

1999 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2071

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2071

Senate Government and Veterans Affairs Committee

Conference Committee

Hearing Date January 14, 1999

Tape Number	Side A	Side B	Meter #
1		X	489-3480
Committee Clerk Signature <i>James A. Raib</i>			

Minutes: Chairman Krebsbach called the committee to order and opened the hearing on SB 2071 which relates to the public employees retirement system. SPARB COLLINS, Director of the North Dakota Public Employees Retirement System (PERS) appeared before the committee to introduce the bill to the committee and to present testimony in support of SB 2071. A complete copy of his written testimony is attached. Following his testimony CHAIRMAN KREBSBACH asked if there were any questions from the committee. SENATOR WARDNER-On the 8% increase for the retirees, is that on what they are currently getting or 8 % on what they retired at? SPARB COLLINS-What it would be is 8 % increase of what they are currently getting. SENATOR KILZER-On the vesting, are there federal minimums and maximums on becoming fully vested? I assume that the 5 years to 3 years is fully vested. SPARB COLLINS-There are underneath what is called the ARRISA ACT, which is a federal law, they do establish certain vesting requirements. Those apply to private sector plans, they do not apply to public sector

plans. So there is no federal requirement for public sector plans. Our 5 year vesting schedule for a defined benefit plan is very comparable. SENATOR THANE- My question doesn't pertain directly to the bill, but I am just curious, what is the total amount in the public employees retirement system at the present time? Just out of curiosity? SPARB COLLINS-Approximately a little over a billion dollars. SENATOR DEMERS-Sparb, what is the rationale for the judges not being included under this bill? SPARB COLLINS-The judges actually have a separate retirement system. That retirement system is set up in different way. The multipliers have a different schedule. There system is designed quite a bit different so that is why these proposals generally did not include the judges. Other questions were offered from SENATORS KREBSBACH, WARDNER, and DEMERS. There were no further questions from the committee. CHRIS RUNGE-Executive Director of the North Dakota Public Employees Association appeared before the committee to testify in support of SB 2071. A copy of her written testimony is attached. There were no questions from the committee. WELDEE BAETSCH representing the Association of Former Public Employees appeared before the committee to testify in support of SB 2071. A copy of his written testimony is attached. There were no questions from the committee at this time. HOWARD SNORTLAND, representing the AARP, American Association of Retired Persons appeared before the committee. He indicated that his association supports this bill and would ask that the committee give this bill favorable consideration. There were no questions offered from committee members. TOM TUPA-representing INDSEA, the Independent North Dakota State Employees Association. We would like to go on record as supporting SB 2071. We like the idea of the increased multiplier at retirement time and we also like the idea of the portability issue, so for those reasons we ask that

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Senate Government and Veterans Affairs Committee
Bill/Resolution Number SB 2071
Hearing Date January 14, 1999

you give a favorable consideration to SB 2071. There were no questions from the committee.

There was no further testimony offered in support of SB 2071. No individuals appeared in opposition to or in neutral position on SB 2071. Chairman Krebsbach closed the hearing on SB 2071.

COMMITTEE ACTION-1/15/99-Tape 2, Side A-Motion for a DO PASS on SB 2071 made by SENATOR W. STENEHJEM, seconded by SENATOR DEMERS. ROLL CALL VOTE indicated 7 YEAS, 0 NAYS, and 0 ABSENT OR NOT VOTING. SENATOR WARDNER volunteered to carry the bill.

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: SB 2071 Amendment to: _____

Requested by Legislative Council Date of Request: 12-30-98

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

The benefit increase will have no effect on state expenditures since it will be paid for with existing funds in the retirement plan. The additional benefit payments to retirees are taxable and will result in additional income and sales taxes being paid. Additional administrative cost will be incurred as a result of the vesting in employer contributions provision which will increase the portability of the employee's retirement system which is in response to the legislative study passed by the last Session. Revenues are the result of income taxes and sales taxes paid on the additional benefits paid to retirees.

2. State fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:	-0-	-0-	177,000	-0-	177,000	-0-
Expenditures:	-0-	-0-	-0-	250,000	-0-	250,000

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

- a. For rest of 1997-99 biennium: None
- b. For the 1999-2001 biennium: 250,000 Increase
- c. For the 2001-03 biennium: 250,000 Increase

4. County, City, and School District fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed, attach a supplemental sheet.

Signed *Sparb Collins*

Typed Name Sparb Collins

Date Prepared: 1-4-99

Department P E R S

Phone Number 328-3901

Date: 1/15/99
Roll Call Vote #:

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2071

Senate GOVERNMENT AND VETERAN'S AFFAIRS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken No Pass

Motion Made By Sen. W Stenehjem Seconded By Sen Demers

Senators	Yes	No	Senators	Yes	No
SENATOR KREBSBACH	✓				
SENATOR WARDNER	✓				
SENATOR KILZER	✓				
SENATOR STENEHJEM	✓				
SENATOR THANE	✓				
SENATOR DEMERS	✓				
SENATOR MUTZENBERGER	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Sen. Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
January 18, 1999 7:45 a.m.

Module No: SR-10-0727
Carrier: Wardner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2071: Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman)
recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2071
was placed on the Eleventh order on the calendar.

1999 SENATE APPROPRIATIONS

SB 2071

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2071

Senate Appropriations Committee

Conference Committee

Hearing Date 1/25/99

Tape Number	Side A	Side B	Meter #
1	x		5700-end
		x	0-645
2/2/99	x		4,000
Committee Clerk Signature <i>Gloria Anderson</i>			

Minutes

SENATOR NETHING: Opened the hearing on SB 2071; A BILL for an ACT to create and enact a new subsection to section 54-52-17 and a new section to chapter 54-52 of the North Dakota Century Code, relating to acceptance of rollovers from other qualified plans and vesting of employer contributions under the public employees retirement system; to amend and reenact subsection 1 of section 54-52-01, subdivisions b and d of subsection 3 of section 54-52-17, paragraphs 1 and 2 of subdivision a of subsection 4 of section 54-52-17, subdivision d of subsection 4 of section 54-52-17, subsections 5, 6, and 7 of section 54-52-17, sections 54-52-17.5 and 54-52-17.10 of the North Dakota Century Code, relating to definitions, determination of retirement dates, computation of benefits, eligibility for early retirement benefits, vesting, post retirement adjustments, and prior service retiree adjustments under the public employees retirement system; to provide an appropriation; and to provide an effective date.

SENATOR ST. AUBYN: This is a referral from the GVA committee based on fiscal impact.

SPARB COLLINS: Public Employees Retirement System, Executive Director, to testify in support of SB 22071. (testimony attached) (tape 1, side A, 5700-end) (side B 0-370)

SENATOR SOLBERG: Are there actuary studies?

SPARB COLLINS: Yes, an actuary study has been conducted. The actuary has determined that the provisions of the bill can be implemented on actuarially sound basis.

SENATOR NETHING: Yes, they are included in the main bill, and copies will be distributed.

CHRIS RUNGE: ND Public Employees Association, Executive Director, to testify in support of SB 2071 (testimony attached) (tape 466-530).

JIM COATES: Former Representative and Member of the Interim Committee of Employee Benefits and Member of the Employee Benefits the last legislative session, to reaffirm that the actuarial study determined this would be feasible and we voted to bring it before the Session this time, and present it to the Council. I hope you would give this favorable consideration. (tape 530)

SENATOR NETHING: Closed the hearing on SB 2071

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2/2/99

(tape 4000)

SENATOR NETHING: Reopened the hearing on SB 2071 and called for the motion

SENATOR TALLACKSON: Moved do pass SB 2071

SENATOR KRINGSTAD: Seconded the motion

ROLL CALL: 13 YEAS; 1 ABSENT & NOT VOTING

MOTION CARRIED

Yeas: Nething; Naaden; Solberg; Lindaas; Tallackson; Tomac; Robinson; St. Aubyn; Grindberg;
Holmberg; Kringstad; Bowman; Andrist
Absent & Not Voting: Krauter

CARRIER: SENATOR WARDNER, GVA

SENATOR NETHING: Closed the hearing on SB 2071

Date: 2/2/99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2071

Senate APPROPRIATIONS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Sen. Tallackson Seconded By Sen. Kringstad

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman	✓				
Senator Naaden, Vice Chairman	✓				
Senator Solberg	✓				
Senator Lindaas	✓				
Senator Tallackson	✓				
Senator Tomac	✓				
Senator Robinson	✓				
Senator Krauter					
Senator St. Aubyn	✓				
Senator Grindberg	✓				
Senator Holmberg	✓				
Senator Kringstad	✓				
Senator Bowman	✓				
Senator Andrist	✓				

Total (Yes) _____ No 0

Absent 1

Floor Assignment Sen. Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2071: Appropriations Committee (Sen. Nething, Chairman) recommends DO PASS
(13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2071 was placed on the
Eleventh order on the calendar.

1999 HOUSE GOVERNMENT AND VETERANS AFFAIRS

SB 2071

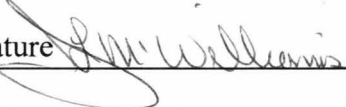
1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2071

House Government and Veterans Affairs Committee

Conference Committee

Hearing Date 2-25-1999

Tape Number	Side A	Side B	Meter #
2	X		13.1 - 49.7
Committee Clerk Signature 			

Minutes: Some of the individuals testifying submit written testimony. When noted please refer to it for more detailed information.

Representative Klein, Chairman of the GVA Committee opened the hearing on February 25, 1999.

Summary of the Bill: Relating to acceptance of rollovers from other qualified plans and vesting of employer contributions under the public employees retirement system. Also, relating to definitions, determination of retirement dates, computation of benefits, eligibility for early retirement benefits, vesting, post retirement adjustments under the public employees retirement system.

Testimony in Favor:

Sparb Collins, PERS submitted written testimony which he read in it's entirety (**please refer to his testimony**).

Representative Klein, You referred to the 177,000 in additional revenues for the general fund, would you please explain how you arrived at that.

Collins, Two basic sources. One is the income tax and then the sales tax. Add the two together and that's how we got that figure.

Representative Klein, It says provides a 9 % prior service adjustment?

Collins, We have a group of retirees that this is referred to.

Representative Klein, I would like a sheet made out of the employer and employee contributions. Say from 1991 to 1997.

Collins, Our employee and employer contribution is 4.12 % for employer and 4 % for employee. That has remained constant since 1997.

Tom Tupa, NDRTA appeared before the committee in support of this bill. The 8 % is an adjustment for two years, not each year. So it's 4 % each year.

Representative Klein, I would like the vesting explained.

Collins, The vesting schedule is 5 years. At the present time you can withdraw the employee contributions. What the bill provides now is that the vesting schedule for the retirement benefits will be increased to 3 years. This sets up a system where you can take the employer contribution also. This is on Page 4. It also requires the employee to take an active role in their retirement, this will help them with their retirement which is needed.

Representative Klein, What would an employee get out if say they invested the 25 dollars a month or 1 % of salary for two years?

Collins, I will distribute a hand out that shows this. The person would get all of their money back plus the employer contribution.

Representative Hawken, You can take the investment plus the employer contribution?

