HISTORY OF RETIREMENT PLANS FOR STATE EMPLOYEES - 1947 THROUGH 1977

NORTH DAKOTA OLD AGE AND SURVIVOR INSURANCE (1947)

Prior to 1950 under federal law, state employees were ineligible to participate in the federal Social Security program. As a result, in 1947 the Legislative Assembly approved House Bill No. 182 (Appendix A) creating the North Dakota Old Age and Survivor Insurance System (OASIS) plan, which became effective on July 1, 1947. Section 52-09-02 of the *North Dakota Old Age and Survivor Insurance System Law of 1949* stated the purpose of the system was "to promote economy and efficiency in the public service by providing an orderly means whereby employees who become superannuated may, without hardship or prejudice be replaced by more capable employees, . . . improve public employment . . ., reduce excessive personnel turnover and offer suitable attraction to high grade men and women to enter public service in the state."

The OASIS plan was a contributory retirement plan for state, county, and other political subdivision employees. The plan excluded certain groups, including policemen, firemen, and teachers in public schools and colleges. The eligibility requirements for participants were similar to Social Security and included:

- A retirement age of 65.
- At least 40 quarters of employment with credible earnings in 6 of the last 12 quarters.
- Contribution rates to the plan beginning in 1947 were 1 percent of the first $3,000 of an employee's annual salary provided by the employee and 1 percent of the first $3,000 of an employee's annual salary provided by the employer. By 1955 the contribution rates had increased to 1.5 percent of the first $4,800 of an employee's annual salary provided by the employee and 1.5 percent of the first $4,800 of an employee's annual salary provided by the employer. The contribution rates for employees and employers were increased to 2 percent each on the employee's first $4,800 of an employee's annual salary for 1956 and 1957.

Retirement benefits were based on a percentage of an employee's average monthly wages and years of service.

An analysis of the OASIS plan prepared in 1956 by the Bureau of Business and Economic Research at the University of North Dakota for the Legislative Research Council concluded the plan had not accomplished its objectives and it could not be expected to do so. The basic features of the plan were not consistent with the objectives, and the plan should be changed. Furthermore, the report recommended the change should be structured to allow employees to participate in Social Security.

In 1950 Title II of the Social Security Act was amended by the addition of Section 218 to permit the extension of coverage to employees of the state but was limited to states with no existing retirement program, which voided the applicability for the state of North Dakota because of the OASIS plan. This exclusion was amended by the federal government in 1954 to allow a state-federal agreement where state employees could now become covered by Social Security, with or without a state retirement plan, when certain conditions were met. These conditions included:

- The state must authorize coverage.
- Existing employees covered by an existing retirement plan must elect, through a referendum, to be included in Social Security.
- The state must pay retroactive contributions to Social Security for each quarter of coverage earned by present employees after the effective date of the agreement and to the date on which the agreement was made.

In 1955 the Legislative Assembly passed House Bill No. 736, which enabled the state to make an agreement with the federal government. On December 20, 1956, Governor C. Norman Brunsdale called a referendum for all covered employees and allowed employees to choose coverage under Social Security rather than the OASIS plan.

The adoption of Social Security was intended as a benefit to both the state of North Dakota and its employees. The employees already receiving retirement benefits under the OASIS plan were allowed to continue in the OASIS plan. Additionally, any state employee that would have benefited more under the OASIS plan than Social Security was allowed to elect continuation in the OASIS plan.

By 1957 the state concluded the OASIS plan was not actuarially sound and could not function as a self-supporting plan. The accrued liabilities ($40,830,172) of the fund were in excess of the assets ($15,282,808), and the rate at which liabilities were accruing was far greater than the rate at which assets were accruing. To reverse this would have required changes not consistent with the objectives the OASIS plan was designed to promote. If the objectives of the plan to permit early retirement and reduce excessive turnover were accomplished, then the accomplishment would have rendered the plan insolvent.

In 1957 the Legislative Assembly approved Senate Bill No. 45, which closed the OASIS plan on July 1, 1957. The majority of employees had transitioned to Social Security as authorized by 1955 House Bill No. 736. Contributions necessary to fund the remaining participants in the OASIS plan were provided from an employer contribution of 4 percent of the first $4,800 of annual wages. The employer contribution percentage was changed by the Legislative Assembly during the periods from 1957 to 1966. From 1966 to 1989, provisions were in place that triggered the employer contributions on and off depending on the funding needs of the OASIS fund. The schedule below presents the contribution percentages.

Period	Employer Contribution Rate[1]
1957 to 1959	4%
1959 to 1961	3.5%
1961 to 1963	3%
1963 to 1966	2%
1966 to 1989	1% - Only as necessary

[1]Employer contributions were calculated on the first $4,800 of annual wages for each employee.

In 1989 the Legislative Assembly approved House Bill No. 1118, which discontinued the employer contribution after June 30, 1989. In 1999 the Legislative Assembly approved House Bill No. 1170, which repealed the employer contribution section. Any future funding requirements for the OASIS plan, for which the OASIS fund was not sufficient to pay, would be provided with appropriations through the general fund. The Legislative Assembly provided a $19,000 general fund appropriation in each of the 2005-07 and 2007-09 bienniums for paying remaining benefits under the OASIS plan.

MONEY PURCHASE PLAN (1965)

In the early to mid-1960s, North Dakota was one of only a few states remaining that did not offer a state retirement plan to its employees. There was no other retirement plan provided for state employees after the OASIS plan was closed, and most employees transitioned to Social Security in 1956 and 1957. In 1965 the Legislative Assembly approved Senate Bill No. 164 (Appendix B) creating the employees' retirement program, which became effective on July 1, 1966, structured as a money purchase plan (similar to a defined contribution plan). This plan only applied to state employees in 1966 but was amended in 1969 to include employees of counties, cities, and noncertified employees of school districts.

In 1966 the employer and employee contributions were fixed at 4 percent of salary with the employer's contributions being assessed only on the first $7,500 of annual wages. In 1969 contributions were assessed on the first $12,500 of each employee's annual wages, and in 1975 the amount increased to the first $15,000 of annual wages.

Contributions were fixed with the new money purchase plan, but the benefits varied. Each employee's monthly lifetime benefit payments were determined by the value of the employee's fund at the time of retirement.

The 1975-76 interim State and Federal Government Committee studied the feasibility of adopting a benefit formula retirement plan for state employees. The committee determined fluctuations in the market did not provide a reliable way for employees to determine their retirement benefits, which resulted in more risk and uncertainty to the employee. Based on an actuarial study conducted by Martin E. Segal Company, Inc., and other considerations, the committee recommended 1977 Senate Bill No. 2068 to change the Public Employees Retirement System from a money purchase plan to a benefit formula-type plan.

BENEFIT FORMULA PLAN (1977)

In 1977 the Legislative Assembly approved Senate Bill No. 2068 (Appendix C) creating the benefit formula retirement plan (a defined benefit plan), which became effective on July 1, 1977, and all members of the money purchase plan were covered under the new plan. This plan allowed members to receive credit for years of service prior to July 1, 1966--the effective date of the money purchase plan. As with the money purchase plan, the benefit formula plan required a 4 percent of salary benefit contribution for employees and a 5.12 percent of employee's salary benefit contribution for employers (with no employer maximum limit).

This new plan allowed employees to contribute a fixed percentage of their salary and receive a fixed benefit upon retirement. Testimony supporting the new plan indicated it was to provide increased benefits for long-term employees and give employees more security in retirement.

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