2013 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1230

2013 HOUSE STANDING COMMITTEE MINUTES

House Government and Veterans Affairs Committee
Fort Union Room, State Capitol

HB 1230
January 25, 2013
17774

☐ Conference Committee

Committee Clerk Signature	Carmen Hart

Explanation or reason for introduction of bill/resolution:

Relating to expiration of the increase in TFFR member and employer contributions

Minutes:

You may make reference to "attached testimony."

Chairman Jim Kasper opened the hearing on HB 1230.

Rep. Scott Louser appeared in support. The TFFR contributions in July of 2012 from the employee side went from 7.75% to 9.75%. The employer side went from 8.75% to 10.75%. That was the bill we passed last session and was referred to in the last hearing. In 2014 those rates will go up again. It was a 2 and 2 increase in 12 and it will be a 2 and 2 increase in 14. In 2014 the employee side will go to 11.75% and the employer, 12.75%. That will be a total of 24 ½% of salaries going to retirement. The TFFR fund reported in July of 2012 to be at 60.9% funded. The fund has assets against future liabilities at the ration of 60.9%. It was down from 66.3% from the previous years. The actuarially sound portion of the bill went down 6%. The reporting to the interim committee of the actual rate of return for the fiscal year was -1.42%. That is under an assumption that it is going to earn 8%. It has been discussed that that is a smoothing over 5 years. The bill that we passed last session had those 2 and 2 and 2 and 2 increases to get that fund from 60% something up to 90% funded. When that actuarial table comes to us in potentially 25 to 32 years, the contributions will revert back to the 7.75 and 8.75 levels. If the fund gets to 90% at some point, that will trigger. The change in this bill is to take that 90% to 100%. To me it is only logical to fully fund if we are going to do this. We are predetermining failure by going to 90% and then automatically reverting back to the 7.75 and 8.75 rates. The goal is to make it fully 100% sound. If we get to 90, we know it will repeat history. If it doesn't get to 90 at some point in the next 30 years, then it won't get to 100. There was no fiscal note. The actuarial numbers that we saw said this would happen potentially somewhere around 2041 to 2046 when the current numbers tell us that we should get to 100% funded. That is completely subject to everything that we have heard. That includes changes to the multiplier, the number of employees, the salaries, the amount going in, the rate of return, and the amount of people receiving benefits. When dealing with an annuity, this is a problem that you have because annuities are consistent numbers in for consistent numbers out. The purpose here is to protect everybody that is in the system so that the people paying in now and the retirees receiving their benefits now know at some point this will be fully funded at 100%.

Rep. Vernon Laning Should the fund be 90% funded, essentially the employer and the employee contribution drops back 4% then from the 2014 levels?

Rep. Scott Louser The levels that will eventually be paid as of 2014 will be a total of salaries at 24 ½%. Once that fund hits 90%, the employee side will be reduced 4 points and the employer side will be reduced 4 points for a total of 8.

Rep. Gail Mooney If 90% is going to take up around 30 years, do you have any idea what 100 might take?

Rep. Scott Louser Under the same assumptions, the actuary told us it would take potentially an additional five years from about 2041 to 2046.

Rep. Karen Karls Is this fund somewhat like social security where you pay in for years and years or your school board pays in for years and years a percentage of a much smaller salary, and when you retire, you are getting back a lot more dollars than you paid in over the course of time? Do we ever catch up really?

Rep. Scott Louser This is a defined benefit system so the benefit that is received is defined in the future. To answer your question are you paying more in than you receive? That depends on when you retire and when you die. Over time we have changed the multiplier. We have changed the rule of 85, rule of 90, and grandfather clause and tiers and all of that. That can't be answered for the fund as a whole. A defined benefit system is a kin to social security, however. You are receiving benefits based on your last five years of service as opposed to the 35 years you may have. In theory you would have increased salaries towards the end of your service.

Rep. Gail Mooney In the case where somebody does pass away, is it like social security where the surviving spouse and family receives benefits or does it go back to the benefit plan?

Rep. Scott Louser As I understand it, that is not a transferable asset. Fay could better answer that.

Fay Kopp, Interim Executive Director-Chief Retirement Officer, ND Retirement and Investment Office-ND Teachers' Fund for Retirement appeared in support of HB 1230. She started by answering the previous question. When an employee retires, their benefit is calculated as in the example where you took $50,000 x 2% multiplier x years of service and maybe in that case they would receive a $30,000 benefit. That would be if they selected the benefit under a single life annuity option for their lifetime only. They also have the option to take a reduction in their monthly to provide for their spouse or another beneficiary. They may select 100% joint and survivor option, 50%, 10 year or 20 year term certain option. **Attachment 1** testimony was presented. (11:15-15:43)

Chairman Jim Kasper Tell us how you calculate the average annual retirement salary from which the benefit is calculated.

Fay Kopp She pointed out the calculation formulas on the Plan Summary Sheet. Most of our employees are in Tier 1 grandfathered.

Rep. Steven Zaiser I am curious what your speculation might be about teachers' reactions?

Fay Kopp This bill says they are going to continue paying these higher rates for six more years. I have not specifically heard of anything from the active teachers that had said that would be a problem. I have heard from a few administrators about the fact that rates should be reduced sooner.

Rep. Steven Zaiser If that were to be the case, then they would be more in support of reaching the 90% funded liability rather than shooting for the 100 because that would reduce the rates sooner.

Fay Kopp Potentially, yes.

Vice Chair Randy Boehning You said that it is the five highest years that they worked or is it the last five years?

Fay Kopp That is the high five years. Typically, we find that it is the last.

Rep. Jason Dockter They have all these assumptions and I see it is 8%. Does the Segal Company ever say we are going to give you another set of numbers at a 6% assumption?

Fay Kopp Actuaries have looked at different return assumptions for the plan. This is something that is analyzed periodically and certainly very in depth when we do our experience studies every five years, but it is monitored frequently. She pointed out that on the TFFR Funding Update sheet there was an example. The chart shows a projection of our funded level. We are at about 60% now. If we return 8% returns in the future, the middle line shows that we will be a little over 90% in 30 years. The line above that shows if returns are greater than 8% in the next 30 years, what will that funded level look like? The line below shows if returns are less than, if they are 7% in this example.

