15.0176.04000

FISCAL NOTE
Requested by Legislative Council
12/19/2014

Bill/Resolution No.: SB 2038

1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$31,245,000	$23,414,000	$41,660,000	$31,219,000
Appropriations	$0	$0	$0	$0	$0	$0

1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties	$0	$0	$0
Cities	$0	$0	$0
School Districts	$0	$0	$0
Townships	$0	$0	$0

2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill closes the NDPERS Main Retirement Plan to new employees and gives existing employees the option to move to the Defined Contribution Plan.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

The above plan cost increases relating to the employer contribution requirements are based upon a 7% return assumption and the assumption that 40% of plan members will transfer from the PERS DB/Hybrid plan to the DC plan pursuant to the provisions of this bill. The financial effect on this fiscal note is shown as the actuarial required employer contributions needed to pay for this benefit change as calculated by the Segal Company and provided to the Legislative Employee Benefits Committee. No appropriation is shown for the cost of this bill since the bill does not provide funding to the retirement trust to pay for the cost of the proposed change. If funding to the trust is delayed the cost will increase if the bill is passed and the trust is not funded to support the change. Concerning the assumptions used in this cost estimate:

1. The 7% assumption is lower then the plans present 8% return assumption but is consistent with how PERS manages its other closed retirement plan – Job Service. In the longer term PERS would expect further reductions in the return assumption (for Job Service we expect it to drop to 5% over time and possible lower) which will mean additional employer contributions will be needed in the future to offset the lower returns associated with a closed plan. Investment returns decline when plans are closed since new employees are switched out of the plan, as is proposed in this bill for the PERS Main Retirement plan, and this loss of new enrollee's forces two key changes in investment strategy which are: 1) A shorter investment horizon and 2) a need for more liquid assets to pay retirement benefits.

2. The assumption of 40% transfer is based upon the 1999 offering to non-classified employees and the condition of the PERS state plan at the time of the transfer offer pursuant to this bill (member's confidence in the PERS plan may not be strong since this bill will put the plan on a path to insolvency sometime between 2033 and 2049 depending on returns).since this bill does not provide an appropriation to fund the necessary increases in employer contributions to pay the cost of the change proposed by this bill.

Alternatively, instead of a contribution increase, a one time deposit could be made into the PERS fund. If the deposit was on July 1, 2017 it would need to be $104 million assuming a 8% return; $354 million assuming a 7% return; $655 million assuming a 6% return; $1.02 billion assuming a 5% return and 1.5 billion assuming a 4% return. This also assumes 40% of members will transfer. As noted above the board would assume a 7% return assumption in the near term with it decreasing over time as the investment horizon shortened and the liquidity requirements increased. Therefore a one time contribution of $354 million would be the first payment with additional payments needed as the asset allocation changed over time (based upon the long term return this could total from $354 million to 1 billion or more).

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   See 2B above.

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

   This bill does not provide an appropriation to pay the actuarially required cost to make the proposed change.

Name: Sparb Collins

Agency: NDPERS

Telephone: 701-328-3900

Date Prepared: 12/30/2014

2015 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2038

2015 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Missouri River Room, State Capitol

SB 2038
1/22/2015
Job # 22364

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Carie Winings

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact section 54-52.6-02.1 of the North Dakota Century Code, relating to a defined contribution retirement plan for state employees; and to amend and reenact sections 54-52-01, 54-52-02.5, 54-52-02.9, 54-52.6-01, 54-52.6-02, and 54-52.6-03 of the North Dakota Century Code, relating to a defined contribution retirement plan for state employees.

Minutes: Attachments 1 - 9

Chairman Dever: Opened the hearing on SB 2038.

Representative Delzer, District 8: See Attachment #1 for testimony information. Biggest question was if the Defined Benefit plan stopped then where would it leave the employees? For new employees I believe it is more beneficial to have the defined contribution although it carries more risk. I believe the state employees that are hired are fully capable of handling their own retirement. The only way to get rid of the opportunity for unfunded liability to the state is to go to a defined contribution plan because none of us know what is going to happen in the future.

(11:30)Chairman Dever: Update on Gallagher number of $300 plus million and the Segal number of $160 plus million. It later became $111 million. The reason for that is that the previous two numbers were before an amendment that your Government Finance Committee put on the bill that allowed current employees to opt into the defined contribution. The $111 million is based on the previous assumption, but depending on how many make that switch, that number could be significantly different than that. Last year the fund generated 16.2% return and there is $400 million dollars of unrealized gain in that because they smoothed the gains in that over 5 years. So $200 million might be the right number depending on those that switch.

Representative Delzer: That is why we picked the number, is because it can change. I do not think the committee would have a problem if that number was limited in some way. A lot of them can switch now and they aren't. As for the return, I think part of that is that 2008 fell off of the smoothing - which was the big loss.

Chairman Dever: The one year's return was 16.2% though. With the switch, as it went through your committee, my understanding is that the unfunded liability would increase to $3.6 billion, but by putting money into the fund now we have to think long term to understand how those things happen. So, over the next 80 years it would be $3.6 billion, but if we put a certain amount of money in the fund now, the returns from that would cover that amount.

Representative Delzer: That was the hope. We did not want to put it into the fund because we thought that it would be a variable number when it was needed. The other issue is that as soon as you hit 100%, they would come in and ask for some enhanced benefits. We thought that it would be prudent for the legislature to put money aside to have available to cover unfunded liability whether or not we switch.

(15:28) Rep. Louser, District 5: Testified in support of the bill. In 2013 Minot held their budget hearing and because of a notification that was handed an increase, the people misunderstood that their taxes were going up 18%, not 18% of mills that were attributed to the city of Minot. WE had a lot of people come and testify. The city council took testimony from everyone and then provided a pre-prepared amendment to their budget. Included in that, without objection, was a transfer to the defined contribution plan for city employees. It was something the city changed over to because they saw that in the future that they had a budget problem and they had tax payers that were showing up in meetings concerned. It was changed last year and has been maintained going forward this year. (Gives another example of pension for TFFR) Moving to a defined contribution helps eliminate the need to revisit the contribution levels due to an unfunded pension plan.

(18:37) Chairman Dever: I understand that the school board association passed a resolution asking the legislature to provide extra funding to cover the employer contribution, and I would point out that when we did that, all the stakeholders were on board with it.

(19:20) Sean Smith, Fiscal Analyst, Legislative Council: See Attachment # 2 for summary of the bill by section in a neutral position.

(26:28) Bette Grande, Fargo Resident: Testified in support of the bill. In my previous job I spent a lot of time dealing with this issue and I thought I would add some background information. This issue is nothing new to the legislature. It was introduced 12 years by Representative Wald to make this conversion. At that time it was changed that the non-classified were allowed to do the opt in or out of defined contribution. 4 years ago we had the bill in front of us on the House side and it failed by one vote. It is back again after a lengthy study over the interim. When we had this bill 4 years ago, we were working off of the July 1, 2010 actuarial reports. There was a concern at that time because the unfunded liability was at $587 million. The idea was to hold onto it and put a little more money in on the employer contribution side, that it would work itself out over time. Over that time we have lost $200 million more and the unfunded liability today sits at $1.04 billion. We are going backwards. It is a complicated issue. We are losing $200 million more a year in plan even though we are increasing the contribution rates and the performances are going great. Once a plan like this digs itself so deep the recovery is way out if everything goes perfect. We all know the markets are not going perfect. A negative does not simply recover when there is a positive return. At some point we have to just stop digging and that is what this bill does. At the time when the plan was created it was expected that employees would stay for years. Our new younger employees want to be portable. We set them up at a disadvantage. With the plan being under funded like that, the new employee is paying for their retirement plus a portion of someone else's.

(33:00) Pam Sharp, Director, Office of Management and Budget: See Attachment # 3 in opposition to the bill.

(36:40) Senator Cook: You mentioned that on our path to recovery, that all we need is a few small adjustments to benefits and contributions, can you expand on that?

Pam Sharp: There is a bill in the House, 1008, that is the adjustments to the benefits that would change the rule of 85 to 90 for new employees. It would change the average years of highest compensation from 3 years to 5 years. The vesting schedule would be changed similar to TFFR plan. In addition, that bill provides for another 1 and 1 contribution increase; 1% from employees and 1% from the employer (state government) at a cost to the general fund at about $4 million. That would put us on a solid track.

Chairman Dever: I understand that without that bill, we are projected to be 100% funded in 2059 and with the bill it would be 2034.

Senator Cook: The multiplier is fixed yet at 2?

Pam Sharp: I believe it stays the same for new employees.

Senator Cook: I have voted to change that multiplier a few times. Every time we did it, we have testimony that the plan is actuarially sound and that it would stay sound if we increase the multiplier. Looking back, I wish we would have amended that so that the multiplier would go back if it had to if it was sound. Anyone ever talk about doing that for new employees if we kept the defined benefit plan? Having multipliers that can fluxuate?

Pam Sharp: I do not know and would defer to Sparb Collins. Contributions are set by the legislature. In some other states, the contributions are established by the ARC. Then contributions have to fluxuates so they are always fully funding the plan. There are different ways to do it in different states.

Chairman Dever: I suggested we do that and I was told we would be really unpopular.

Vice Chairman Poolman: You have a much better overview on the numbers and all the appropriations bills going through the session, are you familiar with any other bills where they say that it will cost money but it is in a different bill?

Pam Sharp: I am not aware of that. It is good to keep the appropriations and the bills together.

Vice Chairman Poolman: I know that the other bill asks to take the money out of the foundation aid stabilization fund that has to go to a constitutional change; should that fail, what is the plan to find those hundreds of millions of dollars?

Pam Sharp: I do not know what plan B is.

Chairman Dever: Regardless from an accounting point of view, the fund would continue to show an unfunded liability as a result of that.

Pam Sharp: That is correct. Even if the citizens of the state would pass that and the fund would be set up, that fund is not directly attached to retirement fund. So in the eyes of everyone in the financial community, like the rating agencies, that plan is insolvent.

Senator Davison: In your testimony you say that a few small adjustments would put us on the right path and we can be fully funded, are you suggesting that there will not be another recession in the next 30 years?

Pam Sharp: I cannot say that any more than you can say that.

Senator Davison: If I understand this bill right, it appears to me that the bill tries to transition the risk away from the taxpayer of the state of ND from another recession which would really impact the fund as it did before, and it transfers that risk to the employee who is managing the dollars themselves within the defined contribution plan - would that be correct?

Pam Sharp: I cannot say that that is correct. The way I see it, it puts more risk state government. The more insolvent that plan gets, the more the state has to find revenue from some other place. They are going to have to be dumping money into this plan to continue to pay out their commitments.

Senator Davison: You also suggest that by us contributing 100% of the state funds that we are losing out because 1/3 of the funds that go to the retirement plan come from federal government. The federal funds that I manage can be used for retirement, salaries, travel, etc. Wouldn't we just be transitioning those funds to other things outside the retirement fund?

Pam Sharp: What I mean when I say the split, it is general funds, special funds, and federal funds. The way we get the contributions to the fund is through the payroll. Those state employees that are paid with federal or special funds, their contribution come from the source that their salaries are paid, which would be federal funds. So it is tied to that employees funding source for their salary.

Chairman Dever: Can I assume that you have the Governor's permission to testify in opposition since you are the Director of Executive Branch agency?

Pam Sharp: I do. The Governor very much supports the adjustments that have been proposed on the House side in HB 1008, and he believes we have a solid plan and those minor adjustments put that plan on solid ground. He believes that is the way to go.

Chairman Dever: The actuarial study was $3.6 billion dollars in unfunded liability, it seems to me that dumping the plan is billions of dollars more expensive than keeping it, would that be accurate?

Pam Sharp: I believe that is accurate.

Vice Chairman Poolman: Just because we put this bulk payment right now, doesn't mean that for the taxpayer is the off the hook for all of the contributions that continually need to be made for the employer side of the contribution correct?

Pam Sharp: That is absolutely correct. The taxpayer is on the hook because those commitments have been made.

(46:45) Ken Purdy, Director, Human Resource Management Services: See Attachment #4 for testimony in opposition to the bill.

(49:40) Senator Davison: Do I understand the bill correctly that this does not impact current employees at all? If everything stayed the same, it does not impact their retirement?

Ken Purdy: My understanding is that the intent is to fund out the existing employees per the plan as it stands. The risk becomes if there is no identified funding to carry the plan to its end, the risk of bankruptcy, the reaction of employees would be significant risk.

Senator Davison: Within the potential employee impact, that is just a communication challenge there. When you talk about increasing turnover, does that data imply from earlier testimony for the bill that people are becoming more flexible and moving between jobs more often? The reality is that people don't stay in jobs as long as they used to.

Ken Purdy: I think that is observed in the workforce in today's world. I know that when employees have a significant investment in the defined benefit, the retention is greater. There is a strong benefit to staying.

Senator Davison: Asked for some data.

Chairman Dever: I am aware of 3 or 4 top level administrators in Human Services that will be retiring in the next few months; they say that it is as a result of changes we made in retiree health plan. Would you say employees are sensitive to these types of things?

Ken Purdy: Very much so. I am aware of several people who have made the same comments relating to that health coverage change. Employees are very sensitive to the retirement plan and its stability. It has triggered some that would wait to make a change.

(53:40) Gordy Smith, Retired State Employee: See Attachment # 5 for testimony in opposition to the bill.

(1:02:45)Senator Cook: Do you know what the two states that have a defined contribution plan?

Gordy Smith: I do not.

(1:05:05) Stuart Savelkoul, North Dakota United: See Attachments #6 and #7 for testimony in opposition to SB 2038.

(1:11:45) Josh Askvig, AARP of ND: See Attachment # 8 in opposition to the bill.

(1:14:50) Bill Kalanek, Association for Public Employees: See Attachment #9 for testimony in opposition to the bill.

Chairman Dever: Recessed the hearing to return for further testimony in the afternoon.

2015 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Missouri River Room, State Capitol

SB 2038
1/22/2015
Job # 22407

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Carie Winings

Minutes:

Attachments 1-2

Chairman Dever: Reopened the hearing on SB 2038.

