19.0720.02000

FISCAL NOTE
Requested by Legislative Council
02/04/2019

Amendment to: SB 2227

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	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$0	$265,000,000	$0	$0
Appropriations	$0	$0	$0	$265,000,000	$0	$0

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	$0	$0	$0
Cities	$0	$0	$0
School Districts	$0	$0	$0
Townships	$0	$0	$0

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

The bill transfers $265 million from the strategic investment and improvements fund to the retirement fund.

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

The office of management and budget shall transfer the sum of $265,000,000 from the strategic investment and improvements fund to the public employees retirement fund during the biennium beginning July 1, 2019.

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.*

The office of management and budget shall transfer the sum of $265,000,000 from the strategic investment and improvements fund to the public employees retirement fund during the biennium beginning July 1, 2019.

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.*

The office of management and budget shall transfer the sum of $265,000,000 from the strategic investment and improvements fund to the public employees retirement fund during the biennium beginning July 1, 2019.
The $265 million transfer is included in the executive budget.

Name: Bryan Reinhardt
Agency: NDPERS
Telephone: 701-328-3919
Date Prepared: 01/20/2019

19.0720.01000

FISCAL NOTE
Requested by Legislative Council
01/12/2019

Bill/Resolution No.: SB 2227

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	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$3,907,740	$270,114,208	$5,210,320	$6,818,944
Appropriations	$0	$0	$3,907,740	$270,114,208	$5,210,320	$6,818,944

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	$0	$2,785,525	$3,714,034
Cities	$0	$1,695,514	$2,260,685
School Districts	$0	$3,277,272	$4,369,697
Townships	$0	$0	$0

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

The bill increases employee & employer retirement contributions by 1%; reduces the benefit multiplier and directs Retiree Health Insurance Credit contributions to the retirement plan for new employees; and transfers $265M from the strategic investment and improvements fund to the retirement fund.

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.*

Employer contributions would increase by 1% of payroll beginning January 2020.
The office of management and budget shall transfer the sum of $265,000,000 from the strategic investment and improvements fund to the public employees retirement fund during the biennium beginning July 1, 2019.

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.*

Employer contributions would increase by 1% of payroll beginning January 2020.
The office of management and budget shall transfer the sum of $265,000,000 from the strategic investment and improvements fund to the public employees retirement fund during the biennium beginning July 1, 2019.

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.*

Employer contributions would increase by 1% of payroll beginning January 2020.
The office of management and budget shall transfer the sum of $265,000,000 from the strategic investment and improvements fund to the public employees retirement fund during the biennium beginning July 1, 2019.
Appropriations for the 1% employer contribution increase and the $265 million transfer were included in the executive budget.

Name: Bryan Reinhardt

Agency: NDPERS

Telephone: 701-328-3919

Date Prepared: 01/20/2019

2019 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2227

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

SB2227
1/31/2019
#31881

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature : Pam Dever

Explanation or reason for introduction of bill/resolution:

Relating to public employees' retirement provisions; provide for a transfer.

Minutes:

Att # 1-Scott Miller; Att #2 –Joe Morrissette;

Chairman Davison: Let's open SB2227.

Sen. Dick Dever, Dist 32, Bismarck: This bill does what three other bills do plus adds $265 million from SIF funds. This would have to go to appropriations along with the one and one bill. The bill does four pieces. One involves the restoration of the pension plan, one increases the contribution rate on the employer's side and one employees side each by 1%. That is a continuation of the plan that began in 2011 which was supposed to increase each side by two and two. Prior to that the contribution rate was four and four. If the stock market hadn't plunged in 2008 and 09, the plan would have been maintained. (1.49) This bill would remove the health insurance credit for new employees. That provides $5/month per year of service. If you work for the state for 30 years, and then retired, they receive $150 credit toward their health insurance. The bill would reduce the multiplier on the pension plan only for new employees, from 2 to 1.7. Takes the number of years' times 1.7 time your average final salary and that is your pension. This bill would infuse $265 million into the plan. The projection is that we would be fully funded in 18 years. (3.32) There is a bill in the house to go to defined contribution plan, but that bankrupts the defined benefit plan. It is not right for a 20 – 30-year employee to get to retirement and have their plan reduced if we go to the defined contribution plan as proposed. (4.36) Any questions?

Chairman Davison: Testimony in support?

Scott Miller, Ex. Dir. N.D. Public Employees System (PERS): We had discussed 2046, 2047, and 2048. This bill is a combination of all three bills with the addition of $265 million cash infusion out of the SIF fund. (6.14) We have these bills because the PERS plan is underfunded. We are at 72% funded level and $1.1 billion short of assets to pay liabilities. 2009 we lost 24% out of our portfolio. We lost $500 million dollars. (see att#1) He discussed this attachment. We need to get back on track for two reasons. One, for member confidence and retiree confidence. (13.14) Second, from a governmental account standards board's perspective, since we are never expected to be 100% funded, we need to use that single

discount rate. We have to use a lower discount rate to figure our future liabilities. Now it is 6.32%. Our actuarial rate is 7.75%. The difference between the two is 1.5%. The liability looks a lot bigger. We are $1.1 billion underfunded. (14.08) Most political subs have to record as of last year, and they have 50% greater liabilities reported than before. So many look like they are in the red now. GASB (Governmental Accounting Standards Board) is the report. Than concluded my testimony. Any questions? (16.5)

Chairman Davison: What is the minimum that we would need to do as a state in order to meet the GASB requirements to reduce that $600 million liability off our statement?

Scott: In the retiree health insurance credit bill. Removing that gets us to 2118.

Chairman Davison: So if just the health credit bill passed, and no other bills passed, that would take care of the liability in regards to political subs?

Scott: Assuming all actual assumptions are met, correct.

Chairman Davison: Do you collect data regarding retirees telling you stuff?

Scott: I don't have data, just the phone calls I get.

Chairman Davison: I would tract that if I were you.

Sen. Shawn Vedaa: Is it possible to give employee an option to choose defined benefit or defined contribution?

Scott: It is possible to have both at the same time. We have a defined contribution here for the state. It is only available to non-classified employees. In 2013, the legislature opened it up to all new employees for 2013-2017. We had 3% of the 4400 new employees during that time frame choose the defined contribution plan. In 2017, the legislature gave the 3% as choice to go back to defined benefits if they wanted.

Chairman Davison: Any more testimony?

Joe Morrissette, OMB: I have nothing new to add. (see att# 2) I support this bill. Any questions?

Chairman Davison: More testimony? Any opposing?

Nick Archuleta, N.D. United: The defined benefit plan is held very sacred by the people I represent. They know this is a good tool to recruit employees. This should serve as a cautionary tail because this should have been fixed years ago. We did support the one and one increase.

Sen. Erin Oban: What is the best fix?

