

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
ACTUARIAL VALUATION REPORT
AS OF JULY 1, 2007

October 5, 2007

Board of Trustees
North Dakota Teachers' Fund for Retirement
1930 Burnt Boat Drive
P. O. Box 7100
Bismarck, ND 58507-7100

SUBJECT: ACTUARIAL VALUATION AS OF JULY 1, 2007

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the North Dakota Teachers' Fund for Retirement (TFFR) as of July 1, 2007.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the North Dakota Century Code, and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries and are experienced in performing valuations for large public retirement systems. Both meet the Qualification Standards of the American Academy of Actuaries.

ACTUARIAL VALUATION

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of TFFR, and to analyze changes in TFFR's condition. In addition, the report provides information required by TFFR in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data. Valuations are prepared annually, as of July 1 of each year, the first day of TFFR's plan and fiscal year.

FINANCING OBJECTIVES

The member and employer contribution rates are established by statute, and both are currently set at 7.75%, although the employer contribution rate will increase to 8.25% effective July 1, 2008. The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 30 years from the valuation date. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC). The thirty-year period is in common use for public-sector plans and is considered reasonable by the actuary.

PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVES

In order to determine the adequacy of the 7.75% statutory employer contribution rate, it is compared to the GASB 25 Annual Required Contribution (ARC). The ARC is equal to the sum of (a) the employer normal cost rate, and (b) the level percentage of pay required to amortize the UAAL over a 30-year period. For this calculation, payroll is assumed to increase 2.00% per annum. As of July 1, 2007, the ARC is 10.15%, decreased from 12.29% last year. This is greater than the 7.75% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -2.40%.

However, the plan has asset gains of \$280 million which have not yet been recognized in the actuarial value of assets, because of the five-year smoothing. Long-term projections show that this, coupled with the contribution increase and benefit changes enacted by the 2007 legislature, should greatly improve funding over the next ten years, assuming an 8.00% annual market return net of expenses, no actuarial gains or losses, and no other changes in plan provisions.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at July 1, 2006 was 75.4%, while it is 79.2% as of July 1, 2007. Based on market values rather than actuarial values of assets, the funded ratio improved to 91.9% from 83.0% last year.

REPORTING CONSEQUENCES

TFFR is required to report in its Comprehensive Annual Financial Report (CAFR) for the current fiscal year ending June 30, 2007 that actual contributions received in FY 2007 were less than the ARC. The 7.75% statutory rate was 63.1% of the 12.29% ARC determined by the last valuation. Next year, the CAFR for FY 2008 will show that the 7.75% statutory rate was only 76.4% of the 10.15% ARC for FY 2008. There are no other accounting consequences for the state or the other school districts that sponsor TFFR, since it is a cost-sharing, multiple-employer retirement system.

BENEFIT PROVISIONS

The actuarial valuation reflects the benefit and contribution provisions set forth in the North Dakota Century Code. The benefit provisions for members hired on or after July 1, 2008—these are called Tier 2 members—were modified by the adoption of Senate Bill No. 2046 (SB 2046).

Following is a summary of the most important changes for Tier 2 members:

- New retirement eligibility requirements:
 - Unreduced retirement available at age 65 and 5 years of service (not 3 years)
 - Unreduced retirement available when the sum of the member's age and service is at least 90 (not 85)
 - Reduced retirement available at age 55 and 5 years of service (not 3 years)

- New vesting requirement: Five years of service (not 3 years)
- Final average compensation (FAC): Based on a 5-year average (not a 3-year average)

Under SB 2046, the employer contributions for all members will be changed from 7.75% to 8.25% effective July 1, 2008. However, the employer contributions will reset to 7.75% once the fund reaches a 90% funded ratio measured using the actuarial value of assets. In addition, SB 2046 requires that employers make contributions on the salary of all rehired retirees, and another bill was enacted allowing members of the Career and Technical Education department to transfer to the Public Employees' Retirement System.

ASSUMPTIONS AND METHODS

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. These assumptions and procedures were recommended by the actuary, and were last changed in 2005, following an analysis of plan experience for the five-year period ending June 30, 2004. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of TFFR. These actuarial assumptions and methods comply with the parameters for disclosure in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates, and funding periods.

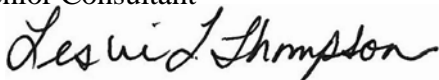
DATA

Member data for retired, active, and inactive participants was supplied as of July 1, 2007, by the staff of the Retirement and Investment Office (RIO). We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the RIO staff.

Sincerely,
Gabriel, Roeder, Smith & Co.



J. Christian Conradi, ASA, MAAA, EA
Senior Consultant



Leslie L. Thompson, FSA, MAAA, EA
Senior Consultant

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SECTION A

EXECUTIVE SUMMARY

Executive Summary

Valuation Date:	07/01/2007	07/01/2006
Fiscal Year Ending:	06/30/2008	06/30/2007
Membership		
• Number of		
- Active Members	9,599	9,585
- Retirees and Beneficiaries	6,077	5,893
- Inactive, Vested	1,439	1,409
- Inactive, Nonvested	142	143
- Total	17,257	17,030
• Payroll	\$401.3 million	\$390.1 million
Statutory contribution rates		
• Employer	7.75%	7.75%
• Member	7.75%	7.75%
Assets		
• Market value	\$2,029.8 million	\$1,720.3 million
• Actuarial value	1,750.1 million	1,564.0 million
• Return on market value	20.4%	14.6%
• Return on actuarial value	14.4%	8.5%
• Ratio - actuarial value to market value	86.2%	90.9%
• External cash flow %	-1.9%	-1.8%
Actuarial Information		
• Normal cost %	10.26%	11.31%
• Unfunded actuarial accrued liability (UAAL)	\$459.2 million	\$509.9 million
• Funded ratio	79.2%	75.4%
• Funding period	Infinite	Infinite
GASB 25 ARC		
• Amortization period	30 years	30 years
• Amortization method	Level % (2.00%)	Level % (2.00%)
• Calculated contribution rate	10.15%	12.29%
• Margin	-2.40%	-4.54%
Gains/(Losses)		
• Asset experience	\$99.2 million	\$6.7 million
• Liability experience	7.8 million	(1.7) million
• Benefit changes	(36.0) million	0.0 million
• Assumption/method changes	0.0 million	0.0 million
• Total	\$71.0 million	\$5.0 million

SECTION B

INTRODUCTION

INTRODUCTION

The results of the July 1, 2007 actuarial valuation of the North Dakota Teachers' Fund for Retirement are presented in this report. Actuarial valuations are prepared annually.

The purpose of any actuarial valuation report is to describe the financial condition of the Fund, to assess the adequacy of the current contributions, and to analyze changes in the funding requirements. In addition, this report presents information required by TFFR in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25).

Section C discusses the determination of the current funding requirements and funding periods. Section D analyzes the changes in (i) the unfunded actuarial accrued liability and (ii) the GASB Annual Required Contribution (ARC). This section also discusses the gains and losses resulting from differences between actual experience and the actuarial assumptions. Section E discusses the disclosure requirements of GASB No. 25.

Sections F through I discuss background information used in the preparation of this report--benefit provisions, actuarial assumptions and methods, financial information, and membership data.

All the tables referenced by the other sections appear in Section J.

SECTION C

FUNDING STATUS

FUNDING STATUS

Table 1 shows the development of the plan's liabilities and costs. Although the employer contribution rate is set by statute, the Board has defined the GASB Annual Required Contribution (ARC) as the sum of (a) the employer normal cost, and (b) an amount necessary to amortize the unfunded actuarial accrued liability (UAAL) as a level percentage of payroll over a period of 30 years from the valuation date, but the ARC may not be less than the statutory employer contribution rate.

The calculation of the ARC involves the following steps:

- The actuarial present value of future benefits is determined for the present members, including retired members, beneficiaries, inactive members and active members. This amounts to \$2.561 billion. Table 3 shows the development of this total.
- The entry age normal funding method is used to allocate the actuarial present value of future benefits between that portion due for the current year (the normal cost), prior years (the actuarial accrued liability), and future years. Under the entry age normal cost method, the current and future normal costs are determined as a level percentage of payroll. Table 4 shows an analysis of the normal cost. The amount needed to fund the current and future normal costs is 10.26% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average new member.
- The normal cost rate of 10.26% has decreased from last year's rate of 11.31%, because in determining the normal cost, we have taken into account the new benefit provisions that will be applicable to members joining TFFR after June 30, 2008 (Tier 2 members).
- A part of the normal cost is paid by the employee assessments of 7.75%, leaving 2.51% to be funded by the employers, i.e., the current year's employer normal cost is 2.51% of the valuation payroll. This is shown in Line 3 of Table 1.
- The actuarial accrued liability (the portion of the total liability attributed to prior years) is compared with the actuarial value of assets (See Section H). The difference is the unfunded actuarial accrued liability (UAAL), and this is amortized over 30 years assuming a 2.00% annual payroll growth rate. This adds \$32.4 million to the employer portion of the normal cost of \$10.7 million, for a total ARC of \$43.1 million, and is equivalent to 10.15% of pay.

Another way of expressing this is that an employer contribution of 10.15% would be required to meet the 30-year funding schedule, determined as follows:

Employer normal cost	2.51%
Amortization payment	<u>7.64%</u>
Total	10.15%

The above calculations take the position that the 30-year funding period is fixed and the appropriate contribution is to be determined. The situation can be reversed by asking, if the current 7.75% employer rate is left in place, how long does it take to amortize the UAAL? Long term projections show the UAAL being fully amortized in about a decade, assuming a market return of 8.00% per year and no other changes or actuarial gains/losses.

