



NDTFFR Overview

ND School Boards Association Annual Convention

October 27, 2017

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

TFFR Plan

2

- ❑ 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. The plan is also an important feature in the recruitment and retention of high quality teachers.
- ❑ Governing laws: NDCC 15-39.1 and NDAC Title 82.
- ❑ Plan is funded by member (teacher) and employer (school district) contributions, and investment earnings.



TFFR Board of Trustees

3

- **TFFR Board of Trustees is responsible for administering the TFFR benefits program. The Board has a **fiduciary responsibility** to the fund's beneficiaries.**
- **The Board's #1 priority is to improve the TFFR plan's funding status to protect and sustain current and future benefits.**
- **TFFR Board consists of 5 active and retired members appointed by the Governor and 2 elected state officials.**



Mike Gessner, President
Active Teacher - Minot



Toni Gumeringer, Trustee
Active Teacher - Bismarck



Rob Lech, Vice President
Active Administrator
Jamestown

TFFR Board of Trustees

4



Mel Olson, Trustee
Retired Member
Fargo



Kirsten Baesler
State Superintendent



Mike Burton, Trustee
Retired Member
Fargo



Kelly Schmidt
State Treasurer

State Investment Board (SIB)

5

TFFR investment program is implemented by State Investment Board. The funds are invested following the “Prudent Investor Rule” and must be invested exclusively for the benefit of TFFR members. The SIB is also the administrative board for the Retirement and Investment Office (RIO).

State Officials

- ❑ Lt. Governor
Brent Sanford, Chairman
- ❑ State Treasurer
Kelly Schmidt
- ❑ State Insurance Comm.
Jon Godfread
- ❑ State Land Comm.
Lance Gaebe
- ❑ Workforce Safety & Insurance
Cindy Ternes

Pension Representatives

- ❑ Mike Gessner (TFFR)
- ❑ Rob Lech (TFFR)
- ❑ Mel Olson (TFFR)

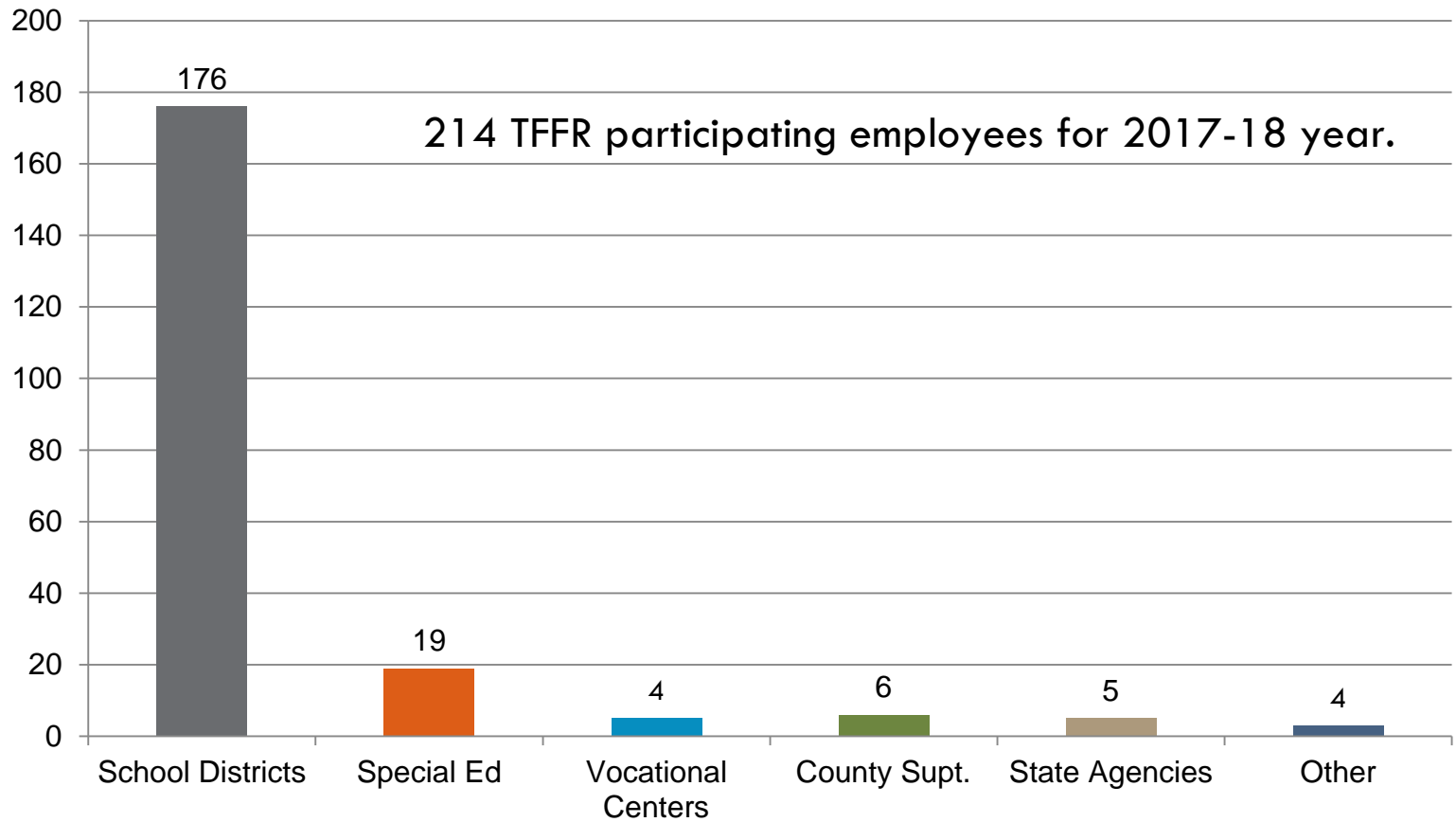
- ❑ Adam Miller (PERS)
- ❑ Troy Seibel (PERS)
- ❑ Yvonne Smith (PERS)