Collins, You can get up to 4 % and the .12% stays in the plan. It's an incentive.

Representative Klein, Are you going to get interest on both contributions, employer and employee?

Collins, Yes 7 %.

Chris Runge, NDPEA submitted written testimony which she read in it's entirety (**please refer to her testimony**). We support this bill.

Representative Klein, Your basically trying to get to the 50 % and then the 40 % from social security. I am trying to compare this to the teachers one where their looking at 20 % social security.

Collins, The average salary in the PERS system is less than in the teachers system.

Howard Snortland, AARP appeared before the committee in support this bill.

Rod Backman, OMB appeared before the committee in support of this bill.

Representative Hawken, The house bill was for unclassified employees isn't it. We are just going to offer them more choices.

Backman, Yes.

Testimony in Opposition: None.

Representative Klein, Closed the hearing on SB 2071.

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2071

House Government and Veterans Affairs Committee

Conference Committee

Hearing Date 3-12-1999

Tape Number	Side A	Side B	Meter #
1		X	6.7 - 8.4
Committee Clerk Signature <i>James McWilliam</i>			

Minutes: Chairman Klein, we've sat on this one for sometime. We've had a meeting with Sparb Collins and has provided with some additional guidelines. I am sure you have all had a chance to look over that data that was provided to you.

Summary of the Bill: Relating to acceptance of rollovers from other qualified plans and vesting of employer contributions under the public employees retirement system. Also, relating to definitions, determination of retirement dates, computation of benefits, eligibility for early retirement benefits, vesting, post retirement adjustments and prior service retiree adjustments under the public employees retirement system.

Committee Action:

Representative Kliniske, Made a motion for a Do Pass.

Representative Thoreson, Seconded the motion.

Motion Passes: Do Pass **13-0-2**.

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House Government and Veterans Affairs Committee

Bill/Resolution Number SB 2071

Hearing Date 3-12-1999

Representative Kliniske, Is the carrier for the bill.

Roll Call Vote #: 1 Date: 3-12-99

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2071

House GOVERNMENT AND VETERANS AFFAIRS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS

Motion Made By KLINISKE Seconded By THORESON

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP. WINRICH	✓	
VICE-CHAIR KLINISKE	✓				
REP. BREKKE	✓				
REP. CLEARY	✓				
REP. DEVLIN	✓				
REP. FAIRFIELD	✓				
REP. GORDER	✓				
REP. GRANDE					
REP. HAAS	✓				
REP. HAWKEN	✓				
REP. KLEMIN	✓				
REP. KROEBER					
REP. METCALF	✓				
REP. THORESON	✓				

Total (Yes) 13 No 0

Absent 2

Floor Assignment KLINISKE

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 12, 1999 11:50 a.m.

Module No: HR-45-4649
Carrier: Kliniske
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2071: Government and Veterans Affairs Committee (Rep. Klein, Chairman)
recommends **DO PASS** (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SB 2071
was placed on the Fourteenth order on the calendar.

1999 HOUSE APPROPRIATIONS

SB 2071

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2071

House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date March 22, 1999

Tape Number	Side A	Side B	Meter #
1	x		0-20.0
Committee Clerk Signature <i>Roxanne Kone</i>			

Minutes:

Chairman Byerly opened the hearing on Senate Bill 2071.

1A: .4 Sharon Schiermeister, Fiscal Officer, ND Public Employees Retirement System (See attached written testimony).

1A: 4.5 Rep. Poolman asked if there was discussion on bringing in outside vendors instead of adding additional FTEs. Replied it was decided it was more natural for an inside employee to provide services of this nature between both plans. Rep. Poolman asked about new plan. Replied there is not a new plan just a modification. Further explanation of plans and discussion of 3 additional FTEs.

1A: 11.7 Rep. Poolman asked about funding sources and how special funds work for particular appropriation. Replied currently funded through a portion of the retirement contribution. Rep. Poolman asked about administrative expenses. Replied didn't have figures on hand. Further discussion on revenue from flex comp. program and PERS. Three additional FTEs will be paid for internally - special funds.

1A: 14.7 Rep. Poolman asked for explanation on multiplier and unfunded liability. Replied: comments on funding and multiplier.

1A: 16.8 Chris Rung, NDPEA testified in favor of bill.

1A: 17.2 Tom Tupa, INDSEA testified in favor of bill.

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Government Operations Division

Bill/Resolution Number 2071

Hearing Date March 22, 1999

1A: 17.7 Howard Snortland, AARP testified in favor of bill

1A: 18.3 Rep. Poolman commented he felt three additional FTEs is very reasonable considering this size of plan. Happy to see employees are not being assessed fees. Moved for a DO PASS. Rep. Carlisle 2nd the motion. On a Roll Call Vote the motion carried. 6 voting Yes

Rep. Poolman will carry the bill to the full committee.

General Discussion

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Date March 23, 1999			
Tape Number	Side A	B Side	Meter #
1	x		18.3-29.2
Committee Clerk Signature <i>Casey Davis</i>			

Minutes:

SB 2071

CHAIRMAN DALRYMPLE opened discussion on SB 2071.

1A: 18.6 REP. POOLMAN explained the GO subcommittee's recommendation for a Do Pass. He made the motion for a Do Pass, and the motion was seconded by Rep. Aarsvold.

1A: 21.7 REP. AARSVOLD asked about the general fund revenues. Alan Knudson, Legislative Council, replied that the general fund projections are a result of retirement plans.

1A: 22.4 REP. DELZER asked if people could roll out of the state plan into a private plan. Rep. Poolman replied that there is the possibility to do so under the deferred compensation plan. The defined benefit plan is not as portable.

1A: 27.5 A roll call vote was taken and the motion carried with 17 yeas and 3 nays. The carrier will be the original carrier from the Government and Veterans Affairs committee, Rep. Kliniske.

Date: 3-22-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2071

House APPROPRIATIONS - Government Operations Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS

Motion Made By POOLMAN Seconded By CARLISE

Representatives	Yes	No	Representatives	Yes	No
Rex R. Byerly	✓				
Ron Carlisle	✓				
Ben Tollefson	✓				
Robert Huether	✓				
Pam Guleson	✓				
Jim Poolman	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Rep. POOLMAN

If the vote is on an amendment, briefly indicate intent:

Date: 3-23-99
 Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2071

House Appropriations Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Poolman Seconded By Aarsvold

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	✓		Nichols	✓	
Vice-Chairman Byerly	✓		Poolman	✓	
Aarsvold	✓		Svedjan	✓	
Bernstein	✓		Timm		✓
Boehm	✓		Tollefson	✓	
Carlson	✓		Wentz	✓	
Carlisle	✓				
Delzer		✓			
Gulleson	✓				
Hoffner	✓				
Huether	✓				
Kerzman	✓				
Lloyd		✓			
Monson	✓				

Total (Yes) 17 No 3

Absent _____

Floor Assignment GVA committee carrier ^{Rep.} Amy Kliniske

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 23, 1999 9:11 a.m.

Module No: HR-52-5348
Carrier: Kliniske
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2071: Appropriations Committee (Rep. Dalrymple, Chairman) recommends DO PASS
(17 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). SB 2071 was placed on the
Fourteenth order on the calendar.

~~Waiting for am.~~

Date: 3-23-99

Roll Call Vote #: 2

Reconsider

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2071

House Appropriations Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass as amended

Motion Made By Lloyd Seconded By Byerly

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	✓		Nichols	✓	
Vice-Chairman Byerly	✓		Poolman	✓	
Aarsvold		✓	Svedjan	✓	
Bernstein	✓		Timm	✓	
Boehm	✓		Tollefson	✓	
Carlson	✓		Wentz	✓	
Carlisle	✓				
Delzer		✓			
Gulleson		✓			
Hoffner		✓			
Huether	✓				
Kerzman		✓			
Lloyd	✓				
Monson	✓				

Total (Yes) 15 No 5

Absent _____

Floor Assignment GVA - Amy Kliniske

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2071: Appropriations Committee (Rep. Dalrymple, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (15 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). SB 2071 was placed on the Sixth order on the calendar.

Page 1, line 10, remove "to provide an appropriation;"

Page 5, remove lines 23 through 28

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 192 - PUBLIC EMPLOYEES RETIREMENT SYSTEM

HOUSE - This amendment removes Section 10 of the bill, which provided a special fund appropriation of \$250,000 and authorization for three FTE positions to the Public Employees Retirement System.

**1999 SENATE GOVERNMENT AND VETERANS AFFAIRS
CONFERENCE COMMITTEE
SB 2071**

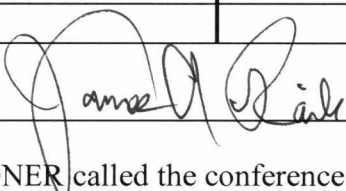
1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2071

Senate Government and Veterans Affairs Committee

Conference Committee

Hearing Date April 02, 1999--Conference Committee

Tape Number	Side A	Side B	Meter #
1	X		0-3202
Committee Clerk Signature 			

Minutes: CHAIRMAN WARDNER called the conference committee meeting to order on SB 2071 which is a bill introduced at the request of the Public Employees Retirement System relating to the PERS program and changes being proposed that would affect the program and its participants. The clerk called the roll. Present for the Senate were SENATORS WARDNER, KREBSBACH, and DEMERS. Members present for the House were Representatives KLINISKE, GRANDE, and CLEARY. CHAIRMAN WARDNER explained the purposes of the conference committee and asked that Sparb Collins, representing the Public Employees Retirement System come before the committee to explain why there was a need to request the committee to reconsider the actions which the House Appropriations committee has taken with SB 2071. A memo from PERS was given to each committee member and in that memo Mr. Collins outlined why there was a need for the committees reconsideration. As had been summarized there originally was an appropriation of \$250,000.00 attached to this bill for

implementation of the portability provision of that bill. In particular it had to do with the matching of the employer contribution to the fund. Since that is going to be an additional work effort we had requested the appropriation and 3 FTE's. \$75,000 of that \$250,000 was funded on the house side. 3 items were not funded. These are summarized in the memo sent out and are prioritized as far as PERS is concerned in terms of reinstatement. The first one is the accountant position. This we view as very critical. There are two parts of this new bill that PERS will be implementing. One has to do with some of the work efforts we are doing now. That is that we have to report the 457 plan. Due to the 457 plan there will be an increased need for closer monitoring and reporting on these accounts and plans. The other effort which is even more critical to us and critical in the sense of a potential risk to the state of North Dakota is we are now going to have to set up a whole new system in our defined benefits system. We will have to individually for each person that participates in this 457 plan we have to go to the defined benefits system and we are going to have to establish a liability for that defined benefits system for that contribution and of course it can vary. So, there are 8000 participants at many different levels of participation. So we need to go in and every time we create one of these liabilities in the defined benefits system of course that will run into our over all liabilities in the defined benefits system. We want to make sure that is done accurately and if it is not it is going to start to show up in our audit exceptions for our audit reports and that is going to create real problems. That is why this position is so critical. The other two issues that are not being funded are more service related vs. financial. One was that there were some miscellaneous implementation funds in the amount of \$21,000 that weren't funded and when the house funded it they funded a full dollar amount. So, what wasn't funded was probably some printing costs so we probably would

not be doing as much communications under the bill as we had anticipated. The benefits specialist position is the last thing and that is taking service away. Questions of Mr. Collins were offered by SENATOR WARDNER and REPRESENTATIVE GRANDE. Further questions were offered by SENATOR KREBSBACH and REPRESENTATIVE KLINISKE. The responses were offered by SPARB COLLINS. SENATOR KREBSBACH, in reviewing this situation, I understand where the house is trying to maintain the dollars for all programs and keeping it under one umbrella, however, I would like to move at this particular time that the house recede from their amendments and that we further amend in this committee to reinstate the accounting position and the implementation costs. I feel that we are going into new areas in our retirement system and we absolutely have to be sure that the people are there to do the work adequately and that the moneys are there to implement these particular funds. I think I have gathered from Mr. Collins that he can get by without that third item, the benefits specialist. We have picked up one more there and with the cross training that is going on I think that perhaps that issue can be handled. My only concern is this, would we want those funds to be reattached to this bill, I would imagine that that is the only vehicle that we have at this time. However, they have transferred other funding into 2025, and I am just concerned how the house would accept us putting money back there when they are trying to keep it under the other bill.