SECTION D

ANALYSIS OF CHANGES

ANALYSIS OF CHANGES

Tables 2a and 2b show the impact of a variety of changes on both the UAAL and on the GASB ARC. Table 11 shows the detailed calculation of the asset gain/loss, while Table 12 shows the development of the liability gain/loss. The gains and losses are due to differences between actual experience and anticipated experience determined using the actuarial assumptions.

As shown on Table 2b, the UAAL decreased from \$509.9 million to \$459.2 million, a decrease of \$50.7 million. This decrease was principally due to the fact that the Plan experienced a strong actuarial asset gain of \$99.2 million. Due to the change of benefit provisions, there was a loss of \$36.0 million. (We discuss below the reason a benefit reduction for future members caused an increase in the actuarial accrued liability, a result we realize is anomalous.) The \$20.3 million increase due to amortization payments arises because the member and employer contributions were not large enough to pay the normal cost and interest on the UAAL. Therefore, the Fund experienced negative amortization. There was also a small liability gain of \$7.8 million.

Table 2a shows the impact of these same changes on the GASB ARC, expressed as a percentage of payroll. The most significant items are the 45 basis point decrease due to the change in benefit provisions for Tier 2 members and the 1.65 basis point decrease due to the investment experience gain.

Actuarial Loss due to New Plan Provisions

The UAAL is defined as the actuarial accrued liability (AAL) less the actuarial value of assets (AVA).

$$\text{UAAL} = \text{AAL} - \text{AVA}$$

The UAAL increased as a result of the 2007 legislation because the AAL increased. The AAL is a measure of liability associated with past years. For any member, it is the total present value of that member's future benefits (PVFB), reduced by the present value of future normal costs (PVFNC). In other words:

$$\text{AAL} = \text{PVFB} - \text{PVFNC}$$

The normal cost can be thought of as the cost for a new member. It is determined using the benefit provisions that apply to future members. In particular, this year we used the provisions that apply to future Tier 2 members. Therefore, since the normal cost is reduced by the legislation, and since the PVFB for current members is unchanged, the AAL increases.

However, the increase in the AAL and UAAL is much less important than the decrease in the plan's future normal cost. This is why, despite the increase in the UAAL, the ARC is reduced by 0.45% due to the legislation. By reducing the normal cost, more of the 7.75% employer contribution rate (or the 8.25% rate in years beginning July 1, 2008) is available to amortize the UAAL.

It is useful to bear in mind that the total liability for a current member (the PVFB) is unchanged by the legislation, and the PVFB for members joining after June 30, 2008 is reduced. The AAL and UAAL are actuarial concepts that assign the liability to various years. In this case, more is assigned to past years and less to future years as a result of the legislation. Over a period of a few years, the UAAL will become smaller than it would have been without the legislation, because it will be amortized faster.

SECTION E

GASB NO. 25 DISCLOSURE

GASB No. 25 DISCLOSURE

Governmental Accounting Standards Board (GASB) Statement No. 25 governs reporting for government-sponsored retirement plans.

This report includes Tables 5a, 5b and 5c which show information required to be reported under GASB 25. Table 5a shows a history of funding progress: a comparison of actuarial assets with the actuarial accrued liability, and a comparison of the UAAL with plan compensation. Table 5b shows the Annual Required Contribution (ARC) as computed under GASB No. 25, and it shows what percent of this amount was actually received.

For TFFR, the ARC is now defined to be the sum of (a) the employer normal cost, and (b) the amount needed to amortize the UAAL as a level percentage of payroll over 30 years. If this amount is less than the statutory 7.75%, the statutory contribution rate is treated as the ARC. For FY 2005 and prior years, the ARC was defined using a 20-year amortization with no payroll increase.

Since the 7.75% statutory rate exceeded the ARC in each year through FY 2003, Table 5b shows that 100% of the ARC was made for each of these years. For FY 2004, FY 2005, FY 2006 and FY 2007, since the statutory rate was less than the ARC, the table shows that 86.7%, 68.3%, 63.9% and 63.1% of the ARC were made for FY 2004, FY 2005, FY 2006 and FY 2007 respectively ($7.75\% \div 8.94\%$, $7.75\% \div 11.34\%$, $7.75\% \div 12.12\%$, and $7.75\% \div 12.29\%$). When next year's financial report is prepared, this table will show that the contributions received for FY 2008 are only 76.4% of the ARC ($7.75\% \div 10.15\%$).

The dollar amounts of the ARCs shown on Table 5b differ from the dollar amounts calculated in prior valuations because they are adjusted for differences between expected and actual payroll in each fiscal year. This procedure is permitted under GASB 25; see Q&A 94 in the GASB 25 Implementation Guide. For FY 2007, employers contributed \$31,865,466, which represents 7.75% of actual covered payroll during the fiscal year. This implies actual payroll of \$411,167,303 ($\$31,865,466 / 0.0775$). The ARC for FY 2007 was calculated in the last valuation report as 12.29% of payroll. Therefore, the dollar ARC shown on Table 5b for FY 2007 is 12.29% of actual payroll of \$411,167,303, or \$50,532,462.

The auditor's notes should disclose the following events during the last six years which may affect the comparability of the trend information shown in Tables 5a and 5b: the change in the benefit provisions for new hires employed after July 1, 2008 made at July 1, 2007, the change in assumptions made at July 1, 2005, and the change in the definition of the ARC made effective July 1, 2005. (See GASB No. 25, paragraph 40b.)

SECTION F

BENEFIT PROVISIONS

BENEFIT PROVISIONS

Table 19 summarizes the provisions of TFFR used in this valuation. Table 20 is a historical record of prior legislative changes made since 1990. The actuarial valuation reflects the benefit and contribution provisions set forth in the North Dakota Century Code.

This valuation reflects benefits promised to members by TFFR statutes. There are no ancillary benefits. Ancillary benefits are retirement-type benefits not required by TFFR statutes but which might be deemed a TFFR liability if continued beyond the availability of funding by the current funding source.

Since the previous valuation, two bills affecting TFFR were enacted: SB 2046 and HB 1078.

SB 2046 made three changes to TFFR's contribution and benefit provisions:

- Effective July 1, 2008, the employer contribution rate will increase from 7.75% to 8.25%. However, this 0.50% increase in the rate will only be in force while TFFR's funded ratio remains below 90%. Once the funded ratio reaches 90%, the employer contribution rate will revert to 7.75%. The contribution rate will not automatically increase back to 8.25% if the funded ratio later falls back below 90%.
- Members who join TFFR on or after July 1, 2008, called Tier 2 members, will be subject to the following benefit provisions:
 - Vesting will require five years of service, not three years
 - Unreduced retirement will be available when the member's age plus years of service is at least 90, not 85
 - Unreduced retirement at age 65 will require five years of service, not three years
 - Reduced retirement at age 55 will require five years of service, not three years
 - The member's Final Average Compensation will be defined as a five-year average, not a three-year average
- Effective July 1, 2007, employers of reemployed retirees will be required to make employer contributions on their salaries.

This valuation reflects the new benefit provisions for Tier 2 members in SB 2046 in the determination of the normal cost. However, the increase in the employer contribution rate is ignored, because GASB prohibits recognizing increases in contribution rates that will not become effective until after the end of the plan year.

HB 1078 allows the sixteen TFFR members employed by the Department of Career and Technical Education (CTE) to transfer to the North Dakota Public Employees' Retirement System (PERS) in FY 2008. The election is on an individual basis. All service, member contributions, and benefit liability will be transferred to PERS for the electing members. TFFR will transfer assets to PERS for each electing member equal to the greater of (i) the actuarial value of the current benefit earned under TFFR, or (ii) the member account balance. Future employees hired by CTE could elect to join PERS rather than TFFR.

This valuation does not reflect the provisions of HB 1078. As of the valuation date, the election period was still open and the sixteen members remained in TFFR. In any case, the transfer of these members will not materially affect the Fund.

SECTION G

ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS AND METHODS

In determining costs and liabilities, actuaries use assumptions about the future, such as rates of salary increase, probabilities of retirement, termination, death and disability, and an investment return assumption. TFFR's Board adopts the assumptions used, taking into account the actuary's recommendations. This report is based upon the same assumptions and methods used in preparing last year's report. Assumptions were last changed in 2005, based upon an analysis of plan experience for the preceding five years.

The most significant assumptions are (i) the 8.00% assumed investment return rate, and (ii) the assumption regarding future salary increases, which is based on a table that varies by service and averages about 5.7%. All actuarial assumptions and methods used are summarized in Table 18.

In addition to the actuarial assumptions, the actuary also makes use of an actuarial funding method to allocate costs to particular years. In common with many public-sector plans, TFFR uses the entry age normal method. This method produces a relatively level pattern of funding over time, and thereby provides equity between various generations of taxpayers. We continue to believe this method is appropriate for TFFR.

Finally, TFFR's Board selects the amortization method and the amortization period used in determining the GASB ARC, to which the required 7.75% rate is compared. In determining the ARC, the UAAL is amortized with level-percentage-of-payroll payments with a 2.00% payroll growth rate over an open 30-year period. By an "open" amortization period, we mean that the 30-year amortization payments are redetermined each year based on a new 30-year period.

