LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

May 12, 2010

Fay Kopp, Acting Executive Director/Retirement Officer
ND Retirement and Investment Office - ND Teachers' Fund for Retirement

TFFR's Funding Challenge and Funding Improvement Study

TFFR faces a significant funding challenge as a result of the 2008-09 financial market down turn. Without action, TFFR's funded level is expected to decline from its 2009 level of 78% to about 50% within the next 5 years, and steadily deteriorate in the future.

Chart 1 shows projected TFFR funding levels if no changes are made assuming variable investment returns for the 2009-10 fiscal year, plus 8% returns in the future. At this time, current estimated fiscal year to date investment performance is about 20%. As you can see from Chart 1, even with a 16% return this year, and 8% returns in the future, TFFR funding levels are projected to decline to unacceptable levels. So while current market recovery is very good news, it still will not change TFFR's long term funding projections much.

TFFR's challenge then is to stop this downward trend, stabilize funding, and over the long-term, improve funding levels.

The TFFR Board, along with representatives from the ND Education Association (NDEA), ND Council of Educational Leaders (NDCEL), ND School Boards Association (NDSBA), and ND Retired Teachers Association (NDRTA), have spent the last year studying numerous options to offset investment losses and address declining funding levels, including: (1) investment performance over 8% assumed return; (2) increasing contributions; (3) reducing benefits; (4) state general fund; (5) and a combined approach.

The Study Group discussed in depth the advantages and disadvantages of various alternatives, analyzed actuarial, legal, financial, and policy issues, and seriously considered the impact on members, employers, and the State. The Group focused on developing proposals which would reflect the following core principles:

- Restore the financial health of the TFFR plan for past, present, and future ND educators.
- Maintain adequate retirement security.
- Share responsibility for funding improvement with employees, employers, and the State.
- Phase changes over time.
- Protect benefits of those employees closest to retirement.

The TFFR Board has submitted two funding improvement proposals to the Legislative Employee Benefits Programs Committee for interim study.

Bill No. 54 - Base Funding Improvement **(Sponsor – TFFR Board)**

- **Increase employee and employer contributions 8% total over 2 bienniums.**

	Current 7/1/10	Proposed 7/1/12	Proposed 7/1/14
Employee	7.75%	9.75%	11.75%
Employer	8.75%	10.75%	12.75%

  Rate increases would be effective until TFFR reaches 90% funded level on an actuarial basis at which time employee and employer contribution rates would be reduced to 7.75% each.

  In dollar terms, employee and employer contribution increases are estimated to increase TFFR revenues more than $40 million each year after rate increases are completely phased in ($20 million employee + $20 million employer). Contribution amounts are estimated at $5 million for every 1% increase in TFFR contribution rates.

- **Require re-employed retirees to pay employee contribution rates beginning 7/1/12.**

- **Modify disability benefits** for all employees by changing eligibility from 1 year to 5 years of service credit and replacing 20 year minimum with actual service in benefit calculation.

- **Raise retirement eligibility age for unreduced benefits and reduction factor for reduced retirement benefits for certain employees.**

  - **Grandfathered Tier 1 Employees who are within 10 years of retirement eligibility would not be affected by unreduced and reduced retirement changes.**

    Tier 1 employees who are vested (3 years of service credit) and at least age 55 OR have the Rule of 65 or greater (age + service) on 6/30/13 would be grandfathered under current retirement eligibility provisions (i.e. Rule of 85).

  - **Non-grandfathered Tier 1 Employees, all Tier 2 Employees, and Future Employees** would be affected and would have the following benefit changes as of 7/1/13:

Unreduced retirement: Eligibility age would increase from Rule of 85 (Tier 1) or Rule of 90 (Tier 2) to Minimum Age 60 and the Rule of 90+, OR Minimum Age 65 for those employees who do not reach the Rule of 90.

Age 60 + 30 years service or more
Age 61 + 29 years service
Age 62 + 28 years service
Age 63 + 27 years service
Age 64 + 26 years service
Age 65 + vested (3 years service or more)

Example: Non-grandfathered Tier 1 employee, age 40 @ 15 yrs service credit on 6/30/13.

Current:	Elig Rule 85 @ age 55 + 30 yrs (R85)	in 2028	
Proposed:	Elig Age 60 + 35 yrs (R95)	in 2033	+ 5 yr diff

Reduced retirement: Reduction factor would increase from 6% to 8% per year from the earlier of Age 60/Rule of 90 or Age 65.

Chart 2 shows the actuarial impact of the changes outlined in Bill No. 54 under variable investment return rates for the 2009-10 fiscal year. As you can see, if TFFR earns at least 16% this year, plus 8% returns in the future, funding levels are projected to reach nearly 80% at the end of the 30-year projection period.

