# TESTIMONY OF SCOTT MILLER

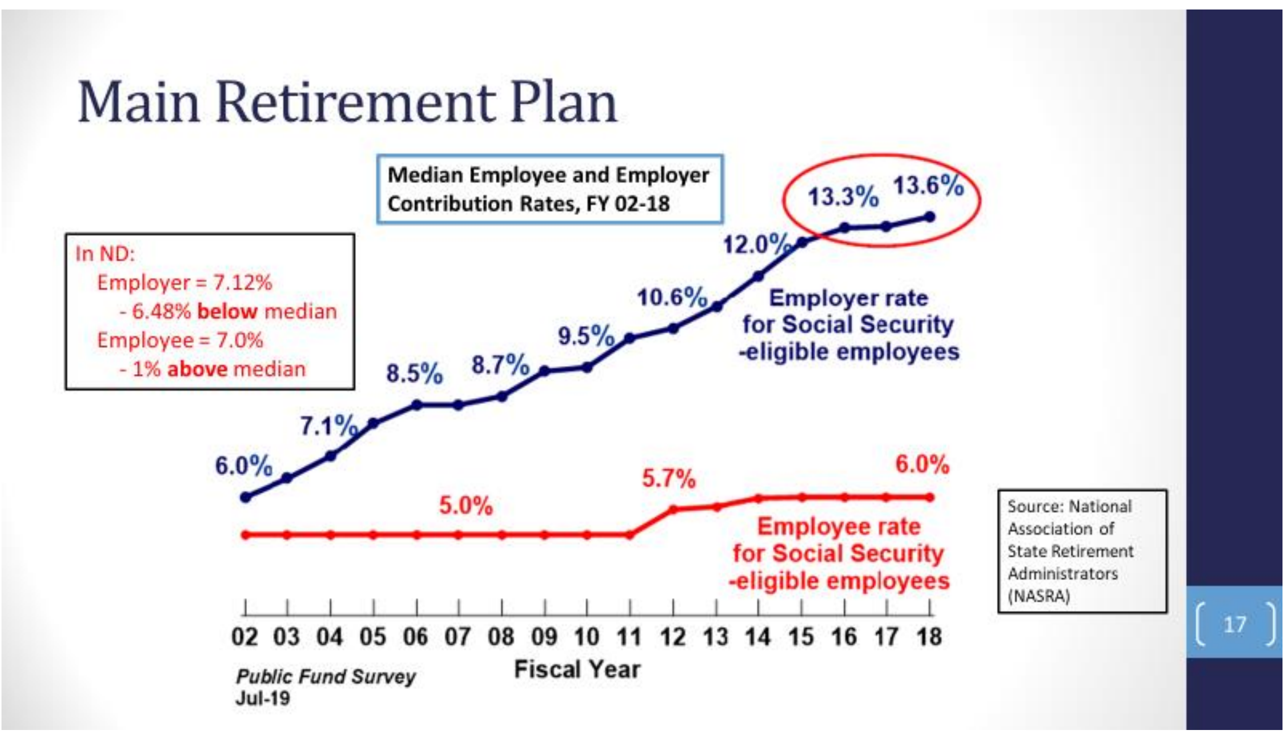
## Senate Bill 2046 – Fourth Year of the NDPERS Recovery Plan

Good Afternoon, 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 NDPERS Board in support of Senate Bill 2046. Note that the Employee Benefits Programs Committee gave this bill a favorable recommendation.

This is the fourth, and final, year of the four-year recovery plan for the NDPERS Main Retirement Plan that was originally proposed in the 2011 session. Senate Bill 2046 increases both the employer and the employee contributions into both the Main NDPERS Hybrid/Defined Benefit (DB) Retirement Plan and the Defined Contribution (DC) plan by 1% each, starting in January of 2022. Temporary employees, who pay both the employee and the employer contribution, will see a 2% increase.

- Employer: 7.12% → 8.12%
  - Main 2020 Employer: 8.26% → 9.26% (new employees)
- Employee: 7% → 8%
- Temporary Employee: 15.26% → 17.26%

For comparative purposes, the median employer contribution rate in other state-wide public retirement systems is 13.6%, and the median employee contribution rate is 6%.



