



NDTFFR Funding Challenges: What Does the Future Hold?

ND Education Association

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Today's Message

- TFFR faces significant funding challenges as a result of 2008-09 market meltdown.
- Problem is big (but not insurmountable).
- Options are painful.
- Business as usual is not likely to see us through.
- Meeting the challenges will require time, and coordinated support of members and employers.



Discussion Topics

- Brief overview of TFFR funding issues.
- Options being considered to offset investment losses and improve funding levels.
- Potential impact of various funding options on the State, school districts, administrators, and teachers.

Retirement Funding Equation

$$C + I = B + E$$

Contributions + Investments = Benefits + Expenses

Not just for today, but for the long term.

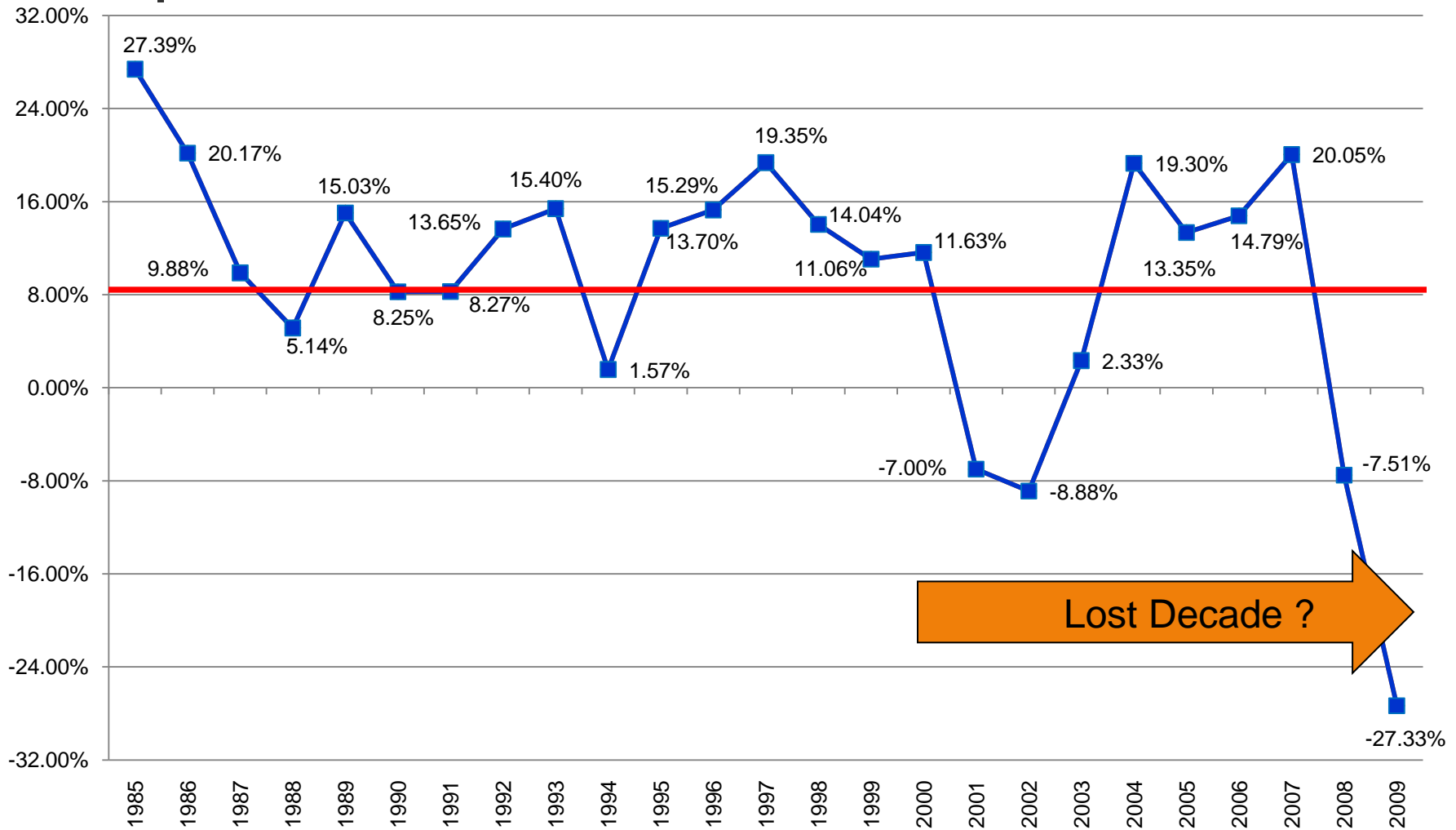




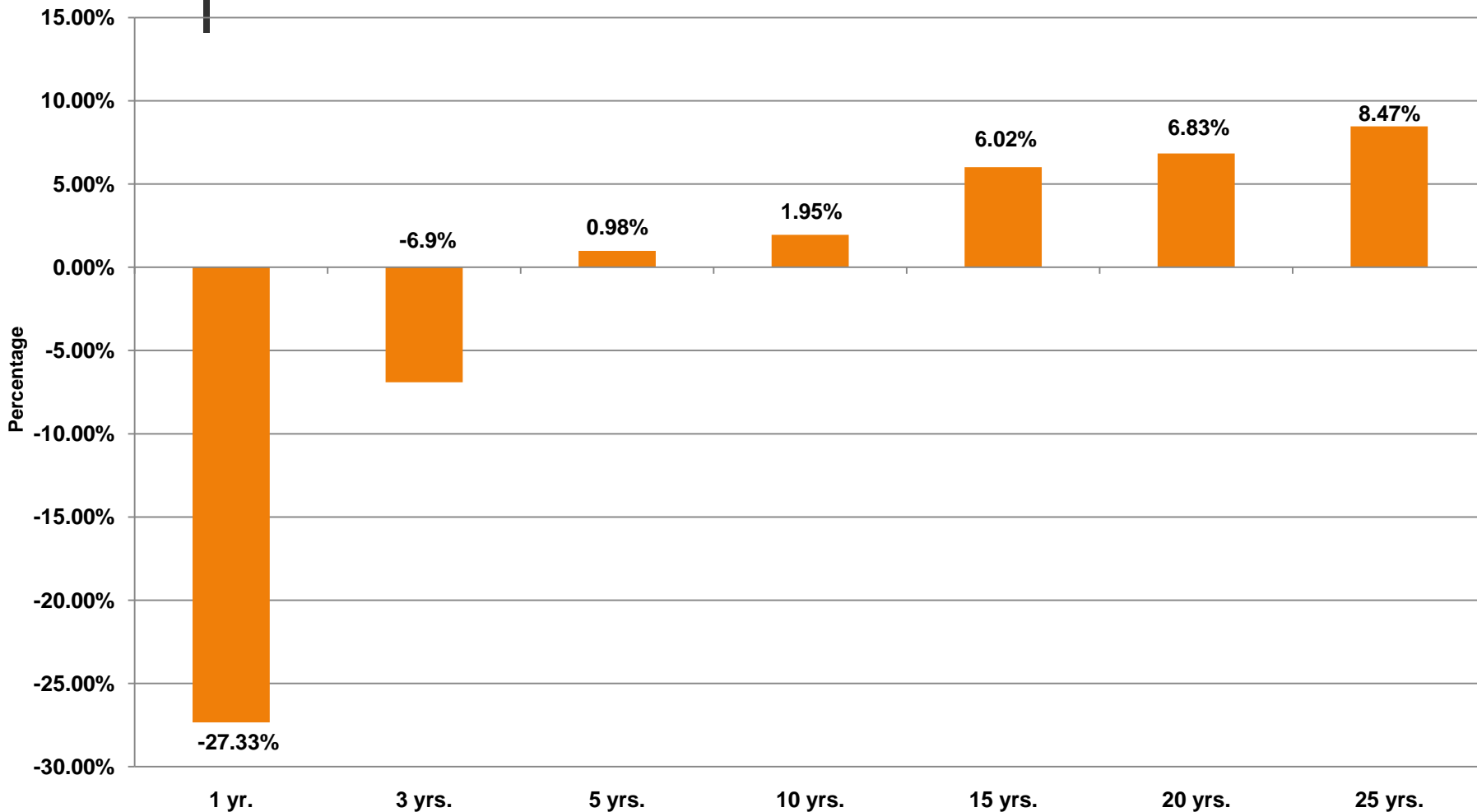
Investment Performance FY 2009

- 2008-09 was the worst time period in financial markets since the Great Depression.
- 2008-09 investment returns were well below the 8% assumed rate needed to fund the plan. For FY end 6/30/09:
 - Net investment loss of **-27.33%**.
 - In dollar terms, about \$492 million loss in value.
 - Most of loss is unrealized (about 82%).
- Markets had this kind of effect on almost all retirement plans around the country (individual, corporate, and public plans).

TFFR Investment Performance – Annual 1985-2009



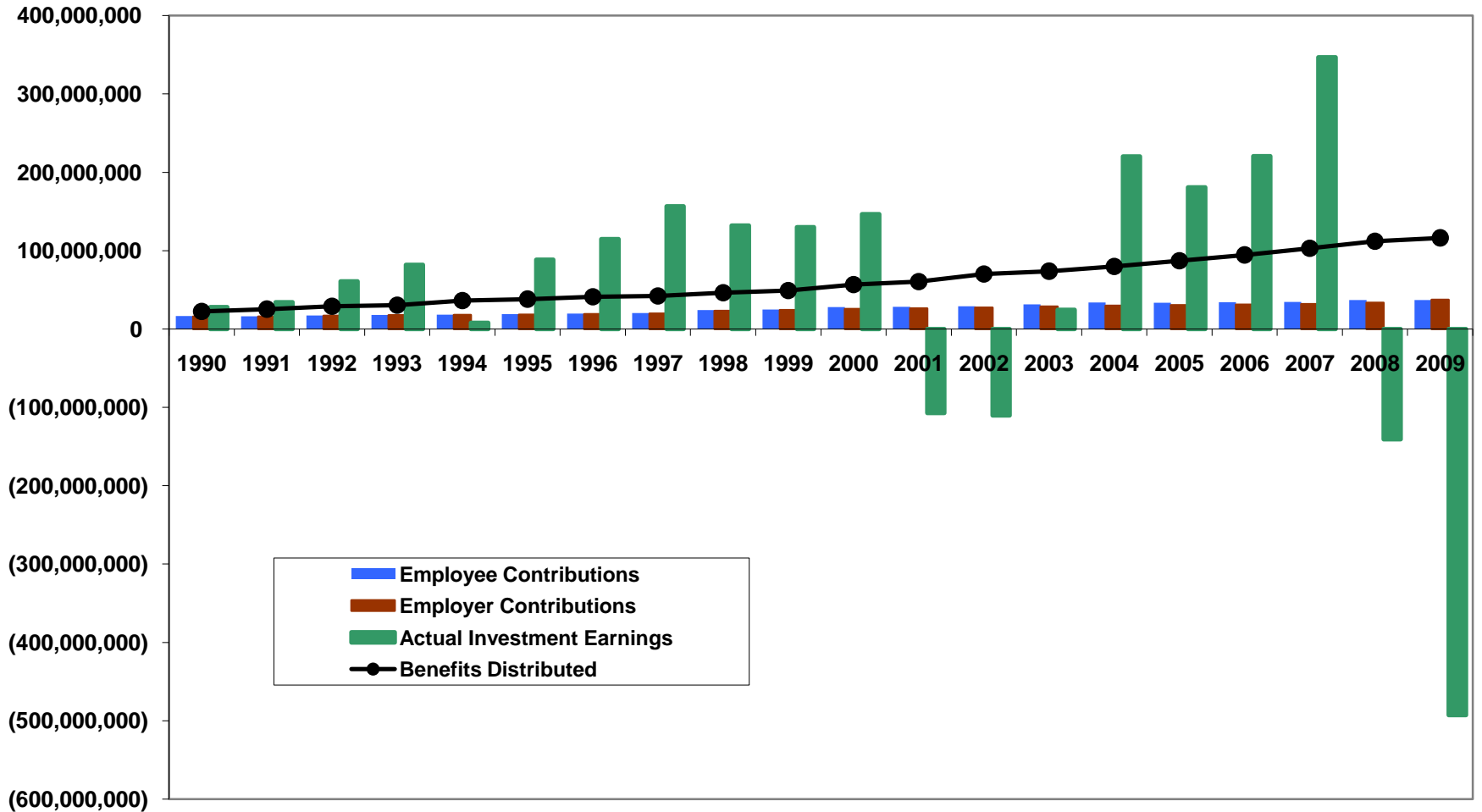
TFFR Investment Performance – Average 1985-2009