Rep. Marie Strinden It looks like we aren't going to hit that trigger for a lot of years. If we enact this bill, are we going to have to enact four more times because different legislatures are wanting to change the trigger?

Fay Kopp Typically all pension plans want to be funded at 100% level. While certainly it would be up to the legislature to decide on any varying trigger, I think it would be in the best interests of the state as well as the participants in the plan and the school districts to have that fund funded at 100% level. While this takes a long time, the sooner we can get there the better even though 30 years is a long time.

Rep. Ben Koppelman Is it reasonable to expect that at this point?

Fay Kopp I wish I knew the answer to the question. We believe it is a reasonable assumption, but it goes without saying that if we do not, then the pressure is on to either make contribution changes or benefit changes or a combination of both in order to return to 100% level.

Rep. Ben Koppelman What do you think a reasonable time is to revisit that?

Fay Kopp We continually monitor this and we do an in depth study of our experience study every five years which means we test all of our assumptions. While I agree we don't want to wait too long, we also to be careful about major reactions because we know the volatility in the market.

Rep. Karen Rohr What are the surrounding states doing? What percentage of return are they putting into their plans?

Fay Kopp As far as the assumed rate of return, 8% is the most common. We continually compare ourselves to other plans across the country. Right now the average is 7.8%.

Rep. Jason Dockter Do you have any future projections in regard to the growth in ND?

Fay Kopp When TFFR conducts its experience study, we do look at past and projections in the future. In the last decade we were experiencing, up until the last few years, and projected to experience a declining active population. From our last two or three years, we have seen 200 more active members in the plan. We just provided a report to our board on some future projections. Right now we have about 1,300 teachers and administrators that are eligible to retire. The last three or four years we are seeing about 350 to 400 teachers retire each year.

Rep. Jason Dockter There are about 150 more retirees on benefits than going in to the plan?

Fay Kopp Yes.

Rep. Marie Strinden What year at 8% return would we be looking at if we enacted the first bill we talked about today and removed our 300 retirees?

Fay Kopp From a funded level percentage, we don't believe it would change the dial that much.

There was no opposition.

The hearing was closed.

Rep. Ben Koppelman made a motion for a **do pass.**

Rep. Steven Zaiser seconded the motion.

Chairman Jim Kasper There are three factors on the impact of the fund. The first one is the average annual salary that you are going to calculate your retirement benefit. What had happened in the past, from my perspective, we were beginning to shorten that period of time on average annual salary. It was three years. The second area is calculation. The third is how many years do you pay in? What we have been finding over the period of years, we have been underfunding and over assuming and over paying so now we are paying the price. Who has the liability of this fund? The state of North Dakota, teachers, and employers.

Rep. Karen Karls Have we taken into account the teachers that go for an administrative certificate of some kind? That bumps their salary up quite a bit and that has an effect on the final ending calculation.

Rep. Gail Mooney Is NDEA okay with the additional timeframe?

Kayla Pulvermacher, NDEA Uniserve Director, appeared. We were in a neutral position on this one because we have members that felt like this was a part of the original plan. They didn't want that original plan to change, but we also have members who are beginning teaching so the five years additional will not come into effect until they're close to retirement. A lot of them did not have a feeling of opposition.

A roll call vote was taken and resulted in **DO PASS, 14-0. Rep. Vicky Steiner** is the carrier.

Chairman Jim Kasper inquired if the committee would like to take 1203 up.

Vice Chair Randy Boehning If the bill goes out of here with a do not pass, does that have to go to employee benefits?

Fay Kopp My understanding was that committee should be taking action on it before this committee would be referring it out.

Chairman Jim Kasper I am talking about 1203.

Rep. Scott Louser If I understand right, changes to PERS and TFFR that would affect either of those plans must be submitted to that committee prior to April 1 of that year.

Chairman Jim Kasper Must they be submitted to that committee prior to when we take action? Can we do a recommendation of a do pass or whatever and then it is rereferred to the employee benefits committee?

Fay Kopp I cannot answer that question as it is a legal question.

Rep. Steven Zaiser Perhaps we should hold it.

Rep. Ben Koppelman My understanding is that employee benefits committee is an interim committee. Is that correct?

Chairman Jim Kasper No, it is a continuous standing committee. Rep. Steven Zaiser is right. I need to get clarification on what needs to happen on 1203 before we take action. The hearing was closed.

Date: 1-25-13
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1230

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ____________

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Koppelman Seconded By Zaiser

Representatives	Yes	No	Representatives	Yes	No
Chairman Jim Kasper	X		Rep. Bill Amerman	X	
Vice Chairman Randy Boehning	X		Rep. Gail Mooney	X	
Rep. Jason Dockter	X		Rep. Marie Strinden	X	
Rep. Karen Karls	X		Rep. Steven Zaiser	X	
Rep. Ben Koppelman	X				
Rep. Vernon Laning	X				
Rep. Scott Louser	X				
Rep. Gary Paur	X				
Rep. Karen Rohr	X				
Rep. Vicky Steiner	X				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Steiner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1230: Government and Veterans Affairs Committee (Rep. Kasper, Chairman) recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1230 was placed on the Eleventh order on the calendar.

2013 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1230

2013 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veterans Affairs Committee
Missouri River Room, State Capitol

HB 1230
3/7/2013
Job Number 19554

☐ Conference Committee

Committee Clerk Signature

Minutes:

A BILL for an Act relating to expiration of the increase in teachers' fund for retirement member and employer contributions.

Senator Dick Dever - Chairman

Chairman Dever- Opened the hearing on HB 1230.

Representative Scott Louser - District 5 - Testified as sponsor and in support of the bill. He explains what changes were made two years ago to the TFFR Fund and how this bill proposes if it gets to 90% and the changes put in last session work they would be able to get it up to 100% within five years. He states if those changes put in last session do not work then this won't matter and they won't get to 100%. He further explains contribution levels and how hard it is to predict. He goes on to say the goal here is to reach 100%. He says there was no opposition on the House side.

Fay Kopp - Interim Executive Director, Chief Retirement Officer, ND Retirement and Investment Office, ND Teacher's Fund for Retirement - See written testimony (1)

Kayla Pulvermacher - ND Educators Association - Testified in support of the bill.

Doug Johnson - ND Council of Educational Leaders - Testified in support of the bill.