REPRESENTATIVE CLEARY seconded the motion made by SENATOR KREBSBACH. A discussion of the mechanics and structure of the motion took place between SENATORS KREBSBACH, WARDNER and REPRESENTATIVE GRANDE took place at this time.

SENATOR KREBSBACH then rephrased her motion to indicate that the Senate accedes to the House amendments to the SB 2071 and the conference committee further amends the bill. j This

motion was seconded by REPRESENTATIVE CLEARY. A discussion of amendments took place at this time. With MR. COLLINS presenting amendments to the committee questions and discussion were offered by REPRESENTATIVE GRANDE, SENATOR WARDNER, and REPRESENTATIVE KLINISKE. At this time SENATOR KREBSBACH indicated that she had a quick comment concerning what the committee was intending to do with the bill.

SENATOR WARDNER called for further comments or discussion. ROLL CALL VOTE was taken on the motion indicating that the SENATE accedes to the House Amendments and further amends the bill. SENATOR WARDNER, AYE, SENATOR KREBSBACH, AYE, SENATOR DEMERS, AYE, REPRESENTATIVE KLINISKE, AYE, REPRESENTATIVE GRANDE, AYE, REPRESENTATIVE CLEARY, AYE. The committee meeting was adjourned.

Following adjournment it was determined that the proper form for the wording of the motion on this bill was that the House recede from the House Amendments and the bill be further amended. Members of the conference committee were informed of the change and were in agreement.

REPORT OF CONFERENCE COMMITTEE

SB 2071: Your conference committee (Sens. Wardner, Krebsbach, DeMers and Reps. Kliniske, Grande, Cleary) recommends that the **HOUSE RECEDE** from the House amendments on SJ page 876, adopt amendments as follows, and place SB 2071 on the Seventh order:

That the House recede from its amendments as printed on page 876 of the Senate Journal and pages 957 and 958 of the House Journal and that Senate Bill No. 2071 be amended as follows:

Page 5, line 25, replace "\$250,000" with "\$87,181"

Page 5, line 27, replace "three" with "one" and replace "positions" with "position"

Renumber accordingly

SB 2071 was placed on the Seventh order of business on the calendar.

1999 TESTIMONY

SB 2071

**REPORT OF THE LEGISLATIVE COUNCIL'S
EMPLOYEE BENEFITS PROGRAMS COMMITTEE
SENATE BILL NO. 2071**

Sponsor: Retirement Board

Affected Retirement Program: Public Employees Retirement System main system

Proposal: Includes vested employer contributions for purposes of determining a member's "account balance"; reduces the vesting requirement from five years to three years for nonjudge members of the Public Employees Retirement System main system; increases the benefit multiplier from 1.77 to 1.90 percent; provides that the fund may accept rollovers from other qualified plans for the purchase of additional service credit; provides a postretirement adjustment of nine percent of the present benefit; provides a disability adjustment of nine percent of the present benefit; provides a prior service adjustment of nine percent of the present benefit; provides that a nonjudge member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation plan of \$25 or one percent of the member's monthly salary for months 1 through 12 of service credit, \$25 or two percent of the member's monthly salary for months 13 through 24 of service credit, \$25 or three percent of the member's monthly salary for months 25 through 36 of service credit, and \$25 or four percent of the member's monthly salary for service exceeding 36 months with a minimum contribution of \$25 and a maximum vested employer contribution of four percent of the member's monthly salary.

The committee amended the proposal at the request of the retirement board to reduce the increase in the benefit multiplier from 1.90 percent to 1.89 percent, to reduce the postretirement adjustment from 9 percent to 8 percent of the present benefit, to reduce the disability adjustment from 9 percent to 8 percent of the present benefit, and to reduce the prior service retiree adjustment from 9 percent to 8 percent of the present benefit.

Actuarial Analysis: The reported actuarial cost impact of the original proposal is 1.64 percent of covered payroll for the Public Employees Retirement System main system, 1.41 percent of covered payroll for the National Guard retirement system, and less than 0.01 percent for the retiree health insurance credit fund.

The actuarial cost impact of the original proposal is summarized in the following table:

Proposed Change	Change As a Percent of Covered Payroll	
	Main	National Guard
Three-year vesting and retirement eligibility	Less than 0.01%	Less than 0.01 %
1.9% multiplier	1.07%	1.12%
9% retiree increase	0.39%	0.14%
Rollover to purchase service credit	0.00%	0.00%
9% prior service increase	Less than 0.01%	N/A
Section 457 matching benefit	0.20%	0.16%
Total estimated cost	1.64%	1.41%

The reported actuarial cost impact of the proposal, as amended, is 1.58 percent of covered payroll for the Public Employees Retirement System main system, 1.32 percent of covered payroll for the National Guard retirement system, and less than 0.01 percent for the retiree health insurance credit fund. The actuarial cost impact of the proposal, as amended, is summarized in the following table:

Proposed Change	Change As a Percent of Covered Payroll	
	Main	National Guard
Three-year vesting and retirement eligibility	Less than 0.01%	Less than 0.01%
1.89% multiplier	0.99%	1.03%
8% retiree increase	0.35%	0.11%
Rollover to purchase service credit	0.00%	0.00%
8% prior service increase	Less than 0.01%	N/A
Section 457 matching benefit	0.25%	0.19%
Total estimated cost	1.58%	1.32%

Thus, if this bill is enacted, the remaining margin in the Public Employees Retirement System main system will be 0.03 percent ($1.61 - 1.58 = .03$), and the remaining margin in the National Guard retirement system will be 3.57 percent ($4.89 - 1.32 = 3.57$).

Committee Report: Favorable recommendation.

**TESTIMONY
OF
SPARB COLLINS
ON
SB 2071**

Madame Chair, members of the Committee, good morning. My name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System, or PERS.

SB 2071 relates to the main retirement system that is administered by the Public Employees Retirement System. There are approximately 16,000 active participants in this system. All state employees participate, with the exception of certain employees of Higher Education who participate in TIAA-CREF, the Highway Patrol and the Judges. There are also 197 participating political subdivisions that are part of the PERS retirement system. This includes 52 cities and park districts, 40 counties, 64 school districts and 41 other political subdivisions. Also, there are approximately 4,600 retirees. Attached, for your information, is a table of those retirees by County, with our benefit payments, and a map showing retirees by County. Also attached is a map showing the number and distribution of our active members. **The bill before you today has three basic proposals:**

- 1) **It increases the multiplier from 1.77 to 1.89.** For an employee with twenty-five years of service (a career employee), the 1.89% benefit multiplier will provide a retirement benefit equal to 47.25% of their final average salary at the normal

retirement date. This is an increase from the present benefit multiplier of 1.77%, which provides a retirement benefit equal to 44.25% of final average salary at the normal retirement date. The PERS Board's objective for a career employee is to provide a benefit from the retirement system that, together with Social Security, will provide an amount equal to approximately 90% of their final average salary. More specifically, the Board has established the objective of providing an NDPERS benefit equal to 50% of final average salary for a career employee. Ultimately, to achieve this goal, a benefit multiplier of 2% will be required. If enacted, this provision will move the system towards this goal by increasing the present benefit of 44.25% to 47.25%, plus Social Security. This enhancement will help the system meet its goal for the multiplier.

- 2) **The bill proposes three changes in the retirement system that will increase the portability of retirement benefits.** These proposals were developed during the last interim in response to a study resolution passed by the last Session of the North Dakota Legislature. That study resolution stated,

"IT IS THE INTENT OF THE FIFTY-FIFTH LEGISLATIVE ASSEMBLY THAT DURING THE 1997-98 INTERIM THE OFFICE OF MANAGEMENT AND BUDGET AND THE PUBLIC EMPLOYEES RETIREMENT SYSTEM REPORT TO THE LEGISLATIVE INTERIM EMPLOYEE BENEFITS PROGRAMS COMMITTEE ON PENSION PORTABILITY. THE REPORT SHOULD FOCUS ON ISSUES OF PENSION PORTABILITY AND HOW TO BALANCE THE NEEDS OF LONG- AND SHORT-

TERM EMPLOYEES WITHIN THE DEFINED BENEFIT OR DEFINED CONTRIBUTION PLAN CONCEPTS."

In response to the above study resolution the Office of Management and Budget and PERS conducted a study on pension portability. Generally, portability of retirement benefits refers to the ability to "carry" your retirement benefits from one employer to another, continuing to build your retirement benefits without significant interruption. Portability has three basic features: 1) *portability of benefits* which is the ability to vest in a retirement benefit 2) *portability of assets* which is the ability to take a cash distribution of your earned retirement benefit and transfer it, and 3) *portability of service* which is the ability to use service in one retirement system in another system. Our study determined that the PERS 5 year vesting, which relates to *portability of benefits*, was very competitive however some plans do have shorter vesting schedules. In terms of *portability of assets*, our study showed that only our employee contribution is portable in terms of a cash distribution benefit. The employer contribution is not available for a cash distribution benefit. A cash distribution benefit is when a member terminates employment prior to being able to retire and decides to withdraw their cash balance from PERS.

As a result of these findings, several proposals are presented in this bill that will enhance portability of benefits and portability of assets. **Specifically, those three portability changes are:**

- a) **Reduction of the vesting schedule from 5 years to 3 years for all members of the main retirement system, thereby increasing *portability of benefits*.**
- b) **Allowing new members to roll funds into the PERS retirement fund, thereby increasing *portability of assets*.** This will assist new members as they transfer from another employer to covered employment under PERS.
- c) **Increase the cash distribution benefit by establishing a method that will allow members to vest in the employer contribution for purposes of cash distribution, thereby increasing *portability of assets*.** The amount of employer contribution that would vest could be up to 100% of the amount the member contributed to the State's defined contribution plan (the deferred compensation or 457 plan) with these limits:

Minimum contribution \$25 per month

Maximum contribution 1st year 1% of salary

After one year 2% of salary

After two years 3% of salary

After three years 4% of salary

For example, a new employee earning \$20,000 per year, who took full advantage of this program and then terminated employment prior to being able to retire, would see an increase in his or her cash balance benefit of:

After one year of service	38% increase
After two years of service	44% increase
After three years of service	54% increase
After four years of service	65% increase
After five years of service	71% increase

This proposal increases the portability of assets of the PERS system and also has the added advantage of encouraging employees to save more for their retirement. It is estimated that if the concept was included in the PERS system it would increase retirement savings and participation in the deferred compensation program from a present level of 15% participation to 50-70% participation. For those members who withdraw their cash balance at the time of termination, this proposal would allow them to withdraw not only the employee contributions with interest, but also the vested employer contributions with interest.