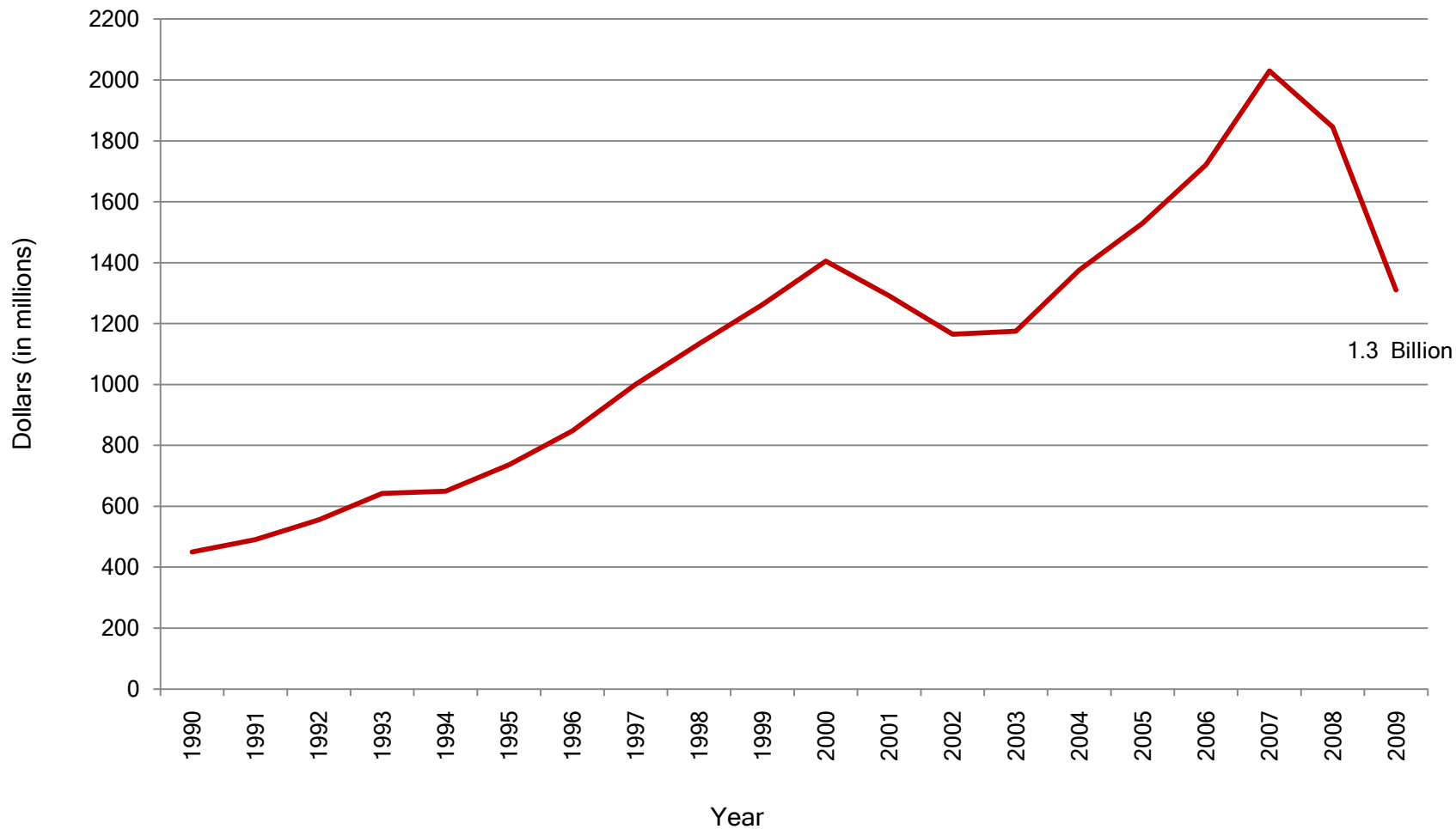
Year Ended June 30, 2009



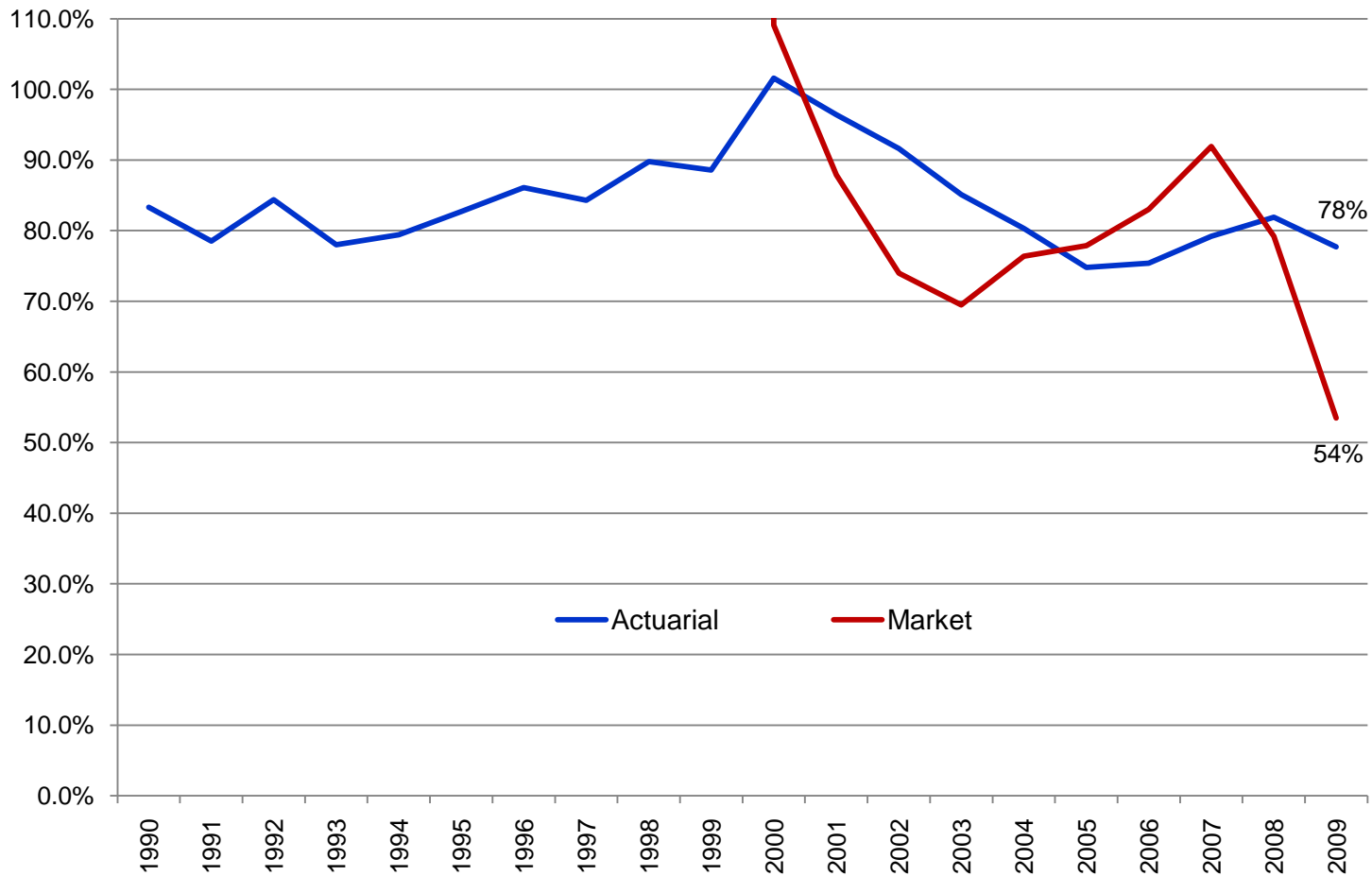
TFFR Revenues & Distributions 1990-2009



Market Value of TFFR Assets

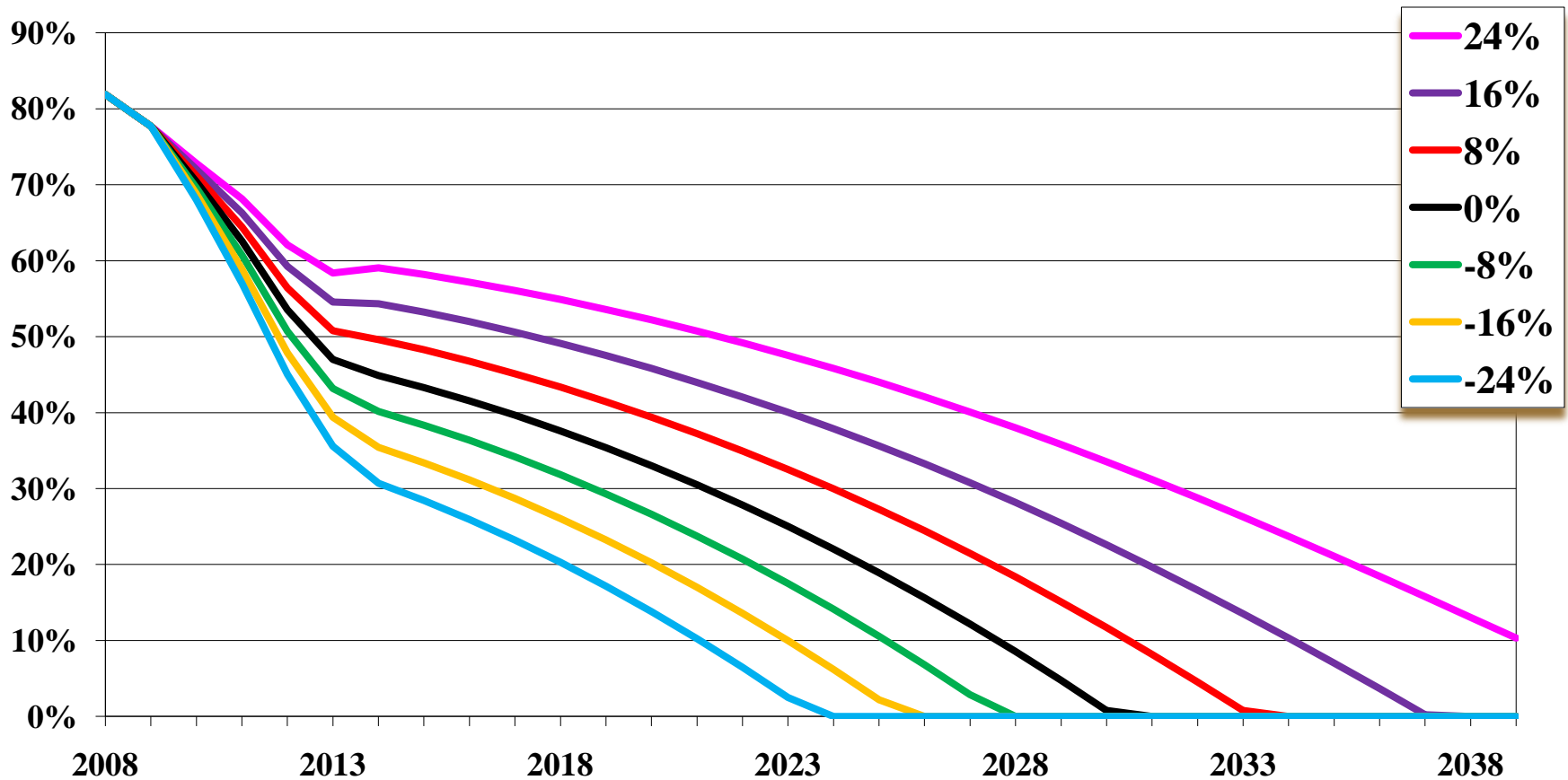