Opposition - none

Neutral - none

Chairman Dever: Closed the hearing.

2013 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veterans Affairs Committee
Missouri River Room, State Capitol

HB 1230
03/08/2013
Job Number 19642

☐ Conference Committee

Committee Clerk Signature	Carrie Wiening

Minutes:

Chairman Dever: Opened HB 1230 for committee discussion.

Senator Cook: Moved a Do Pass.

Vice Chairman Berry: Seconded.

A Roll Call Vote Was Taken: 7 yeas, 0 nays, 0 absent.

Vice Chairman Berry: Carrier.

Date: 3/8

Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 1230

Senate Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken: ☑ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Senator Cook Seconded By Senator Berry

Senators	Yes	No	Senator	Yes	No
Chariman Dick Dever	✓		Senator Carolyn Nelson	✓	
Vice Chairman Spencer Berry	✓		Senator Richard Marcellais	✓	
Senator Dwight Cook	✓				
Senator Donald Schaible	✓				
Senator Nicole Poolman	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Berry

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1230: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1230 was placed on the Fourteenth order on the calendar.

2013 TESTIMONY

HB 1230

Attachment 1

HB 1230

HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
January 25, 2013

Fay Kopp, Interim Executive Director - Chief Retirement Officer
ND Retirement and Investment Office - ND Teachers' Fund for Retirement

Thank you for the opportunity to discuss how HB 1230 would impact the TFFR trust fund, and to review the analysis conducted by TFFR's actuarial consultant. On behalf of the TFFR Board, I am testifying in support of this bill.

BILL SUMMARY

HB 1230 would modify the expiration of the increase in required TFFR contribution rates which are shown below:

Time Period	Employer	Member	Total
7/01/08 – 6/30/12	8.75%	7.75%	16.50%
7/01/12 – 6/30/14	10.75%	9.75%	20.50%
Beginning7/01/14	12.75%	11.75%	24.50%

The higher contributions are not intended to be permanent. Both employer and member rates would revert to 7.75% on the July 1st following the first valuation showing that the funded ratio equals or exceeds 90% on an actuarial basis. The proposed legislation would increase this trigger funded ratio for contribution reversion from 90% to 100%.

2011 LEGISLATION

As you know, the TFFR Board submitted a comprehensive package of benefit and contribution changes which were studied during the 2010 interim and approved by the 2011 Legislature (HB 1134). These changes were designed to improve TFFR funding level over the long term, and reduce the unfunded liability of the plan. The changes included active and re-employed retired member contribution increase, employer contribution increase, and benefit reductions for new and current employees who are more than 10 years away from retirement. See NDTFFR Funding Update and Plan Summary Exhibit.

ACTUARIAL ANALYSIS

TFFR's actuarial consultant, Segal Company, reviewed this bill during the 2012 interim. A copy of their October 19, 2012, letter is attached. According to Segal's actuarial analysis, this bill would not have an actuarial impact on the TFFR's liability immediately. However, it would increase the funded status of the plan starting in 2041 by deferring the contribution reversion to 7.75% from 2040 until 2046. Therefore, the higher member and employer contribution rates would be in effect for a longer period of time, and would be reduced when TFFR's funded status reaches 100%. If investment returns are greater or less than the actuarial assumed rate (8%), funding progress is expected to take more or less time. See Segal Exhibits 1, 2, 3.

INTERIM STUDY

HB 1230 (interim bill no. 43) was studied during the interim by the Legislative Employee Benefits Programs Committee, and was given a favorable recommendation.

SUMMARY

The TFFR Board supports HB 1230 because it is expected to strengthen the financial stability of the plan by keeping the higher contribution rates in effect until TFFR reaches 100% funded ratio, which is the plan's long term funding goal. This bill will help to assure that TFFR benefits are secure for past, present, and future ND educators.

Mr. Chairman and members of the Committee, this concludes my testimony on HB 1230. I would be happy to respond to the Committee's questions. Thank you.

NDTFFR Funding Update

The Issue

Like other investors around the country, NDTFFR experienced significant investment losses as a result of the 2008-09 global recession. A major loss of assets coupled with increasing liabilities (longer life expectancy, salary increases, and benefit changes) had a substantial impact on TFFR's long term funding outlook. Prior to the market meltdown, TFFR's funded level was about 80%. As of the July 1, 2012 actuarial valuation report, TFFR's funded level was 61%. The unprecedented decline in the global markets and the accompanying recession, along with the projected gradual economic recovery, accelerated the need for TFFR to make changes.

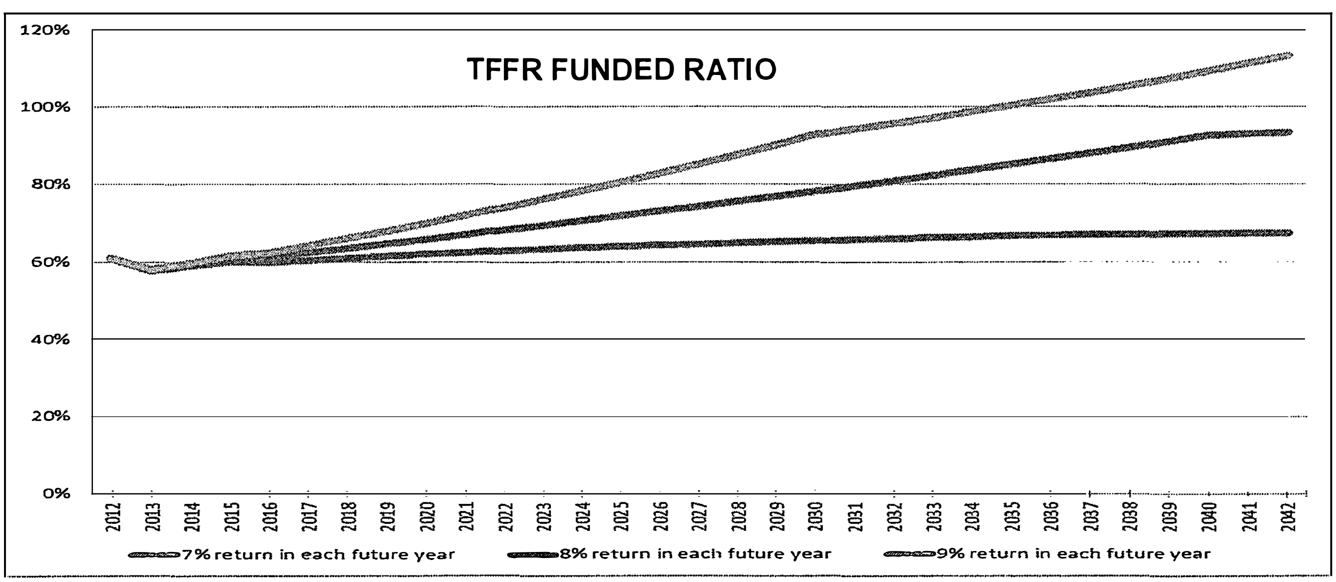
TFFR has the funds needed to pay current pension benefits when they are due. However, looking long term, there was a projected shortfall in the funding of TFFR benefits. TFFR's challenge was to stop the downward trend, stabilize funding, and improve funding levels.

