

## ND Teachers' Fund for Retirement

Legislative Employee Benefits Programs Committee  
August 21, 2007

Fay Kopp, Deputy Director/Chief Retirement Officer  
ND Retirement and Investment Office (RIO)  
ND Teachers' Fund for Retirement (TFFR)

## ND Teachers' Fund for Retirement (TFFR)

- TFFR was established in 1913 to provide retirement benefits for all ND public school teachers and administrators.
- TFFR program is managed by a 7-member board of trustees made up of 5 active and retired members appointed by the Governor and 2 state officials.

## TFFR Board Members

- Active School Teachers
  - Mike Gessner, Minot – President
  - Kim Franz, Mandan
- Active School Administrator
  - Bob Toso, Jamestown
- Retired Members
  - Clarence Corneil, Dickinson
  - Lowell Latimer, Minot – Vice President
- State Officials – Ex officio members
  - Kelly Schmidt, State Treasurer
  - Wayne Sanstead, State Superintendent

## 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.

## Investment and Funding Goals

- 1) Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.
- 2) Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.
- 3) Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.
- 4) Build a funding cushion to provide for future benefit improvements.

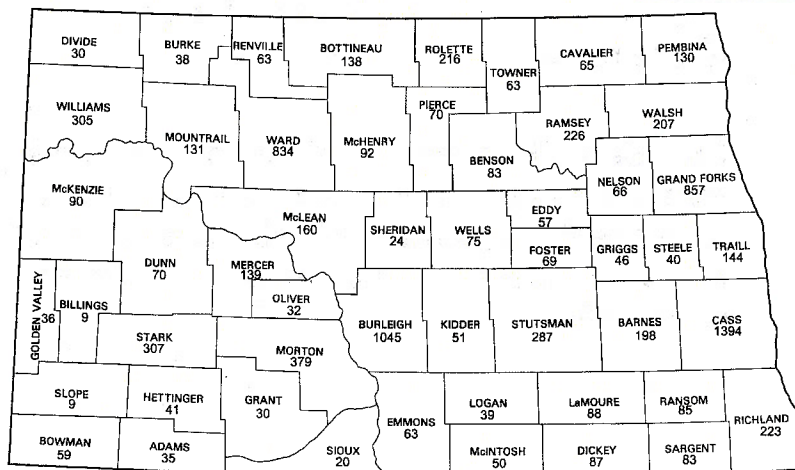
## Benefit Goals

- 1) Provide 2.0% benefit formula for all current and future retirees.
- 2) Provide ad hoc retiree benefit adjustments (fixed formula and percent based) for all current and future retirees to maintain purchasing power of retirement benefits and assist with rising health care costs.

## Service Goals

- 1) Administer accurate, prompt, and efficient pension benefits program.
- 2) Deliver high quality, friendly service to members and employers.
- 3) Provide educational outreach programs including pre-retirement seminars and individual benefits counseling sessions.

## TFFR Active Members



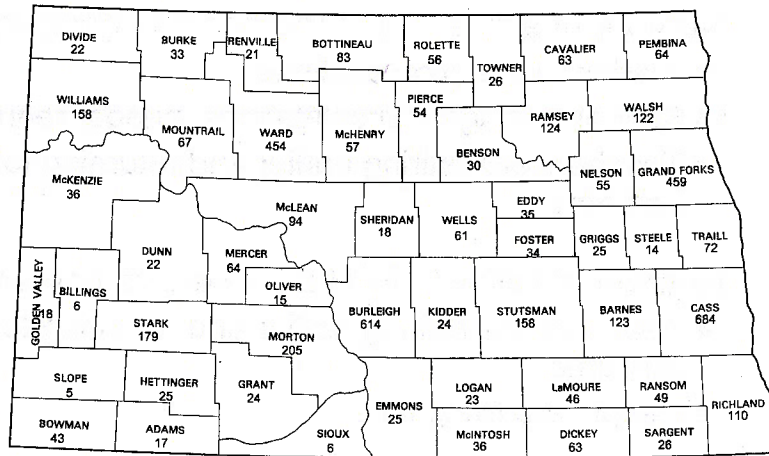
In-state 9,180  
Out-of-state 418  
Total 9,598