TFFR Funded Ratio MVA vs AVA



*Funded ratio at market value not calculated 1990-1999.

Projected TFFR Actuarial (AVA) Funded Ratios based on variable investment returns for FY 2010

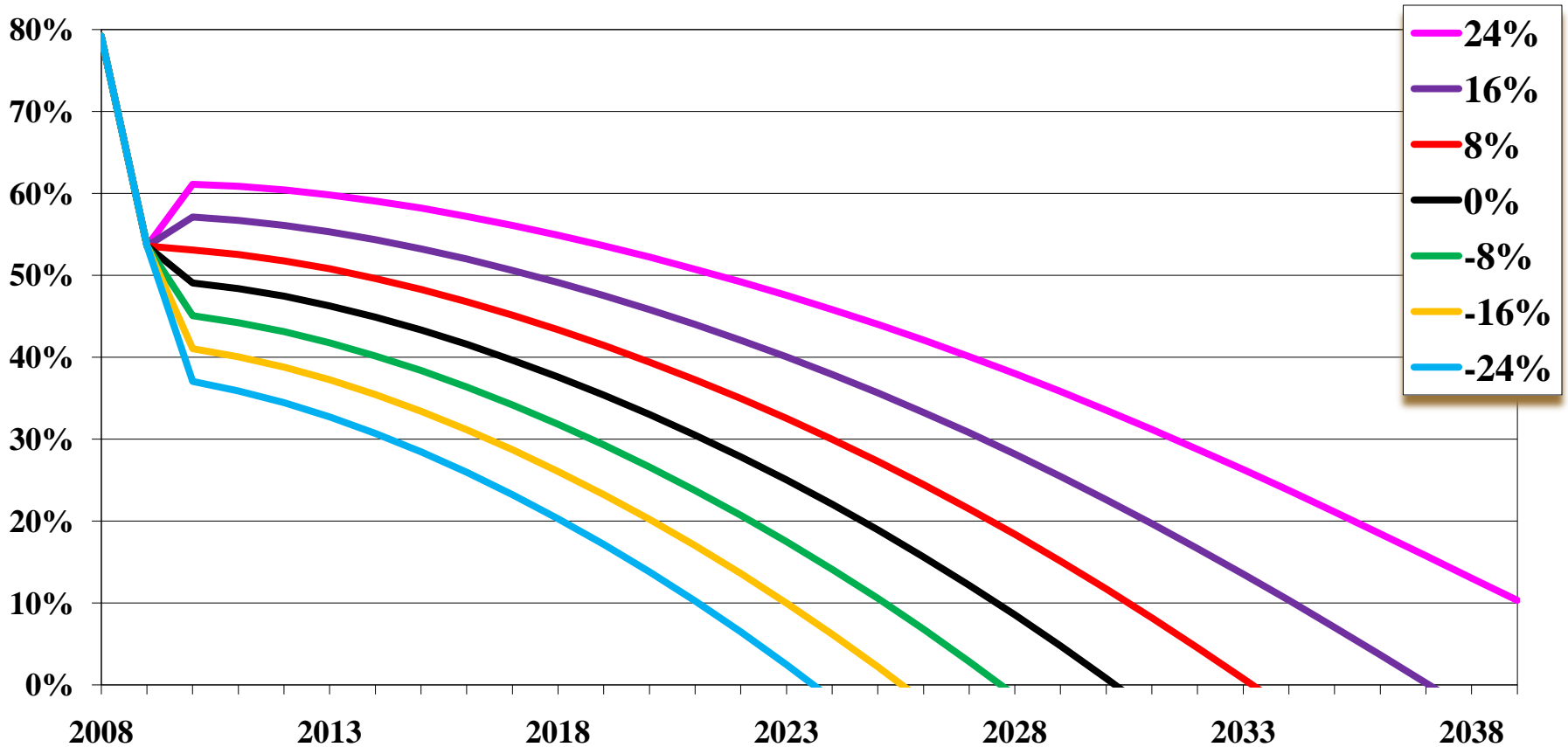


Note: Funded ratio estimates using actuarial value of assets (AVA) are based on following assumptions: Variable investment returns for 2010 (24%, 16%, 8%, 0%, -8%, -16%, -24%) and 8% investment returns for 2011 and all future years.