6

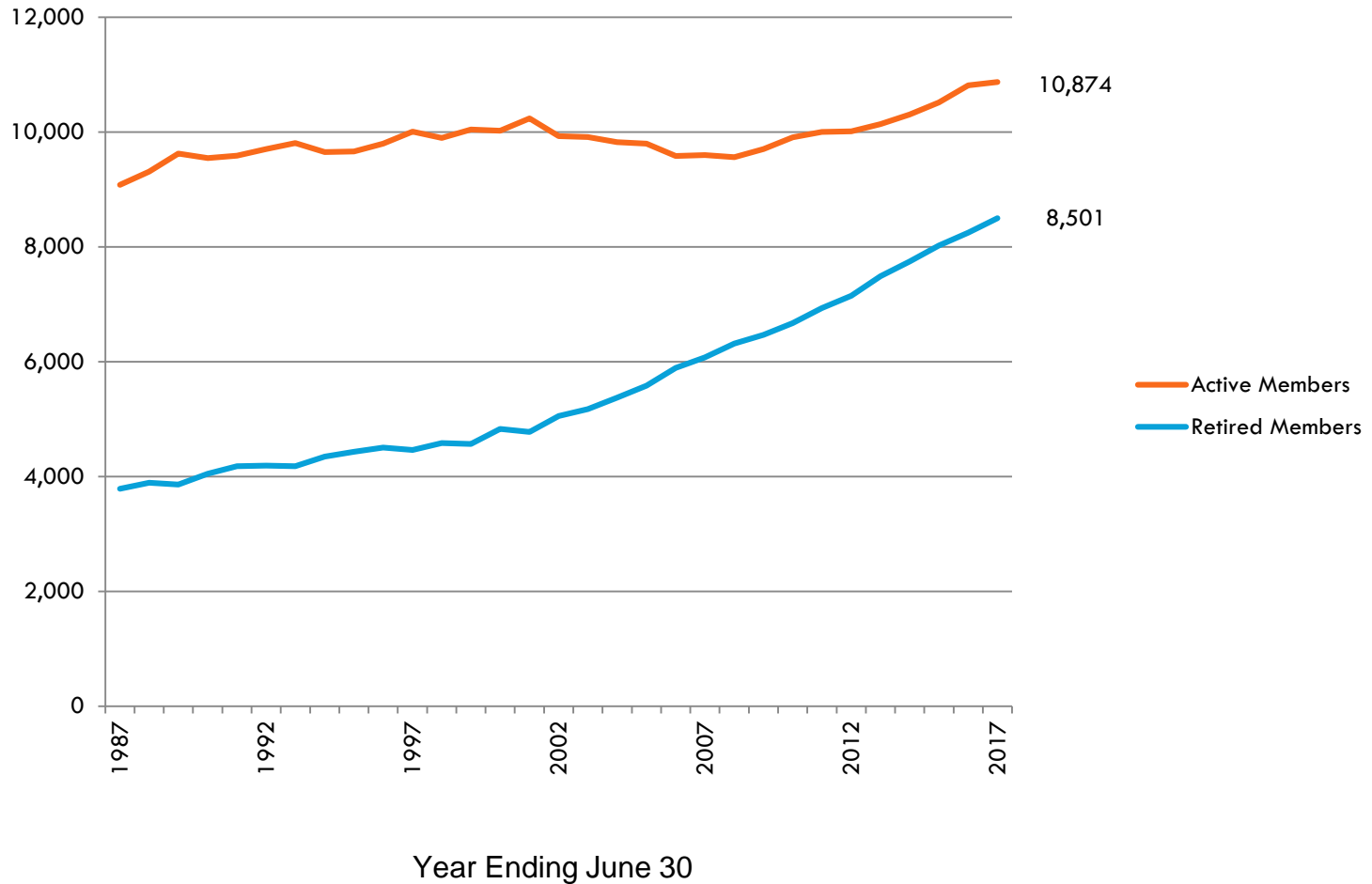
TFFR Background



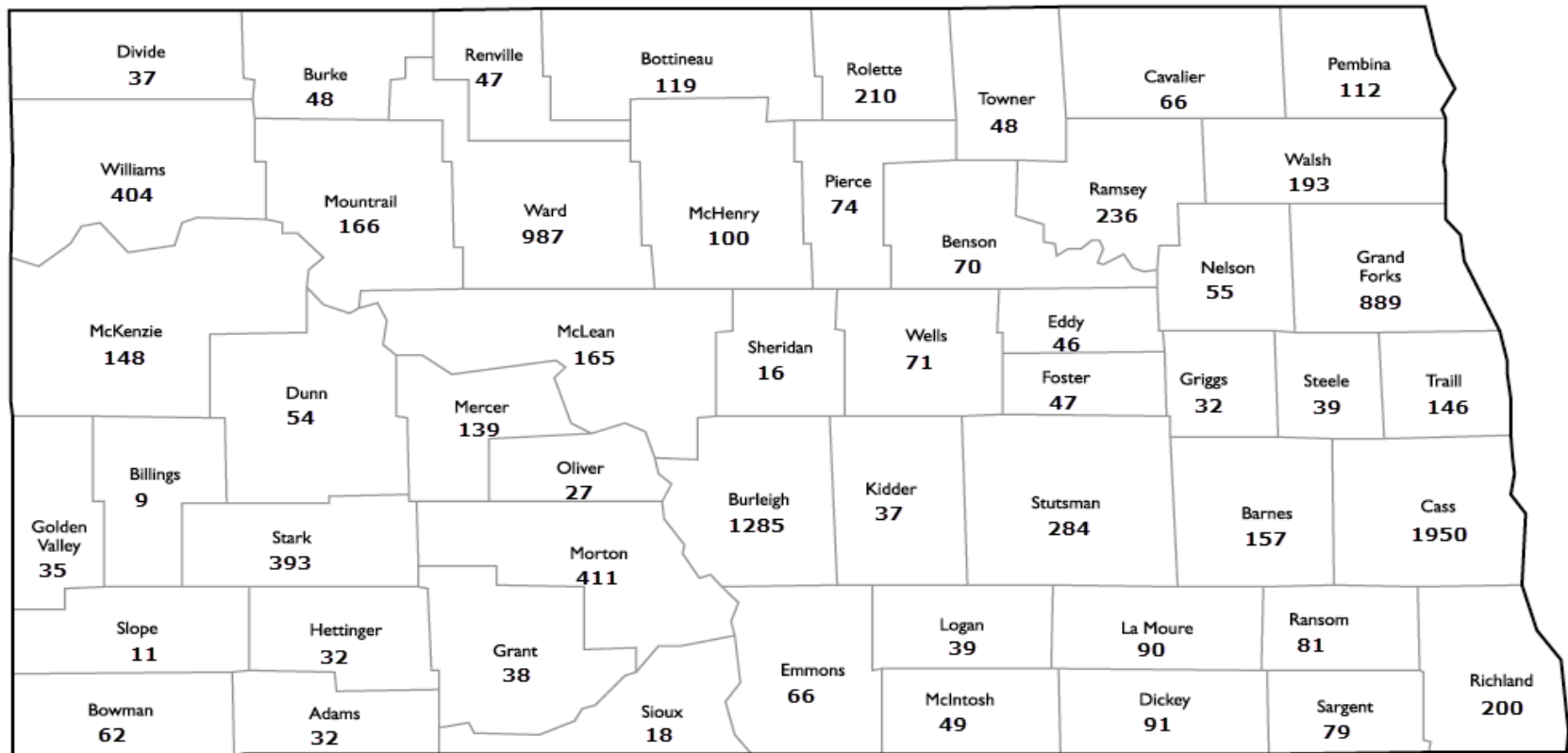
TFFR Employers by Type



Active and Retired TFFR Members 1987 - 2017

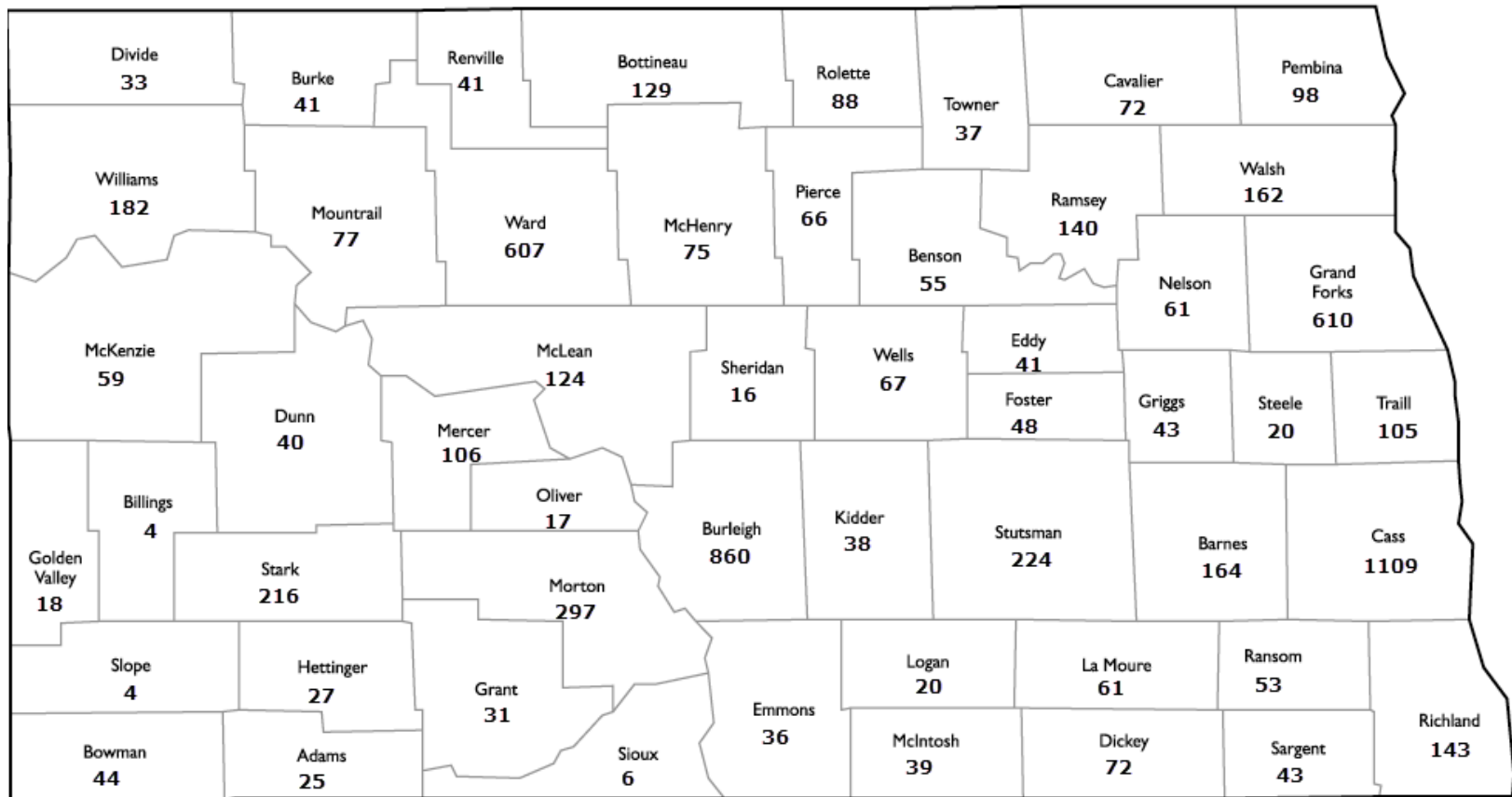


TFFR Active Members by County



In-State 10,240
 Out-of-State 634
 Total 10,874

TFFR Retired Members by County

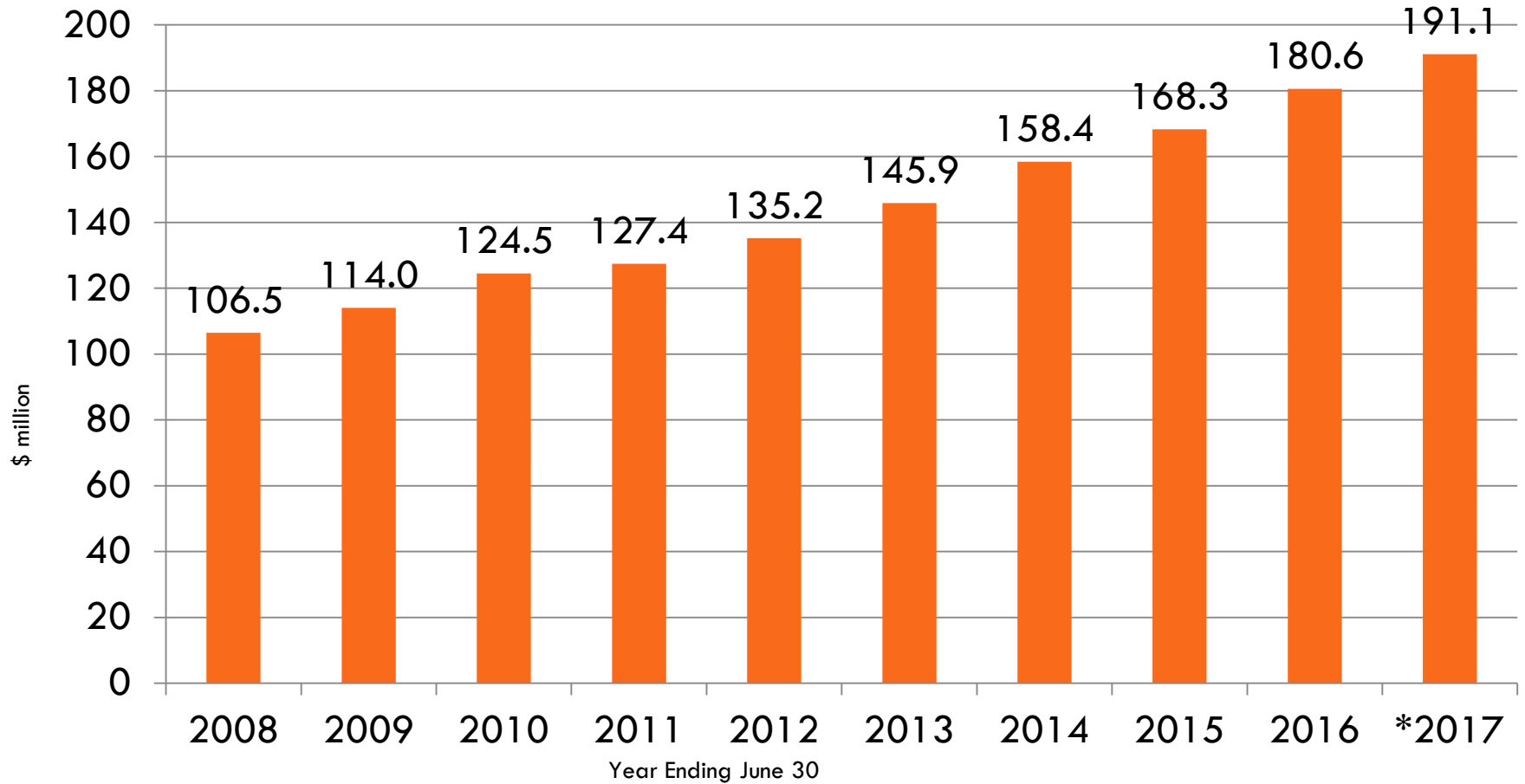


In-state 6,794
 Out-of-state 1,707
 Total 8,501

Average Monthly TFFR Benefits by County as of 7.1.17

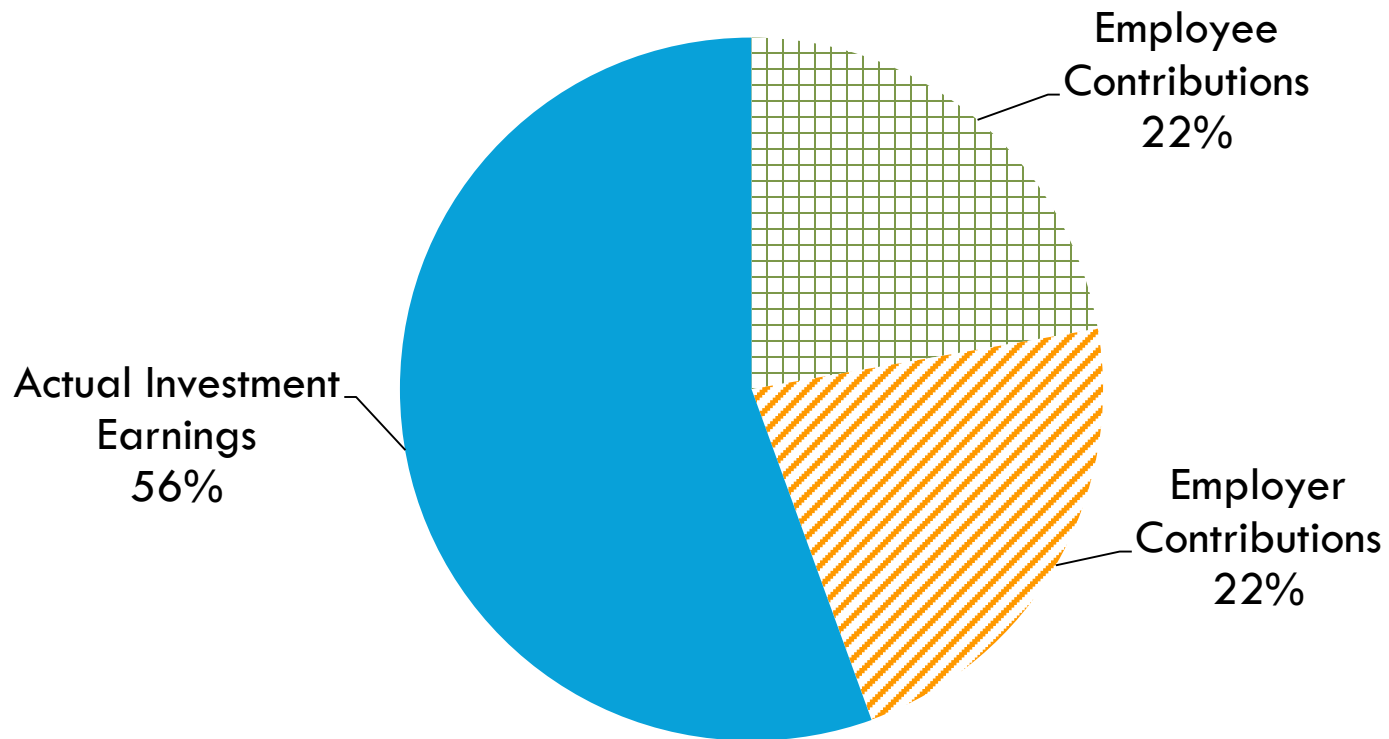
COUNTY	RETIREE COUNT	AVERAGE BENEFIT	TOTAL BENEFITS		COUNTY	RETIREE COUNT	AVERAGE BENEFIT	TOTAL BENEFITS
Adams	25	1,923	48,073		Mercer	106	2,000	212,037
Barnes	164	2,196	360,092		Morton	297	1,961	582,491
Benson	55	2,111	116,115		Mountrail	77	1,580	121,669
Billings	4	1,479	5,917		Nelson	61	1,827	111,455
Bottineau	129	1,696	218,817		Oliver	17	2,019	34,318
Bowman	44	1,896	83,445		Pembina	98	2,165	212,164
Burke	41	1,539	63,102		Pierce	66	1,817	119,895
Burleigh	860	2,123	1,825,552		Ramsey	140	1,857	259,956
Cass	1,109	2,225	2,467,351		Ransom	53	1,734	91,894
Cavalier	72	1,704	122,677		Renville	41	1,874	76,823
Dickey	72	1,921	138,330		Richland	143	2,191	313,334
Divide	33	1,903	62,812		Rolette	88	1,917	168,692
Dunn	40	2,108	84,317		Sargent	43	1,594	68,549
Eddy	41	1,987	81,476		Sheridan	16	1,620	25,926
