



# 2018 Update

## ND ASSOCIATION OF SCHOOL ADMINISTRATORS MIDWINTER CONFERENCE

JANUARY 28, 2019

FAY KOPP, CHIEF RETIREMENT OFFICER - DEPUTY EXECUTIVE DIRECTOR  
ND TEACHERS' FUND FOR RETIREMENT (TFFR)  
ND RETIREMENT AND INVESTMENT OFFICE (RIO)

# TFFR BOARD OF TRUSTEES

- 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 plan's funding status to protect and sustain current and future benefits.
- The Board consists of 5 active and retired members appointed by the Governor and 2 elected state officials.



Rob Lech, President  
Active Admin - Jamestown



Toni Gumeringer, Trustee  
Active Teacher - Bismarck



Cody Mickelson, Trustee  
Active Teacher - Jamestown

# TFFR BOARD OF TRUSTEES



Mel Olson, Trustee  
Retired Member  
Fargo



Kirsten Baesler  
State Superintendent



Mike Burton, Vice Pres.  
Retired Member  
Fargo



Kelly Schmidt  
State Treasurer

# STATE INVESTMENT BOARD (SIB)

**TFFR investment program is implemented by State Investment Board.**

## State Officials

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

## Pension Representatives

- **Rob Lech, Vice Pres. (TFFR)**
- **Toni Gumeringer (TFFR)**
- **Mel Olson (TFFR)**
  
- Adam Miller (PERS)
- Troy Seibel (PERS)
- Yvonne Smith (PERS)



# TFFR: 2018-19 UPDATES

# 2019 LEGISLATION

- **TFFR Board Technical Corrections bill**

- HB 1044 includes specific statutory language required by federal tax law in order for TFFR to maintain its status as a qualified governmental pension plan.
- House passed bill, 92-0.

- **RIO Budget bill**

- SB 2022 contains 2019-21 budget authority and continuing appropriations for Retirement and Investment Office (RIO) to administer TFFR and SIB programs which is all special funds. RIO's budget request includes maintaining current staffing level, addition of one additional investment position, and approval to spend up to \$9.13 million to upgrade or replace TFFR's outdated pension administration system.
- Senate appropriations hearing conducted. No Senate action to date.

# 2019 LEGISLATION

- **Legislative Employee Benefits Program Committee Duties**
  - HB 1499 changes powers and duties of LEBPC. Only Executive and Judicial branch would be required to submit proposed legislation to LEBPC for review (including actuarial study); Legislative branch would not required to do so.
- Other bills being monitored
  - SIB Membership (HB 1368)
  - PERS Defined Contribution (HB 1419)
  - PERS Funding Improvement bills (various)

# MEMBER – EMPLOYER COMMUNICATIONS

- Current member and employer communication methods include:
  - Phone, mail, email, personal appointments, outreach programs, website, etc.
  - Employers can electronically file monthly TFFR reports.
- Due to the increasing cost of postage and mailing services, and the ability to provide information electronically, we are continuing to transition away from traditional mailing and distribution methods to more cost effective electronic methods.
- In general, less information will be printed and mailed; more information will be available on TFFR Member Online, TFFR website, or sent electronically (emails, secure ftp site, etc.). This will primarily affect active members and employers (school districts).
- Thanks to Employers/Business Manager for forwarding TFFR related information to active members.



# TFFR MEMBER ONLINE

- **TFFR Member Online**, a new secure internet application, is now available for all members to access TFFR account information.
- **Active members** can view:
  - Member Account Value
  - Salary and Service Detail
  - Annual Statement
- **Retired members** and beneficiaries in payment can view:
  - Retirement account details
  - Pension payment details
  - Pension deduction details
- **Note:** Due to pension administration software limitations, users are able to view information only. Member account changes and claims processing activities cannot be done electronically at this time.
- Go to [www.nd.gov/rio](http://www.nd.gov/rio).
  - Select TFFR link. Select TFFR Online Application Link. Review Instructions.
  - You will need **Personal ND Login ID** (ND Teach, STARS, Game and Fish, etc.) and **TFFR Person ID** (TFFR annual statement or any correspondence from TFFR)

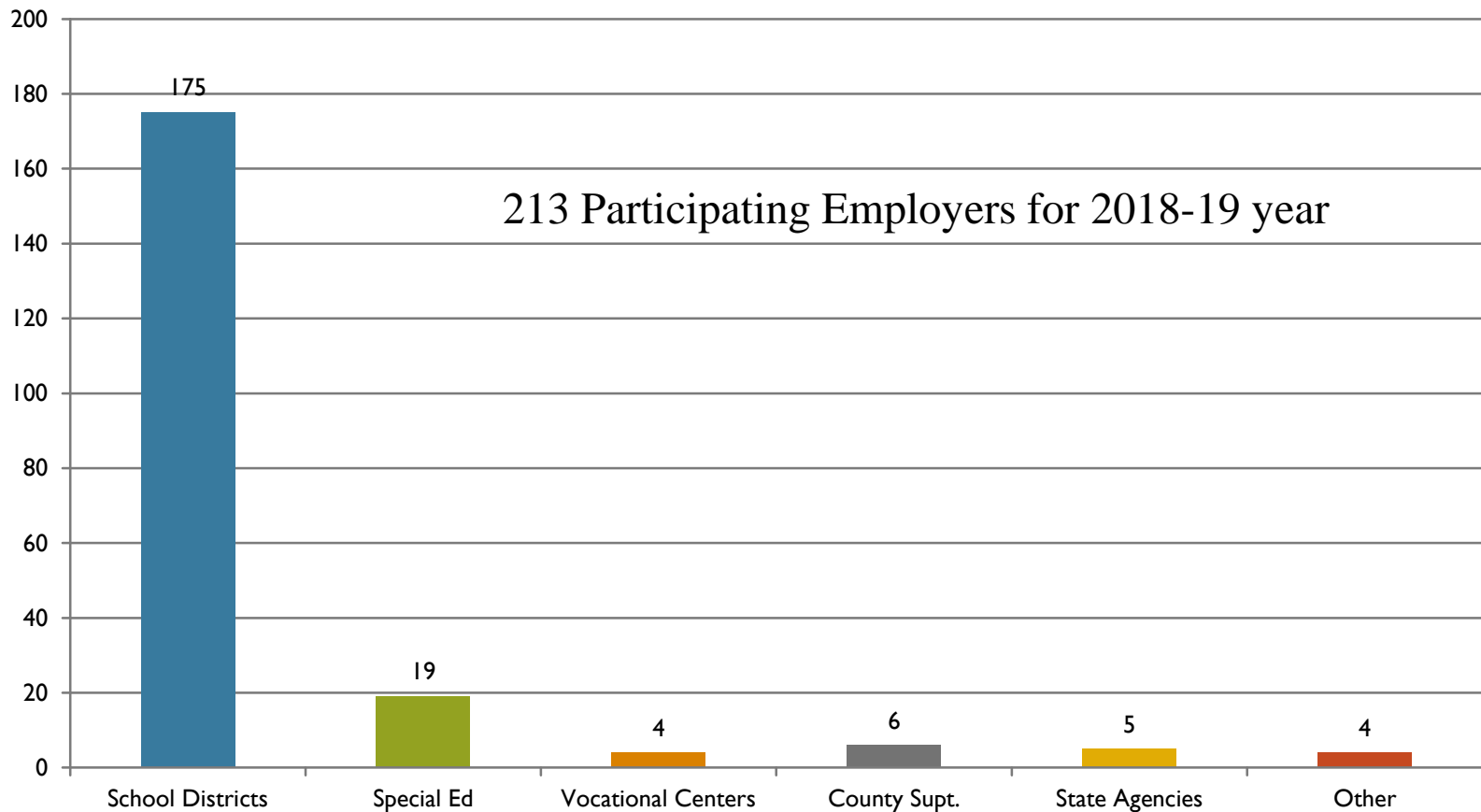
# PENSION SOFTWARE UPGRADE - REPLACEMENT

- RIO has submitted budget request to approve TFFR funding for pension administration software (PAS) upgrade or replacement.
- Current PAS is 13 years old. Functionality and technical architecture is at end of its product release lifecycle.
- Need more technologically advanced, secure web based system which would provide significant improvements in functionality for TFFR active and retired members, employers, and staff.
- Staff has studied potential risks, benefits, and costs of upgrading or replacing current application to improve and streamline TFFR pension administration processes, reporting capabilities, communications, member and employer online, and customer services.
- The Board believes it is in TFFR's best interests to make this investment to take advantage of technology improvements that have been made in the years since the current software was implemented.