Projected Actuarial (AVA) Funded Ratios

Valuation Year	24.00% for FY2010	16.00% for FY2010	8.00% for FY2010	0.00% for FY2010	-8.00% for FY2010	-16.00% for FY2010	-24.00% for FY2010
2009	78%	78%	78%	78%	78%	78%	78%
2010	73%	72%	71%	70%	70%	69%	68%
2011	68%	66%	64%	63%	61%	59%	57%
2012	62%	59%	56%	54%	51%	48%	45%
2013	58%	55%	51%	47%	43%	39%	36%
2014	59%	54%	50%	45%	40%	35%	31%
2019	54%	48%	42%	35%	29%	23%	17%
2024	46%	38%	30%	22%	14%	6%	0%
2029	36%	25%	15%	5%	0%	0%	0%
2034	24%	10%	0%	0%	0%	0%	0%
2039	10%	0%	0%	0%	0%	0%	0%

Projected TFFR Market (MVA) Funded Ratios based on variable investment returns for FY 2010



Note: Funded ratio estimates using market value of assets (MVA) are based on following assumptions: Variable investment returns for 2010 (24%, 16%, 8%, 0%, -8%, -16%, -24%) and 8% investment returns for 2011 and all future years.



Projected Market (MVA) Funded Ratios

Valuation Year	24.00% for FY2010	16.00% for FY2010	8.00% for FY2010	0.0% for FY2010	-8.00% for FY2010	-16.00% for FY2010	-24.00% for FY2010
2009	54%	54%	54%	54%	54%	54%	54%
2010	61%	57%	53%	49%	45%	41%	37%
2011	61%	57%	53%	48%	44%	40%	36%
2012	60%	56%	52%	47%	43%	39%	34%
2013	60%	55%	51%	46%	42%	37%	33%
2014	59%	54%	50%	45%	40%	35%	31%
2019	54%	48%	41%	35%	29%	23%	17%
2024	46%	38%	30%	22%	14%	6%	0%
2029	36%	25%	15%	5%	0%	0%	0%
2034	24%	10%	0%	0%	0%	0%	0%
2039	10%	0%	0%	0%	0%	0%	0%



TFFR Funding Improvement Study Group

- TFFR Board
 - Mike Gessner, President, Minot (active teacher)
 - Kim Franz, Mandan (active teacher)
 - Bob Toso, Jamestown (active administrator)
 - Clarence Corneil, Dickinson (retired member)
 - Lowell Latimer, Minot (retired member)
 - Kelly Schmidt, State Treasurer
 - Wayne Sanstead, State Supt.
- RIO Staff
 - Fay Kopp, TFFR Retirement Officer
 - Steve Cochran, SIB Investment Officer



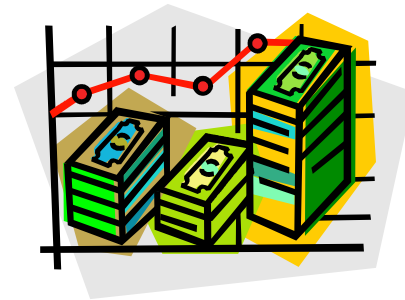
TFFR Funding Improvement Study Group

- Member and Employer Interest Groups
 - NDEA – Greg Burns, Dakota Draper, Gloria Lokken
 - NDCEL – Doug Johnson
 - NDSBA – Bev Nielson
 - NDRTA – Ken Tupa, Rolland Larson
- Legal Counsel
 - ND Attorney General's Office – Aaron Webb
- Actuarial Consultant
 - Chris Conradi, GRS

Contributions + **Investments** = **Benefits** + **Expenses**

Investments

- TFFR/SIB long term investment strategy is sound, portfolio is professionally managed, and assets are well diversified.
- Doubtful we can expect excess return (over 8% assumption) to assist with addressing TFFR's funding shortfall.
- Unlikely we can
“invest our way out of it.”





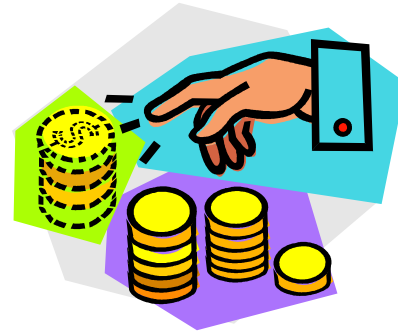
Projected Return Required Each Year after FY 2010 to Achieve Given AVA Funded Ratio in 30 Years



Return Assumed for FY 2010	24.00%	16.00%	8.00%	0.00%	-8.00%	-16.00%	-24.00%
Target Funded Ratio	Post-FY 2010 Return Required						
70%	9.58%	10.13%	10.75%	11.45%	12.24%	13.16%	14.24%
80%	9.78%	10.33%	10.94%	11.62%	12.41%	13.32%	14.39%
90%	9.97%	10.51%	11.12%	11.80%	12.57%	13.47%	14.53%
100%	10.16%	10.69%	11.29%	11.96%	12.73%	13.61%	14.66%



Expenses



- Average administrative and investment expenses are about 0.9% or about 90 cents for every \$100 invested.
- Administrative expenses include salaries, benefits, and operating costs plus actuarial, legal, and audit fees.
- Investment expenses are dependent on size of fund, asset classes, and complexity of investment program.
- SIB must continue to seek high performance, low cost investment opportunities.
- Expenses are closely monitored, and will be kept to a minimum.
- Reducing expenses would not materially improve TFFR's funding level, especially if investment performance was negatively affected.



