  - Utilizes a very conservative and prudent approach by using the actuarial margin to prefund the cost of bill.
  - Uses a smoothing approach to phase in differences between actual and expected investment earnings which provides a cushion against future downturns in the market.
  - Recognizes the long-term nature of financing a retirement plan and the concept of intergenerational equity.
  - Provides economic impact to ND communities and revenues to state general fund.
- HB 1102 was studied by the Legislative Employee Benefits Programs Committee and received a favorable recommendation from that Committee. The TFFR Board encourages the Government and Veterans Affairs Committee to give the bill a DO PASS recommendation.
- A retirement plan including the features contained in this bill will allow the best teachers in the country -- ND teachers -- to retire with dignity.

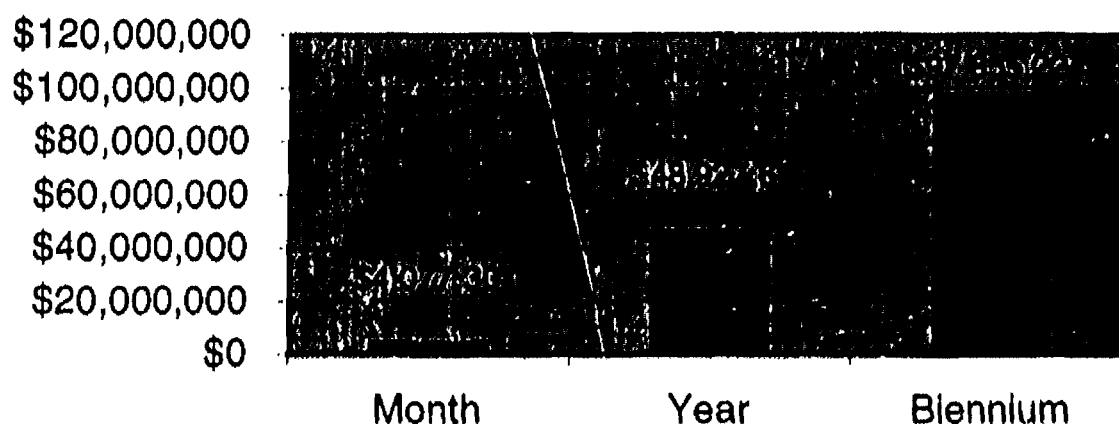
**PROPOSED TFFR RETIREE INCREASE - 2001  
AVERAGE MONTHLY BENEFIT**

County	Count	Current Benefit	Average Benefit	Total New Benefit	Average New	Average Benefit Increase	Average Increase %
Adams	16	16,914	1,057	18,191	1,137	80	7.6%
Barnes	124	114,063	920	123,742	998	78	8.5%
Benson	31	26,494	855	29,009	936	81	9.5%
Billings	3	3,225	1,075	3,493	1,164	90	8.0%
Bottineau	70	65,176	931	70,551	1,008	77	8.3%
Bowman	30	29,117	971	31,350	1,045	74	7.7%
Burke	13	13,362	1,028	14,295	1,100	72	7.0%
Burlingame	483	549,917	1,139	588,977	1,215	77	6.7%
Cass	501	600,308	1,198	640,746	1,279	81	6.7%
Cavalier	41	40,352	984	43,621	1,064	80	8.1%
Dickey	52	43,887	844	47,637	916	72	8.5%
Divide	17	15,364	904	16,703	983	79	8.7%
Dunn	25	25,126	1,005	27,021	1,081	76	7.5%
Eddy	27	22,050	817	23,993	889	72	8.8%
Emmons	27	19,740	731	21,814	808	77	10.5%
Foster	25	24,878	995	26,847	1,074	79	7.9%
Golden Valley	15	9,412	627	10,520	701	74	11.8%
Grand Forks	363	440,992	1,215	470,712	1,297	82	6.7%
Grant	21	15,513	739	17,166	817	79	10.7%
Griggs	20	20,722	740	22,914	818	78	10.6%
Hettinger	21	27,157	1,293	28,864	1,374	81	6.3%
Kidder	17	15,310	901	16,659	980	79	8.8%
LaMoure	51	43,969	862	48,070	943	80	9.3%
Logan	19	15,580	820	16,985	894	74	9.0%
McHenry	54	42,338	784	46,423	860	76	9.7%
McIntosh	27	34,890	1,292	37,059	1,373	80	6.2%
McKenzie	32	29,001	906	31,517	985	79	8.7%
McLean	84	80,782	962	87,466	1,041	80	8.3%
Mercer	41	40,392	985	43,283	1,056	70	7.2%
Morton	139	169,647	1,220	181,061	1,303	82	6.7%
Mountrail	39	32,563	835	35,480	910	75	9.0%
Nelson	46	42,486	924	45,843	997	73	7.9%
Oliver	9	10,755	1,195	11,482	1,276	81	6.8%
Pembina	51	44,779	878	48,458	950	72	8.2%
Pierce	38	41,393	1,150	44,287	1,230	80	7.0%
Ramsey	111	104,396	941	112,758	1,016	75	8.0%
Ransom	36	32,644	907	35,385	983	76	8.4%
Renville	20	15,464	773	17,067	853	80	10.4%
Richland	93	76,392	821	83,540	898	77	9.4%
Rolette	45	40,146	892	43,299	962	70	7.9%
Sargent	33	29,312	888	31,827	964	76	8.6%
Sheridan	15	11,142	743	12,352	823	81	10.9%
Sioux	3	2,094	698	2,236	745	47	6.8%
Slope	5	3,707	741	4,059	812	70	9.5%
Stark	131	143,482	1,095	154,173	1,177	82	7.5%
Steele	13	9,499	731	10,496	807	77	10.5%
Stutsman	143	140,009	979	151,150	1,057	78	8.0%
Towner	21	16,054	764	17,738	845	80	10.5%
Trall	74	72,092	974	78,070	1,055	81	8.3%
Walsh	86	83,923	976	90,412	1,051	75	7.7%
Ward	334	341,131	1,021	367,234	1,100	78	7.7%
Wells	46	40,691	885	44,314	963	79	8.9%
Williams	130	147,469	1,134	157,293	1,210	76	6.7%
ND Monthly Total	3,917	4,077,301	1,041	4,383,648	1,119	78	7.5%
Out of State	923	749,998	813	817,884	886	74	9.1%
Grand Total	4,840	4,827,298	997	5,201,532	1,075	77	7.8%

## Economic Impact of the TFFR

North Dakota-based retirees contribute  
a lot of income to their communities

**Current TFFR Income to Retirees Living in ND**

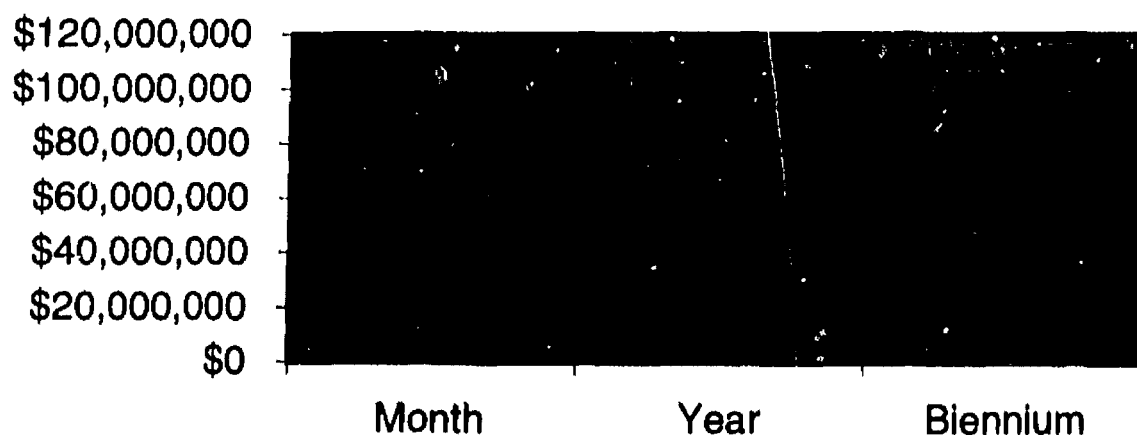


**Benefit increases infuse more money into the local economy**

Proposed Benefit Increase to ND Retirees	
Monthly	\$306,347
Annual	\$3,676,164
Biennium	\$7,352,328

**Total economic impact to local communities would be measurably greater**


**Proposed TFFR Income to Retirees Living in ND**



## North Dakota General Fund benefits two ways!

### Income Tax Revenue


#### Income Tax Revenue Received From TFFR Retirees



	Current Total Revenue	Potential New Revenue	Potential Total Revenue
Year	\$1,027,476	\$77,172	\$1,104,648
Biennium	\$2,054,952	\$154,344	\$2,209,296

### Sales Tax Revenue

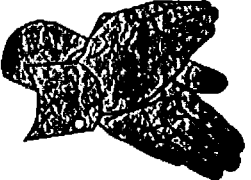
#### Sales Tax Revenue Received from TFFR Retirees



	Current Total Revenue	Potential New Revenue	Potential Total Revenue
Year	\$978,552	\$73,500	\$1,052,052
Biennium	\$1,957,104	\$147,000	\$2,104,104

### Income and Sales Taxes Add Up!

#### Total Proposed Revenues to General Fund



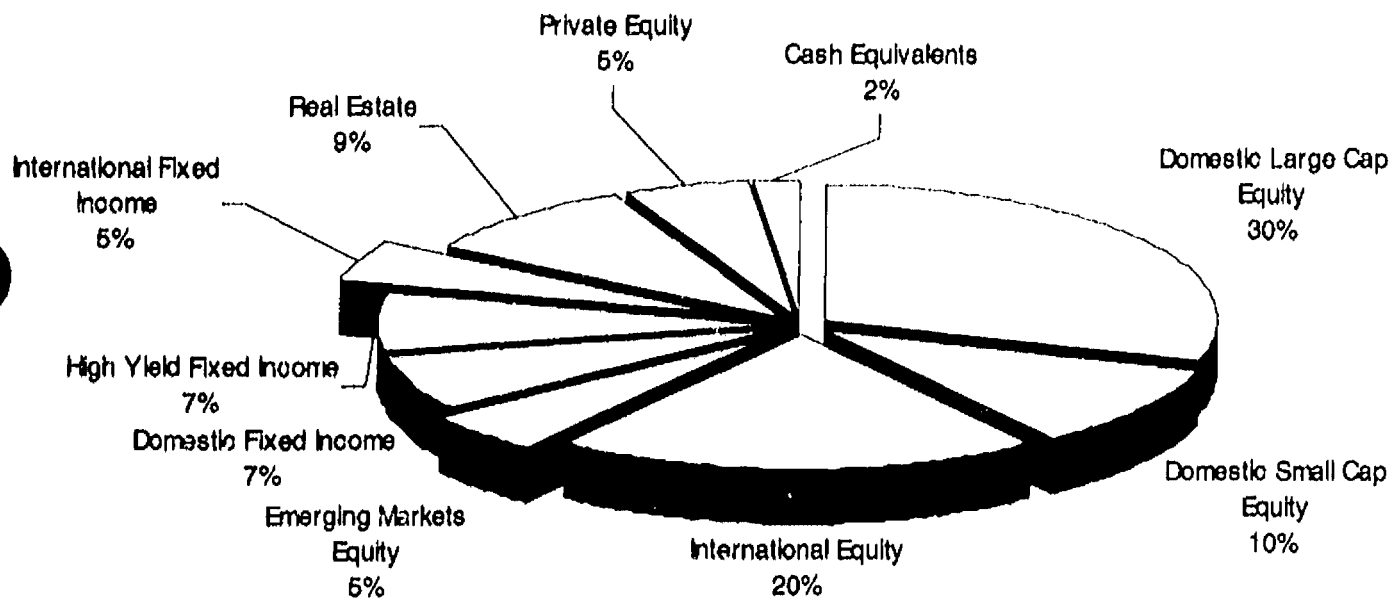
	New Revenue	Total Revenue
Year	\$150,672	\$2,156,700
Biennium	\$301,344	\$4,313,400

North Dakota Teachers' Fund for Retirement  
Actuarial Valuation - July 1, 2000

## Executive Summary

Item	2000	1999
<b>Membership</b>		
• Number of		
- Active Members	10,025	10,046
- Retirees and Beneficiaries	4,827	4,568
- Inactive, Vested	1,130	1,069
- Inactive, Nonvested	209	250
- Total	16,191	15,933
• Payroll	\$323.0 million	\$314.6 million
<b>Statutory contribution rate</b>		
• Employer	7.75%	7.75%
• Member	7.75%	7.75%
<b>Assets</b>		
• Market value	\$1,405.2 million	\$1,262.6 million
• Actuarial value	1,308.5 million	1,053.1 million
• Return on market value	11.6%	11.5%
• Return on actuarial value	13.3%	13.5%
• Employer contributions	\$25.5 million	\$24.3 million
• External cash flow %	(0.3%)	(0.1%)
<b>Actuarial Information</b>		
• Normal cost %	9.82%	9.82%
• Unfunded actuarial accrued liability (UAAL)	(\$20.6) million	\$135.3 million
• Funded ratio	101.6%	88.6%
• Funding period	0 years	10.5 years
<b>Benchmark Contribution</b>		
• 20-year funding rate	1.47%	6.09%
• Margin	6.28%	1.66%
<b>Gains/(Losses)</b>		
• Asset experience	\$55.6 million	\$50.7 million
• Liability experience	(6.9) million	(12.9) million
• Benefit changes	N/A	(80.6) million
• Assumption/method changes	96.1 million	N/A
• Total	\$144.8 million	\$(42.8) million

## **TFFR TARGET ASSET ALLOCATION AS OF AUGUST 1, 2000**



# Smoothing - A Powerful Tool

Smoothing acknowledges that the highs are too high and the lows are too low and the long-term "truth" lies somewhere in between.

- Each year, the TFFR experiences an investment return.

- Year-to-year returns can fluctuate dramatically.

- Planning and implementation of benefit improvements requires consistency.

- To maintain adequate funding, TFFR requires an annual investment return of 8%.

- To maintain consistency and adequacy of returns, TFFR has chosen an effective and commonly used tool: *smoothing*.

- Smoothing recognizes the long-term nature of investment.

Fiscal Year Investment Performance History (%) – TFFR											
FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01Q1
8.25	8.27	13.65	15.40	1.57	13.70	15.63	19.29	14.05	11.06	11.63	-0.95

Note: Investment return is calculated using the investment industry-standard time-weighted return methodology. These calculations vary somewhat from the dollar-weighted calculation used in actuarial reports. This example of smoothing simplifies the actual process for demonstration purposes.

## Smoothing 1990-1994

FY	Return	x 20%
1990	8.25	1.65
1991	8.27	1.65
1992	13.65	2.73
1993	15.40	3.08
1994	1.57	0.31
Smoothed 1994 return =		9.42

- Average returns
- Rolling 5-year period
- 20% of each year's return

## Smoothing 1997-2001

FY	Return	x 20%
1997	19.29	3.86
1998	14.05	2.81
1999*	11.06	2.21
2000	11.63	2.33
2001Q1	-0.95	-0.19
Smoothed 2001 return =		11.02

\*Hypothetical, based on Q1 return.

- Notice the poor return in 1994
- With smoothing, our 1994 return is 9.42%

- Past few years are pretty good
- FY01 got off to a poor start
- What if 2001 return was -0.95%?
- Smoothed 2001 return is 11.02%



## TESTIMONY ON 1102

**FEBRUARY 1, 2001**

Mr. Chairman and members of the committee, my name is Tom Tupa and I am here representing the ND Retired Teachers Association. ND RTA is an organization of almost 2900 retired teachers -- most living in communities scattered throughout ND. We are here supporting HB 1102 with a minor exception which I will mention a bit later.

