

Testimony Regarding House Bill 1452
Before the Employee Benefits Programs Committee
Stuart Savelkoul, Executive Director, NDPEA
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Good morning Chairman Dever and members of the committee. My name is Stuart Savelkoul and I am the Executive Director of the North Dakota Public Employee Association. I am here today representing the interests of public employees across the state of North Dakota including the 2,600 members of NDPEA. At first glance, this bill seems innocent enough. Its sponsors claim that our state employees should have a choice: whether to continue participation in the defined benefit plan or whether to have an individualized defined contribution plan. NDPEA has a clear position on this subject and it is one that dictates our strong opposition to House Bill 1452. Our reasons are both philosophical and fiscal in nature.

This bill, if passed, would offer the employee a choice. However, NDPEA would argue that a retirement dependent upon a DC plan is inferior in security and benefit to that provided by a DB plan. To put it simply, these options aren't equal and therefore we hope that you will give this bill an unfavorable recommendation in an effort to prevent individuals from making a choice they are likely to regret.

North Dakota's state employees have been given the option to opt out of their retirement plan in the past. During the 1980's the stock market was doing well and some people were clamoring for the opportunity to control their investments under the belief that they could outperform the pension fund. They were given this choice, and so great was the remorse that, in 1987, the legislature passed a bill that allowed them to buy their way back into the main plan. In 1999, unclassified employees were given this choice; NDPERS has evidence to show that few DC plans belonging to employees have outperformed the main plan over the last 14 years. In fact, if given the opportunity to return to the main plan, I am aware of at least 50 of those individuals who made the switch in 1999 who would take you up on the offer.

Defined Contribution Plans are inferior to Defined Benefit Plans (pensions) for a few reasons:

- 401(k)s were never meant to replace pensions
- DB Plans provide secure and higher retirement benefits
- DB Plans are managed by financial experts
- DB Plans lower costs with pooled risks
- DB Plans don't age
- DB Plans boost the economy

Further, by allowing employees to opt out of the main plan, the potential exists for a negative fiscal impact on NDPERS. This bill has the potential to shuffle dollars away from the main plan and into these individual accounts. So, in essence, every individual who makes this poor choice will, in a small way, hurt the fund that is meant to provide benefits to everyone who does not make this election.