

TESTIMONY OF DERRICK HOHBEIN

House Bill 1602 – Relating to Political Subdivision Participation in the Public Employees Retirement System Defined Contribution Plan

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 1602, which allows political subdivision employers to withdraw from participation in the newly established tier in the Defined Contribution (DC) Plan, while allowing their existing Defined Benefit Plan members to continue their participation in this plan. I am here today on behalf of the NDPERS Board to provide information in a neutral capacity so the policy makers are able to make an informed decision regarding the bill.

Section 1, Subsection 6 essentially makes participation in Tier 3 of our Defined Contribution Plan optional for political subdivision participants. There are two primary observations our Board would pass along regarding the ability for political subdivisions to withdraw from the plan:

- 1) NDPERS switched Defined Contribution & 457 Deferred Compensation recordkeepers in July 2024. As part of this transition, the new vendor was given expectations as far as what future enrollments into this plan will look like, so they can price the transition accordingly. We had our Vendor analyze the bill, and they indicated that depending on the impact of future inflow and outflow, they may need to revisit and adjust the fee charged to participants. So if this causes a mass exodus from the plan, all remaining members of the Defined Contribution Plan will be adversely impacted by higher fees.
- 2) With Defined Contribution Plans, there is “buying power” with numbers, meaning the larger the population to spread fees assessed by vendors across, the less each participant will have to pay. By allowing the population to decrease, the burden and the population impacted will be to the remaining members of the Defined Contribution Plan, since this is a benefit they are funding.

So while there isn't an impact to the State, or to the employer base to allow political subdivisions to withdraw, we do expect the members who remain in the Defined Contribution plan to potentially be impacted by larger fees assessed to their accounts if this Legislation were to pass.

Subsection 7 says the Board may not assess any fees for withdrawing from the Defined Contribution Plan. Because the language in the bill isn't allowing the political subdivision to cease participation in the Defined Benefit Plan without paying their share of the unfunded liability, this subsection doesn't negatively impact the NDPERS office or Main Defined Benefit Plans at all. Employers do not pay PERS any fees for the administration of the Defined Contribution Plan. The expenses of the NDPERS office are funded from employee forfeiture contributions and a nominal administrative fee (1 basis point) paid quarterly by participants.

Our federal tax consultant did not have any concerns from an IRS perspective. The analysis from both the federal tax consultant and our actuary is attached to the end of my testimony.

Mr. Chairman, I appreciate the committee taking the time to learn more about the impact this bill will have to our state. This concludes my testimony, and I'd be happy to answer any questions the committee may have.



January 2, 2025

Representative Austen Schauer, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

**Re: North Dakota Public Employees Retirement System Legislative Studies – Provisions from
Bill No. 25.0655.01000**

Dear Representative Schauer:

In accordance with your request, we have analyzed the impact of Bill No. 25.0655.01000 on the North Dakota Public Employees Retirement System (NDPERS). Our review is actuarial in nature; we are not attorneys and cannot provide legal advice.

Systems Affected

Defined Contribution (DC) Plan for Public Employees

Summary

Bill No. 25.0655.01000:

- Allows political subdivisions currently participating in the NDPERS Main Plan to withdraw participation from the new Defined Contribution plan that is effective January 1, 2025, while allowing their existing Main Plan members to continue participating in the Main Plan.
- The Board may not assess any fees or costs against a political subdivision for withdrawing from the Defined Contribution plan.

Actuarial Impact of Bill 655

There is no actuarial impact. Main Plan participation, benefits, and funding are not affected by the proposed change.

Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

If a political subdivision elects not to participate in the DC plan, the political subdivision will need to consider alternate retirement benefits for any employees who begin employment on or after January 1, 2025.

- Competitiveness

If a political subdivision elects not to participate in the DC plan and has no alternative retirement benefit plan for employees who begin employment on or after January 1, 2025, then employment at that political subdivision will be less attractive.

- Benefits Equity and Group Integrity

No impact.

- Purchasing Power

No impact.

- Preservation of Benefits

No impact.

- Portability

No impact.

- Ancillary Benefits

No impact.

- Social Security

No impact.

Funding Policy Issues

- Actuarial Impacts

No impact.

- Investment Impacts

No impact.

Administration Issues

- Implementation Issues

NDPERS will need to communicate the option to withdraw from the new DC plan to political subdivisions.

- Administrative Costs

It is generally expected that the bigger the DC plan, the lower the per-participant cost, because administrative expenses can be spread across more participants. If the size of the DC plan (assets and participants) is smaller than it otherwise would have been because of this legislation, members and employers may be subject to higher administrative expenses.

- Needed Authority

The bill appears to provide appropriate levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

- Integration

None.

- Employee Communications

Employers and/or NDPERS will need to communicate changes in retirement benefit eligibility to political subdivision employees impacted by this legislation.

- Miscellaneous and Drafting Issues

The bill does not appear to limit the time period for political subdivisions to elect to withdraw from the DC plan. This could result in additional administrative costs due to temporary participation in the DC plan and the maintenance of small DC accounts.



Disclosures and Additional Information

We have reviewed the bill and provided a policy issue analysis from our perspective as actuaries. However, the policy issue analysis should not be considered to be comprehensive and there may be additional benefits policy, administration issues or legal issues that are not discussed in this letter.

The signing actuary is independent of the plan sponsor.

Bonita J. Wurst and Abra D. Hill are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions.

Sincerely,

Bonita J. Wurst

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