Sparb Collins, Executive Director, North Dakota Public Employees Retirement System: See Attachment #1 and #2 for testimony in opposition to the bill.

(35:30) Senator Cook: Am I hearing you correctly that if this bill had a legitimate funding mechanism that you would be neutral on the bill?

Sparb Collins: I would have to check with my board, but in the past when that was the case I would say yes.

Senator Cook: Is it safe to say that if we did not take a hit in 2008, we would not even see this legislation before us today?

Sparb Collins: That I do not know. I am glad you brought that up. People have talked about as you go forward with a defined benefit plan that this could come up. Yes it can, but the state investment boards consultant said that out of 224 years' worth of returns there were only 4 worse than what we went through in 2008. We have weathered since 1977 several economic upturns and downturns.

Senator Cook: The "buts" of what the future is scares me. The challenge among legislators as we deal with this difficult issue is it is all relative to your confidence in the stock market not taking another hit like it did in 2008. The real challenge in my mind is that we have a future cost to the state coming to guarantee the promises that the legislature has in the past and right now made to our state employees. We are going to have a cost that we are someday going to have to pay. It is a matter of how we minimize that cost. I do not know the answer to it. We could put money in now and then still have more to pay later. You have a lot more confidence in the stock market than I do.

Sparb Collins: The cost in the fiscal note is identified. Contributions should increase by 10% to keep this funded on a regular basis.

Senator Cook: Or an influx of cash right now.

Sparb Collins: Yes. If it doesn't happen, the employee contributions and the retiree's contributions are going to be spent down and basically replaced with a promissory note.

Senator Nelson: History lesson please. Were there any changes in the good years to the contributions made by the employee or the employer?

Sparb Collins: Yes. When PERS started in 1977 the contributions were 9.12%. In 1989 the contributions dropped to 8.12% and the retiree health credit program was created. That 1% was moved over to fund that program. Until 2011, we were down at 8.12% funding level. This was one of the lowest in the country. That is one of the reasons why when the people went into the DC plan at 8% it was just not enough money for them to save. That is why they are all in difficult situations today. So we have increased to 14.12% today and the DC plan is up 14.12% as well. This is still one of the lower levels. Under our statute, there is a 7.12% employer and the employee contribution is 7% (4% of that is paid for the state and 3% is out of pocket).

Senator Davison: Throughout your presentation you referred multiple times to "reasonable retirement" or an "adequate retirement"; could you explain to me what that is? Is that a percentage of your last income?

Sparb Collins: Yes. The PERS system was set up with a goal a long time ago of getting to a multiplier of 2 so that a career employee be able to retire with about 90% of final average salary. For the average employee, about 40% comes from Social Security and 60% comes from the PERS retirement plan. A career employee is defined as someone about 25 years. That is why the PERS plan went up to a multiplier of 2.

Senator Davison: The goal is 90% replacement including Social Security?

Sparb Collins: That is what we design our plans around.

Senator Davison: (gives an example of his parents in the defined contribution plan) Do you get to pass the money down to the family in the defined benefit plan?

Sparb Collins: Yes to a certain degree, but not to the same degree. We have a hybrid defined benefit plan that allows for employees to accumulate a cash balance in the plan that is the employee contribution and they can vest in the employer contribution and that goes into their account balance and that gets interest today at 7.5%. Over your working career, that all goes into a cash balance at that 7.5%. When you retire, the money comes out of that. If you pass away, the rest of the balance can go to your beneficiaries. You can when you retire take a single life annuity and that will pay my benefit over the rest of my life and if I have a spouse, I have the option to take 100% joint survivor benefit that will pay the same benefit over my lifetime and my spouses lifetime. Or you can take a 50% joint survivor option, where it will pay a higher amount over the employee's lifetime and then when employee passes away, it will pay 50% of that life amount over the rest of her lifetime. We have 10 and 20 year certain benefits that can be given to your children. There are a variety of benefits to select from to ensure the payment over your spouses, kids, or any other beneficiary's lifetime, or because we are a hybrid plan there is this big cash balance pot that we have that is in your name that is available to you as well.

Senator Cook: Can an estate have a plan that has different multipliers depending when the employee was hired?

Sparb Collins: Yes. The bill that is in the House, we added to that the same benefit changes that TFFR offered in 2011. The 4th year of the recovery plan would include not only the last amount but we are also offering benefit reductions for new employees. We are set to be fully funded in 2059 and with the contribution increases it would get us down to 2040 and with the benefit reductions it would get us down to 2035.

Senator Davison: I think that the contributions that have been made have helped the plan to become more solvent and on the right path. When you look at the return in the stock market and use the rule of 72 over the last three years, I think we could both agree that was probably the more favorable thing that happened to these dollars than just the increase of the employees.

Sparb Collins: Absolutely. If we have good years going forward we would be funded quicker and we would be able to get rid of the contributions sooner and quicker.

Chairman Dever: I think there is a window for current employees to move from DB to DC?

Sparb Collins: Today, from what you enacted last session, yes when employees are hired, they are enrolled in the hybrid plan and then they have 6 months to make an election to switch to the DC plan.

Chairman Dever: What about this bill?

Sparb Collins: In this bill, once you have made your election, you have made it. You have 6 months and if you stay in the hybrid plan you are there for the remainder. There is a bill this session to allow employees with the DB plan to transfer out. This bill provides for all existing state employees to have the opportunity to transfer out. If this bill is passed and we send a notice out, then everyone will know that the plan is going broke. We probably will have more get out because if it. We have assumed here that about 40% of the people, because they are going to have a unique offering, will probably get out. I wouldn't be surprised if more do.

Chairman Dever: One of the scenarios would be that we keep the DB plan and at some point it is fully funded, and speculation would be that we would enhance the benefits. Another option would be that we would reduce the contribution rate. On the DC plan though, once we adopt that plan at the higher level of contribution rate, we cannot back away from that as I understand?

Sparb Collins: You can.

Chairman Dever: If you go into it right now it is with the understanding that the state will contribute 11% to their 3%.

Sparb Collins: Yes. Here is the argument. You could easily change it for new employees and back it back down. It is a contractual agreement between the employee and the employer and employees could bring forward an argument to say that they went into the DC plan based on the contract that was set at the higher rate and it cannot be dropped lower than that.

Chairman Dever: When we increased the rate on the DB plan, do employees have a legal argument to refuse the increased contribution?

Sparb Collins: They have a legal argument to resist paying the employee portion. We recognize this when we asked employees to pay and employees have accepted that. Technically the state is required to hold to what the employee's contract reads. Whether the courts would uphold that I do not know.

Chairman Dever: Were you involved in the construction of the bill or did you offer any amendments to the interim committee?

Sparb Collins: Most of the points you see today were addressed to the interim committee. The board did not take a position against the DC plan because there was not a bill provided until the end. Our opposition here is based on the fact that this isn't funded. Imagine that the amount of money that is spent here would give retirees a 20% increase.

(58:44)**Senator Cook:** I don't know why you would tell employees, if this bill passes, that their retirement plan is no longer funded. Is there a legal requirement?

Sparb Collins: No, there is a requirement for you to pay but there is no longer money in the trust fund.

Senator Cook: Why create the panic?

Sparb Collins: This is why in the private sector companies have gone broke. The reason you have to make sure it is in the trust, is because it is then secure and set aside guaranteed. That is not what is being talked about here.

Senator Cook: As we discuss this bill, I have never heard any legislator say they do not want to hold to the promises that we have made to all current state employees. And I hope that is not the message that is given to them. (Requested a printout of all the changes that have been made to the multiplier.)

Sparb Collins: We have to remember that the legislators today may not be here 20 years from now.

Senator Cook: My concern is that as we sit here today and make a commitment - that 20 years from now the legislators will be in a position where absolutely they cannot make it. We need to try to find a solution to the promises that we make to our state employees.

Sparb Collins: We do know that if this change does not occur, the plan is on an upward tick.

Chairman Dever: You make a good point. Closed the discussion.

2015 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Missouri River Room, State Capitol

SB 2038
1/29/2015
Job # 22826

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Carrie Wenning

Minutes:

Attachments 1

Chairman Dever: Opened SB 2038 for committee discussion. See Attachment #1 for additional information from Ken Purdy.

Vice Chairman Poolman: Moved a Do Not Pass.

Senator Nelson: Seconded.

Chairman Dever: Any further discussion?

Senator Cook: If this bill was to get killed and taken off the table, are there any other bills out there dealing with the PERS plan?

Chairman Dever: There is a bill in the House to increase the contribution rate on the employer and employee side by 1 point each. That is the bill to complete what was the recovery plan that came to us in 2011.

Committee Discussion: A discussion occurred on what the process would be if there would be amendments to the plan. Senator Flakoll addressed SCR 4003 and how it would affect PERS.

Senator Cook: I am in the minority in the Senate on the issue. Defined benefit plans require us to keep promises to state employees that are going to have to be kept by future legislators and I just have a difficult time doing that. I know that this bill as it is written cannot be passed. I understand there is not funding for this bill. I feel that if we are going to get away from that promise that there is no guarantee that we can keep it that we need to look at something else and we never seem to get to the point of looking at something else and the players that need to be involved in making a good effort to find another solution are not interested in that. That becomes the real challenge. If we are going to keep a defined benefit plan for future employees, one of the things that I would really like to see us do to help make that promise more keepable is to look at the multiplier as to whether or not it could adjust based on the actuarial soundness of the plan. I thought if all new employees starting out at a lower multiplier with the understanding that as the plan became actuarially sound that multiplier could go up. I wish that when I voted in the past to increase the multiplier, I would have been smart enough at that time to amend it so that that multiplier could be adjusted as needed. Every time we did it we were told the plan was actuarially sound. Then you are making a promise you can truly keep.

Chairman Dever: In 2002 when we increased the multiplier the fund was 104%. I think everyone understands that one of the big differences between defined benefit and defined contribution is who carries the risk.

Senator Cook: Exactly. Taxpayers verses the employee.

Chairman Dever: As it turns out, it is billions of dollars more expensive to dump it than keep it. Before the recession the contribution rate was 4% on the employee side and 4.12% on the employer side. What we passed in 2011, we went two points on each side, and in 2013 we went one point on each side. Now we would be doing that again and going one more point on each side. If 4 and 4 maintains the plan, the additional 3 and 3 goes to restore the plan. Under defined contributions the 7 and 7 goes in to the employees plan with no contribution toward the recovery. If I was a new employee, I would go to a defined contribution plan. That too is a promise. When the fund is fully restored, that future legislature can drop that contribution rate back down to wherever they feel it needs to be. Sparb indicated that they could drop it on the defined contribution side but that again is a promise made to the state employees. Part of the complication of this whole thing is that we are thinking about situations 80 years from now. For a lot of us we don't want to think like that so it makes everything sound pretty complicated.

Senator Cook: When you talk about restoring the plan and the numbers say that is what it does, but remember that is all based on assumptions. And that is mostly on an 8% annual return. There are states that have been told by their actuarial that they cannot use 8% - it is not a viable number; that they had to go to 7.5%. If we just did that and went down to a 7.5% return that would even make this plan worse. But there are smart people saying that is reality. We all have different views on the stock market.

Chairman Dever: But the assumption is only an assumption. It does not affect the performance of the plan. We are just basing projections on that.

Senator Cook: Right the plan will perform as the real world determines.

Chairman Dever: The actuarial during the interim said that we would not get into trouble if the return dropped below 8% for two or three years. The last three years it has been well over that. But when you ask the question what the proper assumption is, the question you are really asking is what the contribution rate needs to be to maintain the plan.

Senator Nelson: Talked about her experience with the TFFR fund and using the margin.

Senator Davison: Does the actuary take in to consideration the raises that we give state employees?

Chairman Dever: There are a number of factors and I have that particular information at home but it includes assumptions on how many new employees we are going to hire, how long people stay in their career before they retire, assumptions on pay raises, etc.

Committee Discussion: The committee discussed that the state does not include COLA and how things are figured for projections. Who did the actuarial and what their projections were for the fund based on assumptions.

A Roll Call Vote Was Taken: 4 yeas, 3 nays, 0 absent.

Motion Carries.

Senator Dever will carry the bill.

Date: 1/29
Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2038

Senate Government and Veterans Affairs Committee

☐ Subcommittee

Amendment LC# or Description: ______

Recommendation: ☐ Adopt Amendment
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ ______

Motion Made By Poolman Seconded By Nelson

Senators	Yes	No	Senators	Yes	No
Chairman Dever	✓		Senator Marcellais		✓
Vice Chairman Poolman	✓		Senator Nelson	✓	
Senator Cook		✓			
Senator Davison		✓			
Senator Flakoll	✓				

Total (Yes) 4 No 3

Absent 0

Floor Assignment Dever

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2038: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends **DO NOT PASS** (4 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). SB 2038 was placed on the Eleventh order on the calendar.

2015 TESTIMONY

SB 2038

Arthur J. Gallagher & Co.
BUSINESS WITHOUT BARRIERS™

Comparison of Defined Contribution Benefits vs. NDPERS Defined Benefits

DOUG ANDERSON | AUGUST 21, 2014

1/22/15 SB 2038 Rep. Delzer

Attachment #1

Defined Contribution vs. NDPERS Defined Benefit Plan

The following slides show the ratio of Defined Contribution (DC) benefits to the current NDPERS Defined Benefit (DB) plan benefits for sample participants under different assumptions:

$$\frac{\text{DC Plan Benefits}}{\text{DB Plan Benefits}}$$

- Participants that gain under the DC plan are highlighted in green (DC plan benefit is higher than DB benefit) and participants that gain under the DB plan are highlighted in red (DC is lower than DB)
- Benefits are payable at Normal Retirement Age (earlier of age 65 or Rule of 85), or upon termination if later
- DC account balances are converted to lifetime income annuities (using the post-retirement return assumption) for this comparison
- Ancillary benefits (such as death or disability benefits) are not included

Defined Contribution vs. NDPERS Defined Benefit Plan

Sample Calculation

For example, a participant retires with the following data:

- Retires after 25 years of service at age 60 (Rule of 85 eligible)
- Final average pay is $50,000
- DC account balance at retirement is $272,000 (accumulated value of 14.12% total EE + ER contributions earning 8% per year)

The ratio for this participant is calculated as follows:

- DC lifetime income = $272,000 / 15.512804 = $17,534 (using 4% post-retirement return assumption)
- DB plan benefit = $50,000 * 2% * 25 years = $25,000 per year
- DC / DB ratio = $17,534 / $25,000 = 70%

Because the DC benefits are lower, this participant would be better off remaining in the DB Plan.