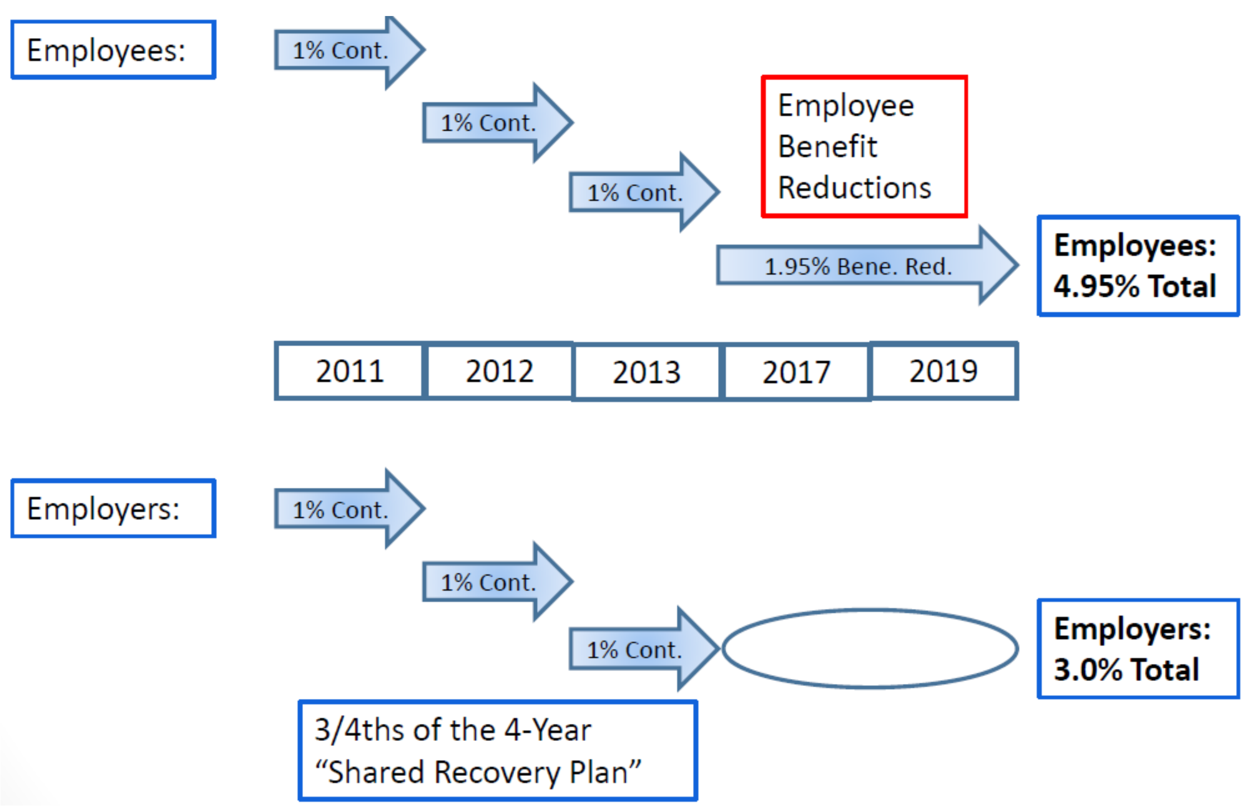
This bill is necessary because the main PERS plan is underfunded, and is never projected to become fully funded. In fact, we are projected to run out of money in our pension trust within the next 100 years. At that point we will become a pay-as-you-go system, requiring Legislative appropriations every biennium to make hundreds of millions of dollars of retirement payments.

It is not difficult to see how we got to this point. The tech bubble, the Global Financial Crisis, the pandemic; each of them affected our assets negatively. Unfortunately, our contributions have not kept up – we are now nearly six percent below the contribution rate our actuary has determined is necessary, or the "actuarially determined contribution" rate (ADC). Because of that, we have experienced actuarial losses every year due to contributions that were lower than the ADC rate – over the past ten years, we have had a contribution deficiency of more than $460 million.