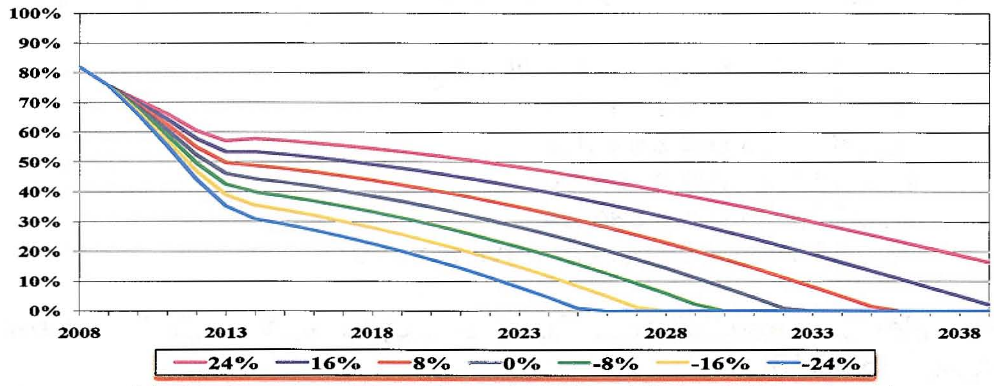
<u>Bill No. 55 - Base Plus+ Funding Improvements</u> **(Sponsor – TFFR Board)**

- Includes same provisions from Base Funding Improvement Bill No. 54.
- Plus requests one-time $75 million appropriation from the State General Fund to further reduce TFFR's unfunded liability.

Chart 3 shows the estimated impact of Bill No. 55 and illustrates the effect of the additional $75 million lump sum payment of TFFR funding levels. If TFFR earns at least 16% this year, plus 8% returns in the future, funding levels are projected to reach nearly 90% at the end of the projection period which would allow employee and employer contribution rates to be reduced to their previous levels. Because of the additional lump sum payment, Bill No. 55 improves TFFR funding levels sooner, and to a greater extent, than Bill No. 54.

Chart 1

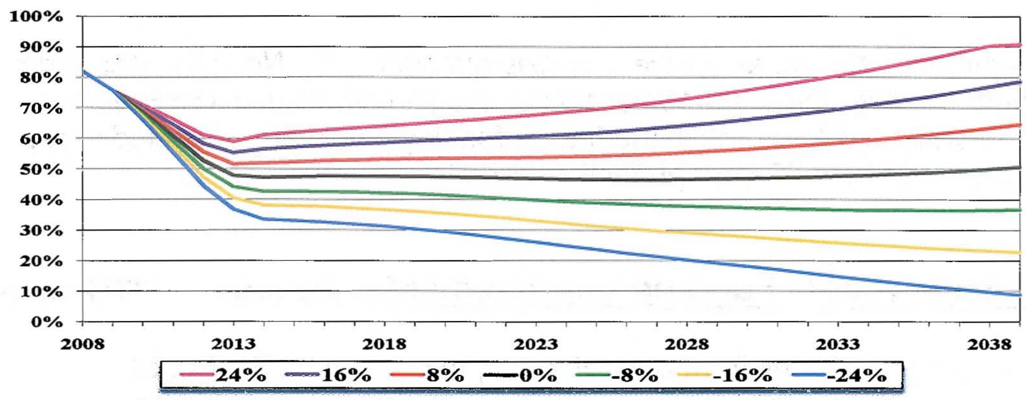
Projected TFFR Funded Ratios (AVA)
Current Plan - No Changes



Note: Projections assume variable market returns for FY 2010, and 8% returns in 2011 and all years thereafter.

Chart 2

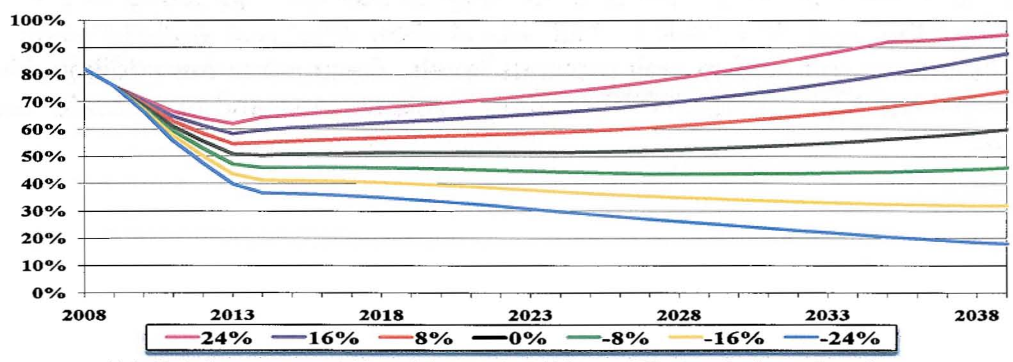
Projected TFFR Funding Ratio (AVA)
Bill No. 54 – Contribution Increases and Benefit Changes



Note: Projections assume variable market returns for FY 2010, and 8% returns in all years thereafter.

Chart 3

Projected TFFR Funded Ratios (AVA)
Bill No. 55 – Contribution Increases and Benefit Changes
PLUS $75 million State Appropriation



Note: Projections assume variable market returns for FY 2010, and 8% returns in all years thereafter.