- 3) **This bill also provides an 8% adjustment for retirees.** This percentage, however, is broken down into several parts. First, retirees will receive a general increase of 7%. This general increase is equal to the increase in the multiplier for the active employees. Second, there is an additional 1% proposed. This relates to the implementation of the portability provisions for active employees. Since retirees are no longer able to take advantage of the portability provisions, the Board included this additional 1% adhoc adjustment in order to provide equity between both the actives and retirees.

Last, the bill has an appropriation of approximately \$250,000. This appropriation is to offset the cost of implementing the portability provisions discussed above. In particular, it has to do with the employer vesting program. This new initiative will increase the participation in the deferred compensation program from around 1,500 people to 10,000 people. This will be a dramatic increase in that program and the services that will be required. Therefore, the requested appropriation.

The above provisions are implemented in the bill as follows:

- Section 1: Changes the definition of "account balance" to include not only the employee contribution but also the vested employer contribution as part of the employer vesting program.
- Section 2: Reduces the vesting schedule from 5 years to 3 years for early retirement benefits, except for supreme or district court judges.
- Section 3: Increases the multiplier from 1.77 to 1.89.
- Sections 4 & 5: Reduces the vesting schedule from 5 years to 3 years for normal retirement benefits and death benefits, except for supreme or district court judges.
- Section 6: Allows funds to be rolled into the PERS plan from other qualified plans.
- Section 7: Provides for an 8% retiree adjustment for disability receivers, and other retirees and beneficiaries.

- Section 8: Provides an 8% adjustment for prior service retirees.
- Section 9: Implements the vesting provisions for the employer contribution based upon a member's participation in the deferred compensation program.
- Section 10: Contains the appropriation as well as the authorization for an additional three employees.
- Section 11: The section sets the effective date for section 9, the vesting in employer contribution provision. This provides that this section will become effective on January 1, 2000. This will allow us time to develop the necessary administrative mechanism to implement this section.

In summary, this bill provides for an increase in the multiplier from 1.77 to 1.89; an 8% increase in retiree benefits; and increases the portability of PERS retirement benefits by reducing the vesting period, allowing rollovers into the PERS retirement plan and allowing employees to vest in a cash distribution benefit of the employer contribution.

The provisions of this bill will be paid for by available funds in the retirement system. The actuary has reviewed the proposed bill and determined it can be funded on an actuarially sound basis from existing contributions and will not require an increase in the employer or employee contribution.

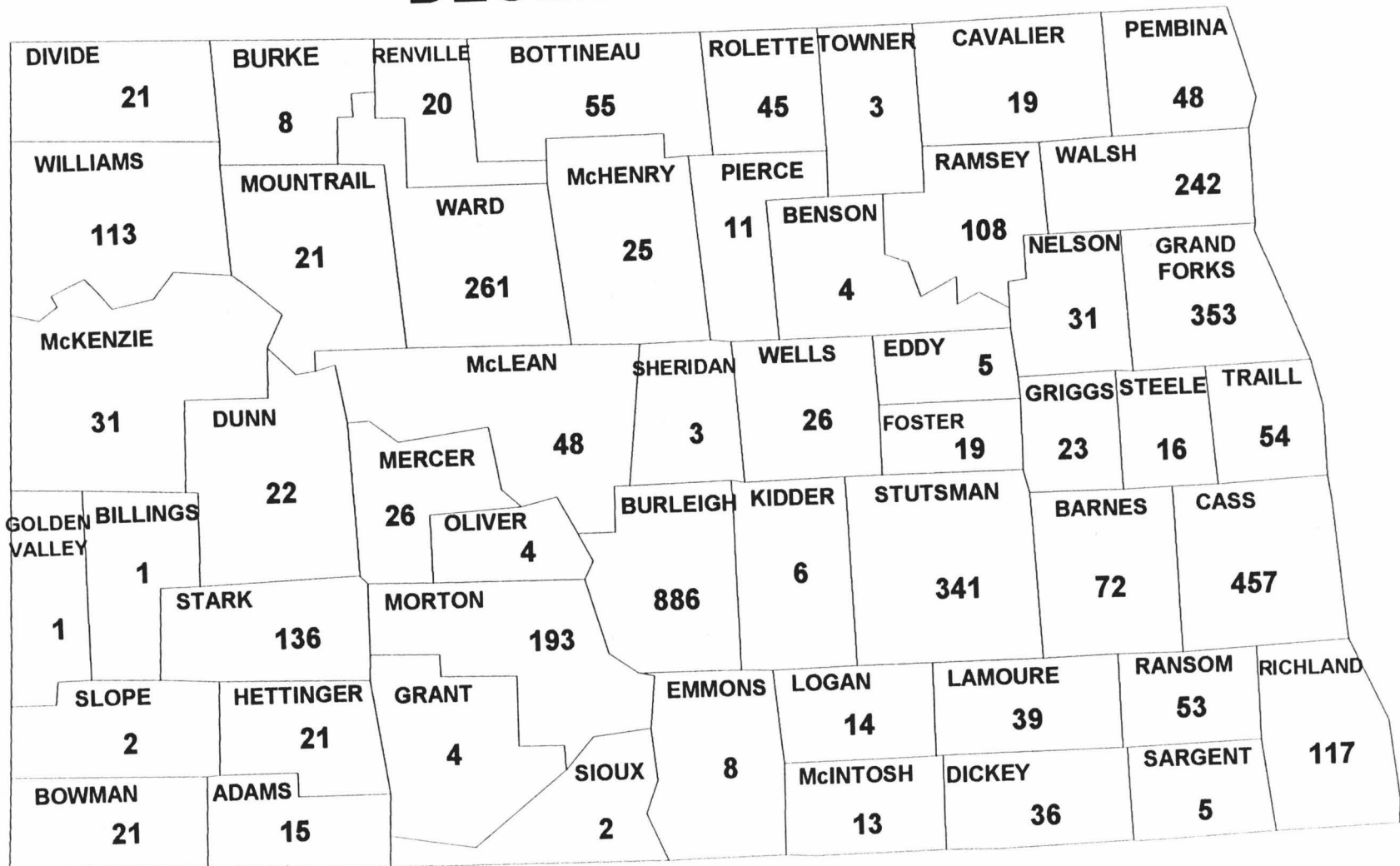
The Interim Legislative Employee Benefits Committee also reviewed this bill during the interim. After review and hearings, the Committee gave the bill, unanimously, a favorable recommendation.

Madame Chair, members of the committee, I request your favorable consideration of this bill. This concludes my testimony.

DECEMBER 1998 RETIREMENT PAYMENTS & AVERAGE YEARLY PAYMENTS

COUNTY	RETIREEES	MONTHLY PAYMENTS	PAYMENT PERCENT	YEARLY PAYMENTS	YEARLY + 8 PERCENT
01 ADAMS	15	\$8,964.53	0.34%	\$107,574.36	\$116,180.31
02 BARNES	72	\$42,997.60	1.63%	\$515,971.20	\$557,248.90
03 BENSON	4	\$1,473.54	0.06%	\$17,682.48	\$19,097.08
04 BILLINGS	1	\$1,170.87	0.04%	\$14,050.44	\$15,174.48
05 BOTTINEAU	55	\$23,218.99	0.88%	\$278,627.88	\$300,918.11
06 BOWMAN	21	\$10,739.75	0.41%	\$128,877.00	\$139,187.16
07 BURKE	8	\$2,480.39	0.09%	\$29,764.68	\$32,145.85
08 BURLEIGH	886	\$726,309.68	27.46%	\$8,715,716.16	\$9,412,973.45
09 CASS	457	\$240,594.32	9.10%	\$2,887,131.84	\$3,118,102.39
10 CAVALIER	19	\$6,816.23	0.26%	\$81,794.76	\$88,338.34
11 DICKEY	36	\$14,938.06	0.56%	\$179,256.72	\$193,597.26
12 DIVIDE	21	\$6,868.89	0.26%	\$82,426.68	\$89,020.81
13 DUNN	22	\$8,907.77	0.34%	\$106,893.24	\$115,444.70
14 EDDY	5	\$2,113.52	0.08%	\$25,362.24	\$27,391.22
15 EMMONS	8	\$3,972.86	0.15%	\$47,674.32	\$51,488.27
16 FOSTER	19	\$9,052.58	0.34%	\$108,630.96	\$117,321.44
17 GOLDEN VALLEY	1	\$1,098.43	0.04%	\$13,181.16	\$14,235.65
18 GRAND FORKS	353	\$192,581.59	7.28%	\$2,310,979.08	\$2,495,857.41
19 GRANT	4	\$1,045.97	0.04%	\$12,551.64	\$13,555.77
20 GRIGGS	23	\$9,128.14	0.35%	\$109,537.68	\$118,300.69
21 HETTINGER	21	\$12,969.60	0.49%	\$155,635.20	\$168,086.02
22 KIDDER	6	\$2,449.21	0.09%	\$29,390.52	\$31,741.76
23 LAMOURE	39	\$15,357.38	0.58%	\$184,288.56	\$199,031.64
24 LOGAN	14	\$5,319.57	0.20%	\$63,834.84	\$68,941.63
25 MCHENRY	28	\$12,869.08	0.49%	\$154,428.96	\$166,783.28
26 MCINTOSH	13	\$7,204.21	0.27%	\$86,450.52	\$93,366.56
27 MCKENZIE	31	\$17,263.78	0.65%	\$207,165.36	\$223,738.59
28 MCLEAN	48	\$27,671.07	1.05%	\$332,052.84	\$358,617.07
29 MERCER	26	\$7,542.34	0.29%	\$90,508.08	\$97,748.73
30 MORTON	193	\$110,008.95	4.16%	\$1,320,107.40	\$1,425,715.99
31 MOUNTRAIL	21	\$9,531.28	0.36%	\$114,375.36	\$123,525.39
32 NELSON	31	\$14,004.86	0.53%	\$168,058.32	\$181,502.99
33 OLIVER	4	\$2,094.03	0.08%	\$25,128.36	\$27,138.63
34 PEMBINA	48	\$23,253.11	0.88%	\$279,037.32	\$301,360.31
35 PIERCE	11	\$5,550.00	0.21%	\$66,600.00	\$71,928.00
36 RAMSEY	108	\$62,498.66	2.36%	\$749,983.92	\$809,982.63
37 RANSOM	53	\$16,034.86	0.61%	\$192,418.32	\$207,811.79
38 RENVILLE	20	\$7,618.76	0.29%	\$91,425.12	\$98,739.13
39 RICHLAND	117	\$52,462.91	1.98%	\$629,554.92	\$679,919.31
40 ROLETTE	45	\$12,717.21	0.48%	\$152,606.52	\$164,815.04
41 SARGENT	5	\$1,958.68	0.07%	\$23,504.16	\$25,384.49
42 SHERIDAN	3	\$1,025.84	0.04%	\$12,310.08	\$13,294.89
43 SIOUX	2	\$488.48	0.02%	\$5,861.76	\$6,330.70
44 SLOPE	2	\$615.40	0.02%	\$7,384.80	\$7,975.58
45 STARK	136	\$67,329.45	2.55%	\$807,953.40	\$872,589.67
46 STEELE	16	\$6,488.05	0.25%	\$77,856.60	\$84,085.13
47 STUTSMAN	341	\$157,826.14	5.97%	\$1,893,913.68	\$2,045,426.77
48 TOWNER	3	\$2,263.96	0.09%	\$27,167.52	\$29,340.92
49 TRAIL	54	\$26,602.20	1.01%	\$319,226.40	\$344,764.51
50 WALSH	242	\$115,717.98	4.37%	\$1,388,615.76	\$1,499,705.02
51 WARD	261	\$165,521.48	6.26%	\$1,986,257.76	\$2,145,158.38
52 WELLS	26	\$14,581.20	0.55%	\$174,974.40	\$188,972.35
53 WILLIAMS	113	\$77,162.02	2.92%	\$925,944.24	\$1,000,019.78
54 OUT OF STATE	548	\$268,598.96	10.15%	\$3,223,187.52	\$3,481,042.52
TOTAL:	4,659	\$2,645,074.42	100.00%	\$31,740,893.04	\$34,280,164.48

