

NDTFFR Funding Challenge and Legislative Proposals

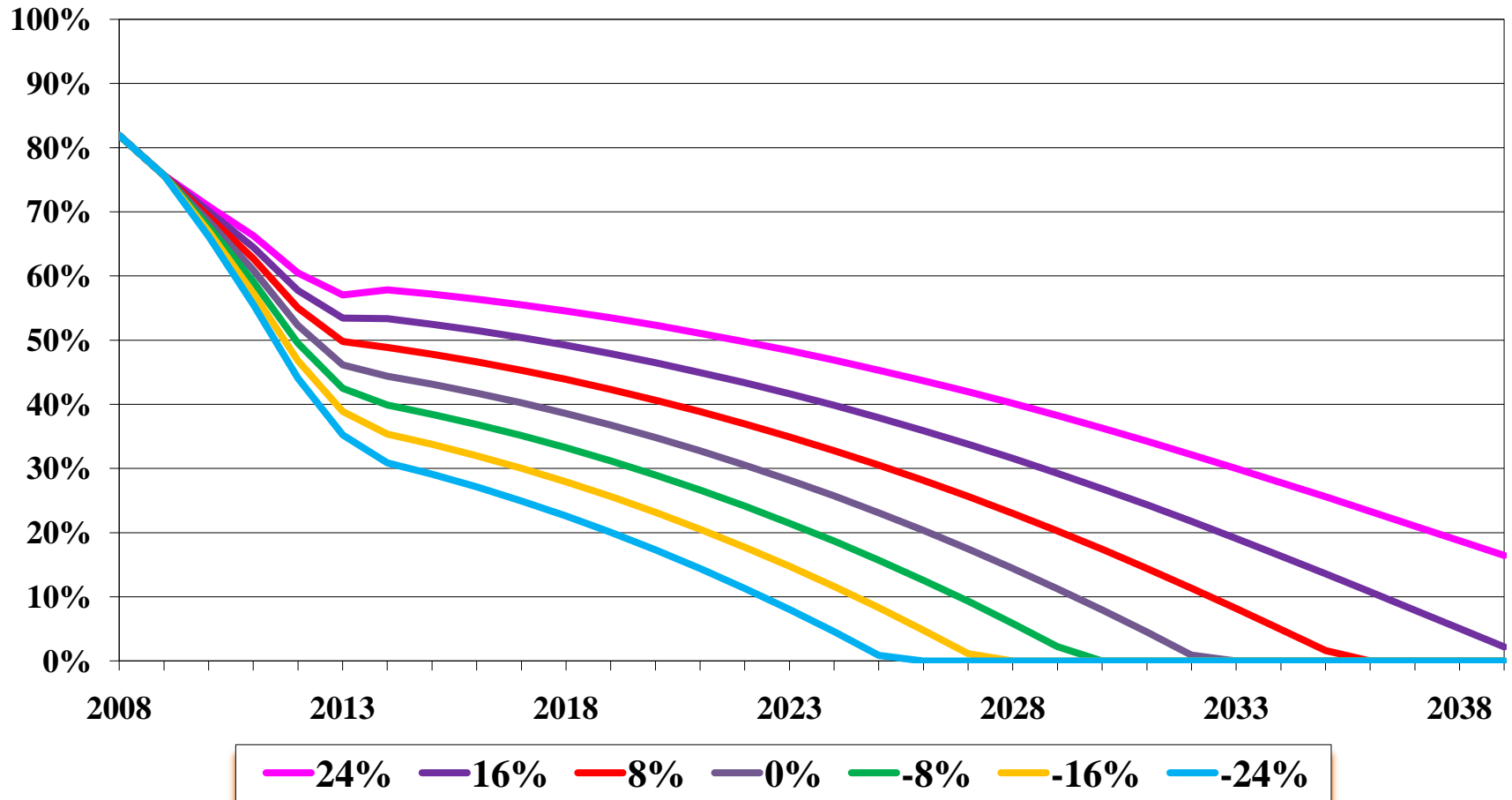
NDEA Representative Assembly
April 10, 2010

