

TESTIMONY OF REBECCA FRICKE

Senate Bill 2119 – Disability Benefit Eligibility

Good Morning, my name is Rebecca Fricke. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in support of Senate Bill 2119.

Senate Bill 2119 proposes to clarify that a member cannot apply for a disability retirement benefit in the NDPERS defined benefit plan if they have reached their normal retirement age or date. The intent of the NDPERS long-term disability benefit is to provide a pre-retirement benefit to those that experience the life event of disability in which they can no longer perform the duties of their job. If members are eligible for normal retirement at the time this occurs, they can begin receiving an unreduced retirement benefit under the normal retirement provisions, which is not a pre-retirement benefit.

Our Federal Tax consultant has confirmed that making this clarification will allow NDPERS to ensure the administration of the disability benefit is in-line with industry standards of other public pension plans. In addition, the IRS requires appropriate tax reporting for individuals that are receiving a pre-retirement disability benefit rather than a retirement benefit. This will ensure appropriate tax reporting of the type of benefit the member is receiving.

The Employee Benefits Programs Committee reviewed this bill during the interim, and gave this bill a favorable recommendation.

This concludes my testimony. I ask for your favorable consideration of this bill. I would be happy to answer any questions you may have.



June 6, 2024

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

Re: North Dakota Public Employees Retirement System Legislative Studies

Dear Representative Schauer:

In accordance with your request, we have analyzed the impact of Bill No. 25.0119.01000 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

North Dakota Public Employees Retirement System (PERS) including the Main, Judges and Public Safety Systems.

Summary

Bill No. 25.0119.01000

Amends the North Dakota Century Code so that members who have reached their normal retirement age or normal retirement date and have qualified for an unreduced benefit will not be eligible for disability benefits.

Actuarial Impact of Bill 0119 on NDPERS

Currently, the actuarial valuation assumes that for active members, disability rates continue to apply after normal retirement has been reached. The actuarial impact of stopping disability rates at normal retirement is immaterial (an increase in actuarial accrued liability of 0.1 percent or less).



Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

The proposed change in disability eligibility for PERS members who have reached their normal retirement age or normal retirement date is expected to have a neutral or positive impact on benefits for most members. However, for a small minority of members, benefits could potentially be reduced since the disability retirement formula would produce a larger benefit. For Main and Public Safety, short-service members are most likely to be negatively impacted.

- Competitiveness

No Impact.

- Benefits Equity and Group Integrity

No Impact.

- Purchasing Power

No impact.

- Preservation of Benefits

The bill is not expected to materially affect the financial position of the Systems.

- Portability

No impact.

- Ancillary Benefits

No impact.

- Social Security

No impact.



Funding Policy Issues

- Actuarial Impacts

The change is expected to have a small, but likely immaterial financial impact on the Systems and the actuarial valuation results.

- Investment Impacts

- Cash Flow: The change required by the bill is not expected to materially impact the cash flows from the Systems.
- Asset Allocation: No impact.

Administration Issues

- Implementation Issues

This bill would have an impact on members expecting to receive a disability retirement benefit after they have reached normal retirement eligibility.

- Administrative Costs

The costs associated with approving disability retirement applications for those that have already reached normal retirement eligibility will no longer apply.

- 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

No impact.

- Employee Communications

Employee communications will be necessary to describe the impact to members' retirement benefits.



Disclosures and Additional Information

We have reviewed the bill and provided an actuarial impact analysis as well as a policy issue analysis. However, the policy issue analysis should not be considered to be comprehensive and there may be additional benefits policy or administration issues that are not discussed in this letter.

The signing actuaries are independent of the North Dakota Public Employees Retirement System.

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 opinions contained herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,
Gabriel, Roeder, Smith & Company

Bonita J. Wurst

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cc: Ms. Rebecca Fricke, NDPERS
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