2023 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1039

2023 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Pioneer Room, State Capitol

HB 1039
1/13/2023

Relating to the closure of the public employees retirement system main plan, the deferred compensation program, and expansion of the defined contribution retirement plan, relating to a transfer from the legacy earnings fund to the public employees retirement system main plan and the public employees retirement system defined benefit and defined contribution retirement plans, and relating to public employees retirement system retirement plan contribution rates upon reaching full funding.

Meeting called to order by Chairmen Schauer at 11:43 AM.

Chairmen Austen Schauer, Vice Chairmen Bernie Satrom, Reps. Landon Bahl, Claire Cory, Jeff A. Hoverson, Jorin Johnson, Karen Karls, Scott Louser, Carrie McLeod, Karen M. Rohr, Vicky Steiner, Steve Vetter, Mary Schneider. All present.

Discussion Topics:
- New proposed DC retirement Plan
- Existing DC retirement plan
- Default on retirement plan
- Legacy Earning fund

Chairman Schauer opened the floor to testimony in favor, in opposition, and neutral; no one provided in-person testimony.

Additional written testimony:

Erick Holland, North Dakota citizen, opposition testimony (#12673).

Dana Henry, Compliance Officer with the Office of State Tax Commissioner, provided written testimony in opposition to HB 1039 (#12968)

Madison Rodgers, Mountrail County Clerk of Court, provided written testimony in opposition to HB 1039 (#13034).

Pamela Binder, Human resources career professional and North Dakota citizen, opposition testimony (#13064).

Maureen Storstad, Finance and Administrative Services Director, City of Grand Forks, ND, offered testimony in opposition to HB 1039 (#13070).

Jamison Fuqua, Lead Fleet Maintenance Mechanic for the city of Grand Forks, offered testimony in opposition to HB 1039 (#13073).

Jill Minette, Director of Human Resources for the City of Fargo, ND, opposition testimony (#13076).

David Krebsbach, Vice Chancellor of Administrative Affairs and Chief Financial Officer for the North Dakota University System, offered neutral written testimony for HB 1039 (#13094).

Josh Askvig, State Director for the American Association of Retired Persons, opposition testimony (#13125).

Landis Larson, President of the North Dakota ALF-CIO, offered written testimony in opposition to HB 1040 (#13128).

Allen Anderson, Administrator of the Walsh County Health District, opposition testimony (#13134).

Gary Feist, former state auditor and North Dakota citizen, opposition testimony (#13142).

Chris Mahoney, President of the Williston Professional Firefighter's Association, opposition testimony (#13161).

Tom Ross, Mayor of the City of Minot, provided written testimony in opposition to HB 1040 (#13164).

Darren Schimke, President of the Professional Fire Fighters of North Dakota, offered testimony in opposition to HB 1040 (#13172).

Dustin Gawrylow, with the North Dakota Watchdog Network, neutral testimony (#13178) (#13179) (#13180) (#13181) (#13182).

Janilyn Murtha, Executive Director of the North Dakota Retirement and Investment Office on behalf of the Teacher's Fund for Retirement Board of Trustees, provided neutral testimony for HB 1040 (#13186).

Chairman Schauer adjourned the meeting at 11:44 AM.

Phillip Jacobs, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Pioneer Room, State Capitol

HB 1039
1/19/2023

Relating to a transfer from the legacy earnings fund to the public employees retirement system main plan and the public employees retirement system defined benefit and defined contribution retirement plans; to repeal section 54-52-06.5 of the North Dakota Century Code, relating to public employees retirement system retirement plan contribution rates upon reaching full funding

Meeting called to order by **Chairmen Schauer at 11:17 AM**

Chairmen Austen Schauer, Vice Chairmen Bernie Satrom, Reps. Landon Bahl, Claire Cory, Jeff A. Hoverson, Jorin Johnson, Karen Karls, Scott Louser, Carrie McLeod, Karen M. Rohr, Vicky Steiner, Steve Vetter, Mary Schneider. **All present**.

Discussion Topics:
- Committee work
- Pension Reform

Representative Steiner Move for a Do Not Pass

Representative Vetter- Seconds the Motion

Roll Call Vote was Taken:

Representatives	Vote
Representative Austen Schauer	Y
Representative Bernie Satrom	Y
Representative Landon Bahl	Y
Representative Claire Cory	Y
Representative Jeff A. Hoverson	Y
Representative Jorin Johnson	Y
Representative Karen Karls	Y
Representative Scott Louser	Y
Representative Carrie McLeod	Y
Representative Karen M. Rohr	Y
Representative Mary Schneider	Y
Representative Vicky Steiner	Y
Representative Steve Vetter	Y

Motion Carries 13-0-0.

Carried by Representative Louser.

Representative Schauer- Closes the meeting for HB 1039 at 11:20 AM

Phillip Jacobs, Committee Clerk by Risa Berube

REPORT OF STANDING COMMITTEE

HB 1039: Government and Veterans Affairs Committee (Rep. Schauer, Chairman) recommends **DO NOT PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1039 was placed on the Eleventh order on the calendar.

TESTIMONY

HB 1039

Dear Chairman Schauer and members of the House Government and Veterans Affairs Committee:

Thank you for representing me in the North Dakota legislature. Please oppose closing the NDPERS retirement plan to new hires and do the right thing by keeping the word of previous legislative bodies when they agreed to pay their share of the funding shortfall needed to bring the NDPERS plan to long-term stability.

I would like to take this moment to say that I am proud to have served my whole career providing quality interpretation and education to citizens where I was living. I am a recently retired North Dakota State employee. I worked for the State Historical Society of North Dakota from August 1975 to February 1984, and then from August 2009 to June 2022. It has been a honor to serve North Dakota citizens during both of these stints. Between them I worked for Virginia State government, Minnesota State government, and the National Park Service.

I am able to volunteer to deliver programming and support for the State Historical Society and North Dakota Studies because my pension helps to make my time available. This is important to me now and was important to me before my retirement because I could look forward to sharing my expertise with younger incoming staff who would be professional and proud to be working for our Citizenry. It becomes more and more difficult to recruit and retain professional and proud staff without quality long-term benefits that they deserve.

If you have questions for me, I would be happy to have you contact me at
Erik Holland, 222 West Avenue C, in Bismarck or esholland@aol.com, or 701 516-6847.

Erik Holland

Chairman Schauer and members of the North Dakota House Government and Veterans Affairs Committee, my name is Dana Henry and I am a Compliance Officer with the Office of State Tax Commissioner. The testimony I am providing is in opposition to HB 1039.

I am the daughter of two retired educators who currently draw on Oregon PERS benefits. They have been able to comfortably retire at ages 53 and 55 from their public service careers and have been drawing on these deserved benefits since 2008 and 2010 respectively. Because of their pension and now social security benefits, they have not had to take any distributions from their supplemental retirement savings to maintain the same level of lifestyle as when they were working.

The entirety of my professional career has been in the public sector from working with federally funded grant programs, in K-12 education, two-year and four-year higher education, non-profits, and now state government. I have participated as an employee in PERS plans in three states: Oregon, Montana, and North Dakota.

When my husband moved us to North Dakota, I was looking to continue my employment in the public sector. As I reviewed the various job postings that would fit my skill set and industry of work, the defined benefit plan that the State of North Dakota offered as part of the total compensation package was the main/top determining factor in coming to work for the state.

I believe that anyone who works their entire life in public service has earned their retirement security. I saw and continue to see the benefits of a defined benefit plan and am a firm believer that benefits are a key component to recruiting and retaining talent in our agencies.

Closing the PERS plan will eliminate new dollars investing into the fund increasing the likelihood of the fund becoming insolvent and keeping current and future retirees from receiving their full benefits. In addition, without the plan, you lose a competitive edge/offering to new hires with the private sector because the salary ranges offered by the state cannot compete.

I encourage the committee to oppose HB 1039.

Madison Rodgers

Mountrail County Clerk of Court
PO Box 69
Stanley, ND 58784
Phone: (701) 628-2915

January 12, 2023

Dear Chairman Schauer and Government and Veterans Affairs Committee,

My name is Madison Rodgers, and I am the Mountrail County Clerk of Court. I am writing in opposition to both HB 1039 and HB 1040, which propose closing the defined benefit plan for any new state employees.

Being a public employee is often a thankless job - angry public, no bonuses, and low levels of control. This job does come with its perks however – an important one of them being the benefits, specifically being a part of the defined benefit retirement plan.

I oppose moving toward a DC plan for many reasons. Mainly, if I were to be a part of a DC plan, the value of my retirement will fluctuate due to changes in investments, leaving my future retirement uncertain. Also with a DC plan, the burden of investing is in my hands. One of the main "peaces of mind" that a DB plan gives me is that when I retire I will have a specific, guaranteed amount that I will receive the rest of my life—which I and other public employees deserve for our years of serving the public.

I listened to the hearing from the recent Employee Benefits Program Committee on December 13, 2022. One of the things that stuck out to me was that the Retirement Actuarial Consult, Milliman, said that a DB plan was an efficient use of taxpayer dollars while a DC plan was an inefficient use of taxpayer dollars, not to mention DC plans are twice as expensive as DB plans. Funds would have to be deposited into the DB fund to compensate for the lack of funds going in. Those funds could best be used where they are desperately needed for other taxpayer programs/services.

I also noted that Milliman stated a DC plan benefits short-term workers because of its portability, which gives them no incentive to stay. Public employment is not for the faint-hearted and because a DC plan is portable, there is no reason for an employee to stick around, increasing turnover. In the current employee shortage, it will be harder than ever to fill critical public employee positions. A DB plan keeps employees working in public employment long term, which benefits the public by providing them with the experienced service for which they pay taxes.

I am thirty-three years old and have many years of working left. My plan is to retire as a public employee. If these bills pass, I will be at the end of the totem pole for receiving funds from the DB plan. What will be left once it is my turn to finally retire? What will I have to live on after the many years of service that I will have given?

For these reasons, I hope you give a "DO NOT PASS" recommendation to the Legislature.

Please reach out with any questions.