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ND Retirement & Investment Office (RIO)
ND Teachers' Fund for Retirement (TFFR)

Recap of TFFR Funding Challenge

- TFFR faces a significant funding challenge as a result of the 2008-09 market meltdown.
- Without action, TFFR's funded level is expected to decrease from its 2009 level of 78%, to about 50% within the next 5 years.
- Funding levels are projected to steadily deteriorate absent any changes to contributions and/or benefits and assuming 8% investment returns in the future.
- TFFR's challenge is to stop this downward trend, stabilize funding, and improve funding levels over the long-term.
- 2009-10 estimated fiscal year to date investment performance is about 20%.

Projected TFFR Funded Ratios (AVA) Current Plan - No Changes



Note: Projections assume variable market returns for FY 2010, and 8% returns in 2011 and all years thereafter.

TFFR Funding Improvement Study

- TFFR Board and stakeholder groups including NDEA, NDCEL, NDSBA, and NDRTA have been working together on legislative proposals to submit to interim Legislative Employee Benefits Programs Committee by April 1, 2010 deadline.

- Studied options to offset investment losses and address declining funding levels:
 - ▣ Investment performance in excess of 8% assumed return
 - ▣ Increase contributions
 - ▣ Reduce benefits
 - ▣ State general fund
 - ▣ Combined approach

TFFR Funding Improvement Study

- Board and study group:
 - ▣ Reviewed advantages and disadvantages of various alternatives.
 - ▣ Analyzed actuarial, legal, financial, and policy issues.
 - ▣ Considered impact on members, employers and the State.
- Other TFFR Board studies:
 - ▣ Experience Study completed
 - Updated certain actuarial assumptions
 - ▣ Asset Liability Study – scheduled summer 2010
 - Review asset allocation and liability projections

TFFR Funding Improvement Core Values

- 1) Restore the financial health of the TFFR plan
 - Past, present, and future ND educators

- 2) Maintain adequate retirement security
 - Defined benefit plan
 - 2.0% benefit multiplier

- 3) Share responsibility
 - Employees
 - Employers
 - State

- 4) Phase changes over time
 - Contribution increases beginning 2012 and 2014
 - Benefit changes beginning 2013

- 5) Protect benefits of those employees closest to retirement
 - Grandfather employees within 10 years of retirement eligibility

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Legislative Proposals

2010 Interim Legislative Study

Legislative Employee Benefits Programs Committee (LEBPC)

April 1, 2010

TFFR Board submits draft legislation for interim legislative study.

Other pension bills also studied.

May – October 2010

Bills sent for actuarial and technical review.

LEBPC hearings and public comment period.

October - November 2010

LEBPC makes recommendations on bill draft:

- Favorable recommendation
- Unfavorable recommendation
- No Recommendation

Next LEBPC Meeting – April 27, 2010

2011 Legislature

62nd Legislative Assembly

Nov – Dec 2010

TFFR Board reviews
LEBPC rec. and pre-
files funding
improvement bill with
2011 Legislature.

January – April 2011

Legislature reviews
TFFR proposal and
LEBPC rec.

Leg reviews other
proposals?

January – April 2011

Legislature acts on TFFR
proposal.

- Approve
- Reject
- Amend
- Other proposals?

Approval by
Governor

TFFR Board Recommendations

- As fiduciaries of trust fund, TFFR Board must recommend changes that will help to ensure the long-term solvency of pension fund.

- TFFR Board has decided to submit 3 bills to the Legislative Employee Benefits Programs Committee (LEBPC) for study during the 2010 interim.
 - Bill No. 54 - Base funding improvements
 - Bill No. 55 - Base Plus+ funding improvements
 - Bill No. 56 - Technical/administrative changes

Bill No. 54 – Base Funding Improvements

- Proposed legislation is designed to keep TFFR financially strong and sustainable for current and future ND educators.
- Changes are designed to improve TFFR funding levels over the long-term by:
 - ▣ Increasing revenues
 - ▣ Reducing liabilities

Bill No. 54

Increase Contributions

- Increase TFFR contributions 8% total.
- Split contribution increases equally between employees and employers at 4% each side.
- Phase over 2 bienniums at 2% each biennium each side.
- Increased rates in effect until TFFR reaches 90% funded ratio, then rates reduced to 7.75% each.

