

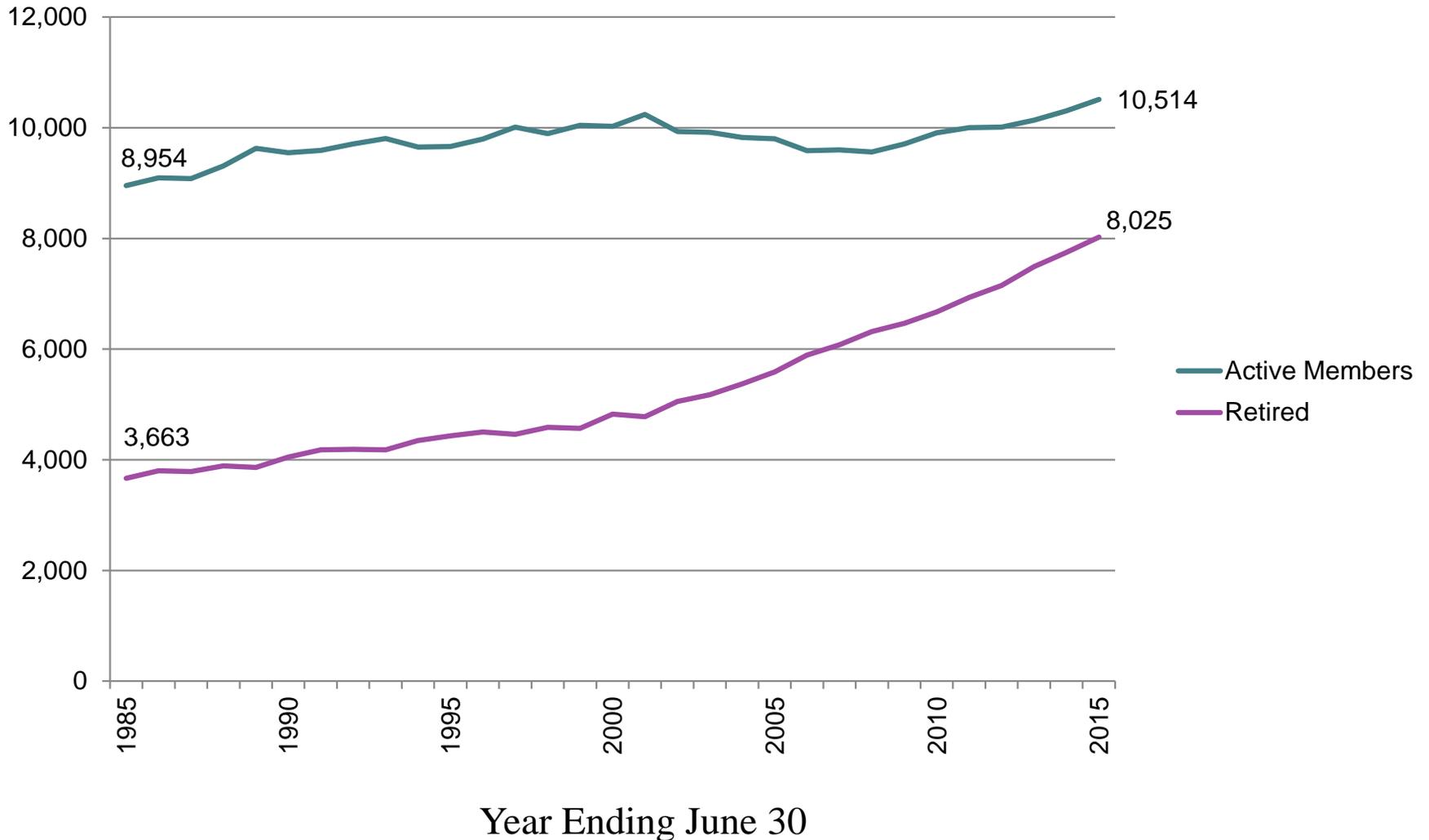
# **NDTFFR Update**

## **Legislative Management Employee Benefits Programs Committee**

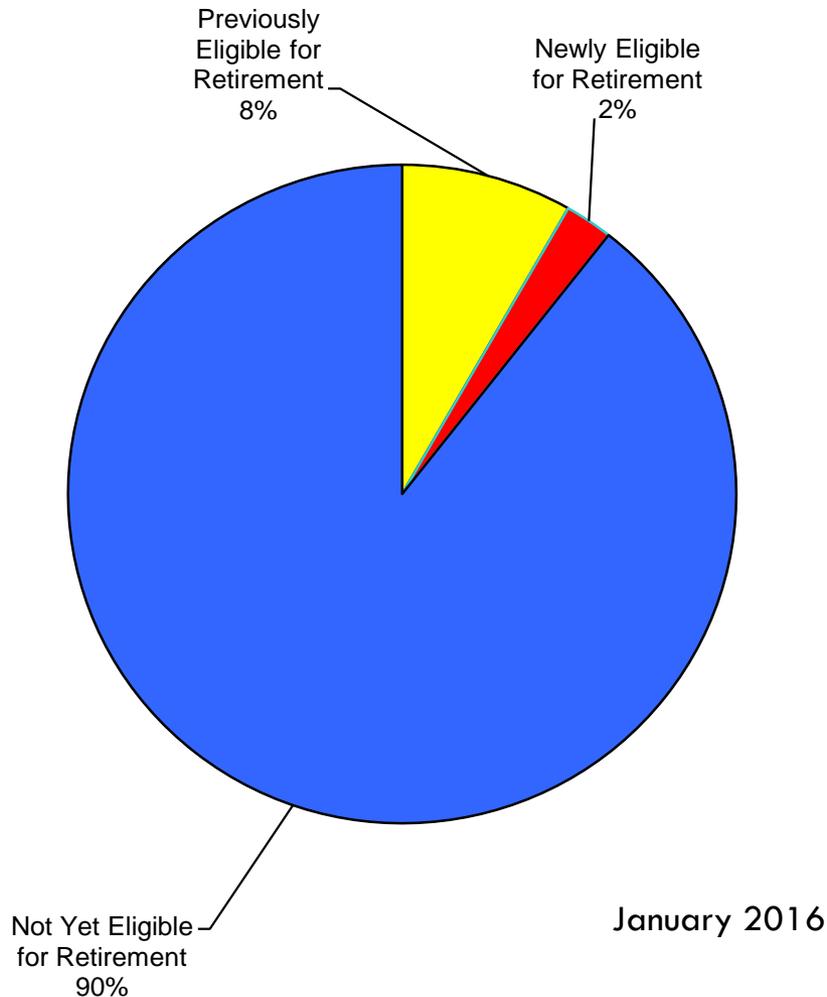