# TFFR BACKGROUND

# TFFR EMPLOYERS BY TYPE

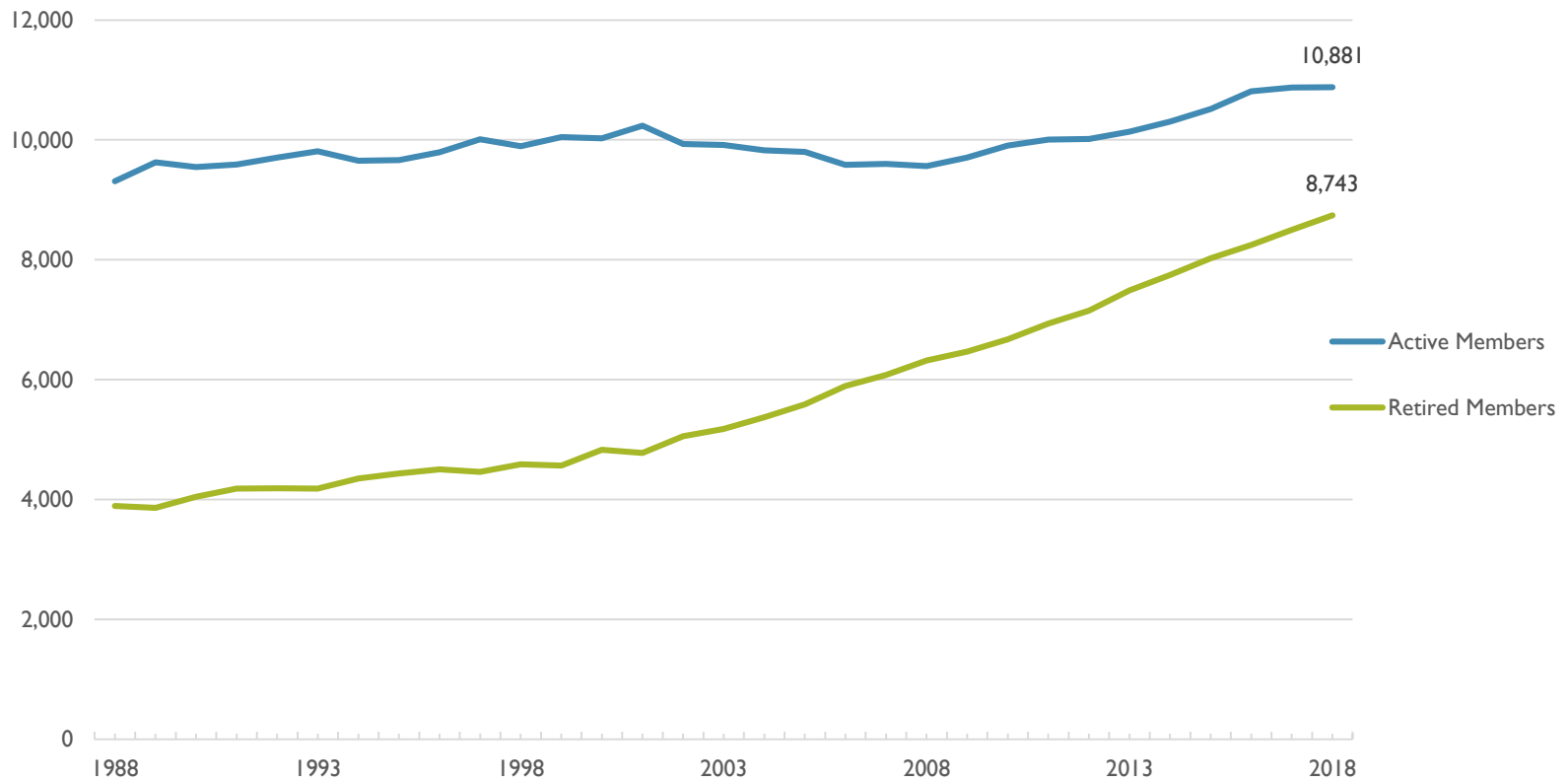


# TFFR MEMBERSHIP FAST FACTS

## JULY 1, 2018

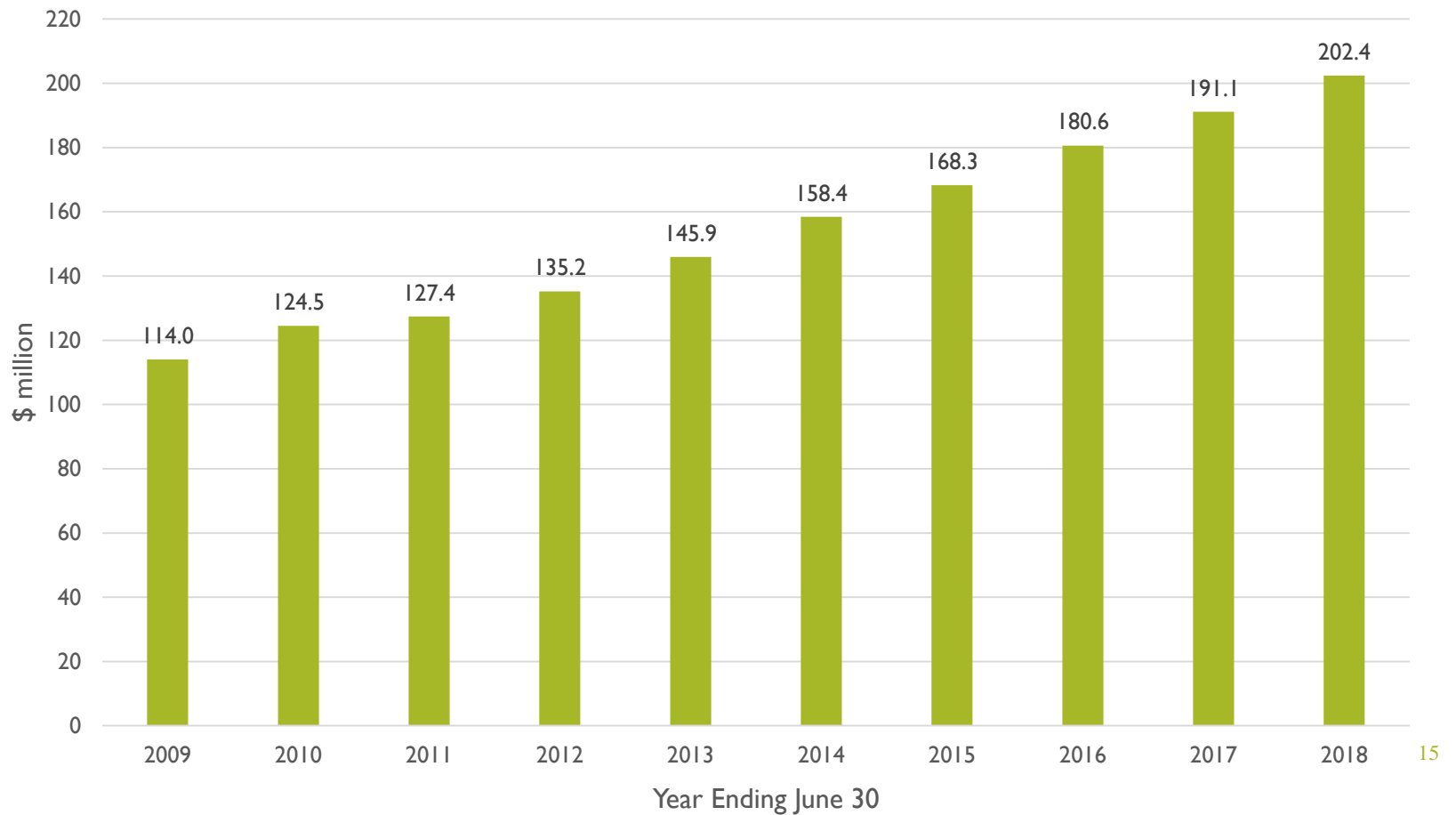
	<b>Active</b>	<b>Retired</b>
■ Membership Count	10,881	8,743
■ Avg. Annual Salary/Benefit	\$60,055	\$24,180
■ Avg. Service Credit	11.8 yrs.	27.4 yrs.
■ Avg. Current Age	41.9 yrs.	71.8 yrs.

