

NDTFFR OVERVIEW

Legislative Employee Benefits Programs Committee
August 29, 2013

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

TFFR Plan

- TFFR is a defined benefit pension plan designed to provide lifetime retirement, disability, and death benefits for ND public school educators and certain state teachers.
- Originally created in 1913. Governing laws: NDCC 15-39.1 and NDAC Title 82.
- Funded by member (teacher) and employer (school district) contributions, and investment earnings.

TFFR Board of Trustees

TFFR benefits 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**
 - Rob Lech, Jamestown (new)
- **Retired Members**
 - Clarence Corneil, Dickinson
 - Mel Olson, Fargo (new)
- **State Officials – Ex officio members**
 - Kelly Schmidt, State Treasurer
 - Kirsten Baesler, State Superintendent

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

- Mike Gessner (TFFR)
- Rob Lech (TFFR)
- Clarence Corneil (TFFR)
- Tom Trenbeath (PERS)
- Mike Sandal (PERS)
- Howard Sage (PERS)

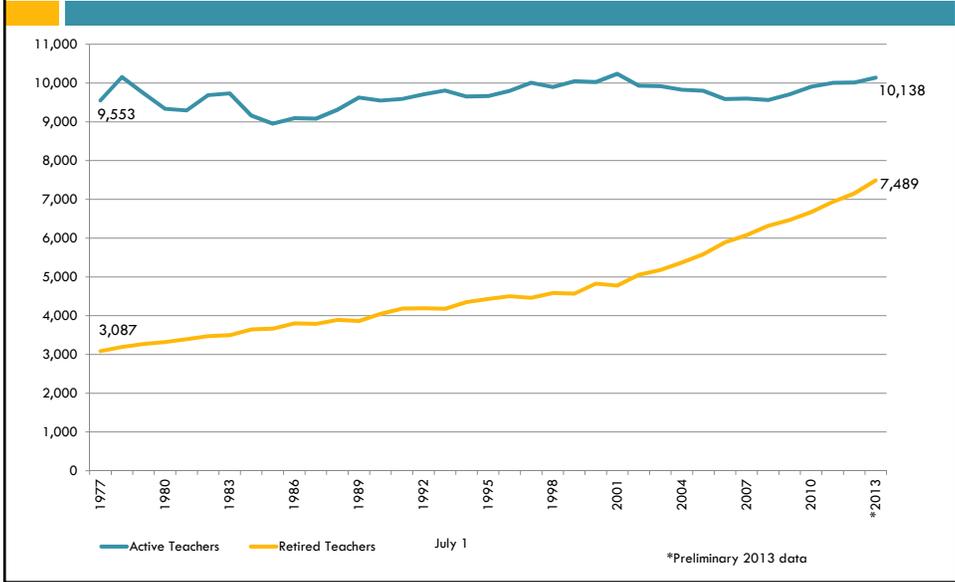
TFFR Background



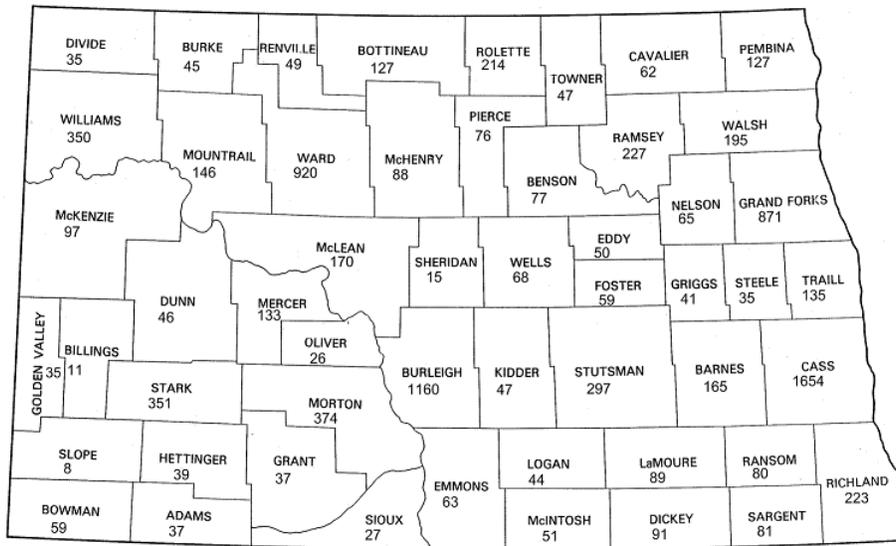
TFFR Participating Employers

■ School Districts	181
■ Special Ed Units	19
■ Vocational Centers	5
■ Counties	7
■ State Agencies/Institutions	4
■ Other – Closed groups	<u>3</u>
2012-13 Total Employers	219

