

# STATE OF STATE EMPLOYEE RETIREMENT PLANS - BACKGROUND MEMORANDUM

## STUDY RESPONSIBILITIES

Section 16 (attached as an [appendix](#)) of House Bill No. 1452 provides for a study of existing and potential state employee retirement plans, including an analysis of defined benefit and defined contribution plans and the feasibility, desirability, and consequences of transitioning to only a state defined contribution plan. The Legislative Management assigned the responsibility for this study to the Government Finance Committee.

## BACKGROUND INFORMATION

The Public Employees Retirement System (PERS) is governed by North Dakota Century Code Chapter 54-52 and includes the PERS main system, judges' retirement system, National Guard retirement system, law enforcement with prior main service, law enforcement without prior main service, and an optional defined contribution retirement plan; Highway Patrolmen's retirement system; Job Service North Dakota retirement plan, and retiree health benefits fund. The plan is supervised by the Retirement Board and covers most employees of the state, district health units, and the Garrison Diversion Conservancy District. A county, city, or school district may choose to participate on completion of an employee referendum and on execution of an agreement with the board.

The Public Employees Retirement System had 21,091 active members on July 1, 2012. Of this total, 20,738 were active members of the main system, 49 were active members of the judges' retirement system, 32 were active members of the National Guard retirement system, 207 were active members of the law enforcement retirement system with prior main service, and 65 were active members of the law enforcement retirement system without prior main service. The Highway Patrol retirement plan had 145 active members and the Job Service retirement plan had 19 active members.

## MAIN SYSTEM DEFINED BENEFIT PLAN

The PERS main system defined benefit plan is funded from employer contributions, employee contributions, and investment earnings. Contributions are calculated based on a percentage of gross pay. From 1977 through 1989, the employer contribution was 5.12 percent and the employee contribution was 4 percent. In lieu of state employee salary increases in 1983 and 1984, the state began to pay the 4 percent employee contribution. In 1989 the employer contribution was reduced by 1 percent and reallocated for a retiree health benefit credit.

The following is a summary of employer and employee contributions to the retirement plan since 1989:

1989 Through December 31, 2011		Effective January 1, 2012		Effective January 1, 2013		Effective January 1, 2014	
Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
4.12%	4.00% <sup>1</sup>	5.12%	5.00% <sup>1</sup>	6.12%	6.00% <sup>1</sup>	7.12%	7.00% <sup>1</sup>

<sup>1</sup>The state pays 4 percent of the employee share of retirement contributions.

## Benefit Levels and Recent Changes in Benefit Calculations

Members of the main public employees retirement plan are eligible for a normal service retirement benefit at age 65 or when age plus years of service is equal to at least 85 (commonly known as the "Rule of 85"). Retirement benefits under the defined benefit plan are calculated using the following mathematical formula provided in Section 54-52-17(4):

Final average salary<sup>1</sup> x benefit multiplier (2%)<sup>2</sup> x years of service credit<sup>3</sup> = monthly single life retirement benefit

<sup>1</sup>For employees who retired prior to August 1, 2010, the final average salary was the average of an employee's highest salaries in 36 of the last 120 months worked. For members who terminate employment on or after August 1, 2010, it is the average of the employee's highest salaries in 36 of the last 180 months worked.

<sup>2</sup>The benefit multiplier is the rate at which benefits are earned. The current benefit multiplier is 2 percent.

<sup>3</sup>The service credit is the amount of public service an employee has accumulated under PERS for retirement purposes.

The following is a summary of benefit changes approved by the Legislative Assembly since 1977:

Year	Benefit Multiplier	Change in Retirement Rule Levels
July 1977	1.04%	
July 1983	1.20%	
July 1985	1.30%	Rule of 90 established as an alternative for retirement eligibility
July 1987	1.50%	
July 1989	1.65%	

Year	Benefit Multiplier	Change in Retirement Rule Levels
July 1991	1.69%	
August 1993	1.725%	Rule of 90 changed to Rule of 88
January 1994	1.74%	
August 1997	1.77%	Rule of 88 changed to Rule of 85
August 1999	1.89%	
August 2001	2.00%	

Similar adjustments were also made to the benefit calculations of members who retired prior to the above changes being made. Benefits were increased in amounts that equaled the benefit multiplier changes. In addition, retirees received a 13<sup>th</sup> check in 2006 and 2008. In 2006 the 13<sup>th</sup> check was equal to half of the retiree's normal monthly check and in 2008 the 13<sup>th</sup> check was equal to three-fourths of the retiree's normal monthly check.

