

TESTIMONY OF DERRICK HOHBEIN

House Bill 1146 – Main Defined Benefit Plan Cleanup

Good Morning, Madam Chair and members of the committee. My name is Derrick Hohbein and I am the Chief Operating/Financial Officer of the North Dakota Public Employees Retirement System, or NDPERS. I appreciate the committee taking the time to analyze House Bill 1146, which addresses some of the observations that were discovered with the closure of the Main Defined Benefit Plan. I am here today on behalf of the NDPERS Board to provide information in a neutral capacity so the policy makers are able to make an informed decision regarding the bill.

Section 1 and Section 3 are allowing political subdivision employers that are currently not participating in NDPERS the opportunity to join the NDPERS Defined Contribution plan, if they wish. Currently there is not an avenue for a political subdivision not already part of NDPERS to join the NDPERS Defined Contribution Plan; only those who were in the Main Defined Benefit Plan were transitioned into the Defined Contribution Plan.

Section 2, Section 4, and Section 6 are being proposed to address the 21 entities who meet the definition of a “state employer” and “state governmental unit”, but do not receive their appropriation authority through the Legislative process. These terms were used in House Bill 1040 but are not defined terms. It is our understanding these entities are funded through membership fees (as an example) of their participants. Our office had an observation that the Actuarially Determined Employer Contributions, “Spillover” contributions, and incentive payments may create budgetary hardships these entities may not be able to overcome. The following is a list of the employers that would be impacted by this clarification:

| Org Code ID | Org Name | Org Type | Employer Type | # of Total Employees | # of employees Eligible for Incentive |
|-------------|--|----------|---------------|----------------------|---------------------------------------|
| 020200 | Education Standards & Practice | Employer | State | 7 | 0 |
| 026100 | ND Board of Nursing | Employer | State | 12 | 4 |
| 042600 | State Board Of Law Examiners | Employer | State | 3 | 0 |
| 042700 | ND State Board Of Cosmetology | Employer | State | 4 | 4 |
| 042800 | ND State Plumbing Board | Employer | State | 6 | 0 |
| 060300 | Dairy Promotion Commission | Employer | State | 0 | 0 |
| 060700 | Milk Marketing Board | Employer | State | 3 | 1 |
| 060800 | ND Oilseed Council | Employer | State | 1 | 0 |
| 061400 | ND Corn Utilization Council | Employer | State | 2 | 0 |
| 061600 | State Seed Department | Employer | State | 23 | 9 |
| 062400 | Beef Commission | Employer | State | 4 | 3 |
| 062500 | ND Wheat Commission | Employer | State | 5 | 0 |
| 062600 | ND Barley Council | Employer | State | 1 | 0 |
| 066500 | State Fair Association | Employer | State | 10 | 9 |
| 071000 | Soil Conservation Committee | Employer | State | 0 | 0 |
| 090000 | ND State Board Of Accountancy | Employer | State | 2 | 0 |
| 090100 | ND Board of Medicine | Employer | State | 9 | 0 |
| 090200 | ND Board Of Pharmacy | Employer | State | 3 | 3 |
| 090600 | Real Estate Commission | Employer | State | 4 | 1 |
| 090900 | Electrical Board | Employer | State | 20 | 9 |
| 099503 | North Dakota State Board of Dental Examiners | Employer | State | 1 | 0 |
| | | | | 120 | 43 |

In addition, Section 2 gives the Legislature more flexibility in how to fund the Actuarially Determined Employer Contribution (ADEC), adding language that the Legislative Assembly can authorize lump sum cash infusions in lieu of charging State employers the ADEC rate for a given biennium.

Section 6 of the bill is reducing the employers that are responsible for paying the ADEC and "spillover" contributions. Because the state employer payroll is reduced, our actuary calculates the remaining payroll needs to be charged an additional 0.1% of pay to make up the difference, effective January 1, 2026. This impact has been analyzed and is included in the Fiscal Note that is attached to the bill.

Section 5 defines the investment options the Defined Contribution Plan should provide, including expanding the ability to offer out-of-plan annuity options.

Section 7 and Section 8 are being proposed as an emergency clause with a retroactive effective date of January 1, 2025 for Section 4, since these participants technically today could submit an application to move from the Defined Benefit Plan to the Defined Contribution Plan.

Madam Chair, I appreciate the committee taking the time to learn more about the impact this bill will have to our state. This concludes my testimony, and I'd be happy to answer any questions the committee may have.



January 10, 2025

Representative Austen Schauer, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

**Re: North Dakota Public Employees Retirement System Legislative Studies – Provisions from
Bill No. 25.0743.01000**

Dear Representative Schauer:

In accordance with your request, we have analyzed the impact of Bill No. 25.0743.01000 on the North Dakota Public Employees Retirement System (NDPERS). Our review is actuarial in nature; we are not attorneys and cannot provide legal advice.