# ACTIVE AND RETIRED TFFR MEMBERS 1988-2018

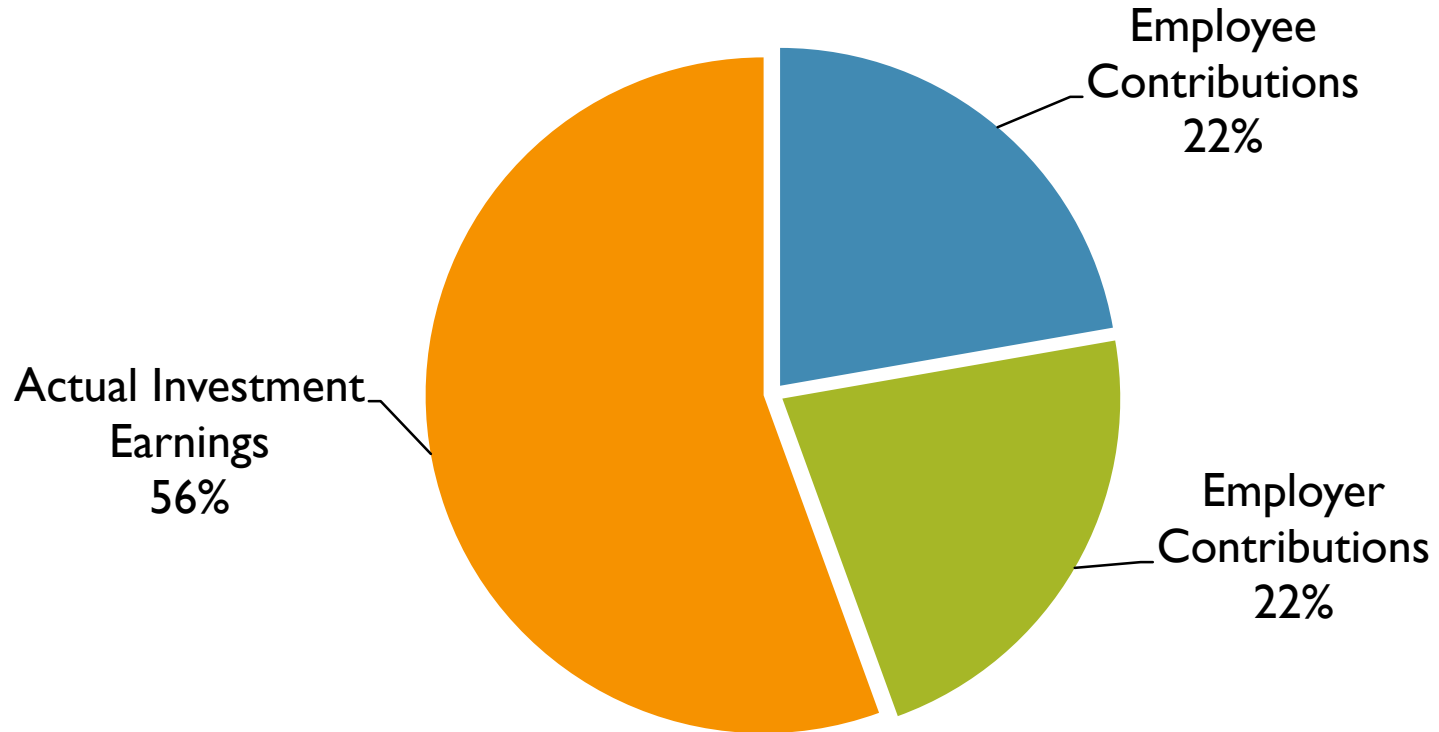


Year Ending June 30

# ANNUAL TFFR PENSION BENEFITS PAID



# SOURCES OF TFFR REVENUE FY 1989-2018



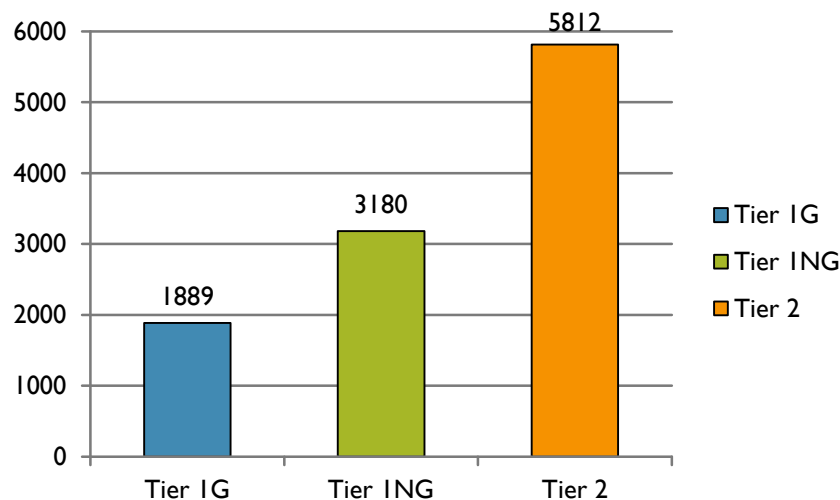




## TFFR PLAN BENEFITS

# TFFR MEMBERSHIP TIERS

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



Total Active  
Members  
10,881

# SUMMARY OF TFFR PENSION BENEFITS FOR MEMBERSHIP TIERS

	Tier I Grandfathered Member	Tier I NonGrandfathered Member	Tier 2 Member
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
<b>AND</b> Rule	Rule of 85	Rule of 90	Rule of 90
<b>OR</b> Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
x Final average salary (high salaries of career)	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years
Disability Retirement	Yes	Yes	Yes
Retirement formula multiplier (2%) X FAS X total years			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or life annuity to survivor based on member's vesting status.			

# RETIREMENT BENEFIT FORMULA

**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

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: Legislation approved in 2011 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.