SECTION H

FUND ASSETS

FUND ASSETS

TFFR assets are held in trust, and are co-mingled for investment purposes with those of other North Dakota sponsored trusts. Investment decisions lie with the State Investment Board rather than with the TFFR Board, although the TFFR Board sets the investment policy, including the asset allocation guidelines. Asset information used in this valuation has been provided by the Retirement and Investment Office (RIO) staff. Section J contains several tables which summarize, reconcile or analyze this information.

Table 7 presents a summary of the market value of assets held by the fund. About 78% of the assets are held in equities, real estate, and private equity. This has increased from about 76% last year. Table 8 shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

Tables 9a and 9b show the development of the Actuarial Value of Assets (AVA). An actuarial value is used in order to dampen some of the year-to-year fluctuations which would occur if the market value were used instead. The method used phases in differences between actual and expected earnings 20% per year. Expected earnings are determined using market value and the 8.00% investment return assumption. Actual earnings are net of all investment and administrative expenses.

Table 10 shows an estimate of the Fund's yield for the year. This is shown on (i) the market value of assets (reflecting all realized and unrealized gains and losses), and (ii) the actuarial value of assets. While the dollar-weighted market yield this year is about 20.4%, the yield on the actuarial value is 14.4%. The difference between these is due to the smoothing effect of the AVA.

Table 11 determines the asset gain or loss for the year, based on the difference between the actual fund yield and the assumed rate of 8%. The impact of this gain has already been discussed in Section D. Finally, Table 13 shows a history of cash flows to the trust.

SECTION I

MEMBERSHIP DATA

MEMBERSHIP DATA

Membership data was provided on electronic files sent by the RIO staff. Data for active members includes sex, birthdate, service, salary (for the prior fiscal year) and accumulated contributions. Data for inactive, nonretired members was similar, but also includes the members' unreduced benefit. For retired members, data includes status (service retiree, disabled retiree or beneficiary), sex, birthdate, pension amount, form of payment, beneficiary sex and birthdate if applicable, and date of retirement.

While not verifying the correctness of the data at the source, we performed various tests to ensure the internal consistency of the data and its overall reasonableness.

Membership statistics are summarized in Table 6a. Table 6b summarizes certain active member data, and the age/service distribution of active members is shown in Table 15. Tables 16a and 16b show the distribution of retirees by option and by benefit amount. Table 17 shows a reconciliation of the member data from last year's valuation to this year's valuation.

The number of active members increased by 0.1% since last year, from 9,585 to 9,599. Note that normally the actual number of active members during the year will be somewhat higher than the valuation count, since the July 1 count excludes most June and July retirees but does not include new teachers joining the system for the next school year.

Total payroll increased 2.9% since last year. For all comparative purposes, payroll is the amount supplied by the RIO staff (i.e., the 2006-2007 member pay), annualized. However, this figure is increased by one year's assumed pay increase to determine the member's rate of pay at July 1, 2007. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased by 2.7%, from \$40,703 to \$41,810. However, this includes the impact of replacing more highly-paid members who retire with new teachers. The average increase in salary for continuing members—members active in both this valuation and the preceding valuation—was 4.5%.

The average age of active members decreased from 44.8 years to 44.7 years, while their average service also decreased from 14.6 years to 14.5 years.

SECTION J

TABLES

TABLES

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Development of Employer Cost

	<u>July 1, 2007</u>	<u>July 1, 2006</u>
	(1)	(2)
1. Payroll		
a. Supplied by System	\$ 401,329,919	\$ 390,135,120
b. Adjusted for one year's pay increase	424,504,016	412,513,423
2. Present value of future pay	\$ 3,428,003,011	\$ 3,328,661,866
3. Normal cost rate (payable monthly)		
a. Total normal cost rate	10.26%	11.31%
b. Less: member assessment rate	<u>-7.75%</u>	<u>-7.75%</u>
c. Employer normal cost rate	2.51%	3.56%
4. Actuarial accrued liability for active members		
a. Present value of future benefits	\$ 1,508,099,420	\$ 1,470,781,617
b. Less: present value of future normal costs (Item 3a * Item 2)	<u>(351,713,109)</u>	<u>(376,471,657)</u>
c. Actuarial accrued liability	\$ 1,156,386,311	\$ 1,094,309,960
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 1,000,127,740	\$ 929,118,013
b. Inactive members	52,831,254	50,452,430
c. Active members (Item 4c)	<u>1,156,386,311</u>	<u>1,094,309,960</u>
d. Total	\$ 2,209,345,305	\$ 2,073,880,403
6. Actuarial value of assets	\$ 1,750,145,515	\$ 1,563,957,955
7. Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	\$ 459,199,790	\$ 509,922,448
8. Funding period set by Board	30 years	30 years
9. Current employer contribution rate	7.75%	7.75%
10. GASB No. 25 Annual Required Contribution (ARC) for fiscal year beginning on valuation date		
a. Payment to amortize UAAL	\$ 32,427,824	\$ 36,009,763
b. Employer normal cost (Item 3c * Item 1b)	<u>10,655,051</u>	<u>14,685,478</u>
c. Contribution requirement (a+b)	43,082,875	50,695,241
d. Contribution as percentage of payroll (10c/1b)	10.15%	12.29%
11. Funding period based on current employer contribution	Infinite	Infinite

Analysis of Change in GASB ARC

Item	July 1, 2007	July 1, 2006
(1)	(2)	(3)
1. Prior valuation	12.29%	12.12%
2. Increases/(decreases) due to:		
a. Open amortization	(0.12%)	(0.12%)
b. Growth in covered payroll	(0.07%)	0.10%
c. Employer contributions received at 7.75%, rather than 12.29% for FY2007 or 12.12% for FY2006	0.28%	0.28%
d. Liability experience	(0.13%)	0.02%
e. Investment experience	(1.65%)	(0.11%)
f. Assumption changes	0.00%	0.00%
g. Changes in amortization method	0.00%	0.00%
h. Legislative changes	(0.45%)	0.00%
i. Total	(2.14%)	0.17%
3. Current valuation (1. + 2.i.)	10.15%	12.29%
4. Statutory employer contribution rate	7.75%	7.75%
5. Margin available (4. - 3.)	(2.40%)	(4.54%)

Analysis of Change in UAAL

Item	Unfunded Actuarial Accrued Liability (\$ in millions) as of	
	July 1, 2007	July 1, 2006
(1)	(2)	(3)
1. Prior valuation	\$ 509.9	\$ 495.5
2. Increases/(decreases) due to:		
a. Amortization payments	\$ 20.3	\$ 19.4
b. Investment experience	(99.2)	(6.7)
c. Assumption changes	-	-
d. Liability experience	(7.8)	1.7
e. Changes in actuarial methods	-	-
f. Legislative changes	36.0	-
g. Total	\$ (50.7)	\$ 14.4
3. Current valuation (1. + 2.g.)	\$ 459.2	\$ 509.9

Actuarial Present Value of Future Benefits

	<u>July 1, 2007</u> (1)	<u>July 1, 2006</u> (2)
1. Active members		
a. Retirement benefits	\$ 1,391,159,003	\$ 1,357,200,078
b. Deferred termination benefits and refunds	79,627,741	77,210,781
c. Death benefits	15,189,096	14,773,694
d. Disability benefits	22,123,580	21,597,064
e. Total	<u>\$ 1,508,099,420</u>	<u>\$ 1,470,781,617</u>
2. Retired members		
a. Service retirement	\$ 944,333,555	\$ 875,237,300
b. Disability retirement	9,345,628	8,354,880
c. Beneficiaries	46,448,557	45,525,833
d. Total	<u>\$ 1,000,127,740</u>	<u>\$ 929,118,013</u>
3. Inactive members		
a. Vested terminations	\$ 52,264,205	\$ 49,870,093
b. Nonvested terminations	424,697	387,337
c. Pending July 1 Refunds	142,352	195,000
d. Total	<u>\$ 52,831,254</u>	<u>\$ 50,452,430</u>
4. Total actuarial present value of future benefits	\$ 2,561,058,414	\$ 2,450,352,060

Analysis of Normal Cost

	<u>July 1, 2007</u> (1)	<u>July 1, 2006</u> (2)
1. Gross normal cost rate (payable monthly)		
a. Retirement benefits	7.74%	8.72%
b. Deferred termination benefits and refunds	2.01%	2.09%
c. Death benefits	0.18%	0.17%
d. Disability benefits	<u>0.33%</u>	<u>0.33%</u>
e. Total	10.26%	11.31%
2. Less: member assessment rate	<u>7.75%</u>	<u>7.75%</u>
3. Employer normal cost rate	2.51%	3.56%

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 1996	\$733.3	\$851.6	\$118.3	86.1%	\$281.2	42.1%
July 1, 1997	\$823.4	\$977.1	\$153.6	84.3%	\$294.1	52.2%
July 1, 1998	\$928.0	\$1,033.0	\$105.0	89.8%	\$298.4	35.2%
July 1, 1999	\$1,053.1	\$1,188.4	\$135.3	88.6%	\$314.6	43.0%
July 1, 2000	\$1,308.5	\$1,287.9	(\$20.6)	101.6%	\$323.0	-6.4%
July 1, 2001	\$1,414.7	\$1,467.7	\$53.0	96.4%	\$342.2	15.5%
July 1, 2002	\$1,443.5	\$1,575.8	\$132.3	91.6%	\$348.1	38.0%
July 1, 2003	\$1,438.4	\$1,690.3	\$251.9	85.1%	\$367.9	68.5%
July 1, 2004	\$1,445.6	\$1,800.4	\$354.8	80.3%	\$376.5	94.2%
July 1, 2005	\$1,469.7	\$1,965.2	\$495.5	74.8%	\$386.6	128.2%
July 1, 2006	\$1,564.0	\$2,073.9	\$509.9	75.4%	\$390.1	130.7%
July 1, 2007	\$1,750.1	\$2,209.3	\$459.2	79.2%	\$401.3	114.4%