Defined Contribution vs. NDPERS Defined Benefit Plan

Assumptions and Provisions

Key Provisions:

- Defined benefit amounts are based on current plan provisions as outlined in the July 1, 2013 actuarial valuation
- Defined benefit amounts include the value of employee account balance refunds if greater than the accrued benefit
- All Defined Contribution scenarios are based on an assumed total contribution of 14.12%, representing a 7.0% Member Contribution plus a 7.12% Employer Contribution

Key Assumptions:

- Investment return assumptions are as noted in each scenario
- Salaries are assumed to increase using the salary scale in the July 1, 2013 actuarial valuation
- Account balances are converted using unisex factors based on the mortality tables used in the July 1, 2013 actuarial valuation

Defined Contribution vs. NDPERS Defined Benefit Plan
Current Contribution Rate and Return Assumptions

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

Age at Hire	Service at Termination: 5	10	15	20	25	30	35
20	246%	243%	240%	238%	230%	145%	108%
25	240%	237%	235%	233%	214%	102%	118%
30	235%	232%	230%	227%	149%	110%	130%
35	229%	227%	224%	220%	102%	121%	147%
40	224%	221%	204%	151%	112%	136%	170%
45	219%	188%	139%	103%	125%	156%	-
50	175%	128%	95%	115%	144%	-	-
55	119%	87%	106%	132%	-	-	-
60	81%	97%	121%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	8.00%
Post-retirement return	8.00%
Total EE + ER contribution	14.12%
Valuation salary scale	
Valuation mortality (blended 50/50)	

Defined Contribution vs. NDPERS Defined Benefit Plan
Post-retirement Longevity Risk Transfer

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

Age at Hire	Service at Termination: 5	10	15	20	25	30	35
20	246%	243%	240%	238%	210%	96%	71%
25	240%	237%	235%	233%	147%	67%	81%
30	235%	232%	230%	227%	102%	75%	93%
35	229%	227%	213%	157%	70%	86%	109%
40	224%	197%	145%	107%	80%	101%	132%
45	184%	134%	99%	74%	93%	121%	-
50	125%	91%	68%	86%	112%	-	-
55	85%	62%	79%	103%	-	-	-
60	58%	72%	94%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	8.00%
Post-retirement return	4.00%
Total EE + ER contribution	14.12%
Valuation salary scale	
Valuation mortality (blended 50/50)	

Defined Contribution vs. NDPERS Defined Benefit Plan

Unfavorable Investment Performance

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

	Service at Termination						
Age at Hire	5	10	15	20	25	30	35
20	111%	115%	119%	123%	124%	65%	50%
25	119%	123%	127%	132%	95%	50%	57%
30	128%	132%	137%	141%	72%	56%	65%
35	137%	142%	139%	107%	55%	64%	76%
40	147%	135%	104%	80%	62%	74%	92%
45	133%	101%	78%	61%	73%	89%	-
50	99%	76%	59%	70%	87%	-	-
55	74%	57%	68%	84%	-	-	-
60	55%	66%	81%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	6.00%
Post-retirement return	4.00%
Total EE + ER contribution	14.12%
Valuation salary scale	
Valuation mortality (blended 50/50)	

Defined Contribution vs. NDPERS Defined Benefit Plan

Favorable Investment Performance

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

Age at Hire	Service at Termination: 5	10	15	20	25	30	35
20	536%	508%	483%	460%	392%	180%	130%
25	478%	453%	431%	411%	280%	116%	145%
30	426%	404%	384%	367%	177%	127%	164%
35	380%	360%	343%	276%	112%	143%	189%
40	339%	321%	243%	173%	124%	163%	222%
45	302%	212%	151%	108%	142%	192%	-
50	189%	132%	94%	123%	166%	-	-
55	117%	82%	107%	144%	-	-	-
60	73%	93%	125%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	10.00%
Post-retirement return	6.00%
Total EE + ER contribution	14.12%
Valuation salary scale	
Valuation mortality (blended 50/50)	

Arthur J. Gallagher & Co.
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Thank You

Doug Anderson | Area Sr. VP of Actuarial & Retirement Services

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#2 pg 1

SUMMARY OF BILL DRAFT [15.0176.04000] - PROPOSED STATE RETIREMENT PLAN CHANGES

This memorandum provides information on the current state retirement plans as well as proposed modifications to the state retirement plans under bill draft [15.0176.04000], which was approved by the Government Finance Committee on October 8, 2014.

CURRENT STATE RETIREMENT PLANS

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, an optional defined contribution retirement plan, Highway Patrolmen's retirement system, Job Service North Dakota retirement plan, and retiree health benefits fund.

The Legislative Assembly authorized the use of the optional defined contribution retirement plan effective January 1, 2000. The defined contribution retirement plan is provided for under Chapter 54-52.6. Prior to October 1, 2013, the plan was available to state employees 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. Between October 1, 2013, and July 31, 2017, as a result of provisions of 2013 House Bill No. 1452, any new state employee who is eligible may elect to participate in the defined contribution 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 under Chapter 54-52. An election to participate in the defined contribution plan is irrevocable.

STATE RETIREMENT PLANS UNDER THE PROPOSED BILL DRAFT

The proposed bill draft provides for the following:

- An eligible state employee hired for the first time after December 31, 2015, would be required to enroll in the defined contribution plan under Chapter 54-52.6, rather than the defined benefit plan.
- The bill draft would not affect current or future Supreme Court or district court judges, employees eligible to participate in the National Guard retirement plan or the law enforcement plan, employees of a political subdivision, or employees of the State Board of Higher Education and state institutions under the jurisdiction of the board that are participating in the TIAA-CREF retirement plan.
- State employees currently participating in the defined benefit plan and those hired before January 1, 2016, who elect to participate in the defined benefit plan would continue to participate in the defined benefit plan. However, during the last six months of 2016, a state employee participating in the defined benefit plan may elect to transfer to the defined contribution plan. This election is irrevocable.
- The vesting period for employees in the defined contribution plan would be changed to allow employees to become fully vested in employer contributions after one year of service rather than a vesting schedule of 50 percent after two years, 75 percent after three years, and 100 percent after four years.

SUMMARY OF BILL DRAFT BY SECTION

Section 1 of the bill draft amends the definition of eligible employee under Section 54-52-01(4) of the **defined benefit plan** to include the following: employees who are participating members before January 1, 2016, Supreme Court judges and district court judges, employees eligible to participate in the National Guard retirement plan or a law enforcement retirement plan, and employees of a political subdivision.

Section 2 of the bill draft amends Section 54-52-02.5 of the **defined benefit plan** to designate which retirement plan newly elected and appointed state officials may participate in.

Section 3 of the bill draft amends Section 54-52-02.9 of the **defined benefit plan** to allow temporary employees to elect to participate under the defined benefit plan until December 31, 2015. New temporary employees hired after December 31, 2015, will not be able to elect to participate under the defined benefit plan. A temporary employee who is a participating member before January 1, 2016, may continue under the defined benefit plan. The bill draft also clarifies the contribution percentage of 14.12 percent, which is the sum of the original 8.12 percent plus 2 percent increases in each of 2012, 2013, and 2014.

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Section 4 of the bill draft amends the definition of eligible employee under Section 54-52.6-01(3) of the **defined contribution plan** to include state employees hired after December 31, 2015, except: Supreme Court judges and district court judges, employees eligible to participate in the National Guard retirement plan or a law enforcement retirement plan, employees of a political subdivision, and employees of the State Board of Higher Education and state institutions under the jurisdiction of the board who are participating in the TIAA-CREF retirement plan. The bill draft also amends the definition of participating employees under Section 54-52.6-01(6), removing the election requirement for employees to participate under the defined contribution plan. The bill draft also amends Section 54-52.6-01 adding a definition of temporary employee, which includes temporary employees under the defined contribution plan. The new definitions would take effect on January 1, 2016.

Section 5 of the bill draft amends Section 54-52.6-02 of the **defined contribution plan** and provides that newly hired eligible employees have an option to elect to participate in the defined contribution plan until December 31, 2015. Beginning January 1, 2016, all eligible employees will be participating members under the defined contribution plan without an election.

This section also includes an election for all eligible employees, who are first employed before January 1, 2016, and who are members of PERS on June 30, 2016, to terminate membership under the defined benefit retirement plan and transfer to the defined contribution retirement plan. The election period would begin July 1, 2016, and would end December 30, 2016.

The section also makes clear that the contribution percentage under the section relating to temporary employee contributions is 14.12 percent, which is the sum of the original 8.12 percent plus 2 percent increases in 2012, 2013, and 2014.

Section 6 of the bill draft creates Section 54-52.6-02.1 under the **defined contribution plan** defining the membership under Chapter 54-52.6 of the defined contribution plan to include all eligible employees, as well as any temporary employees who elect to participate under the defined contribution plan. The effective date of the section would be January 1, 2016.

Section 7 of the bill draft amends Section 54-52.6-03 of the **defined contribution plan** to adjust the suspension date of the section from July 31, 2017, to December 31, 2015.

Section 8 of the bill draft amends Section 54-52.6-10 of the **defined contribution plan** and provides a participating member is 100 percent vested in the employer contributions made on the member's behalf upon completion of one year of service.

Section 9 of the bill draft provides that an employee who is a participating member in the defined benefit plan and is eligible to transfer to the defined contribution plan may request that PERS prepare an estimate of the employee's accumulated balance transfer amount by calculating the actuarial present value of the employee's accumulated benefit obligation.

ESTIMATED FISCAL IMPACT OF BILL

The Government Finance Committee received information regarding the actuarially calculated costs relating to the main defined benefit retirement plan if state employees hired after January 1, 2016, were required to participate in a defined contribution benefit plan.

The Segal Company Projections

The committee received information in March 2014 from The Segal Company, which is the consulting actuary for PERS. Segal reported that if the defined benefit plan was closed to new employees, the state portion of the plan would be able to pay benefits until the year 2046. There would be a projected contribution shortfall of $3,688,100,000 for future benefits to be paid after 2046. However, a payment of $162.8 million could be made to the retirement plan on July 1, 2015, to fully offset the state portion of the future projected contribution shortfall. The estimated payment of $162.8 million needed to fully fund the state portion of the plan is based on an 8 percent investment return. However, the asset allocation of the plan's investments may need to be adjusted by moving the investments to shorter-term investments near the projected end of the plan. The move to more short-term investments near the projected end of the plan could potentially reduce the plan's investment return.

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Independent Review by Arthur J. Gallagher & Co.

The committee requested and received approval from the Legislative Management Chairman to enter into an actuarial consulting contract with Arthur J. Gallagher & Co. (Gallagher). Representatives of Gallagher reviewed the July 1, 2013 actuarial valuation of the PERS plan conducted by Segal as well as the March 2014 study conducted by Segal regarding estimated costs to close the main state employee defined benefit retirement plan.

Representatives of Gallagher reviewed assumptions used by Segal and suggested the committee consider reviewing plan projections using alternative assumptions. Suggested alternative assumptions were provided for investment returns, salary increases, payroll growth, employee mortality, and employee retirement rates.

Representatives of Gallagher reported minimal differences resulting from its review of Segal's July 2013 valuation report but did have differences compared to Segal's March 2014 study results. Gallagher estimated that if only the state employees group was closed and separated from nonstate employees, the insolvency date of the plan would be in 30 years as compared to 35 years as determined by Segal. The estimated one-time contribution on July 1, 2015, to fully fund the retirement plan would be $301 million as calculated by Gallagher compared to $162.8 million under Segal's projections.

Representatives of Segal provided comments regarding differences in the projected actuarial costs calculated by Segal and by Gallagher to close the main state employee retirement plan to new employees effective January 1, 2016. Segal indicated the major difference in the calculations is due to an adjustment made by Segal to the amount of future benefit payments. Segal inadvertently failed to report the adjustment to the PERS or to Gallagher when disclosing projection assumptions.

Method to Address Unfunded Liabilities

The Government Finance Committee approved a separate bill draft to address any unfunded liabilities of the defined benefit plan resulting from the bill draft to close the defined benefit plan to new state employees. The separate bill draft establishes a school construction assistance loan fund and a public employee retirement stabilization fund. The funds in the public employee retirement stabilization fund would be available to offset any unfunded liability of the main state employee defined benefit retirement plan. The State Investment Board would be responsible for investing the public employee retirement stabilization fund. The bill draft includes a contingency that would make the transfers into these funds from the foundation aid stabilization fund effective only upon approval of a constitutional amendment by the Legislative Assembly in 2015 and by the voters in June 2016 to allow for additional uses of the foundation aid stabilization fund. The bill draft provides for a transfer of $250 million into the school construction assistance loan fund and a transfer of $200 million into the public employee retirement stabilization fund.

#3
Pg 1

Testimony on Senate Bill 2038
Pam Sharp, Director
Office of Management and Budget
January 22, 2015

Good morning Chairman Dever and members of the Government and Veteran's Affairs Committee.

I stand before you today in opposition of Senate Bill 2038. Closing the defined benefit plan immediately puts that plan on the road to insolvency and bankruptcy. There is no need to do that.

The defined benefit plan does have an unfunded liability and that is the direct result of the markets in the great recession of 2008 and 2009. Before that, the plan was fully funded at market value. We do not need to immediately get rid of the unfunded liability; we simply need to be on a path to full funding of the plan. And we are. Right now, it's a long path, but with a few small adjustments to benefits and contributions, the plan can be fully funded in a reasonable period of time.

