TESTIMONY OF DERRICK HOHBEIN

House Bill 1113 – 457 Admin Fees

Good Morning, Mr. Chairman, 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 1113, which is intended to change the funding mechanism for the administration of the NDPERS Deferred Compensation plan. I am here today on behalf of the NDPERS Board to testify in support of House Bill 1113.

The NDPERS office has administered a supplemental retirement plan in accordance with Section 457 of the Internal Revenue Code since 1989. Currently there are roughly 11,000 members participating in the program across 13 different providers, including one (the Companion plan) that the Board has fiduciary oversight of the investment options provided to members.

NDPERS is a special funded agency and we receive the funding needed to administer the benefits of our office from the participants or employers of each plan; with the Deferred Compensation plan being the lone exception. Since the plan was launched back in 1989, a rather convoluted funding mechanism of the Deferred Compensation plan has existed.

The primary funding mechanism of the Deferred Compensation plan is excess FICA savings of the FlexComp program. One of the benefits of participating in the FlexComp Program is both the participant, and the employer, receive the benefit of FICA savings based on the election the participant makes. For employers participating in the NDPERS FlexComp Program, the FICA savings the employer would otherwise have recognized are redirected to our office, to offset our administrative expenses of the FlexComp Program. Any excess FICA savings above what is needed to administer the plan is first redirected to the Deferred Compensation Program, to offset that plan's administrative expenses.

If there is a shortfall in FICA savings, the secondary funding mechanism is to pull 50% of the shortfall from the Defined Benefit Program, prior to being deposited into the Trust and 50% from our Health Insurance Reserves.

The administrative expenses of the Deferred Compensation plan includes funding for 4.85 full time equivalent employees, representing 53% of the total expenses of the program. Consulting and legal services (19% of total spend), technological expenses

(18% of total spend), and equipment/office rent (6% of total spend) are the main categories of administrative expenses that our office incurs.

Below is a historical snap shot of the last twelve years of administrative expenses of the Deferred Compensation plan, and where the funding came from:

	Admin Expenses	Transfers from Flex	Transfers from Retirement	Transfers from Insurance
FY2024	$ 1,105,954	$ 350,000	$ 360,000	$ 360,000
FY2023	810,853	215,000	280,000	280,000
FY2022	812,126	550,000	162,500	162,500
FY2021	775,462	540,000	87,500	87,500
FY2020	677,951	525,000	112,500	112,500
FY2019	720,616	75,000	325,000	325,000
FY2018	756,705	525,000	137,500	137,500
FY2017	821,297	525,000	137,500	137,500
FY2016	790,021	325,000	325,000	325,000
FY2015	678,144	-	350,000	350,000
FY2014	633,935	-	315,000	315,000
FY2013	603,831	200,000	212,500	212,500
FY2012	554,868	200,911	224,000	224,000

House Bill 1113 proposes to implement a direct way for the Public Employee Retirement System agency to pay for the administrative expenses of administering the state's Deferred Compensation plan under NDCC chapter 54-52.2 by charging the accounts of the participants that are part of the plan. The language in this bill is identical to the authority already granted to the Board to pay the costs of administering the Defined Contribution plan.

There are two major reasons why the PERS Board feels it is crucial to change the funding mechanism for the Deferred Compensation program.

1. The Main Defined Benefit plan was closed to new participants effective January 1, 2025. The funding mechanism in place today will one day no longer be available, and an alternate solution needs to be identified.

2. Some preliminary conversations have taken place with Higher Ed on potentially bringing the administration of Higher Ed's FlexComp program under the NDPERS umbrella. The goal of this initiative would be lower costs of the FlexComp program across the state, while offering a more seamless onboarding of Higher Ed's new hires who currently have to make benefit elections with PERS and FlexComp elections on Higher Ed's platform.

   In order to make this opportunity cost effective for the State, we'd need to keep the FICA savings currently being redirected to the Deferred Compensation program in the FlexComp program. NDPERS would then be able to potentially introduce a bill next session to change the funding mechanism of the FlexComp program to move away from the FICA savings concept to a flat per participant fee that we'd charge employers, at a reduced cost to every state employer.

NDPERS is hoping to pull the fees from participants on a quarterly basis, and would equate to roughly $10 a member per quarter.

Mr. Chairman, House Bill 1113 was given a favorable recommendation by the Employee Benefits Programs Committee during the interim, and is being introduced by the PERS Board to both solve a current problem as well as to try and lay a foundational component that will save the State money in the future. This concludes my testimony and I'd be happy to answer any questions you may have.