Bill No. 54

Increase Contributions - Rates

RATES (%)

July 1,	Employer	Employee	Total	Increase
7/1/10(current) 7/1/11	8.75%	7.75%	16.5%	---
7/1/12(proposed) 7/1/13	10.75	9.75	20.5%	+4%
7/1/14 (proposed) 7/1/15	12.75	11.75	24.5%	<u>+4%</u>
Total				+8%

Bill No.54

Increase Contributions - Amounts

Contribution Amounts (in millions)

July 1,	Employer	Employee	Total	Increase
2010 (current) 2011	\$39	\$34	\$73	---
2012 (proposed) 2013	\$49	\$44	\$93	+\$20
2014 (proposed) 2015	\$59	\$54	\$113	<u>+\$20</u>
Total				+\$40

Bill No. 54

Increase Contributions

- Contribution amounts are estimated at \$5 million for every 1% increase in TFFR contribution rates and based on current total employee salaries; total contribution amounts may differ based on actual total employee salaries for any given year.
- For those employers who are currently paying all or a portion of employee contributions in lieu of a salary increase (Model 2 or Model 3), they will need to negotiate with the teachers who will pay increased employee contributions.

Bill No. 54

Require Re-Employed Retiree Contributions

- Effective 7/1/12 – all re-employed retirees
- Require re-employed retirees to pay employee contributions on salary earned from school.
- Current employee rate is 7.75%
 - ▣ Rate would increase based on other provisions
- Employer contributions would continue to be paid.
- Retiree's pension benefit would not increase.

Bill No. 54

Modify Disability Benefits

- Effective 7/1/13 – all employees
- Change eligibility for disability benefits from 1 year to 5 years of service credit.
- Replace 20 year minimum service credit calculation (40% FAS) with actual service in benefit calculation.
- Example: Teacher age 40 with 15 yrs service credit and Final Average Monthly Salary \$3,000
 - Current $3,000 \times 20 \times 2.0\% = 1,200$ mo.
 - Proposed $3,000 \times 15 \times 2.0\% = 900$ mo.

Bill No. 54

Modify Retirement Eligibility Requirements

- Effective 7/1/13
- Modify eligibility for unreduced retirement benefits.
- Modify reduction factor for reduced retirement benefits.
- For certain employees
 - ▣ Grandfathered
 - ▣ Non-grandfathered

Grandfathered Employees

- Grandfathered Tier 1 Employees who are within 10 years of retirement eligibility would not be affected by unreduced and reduced retirement changes.

- Grandfathering Criteria:
 - Vested Tier 1 employee (3 yrs service) on 6/30/13
 - AND**
 - Age 55 or greater **OR** Rule of 65 (age + service) or greater

- Grandfathered employees would have current retirement eligibility provisions (i.e. Rule of 85).

- Example:

Grandfathered Tier 1 member, age 50 @ 25 yrs service credit on 6/30/13.

Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018

Proposed: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018

No difference

Non-grandfathered Employees

- Non-grandfathered employees would be affected by the unreduced and reduced retirement benefit changes.
- Non-grandfathered employees include:
 - Tier 1 employees who are more than 10 years away from retirement eligibility on 6/30/13
 - Tier 2 employees
 - Future employees

Grandfathering Examples

NOTE: Employee's actual age and service credit (including any purchased service credit made before 6/30/13) would be calculated to the nearest thousandth (0.000).

- Tier 1 employee is age 57 with 4 years of service credit.
Yes, employee is grandfathered since vested and over age 55.

- Tier 1 employee is age 45 with 20 years of service credit.
 $45 + 20 = 65$
Yes, employee is grandfathered since total is 65 or over.

- Tier 1 employee is age 40 with 15 years of service credit.
 $40 + 15 = 55$
No, employee is not grandfathered since total less than 65.