Closing the defined benefit plan with no source of funding is financially irresponsible. This plan, as I understand, works in conjunction with SCR 4003, which would require the citizens of North Dakota to vote on providing money from the Foundation Aid Stabilization Fund to be used to bail out the state employees' retirement fund, and then, it is at the discretion of the legislature to use the money for that purpose. This would be a legislatively created financial crisis that the citizens of North Dakota would be asked to fix.

The way to deal with the unfunded liability is to continue with the recovery plan in the same way the TFFR Fund was dealt with - through employer and employee contributions along with minor adjustments for new employees. Currently the employer contributions come from roughly 1/3 general funds, 1/3 special funds and 1/3 federal funds. To use the Foundation Aid Stabilization

Fund to pay for the unfunded liability of closed plan would use 100% state funds instead of using the other sources that are available to us through the contributions.

OMB prepares the Comprehensive Annual Financial Report (CAFR). Reporting pension liability is included in that report. New Governmental Accounting Standards Board (GASB) rules are going into effect for the next CAFR. Currently, our net pension liability is $356 million. If this bill is passed, we would have to show the liability as $717 million because the plan would be closed and we would have to use a different discount rate. This would not look good in our CAFR, it would not look good to our rating agencies and it would not be good for the financial reputation of the State of North Dakota.

The rating agencies of Standard and Poor's and Moody's would immediately react in a negative way to an insolvent plan and would very likely reduce our rating very quickly because the state would have consciously and deliberately put the defined benefit plan on the road to insolvency.

Please vote no on this bill.

#4

Testimony on SB2038
Senate Government & Veterans Affairs Committee
January 22, 2015

Ken Purdy, Director
Human Resource Mgmt Services

Mr. Chairman, members of Senate Government & Veterans Affairs:

As Proposed, SB2038 closes the Defined Benefit retirement plan and puts new employees hired after January 1, 2016 in the Defined Contribution

Points of Concern & Potential Impacts

- Multiple actuarial estimates assign a cost ranging from $162.8 to $300 million based on deposit to the retirement fund on Jan 1, 2016
- Other proposed legislation identifies $200 million in a separate fund to close the DB plan
- Funding to close the DB plan is dependent on other action including a proposed constitutional amendment which will not be voted on till June 2016
- **If this bill passes and the constitutional measure fails, there is no mechanism for addressing the unfunded liability of the DB plan**

Potential Employment Impact

- Closing the DB plan with a significant risk of bankrupting of the plan (or perception of bankruptcy) – How will employees react?
    - Panic, Retire ASAP, Bad decisions
        - Some may retire before they are ready
        - Some may take a lump sum payout instead of benefit payment – "bird in the hand"
    - Both of these reactions could affect actuarial assumptions and increase the cost of closing the DB plan

- Currently already on an increasing turnover trend and experiencing challenges in hiring
    - 8.1% in 2009
    - 8.0% in 2010
    - 9.2% in 2011
    - 10.4% in 2012
    - 10.3% in 2013
    - 11.1% in 2014

- Retirement Eligibility - 13.6% of regular employees in executive branch agencies are eligible to retire (either rule of 85 or age 65)
    - In agencies with > 20 employees:
        - 14 agencies over 15% eligible
        - 4 over 20% eligible
        - 2 with 30% eligible

The potential impact of this bill on employees and on agency efforts to retain a quality workforce could place significant risk on agency operations. It makes far more sense to carry forth with the recovery plan initiated in 2011.

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pg1

Senate Government and Veteran's Affairs Committee

SB2038

January 22, 2015

Testimony by Gordy Smith

Good morning Mr. Chairman and members of the Senate and Veteran's Affairs Committee. For the record my name is Gordy Smith and I am currently a retired state employee. It is my distinct privilege to appear before you today in opposition to SB2038.

As you have already heard SB2038 closes the current defined benefit retirement plan for new state employees as of January 1, 2016. While I have many concerns over this bill my strongest is the complete lack of any funding plan to address the unfunded liability for retired and current state employees. As pointed out by two consultants to the interim committee who sponsored this bill, it puts the current state retirement plan on the road to bankruptcy. Once again it puts the current state retirement plan which serves thousands of former and current state employees on the road to bankruptcy. The consultant estimated that if this bill is passed the current state retirement plan will run out of money sometime between 2033 and 2049. Yet the bill provides absolutely no funding plan to pay for the retirement benefits for current or retired members of the plan.

Someone may point out that a funding solution is set forth in other legislation (SB2039 and SCR4003), which I feel is misleading. A plan that relies on a constitutional amendment that MIGHT pass or on future legislatures that may PERHAPS fund this bill is really no plan at all. There is absolutely no assurance a constitutional amendment would pass or that future legislatures will fund the shortfall and there is no plan in place to address the financial crisis should neither occur.

This is not how the ND Legislature governs, at least not during the 36+ years I was a state employee and frequently worked with legislators. Our legislature is financially responsible and ensures programs are properly funded and that is one reason our state is enjoying the great economic times we find ourselves in.

So let's look at what the consultants say SBBB208 will cost. As mentioned earlier, closing the current plan under this bill will put the retirement plan into bankruptcy. I would like to discuss two of the methods which could be used to fund this bill. First, employer and employee contributions could be increased. Current combined employer and employee contributions are approximately 14%. The consultants feel this contribution level would need to be increased to approximately 24% in order to pay for the unfunded liability. The second method put forth is a one-time payment into the defined benefit plan retirement fund. Assuming a 7% return on investments the consultant estimated the payment needed would be $354 million on July 1, 2017. It is important to note this estimate would increase significantly depending on the actual rate

#5
pg 2

of return experienced by the retirement fund. A rate of only 5% return would increase the estimate to $1 billion. Closed plans generally experience a lower rate of return on investments because of a shorter investment horizon and the need for more liquid investments to pay for benefits.

Next I'd like to talk about the state's moral responsibility to the thousands of current and retired state employees. State employees are generally paid less than their private sector counterparts. However one reason that long term state employees continue to work for state government is the defined benefit retirement plan promised to them when they were hired. Retired state employees like myself worked hard their entire careers believing the State of North Dakota would live up to its responsibilities to provide us with a fixed retirement payment for the rest of our lives as we were told when we were hired, as we were told throughout our career and as we were told when we retired.

Passage of this legislation without a solid reliable funding plan breaks those promises and essentially tells thousands of retired and current state employees "too bad". It says to thousands of North Dakota citizens that the State of North Dakota has no moral obligation or responsibility to live up to its word. These hard working employees and retired employees deserve to be treated better than this.

State government has a tough time competing with the private sector for employees, and it's only gotten worse since the state's oil boom. If this bill passes it will further damage the state's ability to hire and retain good employees. I experienced this first hand while working in the State Auditor's Office. The turnover rate for the Bismarck office staff that conduct audits of state government was 20% for calendar year 2014 and the office has recently had problems getting any qualified applicants to apply for a vacant position.

The fact is that it is state employees that carry out the policies and programs established by the Legislature. These employees play a valuable role in the services provided to ND citizens and any action that damages the state's ability to hire and retain good employees will negatively impact the quality and quantity of services provided to citizens. If the Legislature is going to remove one of the primary benefits of being a state employee, then they should also be willing to provide substantial salary increases to bring state employee salaries in line with their counterparts in the private sector.

How should thousands of current and retired state employees view the introduction and possible passage of legislation such as this? The state currently is in the best financial position in its history. The State of North Dakota has more money than it has ever had. Yet current and retired state employees have their retirement plan put on the road to bankruptcy? The Legislature feels it's fair to tell these retired and current employees that they have to sacrifice **more** despite the great economic times the state is experiencing? When economic times were tough state employees were essentially told they had to sacrifice too through small and sometimes no salary increases.. So why are they being asked to sacrifice when the state's economy is the best it's ever been?

#5 pg 3

If closing the current defined benefit plan without a funding plan in place is such a good idea, one wonders why other state and public retirement plans are excluded. Why are the Highway Patrol, Supreme Court, Teachers Fund, National Guard and political subdivision retirement plans exempted from this? If this piece of legislation is passed I don't know how current or retired state employees can feel they are regarded as anything but "second class citizens".

Moving to a defined contribution plan is not some movement sweeping state governments across the country. According to information presented to the interim committee which studied this, approximately 2/3's of the states have a defined benefit plan as the only choice for state employees. Only 2 states have only a defined contribution plan as the sole option. The remaining states have another type or some hybrid plan for their employees.

In summary, SB 2038 puts the state's defined benefit plan on the road to bankruptcy. Experts estimated it will be insolvent somewhere between the years 2033 and 2049. This bill and the related legislation do not put forth any solid reliable funding plan other than **"hoping"** for a constitutional amendment to pass or forcing some future legislature to tackle the funding crisis this bill creates. Neither of these options is a legitimate plan. In addition this legislation ignores the state's moral responsibility and obligation to those current and retired state employees who were promised a fixed retirement payment and who deserve at the least, a solvent retirement fund. Finally this legislation and it's lack of a funding plan tells current and retired state employees that they are nothing more than second class citizens who do not deserve to be paid like private sector employees and in fact are not even entitled to a financially sound retirement plan.

Thank you Mr. Chairman and members of the committee for this opportunity to testify in opposition to SB 2038. I strongly recommend killing this piece of legislation.

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pg 1

Great Public Schools — NORTH DAKOTA UNITED — Great Public Service

Testimony before the Senate Government and Veterans Affairs Committee
Regarding SB 2038
Stuart Savelkoul, North Dakota United
January 22, 2015

Good morning Chairman Dever and members of the committee. For the record, my name is Stuart Savelkoul and I am the Assistant Executive Director of North Dakota United. Formed as a result of the merger between the North Dakota Education Association (NDEA) and the North Dakota Public Employee Association (NDPEA), we represent over 11,000 educators and public employees across the state. And, it is on behalf of those members that I stand in strong opposition to SB 2038 and ask you for a "Do Not Pass" recommendation. This bill seeks to place all newly hired state employees into a defined contribution plan rather than the defined benefit plan that presently exists for most state employees. There are both philosophical and fiscal reasons to oppose this shift.

Assuming that contribution levels are equal, defined contribution plans provide a lesser benefit to the employee. A December report published by the National Institute for Retirement Security found that defined benefit plans are far more cost-effective than defined contribution plans. The report found that a defined benefit plan can provide the same level of retirement benefits at roughly half the cost of an individually directed defined contribution plan because of three factors:

1. The pooling of longevity risk in defined benefit pensions enables them to fund benefits based on average life expectancy, and yet pay each worker monthly income no matter how long they live. In contrast, defined contribution plans must receive excess contributions to enable each worker to self-insure against the possibility of living longer than average.

2. Defined benefit pensions realize higher net investment returns due to professional management and lower fees from economies of scale.

3. Defined benefit pensions are able to maintain portfolio diversification over time, while defined contribution participants must shift to lower-risk, lower-return investments as they age. This means that over a lifetime, defined benefit pensions earn higher gross investment returns than do defined contribution accounts.

When it comes to providing retirement income, defined benefit pensions are more efficient because they pool risks across a large number of individuals, invest over a longer time horizon, and have lower expenses and higher returns.

At present, we know that our state government is facing real challenges in the recruitment and retention of quality employees. If we accept the premise that the passage of SB 2038 will result in a lesser benefit, clearly it will make it even harder for the state to recruit highly qualified employees. We have five state agencies with 20% of their employees eligible for retirement. Passing SB 2038 would cause a lot of uncertainty for state

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employees regarding the long-term funding status of their retirement plan. Further, it could very well result in a wave of retirements and resignations as the future prospect of meaningful salary increases will be threatened by the hundreds of millions of dollars spent by this bill to provide a lesser benefit to future employees.

According to the Society for Human Resource Management, every time a business replaces a salaried employee, it costs 6 to 9 months' salary on average. For an employee making $50,000 a year, that's $25,000 to $37,500 in recruiting and training expenses. So, in addition to the hundreds of millions of dollars that this bill will cost simply to make the conversion, we will likely spend millions more in costs dealing with the expected employee turnover its passage will cause.

While I am certain that this bill was drafted with the best of intentions, the bottom line is that it robs future state employees of the kind of retirement security that a person who has dedicated a career to public service deserves. In 2011 and 2013, NDEA and NDPEA supported legislation that would have made the necessary contribution increases to shore up the NDPERS defined benefit plan. While the legislature has only passed the first 3 years of the 4-year recovery plan for NDPERS, the fact is: it's working. The responsibility for these contribution increases has been shared by both the state and the employee. The final year of contribution increases has been included in the Governor's budget, and with the legislature's support, the fund will be well on its way to a full recovery.

ND United is sensitive to the fact that many in the private sector are not afforded defined benefit retirement plans. However, that does not mean that the state of North Dakota ought to engage in a race to the bottom. A defined benefit plan provides proven security to the quality people of our state employee workforce who provide us with quality services. Thank you for your time, and I will now stand for any questions that you might have.

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Good Morning, Mr. Chairman and Members of the Committee, my name is Jolene Rohde, I am the Impairment Auditor at Workforce Safety and Insurance (WSI) and I wish to testify in opposition to SB 2038 and to respectfully ask that that give this a bill a DO NOT PASS and to ask for your support of HB1154..

I began my employment with WSI, then known as the Workers' Compensation Bureau in 1997. In 1999, Legislative action removed our Agency from the control of the Governor of North Dakota and placed us under the control of an Agency Board. At that time, the Administration of WSI informed agency personnel of the legislative change and indicated, if we planned to be with the organization for longer than 10 years or had greater than 10 years prior to retirement, it would be in our best interest to remove ourselves from the Defined Benefit Retirement Fund and enroll in the Defined Contribution Fund since **NOT IF** but rather **WHEN** the Agency privatized we would lose our retirement funds. We were informed that this change in fund choice would in no way change or affect our retirement benefits or what we were entitled to, but was merely another method of investing our funds and would allow us to have our retirement funds available **WHEN** the Agency became a private Insurance Fund. These facts can be verified by numerous of my co-workers who were also employed with WSI in 1999, some of which are also submitting testimony.

