

Legislative Employee Benefits Programs
Committee

September 20, 2011

Fay Kopp, Deputy Executive Director – Retirement Officer
ND Retirement & Investment Office (RIO)
ND Teachers' Fund for Retirement (TFFR)

TFFR Plan

- TFFR is a defined benefit plan designed to provide lifetime retirement, disability, and death benefits for ND public school educators and certain state teachers.
- Originally created in 1913.
- Governing statute: NDCC 15-39.1

TFFR Board of Trustees

TFFR program is managed by a 7-member board of trustees who have a fiduciary responsibility to the fund's beneficiaries. The Board consists of 5 active and retired members appointed by the Governor and 2 state officials.

- ❑ Active School Teachers
 - Mike Gessner, Minot – President
 - Kim Franz, Mandan
- ❑ Active School Administrator
 - Bob Toso, Jamestown
- ❑ Retired Members
 - Lowell Latimer, Minot – Vice President
 - Clarence Corneil, Dickinson
- ❑ State Officials – Ex officio members
 - Kelly Schmidt, State Treasurer
 - Wayne Sanstead, State Superintendent

TFFR Board of Trustees

TFFR Mission:

Advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.



State Investment Board (SIB)

TFFR investment program is implemented by State Investment Board.

State Officials

- ❑ Lt. Governor
Drew Wrigley, Chairman
- ❑ State Treasurer
Kelly Schmidt
- ❑ State Insurance Comm.
Adam Hamm
- ❑ State Land Comm.
Lance Gaebe
- ❑ Workforce Safety & Insurance
Cindy Ternes

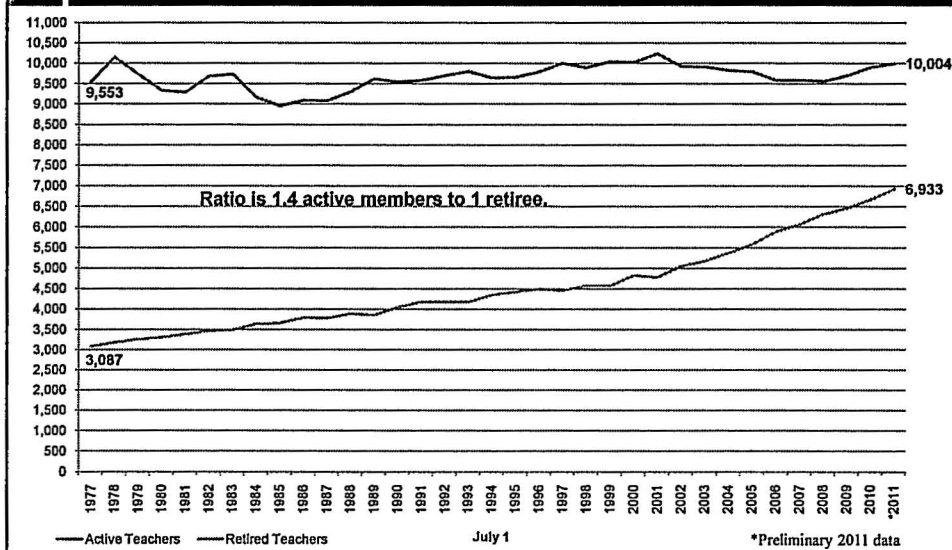
Pension Representatives

- ❑ Clarence Corneil (TFFR)
- ❑ Mike Gessner (TFFR)
- ❑ Bob Toso (TFFR)
- ❑ Levi Erdmann (PERS)
- ❑ Howard Sage (PERS)
- ❑ Mike Sandal (PERS)