NDPERS RETIREES DECEMBER 1998



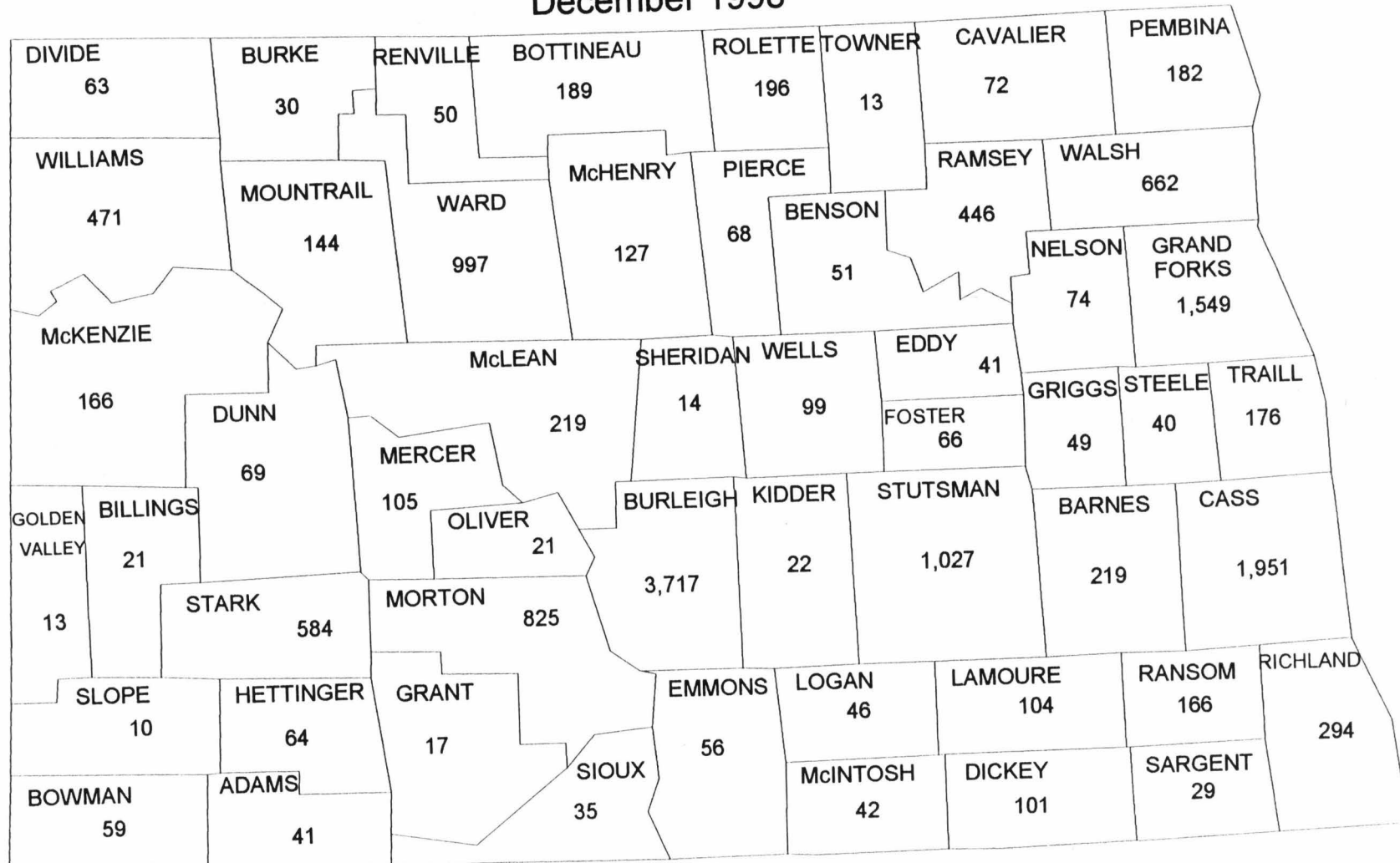
OUT OF STATE - 548

TOTAL - 4,659

NDPERS

ACTIVE RETIREMENT MEMBERS

December 1998



Out of State = 645
 Total Active Members = 16,537

PORTABILITY STUDY

DEFINITION

Generally, portability of retirement benefits refers to the ability to “carry” your retirement benefit from one employer to another, continuing to build your retirement benefit without significant interruption.

Portability has three basic features: 1) portability of benefits, 2) portability of assets, and 3) portability of service. *Benefits portability* refers to the ability of an employee to vest in some or all of his or her benefits. *Portability of assets* refers to the ability of an employee to obtain a cash distribution either in a lump sum cash out or transfer to another retirement plan. *Portability of service* refers to the ability to count years of service earned under the plan of a prior employer when determining the pension benefits to be provided under a more recent employer.

ISSUES FOR EMPLOYERS AND EMPLOYEES

There are three issues that portability addresses for both employers and employees.

- *Attracting and retaining a quality workforce.* Portability provisions appeal to potential employees, enable the development of a quality workforce, and enhance recruitment and retention of the best-qualified candidates for a job.
- *Facilitating mobility.* Workforce mobility is considered to be beneficial for the economy and provides flexibility for employers and employees.
- *Ensuring adequate retirement income.* If there is a loss of all or part of the value of a retirement benefit associated with a change in employment, it will impede an individual's ability to put together a viable retirement package.

CURRENT PERS PORTABILITY

The present PERS system already has these portability features:

- PERS provides *benefits portability* by vesting members in five years. Also, members vest in the disability benefit in only six months.
- PERS provides *portability of assets* in the following ways:
 - An employee, at termination, can take a lump sum cash distribution benefit of the employee contributions (account balances) plus interest at 7.5%.
 - Full asset portability from PERS to Higher Education's TIAA-CREF retirement system, for vested members.
 - PERS can rollover assets into other qualified retirement plans.
 - Members can purchase service at actuarial cost on an after-tax basis.
- PERS provides *portability of services* between all state employers, 180 political subdivisions, and coordinates with the 300 employer groups of TFFR.

In recognition of the above, it was determined that PERS provides for portability within its existing benefit structure.

PORTABILITY STUDY

COMPARING PORTABILITY IN DEFINED CONTRIBUTION PLANS AND CURRENT PERS

The Legislative Assembly directed that portability be examined within the context of a defined benefit and defined contribution system. A defined benefit system is one in which the benefit is predetermined by a formula based on a member's final average salary, years of service and a factor that is a percentage of salary. Our present PERS plan is a defined benefit plan. A defined contribution plan is one in which the benefit is based upon the amount of money contributed plus investment earnings minus expenses. Our 457 deferred compensation plan is a defined contribution plan.

To facilitate this analysis we established a portability analysis matrix. Using this matrix, we first analyzed portability features in a defined contribution plan below:

<u>DEFINED CONTRIBUTION PLAN</u>	Attracting & Retaining A Quality Workforce	Facilitates Mobility	Ensuring Adequate Retirement Income
Portability of Benefits	YES	YES	YES
Portability of Assets	YES	YES	YES
Portability of Service*	N/A	N/A	N/A

* Please note that service does not apply since that is not a characteristic of a defined contribution system.

We analyzed the current PERS plan using the same matrix.

<u>CURRENT PERS</u>	Attracting & Retaining A Quality Workforce	Facilitates Mobility	Ensuring Adequate Retirement Income
Portability of Benefits	YES	YES	YES
Portability of Assets**	Partial	Partial	Partial
Portability of Service*	Partial	Partial	Partial

* To State retirement systems.

** Employee contribution plus interest, however, does not include employer contribution.

PORTABILITY STUDY

INCREASING PORTABILITY IN PERS

The next step in the study process was to identify some concepts to increase the portability of the existing PERS defined benefit plan. Four ideas were developed:

1. Reduce the vesting schedule from five to three years (this increases the portability of the benefits). This increases the portability of benefits by allowing short-term employees to vest more quickly and helps attract people to public employment.
2. Allow members to vest in the employer contribution based on their participation in the deferred compensation program (this increases the portability of assets and benefits). See the article *Incentive Matching Program*, following.
3. Allow members to rollover funds into the PERS retirement plan (this increases the portability of assets).
4. Allow members to purchase years of service credit on a pretax basis (this increases portability of benefits).

The PERS defined benefit system was again analyzed in terms of the portability analysis matrix, assuming the plan included the above proposed provisions.

<u>PERS WITH NEW PROVISIONS</u>	Attracting & Retaining A Quality Workforce	Facilitates Mobility	Ensuring Adequate Retirement Income
Portability of Benefits	YES	YES	YES
Portability of Assets	YES	YES	YES
Portability of Service	Partial	Partial	Partial

As the above analysis indicates, adding these provisions to the existing PERS plan addresses the portability concerns and would make the existing plan as portable as a defined contribution plan, while maintaining the security of a defined benefit plan for all members.

PORTABILITY STUDY

PROPOSED DEFERRED COMPENSATION INCENTIVE MATCHING PROGRAM - VESTING IN EMPLOYER CONTRIBUTION

Presently there are two primary ways an individual receives a benefit under the PERS plan:

- 1) At retirement, a vested member draws a monthly benefit based on the retirement formula. That formula is Final Average Salary (FAS) times Years of Service (YOS) times the multiplier.
- 2) At termination, a member may withdraw his or her cash balance in PERS, whether vested or not. The cash balance is the employee contribution (4% of pay) plus annual interest of 7.5%. In withdrawing the cash balance a member gives up his or her right to a retirement benefit based upon the formula.