**April 28, 2016**

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

# Active and Retired TFFR Members 1985 - 2015

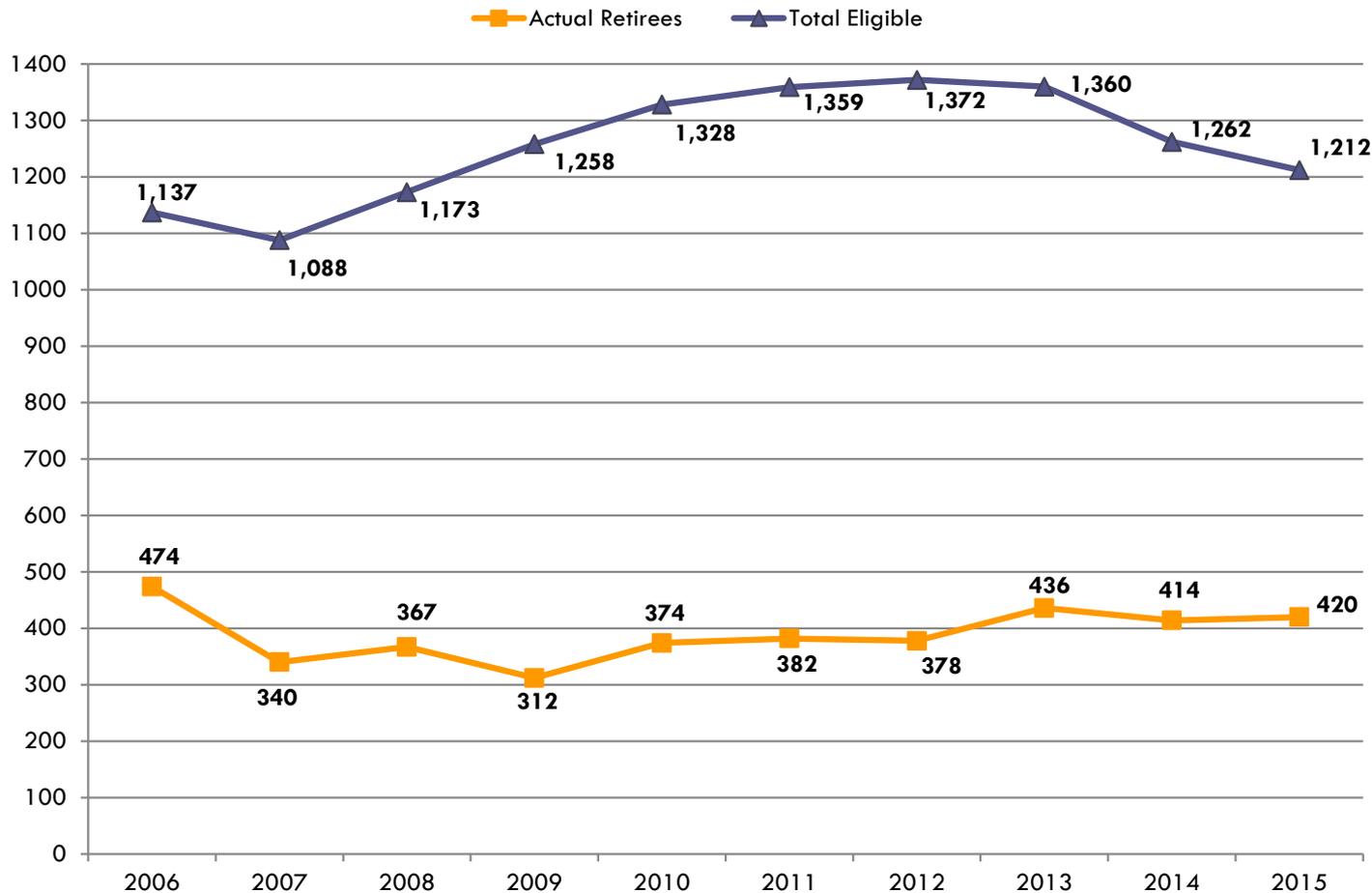


# Active TFFR Members Eligible for Retirement



Previously Eligible	900
Newly Eligible in 2015/16	252
Not Eligible	9,718
Total	10,870