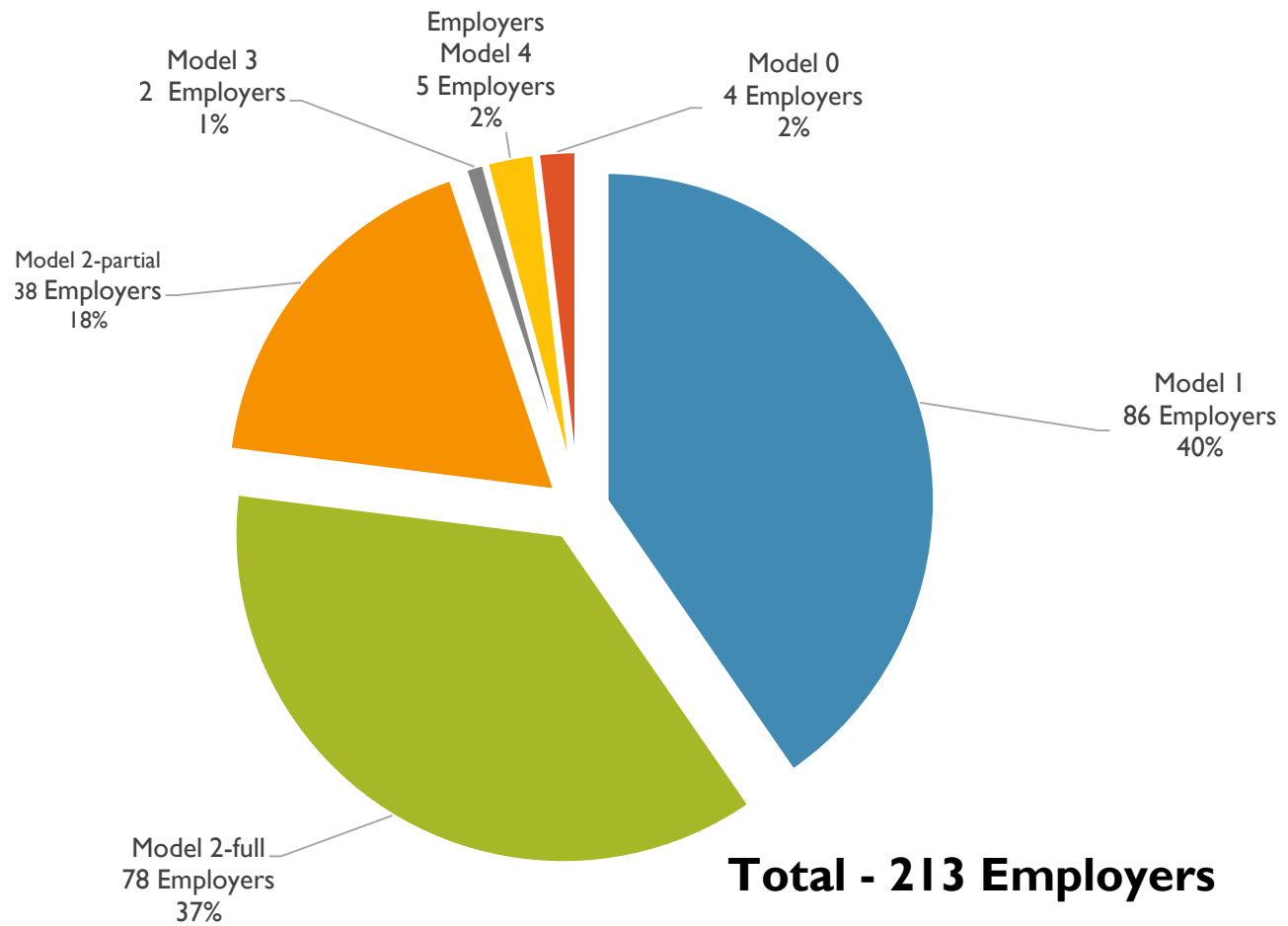


# TFFR EMPLOYER PAYMENT PLAN (EPP) MODELS

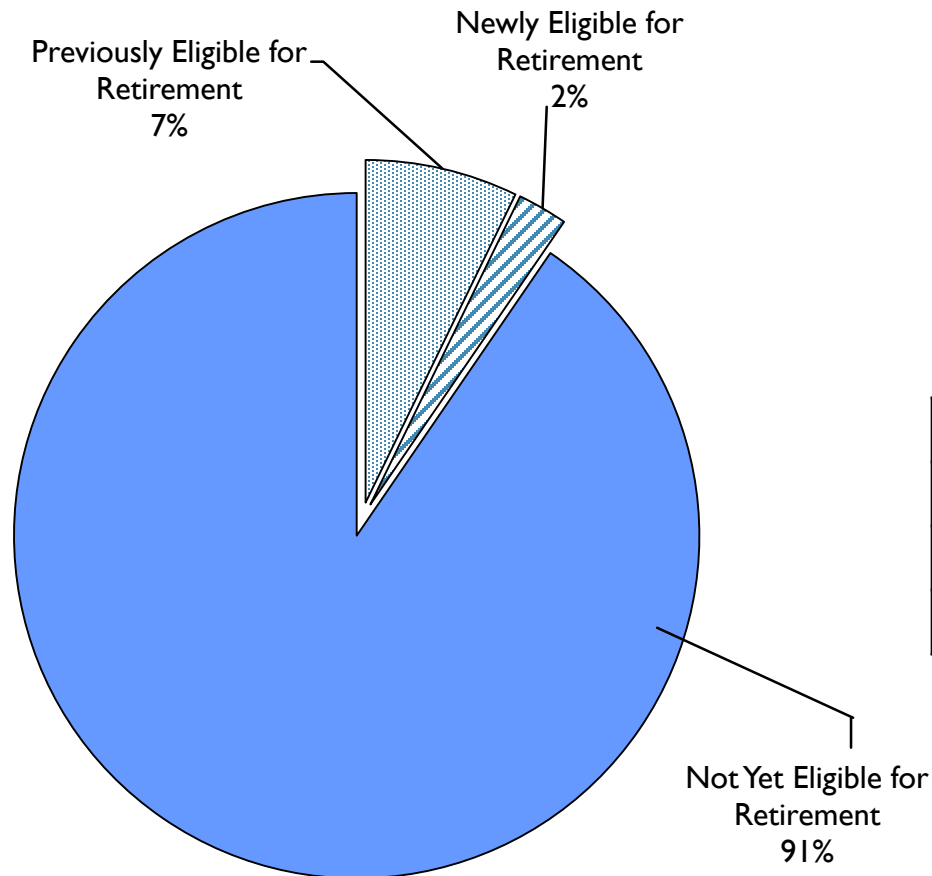
Payment of member contributions on a tax deferred basis can be made by the employer through a: (1) salary reduction or (2) salary supplement.

- **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 2018-19



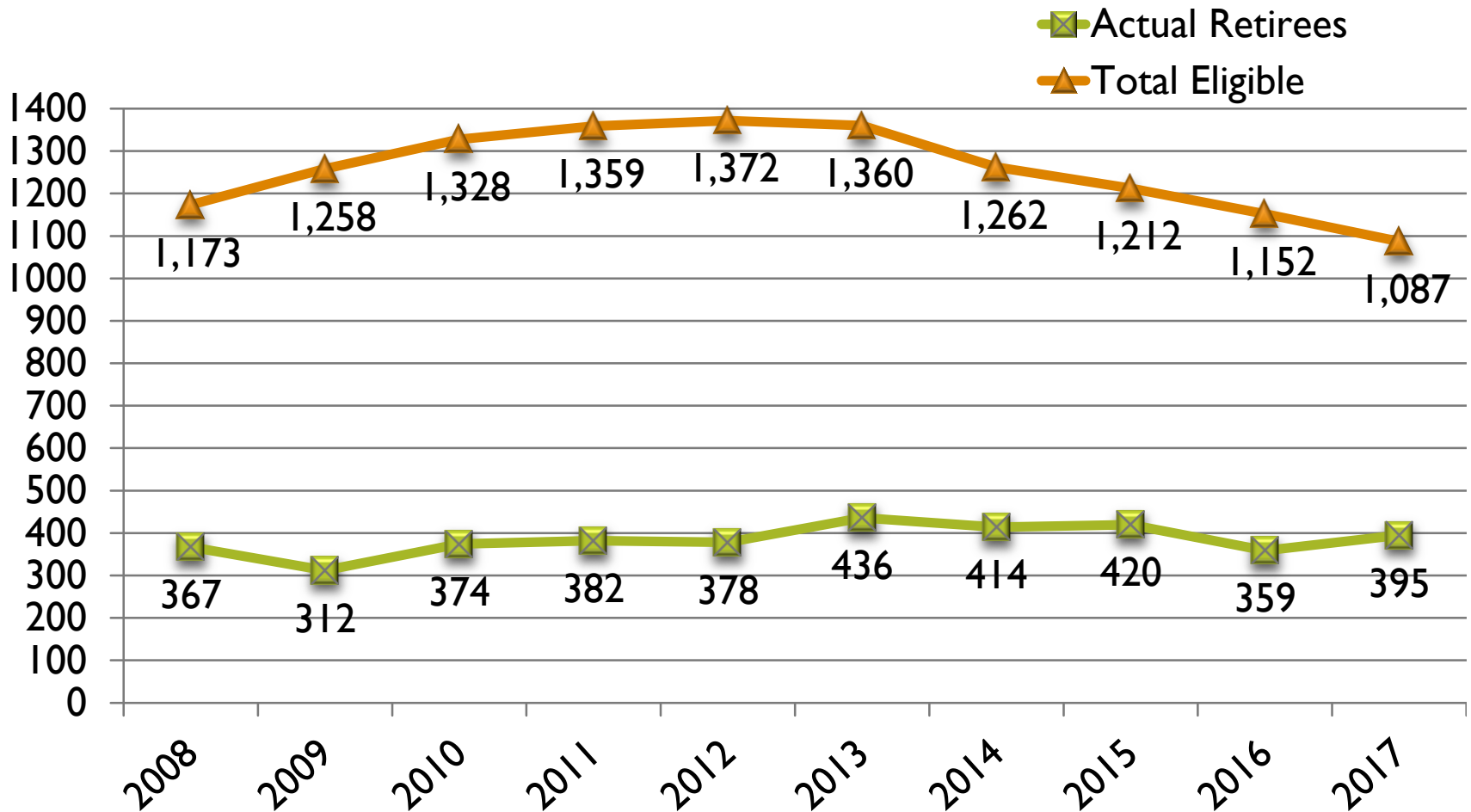
# ACTIVE TFFR MEMBERS ELIGIBLE FOR RETIREMENT AS OF 1.1.2018



Previously Eligible	791
Newly Eligible in 2016/17	259
Not Eligible	9,931
Total	10,981



# ACTUAL NEW RETIREES AND TOTAL ELIGIBLE AS OF I.I.2018



# RETIREMENT PROJECTION SUMMARY

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 2,800 to 3,000 active members are projected to retire in the next 10 years which averages about 290 per year.