\*Preliminary 2007 data

7-1-07



## TFFR Retired Members



In-state 4948  
Out-of-state 1129  
Total 6077 \* Preliminary 2007 data

7-1-07

## Average Monthly TFFR Benefit by County

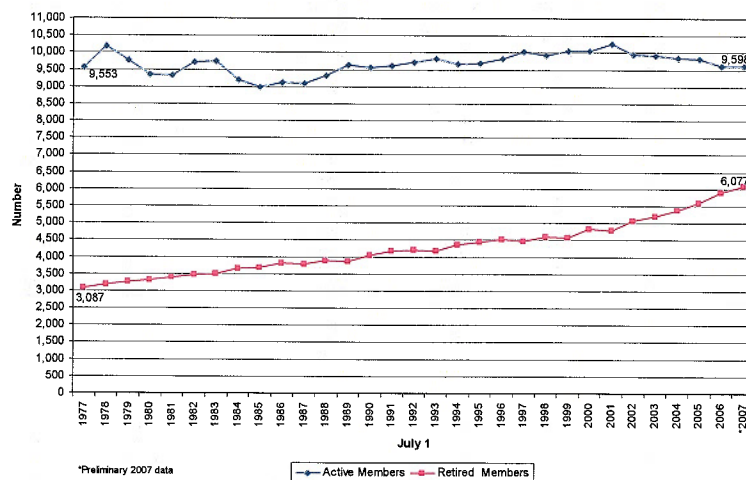
July 1, 2007

County	Ret Cnt	Avg Ben	Tot Ben	County	Ret Cnt	Avg Ben	Tot Ben
Adams	17	1,500	25,499	Mercer	64	1,570	100,502
Barnes	123	1,412	173,668	Morton	205	1,634	334,974
Benson	30	1,361	40,837	Mountrail	67	1,292	86,575
Billings	6	998	5,985	Nelson	55	1,305	71,801
Bottineau	83	1,251	103,847	Oliver	15	1,791	26,869
Bowman	43	1,547	66,534	Pembina	64	1,430	91,502
Burke	33	1,363	44,973	Pierce	54	1,480	80,451
Burleigh	614	1,580	970,218	Ramsey	124	1,406	174,385
Cass	684	1,858	1,263,771	Ransom	49	1,300	63,683
Cavaller	63	1,361	85,725	Renville	21	1,429	30,006
Dickey	63	1,081	68,115	Richland	110	1,327	145,944
Divide	22	1,856	40,830	Rolette	56	1,270	71,093
Dunn	22	1,227	27,000	Sargent	26	1,141	29,678
Eddy	35	1,217	42,587	Sheridan	18	1,196	21,519
Emmons	25	1,104	27,600	Sioux	6	793	4,780
Foster	34	1,427	48,511	Slope	5	489	2,447
Golden Valley	18	1,106	19,903	Stark	179	1,465	262,267
Grand Forks	459	1,704	781,999	Steele	14	820	11,484
Grant	24	1,014	24,336	Stutsman	158	1,349	213,127
Griggs	25	1,048	26,200	Towner	26	1,153	29,971
Hettinger	25	1,575	39,376	Traill	72	1,450	104,418
Kidder	24	1,231	29,537	Walsh	122	1,449	176,814
LaMoore	46	1,446	66,536	Ward	454	1,554	705,536
Logan	23	1,177	27,061	Wells	61	1,425	86,909
McHenry	57	1,236	70,465	Williams	158	1,449	229,015
McIntosh	36	1,510	54,364	<b>Totals</b>	<b>4,948</b>	<b>1,491</b>	<b>7,375,067</b>
McKenzie	36	1,324	47,650	Out of State	1,129	1,186	1,339,017
McLean	95	1,329	126,210	<b>Grand Totals</b>	<b>6,077</b>	<b>1,431</b>	<b>8,714,085</b>

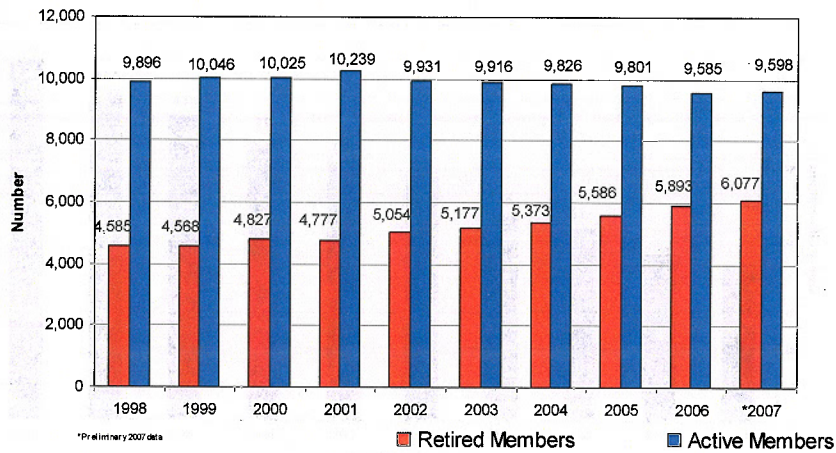
## Population Changes

- Number of active TFFR members is declining
  - Student population declines
  - School closings, consolidations, budget reductions
  - Teachers are retiring earlier and returning to teach part time
- Number of retired TFFR members is increasing
  - Teachers are retiring earlier and returning to teach part time
  - People are living longer