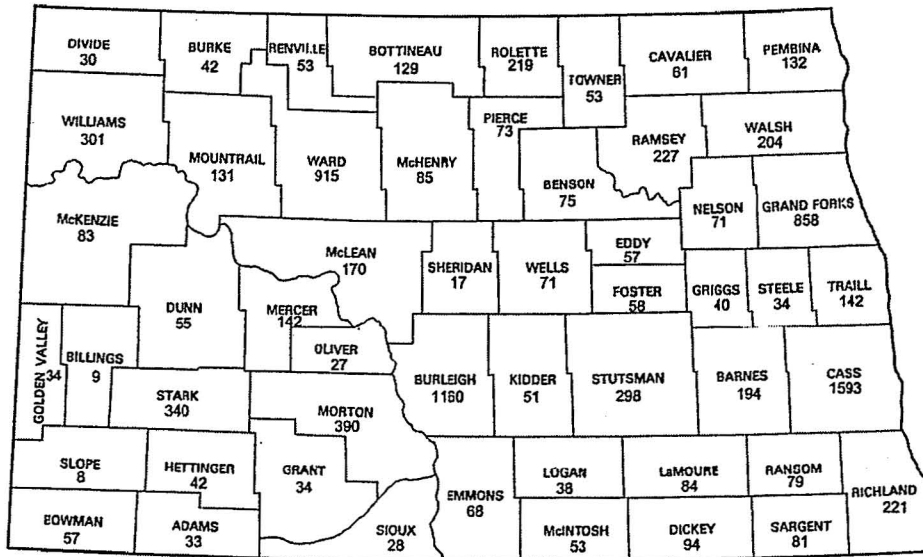
TFFR Participating Employers

▣ School Districts	183
▣ Special Ed Units	19
▣ Vocational Centers	5
▣ Counties	9
▣ State Agencies/Institutions	4
▣ Other – Closed groups	<u>6</u>
2010-11 TOTAL EMPLOYERS	226

Active and Retired TFFR Members 1977 – Present



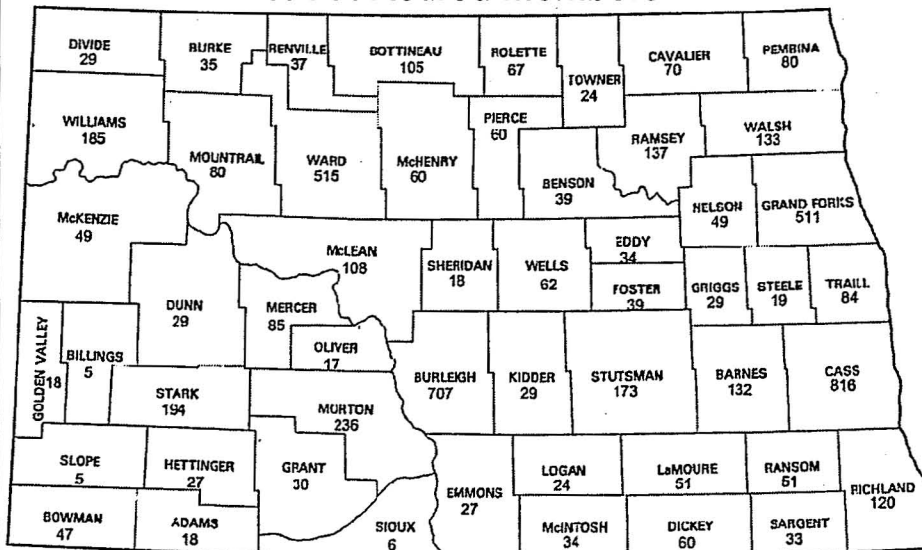
TFFR Active Members



In-state 9,544 Tier 1: 8,078
 Out-of-state 460 Tier 2: 1,926
 Total 10,004 10,004

