

FISCAL NOTE
Requested by Legislative Council
12/21/2018

Bill/Resolution No.: SB 2047

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

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

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

This bill changes the retirement benefit calculation for new employees.

- 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.*

There is no fiscal impact for the changes in this bill.

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.*

N/A

- 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.*

N/A

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

N/A

Name: Bryan Reinhardt

Agency: NDPERS

Telephone: 701-328-3919

Date Prepared: 12/26/2018

2019 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2047

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

SB2047
1/11/2019
#30690

- Subcommittee
 Conference Committee

Committee Clerk: Pam Dever

Explanation or reason for introduction of bill/resolution:

A bill relating to the public employees defined benefit plan, defined contribution plan, and retiree health plan and participation in the retiree health plan.

Minutes:

Att #1 – Scott Miller; Att #2 – Nick Archuleta; Att # 3-
Tangee Bouvette *

Chairman Davison: Let's open SB2047.

Scott Miller, Director of Public Employee Retirement System (PERS) : (see att #1) I am here in support of SB2047. This bill addresses the benefits side of the funding equation. Contributions plus investment returns equals benefits plus expenses. This bill reduces the benefit multiplier for you and me and public safety members first hired after December 31, 2019. The multiplier is part of the defined benefit determination formula on page 3 of my testimony. (1.02) Without this change, PERS would be insolvent in 2106. We are projecting to be 100% funded in 2087. (see on pg 5 – graph)

Chairman Davison: Any more in support? Any against?

Nick Archuleta, Pres. Of North Dakota United: I am here in opposition to SB2047. (see att #2) This bill provides a dis incentive to work for the state of North Dakota.

Chairman Davison: Any questions?

Sen. Erin Oban: Have you surveyed your members to see how they feel about this bill?

Nick: We have had good discussion with members. They are not in favor of anything that diminishes the benefits that they receive or that their future colleagues receive in public service. (6.06)

Chairman Davison: Surveys can be answered in different ways. Would you prefer this or that or give them a choice. The results may come back differently. It is human nature to worry about yourself first and admirable to worry about those in the future.

Nick: I agree with that.

Chairman Davison: Not an easy discussion right now, but we have to find a solution.

Nick: In the discussion we had, they are very clear something should have been done in 2011. In 2013 it was not fixed, either. Need to choose best for fully funding.

Chairman Davison: 1.9 timing to 2.0 is not good timing. Any more against? Seeing none, the hearing is closed.

*Att #3 – Tangee Bouvette – e mailed testimony

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

SB2047
2/1/2019
31992

- Subcommittee
 Conference Committee

Committee Clerk Signature : Pam Dever

Explanation or reason for introduction of bill/resolution:

Relating to the computation of retirement benefits.

Minutes:

Chairman Davison: This reduces the multiplier from 2 to 1.75. This is part of the package that PERS brought forward. (.15) Discussion. What are the committee wishes?

Sen. Shawn Vedaa: I move a DO PASS on SB2047.

Vice Chair Meyer: I second.

Chairman Davison: Any discussion? Take the roll: **YES -- 5 NO -- 2 -0-absent PASSED. Chairman Davison will carry the bill.**

(done – 1.13)

5.
2-1-19

Date:
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2047

Senate Government and Veterans Affairs Committee

Subcommittee

Amendment LC# or Description: _____

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
- Other Actions: Reconsider _____

Motion Made By Sen. Vedaa Seconded By Sen. Meyer

Senators	Yes	No	Senators	Yes	No
Chairman Davison	/		Sen. Oban		/
Vice Chair Meyer	/		Sen. Marcellais		/
Sen. Elkin	/				
Sen. K. Roers	/				
Sen. Vedaa	/				

Total (Yes) 5 No 2

Absent 0

Floor Assignment Chairman Davison

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

REPORT OF STANDING COMMITTEE

SB 2047: Government and Veterans Affairs Committee (Sen. Davison, Chairman)
recommends **DO PASS** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING).
SB 2047 was placed on the Eleventh order on the calendar.

2019 HOUSE GOVERNMENT AND VETERANS AFFAIRS

SB 2047

2019 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Fort Union Room, State Capitol

SB 2047
3/7/2019
33375

- Subcommittee
 Conference Committee

Committee Clerk: Carmen Hart

Explanation or reason for introduction of bill/resolution:

Relating to the computation of retirement benefits

Minutes:

Attachments 1-3

Chairman Kasper opened the hearing on SB 2047.

Scott Miller, Executive Director of the NDPERS, appeared in support. Attachment 1. (:29-5:56)

Rep. B. Koppelman: What was it prior to 2%?

Mr. Miller: In 1983 the multiplier was increased to 1.2%: 1985, 1.3%; 1987, 1.5%; 1989, 1.65%; 1991, 1.69%; 1993, 1.725%; 1994, 1.74%; 1997, 1.77%; 1999, 1.89%; 2001, 2%.

Chairman Kasper: Would you provide that chart for us.

Rep. B. Koppelman: Historically, it was as low as 1.04. What has the progression been in rules of 85, 90, etc.?

Mr. Miller: I believe it was the rule of 85 up until last session when it went to the rule of 90. We will give you that progression as well.

Rep. B. Koppelman: Is there something that the PERS board has looked at a rule at a certain year?

Mr. Miller: To my knowledge, the PERS board has not. Mortality is one of the major actuarial assumptions that we have in our plan. The current mortality tables will be evaluated with the next actuarial experience study. My information that mortality has been improving up until the past couple years, and unfortunately, the opioid crisis has brought it back down again for the first time in a generation.

Rep. B. Koppelman: We need to keep in mind that the same in terms of coefficient is not the same in terms of benefit provided. I just wanted to see if that was in your thoughts when you are doing this.

Rep. Louser: The defined benefit plan is based on money in, money out, and that is predictable, and if there is a shortfall, you need more money or better return. Historically, we have manipulated the other factors, the rule of 80, 85, 90 and the multiplier. Now it is going to be perceived that we are taking away a benefit by going down on the multiplier. Can we have something similar to what we referenced in TFFR that says no increase to the multiplier until we hit 100%?

Mr. Miller: We learned a hard lesson in the 90s. Everyone in the country moved their multiplier up in the 90s, and everyone got bit by the tech bubble and hit by the global financial crisis. Every time the PERS board would like to move the multiplier up, we can't do it without your help, guidance, and oversight. You have the power to stem the rise of that multiplier moving forward.

Rep. Laning: Have those multipliers been retroactive?

Mr. Miller: If somebody had been here for 20 years and had 20 years of service credit and kept working, when that went up to 2%, that 2% applied to the previous 20 years as well. The effort by the PERS board was to increase benefits for both current employees and retirees at the same time.

Opposition

Nick Archuleta, President of ND United, appeared in opposition. Attachment 2. (16:43-18:06)

Chairman Kasper: I have heard in your testimony that public employees receive less than private employees. Where is your data that supports that?

Mr. Archuleta: That came from the Haye group report.

Chairman Kasper: Are you referring to the interim committee a couple of sessions ago?

Mr. Archuleta: I believe so.

Chairman Kasper: I questioned that report then, and I question it now because of the model that they used which was some of the highest paid employees with more national companies comparing it to North Dakota companies.

Mr. Archuleta: I understand, but that was the only study that was presented on that matter.

Vice Chair Steiner: Are you aware that the PERS staff has testified that state employees have a better health plan and retirement plan than some people in the private sector? Those two things combined causes them to live longer.

Mr. Archuleta: We are aware of that and very appreciative for that.

Darren Schimke, President of the Professional Fire Fighters of North Dakota, appeared in opposition. If we had to prioritize the bills, we would oppose this one the most.

Attachment 3 was provided by **Tangee Bouvette, Compensation & Benefits Administrator, City of Grand Forks**, in opposition.

Chairman Kasper closed the hearing.