## Active and Retired TFFR Members 1977 - Present

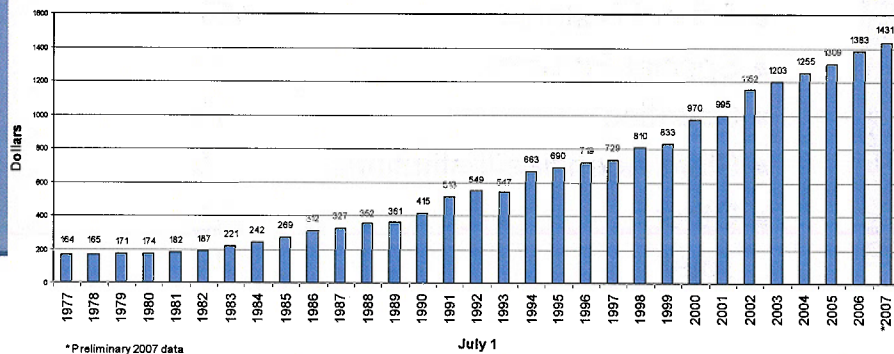


## Active and Retired TFFR Members 1998 - Present

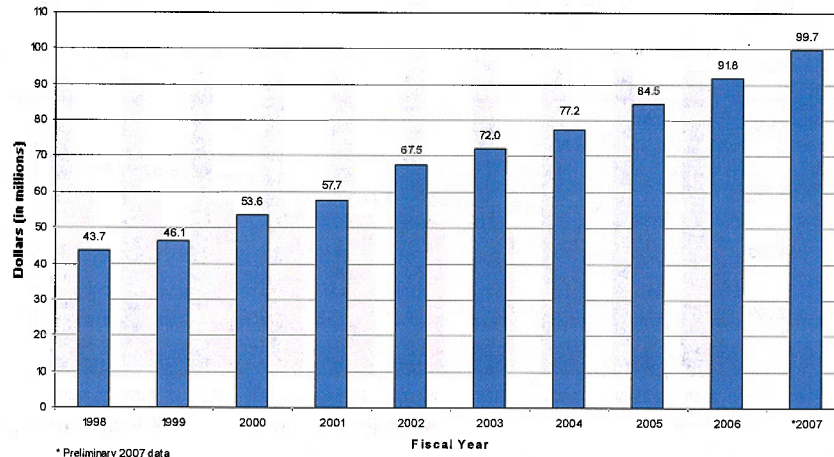


Note: Retired member counts include all retirees receiving a TFFR benefit on July 1 of each fiscal year, including new retirees who were active and retired in the same fiscal year. Active member counts include all members who were active in the current fiscal year, and did not begin receiving a TFFR benefit in the same fiscal year.

## Average Monthly TFFR Benefits 1977 - Present



## Annual TFFR Pension Benefits Paid



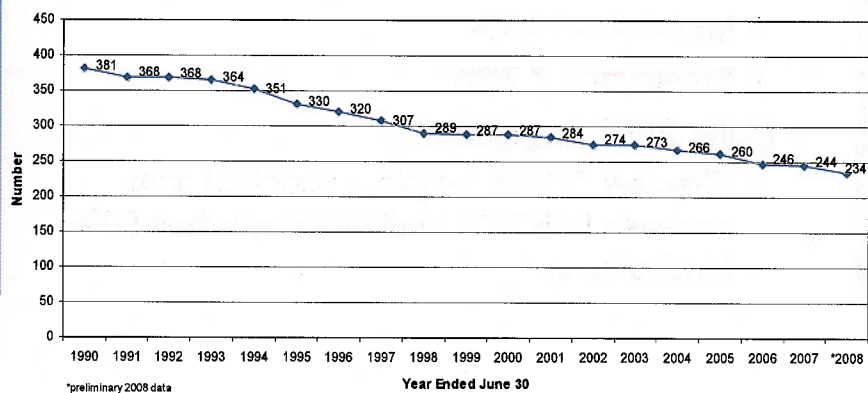
## TFFR Participating Employers

### ■ Participating Employers in 2006-07

■ School Districts	197
■ Special Ed Units	18
■ Counties	13
■ State Agencies/Institutions	5
■ Other	<u>11</u>
Total	244