We like the multiplier going from 1.88 to 2.00% for all future retirees. The 2.0 multiplier has been a long term goal of the TFFR board and we strongly support that provision of the bill.

We also like, and strongly support, the ad hoc retiree adjustment of \$2 for every year a retiree spent teaching plus the \$1 adjustment for every year since retirement. This will give a nice adjustment to retirees who have spent many years dedicating their careers to teaching ND students. We can't thank them enough. Teachers who taught 30 years and have been retired for 10, would receive, under this formula, a \$70 dollar per month adjustment.

Mr. Chairman and members of the committee, the one part of the bill where we have a slight disagreement, is the automatic percentage adjustment of .75% starting on line 23. The RTA has always asked for adjustments but, the request has never been in the form of an automatic COLA. Our organization has supported ad hoc adjustments based on fund performance and available margins. Over the past 20 years there have been a number of different formulas to adjust the retirement annuity. But they generally reflected the fund performance and margin. In fact in some years (1995), the retirees went without an adjustment because of insufficient margins. (See attach #1 for history of retiree adjustments.) Our members accepted that with the idea of making up the loss when margins improved.

There are almost 5000 retired teachers in ND. The median retired teacher benefit (where half the number is above the line and half below the line) is about \$800. In other words, almost 2500

retirees get less than \$800 per month or \$9600 per year. And, some of the early retirees were not even covered by social security, leaving them with only their teacher retirement as income. A .75% adjustment doesn't do much for these retirees but, an increase in the 2 + 1 formula could be more beneficial. Of all the retirees, about 4000 of them fall below \$1500 per month in retirement. Attachment #2 shows the breakdown of retirees and the levels of benefits.

I want it to be very clear, Mr. Chairman and members of the committee, that the RTA agrees with using the money set aside for the .75% COLA. However, we would like to see the money in the form of an added amount to the 2 + 1 formula or, better yet, given to a prefunded health care plan for retired and future retired teachers. We have fought (unsuccessfully, I might add) for a plan like this for many years. Could we give a dollar or two a month credit for each year of service to a prefunded health plan? Or, could we go from the 2 + 1 to a 3 + 2 formula which would also help pay the cost of health insurance?

Committee members, the money has been calculated into the bill and we think it should be used, but not necessarily as an automatic percentage increase. At its recent convention in Fargo, the ND RTA passed a resolution supporting the 2% multiplier, the ad hoc 2 + 1 formula, and a monthly credit toward health insurance premiums.

From our perspective, if the money from the .75 % COLA could be applied to prefunded health premiums, we would achieve a long time goal of our organization. In addition, it would assist, greatly, those who have given so much to educating our ND children.

Mr. Chairman and members of the committee, we support HB 1102, but we could support it more strongly with some modification.

# HISTORY OF TFFR RETIREMENT PLAN IMPROVEMENTS

Exhibit A

July 1	Plan Improvements	Benefit Formula	Retired Member Increase	Amount Increase	% Increase	Average Benefit
1981	<ul style="list-style-type: none"> <li>Early retirement age reduced to age 55.</li> <li>Eligibility for disability benefits reduced from 15 years to 10 years of service in North Dakota.</li> </ul>	NO CHANGE	NO INCREASE	0	0%	1980 - \$174 1981 - \$182
1983	<ul style="list-style-type: none"> <li>"Rule of 90" (age + service = 90) is approved.</li> <li>Employer payment of member assessments is allowed.</li> <li>School day for TFFR purposes set at 4 duty hours.</li> </ul>	<ul style="list-style-type: none"> <li>Final Average Salary (FAS) changed to high 3 years of career.</li> <li>Multiplier increased to 1.05%. (FAS X 1.05% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>15% increase in current benefit to all retirees. (Maximum of \$45/month)</li> </ul>	\$40.75	15.03%	1982 - \$197 1983 - \$221
1985	<ul style="list-style-type: none"> <li>Partial retirement possible at age 62.</li> <li>Dual membership for vesting of benefits for members under TFFR, PERS, and Highway Patrol Retirement System.</li> </ul>	<ul style="list-style-type: none"> <li>Multiplier increased to 1.15%. (FAS X 1.15% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>1% increase in benefits for every year the person has been retired under TFFR. (Maximum of 10% or \$40)</li> </ul>	\$17.88	7.39%	1984 - \$242 1985 - \$269
1987	<ul style="list-style-type: none"> <li>Eligibility for disability benefits changed to include active members after completing one year of service in North Dakota.</li> <li>Disability benefit improved.</li> <li>Vesting for retirement benefits reduced from 10 to 5 years.</li> </ul>	<ul style="list-style-type: none"> <li>Multiplier increased to 1.22%. (FAS X 1.22% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>\$1.50/month increase for every year benefits have been drawn under TFFR for all retirees.</li> <li>Members receiving benefits under the 1967 and 1969 formulas received a bonus of \$15/month. (Maximum increase of \$75/month)</li> </ul>	\$27.05	9.1%	1986 - \$312 1987 - \$327
1989	<ul style="list-style-type: none"> <li>"Pop-Up" to single life annuity for Joint &amp; Survivor options when designated beneficiary precedes member in death.</li> <li>Level income with Social Security approved.</li> <li>"Rule of 85" replaced the "Rule of 90."</li> <li>Employer and Employee Contributions increased from 6.25% to 6.75%.</li> </ul>	<ul style="list-style-type: none"> <li>Multiplier increased to 1.275%. (FAS X 1.275% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>Increase equal to \$ .05 X years of service X number of years benefits have been drawn under TFFR.</li> </ul>	\$16.33	5.2%	1988 - \$352 1989 - \$367
1991	<ul style="list-style-type: none"> <li>Eligibility for partial retirement reduced from age 62 to 55.</li> <li>Provisions for military service credit under Veterans' Reemployment Rights Act (VRRRA) added.</li> </ul>	<ul style="list-style-type: none"> <li>Multiplier increased to 1.39%. (FAS X 1.39% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>10% of current benefit; OR</li> <li>Leveling benefit increase based on retirement date and years of service. (Maximum increase \$75/month)</li> </ul>	\$63.24	14.66%	1990 - \$415 1991 - \$513
1993	<ul style="list-style-type: none"> <li>Disability retirement formula changed to coincide with retirement formula.</li> </ul>	<ul style="list-style-type: none"> <li>Multiplier increased to 1.55%. (FAS X 1.55% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>10% of current benefit; OR</li> <li>Leveling benefit increase based on retirement date and years of service. (Maximum increase \$100/month)</li> </ul>	\$75.00	13.60%	1992 - \$549 1993 - \$547
1995	<ul style="list-style-type: none"> <li>Allow members to rollover refunds from TFFR to IRA or qualified plan.</li> </ul>	NO CHANGE	NO INCREASE	-0-	-0-	1994 - \$663 1995 - \$690
1997	<ul style="list-style-type: none"> <li>Increase member and employer contribution rate to 7.75% each.</li> <li>Allow rollovers to purchase service credit.</li> <li>Change return to teach provisions.</li> <li>Expand TFFR Board to 7 members.</li> </ul>	<ul style="list-style-type: none"> <li>Multiplier increased to 1.75%. (FAS X 1.75% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>\$30 month increase.</li> </ul>	\$30.00	4.1%	1996 - \$719 1997 - \$729
1999	<ul style="list-style-type: none"> <li>Vesting and eligibility for benefits reduced from 5 to 3 years.</li> <li>Early retirement reduction changed from age 65 to earlier of age 65 or Rule of 85.</li> <li>Purchase of service credit provisions modified; air time and leave of absence added.</li> <li>Member's spouse required to be beneficiary and spousal consent to choice of benefit option.</li> </ul>	<ul style="list-style-type: none"> <li>Multiplier increased to 1.88%. (FAS X 1.88% X years of service)</li> </ul>	<ul style="list-style-type: none"> <li>Increase equal to \$2 month X member's years of service credit + \$1 month X number of years since member's retirement.</li> </ul>	\$70.00	8.6%	1998 - \$810 1999 - \$933 2000-\$975 Preliminary

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A. H. H. H.

ND Retirement and Investment Office – Statistical Section

**SCHEDULE OF RETIREES  
BY BENEFIT AMOUNT**

Monthly Benefit Amount	1993	1994	1995	1996	1997	1998	1999	2000
Under \$100	55	46	55	57	64	43	44	27
100 to 199	404	227	237	241	247	166	174	119
200 to 299	701	468	465	459	452	421	411	298
300 to 399	1,007	615	613	586	568	508	493	371
400 to 499	426	854	807	775	727	693	651	435
500 to 599	278	389	374	367	350	378	356	562
600 to 699	230	265	257	250	236	258	245	332
700 to 799	185	242	236	238	241	234	232	232
800 to 899	182	189	202	214	221	231	235	235
900 to 999	172	177	187	205	217	245	247	262
1,000 to 1,199	218	320	338	357	365	394	410	459
1,200 to 1,399	133	221	256	279	289	349	357	405
1,400 to 1,599	84	131	159	185	189	230	237	343
1,600 to 1,799	40	81	101	109	110	160	166	225
1,800 to 1,999	25	47	57	63	67	94	100	164
2,000 & Over	39	76	89	118	119	181	210	358
TOTAL	<u>4,179</u>	<u>4,348</u>	<u>4,433</u>	<u>4,503</u>	<u>4,462</u>	<u>4,585</u>	<u>4,568</u>	<u>4,827</u>

— median

Attach # 2

## **TESTIMONY ON HB 1102 ON BEHALF OF THE NORTH DAKOTA COUNCIL OF EDUCATIONAL LEADERS**

Mr. Chairman and members of the Committee, my name is Larry Klundt and I am the Executive Director of the North Dakota Council of Educational Leaders (NDCEL). The NDCEL is an umbrella association made up of superintendents, elementary and secondary principals, county superintendents, vocational and special education directors, activities and technology directors and school business officials. We are here in support of HB 1102.

We believe that this bill is good for North Dakota, as it will help school districts attract and retain teachers. First, it will increase the formula multiplier to 2.0, which has been the goal of the TFFR Board for several years. This should result in 60 % of salary for teachers when they retire after 30 years or more of teaching. Second, this bill will provide for a benefit adjustment for teachers during the years that they are retired. Third, the bill provides for a dollar increase for those teachers who are already retired. The really nice thing about these provisions is that they are all paid for by the margin of the fund. School districts and teachers will not have to contribute any money to make this work.

As I stated earlier, this is a recruitment and retention bill because it increases benefits for those who are currently teachers and for those that we would like to recruit into the profession in North Dakota. The NDCEL requests that you act favorably on this bill and give it a Do Pass. Thank you for your hard work on behalf of the people of North Dakota. I will be happy to answer any questions if I can.

Testimony on House Bill No. 1102  
by Barbara Gibbons Evanson  
*Teachers' Fund for Retirement* Board Trustee  
Representing Active Teachers

Good morning Chairman Klein and members of the Government and Veterans Affairs Committee. My name is Barbara Evanson. I serve as a Trustee on the *Teachers' Fund for Retirement* Board representing active teachers. I also serve on the *Benefits Services Committee* for the TFFR Board. This is my twenty-fourth year as a North Dakota teacher and my sixth year as a Trustee. I am testifying in support of HB1102.

- This bill celebrates the actuarial ability to provide future retirees with a benefit multiplier of 2.00%.
- This bill begins to protect the purchasing power of present and future retirees with the modest annual fixed rate 0.75% retiree benefit adjustment that recognizes allocating benefits on the basis of salaries earned while permitting a reliable prediction of plan costs by the actuary. This tends to favor recent and future retirees.
- This bill provides an ad hoc retiree increase. The \$2 multiplied by the member's years of service credit plus \$1 multiplied by the number of years since the member's retirement does favor the lower income levels who have been retired the longest.

The benefit adjustments in this bill meet the strict criteria set before us using a conservative and prudent approach in determining the actuarial margin. The bill also addresses the needs of future retirees, recent retirees and those who have been retired for a number of years.

# ND Retirement and Investment Office



*Teachers' Fund for Retirement  
State Investment Board*

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Executive Director

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February 7, 2001

Honorable Matthew Klein, Chairman  
Government and Veterans Affairs Committee  
ND House of Representatives  
600 East Boulevard  
Bismarck, ND 58505

**SUBJECT: HB 1102**

Dear Representative Klein:

Enclosed is the additional information your Committee requested relating to HB 1102. A number of questions came up during the public hearing that, due to time constraints, were not answered in their entirety. Therefore, I am including some follow-up comments and information as well.

**1) The Committee requested cost information relating to various options for using available actuarial margin for TFFR benefit improvements.**

Watson Wyatt, the Fund's actuarial consultant, prepared **Attachment A** to compare costs for alternative proposals. Additional detailed worksheets were also developed by Watson Wyatt on each proposal and can be provided at your request.

- Option 1 - Current provisions in HB 1102  
2.00% multiplier, \$2/\$1 retiree adhoc increase,  
0.75% automatic retiree adjustment (both current and future retirees)
- Option 2 - Convert retiree share of margin to adhoc \$ increase  
(2a) 2.15% multiplier, \$3.50/\$1.75 retiree adhoc increase  
(2b) 2.00% multiplier, \$3.50/\$1.75 retiree adhoc increase,  
0.75% automatic retiree adjustment (future retirees only)
- Option 3 - Convert retiree share of margin to prefunded retiree health program  
(3a) 2.15% multiplier, \$2/\$1 retiree adhoc increase, \$2 prefunded retiree health  
(current retirees only)  
(3b) 2.00% multiplier, \$2/\$1 retiree adhoc increase, 0.75% automatic retiree  
adjustment (future retirees only), \$2 prefunded retiree health (current retirees)

Also, as you requested, **Attachment B** shows a 10-year summary of actuarial information based on TFFR Annual Valuation Reports (Executive Summary) conducted by Watson Wyatt.

**2) How is the actuarial margin divided?**

It has been a longstanding TFFR Board policy that the division of the benefit improvements (as measured by margin available) is approximately proportional to the number of members in each group. For example (as of the 7/1/2000 valuation), there were 4,827 retired members and beneficiaries, 10,025 active members, and 1,130 vested inactive members, for a total of 15,982 members.

$4,827 / 15,982 = 30\%$  retired members share  
 $11,155 / 15,982 = 70\%$  nonretired members share

**3) What is a comfortable amount of margin that should be left after granting a benefit improvement?**

The TFFR Board is very comfortable leaving 0.39% margin. This is actually more than has been left in the past five legislative sessions after a benefit improvement has been granted. **Attachment C** illustrates the amount of margin available based on the annual actuarial valuation (expressed as a % of payroll), amount of margin the proposed legislation was expected to use, and margin remaining after the legislation was approved.

**4) What assurance is there that the Fund can afford a guaranteed annual retiree increase in the future?**

According to the Fund's actuarial consultants, TFFR starts out as a well funded and financially sound plan well able to withstand anticipated ups and downs in the financial markets. The fund is well diversified in its asset allocation, employs managers with high expertise in managing their asset classes, and uses conservative investment accounting practices. The fund uses "smoothed" returns, which averages highs and lows and provides a cushion against future downturns in the market.

A comprehensive study of legislative proposals affecting retirement programs by the Legislative Council's Employee Benefits Programs Committee provides another measure of assurance that the proposal is financially sound. As part of its study, each year the Fund's actuary presents the annual valuation of TFFR to the Committee. This year, Watson Wyatt attended an additional Committee meeting to provide the cost analysis and discuss proposed legislation.

As evidenced by the actuarial analysis and the Committee's favorable recommendation, the fund is in excellent financial condition for developing an automatic annual retiree increase. However, including an additional "safety" provision is certainly an option the Legislature could consider. Granting an automatic annual retiree benefit



improvement could be conditioned upon a specified actuarial test. Since the legislative oversight committee and the TFFR Board regularly review and monitor the actuarial status of TFFR, the Board could suspend future benefit improvements if actuarial tests indicate the need.

