

Retirement TODAY

ND Teachers' Fund for Retirement

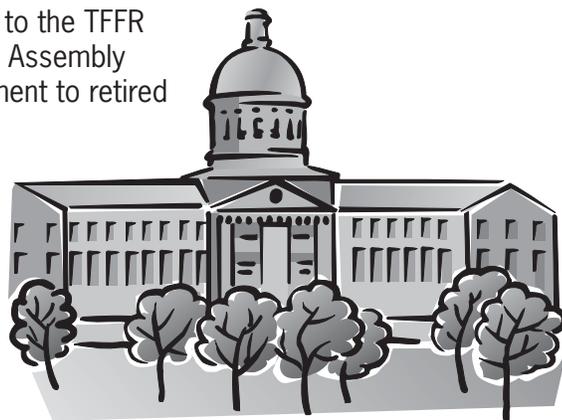
JULY 2009

Legislature Approves Supplemental Retiree Payment

After much discussion relating to the TFFR program, the 2009 Legislative Assembly approved a supplemental payment to retired TFFR members.

SB 2277 provides a one-time supplemental retiree benefit payment to all TFFR retirees and beneficiaries who retired before January 1, 2009 and are receiving annuity benefits on December 1, 2009. The supplemental payment is equal

to an amount determined by taking \$20 per year of service credit, plus \$15 per number of years since the member's retirement. The supplemental payment (determined by using the \$20/\$15 formula) cannot exceed the greater of 10% of the member's annual annuity or \$750. The supplemental payment will be made in December 2009 and will be paid from the TFFR trust fund. The total cost of the one-time supplemental retiree payments is estimated at \$4.6 million. Another bill (HB 1022) increases school district contributions by 0.5% effective July 1, 2010 to offset the cost of this one-time retiree supplemental benefit payment and to improve TFFR funding levels.



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Franz Re-Appointed To Board

Governor Hoeven has re-appointed Kim Franz to another five-year term on the TFFR Board. Franz, a elementary teacher from Mandan, has been a trustee since 2006 and represents active teachers on the Board. We appreciate her commitment to serve North Dakota educators as a TFFR Board trustee.

Memo to Members

I Think WE Can ...

One of my favorite children's books is "The Little Engine that Could." The popular story has been told and retold in various versions throughout history. The underlying theme, however, has remained the same – a stranded train is unable to find an engine willing to pull it over a high mountain. Only the little blue engine is willing to try. With the encouragement of his friends, and while repeating the motto "I think I can, I think I can," he finally overcomes a seemingly impossible task.

Which brings me to another seemingly impossible task – that of improving TFFR funding levels. It is no surprise that 2008-09 has been a difficult time period for investors. During the past year, the world's financial markets have declined to unprecedented levels, and economic conditions continue to be challenging. While final TFFR performance numbers are not yet reconciled, preliminary investment returns are estimated at -25% for the fiscal year ending June 30, 2009. This is predicted to reduce TFFR funding levels significantly in the next few years. Final audited information on the value of TFFR investments and the 2009 actuarial valuation report will be completed later this fall and published in future TFFR newsletters.

At this time, we are closely monitoring the changing economic environment and evaluating options to address the impact of the global market decline on the TFFR portfolio. How to improve the financial well being of the TFFR

trust fund is our #1 priority. The TFFR Board believes it is prudent to propose a funding improvement plan during the 2011 legislative session that will address the situation in a comprehensive and effective manner. Such legislation is likely to include contribution increases, and possible benefit changes for new hires.

We've got a big job ahead of us...a big mountain to climb. But....

- I think WE can... develop a plan to improve TFFR funding levels.
- I think WE can... ask the difficult questions.
- I think WE can... make the tough choices.
- I think WE can... preserve the financial integrity of the TFFR retirement plan.
- I think WE can... if WE all work together.