Madison Rodgers
Mountrail County Clerk of Court
PO Box 69
Stanley, ND 58784
Phone: (701) 628-2915

Sincerely,

Ms. Madison Rodgers

Ms. Madison Rodgers
Mountrail County Clerk of Court

January 11, 2023

Dear Chairman, Schauer and members of the House Government and Veterans Affairs Committee:

I am writing my testimony in opposition to closing the North Dakota Public Employees Retirement System (NDPERS) Main Defined Benefit Plan. I am a current participant in the NDPERS Main Plan with Burleigh County. I have read the draft of H.B. #1040/S.B. #1039 and I believe closing the NDPERS Main Defined Benefit Plan to new participants would be detrimental to recruitment for political subdivisions and the state of North Dakota as an employer. I have made my career in the Human Resources field for over twenty-three years now. I am still actively in the Human Resources field as the Human Resource Director for Burleigh County. While I understand the recruitment challenges that Governmental Units face when competing for talent with private employers; I continue to live this challenge every day in my current job; I do not feel that the Governmental Units will gain anything by closing the NDPERS Main Defined Benefit Plan to new hires. I have worked for a couple of larger employers in their employee benefits administration area over my career (Bobcat/Melroe Company & MDU Resources Group, Inc.). I understand the pension funding requirements and the importance of the percentage level of funding in a defined benefit pension plan. I have also experienced what happens when a defined benefit pension plan is closed to new participants. The funding liability for the remaining participants in that pension plan remains, as you already have a certain number of participants that you have the liability of a lifetime annuity benefit that has to be provided by the pension plan. However, you have cut off your main funding source which is the new participant contributions into the pension plan. The funding requirements to the remaining participants of the plan will become an issue. I read where the Legacy sinking and interest fund will have a mechanism that will provide some funding for the NDPERS Main Defined Benefit Plan. However, anything above that funding source will need to come from either the Governmental Units and/or the existing participants in the NDPERS Main Defined Benefits Plan. So as I understand it, their may be extra funding requests made in the future to the Governmental Units (State Agencies and Political Sub Divisions (Counties, etc.)) where they will be required to submit their own fund contributions in order to keep the NDPERS Main Defined Benefit Plan funded at an adequate level. What this will ultimately do is to force the Governmental Units to make a choice and withdraw their participants from the closed NDPERS Main Defined Benefit Plan and enroll those existing participants into the Defined Contribution Plan because they will not be able to afford the extra contributions and payments that are needed in order to keep the closed NDPERS Main Defined Benefit Plan funded. During my career in Human Resources – Employee Benefits, I have witnessed this very thing occur in a few different cooperatives that closed their pension plans. I do not believe this is a fair way to treat the long- time employees that have been loyal to our Governmental Units.

I worked as a State of North Dakota employee for NDPERS two different timeframes within my career. From 2004 to 2006 and from 2019 to 2020. I have been with Burleigh County since 2020. I understand the NDPERS Main Defined Benefit Plan very well. I have been aware of the funding issues since 2004. I also know that there have been numerous suggestions on how to increase the funding levels to the NDPERS Main Plan made over the years. The past legislators refused to fully address the funding suggestions always referring to the next legislative session. Now we are at a critical point for funding the financial liabilities for the NDPERS Main Defined Benefit Plan.

I mentioned that I worked for NDPERS in 2004 and left. I went back to the private sector as I was offered more money. Over the years in the private sector, I made more money than I would have had I stayed at NDPERS as an employee. However, when you become older and your retirement and healthcare needs become more apparent to you and your family, you reconsider whether compensation is everything. Remember, the more compensation you make the more the IRS will take for taxes. I did come back to NDPERS as an employee and then to Burleigh County as an employee for the NDPERS Main Defined Benefit Plan and the healthcare benefits.

The fact of the matter is this: I listened as legislators discussed the reason, they want to close the NDPERS Main Defined Benefit Plan and convert any new hires after that to the Defined Contribution Plan. It was the pension funding, however, they also used employee attraction as a reason to have a defined contribution plan rather than a defined benefit plan. As an HR professional, I do not agree. Your employees have a choice of where they want to work. It is no secret that we have more open jobs in the state of North Dakota than we have people to fill them. If I was a young professional under the age of 26, I really would not care about Health Insurance because I am covered under my parent's health insurance plan. I am also not thinking about my life in retirement. A very small percentage of young employees have retirement at the top of their to do list. The top of that to do list looks more like a car payment, a house payment and daycare for children and also to provide food on the table. Normal household expenses override retirement contributions if the employee has a choice. I have witnessed this both personally and throughout my career. That is not really a bad thing as long as when an employee gets older, they do make retirement contributions into their retirement plan.

Not all employees are comfortable with retirement investments. I know a good share of employees are very scared to even participate because they do not want to choose the wrong investment and lose their hard-earned money. The main difference between a defined benefit plan and a defined contribution plan is who is in charge of the investments. In a defined benefit plan, you are taken care of, and you do not have to pay an investment advisor to manage your investments so you can afford to retire and have a monthly annuity that you can live from. In a defined contribution plan, if you are not educated on investments and watching your investments and rebalancing your account up against the changing market conditions, you will not have enough money saved in your account to get a monthly annuity payment. Even though you may pay an investment advisor to handle your investments, you are the one that is still liable for the gains and losses on the investments in your defined contribution plan. You will live from the balance in your defined contribution account until it has been depleted.

An employee will have to work longer instead of enjoying retirement. As technology changes; employees toward the end of their careers; do not always adapt well to the technology changes. This could lead to skills gaps in critical positions at Governmental Units.

Converting to a Defined Contribution Plan will only make it easier for an employee to move between employers from the Governmental Unit to the private sector. I highly doubt it will have the talent attraction result that was discussed by the committee that wants to close the NDPERS Main Defined Benefit Plan. What it will do is take the Governmental Unit's advantage of a better benefit package away and make it harder to compete with private industry. The Governmental Units will be forced to pay more in salary in order to fill open positions. Otherwise, those positions will go unfilled. Training costs will increase as employee retention will still be an issue because we just made it easier for an employee that we attracted to go down the street to another employer for a little bit more money. The benefits will remain neutral at that point.

I respectfully oppose closing the NDPERS Main Defined Benefit Plan and I wanted to make my wishes known to you and the rest of the House Government and Veteran Affairs Committee so you can make an informed decision on the retirement plan as it will change how we will need to recruit and pay employees in Governmental Units going forward if the NDPERS Defined Benefit Plan is closed.

Thank you for your time!

Sincerely,

Pamela J. Binder
Human Resources Career Professional
MM/HR, MBA, SPHR & SHRM – SCP

pjbinder@nd.gov

255 N. 4th St.
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CITY OF GRAND FORKS NORTH DAKOTA

City of Grand Forks
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TESTIMONY ON HOUSE BILL 1039 & HOUSE BILL 1040
Government and Veterans Affairs Committee
January 13, 2023

Maureen Storstad, Finance and Administrative Services Director
City of Grand Forks, ND

Mr. Chairman and members of the committee, this testimony is written on behalf of Tangee Bouvette, Human Resources Director and myself, Maureen Storstad, Finance and Administrative Services Director for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express the City of Grand Forks' opposition to this legislation.

The NDPERS retirement system is an excellent defined benefit pension plan and it is our top retention and recruitment tool for the City of Grand Forks.

The City of Grand Forks, in general, has supported previous efforts to support the NDPERS plan to bring this plan to a healthier funding percentage level, and we would continue to support the NDPERS plan if the State were to consider keeping this plan open to new employees. The City of Grand Forks has supported past legislation to incrementally increase contribution rates over the last 12+ years as the City has been able to manage these incremental increases through budget planning.

Conversely, the City of Grand Forks is against House Bill 1039 and House Bill 1040, which would close the NDPERS main plan to new employees. As stated previously, it is the most important recruitment and retention tool that we have as a municipality.

The narrative that exists to support these two bills is that this younger generation of employees doesn't care about defined benefit pensions and that employees just want a benefit that is portable as jobs are seen as short-term ventures. I can tell you that has not been the experience with City of Grand Forks employees. City employees do care about defined benefit pension plans. The City's typical job applicant are individuals that are looking for long-term career paths that can provide financial stability along with work-life integration. Providing for a secure retirement is a key component of a sustainable career for employees providing essential community services.

These type of pension plans need to be viewed with a long-term perspective. As long as the plan would remain open, there is not a need to be fully funded today, but to show a plan that reflects a positive trajectory toward fully funding. I believe the State still has this ability with the existing NDPERS main plan as long as it is not closed to new employees.

In reviewing the information presented by Milliman at the July 21st, 2022 interim legislative committee meeting, a baseline was presented along with a revised projection at the newly adopted, more conservative, 6.5% assumed rate of return. This was used in comparison and showed the impact of closing the plan to new employees. It is very expensive to close a defined benefit plan as new employees do not contribute toward funding of the plan as the plan was intended. Therefore, the numbers show, based on performance numbers at the time, the following:

- **Keep DB Plan open at 6.5% assumed earnings rate**:

  74% funded after 30 years (basically holds its own, but funding percentage does not improve) (This is with no additional annual cash infusion)

  87% funded after 30 years (with $25M additional annual cash infusion)

- **Close the DB Plan to new employees and same 6.5% assumed earning rate:**

  43% funded after 30 years (with $25M additional annual cash infusion)

The City of Grand Forks opposes the closure of the NDPERS main pension plan. We would support making incremental contribution changes to the NDPERS plan and monitoring funding every two years, in order to get this plan on a positive trajectory toward healthier funding. It is for the reasons stated above that we oppose the passage of House Bill 1039 and House Bill 1040 as these bills are not in the best interests of the City of Grand Forks. Thank you for your time and consideration. We respectfully ask for a DO NOT PASS on House Bill 1039 and House Bill 1040.

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CITY OF GRAND FORKS NORTH DAKOTA

City of Grand Forks
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TESTIMONY ON HOUSE BILL 1039 & HOUSE BILL 1040
Government and Veterans Affairs Committee
January 13, 2023

Jamison Fuqua, Lead Fleet Maintenance Mechanic
City of Grand Forks, ND

Mr. Chairman and members of the committee, My name is Jamison Fuqua and I am the Lead Fleet Maintenance Mechanic for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express my opposition to this legislation.

When I was looking at this position with the City of Grand Forks, one of the main attractions was the NDPERS plan. As a newer employee with the City of Grand Forks I am planning long term for my career and the pension plan with the City was second to none.

I could have taken a job with better pay, but the long-term stability that I get with the NDPERS plan with the city was one of the main selling points to taking the job.

I understand that there are costs at the state and local level associated with this plan, but please understand that this plan does impact the ability to find and retain employees.

I stand in opposition to this legislation.

Thank you.

Testimony Presented on HB 1039 and HB 1040 to the

House Government and Veterans Affairs Committee

By

Jill Minette, SPHR, SHRM-SCP, IPMA-SCP

Director of Human Resources

City of Fargo

January 11, 2023

This statement expresses opposition to House Bill 1039 and House Bill 1040 that propose closing the North Dakota Public Employee Retirement System's (NDPERS) Defined Benefit Plan and converting to a defined contribution system.

The City of Fargo has participated in the NDPERS Defined Benefit Plan since 2008. Currently, approximately 620 employees or 64% of our workforce participates in the NDPERS Defined Benefit Plan.