Grandfathered Employee Eligibility

	Grandfathered Employee Eligibility – Tier 1 vested member					
	TFFR Service Credit on 6/30/2013					
Member age on 6/30/2013	5	10	15	20	25	30+
25	No	NA	NA	NA	NA	NA
30	No	No	NA	NA	NA	NA
35	No	No	No	NA	NA	NA
40	No	No	No	No	NA	NA
45	No	No	No	Yes	Yes	NA
50	No	No	Yes	Yes	Yes	Yes
55+	Yes	Yes	Yes	Yes	Yes	Yes

Non-grandfathered Employees

Increase Retirement Age for Unreduced Benefits

- Non-grandfathered employees
- Effective 7/1/13
- Eligibility age for unreduced benefits would increase:
 - Current: Rule of 85 (Tier 1) or Rule of 90 (Tier 2)
 - Proposed:
 - Minimum Age 60 with Rule of 90+
 - OR
 - Minimum Age 65 without Rule of 90
- NOTE: Must work until age 60 to receive unreduced benefits, even if reach Rule 90 at earlier age.

Non-grandfathered Employees

Increase Retirement Age - Examples

Examples:

- Non-grandfathered Tier 1 member, age 40 @ 15 yrs service credit on 6/30/13.
Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2028
Proposed: Elig Age 60 + 35 yrs (R95) in 2033
 + 5 years difference until eligible to retire

- Non-grandfathered Tier 2 member, age 32 @ 6 yrs service credit on 6/30/13.
Current: Elig Rule 90 @ age 58 + 32 yrs (R90) in 2039
Proposed: Elig Age 60 + 34 yrs (R94) in 2041
 +2 years difference until eligible to retire

Non-grandfathered Employees

Increase Reduction Factor for Reduced Benefits

- Non-grandfathered employees
- Effective 7/1/13
- For employees who elect to receive reduced benefits at minimum age 55.
- Increase reduction factor for reduced benefits:
 - ▣ Current: 6% per year
 - from earlier of Rule of 85 or age 65
 - ▣ Proposed 8% per year
 - from earlier of Age 65, or later of age 60 or Rule of 90

Non-grandfathered Employees Reduced Retirement - Examples

Examples:

- Non-grandfathered Tier 1 member, age 55 @ 19 years of service, FAMS \$3,000

Current: Age 65-55 = 10 x 6% = 60% reduction

$\$3,000 \times 19 \text{ yrs} \times 2\% \times 40\% = \456 per month at age 55

Proposed: Age 65-55 = 10 x 8% = 80% reduction

$\$3,000 \times 19 \text{ yrs} \times 2\% \times 20\% = \228 per month at age 55

Difference

-\$228

- Non-grandfathered Tier 1 member, age 59 @ 15 years of service, FAMS \$3,000

Current: Age 65-59 = 6 x 6% = 36% reduction

$\$3,000 \times 15 \text{ yrs} \times 2\% \times 64\% = \576 per month at age 59

Proposed: Age 65-59 = 6 x 8% = 48% reduction

$\$3,000 \times 15 \text{ yrs} \times 2\% \times 52\% = \468 per month at age 59

Difference

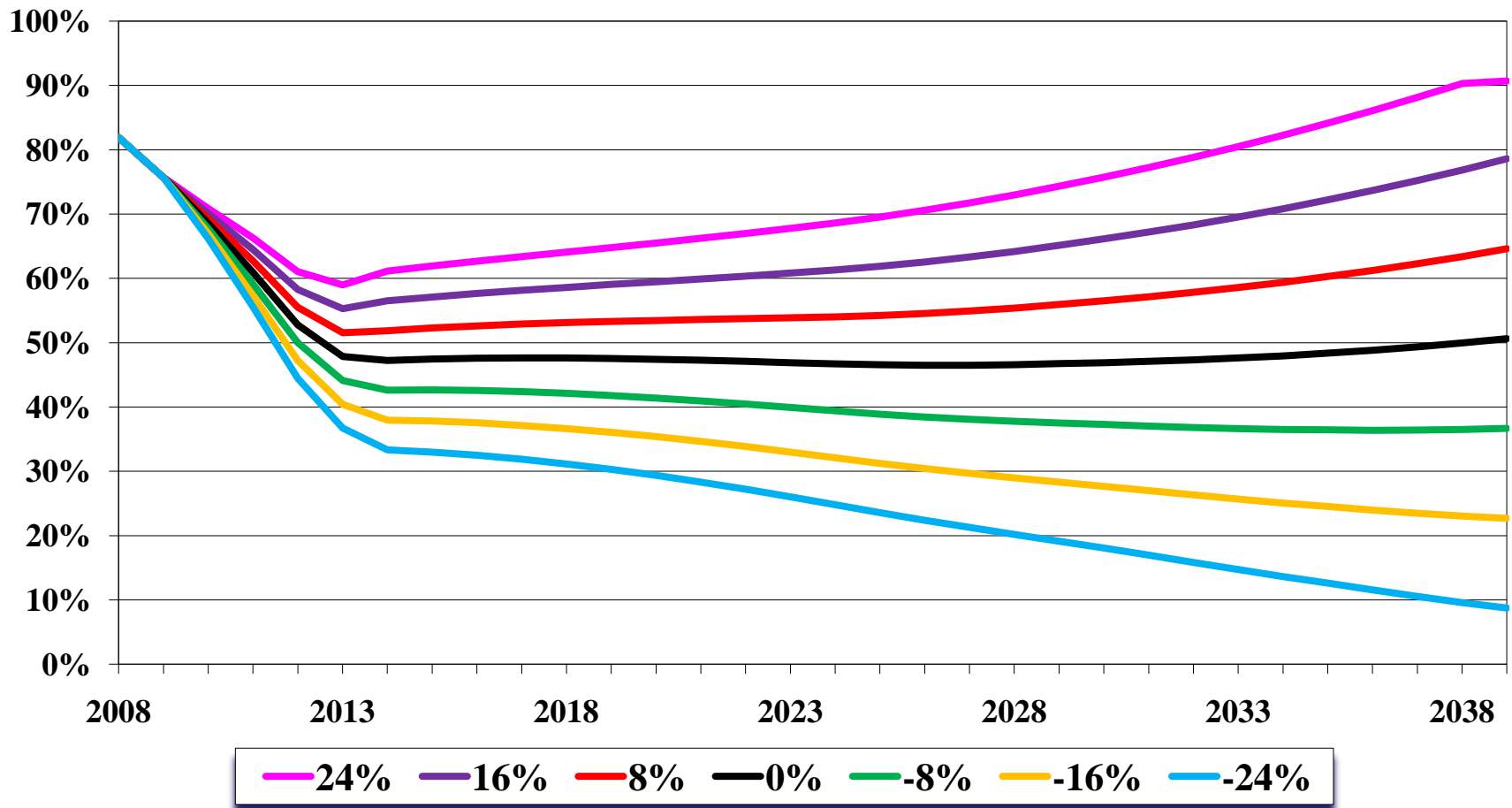
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Bill No. 54 - Summary

- Contribution Increases - total 8%, split 50/50, 2 biennium
 - ▣ Increase employee contributions +4%
 - ▣ Increase employer contributions +4%
 - ▣ Require re-employed retiree contributions
- Benefit Changes
 - ▣ Tighten disability retirement eligibility and benefit calculation
 - ▣ Raise retirement eligibility age for unreduced benefits for non-grandfathered employees
 - Grandfathered Tier 1 employees within 10 years of retirement would retain current eligibility provisions (i.e. Rule of 85).
 - Non-grandfathered Tier 1, Tier 2, and future employees would have to work until age 60 with Rule of 90 to be eligible for unreduced benefits.
 - ▣ Increase reduction factor for early reduced benefits from 6% to 8% for non-grandfathered employees.

Projected TFFR Funding Ratio (AVA)

Bill No. 54 – Contribution Increases and Benefit Changes



Note: Projections assume variable market returns for FY 2010, and 8% returns in all years thereafter.