	Members	# Retire		Avg/Yr	
		30%	40%	30%	40%
<b>Teachers</b>	10,291	2,515	2,733	252	273
<b>Superintendents</b>	135	72	75	7	8
<b>Other Administrators</b>	555	181	197	18	20
<b>Total Active Members</b>	10,981	2,768	3,005	277	301

# TFFR RETIREE RE-EMPLOYMENT 2017-18

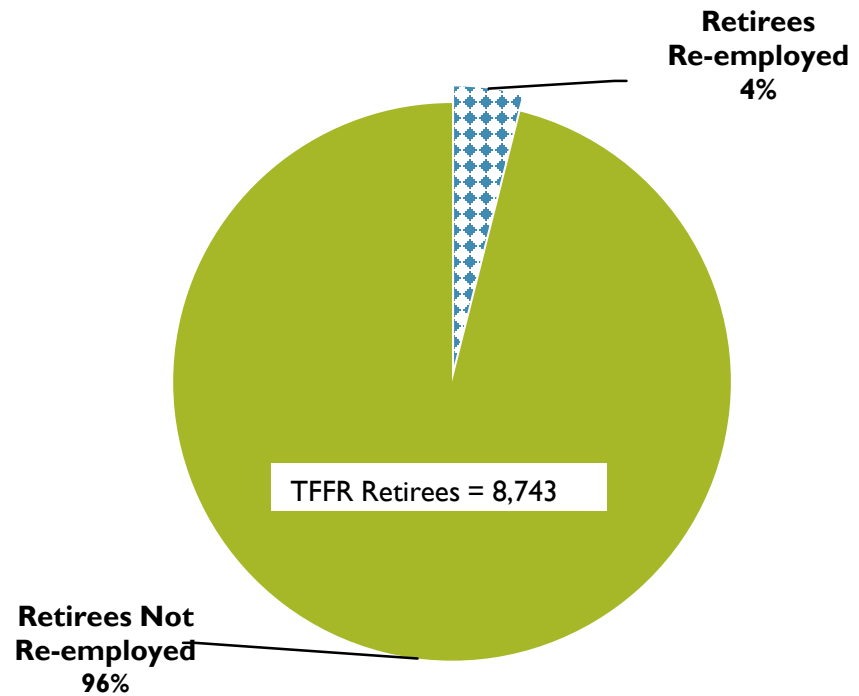
- Total number of Re-employed Retirees: 347

Superintendents	20
Administrators	24
Teachers	303

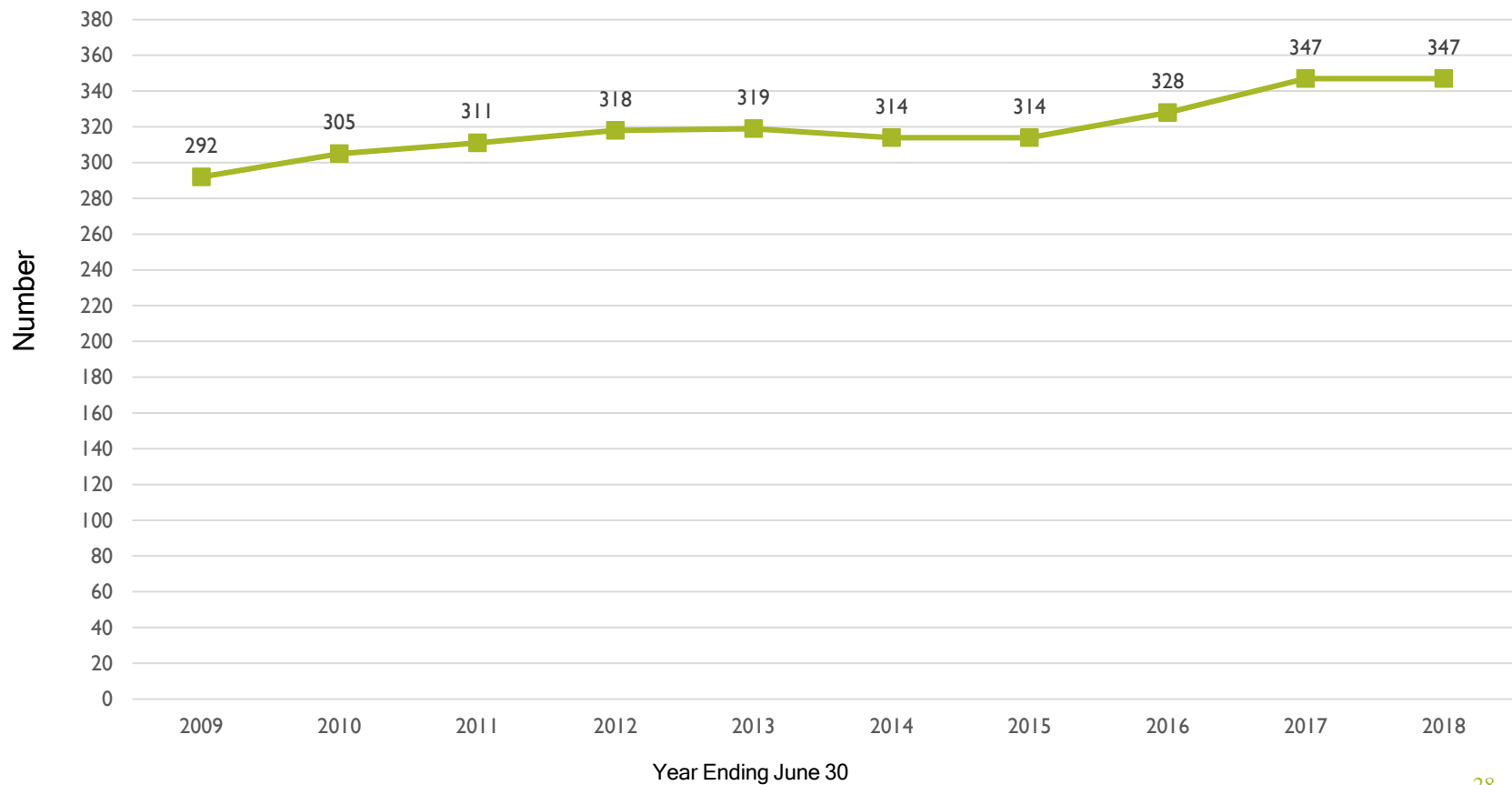
- General Rule 300
- Critical Shortage Area 45
- Suspend and Recalculate 2