## TFFR Participating Employers 1990 - Present



## TFFR Plan Summary

### ■ Mandatory Membership

- Includes teachers, special teachers, superintendents, principals, directors, and other positions required by state law.
- Licensed by Education Standards and Practices Board (ESPB)
- Contracted with participating employer to provide teaching, supervisory, administrative, or extracurricular services

### ■ Note: 2007 Legislation – Created two membership tiers

- Tier 1 – All current active, inactive and retired members who have TFFR service credit on 7-01-08.
- Tier 2 – All new members and returning refunded members employed on or after 7-01-08.

## TFFR Plan Summary

- Statutory Contribution Rates

- Member – 7.75%
- Employer – 7.75%

- Note: 2007 Legislation

- Effective 7-1-08, employer contributions increase to 8.25% until TFFR reaches 90% funded level.

## TFFR Plan Summary

- Vesting Period

- Note: 2007 Legislation – Effective 7-1-08

- Tier 1 - 3 years
- Tier 2 - 5 years

## TFFR Plan Summary

### ■ Benefits Available

- Retirement benefits
- Disability benefits
- Survivor/death benefits
- Refund/rollover of employee contributions plus 6% interest

## TFFR Plan Summary

### ■ Employee Service Credit Purchase Options

- Refunds, Air time
- Out-of-State teaching, Leave of absence
- Government agency, Nonpublic teaching
- Legislative service, Military service

### ■ Employer Service Credit Purchase Option

## TFFR Plan Summary

- Normal retirement – unreduced benefits
- Note: 2007 Legislation – Effective 7-1-08
  - Tier 1 –
    - Age 65 with 3 years
    - Rule of 85 (age + service = 85)
  - Tier 2 –
    - Age 65 with 5 years
    - Rule of 90 (age + service = 90)
- Early retirement – reduced benefits
  - Age 55 – benefit reduced 6% per year

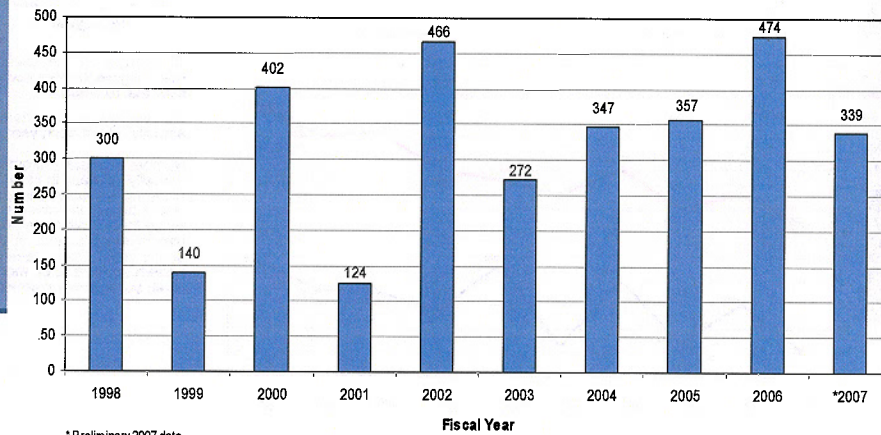
## TFFR Plan Summary

- Retirement formula:  
Final Average Salary X 2.0% X years of service  
*Example: \$3,000 X 2.0% X 30 yrs = \$1,800 per mo.*
- Note: 2007 Legislation – Effective 7-1-08
  - Tier 1 - High 3 years final average salary
  - Tier 2 - High 5 years final average salary
- Benefit options: single life annuity, 100% and 50% joint and survivor, 10 and 20 year term certain, level income with Social Security, and partial lump sum