**Funded Ratio**

The actuarial funded ratio is the percentage of the retirement fund's actuarial value of assets to its actuarial accrued liabilities. The actuarial value of assets is determined by spreading market appreciation or depreciation over five years. This procedure results in recognition of all changes in market value over five years.

Below is a summary of the actuarial funded ratio of the PERS plan since 1990.

Year	Actuarial Funded Ratio
1990	101%
1991	101%
1992	101%
1993	100%
1994	99%
1995	103%
1996	104%
1997	109%
1998	111%
1999	109%
2000	115%
2001	111%
2002	104%
2003	98%
2004	94%
2005	91%
2006	89%
2007	93%
2008	92%
2009	85%
2010	73%
2011	70%
2012	65%

**DEFINED CONTRIBUTION PLAN**

The Legislative Assembly authorized the use of an optional defined contribution retirement plan effective January 1, 2000. Chapter 54-52.6 provides the plan is available to state employees who are in positions not classified by Human Resource Management Services, excluding employees of the judicial branch and employees under the control of the State Board of Higher Education. Additionally, between October 1, 2014, and July 31, 2017, any new state employee may elect to participate in the plan. An eligible employee may make an election at any time during the first six months of employment to participate in the defined contribution plan rather than the defined benefit plan. An election to participate in the defined contribution plan is irrevocable. A plan participant will remain in the defined contribution plan if the employee becomes reemployed in a classified position.

The following is a summary of contribution levels for the defined contribution retirement plan:

Prior to December 31, 2011		Effective January 1, 2012		Effective January 1, 2013		Effective January 1, 2014	
Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
4.12%	4.00% <sup>1</sup>	5.12%	5.00% <sup>1</sup>	6.12%	6.00% <sup>1</sup>	7.12%	7.00% <sup>1</sup>

<sup>1</sup>The state pays 4 percent of the employee share of retirement contributions.

Individual accounts are designated for each participant, and retirement benefits are based on the employer and employee contributions to the accounts plan and investment earnings on funds in the account. As of June 2013, there were 218 active members enrolled in the defined contribution retirement plan.

### **RELATED LEGISLATION PASSED BY THE 2013 LEGISLATIVE ASSEMBLY**

**Retirement contribution rates and defined contribution plan election** - House Bill No. 1452 increases the employee and employer retirement contribution rates by one percent on January 1, 2014. The bill also provides an opportunity for eligible employees who are new members of PERS to transfer to the defined contribution plan, effective October 1, 2014, through July 31, 2017.

### **OTHER RELATED LEGISLATION CONSIDERED BY THE 2013 LEGISLATIVE ASSEMBLY**

**Retirement fund stabilization** - House Concurrent Resolution Nos. 3003 and 3040 and Senate Concurrent Resolution No. 4010 would have submitted a constitutional amendment to the voters to provide for changes to the foundation aid stabilization fund. Excess fund earnings or fund income would have been allowed to be used for the stabilization of the state retirement fund. All resolutions were defeated.

### **STUDY PLAN**

The following is a proposed study plan for the committee's consideration in its study of state employee retirement plans:

1. Receive information from the Legislative Council regarding the current state employee retirement plans, including the number of participants enrolled in each plan, recent changes to retirement contributions, and estimated fund balances.
2. Receive information from the Legislative Council regarding the use of defined benefit and defined contribution plans in other states, including recent changes to the plans.
3. Receive and review information from the Legislative Council regarding options to transition to a defined contribution plan for all newly hired state employees, including estimated costs, benefits, or other effects.
4. Receive testimony from interested persons regarding the study.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

ATTACH:1