Emmons	36	1,964	70,696		Sioux	6	902	5,413
Foster	48	2,271	109,017		Slope	4	1,190	4,760
Golden Valley	18	1,838	33,080		Stark	216	2,063	445,501
Grand Forks	610	2,200	1,342,275		Steele	20	1,766	35,329
Grant	31	1,434	44,446		Stutsman	224	2,026	453,780
Griggs	43	1,909	82,091		Towner	37	1,885	69,732
Hettinger	27	1,871	50,522		Traill	105	1,883	197,694
Kidder	38	1,802	68,463		Walsh	162	1,938	314,008
LaMoure	61	1,823	111,180		Ward	607	2,096	1,272,409
Logan	20	1,850	37,003		Wells	67	1,864	124,892
McHenry	75	1,950	146,248		Williams	182	2,102	382,534
McIntosh	39	1,734	67,609		Totals	6,794	2,045	13,893,580
McKenzie	59	2,024	119,442		Out of State	1,707	1,571	2,682,530
McLean	124	1,840	228,177		Grand Totals	8,501	1,950	16,576,110

Annual TFFR Pension Benefits Paid



Sources of TFFR Revenue FY 1988-2017

13



14

TFFR Plan Benefits



2017 Legislation

15

- **There were no legislative proposals approved in 2017 that directly affected TFFR plan active or retired members:**
 - No benefit increases for retirees
 - No benefit changes for actives
 - No contribution rate increases
 - No plan provision modifications

- **Benefit and contribution changes were approved by the Legislature in 2011 to address TFFR funding improvement. Changes were phased in over time, and are outlined on the following slides.**

