NDPERS UPDATE

July 2012

North Dakota Public Employees Retirement System

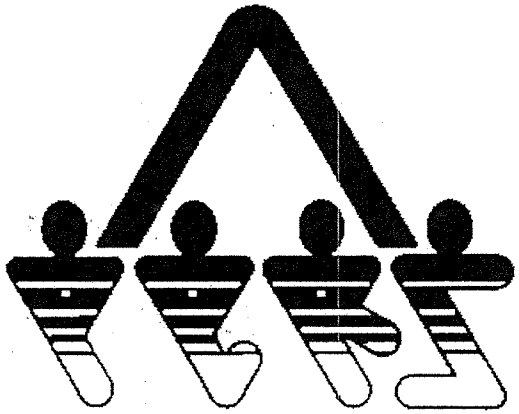
RETIREMENT PROGRAMS

RETIREMENT PLANS

- *DEFINED BENEFIT PLANS – 6*
  - ***Main***
  - *Judges*
  - *National Guard*
  - *Law Enforcement*
  - *Highway Patrol*
  - *Job Service*
- *DEFINED CONTRIBUTION PLANS – 2*
  - *457*
  - ***401(a)***
- *RETIREE HEALTH CREDIT*
- *ADMINISTRATIVE SERVICES*
  - *PRIOR JUDGES*
  - *JOB SERVICE RETIREE HEALTH CREDIT*

Discussion

- History
- Background
- Plan Descriptions and Status
- Challenge & Recovery Plan
- Legal Status
- Other Considerations



RETIREMENT SYSTEM

HISTORY

99396

Prepared by the North Dakota Legislative Council staff for the Employee Benefits Programs Committee

October 1998

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ND PERS

PUBLIC EMPLOYEES RETIREMENT PROGRAMS - HISTORY

This memorandum reviews the rationale for establishing a public employees retirement plan, the reasons for converting the plan from a defined contribution plan to a defined benefit plan, changes that were made in the defined contribution plan between 1966 and 1977, and benefit enhancements added to the defined benefit plan since 1977. The memorandum is the result of a question raised by a member of the Employee Benefits Programs Committee at the committee's February 2, 1998, committee meeting concerning the rationale for changing from a money purchase or defined contribution plan to a defined benefit plan in 1977.

DEFINED CONTRIBUTION RETIREMENT PLAN 1966-77

The 1965 Legislative Assembly established a defined contribution or money purchase plan for public employees. The Public Employees Retirement System commenced on July 1, 1966. This system was established to provide a member with a lump sum payment upon retirement.

As noted in the Retirement Portability Study submitted to the Legislative Council's Employee Benefits Programs Committee by the Public Employees Retirement System and Office of Management and Budget, a general characteristic of a money purchase plan is that the costs of participating employers and employees are fixed, though individual benefits will vary. Pursuant to the plan adopted by the Legislative Assembly in 1965, individual retirement accounts were established to receive employer and employee contributions. A participating full-time employee contributed four percent of that person's base salary and the employer contributed four percent of the employee's salary, up to a maximum of $300. These moneys were distributed into three funds--the employee contribution went into the employee fund, three dollars of every four dollars the employer contributed went into a vesting fund, and the remaining one dollar went to the administrative expense and benefit fund. When an employee left state employment, for any reason, that person was entitled to receive 100 percent of the amount contributed from that person's salary plus earnings on that amount. In addition, the employee could receive up to 100 percent of the employer contribution in the vesting fund, plus a percentage of the interest thereon, if the employee retired at age 65 after any length of service, became permanently and totally disabled at any age, or died at any age. If the employee left state employment voluntarily or involuntarily for any reason except these, the employee was entitled to the total employee contribution, the vested portion of the employer account, and earnings thereon. The employee gained a vested interest in the vesting fund based upon a vesting schedule beginning with 20 percent plus 20 percent credited earnings after three years of service with full vesting plus 100 percent of credited earnings after 20 years of service, or 15 years of service after 1975. Within these parameters, the member's accumulated retirement moneys were payable upon termination. If the employee's account balance was significantly large enough to provide a minimum of $100 per month annuity, the employee was able to purchase an annuity through a vendor who was under contract with the retirement board.

The Public Employees Retirement System was created by 1965 Senate Bill No. 164. The bill provided that the Act was designed to provide for the general welfare of state employees and that the retirement system was designed to provide for the payment of benefits to state employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents. The bill also stated that the retirement plan would improve state employment, reduce excessive personnel turnover, and offer career employment to high-grade men and women.

At the Senate Industry, Business and Labor Committee hearing on the bill, the prime sponsor testified that the legislation would give public employees an "opportunity to plan for their retirement and when they do retire they would have a sufficient amount of money to live and be a part of their community and reside in their home and not have to go on welfare as so many of our older people do." An agency director noted that a retirement plan would reduce personnel turnover as state employment "has been a training ground for those people and they do not stay long in our state and either go to an outlying state or join the government service." Finally, a representative of a private pension company noted that the plan would be of "great advantage to the state from a financial point of view."

In testimony before the House Labor Committee, proponents noted that the bill "awards employees for their years of service," "will attract and retain skilled employees," "attract better employees," "will help retain them in the state," "will aid in recruiting trained personnel," "the individual can contribute to the retirement himself," and will provide "incentives so these people will stay a long time."

RETIREMENT SYSTEM

NDPERS was created by the 1965 Legislative Assembly. The Public Employees Retirement System commenced on July 1, 1966

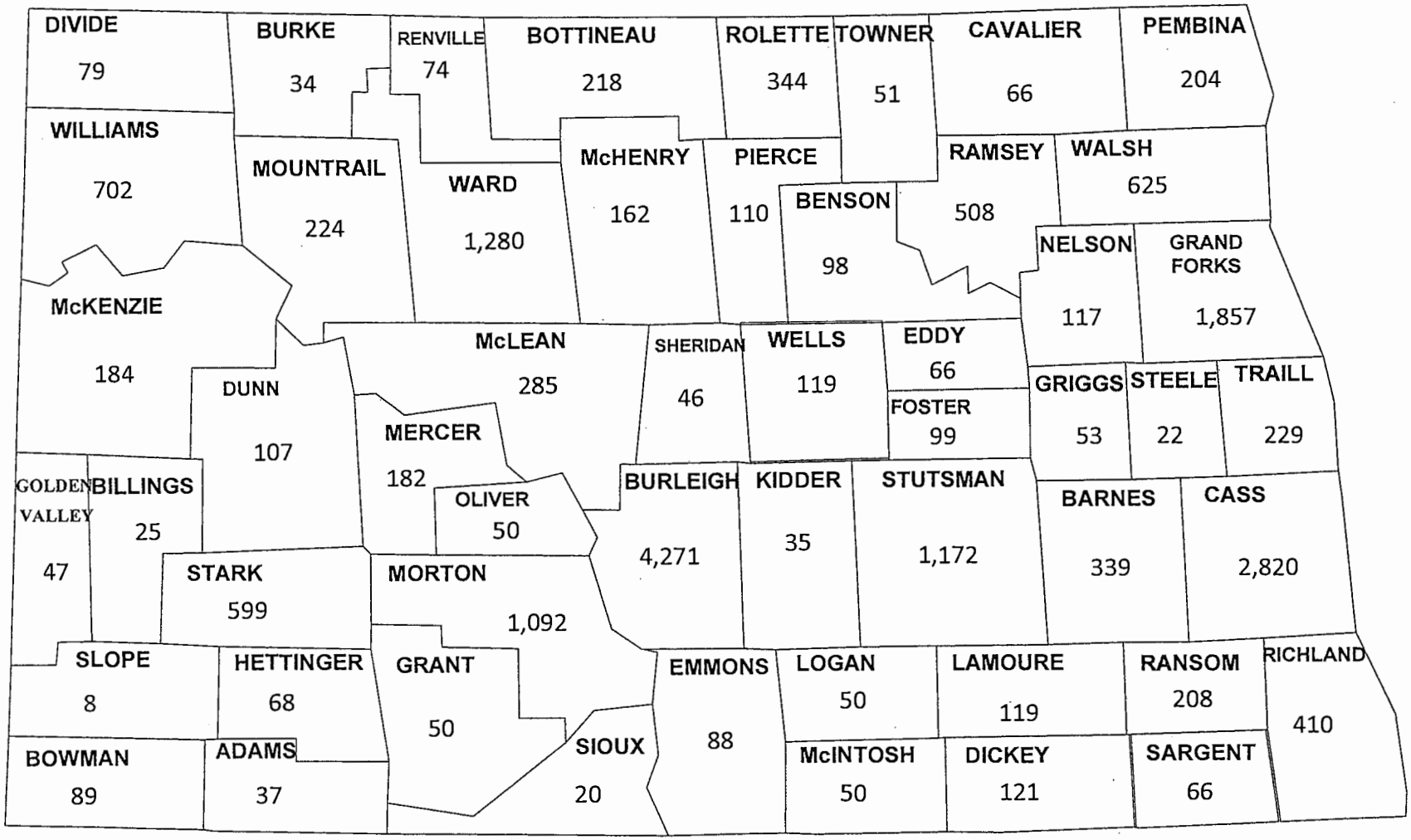
- *1966 to 1977* – NDPERS was first established as a Defined contribution plan
- *1975* – Legislature adopted a resolution to study PERS for the purpose of changing to a defined benefit plan
- *1977* – PERS was changed to a defined benefit plan
- *1999* – optional defined contribution plan for non-classified state employees and DB plan was changed to a Hybrid design

