

Good afternoon, Mr. Chairman and members of the Appropriations Committee.

My name is Austen Schauer, District 13, West Fargo.

**HB 1146** is a clean-up bill following the closure of the Main Defined Benefit Plan for new employees approved last session.

Those from NDPERS who have implemented our decision are here to answer follow-up questions.

- Right now, only political subdivisions that were part of the Main Defined Benefit Plan are part of the Defined Contribution Plan.

**HB 1040** from last session did not allow new political subs not currently participating in NDPERS the opportunity to join the NDPERS DC plan.

Sections 1 and 3 of **HB 1146** addresses this concern and will allow new political subdivisions to join this plan in the future.

- Sections 2, 4, and 6 address terminology used in **HB 1040** (“State Employer” and “State Governmental Unit”) that were not defined terms.

There are 21 “State” entities identified that do not receive budgetary approval from the Legislative Assembly, and there are concerns with how these entities would pay for some of the provisions in **HB 1040**.

- Section 2 would give the Legislative Assembly the ability to infuse cash deposits that would be equal or greater than the Actuarially Determined Employer Contribution (ADEC) in lieu of charging state employers the additional contributions being made to pay off the unfunded liability of the Main Plan.

- Section 2 and 6 address the employers that are charged the ADEC and “**Spillover**” rates.

**HB 1040** committed to paying the **\$1.9 Billion liability** by 2056, and the two main funding mechanisms were charging State employers an ADEC contribution increase as well as charging State employers' “Spillover” rates.

Sections 2 and 6 remove these 21 entities from being included in the two funding mechanisms, which means they will be treated like political subdivisions.

- ADEC is the rate we need to charge the applicable employers to pay off the unfunded liability in 30 and a half years. It's like a *variable rate mortgage* being charged to state employers, while political subdivisions make a flat contribution into the plan.
- “**Spillover**” essentially means that State employers do not recognize budgetary savings if an employee does not take full advantage of their matching contributions into the Defined Contribution Plan, as the shortfall of State employers is redirected to fund the Main Defined Benefit Plan.
- The fiscal note before you is a result of Sections 2 and 6 in this bill. The \$1.9 Billion liability doesn't change, but the employer base collecting ADEC & Spillover is reduced, resulting in an overall contribution increase of 0.1% of all remaining State employees.
- Please note there is proposed legislation (HB 1234) that would infuse a lump sum deposit into the Main Defined Benefit Plan. If that bill were to pass both

chambers, the fiscal note attached to this bill would not be needed.

- Section 4 addresses the special election window for eligible State employees with less than 5 years of service and the ability for their employees who elect to move from Defined Benefit to Defined Contribution.

Because Section 4 is removing these entities from being treated like a State employer, it also removes the ability for any of their 43 total employees to transfer from Defined Benefit to Defined Contribution or to receive a **\$9,999** incentive.

- Section 7 includes a retroactive application date to Section 4, because these employees theoretically are eligible right now to transfer.
  - Section 8 includes an emergency clause to Section 4, because the special election ends March 31, 2025.
  - Both the retroactive application and emergency clause are critical for PERS to properly administer the special election window, which is currently underway.
- Section 5 was amended to allow the PERS Board the authority to explore out-of-plan annuities through an annuity shopping service.

There are **in-plan** annuities in the Defined Contribution Plan, but Section 5 was added to allow the Board the opportunity to explore **out-of-plan** annuities to possibly make the Investment Lineup more attractive to those in the Defined Contribution Plan.

In addition, it clarifies what investment solutions may be part of the plan.

That concludes my report on HB 1146.

Thank you, Mr. Chairman.