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April 29, 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:

This is a follow up to our earlier letters dated March 12, 2009 and April 24, 2009.

This morning, Fay Kopp, Deputy Executive Director, North Dakota Retirement & Investment Office, asked us to prepare analyses of three possible amendments to SB 2277. SB 2277 is a bill that would provide for a special one-time payment to annuitants of the Teachers' Fund for Retirement (TFFR). We understand that the amendments are currently being drafted, so we have not reviewed them; we have relied on Ms. Kopp's description of the proposals.

Proposed Amendments

Under each of these three proposals, each annuitant—retiree, disabled retiree, or beneficiary receiving a benefit—who retired before January 1, 2009 and who is still receiving benefits as of December 1, 2009, would receive a special one-time payment. (Some prior proposed amendments would have limited the class of eligible annuitants to just those retired before July 1, 2001, but that is not true of any of these amendments.) In each case, the payment would be structured as:

- \$m times the member's years of service, and
- \$n times the number of years the member has been retired

The amount of the one-time payment is limited to no more than 10% of the member's annual retirement benefit or \$750.00, whichever is larger. This payment would be made in December 2009.

When SB 2277 was introduced, \$m was \$24.00 and \$n was \$18.00. The three possible amendments change \$m and \$n, respectively, to (a) \$20.00 and \$15.00, (b) \$18.00 and \$14.00, and \$16.00 and \$12.00. Call these, respectively, Proposal \$20/\$15, Proposal \$18/\$14, and Proposal \$16/\$12.

TFFR would not receive any money from the State's general fund to pay for the one-time payment. However, each of the proposed amendments would incorporate the language in 98022.0204, an amendment to HB 1022, which would increase the employer contribution rate by 0.50%, from 8.25% to 8.75%, effective July 1, 2010. The 0.50% increase in the employer contribution rate would

only apply until TFFR reaches 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.

Analysis

Proposal \$20/\$15 reduces the amount of the one-time payment from \$5.4 million (under 90109.0400) to \$4.6 million. The average one-time payment under this version of the bill decreases from \$846 to \$723. Of the annuitants eligible, 704 would have their benefit limited by the maximum (\$750.00 or 10% of the annual annuity).

Proposal \$18/\$14 reduces the amount of the one-time payment to \$4.2 million. The average one-time payment under this version is \$663, and 553 members would have their payment limited.

Proposal \$16/\$12 reduces the amount of the one-time payment to \$3.7 million. The average one-time payment under this version is \$591, and 327 members would have their payment limited.

With regard to Proposal \$18/\$14, we should note that this did not come directly from Ms. Kopp. She asked us to find a formula which would produce a payment total of about \$4.2 million keeping \$m and \$n as whole dollar amounts and keeping \$m and \$n in roughly a 4:3 ratio. \$18.00 and \$14.00 were our solution. She also asked us to determine a formula that would produce a payment total of about \$3.75 million with the same constraints on \$m and \$n, but \$16.00 and \$12.00 fit the requirements.

The attached exhibit shows the impact of the one-time payment on TFFR when coupled with the 0.50% increase in the employer contribution rate. (In addition to the three amendments, we have also shown for reference the results from our April 24th letter combining the provisions in 90109.0404 related to the formula and 98022.0204 related to the employer contribution rate. 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 million 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

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changes and/or contribution increases during the 2011 session, even if the additional .50% increase in the employer contribution rate is enacted.

Based on recent projections taking into account losses for the current fiscal year, we believe it is unlikely that the increased 0.50% contribution rate 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 and April 24th 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
Senior Consultant

Enclosure

cc: Ms. Fay Kopp, Deputy Executive Director, North Dakota Retirement & Investment Office
j:\2039\2008\LEG\Bill 109 (One Time Retiree Payment)\SB2277Amend042909.doc

North Dakota Teachers' Fund for Retirement

Actuarial Impact: Additional Amendments Related to SB 2277

Item	July 1, 2008 Valuation	90109.0404 + 98022.0204	Proposal \$20/\$15	Proposal \$18/\$14	Proposal \$16/\$12
Multiplier per Years of Service	-	\$24	\$20	\$18	\$16
Multiplier per Years Retired	-	\$18	\$15	\$14	\$12
1. Total of one-time supplemental payments (millions)	\$ -	\$ 5.4	\$ 4.6	\$ 4.2	\$ 3.7
2. UAAL (millions)	\$ 421.2	\$ 426.6	\$ 425.8	\$ 425.4	\$ 424.9
3. Funded ratio (using actuarial assets)	81.9%	81.7%	81.8%	81.8%	81.8%
4. Annual required contribution (ARC)					
a. Contribution rate	9.24%	9.33%	9.31%	9.31%	9.30%
b. Increase	0.00%	0.09%	0.07%	0.07%	0.06%
5. Statutory contribution rate					
a. Contribution rate	8.25%	8.75%	8.75%	8.75%	8.75%
b. Increase in rate	0.00%	0.50%	0.50%	0.50%	0.50%
c. Estimated FY 2011 contributions	\$ 37.5	\$ 39.7	\$ 39.7	\$ 39.7	\$ 39.7
d. Increase in FY 2011 contributions	\$ -	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2
6. Margin					
a. Margin (5.a. - 4.a.)	-0.99%	-0.58%	-0.56%	-0.56%	-0.55%
b. Increase/(decrease)	0.00%	0.41%	0.43%	0.43%	0.44%
7. Funding period					
a. Period in years	57.0	39.6	39.3	39.1	39.0
b. Increase/(decrease)	-	(17.4)	(17.7)	(17.9)	(18.0)