The Plan

During 2009-10, the TFFR Board of Trustees, with input from member and employer interest group representatives, developed a legislative proposal to improve TFFR's funded status. The plan included member and employer contribution increases, and benefit changes for certain non grandfathered and new members of the plan. (See TFFR benefit summary on reverse page.) The plan was studied by the interim Legislative Employee Benefits Programs Committee during the 2010 interim, and given a favorable recommendation. The plan (HB 1134) was then carefully considered and approved by the 2011 Legislature, and signed by the Governor.

The Result

TFFR funding levels are expected to improve in the future. However, until all of the 2008-09 investment losses are recognized in actuarial valuations over the 5-year smoothing period, and until the increased member and employer contributions flow into the plan beginning 7/1/12, funding progress will not be reflected in the valuation reports. As you can see from the exhibit below, with 2011 legislative changes, plus 8% investment returns (middle line) in the future, TFFR's funded level is projected to reach over 90% in about 30 years. If returns are greater (top line) or less (bottom line) than 8%, funding progress will take more or less time. Due to legislative action taken in 2011, TFFR's long term funding outlook is positive, and benefits are secure for past, present, and future ND educators.



TFFR Plan Summary

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Employee Contribution Rates (active and re-employed retirees)			
7/1/10 - 6/30/12	7.75%	7.75%	7.75%
7/1/12 - 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%
Employer Contribution Rates			
7/1/10 - 6/30/12	8.75%	8.75%	8.75%
7/1/12 - 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%
Vesting Period	3 yrs	3 yrs	5 yrs
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 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	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years
Disability Retirement	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

***Tier 1** is a member who has service credit in the TFFR plan prior to 7/1/08.*

- ***Tier 1 Grandfathered** is a member, who as of 6/30/13, is less than 10 years away from retirement eligibility. Grandfathered member must be vested, and either age 55 or have a combined total of service credit and age which equals or exceeds 65 on 6/30/13.*
- ***Tier 1 Non Grandfathered** is a member, who as of 6/30/13, is more than 10 years away from retirement eligibility. Nongrandfathered member is less than age 55 and has a combined total of service credit and age which is less than 65 on 6/30/13.*

***Tier 2** is a member who began participation in the TFFR plan on 7/1/08 or after.*

**Contribution rates are in effect until TFFR reaches 90% funded level, then rates reduce to 7.75% each.*

ND Teachers' Fund for Retirement, P.O. Box 7100, Bismarck, ND 58507-7100
Email: rio@nd.gov www.nd.gov/rio 701.328.9895 or toll free 800.952.2970 ***12/2012***

SEGAL

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October 19, 2012

Via E-mail

Senator Dick Dever, Chairman
Employee Benefits Programs Committee
c/o Jeff Nelson
ND Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: Technical Comments on Draft Bill 43

Dear Senator Dever:

The following presents our analysis of the proposed changes found in Draft Bill 43 (Bill Draft 13.0043.02000) that would modify the expiration of the increase in required contributions for both employers and members of the Teachers' Fund for Retirement (TFFR).

Summary

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

Period	Employer	Member	Total
July 1, 2008 through June 30, 2012	8.75%	7.75%	16.50%
July 1, 2012 through June 30, 2014	10.75%	9.75%	20.50%
Beginning July 1, 2014	12.75%	11.75%	24.50%

As under present law, the higher contributions are not intended to be permanent. Both employer and member rates would revert to 7.75% on the July 1st following the first valuation showing that the funded ratio, as measured by the ratio of the actuarial value of assets to the actuarial accrued liability, equals or exceeds 90%. The proposed legislation would increase this trigger funded ratio for contribution reversion from 90% to 100%.

Actuarial Analysis

Based on the actuarial analysis, this bill would not have an actuarial impact on the TFFR's liability immediately. It would increase the funded status of the plan starting in 2041 by deferring the contribution reversion to 7.75% from 2040 until 2046. Exhibits I, II and III show 30-year projections of funded status, employer contribution rate, and member contribution rate.

Administrative Costs

This bill would have minimal impact on administrative costs of the TFFR.

General Comments

The projections 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.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies describes herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

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

Sincerely,

Kim Nicholl, FSA, MAAA, EA
Senior Vice President and Actuary

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

kn/ms/ns

cc: Ms. Fay Kopp, Interim Executive Director, ND Retirement and Investment Office