- Average Age 64
- Average Salary \$25,900
- Total Salaries \$8,935,000

- No. Employers w/retirees 139



# TFFR RETIREE RE-EMPLOYMENT





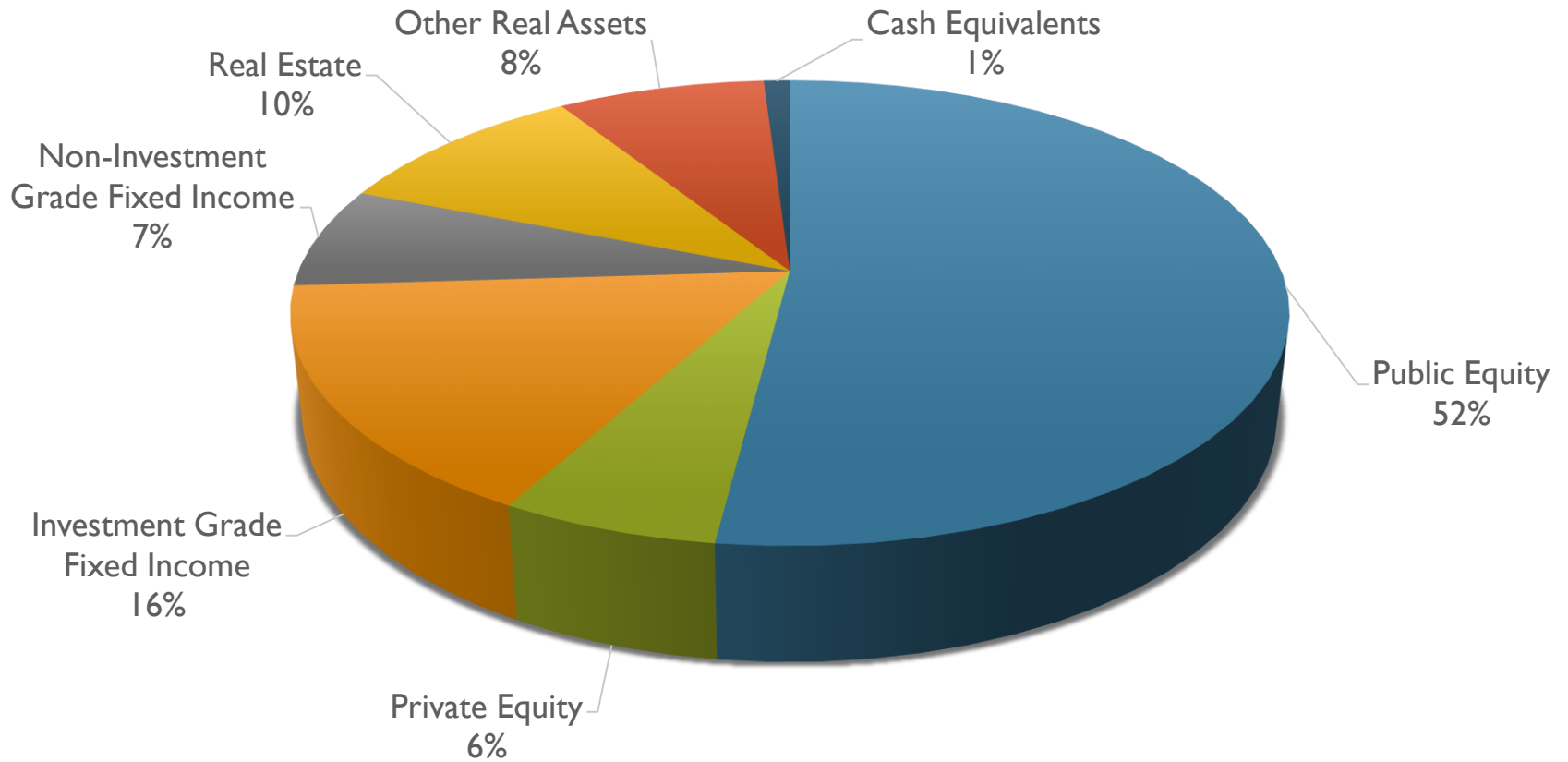
# TFFR INVESTMENTS

# TFFR INVESTMENT PROGRAM

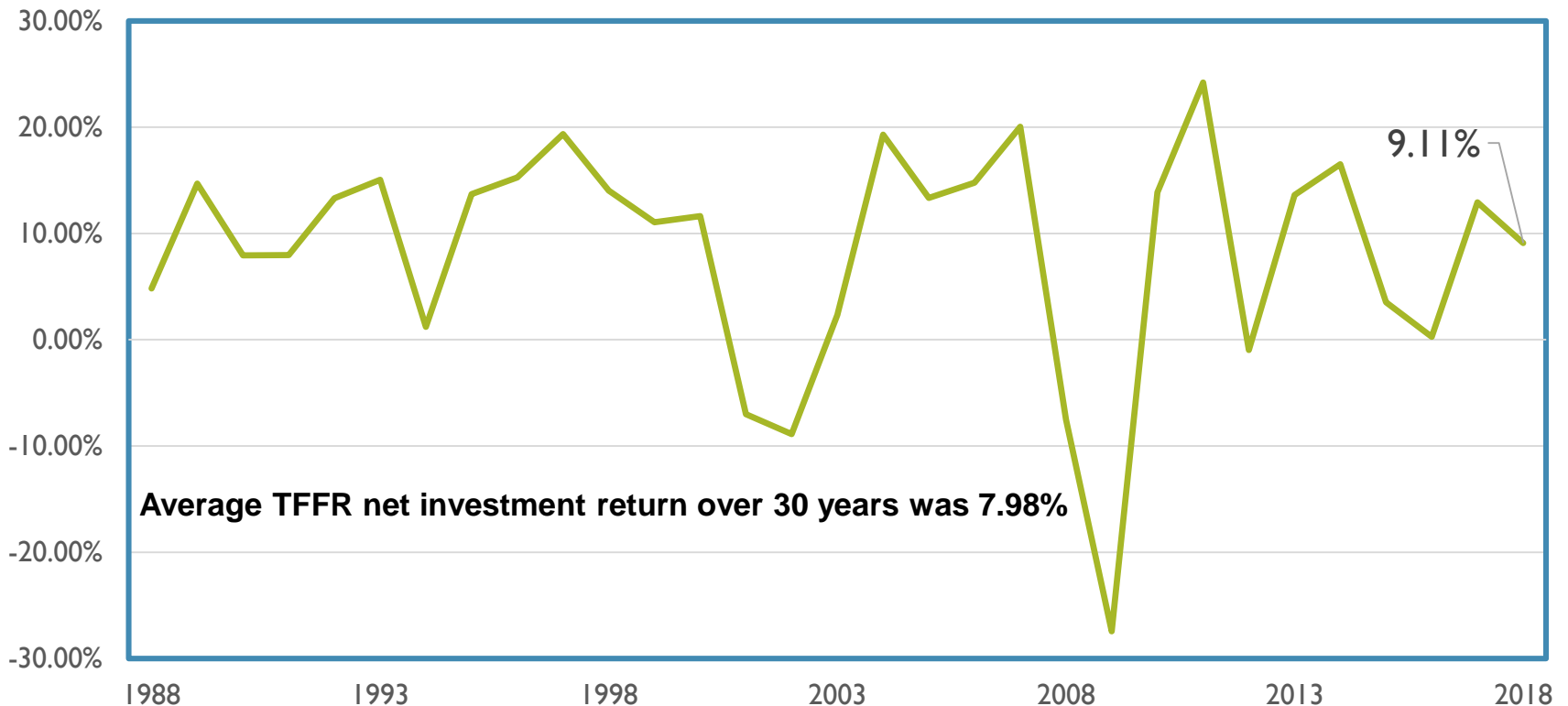
- Asset allocation and investment policy is determined by TFFR Board, with assistance from State Investment Board (SIB) Chief Investment Officer, SIB investment consultant (Callan), and RIO staff.
- TFFR's investment portfolio is divided into three basic categories:
  - Global Equity – domestic, international, and private
  - Global Fixed Income – domestic, international
  - Global Real assets – real estate, timber, infrastructure, other
- Asset Liability Study is conducted at least every 5 years. 2015 study was done by SIB's investment consultant with minor changes to asset allocation approved by TFFR Board. Next study in 2020.
- TFFR's long term investment return assumption is 7.75%.
- SIB implements the TFFR investment program. See SIB website for investment performance, guidelines, and frequently asked questions.