Nick: Our members did appreciate the governors fix. (25.15)
No more testimony so hearing was closed. (25.37)

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

SB2227
2/1/2019
31996

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature : Pam Dever

Explanation or reason for introduction of bill/resolution:

Relating to public employees' retirement provisions; provide for a transfer.

Minutes:

Att # 1 – Sen Davison

Chairman Davison: I have an amendment for SB2227. I gutted it other than on the last page, where section 9 is, and it becomes section 1. That is the transfer to the Office of Management and Budget shall transfer the sum of $265 million from the strategic investment fund to the public employee's retirement fund during the biennium July 1, 2019 and ending July 30, 2021. What are the committee wishes?

Vice Chair Meyer: I move to adopt amendment 19.0720.01001. **Sen. Erin Oban**: I second.

Chairman Davison: Any discussion? Take roll: YES -- 7 NO -- 0 -0-absent.

Vice Chair Meyer: I move a DO PASS as Amended and rerefer to Appropriations.

Sen. Shawn Vedaa: I second.

Chairman Davison: Discussion.

Sen. Erin Oban: (3.10) I can appreciate the efforts we are making to get this closer to fully funded. I just don't think this is the right amount given our budget situation. I feel the urgency is a bit dramatic. The only reason it would have to be fully funded today, if every single state employee decided to retire today. Happy to send it down to appropriations and let them decide. (3.44)

Chairman Davison: I agree with you. It is part of the governor's budget. We will let appropriations deal with it. Roll: **YES -- 7 NO -- 0 -0-absent**.

Chairman Davison will carry the bill.

(done – 5.01)

SB 1581

19.0720.01001
Title.02000

Prepared by the Legislative Council staff for
Senator Davison
February 1, 2019

PROPOSED AMENDMENTS TO SENATE BILL NO. 2227

Page 1, line 1, remove "amend and reenact section 54-52-02.9, subsection 2 of section 54-52-05,"

Page 1, remove lines 2 through 4

Page 1, line 5, remove "provisions; and to"

Page 1, line 5, after "transfer" insert "from the strategic investment and improvements fund to the public employees retirement fund"

Page 1, remove lines 7 through 24

Page 2, remove lines 1 through 31

Page 3, remove lines 1 through 29

Page 4, remove lines 1 through 31

Page 5, remove lines 1 through 31

Page 6, remove lines 1 through 31

Page 7, remove lines 1 through 31

Page 8, remove lines 1 through 31

Page 9, remove lines 1 through 31

Page 10, remove lines 1 through 12

Renumber accordingly

2-1-19

Date:
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2227

Senate Government and Veterans Affairs Committee

☐ Subcommittee

Amendment LC# or Description: 19.0720.01001

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. Meyer Seconded By Sen. Oban

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

Total (Yes) 7 No 0

Absent -0-

Floor Assignment _____

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

2-1-19

Date:
Roll Call Vote #: 2

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2227

Senate Government and Veterans Affairs Committee

☐ Subcommittee

Amendment LC# or Description: 19.0720.01001

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. Meyer Seconded By Sen. Vedaa

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

Total (Yes) 7 No 0

Absent -0-

Floor Assignment Chair Davison

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

REPORT OF STANDING COMMITTEE

SB 2227: Government and Veterans Affairs Committee (Sen. Davison, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2227 was placed on the Sixth order on the calendar.

Page 1, line 1, remove "amend and reenact section 54-52-02.9, subsection 2 of section 54-52-05,"

Page 1, remove lines 2 through 4

Page 1, line 5, remove "provisions; and to"

Page 1, line 5, after "transfer" insert "from the strategic investment and improvements fund to the public employees retirement fund"

Page 1, remove lines 7 through 24

Page 2, remove lines 1 through 31

Page 3, remove lines 1 through 29

Page 4, remove lines 1 through 31

Page 5, remove lines 1 through 31

Page 6, remove lines 1 through 31

Page 7, remove lines 1 through 31

Page 8, remove lines 1 through 31

Page 9, remove lines 1 through 31

Page 10, remove lines 1 through 12

Renumber accordingly

2019 SENATE APPROPRIATIONS

SB 2227

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2227
2/12/2019
Job #32583 (11:39)

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alice Delzer/ Meghan Pegel

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide for a transfer from the strategic investment and improvements fund to the public employees retirement fund. (PERS)

Minutes:

1. Testimony of Sharon Schiermeister

Chairman Holmberg called the committee to order on SB 2227. All committee members were present except Senator Dever. Becky Deichert, OMB, and Brady Larson, Legislative Council, were also present.

Joe Morrissette, OMB, testifies in favor

Morrissette: This bill started as part of the OMB draft for SB 2015. I testified in favor of it at that point. We felt like the accumulation of monies in the SIIF provided an opportunity to transfer that and address the unfunded liability. I still offer my support for that proposal.

(1:40) Sharon Schiermeister, Chief Operating Officer of NDPERS, testifies in favor (see attachment #1)

Chairman Holmberg: Because the prime sponsor of the bill is at a PERS meeting, we will not take action on this bill at this time.

Senator Sorvaag: Those numbers are based solely on this number and nothing else?

Schiermeister: Correct.

Chairman Holmberg: We have the two bills, 2046 and 2047, on the calendar. I don't know if they're going to do them today or not.

Senator Bekkedahl: I was under the impression from testimony from Scott Miller that if we did the 1% and 1%, that would take care of the GASB issue that we've discussed before.

However, the cash infusion is not required to make that GASB issue go away as well, is it? It's one or the other but not necessarily both?

Schiermeister: That is correct. Actually each of the bills that have been introduced to address the funding situation for the PERS plan, any one of them would put us on a path to becoming fully funded. The impact of passing more than one of those bills or the cash infusion would just bring that date to 100% funding sooner; it would accelerate it.

(7:05) Nick Archuleta, President of ND United, testifies in favor

Archuleta: I rise in support today on behalf of our members to encourage a do pass recommendation. I know that this is a very fluid situation, but it is important that our members' voice be heard in that we recognize the importance of a defined benefit retirement plan. Agency heads realize how important it is to recruit and retain highly skilled individuals to work for the state by having a benefit like a retirement plan that we have now. Any one of these things would change the trajectory and be helpful. We have supported the 1% and 1% increase as well. We're hopeful we can speed up that day where we're fully funded by passing this bill.

V. Chairman Wanzek: You were saying any one of these or a combination of these would get us to 100% funding. What if we did a mix of them? How did you come up with $265M? What if it was something less plus the other measures?

Schiermeister: We actually didn't come up with the $265M. That was something that was proposed through OMB and the governor's recommendation. We just used that to price it and have our actuary project.

V. Chairman Wanzek: but if we were to put some cash in addition to adopting some of the other measures, that could get us there as well, maybe even quicker.

