NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

# EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Wednesday, November 6, 2013
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Dick Dever, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Senators Dick Dever, Ralph Kilzer, David O'Connell, Connie Triplett; Representatives Randy Boehning, Roger Brabandt, Jessica Haak, Kenton Onstad, Don Vigesaa

**Members absent:** Senators Spencer Berry, Karen K. Krebsbach; Representatives Jason Dockter, Scott Louser

**Others present:** See Appendix A

Chairman Dever gave opening remarks. He said he has been in contact with Representative Jeff Delzer, Chairman of the interim Government Finance Committee, regarding the Employee Benefits Programs Committee's April 1, 2014, deadline for submission to the committee of bills that affect the state's retirement programs. He said Representative Delzer plans to address this issue at the next meeting of the Government Finance Committee to determine when the committee plans to have recommended bills ready for review by the Employee Benefits Programs Committee.

**It was moved by Senator O'Connell, seconded by Senator Kilzer, and carried on a voice vote that the minutes of the August 29, 2013, meeting be approved as distributed.**

Committee Counsel distributed a copy (on file in the Legislative Council office) of the October 2013 *Your Vested Interest* published by the State Investment Board.

## ACTUARIAL VALUE OF TEACHERS' FUND FOR RETIREMENT

Chairman Dever called on Mr. Brad Ramirez, FSA, MAAA, FCA, EA, Consulting Actuary, The Segal Company, Greenwood Village, Colorado, and Mr. Matthew Strom, FSA, MAAA, EA, Consulting Actuary, The Segal Company, Chicago, Illinois, to present the Teachers' Fund for Retirement (TFFR) actuarial valuation for the year ending July 1, 2013. They gave a computer presentation (Appendix B). Mr. Ramirez presented Slides 1 through 11 and Mr. Strom presented Slides 12 though 37.

In response to a question from Senator Triplett, Mr. Ramirez said the most recent experience analysis for the plans was 2010 for the Public Employees Retirement System (PERS) plan and 2009 for the TFFR plan.

In response to a question from Representative Onstad, Mr. Ramirez said there has been a slight trend of later retirement, which in part is likely related to the employees' desire to keep health insurance. He said the rates of withdrawal vary from plan to plan.

In response to a question from Representative Onstad, Mr. Ramirez said on Slide 6 of the computer presentation, the 8 percent interest rate is net. He said expenses are typically in the basis point range of 10 to 20.

In response to a question from Representative Vigesaa, Mr. Strom said the TFFR plan's market value of assets and the actuarial assets are very close. He said at the end of this fiscal year, if assets earn the 8 percent net of expenses the actuarial assets will bring in some of those deferred gains and will actually beat the 8 percent.

In response to a question from Representative Onstad, Mr. Strom said if the state went out five years in advance and put $50 million into the TFFR plan, the net wash would likely be extra investment income earned over that period of time. He said paying ahead like this would likely result in savings to the state, with a fairly large sufficiency. However, he said, the downside may be if a large investment like this is impacted by a large downturn in the market. Regardless, he said, such an investment would likely have a positive impact.

In response to a question from Senator Dever, Mr. Strom said if the TFFR fund was 100 percent funded and realized a 7.75 percent rate of return on investments, this rate would maintain the fund. He said right now all returns over 7.75 percent are going toward recovery.

In response to a question from Senator Kilzer, Mr. Strom said in setting a benchmark rate of return, it is important to set a rate that will be able to systematically pay off the fund and be able to weather the storms. He said the 8 percent rate of return set for the TFFR plan appears to be appropriate. He said the current approach has the fund moving in the right direction, unlike plans of some states which are running out of money. He said absent some major downturns in the market, the TFFR plan is doing what it needs to do.

In response to a question from Senator Triplett, Mr. Strom said the 20 percent market value corridor method for asset valuation has been in effect for five months. He said if this method had been in effect in 2009, The Segal Company would have stressed more consideration of market value basis.