Active and Retired TFFR Members 1977 – Present



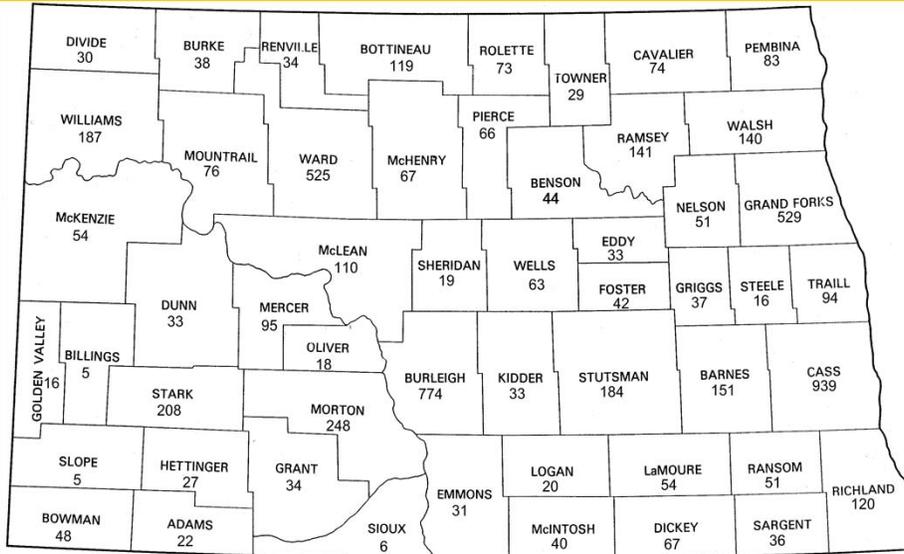
TFFR Active Members



		Tier 1G: 3,655
In-state	9,619	Tier 1NG: 3,445
Out-of-state	519	Tier 2: 3,038
Total	10,138	10,138