# TFFR ASSET ALLOCATION

## 6-30-18



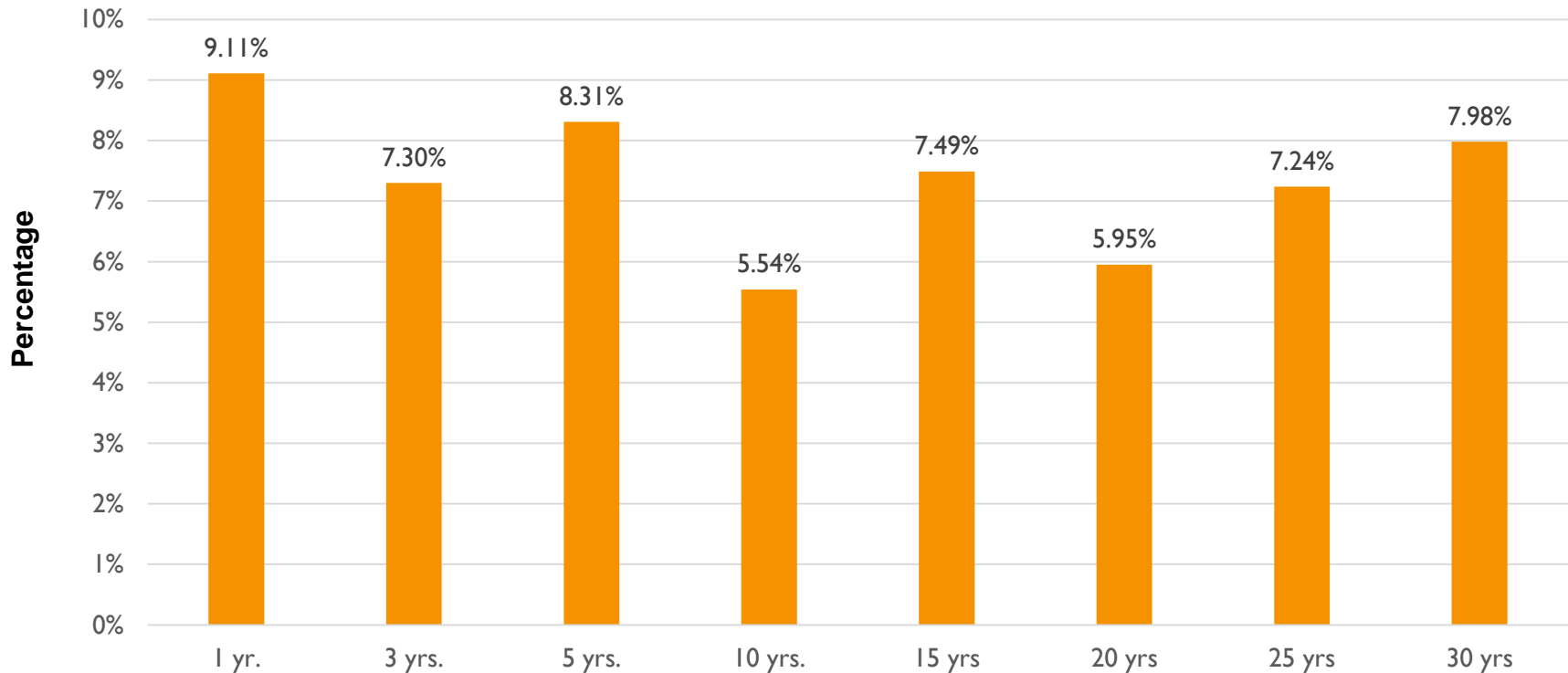
# TFFR NET INVESTMENT PERFORMANCE ANNUAL 1988-2018



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.

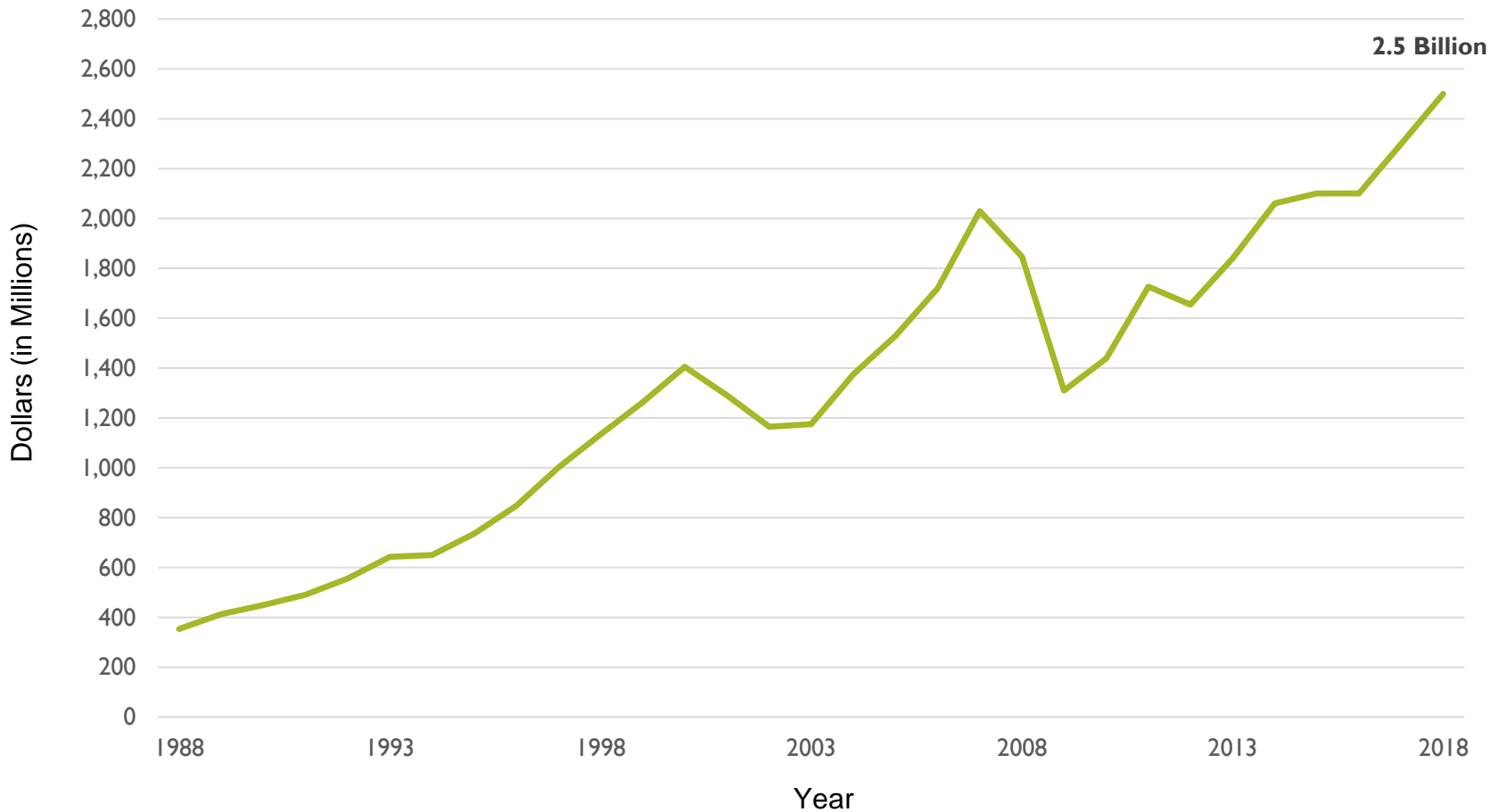


# TFFR NET INVESTMENT PERFORMANCE AVERAGE - FY END JUNE 30, 2018



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 1988-2018



# RECENT INVESTMENT ACTIVITY

- There was a significant increase in market volatility in late 2018 and continuing into early 2019 due to growing uncertainty surrounding resolution of ongoing trade wars and the continuing of the partial U.S. government shut-down.
- These forces have caused global equity markets to sell off noting U.S. equities declined 5% in 2018 and international equities declined 9% in 2018.
- As a result, TFFR investment returns have declined by over 5% since 6.30.18.
- TFFR/SIB remains committed to our long term strategic asset allocation while noting fixed income and real assets portfolio continue to perform in line with long-term expectations.
- The SIB does not attempt to time market downturns or upturns. When selecting investments, the SIB focuses on how these strategies perform in both up and down markets.
- TFFR is a long-term investor with a sound and prudent investment strategy. The portfolio is professionally managed, assets are well diversified, and risk controls are in place.
- During these times of market volatility, the SIB, TFFR, and RIO staff are monitoring the markets closely, and will continue to focus on its long term investment process which has proven to be effective over time.



# TFFR FUNDING

# RETIREMENT FUNDING EQUATION

$$C + I = B + E$$

Contributions + Investments = Benefits + Expenses

Not just for today, but for the long term.



# ACTUARIAL STUDIES

- **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 2018 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 2014-15. 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. Next study in 2019-20.