*Preliminary 2011 data

TFFR Retired Members



In-state 5,632
 Out-of-state 1,301
 Total 6,933

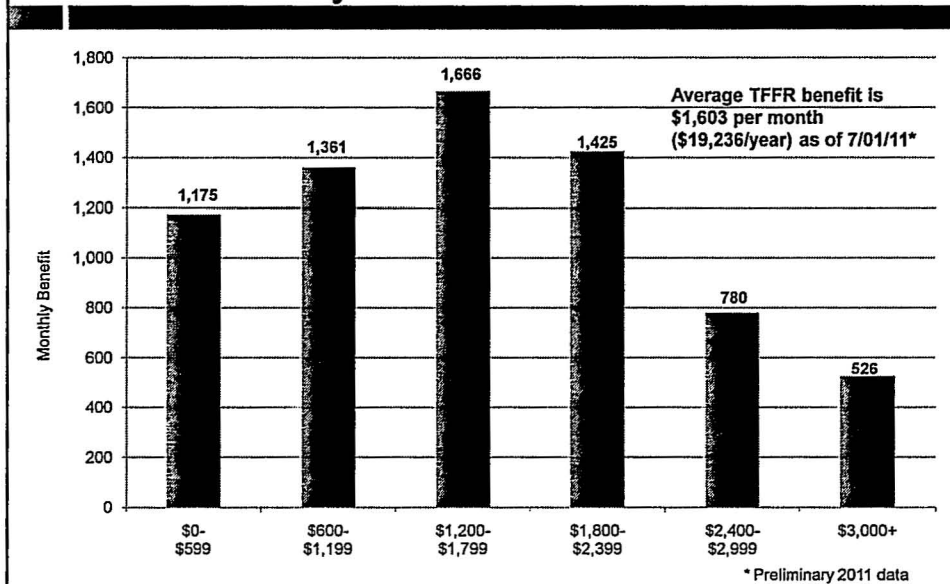
*Preliminary 2011 data

Average Monthly TFFR Benefits by County

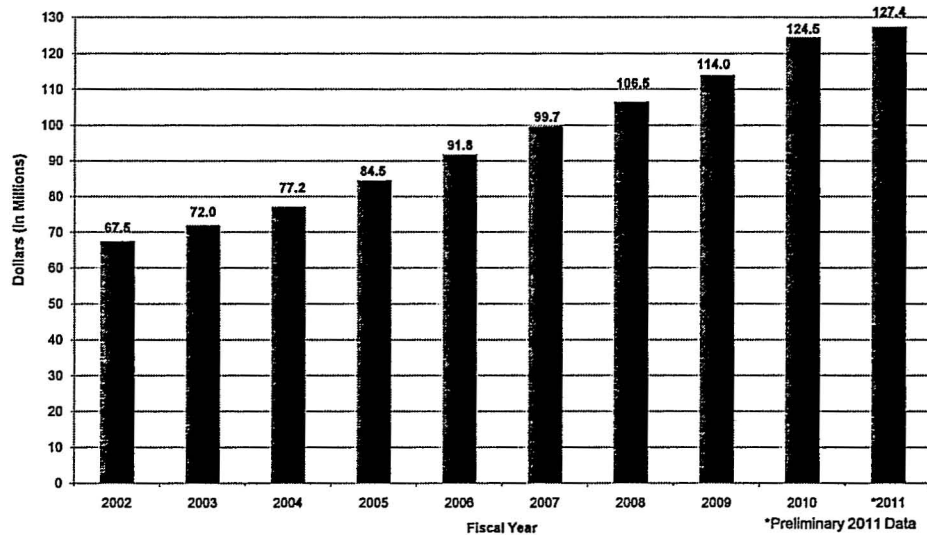
(*preliminary 2011 data)

County	Ret Count	Avg Benefit	Total Benefit	County	Ret Count	Avg Benefit	Total Benefit
Adams	18	1,485	26,725	Mercer	85	1,746	148,422
Barnes	132	1,722	227,328	Morton	236	1,694	399,842
Benson	39	1,727	67,360	Mountrail	80	1,435	114,777
Billings	5	1,330	6,649	Nelson	49	1,401	68,655
Bottineau	105	1,518	159,434	Oliver	17	1,809	30,758
Bowman	47	1,447	68,025	Pembina	80	1,758	140,481
Burke	35	1,348	47,108	Pierce	60	1,568	93,951
Burlingame	707	1,762	1,245,968	Ramsey	137	1,451	198,726
Cass	816	1,838	1,499,510	Ransom	51	1,337	68,198
Cavalier	70	1,349	94,456	Renville	37	1,653	61,152
Dickey	60	1,165	69,918	Richland	120	1,694	203,328
Divide	29	2,016	58,452	Rolette	67	1,572	105,305
Dunn	29	1,724	49,992	Sargent	33	1,216	40,113
Eddy	34	1,479	50,287	Sheridan	18	1,408	25,351
Emmons	27	1,472	39,733	Sioux	6	854	5,121
Foster	39	1,748	68,176	Slope	5	924	4,622
Golden Valley	18	1,348	24,263	Stark	194	1,595	309,487
Grand Forks	511	1,888	964,614	Steele	19	1,428	27,091
Grant	30	1,298	38,938	Stutsman	173	1,589	274,949
Griggs	29	1,330	38,581	Towner	24	1,528	36,669
Hettinger	27	1,625	43,875	Trail	84	1,508	126,662
Kidder	29	1,495	43,364	Walsh	133	1,561	207,548
LaMoure	51	1,494	76,208	Ward	515	1,722	886,959
Logan	24	1,523	36,554	Wells	62	1,502	93,140
McHenry	60	1,425	85,473	Williams	185	1,687	312,172
McIntosh	34	1,685	57,273	Totals	5,632	1,673	9,420,517
McKenzie	49	1,719	84,217	Out of State	1,301	1,317	1,693,082
McLean	108	1,524	164,560	Grand Totals	6,933	1,603	11,113,599