Attachments

5281132v2/13475.002

Exhibit I

Projection of Funded Status

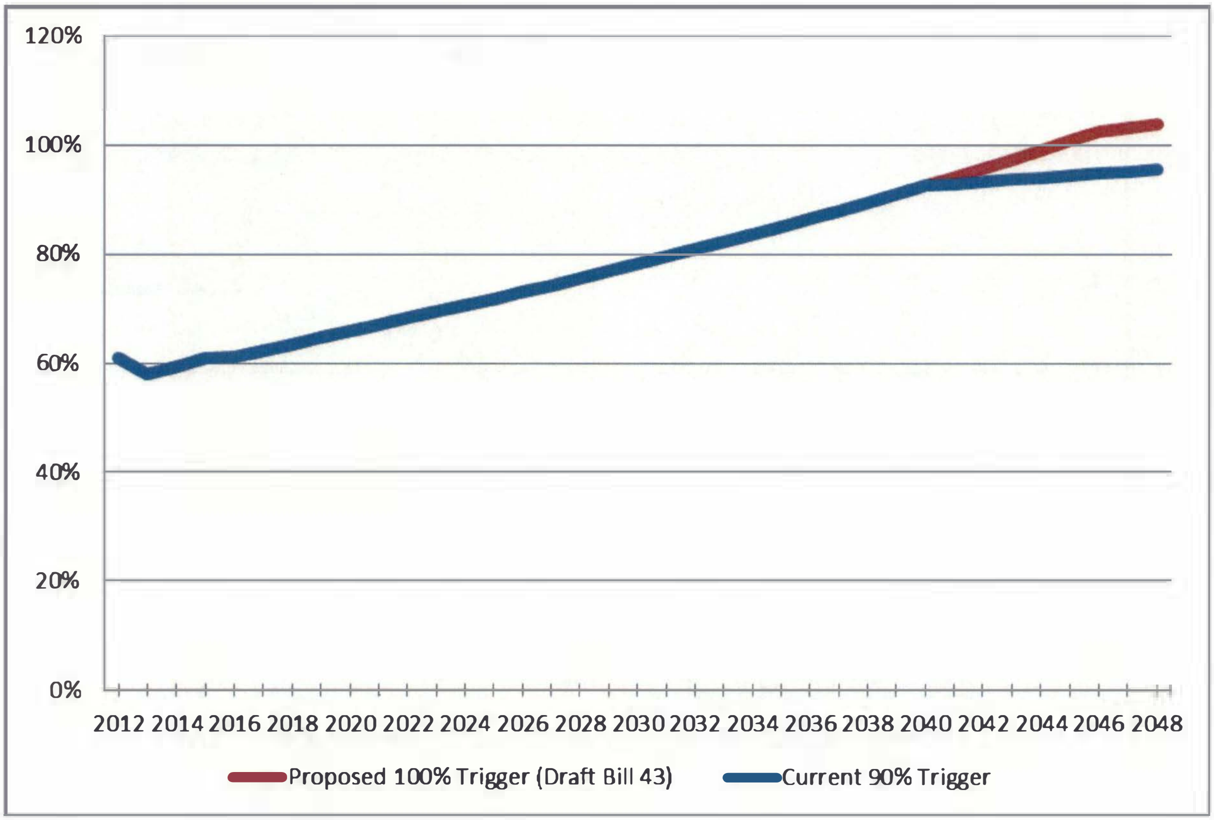


Exhibit II

Projection of Employer Contribution Rate

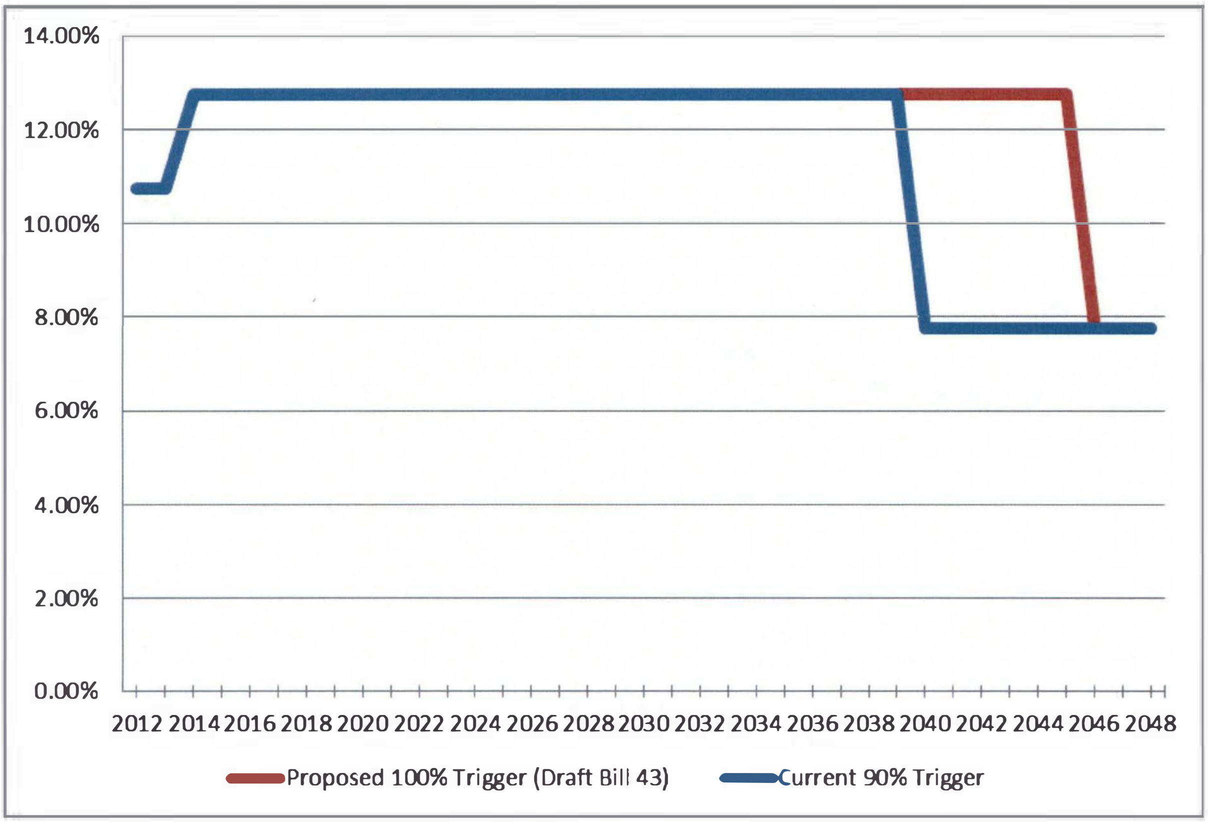
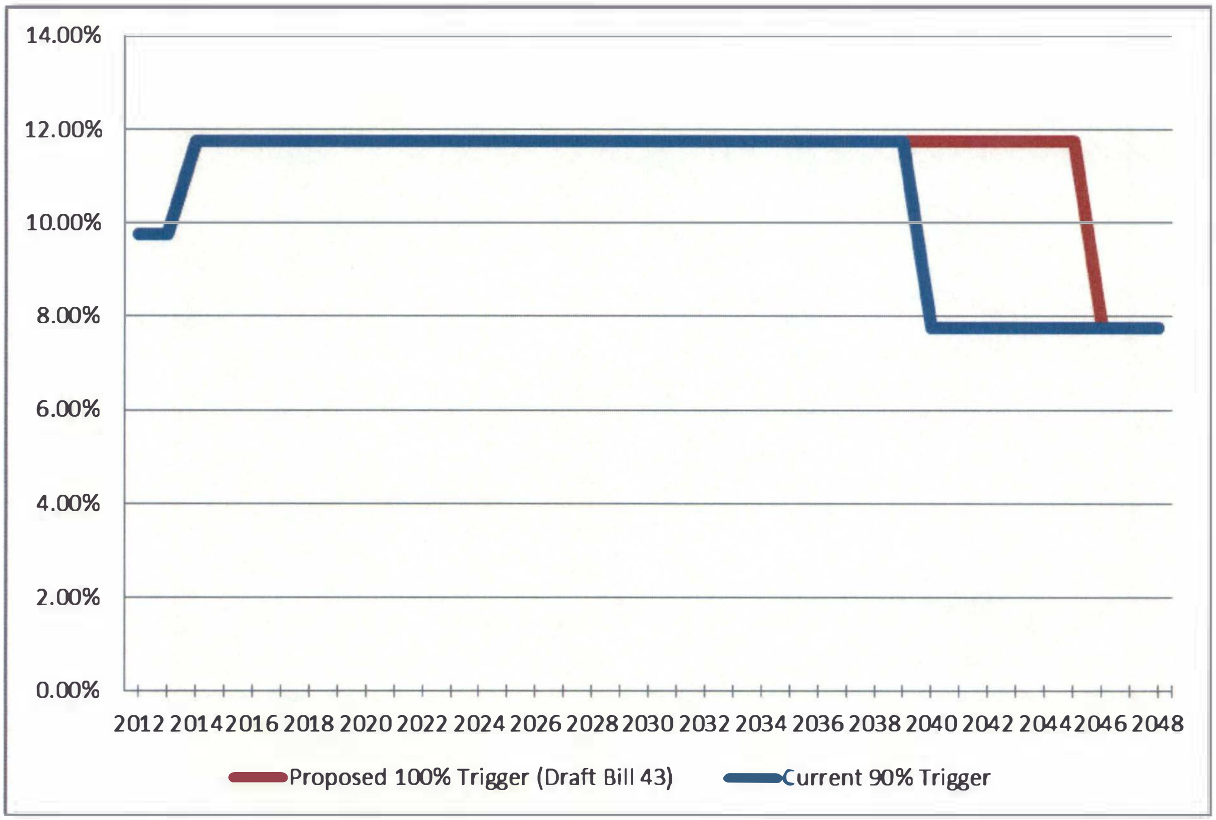