2019 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Fort Union Room, State Capitol

SB 2047
3/22/2019
#34171

- Subcommittee
 Conference Committee

Committee Clerk: Carmen Hart

-typed by Jeanette Cook

Explanation or reason for introduction of bill/resolution:

Relating to the computation of retirement benefits

Minutes:

Chairman Kasper: We will open the meeting on SB 2047. It does not deal with contributions but the benefit amount. It only affects employees that are hired after December 31, 2019. Currently, the employees have a multiplier that is equal to 2% times their years of service. This would reduce it to 1.75% times their years of service. The interest earnings on a \$50,000 salary and 25 years of service would go from a retirement benefit of \$25,000 at 2%, to \$21,875 with the 1.75% multiplier, assuming the interest earnings are the same in that period. We were at 1.75 or 1.76% in the fat days when the pension plan was 90-100% funded. That is when the multiplier was increased. We had a bill on the floor yesterday that was trying to bail out some defined benefit plans that are underwater now. This bill is supported by PERS and moves the multiplier back to what we had prior, when the plan got fat and happy, and then the market went down for two periods of time.

Rep. Louser: I considered offering an amendment on this bill but reality is two years from now we can change it again anyway. My frustration is how we continue what was originally set up to be essentially an annuity, but when a fund gets healthy or fat and happy, we change things. When it gets depleted we change things the other way. This continues to happen. I would like to see some way of saying, don't change anything until it is at 100%, but two years from now, if we want to change it, we would strike that part of the law anyway. That would make the amendment useless.

Rep. Louser moved a DO PASS and rereferred to Appropriations on SB 2047.

Rep. Schauer seconded the motion.

Rep. P. Anderson: Compared to the last bill, the PERS Board spent a lot of time discussing this. Except for the legislators all the PERS Board are PERS beneficiaries. These are difficult decisions for them to come to. We all agreed it was our responsibility to do what we could to try to get the plan funded. I will reluctantly the support the bill.

Rep. Schneider: It has been a tough few years for employees. It is another situation that besides the stalled salaries, the shrinking number of employees to do the same amount of work; this is just another barrier to recruitment of really skilled people. I am going to vote against it.

Rep. C. Johnson: I think this is probably one of the more visible recruitment tools for new employees. It will affect them only. I will resist motion for a do pass.

Rep. Laning: It is a difficult decision, but the fact is that the retirement plan is in desperate straits. This doesn't harm any present employees with the things that they came on board. A new employee coming on is going to know what the benefits are; it won't be a surprise to them. We need to do something to save this retirement benefit. I believe that this is the least painful to present employees and the state. It is better than losing the entire retirement plan. I will support the bill.

A roll call vote was taken for a DO PASS and rerefer to Appropriations on SB 2047.

Yes 7 No 4 Absent 3

The motion carried.

Rep. Laning will carry SB 2047.

Date: 3-22-19
 Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 2047**

House Government and Veterans Affairs Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Louser Seconded By Rep. Schauer

Representatives	Yes	No	Representatives	Yes	No
Chairman Jim Kasper	X		Rep. Pamela Anderson	X	
Vice Chair Vicky Steiner	A		Rep. Mary Schneider		X
Rep. Jeff Hoverson	A				
Rep. Craig Johnson		X			
Rep. Daniel Johnston	X				
Rep. Karen Karls		X			
Rep. Ben Koppelman	A				
Rep. Vernon Laning	X				
Rep. Scott Louser	X				
Rep. Karen Rohr	X				
Rep. Austen Schauer	X				
Rep. Steve Vetter		X			

Total (Yes) 7 No 4

Absent 3

Floor Assignment Rep. Laning

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

REPORT OF STANDING COMMITTEE

SB 2047: Government and Veterans Affairs Committee (Rep. Kasper, Chairman) recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (7 YEAS, 4 NAYS, 3 ABSENT AND NOT VOTING). SB 2047 was rereferred to the **Appropriations Committee**.

2019 HOUSE APPROPRIATIONS

SB 2047

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2047
3/27/2019
34254

- Subcommittee
 Conference Committee

Committee Clerk: Risa Bergquist

Explanation or reason for introduction of bill/resolution:

Relating to the computation of retirement benefits.

Minutes:

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Chairman Delzer: Called the meeting to order for SB 2047, this is a bill that will change the multiplier for new employees from 2.0 to 1.75.

Representative Kasper: That is correct, currently the multiplier is at 2% times the number of years of service. The goal of the retirement plan is to provide up to 90% benefit at retirement including the retirement from the plan and social security. This bill will only take effect after December 31st 2019 for new hires. The number given to the committee was an example of a 50 thousand salaries retirement benefit with 25 years of service currently will generate 25 thousand dollars a year for that employee and then you add social security and they are getting close to that 90%. New hires only, the multiplier decreases to 1.75% so using that same example the new retirement benefit would be reduced to 21,875 dollars a year.

Chairman Delzer: Did you ask when we went from the 1.8 to the 2?

Representative Kasper: I am not sure but it's been there since I have been here, I think maybe back in 2006-2007.

Representative Bellew: There are a lot of political subs that are doing the same thing, would they also go back to the 1.75?

Chairman Delzer: It would include all new hires on both sides. When we made the change it was because we were almost 100% funded. There's nothing in this bill saying that when we get to 85 or 90% it will go away?

Representative Kasper: Not in any of these bills.

Representative Martinson: You're going to ask new employees to help fund the retirement of older employees?

Representative Kasper: No we are telling new hire that they will have a multiplier of 1.75 instead of 2%.

Representative Martinson: The guy that may have gotten hired last month is going to get a better retirement and you're not so that he can get the better retirement.

Chairman Delzer: The only fix for that is if we went to combined contribution and do away with the combined benefit.

Representative Martinson: I don't think we are getting as good of a return and our investment guys are as good as they should be. I don't understand why we haven't recovered any more then we have. How did we go from 92% 10 years ago and not have required more then we have?

Representative Kasper: We probably would need a study in the next interim that didn't come before our committee.

Chairman Delzer: IT CREF is basically a defined contribution. The issue with the defined benefit is when you give raises and all that stuff it effects how much their retirement returns.

Representative Martinson: I think we should have ITAA come in here and talk about taking over our program.

Chairman Delzer: We could put that in as part of a study. We did a defined contribution study a few years ago. It showed without a doubt any employees less than 35 years old is much better off with defined contribution. The senate killed that with 1 vote.

8:25 Representative Sanford: You're saying that all three of these bills need to be in place in order to have an impact. Is there an actually impact for each of the 3?

Chairman Delzer: It just changes the time and we will ask Brady to get that for us, all of them will have a different impact. We're at 72% funded and that keeps increasing yet our unfunded liability keeps walking up.

Representative Boe: I don't know if we need a study we are probably looking for an audit to find out where all the funds have gone and why. I don't know that just a study is going to find the answers we are looking for.

Representative Monson: This bill includes PERS and or county?

Representative Kasper: This just includes the PERS and all the political subs that are in the PERS plan, it doesn't deal with TIAA.

Chairman Delzer: I was told it's really hard to back out of a PERS plan?

Representative Kasper: That is true, because of the unfunded liability. Each of the participant's arena have a percentage of that unfunded liability. So you back out you are going to have an unfunded liability that you are going to have to pay, and that could be millions of dollars depending on how large the political subs are and how long they have been in there.

Chairman Delzer: If they had just joined and wanted to back out it wouldn't be a big deal?

Representative Kasper: I don't think so; we actually have a couple of subdivision groups that are going to join the defined benefit plan coming up and I asked if they were aware of the unfunded liability that they are going to have if you ever want to withdraw? They said yes and they still wanted to come in.

Chairman Delzer: These came out of the governor's office and through the PERS plan?

Representative Kasper: This was introduced by PERS.

Chairman Delzer: Any further questions? Seeing none we will close this hearing.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2047
4/1/2019
34381

- Subcommittee
 Conference Committee

Committee Clerk: Risa Bergquist

Explanation or reason for introduction of bill/resolution:

Relating to the computation of retirement benefits.

Minutes:

Attachment 1-2

Chairman Delzer: Called the meeting to order for SB 2047. The funded ratio projected to increase to 78.2% (**see attachment 1 page 1**). Why would they say it would decrease thereafter?

Representative Sanford: Yes, this is showing that in 2087 as the golden year when we are back to 100%.