Note: Dollar amounts in millions

Schedule of Employer Contributions

Fiscal Year (1)	GASB 25 Annual Required Contribution (ARC)		Actual Employer Contributions		Percentage of GASB ARC Contributed [(5)/(3)] (6)
	% of Payroll ¹ (2)	Amount ² (3)	% of Payroll (4)	Amount (5)	
1996	6.75%	\$18,988,538	6.75%	\$18,988,538	100.0%
1997	6.75%	\$19,693,130	6.75%	\$19,693,130	100.0%
1998	7.75%	\$23,326,328	7.75%	\$23,326,328	100.0%
1999	7.75%	\$24,257,091	7.75%	\$24,257,091	100.0%
2000	7.75%	\$25,527,734	7.75%	\$25,527,734	100.0%
2001	7.75%	\$26,289,206	7.75%	\$26,289,206	100.0%
2002	7.75%	\$27,243,542	7.75%	\$27,243,542	100.0%
2003	7.75%	\$28,850,725	7.75%	\$28,850,725	100.0%
2004	8.94%	\$34,186,080	7.75%	\$29,635,584	86.7%
2005	11.34%	\$44,471,740	7.75%	\$30,388,265	68.3%
2006	12.12%	\$48,747,189	7.75%	\$31,170,851	63.9%
2007	12.29%	\$50,532,462	7.75%	\$31,865,466	63.1%

¹ The GASB ARC for each fiscal year is based on the actuarial valuation as of the beginning of the year. Therefore, the FY 2007 ARC is based on the July 1, 2006 actuarial valuation. The ARC is defined as the contribution rate required to pay the employer normal cost and to amortize the UAAL over a 30-year period as a level percent of payroll, but not less than the statutory contribution rate. For FY 2005 and prior years, the UAAL is amortized over a 20-year period as a level dollar amount.

² The dollar amount of the ARC is based on the actual payroll for the year. The FY 2007 ARC shown above differs from the estimated dollar amount shown in the July 1, 2006 actuarial valuation report because of differences between estimated and actual FY 2007 payroll.

**Notes to Required Supplementary Information
 (as required by GASB #25)**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2007
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Amortization period for GASB 25 ARC**	30-year open period
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	4.50% to 14.00%
*Includes inflation at	3.00%
Cost-of-living adjustments	None

** The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal cost, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, and (b) the 7.75% statutory employer contribution rate. Payroll is assumed to increase at 2.00% per annum.

Membership Data

	July 1, 2007	July 1, 2006
	(1)	(2)
1. Active members		
a. Males	2,570	2,566
b. Females	7,029	7,019
c. Total members	9,599	9,585
d. Total payroll supplied, annualized	\$ 401,329,919	\$ 390,135,120
e. Average salary	\$ 41,810	\$ 40,703
f. Average age	44.7	44.8
g. Average service	14.5	14.6
h. Total assessments with interest	\$ 526,923,376	\$ 504,416,676
i. Average assessments with interest	\$ 54,894	\$ 52,626
2. Vested inactive members		
a. Number	1,439	1,409
b. Total annual deferred benefits	\$ 8,029,813	\$ 7,921,907
c. Average annual deferred benefit	\$ 5,580	\$ 5,622
d. Average age	48.7	48.4
3. Nonvested inactive members		
a. Number	142	143
b. Employee assessments with interest due	\$ 424,696	\$ 387,337
c. Average refund due	\$ 2,991	\$ 2,709
d. Average age	41.1	42.7
4. Service retirees		
a. Number	5,484	5,313
b. Total annual benefits	\$ 97,716,426	\$ 91,204,855
c. Average annual benefit	\$ 17,818	\$ 17,166
d. Average age	70.9	71.1
5. Disabled retirees		
a. Number	93	85
b. Total annual benefits	\$ 1,104,798	\$ 971,449
c. Average annual benefit	\$ 11,880	\$ 11,429
d. Average age	59.6	58.5
6. Beneficiaries		
a. Number	500	495
b. Total annual benefits	\$ 5,747,790	\$ 5,620,039
c. Average annual benefit	\$ 11,496	\$ 11,354
d. Average age	71.8	71.5

Historical Summary of Active Member Data

Year Ending June 30,	Active Members		Covered Payroll		Average Salary		Average Age	Average Service
	Number	Percent Increase /(Decrease)	Amount in \$ Millions	Percent Increase /(Decrease)	\$ Amount	Percent Increase /(Decrease)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1992	9,707	1.2%	250.9	6.7%	25,850	5.5%	41.7	12.8
1993	9,808	1.0%	260.4	3.8%	26,549	5.5%	42.2	13.2
1994	9,653	-1.6%	262.4	0.8%	27,187	5.2%	42.4	13.3
1995	9,663	0.1%	268.7	2.4%	27,803	2.3%	42.6	13.4
1996	9,797	1.4%	281.2	4.7%	28,708	3.3%	42.9	13.6
1997	10,010	2.2%	294.1	4.6%	29,382	2.3%	43.4	14.0
1998	9,896	-1.1%	298.4	1.5%	30,156	2.6%	43.5	14.0
1999	10,046	1.5%	314.6	5.4%	31,318	3.9%	44.0	14.4
2000	10,025	-0.2%	323.0	2.7%	32,223	2.9%	43.9	14.1
2001	10,239	2.1%	342.2	5.9%	33,421	3.7%	44.4	14.4
2002	9,931	-3.0%	348.1	1.7%	35,052	4.9%	44.5	14.4
2003	9,916	-0.2%	367.9	5.7%	37,105	5.9%	44.8	14.6
2004	9,826	-0.9%	376.5	2.3%	38,321	3.3%	44.9	14.7
2005	9,801	-0.3%	386.6	2.7%	39,447	2.9%	44.9	14.7
2006	9,585	-2.2%	390.1	0.9%	40,703	3.2%	44.8	14.6
2007	9,599	0.1%	401.3	2.9%	41,810	2.7%	44.7	14.5

Plan Net Assets
(Assets at Market or Fair Value)

Item (1)	June 30, 2007 (2)	June 30, 2006 (3)
1. Cash and cash equivalents (operating cash)	\$ 9,950,883	\$ 9,634,510
2. Receivables:		
a. Member and employer contributions	\$ 8,058,323	\$ 7,715,230
b. Investment income	8,366,495	8,616,986
c. Due from other funds	112	19,504
d. Miscellaneous receivables	3,064	1,320
e. Total receivables	<u>\$ 16,427,994</u>	<u>\$ 16,353,040</u>
3. Investments		
a. Invested cash	\$ 16,588,981	\$ 15,969,730
b. Domestic equities	770,492,688	654,595,767
c. International equities	490,001,433	377,166,245
d. Domestic fixed income	344,949,636	314,813,187
e. International fixed income	84,675,151	81,912,666
f. Real estate	212,437,075	182,884,803
g. Private equity	87,610,571	69,410,721
h. Total investments	<u>\$ 2,006,755,535</u>	<u>\$ 1,696,753,119</u>
4. Invested securities lending collateral	\$ 143,933,101	\$ 127,302,330
5. Equipment & software (net of depreciation)	\$ 789,382	\$ -
6. Total assets	\$ 2,177,856,895	\$ 1,850,042,999
7. Liabilities		
a. Accounts payable	\$ 3,653,900	\$ 2,041,720
b. Accrued expenses	483,601	316,761
c. Due to other funds	8,881	57,240
d. Securities lending collateral	143,933,101	127,302,330
e. Total liabilities	<u>\$ 148,079,483</u>	<u>\$ 129,718,051</u>
8. Total market value of assets available for benefits (Item 6 - Item 7)	\$ 2,029,777,412	\$ 1,720,324,948
9. Asset allocation (investments)		
a. Invested cash	0.8%	0.9%
b. Domestic equities	38.4%	38.6%
c. International equities	24.4%	22.2%
d. Domestic fixed income	17.2%	18.6%
e. International fixed income	4.2%	4.8%
f. Real estate	10.6%	10.8%
g. Private equity	4.4%	4.1%
h. Total investments	<u>100.0%</u>	<u>100.0%</u>

Note: Total market value of assets as of June 30, 2006 was restated after prior valuation was reported.