Since that time, of course WSI has not privatized and the Agency, by a vote of the people, was placed back under the control of the Governor of ND in 2009. Thus, WSI employees were again placed under the constraints of HRMS, placed back into the classified employee status, subject to their classifications and salary caps, while our retirement funds were still controlled by the State as to where they can were invested, in what funds they are invested and what company managed the funds, etc. However, there have been no provisions nor are we allowed an opportunity to return to the Defined Benefit Retirement Plan. Yes, we erred in believing the previous Administration of WSI that our benefits would be no different in the Defined Contribution Plan than that of the Defined Benefit Plan, but would merely be invested differently. However, were we wrong in 1999 to believe that our employer would not have our best interest at heart? This lack of information and understanding was so prevalent that I have had co-workers that have actually contacted NDPERS for information on when they would meet the rule of 85 and requested information on buying years of service, only to be told, "What are you doing, this doesn't apply to you".

I am not talking about WSI employees who wanted to "take their money and run" in 1999, unlike Agency administration. I am talking about honest, hard-working, dedicated state employees who have stuck with the Agency and the State of ND, who have continued to service the State of North Dakota, its' injured workers and employers. I don't believe it is entirely our fault that we believed and trusted the prior Administration of WSI and it is not in any way our fault that the Agency has been removed from the control of the Agency Board and placed back under the control of the Governor. Yet, we do not have the choice or opportunity to return to the State Defined Benefit Retirement System.

I respectfully request that you give SB2038 a DO NOT PASS recommendation and support HB154 to allow WSI employees the opportunity to return to the Defined Benefit Retirement Plan given the change of status of our Organization and the misinformation we were provided. NDPEA leadership can also tell you that they were not allowed to contact agency employees to discuss this legislation in 1999 and I know for a fact that agency staff were told that NDPEA and PERS were not be to contacted for assistance or direction.

My ill-advised decision in 1999 has caused me a great deal of anxiety as the facts of what I lost have come to light. I can tell you that I truly love my job, because I feel that I make a difference for the injured workers' I serve and that I am an asset to the employers, providers, my co-workers, WSI and the State. However, that being said, I would like to have the peace of mind to know that when the time comes that I no longer can be or feel that I am an asset, that I can make that decision knowing that I can retire.

You would be righting a wrong for trusting, hard-working, dedicated state employees who were blatantly mislead. I and likely none of my co-workers in this situation, see HB 1154 as a "get out of jail free card". We do know however, that an actuarial study to support that allowing employees of our Agency the opportunity to return to the Defined Benefit Retirement Plan would not hurt the fund and/or could actually strengthen the fund, and even more important than that, I believe it is the right thing for you to do. I would ask that you please give SB 2038 a DO NOT PASS vote and provide your support to HB 1154. Thank you for your time and attention.

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AARP Real Possibilities in

North Dakota

SB 2038 – OPPOSE Defined Benefit Retirement Plan Conversion
Thursday, January 22, 2015
Senate Government & Veterans Affairs Committee
Josh Askvig - AARP-North Dakota
jaskvig@aarp.org or 701-989-0129

Chairman Dever and members of the Senate Government & Veterans Affairs Committee, I am Josh Askvig, Associate State Director of Advocacy for AARP North Dakota. AARP is the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older, and their families, in the State of North Dakota.

AARP opposes Senate Bill 2038 for two key reasons:

First: this legislation offers a ***lesser*** benefit that costs taxpayers ***more*** money.

Second: Senate Bill 2038 would destabilize the existing defined benefit plan for those who choose to remain in the current system.

This proposal will have an effect on taxpayers. The fiscal note on the amended measure states that this plan "would have a total biennium cost of $54.6 million," which has not been appropriated. Fewer members would remain in the system to pay down the unfunded liability, increasing the cost to taxpayers. As the fiscal note mentions, "In the longer term PERS would expect further reductions in the return assumption…which will mean additional employer contributions will be needed in the future to offset the lower returns associated with a closed plan. Investment returns decline when plans are closed since new employees are switched out of the plan, as is proposed in this bill for the PERS Main Retirement plan, and this loss of new enrollee's forces two key changes in investment strategy which are: 1) A shorter investment horizon and 2) a need for more liquid assets to pay retirement benefits."

The basic principles underlying AARP's state level public pension efforts is to ensure that any reforms made to state pensions safeguard the financial security of current and near-retirees, that state and local government employees continue to have access to defined benefit plans and, finally, that retirees continue to have access to inflationary protection through the provision of cost-of-living adjustments. These principles fit within AARP's national policy agenda, which asserts that we all have a right to be self-reliant and live with dignity in retirement.

Defined benefit pension plans are a sound investment for taxpayers and vital to state economies. These plans stretch taxpayer dollars further in achieving any given level of retirement income and are able to take advantage of the enhanced investment returns that come from a balanced portfolio over long periods of time. According to the National Institute for Retirement Security, "Each $1 in taxpayer contributions to North Dakota's state and local pension plans supported $8.94 in total

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output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits – investment earnings and employee contributions finance the lion's share.[1]"

Defined benefit plans also provide an important source of institutional investments in the market that help fuel our state economy. NIRS explains that "...expenditures stemming from state and local pension plan benefits supported 4,749 jobs in the state [in 2012].[2]"

Just as a reminder: these are not lavish benefits. "The average pension benefit received [in North Dakota] was $1,453 per month or $17,430 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.[3]"

Retirement income debates should center not only on meeting our obligations to appropriately fund the State's retirement systems, but also to provide retirement income in a way that provides the most bang for the taxpayer's buck.

Let's not forget retirement income is not a gift, it's deferred income that accumulates not just from taxpayer contributions but from the deferred income employees set aside to meet their future needs. These defined benefit plans remain one of the most cost effective ways that government and its employees work together to insure against future costs for government of retirees who cannot live self-sufficiently without assistance.

In closing, I would like to emphasize that while this debate is complicated by a multitude of numbers and statistics – public pension reform is really about people – retirees, workers, their families, other taxpayers and communities. We hope that as you consider these changes that the retirement security of system participants remains a key consideration. We ask you to give SB2038 a DO NOT PASS recommendation.

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[1] National Institute of Retirement Security. "Pensionomics 2014:Measuring the Economic Impact of DB Pension Expenditures." Electronic version found:
http://www.nirsonline.org/storage/nirs/documents/factSheetsPreviews/Factsheet_ND.pdf

[2] See above.
[3] See above.

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NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

NORTH DAKOTA

Pensionomics 2014:

Measuring the Economic Impact of DB Pension Expenditures

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of North Dakota.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.

In 2012, expenditures stemming from state and local pensions supported...

- 4,749 jobs that paid $201.8 million in wages and salaries
- $746.8 million in total economic output
- $92.7 million in federal, state, and local tax revenues

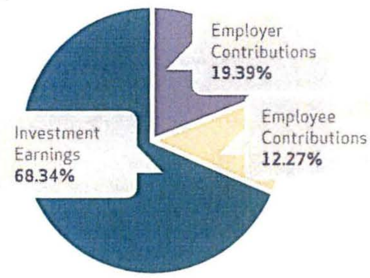
... in the state of North Dakota.

Each dollar paid out in pension benefits supported $1.73 in total economic activity in North Dakota.

Each dollar "invested" by North Dakota taxpayers in these plans supported $8.94 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to North Dakota communities and the state economy. In 2012, 20,789 residents of North Dakota received a total of $362.4 million in pension benefits from state and local pension plans.



The average pension benefit received was $1,453 per month or $17,430 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.

Between 1993 and 2012, 19.39% of North Dakota's pension fund receipts came from employer contributions, 12.27% from employee contributions, and 68.34% from investment earnings. Earnings on investments and employee contributions—not taxpayer contributions—have historically made up the bulk of pension fund receipts.

Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 4,749 jobs in the state. The total income to state residents supported by pension expenditures was $201.8 million.

To put these employment impacts in perspective, in 2012 North Dakota's unemployment rate was 3.0%. The fact that DB pension expenditures supported 4,749 jobs is significant, as it represents 1.2 percentage points in North Dakota's labor force.

Economic Impact

State and local pension funds in North Dakota and other states paid a total of $362.4 million in benefits to North Dakota residents in 2012. Retirees' expenditures from these benefits supported a total of $746.8 million in total economic output in the state, and $402.9 million in value added in the state.

$310.8 million in direct economic impacts were supported by retirees' initial expenditures. An additional $301.6 million in indirect impact resulted when these businesses purchased additional goods and services. $134.4 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact **$746.8 million**

DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT
$310.8 million	$301.6 million	$134.4 million

Totals may not add up due to rounding. For data and methodology, see Rhee, N., 2014, *Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures*, National Institute on Retirement Security, Washington, DC, www.nirsonline.org. Results not directly comparable to previous *Pensionomics* due to methodological refinements.

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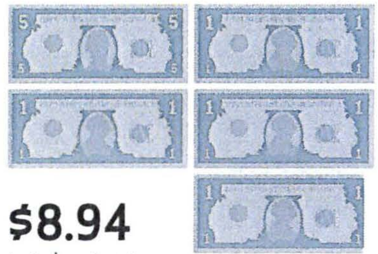
Economic Multipliers

Taxpayer Contribution Factor*

$1.00
contributed by taxpayers to North Dakota pensions over 30 years



$8.94
total output

Each $1 in taxpayer contributions to North Dakota's state and local pension plans supported $8.94 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier

$1.00
pension benefits paid to retirees in North Dakota

$1.73
total output

Each $1 in state and local pension benefits paid to North Dakota residents ultimately supported $1.73 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

*Caution should be used in interpreting these numbers. See the Technical Appendix of the full *Pensionomics* report for details.

Impact on Tax Revenues

State and local pension payments made to North Dakota residents supported a total of $92.7 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled $11.7 million. Taxes attributable to direct, indirect and induced impacts accounted for $81.0 million in tax revenue.

Federal Tax	$49.4 million
State/Local Tax	$43.3 million
Total	**$92.7 million**

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in North Dakota. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Labor Income Impact	Value Added Impact	Output Impact
Food Services and Drinking Places	384	$7,222,195	$10,648,249	$20,214,631
Private Hospitals	220	$14,446,320	$15,949,427	$28,721,497
Physicians, Dentists, and other Health Practitioners	200	$16,040,963	$16,437,694	$24,580,785
Real Estate Establishments	198	$2,834,197	$23,804,097	$29,337,756
Nursing and Residential Care Facilities	150	$4,814,151	$5,394,182	$8,146,111
Retail Stores - Food and Beverage	130	$2,872,028	$3,738,978	$5,877,369
Wholesale Trade Businesses	128	$10,149,295	$18,654,691	$27,850,090
Retail Stores - General Merchandise	115	$3,059,704	$4,948,241	$6,248,824
Private Household Operations	94	$469,938	$469,938	$469,938
Civic, Social, Professional, and Similar Organizations	73	$1,820,014	$1,172,780	$2,441,706

Industry totals include the first round of impacts from pension payments to state residents, and do not account for recaptured "leakage" to or from other states.

#9

Testimony

Senate Bill 2038 – Bill Kalanek, Association For Public Employees

Senate Government and Veterans Affairs Committee

Senator Dick Dever, Chairman

January 22, 2015

Chairman Dever and members of the Senate Government and Veterans Affairs Committee, my name is Bill Kalanek and I am here representing the Association For Public Employees (AFPE). AFPE is a state association comprised of active and retired state employees living in communities throughout ND. On their behalf I am here to testify in opposition to Senate Bill 2038.

AFPE serves active and retired state employees by advocating to: 1) strengthen and maintain the existing defined benefit retirement plan 2) advocate for annuity adjustments for retirees if the financial environment allows and 3) work with the state government to improve compensation and benefits for active state employees.

It is the feeling of our membership that the bill in its current form would weaken the financial position of the PERS retirement fund, increase liabilities and slow the recovery of the plan from the hardships endured during the last market downturn. Now that the full scope of the 2008 losses has been realized it is important that the fund be managed in a way to optimize performance, limit liabilities, and progress toward the funding goals established by the legislature in 2011.

The active, retired and future members of AFPE respectfully request that you consider all costs when you deliberate on SB 2038 and give it a Do Not Pass recommendation.

Thank you.

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TESTIMONY OF NDPERS

SENATE BILL 2038

Mr. Chairman, members of the Committee, my name is Sparb Collins and I am the Executive Director of the North Dakota Public Employees Retirement System (PERS). I appear before you today on behalf of the PERS Board and in opposition to this bill. The PERS Board is opposed since this bill will put the PERS Main Retirement Plan on a path to insolvency which means we will be unable to pay retirement benefits to thousands of retirees in the future. The Board has reviewed the bill and the actuarial/technical comments of Segal and Callan and has the following major concerns:

1. Funding of the Shortfall Created by the DC plan
2. Integrity of the Trust
3. Investments/Returns
4. Pension Adequacy
5. Ancillary Benefits
6. Governmental Accounting Standard Board (GASB) Requirements
7. Contributions
8. Long Term Costs
9. Eligibility and Transfer Provisions
10. Effect on Political Subdivisions
11. Effect on Retirees
12. Retention and Recruitment

1. Funding of the Shortfall Created by this bill

First, this bill does not provide any funding to the retirement trust to pay the large unfunded liabilities it creates for the retirement plan. Specifically, this bill will close the state portion of the PERS Hybrid/Defined Benefit retirement plan to new participants by January 1, 2016, which will put the trust fund on a course to bankruptcy since no funding is provided. To offset this funding shortfall, proposals in other bills provide monies to a retirement stabilization fund but not the PERS Retirement trust. However, that would only occur <u>if</u> a constitutional amendment resolution is approved by this legislature and is adopted by the voters (SCR 4003) and <u>if</u> the money is transferred out of the retirement stabilization fund to PERS by a future legislative session (SB 2039). These proposals do not insure funds are contributed into the PERS retirement trust. If the resolution is not adopted and if the money is not transferred out of the retirement stabilization fund, the 2017 session will have a retirement financial crisis to address. The state's financial statements will also be affected, since they will show the state has destabilized the retirement plan thereby creating a debt with no funding plan.