# ACTUARIAL STUDIES

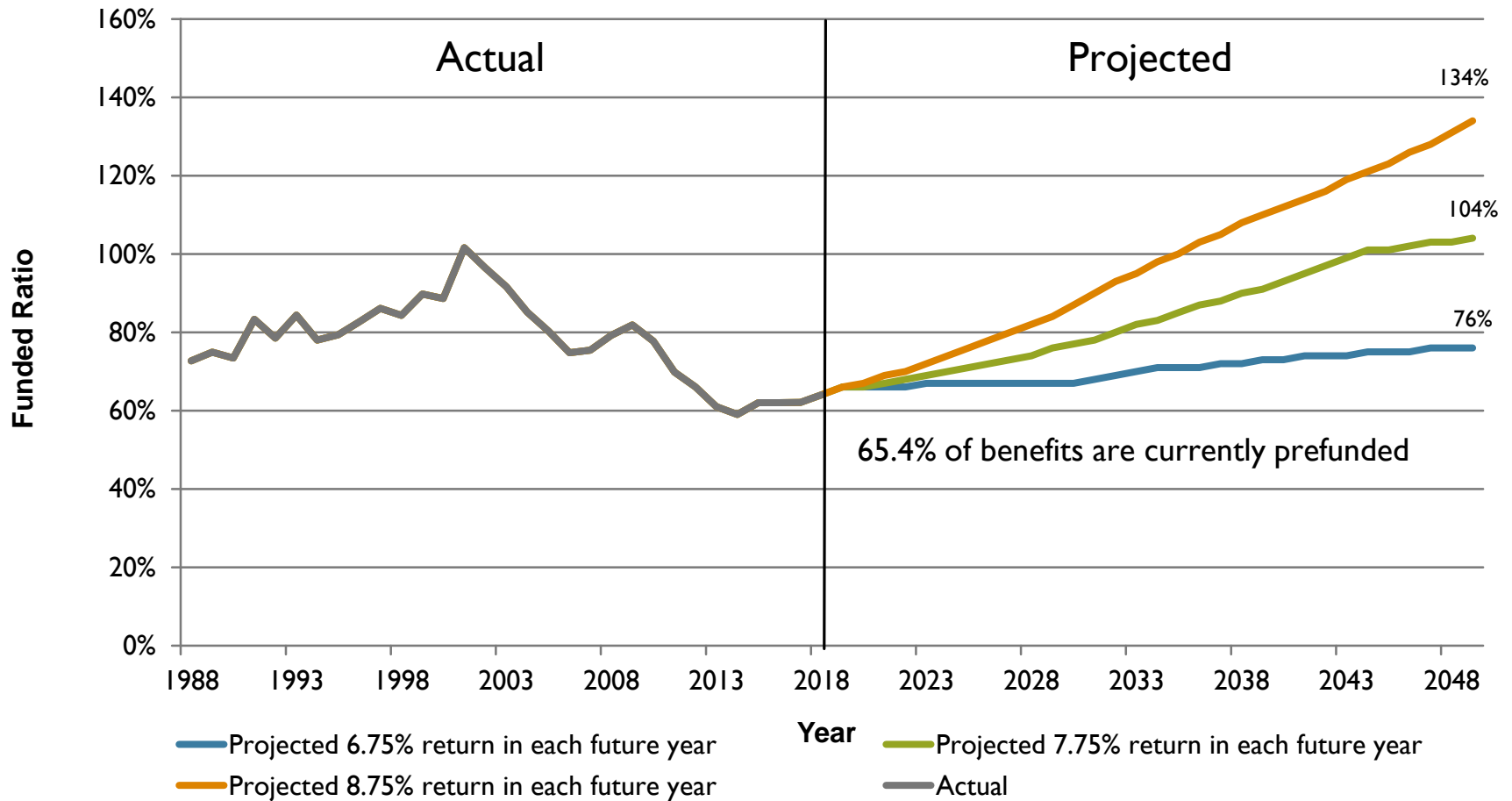
- **Actuarial audit** is an evaluation by an independent actuary every 5 years, other than the one who performs the plan's actuarial valuation. Purpose is to express an opinion on the reasonableness or accuracy of the actuarial valuation results, assumptions, cost methods, contribution rates and related 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.

# 2018 VALUATION REPORT SUMMARY

■ Actuarial Accrued Liability	(AAL)	\$3.863 billion
■ Actuarial Value of Assets	(AVA)	<u>- 2.526 billion</u>
■ Unfunded AAL	(UAAL)	\$1.337 billion
AVA Funded Ratio		65.4%
■ Market Value of Assets (MVA)		\$2.531 billion
MVA Funded Ratio		65.5%



# TFFR FUNDED RATIO (AVA) ACTUAL AND PROJECTED (BASED ON 2018 VALUATION)



# TFFR FUNDING IMPROVEMENT EXPECTED

- 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 that trend may continue in the next few years, over the long term, funding levels are projected to gradually improve.
  - Actuarial projections show it will likely 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, employee and employer contribution rates will be reduced to 7.75% sooner than expected.
  - If investment returns are less than 7.75% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.
- Due to legislative action taken, TFFR's long term funding outlook is positive, and benefits are secure.



# **GASB ACCOUNTING AND FINANCIAL REPORTING STANDARDS**

# GASB REPORTING

- 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 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

- Actuary calculated the Net Pension Liability (NPL) for TFFR which is \$1.33 billion as of 6/30/18, compared to \$1.37 billion as of 6/30/17. Plan net position as a % of total pension liability is 65.5% in 2018 compared to 63.2% in 2017.
- Proportionate share of NPL for each employer will be allocated based on total TFFR covered payroll for active members.
  - Total TFFR covered payroll was nearly \$680 million for FY18 compared to \$675 million for FY 17.
- Proportionate share of covered payroll for each school district ranges from 0.0006% to 10.7064% (FY18).
  - Largest 5 school districts range from 6.5% 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 FY17 GASB schedules are currently on the TFFR website, and can be used to complete 2018 financial statements.*
- *Audited **FY18 GASB schedules** will be available in late January 2019, and can be used to complete 2019 financial statements.*



# EMPLOYER REPORTING AND COMPLIANCE REVIEWS

# EMPLOYER REPORTING RESPONSIBILITIES

- 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 15<sup>th</sup> 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

- 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

- Audit Services staff selects a number of participating employers each year and verifies employer compliance with TFFR statutes related to plan eligibility, salary, contributions, and service credit. They also conduct other types of salary and member account reviews.
- **Process Change:** Instead of Audit Services issuing audit report directly to employers, they will instead issue audit findings to TFFR Chief Retirement Officer/Retirement Services. TFFR Retirement Services will then communicate findings and recommendations to employers, and work with them to correct TFFR reporting errors and resolve problems.
- **Process Change:** Both the Superintendent and School Board President will be sent the TFFR employer reporting review. The report must be submitted to the school board/governing body to accept or reject, and must respond to TFFR describing the actions they will take to comply, if necessary.
- Employer reporting errors may 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 TFFR requests for information to ensure members' salary and service credit is being reported accurately and proper contribution payments are being made to TFFR. Failure to do so could result in TFFR penalties and DPI withholding of state aid payments.



# FREQUENTLY ASKED QUESTIONS

# I) 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.
- Over the past 30 years, the NDTFFR's net investment performance was 7.98%, which is slightly higher than the actuarial assumed investment return rate.
- 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 7.36%, (according to a February 2018 NASRA study). NDTFFR will be reviewing this assumption during their actuarial experience study being conducted in late 2019.

### 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.

# SUMMARY

- 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.
- **We will do our best to serve you!**



# TFFR INFORMATION

TFFR Website: [www.nd.gov/rio/tffr](http://www.nd.gov/rio/tffr) Sign up for TFFR Member Online!!!

- Board members, meeting schedule, minutes, materials
- Presentations to members, employers, other
- Publications and Reports
  - Quarterly Newsletters
  - Member Handbook, Member Services Directory, Brochures
  - Actuarial, audit, financial, and investment reports
  - Forms
- Legislation – Links to ND Legislative website, bill drafts, testimony

## Office Contact Information

- Phone: 701-328-9885 or 1-800-952-2970
- Email: [fkopp@nd.gov](mailto:fkopp@nd.gov) or [rio@nd.gov](mailto:rio@nd.gov)
- Address: 3442 East Century Ave,  
PO Box 7100, Bismarck, ND 58507