Schiermeister: Yes, that's correct. One of the questions we had last week when we were talking about the retirement contribution increase, the question came up as to what would happen if instead of putting that in January 1st of 2020, we delayed that a year to 2021. We did check with our actuaries and they felt that would just delay us reaching our funded status by a year. All of that is very fluid; anything would be helpful.

Chairman Holmberg: I think all the members got an email about the actual impact and what the cost would be on the general fund if it went into effect January 1st of 2021. The challenge we have is if we put $40M here or put it into rural roads; those are the choices we have to wrestle with.

Chairman Holmberg closes the hearing on SB 2227.

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2227
2/14/2019
JOB 32759

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alice Delzer

Explanation or reason for introduction of bill/resolution:

A BILL for an Act RE: transfer from SIIf to the public employees retirement fund (PERS) (Do Not Pass)

Minutes:

No testimony submitted

Chairman Holmberg: Opened the hearing on SB 2227. All committee members were present. Brady Larson, Legislative Council and Stephanie Gullickson, OMB were also present. There was discussion regarding the transfer of money.

Senator Poolman: Moved a do not pass. 2nd by Senator Bekkedahl.

Senator Dever: exclaimed the reason he brought it up to the committee. Discussion followed regarding the TFFR.

Chairman Holmberg: We have a motion for a do not pass. Call the roll on a Do Not Pass. on SB 2227.

A Roll Call vote was taken. Yea: 14; Nay: 0; Absent: 0. Senator Dever will carry the bill.

The hearing was closed on SB 2227.

Date: 2-14-2019
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2227

Senate 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 Poolman Seconded By Bekkedahl

Senators	Yes	No	Senators	Yes	No
Senator Holmberg	✓		Senator Mathern	✓	
Senator Krebsbach	✓		Senator Grabinger	✓	
Senator Wanzek	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Poolman	✓				
Senator Bekkedahl	✓				
Senator G. Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Dever

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

REPORT OF STANDING COMMITTEE

SB 2227, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO NOT PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2227 was placed on the Eleventh order on the calendar.

2019 TESTIMONY

SB 2227

SB 2227
1-31-19
Att #1
pg 1

TESTIMONY OF SCOTT MILLER

Senate Bill 2227 – Combined NDPERS Funding Bills and $265 Million Cash Infusion

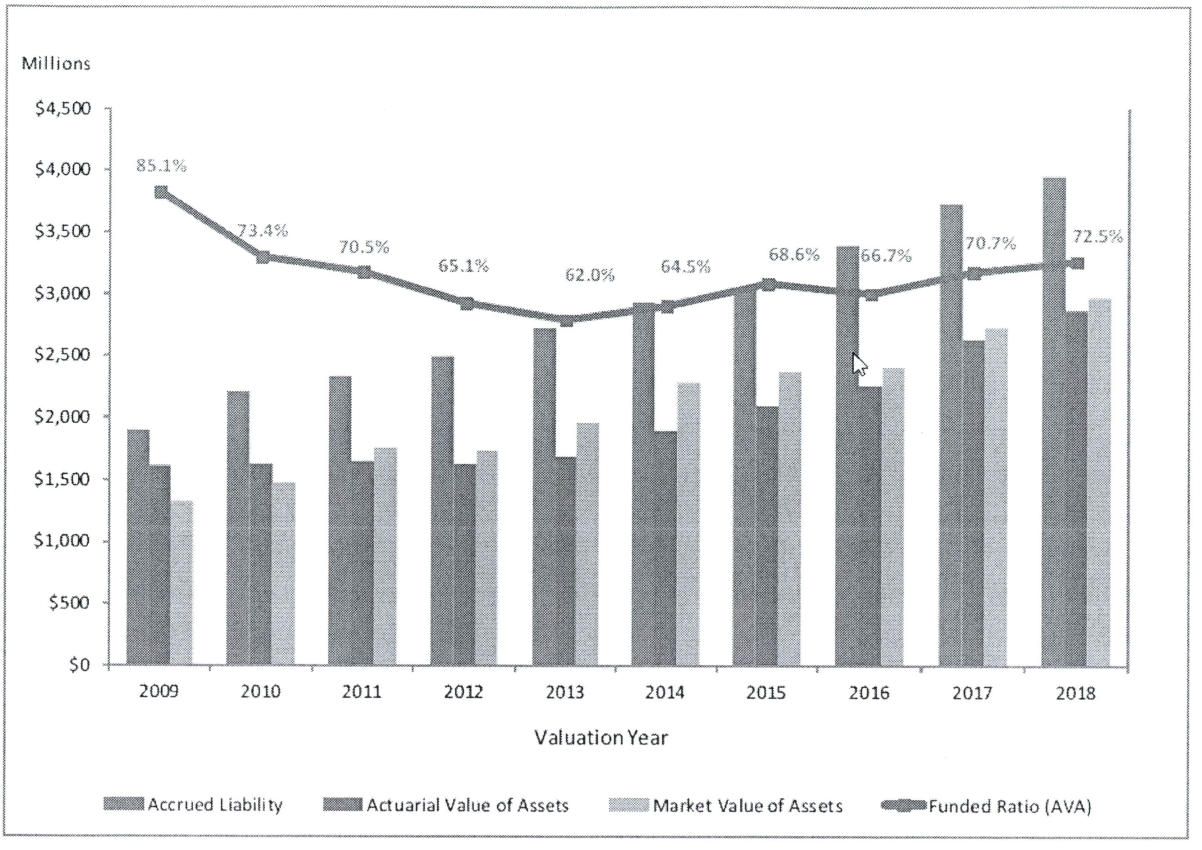
Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System. I appear before you today in support of Senate Bill 2227.

Senate Bill 2227 represents the Governor's plan to get the main PERS retirement plan back to 100% funded. The bill essentially combines Senate Bills 2046, 2047 and 2048, which are the three funding bills NDPERS submitted for Legislative consideration, and adds an additional, one-time cash infusion into the Main PERS plan of $265 million from the Strategic Investment and Infrastructure Fund. The Employee Benefits Programs Committee gave this bill a favorable recommendation, and the Executive Budget includes funding for both the contribution increase and the one-time transfer that are part of this bill.

As you may recall, these bills are necessary because the main PERS plan is underfunded, and is never projected to become fully funded. 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 Main 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.

