



RETIREMENT COMMITTEE

Wednesday, November 15, 2023
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Jason Dockter, Chairman, called the meeting to order at 9:30 a.m.

Members present: Representatives Jason Dockter, Jorin Johnson, Mike Lefor*, SuAnn Olson, Bernie Satrom, Austen Schauer, Greg Stemen; Senators Randy A. Burckhard, Dick Dever, Karen K. Krebsbach, Dean Rummel, Mark F. Weber

Members absent: Representatives Scott Louser, Mitch Ostlie, Brandy Pyle; Senator Shawn Vedaa

Others present: See [Appendix A](#)

**Attended remotely*

It was moved by Representative Schauer, seconded by Senator Weber, and carried on a voice vote that the minutes of the August 22, 2023, meeting be approved as distributed.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Actuarial Valuation Report

Ms. Bonnie Wurst, Senior Consultant, Gabriel, Roeder, Smith & Company Holdings, Inc., presented information ([Appendix B](#)) regarding the Public Employees Retirement System (PERS) valuation process and the July 1, 2023, actuarial valuation of the PERS funds. She noted:

- As of July 1, 2023, the actuarially determined unfunded liability of the main system defined benefit (DB) plan was \$1,875,724,792 and the plan was 66.3 percent funded, which compares to an unfunded liability of \$1,750,648,216 and a funded ratio of 67.0 percent as of July 1, 2022;
- The actuarially determined employer contribution (ADEC) for the PERS main system DB plan as of July 1, 2024, is projected to be \$159.5 million, or 11.47 percent of total projected state and political subdivision employee payroll, of which the state's portion of the ADEC is projected to be \$103.1 million or 64.6 percent for fiscal year 2026;
- Prior to the passage of House Bill No. 1040 (2023), the estimated ADEC for the state during fiscal year 2026 was \$49.7 million;
- House Bill No. 1040 provided a one-time transfer of \$135 million from the strategic investment and improvements fund to the PERS main system fund and an ongoing \$65 million biennial transfer of oil and gas tax revenue to the PERS main system fund, effective beginning August 1, 2023, which is after the current actuarial valuation reporting period; and
- The main system DB plan is projected to be 100 percent funded in 2056.

Agency Update

Mr. Derrick Hohbein, Chief Operating and Financial Officer, Public Employees Retirement System, presented information ([Appendix C](#)) regarding the status of the closure of the main system DB plan, an update of the timing of transitioning to the new defined contribution (DC) plan, and the process of coordinating and testing upgrades to state and political subdivision systems. He noted:

- PERS has bi-weekly meetings with business system developers and the PERS system programming changes are estimated to be completed in March 2024, at which time updates will start on the state PeopleSoft software and political subdivisions will be provided with payroll system requirements;

- The tentative launch date for the state and higher education PeopleSoft software, political subdivision developments, and employer file testing will be either October 1, 2024, or January 1, 2025, depending on the timing of the administrative rules process;
- The Attorney General's office determined the amendment of existing administrative rules and the creation of new rules will take 9 to 12 months, as the current rules need to remain in effect until the main system DB plan is closed and then 25 to 30 new or amended rules will need to be in place for the new DC plan; and
- House Bill No. 1040 does not allow a political subdivision to join the new DC plan if the political subdivision was not already participating in the main system DB plan and any political subdivision that was participating in the main system DB plan is required to join the new DC plan.

Vendor Update

Mr. Vasudevan Sridharan, Executive Director, and Mr. Maik Mueller, Deputy Manager, Sagitec Solutions, LLC, presented information ([Appendix D](#)) regarding a projected timeline of the PERS system upgrades, programming changes necessary to transition to the new DC plan, and any anticipated challenges related to the transition. Mr. Mueller noted implementation of changes resulting from House Bill No. 1040 will be done in four phases:

Phase	Description	Estimated Months Required for Completion
1	Create the new DC Plan	4
2	Payment of incentive by employer for members transferring from the main system DB plan to the existing DC plan	2
3	Fund transfer calculation for members transferring from the main system DB plan to the existing DC plan	1
4	Processing of the ADEC	3
Total		10

POLITICAL SUBDIVISIONS

Cities

Mr. Matt Gardner, Executive Director, North Dakota League of Cities, presented information regarding the cost for each city for the 1 percent employer contribution increase that becomes effective January 1, 2024, and challenges cities may encounter while incorporating changes related to the transition to the new DC plan, including information technology (IT) and timing concerns. He noted:

- The cost for the 1 percent employer contribution increase is approximately \$600,000 per biennium for all cities, resulting in a new statewide total of approximately \$2.5 million each biennium, but information on the cost for each city is not available; and
- Challenges for the 98 cities that participate in the PERS main system DB plan transitioning to the new DC plan include lack of staff for city government and training needed for staff.

In response to questions from committee members, Mr. Gardner noted:

- Some small cities share employees due to lack of available staff; and
- There are approximately four similar accounting software programs used by most cities but many cities use software programs that are not compatible with the software of other cities.

