SEGAL

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January 21, 2013

Via E-mail

Ms. Fay Kopp
Interim Executive Director
ND Retirement & Investment Office
P.O. Box 7100
Bismarck, ND 58507-7100

Re: Full Actuarial Analysis and Technical Comments on House Bill 1203

Dear Fay:

The following presents our analysis of the proposed changes found in House Bill 1203 (Bill 13.0312.01000) that would eliminate member contributions for re-employed retirees under the Teachers' Fund for Retirement (TFFR).

Summary

The contribution rates (percentage per annum of the teacher's salary) required for TFFR members are shown below:

Period	Member Rate
July 1, 2012 through June 30, 2014	9.75%
Beginning July 1, 2014	11.75%

Prior to July 1, 2012, re-employed retirees were not required to pay TFFR member contributions (or have member contributions paid on their behalf) as a condition of their re-employment. However, with the enactment of legislation approved in 2011 (HB 1134), effective July 1, 2012, member contributions are required on salary earned by re-employed retirees as shown in the table above, and re-employed retirees continue to receive their retirement benefits while employed. The proposed legislation would revert to prior law and eliminate the requirement that TFFR member contributions be paid on behalf of re-employed retirees who stay under the General Rule (GR) annual hour limit, or return full time in Critical Shortage Areas (CSA). However, participating employers would still be required to pay employer contributions for these re-employed retirees.

Actuarial Analysis

Using an estimated salary of $8,000,000 for the 2012-2013 fiscal year for approximately 310 re-employed retirees that fall under the GR and CSA, the impact of eliminating member contributions would be a reduction of approximately $780,000 in contributions to the system (based on the current 9.75% member rate), or 0.15% of total estimated fiscal 2013 payroll of $535,900,000. Beginning in fiscal 2015 and each year thereafter, the impact would be a reduction of approximately 0.18% of total pay in contributions to the system (based on the 11.75% member rate that will be effective July 1, 2014). For fiscal 2015, this equates to $1,002,000 based on estimated re-employed retiree salary of $8,528,000. The impact for each year will depend on the number of re-employed retirees that fall under the GR and CSA and their payroll. In addition, the impact on TFFR's unfunded liability would be the amount of contributions that would no longer be collected and there woud be a small negative impact on the funding ratio of the plan going forward.

Technical Comments

In 2011, HB 1134 was enacted with the intention of improving the funded position of the system. Eliminating the provision associated with collection of member contributions for re-employed retirees will mean that it will take longer for TFFR to achieve its funding goals.

Administrative Costs

This bill will require the Retirement and Investment Office to revise member and employer communications materials. In addition, there will be programming costs for TFFR and employers associated with modifying software to revert to pre- July 1, 2012 provisions.

General Comments

Calculations presented in this analysis were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2012, asset returns through July 1, 2012, and use assumptions and methods in place for the July 1, 2012 valuation.

Please do not hesitate to contact us with any questions or comments.

Sincerely,

Kim Nicholl

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Senior Vice President and Actuary

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