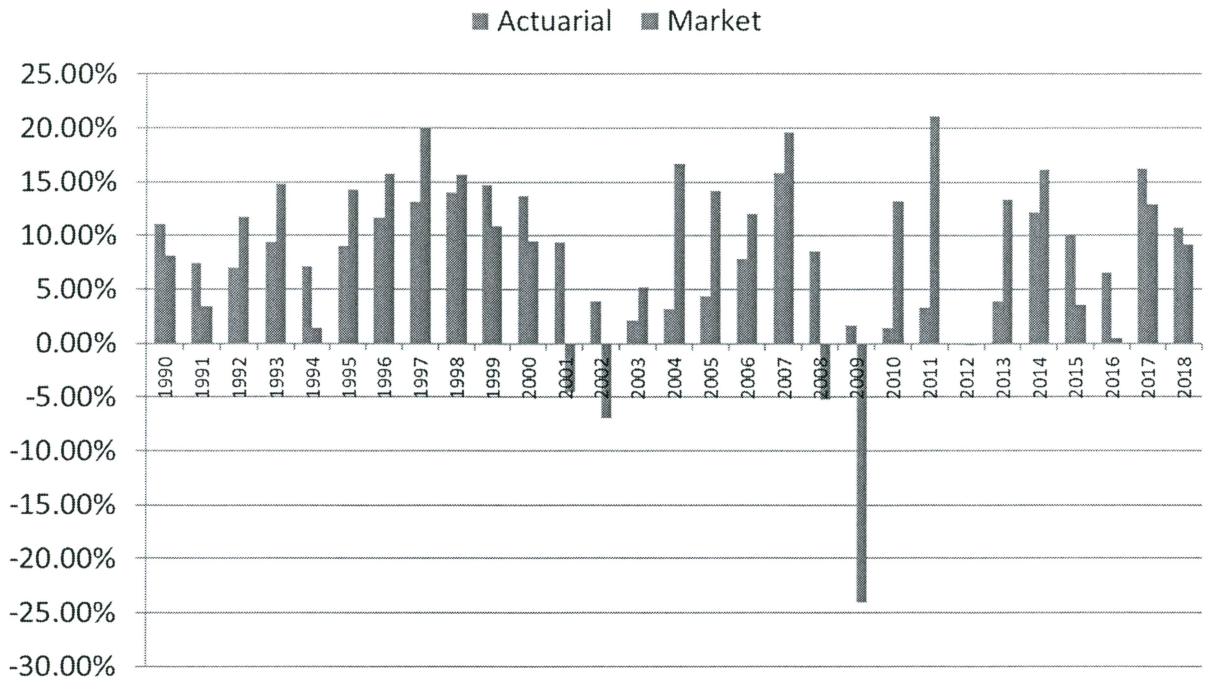
SB 2227
1-31-19
Att #1
Pg 2

You can see our funding path in the following graph.



SB 2227
1-31-19
Att #1
pg 3

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.



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:

Contributions + Investment Returns = ***Benefits*** + Expenses

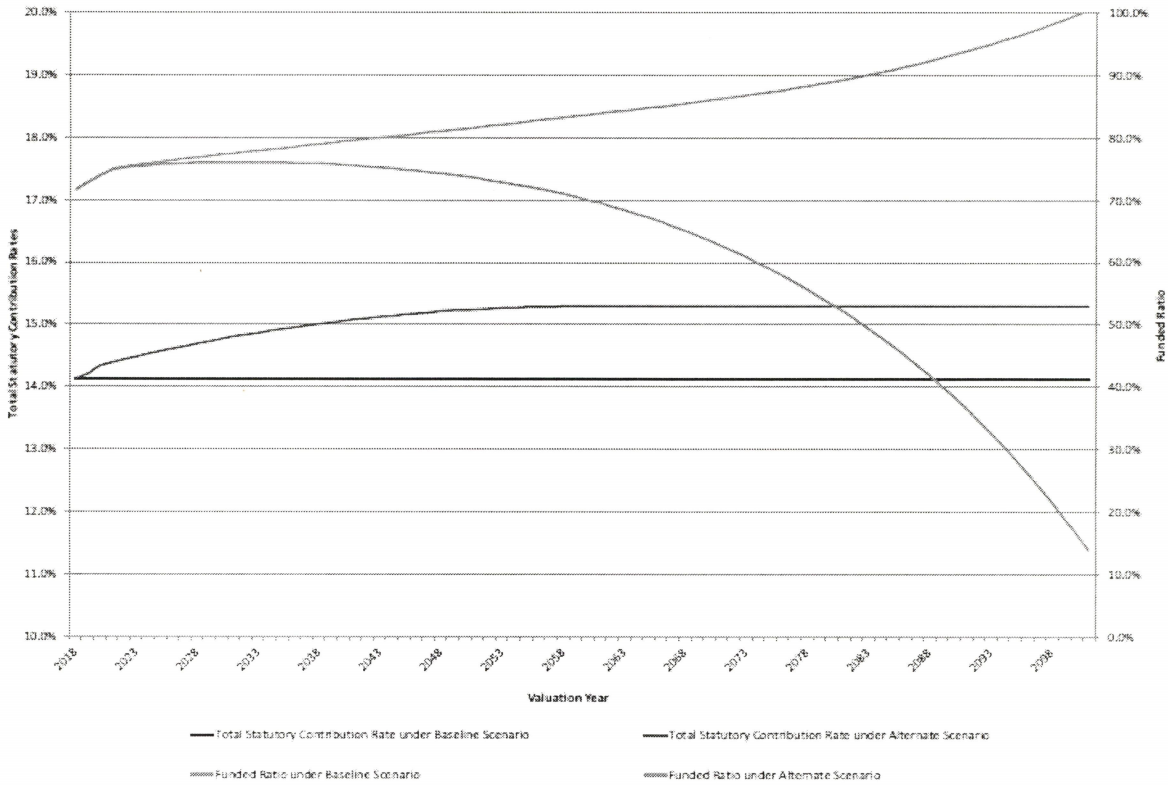
Since investment returns are not high enough to put us back on the course to full funding, and expenses are not significant enough to have any effect on the equation, we must look at altering either "Contributions" or "Benefits".

Senate Bill 2227 alters both "Contributions" and "Benefits", as provided for in Senate Bills 2046, 2047 and 2048. You heard testimony on those three bills on January 11th. I'll summarize the bills briefly below.