The Incentive Matching Program proposal improves portability and encourages employee savings for retirement. For those people who withdraw their cash balance under method #2, this proposal would allow them to withdraw not only the employee contributions with interest, but also the employer contributions with interest, as it vests. For those who draw under method #1 their minimum guaranteed retirement benefit or cash balance would be greater. The amount of employer contribution that would vest could be up to 100% of the amount the member contributed to the State's defined contribution plan (the deferred compensation or 457 plan), with these limits:

Minimum	\$25 per month
First year (of service)	1% of salary
After one year	2% of salary
After two years	3% of salary
After three years	4% of salary

For example, a new employee earning \$20,000 per year, who took full advantage of this program, would see an increase in his or her cash balance of:

After one year (of service)	38% increase
After two years	44% increase
After three years	54% increase
After four years	65% increase

The proposed Incentive Matching Program has the added advantage of encouraging employees to save more for their retirement. It is estimated that, if the concept were included in the PERS system, it would increase retirement savings and participation in the deferred compensation program.

INCENTIVE MATCHING PROPOSAL

PRESENT NDPERS PLAN

PROPOSED NDPERS PLAN

Years of Service	Salary*	PERS Cash Balance (1)	457 Cash Balance (3)	Total Cash Balance	PERS Defined Benefit (4)	PERS Cash Balance (2)	% Increase	457 Cash Balance (3)	Total Cash Balance	% Increase	PERS Defined Benefit (4)
1	\$20,000	\$800	\$0	\$800	N/V	\$1,100	37.5%	\$300	\$1,400	75.0%	N/V
2	\$21,000	\$1,700	\$0	\$1,700	N/V	\$2,443	43.7%	\$743	\$3,185	87.4%	N/V
3	\$22,000	\$2,708	\$0	\$2,708	N/V	\$4,166	53.9%	\$1,458	\$5,624	107.7%	5.31%
4	\$23,000	\$3,831	\$0	\$3,831	N/V	\$6,318	64.9%	\$2,488	\$8,806	129.9%	7.08%
5	\$23,000	\$5,038	\$0	\$5,038	8.85%	\$8,632	71.3%	\$3,594	\$12,226	142.7%	8.85%
6	\$23,000	\$6,336	\$0	\$6,336	10.62%	\$11,119	75.5%	\$4,784	\$15,903	151.0%	10.62%
7	\$24,000	\$7,771	\$0	\$7,771	12.39%	\$13,873	78.5%	\$6,102	\$19,976	157.1%	12.39%
8	\$24,000	\$9,314	\$0	\$9,314	14.16%	\$16,834	80.7%	\$7,520	\$24,354	161.5%	14.16%
9	\$24,000	\$10,972	\$0	\$10,972	15.93%	\$20,016	82.4%	\$9,044	\$29,061	164.9%	15.93%
10	\$25,000	\$12,795	\$0	\$12,795	17.70%	\$23,518	83.8%	\$10,722	\$34,240	167.6%	17.70%
11	\$25,000	\$14,755	\$0	\$14,755	19.47%	\$27,281	84.9%	\$12,527	\$39,808	169.8%	19.47%
12	\$26,000	\$16,901	\$0	\$16,901	21.24%	\$31,408	85.8%	\$14,506	\$45,914	171.7%	21.24%
13	\$26,000	\$19,209	\$0	\$19,209	23.01%	\$35,843	86.6%	\$16,634	\$52,477	173.2%	23.01%
14	\$27,000	\$21,730	\$0	\$21,730	24.78%	\$40,691	87.3%	\$18,962	\$59,653	174.5%	24.78%
15	\$27,000	\$24,439	\$0	\$24,439	26.55%	\$45,903	87.8%	\$21,464	\$67,367	175.6%	26.55%
16	\$28,000	\$27,392	\$0	\$27,392	28.32%	\$51,586	88.3%	\$24,194	\$75,779	176.6%	28.32%
17	\$28,000	\$30,567	\$0	\$30,567	30.09%	\$57,695	88.8%	\$27,128	\$84,823	177.5%	30.09%
18	\$29,000	\$34,019	\$0	\$34,019	31.86%	\$64,342	89.1%	\$30,323	\$94,665	178.3%	31.86%
19	\$29,000	\$37,731	\$0	\$37,731	33.63%	\$71,488	89.5%	\$33,757	\$105,244	178.9%	33.63%
20	\$30,000	\$41,760	\$0	\$41,760	35.40%	\$79,249	89.8%	\$37,489	\$116,738	179.5%	35.40%
21	\$30,000	\$46,093	\$0	\$46,093	37.17%	\$87,593	90.0%	\$41,500	\$129,093	180.1%	37.17%
22	\$31,000	\$50,789	\$0	\$50,789	38.94%	\$96,642	90.3%	\$45,853	\$142,495	180.6%	38.94%
23	\$31,000	\$55,839	\$0	\$55,839	40.71%	\$106,370	90.5%	\$50,532	\$156,902	181.0%	40.71%
24	\$32,000	\$61,307	\$0	\$61,307	42.48%	\$116,908	90.7%	\$55,602	\$172,510	181.4%	42.48%
25	\$32,000	\$67,185	\$0	\$67,185	44.25%	\$128,236	90.9%	\$61,052	\$189,288	181.7%	44.25%

- (1) - The employee contribution is 4% of salary with 7.5% annual interest credited to the account balance.
- (2) - The employee contribution is 4% of salary plus a matching of the 457 plan contribution (minimum of \$25 up to 4% depending on the year of service). An annual interest rate of 7.5% is credited to the account balance each year.
- (3) - PERS 457 Deferred Compensation Plan is a supplemental defined contribution plan. A rate of return of 7.5% is added to the account balance each year.
- (4) - PERS Defined Benefit is the percent of final average salary that is earned as a retirement benefit at normal retirement. For example, an employee with a \$2,000 per month salary and 20 years of service, would have a percent of 35.4% (20 X 1.77) and a benefit of \$708 per month for life (\$2,000 X 35.4%).
N/V - Not Vested.

Please note the member has a choice between either the defined benefit or the NDPERS cash balance.

SD 2071
11/25/99

TESTIMONY
OF
SPARB COLLINS
ON
SB 2071

Mr. Chairman, members of the Committee, good morning. My name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System.

SB 2071 relates to the main retirement system that is administered by the Public Employees Retirement System. There are approximately 16,000 active participants in this system. All state employees participate, with the exception of certain employees of Higher Education who participate in TIAA-CREF, the Highway Patrol and the Judges. There are also 197 participating political subdivisions that are part of the PERS retirement system. This includes 52 cities and park districts, 40 counties, 64 school districts and 41 other political subdivisions. Also, there are approximately 4,600 retirees. The bill before you today has three basic proposals:

- 1) **It increases the multiplier from 1.77 to 1.89.** This change will increase the benefit available to employees when they retire by approximately 7%.

- 2) **The bill also provides for an 8% adjustment for our retirees.** I have attached, for your information, a table that shows our present yearly retirement payments by North Dakota county and the increase that will result because of the 8% adjustment. In total this adjustment is a little over \$2.5 million in additional retirement payments. Since those

retirement payments are subject to state income and sales tax, this will generate additional income to the general fund, which is reflected in the fiscal note as revenues.

- 3) **The bill proposes three changes in the retirement system that will increase the portability of retirement benefits.** One of these changes is the reason for the appropriation request. However, before discussing the appropriation, I will provide some background information on why the concern with portability. This began as a result of study resolution passed during the last Session of the North Dakota Legislature. That study resolution stated,

"It is the intent of the Fifty-fifth Legislative Assembly that during the 1997-98 interim the Office of Management and Budget and the Public Employees Retirement System report to the Legislative Interim Employee Benefits Programs Committee on pension portability. The report should focus on issues of pension portability and how to balance the needs of long- and short-term employees within the defined benefit or defined contribution plan concepts."

The Office of Management and Budget and PERS conducted the study on pension portability and reported its findings in February of last year. Generally, portability refers to the ability to carry your retirement benefits from one employer to another, continuing to build your retirement benefits without significant interruption. Portability has three basic features, 1) *portability of benefits* which is the ability to vest in a retirement benefit, 2) *portability of assets* which is the ability to take a cash distribution of your earned retirement benefit and transfer it, and 3) *portability of service* which is the ability to use service from one retirement system to vest in another.

After examining PERS, as it relates to each aspect of portability, our study identified three changes: 1) to reduce the vesting period from five years to three years for all members thereby increasing portability of benefits, 2) to allow new members to roll funds into the PERS retirement fund thereby increasing portability of assets and, 3) to increase the cash distribution benefit by establishing a method that will allow members to vest in the employer contribution for purposes of cash distribution, thereby increasing portability of assets. *The third portability proposal is the reason for the appropriation request before you today.* This proposal responds to two issues: 1) as mentioned, it increases the *portability of assets* in the PERS defined benefit plan by making both the employee contribution, and the portion of the employer contribution that they have vested in, portable to them in terms of a cash distribution benefit; 2) it also encourages members to participate in the State's defined contribution plan. The amount of employer contribution that would vest for a cash distribution benefit would be based upon a member's contribution to the State's existing defined contribution plan, which we call our 457 or deferred compensation plan. Specifically, if a member put a minimum of \$25 of their salary, up to 4% of their salary, into the State's 457 plan they would then increase their cash distribution benefit in the PERS defined benefit plan by an amount equal to what they put into the 457 plan. This would then create an incentive for employees to engage in supplemental retirement savings. Currently about 15% of State employees participate in the 457 plan. Our estimate is that as a result of this proposal participation will increase to fifty or seventy percent of eligible employees.

It is as a result of this increase in participation in the 457 plan that PERS has proposed the appropriation contained in this bill. We estimate that, of the 16,000 active employees in the retirement system today, approximately 9,000-10,000 of those employees will be actively

participating in the deferred compensation program as a result of this proposal. Presently our program has approximately 2,500 participants. Consequently, the passage of this portability provision will potentially increase that participation by 7,500 people. These new participants will be contributing more funds to the deferred compensation program each month that will need to be monitored and they will also be requiring additional services. These services will include financial planning seminars in order to give participants the necessary tools to make the proper investment choices and also general administrative tasks will increase as well. These administrative tasks include enrollments, changes, increasing and decreasing of contributions and making elections at termination. Another major area of administrative activity will be working with our 13 vendors and 150 agents in North Dakota who can offer their products to our members. Therefore, PERS is proposing the appropriation in this bill of \$250,000 for the biennium, or \$125,000 per year, so that we can effectively respond to these increased program activities. Our proposal requests three FTEs. One FTE is a benefits specialist. This benefits specialist would be responsible for working with these new members to explain the defined contribution plan, and for organizing and conducting financial planning seminars for those members. The second FTE is an accountant. With the increased cash flows in the program and the matching provisions to the defined benefits system, we will need to effectively monitor these contributions to the 250 different investment choices and the recording of these liabilities in the defined benefit system. Third, we are proposing a member services position. This individual will assist in handling routine questions concerning enrollment and will also assist with the processing of the necessary enrollment materials and ongoing elections by the members. Specifically, how the special line item is allocated is:

Salaries	\$173,680
Operating	59,600
Equipment	<u>16,720</u>
	\$250,000

The above funding source is special funds.