Membership

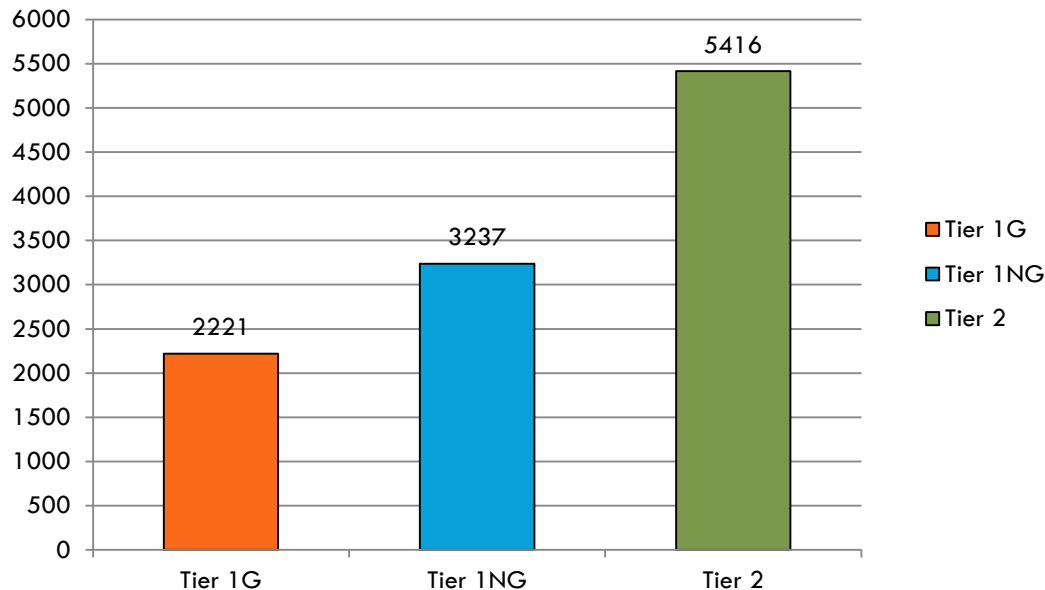
TFFR participation is mandatory for employees who are:

- ▣ 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

TFFR Membership Tiers

17

- **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**



Total Active
Members
10,874
as of
6/30/17

Summary of TFFR Pension Benefits for Membership Tiers

18

	Tier 1 Grandfathered Member	Tier 1 Non-Grandfathered Member	Tier 2 Member
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.			

Retirement Benefit Formula

19

Final Average Salary (FAS) X 2.0% X Service Credit = Single Life Annuity

□ **Example: 50,000 FAS X 2.0% X 30 yrs service = \$30,000 Single Life Annuity**

Benefit Options: Single life annuity, 100% and 50% joint and survivor, 10 and 20 year term certain, level income with Social Security, and partial lump sum option.

What percent of Final Average Salary (FAS) will a TFFR member receive under the 2.0% multiplier at normal retirement age?

<u>Years of Service</u>	<u>Percent of FAS*</u>
5	10%
10	20%
15	30%
20	40%
25	50%
30	60%
35	70%
40	80%

Contribution Rates

20

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: 2011 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.



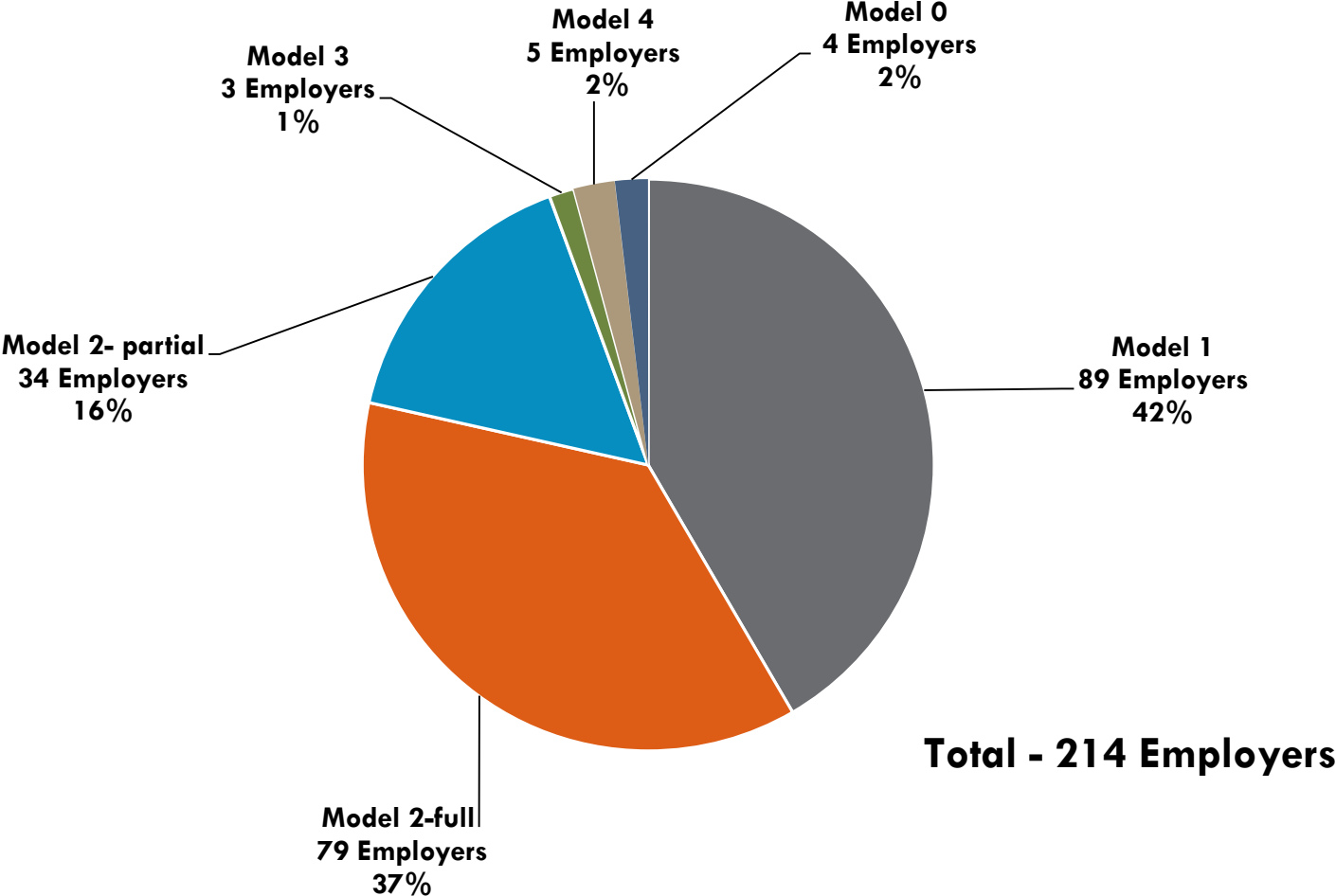
TFFR Employer Payment Plan (EPP) Models

21

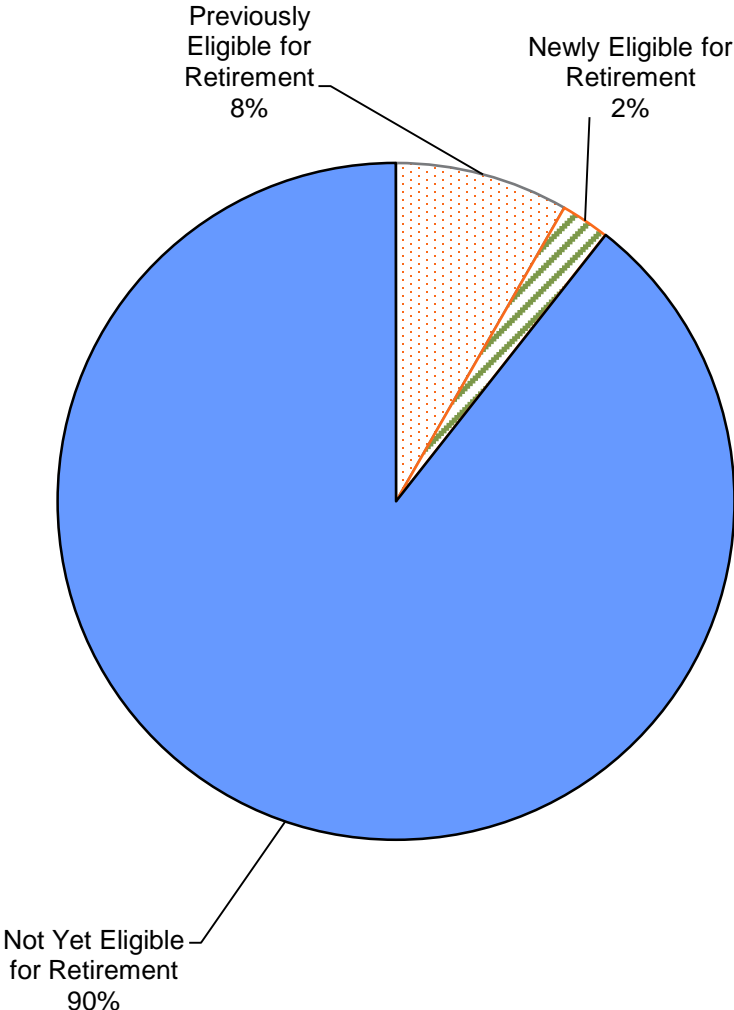
Payment of member contributions on a tax deferred basis can be made by the employer through a: (1) salary reduction or (2) salary supplement.