*Preliminary 2013 data

TFFR Retired Members



In-state 6,039
 Out-of-state 1,450
 Total 7,489

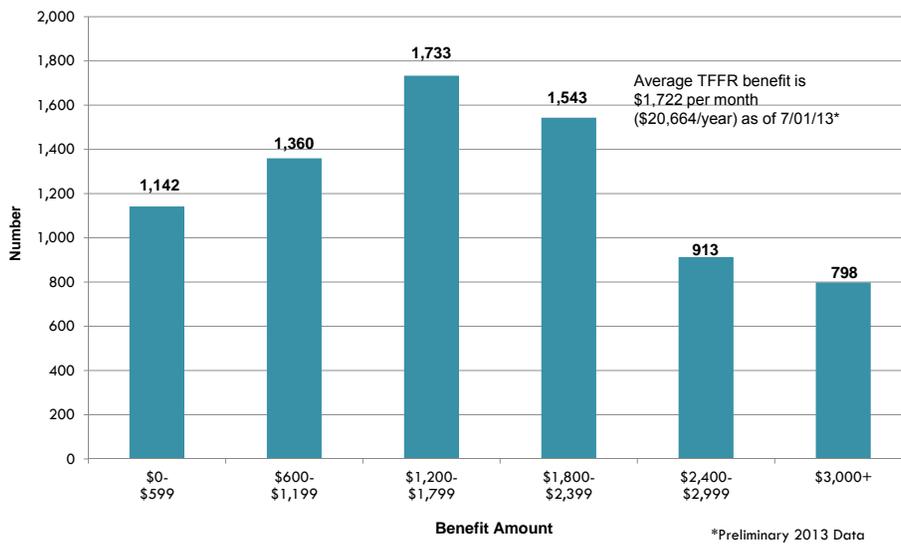
*Preliminary 2013 data

Average Monthly TFFR Benefits by County

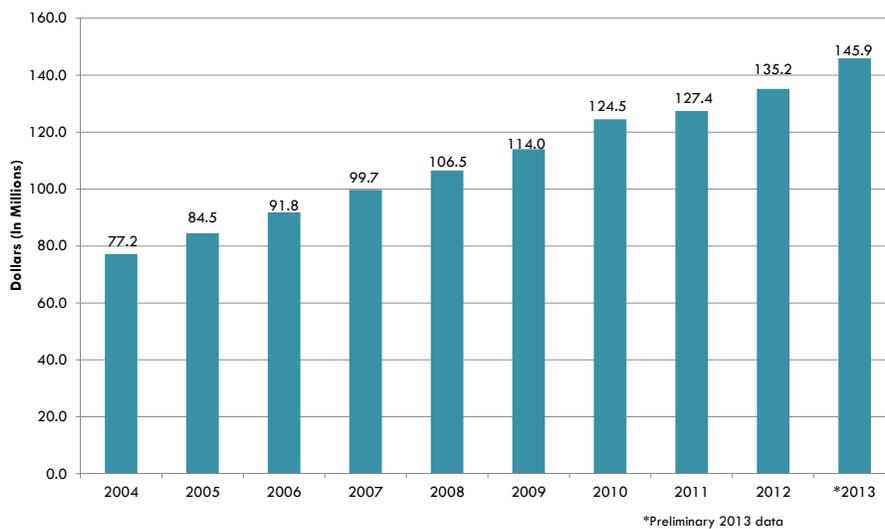
(*preliminary 2013 data)

County	Number	Average	Total Benefits	County	Number	Average	Total Benefits
Adams	22	1,610	35,420	Mercer	95	1,814	172,303
Barnes	151	1,854	279,977	Morton	248	1,748	433,499
Benson	44	1,856	81,663	Mountrail	76	1,469	111,667
Billings	5	1,386	6,928	Nelson	51	1,452	74,032
Bottineau	119	1,583	188,341	Oliver	18	1,654	29,764
Bowman	48	1,655	79,429	Pembina	83	1,828	151,751
Burke	38	1,460	55,463	Pierce	66	1,615	106,599
Burleigh	774	1,905	1,474,176	Ramsey	141	1,598	225,327
Cass	939	1,978	1,856,967	Ransom	51	1,520	77,516
Cavalier	74	1,457	107,818	Renville	34	1,749	59,470
Dickey	67	1,390	93,140	Richland	120	1,889	226,644
Divide	30	2,033	60,999	Rolette	73	1,638	119,566
Dunn	33	1,885	62,194	Sargent	36	1,385	49,867
Eddy	33	1,838	60,646	Sheridan	19	1,495	28,403
Emmons	31	1,560	48,373	Sioux	6	854	5,121
Foster	42	1,881	79,014	Slope	5	924	4,622
Golden Valley	16	1,347	21,552	Stark	208	1,788	371,967
Grand Forks	529	1,973	1,043,944	Steele	16	1,499	23,990
Grant	34	1,326	45,075	Stutsman	184	1,783	328,094
Griggs	37	1,616	59,802	Towner	29	1,504	43,615
Hettinger	27	1,659	44,804	Traill	94	1,651	155,196
Kidder	33	1,537	50,735	Walsh	140	1,613	225,885
LaMoire	54	1,659	89,563	Ward	525	1,806	947,935
Logan	20	1,488	29,758	Wells	63	1,657	104,402
McHenry	67	1,692	113,371	Williams	187	1,863	348,297
McIntosh	40	1,560	62,404	Totals	6,039	1,796	10,843,056
McKenzie	54	2,010	108,552	Out of State	1,450	1,416	2,054,302
McLean	110	1,613	177,416	Grand Totals	7,489	1,722	12,897,358