The NDPERS Defined Benefit Plan has been a cornerstone of the benefit package offered to City of Fargo employees. As a public employer, we face similar challenges to the private sector in attracting and retaining a highly skilled workforce. While it is increasingly difficult to remain competitive with private sector compensation, the defined benefit plan has provided an essential tool in recruiting qualified employees. As importantly, the NDPERS Defined Benefit Plan has been essential in the retention of trained, experienced employees within our workforce.

For a prospective employee who is considering whether to accept a position within the public sector or private sector, the retirement plan can be a major factor in their decision-making. A defined contribution plan, similar to a 401k commonly offered in private sector, is unlikely to tip the scales toward public employment for a prospective employee as they compare the benefit package of a public employer versus a private employer. Likewise, employees working under a defined contribution plan are less likely to stay with their public employer if a similar retirement plan, such as a 401k, is being offered in the private sector position.

The employees of the City of Fargo, as well as state and local government employees throughout the state, play an integral role in creating safe, thriving and growing communities that support the retention of citizens, attract individuals and families to move to our state as well as supporting economic development throughout the state. The ability to attract and retain a highly skilled and talented workforce is essential to supporting our communities and state and to continue providing the best public service possible. The NDPERS Defined Benefit Plan is an important component in supporting public workforce stability within communities throughout the state.

The NDPERS Defined Benefit Plan is an essential benefit offering to current and prospective City of Fargo employees. Without this crucial benefit, we believe the draw to public employment may diminish and the workforce challenges within the public sector, here in Fargo as well as throughout the state, will become even greater.

The NDPERS Defined Benefit Plan incentivizes public employees to reach long periods of employment and in some cases working their entire careers with their current employers. Additionally, for those public sector employees who are looking to make a change, the NDPERS Defined Benefit Plan incentives employees to remain in the public sector within North Dakota with the ability to transfer and retain their service.

The importance of the NDPERS Defined Benefit Plan for the City of Fargo as well as public employers throughout the state cannot be overstated. The NDPERS Defined Benefit Plan is essential in order to attract and retain a talented workforce and to support workforce stability in public employment throughout the state.

The City of Fargo strongly encourages your committee to recommend “Do Not Pass” for this bill.

Thank you for your consideration.

NORTH DAKOTA
UNIVERSITY SYSTEM
ACCESS. INNOVATION. EXCELLENCE.

HB1039

House Government and Veterans Affairs Committee
January 13, 2023

David Krebsbach, Vice Chancellor of Administrative Affairs and CFO, NDUS
701.328.4116 | david.krebsbach@ndus.edu

Chair Schauer and members of the House Government and Veterans Affairs Committee. My name is David Krebsbach, and I serve as the Vice Chancellor of Administrative Affairs & Chief Financial Officer for the North Dakota University System (NDUS). I am here today on behalf of the NDUS and its eleven institutions to provide neutral testimony related to HB1039.

HB1039 closes the NDPERS Defined Benefit plan (DB) to new members effective January 1, 2024. Existing DB participants will remain in the plan; however, the NDUS and its 11 institutions will be obligated to pay an additional contribution, the Actuarily Determined Contribution (ADEC), in addition to the regular retirement contributions for about 20 years. HB1039 does not include a state appropriation with which to make these ADEC payments.

NDUS has approximately 2,400 employees participating in the DB Plan. These individuals work in the Technical & Paraprofessional, Office Support, Crafts/Trades and Services broadband classifications. The estimated minimum cost of the ADEC for these employees is $56.8 million for the 2023-2025 biennium. Per institution amounts are as follows:

	PERS Defined Benefit Plan Closure HB1039		
	HB1039 - Fiscal Note 2023-25 - NDUS Cost		
NDUS Entity	General Fund	Special Fund	Total
NDUSO	$ 1,526,391	$ 605,108	$ 2,131,499
BSC	1,241,354	1,768,872	3,010,226
LRSC	574,479	757,848	1,332,327
WSC	339,268	450,019	789,287
UND	4,838,274	16,330,743	21,169,017
NDSU	3,912,069	11,950,503	15,862,572
NDSCS	1,549,924	1,786,786	3,336,710
DSU	614,960	709,202	1,324,162
MaSU	813,137	1,265,199	2,078,336
MiSU	1,095,993	1,609,574	2,705,567
VCSU	649,728	645,736	1,295,464
DCB	380,103	336,520	716,623
Forest Service	979,608	31,600	1,011,208
Total	**$ 18,515,288**	**$ 38,247,710**	**$ 56,762,998**

The NDUS cannot absorb such a significant expense without a state appropriation that covers the total cost of this change. The alternative would be to use special funding sources, which for higher education are derived from tuition paid by students & their families. Raising the cost of education when families are already struggling to cover increasing prices of fuel, housing, and food would not benefit anyone and may lead to decreased enrollment in post-secondary education. This could in turn negatively impact the number of qualified employees in the ND workforce at a time when employees are desperately needed.

If HB1039 is moved forward, the NDUS respectfully requests the addition of a general fund appropriation to cover the $56.8 million in increased costs of the ADEC.

This concludes my testimony. I will stand for questions from Committee members.

House Bill 1039
January 12, 2023
House Government and Veterans Affairs
Josh Askvig, State Director AARP North Dakota

Chair Schauer and members of the committee,

I'm Josh Askvig, State Director for AARP North Dakota. AARP is a nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families, with nearly 38 million members nationwide and our 83,000 members in North Dakota. We're here today to offer testimony in opposition to House Bill 1039.

Financial and health security are key components of our advocacy agenda. AARP strongly believes that all individuals have the right to be self-reliant and live with dignity in retirement. We further believe that Americans of all ages are faced with a crisis where the goal of achieving an adequate and secure retirement is becoming increasingly difficult.

Following the Great Recession, there was widespread discussion and consideration around converting from traditional defined benefit plans to defined contribution plans. Yet, nearly every state retained a traditional pension as a component of the primary retirement benefit for most public employees. We followed this bill during the Interim Retirement Committee, offered similar comments during that process and have listened to the subsequent discussions.

Upon review we urge the state to exercise similar caution as other states who have explored this change. Modifying retirement plan designs can have unintended outcomes. These following cost related reasons should be noted:

- ***Does not reduce legacy plan liabilities.*** Closing off the pension plan to new employees does not resolve any existing unfunded obligations. In fact, it diverts contributions that would otherwise go into the plan and earned investment income; it requires higher contributions as a percentage of payroll for the legacy plan; and, as the actuarial analysis on this bill and others has shown, necessitates accelerated near-term additional payments to eliminate the unfunded pension liability. (Enduring Challenges: Examining the Experiences of States that Closed Pension Plans, NIRS, August 2019)

- ***Increases benefit costs.*** For any given level of retirement income, defined contribution plans cost significantly more than a traditional pension. Pension plans have economies of scale that cost less to administer. Their pooled assets can achieve higher investment returns due to professional management, more diversified portfolios, longer time-horizons and lower fees. Longevity risk is also pooled, which is inherently less expensive than what individuals would need to accumulate to ensure they do not outlive their savings. (Still a Better Bang for the Buck, National Institute on Retirement Security, December 2014). Furthermore, two plans are more costly than one. Higher administrative costs of a new defined contribution plan would be in addition to the traditional pension that must still be maintained for current workers and retirees. (Look Before you Leap: The Unintended Consequences of Pension Freezes, NIRS, October 2008)

- ***Creates workforce challenges and expenses.*** Retaining employees promotes the efficient delivery of public services, allowing taxpayers to maximize the training and experience invested in public employees and an orderly progression of personnel. Pension plans are an important workforce management tool to meet this objective. State and local governments that closed their traditional pensions saw increased turnover, workforce challenges, and training expenses. (Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions, NIRS, February 2018; The Cost of Teacher Turnover in Alaska, Center for Alaska Education Policy Research, March 2017)

Beyond the costs of switching from a traditional pension to a defined contribution plan, additional policy considerations when transitioning pension plans for new public employees in North Dakota.

- ***Traditional pensions are economic drivers for Main Street America.*** Economic gains attributable to pensions in the U.S. are substantial. Their long-time horizon enables monthly benefits to be distributed on time and in full, even during market shocks and economic declines, to retirees in virtually every community across the country. In North Dakota, retiree spending of these benefits in 2018 generated $805.8 million in total economic output, supporting 4,610 jobs across the state. Pension spending also added $110.7 million to government coffers at the federal, state and local levels. (AARP-In-The-States-Snapshot-ND-Public-Employee-Retirement-System 2021). Additionally, North Dakota's rural and small towns benefit from public defined benefit pension plans as most retirees remain in their communities and contribute to the economic stability of the region as their income is both stable and predictable. (Fortifying Main Street: The Economic Benefit of Public Pension Dollars in Small Towns and Rural America, Linea Solutions and NIRS, March 2020).

- ***Defined contribution plans can increase retirement insecurity and reliance on social safety nets***. Moving away from defined benefit plans means that individuals must face the risk of poor investment returns, the risk that they might outlive their assets, and the risk that inflation will erode the value of their income in retirement. **(**Defined Contribution Plans and the Public Sector: An Update, Center for State and Local Government Excellence, April 2014). Defined contribution plans do not provide predictable benefits sufficiently to ensure some retirees will not need access to other government assistance programs (Medicaid, TANF, etc.). Defined contribution plan participants experience different retirement plan success depending on such factors as their level of contribution and investment knowledge and their understanding and appetite for risk.

- ***Most Americans support pensions to retain public employees and compensate for lower pay and higher risks.*** Most Americans believe providing pensions is a good way to recruit and retain public employees. They additionally appreciate that public workers help finance the cost of these benefits and that pensions compensate for comparatively lower pay and higher risk in many public sector jobs. (Americans' Views of State and Local Employee Retirement Plans, NIRS, March 2021).

Thank you.

North Dakota AFL-CIO
1323 East Front Ave.
Bismarck ND 58504
llarson@ndaflcio.org
701-526-8787

Testimony of Landis Larson, ND AFL-CIO President
In Opposition to HB 1039
January 13, 2023

Chairperson Schauer and members of the Government and Veterans Affairs Committee:

My name is Landis Larson, President of the North Dakota AFL-CIO. The North Dakota AFL-CIO is the federation of labor unions in North Dakota, representing the interests of all working people in our state.

I am testifying on behalf of the North Dakota AFL-CIO in opposition to House Bill 1039

The North Dakota AFL-CIO opposes HB 1039 and any other attempts at moving from a defined benefit to a defined contribution retirement plan for any current or future public employees in the state of North Dakota.

As a federation of labor unions, we have hundreds of years of combined experience fighting for secure, dignified retirement for working people in our state, private and public sectors alike. Our Experience is clear and will be no surprise to anyone who has punched a clock for a living:Defined benefit retirement plans are hands down better than defined contribution retirement plans.