The proposal for vesting in the employer contribution will make the PERS defined benefit system as portable as a defined contribution system. If the desire of the Legislature is to increase portability of our retirement plan, this proposal will accomplish that by making the PERS defined benefit system a hybrid plan. This means that the plan will continue to reward longevity and maintain the features of the defined benefit system while incorporating many of the portability features of a defined contribution system, to address the needs of shorter term employees. In order to effectively implement the portability proposal, we need to request this additional appropriation. If the Legislature should elect not to enact this provision, we would not need the appropriation. The multiplier increase and retiree adjustment provisions of this bill do not relate to the appropriation.

Mr. Chairman, members of the committee, we appreciate your consideration of this proposal. This completes my testimony.

Attachments



NORTH DAKOTA
PUBLIC EMPLOYEES ASSOCIATION

AMERICAN FEDERATION
OF TEACHERS LOCAL 4660 AFL-CIO



EAST BROADWAY AVE, SUITE 1220
GRAND FORK, NORTH DAKOTA 58501-3396

701-223-1964
1-800-472-2698

EMAIL: ndpea@btigate.com
WEBSITE: www.ndpea.org

TESTIMONY IN SUPPORT OF SB 2071

Before the Senate Government and Veterans Affairs Committee North Dakota Public Employees Association, AFT Local 4660, AFL-CIO

Chairman Krebsbach and members of the Senate Government and Veterans Affairs Committee, my name is Chris Runge and I am Executive Director of the North Dakota Public Employees Association, AFT 4660, AFL-CIO. I have the privilege of representing active and retired public employees and I am here to testify in favor of Senate Bill 2071. First of all, I want to commend Sparb Collins, Executive Director of the ND Public Employees Retirement System, his terrific staff and the ND PERS Board of Directors. They have done a superb job of managing the retirement system for the current retirees and looking out for future retirees.

NDPERS involved employee organizations such as NDPEA in studying the pension portability issue during this past interim and we are thankful for the opportunity to have participated in this most important discussion and in the design of SB 2071. SB 2071 more than adequately addresses, I believe, the questions that the 1997 Legislature had concerning portability and defined contribution and defined benefit pension plans. I have spent a great deal of time over the last eighteen months talking to public employee union members about pension issues and what we call the three legged retirement stool. The three-legged stool consists of a strong Social Security system, an employee sponsored defined benefits pension plan, and a good supplementary defined contributions pension plan again. PERS has two out of the three. The third leg, Social Security will have to be handled on a national level and we are involved in

Quality Services from Quality People

Testimony

that discussion but SB 2071 deals with the other two legs, a strong employer sponsored defined benefits plan and a supplemental personal savings plan. NDPEA strongly supports the matching incentive program that Sparb explained earlier. Sparb has met with groups of NDPEA members and they are very enthusiastic about this program. In fact, NDPEA delegates at our Delegate Assembly this past October unanimously passed a resolution supporting this SB 2071. The matching incentive program meets the needs of the short-term employee by offering portability while at the same time recognizing the loyalty of the long-term employee by maintaining a strong defined benefits pension plan.

NDPEA recognizes that there is a national discussion on defined benefit and defined contribution pension plans. Clearly, large employers still favor defined benefit plans such as the NDPERS plan but offer defined contribution plans as a supplement not a substitution. NDPEA strongly believes that the NDPERS defined benefit pension is a pension supported by the majority of public employees. In fact my office has not received a single phone call clamoring to change the PERS plan to a defined contribution pension plan. The calls I do receive overwhelmingly support the current proposed legislation.

NDPEA strongly supports SB 2071 and urges a Yes vote in support of this legislation.

Thank you and I am available to answer any questions you may have.

Government and Veterans Affairs Committee

Senate Bill 2071

January 14, 1999

Madam Chair, Committee members, for the record my name is Weldee Baetsch representing the Association of Former Public Employees. Our organization supports SB 2071 because the bill continues the defined benefit provision of the current retirement program while at the same time addresses the concerns for retirement fund portability.

Furthermore, SB 2071 bill offers employees a basic retirement package coupled with an opportunity to invest with financial service vendors to supplement their retirement income.

We believe that the analysis conducted by the Segal Company of SB 2071 underscores the financial soundness of this bill while at the same time addresses emerging needs of public employees.

Thank you for the opportunity to share our thoughts with you. We urge a favorable vote on this bill.

SB 2071
1/25/99

(2)



NORTH DAKOTA
PUBLIC EMPLOYEES ASSOCIATION

AMERICAN FEDERATION
OF TEACHERS LOCAL 4660 AFL-CIO



3333 EAST BROADWAY AVE, SUITE 1220
BISMARCK, NORTH DAKOTA 58501-3396

701-223-1964
1-800-472-2698

EMAIL: ndpea@btigate.com
WEBSITE: www.ndpea.org

TESTIMONY IN SUPPORT OF SB 2071

**Before the Senate Appropriations Committee
North Dakota Public Employees Association, AFT Local 4660, AFL-CIO
January 25, 1999**

Chairman Nething and members of the Senate Appropriations Committee, my name is Chris Runge and I am Executive Director of the North Dakota Public Employees Association, AFT 4660, AFL-CIO. I have the privilege of representing active and retired public employees and I am here to testify in favor of Senate Bill 2071. First of all, I want to commend Sparb Collins, Executive Director of the ND Public Employees Retirement System, his terrific staff and the ND PERS Board of Directors. They have done a superb job of managing the retirement system for the current retirees and looking out for future retirees.

NDPERS involved employee organizations such as NDPEA in studying the pension portability issue during this past interim and we are thankful for the opportunity to have participated in this most important discussion and in the design of SB 2071. SB 2071 more than adequately addresses, I believe, the questions that the 1997 Legislature had concerning portability and defined contribution and defined benefit pension plans. I have spent a great deal of time over the last eighteen months talking to public employee union members about pension issues and what we call the three legged retirement stool. The three-legged stool consists of a strong Social Security system, an employee sponsored defined benefits

Quality Services from Quality People

Testimony

pension plan, and a good supplementary defined contributions pension plan again. PERS has two out of the three. The third leg, Social Security will have to be handled on a national level and we are involved in that discussion but SB 2071 deals with the other two legs, a strong employer sponsored defined benefits plan and a supplemental personal savings plan.

NDPEA strongly supports the matching incentive program that Sparb explained earlier. Sparb has met with groups of NDPEA members and they are very enthusiastic about this program. In fact, NDPEA delegates at our Delegate Assembly this past October unanimously passed a resolution supporting this SB 2071. The matching incentive program meets the needs of the short-term employee by offering portability while at the same time recognizing the loyalty of the long-term employee by maintaining a strong defined benefits pension plan.

NDPEA recognizes that there is a national discussion on defined benefit and defined contribution pension plans. Clearly, large employers still favor defined benefit plans such as the NDPERS plan but offer defined contribution plans as a supplement not a substitution for defined benefit retirement programs. NDPEA strongly believes that the NDPERS defined benefit pension is a pension supported by the vast majority of public employees. In fact my office has not received a single phone call clamoring to change the PERS plan to a defined contribution pension plan. The calls I do receive overwhelmingly support the current proposed legislation.

NDPEA strongly supports SB 2071 and urges a Yes vote in support of this legislation.

Thank you and I am available to answer any questions you may have.

TESTIMONY
OF
SHARON SCHIERMEISTER
ON
SB 2071

Mr. Chairman, members of the Committee, good morning. My name is Sharon Schiermeister. I am Fiscal Officer for the North Dakota Public Employees Retirement System.

SB 2071 relates to the main retirement system that is administered by the Public Employees Retirement System. There are approximately 16,000 active participants in this system. All state employees participate, with the exception of certain employees of Higher Education who participate in TIAA-CREF, the Highway Patrol and the Judges. There are also 197 participating political subdivisions that are part of the PERS retirement system. This includes 52 cities and park districts, 40 counties, 64 school districts and 41 other political subdivisions. Also, there are approximately 4,600 retirees. The bill before you today has three basic proposals:

- 1) **It increases the multiplier from 1.77 to 1.89.** This change will increase the benefit available to employees when they retire by approximately 7%.

- 2) **The bill also provides for an 8% adjustment for our retirees.** I have attached, for your information, a table that shows our present yearly retirement payments by North Dakota county and the increase that will result because of the 8% adjustment. In total this adjustment

is a little over \$2.5 million in additional retirement payments. Since those retirement payments are subject to state income and sales tax, this will generate additional income to the general fund, which is reflected in the fiscal note as revenues.

- 3) **The bill proposes three changes in the retirement system that will increase the portability of retirement benefits.** One of these changes is the reason for the appropriation request. However, before discussing the appropriation, I will provide some background information on why the concern with portability. This began as a result of study resolution passed during the last Session of the North Dakota Legislature. That study resolution stated,

"It is the intent of the Fifty-fifth Legislative Assembly that during the 1997-98 interim the Office of Management and Budget and the Public Employees Retirement System report to the Legislative Interim Employee Benefits Programs Committee on pension portability. The report should focus on issues of pension portability and how to balance the needs of long- and short-term employees within the defined benefit or defined contribution plan concepts."

The Office of Management and Budget and PERS conducted the study on pension portability and reported its findings in February of last year. Generally, portability refers to the ability to carry your retirement benefits from one employer to another, continuing to build your retirement benefits without significant interruption. Portability has three basic features, 1) *portability of benefits* which is the ability to vest in a retirement benefit, 2) *portability of assets* which is the ability to take a cash distribution of your earned retirement benefit and transfer it, and 3) *portability of service* which is the ability to use service from one retirement system to vest in another.

After examining PERS, as it relates to each aspect of portability, our study identified three changes: 1) to reduce the vesting period from five years to three years for all members thereby increasing portability of benefits, 2) to allow new members to roll funds into the PERS retirement fund thereby increasing portability of assets and, 3) to increase the cash distribution benefit by establishing a method that will allow members to vest in the employer contribution for purposes of cash distribution, thereby increasing portability of assets. *The third portability proposal is the reason for the appropriation request before you today.* This proposal responds to two issues: 1) as mentioned, it increases the *portability of assets* in the PERS defined benefit plan by making both the employee contribution, and the portion of the employer contribution that they have vested in, portable to them in terms of a cash distribution benefit; 2) it also encourages members to participate in the State's defined contribution plan. The amount of employer contribution that would vest for a cash distribution benefit would be based upon a member's contribution to the State's existing defined contribution plan, which we call our 457 or deferred compensation plan. Specifically, if a member put a minimum of \$25 of their salary, up to 4% of their salary, into the State's 457 plan they would then increase their cash distribution benefit in the PERS defined benefit plan by an amount equal to what they put into the 457 plan. This would then create an incentive for employees to engage in supplemental retirement savings. Currently about 15% of State employees participate in the 457 plan. Our estimate is that as a result of this proposal participation will increase to fifty or seventy percent of eligible employees.