Chairman Delzer: It is but it is a step in the right direction. One of the problems is when we get close to 100% we make changes. (**see attachment 2**). I think we should pass SB 2047, discuss 2046 and I think we should amend 2048 to be a good study looking at all the options.

Representative Sanford: I would think that the impact of 2046 and 2047 combined is going to bring it much sooner than 2087.

Chairman Delzer: Further discussion?

Representative Vigesaa: Do Pass

Representative Beadle: Second

Chairman Delzer: Any further discussion? Seeing none we will call the roll.

A Roll Call vote was taken. Yea: 15 Nay: 1 Absent: 5

Motion Carries, Representative Laning will carry this bill

Chairman Delzer: With that we will close this meeting.

Date: 4/1/2019
 Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2047**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Representative Vigesaa Seconded By Representative Beadle

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X				
Representative Kempenich	A				
Representative Anderson	X		Representative Schobinger	X	
Representative Beadle	X		Representative Vigesaa	X	
Representative Bellew	A				
Representative Brandenburg	X				
Representative Howe	X		Representative Boe		X
Representative Kreidt	A		Representative Holman	A	
Representative Martinson	X		Representative Mock	X	
Representative Meier	X				
Representative Monson	A				
Representative Nathe	X				
Representative J. Nelson	X				
Representative Sanford	X				
Representative Schatz	X				
Representative Schmidt	X				

Total (Yes) 15 No 1

Absent 5

Floor Assignment Representative Laning

Motion Carries

REPORT OF STANDING COMMITTEE

SB 2047: Appropriations Committee (Rep. Delzer, Chairman) recommends **DO PASS** (15 YEAS, 1 NAYS, 5 ABSENT AND NOT VOTING). SB 2047 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

SB 2047

SB 2047
1-11-19

AH #1

PSI

TESTIMONY OF SCOTT MILLER

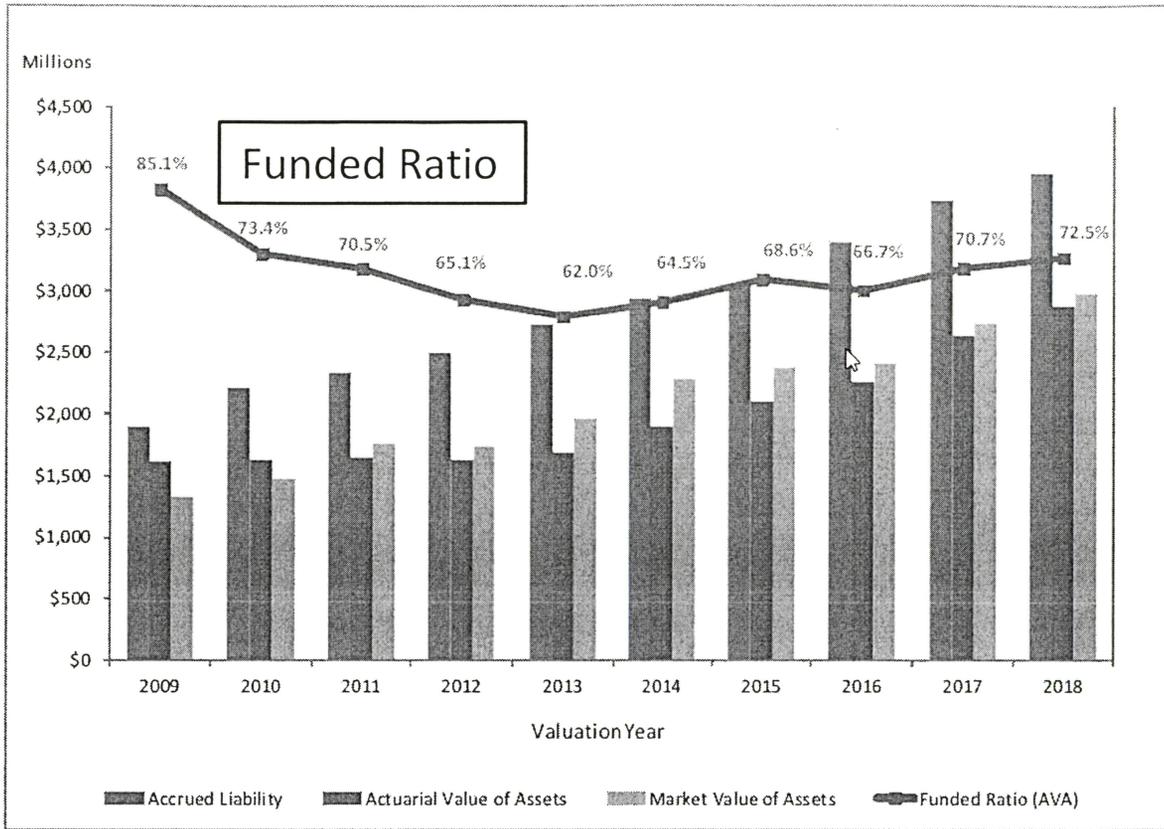
Senate Bill 2047 – Reducing the Benefit Multiplier for New Employees

Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today on behalf of the PERS Board and in support of Senate Bill 2047.

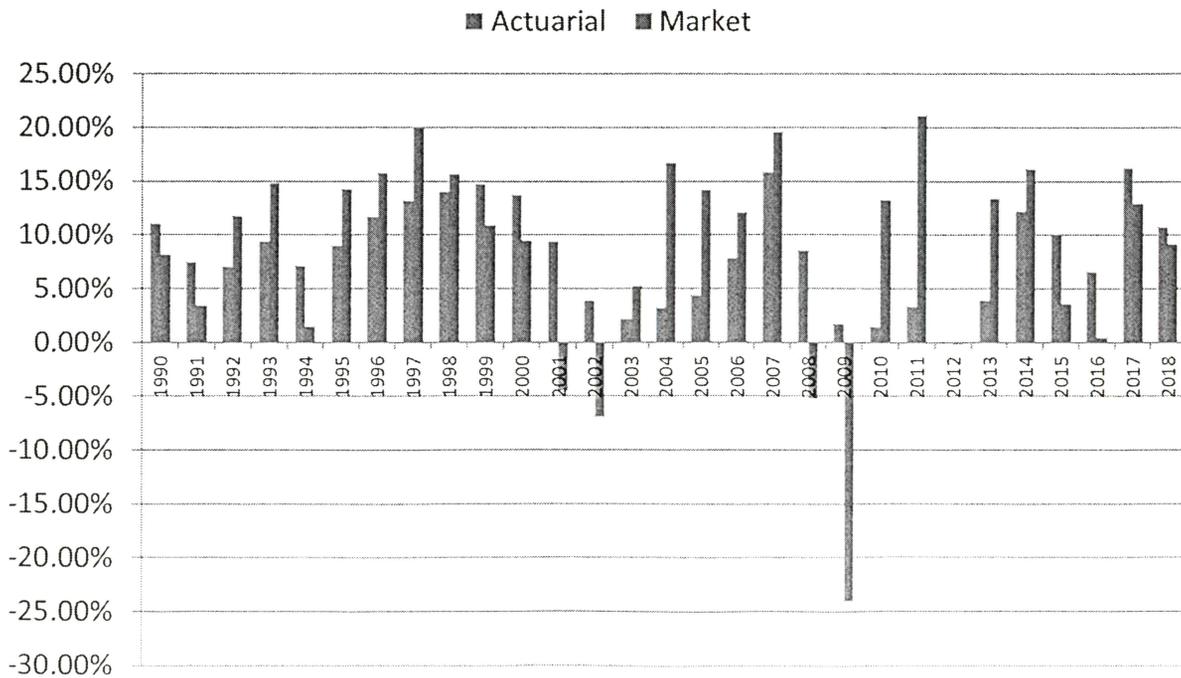
Senate Bill 2047 reduces the benefit multiplier for new Main PERS and Public Safety members first hired after December 31, 2019. The benefit multiplier for current employees is 2%; this bill proposes to reduce the benefit multiplier for new employees down to 1.75%. The Employee Benefits Programs Committee gave this bill a favorable recommendation. Governor Burgum has also voiced his support for this bill.