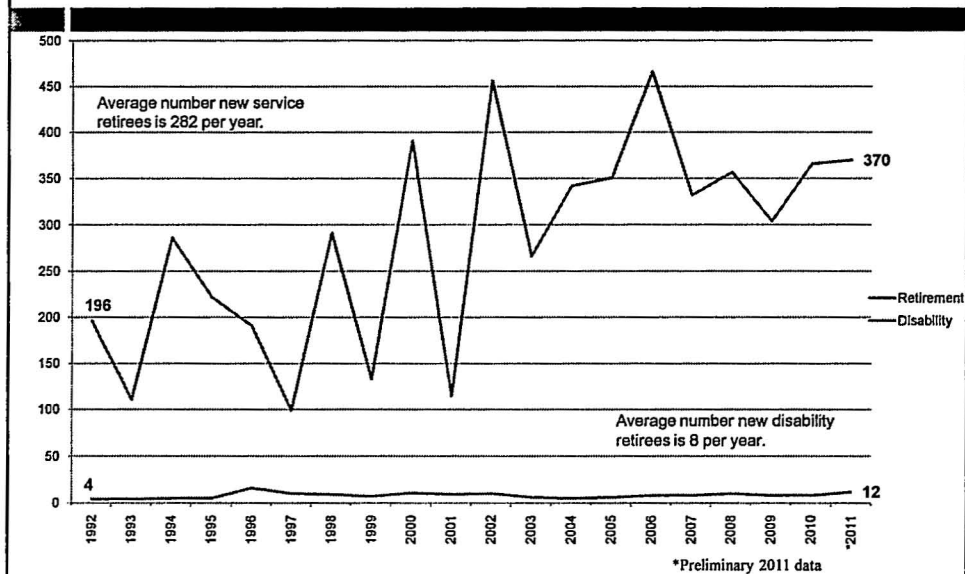
Monthly TFFR Benefits by Benefit Amount



Annual TFFR Pension Benefits Paid



New Service and Disability Retirees



Summary Retirement Projections

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,900 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	9,510	3,554	3,908	355	391
Superintendents	127	86	94	9	9
Other Administrators	491	224	246	22	25
Total Active Members	10,128	3,864	4,248	386	425

Note: All retirement projections are estimates only and based on December 2010 membership data.

Membership

- ❑ Licensed by Education Standards and Practices Board (ESPB)
- ❑ Contracted with participating employer to provide teaching, supervisory, administrative, or extracurricular services
- ❑ Membership Tiers
 - ❑ Tier 1 – Members who have TFFR service credit on 7/1/08.
 - ❑ Tier 2 – Members employed on or after 7/1/08
- ❑ **Note: 2011 legislation**
 - ❑ Tier 1 grandfathered members - within 10 years of retirement eligibility (Age 55+ or Rule of 65+ on 6/30/13)
 - ❑ Tier 1 non-grandfathered members – more than 10 years away from retirement eligibility

Contribution Rates

RATES %	Employer	Member	Total	Increase
Current				
7/1/11	8.75%	7.75%	16.5%	—
*7/1/12	10.75%	9.75%	20.5%	+4%
*7/1/14	12.75%	11.75%	24.5%	+4%

Note: 2011 legislation increased rates effective 7/1/12 and 7/1/14 to improve TFFR funding level. Increased rates will be in effect until TFFR reaches 90% funded ratio; then rates will be reduced to 7.75% each.

Employer Payment Plans 2010-11

	<u>Employers</u>		<u>Members</u>	
Model 1	98	43%	6,352	61%
Model 2 (all)	93	41%	3,714	35%
Model 2 (part%)	13	6%	216	2%
Model 3 (part\$)	6	3%	129	1%
Other	<u>16</u>	<u>7%</u>	<u>101</u>	<u>1%</u>
Total	226	100%	10,512	100%

Model 1: Employee contributions are deducted from employee's salary.

Model 2 (all): All of employee contributions are paid by employer in lieu of salary increase per negotiated agreement.

Model 2 (partial %) and Model 3 (partial \$): A portion of employee contributions are paid by employer in lieu of salary increase per negotiated agreement.

Other: State agencies, closed groups with special provisions, or no model.

Vesting and Benefits

- ☐ Vesting status – entitled to lifetime annuity benefit at normal retirement age.
 - ☐ Tier 1 (employed before 7/1/08) - 3 years
 - ☐ Tier 2 (employed after 7/1/08) - 5 years
- ☐ Benefits Available
 - ☐ Retirement Benefits
 - ☐ Disability Benefits
 - ☐ Death Benefits
 - ☐ Refund/Rollover of employee contributions + interest

Retirement Benefit Formula

■ Benefit Formula :

Final Average Salary (FAS) X 2% (multiplier) X Years of Service

Tier 1: 3 year FAS Tier 2: 5 year FAS

■ Example:

- \$3,000 FAS X 2% X 30 yrs = \$1,800 month

60% of final average salary for career teacher

- \$3,000 FAS X 2% X 15 yrs = \$900 month

30% of 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.

