

ND Teachers' Fund for Retirement (TFFR) Program Overview

Fay Kopp
Deputy Director - Retirement Officer
NDRIO – TFFR

August 6, 2009

ND TFFR Background

- TFFR was established in 1913 to provide retirement benefits for all ND public school teachers and administrators.
- State statutes govern plan - NDCC 15-39.1
- 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 of Trustees



TFFR Board of Trustees

- 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.

TFFR Plan Summary

Membership

- **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 7/1/08.
 - Tier 2 – All new members and returning refunded members employed on or after 7/1/08.

Contribution Rates

- **Current Statutory Contribution Rates**
 - Member – 7.75%
 - Employer – 8.25%
- **Note: 2007 and 2009 Legislation**
 - Effec. 7/1/08 employer contribution rate - 8.25%
 - Effec. 7/1/10 employer contribution rate - 8.75%

Vesting Period

- Minimum service required to be eligible to receive retirement benefit at eligibility date.
- Note: 2007 Legislation – Eff. 7/1/08
 - Tier 1 – 3 years
 - Tier 2 – 5 years

Benefits Available

- Retirement Benefits
- Disability Benefits
- Survivor/Death Benefits
- Refund/Rollover of employee contributions plus interest

Retirement Benefit Eligibility

- **Unreduced benefits**
 - **Tier 1:**
 - Normal - Age 65 with 3 years, OR
 - Early - Rule of 85 (age + service = 85+)
 - **Tier 2:**
 - Normal - Age 65 with 5 years, OR
 - Early - Rule of 90 (age + service = 90+)
- **Reduced benefits**
 - **Tier 1**
 - Age 55, benefits reduced 6% year from Rule of 85 or age 65
 - **Tier 2**
 - Age 55, benefits reduced 6% year from Rule of 90 or age 65

Retirement Formula

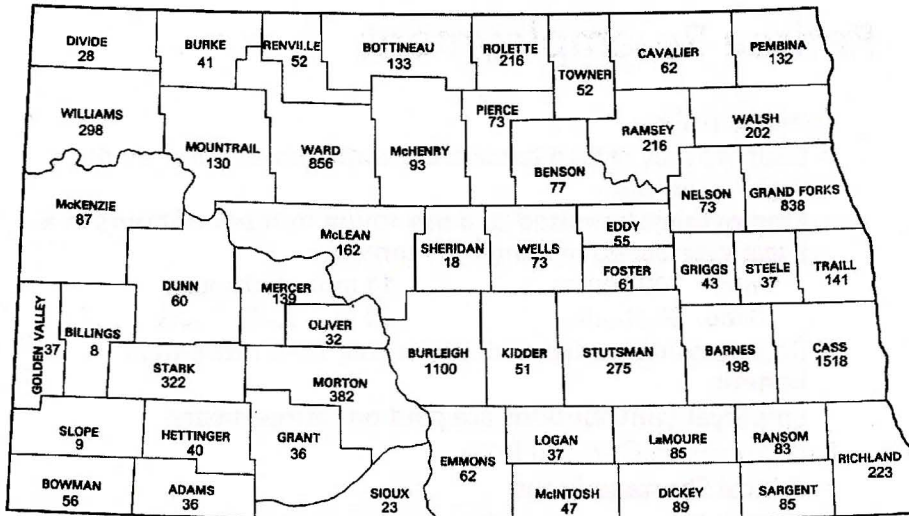
- **Final Average Salary X 2.0% X years of service credit**
 - **Example:** \$3,000 X 2.0% X 30 years = \$1,800 per mo.
- **Note:** 2007 Legislation – Eff. 7/1/08
 - **Tier 1** – High 3 years final average salary
 - **Tier 2** – High 5 years final average salary
- **Benefit Options:** single life annuity,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

Retiree Re-employment

- **General Rule**
 - Retirees may return to covered employment after 30 day waiting period.
 - Employment is limited to a maximum number of hours in a fiscal year based on length of contract:
 - 9 mo. 700 hours 11 mo. 900 hours
 - 10 mo. 800 hours 12 mo. 1,000 hours
 - Retiree continues receiving monthly TFFR retirement benefit.
 - Employer contributions are paid on retiree salary.
- **Exceptions to General Rule**
 - Critical Shortage Areas
 - Benefit Suspension and Benefit Recalculation