**5) What are current TFFR retirement plan contribution rates?**

	<u>Employee</u>	<u>Employer</u>
ND TFFR	7.75%	7.75%
National average	6.81%	9.63% (2000 PPCC Survey)

As you can see, ND teachers pay a higher than average contribution rate, and school districts pay a lower than average rate.

**6) Have teachers ever been polled about the possibility of paying a higher retirement contribution rate?**

Prior to the 1997 legislative session, teachers and employers were informally surveyed by their respective member organizations (NEA, NCOEL, NDSBA) about increasing contribution rates. At that time, members and school boards already recognized the need to make NDTFFR more competitive with other states, and overwhelmingly supported a contribution rate increase. Consequently, in 1997, the statutory employee and employer contribution rate increased from 6.75% to 7.75%. This increase infused additional funds into the retirement system to more quickly meet Board goals and make the retirement plan more competitive.

**7) Should the retiree increase be based on a fixed amount instead of a fixed percentage?**

Undoubtedly, the TFFR retired membership is a very diverse group. Retirees' benefits vary considerably depending upon the teachers' age, service credit, salary, retirement formula and benefit option selected at retirement.

As evidenced by the retiree benefit improvements proposed by the TFFR Board and granted by the Legislature in the past 20 years, the Board has always been very sensitive to the needs of teachers who have been retired the longest. There is no doubt that that this group historically has suffered the greatest purchasing power losses. However, recent and future retirees are also entitled to a fair share of benefit protection from the impact of inflation, especially since they have paid in a higher than average contribution rate to fund their retirement plan.

Because there is additional margin available this year, in addition to the ad hoc \$2/\$1 fixed amount retiree increase, HB 1102 also includes a 0.75% fixed rate annual increase for both current and future retirees. The Board believes that the combined approach provided for in HB 1102 best serves the needs of BOTH current and future retirees.

A fixed percentage is a very common standard for granting salary adjustments for active employees and pension adjustments for retired employees. Most public pension plans around the country use a percentage factor (including NDPERS). In fact, according to the most recent National Retired Teachers Association (NRTA) survey, only one other state besides North Dakota uses a fixed dollar amount formula only. All other states use a percentage factor, with some of those states using a percentage approach in combination with a fixed dollar approach.

The TFFR Board believes the fixed dollar amount is a good approach. The Board also believes the fixed percentage is a good approach. Both methods can and should be used together to effectively provide for the retirement needs of all ND teachers.

**8) If a TFFR retiree health insurance credit program was developed (similar to NDPERS), how would a retiree who selects a health insurance provider other than NDPERS be affected?**

The retiree health care credit program proposal considered in past legislative sessions provides a supplement to assist TFFR retirees in making premium payments under the NDPERS plan. Only TFFR retirees participating in the NDPERS program would receive the credit. Retirees whose health insurance is provided from any other source would not receive the credit. Because teachers are not normally members of the NDPERS health insurance program, imposing a requirement that retirees elect this insurance may result in many members losing the credit because they prefer to remain with their current provider.

It is estimated that less than 1,000 active teachers are covered under the NDPERS group insurance plan. According to TFFR records, only about 550 retirees are enrolled in the NDPERS health insurance plan. Also, a survey conducted by the TFFR Board in 1998 revealed that approximately 50% of the retirees who responded were not sure if they would leave their current insurance carrier to join the state plan, even with a retiree health credit program. About 16% said they would participate in the proposal, and 30% said they would not.

Because all active and retired members would not benefit from such a retiree health credit proposal, the TFFR Board supports using the actuarial margin to fund the multiplier increase as well as adhoc and automatic benefit increases to provide income protection and assist ALL retirees in accessing affordable health insurance.

**9) Why did the state transfer \$14.5 million dollars to TFFR?**

According to TFFR records and the legislative history surrounding the transfer made by the 1977 Legislative Assembly, the reason for the transfer was because of the increasing unfunded liability and decreasing solvency of the fund. That condition was brought about by a series of benefit increases that were given to retirees without funding the cost. Benefit increases result in increased cost to a retirement plan. If the rising costs are not funded by increasing contribution rates, appropriation of general

fund dollars, or paid from actuarial margins created by positive plan growth, then the unfunded liability increases. This is what happened to TFFR between 1965 and 1975. Legislative committee minutes show that committee members rejected the recommendations of the Fund valuation reports and accepted information from constituents who assumed the Fund could tolerate benefit increases without jeopardizing its solvency.

That is not the case with HB 1102, or any benefit increases that have been approved by the Legislature since 1977. Costs for benefit adjustments in the past 20+ years have been funded by contribution rate increases and/or actuarial margins in much the same way as HB 1102 is structured.

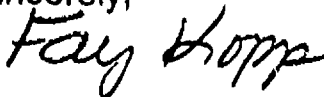
A legislative oversight committee was also established in 1976-77 to ensure that difficulties experienced in earlier legislative sessions resulting from inadequate prior study of the actuarial impact of proposed legislative changes in the retirement programs would not re-occur. As you know, this committee reviewed HB 1102 and gave the bill a unanimous favorable recommendation.

### Summary

As you can see, the TFFR Board's goals and legislative proposals reflect long term improvements to fundamental retirement plan benefits in order to be competitive, rather than short term improvements to provide additional benefits to any specific active or retired group within the retirement plan membership.

Again, thank you for the opportunity to provide your Committee with this information. If you have any questions, or would like me to be available to work with the Committee on proposals relating to TFFR, please contact me at 328-9895.

Sincerely,



Fay Kopp, CRA  
Deputy Executive Director  
and Retirement Officer

c: TFFR Board

- Attachments A - Watson Wyatt Cost Impact of HB 1102 Alternatives  
B - Watson Wyatt Actuarial Valuation Reports - 10 yr. summary  
C - History of Margin Used on Legislative Proposals - 10 yr. summary

**North Dakota Teachers' Fund for Retirement**  
**Cost Impact of HB 1102**  
**Alternatives**

Item	Initial Valuation (No Changes in Current Benefit Provisions)	HB 1102 Option 1 (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, 0.75% Automatic COLA for Both Current and Future Retirees)	Option 2a (2.15% Multiplier, \$3.50/\$1.75 Retiree Ad Hoc Increase, No Automatic COLA)	Option 2b (2.00% Multiplier, \$3.50/\$1.75 Retiree Ad Hoc Increase, 0.75% Automatic COLA for Future Retirees Only)	Option 3a (2.15% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, No Automatic COLA, \$2 Prefunded Retiree Health Care for Retirees only)	Option 3b (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, .75% Automatic COLA to Future Retirees, \$2 Prefunded Retiree Health Care for Retirees only)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Normal cost	9.82%	10.81%	10.87%	10.81%	10.87%	10.81%
2. Unfunded actuarial accrued liability (millions)	\$ (20.6)	\$ 148.9	\$ 147.0	\$ 142.1	\$ 149.5	\$ 144.6
3. 20-year contribution rate	1.47%	7.36%	7.37%	7.17%	7.34%	7.14%
4. Margin	6.28%	0.39%	0.38%	0.58%	0.41%	0.61%
5. Expected employer contribution (millions)	\$ 5.0	\$ 25.0	\$ 25.1	\$ 24.4	\$ 25.0	\$ 24.3
6. Increase in 20-year contribution rate	0.00%	5.89%	5.90%	5.70%	5.87%	5.67%
7. Increase in expected employer contribution (millions)	\$ -	\$ 20.0	\$ 20.1	\$ 19.4	\$ 20.0	\$ 19.3
8. Funded ratio	101.6%	89.8%	89.9%	90.2%	89.7%	90.0%
9. Funding period (years)	-	16.6	16.6	15.1	NA	NA

**NDTFFR Annual Valuation by Watson Wyatt**  
**10 year - Executive Summary Report**

MEMBERSHIP		2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
ITEM											
Number of											
- Active Members		10,025	10,046	9,896	10,010	9,797	9,663	9,653	9,808	9,707	9,549
- Retirees and Beneficiaries		4,827	4,568	4,585	4,462	4,503	4,433	4,348	4,179	4,189	4,181
- Inactive, Vested		1,130	1,069	1,048	1,006	1,000	971	944	914	880	863
- Inactive, Nonvested		209	250	252	245	235	248	208	239	398	701
- Total		16,191	15,933	15,781	15,722	15,535	15,315	15,153	15,140	15,174	15,334
Payroll		\$323.0 million	\$314.6 million	\$298.4 million	\$294.1 million	\$281.2 million	\$268.7 million	\$262.4 million	\$260.4 million	\$250.9 million	\$235.1 million
<b>STATUTORY CONTRIBUTION RATE</b>											
Employer		7.75%	7.75%	7.75%	7.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Member		7.75%	7.75%	7.75%	7.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
<b>ASSETS</b>											
Market Value		\$1,405.2 million	\$1,262.6 million	\$1,133.5 million	\$1,001.1 million	\$847.3 million	\$736.0 million	\$649.3 million	\$642.4 million	\$556.1 million	\$490.4 million
Actuarial value		\$1,308.5 million	\$1,053.1 million	\$928.0 million	\$823.4 million	\$733.3 million	\$661.2 million	\$606.8 million	\$567.2 million	\$519.8 million	\$482.9 million
Return on market value		11.6%	11.5%	13.2%	18.5%	15.6%	13.6%	1.2%	14.68%	12.39%	7.54%
Return on actuarial value		13.3%	13.5%	12.6%	12.6%	11.3%	9.1%	7.0%	8.08%	--	--
Employer contributions		\$25.5 million	\$24.3 million	\$23.3 million	\$19.7 million	\$19.0 million	\$18.3 million	\$17.8 million	\$17.5 million	\$17.0 million	\$15.9 million
External cash flow %		(0.3%)	(0.1%)	0.0%	(0.3%)	(0.4%)	-	-	-	-	-
<b>ACTUARIAL INFORMATION</b>											
Normal cost %		9.82%	9.82%	9.24%	9.24%	8.15%	8.15%	7.72%	7.64%	6.94%	8.25%
Unfunded actuarial accrued liability (UAAL)		(\$20.6) million	\$135.3 million	\$105.1 million	\$153.6 million	\$118.3 million	\$138.6 million	\$157.4 million	\$159.8 million	\$96.1 million	\$132.1 million
Funded ratio		101.6%	88.6%	89.8%	84.3%	86.1%	82.7%	79.4%	78.0%	84.4%	78.5%
Funding period		0 years	10.5 years	6.9 years	12.3 years	11.2 years	15.9 years	18.3 years	18.7 years	7.2 years	19.2 years
<b>BENCHMARK CONTRIBUTION</b>											
20-year funding rate		1.47%	6.09%	4.78%	6.37%	5.33%	6.21%	6.42%	6.37%	3.55%	6.31%
Margin		6.28%	1.66%	2.97%	1.38%	1.42%	0.54%	0.33%	0.38%	3.20%	0.44%
<b>GAINS/LOSSES</b>											
Asset experience		\$55.6 million	\$50.7 million	\$37.6 million	\$33.6 million	\$21.9 million	\$6.9 million	\$(5.5) million	\$ 0.4 million	\$(6.5) million	\$17.0 million
Liability experience		\$(5.9) million	\$(12.9) million	3.7 million	1.7 million	\$(6.7) million	6.5 million	5.1 million	0.9 million	10.7 million	\$(15.1) million
Benefit/expense changes		N/A	\$(80.6) million	N/A	\$(77.8) million	N/A	N/A	N/A	\$(75.0) million	N/A	\$(56.0) million
Assumption/method changes		96.1 million	N/A	N/A	N/A	N/A	2.5 million	N/A	N/A	28.3 million	N/A
Total		\$144.8 million	\$(42.8) million	\$41.3 million	\$(42.5) million	\$15.2 million	\$15.9 million	\$(0.4) million	\$(73.7) million	\$32.5 million	\$(54.1) million

\* External cash flow not reflected in Executive Summary reports 1991-95

\*\* Return on actuarial value not reflected in Executive Summary report 1991-92

# ATTACHMENT C

## NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT TFFR Margin History 10 year Summary

<u>FISCAL YEAR</u>	<u>VALUATION (1)</u>	<u>CHANGE (2)</u>	<u>AFTER (3)</u>
1991-92	.44	0.00	.44
1992-93	3.2	3.19	.01
1993-94	.38	0.00	.38
1994-95	.33	0.00	.33
1995-96	.54	0.00	.54
1996-97	1.42	2.49 (4)	(.07)
1997-98	1.38	0.00	1.38
1998-99	2.97	2.95	.02
1999-00	1.66	0.00	1.66
2000-01	6.28	5.89 (5)	.39

### NOTES:

- (1) Valuation - is the margin as of the date of the annual valuation which is as of July 1 of each year (i.e. 1991-92 would be July 1, 1991).
- (2) Change - is the estimated actuarial cost of legislative changes considered during that session.
- (3) After - is the projected remaining margin after proposed legislative changes.
- (4) Employee and employer contribution rates increased 1% from 6.75% to 7.75% each.
- (5) Proposed legislation to increase the multiplier and provide a retiree benefit increase (HB1102).

# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

1930 Burnt Boat Drive  
P.O. Box 7100  
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ND Toll Free 800-952-2970  
Relay ND 800-366-6888  
Fax 701-328-9897  
www.state.nd.us/rio

February 8, 2001

Honorable Matthew Klein, Chairman  
Government and Veterans Affairs Committee  
ND House of Representatives  
600 East Boulevard  
Bismarck, ND 58505

**SUBJECT: TFFR BOARD CONSIDERATION OF  
ALTERNATIVE PROPOSALS FOR HB 1102**

Dear Representative Klein:

The TFFR Board met this morning to review the actuarial cost analysis of alternative proposals to HB 1102 which your Committee requested at the hearing on February 1. The Board continues to believe that the provisions outlined in HB 1102 best serve the needs of both current and future retirees. However, since your Committee is considering other alternatives, the Board asked that additional information be shared with you.

To assist the TFFR Board in analyzing the impact HB 1102 would have on current retirees, the enclosed information was developed. Attachment 1 is an Analysis of Retiree Benefit Increases granted in the past. Attachment 2 includes an Analysis of HB 1102 - Proposed Options 1 and 2. After review, the Board indicated that should HB 1102 not be approved in its current form, they would prefer to include the benefit improvements provided for in Option 2a from the Watson Wyatt analysis (Attachment A from Feb. 7 letter). That option provides for a 2.15% multiplier for nonretired members and \$3.50/\$1.75 adhoc adjustment for retired members. Representatives from groups representing both active and retired teachers also indicated they could support the provisions in Option 2a.

I would be happy to meet with your Committee to review this information. Please contact me if I can be of any assistance as you continue your study of HB 1102.