RETIREMENT SYSTEM

BACKGROUND DATA

NDPERS Active Retirement Members

September 2011

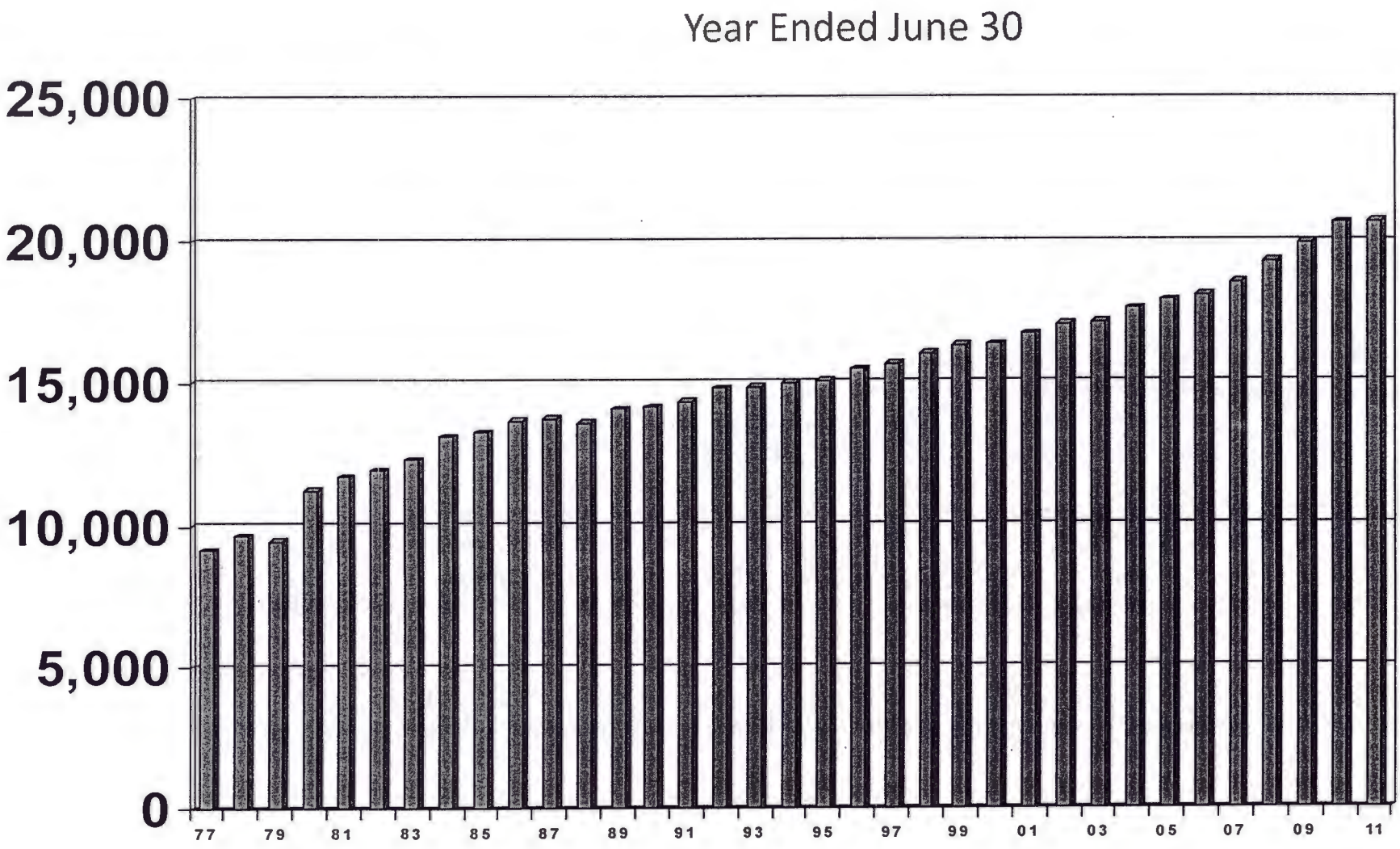


Out-of-State – 1,064

Total – 21,043

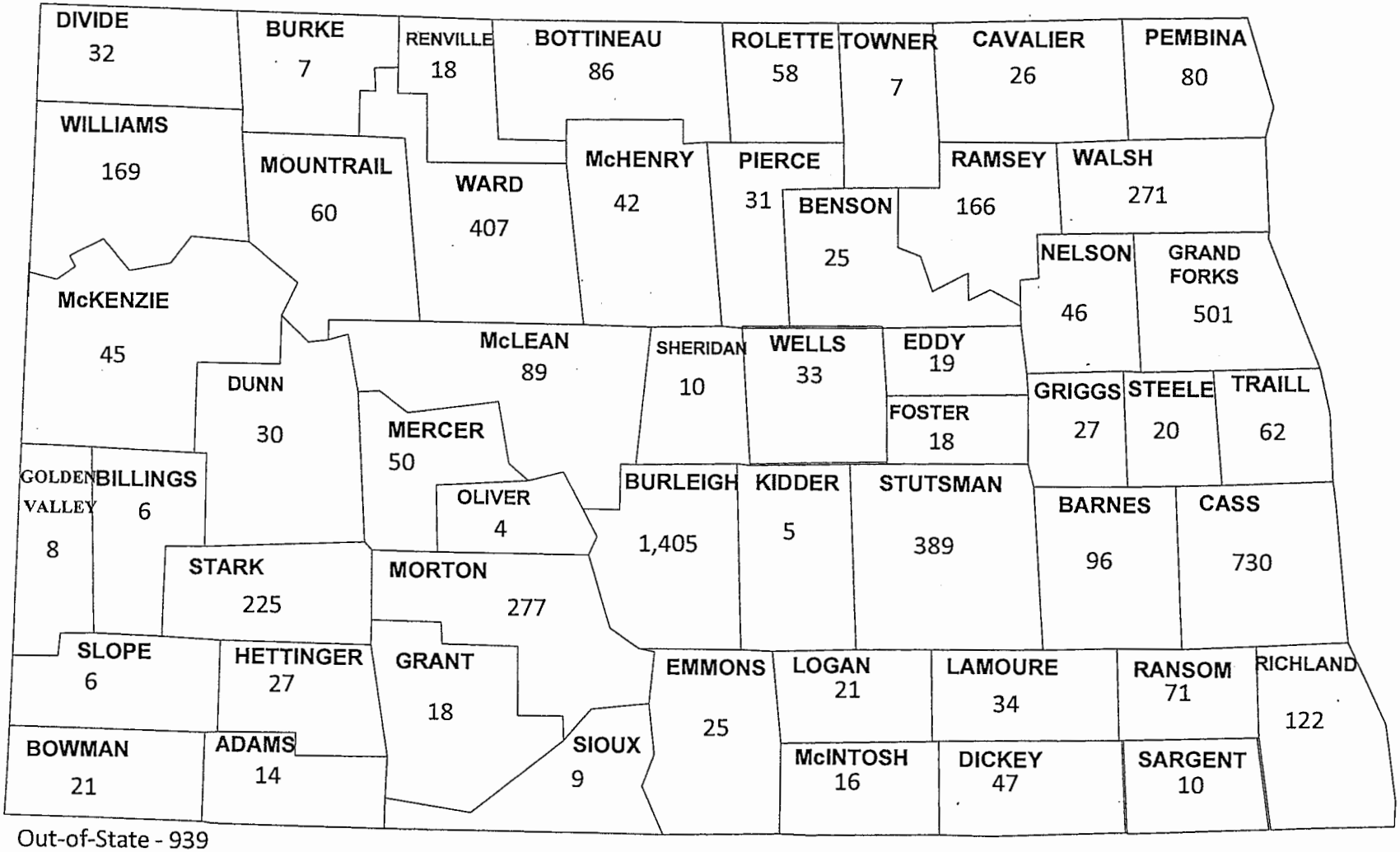
NDPERS Retirement Active Members

(Main, Judges, Guard, and Law Enforcement Systems)



NDPERS Main System Retirees

September 2011

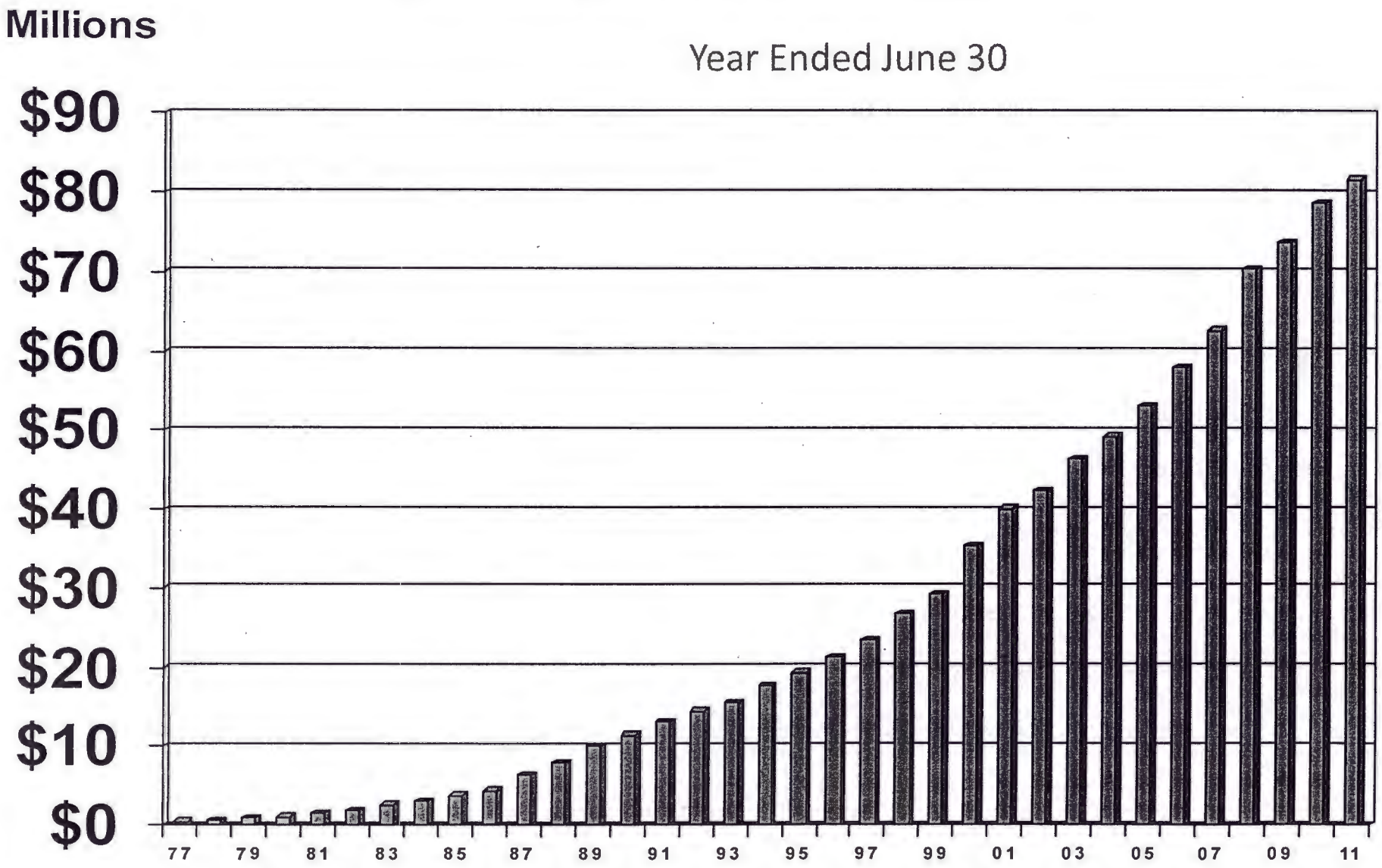


Out-of-State - 939

Total – 6,960

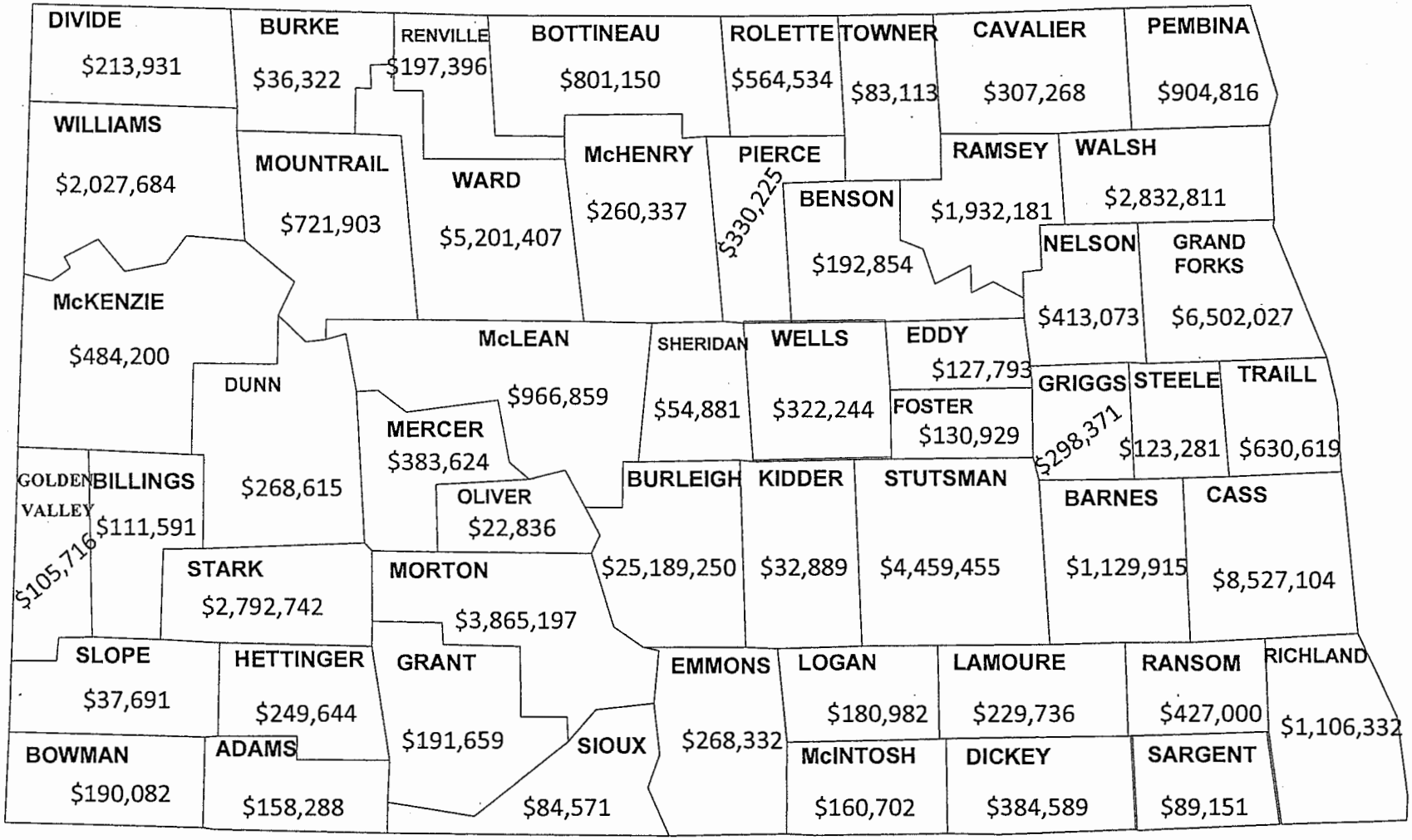
NDPERS Retiree Benefits

(Main, Judges, Guard, and Law Enforcement Systems)