TFFR Statistics

TFFR Active Members

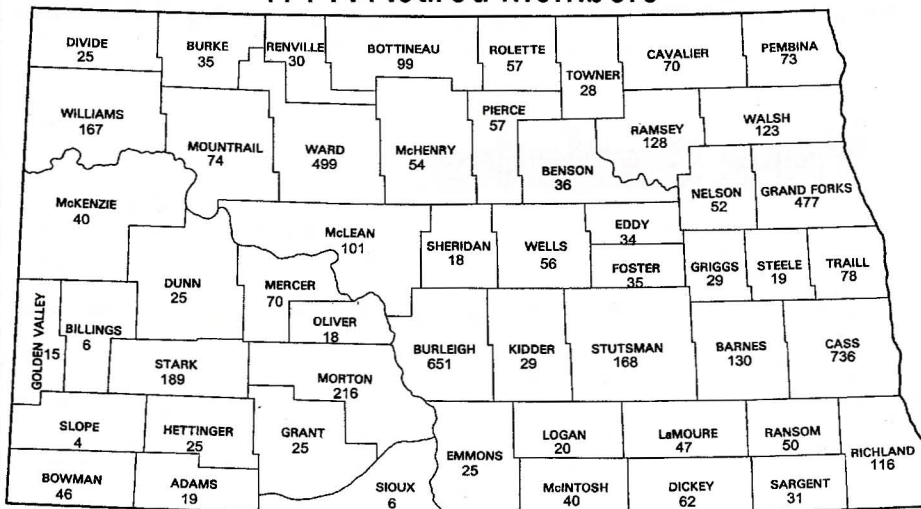


In-state 9,282
Out-of-state 420
Total 9,702

Tier 1 8,996
Tier 2 706
Total 9,702

*Preliminary 2009 data

TFFR Retired Members

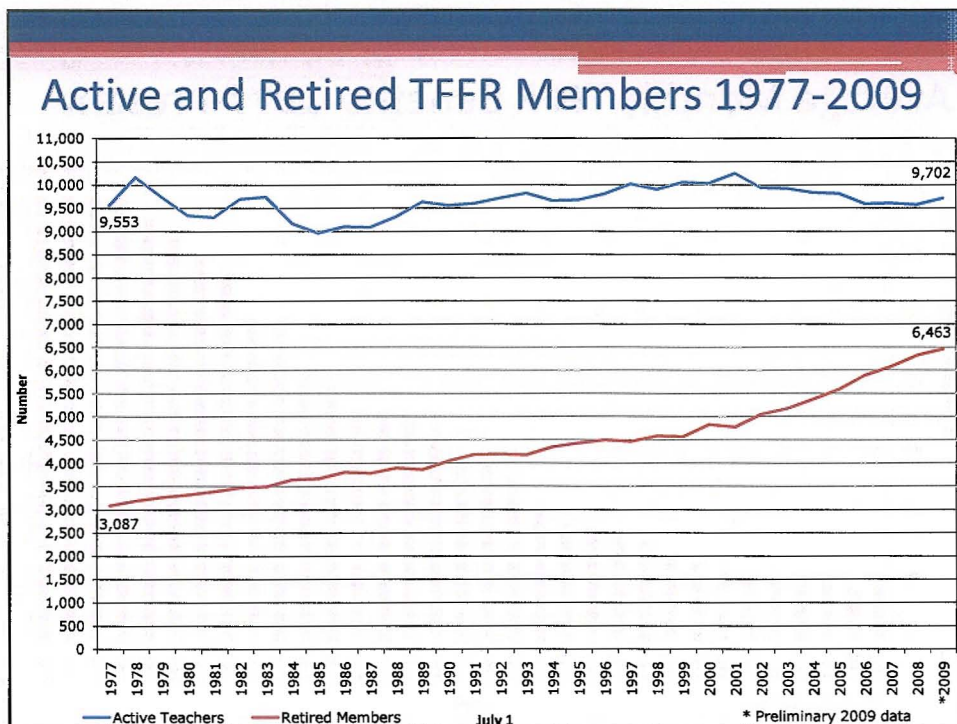


In-state 5,263
Out-of-state 1,200
Total 6,463

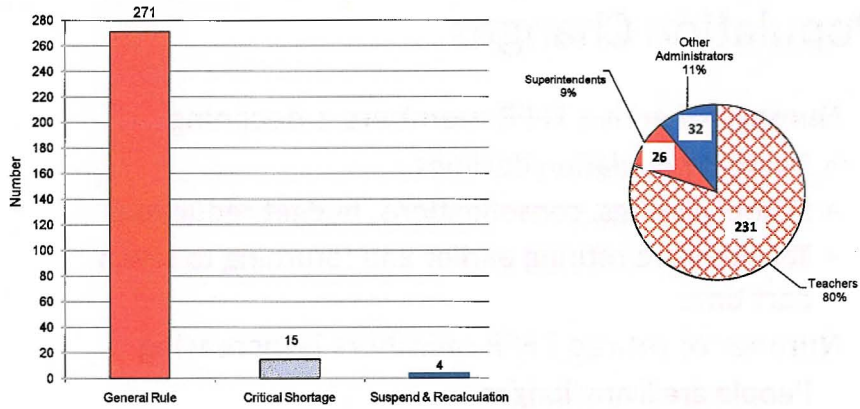
*Preliminary 2009 data

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
 - People are living longer
 - Teachers are retiring earlier and returning to teach part time