Reconciliation of Plan Net Assets

	Year Ending	
	June 30, 2007 (1)	June 30, 2006 (2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	\$ 1,720,324,948	\$ 1,530,194,427
b. Prior period adjustments	983,275	-
c. Revised value	<u>\$ 1,721,308,223</u>	<u>\$ 1,530,194,427</u>
2. Revenue for the year		
a. Contributions		
i. Employee contributions	\$ 31,865,772	\$ 31,171,156
ii. Employer contributions	31,865,466	31,170,851
iii. Purchased service credit	2,629,006	3,225,589
iv. Interest and penalties	1,855	10,232
v. Total	<u>\$ 66,362,099</u>	<u>\$ 65,577,828</u>
b. Income		
i. Interest, dividends, and other income	\$ 48,733,376	\$ 42,267,850
ii. Investment expenses	(10,547,809)	(10,853,774)
iii. Net	<u>\$ 38,185,567</u>	<u>\$ 31,414,076</u>
c. Net realized and unrealized gains (losses)	<u>\$ 308,580,419</u>	<u>\$ 189,138,608</u>
d. Total revenue	\$ 413,128,085	\$ 286,130,512
3. Expenditures for the year		
a. Benefits and refunds		
i. Refunds	\$ 3,328,931	\$ 2,697,308
ii. Regular annuity benefits	98,784,161	91,397,868
iii. Partial lump-sum benefits paid	953,744	420,224
iv. Total	<u>\$ 103,066,836</u>	<u>\$ 94,515,400</u>
b. Administrative and miscellaneous expenses	<u>1,592,060</u>	<u>1,484,591</u>
c. Total expenditures	\$ 104,658,896	\$ 95,999,991
4. Increase in net assets (Item 2 - Item 3)	\$ 308,469,189	\$ 190,130,521
5. Value of assets at end of year (Item 1 + Item 4)	\$ 2,029,777,412	\$ 1,720,324,948

Determination of Excess Earnings to be Deferred

Year ended :	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>
	(1)	(2)	(3)	(4)
1. MVA at beginning of year	\$ 1,175,248,478	\$ 1,374,679,677	\$ 1,530,194,427	\$ 1,720,324,948
2. Net new investments				
a. Contributions	\$ 63,655,362	\$ 64,072,881	\$ 65,577,828	\$ 66,362,099
b. Benefits and refunds paid	<u>(82,953,154)</u>	<u>(87,231,537)</u>	<u>(94,515,400)</u>	<u>(103,066,836)</u>
c. Subtotal	\$ (19,297,792)	\$ (23,158,656)	\$ (28,937,572)	\$ (36,704,737)
3. MVA at end of year	\$ 1,374,679,677	\$ 1,530,194,427	\$ 1,720,324,948	\$ 2,029,777,412
4. Net MVA earnings (3 - 1 - 2)	\$ 218,728,991	\$ 178,673,406	\$ 219,068,093	\$ 346,157,201
5. Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6. Expected return	\$ 93,247,967	\$ 109,048,028	\$ 121,258,051	\$ 136,157,806
7. Excess return (4 - 6)	\$ 125,481,024	\$ 69,625,378	\$ 97,810,042	\$ 209,999,395
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	\$ 25,096,205	\$ 27,850,151	\$ 58,686,025	\$ 167,999,516

Note: MVA is market value of assets

Development of Actuarial Value of Assets

1.	Market value of assets as of valuation	\$	2,029,777,412
2.	Deferred amounts for fiscal year ending June 30,		
	a. 2007	\$	167,999,516
	b. 2006	\$	58,686,025
	c. 2005	\$	27,850,151
	d. 2004	\$	<u>25,096,205</u>
	e. Total	\$	279,631,897
3.	Actuarial value of assets (1) - (2)	\$	1,750,145,515
4.	Ratio of actuarial value to market value		86.2%

Estimation of Yields

	Year Ending	
	June 30, 2007 (1)	June 30, 2006 (2)
A. Market value yield		
1. Beginning of year market assets	\$ 1,720,324,948	\$ 1,530,194,427
2. Investment income (including realized and unrealized gains and losses)		
a. Interest and dividends net of investment expenses	\$ 38,185,567	\$ 31,414,076
b. Realized and unrealized gains/(losses)	<u>308,580,419</u>	<u>189,138,608</u>
c. Total investment income based on market value	\$ 346,765,986	\$ 220,552,684
3. End of year market assets	\$ 2,029,777,412	\$ 1,720,324,948
4. Estimated dollar weighted market value yield	20.4%	14.6%
B. Actuarial value yield		
1. Beginning of year actuarial assets	\$ 1,563,957,955	\$ 1,469,739,346
2. Investment income (based on asset valuation method)		
a. Interest and dividends net of investment expenses	\$ 38,185,567	\$ 31,414,076
b. Realized and unrealized gains/(losses)	186,298,790	93,226,696
c. Less: administrative expenses	<u>(1,592,060)</u>	<u>(1,484,591)</u>
d. Net investment income based on asset valuation method	\$ 222,892,297	\$ 123,156,181
3. End of year actuarial assets	\$ 1,750,145,515	\$ 1,563,957,955
4. Estimated actuarial value yield	14.4%	8.5%

History of Investment Return Rates

Plan Year Ending June 30 of	Market	Actuarial
(1)	(2)	(3)
1990	6.7%	7.7%
1991	7.5%	5.8%
1992	12.4%	6.5%
1993	14.7%	8.1%
1994	1.2%	7.0%
1995	13.6%	9.1%
1996	15.6%	11.3%
1997	18.5%	12.6%
1998	13.2%	12.6%
1999	11.5%	13.5%
2000	11.6%	13.3%
2001	-7.6%	8.6%
2002	-8.6%	3.0%
2003	2.1%	0.6%
2004	18.9%	1.9%
2005	13.3%	3.3%
2006	14.6%	8.5%
2007	20.4%	14.4%
Average Returns		
Last 5 years	13.7%	5.6%
Last 10 years	8.5%	7.8%
Last 15 years	9.8%	8.4%

Investment Experience Gain or Loss

Item (1)	Year Ending	
	June 30, 2007 (2)	June 30, 2006 (3)
1. Actuarial assets, beginning of year	\$ 1,563,957,955	\$ 1,469,739,346
2. Total assessments and contributions during year	\$ 66,362,099	\$ 65,577,828
3. Benefits and refunds paid	\$ (103,066,836)	\$ (94,515,400)
4. Assumed net investment income at 8%		
a. Beginning of year assets	\$ 125,116,636	\$ 117,579,148
b. Assessments and contributions	2,654,484	2,623,113
c. Benefits and refunds paid	<u>(4,122,673)</u>	<u>(3,780,616)</u>
d. Total	\$ 123,648,447	\$ 116,421,645
5. Expected actuarial assets, end of year (Sum of Items 1 through 4)	\$ 1,650,901,665	\$ 1,557,223,419
6. Actual actuarial assets, end of year	\$ 1,750,145,515	\$ 1,563,957,955
7. Asset gain (loss) for year (Item 6 - Item 5)	\$ 99,243,850	\$ 6,734,536

Total Experience Gain or Loss

Item (1)	Year Ending	
	June 30, 2007 (2)	June 30, 2006 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	\$ 509,922,448	\$ 495,455,605
2. Normal cost for the year (employer and employee)	\$ 46,655,268	\$ 46,240,286
3. Less: contributions and assessments for the year	\$ (66,362,099)	\$ (65,577,828)
4. Interest at 8 %		
a. On UAAL	\$ 40,793,796	\$ 39,636,448
b. On normal cost	1,866,211	1,849,611
c. On contributions	(2,654,484)	(2,623,113)
d. Total	\$ 40,005,523	\$ 38,862,946
5. Expected UAAL (Sum of Items 1 - 4)	\$ 530,221,140	\$ 514,981,009
6. Actual UAAL	\$ 459,199,790	\$ 509,922,448
7. Total gain (loss) for the year (Item 5 - Item 6)	\$ 71,021,350	\$ 5,058,561
B. Source of gains and losses		
8. Asset gain (loss) for the year (Table 11)	\$ 99,243,850	\$ 6,734,536
9. Liability gain (loss) for the year	\$ 7,771,532	\$ (1,675,975)
10. Change in benefit provisions	\$ (35,994,032)	\$ -
11. Change in actuarial assumptions	\$ -	\$ -
12. Total	\$ 71,021,350	\$ 5,058,561

History of Cash Flow

Year Ending June 30,	Contributions ¹	Disbursements or Expenditures				External Cash Flow for the Year ²	Market Value of Assets	External Cash Flow as Percent of Market Value
		Benefit Payments	Refunds	Administrative Expenses	Total			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1990	32,491,026	(19,363,427)	(3,116,128)	(620,373)	(23,099,928)	9,391,098	449,961,104	2.1%
1991	32,276,625	(21,591,216)	(3,782,578)	(606,298)	(25,980,092)	6,296,533	490,424,458	1.3%
1992	34,326,788	(26,164,266)	(2,782,003)	(768,580)	(29,714,849)	4,611,939	556,086,158	0.8%
1993	35,474,901	(27,710,231)	(2,614,160)	(780,865)	(31,105,256)	4,369,645	642,418,007	0.7%
1994	36,106,560	(34,093,075)	(2,293,299)	(719,777)	(37,106,151)	(999,591)	649,345,245	-0.2%
1995	37,214,707	(36,001,717)	(2,186,791)	(788,743)	(38,977,251)	(1,762,544)	736,009,925	-0.2%
1996	38,552,876	(38,546,098)	(2,644,413)	(858,258)	(42,048,769)	(3,495,893)	847,339,136	-0.4%
1997	40,157,287	(39,522,935)	(2,590,766)	(832,223)	(42,945,924)	(2,788,637)	1,001,037,886	-0.3%
1998	47,411,761	(43,706,492)	(2,671,933)	(789,830)	(47,168,255)	243,506	1,133,469,244	0.0%
1999	49,158,925	(46,120,317)	(2,877,423)	(944,654)	(49,942,394)	(783,469)	1,262,584,076	-0.1%
2000	53,571,777	(53,583,271)	(2,788,019)	(1,015,549)	(57,386,839)	(3,815,062)	1,405,246,440	-0.3%
2001	54,522,507	(57,740,914)	(3,127,841)	(1,099,331)	(61,968,086)	(7,445,579)	1,290,662,140	-0.6%
2002	56,415,165	(67,482,482)	(2,743,408)	(1,066,309)	(71,292,199)	(14,877,034)	1,165,369,565	-1.3%
2003	60,210,068	(72,044,977)	(1,729,764)	(1,056,611)	(74,831,352)	(14,621,284)	1,175,258,478	-1.2%
2004	63,655,362	(77,153,054)	(5,800,100)	(1,513,788)	(84,466,942)	(20,811,580)	1,374,679,677	-1.5%
2005	64,072,881	(84,498,130)	(2,733,407)	(2,086,849)	(89,318,386)	(25,245,505)	1,530,194,427	-1.6%
2006	65,577,828	(91,818,092)	(2,697,308)	(1,484,591)	(95,999,991)	(30,422,163)	1,720,324,948	-1.8%
2007	66,362,099	(99,737,905)	(3,328,931)	(1,592,060)	(104,658,896)	(38,296,797)	2,029,777,412	-1.9%

¹ Column (2) includes employee assessments and employer contributions, as well as any purchased service credits during the year.