This bill is offered as an option for your consideration because the main PERS plan is significantly underfunded, and is never projected to become fully funded. I am frequently asked, “How did we get to this point?” As you are aware, both the tech bubble in 2001-2002 and the global financial crisis of 2008-2009 caused historic losses in our investment portfolio – in 2009 alone, we lost 24%. Those losses caused a significant reduction in our funded ratio. On July 1, 2008, the PERS Plan was over 92% funded. By July 1, 2013, our funded ratio had declined to 62% - an over 30% decline in our funded ratio in just five years, which can be attributed to the global financial crisis. Right now, we are about 72% funded – meaning we only have assets to pay off about 72% of our liabilities. In dollar terms, we are about \$1.1 billion underfunded – we have \$1.1 billion less than we need to pay off all of our liabilities in the future. You can see our funding path on the following graph.

SB 2047
1-11-19
AH #1



While the markets since then have been somewhat beneficial, returns have not been high enough to put us back on the course to full funding.



SB 2047
11-19
AK #1

There are very few levers we can use to try to get us back on the course to full funding. I have provided the general formula for funding a defined benefit retirement plan below:

$$\text{Contributions} + \text{Investment Returns} = \text{Benefits} + \text{Expenses}$$

Since investment returns are not high enough to put us back on the course to full funding, and we cannot really control them anyway, and expenses are not significant enough to have any effect on the equation, we must look at altering either “Contributions” or “Benefits”.

Benefits are difficult to change for current members and retirees. This bill, Senate Bill 2047, does reduce the “Benefits” sides of the equation, but only for new employees who begin employment after December 31, 2019. While current employees have a 2% benefit multiplier, if this bill passes, the benefit multiplier for new employees will go down to 1.75%. To help you see what this does to the retirement benefits for new employees, below is the formula for determining benefits:

$$\text{Benefit} = \text{Final Average Salary} \times \text{Years of Service} \times \text{Benefit Multiplier}$$

The effect of reducing the benefit multiplier by 0.25% is to decrease benefits for new employees by 12.5%. For example, if a current employee retires with 25 years of service and a final average salary of \$50,000, that person’s benefit would be the following:

$$\begin{aligned} \text{Benefit} &= \$50,000 \times 25 \times 2\% \\ \text{Benefit} &= \$25,000 \text{ per year} \end{aligned}$$

A new employee who retires with the same salary and years of service would have the following benefit:

$$\begin{aligned} \text{Benefit} &= \$50,000 \times 25 \times 1.75\% \\ \text{Benefit} &= \$21,875 \text{ per year} \end{aligned}$$

As you can see, the benefit is 12.5% lower than under the current benefit multiplier. That decrease is projected to improve the PERS plan’s funded ratio, and eventually get us to 100% funded in 2087.

While 2087 is still a long way, it still gets us back on the course to full funding, which is essential for two very important reasons – member confidence, and GASB liability reporting. GASB stands for “Governmental Accounting Standards Board”. GASB provides “statements” that provide guidance for governmental entities, like the state and

SB 2047
1-11-19
Alt #1

its political subdivisions, on how to report certain things in their financial statements. In the past few years, GASB issued a statement that requires retirement plans that are not projected to ever reach 100% funding – like the PERS plan – to report their liabilities using a discount rate that is below those plans' assumed rates of return. GASB calls that a "single discount rate".

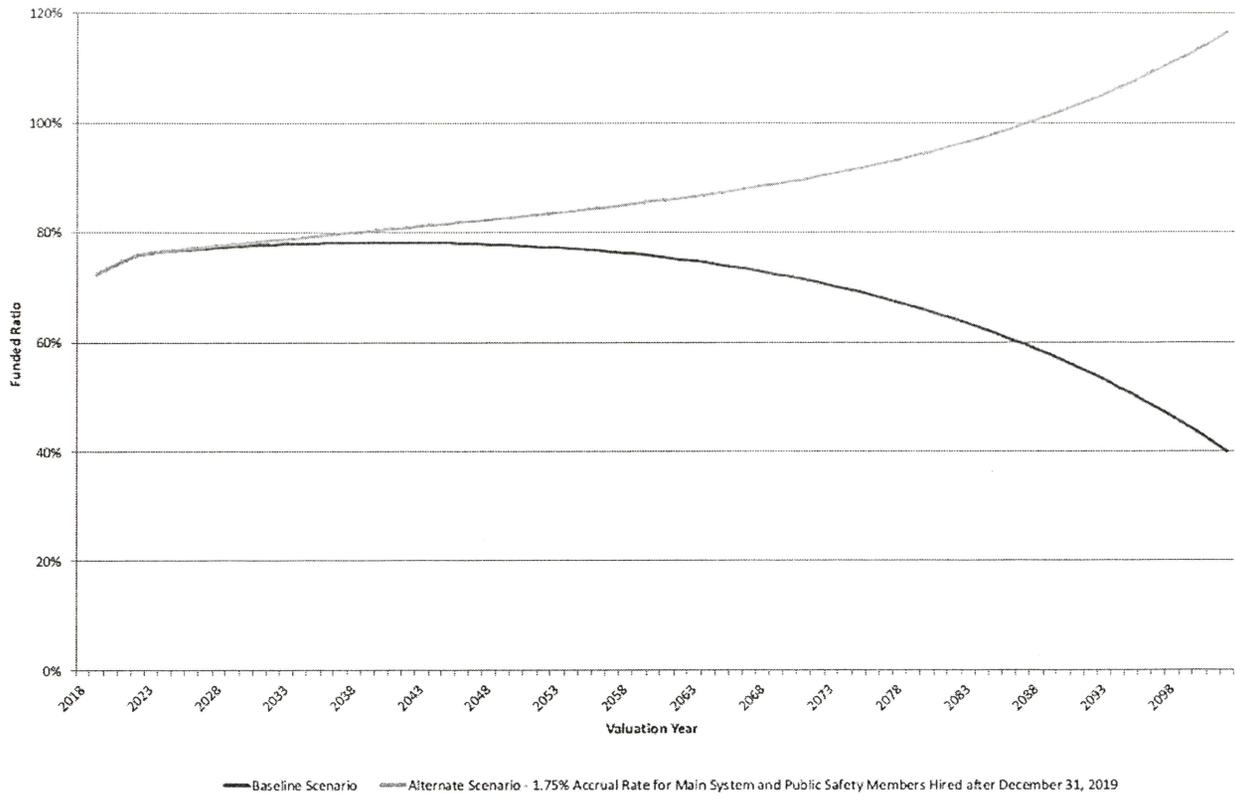
The problem with using that single discount rate is that the rate is significantly below our assumed rate of return – our assumed rate of return is 7.75%, and the single discount rate we have to use is 6.32%. Using a lower rate to determine our liabilities results in a significant increase in those projected liabilities: using the 7.75% rate results in the \$1.1 billion of unfunded liabilities I have already mentioned, whereas using the 6.32% rate results in almost \$1.7 billion in unfunded liabilities – a 50% increase.

GASB also now requires the state and its political subdivisions to report that higher unfunded liability figure in their financial statements. As a result, the pension liabilities that have to be reported in the financial statements are 50% higher than they would be if we were on the course to being 100% funded. That is causing a significantly negative impact on many of our participating political subdivisions' financial statements. Those increased liabilities may also result in negative rating outlooks from the rating agencies, or even a reduction in the bond rating for your political subdivisions, increasing their cost of borrowing money.

Importantly, if this bill is passed, our actuary can take the increased funding into account when it performs the next actuarial valuation, and that single discount rate will move back to 7.75%. That, in turn, will significantly reduce the liabilities that the state and its political subdivisions must report, and may help their credit rating. That is one of the reasons it is imperative that we get back on the course to full funding as quickly as possible.

The second reason it is imperative that we get back on the course to full funding is to provide confidence to your employees and retirees that the retirement benefit that you have guaranteed them will be there when they need it. As I mentioned, right now the main PERS plan is projected to be insolvent by 2106. At that point, the plan will be a pay-as-you-go plan, and we will need biennial appropriations of hundreds of millions of dollars in order to pay retirement benefits. In the below graph, you can see what our current trajectory looks like – it is the line that curves downward, and will eventually reach zero by 2106.