# Actual New Retirees and Total Eligible

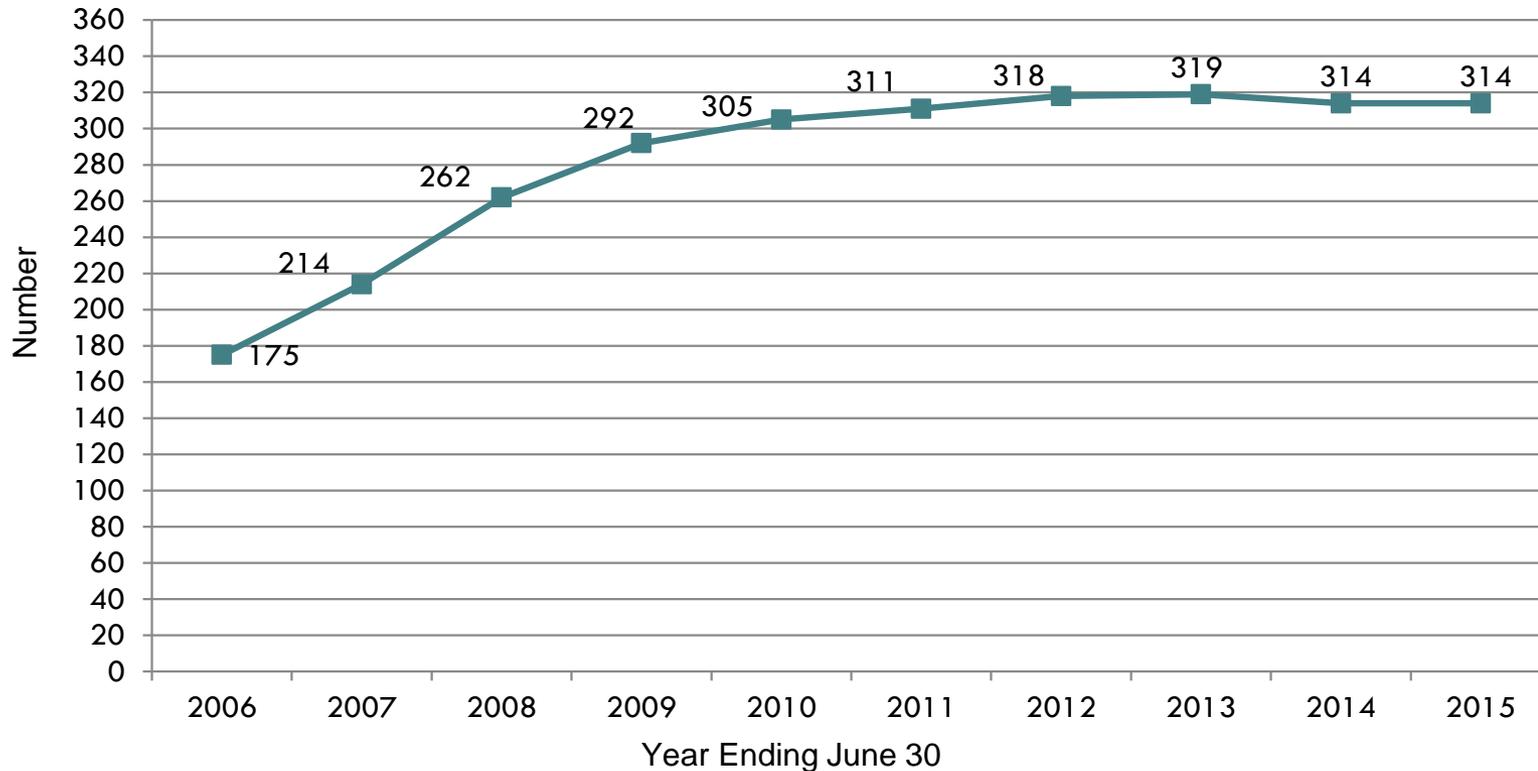


## 10 Year History 2006-2015

- ◆ On average, 1,250 teachers have been eligible to retire each year over the last 10 years.
- ◆ On average, 390 teachers actually retired each year, or total of over 3,900 for 10 year period.
- ◆ Approximately 31% of eligible members actually retired over the past 10 years.