TFFR Retiree Re-employment Statistics



Re-employed TFFR Retirees: 289

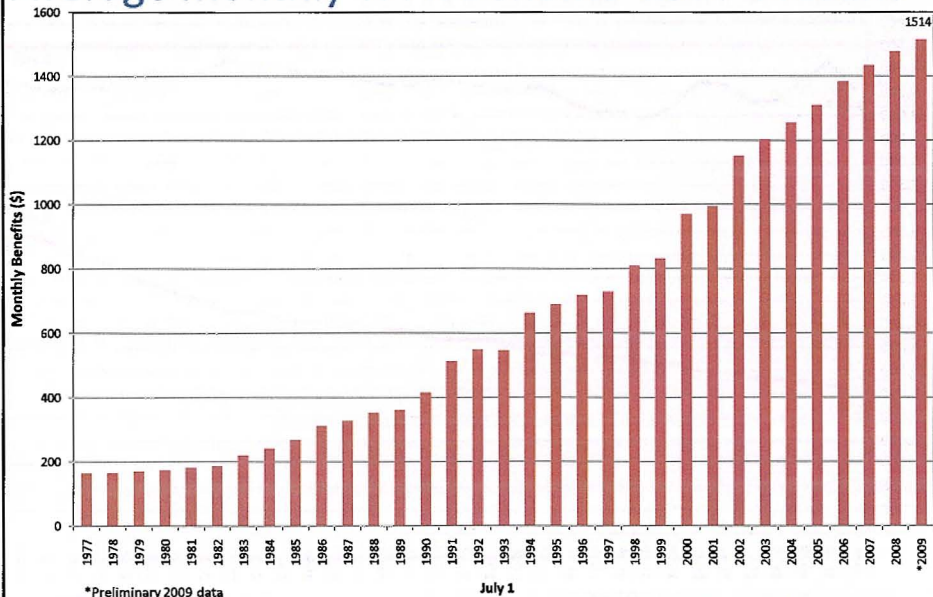
Average Age: 60

Average Salary: \$22,000

Employers of TFFR Retirees: 130

*Preliminary 2009 data

Average Monthly TFFR Benefits 1977-Present



*Preliminary 2009 data

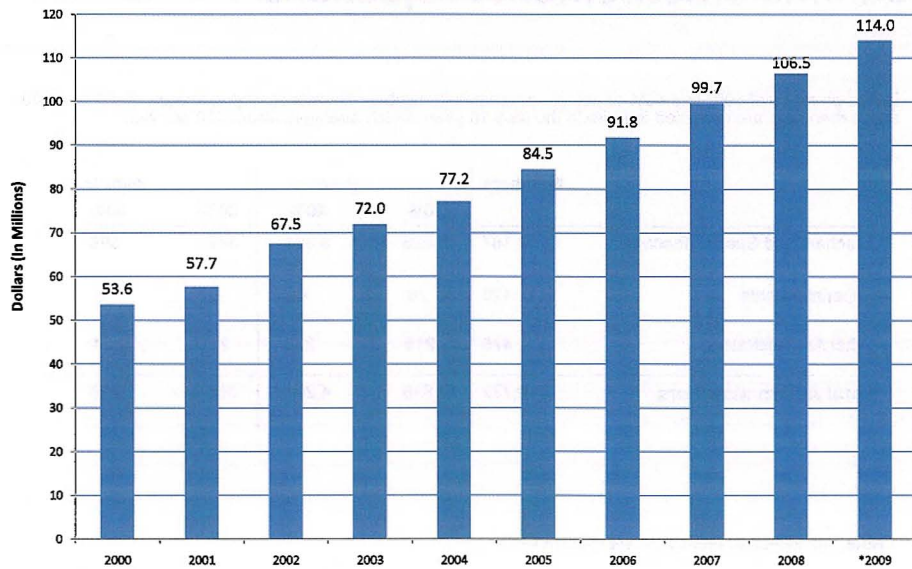
July 1

Average Monthly TFFR Benefits by County

County	Ret Cnt	Avg Ben	Tot Ben	County	Ret Cnt	Avg Ben	Tot Ben
Adams	19	1,448	27,512	Mercer	70	1,658	116,040
Barnes	130	1,536	199,742	Morton	216	1,702	367,634
Benson	36	1,630	58,695	Mountrail	74	1,336	98,864
Billings	6	1,038	6,230	Nelson	52	1,355	70,459
Bottineau	99	1,415	140,113	Oliver	18	1,798	32,360
Bowman	46	1,551	71,337	Pembina	73	1,602	116,970
Burke	35	1,396	48,843	Pierce	57	1,501	85,537
Burleigh	851	1,629	1,060,423	Ramsey	128	1,416	181,225
Cass	738	1,735	1,277,069	Ransom	50	1,402	70,105
Cavaller	70	1,361	95,286	Renville	30	1,560	46,813
Dickey	62	1,110	68,823	Richland	116	1,569	182,047
Divide	25	1,840	45,969	Rolette	57	1,363	77,897
Dunn	25	1,540	38,495	Sargent	31	1,191	36,935
Eddy	34	1,288	43,801	Sheridan	18	1,286	23,155
Emmons	25	1,347	33,668	Sioux	6	793	4,759
Foster	35	1,505	52,666	Slope	4	722	2,888
Golden Valley	15	1,286	19,284	Stark	189	1,534	289,961
Grand Forks	477	1,829	872,433	Steele	19	1,218	23,139
Grant	25	1,101	27,516	Stutsman	168	1,482	248,948
Griggs	29	1,100	31,897	Towner	28	1,353	37,882
Hettinger	25	1,680	42,009	Trail	78	1,470	114,632
Judd	29	1,293	37,489	Walsh	123	1,518	186,765
LaMoure	47	1,437	67,519	Ward	499	1,626	811,228
Logan	20	1,432	28,639	Wells	56	1,474	82,523
McHenry	54	1,223	66,051	Williams	167	1,508	251,789
McIntosh	40	1,541	61,628	Totals	5,283	1,576	8,284,821
McKenzie	40	1,805	64,188	Out of State	1,200	1,242	1,490,860
McLean	101	1,455	146,941	Grand Totals	6,483	1,614	9,785,681