- **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 %, Model 3 partial \$, Model 4 state agencies:** 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.
- **No Model:** Member/employee contribution is paid by employee and remitted by employer as taxed dollars.

TFFR Employer Models 2017-18

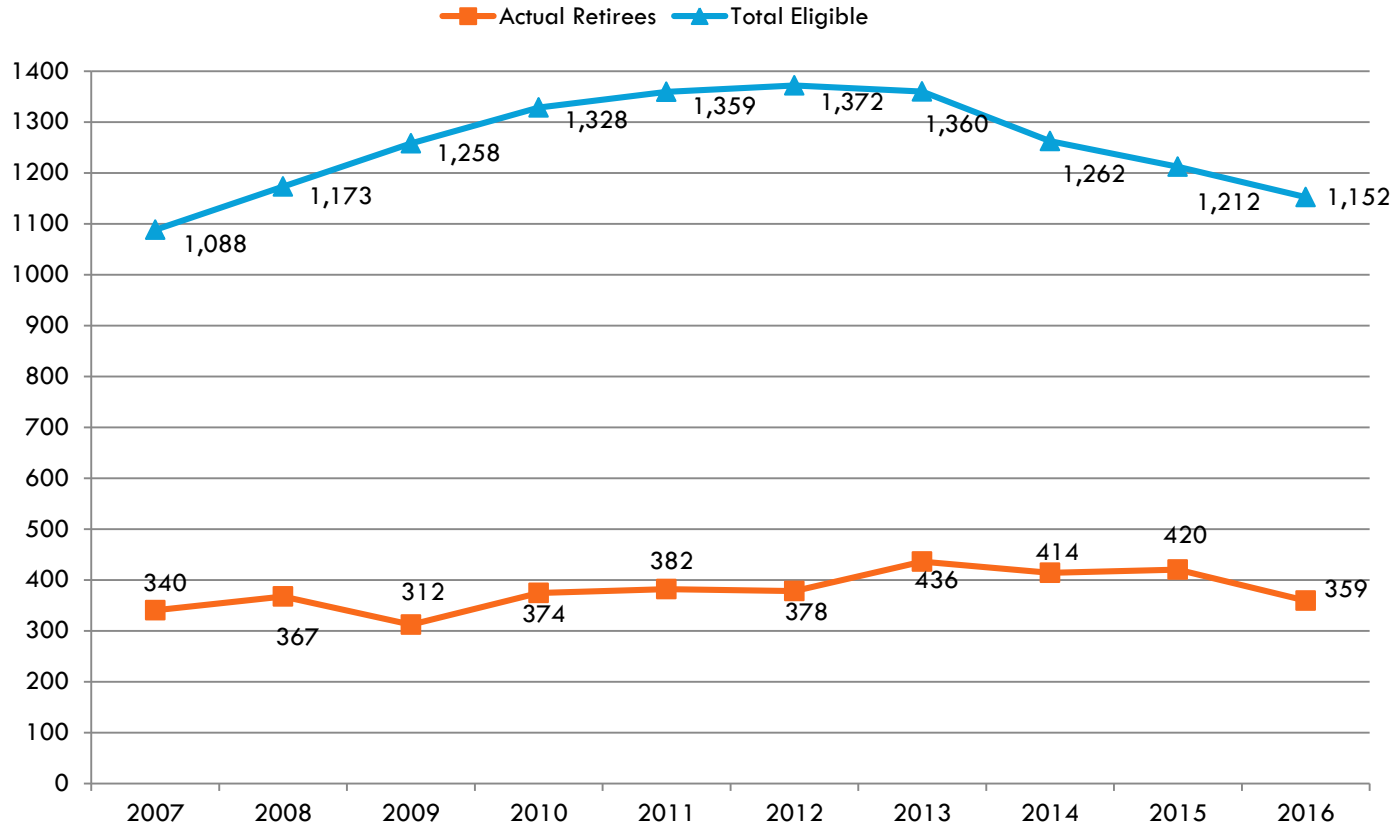


Active TFFR Members Eligible for Retirement



Previously Eligible	874
Newly Eligible in 2016/17	213
Not Eligible	9,893
Total	10,980

Actual New Retirees and Total Eligible (as of 1/1/2017)



Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,000 to 3,200 active members are projected to retire in the next 10 years, which averages about 310 per year.

TFFR Retiree Re-employment

25

□ **General Rule**

- Retirees may return to TFFR 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 – determined by Education Standards and Practices Board (ESPB).
- Benefit Suspension and Benefit Recalculation

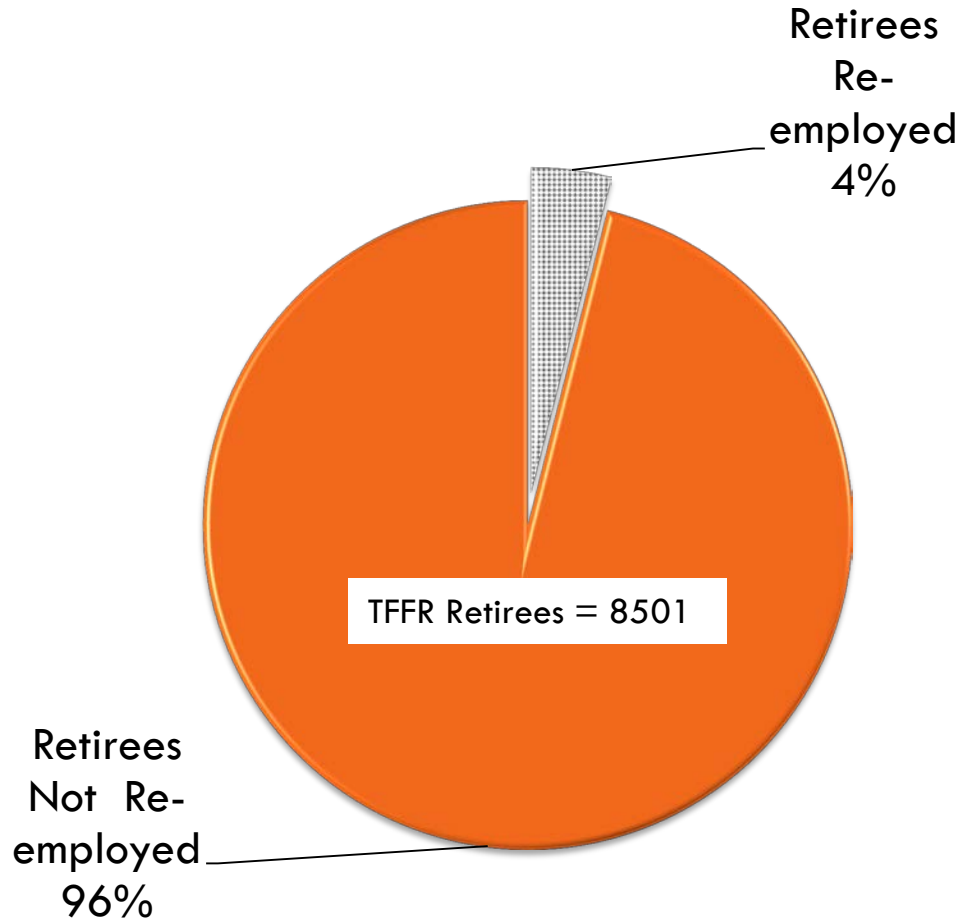
- **Note: TFFR retiree re-employment limits do not apply to: 1) non contracted substitute teaching; 2) teaching in ND colleges, ND private schools, or out-of-state schools and colleges; or 3) employment outside of education.**

