Does HB 1209 (North Dakota PERS ADEC Funding) Meet the Objectives for Good Pension Reform?

Objectives	Status Quo	HB 1209
Keeping Promises *Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees*	Uncertain	YES
Retirement Security *Provide retirement security for all current and future employees*	FOR SOME	IMPROVED
Predictability *Stabilize contribution rates for the long-term*	Yes *But Unsustainable	IMPROVED But RISK REMAINS
Risk Reduction *Reduce pension system exposure to financial risk and market volatility*	NO	IMPROVED But RISK REMAINS
Affordability *Reduce long-term costs for employers, employees*	NO	IMPROVED LONG-TERM *Cost will rise initially and then fall as debt amortize.
Attractive Benefits *Ensure the ability to recruit 21st Century employees*	FOR SOME *For long- term employees	N/A
Good Governance *Adopt best practices for board organization, investment management, and financial reporting*	YES	N/A

2021 NDPERS Solvency Proposal Analysis
by the Pension Integrity Project at Reason Foundation

Leonard Gilroy, Sr. Managing Director (leonard.gilroy@reason.org)
Raheem Williams, Policy Analyst (raheem.williams@reason.org)

Objectives	Status Quo	HB 1209
Keeping Promises	NDPERS does not have all the funds needed today to ensure promised benefits are paid in the future.	Adopting a funding policy based on actuarially determined (ADEC) rates would put NDPERS on a path to full funding and greatly reduce long-term risk.
Retirement Security	NDPERS is accumulating pension debt, meaning its members' retirement security faces long-term risk. Over 40% of new NDPERS members leave before vesting. Only 15% work long enough to earn a full pension.	HB 1209 increases contributions and ensures future rates align with actuarial recommendations that steer NDPERS toward a path of long-term solvency. However, the measure does not expand access to more portable retirement benefit design options for NDPERS members of shorter-term employment duration.
Predictability	Rates are predictable in the short-term, but for a problematic reason: contributions are set using rates fixed in law as opposed to the rates calculated by professional actuaries as being needed to keep NDPERS solvent, creating systematic underfunding.	Despite contributions rates varying more year-over-year to account for returns and missed assumptions, the state contributing to NDPERS on an actuarially determined basis would bring the total annual contributions closer to the level needed to fully-fund promised pension benefits. Current statutory rates fall 5.37% short of what actuaries say is needed.
Risk Reduction	The current assumed return of 7.0 has about a 55% probability of being achieved on average over the next 30 years.	Increasing contributions is a positive step towards long-term solvency, but additional future steps may be needed to address the plan's overall financial risk. NDPERS will continue to face market volatility, a lower-yield investment climate, and an assumed rate of return and discount rate that are likely higher than economic conditions would warrant.
Affordability	NDPERS unfunded liabilities generate major long-term costs through interest on the pension debt, creating fiscal pressures for employers.	HB 1209 will generate additional *near-term* contributions to pay off pension debt faster and reduce NDPERS unfunded liabilities and *long-term* costs if assumptions are accurate. The full effectiveness of this reform will be missed if experience does not meet actuarial assumptions. Lower returns could prevent this plan from achieving more affordability in the long-run, and interest costs could continue to be a problem.
Attractive Benefits	The current NDPERS benefit primarily supports those who stay for a full 30 years of service (unreduced retirement benefit), which only 15% achieve.	HB 1209 maintains the current benefit formula and does not address the recruitment or retention of younger, more mobile workers.
Good Governance	NDPERS generally is a well operated enterprise delivering high quality services.	HB 1209 does not address the plan's governing structure.

Leonard Gilroy, Sr. Managing Director (leonard.gilroy@reason.org)
Raheem Williams, Policy Analyst (raheem.williams@reason.org)