*Preliminary 2009 data

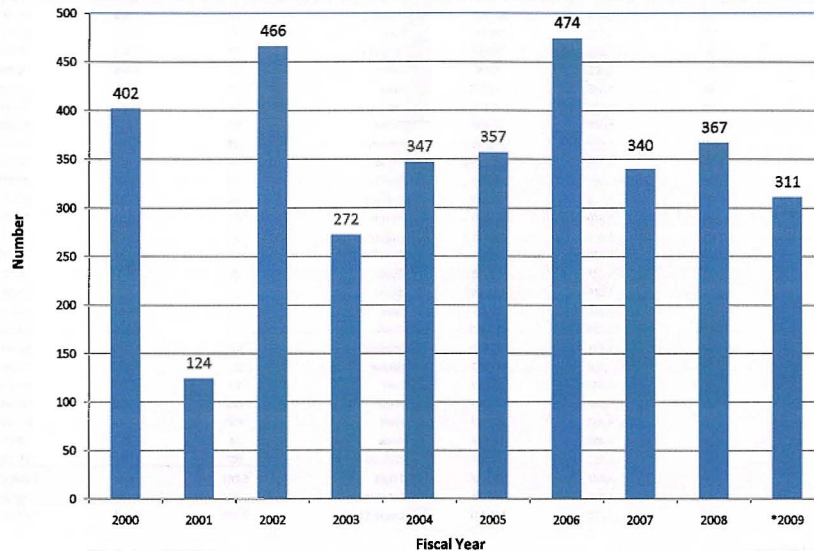
Annual TFFR Pension Benefits Paid



*Preliminary 2009 Data

Fiscal Year

New Service and Disability Retirees



Summary Retirement Projections

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,800 to 4,200 active members are projected to retire in the next 10 years which averages about 400 per year.

	Members	# Retire		Avg/Yr	
		30%	40%	30%	40%
Teachers and Special Teachers	9,167	3,523	3,884	352	388
Superintendents	126	78	84	8	8
Other Administrators	479	215	236	22	24
Total Active Members	9,772	3,816	4,204	382	420

Note: All retirement projections are estimates only.

TFFR Participating Employers 2008-09

▫ School Districts	184
▫ Special Ed Units	19
▫ Counties	11
▫ State Agencies/Institutions	4
▫ Other	<u>13</u>
2008-09 TOTAL	231

2009 Legislation

SB 2277 and HB 1022

- Provides one-time supplemental retiree payment.
 - All TFFR retirees and beneficiaries who retired before 1/1/09 and are receiving annuity benefits on 12/1/09 . Payment will be made in December 2009.
- Supplemental Payment Formula:
 - \$20 per year of service credit plus \$15 per year since member's retirement. Payment cannot exceed the greater of 10% of member's annual annuity or \$750.
- Average supplemental payment amount is about \$723.
- Total cost of supplemental payment is about \$4.6 million.
- Supplemental payment will be paid from the TFFR trust, but funded by 0.5% increase in school district/employer contributions beginning 7/1/10 (from 8.25% to 8.75%). The employer contribution increase is intended to offset the cost of the one-time supplemental retiree payment and begin to improve TFFR funding levels.

Other 2009 Legislation

- HB 1080 – minor technical and administrative changes to TFFR program
- HB 1360 – Regional Education Association (REA) clarification language for TFFR

Benefits Funding

Retirement Funding Equation

$$C + I = B + E$$

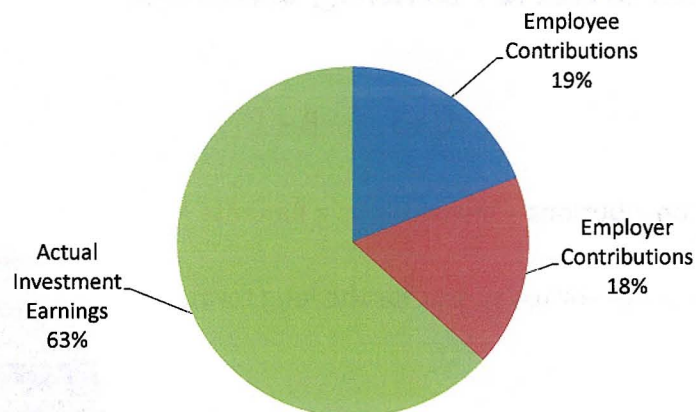
- Contributions + Investments = Benefits + Expenses
- Not just for today, but for the long term.



Benefits Funding

- Nearly 2/3 of TFFR pension benefits are funded through investment earnings.
 - Over the past 19 years, aggregate earnings from investment income comprised nearly 63% of revenue.
- Investments are fueled by contributions from employees and employers.
 - Employee contributions (including service purchases) comprised 19%.
 - Employer contributions comprised 18%.
- Every additional dollar in contributions counts and is invested to grow with time.
- Funding gap develops when investment earnings decline.