Sincerely,

*Fay Kopp*

Fay Kopp, CRA  
Deputy Executive Director  
and Retirement Officer

cc: TFFR Board

Attachment 1 - Analysis of Retiree Benefit Increases  
Attachment 2 - Analysis of HB 1102 - Proposed Options 1 and 2

Analysis of Retiree Benefit Increases

Benefit Group	Data	Option Group			Grand Total	Total % Increase	Annual % Increase
		Annuitants	Disability Annuitants	Continued Annuitants			
Less than \$400	Count of SSN	740	7	55	802		
	Average of Beginning Benefit	114	271	191	119		
	Average of Current Benefit	275	346	302	277		
	Average of Benefit Increase	161	75	108	158	133%	7.6%
\$400 thru \$799	Count of SSN	1,215	28	237	1,480		
	Average of Beginning Benefit	286	546	257	288		
	Average of Current Benefit	575	618	557	573		
	Average of Benefit Increase	287	72	312	285	99%	4.7%
\$800 thru \$1,199	Count of SSN	840	27	87	954		
	Average of Beginning Benefit	771	900	806	778		
	Average of Current Benefit	995	961	992	994		
	Average of Benefit Increase	225	61	193	216	28%	2.5%
\$1,200 thru \$1,599	Count of SSN	709	6	45	760		
	Average of Beginning Benefit	1,227	1,291	1,114	1,222		
	Average of Current Benefit	1,389	1,325	1,368	1,387		
	Average of Benefit Increase	161	34	252	165	14%	1.7%
\$1,600 thru \$1,999	Count of SSN	397		9	406		
	Average of Beginning Benefit	1,658		1,528	1,654		
	Average of Current Benefit	1,781		1,720	1,780		
	Average of Benefit Increase	117		192	126	8%	1.4%
\$2,000 or more	Count of SSN	382		5	387		
	Average of Beginning Benefit	2,384		2,355	2,383		
	Average of Current Benefit	2,474		2,478	2,487		
	Average of Benefit Increase	91		122	104	4%	1.2%
Total Count of SSN		4,283	68	438	4,789		
Total Average of Beginning Benefit		821	724	496	791		
Total Average of Current Benefit		1,023	789	740	994		
Total Average of Benefit Increase		202	65	244	203	26%	1.9%



**Analysis of HB1102 - Proposed Options 1 and 2**  
**Impact on Current TFFR Retirees**

Benefit Group	Data	Option Group			Grand Total
		Annuitants	Disability Annuitants	Continued Annuitants	
Less than \$400	Count of SSN	740	7	55	802
	Average of Current Benefit	275	346	302	277
	Average of Years Retired	18	8	18	18
	Average of Credit Years	14	6	20	14
	Average of Age	77	58	66	76
\$400 thru \$799	Count of SSN	1,215	28	237	1,480
	Average of Current Benefit	575	618	557	573
	Average of Years Retired	21	6	25	21
	Average of Credit Years	26	12	30	27
	Average of Age	82	54	77	81
\$800 thru \$1,199	Count of SSN	840	27	87	954
	Average of Current Benefit	995	961	992	994
	Average of Years Retired	11	4	12	11
	Average of Credit Years	31	19	32	31
	Average of Age	73	55	67	72
\$1,200 thru \$1,599	Count of SSN	709	6	45	760
	Average of Current Benefit	1,389	1,325	1,368	1,387
	Average of Years Retired	8	3	12	8
	Average of Credit Years	33	26	36	33
	Average of Age	68	55	71	68
\$1,600 thru \$1,999	Count of SSN	397		9	406
	Average of Current Benefit	1,781		1,720	1,780
	Average of Years Retired	5		9	5
	Average of Credit Years	34		37	34
	Average of Age	64		68	64
\$2,000 or more	Count of SSN	382		5	387
	Average of Current Benefit	2,487		2,482	2,487
	Average of Years Retired	4		6	4
	Average of Credit Years	35		35	35
	Average of Age	63		66	63
Total Count of SSN		4,283	68	438	4,789
Total Average of Current Benefit		1,023	789	740	994
Total Average of Years Retired		13	5	20	14
Total Average of Credit Years		28	15	30	28
Total Average of Age		74	55	73	73

## HB 1102 - Current Provisions - Option 1

### Assumptions:

Ad Hoc @ \$2/\$1 every 2 years

Auto % Adjustment - 0.75% 2001-2002, 1.25% 2003-2004, 1.75% 2005-2006, 2% 2007-2020

Margin available for future benefit improvements

### Current Retiree

Benefit	\$994.00
Years of Service	28
Years Retired	14

Average Age	73
Count	4,789

Year	Adhoc \$ Retiree Adjustment	Automatic % Retiree Adjustment	New Benefit	% Increase
2001	\$70.00	\$7.46	\$1,071.46	7.79
2002	-	8.04	1,079.50	0.75
2003	72.00	13.49	1,164.99	7.92
2004	-	14.56	1,179.55	1.25
2005	74.00	20.64	1,274.19	8.02
2006	-	22.30	1,296.49	1.75
2007	76.00	25.93	1,398.42	7.86
2008	-	27.97	1,426.39	2.00
2009	78.00	28.53	1,532.92	7.47
2010	-	30.66	1,563.58	2.00
2011	80.00	31.27	1,674.85	7.12
2012	-	33.50	1,708.35	2.00
2013	82.00	34.17	1,824.52	6.80
2014	-	36.49	1,861.01	2.00
2015	84.00	37.22	1,982.23	6.51
2016	-	39.64	2,021.87	2.00
2017	86.00	40.44	2,148.31	6.25
2018	-	42.97	2,191.28	2.00
2019	88.00	43.83	2,323.11	6.02
2020	-	46.46	2,369.57	2.00

Note: Estimated date of 2005 when average retiree benefit using combination auto % and adhoc adjustment will surpass adhoc only increases for current retirees.

## New Proposal - Option 2

### Assumptions:

Adhoc Increase \$3.50/\$1.75 in 2001 then \$2/\$1 every two years after

Automatic adjustment per year - none

Margin available for future plan improvements

### Current Retiree

Benefit	\$994.00
Years of Service	28
Years Retired	14

Average Age	73
Count	4,789

Year	Adhoc \$ Retiree Adjustment	Automatic % Retiree Adjustment	New Benefit	% Increase
2001	\$122.50	-	\$1,116.50	12.32
2002	-	-	1,116.50	0
2003	72.00	-	1,188.50	6.45
2004	-	-	1,188.50	0
2005	74.00	-	1,262.50	6.23
2006	-	-	1,262.50	0
2007	76.00	-	1,338.50	6.02
2008	-	-	1,338.50	0
2009	78.00	-	1,416.50	5.83
2010	-	-	1,416.50	0
2011	80.00	-	1,496.50	5.65
2012	-	-	1,496.50	0
2013	82.00	-	1,578.50	5.48
2014	-	-	1,578.50	0
2015	84.00	-	1,662.50	5.32
2016	-	-	1,662.50	0
2017	86.00	-	1,748.50	5.17
2018	-	-	1,748.50	0
2019	88.00	-	1,836.50	5.03
2020	-	-	1,836.50	0

Note: Estimated date of 2005 when average retiree benefit using combination auto % and adhoc adjustment will surpass adhoc only increases for current retirees.

## HB1102 - Current Provisions - Option 1

### Assumptions:

Ad Hoc @ \$2/\$1 in 2001 only

Auto % Adjustment -- .75% each year

No margin available for future plan improvements

### Current Retiree

Benefit \$994.00

Years of Service 28

Years Retired 14

Average Age 73

Count 4,789

Year	Adhoc \$ Retiree Adjustment	Automatic % Retiree Adjustment	New Benefit	% Increase
2001	\$70.00	\$7.46	\$1,071.46	7.79
2002	-	8.04	1,079.50	0.75
2003	-	8.10	1,087.60	0.75
2004	-	8.16	1,095.76	0.75
2005	-	8.22	1,103.98	0.75
2006	-	8.28	1,112.26	0.75
2007	-	8.34	1,120.60	0.75
2008	-	8.40	1,129.00	0.75
2009	-	8.47	1,137.47	0.75
2010	-	8.53	1,146.00	0.75
2011	-	8.60	1,154.60	0.75
2012	-	8.66	1,163.26	0.75
2013	-	8.72	1,171.98	0.75
2014	-	8.79	1,180.77	0.75
2015	-	8.86	1,189.63	0.75
2016	-	8.92	1,198.55	0.75
2017	-	8.99	1,207.54	0.75
2018	-	9.06	1,216.60	0.75
2019	-	9.12	1,225.72	0.75
2020	-	9.19	1,234.91	0.75

Note: Estimated date of 2007 when average retiree benefit using auto % only will surpass 2001 adhoc only increase for current retirees.

## New Proposal - Option 2

### Assumptions:

Adhoc Increase \$3.50/\$1.75 in 2001 only

Automatic adjustment per year -- none

No margin available for future plan improvements

### Current Retiree

Benefit \$994.00

Years of Service 28

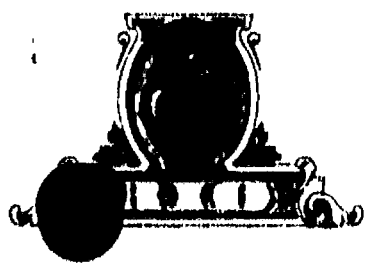
Years Retired 14

Average Age 73

Count 4,789

Year	Adhoc \$ Retiree Adjustment	Automatic % Retiree Adjustment	New Benefit	% Increase
2001	\$122.50	\$0.00	\$1,116.50	12.32
2002	-	-	1,116.50	0
2003	-	-	1,116.50	0
2004	-	-	1,116.50	0
2005	-	-	1,116.50	0
2006	-	-	1,116.50	0
2007	-	-	1,116.50	0
2008	-	-	1,116.50	0
2009	-	-	1,116.50	0
2010	-	-	1,116.50	0
2011	-	-	1,116.50	0
2012	-	-	1,116.50	0
2013	-	-	1,116.50	0
2014	-	-	1,116.50	0
2015	-	-	1,116.50	0
2016	-	-	1,116.50	0
2017	-	-	1,116.50	0
2018	-	-	1,116.50	0
2019	-	-	1,116.50	0
2020	-	-	1,116.50	0

Note: Estimated date of 2007 when average retiree benefit using auto % only will surpass 2001 adhoc only Increase for current retirees.



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

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Fax 701-328-9897  
[www.state.nd.us/rio](http://www.state.nd.us/rio)

## MEMORANDUM

**TO:** REP. MATT KLEIN, CHAIRMAN  
HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE

**FROM:** FAY KOPP *Fay Kopp*

**DATE:** FEBRUARY 15, 2001

**RE:** REP. KLEMIN'S REQUEST FOR ACTUARIAL COSTS ON ANOTHER  
VERSION OF HB 1102

During discussion at the February 8th GVA Committee meeting, Rep. Klemin requested actuarial cost information on a proposal which would provide for a 2.00% multiplier and the balance of the margin to be used in the form of an ad hoc retiree benefit adjustment based on service credit and years retired. The requested cost analysis from Watson Wyatt is attached. The retiree ad hoc adjustment would amount to \$9.00 per year of service credit plus \$4.50 per number of years retired.

Should the Committee decide to consider this proposal in the form of an amendment to HB 1102, Watson Wyatt has indicated they would have additional technical comments and concerns which they would like to express.

If you have any questions, please contact me at 328-9895. Thank you.

Enclosure

**North Dakota Teachers' Fund for Retirement**  
**Cost Impact of Proposed Variations to Retiree Ad Hoc Increase under HB 1102**

		HB 1102 as Originally Drafted (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, 0.75% Automatic Retiree Adjustment)	2.00% Multiplier, \$2.00/\$1.00 Retiree Ad Hoc Increase (Original Bill without Automatic Retiree Adjustment)	Variation 3 - 2.00% Multiplier, \$9.00/\$4.50 Retiree Ad Hoc Increase
Item	No Change in Current Benefit Provisions (Results of June 30, 2000 Actuarial Valuation)			
(1)	(2)	(3)	(4)	(5)
1. Normal cost	9.82%	10.81%	10.29%	10.29%
2. Unfunded actuarial accrued liability (millions)	\$ (20.6)	\$ 148.9	\$ 61.0	\$ 175.1
3. 20-year contribution rate	1.47%	7.36%	4.30%	7.60%
4. Margin	6.28%	0.39%	3.45%	0.15%
5. Expected employer contribution (millions)	\$ 5.0	\$ 25.0	\$ 14.6	\$ 25.9
6. Increase in 20-year contribution rate	0.00%	5.89%	2.83%	6.13%
7. Increase in expected employer contribution (millions)	\$ -	\$ 20.0	\$ 9.6	\$ 20.9
8. Funded ratio	101.6%	89.8%	95.5%	88.2%
9. Funding period (years)	0.0	16.6	4.0	18.7

## MEMORANDUM

**TO:** Rep. Matt Klein, Chairman  
House Government and Veterans Affairs Committee

Representative Bette Grande, Vice Chairman  
House Government and Veterans Affairs Committee

**FROM:** Fay Kopp, Deputy Executive Director *Fay Kopp*

**DATE:** February 15, 2001

**RE:** Arizona State Retirement System (ASRS)  
Automatic Retiree Adjustment

Rep. Grande requested verification of certain survey information from the National Retired Teachers' Association (NRTA) 2000 Survey. The NRTA compilation of state teacher retirement systems and retiree increases (automatic or ad hoc) shows that the Arizona State Retirement System (ASRS) has an automatic COLA.

R/O staff contacted LeRoy Gilbertson, ASRS Chief Executive Officer/Chief Investment Officer, and confirmed their current approach to granting retiree benefit increases. He stated beginning July 1, 2000, ASRS provides a permanent benefit increase to retirees each year. Prior to that time, the automatic retiree adjustment was referred to as a COLA. They now refer to the automatic retiree adjustment as a permanent benefit increase (PBI) because it is not tied to the CPI, therefore not a COLA. (That is why if you asked if ASRS has a COLA, they may have responded that they do not?) For ASRS retirees, the permanent benefit increase (PBI) is based on excess earnings over an 8 percent earnings assumption. If there is excess, retirees are granted a benefit increase not to exceed 4 percent on average. This increase is paid each July 1 without additional legislative approval.

I hope this clarifies information you received from the NRTA survey. Please let me know if you would like additional information.



February 15, 2001

Ms. Fay Kopp  
Deputy Executive Director  
North Dakota Retirement & Investment Office  
P.O. Box 7100  
Bismarck, ND 58507-7100

Dear Fay:

**Subject: Concerns About Actuarial Issues and Terminology Arising out of our Analyses Related to HB 1102**

We are glad to have a chance to address the two issues that you said arose recently.

#### **Funding Period**

On the exhibits we have sent as attachments to various letters, and in our actuarial valuation reports, we show the "Funding Period." The Funding Period is the theoretical number of years that will be required to reduce the unfunded actuarial accrued liability (UAAL) to zero, given certain assumptions and conditions. In making the calculation, we assume the following:

- There will be no changes to the benefit structure in future years
- Members and employers will continue to contribute at the 7.75% rate
- The number of members and member payroll will remain unchanged
- The actuarial assumptions and methods will remain unchanged
- Our actuarial assumptions are perfect; they exactly predict the future investment return, salary increase, retirements, deaths, etc.

The Funding Period is not the amortization period used to determine the margin. In all cases, the margin is based on the 20-year period adopted by the Board of Trustees.

Think of the Funding Period this way. There is a fixed statutory rate of 7.75%, and part of this is used to pay the employer's portion of the normal cost. The balance is used to amortize the UAAL. In the valuation, 2.07% of the 7.75% is used for the employer normal cost (9.82% minus the 7.75% member rate) and 5.68% is used to amortize the UAAL (7.75% minus 2.07%). Therefore, the smaller the UAAL is, the more quickly the 5.68% payment will eliminate it.

Here's another way to view the problem. Suppose you want to buy a home, and you can secure a loan at 6% interest. Your uncle comes to you, and, being both wealthy and generous, he says he will pay your mortgage off for you, making payments of \$1,200 each month. How long will he have to make payments? Clearly the answer depends on the amount of the loan. If the home value is \$70,000, it will take him less than six years to pay off the loan, but if the home costs \$100,000, it will take nine years, and if the home costs \$200,000, it will take about 30 years. In the TFFR case, the UAAL is analogous to the amount borrowed on the home, the 5.68% contribution rate (the part of the employer rate not used for the normal cost) is analogous to the mortgage payment, and the Funding Period is like the time period your uncle will pay.