² Column (7) = Column (2) - Column (6).

Actuarial Balance Sheet

	<u>July 1, 2007</u>	<u>July 1, 2006</u>
	(1)	(2)
A. Assets		
1. Current assets		
a. At market value	\$ 2,029,777,412	\$ 1,720,324,948
b. Adjustment for actuarial value	<u>(279,631,897)</u>	<u>(156,366,993)</u>
c. Actuarial value of assets	\$ 1,750,145,515	\$ 1,563,957,955
2. Actuarial present value of future contributions		
a. Member assessments	\$ 265,670,229	\$ 257,971,295
b. Employer normal costs	86,042,880	118,500,362
c. Unfunded actuarial accrued liability	<u>459,199,790</u>	<u>509,922,448</u>
d. Total	\$ 810,912,899	\$ 886,394,105
3. Total (1c + 2d)	<u><u>\$ 2,561,058,414</u></u>	<u><u>\$ 2,450,352,060</u></u>
B. Liabilities - present value of future benefits		
1. Retirees and beneficiaries	\$ 1,000,127,740	\$ 929,118,013
2. Inactive members	52,831,254	50,452,430
3. Active members	<u>1,508,099,420</u>	<u>1,470,781,617</u>
4. Total	<u><u>\$ 2,561,058,414</u></u>	<u><u>\$ 2,450,352,060</u></u>

Solvency Test

	<u>July 1, 2007</u> (1)	<u>July 1, 2006</u> (2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	\$ 526,923,376	\$ 504,416,676
b. Retirees and beneficiaries	1,000,127,740	929,118,013
c. Active and inactive members (employer financed)	<u>682,294,189</u>	<u>640,345,714</u>
d. Total	\$ 2,209,345,305	\$ 2,073,880,403
2. Actuarial value of assets	\$ 1,750,145,515	\$ 1,563,957,955
3. Cumulative portion of AAL covered		
a. Active member contributions	100.0%	100.0%
b. Retirees and beneficiaries	100.0%	100.0%
c. Active and inactive members (employer financed)	32.7%	20.4%

Distribution of Active Members by Age and by Years of Service

Attained Age	Years of Credited Service												Total
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	
	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	
Under 20	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0
20-24	27 \$14,272	99 \$28,028	26 \$29,848	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	152 \$25,896
25-29	59 \$15,005	213 \$29,007	200 \$30,771	217 \$31,970	137 \$32,398	148 \$34,606	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	974 \$30,509
30-34	35 \$16,251	90 \$30,585	60 \$30,397	74 \$33,106	68 \$33,377	561 \$36,961	94 \$40,354	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	982 \$35,024
35-39	13 \$15,463	66 \$30,027	43 \$34,361	43 \$33,552	48 \$35,823	320 \$37,951	489 \$42,255	102 \$45,397	0 \$0	0 \$0	0 \$0	0 \$0	1,124 \$39,377
40-44	24 \$16,207	40 \$33,772	32 \$32,859	43 \$34,133	31 \$32,688	225 \$40,022	237 \$43,203	460 \$45,986	111 \$49,486	1 \$43,539	0 \$0	0 \$0	1,204 \$42,530
45-49	19 \$15,956	29 \$31,015	25 \$33,690	31 \$33,315	26 \$35,955	170 \$37,752	159 \$43,031	277 \$46,261	416 \$47,767	192 \$48,097	3 \$48,986	0 \$0	1,347 \$44,053
50-54	15 \$17,021	23 \$31,563	27 \$37,414	27 \$32,476	20 \$37,951	163 \$38,963	174 \$44,113	223 \$46,501	248 \$48,199	550 \$49,823	231 \$49,806	0 \$0	1,701 \$46,376
55-59	15 \$17,082	19 \$24,056	18 \$36,238	20 \$36,191	24 \$35,836	137 \$38,294	129 \$42,157	202 \$45,695	243 \$48,003	259 \$51,660	361 \$52,132	86 \$55,434	1,513 \$47,254
60-64	8 \$15,471	7 \$44,457	6 \$30,886	3 \$31,638	7 \$42,723	53 \$37,528	56 \$41,561	72 \$44,180	97 \$48,169	70 \$50,315	63 \$56,395	80 \$53,666	522 \$47,035
65 & Over	2 \$20,430	3 \$21,283	1 \$4,890	1 \$19,929	2 \$45,462	9 \$35,641	9 \$34,471	12 \$47,473	9 \$41,658	10 \$50,584	6 \$54,138	16 \$57,454	80 \$44,325
Total	217 \$15,709	589 \$29,705	438 \$31,913	459 \$32,780	363 \$34,118	1,786 \$37,699	1,347 \$42,530	1,348 \$45,956	1,124 \$48,069	1,082 \$49,990	664 \$51,731	182 \$54,834	9,599 \$41,810

Schedule of Retired Members by Type of Benefit

Type of Benefit/ Form of Payment (1)	Number (2)	Annual Benefits Amount (3)	Average Monthly Benefit (4)
Service :			
Straight Life	2,541	\$ 34,370,436	\$ 1,127
100% J&S	1,697	37,518,302	1,842
50% J&S	433	8,835,979	1,701
5 Years C&L	33	422,603	1,067
10 Years C&L	166	2,617,693	1,314
20 Years C&L	34	633,631	1,553
Level	<u>580</u>	<u>13,317,783</u>	<u>1,913</u>
Subtotal:	5,484	\$ 97,716,426	1,485
Disability:			
Straight Life	73	\$ 891,856	\$ 1,018
100% J&S	12	129,900	902
50% J&S	4	40,136	836
5 Years C&L	2	25,253	1,052
10 Years C&L	1	7,992	666
20 Years C&L	1	9,663	805
Level	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal:	93	\$ 1,104,798	990
Beneficiaries			
Straight Life	482	\$ 5,655,331	\$ 978
5 Years Certain Only	11	65,759	498
10 Years Certain Only	7	26,700	318
20Years Certain Only	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal:	500	\$ 5,747,790	958
Total:	<u><u>6,077</u></u>	<u><u>\$ 104,569,015</u></u>	<u><u>\$ 1,434</u></u>

Schedule of Retired Members by Monthly Benefit

Monthly Benefit Amount			Total	Female	Male
(1)			(2)	(3)	(4)
Under \$100			48	39	9
\$	100	- 199	129	91	38
	200	- 299	193	137	56
	300	- 399	268	225	43
	400	- 499	275	230	45
	500	- 599	277	224	53
	600	- 699	277	229	48
	700	- 799	250	200	50
	800	- 899	190	145	45
	900	- 999	230	171	59
	1000	- 1199	540	385	155
	1200	- 1399	493	322	171
	1400	- 1599	519	311	208
	1600	- 1799	483	296	187
	1800	- 1999	474	277	197
	2000	- 2199	338	187	151
	2200	- 2399	287	145	142
	2400	- 2599	228	117	111
	2600	- 2799	160	74	86
	2800	- 2999	126	43	83
	3000	& Over	292	76	216
Total			6,077	3,924	2,153

North Dakota Teachers' Fund for Retirement

Reconciliation of Members by Status for Year Ending July 1, 2007

	Active Members	Inactive, Nonretired Members		Annuitants			Grand Total
		Vested	Nonvested	Service Retirees	Disabled Retirees	Beneficiaries	
Number at beginning of year	9,585	1,409	143	5,313	85	495	17,030
Refund paid (non-death)	(196)	(40)	(22)				(258)
Termination, refund due	(34)		34				0
Deferred terminations	(157)	157					0
Retirements (nondisabled)	(301)	(30)		331			0
Disabled retirements	(5)				5		0
Death before retirement - refund	(3)	(2)					(5)
Death before retirement - annuity	(4)	(2)				10	4
Death of annuitant - survivor benefit due				(28)		28	0
Death of annuitant - no further benefits due				(130)	(3)	(21)	(154)
Payments ceased - certain period ended						(12)	(12)
New hires	652						652
Reemployments	66	(55)	(10)	(1)			0
Adjustments and corrections	(4)	2	(3)	(1)	6		0
Number at end of year	9,599	1,439	142	5,484	93	500	17,257

SUMMARY OF ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS

1. Investment Return Rate 8.00% per annum, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% real rate of return. (Adopted July 1, 1990; allocation between inflation and real rate of return modified July 1, 2000.)

2. Mortality Rates

a. Post-Termination

Non-Disabled 1994 Uninsured Pensioner Mortality Table set back three years for males and two years for females. (Adopted July 1, 2005.)

b. Post-Retirement

Disabled..... Pension Benefit Guaranty Corporation Disabled Life Mortality Tables Va and VIa. (Adopted July 1, 1990.)