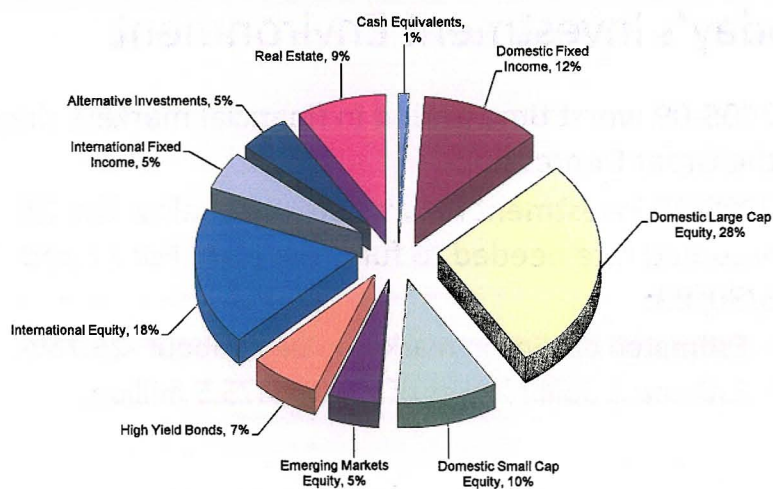
Sources of TFFR Revenue 1990-2008



Investments

- Asset allocation and investment policy is determined by TFFR Board
- Current investment return assumption is 8%.
- Asset Liability Modeling (ALM) Study is conducted every 5 years to consider appropriate asset mix for funding pension liabilities of TFFR.
- Next ALM study in 2010.

TFFR Asset Allocation



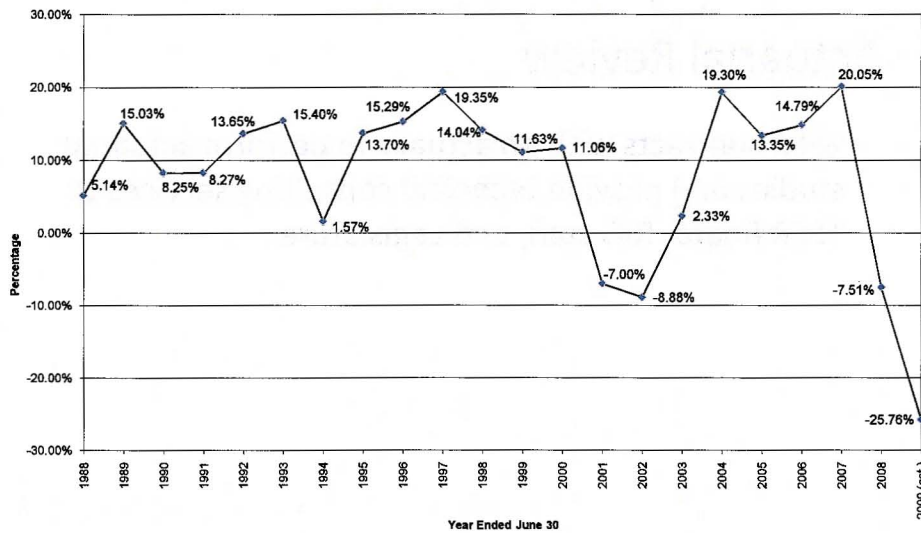
State Investment Board

- TFFR investment program is administered by State Investment Board (SIB) as part of pension trust.
- Steve Cochrane overview of SIB.

Today's Investment Environment

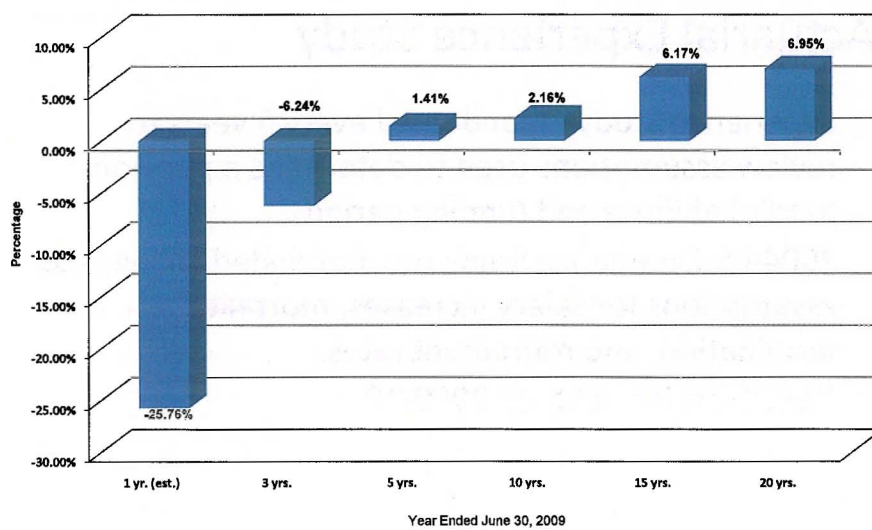
- 2008-09 worst time period in financial markets since the Great Depression.
- 2008-09 investment returns are well below the 8% assumed rate needed to fund the plan. For FY end 6/30/09:
 - Estimated decline in market value of about -25.76%.
 - Estimated dollar losses of about \$475.5 million.

TFFR Investment Performance – Annual



*Preliminary 2009 data

TFFR Investment Performance – Average



*Preliminary 2009 data

Actuarial Review

- TFFR contracts with an actuary to perform actuarial studies and provide technical consulting services to TFFR Board, RIO staff, and Legislature.