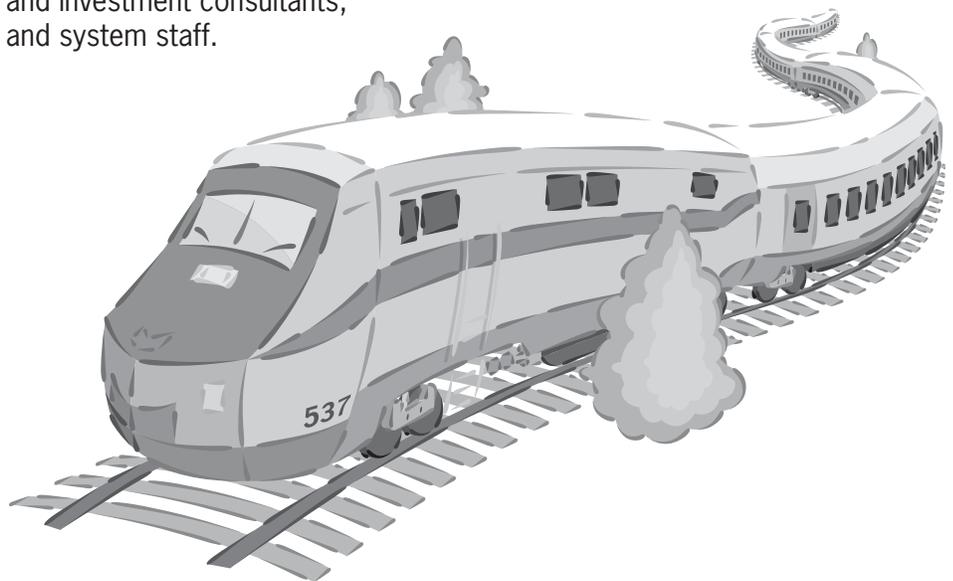
"We" are the TFFR Board, State Investment Board, member and employer interest groups, actuarial and investment consultants, and system staff.



*Fay Kopp,
Deputy Executive Director -
Chief Retirement Officer*

"We" are the 10,000 active and 6500 retired members. "We" are the 235 ND school districts and other participating employers. "We" are the 47 senators and 94 representatives who will make the final legislative decision on how to fund current and future pension obligations.

By working together, "I think WE can" provide long term financial security for North Dakota educators.



Legislature *From page 1*

Based on the formula approved in SB 2277, TFFR retirees would receive an average supplemental payment of about \$723 in December 2009. To comply with IRS requirements, the payment will be capped for about 700 annuitants at the greater of 10% of the retiree's annual annuity or \$750. TFFR will calculate the amount of each retiree's payment and send a notice to all TFFR retirees in December.

Example 1 (Not capped): Retiree with 25 years of service credit who retired in 1994 (15 years retired). Current monthly annuity is \$1,500.

\$20 X 25 years (service credit)	500
\$15 X 15 years (retired)	+225
Supplemental Payment Amount	\$725 paid

in December 2009

The supplemental payment cannot exceed the greater of \$750 or 10% of annual annuity benefit (\$1,500 X 12 months X 10% = 1,800). Since the \$725 supplemental payment amount calculated by the formula does not exceed \$1,800, the payment will not be capped in Example 1.

Example 2 (Not capped): Retiree with 5 years of service credit who retired in 1994 (15 years retired). Current monthly annuity is \$300.

\$20 X 5 years (service credit)	100
\$15 X 15 years (retired)	+225
Supplemental Payment Amount	\$325 paid

in December 2009

The supplemental payment cannot exceed the greater of \$750 or 10% of annual annuity benefit (\$300 X 12 months X 10% = 360). Since the \$325 supplemental payment amount calculated by the formula does not exceed \$750, the payment will not be capped in Example 2.

Example 3 (\$750 cap): Retiree with 25 years of service credit who retired in 1979 (30 years retired). Current monthly annuity is \$600.

\$20 X 25 years (service credit)	500
\$15 X 30 years (retired)	+450
Supplemental Payment Amount	\$950

capped at \$750, so **\$750 paid**
in December 2009

The supplemental payment cannot exceed the greater of \$750 or 10% of annual benefit (\$600 X 12 months X 10% = \$720). Since the \$950 supplemental payment amount calculated by the formula exceeds \$750, the payment will be capped at \$750 in Example 3.

Example 4 (10% annual annuity cap): Retiree with 30 years of service credit who retired in 1989 (20 years retired). Current monthly annuity is \$700.

\$20 X 30 years (service credit)	600
\$15 X 20 years (retired)	+300
Supplemental Payment Amount	\$900

capped at \$840, so **\$840 paid**
in December 2009

The supplemental payment cannot exceed the greater of \$750 or 10% of annual benefit (\$700 X 12 months X 10% = \$840). Since the \$900 supplemental payment amount calculated by the formula exceeds \$840, the payment will be capped at \$840 in Example 4.