Who Should Bear the Cost of Funding Improvements?

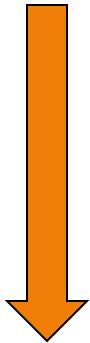
State

Employer

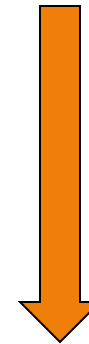


Employee

School District



Contributions?



Contributions?
Benefits?



What Changes can the State Legally Make?

- ND Attorney General's Office has re-examined issue regarding legality of pension benefit structure changes.
- General conclusions:
 - State cannot change pension benefits of retired members.
 - State can change benefits of new employees.
 - Not clear if State can change benefits of active and inactive members (but appears to be some protection with vested status, depending upon how vested is defined).
 - State could face possible legal challenges depending upon which course of action is taken.
 - If challenged, Supreme Court would need to make final determination.

Legal Considerations?

Level of Risk Associated with Making Member Benefit Changes

Red (clearly illegal)



Green (clearly legal)

RETIREES	ACTIVE AND INACTIVE EMPLOYEES					NEW EMPLOYEES
No Benefit Changes	Vested Retirement Eligible (Normal)	Vested Retirement Eligible (Early)	Vested Accrued Benefits	Vested Future Benefits	Nonvested Any Benefits	Any Benefits
6,466	1,056	1,068	7,667		1,698	700 per yr (est.)



Contributions

- Increase employer/school district contributions?
- Increase member/teacher contributions?
- Require member contributions on re-employed retirees?
- Some or All of the above?
- How much?
 - Depends how soon and how much contributions would be increased.
 - Estimate at least 8-10%+ total phased in over multi-year period.

Possible Employer Contribution Increases Being Discussed

- Current Statutory Employer Rate - 8.25% of eligible salary (increasing to 8.75% on 7/1/10)
 - 2009 - \$37.5 million
 - Every 1% contribution increase + \$5 mil/year
- Phase in increases over multi-year time period.
- Determine trigger point when rates should stop increasing; start decreasing.





Projected Funded Ratios Under Alternative Employer Contribution Rates Increase Assumed Effective July 1, 2011

Employer Contribution Rate	% Increase	FY 2012 Employer Contribution Increase*	Actuarial Funded Ratio				Funding Period in 2039
			2009	2019	2029	2039	
8.75%	0.00%	\$0.0	78%	41%	15%	0%	Infinite
9.75%	1.00%	\$4.9	78%	43%	20%	0%	Infinite
10.75%	2.00%	\$9.7	78%	45%	26%	0%	Infinite
11.75%	3.00%	\$14.6	78%	47%	31%	10%	Infinite
12.75%	4.00%	\$19.4	78%	48%	36%	21%	Infinite
13.75%	5.00%	\$24.3	78%	50%	42%	32%	Infinite
14.75%	6.00%	\$29.1	78%	52%	47%	44%	Infinite
15.75%	7.00%	\$34.0	78%	53%	52%	55%	71 years
16.75%	8.00%	\$38.8	78%	55%	57%	66%	20 years
17.75%	9.00%	\$43.7	78%	57%	63%	77%	10 years
18.75%	10.00%	\$48.5	78%	59%	68%	88%	4 years

* In millions. Amounts will increase after FY 2012 in line with growth of covered payroll.

Assumptions:

- (1) 8% Net investment returns for FY 2010 and later years
- (2) No change in member contribution rate (7.75%) or benefit provisions
- (3) 0.5%/year decrease in number of active members
- (4) No actuarial gains or losses except as due to investment returns
- (5) Based on 2009 actuarial valuation, adjusted for 2009 legislation



Possible Employer/School District Contribution Increase

Advantages

- Full contribution goes toward funding plan
- May be perceived more positively by members
- State has general fund surplus, so if more money goes to schools, would help fund increased contributions
- Once funding level is achieved, contribution rate could be reduced

Disadvantages

- Would reduce funding for future salary increases and benefits.
- If salary increase is sacrificed, employee could lose money in the long term.
- Negative public perception
- Legislator resistance
- If increased contributions not funded by State, puts pressure on local school districts
- Local school board resistance
- Potential increase in local property taxes
- May prompt a push to DC plan

Possible Member Contribution Increases Being Discussed

o Actives

- Current Statutory Member Rate - 7.75% of eligible salary
2009 - \$34.7 million
Every 1% contribution increase + \$5 million/year
- Phase in increases over multi-year time period.
- Determine trigger point when rates should stop increasing; start decreasing.

o Re-employed Retirees

- Member Rate - 7.75% = \$0.5 million/year





Possible Member Contribution Increase

Advantages

- Would not affect future salary increases or funding of other benefits
- Higher FAS for retirement purposes
- Higher member account balance
- Can be done on a pre-tax basis
- Perceived more positively by legislators and public
- Once funding level is achieved, contribution rate could be reduced
- May offset push for DC plan

Disadvantages

- Less member take home pay
- Higher total retirement contribution would be required
- Negative employee perception
- More member communication
- May cause members to leave/retire sooner
- May exacerbate teacher shortage if unable to recruit new teachers
- Potential legal issue

Benefits

- Change benefits for new hires?
- Change benefits for active and inactive members? If so, accrued benefits or future accruals only?
- Leave benefits alone?
- Legal question...?