Variation 1, for example, shows a Funding Period of only 4.4 years because the UAAL for this variation is low. It would only take an employer contribution of 4.44% (line 3) to fund the benefits over 20 years. Since the fund will actually receive 7.75%, the UAAL will be gone in less than 5 years. It is also true that the higher the margin, the lower the funding period. In this case, 3.31% of margin is left if Variation 1 is enacted, producing the low funding period.

Finally, let me reiterate a point made above. In analyzing any piece of retirement legislation, we use the 20-year amortization period to determine the margin. The only exception that I can think of is the prefunded health proposal, for which we have used a 30-year period. Since it would be a new, non-retirement program, we have felt that using the longer amortization period for the initial liability is justified.

## UAAL

The other issue you raised concerned the UAAL itself. Some legislators may believe that the Public Employee Retirement System (PERS) operates under a different policy or philosophy than TFFR with regard to benefit changes. They may think this because, when PERS requests a benefit improvement, their funded ratio does not drop below 100%.

However, as we discussed with Sparb Collins, both TFFR and PERS use the same approach. Both systems support bills based on the amount of margin available. Both systems have concluded that measuring the margin available using a 20-year amortization period and an actuarial asset value that is currently well below the market value makes this a conservative and prudent approach to deciding when and what proposed benefit improvements to support.

The apparent difference in policies is actually due to a technical, actuarial difference between the two systems. In PERS, the combined 8.12% member plus employer contribution rate is almost exactly equal to the normal cost rate. Therefore, the margin in PERS can only arise because the UAAL is negative, and the 20-year cost for PERS is actually less than its normal cost. (If the UAAL ever becomes positive, then the employer normal cost plus an amount to amortize the UAAL would necessarily be greater than the 4.12% statutory rate.) TFFR is more typical, since the combined 15.50% of pay received from members and employers is greater than the normal cost. This means that TFFR can have a UAAL, since there will be funds available to amortize it.

Ms. Fay Kopp  
February 15, 2001  
Page 3

In fact, it is worth noting the following oddity. If the PERS employer contribution rate was higher, say 6.12%, then PERS could support larger benefit improvements, and it could have a funded ratio below 100% immediately following the adoption of one of these improvements, just like TFFR.

TFFR could change its policy and hold back enough margin to leave the fund with a Funding Ratio of at least 100%, but that would appear to do a disservice to the membership, since benefit improvements would be delayed unnecessarily.

If you have any other questions or concerns, please let us know.

Sincerely,

J. Christian Conradi  
Actuary

W. Michael Carter  
Vice President

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**North Dakota Teachers' Fund for Retirement**  
**Cost Impact of Proposed Variations to Retiree Ad Hoc Increase under HB 1102**

Item	No Change in Current Benefit Provisions (Results of June 30, 2000 Actuarial Valuation)	HB 1102 as Originally Drafted (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, 0.75% Automatic Retiree Adjustment)	2.00% Multiplier, \$2.00/\$1.00 Retiree Ad Hoc Increase (Original Bill without Automatic Retiree Adjustment)	Variation 1 - 2.00% Multiplier, \$2.25/\$1.25 Retiree Ad Hoc Increase	Variation 2 - 2.00% Multiplier, \$2.50/\$1.50 Retiree Ad Hoc Increase	Variation 3 - 2.02% Multiplier, \$2.25/\$1.25 Retiree Ad Hoc Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Normal cost	9.82%	10.81%	10.29%	10.29%	10.29%	10.36%
2. Unfunded actuarial accrued liability (millions)	\$ (20.6)	\$ 148.9	\$ 61.0	\$ 65.8	\$ 70.5	\$ 74.2
3. 20-year contribution rate	1.47%	7.36%	4.30%	4.44%	4.58%	4.75%
4. Margin	0.28%	0.39%	3.45%	3.31%	3.17%	3.00%
5. Expected employer contribution (millions)	\$ 5.0	\$ 25.0	\$ 14.6	\$ 15.1	\$ 15.6	\$ 16.2
6. Increase in 20-year contribution rate	0.00%	5.89%	2.83%	2.97%	3.11%	3.28%
7. Increase in expected employer contribution (millions)	\$ -	\$ 20.0	\$ 9.6	\$ 10.1	\$ 10.6	\$ 11.2
8. Funded ratio	101.6%	89.8%	95.5%	95.2%	94.9%	94.6%
9. Funding period (years)	0.0	16.6	4.0	4.4	4.8	5.2

**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
PROPOSED AMENDMENTS TO HOUSE BILL NO. 1102**

**Sponsor:** Representative Bette Grande

**Proposal:** The amendment increases the benefit multiplier from 2.00 percent to 2.02 percent; provides a postretirement benefit increase of \$2.25 per month multiplied by a member's number of years of service credit plus \$1.25 per month multiplied by the number of years since the member's retirement and eliminates the automatic benefit increase.

**Actuarial Analysis:** The reported actuarial cost of the amendment is 3.29 percent of total covered compensation. Thus, if House Bill No. 1102 is enacted, as amended, the remaining margin in the Teachers' Fund for Retirement will be 2.99 percent ( $6.28 - 3.28 = 3.00$ ). The actuarial cost impact of the amendment is summarized in the following table:

Item (1)	No Change in Current Benefit Provisions (Results of June 30, 2000, Actuarial Valuation) (2)	HB 1102 as Originally Drafted (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, 0.75% Automatic Retiree Adjustment) (3)	2.00% Multiplier, \$2.00/\$1.00 Retiree Ad Hoc Increase (Original Bill Without Automatic Retiree Adjustment) (4)	Variation 1 2.00% Multiplier, \$2.25/\$1.25 Retiree Ad Hoc Increase (5)	Variation 2 2.00% Multiplier, \$2.50/\$1.50 Retiree Ad Hoc Increase (6)	Variation 3 2.02% Multiplier, \$2.25/\$1.25 Retiree Ad Hoc Increase (7)
1. Normal cost	9.82%	10.81%	10.29%	10.29%	10.29%	10.36%
2. Unfunded actuarial accrued liability (millions)	(\$20.6)	\$148.9	\$61.0	\$65.8	\$70.5	\$74.2
3. 20-year contribution rate	1.47%	7.36%	4.30%	4.44%	4.58%	4.75%
4. Margin	6.28%	0.39%	3.45%	3.31%	3.17%	3.00%
5. Expected employer contribution (millions)	\$5.0	\$25.0	\$14.8	\$15.1	\$15.6	\$16.2
6. Increase in 20-year contribution rate	0.00%	5.89%	2.83%	2.97%	3.11%	3.28%
7. Increase in expected employer contribution (millions)	\$0	\$20.0	\$9.6	\$10.1	\$10.6	\$11.2
8. Funded ratio	101.6%	89.8%	95.5%	95.2%	94.9%	94.6%
9. Funding period (years)	0.0	16.6	4.0	4.4	4.8	5.2

**Committee Report:** Favorable recommendation.

**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
PROPOSED AMENDMENTS TO HOUSE BILL NO. 1102**

**OFFICE  
COPY**

**Sponsor:** Board of Trustees

**Proposal:** The amendment increases the benefit multiplier from 2.00 percent to 2.15 percent; provides a postretirement benefit increase of \$3.50 per month multiplied by a member's number of years of service credit plus \$1.75 per month multiplied by the number of years since the member's retirement and eliminates the automatic benefit increase.

**Actuarial Analysis:** The reported actuarial cost of the amendment is 5.90 percent of total covered compensation. Thus, if House Bill No. 1102 is enacted, as amended, the remaining margin in the Teachers' Fund for Retirement will be .38 percent ( $6.28 - 5.90 = .38$ ). The actuarial cost impact of the amendment is summarized in the following table:

Item (1)	No Change in Current Benefit Provisions (Results of June 30, 2000, Actuarial Valuation) (2)	HB 1102 as Originally Drafted (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, 0.75% Automatic COLA for All Members) (3)	Proposed Amendment to HB 1102 (2.15% Multiplier, \$3.50/\$1.75 Retiree Ad Hoc Increase, No Automatic COLA) (4)
1. Normal cost	9.82%	10.81%	10.87%
2. Unfunded actuarial accrued liability (millions)	(\$20.8)	\$148.9	\$147.0
3. 20-year contribution rate	1.47%	7.36%	7.37%
4. Margin	6.28%	0.39%	0.38%
5. Expected employer contribution (millions)	\$5.0	\$25.0	\$25.1
6. Increase in 20-year contribution rate	0.00%	5.89%	5.90%
7. Increase in expected employer contribution (millions)	\$0	\$20.0	\$20.1
8. Funded ratio	101.6%	89.8%	89.9%
9. Funding period (years)	0.0	16.6	16.6

**Committee Report:** Unfavorable recommendation.

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**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
PROPOSED AMENDMENTS TO HOUSE BILL NO. 1102**

**Sponsor:** Representative Bette Grande

**Proposal:** The amendment increases the benefit multiplier from 2.00 percent to 2.02 percent; provides a postretirement benefit increase of \$2.25 per month multiplied by a member's number of years of service credit plus \$1.25 per month multiplied by the number of years since the member's retirement and eliminates the automatic benefit increase.

**Actuarial Analysis:** The reported actuarial cost of the amendment is 3.29 percent of total covered compensation. Thus, if House Bill No. 1102 is enacted, as amended, the remaining margin in the Teachers' Fund for Retirement will be 2.99 percent ( $6.28 - 3.29 = 2.99$ ).

**Committee Report:** Favorable recommendation.

**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
PROPOSED AMENDMENTS TO HOUSE BILL NO. 1102**

**Sponsor:** Representative Matthew M. Klein

**Proposal:** The amendment provides a postretirement benefit increase of \$2.25 per month multiplied by a member's number of years of service credit plus \$1.25 per month multiplied by the number of years since the member's retirement and eliminates the automatic benefit increase.

**Actuarial Analysis:** The reported actuarial cost of the amendment is 2.97 percent of total covered compensation. Thus, if House Bill No. 1102 is enacted, as amended, the remaining margin in the Teachers' Fund for Retirement will be 3.31 percent ( $6.28 - 2.97 = 3.31$ ). The actuarial cost impact of the amendment is summarized in the following table:

Item	No Change in Current Benefit Provisions (Results of June 30, 2000, Actuarial Valuation)	HB 1102 as Originally Drafted (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, 0.75% Automatic Retiree Adjustment)	2.00% Multiplier, \$2.00/\$1.00 Retiree Ad Hoc Increase (Original Bill Without Automatic Retiree Adjustment)	Variation 1 - 2.00% Multiplier, \$2.25/\$1.25 Retiree Ad Hoc Increase	Variation 2 - 2.00% Multiplier, \$2.50/\$1.50 Retiree Ad Hoc Increase
(1)	(2)	(3)	(4)	(5)	(6)
1. Normal cost	9.82%	10.01%	10.29%	10.29%	10.29%
2. Unfunded actuarial accrued liability (millions)	(\$20.6)	\$148.9	\$61.0	\$65.8	\$70.5
3. 20-year contribution rate	1.47%	7.36%	4.30%	4.44%	4.58%
4. Margin	6.28%	0.39%	3.45%	3.31%	3.17%
5. Expected employer contribution (millions)	\$5.0	\$25.0	\$14.6	\$15.1	\$15.6
6. Increase in 20-year contribution rate	0.00%	5.89%	2.83%	2.97%	3.11%
7. Increase in expected employer contribution (millions)	\$0	\$20.0	\$9.6	\$10.1	\$10.6
8. Funded ratio	101.6%	89.8%	95.5%	95.2%	94.9%
9. Funding period (years)	0.0	16.6	4.0	4.4	4.8

**Committee Report:** Unfavorable recommendation.



**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
PROPOSED AMENDMENTS TO HOUSE BILL NO. 1102**

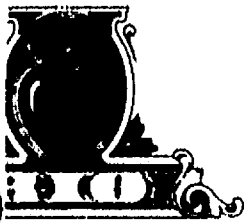
**Sponsor:** Representative Matthew M. Klein

**Proposal:** The amendment provides a postretirement benefit increase of \$2.50 per month multiplied by a member's number of years of service credit plus \$1.50 per month multiplied by the number of years since the member's retirement and eliminates the automatic benefit increase.

**Actuarial Analysis:** The reported actuarial cost of the amendment is 3.11 percent of total covered compensation. Thus, if House Bill No. 1102 is enacted, as amended, the remaining margin in the Teachers' Fund for Retirement will be 3.17 percent ( $6.28 - 3.11 = 3.17$ ). The actuarial cost impact of the amendment is summarized in the following table:

Item (1)	No Change in Current Benefit Provisions (Results of June 30, 2000, Actuarial Valuation)	HB 1102 as Originally Drafted (2.00% Multiplier, \$2/\$1 Retiree Ad Hoc Increase, 0.75% Automatic Retiree Adjustment)	2.00% Multiplier, \$2.00/\$1.00 Retiree Ad Hoc Increase (Original Bill Without Automatic Retiree Adjustment)	Variation 1 - 2.00% Multiplier, \$2.25/\$1.25 Retiree Ad Hoc Increase	Variation 2 - 2.00% Multiplier, \$2.50/\$1.50 Retiree Ad Hoc Increase
(1)	(2)	(3)	(4)	(5)	(6)
1. Normal cost	9.82%	10.81%	10.29%	10.29%	10.29%
2. Unfunded actuarial accrued liability (millions)	(\$20.6)	\$148.9	\$81.0	\$65.8	\$70.5
3. 20-year contribution rate	1.47%	7.36%	4.30%	4.44%	4.58%
4. Margin	6.28%	0.39%	3.45%	3.31%	3.17%
5. Expected employer contribution (millions)	\$5.0	\$25.0	\$14.6	\$15.1	\$15.6
6. Increase in 20-year contribution rate	0.00%	5.89%	2.83%	2.97%	3.11%
7. Increase in expected employer contribution (millions)	\$0	\$20.0	\$9.6	\$10.1	\$10.6
8. Funded ratio	101.6%	89.8%	95.5%	95.2%	94.9%
9. Funding period (years)	0.0	16.6	4.0	4.4	4.8

**Committee Report:** Unfavorable recommendation.



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

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P.O. Box 7100  
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## TESTIMONY ON ENGROSSED HB 1102 SENATE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE

Fay Kopp, Deputy Executive Director  
ND Retirement and Investment Office  
March 9, 2001

House Bill 1102 was submitted by the Teachers' Fund for Retirement (TFFR) Board. The bill reflects the mission and goals established by the TFFR Board.

### TFFR Mission Statement

*The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.*

### TFFR Board Goals

1. To provide a replacement income equal to 60 percent of the final average salary of a career employee who has 30 or more years of credited service.
2. To provide ad hoc and/or automatic annual benefit increases for retired members and beneficiaries to provide income protection and assist retirees in accessing affordable health insurance.
3. To continue providing statewide pre-retirement planning services and benefits counseling to members.

The first two goals deal with benefit improvements for all future retired and currently retired TFFR members. The third goal, although not benefit driven, reflects the importance of educating current and future retirees about retirement-related issues.

### TFFR Benefit Improvements

It has been a longstanding TFFR Board policy that the division of the benefit improvements (as measured by margin available) is approximately proportional to the number of members in each group. Retired and active teachers have agreed to this margin distribution method since at least 1983 because they believe it reflects an equitable margin distribution method.