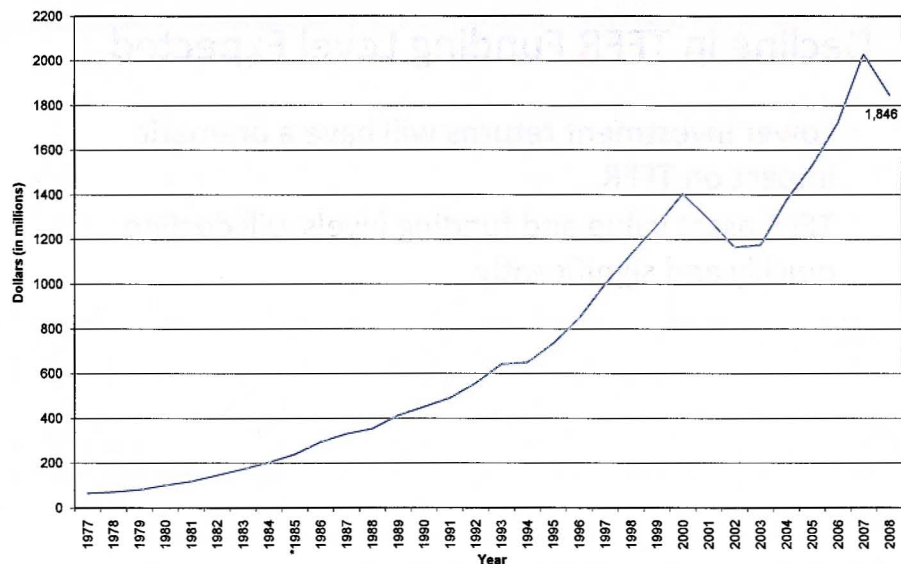
Actuarial Experience Study

- Experience Study is conducted every 5 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.
- Next Experience Study 2009-10.

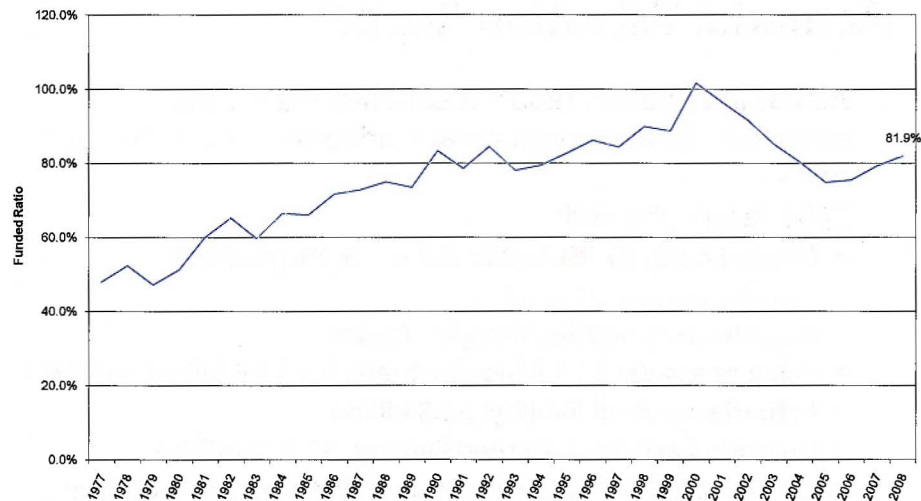
Actuarial Valuation Report

- Actuarial valuation report is conducted annually to determine funding position and adequacy of contribution rates.
- 2008 report showed:
 - Funded ratio: 81.9% (actuarial) or 79.2% (market)
 - Funding period: 57 years
 - Negative contribution margin: -0.99%
 - Value of assets: \$1.9 billion (actuarial) or \$1.8 billion (market)
 - Actuarial accrued liability: \$2.3 billion
 - Unfunded actuarial accrued liability: \$421.2 million
- 2009 actuarial report presented in October - November.

Market Value of TFFR Assets 1977-2008



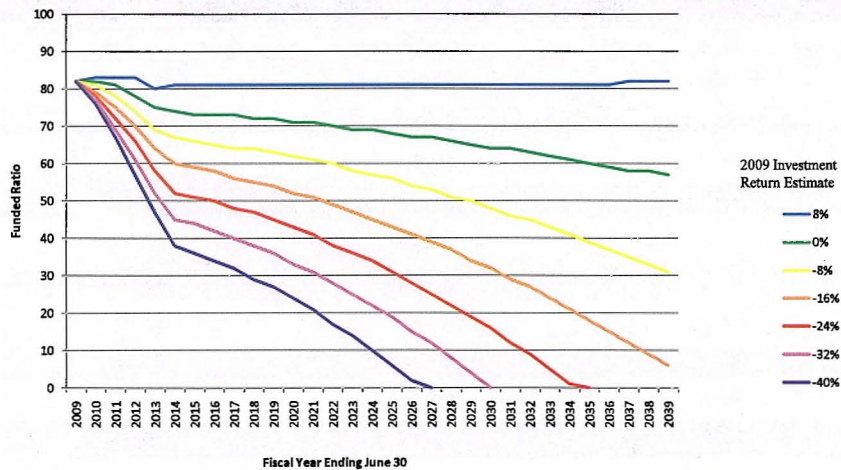
TFFR Funded Ratio (AVA) 1977-2008



Decline in TFFR Funding Level Expected

- Lower investment returns will have a dramatic impact on TFFR.
- TFFR asset value and funding levels will decline quickly and significantly.

Projected TFFR Funding Levels (AVA) based on variable investment returns for FY 2009



NOTE: Funded ratio estimates using actuarial value of assets (AVA) are based on following assumptions: Variable investment returns for 2009 (8%, 0%, -8%, -16%, -24%, -32%, -40%) and 8% investment returns for 2010 and all future years.