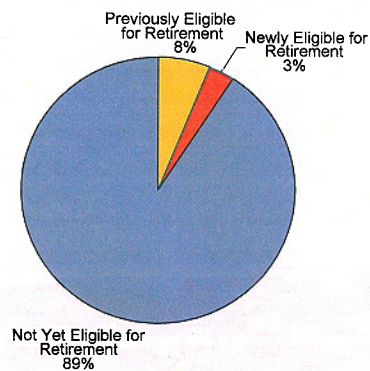


## New Service and Disability Retirees

1998 - Present



## Active Members Eligible for Retirement

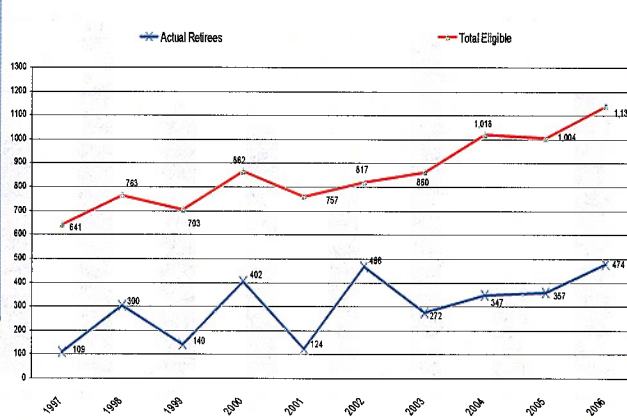


Of the 9,711 active TFFR members on 12-01-06, 1,113 members were currently eligible to retire (11%) either under the Rule of 65 or age 65 or older.

Of the 1,113 active TFFR members eligible to retire, 70% were previously eligible and 30% were newly eligible in 2006-07.

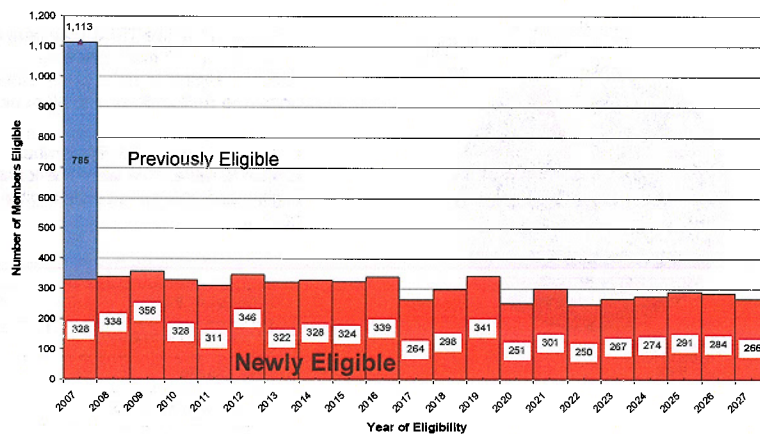
Previously Eligible	785
Newly Eligible in 2006/07	328
Not Eligible	6,598
Total (as of 12-01-06)	9,711

## Actual Retirees and Total Eligible

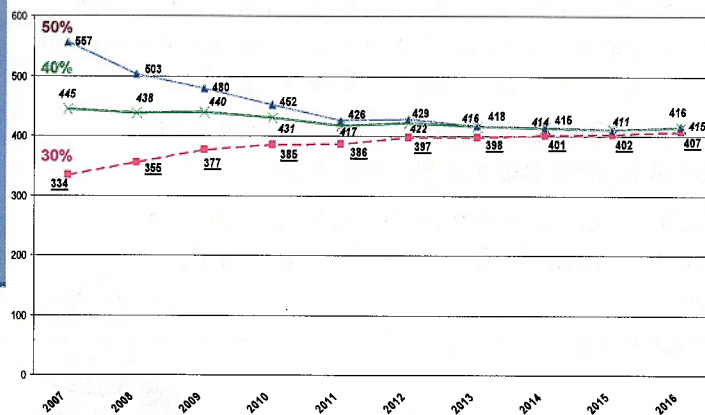


- On average, 855 teachers have been eligible to retire each year over the 10 years.
- On average, 300 teachers actually retired each year.
- Number of actual retirements typically increase in fiscal years following legislative sessions due to benefit improvements. Since there have been no benefit improvements in the past 5 years, the retirement pattern appears to be more level, but is slowly increasing.

## 2007 Active Member Retirement Eligibility Profile



## Projected Retirees All Active



Based on ratios of 30%, 40%, and 50% of actual retirements to eligible retirements, the number of active members projected to retire in the next 10 years.

## Summary Retirement Projections

	Members	# Retire		Avg/Yr	
		30%	40%	30%	40%
Teachers and Special Teachers	9,116	3,538	3,918	354	392
Superintendents	125	80	86	8	9
Other Administrators	470	224	245	22	25
<b>Total Active Members (as of 12-01-06)</b>	<b>9,711</b>	<b>3,842</b>	<b>4,249</b>	<b>384</b>	<b>426</b>

Note: All retirement projections are estimates only.