*Example: As of the 7/1/2000 valuation, there were 4,827 retired members and beneficiaries, 10,025 active members, and 1,130 vested inactive members, for a total of 15,982 members.*

*4,827 / 15,982 = 30% retired members share*

*11,155/15,982 = 70% nonretired members share (active and inactive vested)*

## **TFFR BENEFIT IMPROVEMENTS IN ENGROSSED HB 1102 INCLUDE:**

### **SECTION 1. AMENDMENT. (Page 1, Line 9)**

- Increases the benefit multiplier from **1.88% to 2.00%** for all future retirees. This addresses the first benefit goal above.
- Impact on future retirees:**

*Example: Estimated retirement benefit of a teacher who retires on July 1, 2001, with 30 years of service credit.*

<i>Formula</i>	<i>Annual Salary</i>	<i>Annual Benefit</i>	<i>Monthly Benefit</i>	<i>\$ Inc.</i>	<i>% Inc.</i>
1.88%	\$30,000	\$16,920	\$1,410		
2.00%		18,000	1,500	\$90	6.4%
1.88%	\$40,000	\$22,560	\$1,880		
2.00%		24,000	2,000	\$120	6.4%
1.88%	\$60,000	\$33,840	\$2,820		
2.00%		36,000	3,000	\$180	6.4%

*\*Less applicable state and federal income taxes.*

- A 2.00% multiplier is one component that will make TFFR pension benefits more competitive with other statewide teacher plans in attracting and retaining teachers in ND. Another important component is found in Section 2 of this bill.

### **SECTION 2. NEW SECTION. (Page 1, Line 17)**

- The second benefits-related goal of the TFFR Board is to provide retiree benefit adjustments to provide income protection and assist retirees in accessing affordable health insurance. This goal reflects the growing concern by the TFFR Board over how the impact of inflation, long life expectancies, and rising health care costs will affect a teacher's retirement plans and retirement income.

- The retiree ad hoc increase being proposed is the same formula that was approved in 1999. The increase is calculated by taking two dollars per month multiplied by the member's number of years of service credit plus one dollar per month multiplied by the number of years since the member's retirement for all annuitants receiving a benefit on June 30, 2001. As in the past, this type of "catch up" benefit adjustment is designed to provide the greatest benefit increase to career teachers who have been retired the longest.
- Today, in order to be competitive with other states in attracting and retaining teachers in ND and in order to provide assurance to current and future retirees that their purchasing power will be protected, the TFFR Board is suggesting the Legislature consider a plan to begin building an annual, fixed-rate retiree increase paid in addition to the ad hoc "catch up" retiree increase.

**It is interesting to note that in a comparison with other states, ND teachers pay a higher than average contribution rate, and school districts pay a lower than average rate for their retirement plan.**

	<u>Employee</u>	<u>Employer</u>
ND TFFR	7.75%	7.75%
National average	6.81%	9.63% (2000 PPCC Survey)

Prior to the 1997 legislative session, teachers and employers were informally surveyed by their respective member organizations (NDEA, NDCEL, NDSBA) about increasing their contribution rates. At that time, members and school boards already recognized the need to make NDTFFR more competitive with other states, and overwhelmingly supported a contribution rate increase. Consequently, in 1997, the statutory employee and employer contribution rate increased from 6.75% to 7.75%. This increase infused additional funds into the retirement system to more quickly meet Board goals and make the retirement plan more competitive.

- According to the most recent survey put out by the National Retired Teachers Association (NRTA), approximately two-thirds (35) of statewide teacher plans across the nation provide some sort of guaranteed annual benefit adjustment to protect pension benefits from the impact of inflation. Some states blend an annual retiree increase with a "catch up" ad hoc increase to benefit individuals who have been retired the longest and have suffered the greatest loss of purchasing power. This is what NDTFFR proposes in HB 1102.
- As amended by the House GVA Committee, Engrossed HB 1102 provides, in addition to the \$2/\$1 retiree ad hoc "catch up" increase, a conditional annual benefit adjustment (CABA) equal to 0.75% of the retiree's current monthly benefit. The annual increase would be conditioned upon an annual actuarial test. If the actuarial test shows that there is a shortfall between the actuarially determined benchmark contribution rate and the statutory rate (7.75%), then the TFFR Board could reduce or suspend future annual increases.

- **Impact on average current retiree:**

Example: Member retired in 1987 with 28 years of service credit  
Current benefit on 1/1/2001 - \$994 per month

2001 retiree increase ( $\$2 \times 28 \text{ yrs} + \$1 \times 14 \text{ yrs} = \$70$ )  
+ ( $0.75\% \times \$994 = \$7.46$ ) = \$77.46 monthly increase  
New Benefit on 7/1/2001 = \$1,071.46

2002 retiree increase ( $0.75\% \times 1,071.46$ ) = \$8.04 monthly increase  
New Benefit on 7/1/2002 = \$1,079.50

2003 (and future years). Possible ad hoc increase every 2 years  
and 0.75% conditional adjustment each year.

***It is estimated that it will take 5 to 7 years for the average current retirees' monthly benefit, using a combination % CABA and \$ ad hoc adjustment, to surpass their benefit based on a higher 2001 ad hoc \$ adjustment only.***

*See Attachment A - Analysis of Current TFFR Retirees*

- The Board, as fiduciaries charged with setting policy and administering TFFR, believes that the combined approach provided for in HB 1102 best serves the needs of both current and future retirees and is the most equitable way to distribute retirement plan improvements today. The \$2/\$1 formula is geared toward teachers who have been retired the longest. The Board has always been very sensitive to the needs of this group which is evidenced by the "catch up" benefit increases that have been proposed and granted for many years. But, in addition to the long-term retirees, the Board must consider the needs of recent retirees who are also entitled to a fair share of benefit protection. This group is becoming increasingly larger and their benefits have, in part, been based on the greater than average retirement contributions they have made to the Fund. The 0.75% CABA seeks to address this group, but includes the group that has been retired the longest as well.

A fixed percentage is a very common standard for granting salary adjustments for active employees and pension adjustments for retired employees. Most public pension plans around the country use a percent factor, including NDPERS. According to the 2000 NRTA Survey, nearly all states calculate their retiree benefit increases (whether guaranteed or ad hoc) on a percent-based system. In some cases, the percent-based increase might also be combined with a dollar-based increase. According to the survey, only North Dakota and West Virginia use a dollar-based system only.

- Currently, TFFR pays out \$4.8 million per month to annuitants, or nearly \$58 million each year. HB 1102 would increase the amount being paid to about \$5.2 million per month, or \$62.4 million each year. Of the \$58 million being paid each year, over 82% or \$49 million is sent to North Dakota addresses. The retiree benefit increase being proposed would increase the amount sent to retirees living in ND by \$3.7 million. Because retirement benefit payments to retirees are taxable, this proposal will result in additional income and sales taxes being paid to the state's general fund totalling approximately \$150,672 per year or \$301,344 per biennium.

*See Attachment B – Proposed Benefit Increase by County*

## **FUNDING THE BENEFIT IMPROVEMENTS**

- According to Watson Wyatt, TFFR's actuarial consultant, the current actuarial margin available for plan improvements is 6.28%. The TFFR Board proposes that the cost of HB 1102 be paid from the actuarial margin. Watson Wyatt has analyzed this bill and calculated the cost to be 5.89% of total covered compensation. (5.89% of \$323 million equals about \$20 million per year.) Passage of this bill would still leave 0.39% of margin unspent. (0.39% of \$323 million equals \$1.3 million.) This is actually more margin than has been left in the past five legislative sessions after a benefit improvement has been granted. No General Fund monies, nor additional retirement contributions, are needed to fund this benefit improvement package.

*See Attachment C – Actuarial Valuation, 10- year summary*  
*Attachment D – Margin Used, 10-year summary*

- **Why use the actuarial margin to fund this bill?**

The TFFR Board believes that benefit improvements should be made out of existing actuarial margins, so that an increase in the retirement contribution rate would not be required. This year, because the margin is sufficient to pay for both the 2.0% multiplier and the \$2/\$1 retiree ad hoc adjustment, the Board's proposal includes protecting the purchasing power of current and future retirees through the 0.75% CABA.

- **How is the actuarial margin divided in the Engrossed HB 1102?**

Future retirees account for 4.05% of the 5.89% used (69% share). Current retirees account for 1.84% of the 5.89% used (31% share). This is approximately proportional to the number of members in each group, and reflects the 70/30 division of margin per board policy.

<u>Engrossed HB 1102</u>	<u>Margin used</u>
<b>Future retirees (11,155)</b>	
2.00 % multiplier	1.89%
0.75% CABA	<u>2.16%</u>
Margin used	4.05%
<b>Current retirees (4,827)</b>	
\$2/\$1 retiree adhoc	0.95%
0.75% CABA	<u>0.89%</u>
Margin used	<u>1.84%</u>
<b>Total margin used</b>	<b>5.89%</b>
(Available 6.28%; leaves .39%)	

• **What assurance is there that the Fund can afford the provisions included in HB 1102, especially the conditional annual benefit adjustment (CABA)?**

1. According to the Fund's actuarial consultants, all of the provisions in HB 1102 are affordable. TFFR is a well-funded and financially sound plan well able to withstand anticipated ups and downs in the financial markets. The Fund is well diversified in its asset allocation, employs managers with high expertise in managing their assets, and uses conservative investment accounting practices.

For example, the Fund uses "smoothed" returns, which averages highs and lows and provides a cushion against future downturns in the market. Because year-to-year returns can fluctuate dramatically, the actuary recognizes only 20% of each year's return differential over a five-year period thereby averaging annual returns over a longer period of time. For example, in the July 1, 2000 valuation, the market value of assets was \$1.405 billion and the actuarial value of assets (using smoothed returns) was \$1.308 billion, a difference of over \$97 million of deferred gains which will be recognized over the next five years.

Because the Board maintains sound discipline and prudent investment management practices, TFFR remains solid, year after year.

*See Attachment E – TFFR Asset Allocation*

*Attachment F – Investment performance and smoothing approach*

*Attachment G - Development of actuarial value of assets*

2. The funding source for the provisions in HB 1102 is the actuarial margin. According to Watson Wyatt, using the actuarial margin to fund the bill is a conservative and prudent approach, especially given the fact that the margin is determined by comparing the current 7.75% employer contribution rate with the contribution required to pay the plan's normal cost and to amortize the unfunded actuarial accrued liability over 20 years in level payments. Many systems have used either longer amortization periods, or amortization payments that are scheduled to increase each year with payroll, or both.

3. Another important point to consider is the fact that a commitment to a conditional annual benefit adjustment (CABA) is no different than earlier legislative commitments to a higher multiplier or to the Rule of 85. In each of these benefit enhancements, the costs were prefunded, just like a CABA. The 0.75% CABA can be viewed as using a portion of the margin now to provide small increases for current and future retirees for all future years, rather than providing a larger one-time increase for current retirees only.

Watson Wyatt also notes that all benefit improvements use up margin similarly. Every benefit improvement, including ad hoc increases to retirees, translates to higher expected benefit payments in the future. Although benefit improvements may produce different patterns of projected benefits, they have the same actuarial present value.

Example: \$100 monthly benefit increase

*Retiree can either receive \$100 now (retiree ad hoc only) or \$75 now plus \$5 per month for life (retiree ad hoc plus CABA). The reason that the \$5 can be paid indefinitely (based on the conditional actuarial test) is "the magic of compounding." Both cost the same; the actuarial present value is the same; only the stream of payments is different.*

Watson Wyatt states that one possible source of confusion is that, with the CABA, there is a new increase for retirees each year in the future, so it might be easy to think that each year the margin will decrease because of this annual increase. But this is incorrect, since all of the future 0.75% increases are already recognized in the analysis of HB 1102. No additional margin should be used up when the second annual 0.75% adjustment is made, or when any subsequent 0.75% adjustment is made.

Generally speaking, once margin is "used" in a legislative benefit improvement package, it has no impact on future actuarial margins.

3. The added feature of an annual retiree adjustment creates no extra risk for TFFR's long term health than other benefit improvements granted in the past. Conditioning the annual benefit adjustment upon a specified actuarial test is an additional "safety net" which, for example, the retiree ad hoc increase does not have. Therefore, the CABA is even more strictly controlled because the Board can suspend or reduce the CABA in the future. There is no statutory provision that allows the Board to reduce retiree benefits once ad hoc increases have been granted.
4. Unlike the Social Security annual COLA, the proposed TFFR annual adjustment (CABA) is not tied to changes in the Consumer Price Index (CPI) or any other index. The Board is not proposing an unlimited COLA that could pose risk in times of runaway inflation. A specified percentage being proposed by the Board permits a reliable calculation of plan costs by the Fund's actuary.



- **How will margin arise in the future?**

Again, according to Watson Wyatt, the same way it has arisen in the past. The main source for the margin over the last several years has been the fact that the trust fund assets have earned at rates well above the 8.00% assumption in most years. If that continues, there will be margin available in future years. Over time, if future actuarial margins build, the Board could return to the Legislature to request a retiree ad hoc increase in a dollar-based formula (using the 30% retiree share of the margin), and also an increase to the CABA (using the 70% active/inactive share of the margin).

If the markets turn sour, though, there might be little or no margin available, and no benefit improvements would be requested. This does not mean the fund is becoming insolvent. When minimal or no margin exists it means that the 7.75% contribution rates are adequate to fund the existing benefit structure (including a CABA, if approved).

However, even if there were no margin in future years, adoption of the 0.75% annual benefit adjustment would guarantee (subject to the actuarial adequacy test added to the bill) that retirees would receive some increase each year. If they received a larger ad hoc benefit increase now, then if there were no future margin, they would receive no further increases.

There are other minor sources of margin including the use of the level-dollar approach to determining the amortization payments, gains (or losses) from salary increases below (or above) expected, fewer (or more) retirements, variations in life expectancy, etc.

- **How would the actuarial test for the CABA work?**

By statute, the annual benefit adjustment would be conditioned on an actuarial test performed annually by the board's actuarial consultant using the GASB amortization period. This test will determine the actuarial adequacy of the statutory contribution rate. The results of this test will be reported annually to the Legislative Employee Benefits Programs Committee.

If the actuarial valuation indicates a shortfall between the actuarially determined benchmark contribution rate and the statutory rate, then the board may reduce or suspend the CABA. The actuarial adequacy test fails if one of more of the following are true:

1. The shortfall is greater than .6% in any year.
2. The shortfall is greater than .3% in any two consecutive years; or
3. A shortfall exists in three consecutive years.

Generally speaking, the actuarial test is passed anytime the benchmark contribution rate is equal to or less than the statutory 7.75% rate. Although margin would be positive, it may or may not be enough to increase benefits.

Example:

*For five years, the actuarial adequacy test determines the actuarial benchmark contribution rate is 7.50%. This is compared to the statutory contributory rate of 7.75%. Because the benchmark rate is lower than the statutory rate, no shortfall exists, and the CABA continues to be paid each year.*

*However, the sixth year, the benchmark contribution rate is 8.10%. This is compared to the statutory contribution rate of 7.75%. Difference is 0.35%. The seventh year, the actuary determines the benchmark contribution rate is 8.15%. This is compared to the statutory contribution rate of 7.75%. Difference is .40%.*

*Because the shortfall is greater than 0.30% in any two consecutive years, the Board could reduce or suspend future annual benefit adjustments.*

In general, although they are separate actuarial tests:

If there is positive margin, there is no shortfall.

If there is no margin, there is no shortfall.

If there is negative margin, there will probably be a shortfall.

- **What other assurances are there that TFFR is actuarially sound?**

In accordance with Board policy, last year an actuarial audit of Watson Wyatt was conducted by another nationally recognized actuarial consulting firm, Buck Consultants. Buck Consultants found the actuarial valuations and experience study conducted by Watson Wyatt to be reasonable, accurate, and performed in accordance with generally accepted actuarial principals. They reviewed the assumptions and methods being used by Watson Wyatt, and commented on the reasonability, affordability, and estimated costs of legislative proposals and board goals. Again, Buck Consultants found the costs and proposals to be appropriate and accurate. According to two nationally recognized actuarial consulting firms, there should be no question about the actuarial soundness of TFFR.