SB 2227
1-31-19
Att #1
pg 4

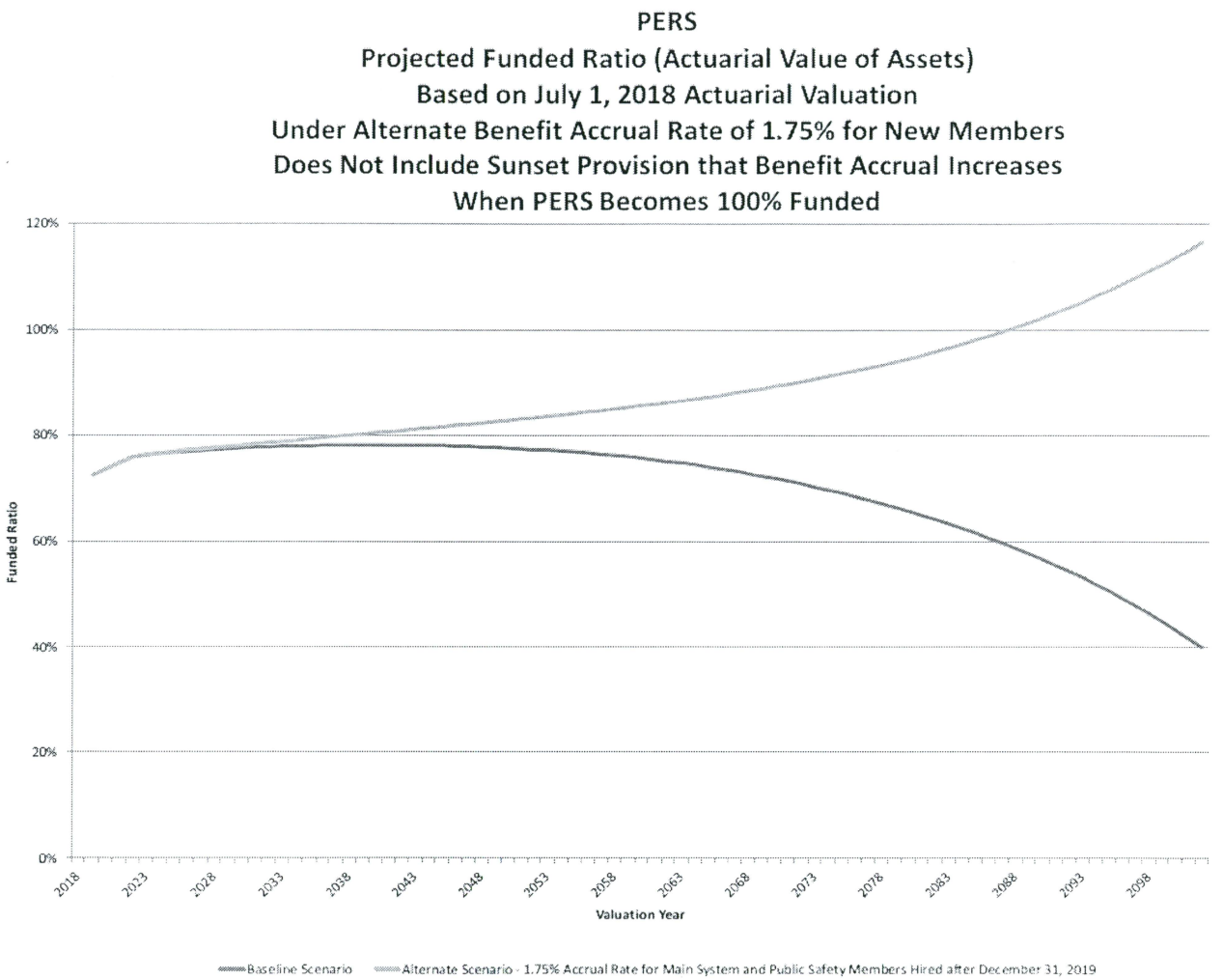
1. Senate Bill 2046 ends the Retiree Health Insurance Credit, or RHIC, for employees first hired after December 31, 2019. Employers will no longer submit the 1.14% contribution for those employees to the RHIC fund, but will instead submit that contribution to the Main NDPERS Defined Benefit (DB) Plan or, if the member is in the Defined Contribution (DC) Plan, to the DC plan. The actuarial result of this change can be seen below.

Main System Projected Funded Ratio (Actuarial Value of Assets) and Total Contribution Rates (Employee Plus Employer) Based on Actuarial Valuation as of July 1, 2018 Under Baseline and Alternate Scenario (Additional 1.14% Employer Contribution Rate for Members hired after December 31, 2019)



SB 2047
1-31-19
Att #1
Pg 5

2. 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 effect of this change can be seen below.



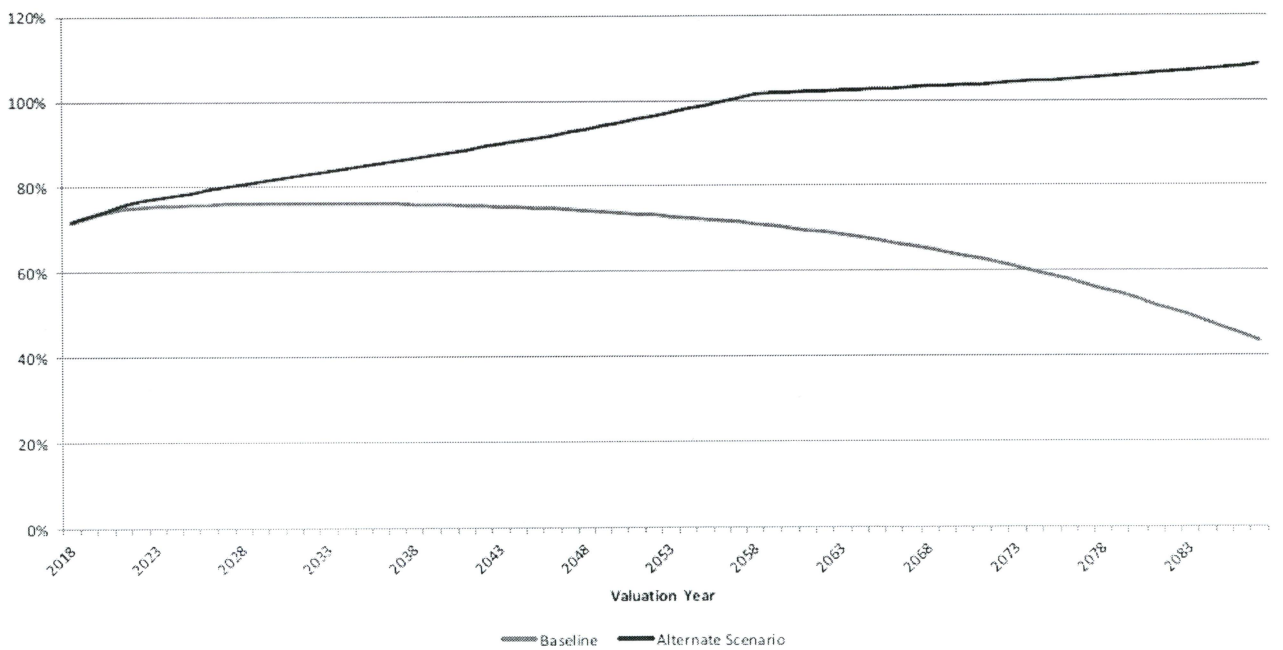
SB 2227
1-31-19
Att #1
pg 6

3. Senate Bill 2048 increases both the employer and the employee contributions into both the NDPERS Main Defined Benefit (DB) Retirement Plan and the Defined Contribution (DC) plan by 1% each. Temporary employees, who pay both the employee and the employer contribution, will see a 2% increase.

