

September 17, 2010

Rep. Bette Grande, Chairman
Employee Benefits Programs Committee
c/o Jeff Nelson
ND Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: Technical Comments on Bill 40 (Tier 3 with 1.88% Multiplier)

Dear Rep. Grande:

As requested, we have reviewed Bill 40 (Bill 10040.0100). This bill would create a third membership tier for the Teachers' Fund for Retirement (TFFR) with lower benefits.

Provisions of Bill

Members hired on or after July 1, 2011 would belong to this third tier. They would receive benefits similar to those provided to Tier 2 members, but the multiplier used in their benefit formula would be 1.88% rather than 2.00%. A Tier 3 member who retires from TFFR would receive a benefit 6% smaller than a Tier 2 member.

As a reminder, Tier 1 members are those members who joined TFFR before July 1, 2008, and Tier 2 members are those who joined TFFR on or after that date. Both Tier 1 and Tier 2 members who are eligible for retirement receive a benefit equal to 2.00% of their final average salary for each year of service. For Tier 1 members, the final average salary is a three-year average, while for Tier 2 members it is a five-year average. Tier 1 members are eligible for unreduced retirement after reaching the Rule of 85 (age in years plus years of service equals 85), while Tier 2 members are eligible upon reaching the Rule of 90. Both Tier 1 and Tier 2 members are eligible for unreduced retirement at age 65 if they are vested. Tier 1 and Tier 2 members who are not eligible for an unreduced retirement benefit may take an early (reduced) retirement benefit if they are age 55 and vested. The current reduction is 6% for each year the retirement precedes the earlier of age 65 or attainment of the Rule of 85 (Tier 1) or Rule of 90 (Tier 2). Vesting requires three years of service for a Tier 1 member; five years of service for a Tier 2 member.

Except for the 1.88% formula multiplier, Tier 3 members would have the same benefit provisions as Tier 2 members: a five-year Final Average Salary, unreduced retirement eligibility at the Rule of 90, and five-year vesting.

Member and employer contributions are not changed by the bill.

Under the bill, a Tier 1 or Tier 2 member who terminated service, took a refund, and later rejoined TFFR on or after July 1, 2011 would become a Tier 3 member upon reemployment.

Actuarial Analysis

The actuarial analysis will be prepared following completion of the July 1, 2010 actuarial valuation, and will be provided to the committee before its October meeting.

Technical Comments

We have not identified any legal, regulatory or compliance issues raised by the bill. We are not aware of any conflicts between federal pension law and the bill.

Adding a third tier does add to the costs and complications of administration and makes communications with members more cumbersome. Schools could have members under four different sets of benefits:

- Tier 1 TFFR members (members joining before July 1, 2008)
- Tier 2 TFFR members (members joining on or after July 1, 2008)
- Tier 3 TFFR members (proposed: members joining on or after July 1, 2011)
- Noncertified support personnel covered under some other plan, in most cases the Public Employees Retirement System

This could make negotiations between the districts and member groups more involved.

General Comments

No statement in this letter is intended to be interpreted as a recommendation in favor of the change or in opposition to it.

In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used. This is especially relevant, since Both Bills 39 and 40 would create a new Tier 3, but Bill 40 provides for a 1.88% multiplier, while Bill 39 provides for modified retirement eligibility. If both bills pass, the total savings will be slightly less than the sum of the savings shown in the separate analyses.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Rep. Bette Grande, Chairman

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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

A handwritten signature in black ink, reading "J. Christian Conradi". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

J. Christian Conradi
Senior Consultant

cc: Ms. Fay Kopp, Deputy Executive Director, ND Retirement and Investment Office

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