We want to recruit and retain the best workforce possible to run the vital daily operations of our state, like cleaning our roads, helping run our government offices, and keeping us safe. To recruit and retain this high caliber workforce we need to make a commitment to the long-term needs of our public servants by offering the highest quality benefits we can, including maintaining our defined benefit plan.

Not only will this help with retention, but the spillover effects into our communities are substantial. Quantitatively, those dollars circulate in our communities, increasing revenues of local business. Qualitatively, we are stronger when our retirees are secure because they are able to fully participate in their community, serving as the bedrocks, and as beacons of hope and pride for the next generation of workers that make North Dakota their home and make service to North Dakota their careers.

Our public employees deserve to retire with dignity and security after a life of service to our state and its citizens.

Along with all of this, the cost to keep the defined benefit plan is less than closing it out and changing to a defined contribution plan.

For all of the reasons stated, we recommend a DO NOT PASS vote on HB 1039 and to allow the NDPERS system to continue working for our public employees past, current, and future.

Respectfully Submitted,
Landis Larson
North Dakota AFL-CIO President

Dear Committee Members,

I am writing in opposition to both HB 1040 and 1039.

As an employer in a rural county in North Dakota and in the field of healthcare, it cannot be overstated how important the NDPERS Pension is as a retention and recruitment tool for our agency. Hiring and retaining employees has become an incredibly challenging issue over the course of the past 4 years, with no signs of stopping. Elimination of the plan for new employees will only exacerbate the situation by further encouraging a revolving door of employees. In smaller counties, paying competitively remains a challenge due to budgetary constraints, so the reliance on high quality benefits is imperative to recruitment and retention.

I believe that the elimination of the NDPERS pension will also have negative effects on the ability of small towns to recruit teachers, law enforcement, and other public positions.

Allen Anderson, Administrator

Walsh County Health District

Testimony: Opposition to House Bill 1039 and House Bill 1040
Before the House Government and Veterans Affairs Committee
January 13, 2023

Good morning, Chairman Schauer and members of the House Government and Veterans Affairs Committee, my name is Gary Feist, I have been a state employee for 31 years as an auditor in the Office of State Tax Commissioners Office. I'm here today to oppose HB 1039 and 1040 which would close the North Dakota Public Employees defined benefit pension plan to new hires. Many state agencies including the tax commissioner's office are struggling to recruit and retain staff. Closing the defined benefit plan will only make it more difficult to recruit staff and will increase agency's expenses for the continual posting of jobs and training of new hires.

The defined benefit pension plan is a benefit that is very important in recruiting and retaining quality employees. I previously severed on the State Employee Compensation Commission where legislators and employees studied and discussed the compensation of state employees and the need to be competitive in the job market. Studies completed by the state have shown that state employee wages lag the market and the benefits, including the defined benefit pension plan, allow the state to close some of the total compensation gap with other large employers in the state and surrounding states. Closing the defined benefit plan will make it more difficult to retain long term employees while also making it difficult to recruit new employees.

In a recent North Dakota Human Resources Management Services' Total Reward Survey employees were asked about compensation and benefits. On the issues of pension there were the following questions: “I prefer to have a defined benefit pension plan rather than a defined contribution plan” for which 42% of state employees said they strongly agreed while in answering, “I prefer to have a defined contribution plan rather than a defined contribution plan” only 3% said they strongly agree. State employees of all ages value the defined benefit plan. The defined benefit plan will provide me and other state employees with a secure, modest retirement without a cost-of-living adjustment.

The defined benefit plan has been an important benefit to me and has played a role in my decision to remain a state employee over the last 31 years when I have been recruited by other employers. To be competitive in the labor market, North Dakota needs to have multiple tools available to enable it to recruit and retain staff and one of those is the defined benefit retirement plan.

I hope North Dakota will not make the same mistake other states have made in closing their defined benefit retirement plans. West Virginia closed its DB plan only to close its DC plan and reopen the DB plan because it was less expensive for the state to administer than the DC plan. In a 2019 new and updated case study completed by the National Institute on Retirement Security (NIRS) on the states of Alaska, Michigan, West Virginia, and Kentucky which switched their new employees to a defined contribution plan reported the states’ overall costs increased, did not address existing pension underfunding, and led to a loss of retirement security for employees. The NIRS study also looked at demographic changes, benefit costs, actuarially required contributions, plan funding levels, and retirement security and found the switch to a

DC plan intensified pension funding problems and increased costs to the states and its taxpayers.

Let us learn from other states, I urge the committee to give HB 1039 and 1040 a do not pass recommendation. North Dakota public employees deserve a retirement plan that will provide a secure retirement for their quality service provided to the citizens of North Dakota. Thank you for your consideration.

Gary Feist

WILLISTON PROFESSIONAL FIREFIGHTER ASSOCIATION
I.A.F.F. Local 3743

January 10th, 2023

Chairman Austen Schauer
House Government and Veterans Affairs
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Chairman Schauer & Members of the House Government & Veterans Affairs Committee:

On behalf of the membership of the Williston Professional Firefighter's Association, I ask that you and the members of your committee oppose House Bill 1040 and House Bill 1039. This bill terminates future enrollees to the "main plan" portion of the ND PERS retirement system and transition new employees to a defined contribution plan. Although many of the members are an active part of the public safety plan of ND PERS, there are many administrative staff members of fire departments who do not qualify for this plan. Fire departments do not operate solely on their own. To function adequately they often rely on support from other governmental departments and agencies to whom would be directly effected by this change.

The current system in place provides a benefit to public employees that is no longer seen in the private sector. This benefit is one of few benefits that sets public serve apart and allows for recruitment and retention of good employees. The nature of government work demands conservative fiscal oversight to do the most good for the citizens we serve at the lowest cost. This often results in public sector jobs have less lucrative wages and benefits as compared to the private sector.

Please oppose these two bills and explore an alternative means to preserving the ND PERS system.

Fraternally,

Chris Mahoney
President
I.A.F.F. Local 3743

North Dakota House of Representatives
Government and Veterans Affairs Committee
Chairman Austin Schauer

By: Tom Ross
Mayor, City of Minot
tom.ross@minotnd.gov
701-857-4750

Lisa Jundt
Human Resources Director, City of Minot
lisa.jundt@minotnd.gov
701-857-4753

HB 1039 & HB 1040

Chairman Schauer and members of the House Government and Veterans Affairs Committee, my name is Tom Ross and I am the Mayor of the City of Minot. Thank you for allowing me to provide testimony today on behalf of my city. Lisa Jundt, our City's Human Resources Director, was instrumental in outlining our concerns regarding both HB 1039 and HB 1040, and I want to recognize her work here, too.

In 2014, the Minot City Council voted to close its existing defined benefit pension plan in favor of offering a defined contribution plan to future employees. This decision was made not only for financial reasons, but with the premise of offering a more conventional retirement plan similar to that of the private sector. By doing this, the City felt it would be able to improve the attraction and retention of potential employees. That was not the case.

In the time period from 2014-2018, with employees hired under a defined contribution retirement plan, the City of Minot continued to see significant turnover. Turnover is very challenging and costly, especially in public safety occupations, as those positions have significant training requirements and employees are sought-after in the private sector due to this completed training (CDL, safety positions)

At the beginning of 2018, the Human Resources Department conducted a longevity assessment of the police and fire departments as well as the Engineering Department. That assessment revealed very disturbing results regarding longevity and experience levels in each of those departments. The longevity /experience assessment indicated the following:

- Police Department - 35 of 81 sworn officers, or 43.2% of the overall police force, had 5 years or less experience.
- Fire Department – 34 of 60 fire control personnel, or 56.7% of the control force, had 5 years or less experience.

This information was presented to the Minot City Council during a workshop addressing workforce issues in April of 2018. At that time, additional information was also provided in the form of employee comments compiled from exit interviews, employee evaluations and an employee satisfaction survey. A majority of the employee comments cited the lack of a comparable defined benefit plan as the main reason for unsuccessful recruitment efforts and continued retention issues. Based on the presented information, the Minot City Council asked that research be done to restructure many benefits including the retirement benefit, which they agreed should be structured like a more conventional government pension. The City of Minot had the option as a political subdivision to participate in the North Dakota Public Employees Retirement System (NDPERS) defined benefit (DB) plan. As such, the City Council decided it was the most logical and prudent retirement plan to move to. The City began participating in the NDPERS-DB plan on January 1, 2019.

Since the implementation of the NDPERS-DB plan in 2019, the City has reduced the rate of employee turnover. The turnover rate in the City went from 12.56% in 2018 to 7.6%, 8.27% and 9.95% in 2019, 2020, and 2021 respectively. This resulted in a decrease in the number of public safety employees with less than 5 years of experience, which is currently at 37% for the Police Department and 47% for the Fire Department. This improved employee retention saves taxpayer dollars and provides a more experienced, well-trained, and well-rounded service to the community. The defined benefit pension was an important tool to achieve this result.

Government entities are not as nimble to respond to outside economic forces and are unable to adjust rates of pay and benefits on the fly to respond to demands in the workforce. What government entities are able to provide is a higher level of stability both in job security and pay and benefits. A defined benefit pension plan is an integral part of that equation. Removing this portion of the equation will result in the necessity to improve other pay/benefits to remain competitive in the marketplace. This will come at a cost to taxpayers that is very difficult to quantify at this time.

Minot and other North Dakota political subdivisions provide important and essential services to their citizens, especially with regard to public safety. We believe HB 1039 will further hinder employment efforts for the City of Minot and other political subdivisions equally by eroding comparable and expected public sector retirement benefits. For these reasons, we respectfully ask for a Do Not Pass recommendation.

Thank you for your time and consideration in this matter.

Professional Fire Fighters of North Dakota

Darren Schimke, President | 218-779-4122 | dschimke@wiktel.com

1/13/2023

House Government and Veterans Affairs Committee

Mr. Chairman and members of the House Government and Veterans Affairs Committee,

My name is Darren Schimke, President of the Professional Fire Fighters of North Dakota. I rise before you on behalf of the PFFND in opposition of HB 1039.

Management consulting firm McKinsey reports that organizations that appear on "best places to work" lists often make the cut because their business strategy is premised on a long-term relationship with their employees. McKinsey credits companies for both the large and small signals sent to employees that an organization cares about its people.

Valued by employers as a workforce management tool to recruit and retain talent, offering defined benefit (DB) pension benefits is one way that employers send a loud signal to employees that they are committed to a long-term relationship. This provides a meaningful incentive for employees to stay in their job. Employees value pensions as a path of economic security in retirement. Decreasing plan benefits negatively affect that security.

It's important to remember that one of the main reasons many entities throughout the State attract and retain its public employees is largely because these workers understand the long-term value of their pensions.

There are experiences logged throughout the internet that offer important cautionary tales for governments to consider when changes to pension benefits are being studied. Drastic changes can actually encourage employees to leave their employment/town rather than stay long term.

