

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2051

2007 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2051

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2051

Senate Government and Veterans Affairs Committee

Check here for Conference Committee

Hearing Date: 1/11/07

Recorder Job Number: 957, 961

Committee Clerk Signature

*Monica Spaulding*

Minutes:

Roll was taken and all members were present.

Sen. Dever, Chairman, opened the hearing on SB 2051.

Sparb Collins, Executive Director of Public Employees Retirement System, introduced the bill.

See attachment #1 and attachment #2. Sparb mentioned that on attachment #2 forty judges are not included.

Sen. Horne asked why the Legislative Employee Benefits Committee gave "no recommendation."

It was explained that "no recommendation" doesn't mean the same as a recommendation to vote "no."

Sen. Dever asked whether the Employee Benefits Committee sponsored any bills.

Sparb responded that the Employee Benefits Committee generally doesn't sponsor bills. The purpose of the committee is to review bills that are sponsored by PERS and other groups.

There was discussion about the different plans that PERS administers.

Sen. Dever asked whether it was an objective of PERS to get a retired career employee with their Social Security up to 90% of their working salary. Sparb said it is one of the objectives of PERS to get retirees to that point with their Social Security factored in.

Sen. Nelson mentioned that the Highway Patrol doesn't have Social Security, so their contribution is different. Sparb emphasized that every different group has different parameters. The plans all aim to achieve that 90% for retired employees, but they arrive at it many different ways.

Support:- Jodee Buhr with ND Public Employees Association encouraged passage of this bill. Many state employees have been encouraged to hang in there during lean times. Now that times are better we should remember their dedication.

Support:- Tom Tupa with the Association of Former Public Employees spoke in favor SB 2051.

Opposition:-

Neutral:-

Chairman Dever closed the hearing on SB 2051.

Chairman Dever opened discussion on SB 2051.

Sen. Judy Lee made a motion to pass SB 2051 and re-refer it to appropriations.

Second was by Sen. Marcellais.

Roll Call Vote: Yes 6 No 0 Absent 0

Carrier: Sen. Marcellais

**FISCAL NOTE**  
 Requested by Legislative Council  
 12/27/2006

Bill/Resolution No.: SB 2051

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

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures					\$1,880,000	\$2,740,000
Appropriations					\$1,880,000	\$2,740,000

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
						\$1,215,000	\$228,000	\$1,055,000

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

The proposed legislation would increase the employer contribution rate for the Highway Patrol Retirement System and for the PERS Retirement Plan. In addition, the bill would provide for an increase of 2% in the monthly retirement benefits. These provisions would be effective August 1, 2009.

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

Section 1 increases the employer contribution to the Highway Patrol Retirement Plan from 16.7% to 20.65% and Section 3 increases the employer contribution to the PERS Main system from 4.12% to 4.76%. These increases would be effective in 2009 and increase the appropriation/contribution required for the 2009-2011 biennium

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

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

No effect on state revenues

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

Additional state expenditures is the for the additional contribution that would be paid to PERS by participating state agencies pursuant to sections 1 & 3 of the bill.

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

The appropriations increase is the needed authority for state agencies to pay the additional contributions in sections 1 and 3 of the bill.

<b>Name:</b>	Sparb Collins	<b>Agency:</b>	NDPERS
<b>Phone Number:</b>	328-3901	<b>Date Prepared:</b>	12/29/2006

Date : 1-11-07  
Roll Call Vote # : ~~2057~~ 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2051

Senate Government and Veteran Affairs Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do pass and refer

Motion Made By Lee Seconded By Marcellais

Senators	Yes	No	Senators	Yes	No
Senator Dick Dever - Chairman	✓		Senator Robert Horne	✓	
Senator Dave Oehlke - VC	✓		Senator Richard Marcellais	✓	
Senator Judy Lee	✓		Senator Carolyn Nelson	✓	