Other Bills Approved

HB 1022 includes the budget authority and continuing appropriations for the ND Retirement and Investment Office (NDRIO) administrative expenses. HB 1022 also includes a TFFR employer/school district retirement contribution increase of 0.5% (from 8.25% to 8.75%) effective July 1, 2010. The 0.5% TFFR employer contribution increase is intended to offset the cost of a one-time TFFR retiree supplemental benefit payment (outlined in SB 2277) and to improve TFFR's funding level which has declined due to significant investment losses.

HB 1080 includes technical and administrative changes to the TFFR program. The changes have no financial impact on the Fund. Most of the amendments incorporate federal tax law changes as they relate to qualified governmental plans. Other changes include clarification that non-contracted substitute teaching does not apply to the annual hour limit for re-employed retirees. In addition, confidentiality provisions are modified to allow disclosure of retirement information in certain limited situations.

HB 1360 clarifies TFFR statutes by including licensed and contracted employees of Regional Education Associations (REAs) in the definition of "teacher" for TFFR participation and benefit eligibility purposes. This clarification does not change current TFFR practices.

Frequently Asked Questions about the Supplemental Retiree Payment



Q1. Will the supplemental retiree payment be added to my regular pension payment on December 1, 2009?

A. No, you will receive two separate payments in December. You will receive your regular pension payment on December 1. Then, later in December, you will receive the supplemental payment based on the SB 2277 formula. At this time, we are unable to give an exact date when the supplemental payment will be paid.

Q2. Will all retirees receive a \$750 supplemental retiree payment? Is \$750 the most any retiree can receive?

A. No. This gets a little confusing...but each retiree's supplemental payment will be calculated based on the \$20-\$15 formula, and then compared to the maximum limits (greater of \$750 or 10% of annual benefit). If the \$20-\$15 formula amount is larger than the greater of the two limits, the payment will be capped at the greater of the two limits. If the \$20-\$15 formula amount is smaller than the greater of the two limits, the payment will not be capped. Some retirees will receive less than \$750, some will receive \$750, and some will receive more than \$750. See examples on page 3.

Q3. How do I find out how much my supplemental retiree payment will be?

A. This summer the TFFR office will be working with pension software programmers to calculate and process this one-time payment. After programming is completed, TFFR will calculate the amount of your supplemental payment and provide you with a Supplemental Retiree Payment Notice in December notifying you of the exact amount.

Q4. I am currently receiving two TFFR pension payments each month – one based on my personal teaching service, and one as the beneficiary of my deceased husband who was also a teacher. Will I receive two supplemental retiree payments?

A. Yes, you will receive two separate supplemental retiree payments – one will be based on the number of years you taught and the number of years you have been retired, and the second will be based on the number of years your husband taught and the number of years since his retirement date.

Q5. Will taxes be withheld from my supplemental retiree payment?

A. If you have authorized federal and/or state taxes to be withheld from your regular monthly pension check, TFFR will also withhold taxes from the supplemental payment. The supplemental payment will be included on your 2009 tax statement.

Q6. Will I receive a paper check or will my supplemental payment be directly deposited to my bank account?

A. If you have authorized direct deposit of your regular monthly pension check, TFFR will directly deposit your supplemental payment to your bank account. However, if you receive your regular monthly payment as a paper check, you will also receive your supplemental payment that way.

New Tax Rules May Affect You

The American Recovery and Reinvestment Act of 2009 (also known as the stimulus package) contains provisions which may change the amount of taxes withheld from your retirement benefits during the remainder of 2009 and all of 2010. These changes may also affect your 2009 and 2010 federal tax returns. The two provisions of this package we want to bring to your attention are the Making Work Pay Credit and the Economic Recovery Payment.

Making Work Pay Credit

If you are employed, the "Making Work Pay Credit" is 6.2 percent of a taxpayer's earned income with a maximum credit of \$800 for a married couple filing a joint return and \$400 for other taxpayers. It is phased out for higher income taxpayers. This credit will be received through a monthly reduction in your federal tax withholding.

The IRS has issued instructions indicating that the same withholding tables for workers are to be used for pension payments which TFFR implemented beginning April 1, 2009. However, if you are no longer employed, you will not be entitled to the "Making Work Pay Credit" and may not have enough federal taxes withheld. If you are employed and receiving a TFFR benefit, you still may not have enough federal taxes withheld because the withholding on both your paycheck and TFFR benefit will be reduced for the same "Making Work Pay Credit." To address this issue, you may want to adjust the amount withheld to a level that will more accurately reflect the amount of taxes you will likely owe.

More information about the "Making Work Pay Credit" can be found at www.irs.gov.