As a 30-year employee of the City of Grand Forks Fire Department, I have witnessed firsthand the negative effects of decreases made to a retirement plan. In 1994, the City proposed decreases to the benefit multiplier and extending the average final years' salary from 5 to 10, along with an increase in employee contribution. After a lengthy negotiation period, compromises were made within all of the above-mentioned areas and implemented. In January 1996, the City choose to close the DB plan, which was in existence since 1970, to all new hires and opened a DC (Defined Contribution) retirement plan for new hires. Approximately 5 years after the DC implementation and as the Grand Forks firefighter's Local 242 union president, I noticed within my own department, and hearing from other departments, that we were all experiencing major turnover. The majority of these departures were not due to retirements, as years prior, but for seeking employment elsewhere. At the time, the Grand Forks Police Dept FOP President told me that the number one reason for leaving employment stated during exit interviews was "better retirement benefits". The same reasons were being stated during exit interviews at the Fire Department, according to our then Fire Chief, Peter O'Neill. As the President of the City Employee Representative Group, I then inquired with the group's members about the morale of their departments. It was staggering to hear how low it was and the actions that were being taken to demonstrate low morale by employees. This was also being demonstrated within the fire department to a certain degree. With that concern and reading about the ND PERS Retirement plan in the Grand Forks Herald, I inquired with the Human Resource Department and the Finance Department about joining the ND PERS Retirement Plan. A few of my many selling points were plan longevity, plan stability, and recruitment/retention success stories. Long story short, the City of Grand Forks joined the ND PERS plan and the DC plan participants are now in a DB plan along with all new hires. Within a few short years, I can honestly say the level of morale rose drastically. We understand that things change and adjustments need to be made from time to time. In fact, we have supported past plan adjustment increase bills that originated from right here. But things like completely cutting out a benefit and offering a drastically decreased benefit all at once has the appearance of a knee jerk reaction that when something less (ex. contribution adjustment) would be more palatable and have positive results.

I currently serve on the City of Grand Forks Pension and Insurance Committee and one of the issues we deal with is the closed DB plan that was started in 1970. When this plan closed in 1996, new plan participants ceased. As the plan's retiree participants grow, the increased cost to the City to date is far greater than any projection that was presented to us in 1996.

With the ever-growing competition within the job market, to be a best place to work, employers must signal to employees that they are valued over the long-term. Cuts within pension benefits sends the exact opposite message.

Thank you for the opportunity to stand in front of you today and now I will take any questions that you may have.

Darren Schimke

Grand Forks Herald
GrandForksHerald.com

OPINION

Dustin Gawrylow, Mandan, N.D., column: Pension thundercloud looms on N.D.'s horizon

By Dustin Gawrylow MANDAN, N.D. -- During the past few months, as has been a tradition for the past six years or so, North Dakota officials have been very proud to brag about all the revenue coming into the state's treasury because of the oil boo...

Opinion by news@grandforksherald.com
December 13, 2012 05:00 PM

By Dustin Gawrylow

MANDAN, N.D. -- During the past few months, as has been a tradition for the past six years or so, North Dakota officials have been very proud to brag about all the revenue coming into the state's treasury because of the oil boom.

Last week, Gov. Jack Dalrymple released his budget proposal for the next two years. While there certainly is plenty of money (and even more ways to spend that money), Herald readers also must remember the prospect of high costs in future years and the way those costs could derail the state budget's long term health.

While most people understand the threat that the federal government poses to North Dakota's economy in the matter of taxes and regulation, there are major areas in North Dakota's internal policies that also could pose major problems down the line -- and so far, the Legislature and governor have ignored these issues.

During the regular session in 2011, a strong effort was led by state Rep. Bette Grande, R-Fargo, to reform and modernize North Dakota's public pension system.

With a 69-25 Republican majority, the effort to move both the teachers' retirement system and the public employees' retirement system away from a defined benefit program toward a 401(k)-style defined contribution program failed to pass the North Dakota House.

In the past two years, North Dakota's public pension funds have continued the downward slide that began in 2008. They now represent a $2 billion unfunded liability over the next 30-odd years.

The Public Employee Pension Fund now is funded at a 65 percent level and is nearly $874 million short of the level it needs to cover projected retiree benefits over that same stretch of 30-plus years.

The Teacher's Retirement Fund is funded at a rate of 60.9 percent and is more than $1 billion short of being able to meet its projected obligations over that time.

These are alarming figures, especially in light of how North Dakota's leaders spend most of their time bragging about all the surplus dollars the state budget is seeing come in because of the oil boom. But this crisis is not a surprise to anyone.

Even more staggering is that from 2010 to 2012, these pension funds have seen their unfunded liabilities increase from $1.3 billion to $2 billion.

These pension funds are in trouble for two reasons:

** They are based on the antiquated defined benefit approach to retirement. This means that the state and local governments have made promises to employees to provide fixed benefits, no matter what the market does.

The state is obligated to make these benefit payments regardless of how much revenue is earmarked for that purpose or what the market returns are.

** The investment philosophy of these pension funds is to chase an 8 percent annual return. Even high-flying (liberal) investment geniuses such as Warren Buffet say that goal is out of line, and a 6 percent return is more realistic.

The time to fix these problems is now, while North Dakota has the money to rebalance its tax code and get future liabilities under control.

Continuing to ignore these problems and to hope they go away is the Washington Way, not The North Dakota Way.

Gawrylow is managing director of the North Dakota Watchdog Network.

#13179

Grand Forks Herald
GrandForksHerald.com

OPINION

OUR OPINION: Keep close eye on public-sector pensions

North Dakota's overall finances are in great shape, and Minnesota's are getting better. But in both states, there's a set of long-term obligations that have wreaked havoc in other capitals and could do the same in Bismarck and St. Paul.

Opinion by *Thomas Dennis*
June 21, 2012 05:00 PM

North Dakota's overall finances are in great shape, and Minnesota's are getting better. But in both states, there's a set of long-term obligations that have wreaked havoc in other capitals and could do the same in Bismarck and St. Paul.

The obligations are the pension and health-care benefits the states will owe to their government-worker retirees.

If a recent report by the Pew Center on the States is any indication, North Dakota and Minnesota may have work to do.

Here's an important caveat: They also may not. The Pew study takes a snapshot of the states' obligations as of fiscal year 2010, the last year for which complete information on all 50 states is available.

But the North Dakota Legislature in 2011 beefed up both retirees and governments' contributions to the fund, putting it on a stronger footing. Likewise, the Minnesota Legislature made changes in 2009 and 2010, including lowering the cost-of-living increases promised to retirees. Retirees challenged that provision in court, but the court upheld the policy's constitutionality last year.

So, the bottom line is that both states have improved their condition since 2010, the time of the Pew report. But plenty of watchdogs think the reforms didn't go far enough, so the Pew numbers are a good baseline from which to track the changes over time.

In Minnesota, that baseline is pretty far back from where it should be, Pew reports.

"Minnesota consistently failed to pay its full annual pension contribution from 2005 to 2010," according to the study.

"The system was 80 percent funded in fiscal year 2010 and faced an $11 billion funding gap." That's at the low end of what a state should have set aside, Pew reports.

"The state also had a $1 billion bill for retiree health care costs, none of which was funded, well below the 8 percent national average in 2010."

The bottom line as of 2010: "Minnesota?s retirement plans had a liability of $58.8 billion, and the state has fallen $13 billion short in setting aside money to pay for it." The state needs to improve how it's paying for both obligations -- especially retiree health care, which is reason for "serious concern," Pew reports.

North Dakota, for its part, "failed to consistently pay its full annual pension contribution from 2005 to 2010," according to Pew.

"The system was 72 percent funded in fiscal year 2010 and faced a $1 billion funding gap."

Again, remember that the 2011 changes should boost that 72 percent figure over time. And a good thing, too, given that Pew declares the 72 percent figure cause for North Dakotans' "serious concern."

At the same time, "the state also had a $113 million bill for retiree health care costs, 30 percent of which was funded, well above the 8 percent national average in 2010." That earns North Dakota a rank of "top performer" on retiree health care funding, in part because the state's obligations are comparatively modest.

Pensions remain one of America's most urgent and contentious issues. Minnesota and North Dakota residents and lawmakers should take special care to make sure their recent reforms take root.

-- Tom Dennis for the Herald

Opinion by Thomas Dennis

NORTH DAKOTA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (NDPERS)

TRANSITION COSTS AND BEST PRACTICES IN PENSION DESIGN

Prepared by:

Pension Integrity Project at Reason Foundation

May 23, 2022

reason FOUNDATION

Policy Objectives

- **Keeping Promises:** Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees
- **Retirement Security:** Provide retirement security for all current and future employees
- **Predictability:** Stabilize contribution rates for the long-term
- **Risk Reduction:** Reduce pension system exposure to financial risk and market volatility
- **Affordability:** Reduce long-term costs for employers/taxpayers and employees
- **Attractive Benefits:** Ensure the ability to recruit 21st Century employees
- **Good Governance:** Adopt best practices for board organization, investment management, and financial reporting

REASON FOUNDATION NDPERS MODELING TOOL

NDPERS Modeling

- The Pension Integrity Project is in the final stages of developing an interactive NDPERS actuarial modeling tool to allow policymakers and stakeholders to test and customize the plan designs you choose.

- The interactive actuarial modeling tool will also allow you to conduct stress testing around the current or alternative NDPERS retirement plan designs.

- We will deliver this tool to the committee subsequent to this meeting, via email.

EXAMINING "TRANSITION COSTS"

Pension Reform and "Transition Costs"

- To mitigate the risks that have led to major underfunding in traditional defined benefit pension plans, many government employers have shifted new employees over to new and lower-risk retirement plan designs:
  - Risk-managed defined benefit (DB) pensions,
  - Defined contribution (DC) retirement plan,
  - Hybrid DB+DC plans, or
  - Cash balance plans.

- A common but misguided objection to such policy reforms—particularly DC plans—is the idea of a so-called "transition cost".

- While taking different forms, this generally involves a mistaken belief that setting up new employees with a new retirement plan will require substantial money upfront to pay down unfunded liabilities in the legacy pension plan.

Transition Costs: Myths vs. Reality

- The supposed sources of transition costs are based not in law or practice, but rather actuarial preference:

1. **Amortization Policy**: When considering prospective plan design changes, actuaries may recommend that it would be prudent to accelerate the paydown of unfunded pension liabilities to mitigate risk, and potentially also level out annual contributions into equal annual installments instead of a percent-of-payroll based figure, like today.

    - There is no legal requirement at the federal or state level, nor any government accounting standard, mandating that pension contribution rates increase when adopting pension reform in order to accelerate unfunded liability payoff.

    - However, paying off pension debt faster is a good policy ***no matter what***. We believe that it is prudent to pay down existing unfunded liabilities as fast and level as possible—***regardless of whether or not you adopt a new plan design***.