Possible Future Benefit Changes Being Discussed

- Retirement eligibility (early – normal)
 - Current: Rule of 85 (Tier 1) – Rule of 90 (Tier 2) with no minimum age requirements
 - Minimum age 60, 62, 65? Rule of 95 or 100?
- Benefit multiplier
 - Current: 2.00%
 - Lower multiplier - 1.9%, 1.8%, 1.75%??
- Interest earned on member accounts
 - Current: 6% per year
 - Eliminate, or reduce to 3-4%?
 - Tie to some floating rate (long term bond)?



Possible Future Benefit Changes Being Discussed

○ Service Purchases

- Eliminate, limit # years to purchase, or disallow purchased years to be used for Rule of 85/90.

○ Retiree Re-Employment

- Eliminate or require longer waiting period, restrict to CSAs only, fewer hours, etc.

○ Disability and Death Benefits

- Modify formula or options available

○ Eligible Salary Definition

- Clarify what is/is not eligible retirement salary



Possible Member Benefit Reductions

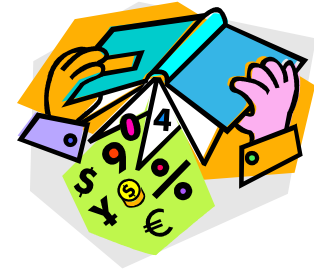
Advantages

- Would reduce additional contribution requirements
- Perceived more positively by legislators and public
- Long term teacher shortage issues could be lessened
- May offset push for DC plan

Disadvantages

- Would take longer to achieve meaningful cost savings
- Benefit may be lost forever
- Negative employee perception
- Employee morale issues
- More member communication
- Effect on retirement planning
- May cause members to leave/retire sooner
- May exacerbate teacher shortage if unable to recruit new teachers
- TFFR plan would be less competitive
- Less retirement income could result in greater use of social programs
- Administratively complex for TFFR operations
- Potential legal issue

Possible State General Fund or Other Revenue Source



Advantages

- State is sponsor of TFFR plan and ultimately responsible for benefits funding.
- May be general funds available since State has surplus
- May be other State revenue sources that could be used
- Would reduce employer/ employee contribution requirements

Disadvantages

- Negative public perception
- Legislator resistance
- May reduce general fund spending to schools
- One time funding source – need to request \$ each biennium
- May prompt push to DC plan



TFFR Funding Improvement Study Continues

- TFFR Funding Improvement Study Group is meeting throughout 2009-10 to discuss funding improvement options, receive actuarial cost/technical information, consider legal issues, and formulate legislative plans.
- NDSBA, NDCEL, NDEA, and NDRTA is also working with their respective organizations and members for feedback.
- TFFR Board plans to submit funding improvement legislation for study by the Legislative Employee Benefits Program Committee (LEBPC) by April 1, 2010 deadline.
- TFFR Board plans to file more than one bill for LEBPC study.
 - Would ensure that all options get a full technical/actuarial review and go through a full public hearing process.
 - LEBPC would hear the full range of options/solutions and provide its recommendation on each.
 - TFFR Board could then consider LEBPC findings and recommendations before deciding which bill to submit to 2011 Legislature.



Next Steps?

- Next round table discussion with TFFR Board and Stakeholder Groups on Jan. 21.
- Receive actuarial information on following possible options:
 - Employer contribution increase only (phased +1%, 2%, 3%, 4% per biennium beginning 7/1/12)?
 - Employer and employee contribution increase (phased + 1%, 2%, 3%, 4% each, per biennium with employees + extra 1% first year to match employer rate)??
 - Employer and employee contribution increase (phased above), and benefit reductions for new hires (multiplier, early unreduced retirement)?
 - Employer and employee contribution increase (phased above), benefit reductions for new hires (above), general fund appropriation (1%)?

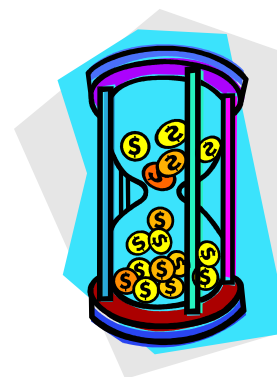


No guarantees

- The TFFR Board cannot make any guarantees as to what will happen to pension benefits in the future.
- 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.
- Members and employers should work with their interest groups and TFFR on 2011 legislative proposals.
- Active and retired members and employers should closely monitor 2011 legislation for potential impact on the TFFR plan.

What if changes are made?

- **If** legislative changes are made, they would typically take effect on July 1, 2011 or later.
- **If** legislative changes are made, it is likely such legislation would contain a delayed effective date of 2012 or later to allow time for employee and employer decision making, negotiating, budgeting, and implementation.
- Employees should avoid making hasty retirement decisions until more details are known. The decision to retire should include careful planning and analysis of both financial and nonfinancial factors.





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 to take action, the more it will cost.
- Funding improvement actions will likely be **phased in over time**. Shortfalls will not be solved in one legislative session, or with a couple good years of investment returns.
- Funding improvement actions will likely require **shared sacrifice** – both members and employers may need to collectively contribute to the funding solution.



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

- A financially strong TFFR 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.
- 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 sooner, rather than later to help ensure the long-term solvency of TFFR for current and future generations of ND educators.



QUESTIONS???