January 2016

# Re-Employed Retired Members 2006- 2015



Note: Of total re-employed retirees, those that are working full time in critical shortage areas: 2012 (13); 2013 (13); 2014 (14); 2015 (22);  
\*2016 (37)

# TFFR Board Studies



# Annual Actuarial Valuation

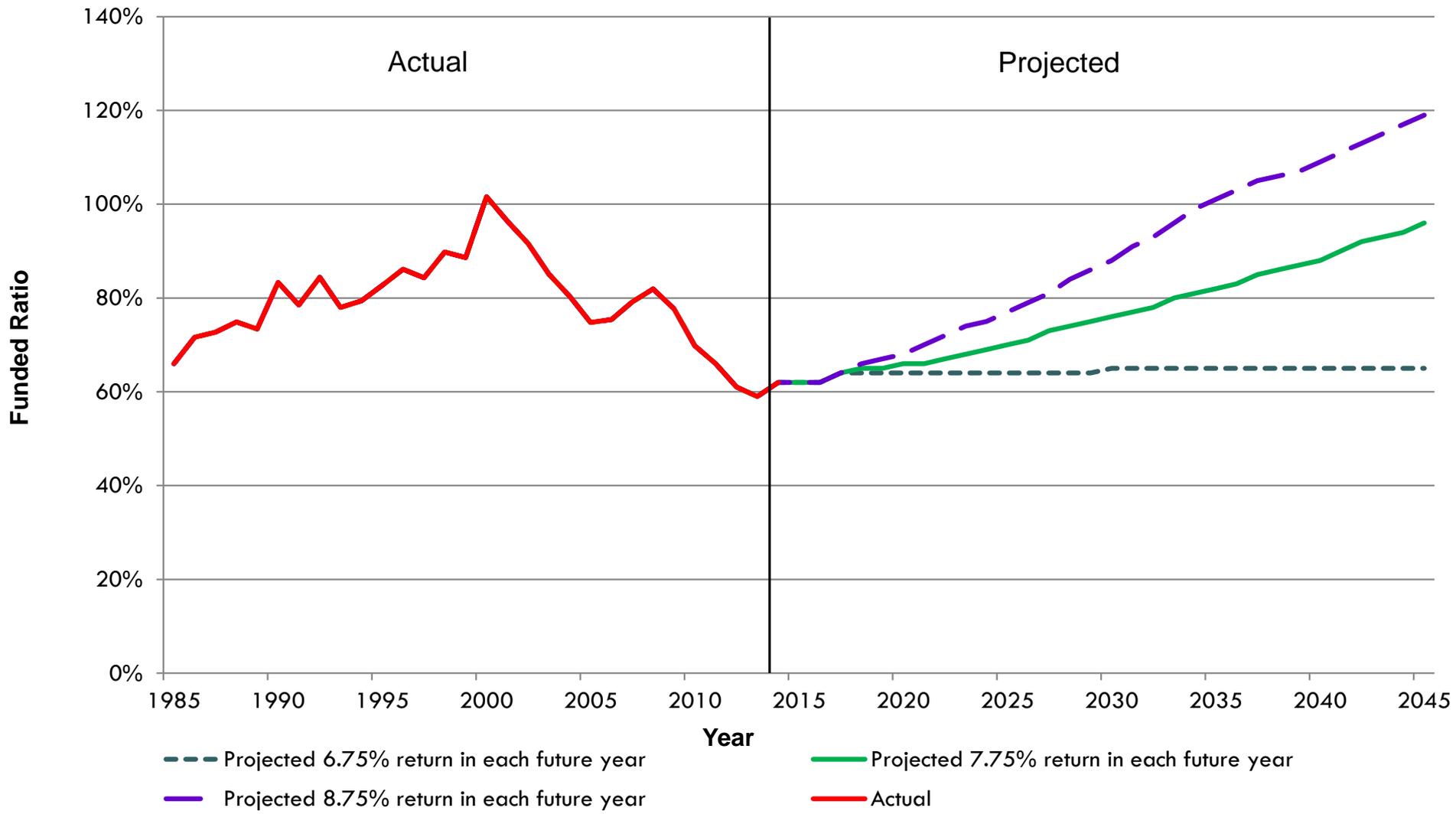
- Actuarial valuation is conducted by the actuary every year. Purpose is to:
  - ▣ Report TFFR's actuarial assets, liabilities, and funded status
  - ▣ Determine the actuarially determined contribution rate (ADC) and effective amortization period
  - ▣ Provide information for annual financial statements
  - ▣ Identify emerging trends.
- TFFR's actuary, Segal Company, presented 2015 valuation report to this Committee in October 2015.