Retirement Eligibility

Note: 2011 legislation raised retirement eligibility age for unreduced benefits and increased reduction factor for early reduced benefits for non-grandfathered members who are more than 10 years away from retirement eligibility on 6/30/13.

Unreduced benefits (normal retirement):

- Tier 1 Grandfathered members
 - Age 65 with 3 years; or
 - Any age with Rule of 85 (age + service = 85+)
- Tier 1 Non-grandfathered, Tier 2, and New members
 - Age 65 with 3 years (Tier 1) or 5 years (Tier 2); or
 - Minimum age 60 with Rule of 90 (age + service = 90+)

Reduced benefits (early)

- Tier 1 Grandfathered members
 - Age 55, benefits reduced 6% year
- Tier 1 Non-grandfathered, Tier 2, and New members
 - Age 55, benefits reduced 8% year

Retiree Re-employment

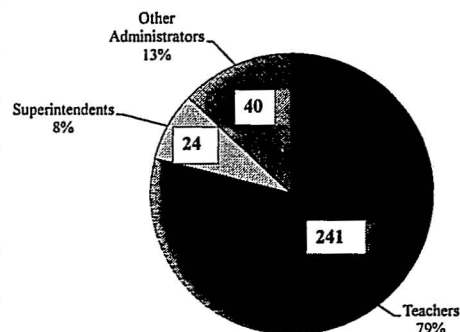
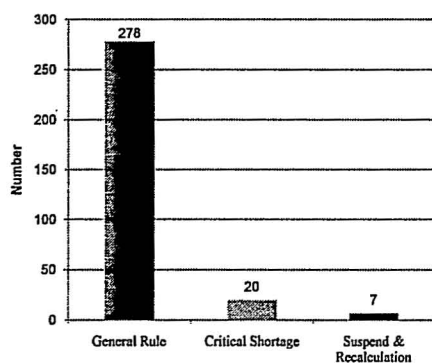
□ General Rule

- 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, but benefit does not increase as result of returning to employment.
- Employer contributions are paid based on retiree salary. Retiree member contributions are paid **(2011 leg effective 7/1/12)**.

□ Exceptions to General Rule

- Critical Shortage Areas
- Benefit Suspension and Benefit Recalculation

2010-11 Retiree Re-employment



Total Retirees: 305
Employers: 132

Average Age: 61

Average Salary: \$23,400

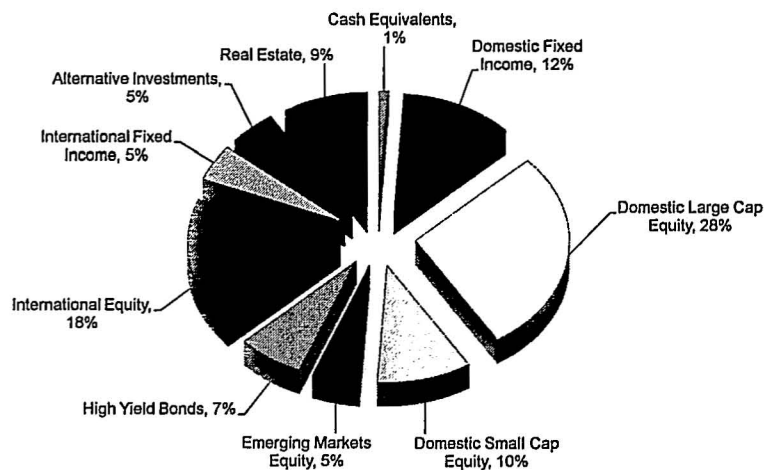
Summary of 2011 Legislation Approved

- Contribution Increases – total 8%, split 50/50, 2 bienniums (until TFFR reaches 90% funded ratio)
 - Increase member contributions +4%
 - Increase employer contributions +4%
 - Require re-employed retiree contributions.
- Benefit Changes
 - Tighten disability retirement eligibility and benefit calculation.
 - Raise retirement eligibility age for unreduced benefits for non-grandfathered employees
 - Grandfathered Tier 1 employees within 10 years of retirement as of 6/30/13 will retain current eligibility provisions (i.e. Rule of 85).
 - Non-grandfathered Tier 1, Tier 2, and future employees will have to work or defer until minimum age 60 with Rule of 90 to be eligible for unreduced benefits.
 - Increase reduction factor for early reduced benefits from 6% to 8% for non-grandfathered employees.