SB 2047
1-11-19
AK #1



In comparison, the top line is the projection for the main PERS plan in the event that this legislation is passed. As you can see, the main PERS plan becomes 100% funded in 2087.

Because Senate Bill 2047 does not affect the contributions into the PERS plans, there is no additional cost to employers. As such, there is no fiscal note for this bill. Yet with its passage, you will be able to guarantee the thousands of retirees across the state that they will continue to receive the benefits they were promised in exchange for their careers in public service, as you can see in the following map.

SB 2047
 1-11-19
 AH 41

Annual Benefits 2017

DIVIDE \$338,706	BURKE \$86,359	RENVILLE \$343,221	BOTTINEAU \$1,679,426	ROLETTETOWNER \$1,345,474	CAVALIER \$532,948	PEMBINA \$1,093,190					
WILLIAMS \$3,398,625	MOUNTRAIL \$1,106,397	WARD \$8,317,961	McHENRY \$539,662	PIERCE \$529,769	RAMSEY \$3,744,710	WALSH \$4,535,494					
McKENZIE \$1,071,983	DUNN \$608,108	McLEAN \$2,013,194	SHERIDAN \$242,867	WELLS \$644,732	EDDY \$443,297	NELSON \$595,242	GRAND FORKS \$12,927,420				
GOLDEN VALLEY \$81,957	BILLINGS \$229,238	MERCER \$677,602	OLIVER \$68,829	BURLEIGH \$47,298,180	KIDDER \$124,946	STUTSMAN \$8,371,939	GRIGGS \$497,144	STEELE \$234,496	TRAIL \$1,085,319		
STARK \$4,162,442	MORTON \$7,470,163	BARNES \$2,013,761	CASS \$19,087,083	SLOPE \$31,692	HETTINGER \$441,460	GRANT \$248,603	EMMONS \$307,058	LOGAN \$440,336	LAMOURE \$670,169	RANSOM \$899,442	RICHLAND \$1,825,081
BOWMAN \$549,952	ADAMS \$277,678	SIoux \$142,831	McINTOSH \$256,929	DICKEY \$550,617	SARGENT \$188,074						

Out-of-State - \$23,452,715

In-State - \$145,530,719

Total - \$168,983,434

Please note that the reason PERS has a 2% multiplier is that it was the goal of the plan since the 1980's to provide a career employee (one with 25 years of service) a retirement benefit equal to 90% of final average salary when including social security. For the average employee, social security at retirement will provide approximately 40% of final average salary. With a 2% multiplier, PERS would provide 50% of final average salary, which totals to 90%. This was the long-term goal for all PERS retirement plans, and was for the TFFR plan as well. We reached this goal in the early 2000's. Several years later, the stock market had its most significant correction since the great depression, causing the funded status of the plan to start a downward trend.

The current multiplier is also part of a comprehensive benefits package that makes it easier for the state and its political subdivisions to recruit and retain employees. Reducing a benefit in that package is detrimental to both recruitment and retention. However, it is imperative that we get the main PERS plan back on the course to full funding. When the funded status of the plan dropped as a result of the dramatic drop in the financial markets, PERS presented a four-year recovery plan that would have put the plan on track to 100% funding. That plan was identical to the recovery plan proposed by TFFR, which was adopted. However, for PERS the Legislature only adopted 3 years of the 4 year plan. That was sufficient to stabilize the plan, but was not

SB 2047
1-11-19
AJ #1

enough to put it on track to 100% like it was for TFFR. Consequently, to this point we have not been successful in getting approval for legislation that would get us back on the course to full funding. Because of that, the Board determined that it was best to make additional proposals that would not have a fiscal effect on our participation employers. This is one of those proposals.

In summary, the Employee Benefits Programs Committee, the NDPERS Board, the Legislative Assembly, and all of our members have worked together over the past eight years to try to come up with a way to get back on the course to full funding. While Senate Bill 2047 is not the perfect solution, it will help ensure that all of your hard work, and all of the contribution increases to date, finish the job you began in 2011, and set us back on the path to full funding of the retirement plan.

Thank you for all of your work and support in the past, and for your positive consideration of this Bill. With your leadership, we can again become fully funded.



Great Public Schools

Great Public Service

SB 4047
1-11-19
Att # 2
Pg 1

**Testimony Before the Senate Government and Veterans Affairs Committee
SB 2047
Friday, January 11, 2019**

Good morning, Chairman Davison and members of the Committee. I am Nick Archuleta, president of North Dakota United. I am here this morning to urge a DO NOT PASS recommendation for SB 2047.

In my testimony earlier this morning, I relayed the recent state of our state employees. I told this committee that state and other public employees are working harder with less help as a result of the economic reality in which we find ourselves. I mentioned, too, that despite salaries that lag behind those in the private sector, state employees, and agency heads for that matter, see benefits – both health and retirement – as tremendous tools which serve to recruit and retain the very best public servants.

I also shared that our members and our organization cannot support legislation that results in fewer benefits for current and future public employees. SB 2047 is one such piece of proposed legislation. SB 2047 decreases the multiplier used in determining an employee's retirement benefit from 2% to 1.75%. While this change will not affect current employees, it will affect those hired after December 31, 2019.

We believe that when potential employees consider their career choices, benefits matter. When potential employees understand that they will earn less in public service than their counterparts in the private sector and then realize that their retirement benefits will be less than those of the colleagues with whom they work, they will choose a career outside of public service. SB 2047, then, provides a disincentive to work for the state or other public entities. For that reason, I urge a DO NOT PASS recommendation for SB2047.

Thank you, Chairman Davison and members of the Committee. I stand for any questions.



City of Grand Forks

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SB 2047

1-11-19

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TESTIMONY ON SENATE BILL 2047
Government and Veterans Affairs Committee
January 11, 2019

email agst

Tangee Bouvette, Compensation & Benefits Administrator
City of Grand Forks, ND

Mr. Chairman and members of the committee, my name is Tangee Bouvette, and I am the Compensation & Benefits Administrator for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express my opposition to this legislation.

The NDPERS retirement system is an excellent defined benefit pension plan and a key recruitment and retention tool for the City of Grand Forks as well as numerous other local government entities, in addition to the State.

The City of Grand Forks, in general, has supported the NDPERS plan and its efforts to become fully funded. The City supports current legislation to increase contribution rates and has supported past legislation to increase contribution rates over the last 10 years.

Conversely, the City of Grand Forks is against Senate Bill 2047 which would reduce the pension multiplier from 2.0% to 1.75% for employees starting on or after 1/1/2020. The impact of this bill would effectively reduce pension benefits for employees hired after 12/31/2019 by twelve and a half percent (12.5%). The City of Grand Forks believes this sudden and dramatic decrease in the value of this benefit would have a negative impact on recruitment as well as retention for not only the City of Grand Forks, but all local government entities who offer this benefit. This change would disrupt the benefit equity between current and future employees.

The City supports making incremental funding changes to the NDPERS plan and monitoring funding every two years, but is compelled to contest reducing the value of this benefit to future employees. It is for these reasons the City of Grand Forks opposes Senate Bill 2047.

Thank you for your consideration.