Exhibit III

Projection of Employee Contribution Rate



Attachment #1

HB 1230

SENATE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
March 7, 2013

Fay Kopp, Interim Executive Director - Chief Retirement Officer
ND Retirement and Investment Office - ND Teachers' Fund for Retirement

Thank you for the opportunity to discuss how HB 1230 would impact the TFFR trust fund, and to review the analysis conducted by TFFR's actuarial consultant. On behalf of the TFFR Board, I am testifying in support of this bill.

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The higher contributions are not intended to be permanent. Under current law, both employer and member rates would revert to 7.75% on the July 1st following the first valuation showing that the funded ratio equals or exceeds 90% on an actuarial basis. The proposed legislation would increase this trigger funded ratio for contribution reversion from 90% to 100%.

2011 LEGISLATION

As you know, the TFFR Board submitted a comprehensive package of benefit and contribution changes which were studied during the 2010 interim and approved by the 2011 Legislature (HB 1134). These changes were designed to improve TFFR funding level over the long term, and reduce the unfunded liability of the plan. The changes included active and re-employed retired member contribution increase, employer contribution increase, and benefit reductions for new and current employees who are more than 10 years away from retirement. See NDTFFR Funding Update and Plan Summary Exhibit.

ACTUARIAL ANALYSIS

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INTERIM STUDY

HB 1230 (interim bill no. 43) was studied during the interim by the Legislative Employee Benefits Programs Committee, and was given a favorable recommendation.

SUMMARY

The TFFR Board supports HB 1230 because it is expected to strengthen the financial stability of the plan by keeping the higher contribution rates in effect until TFFR reaches 100% funded ratio, which is the plan's long term funding goal. This bill will help to assure that TFFR benefits are secure for past, present, and future ND educators.

Mr. Chairman and members of the Committee, this concludes my testimony on HB 1230. I would be happy to respond to the Committee's questions. Thank you.

NDTFFR Funding Update

The Issue

Like other investors around the country, NDTFFR experienced significant investment losses as a result of the 2008-09 global recession. A major loss of assets coupled with increasing liabilities (longer life expectancy, salary increases, and benefit changes) had a substantial impact on TFFR's long term funding outlook. Prior to the market meltdown, TFFR's funded level was about 80%. As of the July 1, 2012 actuarial valuation report, TFFR's funded level was 61%. The unprecedented decline in the global markets and the accompanying recession, along with the projected gradual economic recovery, accelerated the need for TFFR to make changes.