Second and more specifically, the Segal study shows the depth of the financial crisis that would occur. The PERS Hybrid/Defined Benefit (Main) Retirement Plan will become insolvent at the existing contribution level sometime between 2027 and 2055 depending on the number of members that transfer out of the plan (0,40% or 80%) and the return on assets if this defined contribution bill is passed

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(more likely earlier than later). Thousands of retirees will remain, with benefits payable and no money to pay them because of this bill.

The Segal report identifies the depth of that crisis: *"If the Statutory Contribution Rate is not adjusted or a transfer of assets into the fund is not made, the Main System's assets that are allocated to State employees are projected to be exhausted in 2049 assuming an 8% rate of return assumption and 40% transfer of members transfer from the Hybrid Plan to the DC Plan. At that point in time the remaining unfunded liability is projected to be* ***$1.190 billion.*** *At a 7% return assumption, the projected exhaustion date is 2041 with an unfunded liability of* ***$1.770 billion****; at a 6% return assumption, the projected exhaustion date is 2037 with an unfunded liability* ***of $2.139 billion****; at a 5% return assumption, the exhaustion date is 2034 with an unfunded liability of* ***$2.515 billion****; at a 4% return assumption, the exhaustion date is 2033 with an unfunded liability of $2.866 billion."* In addition to these costs, the state will be paying out 11.12% of salary to all the defined contribution plan members.

Third and as discussed later, we do not believe the suggested amount of $200 million that is to be put in the retirement stabilization fund would pay the cost of closing the plan (see attached fiscal note). Therefore, the existing concept is not sufficient in our mind.

The PERS Board offers the attached effective date amendment and expiration date amendment that provide that the provisions of this bill would become effective only when the cost of the changes are funded by the employer. This insures that the plan will not be altered in a way to increase its unfunded status or cause bankruptcy.

2. Integrity of the Trust

The retirement fund is established under North Dakota State law and Federal law as a separate trust fund for the exclusive benefit of the members and managed according to the prudent person rule. The concerns with this bill is are that it does not put any money into the retirement trust fund as all other retirement plans do and the concept of putting retirement monies in a Retirement Stabilization account that is not part of the retirement trust (SCR 4003 & SB 2038) circumvents the legal safeguards of having money in the trust. Keeping retirement money in the retirement trust is important since it means: 1) the money is set aside for retirement and is protected from claims by creditors of the employer, 2) that the money is managed by trustees whose sole responsibility is the benefit programs they administer, and 3) the funds cannot be diverted for other uses. When held in a non-retirement account such as the retirement stabilization fund, these protections are not provided and the retirement plan members do not have any ownership in the account or their retirement assets. The federal government enacted ERISA for private companies to address this and require that the money needs to be in a retirement trust. Holding retirement money in a separate account like the retirement stabilization fund would not pass the ERISA test. Consequently, North Dakota could be doing something that would not be allowed in the private sector. In addition, I am not aware that any other government entity does this with their retirement plans.

In the governmental sector, the closest example to holding retirement funds in a non-retirement fund that I am aware of is the 457 retirement plan assets. Prior to the mid 90's these funds were a general asset of the employer. In the mid 90's several local governments faced bankruptcy and these funds were at risk of being lost to the creditors of the employer. This so shocked the public that Congress

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quickly passed a change to the federal law to put these funds in a trust for the exclusive benefit of the members.

What these situations point out is the importance of retirement funds being held in a trust, for which the sole purpose of its existence is to provide retirement benefits to its members. The federal government made this clear for the private sector in ERISA and in the public sector for governmental 457 plans.

The Board offers the attached amendments that indicate this plan is effective only when sufficient funds are deposited into the retirement trust fund or employer contributions to the trust fund are increased to pay for the change proposed herein, thus ensuring the integrity of the fund.

3. Investments/Returns

Concerning the rate of return, the Board notes that for its other closed fund, the Job Service Retirement plan, it no longer uses an 8% return assumption. After a study during the last several years, this year the Board reduced the return assumption to 7% in January and in the longer term, expects to make further reductions (for Job Service we expect it to drop to 5% over time and possibly lower). These actions need to be taken since investment returns decline when retirement plans are closed. This occurs when new employees are switched out of the plan and the loss of new enrollees forces two key changes in investment strategy which are: 1) Recognition of a shorter investment horizon and 2) a need for more liquid assets to pay retirement benefits.

We also note that along with this bill, no other proposed bill provides funding directly to the retirement trust fund, which will cause the investment horizon to be even shorter and the asset allocation to de-risk faster resulting in returns falling faster with costs going up more quickly. This is referred to as the "glide path". The following table from Callan shows that as you reduce risk (Standard Deviation) by increasing bonds/cash, the returns fall. This will occur more quickly if the trust is allowed to go broke or if its cash flow becomes unpredictable as proposed here.

Asset Mix Alternatives - 3% to 8% Returns
Callan Long-term Projections

Portfolio Component	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5	Mix 6	Mix 7
Global Equity	3	11	18	27	42	67	75
Global Bonds	10	27	44	61	58	33	25
Cash Equivalents	87	62	38	12	0	0	0
Totals	100	100	100	100	100	100	100
10 Yr. Geometric Mean Return	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	8.3%
Projected Standard Deviation	1.9%	2.7%	4.1%	5.7%	7.6%	11.2%	12.3%

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As noted above, we believe that initially the asset allocation will need to be modified to reduce risk to a 7% return assumption. It would then go down the above glide path further as the investment horizons continue to shorten and more cash is needed to pay benefits (from 7% to 6%, etc.) which will create the need for even greater employer contributions to offset lower investment returns so retirement payments can be made to retirees.

Relating to investment costs we note they will likely go up under this proposal, leaving less money available for retirement benefits. Having the funds in the Retirement Stabilization Fund instead of in the retirement trust could increase investment costs which are the single highest cost of program administration. This is something both the PERS Board and TFFR Board recognized in the late 1980's when the two boards came to you to reorganize the state retirement investment process. Specifically, proposed at that time was establishing a mechanism to allow comingling of retirement assets for investment purposes under the State Investment Board. The reason the proposed method was more cost effective is that the more money that you can invest with a single manager, the lower the cost. When you allowed for the reorganization of investment management, you allowed the funds to be co-mingled so there was one contract relationship with a money manager which reduces overall investment costs. However, if money is to be held in a non-retirement fund, this co-mingling could not occur since the other fund would not be a retirement fund. Consequently, investment costs could rise.

The Board offers the attached amendment that indicates additional employer contributions will be made into the trust fund and if not, the DC plan will not be started. If additional contributions are needed and if they are not paid, the DC plan expires. This insures all funding is in the retirement trust and not split into trust and non-trust assets

4. **Pension Adequacy**

The PERS Board has proposed increasing the DC plan contributions in the recovery plan. The existing level of contributions provided to the Defined Contribution plan has not been historically adequate nor do we believe it is presently adequate. We reviewed the Segal study which we believe shows a contribution shortfall for the DC plan. We also believe that as a result of this shortfall, 75% of the existing members feel they made a mistake by transferring to the defined contribution plan, 69% would not recommend it, and over 70% are not confident that they will have enough money to retire on. In addition, we note that the DC plan does not seem to be very attractive to new employees who can elect to join this plan. If the state is to move to a defined contribution plan, a better plan needs to be put in place that is valued by its members.

The PERS Board has been concerned with the pension adequacy of this plan for many years. That is why the DC plan has been a part of the recovery plan PERS proposed in 2011 & 2013. At that time, we proposed increasing the contributions to this plan to 16.12% with a 2% increase in 2012, 2% in 2013, 2% in 2014 and 2% in 2015. To date, the legislature has approved the 2012, 2013 and 2014 increases. As a result of our continued concern, we have submitted a bill (HB 1080) for the last 2% increase to be considered this session.

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If the DC Plan is to be the mandated plan for new employees in the future, the PERS Board recommends an adequate pension benefit should be provided at a level similar to benefits in the existing defined benefit plan. For this, we believe the total contribution level should be 16% - 20%.

5. **Ancillary Benefits**

The Board has noted another area of plan design weakness with the present DC plan and the one proposed herein relating to ancillary benefits. Specifically disability and spousal benefits are not adequately provided in the DC plan. We note that this bill does not address this disparity in benefits. One method to respond to this would be to set up a long term disability policy for each employee in the DC plan and to increase the employer paid life insurance benefit to provide for the spouse.

The PERS Board recommends that if the DC plan is to be the primary retirement plan, consideration should be given to adding these ancillary benefits.

6. **Governmental Accounting Standards Board (GASB)**

The Governmental Accounting Standards Board has promulgated new financial reporting requirements for pension plans (GASB 67/68) for the state's financial statements. Under these requirements, in order to use the 8.00% funding interest rate, the Plan's Fiduciary Net Position (market value of assets) must be sufficient to make all projected benefit payments for current members. If not sufficient, a blended rate is determined based on the cash flow projection. Segal has determined that the Plan's long-term expected rate of return on investments (8.00%) will not be able to be used to determine the Total Plan Liability if the Main plan is closed to State employees. Therefore, pursuant to GASB requirements, a 20-year bond rate was used to discount benefit payments in years after the projected Fiduciary Net Position is zero, resulting in a blended interest rate of 6.26%.

Today the state can use the 8% rate because its funding plan is sufficient, therefore, the liabilities will look as follows

	GASB 67 Liability – Open Plan		
Main State Employees as of June 30, 2014	**State Plan Liability at 8.00% Discount Rate**	**Non-State Plan Liability at 8.00% Discount Rate**	**Total Liability**
Total Pension Liability (TPL)	$1,598,420,444	$1,248,159,333	$2,846,579,777
Allocation of Market Value of Assets (MVA)	1,242,009,697	969,848,705	2,211,858,402
Net Pension Liability (NPL)	$356,410,747	$278,310,628	$634,721,375

For the state, that liability is about $356 million as of June 30, 2014. If this bill was currently in place, the state would not be able to use the 8% rate since the funding plan would not be sufficient (plan would be

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on a path to insolvency). Instead, the liability would be calculated using a blended rate and it would look like the following:

Main State Employees as of June 30, 2014	GASB 67 Liability – Closed Plan: State Closed Plan Liability at Blended 6.26% Discount Rate	Non-State Plan Liability at 8.00% Discount Rate	Total Liability
Total Pension Liability (TPL)	$1,959,454,998	$1,248,159,333	$3,207,614,331
– Estimated effect of one time 40% transfer to DC	469,580,191	0	469,580,191
– TPL after transfers	$1,489,874,807	$1,248,159,333	$2,738,034,140
Allocation of Market Value of Assets (MVA)	$1,242,009,697	$969,848,705	$2,211,858,402
– Estimated cost of one time 40% transfer to DC	469,580,191	0	469,580,191
– MVA after transfers	$772,429,506	$969,848,705	$1,742,278,211
Net Pension Liability (NPL)	**$717,445,301**	**$278,310,628**	**$995,755,929**

Instead of the unfunded liability being $356 million, it would now be $717 million since this bill would change the long term funding from a path to 100% funded status to now being on a path to 0% funded status. Segal also states:

> Please note that absent additional funding, the Closed State Plan liabilities will be expected to increase over time as the projected insolvency date gets closer and the liabilities will be discounted at a rate that approaches the required bond index rate (currently 4.29%).

The attached amendment will insure that this plan will not go into effect unless a proper funding plan is adopted to address this issue

7. Contributions

To date, the Legislature has approved 3 years of the 4 year recovery plan for PERS. This recovery plan is shared between the employer and employee with one half being paid by each party. We told PERS members that if they contributed to this effort it would stop the downward trend in the funded status of the plan and put it on a course to being 100% funded. The employees have stepped up and paid their share as requested and at this point, it totals 3% of salary with the last 1% being proposed for your consideration this session. This has accomplished a lot as demonstrated in the following graph:

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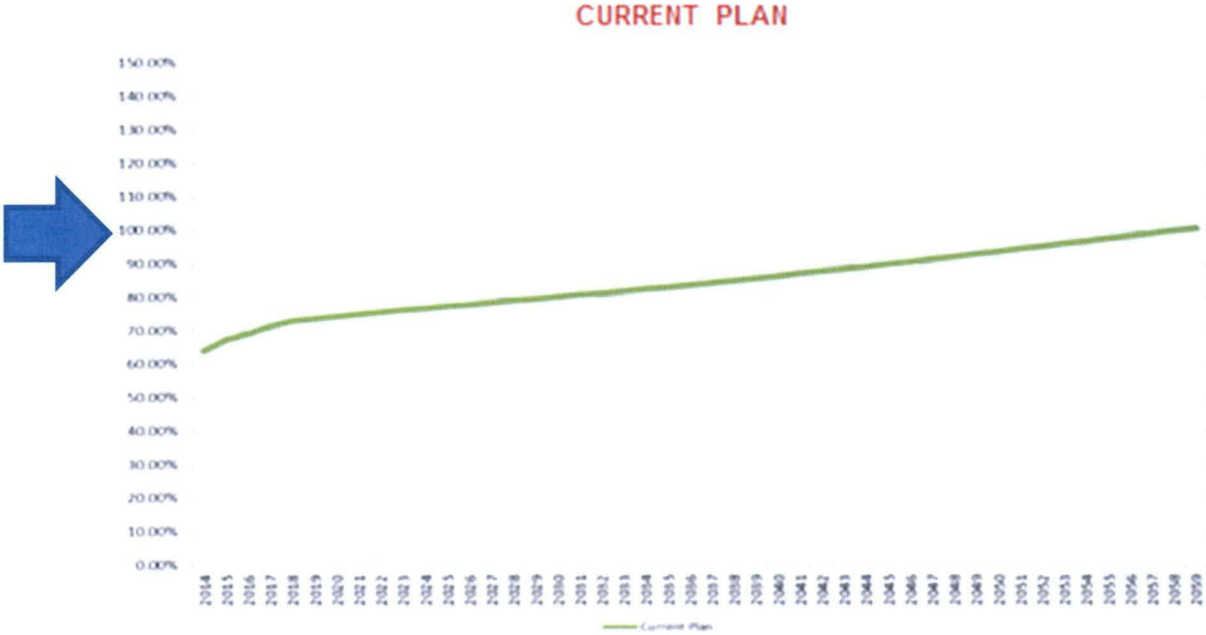
Projected Funded Ratios (AVA Basis) – Main System



The current plan for Main System is expected to reach a 100% Funded Ratio in the year beginning July 1, 2059.

