

TESTIMONY OF SCOTT MILLER

House Bill 1209 – Close the Defined Benefit Plan

Good Afternoon, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I am here to testify in opposition to House Bill 1209.

The NDPERS Board was fully supportive of the original version of HB 1209. In its original form, this bill increased the employer contribution to the Main PERS Defined Benefit/Hybrid (DB) plan to the “actuarially determined contribution rate”. That would have resulted in the plan becoming fully funded in 20 years.

As amended, we are not exactly sure what House Bill 1209 directs:

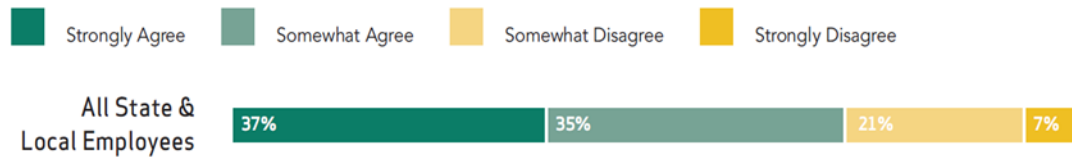
During the 2021-22 interim, the legislative management shall develop a plan for new hires under the public employees retirement system main system to participate in the defined benefit plan and to close the defined benefit plan to new entries effective January 1, 2024. Upon approval of the chairman of the legislative management, the study may use the services of a third-party contractor to assist in the study. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-eighth legislative assembly.

The bill first states that Legislative Management must develop a plan for new employees to participate in the DB plan. But the bill then states that Legislative Management’s plan must also close the DB plan to new employees on January 1, 2024. The end result appears to be that the DB plan would be closed on January 1, 2024, and new employees would not get a retirement plan.

Failing to offer a retirement plan to new employees would destroy state and political subdivision efforts to recruit and retain employees. I question whether anyone could dispute that. If that is what HB 1209 is actually proposing, this bill needs to fail. As the below graph shows, access to a retirement plan, and specifically a defined benefit pension plan, is far too important to our employees.

Figure 22: **Across professions, state and local employees overwhelmingly agree that a pension benefit is a major reason they chose a public sector job.**

To what extent do you agree or disagree with the following statement: A pension benefit is a major reason I chose a public sector job in the first place.



“State and Local Employee Views on Their Jobs, Pay and Benefits” by Tyler Bond and Kelly Kenneally, National Institute on Retirement Security, 2019.

The floor discussion on HB 1209 did not clarify the purpose. We suspect the intent is to require a “study” to close the DB plan, and force all new employees to become members of the Defined Contribution, or DC, plan. The NDPERS Board has two concerns if this is the actual intent.

First, we realize the description of the bill calls it a “study”. However, as one observer put it, HB 1209 “is actually a mandate masquerading as a study”. You can see this from the first line of the bill: “During the 2021-22 interim, the legislative management shall develop a plan for new hires under the public employees retirement system main system to participate in the defined benefit plan and to close the defined benefit plan to new entries effective January 1, 2024.” HB 1209 looks like a mandate to introduce legislation next session to close the DB plan, and possibly only offer the DC plan.

Second, even if this was just a study, we question why the Legislative Assembly wishes to spend additional funds to learn what it already knows – that it is incredibly expensive to close the DB plan. The Legislative Assembly has received significant information on this very issue over the years.

Just last session the Legislative Assembly considered HB 1419. That bill proposed to close the DB plan to new entrants, allow DB plan participants to elect to transfer to the DC plan, and provided a \$20 million per year cash infusion. The actuarial analysis of that bill showed that the latest the DB plan would become insolvent would be in 2052 – 54 years earlier than our current projection of 2106. In order to keep the plan from becoming insolvent, the employer contribution rate would have to have gone up by 12.22%. For just the state, that was an increase of over \$160 million a biennium.

Other states have tried it. When Michigan decided to close its DB plan in 1997, the plan was 109% funded, with over \$730 million in excess assets. In 2019, the plan was 64.7% funded, with an unfunded liability of \$6.6 billion. If we take that as a potential guideline, we would need the Main PERS plan to be significantly overfunded before we could be

reasonably confident that closing the plan would not result in the State having to appropriate hundreds of millions of dollars of additional monies in the future. If that overfunded status is 120% funded, we would need a cash infusion of over \$2.6 billion. To achieve a 130% funding status, we would need over \$3.1 billion. This is information we already have.

The Legislative Assembly did have a study on this same issue performed in 2014. During that interim, the Legislature retained the actuarial firm Arthur J. Gallagher & Co. to perform an independent analysis of the one-time cost to close the DB plan. I have uploaded that study for your review and information. Based on the DB plan's situation and the actuarial analysis at the time, Gallagher determined that a one-time contribution of \$445 million was necessary if the DB plan was closed for all new employees. Again, this is information we already have.

The state has a constitutional obligation to provide the benefits it has promised to state and political subdivision employees. I would wholeheartedly support a study that recognized that obligation and tried to determine the best way to make our current plan stable. Proposals to close the plan do not do that. We already know that. On behalf of the NDPERS Board, I urge you to give HB 1209 a "do not pass" recommendation.