Projected TFFR Assets (MVA)

Year	Before	After
2008	\$ 1,846.1	\$ 1,846.1
2009	1,942.2	1,322.9
2010	2,032.5	1,358.9
2011	2,117.3	1,392.1
2012	2,197.4	1,416.7
2013	2,272.6	1,431.9
2018	2,611.9	1,392.4
2023	2,935.1	1,161.5
2028	3,293.4	708.7
2033	3,740.9	0.0
2038	4,381.2	0.0

Note: Projections done by GRS based on 7/1/08 valuation data and assumptions.
BEFORE assumes 8% return in FY 2009 and 8% all future years.
AFTER assumes -26% return in FY 2009 and 8% all future years.

Projected TFFR Funded Ratio (AVA)

Year	Before	After
2008	81.9%	81.9%
2009	82.9%	77.6%
2010	83.1%	71.2%
2011	82.5%	64.4%
2012	80.4%	56.4%
2013	80.5%	50.7%
2018	80.7%	43.0%
2023	80.5%	31.9%
2028	80.5%	17.3%
2033	80.9%	0.0%
2038	82.1%	0.0%

Note: Projections done by GRS based on 7/1/08 valuation data and assumptions.
BEFORE assumes 8% return in FY 2009 and 8% all future years.
AFTER assumes -26% return in FY 2009 and 8% all future years.

Market Recovery

- Historically, extreme downturns have usually been followed by significant recoveries.
- Consider the size recovery needed to get back to 82% funded level by 2038 (30 years):
 - 58% in FY 2010, followed by constant 8% return thereafter.
 - OR 17.25% for each of the next 5 years, followed by constant 8% return thereafter.
 - OR 10.85% return for every year from FY 2010 through FY 2038.
- Unlikely we'll be able to "invest" our way out of this.

**Projected Funded Ratios under Alternative Employer Contribution Rates
Increase Assumed Effective at July 1, 2011**

Employer Contribution Rate	Increase	Actuarial Funded Ratio				Funding Period in 2038
		2008	2018	2028	2038	
8.75%	0.00%	82%	43%	17%	0%	Infinite
9.75%	1.00%	82%	44%	22%	0%	Infinite
10.75%	2.00%	82%	46%	27%	0%	Infinite
11.75%	3.00%	82%	47%	32%	10%	Infinite
12.75%	4.00%	82%	49%	37%	21%	Infinite
13.75%	5.00%	82%	50%	41%	31%	Infinite
14.75%	6.00%	82%	52%	46%	41%	Infinite
15.75%	7.00%	82%	53%	51%	52%	Infinite
16.75%	8.00%	82%	55%	56%	62%	25 years
17.75%	9.00%	82%	56%	61%	73%	13 years
18.75%	10.00%	82%	57%	65%	83%	6 years

Assumptions:

- (1) -26% Net investment return for FY 2009
- (2) 8% Net investment returns for FY 2010 and later years
- (3) No change in member contribution rate (7.75%) or benefit provisions
- (4) 0.5%/year decrease in number of active members
- (5) No actuarial gains or losses except as due to investment returns
- (6) Based on 2008 actuarial valuation, adjusted for 2009 legislation

8-03-09

GABRIEL, ROEDER, SMITH & COMPANY

TFFR Funding Improvement Study

Funding Improvements Will Be Needed

- As a result of market declines in the past 1-2 years, most public pension plans around the country are expected to experience higher required contributions to offset investment losses.
- Predicting the magnitude of increased costs is difficult and depends on factors unique to the TFFR plan, as well as performance of investment markets over the next few years.
- TFFR Board is studying funding improvement options and anticipates proposing legislation in 2011.

TFFR Funding Improvement Study Group

- TFFR Board
 - 7 board members
- Member and Employer Interest Groups
 - NDCEL, NDEA, NDRTA, NDSBA
- RIO Staff
 - Fay, Steve
- Legal Counsel from ND Attorney General's Office
- Actuarial Consultant from GRS

2009-10 Study

- Comprehensive Review of TFFR plan
 - Contributions
 - Investments
 - Benefits
 - Expenses
 - Legal issues
 - Actuarial studies and projections
 - Demographic information
 - Other

2009-10 Study

- Plan to submit funding improvement legislation
 - File study bill with Employee Benefits Program Committee by April 1, 2010
 - 2011 Legislative Assembly