NDPERS Retirees

Annual Benefits 2011

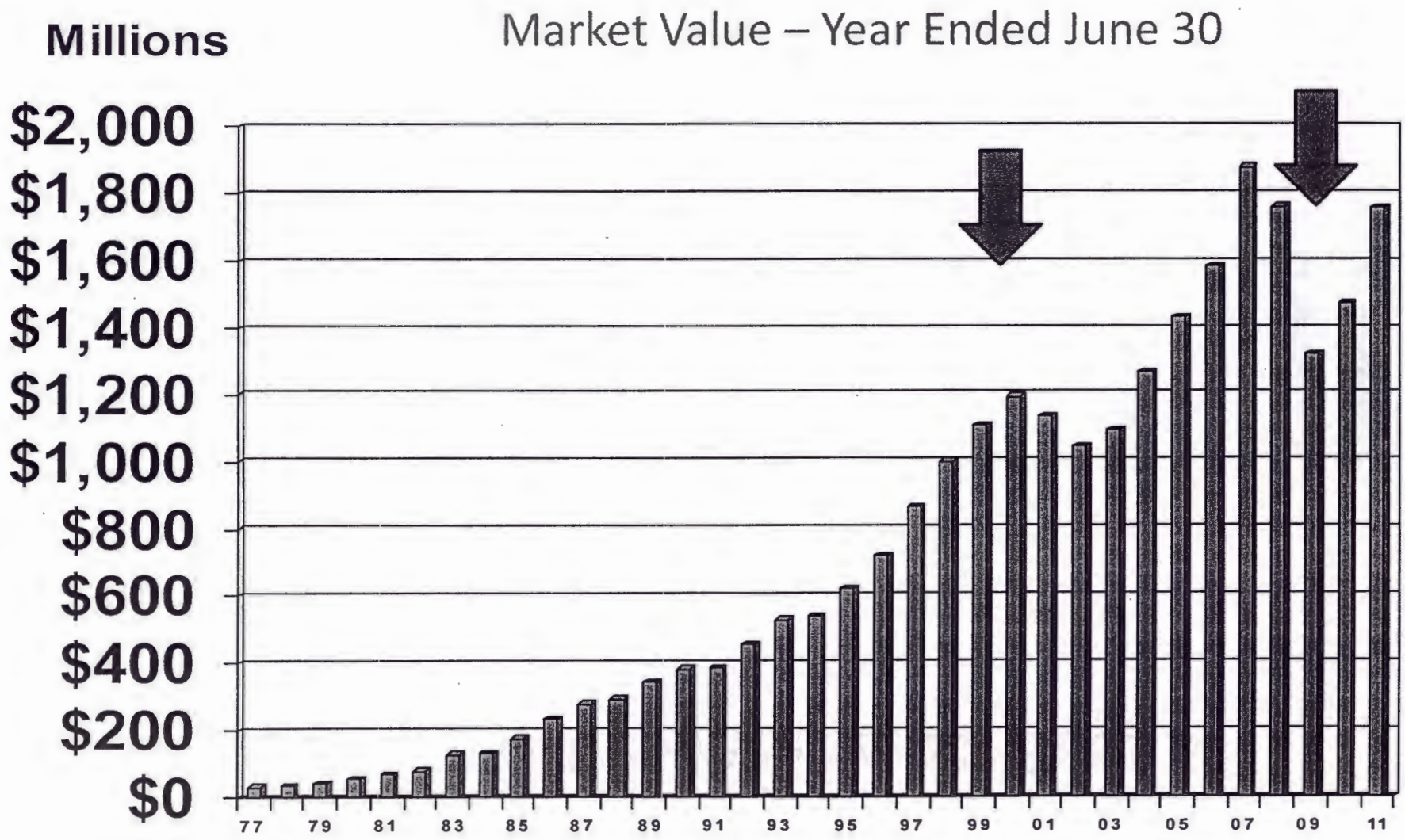


Out-of-State - $10,415,064

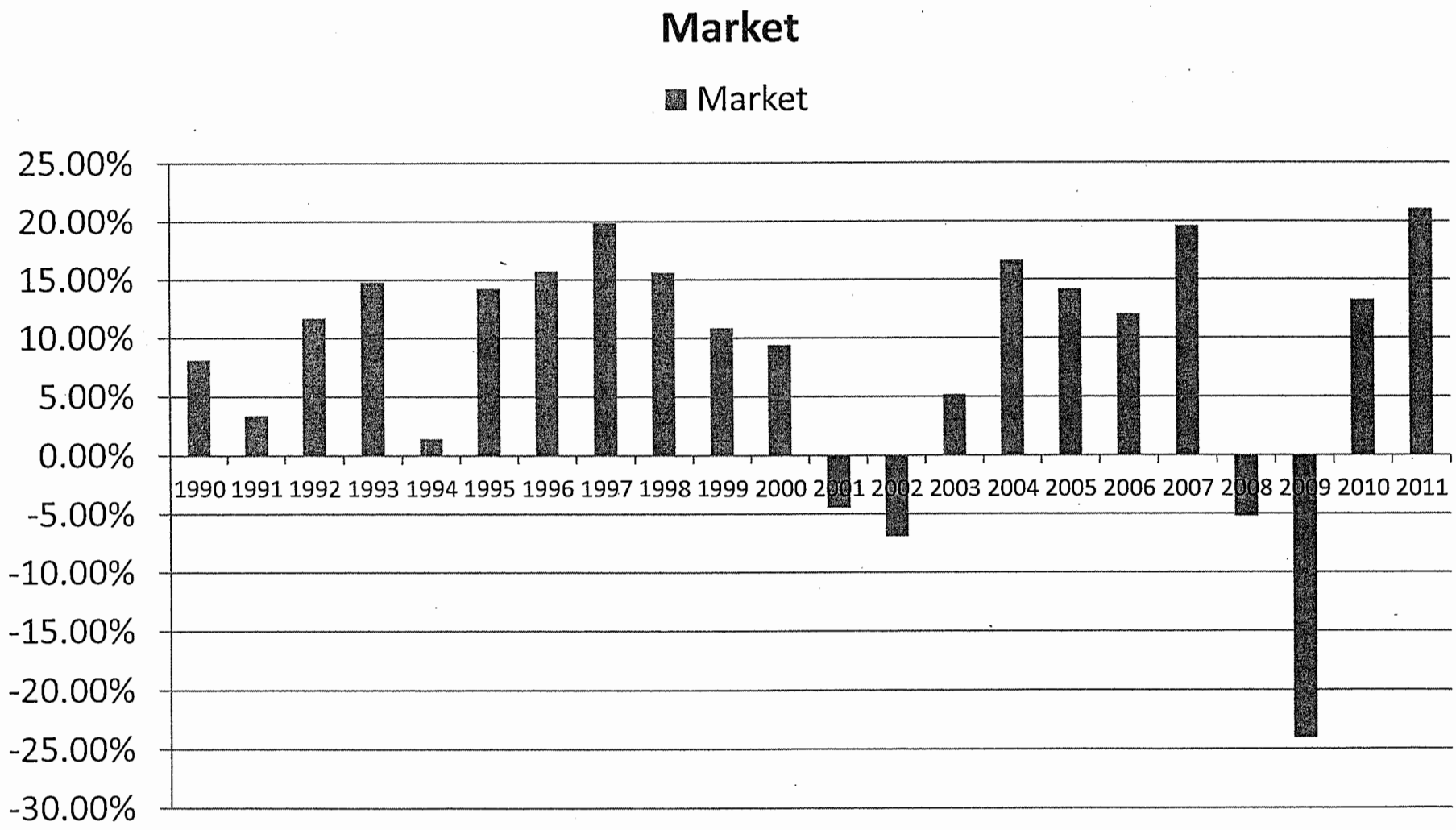
Total - $87,724,967

NDPERS Retirement Systems Assets

(Main, Judges, Guard, and Law Enforcement Systems)