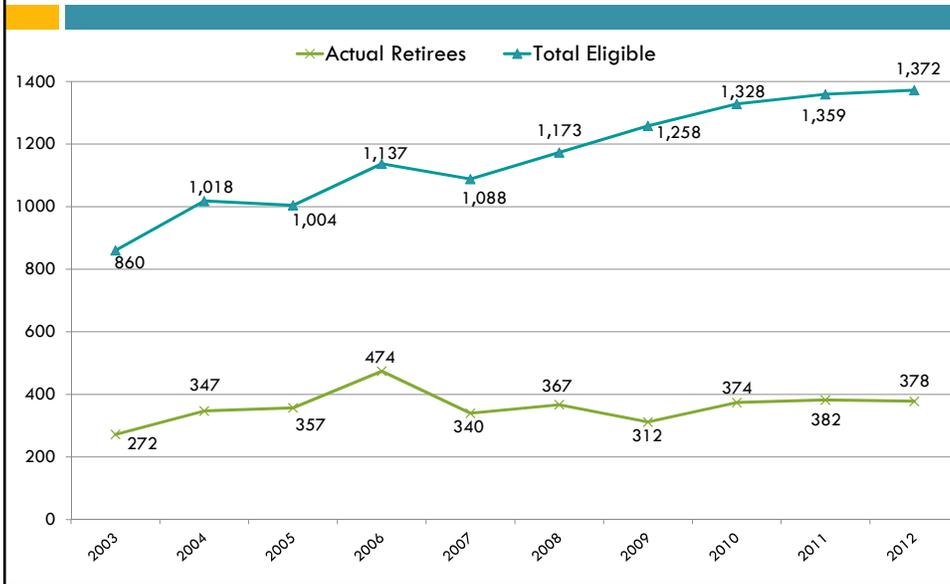
Monthly TFFR Benefits by Benefit Amount



Annual TFFR Pension Benefits Paid



Actual Retirees and Total Eligible (as of 01-13)



Summary Retirement Projections

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,700 to 4,100 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	9,643	3,402	3,731	340	373
Superintendents	128	89	97	9	10
Other Administrators	498	207	229	21	23
Total Active Members	10,269	3,698	4,057	370	406

Note: All retirement projections are estimates only and based on January 2013 membership data.

TFFR Plan Benefits



Membership

- Licensed by Education Standards and Practices Board (ESPB)
- Contracted with participating employer to provide teaching, supervisory, administrative, or extracurricular services
- Other members defined in state law
- **Membership Tiers**
 - **Tier 1** – Members who have TFFR service credit on 7/1/08.
 - Tier 1 Grandfathered Members
 - Tier 1 Non-Grandfathered Members
 - **Tier 2** – Members employed on or after 7/1/08

Grandfathered Members

- **Note: 2011 legislation**
 - Tier 1 grandfathered members - within 10 years of retirement eligibility on 6/30/13 (Vested and Age 55+ or Rule of 65+). Approximately 3,500 members.
 - Tier 1 non-grandfathered and Tier 2 members – more than 10 years away from retirement eligibility on 6/30/13. About 6,500 members.
 - Member's actual age and service credit (including any purchased service credit) will be calculated to the nearest thousandth (0.000).
 - Non-grandfathered members could purchase service credit by 6/30/13 to be grandfathered at actuarial equivalent cost. Actuarial cost to purchase service credit increases significantly if the purchased service allows member to be grandfathered and eligible to retire at the Rule of 85, instead of minimum age 60 with the Rule of 90.

Summary of TFFR Pension Benefits for Membership Tiers

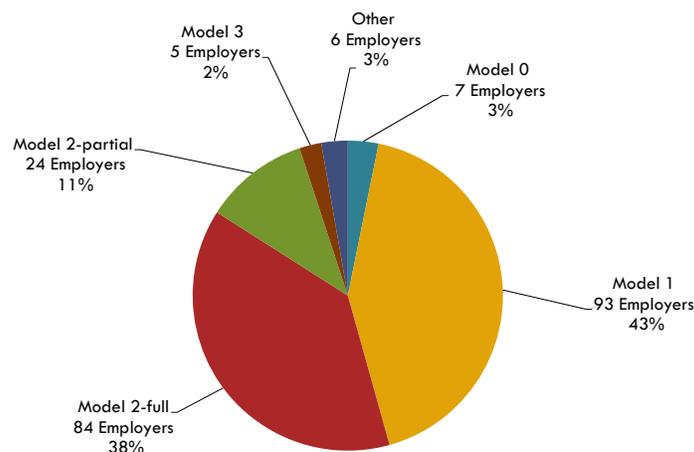
	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule of 85	Rule of 90	Rule of 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
x Final average salary (high salaries of career)	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years
Disability Retirement	Yes	Yes	Yes
Retirement formula multiplier (2%) X FAS X total years			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

TFFR Employer Payment Plan (EPP) Models

Payment of member contributions on a tax deferred basis can be made by the employer through a: (1) salary reduction or (2) salary supplement.