Employer:	7.12% → 8.12%
Employee:	7% → 8%
Temporary Employee:	14.12% → 16.12%

Senate Bill 2048 represents the fourth, and final, year of the four-year recovery plan for the NDPERS Main Retirement Plan which was originally proposed in the 2011 Legislative Session. The effect of this change can be seen below.

Main System Projected Funded Ratio (Actuarial Value of Assets)
Based on Actuarial Valuation as of July 1, 2018
Under Baseline and Alternate Scenario (Additional 1% Employee Contribution Rate and Employer Contribution Rate beginning January 1, 2020)



SB 2227
1-31-19
Att #1
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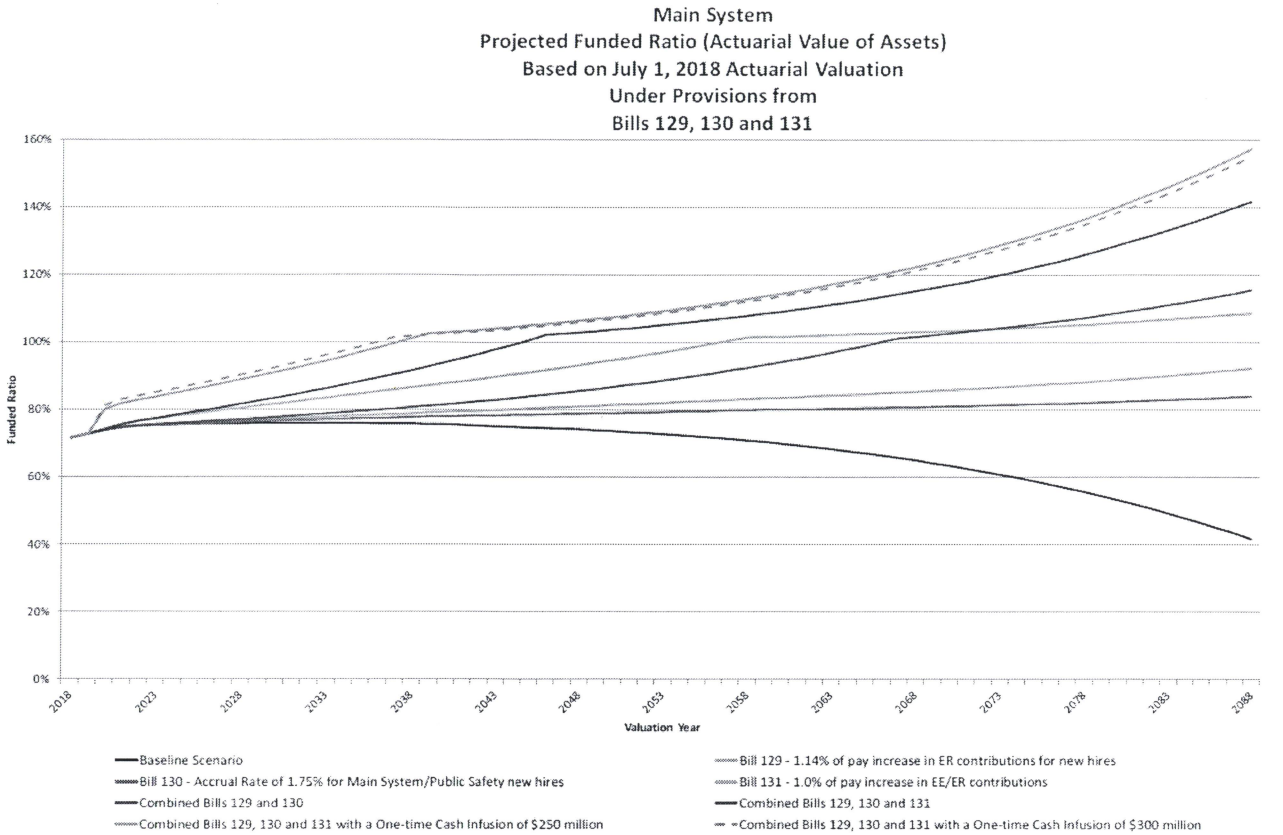
The three bills together have the following effect (the line third from the top). Note the graph also includes potential infusions of $250 and $300 million (the top two lines).



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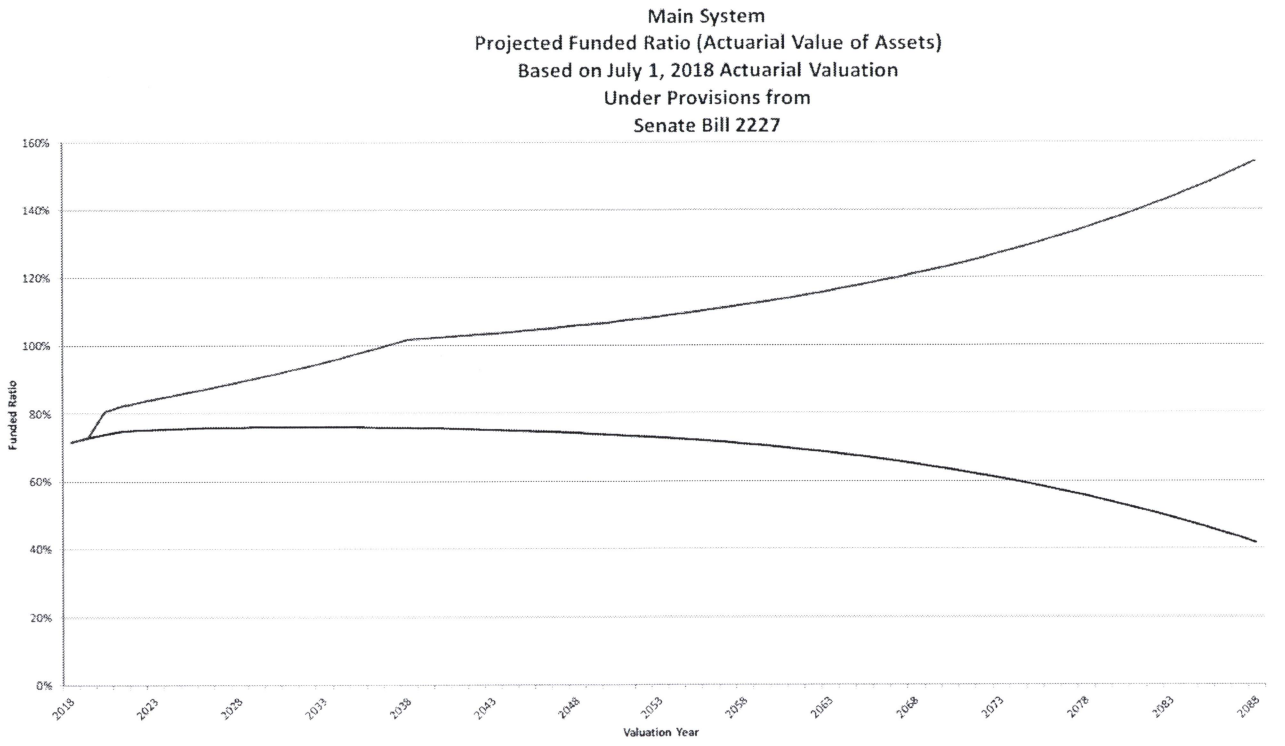
As I mentioned above, Senate Bill 2227 combines the effect of all three of these bills, and adds an additional cash infusion into the Main PERS plan of $265 million. The projected effect of Senate Bill 2227 is that we become fully funded in 2037, as can be seen in the graph below.