#1
SB 2047
3-7-19

TESTIMONY OF SCOTT MILLER

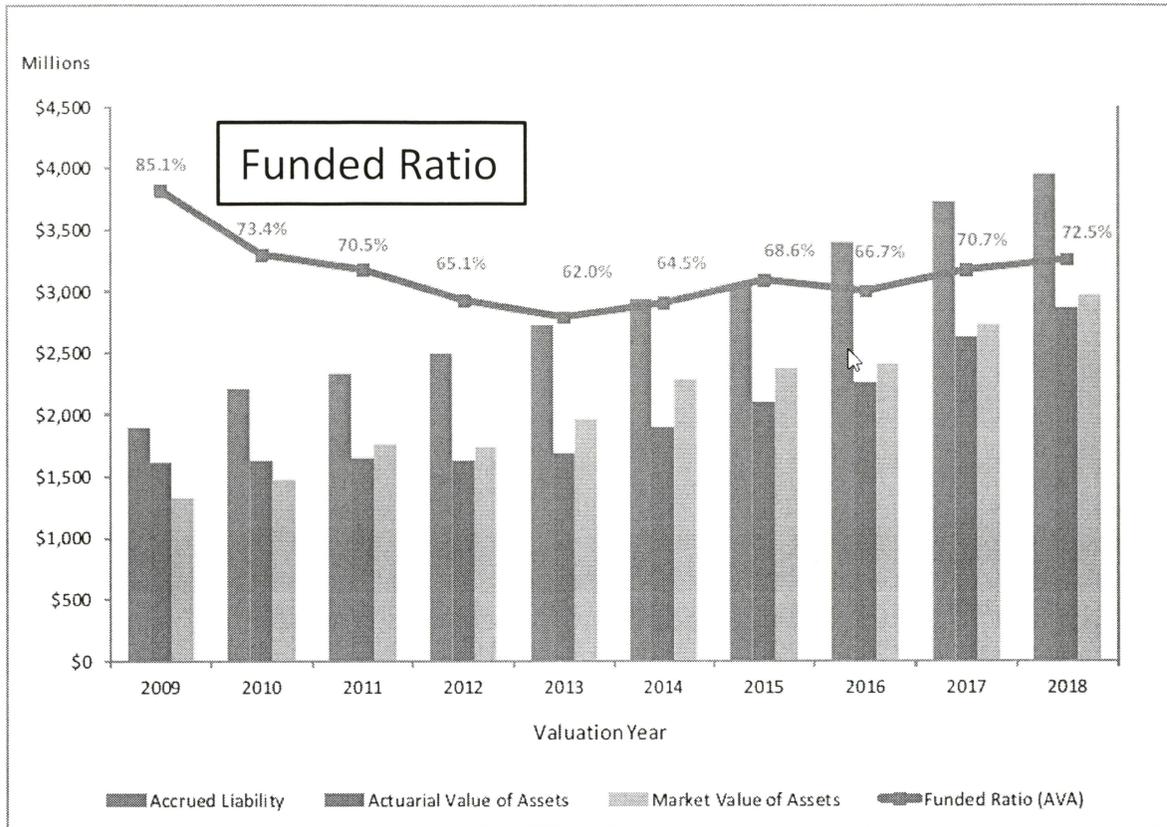
Senate Bill 2047 – Reducing the Benefit Multiplier for New Employees

Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today on behalf of the PERS Board in support of Senate Bill 2047.

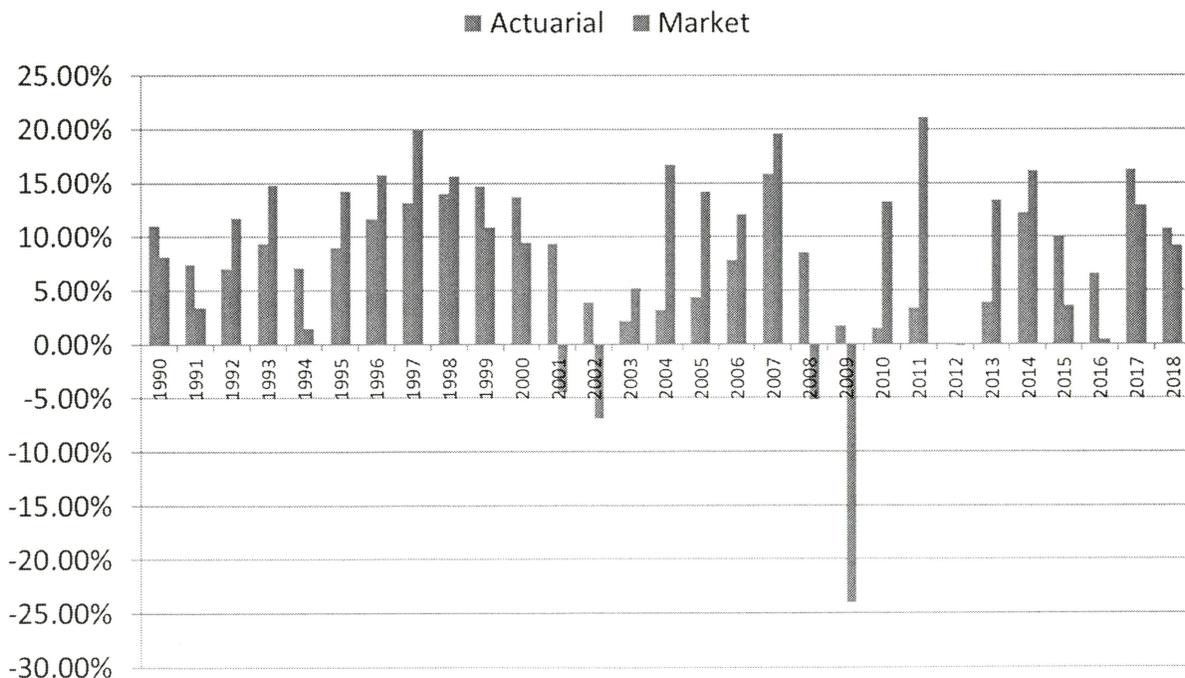
Senate Bill 2047 reduces the benefit multiplier for new Main PERS and Public Safety members first hired after December 31, 2019. The benefit multiplier for current employees is 2%; this bill proposes to reduce the benefit multiplier for new employees down to 1.75%. The Employee Benefits Programs Committee gave this bill a favorable recommendation. Governor Burgum has also voiced his support for this bill.

This bill is offered as an option for your consideration because the main PERS plan is significantly underfunded, and is never projected to become fully funded. I am frequently asked, “How did we get to this point?” As you are aware, both the tech bubble in 2001-2002 and the global financial crisis of 2008-2009 caused historic losses in our investment portfolio – in 2009 alone, we lost 24%. Those losses caused a significant reduction in our funded ratio. On July 1, 2008, the PERS Plan was over 92% funded. By July 1, 2013, our funded ratio had declined to 62% - an over 30% decline in our funded ratio in just five years, which can be attributed to the global financial crisis. Right now, we are about 72% funded – meaning we only have assets to pay off about 72% of our liabilities. In dollar terms, we are about \$1.1 billion underfunded – we have \$1.1 billion less than we need to pay off all of our liabilities in the future. You can see our funding path on the following graph.

#1
 STB 2047
 3-7-19



While the markets since then have been somewhat beneficial, returns have not been high enough to put us back on the course to full funding.



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SB 2047
3-7-19

There are very few levers we can use to try to get the PERS plan back on the course to full funding. I have provided the general formula for funding a defined benefit retirement plan below:

$$\text{Contributions} + \text{Investment Returns} = \text{Benefits} + \text{Expenses}$$

Since investment returns are not high enough to put us back on the course to full funding, and we cannot really control them anyway, and expenses are not significant enough to have any effect on the equation, we must look at altering either “Contributions” or “Benefits”.

Benefits are difficult to change for current members and retirees. This bill, Senate Bill 2047, does reduce the “Benefits” sides of the equation, but only for new employees who begin employment after December 31, 2019. While current employees have a 2% benefit multiplier, if this bill passes, the benefit multiplier for new employees will go down to 1.75%. To help you see what this does to the retirement benefits for new employees, below is the formula for determining benefits:

$$\text{Benefit} = \text{Final Average Salary} \times \text{Years of Service} \times \text{Benefit Multiplier}$$

The effect of reducing the benefit multiplier by 0.25% is to decrease benefits for new employees by 12.5%. For example, if a current employee retires with 25 years of service and a final average salary of \$50,000, that person’s benefit would be the following:

$$\begin{aligned} \text{Benefit} &= \$50,000 \times 25 \times 2\% \\ \text{Benefit} &= \$25,000 \text{ per year} \end{aligned}$$

A new employee who retires with the same salary and years of service would have the following benefit:

$$\begin{aligned} \text{Benefit} &= \$50,000 \times 25 \times 1.75\% \\ \text{Benefit} &= \$21,875 \text{ per year} \end{aligned}$$

As you can see, the benefit is 12.5% lower than under the current benefit multiplier. That decrease is projected to improve the PERS plan’s funded ratio, and eventually get us to 100% funded in 2121.