## SUMMARY

- As the competition for teachers accelerates, the TFFR Board believes it is important to include retirement plan features comparable to those found in other states: a 2.00% multiplier, a "catch up" retiree ad hoc increase, and a modest fixed-rate CABA, all funded through TFFR's actuarial margin.
- HB 1102 does not create any extra risk for TFFR's long-term health. Using the actuarial margin to fund HB 1102 is based on actuarially and financially sound principles that are conservative and prudent. This approach has been effectively used to fund legislative improvements in the past 20 years. All of the provisions in the bill provide for a specified fixed benefit adjustment, and therefore permit a reliable prediction of plan costs by the actuary.
- Because of the "conditional" provision, HB 1102 is even more conservative than a retiree ad hoc increase only, since the Board can suspend or reduce the CABA in the future.
- HB 1102 reflects long-term improvements to fundamental retirement plan benefits, rather than short-term improvements to provide additional benefits to any specific active or retired group within the TFFR membership.
- In addition, HB 1102:
  - Allows ND to be more competitive with other state retirement systems in attracting and retaining teachers.
  - Begins to address current and future retiree concerns over the impact of inflation, long life expectancies, and rising health care costs.
  - Utilizes a very conservative and prudent approach by using the actuarial margin to prefund the cost of bill.
  - Uses a smoothing approach to phase in differences between actual and expected investment earnings which provides a cushion against future downturns in the market.
  - Recognizes the long-term nature of financing a retirement plan and the concept of intergenerational equity.
  - Provides economic impact to ND communities and revenues to state general fund.
- HB 1102 was studied by the Legislative Employee Benefits Programs Committee and received a favorable recommendation from that Committee in November 2000. Amendments made by the House GVA Committee include additional safeguards, and resulted in passage of the bill by an overwhelming vote of 95 - 3. The TFFR Board encourages the Senate Government and Veterans Affairs Committee to give the bill a DO PASS recommendation.
- A retirement plan including the features contained in this bill will allow the best teachers in the country -- ND teachers -- to retire with dignity.

Analysis of Current TFFR Retirees

Benefit Group	Data	Grand Total	Total % Increase	Annual % Increase
Less than \$400	Count of SSN	802		
	Average of Age	76		
	Average of Credit Years	14		
	Average of Years Retired	18		
	Average of Beginning Benefit	119		
	Average of Benefit Increase	158	133%	7.6%
	Average of Current Benefit	277		
\$400 thru \$799	Count of SSN	1,480		
	Average of Age	81		
	Average of Credit Years	27		
	Average of Years Retired	21		
	Average of Beginning Benefit	288		
	Average of Benefit Increase	285	99%	4.7%
	Average of Current Benefit	573		
\$800 thru \$1,199	Count of SSN	954		
	Average of Age	72		
	Average of Credit Years	31		
	Average of Years Retired	11		
	Average of Beginning Benefit	778		
	Average of Benefit Increase	216	28%	2.5%
	Average of Current Benefit	994		
\$1,200 thru \$1,599	Count of SSN	760		
	Average of Age	68		
	Average of Credit Years	33		
	Average of Years Retired	8		
	Average of Beginning Benefit	1,222		
	Average of Benefit Increase	165	14%	1.7%
	Average of Current Benefit	1,387		
\$1,600 thru \$1,999	Count of SSN	406		
	Average of Age	64		
	Average of Credit Years	34		
	Average of Years Retired	5		
	Average of Beginning Benefit	1,654		
	Average of Benefit Increase	126	8%	1.4%
	Average of Current Benefit	1,780		
\$2,000 or more	Count of SSN	387		
	Average of Age	63		
	Average of Credit Years	35		
	Average of Years Retired	4		
	Average of Beginning Benefit	2,383		
	Average of Benefit Increase	104	4%	1.2%
	Average of Current Benefit	2,487		
Total Count of SSN		4,789		
Total Average of Age		73		
Total Average of Credit Years		28		
Total Average of Years Retired		14		
Total Average of Beginning Benefit		791		
Total Average of Benefit Increase		203	26%	1.9%
Total Average of Current Benefit		994		

**PROPOSED TFFR RETIREE INCREASE - 2001  
AVERAGE MONTHLY BENEFIT**

County	Count	Current Benefit	Average Benefit	Total New Benefit	Average New	Average Benefit Increase	Average Increase %
Adams	16	16,914	1,057	18,191	1,137	80	7.6%
Barnes	124	114,063	920	123,742	998	78	8.5%
Benson	31	26,494	855	29,009	936	81	9.5%
Billings	3	3,225	1,075	3,493	1,164	90	8.3%
Buttlineau	70	65,176	931	70,551	1,008	77	8.3%
Bowman	30	29,117	971	31,350	1,045	74	7.7%
Burke	13	13,362	1,028	14,295	1,100	72	7.0%
Burleigh	483	549,917	1,139	586,977	1,215	77	6.7%
Cass	501	600,308	1,198	640,746	1,279	81	6.7%
Cavaller	41	40,352	984	43,621	1,064	80	8.1%
Dickey	52	43,887	844	47,637	916	72	8.5%
Divide	17	15,364	904	16,703	983	79	8.7%
Dunn	25	26,126	1,005	27,021	1,081	76	7.5%
Eddy	27	22,051	817	23,993	889	72	8.8%
Emmons	27	19,740	731	21,814	808	77	10.5%
Foster	25	24,878	995	26,847	1,074	79	7.9%
Golden Valley	16	9,412	627	10,520	701	74	11.8%
Grand Forks	363	440,892	1,215	470,712	1,297	82	6.7%
Grant	21	15,513	739	17,166	817	79	10.7%
Griggs	28	20,722	740	22,914	818	78	10.6%
Hettinger	21	27,157	1,293	28,864	1,374	81	6.3%
Kidder	17	15,310	901	16,659	980	79	8.8%
LaMoure	51	43,969	802	48,070	943	80	9.3%
Logan	19	15,580	820	16,985	894	74	9.0%
McHenry	54	42,338	784	46,423	860	76	9.7%
McIntosh	27	34,890	1,292	37,059	1,373	80	6.2%
McKenzie	32	29,001	908	31,517	985	79	8.7%
McLean	84	80,782	962	87,466	1,041	80	8.3%
Mercer	41	40,392	985	43,283	1,056	70	7.2%
Morton	139	169,647	1,220	181,061	1,303	82	6.7%
Mountrail	39	32,563	835	35,480	910	75	9.0%
Nelson	46	42,486	924	45,843	997	73	7.9%
Oliver	9	10,755	1,195	11,482	1,276	81	6.8%
Pembina	51	44,779	878	48,458	950	72	8.2%
Pierce	36	41,383	1,150	44,287	1,230	80	7.0%
Ramsey	111	104,396	941	112,758	1,016	75	8.0%
Ransom	36	32,644	907	35,385	983	76	8.4%
Renville	20	15,464	773	17,067	853	80	10.4%
Richland	93	76,392	821	83,640	898	77	9.4%
Rolette	45	40,146	892	43,299	962	70	7.9%
Sargent	33	29,312	888	31,827	964	76	8.6%
Sheridan	15	11,142	743	12,352	823	81	10.9%
Sioux	3	2,094	698	2,236	745	47	6.8%
Slope	5	3,707	741	4,059	812	70	9.5%
Stark	131	143,482	1,095	154,173	1,177	82	7.5%
Steele	13	9,499	731	10,496	807	77	10.5%
Stutsman	143	140,009	979	151,150	1,057	78	8.0%
Towner	21	18,054	764	17,738	845	80	10.5%
Trail	74	72,092	974	78,070	1,055	81	8.3%
Walsh	86	83,923	976	90,412	1,051	75	7.7%
Ward	334	341,131	1,021	367,234	1,100	78	7.7%
Wells	48	40,891	885	44,314	963	79	8.9%
Williams	130	147,469	1,134	157,293	1,210	76	6.7%
ND Monthly Total	3,917	4,077,301	1,041	4,383,648	1,119	78	7.5%
Out of State	923	749,998	813	817,884	886	74	9.1%
Grand Total	4,840	4,827,299	997	5,201,532	1,075	77	7.8%

# NDTFFR Annual Valuation by Watson Wyatt

## 10 year - Executive Summary Report

		2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
MEMBERSHIP	Number of										
	- Active Members	10,025	10,046	9,896	10,010	9,797	9,663	9,653	9,806	9,707	9,589
	-Retirees and Beneficiaries	4,827	4,568	4,585	4,462	4,503	4,433	4,348	4,179	4,189	4,181
	-Inactive, Vested	1,130	1,069	1,048	1,006	1,000	971	944	914	880	863
	-Inactive, Nonvested	209	250	252	245	235	248	208	239	398	701
	-Total	16,191	15,933	15,781	15,723	15,535	15,315	15,153	15,140	15,174	15,334
Payroll		\$323.0 million	\$314.6 million	\$298.4 million	\$294.1 million	\$281.2 million	\$258.7 million	\$262.4 million	\$260.4 million	\$250.9 million	\$235.1 million
STATUTORY CONTRIBUTION RATE											
Employer		7.75%	7.75%	7.75%	7.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Member		7.75%	7.75%	7.75%	7.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
ASSETS											
Market Value		\$1,405.2 million	\$1,262.6 million	\$1,133.5 million	\$1,001.1 million	\$847.3 million	\$736.0 million	\$649.3 million	\$642.4 million	\$556.1 million	\$490.4 million
Actuarial value		\$1,308.5 million	\$1,053.1 million	\$928.0 million	\$823.4 million	\$733.3 million	\$661.2 million	\$606.8 million	\$567.2 million	\$519.8 million	\$482.9 million
Return on market value		11.6%	11.5%	13.2%	18.5%	15.6%	13.6%	1.2%	14.68%	12.39%	7.54%
Return on actuarial value		13.3%	13.5%	12.6%	12.6%	11.3%	9.1%	7.0%	8.08%	--	--
Employer contributions		\$25.5 million	\$24.3 million	\$23.3 million	\$19.7 million	\$19.0 million	\$18.3 million	\$17.8 million	\$17.5 million	\$17.0 million	\$15.9 million
External cash flow %		(0.3%)	(0.1%)	0.0%	(0.3%)	(0.4%)	-	-	-	-	-
ACTUARIAL INFORMATION											
Normal cost %		9.82%	9.82%	9.24%	9.24%	8.15%	8.15%	7.72%	7.64%	6.94%	8.25%
Unfunded actuarial accrued liability (UAAAL)		(\$20.6) million	\$135.3 million	\$105.1 million	\$153.6 million	\$118.3 million	\$138.6 million	\$157.4 million	\$159.8 million	\$96.1 million	\$132.1 million
Funded ratio		101.6%	88.6%	89.8%	84.3%	86.1%	82.7%	79.4%	78.0%	84.4%	78.5%
Funding period		0 years	10.5 years	6.9 years	12.3 years	11.2 years	15.9 years	18.3 years	18.7 years	7.2 years	19.2 years
BENCHMARK CONTRIBUTION											
20-year funding rate		1.47%	6.09%	4.78%	6.37%	5.33%	6.21%	6.42%	6.37%	3.55%	6.31%
Margin		6.28%	1.66%	2.97%	1.38%	1.42%	0.54%	0.33%	0.38%	3.20%	0.44%
GAINS/(LOSSES)											
Asset experience		\$55.6 million	\$50.7 million	\$37.6 million	\$33.6 million	\$21.9 million	\$8.9 million	\$(5.5) million	\$ 0.4 million	\$(6.5) million	\$17.0 million
Liability experience		(6.9) million	(12.9) million	3.7 million	1.7 million	(6.7) million	6.5 million	5.1 million	0.9 million	10.7 million	(15.1) million
Benefit/legislative changes		N/A	(80.6) million	N/A	\$(77.8) million	N/A	N/A	N/A	(75.0) million	N/A	(56.0) million
Assumption/method changes		96.1 million	N/A	N/A	N/A	N/A	2.5 million	N/A	N/A	28.3 million	N/A
Total		\$144.8 million	\$(42.8) million	\$41.3 million	\$(42.5) million	\$15.2 million	\$15.9 million	\$(0.4) million	\$(73.7) million	\$32.5 million	\$(54.1) million

\* External cash flow not reflected in Executive Summary reports 1991-95

\*\* Return on actuarial value not reflected in Executive Summary report 1991-92

# ATTACHMENT D

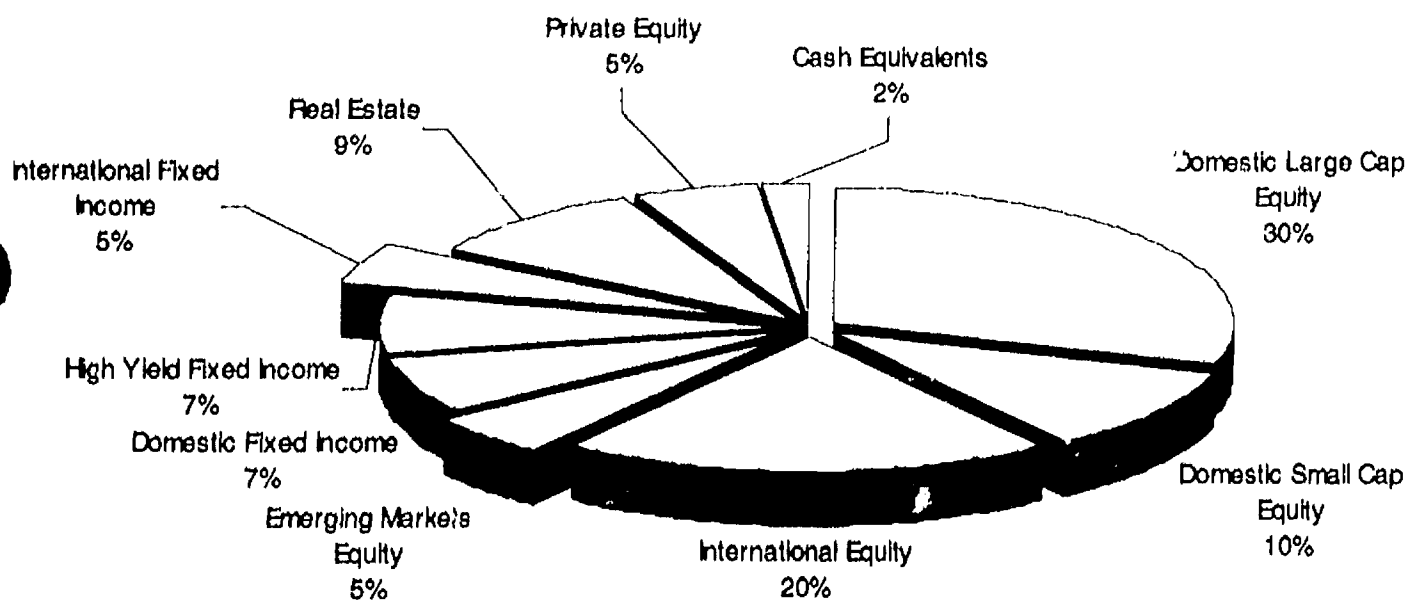
## NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT TFFR Margin History 10 year Summary

<u>FISCAL YEAR</u>	<u>VALUATION (1)</u>	<u>CHANGE (2)</u>	<u>AFTER (3)</u>
1991-92	.44	0.00	.44
1992-93	.42	(.02)	.40
1993-94	.38	0.00	.38
1994-95	.38	0.00	.38
1995-96	.54	0.00	.54
1996-97	1.42	1.88	3.30
1997-98	1.38	0.00	1.38
1998-99	2.07	2.69	4.76
1999-00	1.66	0.00	1.66
2000-01	5.28	5.89	11.17

### NOTES:

- (1) Valuation -- Is the margin as of the date of the annual valuation which is as of July 1 of each year (i.e. 1991-92 would be July 1, 1991).
- (2) Change -- is the estimated actuarial cost of legislative changes considered during that session.
- (3) After -- is the projected remaining margin after proposed legislative changes.
- (4) Employee and employer contribution rates increased 1% from 6.75% to 7.75% each.
- (5) Proposed legislation to increase the multiplier and provide a retiree benefit increase (HB1102).