Segal Consulting 9

The plan is now on its way back to 100% funded status by 2059. If the last year of the recovery plan is passed, it will become 100% funded around 2035. Much has been accomplished. If this DC bill is passed, the above upward line will decline to "0" sometime between 2028 and 2055 and the plan will be bankrupt instead of viable unless a funding mechanism is put in place to provide timely deposits to the retirement trust.

Clearly this bill will change the understanding with employees. This could cause members to reconsider their commitment of contributing to the plan. While it is hard to determine the implications of such a reconsideration, one result could be a lawsuit by aggrieved members such as what occurred in Michigan. There is a risk that a court could find such contribution requirements a violation of the contract with existing employees, possibly resulting in a loss of the employee contributions enacted to date thereby increasing the employer requirements. In Michigan, employees brought a case saying that they could not be required to pay additional contributions. Two lower courts have agreed and now the case is pending before the State Supreme Court. If a similar situation arose here in North Dakota due to this bill and the court said the additional contributions were illegal, then the state would have to pay the lost employee contributions (3%) which would be in the tens of millions of dollars and could have to pay back all the employee contributions that have been paid to date, which would also be tens of millions more. While this is a remote risk, it needs to be recognized since the fiscal consequences for the state/taxpayers could be severe and this bill raises the possibility of this occurring. However, for employee members if such a lawsuit is successful their take home pay could immediately go up by 3%

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and they could get checks for all the past contributions which would be in the thousands of dollars for each (not to mention earnings). This risk needs to be considered and carefully weighed.

The PERS Board offers this observation so this risk can be closely reviewed and weighed in deciding how to proceed with this proposed bill

Eligibility and Transfer Provisions

The bill before you today allows existing members to transfer out of the Hybrid/DB plan to the DC plan. The transfer amount will be the higher of contributions plus interest or the net present value (NPV). Based upon our previous experience we note:

1. For members identified as being eligible to transfer from DB to DC, the following is the number for which the net present value calculation was higher than the actual contributions + interest;

   1999 – 235 out of 610 (39%)

   2001 – 142 out of 412 (34%)

2. For members who actually elected to transfer, the following were NPV vs. actual contributions + interest;

   1999 – 23 NPV and 216 Contributions + Interest

   2001 – 0 NPV and 4 Contributions + Interest

This bill indicates that while PERS would provide everyone with the net present value calculation, the actual amount of the transfer would be the higher of the net present value or contributions plus interest. Consequently, members would have to decide if they want to move to the DC plan without having the benefit of full disclosure of the transfer amount. They would only get that after they made the irrevocable election to transfer and the transfer occurred. We are concerned that the bill does not provide for full disclosure and will raise many issues (possibly legal) for you and the Board in the years going forward. This would complicate any transition. As the above shows, most of the people who elected to transfer to the DC plan in the past, did it based upon contributions plus interest and they will not get an estimate of this amount in this bill.

One of the reasons this was put in the bill in this manner was to address one of our concerns that we expressed to the Government Finance Committee with using the contribution plus interest method. We know that for us to compute these numbers is a very time intensive effort since a determination needs to be made for each member. Based upon past experience it would take about 5,250 hours of time (based upon 10,500 members) for which we would need to hire additional staff at a cost of $105,000. This is 30 months of effort. As proposed in this bill, this calculation would only need to be completed for members who elect to transfer, which reduces that cost to about $42,000 (assuming 40% elect to transfer) but members are not given full disclosure. The net present value method is much easier, but if you reverse the above numbers, you see a disadvantage to the majority of employees with shorter terms of employment.

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The PERS Board offers in the attached amendment an alternative method to be used which would be the higher of the actuarial present value or employee contributions with interest and employer contributions without interest). This will eliminate almost all of the work/costs identified above and allow us to provide members with full disclosure of the transfer amount.

8. Long Term Cost

The Segal Report states: "Once the unfunded liability of the Hybrid Plan is paid off, the contribution level can be decreased to the normal cost which today would be 10.31% of payroll. If the DC Plan contribution level is set at the current rate of 14.12% or the 16.12% rate PERS is proposing, then after the unfunded liability is paid off, the long term cost of the DC Plan is the difference between the two rates. Specifically, the long term cost of the DC Plan could be anywhere from about 3.8% to about 5.8% higher, based on future payrolls. These are substantial cost differences on future payrolls for participating employers, if accurate. Currently, the State payroll is over $517 million. If 40% of the Hybrid Plan members transfer, each 1% change in the contribution rate represents $2.1 million annually." Based upon this evaluation, the long term cost of the switch is going to be higher (by millions of dollars) than maintaining the existing plan.

The PERS Board believes that the long term cost to this change is more expensive than maintaining the existing plan. The Board also notes that additional employer contributions will be requested in the future, beyond those identified thus far as the investment asset allocation is de-risked to meet the shorter investment horizon and the need for increased liquidity to pay benefits.

9. Political Subdivisions

This bill does not apply to the political subdivisions portion of the PERS main retirement plan. Therefore, as noted in the Segal review, the plan will be divided for actuarial purposes to determine the respective contribution rates. The result will likely be that in the long term the total retirement contribution rate for political subdivisions will be lower than for the state.

This was pointed out in the Segal review and the Board wants to make sure that this is how the bill is being interpreted and therefore we point this out.

10. Retiree Equity among state retirement plans

The Segal report also notes the following: *The PERS Hybrid Plan has from time to time provided for retiree increases with ad hoc adjustments. This has occurred as a result of favorable Plan experience and when the Plan's funding situation has allowed. At some future date, it is possible that the Hybrid Plan may reach a funded level that would allow it to again provide ad hoc adjustments to retirees. Under the proposed legislation, contributions to the current Hybrid Plan will decrease as the active population decreases, and the assets will decrease as the liability for members is paid off over time. Since the contributions under the closed plan will be used for paying off the unfunded liability, it is unlikely that excess contributions will be available to fund ad hoc increases to current retirees. This could result in retirees of the political subdivision portion of the Plan getting increases funded from the Plan and those in the State portion of the Plan not getting similar adjustments (unless the legislature sets another funding mechanism).* In addition to the political subdivision portion of the plan, the TFFR plan will recover as well and will be able to provide increases to its retirees. Therefore, if future legislatures are to maintain equity among state retirees it will need to consider funding for the PERS closed system retirees from another source since this bill will have created the funding differential between the plans. Therefore, the Board offers the following amendment to clarify that this bill is not intended to create an

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inequity for retirees by ceasing to provide retiree increases in the future by stating that "Closing this plan to new state employees as of the effective date of this Act is not intended to prevent the North Dakota Legislature from providing postretirement benefit adjustments to retired state employees or their beneficiaries in the same amount as those provided to retired political subdivision employees or their beneficiaries or retirees and beneficiaries under Ch. 15-39.1"

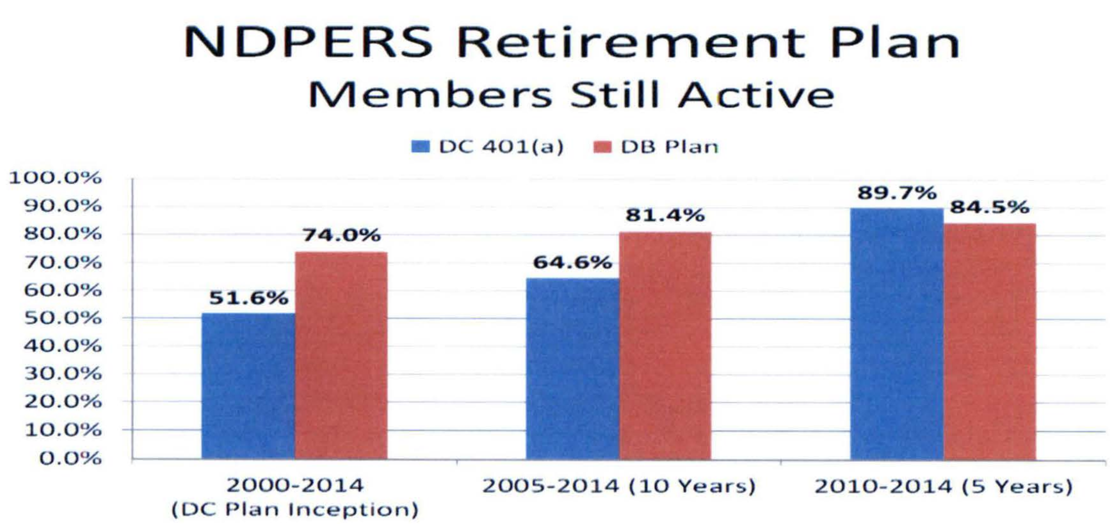
Also, it is interesting to note that if the monies in the fiscal note being used to close the plan were instead used to give retirees an increase, that increase would be 28%. Our retirees, who have not had an increase in many years, would be overwhelmed if such a change were enacted.

The PERS Board makes this observation for future legislatures and would offer the statement of legislative intent mentioned above, to guide those legislatures as they are faced with dealing with this inequity. This would also provide assurances to our retirees who will be affected by closing the plan.

11. Recruitment and retention

Today employees coming to state employment from most political subdivisions (county, school, city, etc.) do not experience a change in their retirement plan since many of the subs are in the PERS hybrid/Defined Benefit plan. In the future, if this bill is to pass, they will no longer have this benefit since they will be required to change retirement plans if they come to work for the state. Consequently, portability of benefits will be reduced and could affect recruitment from these entities.

Concerning retention, we note that this bill will reduce the vesting schedule from 4 years to 1 year. While our available data is limited to a small group, it shows the following:



We note a significant drop off in retention for the DC plan members after the 4 year vesting period. This may be due to that vesting schedule and if so, the change in the bill could increase turnover in the short term. Also, in the long term, the DC plan members seem to have higher turnover than the DB/Hybrid plan which could mean higher turnover in state service if this bill is passed. Please note, this is very limited data comparing a small group to a large group, so drawing conclusions from the data is very limited.

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The PERS Board makes this observation since it will reduce the portability of benefits between the state and political subdivisions and it is not clear from the data that changing the plan will increase retention. To the extent that retention is diminished, higher salaries or other offerings may be needed to attract new employees to those positions

In conclusion, the PERS Board recognizes that it is a policy decision for you on whether to continue to offer the Defined Benefit/Hybrid Plan in addition to the Defined Contribution Plan or just a Defined Contribution Plan. However, the Board notes that there are substantial costs, funding and procedural issues that need to be resolved and if they are not addressed, all the funding progress of the plan to date will be lost and instead create an insolvent or bankrupt retirement plan with substantial funding problems which could affect the financial status of the state. Consequently the Board offers the previous amendments. In addition, the Board identified other areas of consideration to make the Defined Contribution plan a more viable retirement plan that should be addressed as well (4 & 5 above) before such a plan is put in place.

In summary, Mr. Chairman the PERS Board opposes this bill as it stands before you today since it will put the PERS plan on a path to insolvency resulting in us being unable to pay future retirees.

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PROPOSED AMENDMENTS TO SENATE BILL NO. 2038

Page 1, line 3, after "54-52-01" insert ", 54-52-02"

Page 1, line 4, after "employees" insert "; to provide a continuing appropriation; to provide a contingent effective date; and to provide a contingent expiration date"

Page 6, after line 31, insert:

"**SECTION 2. AMENDMENT.** Section 54-52-02 of the North Dakota Century Code is amended and reenacted as follows:

54-52-02. Formulation of plan - Exclusion of employees covered by plans in existence.

All departments, boards, institutions, commissions, or agencies of the state of North Dakota, the Garrison Diversion Conservancy District, district health units, the supreme court, and the district courts, hereinafter referred to as agency, shall participate in a retirement system which will provide for the payment of benefits to state and political subdivision employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high-grade men and women. <u>Closing this plan to new state employees as of the effective date of this Act is not intended to prevent the North Dakota Legislature from providing postretirement benefit adjustments to retired state employees or their beneficiaries in the same amount as those provided to retired political subdivision employees or their beneficiaries or retirees and beneficiaries under Ch. 15-39.1.</u> However, a city health department providing health services in a city-county health district formed under chapter 23-35 is not required to participate in the public employees retirement system but may participate in the public employees retirement system under section 54-52-02.1. Employees presently covered by a pension plan or retirement plan to which the state is contributing, except social security, are not eligible for duplicate coverage except as provided under sections 39-03.1-14.1 and 54-52-17.2."

Page 12, line 4, after "employee" insert "<u>under this chapter</u>"

Page 12, line 5, replace "<u>January 1, 2016</u>" with "<u>the effective date of this Act</u>"

Page 12, line 7, replace "<u>June 30, 2016</u>" with "<u>the date of transfer</u>"

Page 12, line 24, after "employee" insert "<u>under this chapter</u>"

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Page 12, line 24, overstrike "and entered upon the" and insert immediately thereafter "<u>before the effective date of this Act</u>"

Page 12, line 25, overstrike "payroll of that person's employer"

Page 12, line 25, after "~~2001~~," insert "<u>and who is a member of the public employees retirement system on the date of transfer</u>"

Page 13, line 1, replace "<u>period beginning July 1,</u>" with "<u>six months following the initial six months after the effective date of this Act</u>"

Page 13, line 2, remove "<u>2016, and ending 5:00 p.m. December 30, 2016</u>"

Page 17, line 5, overstrike ", plus interest from January 1,"

Page 17, overstrike line 6

Page 17, line 7, overstrike "actuarial interest assumption at the time of the election"

Page 17, line 9, overstrike "compound interest at the rate of one half of one"

Page 17, line 10, overstrike "percent less than the actuarial interest assumption at the time of the election plus"

Page 18, line 3, replace "**PUBLIC EMPLOYEE RETIREMENT SYSTEM - ESTIMATE OF**" with "**RETIREMENT OPTIONS - CONTINUING APPROPRIATION:** The funds necessary to implement this Act are hereby appropriated from the retirement fund under chapter 54-52.