TFFR Retiree Re-Employment 2016-17

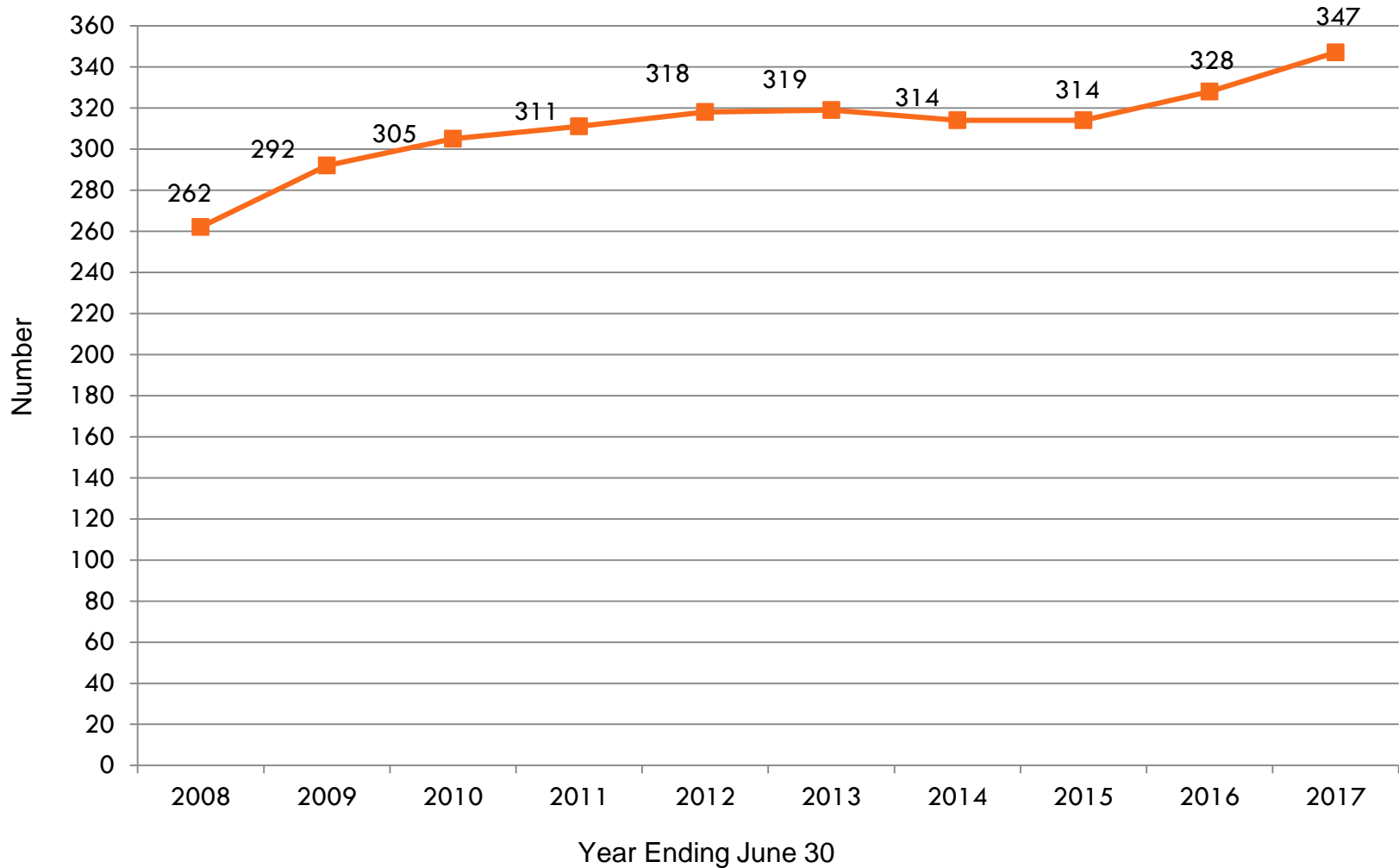
Total number of Re-employed Retirees:

347

Superintendents	18
Administrators	27
Teachers	<u>302</u>
General Rule	301
Critical Shortage Area	46
Suspend and Recalculate	<u>0</u>
Average Age	63
Average Salary	\$26,800
Total Salaries	\$9,315,000
No. Employers w/retirees	140



TFFR Retiree Re-Employment



TFFR Investments



TFFR Investment Program

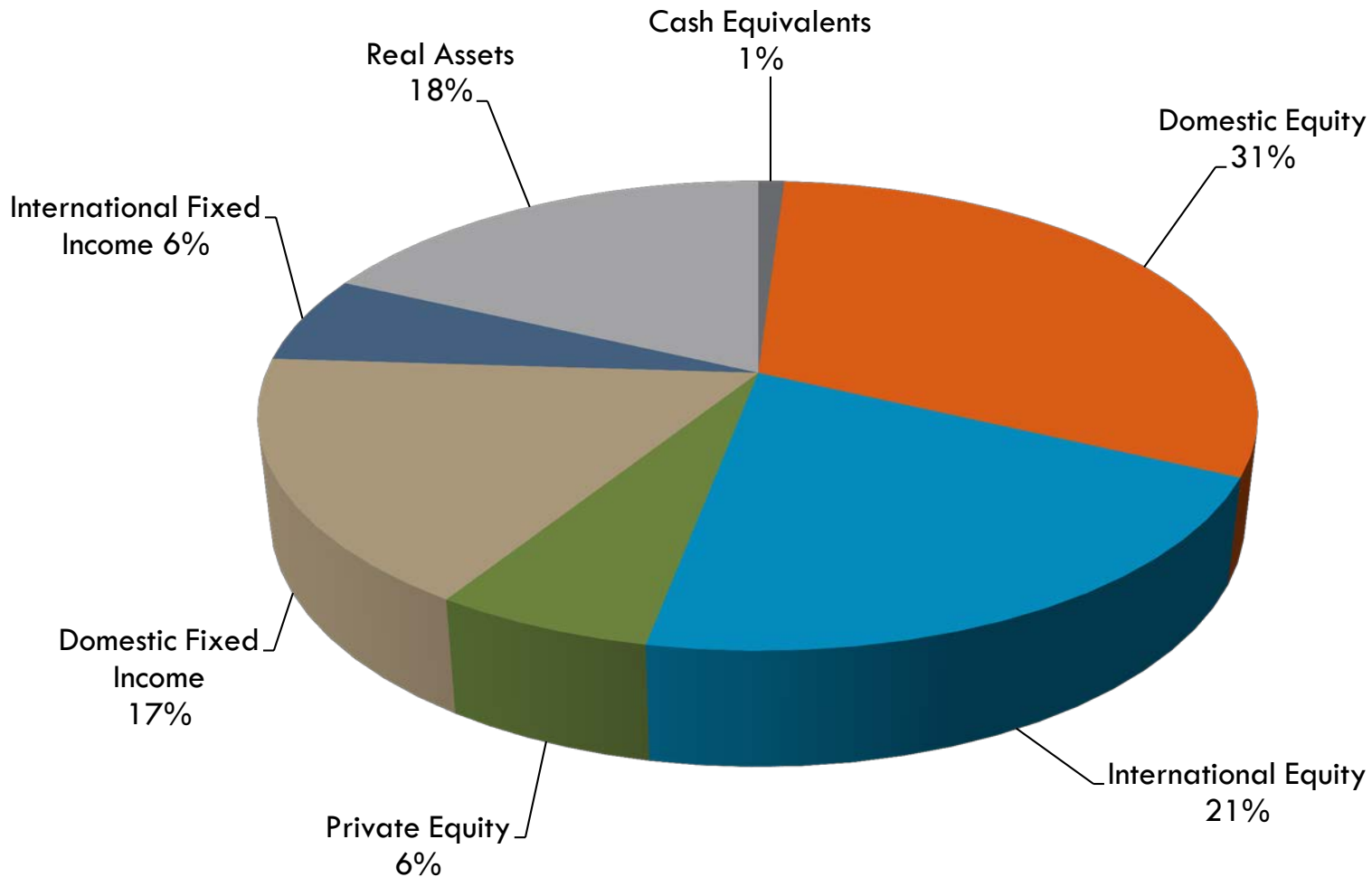
29

- Asset allocation and investment policy is determined by TFFR Board, with assistance from State Investment Board (SIB) Chief Investment Officer (Dave Hunter), SIB investment consultant (Callan), and RIO staff.
- TFFR's investment portfolio is divided into basic categories:
 - Global Equity – domestic, international, and private
 - Global Fixed Income – domestic, international
 - Global Real assets – real estate, timber, infrastructure, other
- Asset Liability Study was conducted by SIB's investment consultant, Callan Associates, in 2015 with minor changes to asset allocation approved by TFFR Board.
- SIB implements the TFFR investment program. See SIB website for investment performance, guidelines, and frequently asked questions.
<http://www.nd.gov/rio/SIB/Investments/default.htm>