While 2121 is still a long way off, it still gets us back on the course to full funding, which is essential for two very important reasons – member confidence, and GASB liability reporting. GASB stands for “Governmental Accounting Standards Board”. GASB

1
SB 2047
3-7-19

provides “statements” that provide guidance for governmental entities, like the state and its political subdivisions, on how to report certain things in their financial statements. In the past few years, GASB issued a statement that requires retirement plans that are not projected to ever reach 100% funding – like the PERS plan – to report their liabilities using a discount rate that is below those plans’ assumed rates of return. GASB calls that a “single discount rate”.

The problem with using that single discount rate is that the rate is significantly below our assumed rate of return – our assumed rate of return is 7.75%, and the single discount rate we had to use last year is 6.32%. Using a lower rate to determine our liabilities results in a significant increase in those projected liabilities: using the 7.75% rate results in the \$1.1 billion of unfunded liabilities I have already mentioned, whereas using the 6.32% rate results in almost \$1.7 billion in unfunded liabilities – a 50% increase.

GASB also now requires the state and its political subdivisions to report that higher unfunded liability figure in their financial statements. As a result, the pension liabilities that have to be reported in the financial statements are 50% higher than they would be if we were on the course to being 100% funded. That is causing a significantly negative impact on many of our participating political subdivisions’ financial statements. Those increased liabilities may also result in negative rating outlooks from the rating agencies, or even a reduction in the bond rating for your political subdivisions, increasing their cost of borrowing money.

Importantly, if this bill is passed, our actuary can take the increased funding into account when it performs the next actuarial valuation, and that single discount rate will move back to 7.75%. That, in turn, will significantly reduce the liabilities that the state and its political subdivisions must report, and may help their credit rating. That is one of the reasons it is imperative that we get back on the course to full funding as quickly as possible.

The second reason it is imperative that we get back on the course to full funding is to provide confidence to your employees and retirees that the retirement benefit that you have guaranteed them will be there when they need it. As I mentioned, right now the main PERS plan is projected to be insolvent by 2106. At that point, the plan will be a pay-as-you-go plan, and we will need biennial appropriations of hundreds of millions of dollars in order to pay retirement benefits.

Because Senate Bill 2047 does not affect the contributions into the PERS plans, there is no additional cost to employers. As such, there is no fiscal note for this bill. Yet with its passage, you will be able to guarantee the thousands of retirees across the state that they will continue to receive the benefits they were promised in exchange for their careers in public service, as you can see in the following map.

1
SB 2047
3-7-19

Annual Benefits 2017

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Out-of-State - \$23,452,715

In-State - \$145,530,719

Total - \$168,983,434

Please note that the reason PERS has a 2% multiplier is that it was the goal of the plan since the 1980's to provide a career employee (one with 25 years of service) a retirement benefit equal to 90% of final average salary when including social security. For the average employee, social security at retirement will provide approximately 40% of final average salary. With a 2% multiplier, PERS would provide 50% of final average salary, which totals to 90%. This was the long-term goal for all PERS retirement plans, and was for the TFFR plan as well. We reached this goal in the early 2000's. Several years later, the stock market had its most significant correction since the great depression, causing the funded status of the plan to start a downward trend.

The current multiplier is also part of a comprehensive benefits package that makes it easier for the state and its political subdivisions to recruit and retain employees. Reducing a benefit in that package is detrimental to both recruitment and retention. However, it is imperative that we get the main PERS plan back on the course to full funding. When the funded status of the plan dropped as a result of the dramatic drop in the financial markets, PERS presented a four-year recovery plan that would have put the plan on track to 100% funding. That plan was identical to the recovery plan proposed by TFFR, which was adopted. However, for PERS the Legislature only adopted 3 years of the 4 year plan. That was sufficient to stabilize the plan, but was not

#1
SB 2047
3-7-19

enough to put it on track to 100% like it was for TFFR. Consequently, to this point we have not been successful in getting approval for legislation that would get us back on the course to full funding. Because of that, the Board determined that it was best to make additional proposals that would not have a fiscal effect on our participating employers. This is one of those proposals.

In summary, the Employee Benefits Programs Committee, the NDPERS Board, the Legislative Assembly, and all of our members have worked together over the past eight years to try to come up with a way to get back on the course to full funding. While Senate Bill 2047 is not the perfect solution, it will help ensure that all of your hard work, and all of the contribution increases to date, finish the job you began in 2011, and set us back on the path to full funding of the retirement plan.

Thank you for all of your work and support in the past, and for your positive consideration of this Bill. With your leadership, we can again become fully funded.

#2
SB 2047
3-7-19



Great Public Schools

Great Public Service

**Testimony Before the House Government and Veterans Affairs Committee
SB 2047
Thursday, March 7, 2019**

Good morning, Chairman Kasper and members of the Committee. I am Nick Archuleta, president of North Dakota United. I am here this morning to urge a DO NOT PASS recommendation for SB 2047.

In my testimony earlier this morning, I relayed the recent state of our state employees. I told this committee that state and other public employees are working harder with less help as a result of the economic reality in which we find ourselves. I mentioned, too, that despite salaries that lag those in the private sector, state employees, and agency heads for that matter, see benefits – both health and retirement – as tremendous tools which serve to recruit and retain the very best public servants.

I also shared that our members and our organization cannot support legislation that results in fewer benefits for current and future public employees. SB 2047 is one such piece of proposed legislation. SB 2047 decreases the multiplier used in determining an employee's retirement benefit from 2% to 1.75%. While this change will not affect current employees, it will affect those hired after December 31, 2019.

We believe that when potential employees consider their career choices, benefits matter. When potential employees understand that they will earn less in public service than their counterparts in the private sector and then realize that their retirement benefits will be less than those of the colleagues with whom they work, they will choose a career outside of public service. SB 2047, then, provides a disincentive to work for the state or other public entities. For that reason, I urge a DO NOT PASS recommendation for SB2047.

Thank you, Chairman Kasper and members of the Committee. I stand for any questions.



City of Grand Forks

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#3, SB 2047
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3-7-19

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**TESTIMONY ON SENATE BILL 2047
Government and Veterans Affairs Committee
March 7, 2019**

**Tangee Bouvette, Compensation & Benefits Administrator
City of Grand Forks, ND**

Mr. Chairman and members of the committee, my name is Tangee Bouvette, and I am the Compensation & Benefits Administrator for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express my opposition to this legislation.

The NDPERS retirement system is an excellent defined benefit pension plan and a key recruitment and retention tool for the City of Grand Forks as well as numerous other local government entities, in addition to the State.

The City of Grand Forks, in general, has supported the NDPERS plan and its efforts to become fully funded. The City supports current legislation to increase contribution rates and has supported past legislation to increase contribution rates over the last 10 years.

Conversely, the City of Grand Forks is against Senate Bill 2047 which would reduce the pension multiplier from 2.0% to 1.75% for employees starting on or after 1/1/2020. The impact of this bill would effectively reduce pension benefits for employees hired after 12/31/2019 by twelve and a half percent (12.5%). The City of Grand Forks believes this sudden and dramatic decrease in the value of this benefit would have a negative impact on recruitment as well as retention for not only the City of Grand Forks, but all local government entities who offer this benefit. This change would disrupt the benefit equity between current and future employees.

The City supports making incremental funding changes to the NDPERS plan and monitoring funding every two years, but is compelled to contest reducing the value of this benefit to future employees. It is for these reasons the City of Grand Forks opposes Senate Bill 2047.

Thank you for your consideration.



Att 1
SB 2047
4/1/19

October 24, 2018

Representative Mike Lefor, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: North Dakota Public Employees Retirement System Legislative Studies – Provisions from Bill No. 19.0130.02000 – Without Sunset Provision upon attainment of 100% funding

Dear Representative Lefor:

In accordance with your request, we have analyzed the impact of provisions from Bill No. 19.0130.02000 on the North Dakota Public Employees Retirement System (NDPERS).

Systems Affected:

North Dakota Public Employees Retirement System (PERS)

Summary:

Bill No. 19.0130.02000 (Affects PERS including the Main System and Public Safety Plans, except the Judges System)

1. For members first enrolled prior to January 1, 2020, the benefit accrual rate equals 2.00%;
2. For members first enrolled after December 31, 2019, the benefit accrual rate equals 1.75%.
3. The benefit accrual rate for prior service benefits equals 2.00% for all members.