Bill No. 54 – Funding Projections

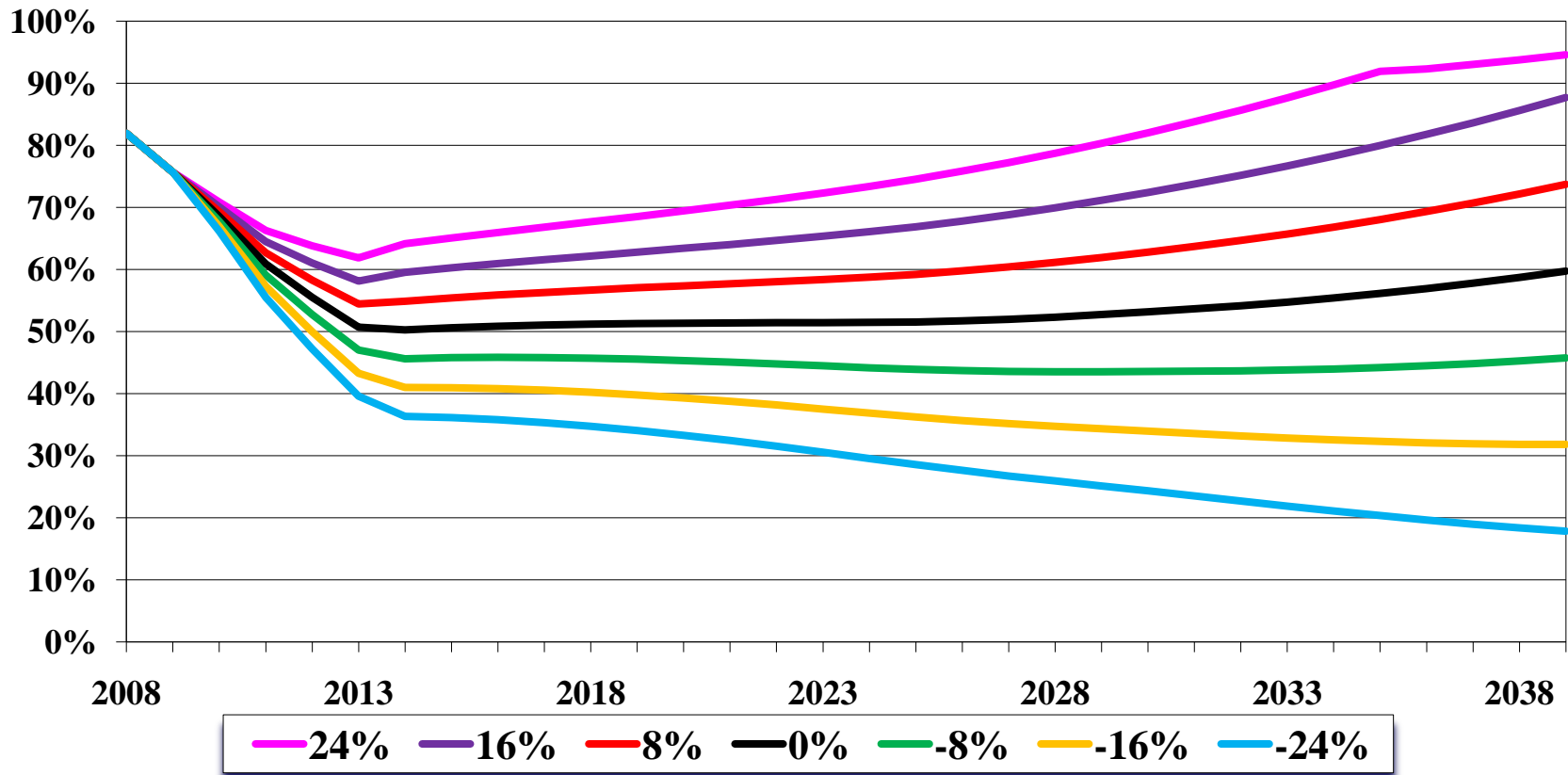
- Estimated 2009-10 fiscal year to date investment performance is about 20%.
- With Bill No. 54 changes, plus 16%+ return for 2010 and 8% returns in future, TFFR funding level projected to reach nearly 80% over 30-year period.
- If 24% return for 2010 and 8% returns in future, TFFR funding level projected to reach about 90% over 30-year period and employee/employer contribution rates would be reduced.