Examples of the impact of the new tables:

Retiree 1 – \$1,500 taxable pension
Withholding Election - Married with zero exemptions

Federal Tax Withholding March 1, 2009: \$83
Federal Tax Withholding April 1, 2009: \$19
Decrease in monthly withholding: \$64

Retiree 2 – \$800 taxable pension
Withholding Election - Single with zero exemptions

Federal Tax Withholding March 1, 2009: \$58
Federal Tax Withholding April 1, 2009: \$20
Decrease in monthly withholding: \$38

Economic Recovery Payment

If you are receiving social security benefits, you should

have automatically received a \$250 payment from the Social Security Administration in May 2009. This is called the "Economic Recovery Payment." Unlike the "Making Work Pay Credit," which is given for both 2009 and 2010, the "Economic Recovery Payment" will only be made in 2009.

If you are employed and entitled to the "Making Work Pay Credit," you should be aware that the "Economic Recovery Payment" from Social Security will reduce the amount of your "Making Work Pay Credit." That means you may not have enough withheld and end up owing the difference when you file your taxes. If you are in this situation, you may wish to adjust your federal tax withholding.

More information on the "Economic Recovery Payment" can be found at www.socialsecurity.gov/payment.

What Should Retirees Do?

You are not required to withhold federal or state income tax from your TFFR retirement benefit. However, since your TFFR benefits are subject to federal and state taxes, you should periodically review your tax withholding election. If your tax withholding is not adequate, you may have to pay estimated taxes during the year or a tax penalty at year end.

You may elect no withholding, specify withholding based on marital status and allowances, or specify withholding plus an additional amount. You may also have North Dakota state taxes withheld from your retirement benefit. Keep in mind we can not withhold taxes for another state.

We encourage you to consult your tax advisor, the IRS, or Social Security for information about how the "Making Work Pay Credit" and "Economic Recovery Payment" will affect your individual tax situation.

If you believe your tax withholding is sufficient, no action is necessary. If you wish to adjust your tax withholding to increase the amount of taxes withheld, you may obtain a substitute W-4P form by calling the TFFR office at 1-800-952-2970, or downloading a form from the RIO website at www.nd.gov/rio. This form can be filed at any time.

Please keep in mind that TFFR staff members are not tax professionals and cannot give tax advice. TFFR is simply providing this information as a courtesy to our members and can assist you in completing the tax withholding form.



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Study Finds Pensions Provide Substantial Economic Impact

An economic impact analysis recently released finds that the benefits provided by North Dakota's public pension plans (TFFR, PERS, etc.) have a sizable impact that ripples across the state and touches every industry. The new report, "Pensionomics: Measuring the Economic Impact of State and Local Pension Plans" conducted by the National Institute on Retirement Security (NIRS), finds that expenditures made from North Dakota's public pension benefits for fiscal year 2005-06:

- Had a total economic impact of more than \$203.8 million
- Supported more than 1,584 jobs that paid more than \$71.4 million in total compensation to North Dakota's workers.
- Supported more than \$27.0 million in annual federal, state, local tax revenue.
- Paid \$164.2 million in pension benefits to 13,017 retirees and beneficiaries.
- Had large multiplier effects. Each taxpayer dollar invested in North Dakota's public pensions supported \$9.33 in total economic activity, while each dollar paid out in benefits supported \$1.24 in economic activity.
- Impacted every industry in the state.

The Pensionomics study measures the magnitude of the "multiplier effect" of North Dakota's public pensions

across the state's economy. The multiplier effect occurs because one retiree's spending in North Dakota becomes another person's income. For example, a retired North Dakota teacher may spend his or her pension check to pay the gas bill, buy a car, or make purchases at the local pharmacy, grocery store, or movie theatre. As a result of the retiree's spending, businesses see an increase in their income, which then enables businesses to spend and create jobs. Each successive round of spending ripples through the North Dakota economy to generate an economic impact that is much larger than the initial spending by the retiree.

Economists have long known that the steady monthly income provided by pensions can act as an "automatic stabilizer." That is, retirees with a stable monthly pension income can continue to spend on basic needs, even during an economic downturn, while retirees relying on plummeting 401(k) plans or individual retirement accounts likely are forced to retreat from spending precisely at the time when the economy most needs stimulus.

Public pension plans do more than provide a critical source of reliable income for retired teachers and public employees. They also support jobs and economic activity.

The full report is available at www.nirsonline.org.