## ACTUARIAL VALUATION OF PUBLIC EMPLOYEES RETIREMENT SYSTEM FUNDS

Chairman Dever called on Mr. Ramirez and Ms. Tammy Dixon, FSA, MAAA, EA, Consulting Actuary, The Segal Company, Glendale, California, to present the PERS funds actuarial valuations for the year ending July 1, 2013. They continued the computer presentation (Appendix B). Ms. Dixon presented Slides 4 through 7 and Mr. Ramirez presented Slides 8 through 79.

In response to a question from Senator Dever, Mr. Sparb Collins, Executive Director, Public Employees Retirement System, said on Slide 7, the employer contribution for retiree health does not reflect the 2013 changes in law impacting the portability of the retiree health credit. Mr. Collins said this new law will not go into effect until January 1, 2015, and the effective date is contingent on the federal health benefit exchanges being operational. He said once the new law is implemented, he expects the cost to increase approximately 0.14 percent to cover the anticipated 100 percent participation.

In response to a question from Senator Dever, Mr. Ramirez said the fact that the Supreme Court of North Dakota recently authorized the addition of three new district court judges will not significantly impact the fund. Additionally, he said, the 2013 legislation that authorizes a four-year window to allow new hires to elect to participate in the defined contribution plan will likely impact the retirement fund numbers. He said he expects approximately 10 percent of new hires will elect to participate in the defined contribution plan.

In response to a question from Senator Triplett, Mr. Ramirez said the asterisk on some of the slides noting "*This increase includes a change in our data processing methodology" reflects that a data methodology was changed this year--instead of basing payroll on the previous year's payroll, the payroll is being projected for the current year. He said on next year's presentation, this notation will be gone.

In response to a question from Representative Boehning, Mr. Ramirez said the data on Slide 62 regarding "projected funded ratios" takes into account the increases reflected in the "current plan" on Slide 61.

In response to a question from Senator Dever, Mr. Ramirez said although it is unknown whether the market experience in 2008-09 reflected a systematic change in the market, he has not seen any indications there is a "new normal" or the market has changed systematically.

In response to a question from Representative Brabandt, Mr. Ramirez said the PERS plan has a market value basis of approximately 70 percent, and this is pretty close to what is average across the country. He said nationally the highs are close to 100 percent and there are lows at 20 to 30 percent.

In response to a question from Senator Dever, Mr. Ramirez said the standards used to determine the funding status are not universal, and the new Governmental Accounting Standards Board (GASB) standards are trying to address this issue. Therefore, he said, the standards to determine the status of South Dakota's retirement fund are different from the standards used to determine the PERS fund. He said it is hard to find consistent numbers.

In response to a question from Representative Boehning, Mr. Ramirez said in a retirement fund like the judges' retirement fund, which is nearly 100 percent funded, it is very hard to say the fund is 100 percent funded because it is expected that over the course of time there will be bad years for the market. He said instead of discussing cutting off funding, it may be more appropriate to consider changing the asset mix so the mix is less volatile. He said before contributions are decreased it would be important to stress test the fund.

Senator Dever said past history indicates when a fund is near 100 percent funded, it is more likely the benefits will be increased instead of decreasing the contributions. Mr. Collins said in the 1990s, the PERS plan was well funded, but there was a market change that resulted in a 24 percent loss. He said it is important to hold some money back to cover these downturns in the market.

## GOVERNMENTAL ACCOUNTING STANDARDS BOARD STANDARDS

Chairman Dever called on Mr. Ramirez and Mr. Strom to present a review of the new changes to the GASB standards. Mr. Ramirez continued with the computer presentation (Appendix B).

In response to a question from Senator Dever, Mr. Ramirez said creditors will be interested in the data in the new financial reporting by employers. He said these new rules will impact reports employers are required to prepare.