- **No Model:** Member/employee contribution is paid by employee and remitted by employer as taxed dollars.
- **Model 1:** Member/employee contribution is paid by employee through a salary reduction and remitted by employer as tax deferred dollars.
- **Model 2 All:** Member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars.
- **Model 2 Partial % and Model 3 Partial \$:** A portion of the member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars. The remaining employee contribution is paid by employee and remitted by employer as tax deferred dollars. Model 3\$ option is no longer available.
- **Other:** Includes state agencies, and closed groups with special provisions.

TFFR Employer Models 2012-13



Retiree Re-employment

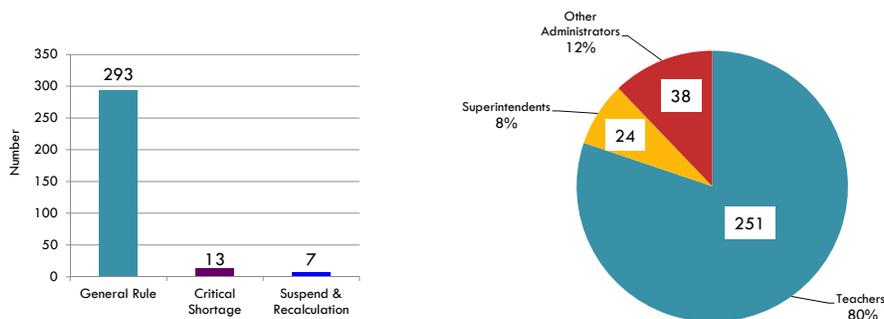
□ General Rule

- 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 work arrangement.
 - 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 and payment of TFFR contributions.
- Both retiree and employer contributions must be paid on retiree salary under the same employer payment plan model as active members.

□ Exceptions to General Rule

- Critical Shortage Areas
- Benefit Suspension and Benefit Recalculation

2012-13 Retiree Re-employment



Total Retirees: 313
Employers: 135

Average Age: 62

Average Salary: \$23,600

*Preliminary 2013 data

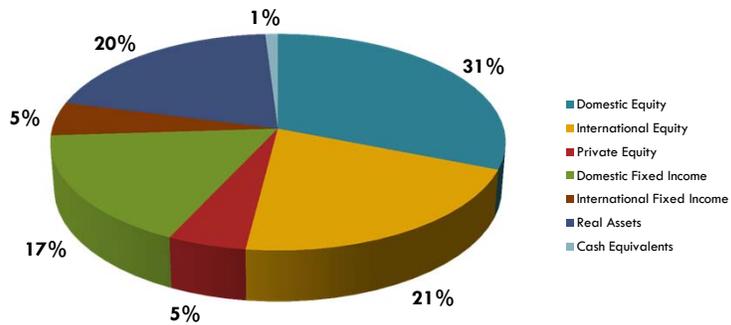
TFFR Investments



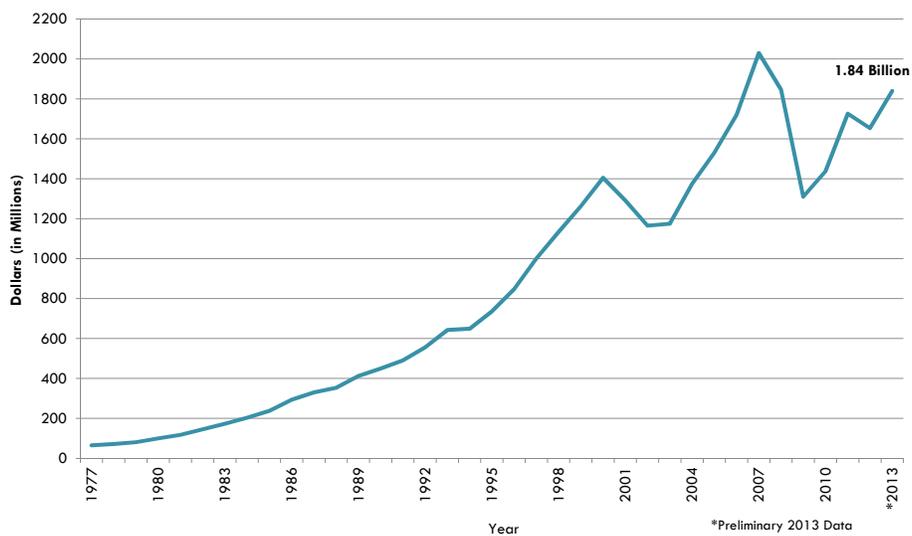
TFFR Investments

- SIB overview – Darren Schulz, SIB Interim Chief Investment Officer
- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Chief Investment Officer.
- Asset Liability study is conducted every 5 years to consider appropriate asset mix for funding TFFR pension liabilities. Most recent Study was completed in Fall 2011.
- TFFR developed a new framework which divides the portfolio into three basic categories, defined by their reactions to specific capital market factors:
 - ▣ Equity (growth and capital appreciation)
 - ▣ Fixed income (income, low risk, flight to quality, deflation)
 - ▣ Real assets (inflation, income, diversification)
- TFFR's long term investment return assumption is 8%.