## Baby Boomers

- Based on ratios of 30% - 40% of actual retirements to eligible retirements, approximately 4,000 active teachers and administrators are projected to retire in the next 10 years (average 400 per year).
- In the past 10 years (1997-2006), about 3,000 members retired (about 300 per year).
- If 4,000 members retire in the next decade, it comprises about 1,000 more than in the past decade.
- Baby Boomers.



## Retiree Return to Work Program

### ■ General Rule

- 30 day waiting period from retirement date before re-employment.
- Part time employment – full day for one semester, part days for full year, or combination.
- Employment is limited to a maximum number of hours in a fiscal year based on length of contract
  - 9 month contract = 700 hours
  - 10 month contract = 800 hours
  - 11 month contract = 900 hours
  - 12 month contract = 1000 hours
- Non-contracted substitute teaching, extracurricular duties, and professional development do not count toward limit.
- Retiree continues receiving monthly TFFR retirement benefit



## Retiree Return to Work Program

- Critical shortage areas exception
  - 1 year waiting period if retired after 1/1/01
  - Critical shortage areas determined by ESPB
  - May exceed annual hour limit (up to full time)
  - Retiree continues receiving monthly TFFR benefit.

## Retiree Return to Work Program

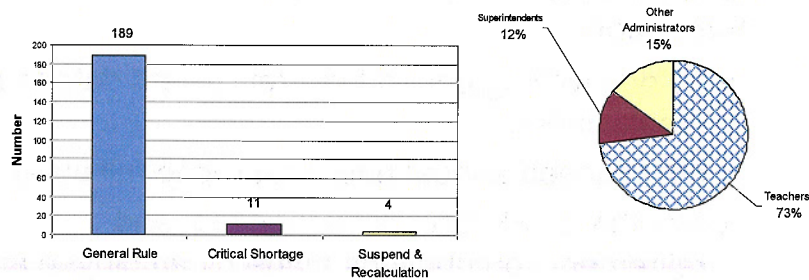
- Benefit Suspension and Recalculation Exception
  - 30 day waiting period from retirement date to re-employment.
  - May exceed annual hour limit (up to full time)
  - Monthly TFFR benefit suspended, and retirement contributions made by employee and employer.
  - Monthly TFFR benefit recalculated when retiree re-retires.

## Retiree Return to Work Program

### ■ Note: 2007 Legislation

- Effective 7/1/07, employer contributions of 7.75% required on all salary earned by re-employed retirees.
- Effective 7/1/08, employer contribution rate increases to 8.25% until TFFR reaches 90% funded level.

## TFFR Retiree Re-employment Statistics



Total 2006-07 Re-employed Retirees: 204

Average Age: 59

Average Salary: \$22,000

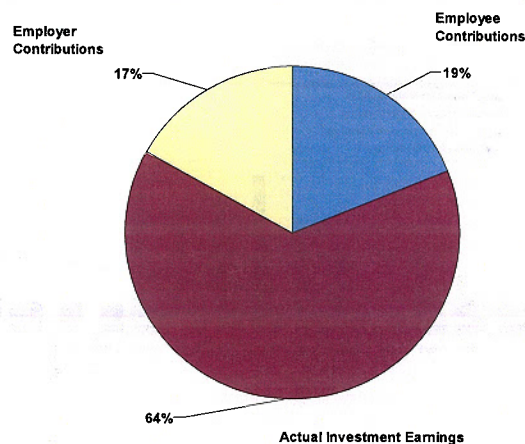
\* Preliminary 2007 data

## Benefits Funding

$$\text{Benefits} + \text{Expenses} = \text{Contributions} + \text{Investments}$$

- Nearly 2/3 of TFFR pension benefits are funded through investment earnings.
- Investments are fueled by contributions from employees and employers.
- Every additional dollar in contributions counts and is invested to grow with time.

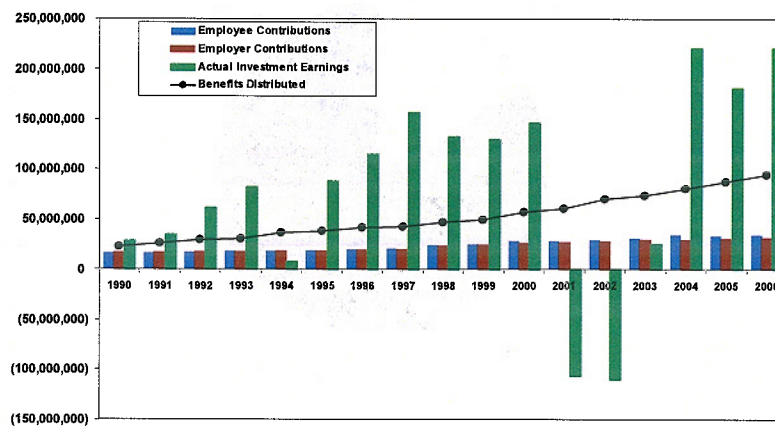
## Sources of TFFR Revenue FY 1990-2007 ~~2007~~ 2006