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

1155 EAST 58TH STREET

CHICAGO, ILL. 60637

TEL: 773-936-5000

FAX: 773-936-5000

WWW.PHYSICS.UCHICAGO.EDU

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

CHICAGO, ILL. 60637

History of TFFR Retirement Plan Changes

July 1	Plan Changes	Benefit Formula	Retiree Benefit Increase	\$ Average Increase	% Average Increase	Average Monthly Benefit
2009	Effective 7-01-10 <ul style="list-style-type: none"> Increase employer contributions from 8.25% to 8.75% on active and retired members' salaries until TFFR reaches 90% funded level. 	No Change	One time supplemental retiree payment based on formula: \$20 per year of service credit + \$15 per year of retirement (capped at greater of 10% of annual annuity or \$750). Average supplemental payment - \$723.	-0-	-0-	*2009-\$1514 2008-\$1477
2007	Effective 7-01-08 <ul style="list-style-type: none"> Increase employer contributions from 7.75% to 8.25% on active and retired members' salaries (until TFFR reaches 90% funded level). Create new tier of reduced member benefits: <ul style="list-style-type: none"> Tier 1 – Rule of 85, 3 yr vesting, 3 yr FAS Tier 2 – Rule of 90, 5 yr vesting, 5 yr FAS Effective 7-01-07 <ul style="list-style-type: none"> Require employer contributions of 7.75% on re-employed retirees. 	No Change	No Increase	-0-	-0-	2007-\$1434 2006-\$1383
2005	<ul style="list-style-type: none"> None. 	No Change	No Increase	-0-	-0-	2005-\$1309 2004-\$1255
2003	<ul style="list-style-type: none"> Clarified definition of salary. Updated dual membership guidelines. Added 20 year term certain and partial lump sum distribution (PLSO) options. Expanded refund & rollover options to purchase service credit. Allow employers to purchase service credit on behalf of members. 	No Change	No Increase	-0-	-0-	2003-\$1203 2002-\$1152
2001	<ul style="list-style-type: none"> Modified retiree employment provisions by adding exceptions for critical shortage areas and educational foundation donations, and improved recalculation of retiree benefits after returning to teach. 	Multiplier increased to 2.00% FAS X 2.00% X years of service	Increase equal to \$2 month X member's years of service credit + \$1 month X number of years since member's retirement plus 0.75% annual adjustment for 7-1-01 and 7-1-02.	\$78.00	7.8%	2001-\$995 2000-\$970
1999	<ul style="list-style-type: none"> Vesting and eligibility for benefits reduced from 5 to 3 years. Early retirement reduction changed from age 65 to earlier of age 65 or Rule of 85. Purchase of service credit modified; air time and leave of absence added. Member's spouse required to be beneficiary and spousal consent to choice of benefit option. 	Multiplier increased to 1.88% FAS X 1.88% X years of service	Increase equal to \$2 month X member's years of service credit + \$1 month X number of years since member's retirement.	\$70.00	8.5%	1999-\$833 1998-\$810
1997	<ul style="list-style-type: none"> Employer and employee contributions increased to 7.75%. Allow rollovers to purchase service credit. Expand TFFR Board to 7 members. 	Multiplier increased to 1.75% FAS X 1.75% X years of service	\$30 month increase.	\$30.00	4.1%	1997-\$729 1996-\$719

History of TFFR Retirement Plan Changes

July 1	Plan Changes	Benefit Formula	Retiree Benefit Increase	\$ Average Increase	% Average Increase	Average Monthly Benefit
1995	<ul style="list-style-type: none"> Allow members to rollover refunds from TFFR to IRA or qualified plan. 	No Change	No Increase	-0-	-0-	1995-\$690 1994-\$663
1993	<ul style="list-style-type: none"> Disability retirement formula changed to coincide with retirement formula. 	Multiplier increased to 1.55% FAS X 1.55% X years of service	10% of current benefit or leveling benefit increase based on retirement date and years of service. (Maximum of \$100/mo)	\$75.00	13.80%	1993-\$547 1992-\$549
1991	<ul style="list-style-type: none"> Provisions for military service credit under Veterans' Reemployment Rights Act (VRRRA) added. 	Multiplier increased to 1.39% FAS X 1.39% X years of service	10% of current benefit or leveling benefit increase based on retirement date and years of service. (Maximum of \$75/mo)	\$63.24	14.66%	1991-\$513 1990-\$415
1989	<ul style="list-style-type: none"> "Pop-up" to single life annuity for joint and survivor options. Level income with Social Security. "Rule of 85" replaced the "Rule of 90." Employer and employee contributions increased to 6.75%. 	Multiplier increased to 1.275% FAS x 1.275% X years of service	Increase equal to \$.05 X years of service X number of years since member's retirement.	\$18.30	5.2%	1989-\$361 1988-\$352
1987	<ul style="list-style-type: none"> Eligibility for disability benefits changed to one year of service and disability benefit improved. Vesting for retirement benefits reduced from 10 to 5 years. 	Multiplier increased to 1.22% FAS X 1.22% X years of service	\$1.50/mo increase for every year since member's retirement. Members receiving benefits under 1967 & 1969 formulas rec'd \$15/mo bonus (Max \$75/mo)	\$27.25	9.1%	1987-\$327 1986-\$312
1985	<ul style="list-style-type: none"> Partial retirement possible at age 62. Dual membership for vesting of benefits for members under TFFR, PERS, and Highway Patrol Retirement System. 	Multiplier increased to 1.15% FAS X 1.15% X years of service	1% increase in benefits for every year since member's retirement. (Max of 10%; or \$40)	\$17.88	7.39%	1985-\$269 1984-\$242
1983	<ul style="list-style-type: none"> "Rule of 90" (age + service = 90) approved. Employer payment of member assessments allowed. School day for TFFR purposes set at 4 duty hours. FAS changed to high 3 years of career. 	Multiplier increased to 1.05% FAS X 1.05% X years of service	15% increase in current benefit to all retirees. (Max of \$45/mo)	\$29.78	15.93%	1983-\$221 1982-\$187
1981	<ul style="list-style-type: none"> Early retirement age reduced to age 55. Eligibility for disability benefits reduced from 15 to 10 years. 	No Change	No Increase	-0-	-0-	1981-\$182 1980-\$174
1979	<ul style="list-style-type: none"> New benefit formula using multiplier, years of service and final average salary (high 5 of last 10 years). Normal retirement @ 65 w/10 yrs or age 60 w/35 yrs service Employee and employer contribution rate increased from 5% to 6.25% each. 	Established multiplier of 1.0% FAS X 1.0% X years of service	No Increase	-0-	-0-	1979-\$171 1978-\$165