Total (Yes) 6 No 0

Absent 0

Floor Assignment Marcellais

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

**REPORT OF STANDING COMMITTEE**

**SB 2051: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2051 was rereferred to the Appropriations Committee.**

2007 SENATE APPROPRIATIONS

SB 2051



## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2051

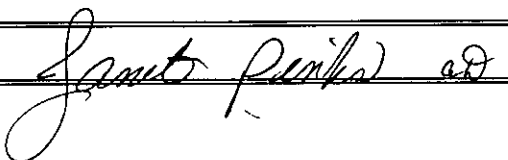
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 01-22-07

Recorder Job Number: 1578

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2051. (meter 18.47)

Sparb Collins, Executive Director, ND PERS, presented written testimony testifying in support of SB 2051 indicated the biggest challenge to retiree's is inflation. SB 2051 proposes an

increase in the retirees monthly retirement benefit of 2% to become effective in August 2009.

Senator Mathern asked if the board has considered an across the board dollar amount per person increase rather than a percentage increase. The response was that is a policy decision.

Senator Kilzer questioned how much the increase would be if this passes. The response was 2%.

Jody Buhr, NDPEA, testified in support of SB 2051 indicating that last session a thirteenth check was approved by the Legislature and this was appreciated, but it has not kept up with inflation. She stressed there has been no increase to retirees since 2001.

Bill Kalanek, AFPE, testified in support of SB 2051.

Chairman Holmberg indicated this bill has a large impact for next biennium. There was an interim discussion on this and the committee gave this no recommendation.

Chairman Holmberg closed the hearing on SB 2051.

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2051

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 01-25-07

Recorder Job Number: 1867

Committee Clerk Signature

*Janet Pinks as*

Minutes:

**Chairman Holmberg** opened the hearing on SB 2051 with a review of the bill.

**Senator Tallackson** moved a **DO PASS** on **SB 2051**, **Senator Krebsbach** seconded. A roll call vote was taken, the motion carried with a vote of 12 yes, 2 absent. Senator

**Marcellais of GVA** will carry the bill.

The hearing closed.

Date: 1/25  
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 20 # 2251

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Tallackson Seconded By Krebsbach

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann			Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 9 12 No 0

Absent 5 2

Floor Assignment Marsellais GVA

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

**REPORT OF STANDING COMMITTEE (410)**  
January 25, 2007 3:11 p.m.

**Module No: SR-17-1268**  
**Carrier: Marcellais**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**SB 2051: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS**  
(12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SB 2051 was placed on the  
Eleventh order on the calendar.

2007 HOUSE GOVERNMENT AND VETERANS AFFAIRS

SB 2051

## 2007 HOUSE STANDING COMMITTEE MINUTES

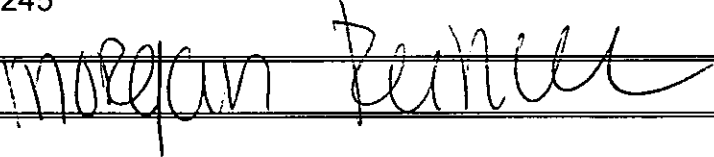
Bill/Resolution No. SB 2051

House Government and Veterans Affairs Committee

Check here for Conference Committee

Hearing Date: March 2, 2007

Recorder Job Number: 4245

Committee Clerk Signature 

Minutes:

**Sparb Collins:** Testimony attached.

**Sparb Collins:** If I might follow up on a question from yesterday. I did have an opportunity to talk to our actuary just briefly. I asked them the question on SB 2044 if that wasn't granted would we be able to do a 2% increase earlier. Let me give you some background. If we look at the planning process, we don't expect to be able to return to a funded status 100% that would start generating positive margins to be able to provide cost of living adjustment percentage wise until 2012 or 2013. That is based upon an average return of 9%. When we put together our investment strategy we were looking to make a little over 8% each year to break even. Our investment strategy is set to try on average to get a little over 9% return so that we can not only break even but cover the down market and be able to generate a positive status. Their conclusion was that the \$4 million the 13<sup>th</sup> checklist has is probably not effective. However, whether it is 2012 or 2013 is too close to call. I will get you a fuller response. What this process between the 2 bills does is it provides a 13<sup>th</sup> check, recognizing that it is still going to be awhile in 2009. Putting it off until then gives you 2 more years opportunity to look at it, if things change you can revoke it before it becomes effective.