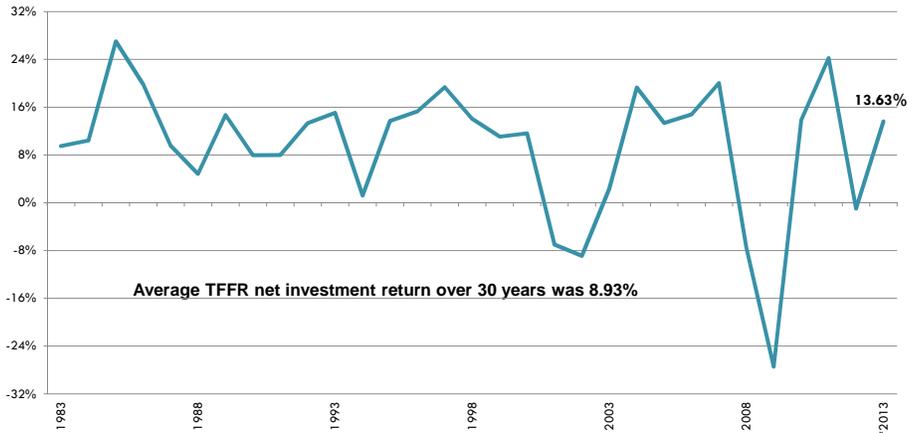
TFFR Asset Allocation



Market Value of TFFR Assets 1977 - 2013



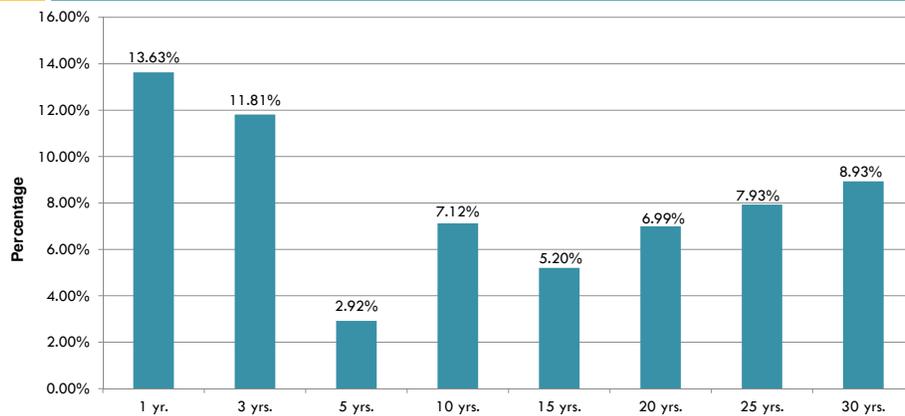
TFFR Net Investment Performance – Annual 1983-2013