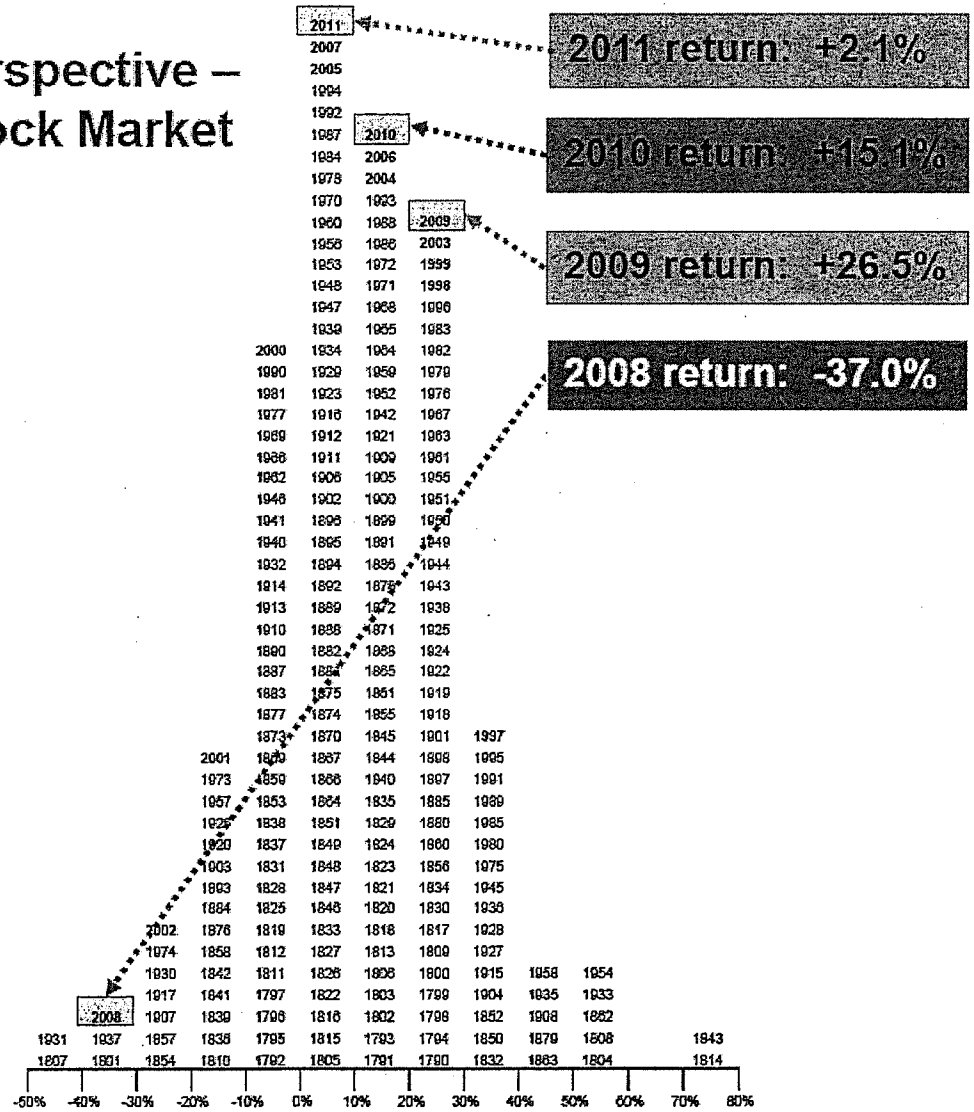
NDPERS Main System Investment Returns



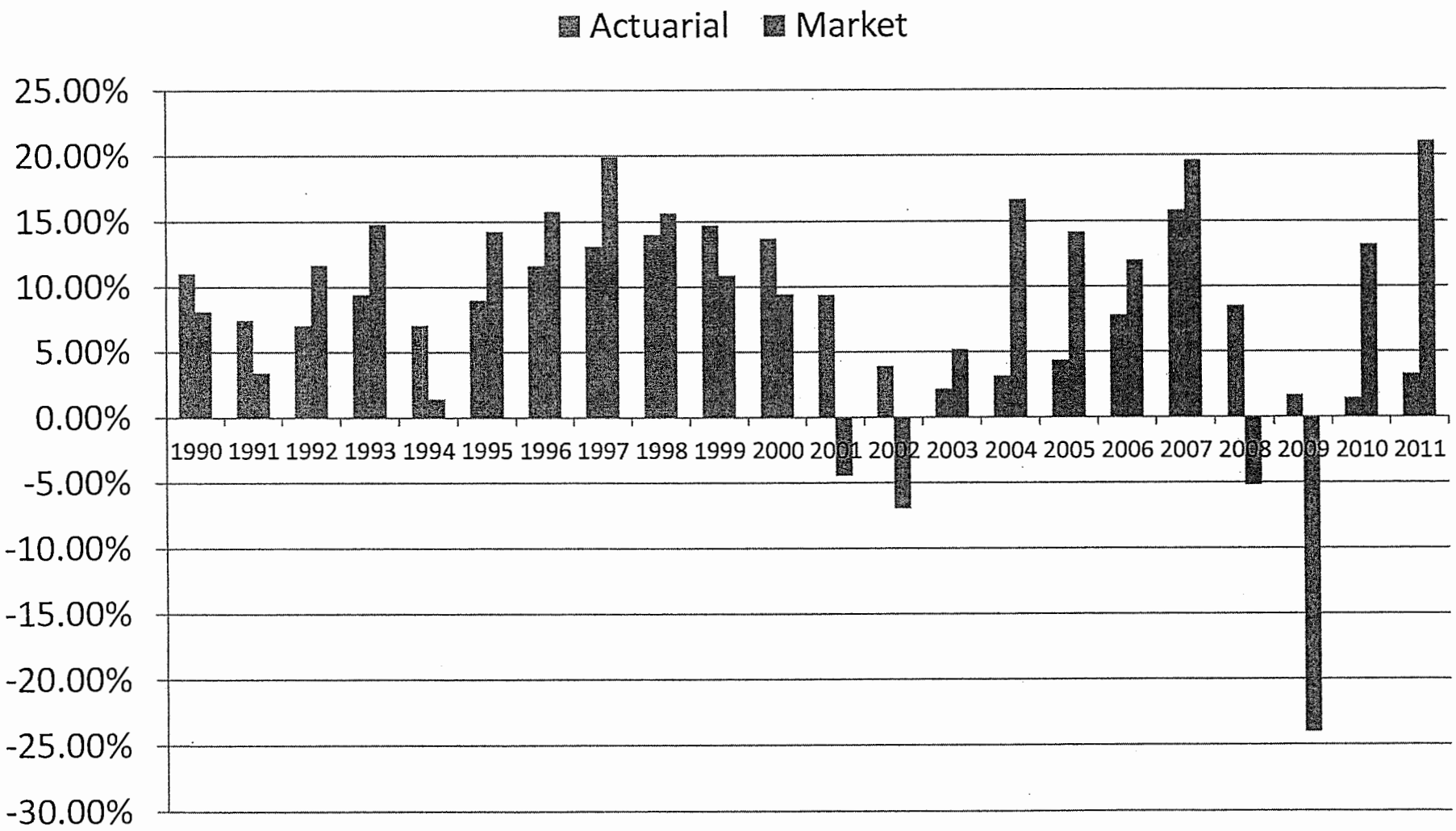
Stock Market Returns by Calendar Year

2011 Performance Perspective – History of the U.S. Stock Market

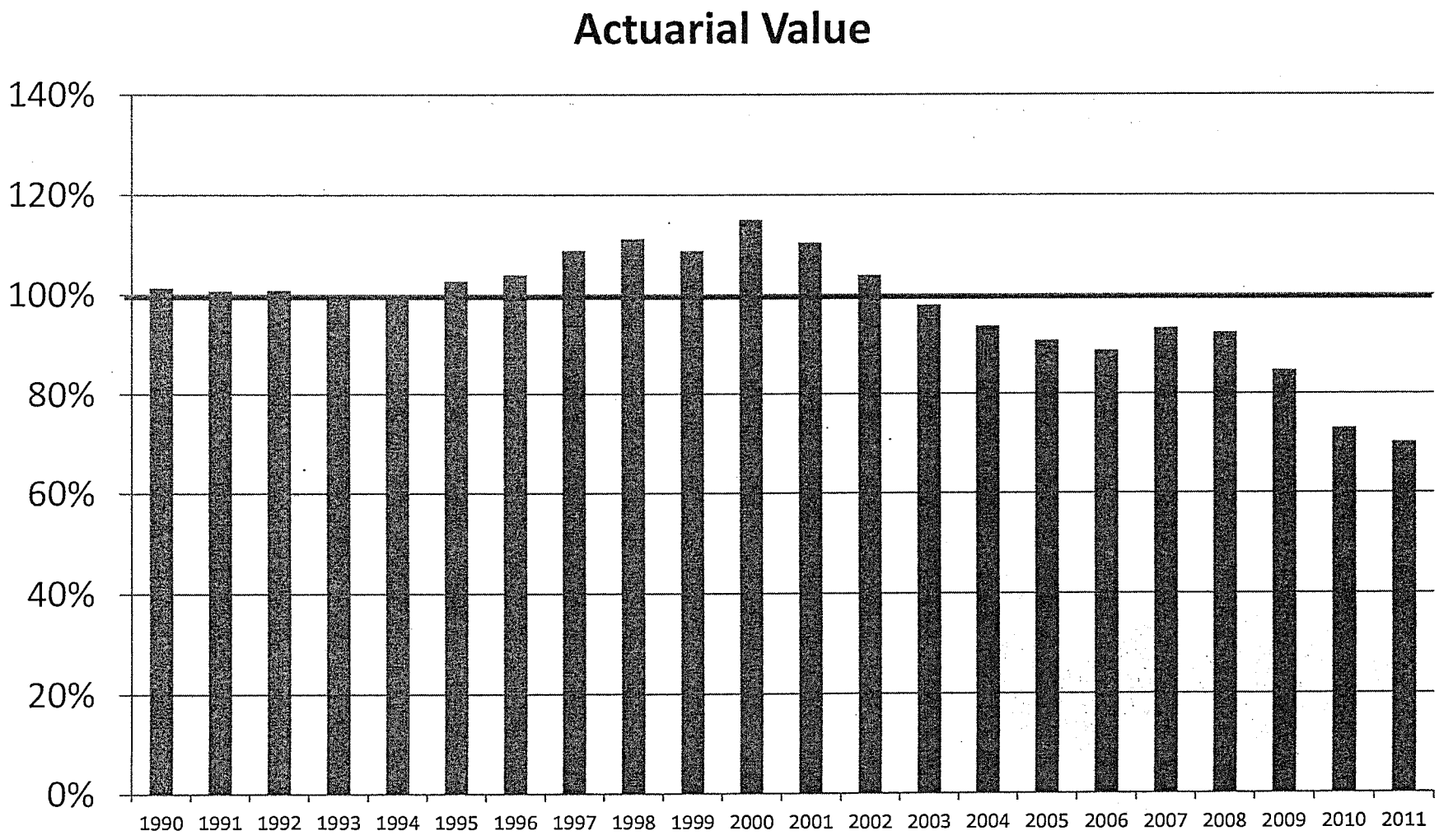
224 Years of Returns



NDPERS Main System Investment Returns



NDPERS Funded Ratio

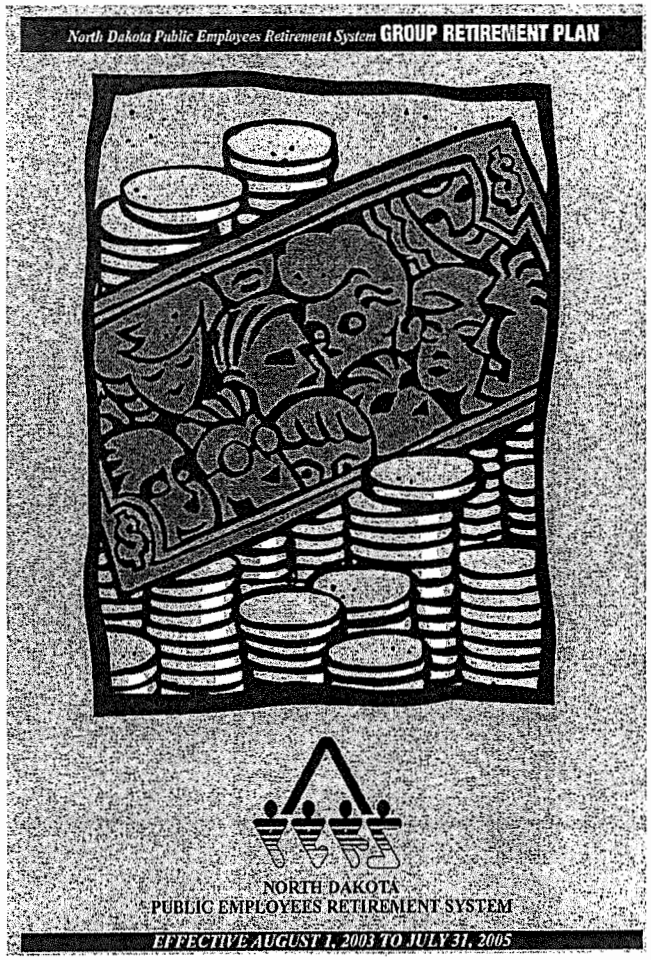


RETIREMENT SYSTEM

PLAN DESCRIPTION AND STATUS

Retirement

Main System



RETIREMENT - MAIN - 2011

Public Employees Retirement Plan
Chapter 54-52, NDCC

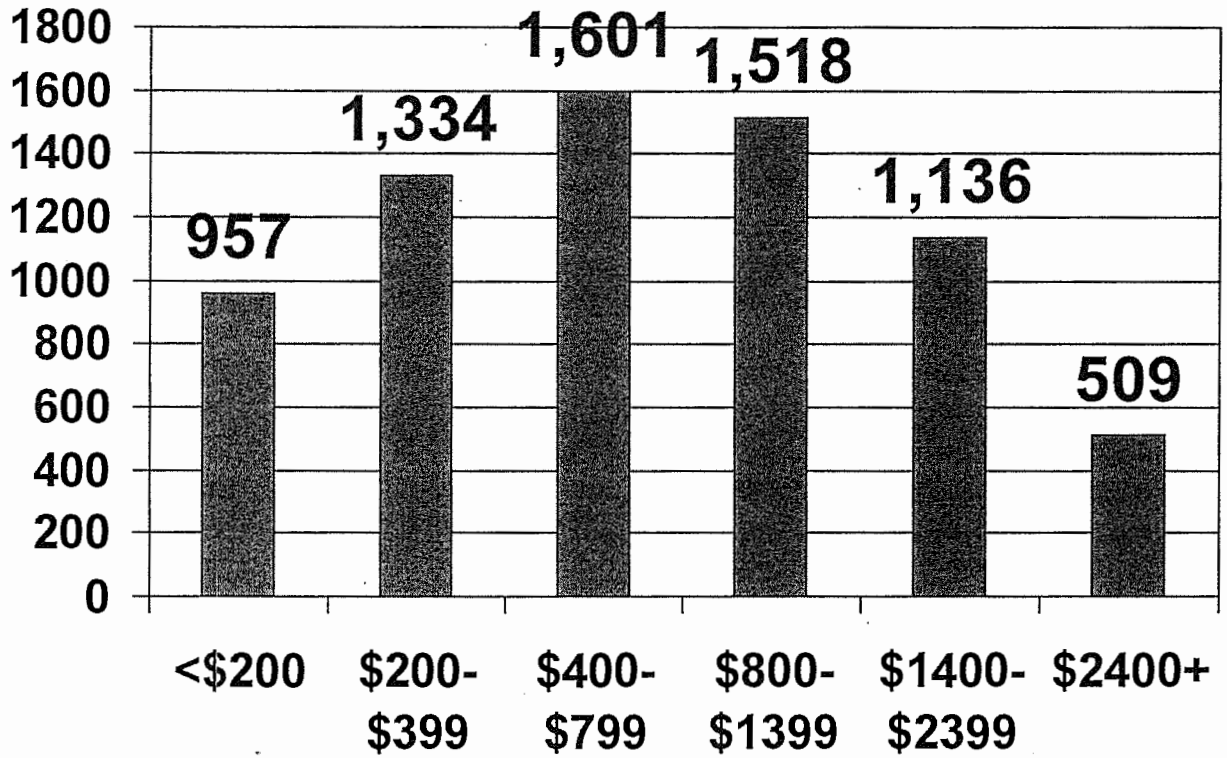
Employer Contribution:	4.12%
Employee Contribution:	4.00%
Total Retirement Contributions:	8.12%

Vesting in Disability Benefit:	180 days
Vesting in Retirement Benefit:	36 months
Normal Retirement:	Age 65 or Rule of 85

Benefit: FAS*.02*YOS

NDPERS Pensions In Force

Monthly Benefit - July 1, 2011

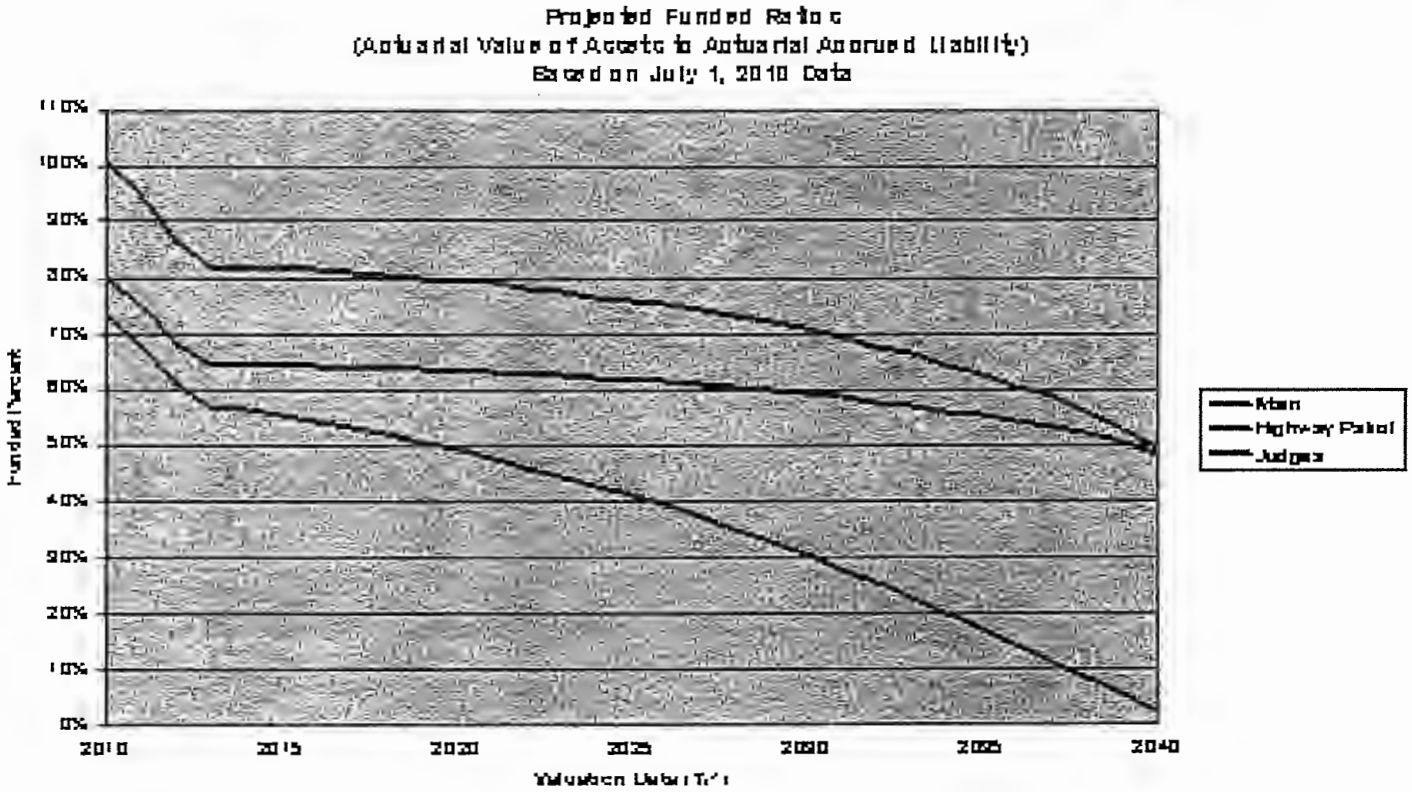


Main System, Judges, Guard, and Law Enforcement Plans

Hybrid Plan/Defined Benefit Plans

THE CHALLENGE

Senate Bill 2108 – Current Plan Projections



SEGAL

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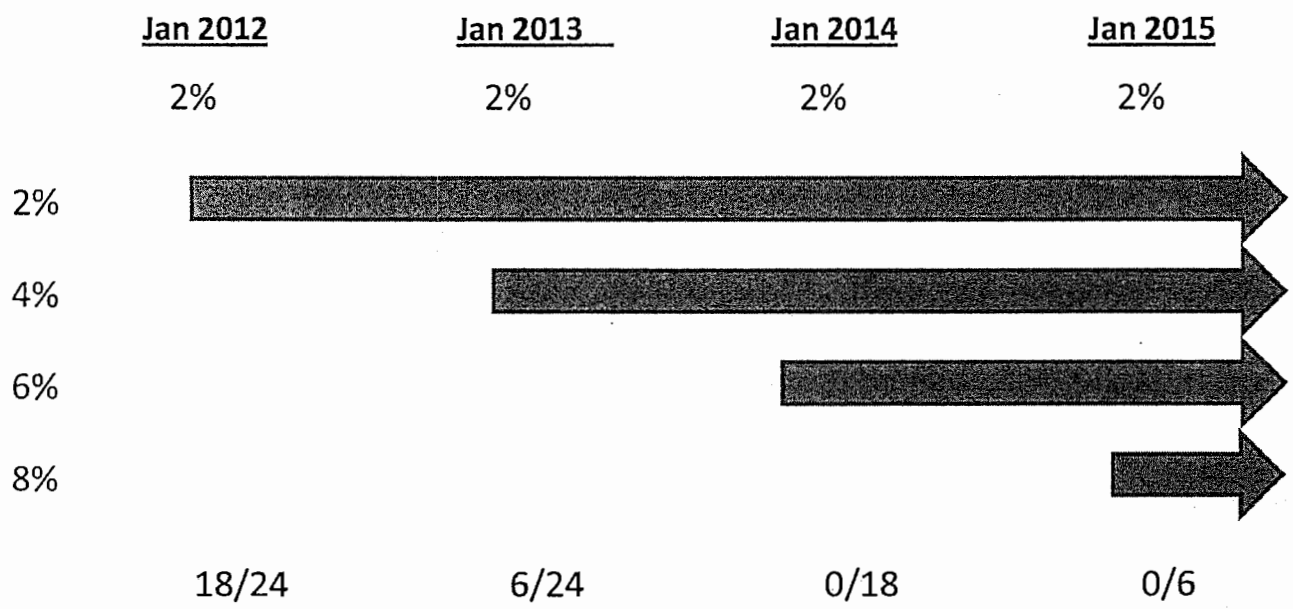
Our Challenge