**Rep. Kasper:** There is another way to solve the funding shortage. That is to begin having employees contribute to their own retirement. Can you give me a history of that concept?

**Sparb Collins:** There is a couple ways to look at that. As I mentioned the retirement contribution occurs at 8.12%. 4.12% is classified as an employer contribution and 4% is classified as an employee contribution. Back in 1982 there was a lot of economic dilemmas in the state. The legislator didn't give state employees a salary increase. What they said was instead of a salary increase is we are going to pick up 2% of your employee contribution and 2% of your contribution next year and that will be your salary increase for this period. In many members mind that was their salary increase. Now another thing that was asked was why would the state want to do that instead of just giving a salary increase? It's for the tax system. The retirement system actually saved a little bit on that. There were a couple ways you could do that and the way that was done was that the employee's salary actually did an increase and stayed the same. That is one thing that would be brought up. Secondly, they had requested the Attorney General's opinion on contributions to fund the benefits that had already been passed or approved. The conclusion of that was the employee contributions could only be increased to provide an adequate fund. That was the opinion that they got. I know that people from the Attorney General's office is here. That was consideration to the bill.

**Rep. Kasper:** In response to your first statement about 1982. Most of those employees would probably have been retired by now. Therefore the argument is with those employees back then gave up something in return for this. I think it is about time we buried that argument. Second thing is when you are talking about this proposal you are talking about enhancing benefits down the road in this bill by providing additional contributions. I think if employees were required to begin to contribute, whether it is part of this bill or not, it would not be tied to anything that the Attorney General said they could not do. It is just simply to allow their own

retirement benefits to be enhanced. I'm wondering if we could get a chart that shows the dollar amounts that the state of ND is contributing to the PERS retirement plan on behalf of employees. Maybe going back to the last ten years so we can see an impact of the dollars that we are putting into the retirement funds. Then maybe we can have a number of employees that have participated in that plan during the same period.

**Sparb Collins:** I could put that together the first part of next week. I can talk to the investment office of returns.

**Rep. Haas:** Are there any additional questions?

**Bill Kalandek:** *Association of Former Public Employees. We would like to stand in support of this bill. We think this is an appropriate approach to providing a permanent adjustment for state employees and retirees. We encourage a do pass recommendation from the committee.*

Rep. Haas: Is there any additional testimony for SB 2051? If not we will close the hearing on SB 2051.



# 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2051

House Government and Veterans Affairs Committee

Check here for Conference Committee

Hearing Date: March 2, 2007

Recorder Job Number: 4253

Committee Clerk Signature

*Morgan R. Hill*

Minutes:

**Rep. Haas:** I'm going to open the floor for some pre motion discussion. It's the bill that increases the contribution rate of employers. It does not take effect until August 1, 2009.

**Rep. Potter:** Can they do that?

**Rep. Haas:** Well there are some questions about this. This concept of obligating future legislators raises that question very seriously. It will also be possible that if this is appropriate to take affect in 2009, that this could certainly be considered in the 2009 session.

**Rep. Froseth:** I would move a do not pass.

**Rep. Dahl:** I Second that.

**Rep. Meier:** So Appropriations wouldn't even see this bill this session?

**Rep. Haas:** Probably not, yes.

**Rep. Weiler:** Why is that? I don't understand. It has an appropriation.

**Rep. Haas:** Well the appropriation wouldn't take place until 2009. There is no appropriation for the 2007-2009 biennium. This by passes appropriations essentially this session. Then the other thing that would happen is that if we pass it now, then PERS would include all of these numbers in there budget as the executive budget was prepared. If we didn't want to do it in 2009 we would have to take it out. It just seems like this is premature.