Systems Affected

North Dakota Public Employees Retirement System (Main System and Defined Contribution Plan)

Summary

Bill No. 25.0743.01000:

- Allows political subdivisions not enrolled in NDPERS retirement to join the Defined Contribution Plan and offer it to their employees.
- Clarifies that participating employers who do not receive budgetary approval from the legislative assembly are not subject to the following "state governmental unit" provisions:
 - Actuarially Determined Employer Contributions (ADEC)
 - "Spillover" contributions to the Main System
 - Eligibility for the special DC transfer in the first quarter of 2025
- For purposes of implementing HB 1040, the employers who do not receive budgetary approval from the legislative assembly are to be treated the same as political subdivision employers.
- Adds out-of-plan options to the lifetime annuity options in the defined contribution plan.

Actuarial Impact of Bill 743

The cost impact calculated in this letter is based on the data for the Main System as of the July 1, 2024 actuarial valuation. The actuarial valuation data as of June 30, 2024 shows 121 employees in the 21 employer codes provided by NDPERS. Of the 121 employees, 119 employees were indicated to be State employees with pay of \$9,521,103.

Bill 743 is expected to have an impact on the actuarial accrued liability as of July 1, 2024 due to a change in the members that are expected to be eligible for the special DC transfer election window. We estimate this change will be immaterial and have not incorporated it into the expected impact of the bill.

The results under Bill 743 increase the expected 2026 payroll for the Political Subdivision employers and subsequently the expected employer contribution under the fixed contribution rate. When the fixed rate amount expected to be paid by political subdivision employers increases, the expected remaining obligation for State Employers decreases. However, because the state employer payroll is also reduced, the state employer contribution rate as a percent of pay increases slightly, from 14.46% of pay to 14.56% of pay.

The table below shows the development of the additional state contribution requirement expected to be needed based on the July 1, 2024 actuarial valuation. The additional state contribution requirement under the baseline scenario is 5.92 percent of total state payroll. Bill 743 increases the additional state contribution requirement to 6.02 percent of total state payroll.

| | Baseline | Bill 743 |
|---|----------------|----------------|
| Employer Contribution by Employer Type | | |
| Political Subdivisions (Fixed Rate) | 8.49% | 8.49% |
| State Employers (Remaining Obligation) | 14.46% | 14.56% |
| Political Subdivisions (Fixed Rate) \$ Amount | \$ 56,075,328 | \$ 56,887,471 |
| State Employers (Remaining Obligation) \$ Amount | \$ 107,539,811 | \$ 106,727,668 |
| Total \$ Amount | \$ 163,615,139 | \$ 163,615,139 |
| Contributions to be Made By State Employers | | |
| State Employer Contribution Rate | 14.46% | 14.56% |
| Projected Blended Fixed Rate | 8.54% | 8.54% |
| Additional State Contribution Requirement | 5.92% | 6.02% |
| Additional State Contribution Requirement \$ Amount | \$ 44,015,783 | \$ 44,104,055 |



Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

No impact.

- Competitiveness

Adding out-of-plan options to the lifetime annuity options under the defined contribution plan increases the number of annuity options available and the competitiveness of the plan.

- Benefits Equity and Group Integrity

No impact.

- Purchasing Power

No impact.

- Preservation of Benefits

No impact.

- Portability

Employees of employers who do not receive budgetary approval from the legislative assembly will no longer be eligible for the special DC transfer election window. Defined contribution plan benefits are generally more portable than defined benefit pension plan benefits.

- Ancillary Benefits

No impact.

- Social Security

No impact.

Funding Policy Issues

- Actuarial Impacts

As previously noted, the additional state contribution requirement will need to be increased slightly to cover the reduction in payroll for state employers contributing the ADEC. The bill will also reduce potential "spillover" contributions to the Main System.

- Investment Impacts

No impact.

Administration Issues

- Implementation Issues

No impact.

- Administrative Costs

The only administrative costs are related to the increase in employer contributions.

- Needed Authority

The bill appears to provide appropriate levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

- Integration

None.

- Employee Communications

No impact.

- Miscellaneous and Drafting Issues

No impact.

Disclosures and Additional Information

We have reviewed the bill and provided a policy issue analysis from our perspective as actuaries. However, the policy issue analysis should not be considered to be comprehensive and there may be additional benefits policy, administration issues or legal issues that are not discussed in this letter.

The signing actuary is independent of the plan sponsor.

Bonita J. Wurst and Abra D. Hill are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions.

Sincerely,



Bonita J. Wurst, ASA, EA, MAAA, FCA
Senior Consultant



Abra D. Hill, ASA, MAAA, FCA
Consultant

cc: Rebecca Fricke, NDPERS
Joshua Murner, GRS