TFFR Asset Allocation

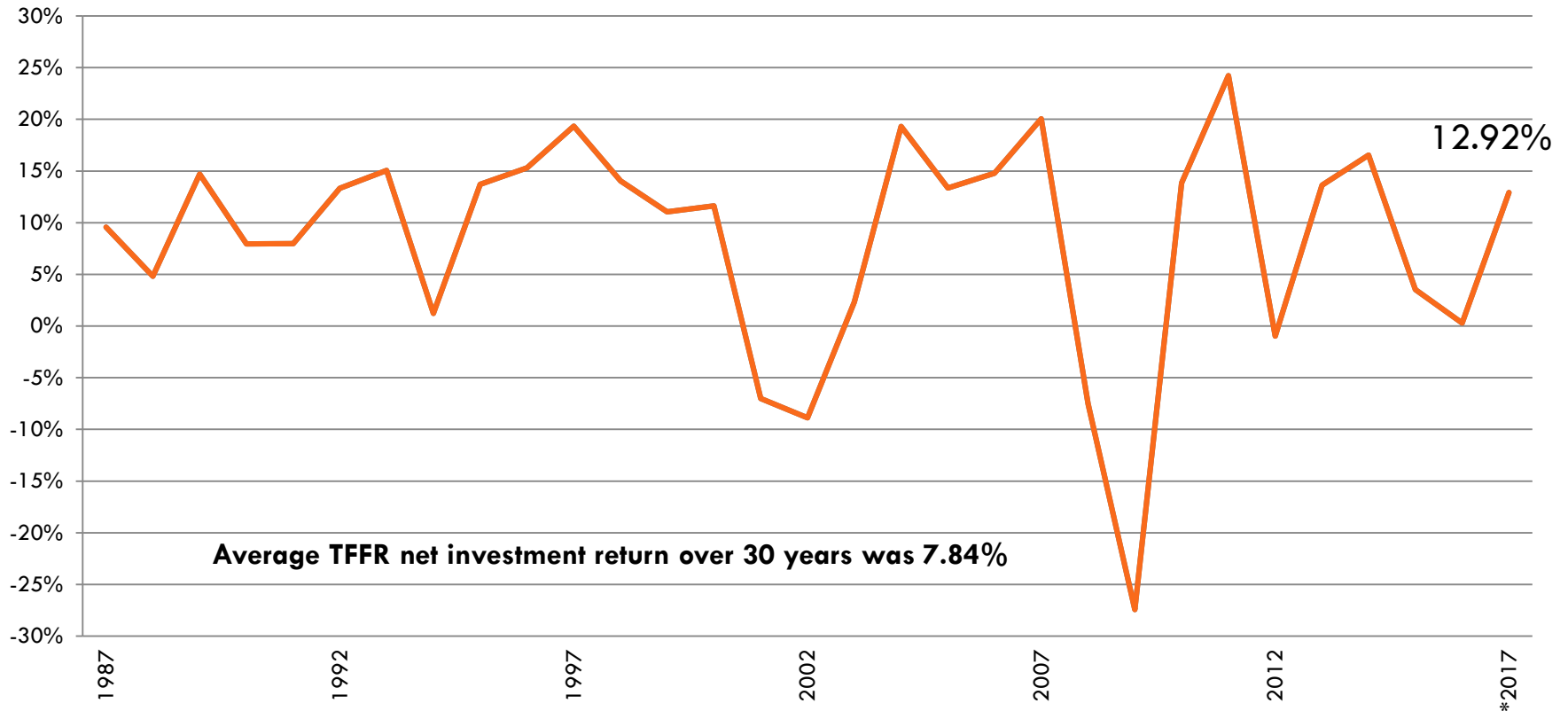
6-30-17

30



TFFR Net Investment Performance – Annual 1987-2017

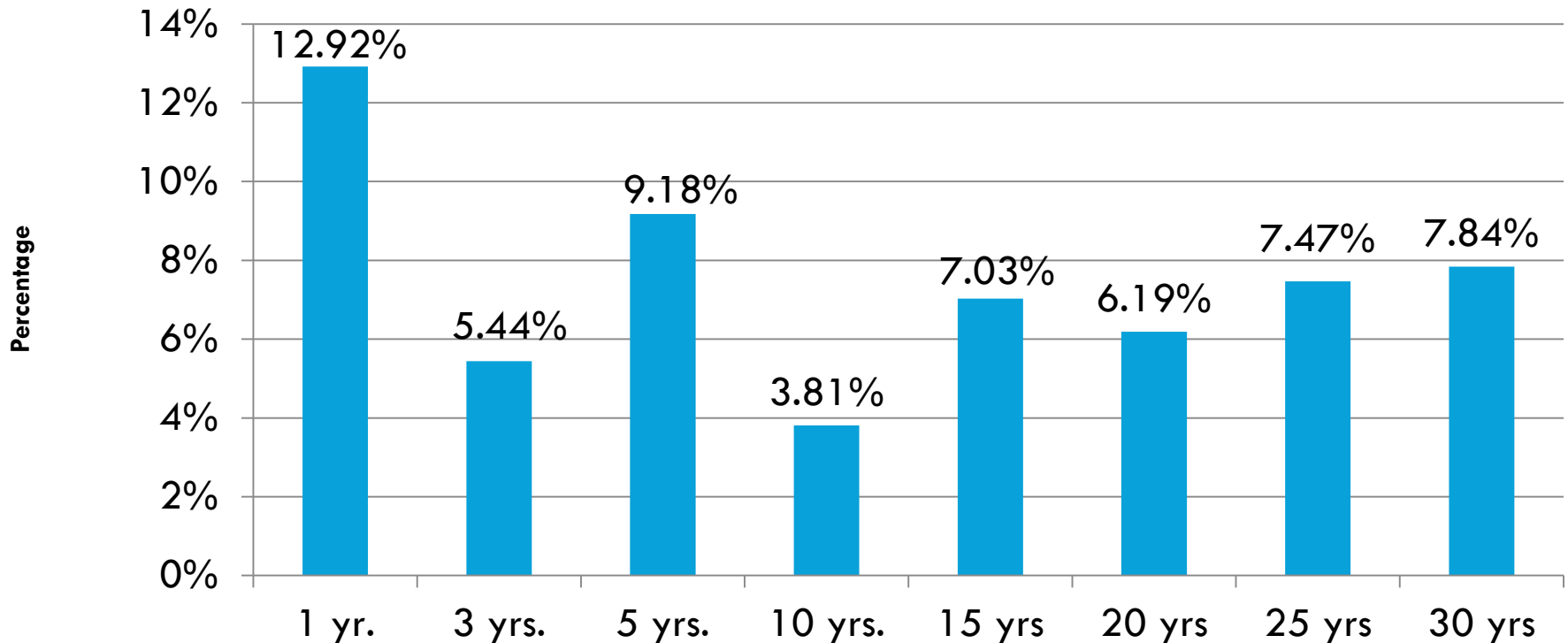
31



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.

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2017

32



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.

Fair (Market) Value of TFFR Assets 1987 - 2017

33



34

TFFR Funding



Retirement Funding Equation

35

$$C + I = B + E$$

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



Actuarial Studies

36

- **Actuarial valuation** is conducted by TFFR's actuary, Segal Consulting, each year. Purpose is to determine the adequacy of the employer contribution rate, describe the current financial condition of TFFR, and analyze changes in TFFR's financial condition.
 - See 2017 annual valuation results.
- **Actuarial 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.
 - Most recent Experience Study was conducted in 2015. Changes include: reduced investment return assumption from 8% to 7.75%, adopted new mortality tables to reflect longer life expectancies, and other minor adjustments to salary increase, turnover, and retirement rates.

Actuarial Studies

- **Actuarial audit** is an evaluation by an independent actuary every 5 years, 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.
 - Most recent actuarial audit was conducted in 2016.
 - Results of actuarial audit were very positive, with only minor recommendations.

- Actuarial reports and studies are presented to the **TFFR Board** and **Legislative Employee Benefits Programs Committee**. Reports are also posted on the TFFR website.

2017 Valuation Report Summary

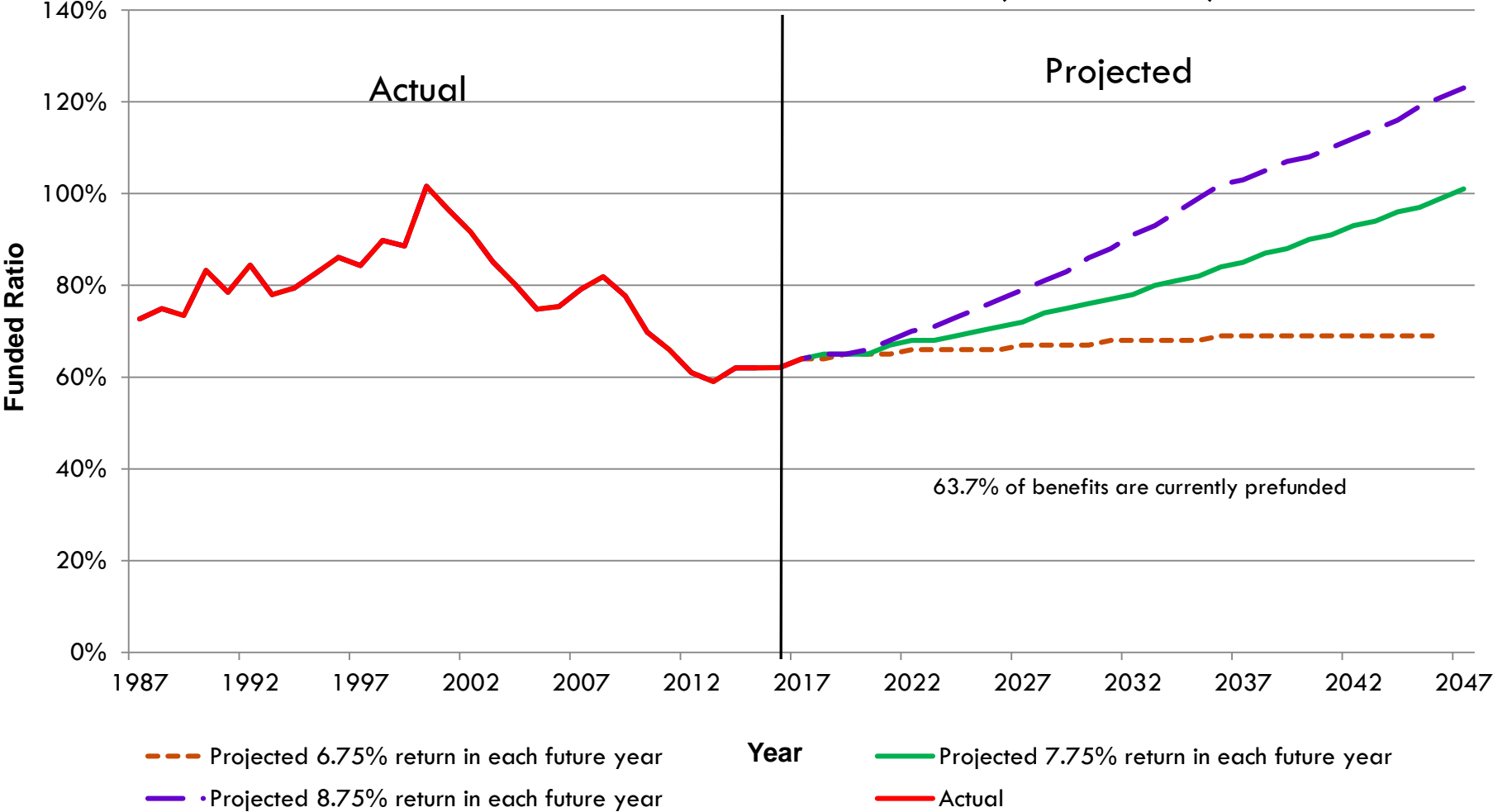
38

Actuarial Accrued Liability	(AAL)	\$3.73 billion
Actuarial Value of Assets	(AVA)	<u>- 2.38 billion</u>
Unfunded AAL	(UAAL)	\$1.35 billion
AVA Funded Ratio		63.7%
Market Value of Assets (MVA)		\$2.36 billion
MVA Funded Ratio		63.2%

