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January 29, 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 Senate Bill 2331

Dear Fay:

The following presents our analysis of the proposed changes found in Senate Bill 2331 (Bill 13.0832.01000) that would provide for actuarially adjusting the service benefit upon subsequent retirement of retired teachers and administrators who return to active duty (i.e., re-employed retirees) under the Teachers' Fund for Retirement (TFFR). The actuarial adjustment would be based upon the total amount of member contributions received during a re-employed retiree's period of reemployment. The adjusted benefit must be paid effective the first day of the month following the re-employed retiree's subsequent retirement.

We provided a letter with the actuarial analysis of House Bill 1203 on January 21, 2013, which is a bill that would also impact re-employed retirees under TFFR. While House Bill 1203 and Senate Bill 2331 both impact member contributions, they are contradictory to each other. House Bill 1203 would eliminate member contributions during reemployment while Senate Bill 2331 refunds the member contributions over time by actuarially increasing members' benefits upon subsequent retirement. Further commentary on this is included in this letter.

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 provide for an actuarial increase in benefit upon a re-employed retiree's subsequent retirement based upon the member contributions received during a re-employed retiree's period of reemployment. Under current law, TFFR member contributions are 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) and are used to improve the funded status of TFFR. Participating employers would continue to 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 actuarially adjusting the service benefits for re-employed retirees would result in an increase in actuarial accrued liability of approximately $780,000 (based on the current 9.75% member rate). In fiscal 2015, the impact would be an increase in actuarial accrued liability of approximately $1,002,000 (based on the 11.75% member rate that will be effective July 1, 2014 and 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. To the extent that re-employed retirees live longer or shorter than expected, the actual impact to the Fund will be more or less than the additional actuarial liability, and will be recognized as a gain or loss. If Senate Bill 2331 were enacted, there would be a small negative impact on the funding ratio of the plan going forward.

The financial impact on TFFR of Senate Bill 2331 is similar to the financial impact of House Bill 1203. Both bills address the member contributions collected during the reemployment period. House Bill 1203 eliminates these contributions and Senate Bill 2331 refunds these contributions over time by an increase in the service benefit upon subsequent retirement. Consideration should be given as to whether the additional administrative costs associated with Senate Bill 2331 would warrant passage of House Bill 1203, which eliminates these member contributions as opposed to increasing the member's service benefit upon subsequent retirement as required under Senate Bill 2331.

Another consideration is whether the provisions of Senate Bill 2331 will result in active members retiring earlier than they ordinarily would have in order to become re-employed retirees who will be eligible for an increase in service benefit upon subsequent retirement, particularly in school districts where their employers pay the member contributions. If this were the case, the increase in actuarial accrued liability would be greater than described above.

Technical Comments

In 2011, HB 1134 was enacted with the intention of improving the funded position of the system. Increasing the retiree benefits based on total member contributions paid for re-employed retirees will mean that it will take longer for TFFR to achieve its funding goals.

The following chart shows examples of the increase in a re-employed retiree's service benefit based upon various member contribution totals and subsequent retirement ages of 60 and 65.

Re-employed Retiree Member Contribution Totals	Additional Monthly Benefit Assuming Re-retirement Age 60	Additional Monthly Benefit Assuming Re-retirement Age 65
$50	$0.38	$0.40
$500	$3.76	$4.01
$5,000	$37.56	$40.05
$10,000	$75.12	$80.10
$15,000	$112.67	$120.15
$50,000	$375.58	$400.51

The actuarial adjustments are based upon TFFR's post-retirement mortality tables, a unisex basis of 25% male and 75% female, and 8% interest.

As an observation, it will take 10 to 11 years for a re-employed retiree to recoup the member contributions that were collected during the reemployment period.

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 in order to determine the additional monthly benefit upon each re-employed retiree's subsequent retirement. Senate Bill 2331 increases the complexities surrounding re-employed retirees, as there will be added administrative costs associated with educating members on how the provisions work and providing estimates of service benefits under alternative scenarios. As described earlier, if the intent of Senate Bill 2331 is to refund member contributions made during reemployment, it would be administratively easier to eliminate these contributions. As shown in the chart above, the increase in monthly benefit is minimal for member contribution totals that are low.

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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