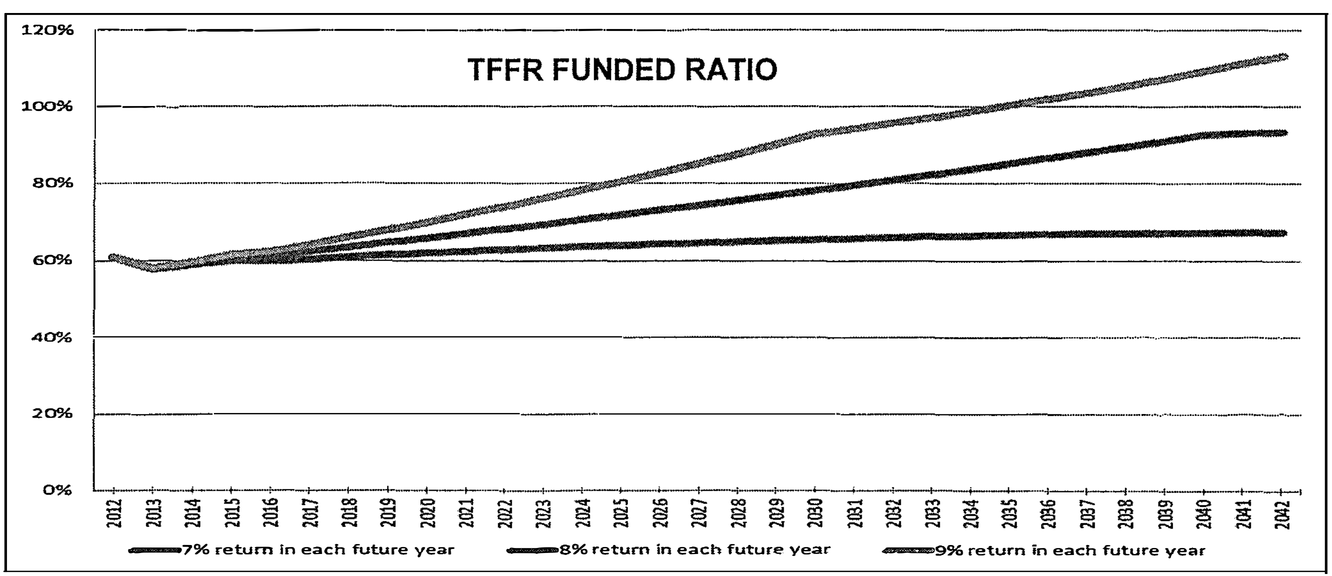
TFFR has the funds needed to pay current pension benefits when they are due. However, looking long term, there was a projected shortfall in the funding of TFFR benefits. TFFR's challenge was to stop the downward trend, stabilize funding, and improve funding levels.

The Plan

During 2009-10, the TFFR Board of Trustees, with input from member and employer interest group representatives, developed a legislative proposal to improve TFFR's funded status. The plan included member and employer contribution increases, and benefit changes for certain non grandfathered and new members of the plan. (See TFFR benefit summary on reverse page.) The plan was studied by the interim Legislative Employee Benefits Programs Committee during the 2010 interim, and given a favorable recommendation. The plan (HB 1134) was then carefully considered and approved by the 2011 Legislature, and signed by the Governor.

The Result

TFFR funding levels are expected to improve in the future. However, until all of the 2008-09 investment losses are recognized in actuarial valuations over the 5-year smoothing period, and until the increased member and employer contributions flow into the plan beginning 7/1/12, funding progress will not be reflected in the valuation reports. As you can see from the exhibit below, with 2011 legislative changes, plus 8% investment returns (middle line) in the future, TFFR's funded level is projected to reach over 90% in about 30 years. If returns are greater (top line) or less (bottom line) than 8%, funding progress will take more or less time. Due to legislative action taken in 2011, TFFR's long term funding outlook is positive, and benefits are secure for past, present, and future ND educators.



TFFR Plan Summary

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Employee Contribution Rates (active and re-employed retirees)			
7/1/10 - 6/30/12	7.75%	7.75%	7.75%
7/1/12 - 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%
Employer Contribution Rates			
7/1/10 - 6/30/12	8.75%	8.75%	8.75%
7/1/12 - 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%
Vesting Period	3 yrs	3 yrs	5 yrs
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 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	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years
Disability Retirement	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

***Tier 1** is a member who has service credit in the TFFR plan prior to 7/1/08.*

- ***Tier 1 Grandfathered** is a member, who as of 6/30/13, is less than 10 years away from retirement eligibility. Grandfathered member must be vested, and either age 55 or have a combined total of service credit and age which equals or exceeds 65 on 6/30/13.*
- ***Tier 1 Non Grandfathered** is a member, who as of 6/30/13, is more than 10 years away from retirement eligibility. Nongrandfathered member is less than age 55 and has a combined total of service credit and age which is less than 65 on 6/30/13.*

***Tier 2** is a member who began participation in the TFFR plan on 7/1/08 or after.*

**Contribution rates are in effect until TFFR reaches 90% funded level, then rates reduce to 7.75% each.*

ND Teachers' Fund for Retirement, P.O. Box 7100, Bismarck, ND 58507-7100
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SEGAL

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October 19, 2012

Via E-mail

Senator Dick Dever, Chairman
Employee Benefits Programs Committee
c/o Jeff Nelson
ND Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: Technical Comments on Draft Bill 43

Dear Senator Dever:

The following presents our analysis of the proposed changes found in Draft Bill 43 (Bill Draft 13.0043.02000) that would modify the expiration of the increase in required contributions for both employers and members of the Teachers' Fund for Retirement (TFFR).

Summary

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

Period	Employer	Member	Total
July 1, 2008 through June 30, 2012	8.75%	7.75%	16.50%
July 1, 2012 through June 30, 2014	10.75%	9.75%	20.50%
Beginning July 1, 2014	12.75%	11.75%	24.50%

As under present law, the higher contributions are not intended to be permanent. Both employer and member rates would revert to 7.75% on the July 1st following the first valuation showing that the funded ratio, as measured by the ratio of the actuarial value of assets to the actuarial accrued liability, equals or exceeds 90%. The proposed legislation would increase this trigger funded ratio for contribution reversion from 90% to 100%.

Actuarial Analysis

Based on the actuarial analysis, this bill would not have an actuarial impact on the TFFR's liability immediately. It would increase the funded status of the plan starting in 2041 by deferring the contribution reversion to 7.75% from 2040 until 2046. Exhibits I, II and III show 30-year projections of funded status, employer contribution rate, and member contribution rate.

Administrative Costs

This bill would have minimal impact on administrative costs of the TFFR.