# 2015 Valuation Report Summary

Actuarial Accrued Liability (AAL)	\$3.45 billion
Actuarial Value of Assets (AVA)	<u>- 2.13 billion</u>
Unfunded AAL (UAAL)	\$1.32 billion
<b>AVA Funded Ratio</b>	<b>61.6%</b>
Market Value of Assets (MVA)	\$2.14 billion
<b>MVA Funded Ratio</b>	<b>62.1%</b>

# TFFR Funded Ratio (AVA)

## Actual and Projected (based on 2015 valuation)



# TFFR Funding Improvement Expected

- **With the benefit and contribution changes approved in 2011, funding recovery is expected to occur gradually over time.**
  - ▣ The significant investment losses experienced in 2008-09 have now been smoothed into actuarial calculations.
  - ▣ Final phase of contribution increases began flowing into the plan effective 7/1/14.
- **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 7.75% investment return assumption.
  - ▣ If investment returns are greater than 7.75% over the long term and if TFFR reaches 100% funded level, employee and employer contribution rates will be reduced to 7.75% sooner than expected.
  - ▣ If investment returns are less than 7.75% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.

# Actuarial Experience Study

- An Experience Study is conducted by actuary every 5 years to compare actual plan experience to assumed plan experience, determine trends, and make recommendations.
  - ▣ Economic assumptions include inflation, salary increase, payroll growth, and investment returns.
  - ▣ Demographic assumptions include termination, disability, retirement, and mortality rates.
- Goal is to improve appropriateness and reliability of actuarial valuations.
- Experience Study was conducted in 2015 for 2009-14 period.
- Segal Company reported results of Experience Study to this Committee in October 2015 as part of 2015 valuation.

# Experience Study Results

- As result of Experience Review, TFFR Board:
  - ▣ Adopted new mortality tables to reflect longer life expectancies.
  - ▣ Reduced inflation assumption from 3.0% to 2.75%.
  - ▣ Reduced investment return assumption from 8.0% to 7.75%.
  - ▣ Made minor adjustments to salary increase, turnover, and retirement rates.
  - ▣ Most other assumptions remained valid.
- Impact was reduction in TFFR's funding level and increase in UAAL.
- New assumptions were used in 7/1/15 valuation report and funding projections.
  - ▣ Assumptions have also been incorporated into certain member and employer payment calculations.

# Asset Liability Study

- Asset allocation and investment policy is determined by TFFR Board, with assistance from State Investment Board (SIB) Chief Investment Officer, RIO staff, and investment consultant.
- TFFR Board selected SIB investment consultant, Callan, to conduct 5-year Asset Liability Study.
- Purpose of the study is to:
  - Evaluate the effectiveness of the current asset allocation on funding levels, contribution levels, and investment risk and return.
  - Investigate the impact of alternative asset allocations.
- Study was completed in January 2016.

# Asset Liability Study

- Asset Liability Study resulted in the following changes to TFFR's asset allocation as approved by TFFR Board and State Investment Board (SIB).

	CURRENT	NEW
<b>Global Equity</b> (domestic, international, and private)	57%	58%
<b>Global Fixed Income</b> (domestic, international)	22%	23%
<b>Global Real assets</b> (real estate, timber, infrastructure, other)	20%	18%
<b>Cash</b>	1%	1%

- The SIB is currently implementing TFFR's new policy.