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 2013 data

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2013



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 2013 Data

TFFR Funding



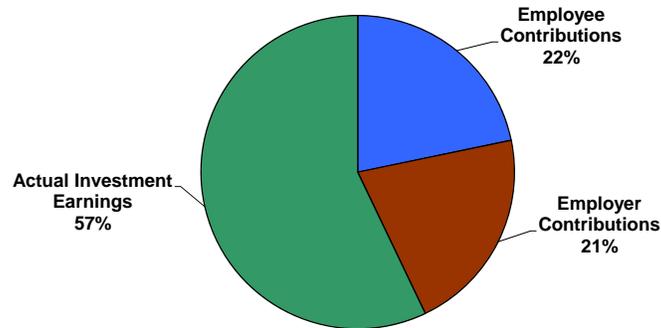
Retirement Funding Equation

$$C + I = B + E$$

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



Sources of TFFR Revenue Fiscal Years 1990-2013

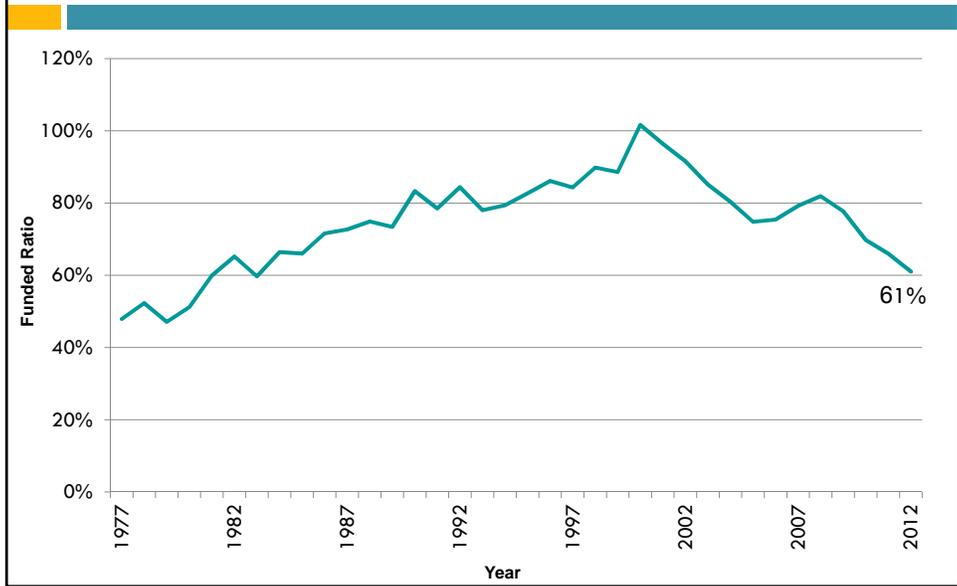


2012 Valuation Report

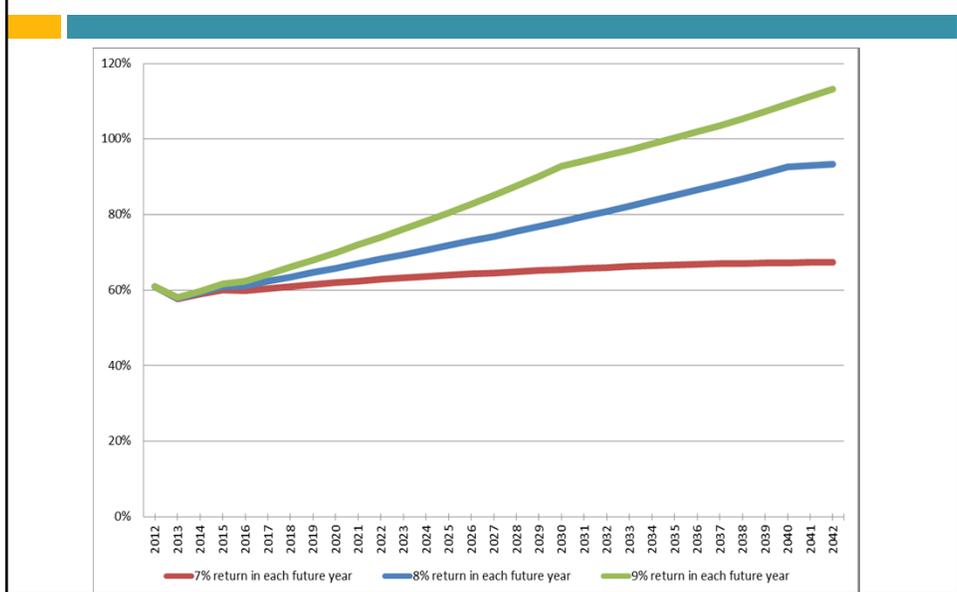
Actuarial Accrued Liability (AAL)	\$2.87 billion
Actuarial Value of Assets (AVA)	<u>- 1.75 billion</u>
Unfunded AAL (UAAL)	\$1.12 billion
AVA Funded Ratio	61%
Market Value of Assets (MVA)	\$1.65 billion
MVA Funded Ratio	58%