- To reverse the funding trend
- To stabilize the funds
- To establish a positive trend going forward

Recovery Plan



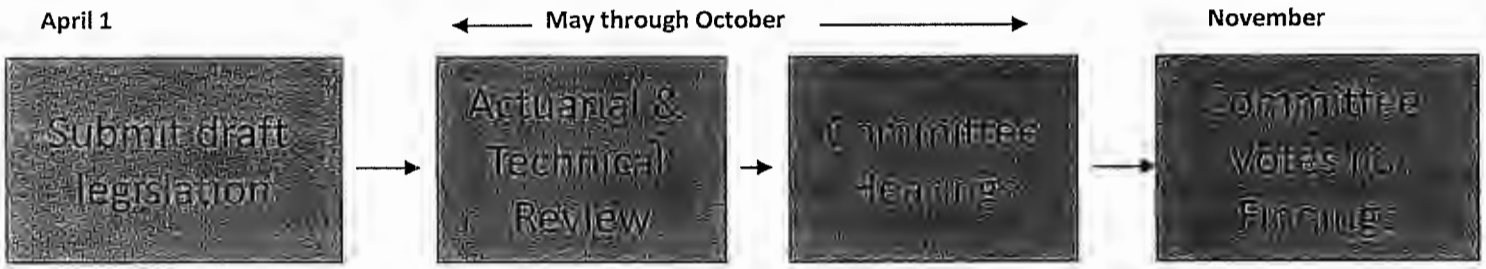
Months increase effective for 2011-2013/ Months effective for 2013-2015

2015 and beyond 100% effective

- *Received a favorable recommendation from the Legislative Employee Benefits Committee*
- *Recommended in the Executive Budget*

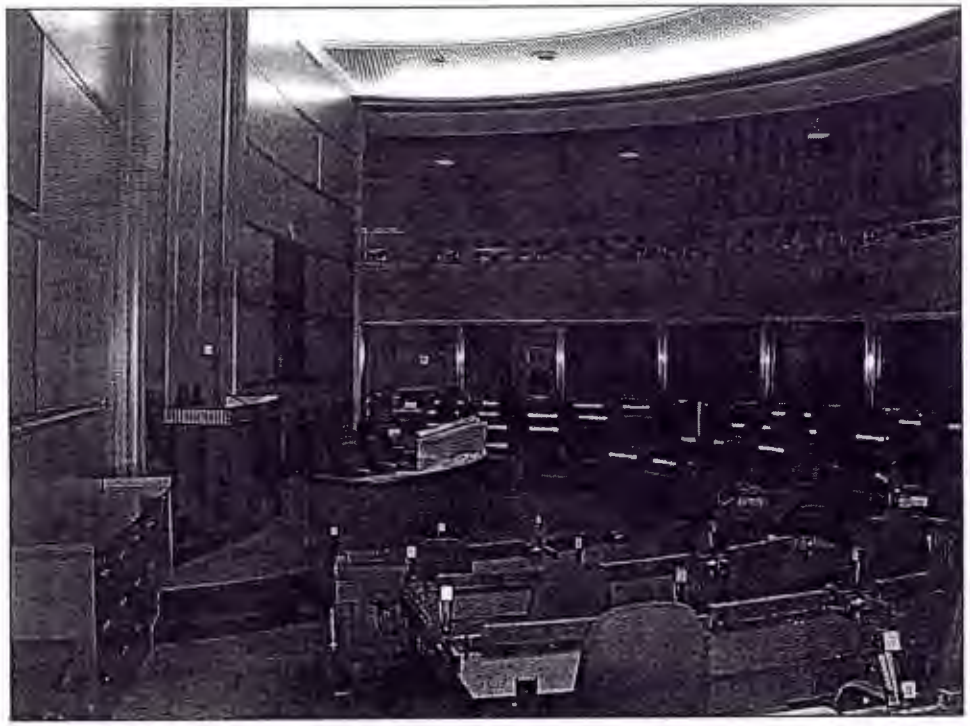
Retirement Bill Introduction Process

Legislative Employee Benefits Committee



1. All bills must be submitted by April 1 before next session – *proposed legislation submitted in March of 2010*
2. Bill are sent for actuarial and technical review
3. Hearings are held by the committee
4. Committee votes to give bill:
    1. Favorable recommendation
    2. Unfavorable recommendation
    3. No recommendation

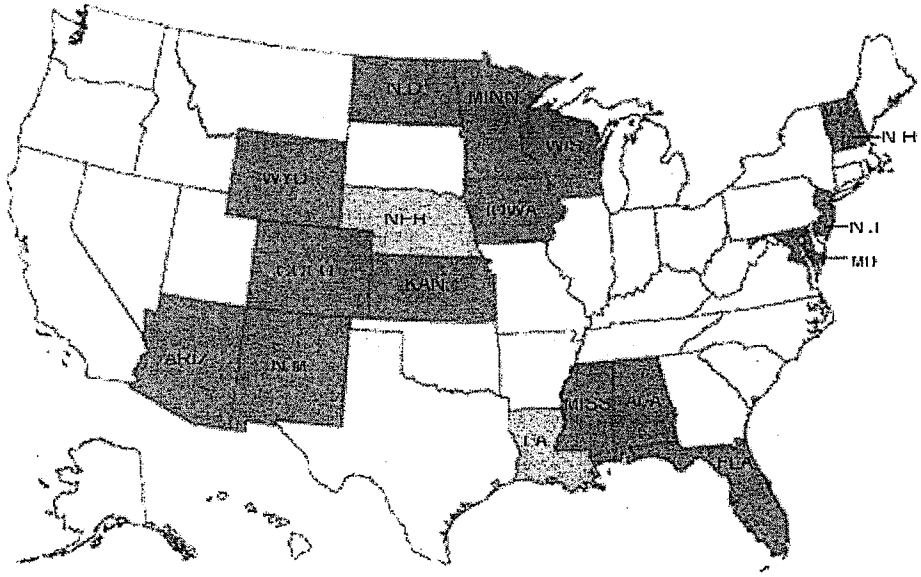
Committee gave a Favorable recommendation to 4 year recovery plan with a shared responsibility .



SB 2108

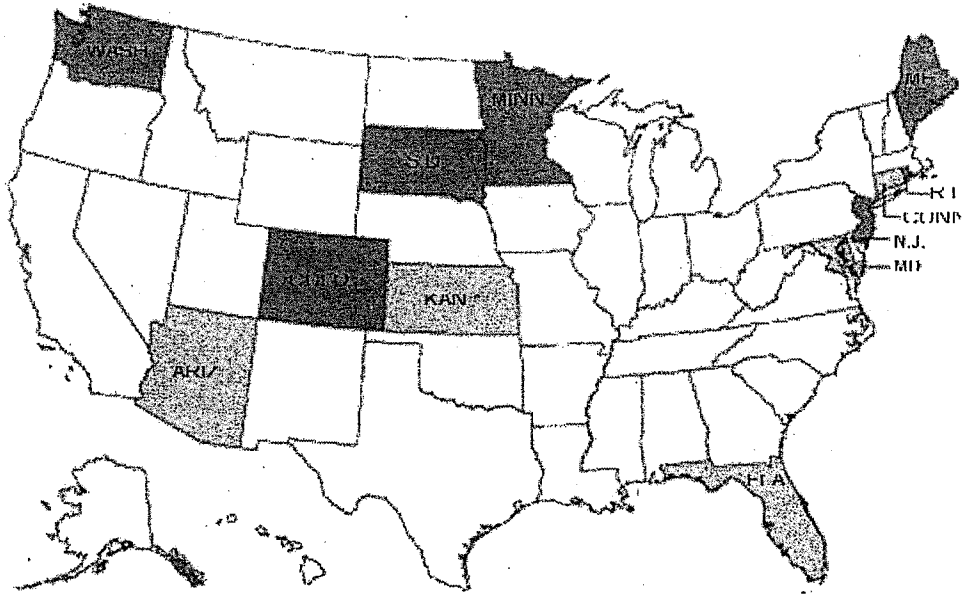
18 states increased pension contribution requirements . . .

- for all current state employees who fall under a statewide retirement plan
- for some current state employees

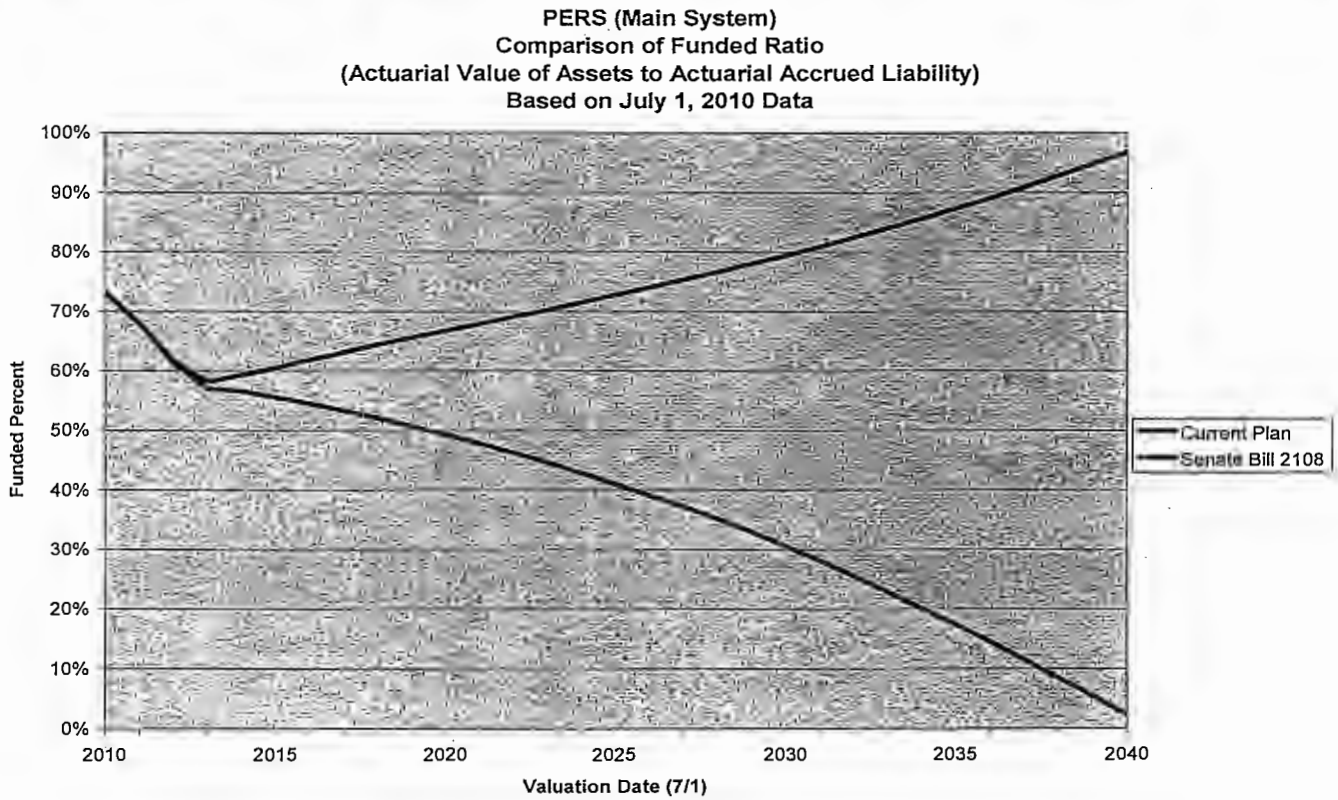


12 states reduced the automatic cost-of-living adjustment on benefits . . .