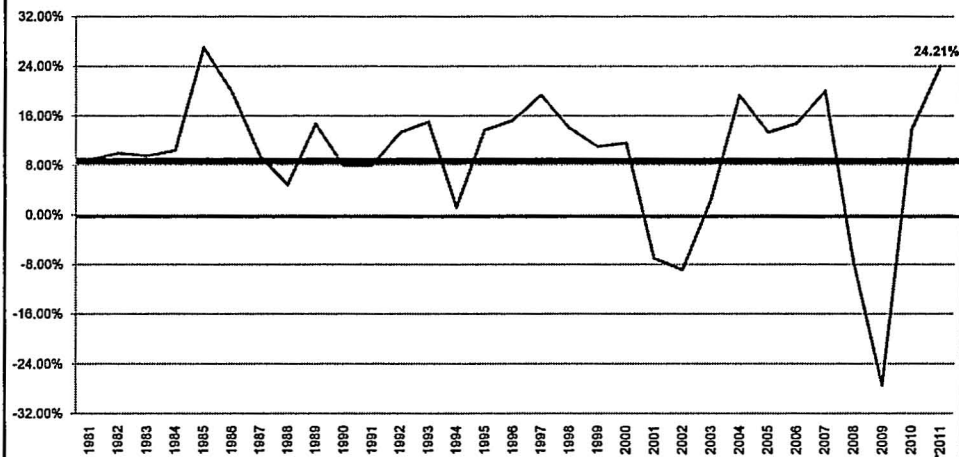
TFFR Investments

- SIB overview - John Geissinger, SIB Investment Director.
- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Investment Director.
- Asset Liability study is conducted periodically to consider appropriate asset mix for funding TFFR pension liabilities.
- Study is currently in process, and SIB investment consultant (Callan) is updating projections with 2011 legislative changes .
- TFFR is reviewing revised asset class descriptions and updating investment policy statement.
- Target completion – Fall 2011.

TFFR Asset Allocation



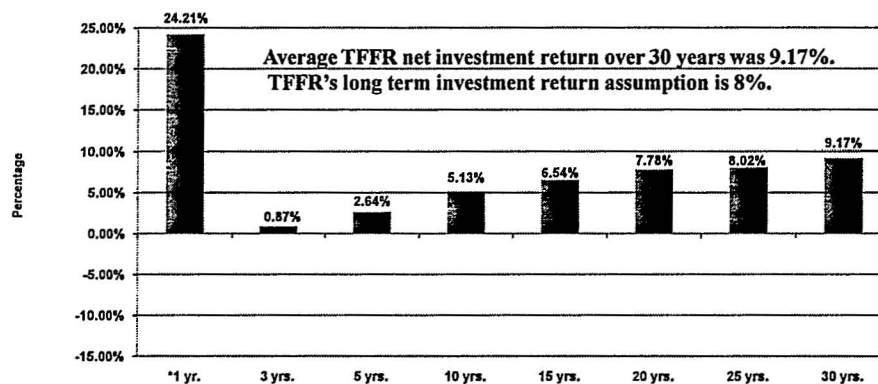
TFFR Investment Performance – Annual 1981-2011



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each

*Preliminary 2011 Data

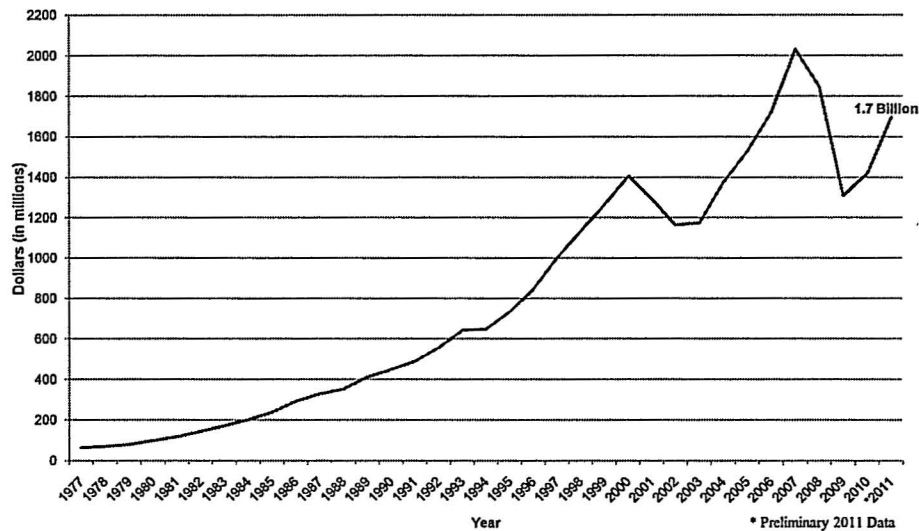
TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2011