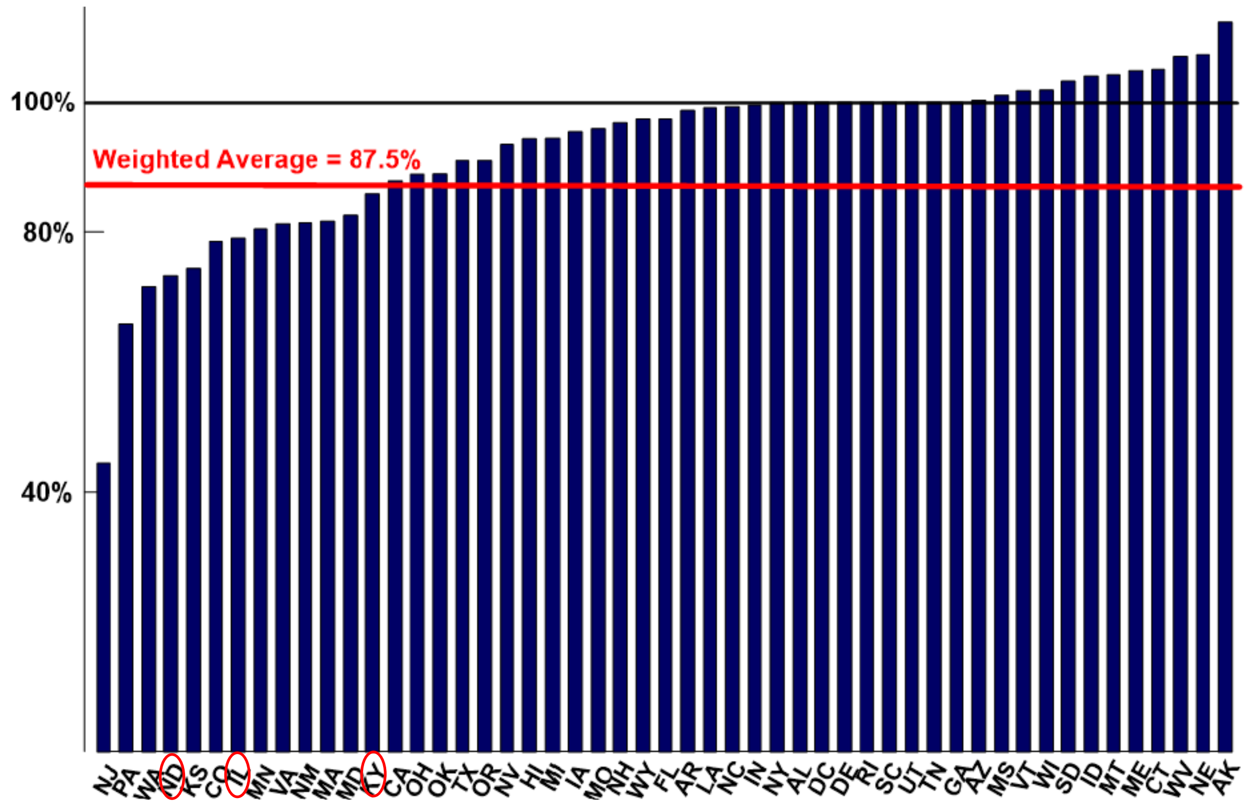
There are very few levers we can use to try to get the PERS plan back on the course to full funding. The general formula for funding a defined benefit retirement plan is below:

***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". We have tried pulling both of those levers over the past ten years, implementing both contribution increases and benefit reductions, as you can see below:

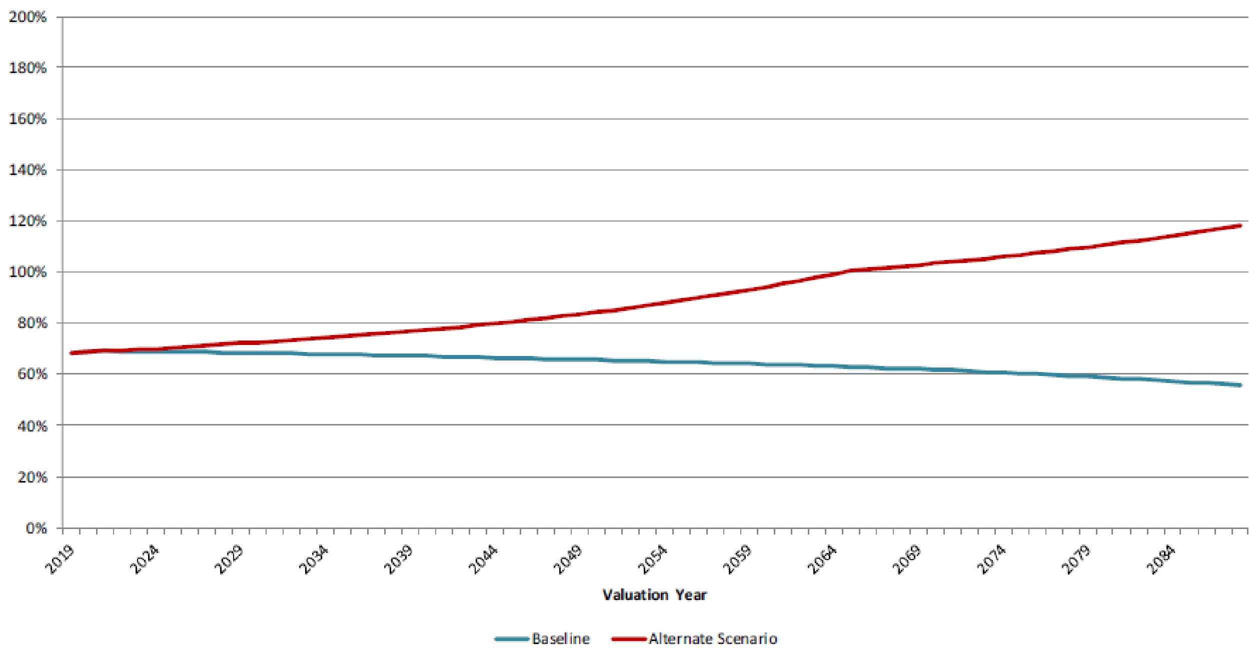


This bill, Senate Bill 2046, addresses the "Contributions" side of the equation. Our actuary has calculated that our statutory contribution rate is currently 5.78% below the ADC rate. That gives us the fourth-lowest percentage of ADC contributed to the plan in the country, according to the below graph from the National Association of State Retirement Administrators (NASRA). Note that we are below Illinois and Kentucky, two states that are experiencing even more dire funding problems.




While Senate Bill 2046 only increases contributions to the main PERS DB plan by a total of 2%, it is sufficient to get us back on the course to full funding. Our actuaries estimate that we would reach 100% funding by 2065 (based on the 2019 valuation), assuming all of our actuarial assumptions are met. That number is most likely after 2067 if based on our 2020 actuarial valuation.

**Main System Projected Funded Ratio as of July 1, 2019**
**Based on Updated Assumptions Adopted by the Board**
**Under Baseline and Alternate Scenario (1.00% Increase to Both Employee and Employer Contributions beginning January 1, 2022)**




Interestingly, when NDPERS first proposed the shared recovery plan back in 2011, had the Legislative Assembly approved all four years of increases at that time, we were projected to become fully funded in 2041. Now, seven years later, if SB 2046 is approved, we are not projected to become fully funded until 2067 – waiting just seven years to approve this additional increase has extended our funding horizon 26 additional years.

While 2067 is still a long way off, it still gets us back on the course to full funding, which is essential for the state's political subdivisions and their 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 governmental entities that have 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 7.0%, and the single discount rate we had to use last fiscal year is 4.64%. Using a lower rate to determine our liabilities results in a significant increase in those projected liabilities: using the 7.0%

rate results in $1.4 billion of unfunded liabilities, whereas using the 4.64% rate results in over $3.1 billion in unfunded liabilities – a 121% increase in the unfunded liabilities.

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 121% 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. That is one of the reasons it is imperative that we get back on the course to full funding as quickly as possible.

The cost of Senate Bill 2046 is not insignificant. However, keep in mind that without a legislative change, we will become an insolvent, pay-as-you-go system. The question becomes this: do you want to pay for this now, or do you want to pay a lot more for this later? Every day we wait makes it more expensive. The cost now is a small fraction of the hundreds of millions of dollars we will need from you every year in the future to make ongoing retirement benefit payments.

The Employee Benefits Programs Committee, the NDPERS Board, and the Legislative Assembly have studied the recovery plan in detail over the past ten years. Our members – your employees – played a significant role in developing the recovery plan. Every increase in the employer contribution was also an increase to your employees. On top of that, new employees are paying the same amount, but receiving a benefit that is significantly reduced. The final recovery plan contribution increase in Senate Bill 2046 will help ensure that all of your hard work, and all of the increases to date, finish the job you began in 2011, and set us back on the path to full funding of the retirement plan. It will also help ensure that we do not become like Illinois or Kentucky, both of which are in dire circumstances in part because they did not pay the actuarially determined contribution rate to their retirement plans.

Thank you for all of your work and support in the past, and for your positive consideration of this Bill.