□ **Note: 2013 valuation in process – to be completed late October 2013.**

TFFR Funded Ratio (AVA) 1977 - 2012



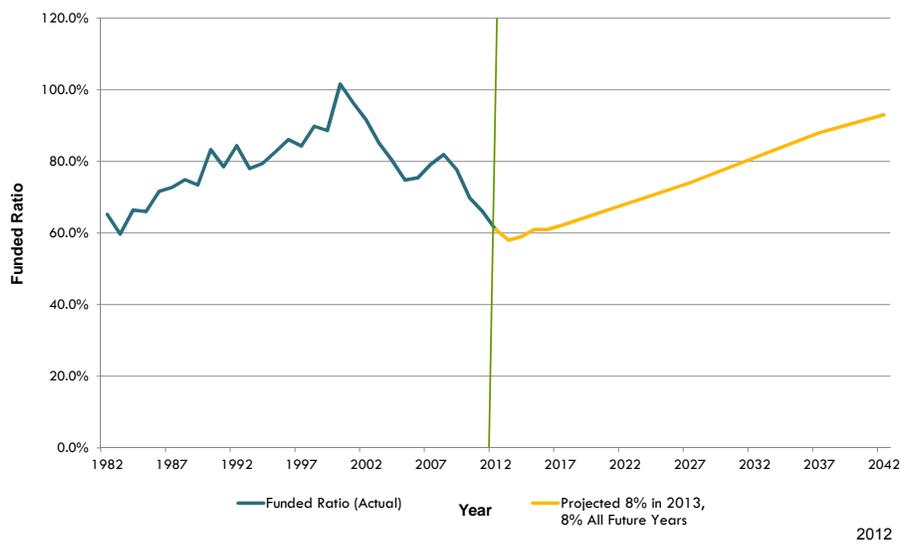
Projected TFFR Funded Ratios (AVA Basis) Actual Returns +1% or -1% of Assumed



TFFR Funding Improvement Expected

- **With the approved 2011 legislative changes, funding recovery is expected to occur gradually over time.**
 - ▣ After the 2008-09 investment losses are smoothed into actuarial calculations
 - ▣ After increased retirement contributions begin flowing into the plan (phased in 2012 – 14).
- **Time is needed for the changes made to show positive funding results. It will be a long, slow process.**
 - ▣ Actuarial projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions, including the 8% investment return assumption.
 - ▣ If investment returns are greater than 8% over the long term and if TFFR reaches 100% funded level, employee and employer contribution rates will be reduced sooner than expected.
 - ▣ If investment returns are less than 8% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.
 - ▣ While 2013 fiscal year was a good year in the investment markets, the ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.

TFFR Funded Ratio (AVA) Actual and Projected (based on 2012 valuation)



2013 Approved Legislation

- **SB 2061**, submitted by TFFR Board, includes technical corrections and administrative updates. The changes were not expected to have an actuarial effect on the plan, and were not submitted for funding improvement purposes.
- **HB 2030**, submitted by Rep. Louser, maintains the 11.75% member contribution rate and 12.75% employer rates approved by the 2011 Legislature until the Fund reaches 100% funded ratio. Once full funding is achieved, contribution rates will be reduced to 7.75% for members and 7.75% for employers.

Future Issues



New GASB Standards

- Governmental Accounting Standards Board (GASB) recently approved two new standards that will change the accounting and financial reporting of public employee pensions by state and local governments.
- **Statement #67** – Addresses financial reporting for governmental pension plans (NDTFFR).
 - Effective for plan year beginning 7/1/13 – 6/30/14.
- **Statement #68** – Establishes new accounting and financial reporting requirements for state and local governments (NDTFFR participating employers, school districts).
 - Effective for plan year beginning 7/1/14 – 6/30/15.

New GASB Standards

- Funding and expense will be decoupled using new pension expense methodology. Having two different “cost” numbers – funding and expense – may be confusing.
- Net pension liability will be placed on employer’s balance sheet according to a formula (based on market value of assets and a blended discount rate). This will add a large and unstable element to an employer’s net financial position as presented in the basic financial statements.
- Employers in “pooled” plans like TFFR will have that “pooled” net pension liability apportioned to each participating employer (school district, state, etc.).

New GASB Standards

- The guidance contained in these new accounting statements will change how governments calculate and report the costs and obligations associated with pensions.
- Each employer is responsible for implementing the new financial reporting requirements, so will need to work with accounting, audit, and legal specialists for assistance in understanding and implementing the new standards. This is a MAJOR change from previous requirements.
- TFFR is working with actuarial consultant, Segal Company, to understand how GASB changes will impact reporting for TFFR and participating employers.
- **Segal will provide more information on new GASB reporting requirements when they deliver TFFR's 2013 annual actuarial valuation report to the Legislative Employee Benefits Programs Committee in November.**

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