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April 24, 2009

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

Re: Actuarial Analysis: Amendments to SB 2277 – 13th Check

Dear Rep. Grande:

On March 12, 2009 we provided you with our analysis of version 90109.0400 of SB 2277, a bill that would provide for a special one-time payment to annuitants of the Teachers' Fund for Retirement (TFFR). Yesterday, Fay Kopp, Deputy Executive Director, North Dakota Retirement & Investment Office, asked us to analyze the actuarial impact of four possible amendments related to this bill. Since the legislative session is nearing adjournment, we understand that you need a very quick response, so we have combined our comments on the four amendments into a single letter.

Proposed Amendments

In our March 12th letter, we observed that bill 90109.0400 did not specify a funding source for the one-time payment, but it was our understanding that funding was to come from the State's general fund, and that it was to be included in a separate piece of legislation. We now understand that this is unlikely to occur, and our analysis should assume that there will not be any transfer to TFFR from the State.

None of the amendments change how the one-time supplemental payment is determined, so the amount of the payment for any individual is calculated as described in our March 12th letter. None of the amendments change the December 2009 payment date.

We have discussed the amendments in terms of how they compare to 90109.0400.

90109.0404: This proposed amendment makes no changes to 90109.0400 except to clarify that the payment will be made from TFFR, with no additional funding. The group of annuitants eligible to receive the supplemental payment is unchanged from 90109.0400, and would include all annuitants retired before January 1, 2009. Therefore, the total payment will be about $5.4 million, as shown in the March 12th letter.

90109.0405: Like 90109.0404, this amendment would have the one-time payment made from TFFR assets, with no additional funding from general revenue. However, this amendment restricts the class of annuitants eligible to receive the payment to members who retired before July 1, 2001, i.e., before the 2.00% multiplier was enacted. This reduces the amount of the one-time payment to $3.4 million.

90109.0407: This amendment, like the others, says that TFFR will make the supplemental payments to annuitants from its own assets. It does not make the change in eligibility proposed in 90109.0405, so it provides for supplemental payments to all annuitants who retired before January 1, 2009, and the amount of the payments would be $5.4 million. It also increases the employer contribution rate for TFFR from 8.25% to 8.35%, effective July 1, 2010. The 0.10% increase in the employer contribution rate would only apply until TFFR reached a 90% funded ratio based on the actuarial value of assets. That is, this contribution rate increase would automatically expire ("sunset") in the same way that the 0.50% increase that became effective on July 1, 2008 is scheduled to sunset.

98022.0204: Note that this is actually an amendment to HB 1022, rather than SB 2277, but it touches on the same issues as 90109.0407. Our discussion assumes that this amendment is enacted in conjunction with 90109.0404, providing the supplemental payments to all annuitants who retired before January 1, 2009, and so providing for a total of $5.4 million in payments. This amendment is identical to 90109.0407, except that it provides for an 8.75% employer contribution rate, i.e., a 0.50% increase. Like 90109.0407, this amendment would be effective July 1, 2010, and the 0.50% increase would be subject to the same sunset provisions.

Analysis

The attached table shows the actuarial results for each of the four amendments. The results assume only that amendment and none of the others is adopted, except that we have assumed that if 98022.0204 is adopted, it will be in conjunction with 90109.0404.

With no funding coming from the general fund, the unfunded actuarial accrued liability (UAAL) will increase by the amount of the payments. The annual required contribution (ARC) shown as item 4. is the target contribution rate (employer normal cost plus a 30-year amortization of the UAAL). This is disclosed in the fund's Comprehensive Annual Financial Report. The dollar amount of the increased contribution that is required by statute, shown in item 5.c., is based on our projection of a $454.0 payroll for FY 2011. The funding period is the calculated number of years needed to amortize the UAAL based on the current contribution rate in the absence of future gains or losses or other changes.

The information shown on the attached table does not reflect the investment losses that have occurred so far during the current fiscal year. As you are aware, the financial markets have seen very large drops in value over the last seven or eight months, and it is likely that TFFR's funded ratio, computed using the market value of assets rather than the actuarial value, will fall to close to 50% as of July 1, 2009. Legislators considering these amendments should be mindful that, barring a large and fast recovery, which most observers consider very unlikely, passage of an unfunded benefit increase, albeit a relatively small one, would be coming at a time of great stress for TFFR. It is virtually certain that TFFR will be asking the legislature to approve some combination of benefit changes and/or contribution increases during the 2011 session, even if 98022.0204 is enacted.

Based on recent projections taking into account losses for the current fiscal year, we believe it is unlikely that the increased contribution rates under 90109.0407 or 98022.0204 would sunset anytime within the next 20-30 years. These projections reflect current contribution and benefit provisions, so do not reflect other actions that future legislatures may take in response to the recent market losses.

Other Comments

Our analyses were prepared using the same member and financial data and the same actuarial methods and assumptions that were used in preparing the July 1, 2008 actuarial valuation and the March 12th letter. The technical comments and the comments about the rollover issue made in the March 12th letter continue to apply.

We are not attorneys, and nothing in this letter should be construed as providing legal, tax, or investment advice. No statement in this letter is intended to be interpreted as a recommendation in favor of the change or in opposition to them. Please feel free to call if you have any questions about this information.

Sincerely,

J. Christian Conradi

J. Christian Conradi
Senior Consultant

Enclosure

cc: Ms. Fay Kopp, Deputy Executive Director, North Dakota Retirement & Investment Office

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North Dakota Teachers' Fund for Retirement

Actuarial Impact: Amendments to SB 2277 and HB 1022

Item	July 1, 2008 Valuation	90109.0405	90109.0404	90109.0407	98022.0204
1. Total of one-time supplemental payments (millions)	$ -	$ 3.4	$ 5.4	$ 5.4	$ 5.4
2. UAAL (millions)	$ 421.2	$ 424.6	$ 426.6	$ 426.6	$ 426.6
3. Funded ratio (using actuarial assets)	81.9%	81.8%	81.7%	81.7%	81.7%
4. Annual required contribution (ARC)					
a. Contribution rate	9.24%	9.29%	9.33%	9.33%	9.33%
b. Increase	0.00%	0.05%	0.09%	0.09%	0.09%
5. Statutory contribution rate					
a. Contribution rate	8.25%	8.25%	8.25%	8.35%	8.75%
b. Increase in rate	0.00%	0.00%	0.00%	0.10%	0.50%
c. Estimated FY 2011 contributions	$ 37.5	$ 37.5	$ 37.5	$ 37.9	$ 39.7
d. Increase in FY 2011 contributions	$ -	$ -	$ -	$ 0.4	$ 2.2
6. Margin					
a. Margin (5.a. - 4.a.)	-0.99%	-1.04%	-1.08%	-0.98%	-0.58%
b. Increase/(decrease)	0.00%	-0.05%	-0.09%	0.01%	0.41%
7. Funding period					
a. Period in years	57.0	60.9	63.7	55.1	39.6
b. Increase/(decrease)	-	3.9	6.7	(1.9)	(17.4)