In response to a question from Senator Triplett, Mr. Ramirez said the "net pension liability" is the unfunded liability that exists on a plan. He said before the new GASB standards changes, this net pension liability information would have been treated as a footnote; however, with the new standards, this net pension liability information will go on the employer's balance sheets as a liability.

In response to a question from Representative Onstad, Mr. Strom said under the new GASB standards, the entity that is responsible for paying the employer responsibility is the entity that will get the benefit of having the new number included on the entity's statements.

In response to a question from Representative Boehning, Mr. Strom said in the case of an entity that pays a portion of the contribution, the entity's liability will be based on the entity's payroll.

## FOLLOWUP INFORMATION

Chairman Dever called on Mr. Ramirez to summarize cashflow data (Appendix C) for the PERS and TFFR funds. He said the data reflects a year-to-year assessment of the funds, including money going into and out of the accounts.

In response to a question from Senator Dever, Mr. Ramirez said Column 10 of the documents reflects the return on investment, contributions, expenses, and transfers.

Representative Boehning thanked PERS, TFFR, and Mr. Ramirez for putting this information together to follow up on material presented at the committee's August meeting.

Chairman Dever thanked Mr. Darren Schulz, Interim Chief Investment Officer, Retirement and Investment Office, for his service as the Interim Chief Investment Officer. Mr. Schulz said he served in this interim position for the last 17 months. He said Mr. Dave Hunter has been selected as the next Executive Director and Chief Investment Officer. He said Mr. Hunter will begin work in this new position December 2, 2013.

Chairman Dever called on Mr. Collins to present a status report on the implementation of 2013 House Bill No. 1059 and 2013 House Bill No. 1452. He gave a computer presentation (Appendix D) and distributed a copy (on file in the Legislative Council office) of the material a new hire receives regarding the option to elect to participate in the defined contribution plan.

In response to a question from Senator Dever, Mr. Collins said he has not personally had any contact with new hires who have questions regarding the new option to participate in the defined contribution plan, although it is possible other PERS staff members have fielded questions from new hires.

Senator Dever said he is concerned new hires may not fully understand the long-term impact of selecting participation in the defined contribution plan, especially when it is a 22-year-old new college graduate who may not fully understand the impact of the decision. He said it is important the information new hires receive is clear and objective and employees understand the decision is nonrevocable.

Mr. Collins said in the 1960s, the public employees' plan was a defined contribution plan, and then an option was offered to participate in the defined benefit plan. Since then, he said, the plan transitioned to defined benefit. Just like now, in the 1960s, there were decisions employees could make. He said in 1999--the most recent time defined contribution was offered to state employees--the market was making a 14 to 16 percent return. He said people were being told these high rates of return were the "new normal," and employees were making these decisions based on this information and this point of reference. He said since 1999, the market has changed dramatically as far as expectations. He said some people think they were painted a rosier picture than they should have and it was somebody else's fault they made that selection.

In response to a question from Representative Onstad, Mr. Collins said in 1999, Workforce Safety and Insurance (WSI) employees were all nonclassified, and as such were allowed to elect to participate in the defined contribution plan. He said that since 1999, WSI employees have become classified. He said once an employee elects to participate in the defined contribution plan, in general, that election follows that employee if that employee changes from agency to agency or from classified to nonclassified.

In response to a question from Representative Boehning, Mr. Collins said under the federal Affordable Care Act, if the state were to stop offering health insurance to employees, the state would be penalized. He said the more likely discussion regarding health insurance is not whether the state will continue to offer the plan but instead whether the state will continue to fully fund the plans for employees.

In response to a question from Representative Haak, Mr. Collins said a previous study indicated that if the law were changed and employees who in 1999 elected to participate in the defined contribution plan were now allowed to go back into the defined benefit plan, the effect on the fund would be neutral.

No further business appearing, Chairman Dever adjourned the meeting at 12:00 noon.

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Jennifer S. N. Clark
Committee Counsel

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