**Rep. Karls:** I just want to clarify that if this bill were to pass, it would not take effect until 2009 biennium. Would they start taking the extra contributions?

**Rep. Haas:** No.

**Rep. Froseth:** I feel too that we should not be passing legislation that has an obligation for future sessions. Also, this bill should probably be reconsidered by the Employee Benefits Committee during the next interim.

**Rep. Haas:** That is a good point and it probably will be.

**Rep. Potter:** The only thing that I can think of with your question is the comment Sparb made. He said if we pass it now then the local entities would be able to be planning in the future, down the line, for what they would need to collect and go into their budget. If you pass it next time then they don't have the planning time.

**Rep. Grande:** Along that line, this is going to the Employee Benefit's Committee.

**Rep. Amerman:** I just want to say that the counties would be able to plan and do this over the next so many years. I get a lot of input. People would be talking about this for 18 months now instead of just a few months.

**Rep. Kasper:** I think that Sparb's testimony was trying to give us a good excuse on why to pass it which was actually the reason why we shouldn't pass it.

**Rep. Froseth:** I was wondering why the cities, counties, and school districts weren't in here testifying on these bills. They have a pretty significant fiscal impact on them.

**Rep. Grande:** They go before the interim committees.

**Rep. Haas:** Is there any further discussion on the do not pass motion? If not we will take the roll for a do not pass motion on SB 2051. The do not pass motion passes with a vote of 13-0-0.

Is there a volunteer to carry this bill?

**Rep. Karls:** I will.

Date: 3-2-07  
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. "Click here to type Bill/Resolution No."

House Government and Veterans Affairs Committee

Check here for Conference Committee

Legislative Council Amendment Number SB 2051

Action Taken DO NOT PASS

Motion Made By Rep. Froseth Seconded By Rep. Dahl

Representatives	Yes	No	Representatives	Yes	No
Rep. C. B Haas Chairman	X		Rep. Bill Amerman	X	
Rep. Bette Grande VC	X		Rep. Louise Potter	X	
Rep. Randy Boehning	X		Rep. Jasper Schneider	X	
Rep. Stacey Dahl	X		Rep. Lisa Wolf	X	
Rep. Glen Froseth	X				
Rep. Karen Karis	X				
Rep. Jim Kasper	X				
Rep. Lisa Meier	X				
Rep. Dave Weiler	X				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Rep. Karis

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

REPORT OF STANDING COMMITTEE (410)  
March 2, 2007 11:18 a.m.

Module No: HR-40-4301  
Carrier: Karls  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**

**SB 2051: Government and Veterans Affairs Committee (Rep. Haas, Chairman)**  
recommends **DO NOT PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).  
SB 2051 was placed on the Fourteenth order on the calendar.

2007 TESTIMONY

SB 2051

TESTIMONY OF  
SPARB COLLINS  
ON  
SENATE BILL 2051

Mr. Chairman, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill.

The biggest challenge retiree's face is inflation, whether it is medical inflation or general inflation. Over time the effect is to reduce retirement benefits. The "rule of 72" is used to help people understand this dynamic by telling us how many years it will take to diminish a fixed benefit by 50% at a specified level of inflation. For example what if inflation averaged 3%? What would this do to the value of a \$1000 a month retirement benefit? By dividing 72/3 we find that it would reduce the benefit by 50% in 24 years or that \$1,000 would have the purchasing power of \$500. If inflation was 6% it would reduce the value of the benefit in half in 12 years. If it was 9% it would be reduced by 50% in just 8 years. Inflation has a very powerful effect on the value of the dollar. Another example is an employee can work for 30 years to earn a benefit equal to 60% of their final average salary at retirement. Inflation at 6% can cut that in half in 12 years.