This analysis is based on projections of the actuarial valuation results for the Main System of the North Dakota Public Employees Retirement System (NDPERS) based on the actuarial valuation as of July 1, 2018, and providing benefits based on a lower benefit accrual rate of 1.75% for Main System and Public Safety members first enrolled after December 31, 2019.

Actuarial Impact of Bill 130 on PERS

This letter contains the actuarial impact of Bill 130 on the Main System and the Public Safety systems. Under the PERS baseline projection, which assumes (1) no changes to benefit provisions and (2) no gains or losses and all actuarial assumptions from the actuarial valuation as of July 1, 2018 are realized, the funded ratio of PERS is not projected to reach 100%. The funded ratio is projected to increase to 78.2% in 2033, remain at 78.2% until 2038, and decrease thereafter.

AH 1
SB 2047
4/1/19

Under the alternate scenario projection with the provisions proposed in the Bill No. 19.0130.02000, which assumes (1) the benefit accrual rate for Main System and Public Safety members first enrolled after December 31, 2019 is 1.75% (compared to an accrual rate of 2.00% for members enrolled before January 1, 2020) and no other changes to benefit provisions and (2) no gains or losses and all actuarial assumptions from the actuarial valuation as of July 1, 2018 are realized, the funded ratio of PERS is projected to reach 100% in 2087.

Under North Dakota Century Code Section 54-52-06.5, effective July 1 following the first actuarial valuation of the PERS Main System that show a funded ratio of 100% or higher (based on the actuarial valuation of assets), the members and employer contribution rates must be reduced to the rate in effect on July 1, 2013. Employee contribution rate was 6.00% and employer contribution rate was 6.12% on July 1, 2013.

Scenario	Discount Rate (Liabilities)	Benefit Accrual Rate for Main System and Public Safety Members Enrolled After December 31, 2019	Rate of Return on Assets	Funded Ratio in 2048	Year 100% Funded Status is Achieved
Baseline - July 1, 2018 Valuation	7.75%	2.00%	7.75%	77.7%	NA
Alternate Scenario	7.75%	1.75%	7.75%	82.5%	2087

Based on the current employee and employer contribution rates, current benefit provisions and assuming that all actuarial assumptions are realized in the future, a single (blended) discount rate (SDR) of 6.34% was used for PERS for GASB 67 for fiscal year ending June 30, 2018, and for GASB 68 for fiscal year ending June 30, 2019. This is based on a projected crossover year of 2061 and a long-term expected rate of return of 7.75% for PERS.

Based on providing benefits at a lower benefit accrual rate (1.75% compared to an accrual rate of 2.00% for members enrolled before January 1, 2020) for Main System and Public Safety members first enrolled after December 31, 2019, no crossover year is projected based on the results of the actuarial valuation as of July 1, 2018, which results in a SDR of 7.75%. However, because the funded ratio isn't projected to reach 100% until 2087 with the proposed benefit changes, future unfavorable experience or future assumption changes may result in a crossover year and a SDR that is lower than the long-term expected rate of return in a future GASB 67/68 measurement.

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AH 2
SB 2047
4/1/19

PUBLIC EMPLOYEES RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

This memorandum provides information regarding the North Dakota Public Employees Retirement System (PERS) main system defined benefit retirement plan.

MAIN SYSTEM DEFINED BENEFIT PLAN

The Public Employees Retirement System main system defined benefit plan is funded from employer contributions, employee contributions, and investment earnings. Contributions are calculated based on a percentage of gross pay. From 1977 through 1989, the employer contribution was 5.12 percent of state employee salaries and the employee contribution was 4 percent. In lieu of state employee salary increases in 1983 and 1984, the state began to pay the 4 percent employee contribution. In 1989, the employer contribution was reduced by 1 percent and reallocated for a retiree health benefit credit. Since then, the employer and employee contributions have each increased by 3 percent as shown below.

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

¹The state pays 4 percent of the employee share of retirement contributions.

Benefit Levels and Recent Changes in Benefit Calculations

Members of the main public employees retirement plan are eligible for a normal service retirement benefit at age 65. For employees hired prior to January 1, 2016, employees are also eligible for retirement when age plus years of service is equal to 85 (commonly known as the "Rule of 85"). For employees hired on or after January 1, 2016, employees are eligible for retirement when age plus years of service is equal to 90 (commonly known as the "Rule of 90"). Retirement benefits under the defined benefit plan are calculated using the following mathematical formula provided in North Dakota Century Code Section 54-52-17(4).

<p>Final average salary¹ x benefit multiplier (2%)² x years of service credit³ = monthly single life retirement benefit.</p> <p>¹For employees who retired prior to August 1, 2010, the final average salary was the average of an employee's highest salaries in 36 of the last 120 months worked. For members who terminate employment on or after August 1, 2010, it is the average of the employee's highest salaries in 36 of the last 180 months worked.</p> <p>²The benefit multiplier is the rate at which benefits are earned. The current benefit multiplier is 2 percent.</p> <p>³The service credit is the amount of public service an employee has accumulated under PERS for retirement purposes.</p>

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

Year	Benefit Multiplier	Change in Retirement Rule Levels
July 1977	1.04%	
July 1983	1.20%	
July 1985	1.30%	Rule of 90 established as an alternative for retirement eligibility
July 1987	1.50%	
July 1989	1.65%	
July 1991	1.69%	
August 1993	1.725%	
January 1994	1.74%	Rule of 90 changed to Rule of 88
August 1997	1.77%	Rule of 88 changed to Rule of 85
August 1999	1.89%	
August 2001	2.00%	
January 2016	2.00%	Rule of 85 changed to Rule of 90 for employees hired after December 31, 2015

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

Funded Ratio

The actuarial funded ratio is the percentage of retirement fund's actuarial value of assets to its actuarial accrued liabilities. The actuarial value of assets is determined by spreading market appreciation or depreciation over 5 years. This procedure results in recognition of all changes in market value over 5 years.

Att 2
SB 2047
4/1/19

The schedule below shows the actuarial assets and liabilities of the main system defined benefit plan since 2000.

Year	Actuarial Assets	Actuarial Liabilities	Actuarial Surplus or (Unfunded Liability)	Actuarial Funded Ratio
2000	\$1,009,744,796	\$879,189,877	\$130,554,919	114.8%
2001	\$1,096,115,648	\$993,851,809	\$102,263,839	110.3%
2002	\$1,129,697,099	\$1,087,003,336	\$42,693,763	103.9%
2003	\$1,145,284,302	\$1,170,477,887	(\$25,193,585)	97.8%
2004	\$1,172,258,036	\$1,250,849,240	(\$78,591,204)	93.7%
2005	\$1,210,287,848	\$1,333,491,341	(\$123,203,493)	90.8%
2006	\$1,286,478,642	\$1,450,113,412	(\$163,634,770)	88.7%
2007	\$1,470,367,098	\$1,575,666,628	(\$105,299,530)	93.3%
2008	\$1,571,159,912	\$1,700,171,588	(\$129,011,676)	92.4%
2009	\$1,577,552,012	\$1,861,032,305	(\$283,480,293)	84.8%
2010	\$1,576,794,397	\$2,156,560,553	(\$579,766,156)	73.1%
2011	\$1,603,718,656	\$2,284,199,019	(\$680,480,363)	70.2%
2012	\$1,579,933,179	\$2,442,299,210	(\$862,366,031)	64.7%
2013	\$1,632,915,720	\$2,650,525,018	(\$1,017,609,298)	61.6%
2014	\$1,837,902,845	\$2,866,511,290	(\$1,028,608,445)	64.1%
2015	\$2,027,476,214	\$2,976,071,808	(\$948,595,594)	68.1%
2016	\$2,180,748,616	\$3,299,381,100	(\$1,118,632,484)	66.1%
2017	\$2,529,631,008	\$3,618,083,973	(\$1,088,452,965)	69.9%
2018	\$2,752,053,305	\$3,841,701,179	(\$1,089,647,874)	71.6%