

House Bill 1285
North Dakota Retirement and Investment Office (RIO)
Testimony before House Government and Veterans Affairs
Representative Austen Schauer, Chair

Jodi Smith – Interim Executive Director
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I. RIO Statutory Authority and Responsibilities

The 1989 Legislative Assembly created the Retirement and Investment Office (hereinafter “RIO”) to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers’ Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

II. North Dakota Teachers’ Fund for Retirement

The Teachers’ Fund for Retirement (TFFR) is a defined benefit pension plan that provides lifetime retirement, disability, and survivor benefits to North Dakota's public school educators. TFFR is governed by a seven-member Board of Trustees, which includes active and retired teachers, a school administrator, and other representatives. As of June 30, 2024, TFFR serves over 11,945 active members and 8,603 retirees/beneficiaries, managing assets exceeding \$3.4 billion.

According to the 2024 Actuarial Valuation Report, TFFR's funded ratio on an actuarial value of assets basis has increased to 71.63%, while its fair value funded ratio stands at 70.42%. The plan is projected to reach full funding by 2043 under the current contribution structure, which includes member and employer rates of 11.75% and 12.75%, respectively.

Additionally, the average annual benefit currently received by TFFR retirees is approximately \$27,500, with many retirees depending on their pension as a primary source of income.

III. Neutral Testimony relating to H.B. 1285

The Retirement and Investment Office and the TFFR Board of Trustees strongly support efforts to provide supplemental payments to retirees in recognition of the rising cost of living. Many TFFR retirees have dedicated their careers to serving North Dakota's students, and providing financial relief in the form of a supplemental payment is a necessary and commendable step to support their financial well-being.

However, we provide neutral testimony on HB 1285 as currently drafted due to concerns about the lack of clarity on key implementation details. Specifically:

Authority to Distribute Funds: The bill does not specify which entity has the authority to administer and distribute the supplemental payment to eligible retirees. While the Office of Management and Budget (OMB) is directed to transfer funds to TFFR, it is unclear whether RIO and the TFFR Board of Trustees have discretion over the disbursement or if additional legislative or administrative oversight is required.

Allocation Methodology: There is no defined methodology for allocating the \$49.2 million among TFFR retirees. Past legislative actions included a specific allocation formula, such as the 2009 legislation (SB 2277) that authorized a supplemental payment to TFFR retirees. That legislation provided payments based on years of service and years since retirement, ensuring equitable distribution. A similarly structured methodology in HB 1285 would help prevent ambiguity and ensure fair disbursement.

Timeline for Distribution: The bill does not establish a clear timeframe for when supplemental payments should be processed and distributed to eligible retirees. In contrast, SB 2277 (2009) explicitly stated that the payment would be made in December of that year, providing certainty for retirees and allowing for effective administrative planning. Including a definitive distribution timeline in HB 1285 would enhance clarity and efficiency.

For reference, SB 2277 (2009) provided:

- A supplemental payment formula based on years of service and years since retirement.
- A cap on payments to ensure budgetary control.
- A clear deadline for payment distribution (December 2009).

Including similar clarifications in HB 1285 would enhance the bill's effectiveness and prevent potential administrative challenges. The TFFR Board remains fully committed to advocating for policies that benefit our retirees and urges the Legislature to refine the language in HB 1285 to ensure timely and equitable implementation of the supplemental payment.

An actuarial impact analysis of the bill was performed by the actuaries contracted by TFFR to monitor the fund and legislation impacting the fund. The proposed transfer of funds and payment of a one-time supplement to TFFR pensioners will not impact the TFFR Fund actuarially. Because the funds are a transfer in and an equal total payment out it does not change the value of the fund.

We respectfully recommend that the Legislature consider adding specific language to clarify these issues to ensure that the intended benefits reach retirees efficiently and transparently. We appreciate the intent of this bill and look forward to working collaboratively to refine the details for effective implementation.

Thank you for your time and consideration. We are happy to answer any questions the committee may have.