The PERS defined benefit plan provides a fixed retirement benefit to its members. The plan does provide ad hoc adjustments when approved by the legislature. In the 80's & 90's investment earning allowed the plan to fund cost of living adjustments or % increases for its members. The following is that history:

1985	8.33%
1987	15.4%
1989	15.7%
1991	2.42%
1993	2%
1994	1%
1997	5%
1999	8%
2001	6%

All of the above increases were funded by the investment earnings of the plan which had a funded status of over 100% at both market and actuarial values. Since 2001 there have been no % increases in benefits for PERS or Highway Patrol retirees. The reason this has not occurred is that in 2001 investment returns for the fund and generally within the economy decreased and our fund based upon an actuarial and market value of assets dropped below 100%. We have now returned to 107% funded at market but we do not project returning back to 100% funded at actuarial value for about 5 to 6 years assuming returns average about 9%.

The fund has been able to help our retirees by giving or proposing one time payments or 13<sup>th</sup> checks. One was paid in January of 2006 after approval of the last legislature, and another is proposed for next biennium (SB 2044). While these are helpful, they do not provide the long term inflation adjusted benefit increase that is necessary to help maintain the value of a retirement income over time.

Since it is unlikely PERS will be able to fund an increase from investment returns in the near future, the only other way to provide these adjustments is to increase the employer contributions to the plan. This bill proposes such an increase to fund a 2% increase in our retirees monthly retirement benefit. The increase in employer contributions for PERS is .64% increasing the contribution to PERS from 9.12% to 9.74% (for the HP system it is 3.95%). We are proposing that this would be effective in August of 2009 and that the increased contributions would fully pay the cost of the increase in two years. This means that in 2011 the legislature or Governor could elect to reduce the contributions or do a similar enhancement if the investment returns continue to be above 8%.

So why 2009 instead of now? Several reasons:

- First of all, almost 45% of our members are in political subdivisions. By making the effective date 2009 it give them time to work this increase into their budgets and their budget planning process.
- Second, if passed this session and if unanticipated issues arise, it gives the governor and you the legislature one more chance to



review this in this next session if you so elect before it is implemented.

- Third, we are proposing a 13<sup>th</sup> check this biennium to help retirees for the 2007-2009 biennium and therefore this increase would be most effective in 2009.
- Fourth, we wanted to take a conservative approach to this for our participating employers and members so everyone's expectations are aligned.

You will note that this bill does have a fiscal effect, however since it is not effective until 2009 it does not have any fiscal implications this biennium.

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures					\$1,880,000	\$2,740,000
Appropriations					\$1,880,000	\$2,740,000