Without any additional effort to get the plan back on the course to full funding, the Main PERS plan is projected to become insolvent in 2106. At that point we will be a pay-as-you-go retirement plan, and will need hundreds of millions of dollars of appropriations every session in order to pay benefits. On the other hand, if you pass Senate Bill 2227, we are projected to become fully funded in 2037. That 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 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 main 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 fiscal 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%

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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. Keep in mind that your employees have paid just as much as your employers in an effort to shore up our system – every time the employer contribution increased one percent, the employees also contributed an additional one percent. That is the proposal in this bill, as well. Your employees have personally contributed to helping return NDPERS back to full funding. Passing this bill helps assure your employees that the work they have done, and the sacrifice they have made, was not for nothing. By passing this bill, 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.

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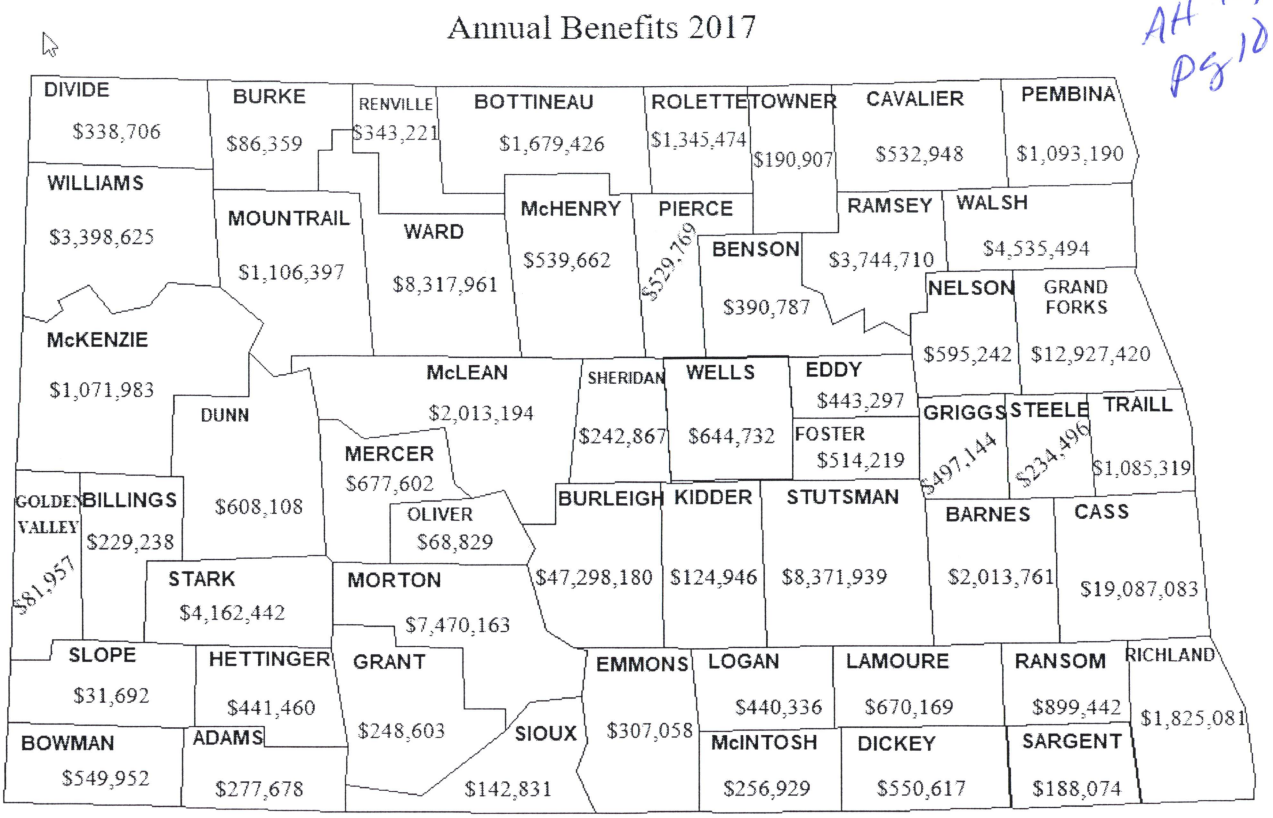

Out-of-State - $23,452,715

In-State - $145,530,719

Total - $168,983,434

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. Senate Bill 2227 represents the Governor's plan to get the main PERS retirement plan back to 100% funded by combining Senate Bills 2046, 2047 and 2048 and adding in an additional, one-time cash infusion into the Main PERS plan of $265 million. If passed, Senate Bill 2227 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.

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Testimony in Support of Senate Bill No. 2227
Joe Morrissette, Director
Office of Management and Budget
January 31, 2019

Chairman Davison and members of the Senate Government and Veterans Affairs Committee, I am Joe Morrissette, Director of the Office of Management and Budget. I am here to testify in support of Senate Bill No. 2227. This bill contains a combination of policy changes and a funding transfer that are part of the executive budget recommendation.

This bill combines retirement plan changes included in the following bills:

- Senate Bill 2046, relating to retiree health benefits.
- Senate Bill 2047, relating to the service benefit multiplier.
- Senate Bill 2048, relating to increased employer and employee contributions.
- A section from the appropriation bill draft submitted by the Office of Management and Budget for Senate Bill 2015, relating to a transfer of moneys into the public employees retirement fund.

The retirement plan changes included in this bill would:

- Close the retiree health benefit program for members enrolled after December 31, 2019.
- Redirect the 1.14% contribution currently made to the retiree health benefits fund to the public employees retirement system fund for members enrolled after December 31, 2019.
- Reduce the service benefit multiplier from 2% to 1.75% of final average salary for members enrolled after December 31, 2019.
- Increase employer and employee contributions by 1% each beginning January 1, 2020. This change will increase state compensation and benefit costs by $9 million for the 2019-21 biennium, which is included in the executive budget recommendation.