- for those already retired, and for all current employees who fall under a statewide retirement plan
- for some current state employees



Senate Bill 2108 – Actuarial Cost & Technical Analysis



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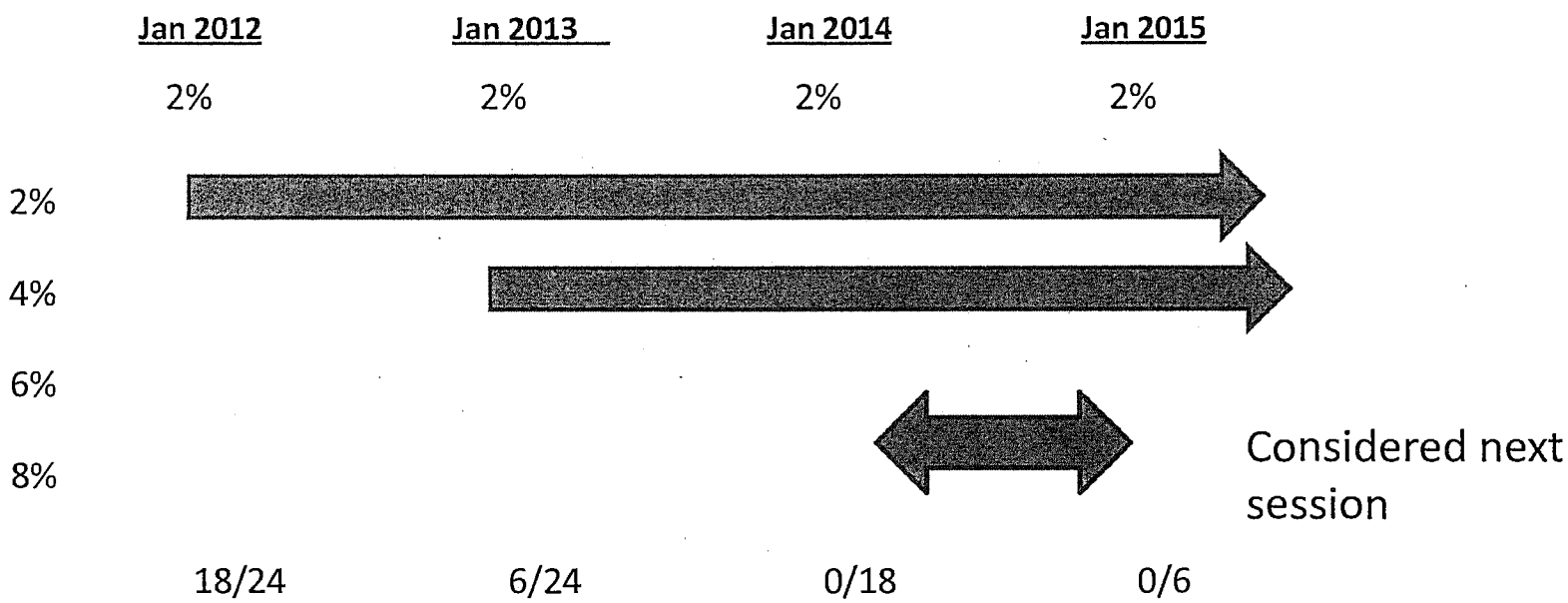
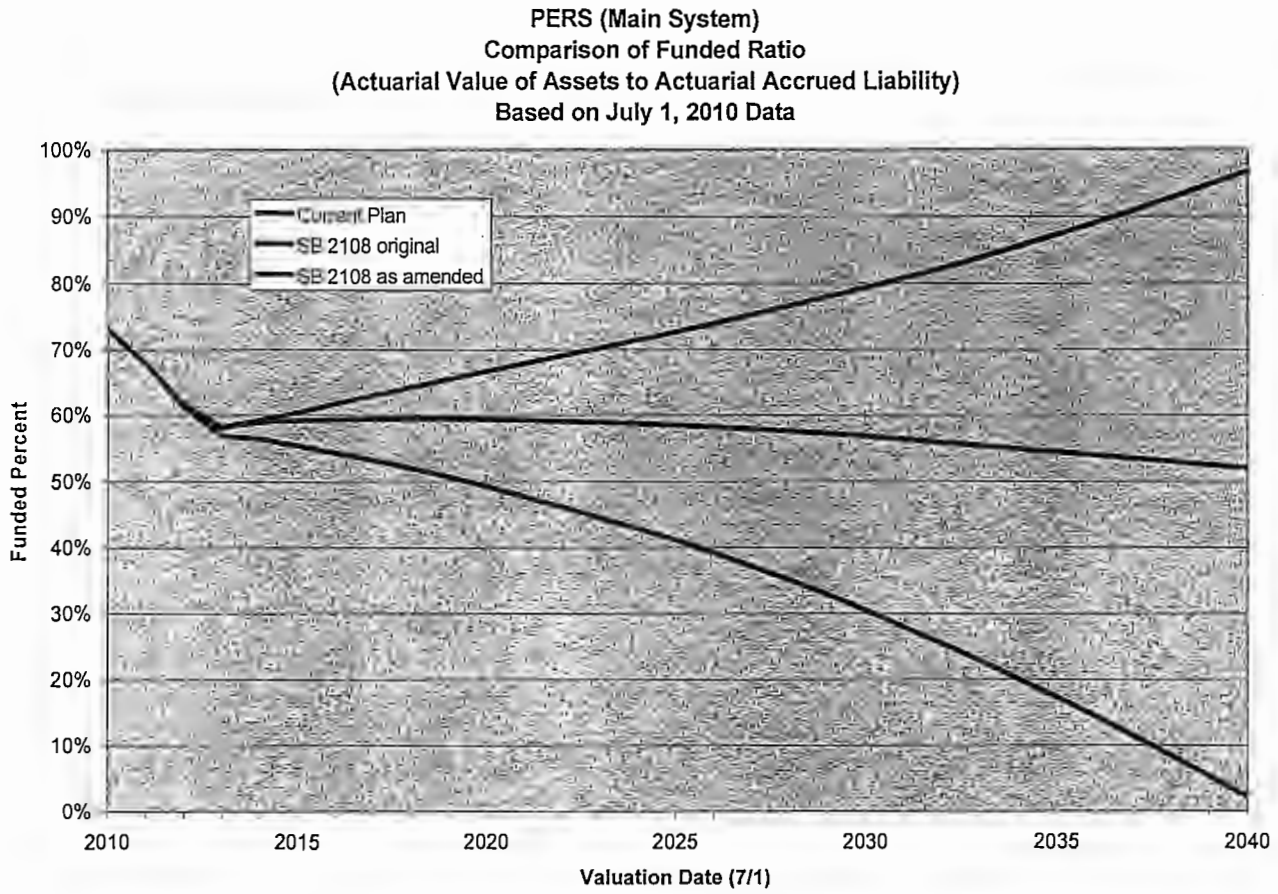


Months increase effective for 2011-2013/ Months effective for 2013-2015

2015 and beyond 100% effective

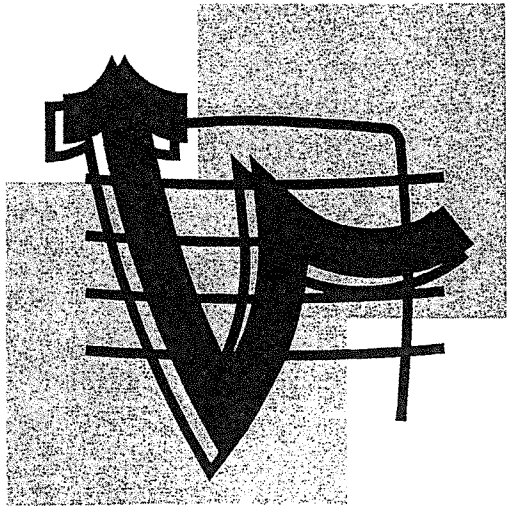
2

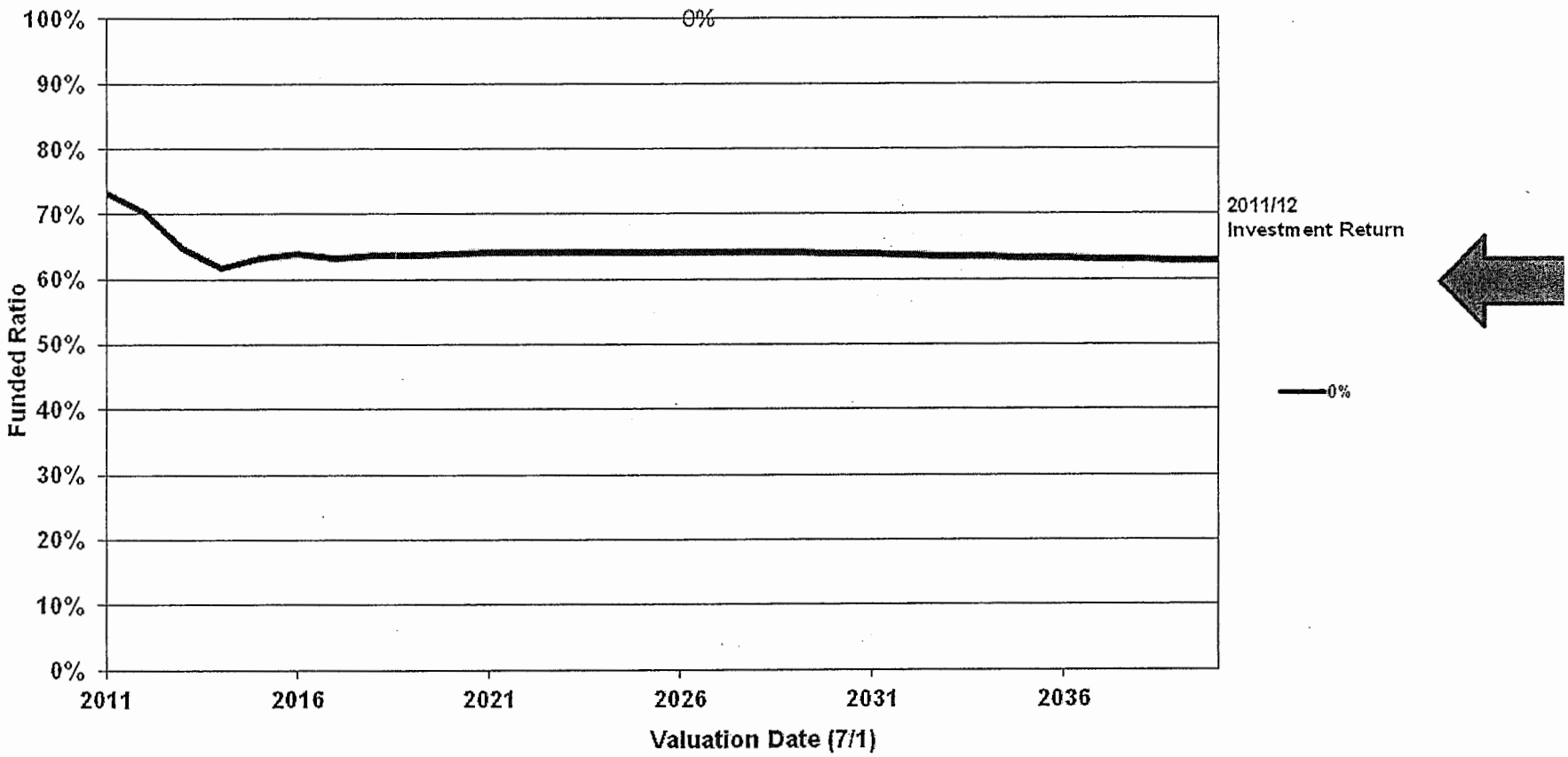


4% contribution increase - *has stopped downward trend and stabilized the plan*

2011 Investment Return

21%



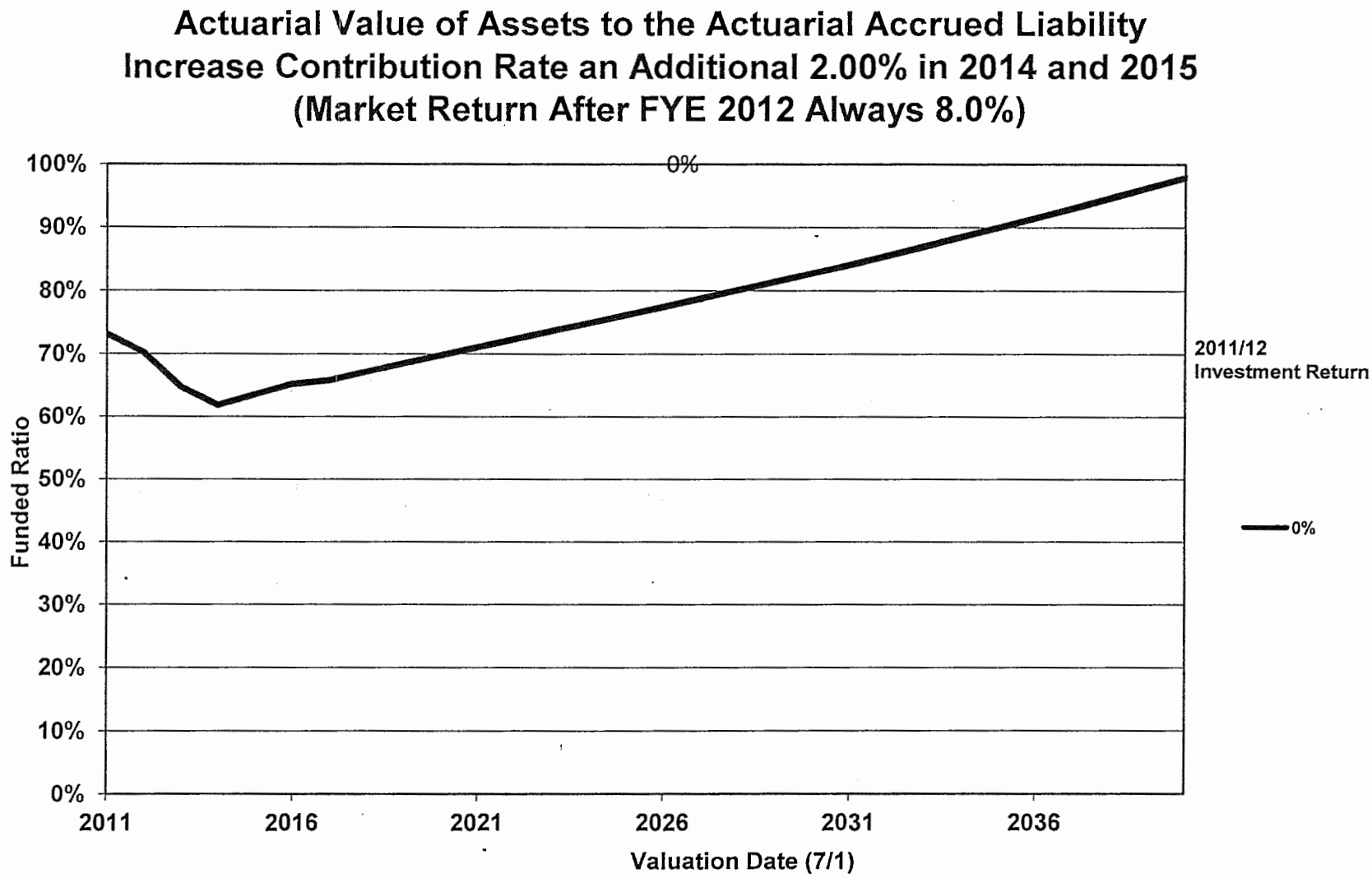

0%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Funded Ratio
2011
2016
2021
2026
2031
2036
Valuation Date (7/1)
2011/12
Investment Return
0%