SECTION 10. CONTINGENT EFFECTIVE DATE: This Act becomes effective six months from the date employer contributions to the retirement fund established under chapter 54-52 have been increased to pay the cost of the bill to meet the retirement obligations created by closing the plan as determined by the actuary for the public employees retirement system or six months from the date a one-time deposit equal to the cost of the bill to meet the retirement obligations created by closing the plan as determined by the actuary for the public employees retirement system, assuming a seven percent discount rate, is made into the retirement fund established under chapter 54-52.

SECTION 11. CONTINGENT EXPIRATION DATE: This Act becomes ineffective beginning September first following the start of the biennium subsequent to the biennium in which the board notifies the Employee Benefits Programs Committee that the actuary for the public employees retirement system has informed the board in its most recent actuarial valuation of additional unfunded liabilities for the plan's retirement obligations subsequent to closing the plan and employer contributions are not increased to pay the cost of those

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additional unfunded liabilities for the retirement obligations or a deposit equal to the cost of those additional unfunded liabilities for the retirement obligations is not made into the retirement fund established under chapter 54-52 by July first of the start of the next biennium and sections 54-52-01, 54-52-02.5, 54-52-02.9, 54-52.6-01, 54-52.6-02 and 54-52.6-03 as they existed on the day before the effective date of this Act will become effective."

Page 18, removed lines 4 through 11

Renumber accordingly

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Additional Info pg 1
to Committee

NDPERS BENEFIT MULTIPLIER & RETIREE HEALTH CREDIT HISTORY

7-1-77 Defined benefit pension plan established with a multiplier of 1.04%. Service credit was limited to a maximum of 30 years for benefit calculation purposes. Vesting requirement of 10 years of service or age 65.

7-1-83 Multiplier was increased to 1.20%. The 30-year maximum was removed in the benefit calculation. Disability benefit changed from the multiplier to 60% of final average salary minus social security and workers compensation benefits.

7-1-85 Multiplier was increased to 1.30%. Benefits were increased by 8.33% for retirees. Rule of 90 with a minimum age 60 implemented.

7-1-87 Multiplier was increased to 1.50%. Benefits were increased by 15.4% for retirees. Vesting requirement was changed to 8 years of service or age 65. Minimum age for Rule of 90 repealed.

7-1-89 Multiplier was increased to 1.65% Benefits were increased by 15.76% for retirees, (5.76% associated with the change from highest non-consecutive 60 to 36 months (months no employed were excluded from the 120 month count) in the final average salary calculation and 10% associated with the multiplier increase). All individuals receiving disability benefits were given the 5.76% increase regardless of whether or not benefits were based on the multiplier. Disability pensioners whose benefits were based on the multiplier were given a 10% increase also. Prior Service 5.75% only. Disability benefits were increased to 70% of final average salary minus workers compensation benefits and social security benefits. A minimum disability benefit of $100 per month was established. Vesting requirement was changed to 5 years of service or age 65.

Retiree Health Insurance Credit Program was established (known as prefunded credit). Rate was $3.00 for every year of retirement service credit, subject to reduction for early retirement.

5-1-90 Prior Service Retirees were entered in the main business system. Life-to-date balance is for the period beginning January 1, 1990. They also received a retroactive benefit increased February 1990 for the increase beginning July 1, 1989.

7-1-91 Multiplier was increased to 1.69%. Benefits were increased by 2.42% for retirees. Disability benefit changed from 70% formula to 25% of pay with a minimum benefit of $100 per month. Eligibility for Social Security disability benefits was removed as a requirement for applicants for NDPERS disability benefits. Disability retirees did not receive this increase.

Retiree Health Insurance Credit rate was changed to $4.00 for every year of retirement service credit, subject to reduction for early retirement.

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8-1-93	Multiplier was increased to 1.725%. Benefits were increased by 2% for retirees. Rule of 90 changed to rule of 88. Disability did not receive this increase. Retiree Health Insurance Credit rate was changed to $4.50 for every year of retirement service credit, subject to reduction for early retirement.
1-1-94	Multiplier was increased to 1.74%. Benefits were increased by 1% for retirees. Disability did not receive this increase.
8-1-97	Multiplier increased to 1.77%. Rule of 85 implemented. Benefits increased by 5% for retirees. (2% for multiplier and 3% for Rule of 85). 50% & 100% retiree health credit options implemented.
8-1-99	Multiplier increased to 1.89%. Benefits increased by 8% for retirees. Vesting requirements was changed to 3 years of service or age 65, except Judges who remained at 5 years.
1-1-00	Incentive Matching-Vesting in Employer Contribution program (PEP)
8-1-01	Multiplier increased to 2.00%. Benefits increased by 6% for retirees. Early retirement reduction changed to .5% for each month a member retires before reaching age 65 or the Rule of 85.
8-1-03	The National Guard Retirement Plan was change to the National Guard/Law Enforcement Retirement Plan. This plan changed allowed political subdivisions to join and include their peace and correctional officers of political subdivisions. Contributions are variable and reviewed annually. Generic purchases were capped to 5 years. Employer purchase options were implemented.
8-1-05	Law Enforcement minimum requirements changed from 20/20 rule to 32/20 rule. 5 Year Term Certain was replaced with the 20 year term certain retirement option. PLSO option was implemented
1-1-06	Members who have a retirement effective date on or before June 1, 2005 were issued a one-time supplemental payment equal to 50% of their June 2005 benefit paid in January 2006. 13th check was also issued to the estate of a retire that passed away between June 1 and December 31 were also issued the 13th check.

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HIGHWAY PATROL SPECIFICS

7/1/71	2.00% for first 25 years then 1% for service over that. (Salary cap of $750 on average monthly salary) 10% ad hoc increase for retired and deferred vested members. Payment allowance to beneficiaries of deceased contributors raised to $165.00 payable for widows and children of all members making contributions to the fund subsequent to July 1, 1955.
7/1/75	2.25% for first 25 years then 1.5% for service over that. Final average salary calculated for the 60 months immediately preceding retirement. (cap of $850 per month). Contributors become eligible for full retirement benefits with 25 years of service and age 55. Beneficiary payments were increased to $180 for those contributing to the fund subsequent to July 1, 1955.
7/1/77	The final average salary calculation was changed to 36 months immediately preceding retirement. (cap of $1250 per month for purposes of benefit calculation and contributions)
7/1/79	Final average salary maximum increased to $1500 per month. Full year requirement dropped and provision for crediting months of service added.
7/1/81	Final average salary maximum increased to $1900 per month. Benefit multiplier changed from 2.25% for the first 25 years to 2.50% for the first 25 years.
7/1/83	NDPERS given administrative responsibilities for the HP system. First payment issued from NDPERS was 1/1/1984.
7/1/85	Removed salary limit for both benefit and contribution purposes. Dual service provisions for TFFR and PERS added.
7/1/87	Changed final average salary calculation to highest 36 consecutive months over the last 120 months.
7/1/89	Increased multiplier to 2.75% for first 25 years and 1.75% for service over that. Retiree Health Insurance Credit Program was established (known as prefunded credit). Rate was $3.50 for every year of retirement service credit, subject to reduction for early retirement.
7/1/91	Increased multiplier to 2.83% for first 25 years, second tier remains same. Retiree Health Insurance Credit rate was changed to $4.00 for every year of retirement service credit, subject to reduction for early retirement.
7/1/93	Increased multiplier to 2.96% for first 25 years, second tier remains same. Also implemented indexing feature for deferred vested members.
8/1/93	Retiree Health Insurance Credit rate was changed to $4.50 for every year of retirement service credit, subject to reduction for early retirement.

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7/1/95	Increased multiplier to 3.03% for first 25 years, second tier remains same.
8/1/97	Increased multiplier to 3.25% for first 25 years, second tier remains same.
8/1/99	Increased multiplier to 3.40% for first 25 years, second tier remains same.
8/1/01	Increased multiplier to 3.60% for first 25 years, second tier remains same. Expanded purchases provisions.
8/1/05	5 Year Term Certain was replaced with the 20 year term certain retirement option. PLSO option was implemented
1/1/06	Members who have a retirement effective date on or before June 1, 2005 were issued a one-time supplemental payment equal to 50% of their June 2005 benefit paid in January 2006. 13th check was also issued to the estate of a retire that passed away between June 1 and December 31 were also issued the 13th check.

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JUDGES SPECIFICS

7-1-1983	Benefit multiplier tier was established. 1st 10 Years = 3.00% 2nd 10 Year = 2.00% Remaining Year = 1%
7-1-1989	Vesting changed to 5 years
7-1-1991	Benefit multiplier tier was changed to: 1st 10 Years = 3.50% 2nd 10 Years = 2.50% Remaining Years = 1.25% Retiree received a percentage equivalent to the increase = .1666
8-1-1995	Benefit multiplier tier was changed to: 1st 10 Years = 3.50% 2nd 10 Years = 2.80% Remaining Years = 1.25% Retiree 2nd tier recalculated
8-1-1997	Retirees received 2.00% increase on January 1, 1998 and January 1, 1999
8-1-1999	Retirees received 2.00% increase on January 1, 2000 and January 1, 1991 Disability benefits changed to 70% of FAS minus SSA and worker compensation
8-1-2001	Retirees received 2.00% increase on January 1, 2002 and January 1, 2001
8-1-2005	5 Year Term Certain was replaced with the 20 year term certain retirement option. PLSO option was implemented
1-1-2006	Members who have a retirement effective date on or before June 1, 2005 were issued a one-time supplemental payment equal to 50% of their June 2005 benefit paid in January 2006. 13th check was also issued to the estate of a retire that passed away between June 1 and December 31 were also issued the 13th check.

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Pg 1

HUMAN RESOURCE MANAGEMENT SERVICES
STATE OF NORTH DAKOTA

Ken Purdy, Director

January 28, 2015

TO: Senator Dever
Senate Government & Veterans Affairs Committee

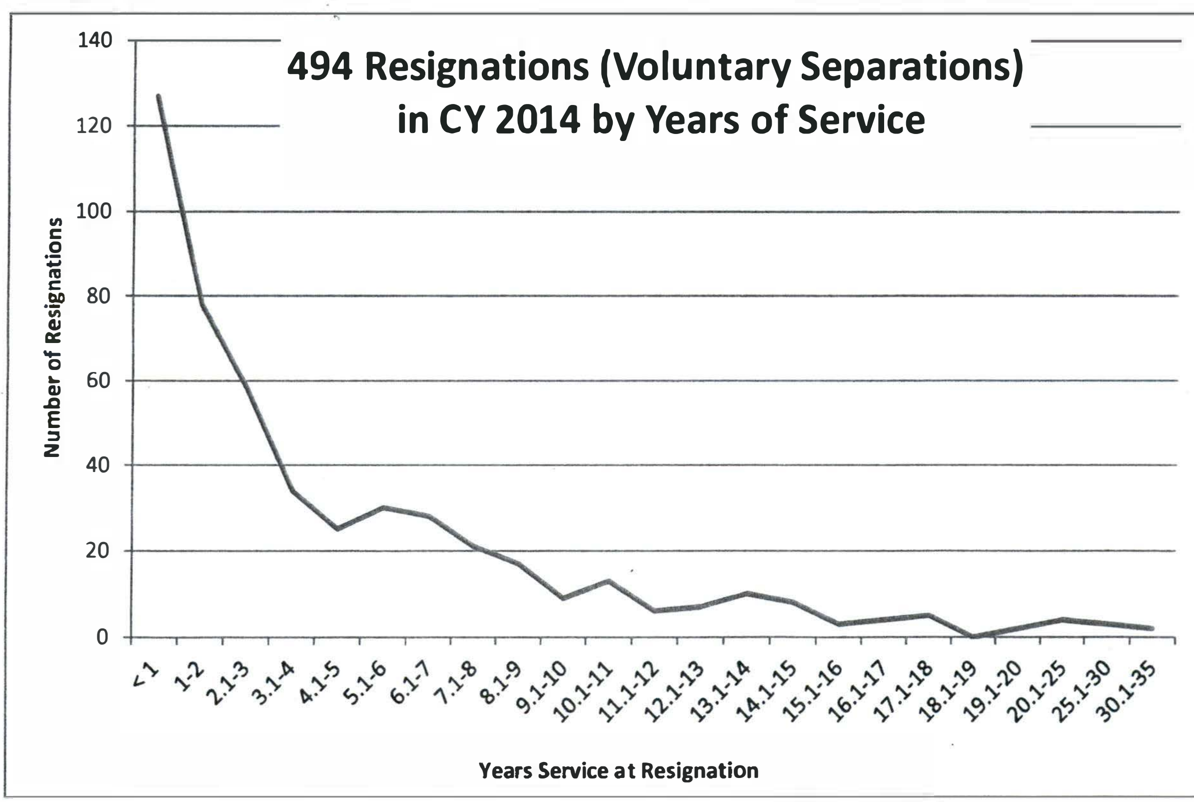
FR: Ken Purdy, Director
Human Resource Management Services

RE: SB 2038 – Questions

The committee asked for some additional follow up detail on 'years of experience' and 'age' in relation to the turnover information provided:

- Currently already on an increasing turnover trend and experiencing challenges in hiring
  - 8.1% in 2009
  - 8.0% in 2010
  - 9.2% in 2011
  - 10.4% in 2012
  - 10.3% in 2013
  - 11.1% in 2014

The following graphs show; (1) the number of resignations by 'years of service', and (2) the number of resignations by 'age'. This information includes only resignations, it does not include terminations or retirements.



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