    - Using an accelerated amortization method is likely to result in increased contribution rates towards the unfunded liability for the first few years, but such a change would also mean ***paying much less in the long run*** due to avoided interest costs.

    - Long-term costs are always the proper anchor for determining prudent pension policy, new plan design or not.

Transition Cost: Myths vs. Reality (cont'd)

2. **Discount Rate/Investment Return Assumption**: Another policy consulting actuaries often raise in pension reform discussion is a preference to change the discount rate/assumed rate of return when closing a defined benefit pension plan in order to make it less vulnerable to underperforming investments in the future.

- In turn actuaries claim this would require increasing the contributions into the plan today to account for less expected investment returns decades in the future when assets are winding down.
- Even if you closed the pension tomorrow, you would be paying out liabilities for at least 50-80 more years, and thus immediate changes to investment policy or portfolio are not necessary and can be adjusted over time.
- Like amortization, North Dakota should consider adopting a lower discount rate for NDPERS whether new employees are shifted to a new retirement plan or not.
- US public pension systems in states like California, New York State, Michigan and others are now adopting discount rates well below 7%, and so should NDPERS.
- While lowering the discount rate might be fiscally prudent, there is no legal or financial requirement to do so if changing to a new retirement design.

Bottom Line on Transition Costs

How to fund existing NDPERS unfunded liabilities is a distinct policy matter on its own terms that should not constrain responsible, prospective pension reform:

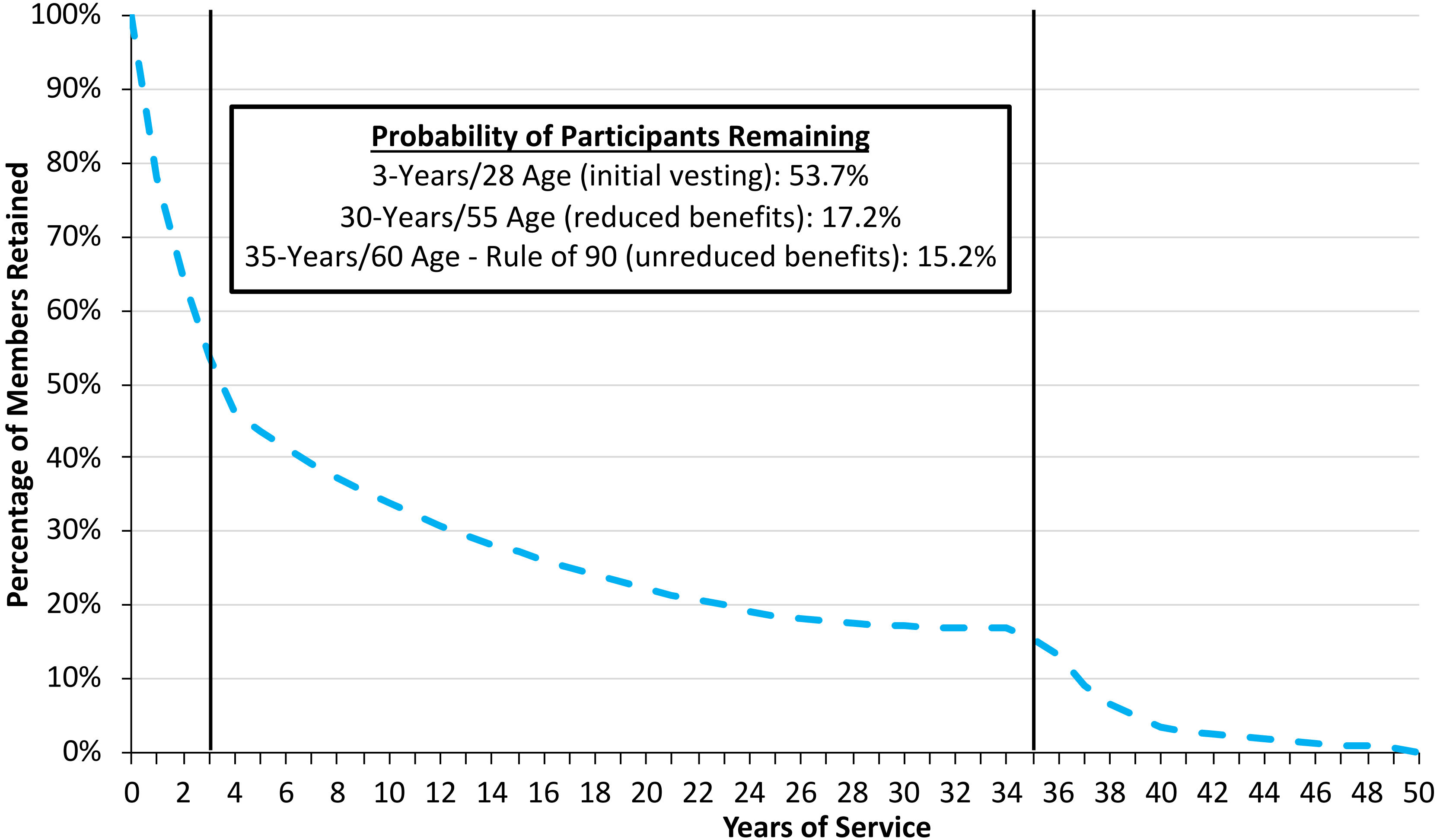
- Other states — such as Oklahoma, Arizona, and Utah — have faced the same concerns and found ways to design around any contribution rate increase that was unaffordable in the given climate.
- The question of transition costs is entirely a political, not an accounting or actuarial, question. It is up to legislators and state departments to determine how they want to pay down unfunded liabilities.
- Legacy unfunded pension liabilities cost what they cost, reform or not. Reform does not make your current pensions more expensive since those are formula-driven benefits.
- Public pensions are not Ponzi schemes, and by design, pension contributions under a prudent funding policy are not affected by whether or not there are new entrants every year.
- **The key is to ensure that after reform, legacy unfunded liabilities are paid down at the same or faster rate than they are today**.

RECAP OF APRIL 11TH AND 25TH MEETINGS

"Better Bang for the Buck 3.0"

- **NIRS study from January 2022**
  - Third round of this study, other two released in 2008 and 2014.
  - Highlighted by Milliman in previous presentations to the board.
  - Presents an incomplete perspective on the relative efficiency of a DB vs DC.
- **Key issues**
  - Is a DB plan more "efficient" with taxpayer dollars?
  - Does a DB plan manage risk better?
  - Do DC plans have more fees?
  - Are pension funds better investors than individuals?
  - Is a DC plan 50% more expensive than a DB for the same benefit?
  - Risk pooling vs Annuities
  - Portability

Probability of Members Remaining in NDPERS



Source: Pension Integrity Project analysis of NDPERS reports and CAFRs.
Illustration is based on *Main Plan* assumptions and a hypothetical analysis of an average member hired at the age of 25

Do NDPERS Retirement Plans Work for All Employees?

- **46%** of new NDPERS members leave before 3 years.
  - Benefited employees must work 3 years before their benefits become vested.
  - Members who leave the plan before then must forfeit contributions their employer made on their behalf.
  - Another 20% of new employees who are still working after 3 years will leave before 10 years of service.
- **17%** of all new paid members hired next year will still be working after 30 years (with age 55), long enough to qualify for a reduced benefits.
  - North Dakota ensures that all state employees have access to Social Security benefits.

Source: Pension Integrity Project analysis of NDPERS withdrawal and retirement rate assumptions. Estimated percentages are based on the expectations used by the plan actuaries; if actual experience is differing substantially from the assumptions then these forecasts would need to be adjusted accordingly.

Plan Design Discussions

- **DC**
  - Milliman said they would present on Michigan and West Virginia for background on DB to DC swap.
    - Important that Milliman also looks at Oklahoma, which has a fully funded pension after their transition.
    - While Michigan has had a long history of DC design improvement in their Public Employees plan, we built the Michigan Teacher choice-DC plan which is an exemplary model.
    - West Virginia suffered from a poor DC plan design along with a failure of policymakers to properly fund the legacy pension—both were avoidable through better design.
  - Committee asked to look at opening loan and hardship provision in current DC and 457 plans.
    - Just as you can't borrow against a pension, one should not be able to borrow against an account in a DC retirement plan intended to serve as a primary retirement vehicle.
    - "No borrowing against DC account balances" is a best practice in our policy paper: *Best Practices in the Design and Utilization of Public Sector Defined Contribution Plans*.
- **Cash Balance**
  - Milliman stated that a CB has the same sort of contribution volatility as a DB plan, but our actuarial modeling for the Texas' Employees Retirement System swap to a CB last year suggests less volatility.
  - Milliman also stated that the surge in private sector CB plans was a way to "mask a benefit reduction for employees because they can't compare apples to oranges like actuaries can."
    - Benefit levels and generosity are entirely policy decisions of the legislature, and not a function of the plan type.
    - As you saw from the retention charts, having a more portable option like a CB, DC, or hybrid would benefit a larger number of employees.

Plan Design Discussions

- **Variable Plan**
  - Unsure of where this plan design option came from.
  - Somewhat like South Dakota's pension design.
  - Milliman does offer their "Milliman Sustainable Income Plan".
    - This design may be an example, but to our knowledge no statewide public pension system has adopted it.
- **Critique of Milliman Score Card**
  - Milliman offers a scorecard showing how different plan designs match different goals, covering 9 metrics.
  - **All 9 considerations on their list can have a "checkmark" if the plan design is structured properly.**

Questions Around Narrowing Down Options?

- Defined Contribution
- DB+DC Hybrid
- Cash Balance
- Optimized Retirement Choice (DB or DC)

Questions?