Ms. Maureen Storstad, Finance Director, City of Grand Forks, presented information ([Appendix E](#)) regarding potential challenges the city may encounter while incorporating changes related to the transition to the new DC plan, including IT and timing concerns. She noted:

- Challenges with the transition from the main system DB plan to the new DC plan include technology needs and correspondence with PERS; and
- The city's annual budget was increased by approximately \$190,000 in anticipation of the additional 1 percent political subdivision employer contribution rate that begins on January 1, 2024.

Ms. Gwen Crawford, City Administrator, City of Valley City, presented information regarding potential challenges the city may encounter while incorporating changes related to the transition to the new DC plan, including IT and timing concerns. She noted:

- One concern participating cities may have is whether the city is required to participate in the new DC plan or whether the city can choose a retirement plan not affiliated with PERS;

- Due to lack of staff in small cities, correspondence and support from PERS will be very important for a successful transition to the new DC plan; and
- The city's annual budget was increased by approximately \$27,000 in anticipation of the additional 1 percent political subdivision employer contribution rate that begins on January 1, 2024.

Counties

Ms. Erica Johnsrud, Auditor and Treasurer, and Ms. Jenna Norby, Human Resources Director and Risk Manager, McKenzie County, presented information ([Appendix E](#)) regarding potential challenges the county may encounter while incorporating changes related to the transition to the new DC plan, including IT and timing concerns. Ms. Johnsrud noted:

- Counties need between 60 and 90 days to successfully implement changes for the new DC plan due to the limited number of county staff and workload limitations;
- Counties are waiting for guidance from PERS regarding details of the new DC plan, including software programming needs, education of county staff, and policy decisions and updates;
- Of the 29 participating counties, employees of 7 counties pay the statutory 7.00 percent employee contribution rate while the remaining 22 counties pay both the employer contribution rate of 8.26 percent and the 7.00 percent employee contribution rate on behalf of the employee;
- A PERS system launch date of October 1, 2024, would be challenging for counties due to the timing of elections; and
- The county's annual budget was increased by approximately \$210,000 in anticipation of the additional 1 percent political subdivision employer contribution rate that begins on January 1, 2024.

NATIONAL ASSOCIATION OF GOVERNMENT DEFINED CONTRIBUTION ADMINISTRATORS

Mr. Matt Petersen, Executive Director, National Association of Government Defined Contribution Administrators, presented information ([Appendix G](#)) regarding suggestions for improving North Dakota's new DC plan. He recommended the Legislative Assembly:

- Amend North Dakota Century Code Sections 54-52.2-09 and 54-52.6-09 to provide all public employees in North Dakota be enrolled in a 7 percent employee contribution rate with an option to opt-out of up to 3 percent of the contribution, rather than being enrolled in a 4 percent rate with an option to contribute up to an additional 3 percent;
- Repeal subsection 3 of Section 54-52.6-05 and Section 54-52.6-05.1 related to requiring in-plan lifetime annuities in the new DC plan because it limits the investment options of the plan;
- Amend Section 54-52.6-10 to allow employees participating in the new DC plan to be 100 percent vested immediately rather than having a 2 to 4 year vesting schedule; and
- Consider new ideas recently considered across the country for modifying a DC plan, including integrating student loan matching, emergency savings options, and financial wellness into the plan.

In response to questions from committee members, Mr. Petersen noted:

- The assumed rate of return for public employee retirement plans used to average approximately 7 to 8 percent but now averages approximately 6 to 7 percent; and
- The assumed rate of return for investment portfolios of individuals in retirement is adjusted to approximately 4 to 5 percent.

NATIONAL CONFERENCE OF STATE LEGISLATURES

Ms. Angela Rowe, Policy Specialist, National Conference of State Legislatures, presented information ([Appendix H](#)) regarding data from states that have transitioned to a primary DC plan, including funding provided to address DB plan unfunded liabilities, costs of closing a DB plan, and the effect on workforce recruitment and retention of a DC plan compared to a DB plan. She noted:

- DC plans have the most cost predictability but less cost effectiveness while DB plans are generally the most cost-effective type of retirement plan due to longevity risk pooling, the ability to maintain a diverse portfolio over time, and lower expenses and fees;
- Some studies show transitioning from a DB plan to a DC plan has a negative effect on recruitment and retention, while moving to a hybrid or cash balance plan has a lesser effect; and

- A 2019 report from the National Institute on Retirement Security stated the transition from a DB plan to a DC plan, cash balance plan, or hybrid plan in Alaska, Kentucky, Michigan, and West Virginia did not decrease unfunded liabilities and in some states resulted in increased costs.

No further business appearing, Chairman Dockter adjourned the meeting at 3:26 p.m.

Jennifer S. N. Clark
Senior Counsel and Code Revisor

Levi Kinnischtzke
Senior Fiscal Analyst

ATTACH:8