# Actuarial Audit

- Actuarial audit is an evaluation by an independent actuary, other than the one who performs the plan's actuarial valuation.
- Purpose is to express an opinion on the reasonableness or accuracy of the actuarial valuation results, assumptions, cost methods, contribution rates and related calculations.
- TFFR Board policy requires an actuarial audit to be conducted every 5 years.
- After RFP process, TFFR Board selected Cavanaugh-Macdonald Consulting in March 2016 to conduct the actuarial audit of Segal.
- Actuarial audit is on schedule and proceeding as planned.
- Actuarial audit report will be presented to TFFR Board in July 2016.

# IRS Determination Letter

- Tax qualification of a pension plan is important, since without it, unfavorable tax consequences could result for employees, employers, and retirees.
- Internal Revenue Code compliance review was completed by TFFR's consultant, Segal Company, in 2015, with minor changes suggested.
- TFFR Board submitted the TFFR plan to the IRS for a favorable determination letter in January 2016 to ensure TFFR is a qualified pension plan.
- Note: Effective January 1, 2017 the IRS plans to eliminate the 5-year determination letter cycle for governmental plans.

# TFFR Legislation



# 2015 Legislation

- No legislation was approved which affected TFFR plan benefits, contributions, or retiree payments.
- TFFR technical corrections bill (HB1064) was approved which updated plan provisions relating to compliance with Internal Revenue Code requirements, as amended in the future by the IRS.

# 2017 Legislation

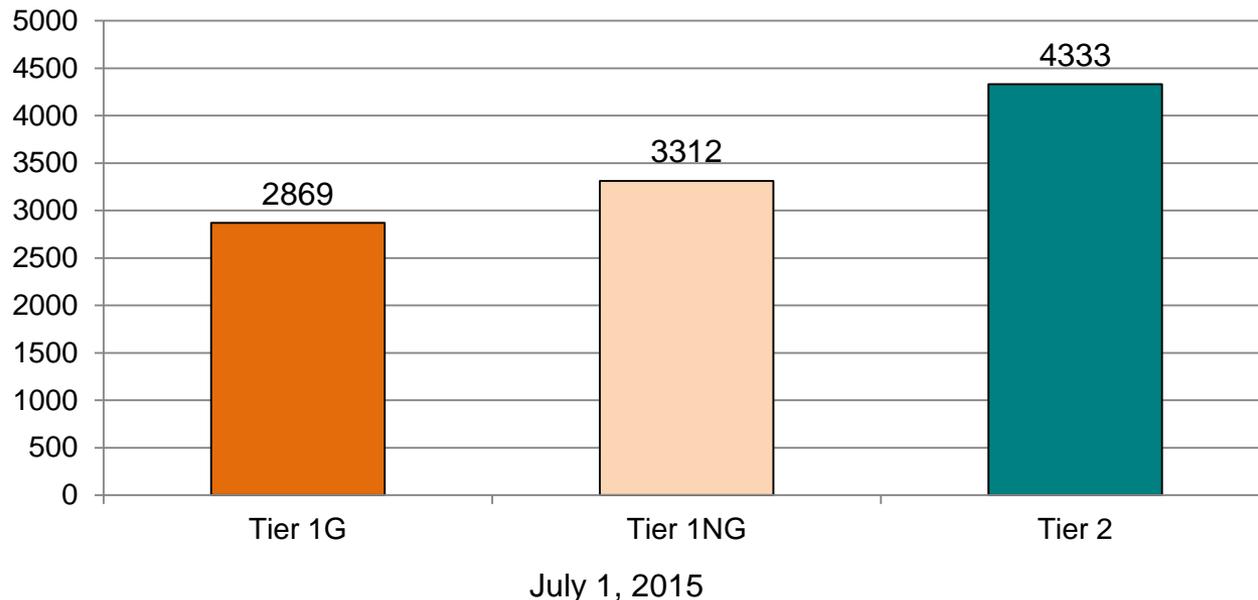
- No legislation is being proposed by the TFFR Board for the 2017 legislative session.
- Benefit changes and employee and employer contribution increases approved in 2011 have been implemented.
- Time is needed for the legislative changes made to show positive funding results.