Age	Deaths per 100 Lives			
	Male Participants		Female Participants	
	Non-Disabled	Disabled	Non-Disabled	Disabled
20	.0463	4.83	.0293	2.63
25	.0598	4.83	.0313	2.63
30	.0782	3.62	.0338	2.37
35	.0902	2.78	.0454	2.14
40	.0958	2.82	.0643	2.09
45	.1346	3.22	.0943	2.24
50	.2042	3.83	.1297	2.57
55	.3455	4.82	.2051	2.95
60	.6001	6.03	.3612	3.31
65	1.0911	6.78	.7179	3.70
70	1.9391	7.39	1.2648	4.11

c. Active Mortality 65% of non-disabled post-termination mortality rates. (Adopted July 1, 2005.)

3. Retirement Rates The following rates of retirement are assumed for members eligible to retire. (Adopted July 1, 2005.)

Age	Retirements Per 100 Members			
	Unreduced Retirement Ultimate Rate*		Reduced Retirement	
	Male	Female	Male	Female
50	20.0%	25.0%	0.0%	0.0%
51	20.0%	25.0%	0.0%	0.0%
52	20.0%	25.0%	0.0%	0.0%
53	20.0%	25.0%	0.0%	0.0%
54	20.0%	25.0%	0.0%	0.0%
55	20.0%	25.0%	2.0%	1.5%
56	20.0%	25.0%	2.0%	1.5%
57	20.0%	25.0%	2.0%	1.5%
58	20.0%	25.0%	2.0%	1.5%
59	20.0%	20.0%	2.0%	1.5%
60	25.0%	25.0%	5.0%	2.0%
61	30.0%	30.0%	5.0%	2.0%
62	30.0%	50.0%	20.0%	10.0%
63	25.0%	25.0%	5.0%	5.0%
64	20.0%	50.0%	25.0%	20.0%
65	65.0%	50.0%	--	--
66	35.0%	30.0%	--	--
67	35.0%	30.0%	--	--
68	35.0%	30.0%	--	--
69	35.0%	30.0%	--	--
70	100.0%	100.0%	--	--

*If a member reaches eligibility for unreduced retirement under the rule of 85 before age 65, a retirement rate of 50.0% (for males) or 65.0% (for females) is used for that age only.

4. Disability Rates..... As shown below for selected ages. (Adopted July 1, 2000.)

Age	Disabilities Per 100 Members
20	0.016
25	0.016
30	0.016
35	0.016
40	0.048
45	0.080
50	0.128
55	0.224
60	0.432
65	0.000

5. Termination Rates..... 80% of the following withdrawal rates are used based on age and service, for causes other than death, disability, or retirement.
 (Adopted July 1, 2005.)

Males											
Years of Service											
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.1420	0.1379	0.1366	0.1339	0.1220	0.1067	0.0896	0.0878	0.0860	0.0842	0.0598
30	0.1416	0.1376	0.1363	0.1336	0.1210	0.1053	0.0907	0.0889	0.0871	0.0853	0.0470
35	0.1359	0.1321	0.1308	0.1282	0.1141	0.0988	0.0867	0.0849	0.0832	0.0815	0.0343
40	0.1317	0.1280	0.1267	0.1243	0.1074	0.0928	0.0824	0.0808	0.0791	0.0775	0.0252
45	0.1282	0.1246	0.1234	0.1210	0.1002	0.0868	0.0777	0.0761	0.0746	0.0730	0.0196
50	0.1246	0.1211	0.1199	0.1176	0.0916	0.0809	0.0725	0.0710	0.0696	0.0681	0.0188
55	0.1444	0.1403	0.1390	0.1362	0.0974	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
60	0.1588	0.1544	0.1529	0.1499	0.1071	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
65	0.1747	0.1698	0.1681	0.1648	0.1178	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Females											
Years of Service											
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.1654	0.1607	0.1592	0.1560	0.1307	0.1119	0.0952	0.0806	0.0790	0.0774	0.0352
30	0.1373	0.1334	0.1321	0.1295	0.1107	0.0964	0.0836	0.0738	0.0723	0.0708	0.0312
35	0.1143	0.1110	0.1100	0.1078	0.0926	0.0820	0.0732	0.0672	0.0658	0.0645	0.0275
40	0.0978	0.0951	0.0941	0.0923	0.0779	0.0695	0.0637	0.0607	0.0595	0.0583	0.0242
45	0.0910	0.0885	0.0876	0.0859	0.0686	0.0593	0.0553	0.0545	0.0535	0.0524	0.0220
50	0.0967	0.0940	0.0931	0.0912	0.0670	0.0519	0.0480	0.0484	0.0475	0.0465	0.0227
55	0.1455	0.1414	0.1400	0.1373	0.0742	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
60	0.1885	0.1831	0.1814	0.1778	0.0907	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
65	0.2498	0.2428	0.2404	0.2357	0.1167	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

6. Salary Increase Rates..... Inflation rate of 3.00% plus productivity increase rate of 1.50%, plus step-rate/promotional increase as shown below. (Adopted July 1, 2005.)

Years of Service	Annual Step-Rate/ Promotional Component	Annual Total Salary Increase
0	9.50%	14.00%
1	3.50%	8.00%
2	3.25%	7.75%
3	3.00%	7.50%
4	2.75%	7.25%
5	2.50%	7.00%
6	2.25%	6.75%
7	2.00%	6.50%
8	1.75%	6.25%
9	1.50%	6.00%
10	1.25%	5.75%
11	1.00%	5.50%
12	1.00%	5.50%
13	1.00%	5.50%
14	0.75%	5.25%
15 or more	0.00%	4.50%

7. Payroll Growth Rate 2.00% per annum. This assumption does not include any allowance for future increase in the number of members. (Adopted July 1, 2005.)

8. Percent Married..... For valuation purposes 75% of members are assumed to be married. Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses. (Adopted July 1, 1992.)

9. Percent Electing a Deferred Termination Benefit..... Terminating members are assumed to elect the most valuable benefit at the time of termination. Termination benefits are assumed to commence at the first age at which unreduced benefits are available. (Adopted July 1, 1990.)

10. Provision for Expense The assumed investment return rate represents the anticipated net rate of return after payment of all administrative and investment expenses. (Adopted July 1, 1992.)

ASSET VALUATION METHOD

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The actual investment return for this purpose is determined net of all investment and administrative expenses.

ACTUARIAL COST METHOD

The GASB Annual Required Contribution (ARC) is determined using the Entry Age Normal actuarial cost method. This method assigns the plan's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost rate is determined as a level percentage of payroll for a hypothetical group of new entrants, based on the characteristics (age at hire, sex, pay at hire) of actual new members joining TFFR during FY 2000 through FY 2004. The normal cost is determined on an aggregate basis for this group of hypothetical new entrants by dividing the total actuarial present value of future benefits by the actuarial present value of their future pay. Entry age is determined as the age at member's enrollment in TFFR. In the calculation of the normal cost, the benefit provisions applicable to future Tier 2 members were used. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability over the actuarial value of assets.

AMORTIZATION PERIOD AND METHOD

The GASB Annual Required Contribution (ARC) is determined as the sum of (a) the employer normal cost rate, and (b) a level percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. If the calculated ARC is less than the 7.75% statutory employer contribution rate, the 7.75% rate will be treated as the ARC. The 30-year period is an open period, and does not decrease in subsequent valuations.

SUMMARY OF BENEFIT PROVISIONS

1. Effective Date: July 1, 1971.
2. Plan Year: Twelve-month period ending June 30th.
3. Administration: The Teachers' Fund for Retirement (TFFR) is administered by a Board of Trustees. A separate State Investment Board is responsible for the investment of the trust assets, although the TFFR Board establishes the asset allocation policy. The Retirement and Investment Office is the administrative agency for TFFR.
4. Type of Plan: TFFR is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is a cost-sharing multiple-employer public employee retirement system.
5. Eligibility: All certified teachers of any public school in North Dakota participate in TFFR. This includes teachers, supervisors, principals, administrators, etc. Non-certified employees such as teacher's aides, janitors, secretaries, drivers, etc. are not allowed to participate in TFFR. Eligible employees become members at their date of employment.
6. Employee Contributions: All active members contribute 7.75% of their salary per year. The employer may "pick up" the member's contributions under the provisions of Internal Revenue Code Section 414(h).
7. Salary: The member's total earnings are used for salary purposes, including overtime, etc., and including nontaxable wages under a Section 125 plan, but excluding certain extraordinary compensation, such as fringe benefits or unused sick and vacation leave.
8. Employer Contributions: The district or other employer which employs a member contributes 7.75% of the member's salary. Effective July 1, 2008, 0.50% of the member's salary will be added to the employer contribution, making it 8.25%. However, the contribution rate will revert to 7.75% once the funded ratio reaches 90%, measured using the actuarial value of assets.
9. Service: Employees receive credit for service while a member. A member may also purchase credit for certain periods, such as time spent teaching at a public school in another state, by paying the actuarially determined cost of the additional service. Special rules and limits govern the purchase of additional service.

10. Tiers: Members who join TFFR by June 30, 2008 are in Tier 1, while members who join later are in Tier 2. If a Tier 1 member terminates, takes a refund, and later rejoins TFFR after June 30, 2008, that member will be in Tier 2 after being reemployed.

11. Final Average Compensation (FAC): The average of the member's highest three (Tier 1 members) or five (Tier 2 members) plan year salaries. Monthly benefits are based on one-twelfth of this amount.