Our Challenge

Goal	Main
To reverse the funding trend	
To stabilize the funds	
To establish a positive trend going forward	

North Dakota PERS - Main System

Projected Funded Ratio – Actuarial Value of Assets to Actuarial Accrued Liability



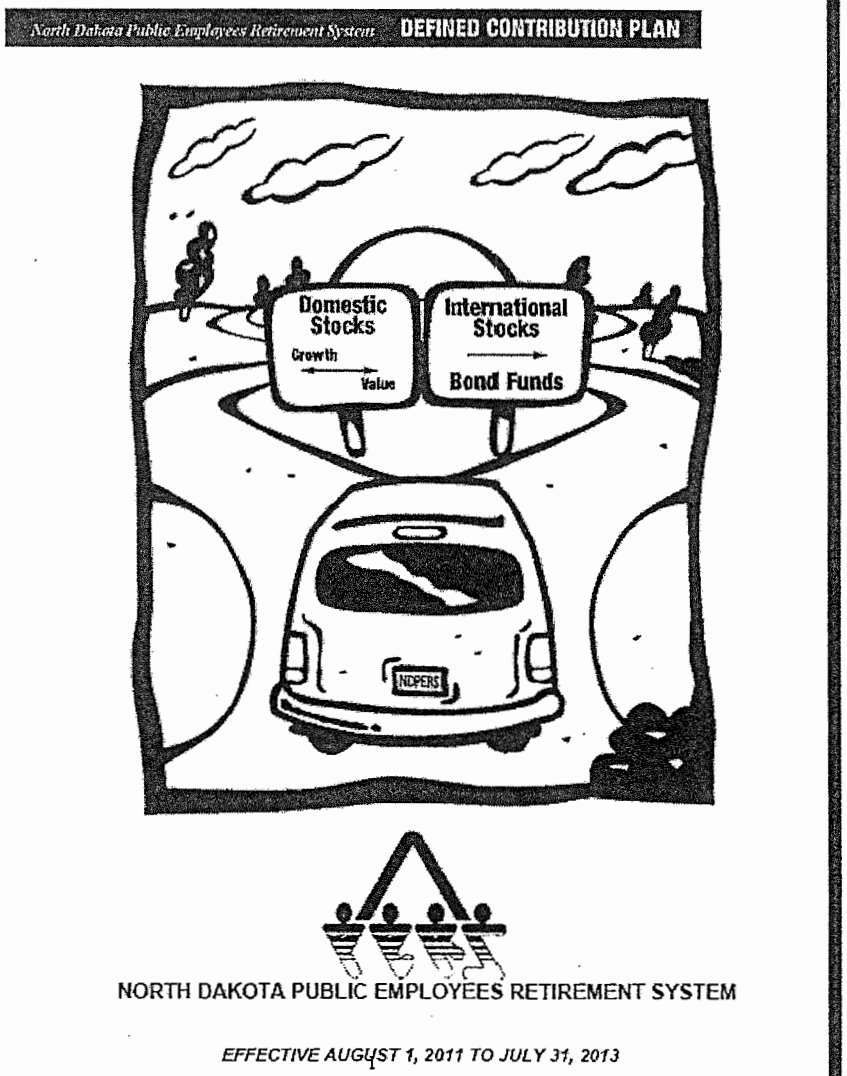
Our Challenge

- To reverse the funding trend
- To stabilize the funds
- To establish a positive trend going forward

PERS Defined Contribution Plan

THE CHALLENGE

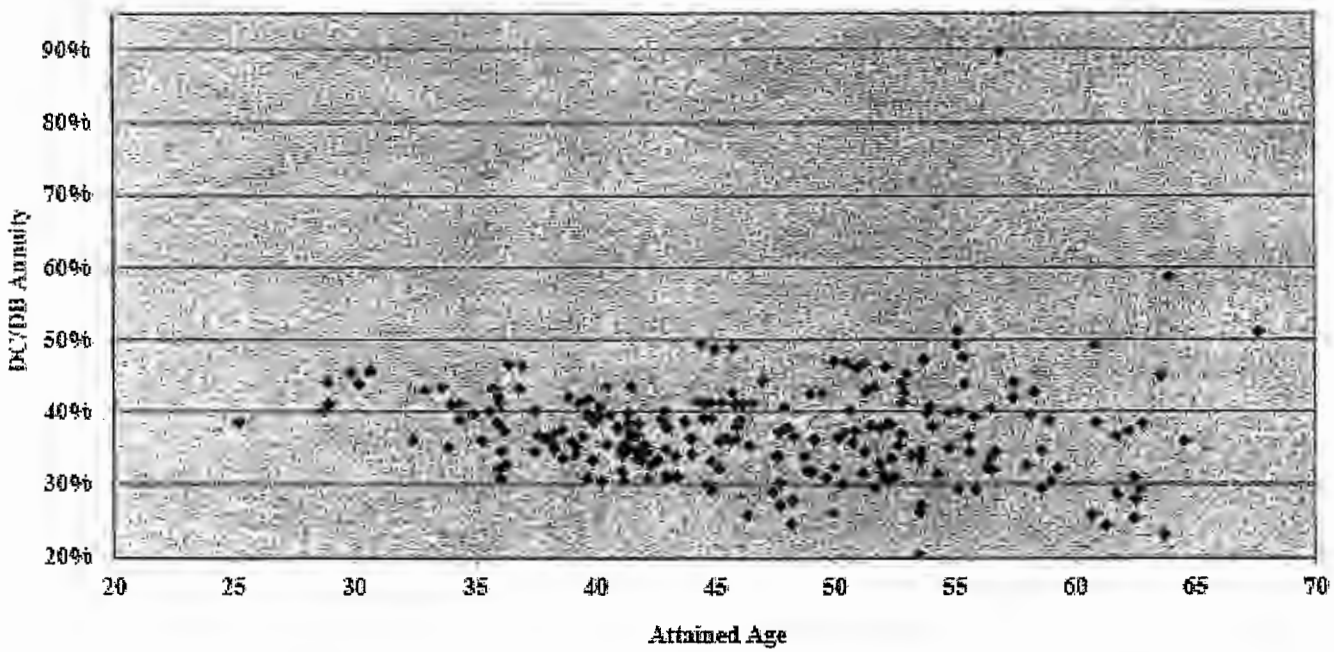
PERS Defined Contribution Plan



Our Challenge

- To reverse the funding trend
- To stabilize the funds
- To establish a positive position going forward

Exhibit III
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Attained Age as of June 30, 2011
With 8.12% Future Contribution Rate



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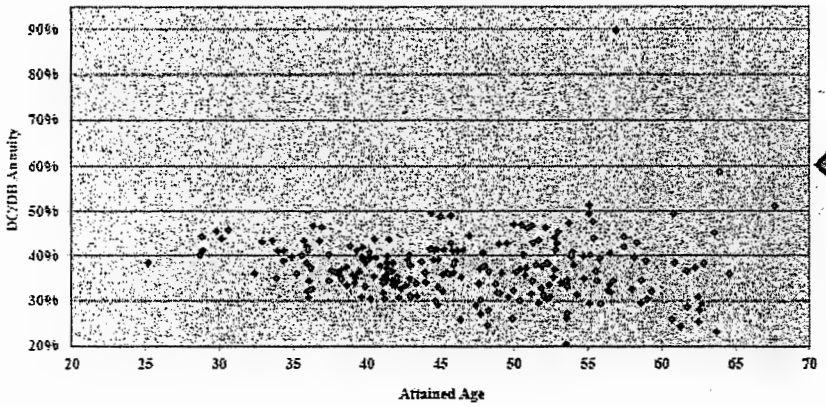
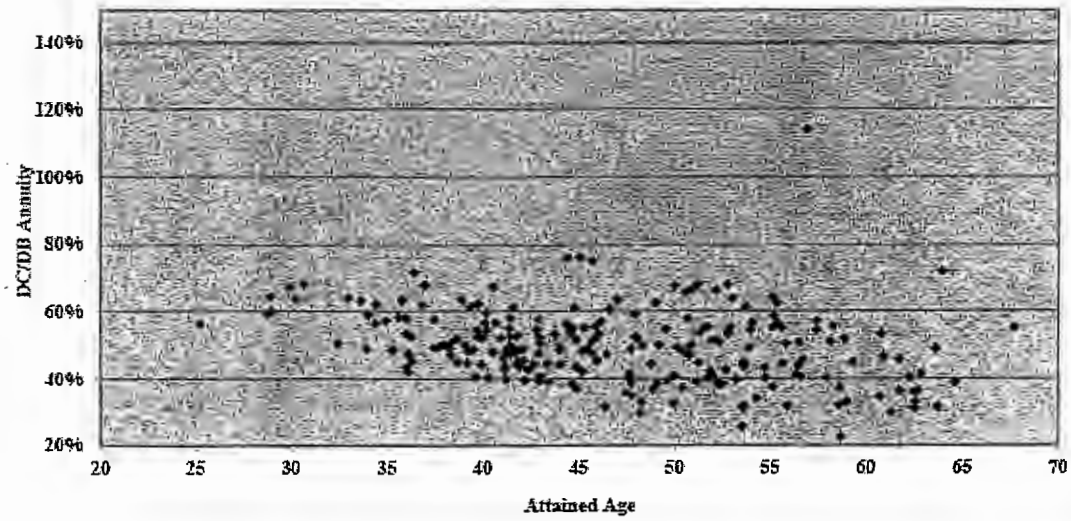
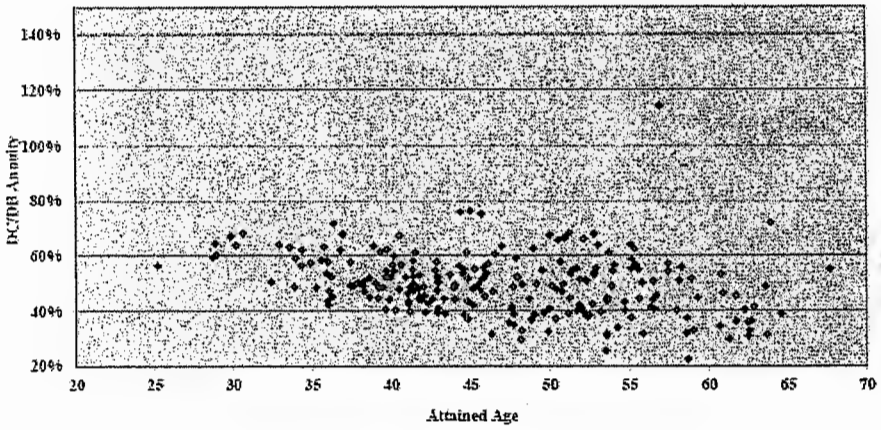


Exhibit III
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Attained Age as of June 30, 2011
With Current Statutory Contribution Rates

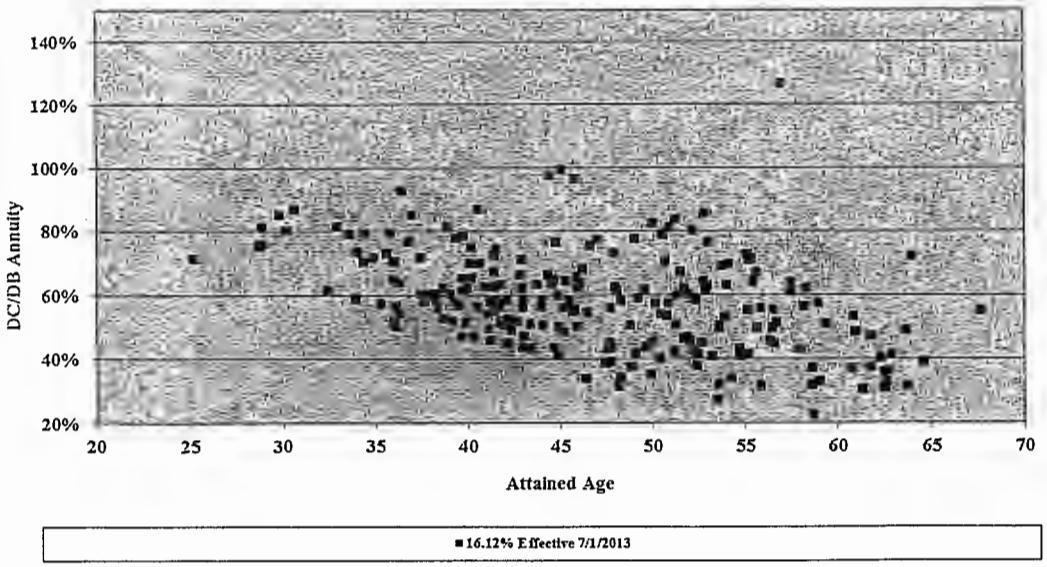


12.12%

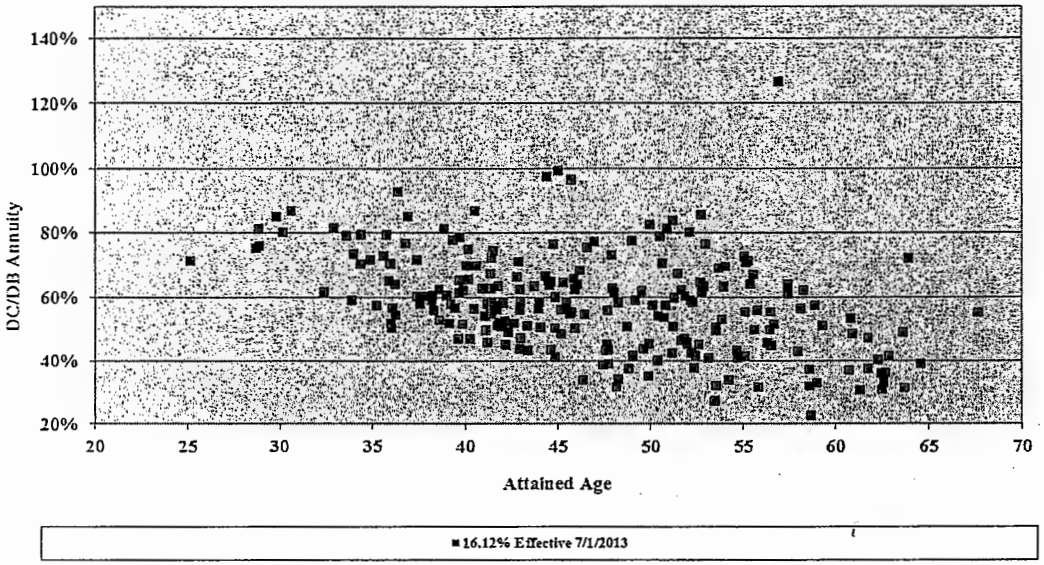
Exhibit III
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Attained Age as of June 30, 2011
With Current Statutory Contribution Rates



