

TESTIMONY OF

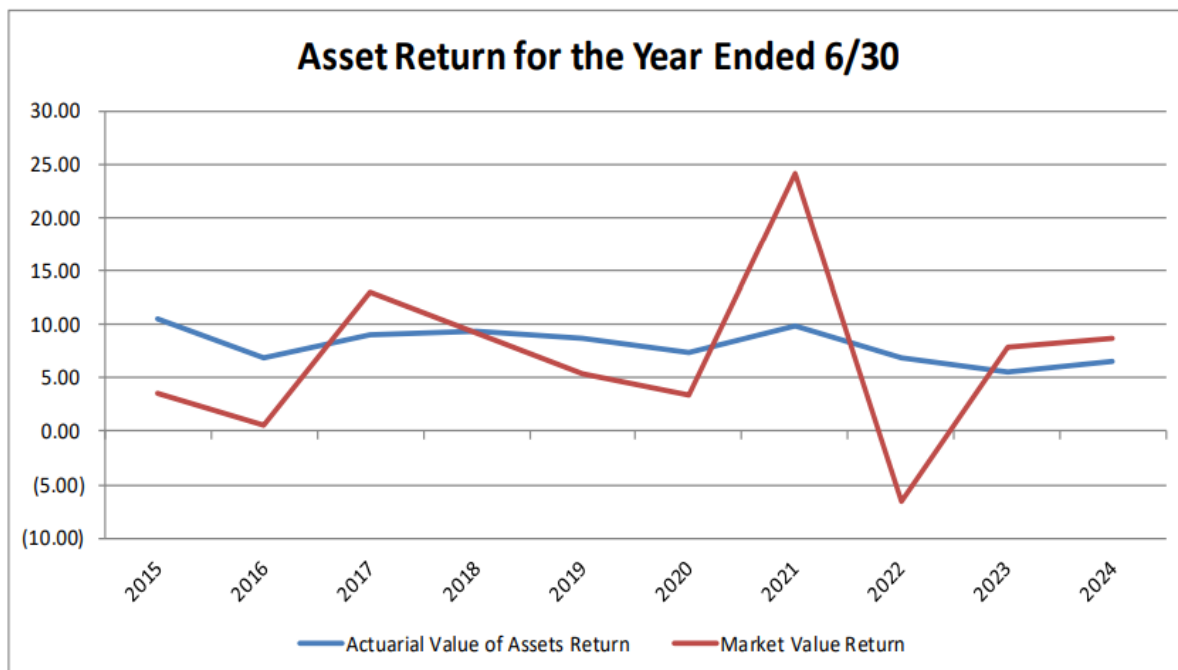
**CAPTAIN DEREK ARNDT, ADMINISTRATIVE SERVICES COMMANDER**

Hello, Chairman Schauer and members of the Committee. My name is Captain Derek Arndt, and I serve as the Administrative Services Commander of the North Dakota Highway Patrol. We are supportive of Senate Bill 2120 which includes a cash infusion to bring the highway patrol's retirement system to a funded ratio of 90% by January of 2026.

We, as an agency, have been following this bill closely as it is a large component of our agency's recruitment and retention efforts. The guaranteed monthly benefit, along with the disability and death benefits from the plan, ensure financial security for our employees and their families, making our organization a more attractive and stable place to work while also enhancing long-term employee well-being. As troopers do not pay into Social Security nor do they earn Social Security service credits while working for the North Dakota Highway Patrol, this further underscores the importance of a robust and sustainable defined benefit plan to provide retirement security.

Related to the funds expected rate of return on investments, the most recent adjustment to the investment return assumption was a reduction from 7% to 6.5% effective July 1, 2022. This rate was previously lowered from 7.5% to 7% effective July 1, 2020.

The actual rate of return has fluctuated, and the actuary factors a five-year smoothing average. The current five-year rate is 6.5%. The chart below from the last actuarial valuation indicates actual returns compared to the smoothing average.



There have been changes implemented to help improve the funded ratio. During the 2021 legislative session, 0.5% employee and employer contribution increases were authorized over a four-year period for a total increase of 4% by January of 2025.

The actuary for PERS noted that contribution increases don't have much of an impact due to the low number of members in the plan. For example, the 2023 actuarial valuation indicated 144 active members, and the 2024 report indicated 167 active members.

During the 2023 legislative session, a \$3 million cash infusion from the motor carrier electronic permit fund was authorized. This was all special funding and has been factored into recent actuarial reports.

This bill was initially approved by PERS and was supported by the PERS Board. The Employee Benefits Programs Committee took jurisdiction of the bill during the interim. The goal is for the highway patrol to become self-funded. In the future, the actuarially determined employer contribution rate could be used to adjust rates up or down to ensure the fund remains fully funded.

I appreciate the committee's consideration of this bill, and I am happy to answer any questions you may have.