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

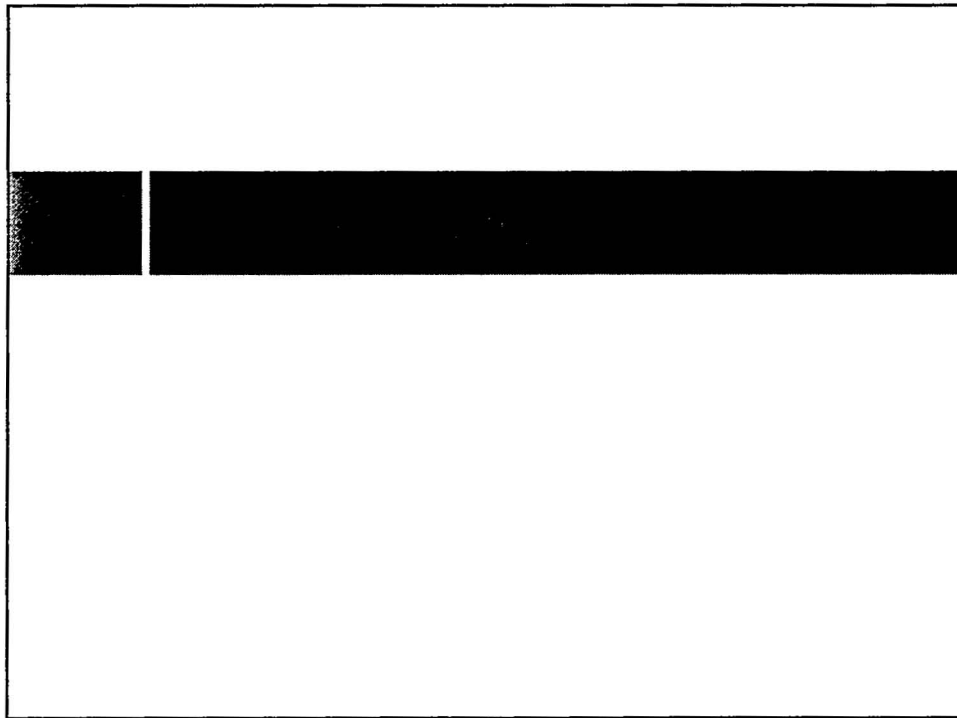
*Preliminary 2011 Data

Market Value of TFFR Assets 1977 - 2011



Investment Outlook

- ❑ As encouraging as investment returns were for fiscal year ending June 30, 2011, the outlook for capital market returns going forward is somber.
- ❑ Overall economy continues to show troubling signs of weakness.
 - ❑ Downgrade of the U.S. credit rating
 - ❑ Persistent high unemployment
 - ❑ Weak consumer spending
 - ❑ Struggling housing market
 - ❑ Sluggish growth
 - ❑ Another potential recession??
- ❑ Recovery may take a number of years.