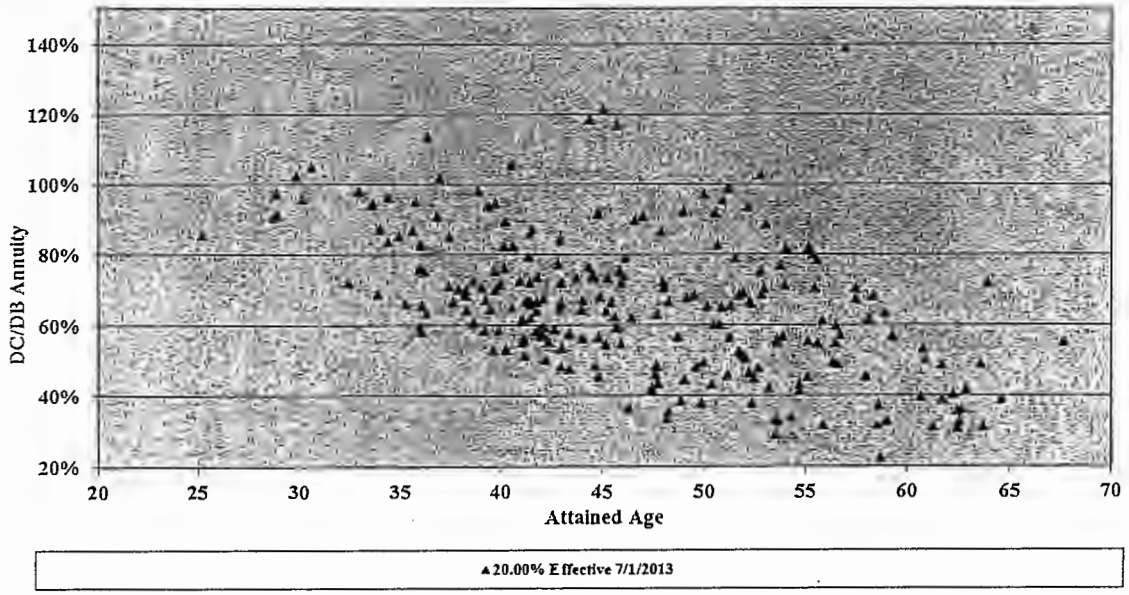
12.12%



16.12%

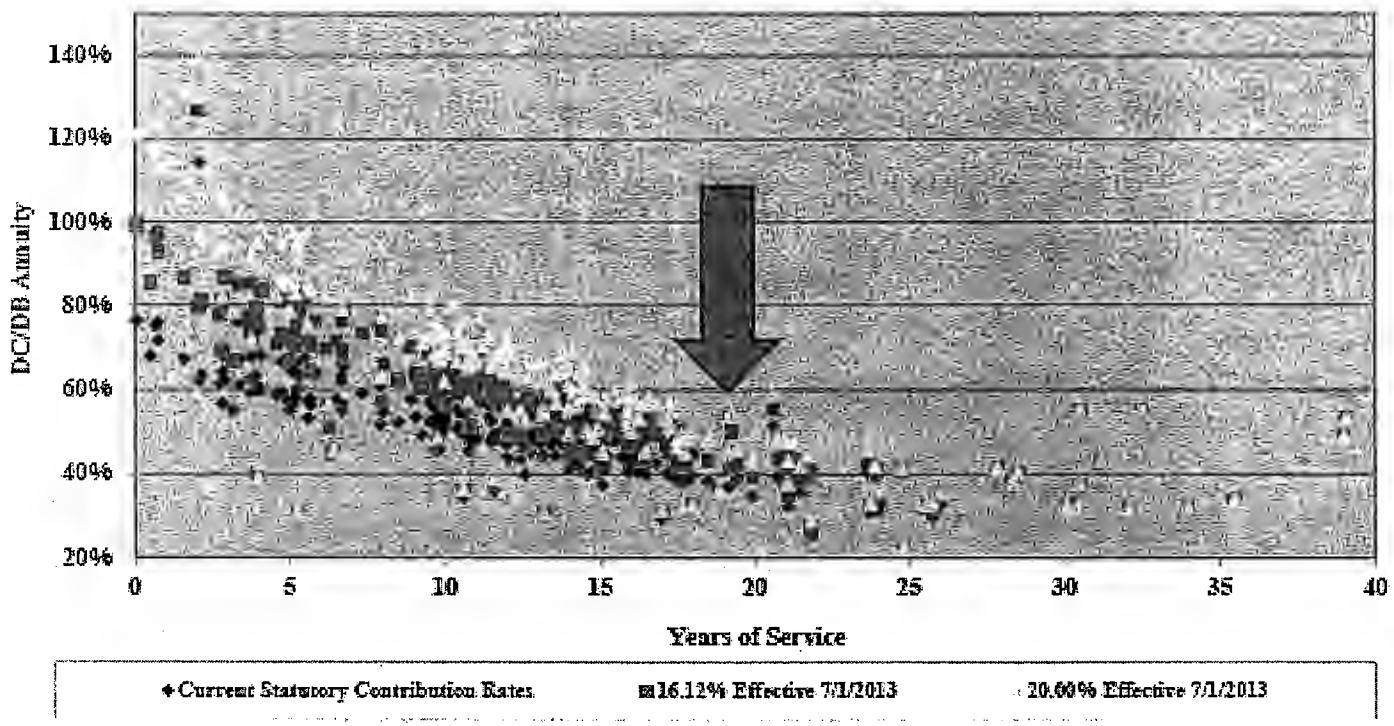

140%
120%
100%
80%
60%
40%
20%
DC/DB Annuity
20
25
30
35
40
45
50
55
60
65
70
Attained Age
16.12% Effective 7/1/2013

16.12%


140%
120%
100%
80%
60%
40%
20%
DC/DB Annuity
20
25
30
35
40
45
50
55
60
65
70
Attained Age
20.00% Effective 7/1/2013

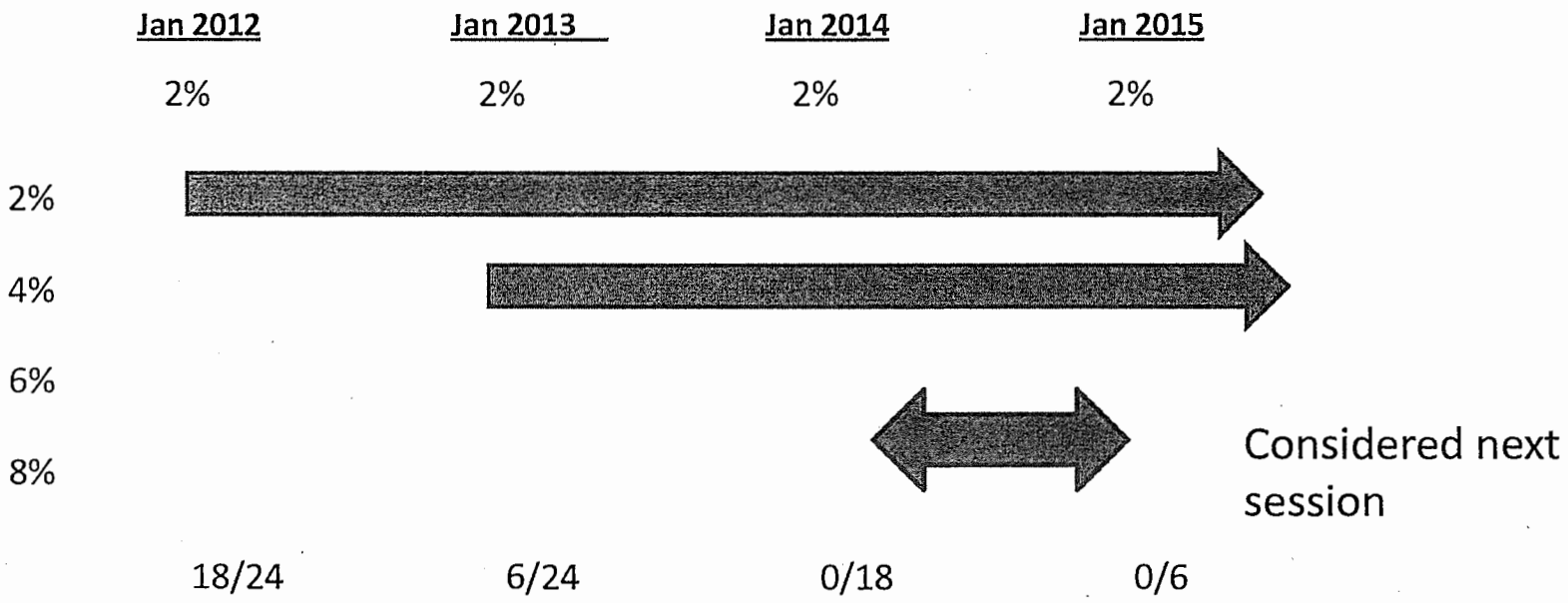
20%

Exhibit VI
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit by Years of Service as of June 30, 2011



Our Challenge

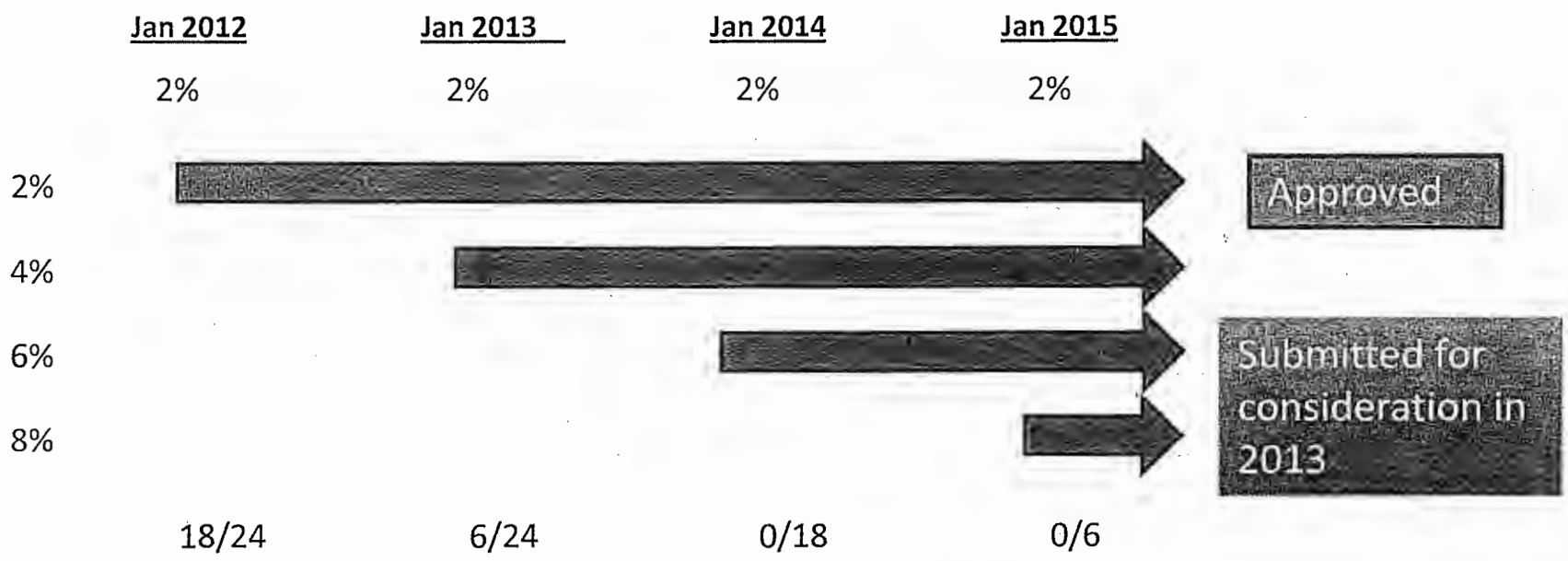
- To reverse the funding trend
- To stabilize the funds
- To establish a positive position going forward



Months increase effective for 2011-2013/ Months effective for 2013-2015

2015 and beyond 100% effective

[redacted]



[redacted]

	Biennium Cost 2013-2015		Biennium Cost 2015-2017	
Plan	Employee	Employer	Employee	Employer
Main - State	$ 9,316,036	$ 9,316,036	$ 18,632,071	$ 18,632,071
Judges	$ 132,243	$ 132,243	$ 264,487	$ 264,487
Highway Patrol	$ 170,395	$ 170,395	$ 340,791	$ 340,791
DC Plan	$ 373,890	$ 373,890	$ 747,781	$ 747,781
Total	$ 9,992,565	$ 9,992,565	$ 19,985,129	$ 19,985,129
General Fund	$ -	$ 5,357,014	$ -	$ 10,714,028

THANK YOU