## Benefits Funding

- Over the past 17 years, aggregate earnings from investment income comprised nearly 64% of revenue.
- Employee contributions (including service purchases) comprised 19%.
- Employer contributions comprised 17%.
- Funding gap developed when investment earnings declined in 2001-03.

## TFFR Revenues and Distributions 1990-2006

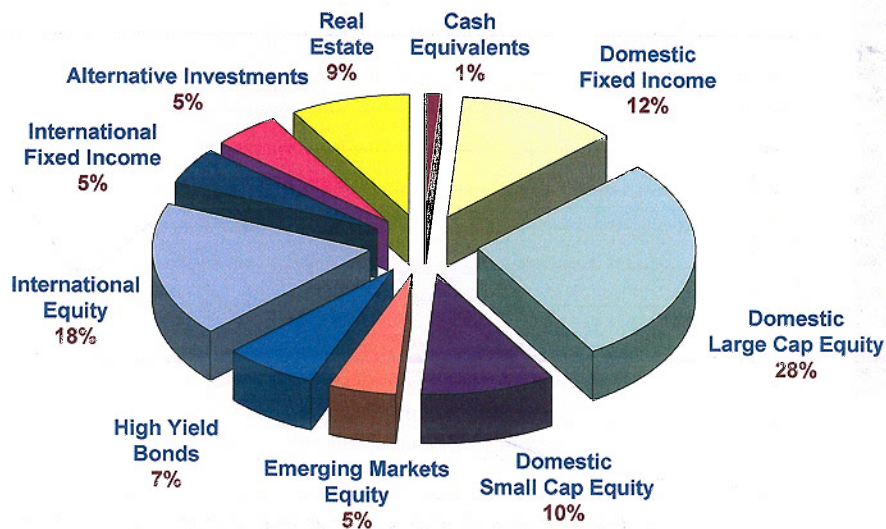




## Investments

- Asset allocation and investment policy is determined by TFFR Board
- Asset Liability Modeling (ALM) Study is conducted every five years to consider appropriate asset mix and projected rate of return for pension liabilities of TFFR, while providing a level of risk the board is comfortable with.
- Investment return assumption – 8%

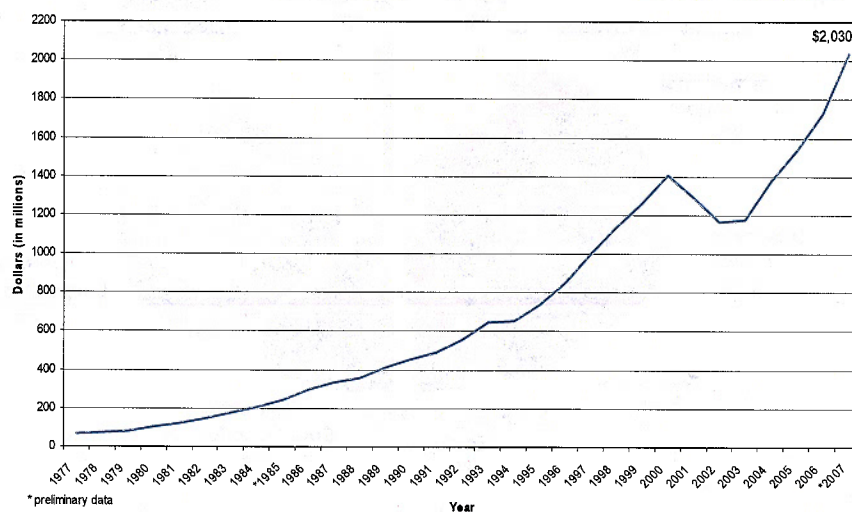
## TFFR Asset Allocation



## State Investment Board

- TFFR investment program is administered by State Investment Board.
- Steve Cochrane overview.
- Stock market declines in 2001-2003 caused TFFR's investments to decrease in value.
- Markets rebounded, and the past few years, investment performance has been exceptional.