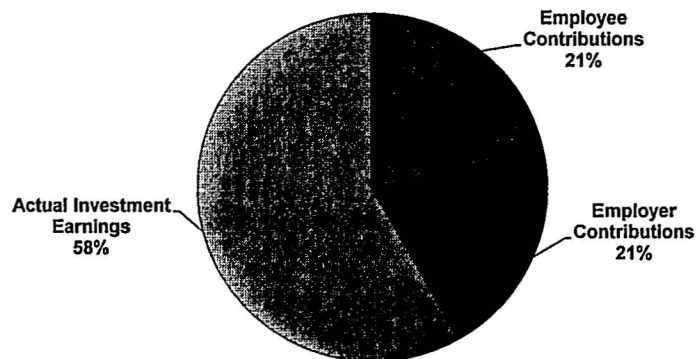
Retirement Funding Equation

$$C + I = B + E$$

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



Sources of TFFR Revenue 1990-2011



*Preliminary 2011 data

2010 Actuarial Valuation Report

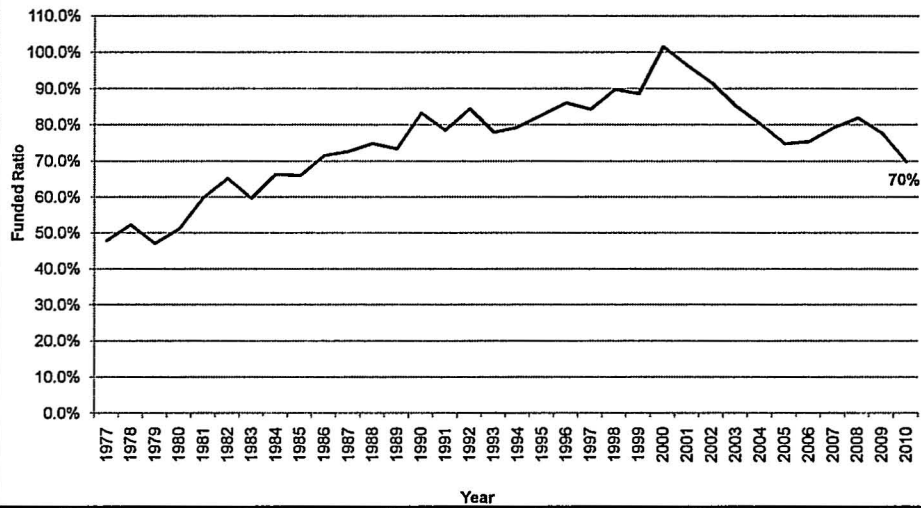
Actuarial Accrued Liability (AAL)	\$2.6 billion
Actuarial Value of Assets (AVA)	<u>1.8 billion</u>
Unfunded AAL (UAAL)	\$0.8 billion
AVA Funded ratio	70%

Note:

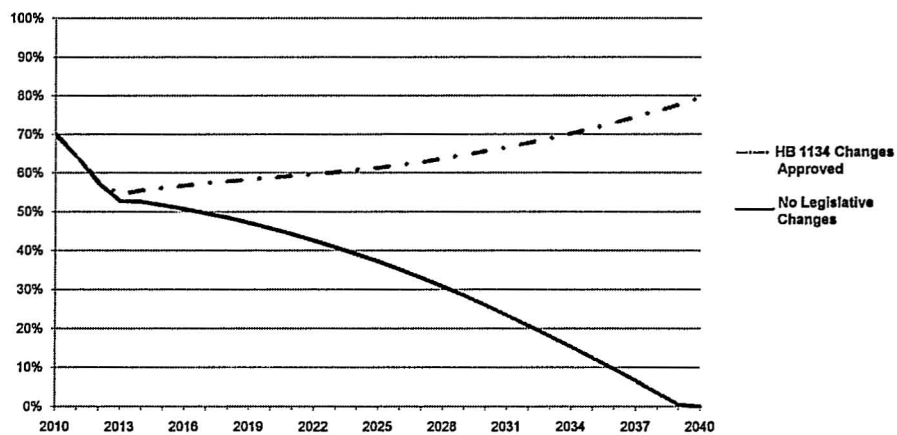
Market value of assets (MVA)	\$1.4 billion
MVA Funded ratio	55%

- **NOTE: 2011 valuation in process – will be completed late October 2011.**

TFFR Funded Ratio (AVA) 1977 - 2010



Projected TFFR Funded Ratio (AVA) HB1134 – Contribution Increases and Benefit Changes



□ With HB1134 changes, plus 8% returns in the future, TFFR funded ratio is projected to reach about 80% over 30-year period.

Summary

- TFFR pension benefits are funded from employee contributions, employer contributions, and investment earnings.
- 2008-09 financial market meltdown negatively affected TFFR funding levels.
- After lengthy study, and input from member and employer groups, TFFR Board submitted legislation to address declining funding levels.
- State Legislature took action in 2011:
 - Increased member and employer contributions (7/1/12 and 7/1/14)
 - Reduced member benefits for non-grandfathered employees (7/1/13).
- TFFR funded level is expected to return to about 80% over 30 years, assuming 8% returns over long term.
 - 2011 valuation report is expected to show a funding level decline.
 - Still recognizing 2008-09 investment losses in valuation (5 year smoothing).
 - Only recognizing 20% of excellent 2011 investment gains (5 year smoothing).
 - 2011 legislative changes not in effect yet.
- TFFR long term funding outlook is positive.

TFFR Information

TFFR website: www.nd.gov/rio

- Legislation
 - Links to ND Legislative website, bill drafts, actuarial analysis
- Presentations
 - Webcast presentations on funding and legislative proposals
 - Presentations made to member and employer groups
- Publications and Reports
 - Newsletters, handbook, brochures
 - Actuarial and audit reports
- Contact Information
 - Phone: 701-328-9885 or 1-800-952-2970
 - Email: fkopp@nd.gov