Bill No. 55 – Base Plus+ Funding Improvements

- Includes same base funding improvement provisions as Bill No. 54.
- Plus \$75 million general fund appropriation to further reduce TFFR liabilities.
 - ▣ \$75 million is approximately equal to ongoing 1% contribution increase.
- With Bill No. 55 changes, plus 16%+ return for 2010 and 8% returns in future, TFFR funding level is projected to reach nearly 90% over 30-year period and employee/employer contribution rates could be reduced.

Projected TFFR Funded Ratios (AVA)

Bill No. 55 – Contribution Increases and Benefit Changes PLUS \$75 million State Appropriation



Note: Projections assume variable market returns for FY 2010, and 8% returns in all years thereafter.

Bill No. 56 - Administrative Changes

- Clarify definition of eligible retirement salary.
 - Remove retention, experience, and service related bonuses from automatically being included as eligible retirement salary.
 - Clearly allow TFFR Board to determine eligible and ineligible retirement salary on a case-by-case basis when special benefits or payments are not clearly defined.
- Clarify and update beneficiary definition.

Bill No. 56 – Administrative Changes

- Modify outdated death benefit payment provisions to clearly describe to whom, under what conditions, and what amount of death benefits should be paid.
 - No longer pay death benefits directly to surviving children or heirs at law when no beneficiary is named or no spouse exists. Death benefits would be paid to estate and distributed according to ND probate law.
 - Remove 60 month payment options for beneficiaries of deceased non-retired members. Multiple beneficiaries would receive death benefits as lump sum. If only one beneficiary named, death benefits would be paid as a lifetime monthly benefit or lump sum payment.
- Incorporate federal tax law changes as they relate to qualified governmental plans.

2011 Legislation

- TFFR Board can propose legislative changes, but it is the responsibility of the ND Legislature to decide what changes, if any, will be made to address declining funding levels.
- Active and retired teachers, administrators, and employers should closely monitor 2011 legislation for potential impact.



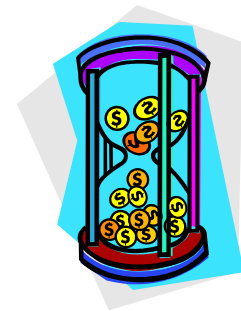
Summary

Why It's Important to Address the Sustainability of the TFFR Plan

- A financially strong TFFR defined benefit plan with competitive benefits is an important tool used by 231 ND school districts and other employers to attract and retain quality educators in ND.
- TFFR provides lifetime financial security to over 6,500 currently retired educators, and nearly 10,000 more future retirees so that they may care for themselves in retirement.
- Pension benefits received by retirees are spent in the state and local community. This spending ripples through the state in the form of jobs, tax revenues, and economic impact.
- It is in the best financial interests of teachers, administrators, school districts, and the State to take funding improvement actions soon to ensure the long-term solvency of TFFR for current and future generations of ND educators.

Important Points

- Although this is not an immediate crisis, it is a serious situation.
- Without action, TFFR's unfunded liability will continue to increase and funded ratio will continue to decrease.
- The longer we wait, the more it will cost.
- Funding improvement actions should start soon and be **phased in over time**. Shortfalls will not be solved in legislative session, nor with a couple good years of investment returns.
- Funding improvement is a **shared responsibility**. Both members and employers will need to contribute to the funding solution so that lifetime pension benefits for teachers are secure.



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Future TFFR Updates

- **Web Presentations - TFFR Funding Challenge**
 - Part 1: Exploring Options Currently Online
 - Part 2: Legislative Proposals late April

- **Web Information**
 - Legislative summary, bill drafts Currently Online

- **Special TFFR Newsletter** late April

- **Regional Meetings** May

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