TFFR Funded Ratio (AVA)

Actual and Projected (based on 2017 valuation)

TFFR Funded Ratios (AVA Basis)



TFFR Funding Improvement Expected

40

- **Funding recovery is expected to occur gradually. Time is needed for the changes made to show positive funding results.**
 - Funding levels have remained relatively flat for the past few years. While funding levels are expected to gradually improve over the long term, it is likely to take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions.
 - If investment returns are greater than 7.75% over the long term and if TFFR reaches 100% funded level, member 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.
- **Due to legislative action taken, TFFR's long term funding outlook is positive, and benefits are secure.**

GASB Accounting Standards



GASB Accounting and Financial Reporting

42

- Governmental Accounting Standards Board (GASB) sets accounting and financial reporting standards for governmental entities.
 - ▣ **Statement #67** provides requirements for governmental pension plans (NDTFFR).
 - ▣ **Statement #68** provides requirements for state and local governments (participating employers, school districts).

- GASB standards were designed to improve pension information and increase transparency, consistency, and comparability of governmental pension plan information.

GASB Statement 68

- GASB 68 requires employers to report a proportionate share of TFFR's net pension liability and pension expense (including deferred outflows and inflows of resources) on the employer's financial statements. In many cases, this amount will be material.
- Requires pension related information to be included in the employer's Note Disclosures and Required Supplementary Information portion of their financial statements.

Net Pension Liability – Employer Proportionate Share

44

- Actuary calculated the **Net Pension Liability** (NPL) for TFFR which is \$1.37 billion as of 6/30/17. Plan net position as a % of total pension liability is 63.2%.
- **Proportionate share of NPL** for each employer will be allocated based on total TFFR covered payroll for active members.
 - Total TFFR covered payroll was \$650 million for FY17.
- **Proportionate share of covered payroll** for each school district ranges from .0006% to 10.7908% (FY17).
 - Largest 5 school districts range from 7% to 11% (44% of NPL)
 - Next 7 school districts range from 1% to 3% (14% of NPL)
 - Majority of school districts have less than 1% (42% of NPL)
- *Note: The liability which will be shown on school district financial statements is projected to decrease over future years due to the contribution and benefit changes that are now in place.*

Employer Specific GASB Information

TFFR will provide the following annually to employers:

- Schedule of Employer Allocations
- Schedule of Pension Amounts by Employer
- Note Disclosure, Required Supplemental Information Template, and sample journal entries

Timing of Schedules

- Audited annual schedules should be available by January for the prior fiscal year ended June 30.
- *Audited **FY16 GASB schedules** are currently on the TFFR website, and can be used to complete 2017 financial statements.*
- *Audited **FY 17 GASB schedules** will be available in January 2018, and can be used to complete 2018 financial statements.*

Employer Reporting and Compliance Audits



Employer Reporting Responsibilities

47

- Employer/Business Manager is responsible for TFFR reporting:
 1. Identify employees eligible for TFFR and submit member enrollment and re-employed retired member notification forms.
 2. Report eligible salary and service hours for each eligible employee.
 3. Collect member and employer contributions and pay to TFFR.
 4. Provide requested documentation for TFFR employer compliance audits, GASB 68 census data audits, and other account reviews and audits as requested by TFFR.
- TFFR employer reports, forms, and payments are due on the 15th day of the month following the month in which the members' salaries are earned. Last date employed and total hours worked for the fiscal year must be included on the June report.
- Due dates for information needed for audits and account reviews are clearly communicated to employers.

Employer Reporting Responsibilities

48

- ❑ Failure to submit required forms, reports, documentation, and payments by the due date may result in a **penalty** of \$250 plus interest.
- ❑ If necessary TFFR may direct DPI to **withhold state foundation aid payments** until all TFFR reports, forms, and documentation is submitted, and payments, penalties, and interest are paid.
- ❑ This can be avoided if employers submit accurate TFFR information and payments in a timely manner.

TFFR Employer Compliance Audits

49

- Audit Services staff selects 20-25 participating employers each year and verifies **employer compliance with TFFR statutes** related to plan eligibility, salary, contributions, and service credit.
- A majority of employers are found to be “in compliance.” For those employers found “not in compliance”, Audit Services will follow-up to verify reporting errors have been corrected.
- A number of common employer reporting errors result in errors to member accounts. Those errors can ultimately affect member retirement benefits. Overpaid contributions are refunded to the employer. Owed contributions are billed to the employer with interest.
- It is very important for employers to respond promptly to audit requests for information to ensure members’ salary and service credit is being reported accurately and proper contribution payments are being made to TFFR.

TFFR Employer Compliance Audit Findings

50

1. Service hours reported incorrectly for part-time staff and re-employed retirees.
 - ❑ Employers should report actual hours worked. Must establish procedures and maintain supporting documentation to ensure proper reporting occurs.
2. Eligible salary not reported.
 - ❑ Examples: salary earned for tutoring, mentoring, curriculum writing, student supervision, professional development, in-staff subbing, coaching, before/after school programs, summer school, etc.
3. Ineligible salary reported.
 - ❑ Examples: reimbursement for expenses, unused leave, comp time, cash in lieu of benefits, ticket taking, bussing, recruitment bonuses, non-contracted substitute teaching, etc.
4. Eligible salary reported in the wrong fiscal year.
 - ❑ Examples: salary earned for summer school, professional development, extended school year contracts, administrator contracts, etc.
5. Salary and service hours reported without a written agreement.
 - ❑ Examples: salary earned for summer school, coaching, long-term substitutes, part time staff, etc. Written agreements are required for TFFR reporting of all teaching, supervisory, administrative, and extracurricular services.

51

Frequently Asked Questions



1) Is TFFR's funding situation improving?

- ❑ Funding recovery is expected to occur gradually over time, but 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 demographic and economic actuarial assumptions, including the 7.75% investment return assumption.
- ❑ A long term focus is important in financing pensions. Due to legislative action taken, TFFR's long term funding outlook is positive, and benefits are secure for past, present, and future ND educators.

2) Is TFFR's 7.75% investment return assumption realistic?

- TFFR's investment return assumption is established through a process that considers factors such as economic and financial criteria; the plan's liabilities; and the plan's asset allocation, which reflects the plan's capital market assumptions, risk tolerance, and projected cash flows.
- Actuarial return assumptions are very long-term in nature which is consistent with the long time frame under which pension plans operate. While achieving 7.75% returns in the short term may be challenging, we believe it is reasonable over the long term.
- Changes in economic and financial conditions have caused many public pension plans to reconsider their investment return assumption in recent years. Currently, the average return assumption is 7.52%, (according to a February 2017 NASRA study).
- Over the past 30 years, the NDTFFR's net investment performance was 7.84%, which is slightly higher than the actuarial assumed investment return rate.

3) How does GASB 68 information affect school district's financial statements?

- GASB 68 requires the entities (school districts) that are actually making the pension contributions to report their proportionate share of the collective net pension liability, regardless of whether the entities are legally required to fund the plan.
- The presence of a large number of the school district's financial statements which represents unfunded pension costs could give the incorrect impression that school districts have a large debt that must be paid immediately. That is not the case. Pension costs are paid off over long periods – much like home mortgages – through regular contributions paid to the retirement plan.
- While TFFR cannot predict whether the new GASB statements will affect a particular school district's bond rating, most rating agencies already consider unfunded pension liabilities as debt-like instruments, and have historically incorporated pension information into their analysis of a government's ability to meet its debt obligations.
- Steps are being taken to reduce TFFR's net pension liability. Increased member and employer contributions, benefit changes, and solid investment performance is expected to show positive funding results over time.

TFFR Information

55

TFFR website: 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
- 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 or sschumacher@nd.gov



Summary

56

- The TFFR Board, State Investment Board, and RIO staff will continue to **prudently manage and invest trust fund assets** to ensure the TFFR retirement plan is financially sustainable for past, present and future ND educators.

- We are committed to:
 - Administering an accurate, prompt, and efficient pension benefits program.
 - Delivering high quality, friendly service to members and employers.