Section 9 of the bill authorizes a transfer of $265 million from the strategic investment and improvements fund (SIIF) to the public employees retirement fund during the 2019-21 biennium. Oil price and production levels have been significantly over forecast for much of the current biennium. As a result, the SIIF balance is expected to be over $800 million by the close of the biennium on June 30, 2019. This unanticipated accumulation of oil and gas tax revenues provides a unique opportunity to address the state's $1.1 billion unfunded pension liability. This proposed $265 million transfer has no impact on

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any legislative appropriation authorized by the 2017 legislature as the SIIF balance is more than $500 million higher than what was expected at the close of the last session.

The combination of these proposals would change the status of the state retirement fund from its current trajectory of decline to one that would have the plan fully funded by 2036. You have a unique opportunity to meet the state's pension obligation in an affordable and responsible way. The cost to meet this obligation will only get larger, the longer action is delayed.

Mr. Chairman and committee members, this concludes my testimony. I urge you to support Senate Bill 2227. I would be happy to answer any questions.

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Title.

Prepared by the Legislative Council staff for
Senator Davison
February 1, 2019

PROPOSED AMENDMENTS TO SENATE BILL NO. 2227

Page 1, line 1, remove "amend and reenact section 54-52-02.9, subsection 2 of section 54-52-05,"

Page 1, remove lines 2 through 4

Page 1, line 5, remove "provisions; and to"

Page 1, line 5, after "transfer" insert "from the strategic investment and improvements fund to the public employees retirement fund"

Page 1, remove lines 7 through 24

Page 2, remove lines 1 through 31

Page 3, remove lines 1 through 29

Page 4, remove lines 1 through 31

Page 5, remove lines 1 through 31

Page 6, remove lines 1 through 31

Page 7, remove lines 1 through 31

Page 8, remove lines 1 through 31

Page 9, remove lines 1 through 31

Page 10, remove lines 1 through 12

Renumber accordingly

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TESTIMONY OF SHARON SCHIERMEISTER

Engrossed Senate Bill 2227 – $265 Million Cash Infusion

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Good Morning, my name is Sharon Schiermeister. I am the Chief Operating Officer of the North Dakota Public Employees Retirement System. I appear before you today on behalf of the NDPERS board in support of Senate Bill 2227.

Senate Bill 2227 represents the Governor's plan to get the main PERS retirement plan back to 100% funded. The bill, as originally introduced, combined Senate Bills 2046, 2047 and 2048, which are the three funding bills NDPERS submitted for Legislative consideration, and added an additional, one-time cash infusion into the Main PERS plan of $265 million from the Strategic Investment and Improvements Fund (SIIF) during the 2019-2021 biennium. The Employee Benefits Programs Committee gave this bill a favorable recommendation. The bill before you today has been amended to only include the one-time cash infusion from the SIIF. The one-time transfer was included in the Executive Budget Recommendation.

This bill is necessary because the main PERS plan is underfunded, and is never projected to become fully funded. As you may recall, the global financial crisis of 2008-2009 caused historic losses in our investment portfolio – we lost 24% in 2009 alone. Those losses caused a significant reduction in our funded ratio – our funded ratio dropped 30% in just five years. 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. If no changes are made, the Main PERS plan is projected to become insolvent in 2106.

Engrossed Senate Bill 2227 provides for a one-time cash infusion of $265 million. Our actuaries estimate that the Main PERS plan would reach 100% funded status in 2088, assuming all of our actuarial assumptions are met, as can be seen in the graph below.

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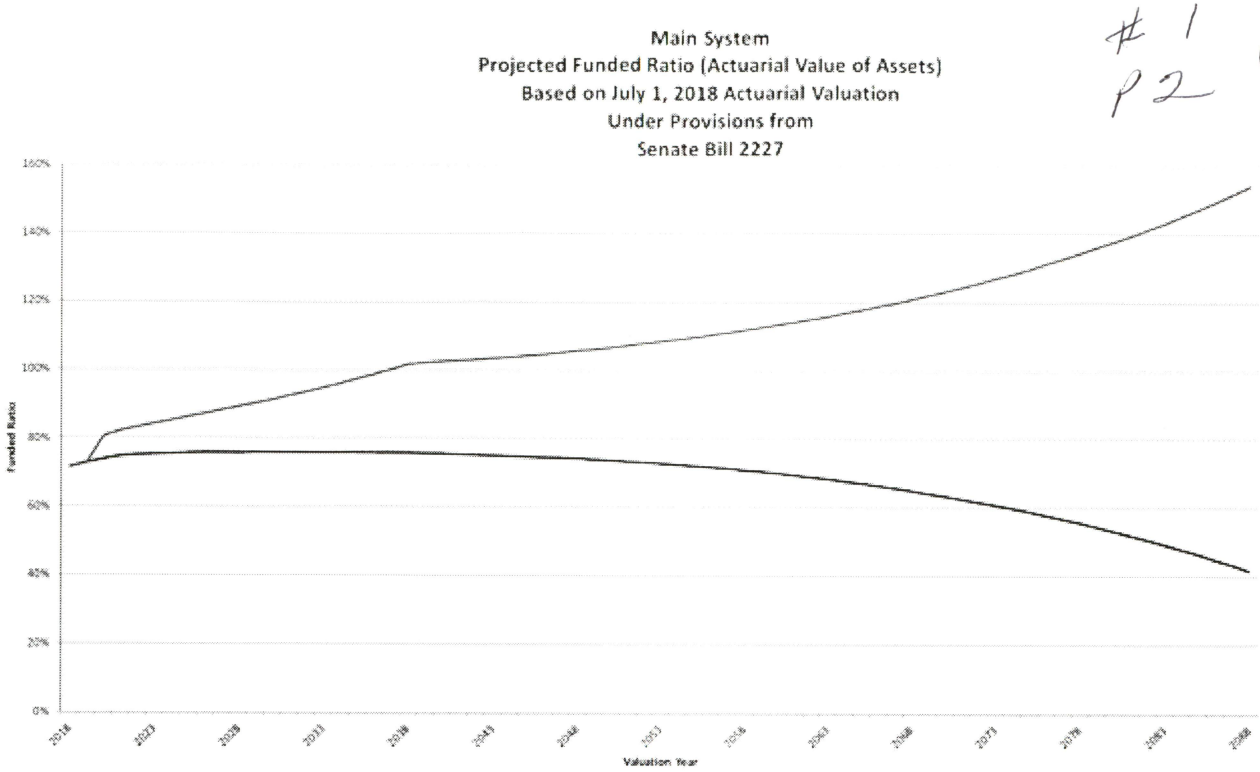

While 2088 is still a long way off, it still gets us back on the course to full funding, which is essential for two very important reasons – member confidence, and GASB liability reporting. GASB stands for "Governmental Accounting Standards Board". GASB provides "statements" that provide guidance for 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 DB 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 fiscal 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 $1.1 billion of unfunded liabilities, 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

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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.

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. If passed, Senate Bill 2227 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.