**TFFR TARGET ASSET ALLOCATION**  
**AS OF AUGUST 1, 2000**





# Smoothing - A Powerful Tool

Smoothing acknowledges that the highs are too high and the lows are too low and the long-term "truth" lies somewhere in between.

- Each year, the TFFR experiences an investment return.

- Year-to-year returns can fluctuate dramatically.

- Planning and implementation of benefit improvements requires consistency.

- To maintain adequate funding, TFFR requires an annual investment return of 8%.

- To maintain consistency and adequacy of returns, TFFR has chosen an effective and commonly used tool: *smoothing*.

- Smoothing recognizes the long-term nature of investment.

## Fiscal Year Investment Performance History (%) – TFFR

FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01Q1
8.25	8.27	13.65	15.40	1.57	13.70	15.63	19.29	14.05	11.06	11.63	-0.95

Note: Investment return is calculated using the investment industry-standard time-weighted return methodology. These calculations vary somewhat from the dollar-weighted calculation used in actuarial reports. This example of smoothing simplifies the actual process for demonstration purposes.

### Smoothing 1990-1994

FY	Return	x 20%
1990	8.25	1.65
1991	8.27	1.65
1992	13.65	2.73
1993	15.40	3.08
1994	1.57	0.31
Smoothed 1994 return = <b>9.42</b>		

- Average returns
- Rolling 5-year period
- 20% of each year's return

### Smoothing 1997-2001

FY	Return	x 20%
1997	19.29	3.86
1998	14.05	2.81
1999*	11.06	2.21
2000	11.63	2.33
2001Q1	-0.95	-0.19
Smoothed 2001 return = <b>11.02</b>		

\*Hypothetical, based on Q1 return.

- Notice the poor return in 1994
- With smoothing, our 1994 return is 9.42%

- Past few years are pretty good
- FY01 got off to a poor start
- What if 2001 return was -0.95%?
- Smoothed 2001 return is 11.02%

**Determination of Excess Earnings to be Deferred**

Year ended :		June 30, 1997	June 30, 1998	June 30, 1999	June 30, 2000
		(2)	(3)	(4)	(4)
1.	MVA at beginning of year	\$ 847,339,136	\$1,001,037,886	\$1,133,469,244	\$1,262,584,076
2.	Net new investments				
a.	Contributions	\$ 40,157,287	\$ 47,411,761	\$ 49,158,925	\$ 53,571,777
b.	Benefits and refunds paid	(42,113,701)	(46,378,425)	(48,997,740)	(56,371,290)
c.	Subtotal	\$ (1,956,414)	\$ 1,033,336	\$ 161,185	\$ (2,799,513)
3.	MVA at end of year	\$1,001,037,886	\$1,133,469,244	\$1,262,584,076	\$1,405,246,440
4.	Net MVA earnings ( 3 - 1 - 2)	\$ 155,655,164	\$ 131,398,022	\$ 128,953,647	\$ 145,461,877
5.	Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6.	Expected return	\$ 67,708,874	\$ 80,124,364	\$ 90,683,987	\$ 100,894,746
7.	Excess return ( 4 - 6)	\$ 87,946,290	\$ 51,273,658	\$ 38,269,660	\$ 44,567,131
8.	Excess return deferral percent	20%	40%	60%	80%
9.	Amount deferred	\$ 17,589,258	\$ 20,509,463	\$ 22,961,796	\$ 35,653,705

Note: MVA is market value of assets

Development of Actuarial Value of Assets

1.	Market value of assets as of valuation	\$ 1,405,246,440
2.	Deferred amounts for fiscal year ending June 30,	
a.	2000	\$ 35,653,705
b.	1999	\$ 22,961,796
c.	1998	\$ 20,509,463
d.	1997	<u>\$ 17,589,258</u>
e.	Total	\$ 96,714,222
3.	Actuarial value of assets (1) - (2)	\$ 1,308,532,218

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**Analysis of HB1102 Alternatives**  
**Effect on "Current" Retiree**  
**Monthly Income Projection**

**Current Retiree** (Average All)  
**Avg. Benefit** \$994.00  
**Years of Service** 28  
**Years Retired** 14  
**Average Age** 73

<b>Assumptions:</b>	<b>Current HB1102</b>	<b>Option 2a</b>	<b>Current HB1102</b>	<b>Option 2a</b>
	No- future margin	No- future margin	Yes- future margin	Yes- future margin
Ad Hoc Increases	\$2/1 in 2001 only	\$3.50/1.75 in 2001 only	\$2/1 every 2 years	\$3.50/1.75 in 2001, then \$2/1 every 2 years
Conditional % adjustment	0.75% per year	none	0.75% 2001-2002, 1.25% 2003-2004, 1.75% 2005-2006, 2.00% 2007-2020	none
2001	\$1,071.46	\$1,116.50	\$1,071.46	\$1,116.50
2002	1,079.50	1,116.50	1,079.50	1,116.50
2003	1,087.60	1,116.50	1,164.99	1,188.50
2004	1,095.76	1,116.50	1,179.55	1,188.50
<b>2005</b>	1,103.98	1,116.50	<b>1,274.19</b>	<b>1,262.50</b>
2006	1,112.26	1,116.50	1,296.49	1,262.50
<b>2007</b>	<b>1,120.60</b>	<b>1,116.50</b>	1,398.42	1,338.50
2008	1,129.00	1,116.50	1,426.39	1,338.50
2009	1,137.47	1,116.50	1,532.92	1,416.50
2010	1,146.00	1,116.50	1,563.58	1,416.50
2011	1,154.60	1,116.50	1,674.85	1,496.50
2012	1,163.26	1,116.50	1,708.35	1,496.50
2013	1,171.98	1,116.50	1,824.52	1,578.50
2014	1,180.77	1,116.50	1,861.01	1,578.50
2015	1,189.63	1,116.50	1,982.23	1,662.50
2016	1,198.55	1,116.50	2,021.87	1,662.50
2017	1,207.54	1,116.50	2,148.31	1,748.50
2018	1,216.60	1,116.50	2,191.28	1,748.50
2019	1,225.72	1,116.50	2,323.11	1,836.50
2020	1,234.91	1,116.50	2,369.57	1,836.50

**NOTE:** Bolded estimated dates indicate when average retiree benefit, using combination % CABA and \$ Adhoc adjustment, will surpass 2001 Adhoc \$ increase only.

2/27/01

## HB1102

Madam Chair Krebsbach & members of the Government & Veterans affairs Committee. I'm Joe Kroeber, State Representative from District 48-Jamestown. I had the opportunity to serve on the interim Employee Benefits Committee and I am a retired teacher. I fully support the TFFR Boards final recommendation which is now the current HB1102. This bill moves the benefit formula for active teachers from 1.88 to 2.0 and sets up a .75 conditional annual benefit adjustment(CABA). For retired teachers it has an Ad Hoc adjustment increase of \$2.00 for every year taught and \$1.00 for each year since the teacher retired PLUS which I fully support a .75 CABA. This .75 CABA will allow retired teachers & active teachers to start a program which is now present in 37 states to help all teachers---active & retired to be part of an annual benefit adjustment. Remember that the Judges Retirement System includes an automatic increase but theirs is 2%. This will in 3-5 years out perform a straight \$3.50/\$1.75 Ad Hoc which others may later ask you to support. Remember the TFFR Board has long had a policy of splitting approved benefit margins according to the approximate proportional number of members in each group. There were 4,827 retired teachers & beneficiaries, 11,155 nonretired members, for a total of 15,982 total members. This breaks down to a 30% retired members share and 70% nonretired members share. This proposal stays within these guidelines. I would appreciate your support for this bill in its present form which is very conservative. I say this because that it leaves a larger margin in the fund than we have for the past 10 years and requires a yearly review by the TFFR board. I would be more than happy to answer any questions you may have.

## **HB1102 - TEFER Board**

**Testimony prepared by Barbara Evanson  
'Trustee for the Teachers' Fund for Retirement**

**Good morning Chairwoman Krebsbach and members of the Government and Veterans Affairs Committee. I am pleased to present testimony in favor of HB1102.**

**As has already been stated, HB1102 increases the benefit multiplier to 2.00% and provides an adhoc monthly post-retirement benefit increase for all retired members and beneficiaries equal to \$2 per year of service credit plus \$1 per year retired, plus a 0.75% conditional annual benefit adjustment for current and future retirees.**

**What a wonderful opportunity we have this year! We may not have a margin to equal this again allowing for an annual benefit adjustment.**

- *Is it a wise move?* If we are to help a retiree to continue to have adequate purchasing power, it certainly is.**
- *Has it been done before?* 48 states have some form of a percent increase, and ours will have a conditional annual adjustment.**
- *Will it tie up future margins?* This is a prefunded plan, so the funds are there now.**
- *Wouldn't health insurance coverage be a better way to go?* Those states that have addressed insurance and tried to guarantee a percent of the monthly costs are in trouble as insurance costs have jumped so fast. Our survey showed us that retirees would rather have the money than to see a portion of the margin dedicated to insurance as 30% knew they wouldn't use the PERS insurance, and 50% weren't sure if they would.**
- *Is it fair to all?* Our present way of determining increases is not fair to those most recently retired who have paid in the most. Again, I refer you to Fay's chart that shows the percent increase for each of the retiree groups. Keeping the ad hoc component allows for fairness for those who have been retired the longest, but does not give them an unfair boost at the cost of the most recently retired.**

***Does the percent increase use up more of the margin? If you look at the report from Watson-Wyatt, you will see that it uses up about the same amount. When the flat ad hoc is compared to the percent increase over the years, it is plain to see the advantage of the percent increase.***

**Thank you for your time, and again, we are so pleased to come before you with a wonderful plan that continues to honor teachers with a solid, actuarially sound plan that does a better job with fairness for all.**

## TESTIMONY ON 1102

MARCH 9, 2001

Madam Chair and members of the committee, my name is Tom Tupa and I am here representing the ND Retired Teachers Association. ND RTA is an organization of almost 2900 retired ND teachers. We are here mostly in support of HB 1102. But, RTA has a few suggestions which I will mention shortly.

ND RTA likes and strongly supports the multiplier going from 1.88 to 2.00% for all current teachers. The 2.0 multiplier has been a long term goal of the TFFR board and we encourage support for that provision of the bill.

The Retired Teachers Association also likes, and strongly supports, the ad hoc retiree adjustment of \$2 for every year a retiree spent teaching plus the \$1 adjustment for every year since retirement with a proposal of increasing the amount. This will give a nice adjustment to retirees who have spent many years dedicating their careers to teaching ND students. But, we think this can, and should be adjusted upward.

Madam Chair and members of the committee, the one part of the bill where we have a concern is the automatic percentage adjustment of .75% starting on line 23. This consumes a large part of the 6.28 margin. When the past 9 years has generated an average margin of only 1.37, we have some reservations about using approximately half of the margin for the automatic adjustment.

The RTA has always asked for benefit enhancements for its members but, the request has never been in the form of an automatic percentage increases. Our organization has historically supported ad hoc adjustments based on fund performance and available margins. We believe the flexibility of the fund based on the available margin was and is the best way to go. If you look at attachment #1, you will see that over time the adjustment for retirees has been calculated using a



variety of formulas including percentages, dollar amounts, and combinations of both. But, they reflected the fund performance and margin, and it was never suggested they be automatic. In fact in some years, 1981 and 1995 for example, the retirees went without an adjustment because of insufficient margins. You will notice that following 1995, the retirees in 1997 received only a \$30 per month increase while the multiplier for active teachers went up 20 basis points -- and I wonder if that followed the 70/30 rule. In any event, our members accepted that with the idea of making up the losses when margins improved.

There are almost 5000 retired teachers in ND. The median retired teacher benefit (where half the number is above the line and half below the line) is about \$800. In other words, almost 2500 retirees get less than \$800 per month or \$9600 per year. And, some of the early retirees were not even covered by social security, leaving them with only their teacher retirement as income. Of all the retirees, about 4000 of them fall below \$1500 per month in retirement. A .75% adjustment doesn't do much for these retirees but, the  $3.50 + 1.75$  formula would have real meaning. Attachment #2 shows the breakdown of retirees and the levels of benefits.

I want it to be very clear, Madam Chair and members of the committee, that the RTA agrees with using the money set aside for the .75% automatic adjustment. However, we would like to see the money added to the  $2 + 1$  formula or, given over to a prefunded health care plan for retired and future retired teachers. We have fought (unsuccessfully, I might add) for a plan like this for many years. Could the fund give a dollar or two a month credit for each year of service to a prefunded health plan? Or, could we go from the  $2 + 1$  to a  $3.50 + 1.75$  formula which would also help pay the cost of health insurance?

At its recent convention in Fargo, the ND RTA passed a resolution supporting the 2% multiplier, the ad hoc  $2 + 1$  formula, and a monthly credit toward health insurance premiums. Since the monthly credit toward health insurance is not likely this session, we are asking that the .75% automatic adjustment be converted to a dollar figure and redistributed to raise the  $2 + 1$  formula to a  $3.50 + 1.75$  formula for retired teachers and use the remainder for a percentage adjustment for current teachers who plan on retiring over the next 2 years -- in other words sunsetted in

2003. This will give RTA, other interest groups, and the TFFR board an opportunity to see if we can come up with an adequate plan for the distribution of future margins to both active teachers and current retirees.

Madam Chairman and members of the committee, we support HB 1102, but we encourage the committee to amend our suggestions into the bill.

Thank you and I will try to answer any questions you may have.

Gov't + Vets Affairs  
10:45 a.m.

Madam chairman, members of the committee:

My name is Dick Palmer, <sup>Edmond</sup> I'm retired and drawing an annuity from TFFR

I want to say briefly that I favor the retirement bill as it was originally written. I think the TFFR Board has studied this legislation thoroughly before they proposed it for the legislature's approval. They are the experts in handling this fund, and their decision is good enough for me.

Thank you for the chance to voice my support for the bill as originally written.

**North Dakota Teachers' Fund for Retirement**  
**Senate Variation on HB 1102**  
**As of July 1, 2000**

*Fay Kapp*

Item	Initial Valuation	Ad Hoc Benefit Improvement (\$2/month x Service, Plus \$1/month per Year Retired)	2.00% Multiplier	Combination of Ad Hoc Benefit Improvement and 2.00% Multiplier	Combination of Ad Hoc Benefit Improvement and 2.00% Multiplier, Together with 0.75% Ad Hoc Benefit Increases as of July 1, 2001 and July 1, 2002 Only
(1)	(2)	(3)	(4)	(5)	(6)
1. Normal cost	9.82%	9.82%	10.29%	10.29%	10.29%
2. Unfunded actuarial accrued liability (millions)	\$ (20.6)	\$ 12.0	\$ 28.4	\$ 61.0	\$ 69.5
3. 20-year contribution rate	1.47%	2.42%	3.36%	4.30%	4.55%
4. Margin	6.28%	5.33%	4.39%	3.45%	3.20%
5. Expected employer contribution (millions)	\$ 5.0	\$ 8.2	\$ 11.4	\$ 14.6	\$ 15.5
6. Increase in 20-year contribution rate	0.00%	0.95%	1.89%	2.83%	3.08%
7. Increase in expected employer contribution (millions)	\$ -	\$ 3.2	\$ 6.4	\$ 9.6	\$ 10.5
8. Funded ratio	101.6%	99.1%	97.9%	95.5%	95.0%
9. Funding period (years)	-	0.6	1.7	4.0	4.7