## Market Value of TFFR Assets

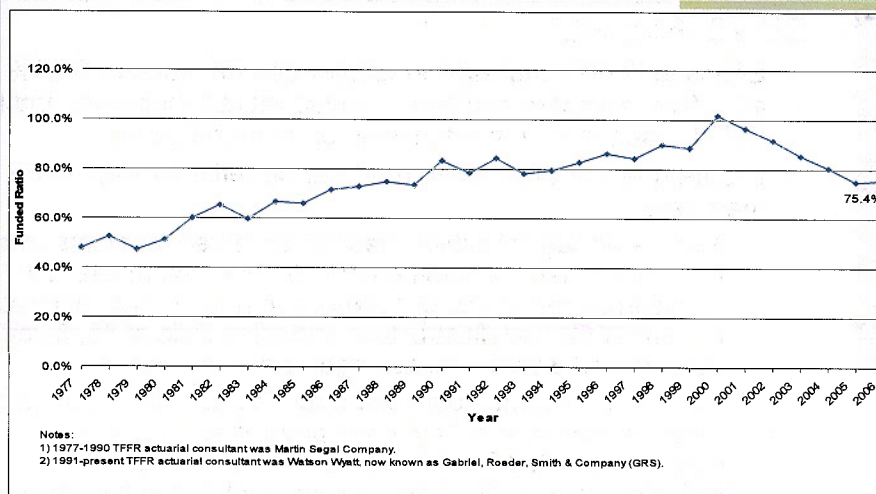


## Actuarial Studies

- Experience Study is conducted every five years to review assumptions used to determine a pension fund's liabilities and funding period. 2004-05 Experience Study recommended changes to assumptions for salary increases, mortality, termination and retirement rates.
- Actuarial valuation study is conducted annually to determine funding position and adequacy of contribution rates. 2006 valuation results showed a funded ratio of 75% (based on actuarial value) or 83% (based on market value); market value of TFFR assets was \$1.7 billion; unfunded actuarial accrued liability (UAAL) was about \$510 million; infinite funding period; and negative contribution margin of -4.54%.
- TFFR's actuarial consultant will deliver results of 2007 actuarial valuation in November.

## TFFR Funded Ratio

1977 - 2006



## 2007 Legislation Approved

### ■ HB1078

- Allows employees of the State Board of Career and Technical Education to transfer from TFFR to PERS.

### ■ SB 2046

- Effective 7/1/07, require employer contributions of 7.75% on re-employed retired members

## 2007 Legislation Approved

### ■ SB 2046 (cont.)

- Effective 7/1/08, increase employer contributions to 8.25% on all active members and re-employed retired members, until TFFR reaches 90% funded level on actuarial basis.
- Create new tier of reduced member benefits for new TFFR members.
  - Tier 1 – all current active, inactive, or retired members who have TFFR service credit on 7/1/08. Tier 1 members will maintain current member contribution rate (7.75%) and retain current TFFR benefit structure, including Rule of 85, 3 year vesting, and 3 year final average salary calculation.
  - Tier 2 – all new members and returning refunded members employed on or after 7/1/08 will pay current member contribution rate (7.75%) and receive reduced benefits, including Rule of 90, 5 year vesting, and 5 year final average salary calculation.



## Summary

- Public pension defined benefit plans are designed to accumulate the funding needed to pay liabilities over a very long period of time.
- Long term assumptions are made for economic factors, including investment earnings, recognizing that there may be extended periods of time during which market gains will either exceed or fall short of those assumptions.

## Summary

- By using reasonable actuarial assumptions, diversifying portfolios, and pooling experience, public retirement systems work to maintain stable contribution rates and accumulate the assets needed to fund member benefits over the long term.
- The Experience Study and ALM Study conducted in 2005 helped the Board conclude that it was unlikely TFFR could rely on investment performance alone to return to pre-2000 funding levels.

## Summary

- The TFFR Board proposed 2007 legislation designed to enhance revenues and control future liabilities.
- When the legislation was passed, projections indicated that if actuarial and investment assumptions are met (including the 8% investment return assumption), TFFR should reach 90% funded status in about 25 years. However, if investment returns are greater than 8% over the long term, TFFR should reach the 90% goal sooner. (Projections based on 2007 returns should shorten time considerably.)

## Summary

- Benefit and contribution changes approved by the 2007 Legislature, along with future positive investment returns, should improve TFFR's overall financial health over the long term without impairing legally protected contractual pension benefits for current active, inactive, and retired teachers, and administrators.
- Changes to pension policy take many years to be fully realized.