General Comments

The projections 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.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies describes herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

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

Sincerely,

Kim Nicholl

Kim Nicholl, FSA, MAAA, EA
Senior Vice President and Actuary

Matthew A. Strom

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

kn/ms/ns

cc: Ms. Fay Kopp, Interim Executive Director, ND Retirement and Investment Office

Attachments

5281132v2/13475.002

Exhibit I

Projection of Funded Status

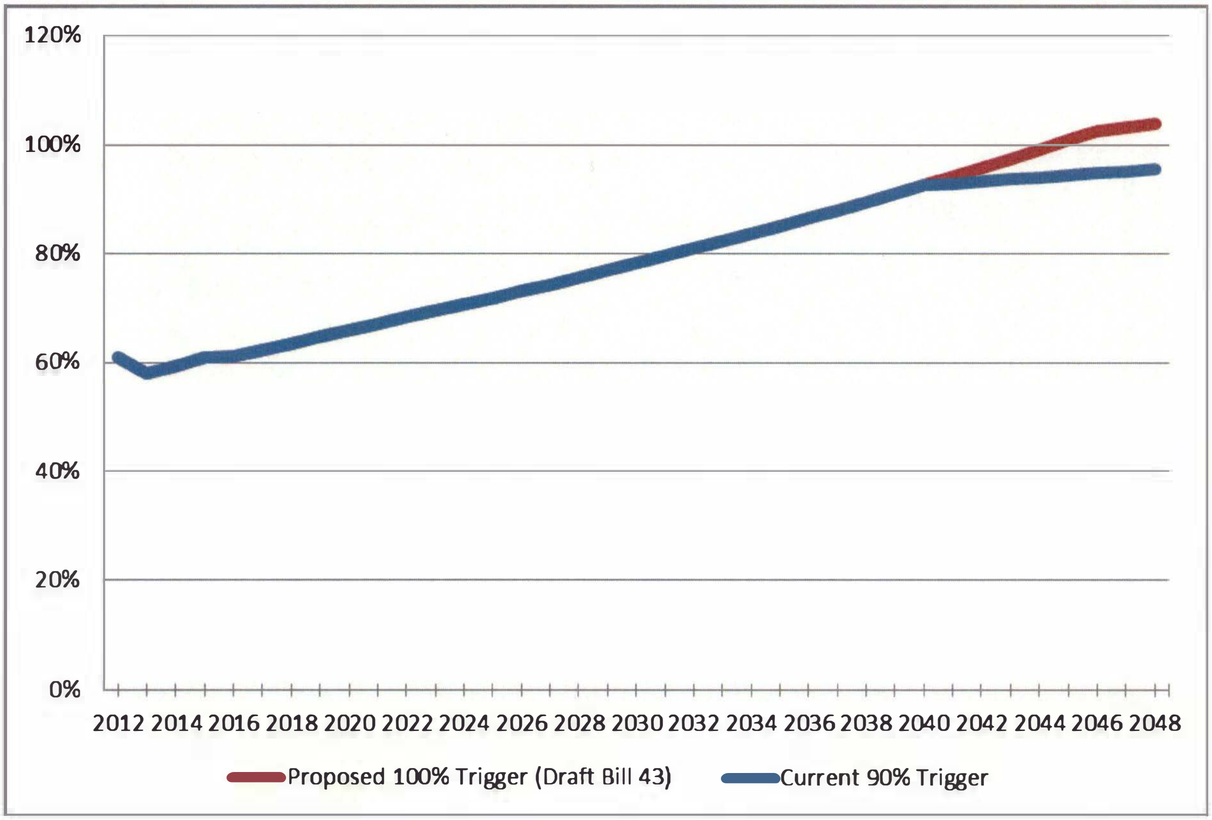

Exhibit II

Projection of Employer Contribution Rate

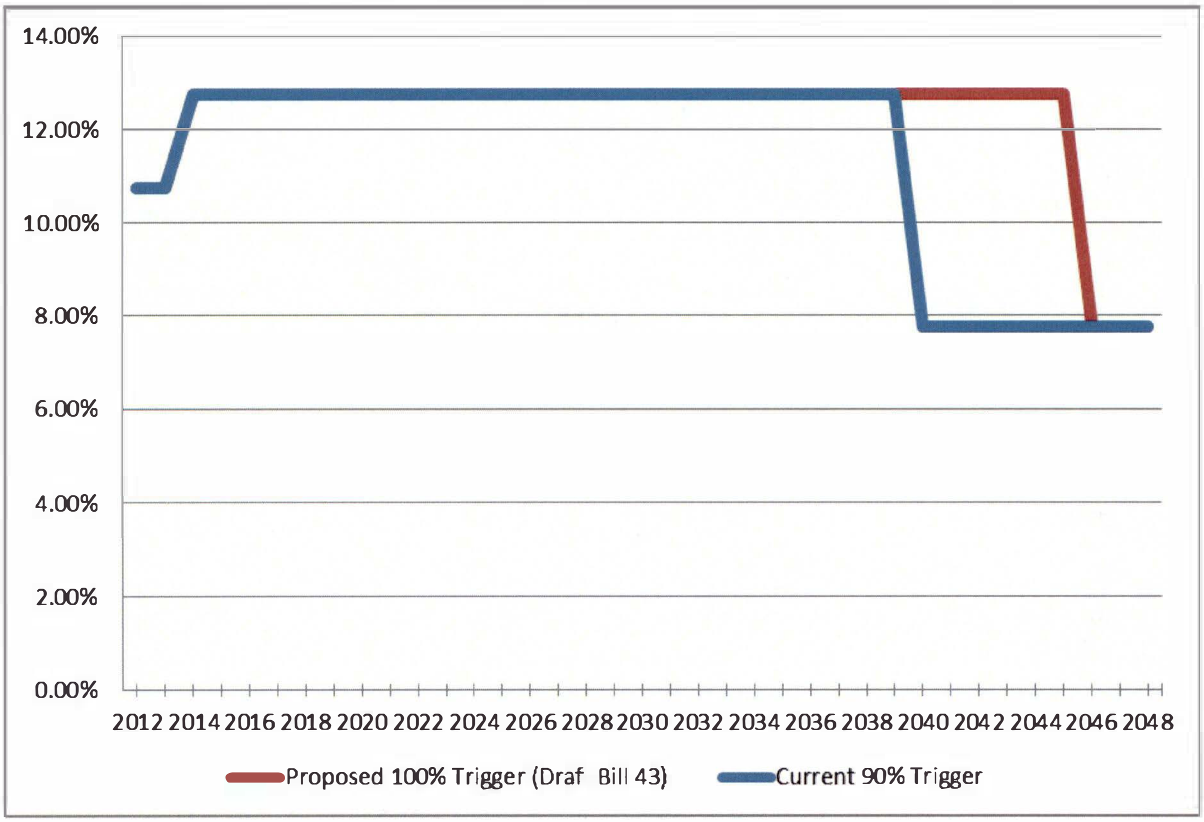

Exhibit III

Projection of Employee Contribution Rate