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Topics › Pension Reform

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COMMENTARY

The Future of North Dakota Pension Reform

North Dakota should adopt pension reform that reduces long-term risk for taxpayers and maintains attractive retirement options for state workers

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Policy Analyst

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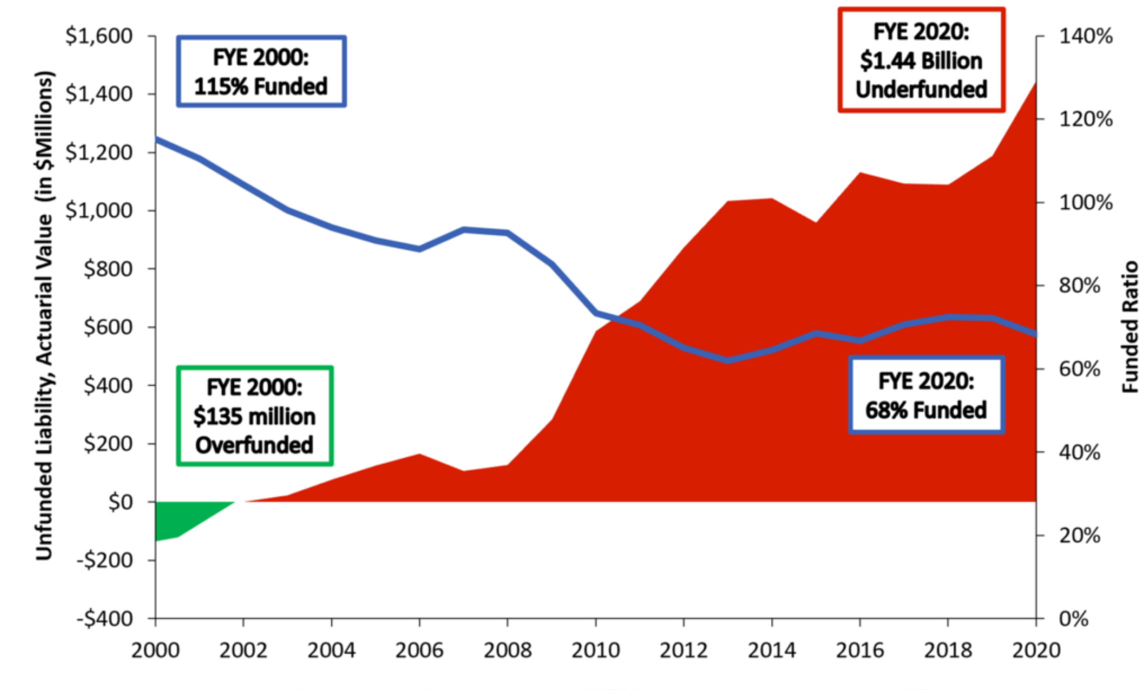
It's time for North Dakota to get serious about runaway pension debt. For decades, North Dakota's elected officials have structurally underfunded the state's largest pension plan for public workers. That almost changed in 2021 when both legislative chambers passed pension reform legislation, but disagreements between House and Senate conferees over the details of how to address pension underfunding caused the reform bill to die in the conference committee process. This has left the issue of growing pension debt unresolved.

In 2000, the North Dakota Public Employees Retirement System (NDPERS) boasted a 115 percent funded ratio and a $135 million surplus of funds to pay for public employee retirement benefits. Since then, NDPERS has accumulated $1.4 billion in unfunded liabilities. This debt is driving up future costs for taxpayers via debt service and the system has plummeted to only 68 percent funded today (see Figure 1).

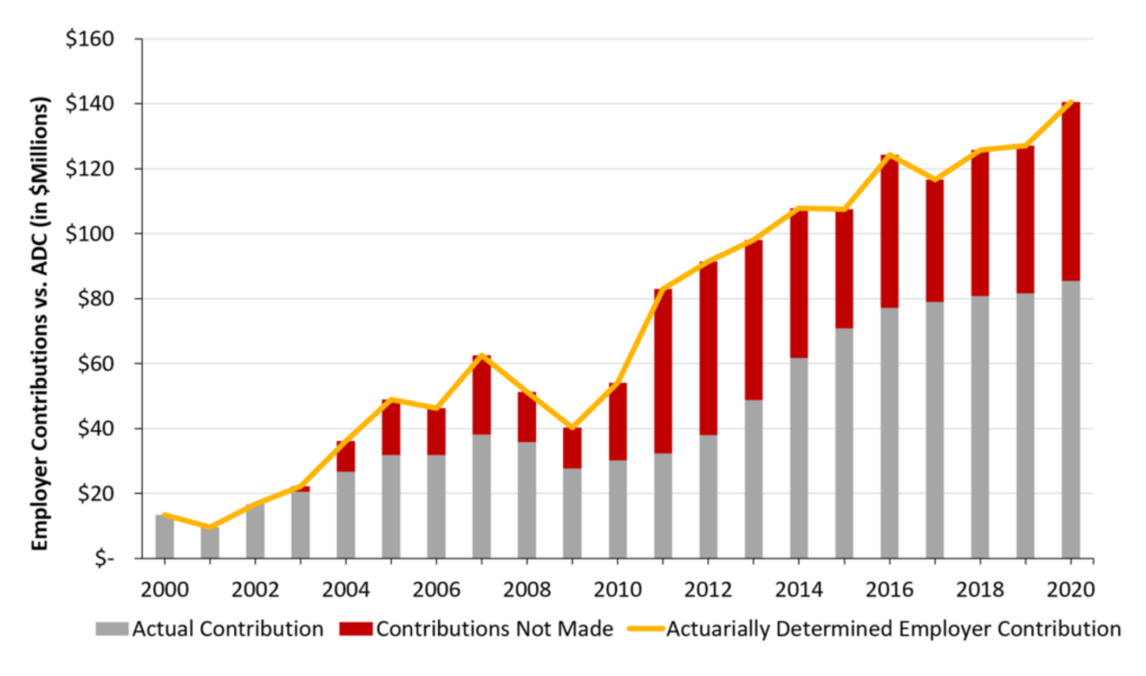
Figure 1. A History of NDPERS Solvency (2000-2020)



Source: Pension Integrity Project analysis of NDPERS actuarial valuation reports and CAFRs.

NDPERS's structural underfunding is primarily driven by the legislature's historical use of fixed, statutorily set contribution rates that have consistently been set below the amount actuaries calculate is needed to fully fund all earned retirement benefits. This means that for 15 years the state has consistently failed to pay the actuarially required amount to keep the plan solvent (see Figure 2). For the 2020 fiscal year, the deficit between actuarially required contribution rates and the statutory rates was 5.87 percent of payroll or about $67.6 million in missed contributions.

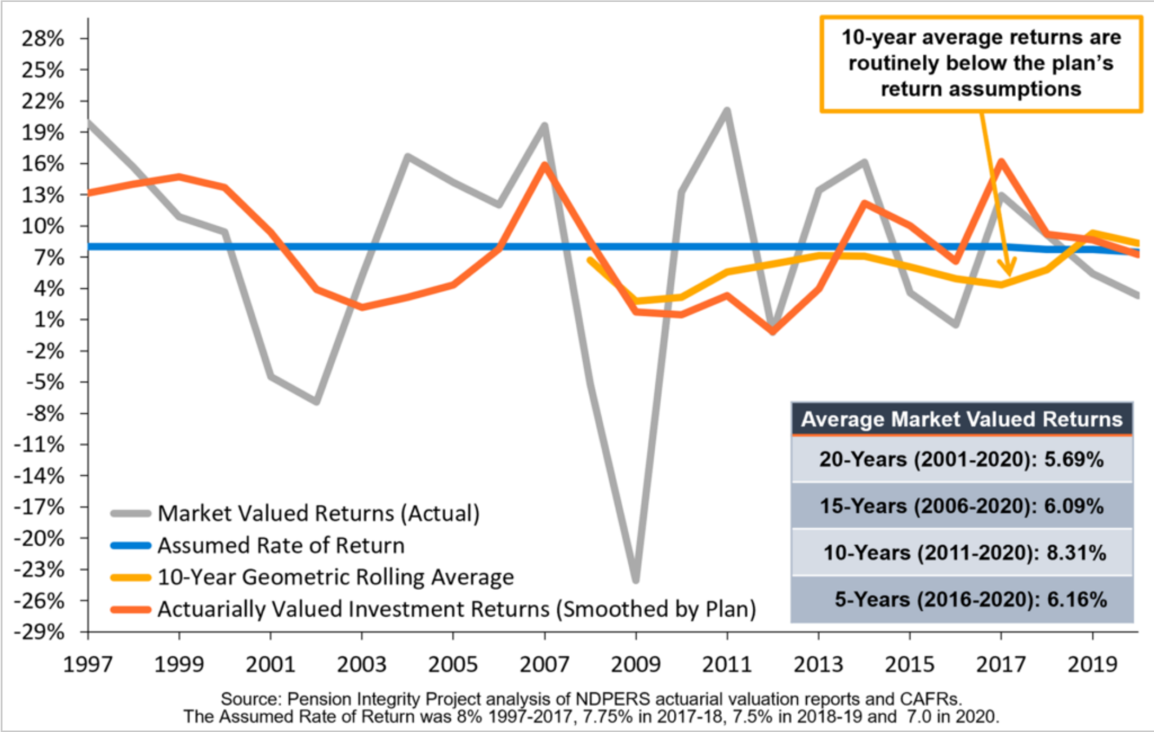
Figure 2. Actuarially Determined Employer Contribution History, 2000-2020 Actual v. Required Contributions



Source: Pension Integrity Project analysis of NDPERS actuarial valuation reports 2000-2020 and CAFRs.

In addition to inadequate contributions, NDPERS investment returns have failed to meet expectations and this shortfall has contributed to the growth of unfunded liabilities. The investment return assumption for the plan was an unreasonably high 8 percent until 2016 when it was reduced to 7 percent. For every year investment returns fail to meet the return assumption, unfunded liabilities grow. The system has fallen short of even a 7 percent return on average and earned an average investment return of 6.1 percent over the last 15 years, and despite a decade-long bull run in the capital markets, NDPERS never fully recovered from the Great Recession (see Figure 3).

Figure 3. NDPERS Investment Returns History, 1997-2020



During North Dakota's 2021 legislative session, legislators were poised to tackle the state's pension underfunding and considered several pieces of reform legislation, including a bill to transform the retirement plan design. This bill passed both chambers but failed to get resolved in the conference committee.

That failure to reach a bicameral consensus was unfortunate, but with some simple and straightforward tweaks to the reform legislation, legislators can build on the momentum created in 2021 to enter the 2023 legislative session with a coherent and sustainable plan to improve NDPERS's solvency and promote stakeholder equity.

Lawmakers' previous attempts to update the benefit structure for new hires and improve how the state funds the pension system manifested in several different pension bills that attempted to address North Dakota's pension challenges in different ways. Most focused on the current plan's funding policy while one—Senate Bill 2046—made provisions for additional funding for the legacy NDPERS defined benefit plan while directing all new hires into the state's long-established primary defined contribution retirement plan choice.

The Pension Integrity Project at the Reason Foundation provided technical assistance to numerous state lawmakers in North Dakota both in advance of and during the 2021 session, utilizing our in-house actuarial modeling of NDPERS to assess the financial and fiscal impacts of potential reform solutions.

In the preliminary stages of the legislative process, one of the bills, House Bill 1209, was a simple plan to address the chronic underfunding of NDPERS by switching from statutorily established contribution rates to the actuarially recommended contribution rate. As originally introduced, HB 1209 embodied best practices for properly funding NDPERS by stopping structural underpayments that significantly hindered the system's ability to grow assets to meet the promises made to public workers for decades. For years, contributions based on statutory rates were woefully insufficient according to both our independent analysis and NDPERS' own actuaries. The Pension Integrity Project provided testimony regarding these issues during the initial House committee hearing on HB 1209, but the bill was subsequently transformed into a study bill.