12. Normal Retirement

a. Eligibility:

- Tier 1 members may retire upon Normal Retirement on or after age 65 with credit for 3 years of service, or if earlier, when the sum of the member's age and service is at least 85.
- Tier 2 members may retire upon Normal Retirement on or after age 65 with credit for 5 years of service, or if earlier, when the sum of the member's age and service is at least 90.

b. Monthly Benefit: 2.00% of FAC (monthly) times years of service.

c. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's contributions plus interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

13. Early Retirement

a. Eligibility: Tier 1 members may retire early after reaching age 55 with credit for three years of service, while Tier 2 members may retire early after reaching age 55 with credit for five years of service.

b. Monthly Benefit: 2.00% of FAC (monthly) times years of service, multiplied by a factor which reduces the benefit 6% for each year from the earlier of (i) age 65, or (ii) the age at which current service plus age equals 85 (Tier 1 members) or 90 (Tier 2 members).

c. Payment Form: Same as for Normal Retirement above.

14. Disability Retirement

- a. Eligibility: A member is eligible provided he/she has credit for at least one year of service.
- b. Monthly Benefit: 2.00% of FAC (monthly) times years of service with a minimum 20 years of service.
- c. Payment Form: The disability benefit commences immediately upon the member's retirement. Benefits cease upon recovery or reemployment. Disability benefits are payable as a monthly life annuity with a guarantee that, at the member's death, the sum of the member's contributions plus interest as of the date of retirement that is in excess of the sum of payments already received will be paid in a lump sum to the member's beneficiary.
- d. All alternative forms of payment other than option 5 and the partial lump-sum option are also permitted in the case of disability retirement. Disability benefits are converted to normal retirement benefits when the member reaches normal retirement age or age 65, whichever is earlier.

15. Deferred Termination Benefit

- a. Eligibility: A Tier 1 member with at least three years of service, or a Tier 2 member with at least five years of service, who does not withdraw his/her contributions from the fund, is eligible for a deferred termination benefit.
- b. Monthly Benefit: 2.00% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment. Benefits may commence unreduced at age 65 or when the sum of the member's age and services is 85 (Tier 1 members) or 90 (Tier 2 members). Reduced benefits may commence at or after age 55 if the member is not eligible for an unreduced benefit.
- c. Payment Form: The form of payment is the same as for Normal Retirement above.
- d. Death Benefit: A member who dies after leaving active service but before retiring is entitled to receive a benefit as described below in 17b.

16. Withdrawal (Refund) Benefit

- a. Eligibility: Tier 1 members leaving covered employment with less than three years of service, and Tier 2 members leaving covered employment with less than five years of

service, are eligible. Optionally, vested members may withdraw their contributions plus interest in lieu of the deferred benefits otherwise due.

- b. **Benefit:** The member who withdraws receives a lump-sum payment of his/her employee contributions, plus the interest credited on these contributions. Interest is credited at 6% per year (0.5% per month).

17. Death Benefit

- a. **Eligibility:** Death must have occurred while an active or an inactive, non-retired member.
- b. **Benefit:** Upon the death of a nonvested member, a refund of the member's contributions and interest is paid. Upon the death of a vested member, the beneficiary may elect (i) the refund benefit above, (ii) payment for 60 months of the normal retirement benefit, based on FAC and service determined at the date of death, or (iii) a life annuity of the normal retirement benefit, determined under Option One below, based on FAC and service as of the date of death, but without applying any reduction for the member's age at death. In determining the reduction for Option One, members not eligible for normal retirement benefits use the Fund's option tables for disabled members.

18. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:

- a. **Option 1 -** A life annuity payable while either the participant or his beneficiary is alive, "popping-up" to the original life annuity if the beneficiary predeceases the member.
- b. **Option 2 -** A life annuity payable to the member while both the member and beneficiary are alive, reducing to 50% of this amount if the member predeceases the beneficiary, and "popping-up" to the original life annuity if the beneficiary predeceases the member.
- c. **Option 3a -** A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 60 payments (five years), the payments will be continued to a beneficiary for the balance of the five-year period. (This option has been replaced by Option 3b. It is not available to employees who retire on or after August 1, 2003. Retirees who elected this option prior to that date are unaffected.)
- d. **Option 3b -** A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 240 payments (twenty years), the payments will be continued to a beneficiary for the balance of the twenty-year period. (This option replaced Option 3a effective August 1, 2003.)

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- e. Option 4 - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 120 payments (10 years), the payments will be continued to a beneficiary for the balance of the ten-year period.
 - f. Option 5 - A nonlevel annuity payable to the member, designed to provide a level total income when combined with the member's Social Security benefit. This option is not available to disabled retirees.

In addition, members may elect a partial lump-sum option (PLSO) at retirement. Under this option, a member receives an immediate lump-sum equal to 12 times the monthly life annuity benefit and a reduced annuity. The reduction is determined actuarially. The member can then elect to receive the annuity benefit in one of the other optional forms, except that members who receive a PLSO may not elect Option 5 – the level income option. The PLSO is not available to disabled retirees or retirees who are not eligible for an unreduced retirement benefit

Actuarial equivalence is based on tables adopted by the Board of Trustees.

- 19. Cost-of-living Increase: From time to time, TFFR has been amended to grant certain post-retirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

SUMMARY OF PLAN CHANGES

1991 Legislative Session:

1. Benefit multiplier increased from 1.275% to 1.39% for all future retirees.
2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1991. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:
 - a. \$3 per year of service for retirements before 1980
 - b. \$2 per year of service for retirements between 1980 and 1983
 - c. \$1 per year of service for retirements from 1984 through June 30, 1991

Minimum increase is \$5 per month. Maximum increase is \$75 per month.

1993 Legislative Session:

1. Benefit multiplier increased from 1.39% to 1.55% for all future retirees.
2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1993. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:
 - a. \$3 per year of service for retirements before 1980
 - b. \$2.50 per year of service for retirements between 1980 and 1983
 - c. \$1 per year of service for retirements from 1984 through June 30, 1993

Minimum increase is \$5 per month. Maximum increase is \$100 per month.

3. Minimum retirement benefit increased to \$10 times years of service up to 25, plus \$15 times years of service greater than 25. (Previously was \$6 up to 25 years of service plus \$7.50 over 25 years of service.)
4. Disability benefit changed to 1.55% of FAC times years of service using a minimum of 20 years of service.

1995 Legislative Session:

There were no material changes made during the 1995 legislative session.

1997 Legislative Session:

1. Benefit multiplier increased from 1.55% to 1.75% for all future retirees.
2. Member contribution rate and employer contribution rate increased from 6.75% to 7.75%.
3. A \$30.00/month benefit improvement was granted to all retirees and beneficiaries.

1999 Legislative Session:

1. Active members will now be fully vested after three years (rather than five years) of service.
2. Early retirement benefits will be reduced 6% per year from the earlier of (i) age 65, or (ii) the date as of which age plus service equals 85 (rather than from age 65 in all cases).
3. An ad hoc COLA was provided for all retirees and beneficiaries. This increase is equal to an additional \$2.00 per month for each year of service plus \$1.00 per month for each year since the member's retirement.
4. The formula multiplier was increased from 1.75% to 1.88% effective July 1, 1999.

2001 Legislative Session:

1. An ad hoc COLA was provided for all retirees and beneficiaries. The ad hoc COLA increase is equal to an additional \$2.00 per month for each year of service plus \$1.00 per month for each year since the member's retirement. Retirees and beneficiaries will also receive two additional increases equal to 0.75% times the monthly benefit, payable July 1, 2001 and July 1, 2002. The two 0.75% increases are conditional. If the actuarial margin is a shortfall, i.e., is negative, by 60 basis points or more, or if the margin has been negative by 30 or more basis points for two years, the Board could elect to suspend the increase.
2. The formula multiplier was increased from 1.88% to 2.00% effective July 1, 2001.

2003 Legislative Session:

1. Partial lump-sum option adopted, equal to twelve times the monthly life annuity benefit. Not available if level-income option is elected. Not available for reduced retirement or disability retirement.
2. Five-year certain and life option replaced with 20-year certain and life. This does not impact retirees who retired under the five-years certain and life option.
3. Employer service purchase authorized.
4. Active members of the Department of Public Instruction are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY 2004. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be based on the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance if larger.

2005 Legislative Session:

There were no material changes made during the 2005 legislative session.

2007 Legislative Session:

1. For active members hired on or after July 1, 2008 (called Tier 2 members):
 - a. Members will be eligible for an unreduced retirement benefit when they reach age 65 with at least five years of service (rather than three years of service); or if earlier, when the sum of the member's age and service is at least 90 (rather than 85).
 - b. Members will be eligible for a reduced (early) retirement benefit when they reach age 55 with five years of service, rather than three years of service.
 - c. Members will be fully vested after five years of service (rather than three year of service).
 - d. The Final Average Compensation for Tier 2 members is the average of the member's highest five plan year salaries, rather than the average of the three highest salaries.
2. The employer contribution rate increases from 7.75% to 8.25% effective July 1, 2008, but this rate will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the

actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.25%.)

3. Employer contributions are required on the salary of reemployed retirees.
4. Active members of the Department of Career and Technical Education are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY 2008. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance, if larger.

GLOSSARY

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)

- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or Valuation Assets: The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment

Closed Amortization Period: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board.

GASB 25 and GASB 27: Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.

Margin: The difference, whether positive or negative, between the statutory employer contribution rate and the Annual Required Contribution (ARC), determined under parameters set by the Board of Trustees, as constrained by GASB 25.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.