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

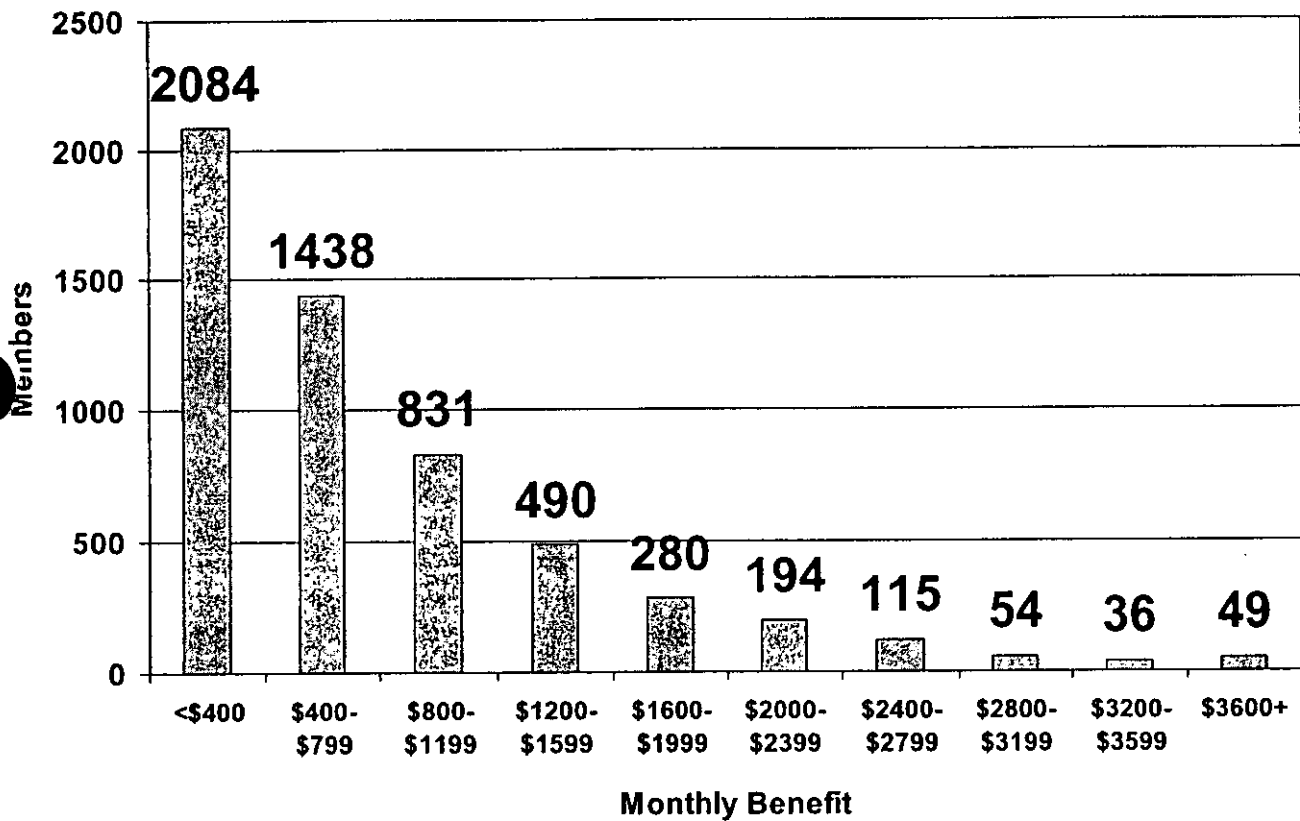
2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
						\$1,215,000	\$228,000	\$1,055,000

The provisions of this bill have been reviewed by the PERS actuary. The actuary determined that this adjustment could be paid for with the increase in contributions specified in the bill. These provisions have also been reviewed by the Legislative Employee Benefits Committee and given "no recommendation". On behalf of the PERS Board and its retirees I would request your favorable consideration of this bill. Mr. Chairman and

members of the committee, thank you for your review of this bill and this concludes my testimony.

# NDPERS Retirement Benefits

July 1, 2006



TESTIMONY OF  
SPARB COLLINS  
ON  
SENATE BILL 2051

Mr. Chairman, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill.

The biggest challenge retiree's face is inflation, whether it is medical inflation or general inflation. Over time the effect is to reduce retirement benefits. The "rule of 72" is used to help people understand this dynamic by telling us how many years it will take to diminish a fixed benefit by 50% at a specified level of inflation. For example, what if inflation averaged 3%? What would this do to the value of a \$1000 a month retirement benefit? By dividing  $72/3$  we find that it would reduce the benefit by 50% in 24 years or that \$1,000 would have the purchasing power of \$500. If inflation was 6% it would reduce the value of the benefit in half in 12 years. If it was 9% it would be reduced by 50% in just 8 years. Inflation has a very powerful effect on the value of the dollar. Another example is an employee can work for 30 years to earn a benefit equal to 60% of their final average salary at retirement. Inflation at 6% can cut that in half in 12 years.

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