House Bills 1342 and 1380 would also have increased contributions in different ways. HB 1342 would have increased employer and employee contributions by 2 percent of payroll each (for an aggregate 4 percent increase), while HB 1380 would have transferred 5 percent of the earnings from the state's sovereign wealth fund to the NDPERS pension fund as one of several dedicated appropriations. These bills would have both improved the funding status of NDPERS but neither were comprehensive reforms that would have prevented future unfunded liabilities from accruing.

Senate Bill 2046 ultimately became the primary legislative vehicle for pension reform proposals. Originally a simple proposal to increase the NDPERS statutory employee and employer rates by 1 percent of payroll, for a combined total of 2 percent, SB 2046 evolved into a more comprehensive reform effort that included:

- Closing the current defined benefit plan to new workers (except those in public safety positions and judges)
- Enrolling all new hires in the currently optional 401(a) Defined Contribution (DC) plan
- $50 million in biennial legacy fund contributions
- A one-time $100 million cash infusion
- The separation of plan assets/debt by municipal and state employment

The Pension Integrity Project's preliminary evaluation of SB 2046 found the measure to be lacking in many crucial objectives of good pension reform.

The reform did not properly amortize debt or sufficiently address the state's problems with annual contributions below the actuarially determined amount. Actuarial modeling showed that over a 30-year period SB 2046 created a serious risk of bankrupting the NDPERS defined benefit system, findings that were further corroborated by analysis from the system.

Although SB 2046 failed in the conference committee during the last week of the 2021 session, there were several positive developments resulting from the process. NDPERS stakeholders were able to successfully explore and debate the state's pension issues and took the conversation from the periphery to a burgeoning legislative priority. Policymakers, stakeholders, and taxpayers are now more aware of the issues at hand.

However, increasing awareness is not enough. To save taxpayer dollars and return NDPERS to a path towards full solvency, future efforts to reform NDPERS will need to include policies that address all the challenges that face the beleaguered system, especially those associated with long-term funding. Future changes need to address employer, taxpayer, and employee needs.

Examining Potential NDPERS Reform Options

At the heart of good pension reform is a commitment to paying an actuarially based contribution rate. Setting contributions to align with actuarial recommendations would require higher annual contributions in the near term but doing so would dig NDPERS out of a dangerous funding situation (see Figure 4). As seen in Table 1, paying the actuarially determined contribution (ADEC) each year could reduce long-term costs by over $3 billion by reducing expensive interest on pension debt.

Figure 4. How a Crisis Increases NDPERS Costs

Table 1. Scenario Comparison of Employer Costs—ADEC Reform

Implementing ADEC would ensure that the state contributes at a level that fully funds all accrued retirement benefits regardless of market volatility (see Figure 5). While this commitment would amortize current NDPERS debt on a fixed schedule—ideally less than 30 years—to avoid runaway interest driving up unfunded liabilities and perpetuating intergenerational inequities should also be included in any future reforms.

Figure 5 shows that when paired with an actuarially determined employer contribution (ADEC) funding policy, shorter amortization periods reduce plan debt and lower overall cost, especially during difficult economic conditions (see Table 2). Amortizing any future years' worth of NDPERS debt on schedules of 20 years or less significantly reduces the risk of runaway debts in the future.

Figure 5. How a Two Recession Crisis Impacts Debt Amortization Schedules

Table 2. Scenario Comparison of Employer Cost—ADEC Reform + Short Amortization

The use of ADEC funding policy and short amortization schedules are both best practices that should be adopted whether the existing defined benefit plan remains open or not, as these policies would essentially address the current $1.4 billion hole North Dakota currently finds itself in. That said, additional proactive reforms would still be necessary to ensure the system avoids future runaway costs, such as lowering the NDPERS assumed rate of return on investments to limit the system's exposure to market volatility.

Managing Future Risk through Expanded Retirement Choice

State policymakers should also explore policy reforms to offer new retirement options that better match the needs of today's mobile modern workforce, which is poorly served by retirement designs that rely on long career tenures.

The simplest way for North Dakota to slow the growth of unexpected costs in the future would be to improve the retirement plan choices available to public workers in North Dakota today, which currently consist of the traditional, default defined benefit (DB) pension plan and the NDPERS defined contribution (DC) retirement plan option available only to non-classified workers by written election today.

According to the North Dakota Office of Management and Budget, there were 7,860 benefited state employees in March of 2021. Only 926, or 12 percent of benefited employees were *eligible* to join the NDPERS defined contribution plan, and even these 12 percent currently default into the NDPERS defined benefit pension, rendering the current "choice" moot, in effect. The results of this restriction and enrollment method heavily favor the defined benefit plan and basically creates an illusion of choice where little exists.

Unlocking the availability of the state's existing DC plan to all new workers and flipping default enrollment to the DC plan would substantially limit the ability of NDPERS to incur future debt. This move would provide more choice to new workers who are increasingly mobile and less likely to stay under public employment long enough to enjoy the long-term benefits of the defined benefit plan.

Improving the NDPERS Defined Contribution Plan

Currently, the NDPERS DC plan boasts very healthy contributions rates of an aggregate 14.12 percent of salary, which is aligned with industry best practices. However, there is still room for improvement to make the DC plan a more attractive choice for employees.

North Dakota's DC plan objectives are currently not clearly defined. Although the plan seeks to provide retirement income, it does not set an income replacement goal or cost targets. This makes it hard to tell if the plan is achieving retirement security for members. Also, the DC plan's standard distribution method is a lump sum, and the plan doesn't offer a lifetime annuity option. Without a default annuity option, there's a heightened risk that DC plan members may prematurely exhaust their retirement fund.

In future efforts, the legislature could also consider a choice-focused retirement reform that could keep a defined benefit option for new workers instead of permanently ending it, as SB 2046 attempted. This could be achieved by creating a new risk-managed pension benefit tier for new hires with cost and risk-sharing features incorporated into the fundamental design that naturally winds up as the legacy NDPERS pension tier in effect today winds down through attrition over time.

This new tier should include a 50/50 cost-sharing provision to help reduce the risk for public employers and taxpayers. Cost-sharing means that employees would match every dollar an employer contributes to the fund. A new reduced-risk tier would also need a firm commitment to paying the actuarially required contribution rate to avoid debt, more conservative actuarial assumptions, and a short amortization schedule to ensure any new debt is quickly paid off.

It's important to responsibly pay off the current legacy NDPERS pension liabilities no matter what happens with new-hire retirement benefits. Amortizing unfunded liabilities associated with any legacy pension plan over total state payroll (legacy pension participants + new and existing defined contribution participants)—as Oklahoma, Arizona, Florida, Utah, and other states have done in similar situations—ensures that legacy unfunded liabilities are paid down in a fiscally prudent manner.

Conclusion

North Dakota's retirement system has a clear need for reform. We've outlined a few options that would ensure fiscal solvency, reduce long-term risk for taxpayers and maintain attractive retirement options for state workers. Despite the lack of legislative changes in 2021, momentum for reform is clearly building. It's important to build on this interest during the interim to ensure the 2023 legislative session is more successful. Policymakers should keep in mind that of all the possible outcomes, leaving NDPERS' problems unaddressed will end up being the most expensive and least secure option for North Dakotans, and this challenge will only become more difficult to address as time passes.

<u>HB 1039 & 1040– Testimony by Dustin Gawrylow (#266) North Dakota Watchdog Network</u>

The North Dakota Watchdog Network has long supported genuine permanent reforms to North Dakota's pension system – including the conversion to Defined Contributions for new hires.

The perpetual and ever-worsening unfunded liabilities situation means that no matter what, taxpayers will be asked to bailout the fund to fulfill the promises previously made. This will likely cost multiple billions of dollars over the actuarial life of the fund going forward ~80+ years into the future. But by closing the current fund at least there will be an end point.

We also support as part of the reform a change to the investment expectations. The traditional 8% return target is not consistently realistic with needs to the plan, as proven by the fact that two decades of volatility has drastically diminished the plan's ability to pay out without constant cash infusions and increases to both employer and employee contribution rates.

Because there are multiple bills in the works, we will wait until a final "vehicle" is developed before declaring support for any plan.

One thing we will not support is a bailout without reform and without strings attached.

The status quo is not working.

The legislature had a chance a decade ago to fix this, and failed to, and now it it $2 billion in the hole instead of only $1 billion in the hole.

Please remedy this so that it does not drag the state down 30-80 years from now.

House Bill 1039 & 1040
North Dakota Retirement and Investment Office (RIO) on behalf of the Teachers' Fund for Retirement Board of Trustees
Neutral Testimony related to HB 1039 & 1040 before the House Government and Veterans Affairs Committee
Representative Austen Schauer, Chair
Representative Bernie Satrom, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions (43%) and investment earnings (57%). During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.[1]

II. Neutral Testimony relating to HB 1039 & HB 1040

The TFFR Board of Trustees believes that defined benefit plans provide a valuable recruitment and retention tool for government entities when managed correctly and funded appropriately. TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. From a public policy perspective, the TFFR Board is concerned that closing the PERS Main Defined Benefit plan will have a negative impact on the recruitment and retention efforts for the non-teaching employees of its school district employers.

[1] H.B. 1134, 62nd N.D. Legislative Assembly (2011-2013).

The TFFR Board does recognize, however, that the PERS Main Defined Benefit Plan and the TFFR plan are currently on distinctly different funding paths. While the TFFR plan is projected to reach fully funded status by 2044,[2] the PERS Main Defined Benefit Plan is not projected to reach 100% fully funded status.[3] The TFFR Board recognizes that TFFR's funding success is largely attributable to the plan design and contribution changes adopted by the Legislature through H.B. 1134 in 2011; whereas the version of S.B. 2108, the PERS funding bill, which was ultimately approved in 2011, removed the final contribution increase needed for the PERS Main Defined Benefit plan. The TFFR Board observes that the legislature must pursue some type of change to address the PERS Main Defined Benefit Plan funding shortfall. The TFFR Board is therefore not opposed to either HB 1039 or HB 1040 in their current form so long as the public policy of closing defined benefit plans does not extend to defined benefit plans that are on a correct funding path, such as the TFFR plan.

III. Summary

The changes proposed by HB 1039 and HB 1040 reflect an attempt to correct a funding shortfall for the PERS Main Defined Benefit Plan and to the extent that the public policy implications of these bills do not extend to defined benefit plans that are projected to reach 100% fully funded status the TFFR Board of Trustees takes a neutral position on this legislation.

[2] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by the Segal Group, Inc. regarding the July 1, 2022, actuarial valuation of TFFR, p. 28, 29.

[3] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by GRS regarding the July 1, 2022, actuarial valuation of PERS Main System, p. 33.