# Appendix: TFFR Plan Summary



# TFFR Membership Tiers

- **Tier 1- Members who have service credit prior to 7/1/08**
  - ▣ Grandfathered – Members who on 6/30/13 were within 10 years of retirement eligibility (age 55+ or Rule of 65+)
  - ▣ Non-grandfathered – Members who on 6/30/13 were more than 10 years away from retirement eligibility (less than Rule of 65).
- **Tier 2 – Members employed on or after 7/1/08**



# 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
<b>AND</b> Rule	Rule of 85	Rule of 90	Rule of 90
<b>OR</b> 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.			

# Contribution Rates

RATES %	Employer	Member	Total	Increase
1997 – 2008	7.75%	7.75%	15.5%	--
7/1/08	8.25%	7.75%	16.0%	+0.5%
7/1/10	8.75%	7.75%	16.5%	+0.5%
7/1/12	10.75%	9.75%	20.5%	+4.0%
7/1/14	12.75%	11.75%	24.5%	+4.0%

Note: Recent legislation increased contribution rates to improve TFFR funding. Increased rates will be in effect until TFFR reaches 100% funded ratio, then rates will be reduced to 7.75% each.



# TFFR Information

TFFR website: [www.nd.gov/rio](http://www.nd.gov/rio)

- TFFR Board meeting schedule, members, and meeting minutes
- Legislation
  - Links to ND Legislative website, bill drafts, actuarial analysis, testimony
- Investments
  - Asset allocation, investment performance, investment guidelines
- GASB Information
  - GASB 68 Overview, Q & A, GASB 68 report and audited schedules, disclosure template
- Presentations
  - Presentations made to member and employer groups
- Publications and Reports
  - Newsletters, handbook, brochures
  - Actuarial, financial, and audit reports
- Contact Information
  - Phone: 701-328-9885 or 1-800-952-2970
  - Email: [fkopp@nd.gov](mailto:fkopp@nd.gov)

# ND TFFR Fast Facts

2014-2015

For over 100 years, the ND Teachers' Fund for Retirement (ND TFFR) has worked to provide ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR's plan design, professional plan management, strong investment performance, and outstanding customer service.

## MEMBERS



**10,514** ACTIVE MEMBERS

**8,025** RETIRED MEMBERS

WE SERVE

### Member Stats

	Actives	Retirees
Avg. Annual Salary/Benefit	\$56,095	\$22,108
Avg. Service Credit	12.4 yrs	27.5 yrs
Avg. Current Age	42.5 yrs	71.0 yrs

MEMBER/EMPLOYER SATISFACTION: 3.8 (4.0 SCALE)

**84%**

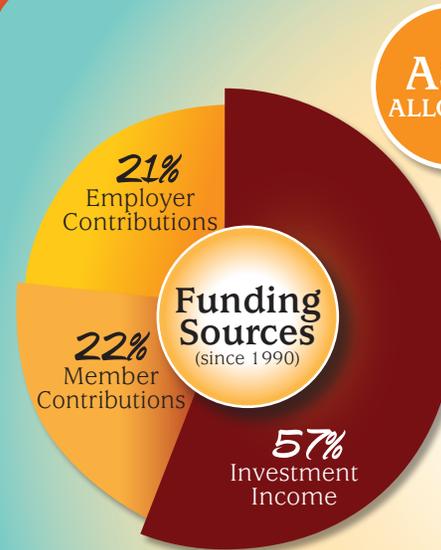
of benefits are paid to ND residents.

To positively impact the state's economy,

**\$168 million**

was distributed to retirees in FY 2015.

Market value of TFFR assets **\$2.1 billion**



### ASSET ALLOCATION



### Investment Returns

1 year	3.5%
5 year	10.9%
30 year	8.4%

## 62% of BENEFITS are PREFUNDED