It is as a result of this increase in participation in the 457 plan that PERS has proposed the appropriation contained in this bill. Of the 16,000 active employees in the retirement system today,

we estimate that approximately 10,000 of these employees will actively participate in the deferred compensation program as a result of this proposal; compared to the current 2,500 participants. Consequently, the passage of this portability provision will potentially increase that participation by 7,500 people. In other words, as a result of the incentive proposed here, members will be more likely to participate than ever before. Due to the diverse population of the NDPERS system, the projected increase in participants will generate a substantial increase in the amount and type of services requested also. It is our determination that an additional 3 FTE's will be necessary to adequately provide these services. As for determining what level of service is adequate, the Department of Labor has begun to offer guidance for fiduciaries of a plan such as the proposed plan. To reduce risk to the plan fiduciaries for poor investment choices made by participants, the Department of Labor suggests, at a minimum, education on the following topics be provided to participants:

- Relationship of risk/rate of return
- Diversification
- Dollar cost averaging
- Compounded return
- Explanation of tax-deferred investments
- Historic differences in rates of return on asset categories and the effects of inflation
- Estimation of future retirement income needs
- Determination of time horizons, and
- Assessment of risk tolerance

One of the FTEs requested is a benefits specialist. It is anticipated that this position will be responsible for the development of materials, and organizing and presenting educational seminars to provide the above participant education. In addition to these stated education/communication responsibilities, this position will be responsible for explaining the new portability features to new and existing members as well as a multitude of administrative tasks. These

administrative tasks will include facilitating enrollments and other required paperwork including increases or decreases in the amount of contributions, beneficiary designations, etc. The specialist position is also responsible for counseling participants in the various aspects of the retirement programs, such as contribution limits, eligibility requirements, transfer options, eligible provider companies and their products, distribution options, and any other details of either the defined benefit system or the deferred compensation program applicable to participants personally. In addition, this position will be responsible for conducting and processing death claims between the defined benefit plan and the deferred compensation program. Participants of the deferred compensation program are also eligible to apply for financial hardship applications as well as catch-up provisions under the plan, and often times need individual attention in the application process. Counseling is usually done on a one-to-one basis or over the telephone with a written follow-up, based upon the preference of the participant. Another major area of administrative activity will be working with our thirteen vendors and their individual representatives, of which there are presently almost two hundred.

The second FTE being requested is a member service representative. This position will be responsible for handling incoming calls to the agency regarding this new program and offer assistance in the following areas:

- Respond to inquiries relating to the program benefits and the portability features.
- Facilitate enrollments into the Deferred Compensation plan.
- Assist new members with enrollment procedures.
- Assist members in making changes to their current elections.
- Explanation of how the new program may benefit that member to participate.

- Explanation of the various aspects of the new program, such as contribution limits, eligibility requirements, transfer options, eligible provider companies, distribution options and any other details that would assist that member in their elections or participation.
- Assist provider representatives in the completion of enrollment forms for members participating with their company.

The member services position will handle telephone inquiries regarding this program up until it is determined that one-on-one counseling with a benefits specialist would be of benefit to the member. Examples of inquiries that require assistance by the benefit specialist include financial hardship applications, financial calculations or projections, and inquiries regarding the catch-up provision. The member services position complements the benefits specialist position in that the member services position responds to telephone inquiries, thereby freeing up the time needed by the benefits specialists to provide one-on-one counseling services, as well as, conduct educational seminars.

The third FTE is an accountant. This position will be responsible for the following new duties:

- Recordkeeping for the employer contribution vesting in the defined benefit plan.
- Reconciling deferred compensation deductions reported by employers participating in the State's 457 plan (currently, there are 50 participating employers).
- Reconciling deferred compensation deductions reported by employers with other approved supplemental retirement programs.

The portability provision adds an increased level of complexity to the current recordkeeping system for this plan. Benefits under the defined benefit system will be based upon each member's level of participation in the deferred compensation plan.

This position will also be responsible for duties which PERS currently performs as part of our fiduciary responsibility as the administrator of the deferred compensation plan. The scope of these duties will expand proportionately with the increase in participation and cash flows into the program and, therefore, the need for the additional accountant position. This new position will also perform internal control procedures to monitor the investment provider for compliance in the following areas (currently there are 16 investment providers to monitor, with over 250 different investment options):

- Transactions placed by a participant are being carried out correctly
- Timely investment of payroll deposits
- Timely transfers
- Timely distributions and accurate distribution amounts
- Proper tax reporting to the recipient
- Contribution limits are not being exceeded
- Assets reported by the investment provider agree to payroll deposits reported by employers
- Contract provisions/plan amendments are being adhered to
- General compliance with IRC Section 457

The special line item is allocated to:

Salaries	\$173,680
Operating	59,600
Equipment	<u>16,720</u>
	\$250,000

The above funding source is special funds.

The proposal for vesting in the employer contribution will make the PERS defined benefit system as portable as a defined contribution system. If the desire of the Legislature is to increase portability of our retirement plan, this proposal will accomplish that by making the PERS defined benefit system a hybrid plan. This means that the plan will continue to reward longevity and maintain

the features of the defined benefit system, while incorporating many of the portability features of a defined contribution system to address the needs of shorter-term employees. In order to effectively implement the portability proposal, we need to request this additional appropriation. If the Legislature should elect not to enact this provision, we would not need the appropriation. The multiplier increase and retiree adjustment provisions of this bill do not relate to the appropriation.

Mr. Chairman, members of the committee, we appreciate your consideration of this proposal.

This completes my testimony.

Attachments

INCENTIVE MATCHING PROPOSAL

SPARB COLLIER
PERS
SB 2011

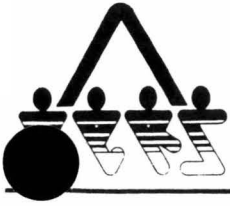
PRESENT NDPERS PLAN

PROPOSED NDPERS PLAN

Years of Service	Salary*	PERS Cash Balance (1)	457 Cash Balance (3)	Total Cash Balance	PERS Defined Benefit (4)	PERS Cash Balance (2)	% Increase	457 Cash Balance (3)	Total Cash Balance	% Increase	PERS Defined Benefit (4)
1	\$20,000	\$800	\$0	\$800	NV	\$1,100	37.5%	\$300	\$1,400	75.0%	NV
2	\$21,000	\$1,700	\$0	\$1,700	NV	\$2,443	43.7%	\$743	\$3,185	87.4%	NV
3	\$22,000	\$2,708	\$0	\$2,708	NV	\$4,166	53.9%	\$1,458	\$5,624	107.7%	5.31%
4	\$23,000	\$3,831	\$0	\$3,831	NV	\$6,318	64.9%	\$2,488	\$8,806	129.9%	7.08%
5	\$23,000	\$5,038	\$0	\$5,038	8.85%	\$8,632	71.3%	\$3,594	\$12,226	142.7%	8.85%
6	\$23,000	\$6,336	\$0	\$6,336	10.62%	\$11,119	75.5%	\$4,784	\$15,903	151.0%	10.62%
7	\$24,000	\$7,771	\$0	\$7,771	12.39%	\$13,873	78.5%	\$6,102	\$19,976	157.1%	12.39%
8	\$24,000	\$9,314	\$0	\$9,314	14.16%	\$16,834	80.7%	\$7,520	\$24,354	161.5%	14.16%
9	\$24,000	\$10,972	\$0	\$10,972	15.93%	\$20,016	82.4%	\$9,044	\$29,061	164.9%	15.93%
10	\$25,000	\$12,795	\$0	\$12,795	17.70%	\$23,518	83.8%	\$10,722	\$34,240	167.6%	17.70%
11	\$25,000	\$14,755	\$0	\$14,755	19.47%	\$27,281	84.9%	\$12,527	\$39,808	169.8%	19.47%
12	\$26,000	\$16,901	\$0	\$16,901	21.24%	\$31,408	85.8%	\$14,506	\$45,914	171.7%	21.24%
13	\$26,000	\$19,209	\$0	\$19,209	23.01%	\$35,843	86.6%	\$16,634	\$52,477	173.2%	23.01%
14	\$27,000	\$21,730	\$0	\$21,730	24.78%	\$40,691	87.3%	\$18,962	\$59,653	174.5%	24.78%
15	\$27,000	\$24,439	\$0	\$24,439	26.55%	\$45,903	87.8%	\$21,464	\$67,367	175.6%	26.55%
16	\$28,000	\$27,392	\$0	\$27,392	28.32%	\$51,586	88.3%	\$24,194	\$75,779	176.6%	28.32%
17	\$28,000	\$30,567	\$0	\$30,567	30.09%	\$57,695	88.8%	\$27,128	\$84,823	177.5%	30.09%
18	\$29,000	\$34,019	\$0	\$34,019	31.86%	\$64,342	89.1%	\$30,323	\$94,665	178.3%	31.86%
19	\$29,000	\$37,731	\$0	\$37,731	33.63%	\$71,488	89.5%	\$33,757	\$105,244	178.9%	33.63%
20	\$30,000	\$41,760	\$0	\$41,760	35.40%	\$79,249	89.8%	\$37,489	\$116,738	179.5%	35.40%
21	\$30,000	\$46,093	\$0	\$46,093	37.17%	\$87,593	90.0%	\$41,500	\$129,093	180.1%	37.17%
22	\$31,000	\$50,789	\$0	\$50,789	38.94%	\$96,642	90.3%	\$45,853	\$142,495	180.6%	38.94%
23	\$31,000	\$55,839	\$0	\$55,839	40.71%	\$106,370	90.5%	\$50,532	\$156,902	181.0%	40.71%
24	\$32,000	\$61,307	\$0	\$61,307	42.48%	\$116,908	90.7%	\$55,602	\$172,510	181.4%	42.48%
25	\$32,000	\$67,185	\$0	\$67,185	44.25%	\$128,236	90.9%	\$61,052	\$189,288	181.7%	44.25%

- (1) - The employee contribution is 4% of salary with 7.5% annual interest credited to the account balance.
 - (2) - The employee contribution is 4% of salary plus a matching of the 457 plan contribution (minimum of \$25 up to 4% depending on the year of service). An annual interest rate of 7.5% is credited to the account balance each year.
 - (3) - PERS 457 Deferred Compensation Plan is a supplemental defined contribution plan. A rate of return of 7.5% is added to the account balance each year.
 - (4) - PERS Defined Benefit is the percent of final average salary that is earned as a retirement benefit at normal retirement. For example, an employee with a \$2,000 per month salary and 20 years of service, would have a percent of 35.4% (20 X 1.77) and a benefit of \$708 per month for life (\$2,000 X 35.4%).
- NV - Not Vested.

* Please note the member has a choice between either the defined benefit or the NDPERS cash balance.



North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1214
Bismarck, North Dakota 58502

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377
FAX: (701) 328-3920

MEMORANDUM

TO: Representative Matthew Klein
Chairman, House Government & Veterans Affairs Committee

FROM: Sparb Collins

Date: March 2, 1999

Attached is material you requested the other day concerning SB 2071. The attachments are:

1. A spreadsheet of the history of PERS funded ratio and actuarial margins.
2. A table showing some of the key provisions of the PERS retirement plan, such as contribution, vesting, goals, retirement formula, assets and membership.
3. A narrative history of the benefit multiplier changes, and other plan changes, since the plan's inception in 1977.

If I can be of any other assistance, please let me know. I can be reached at 328-3901.

Attachments

-
- | | | |
|------------------------------------|-----------------------|-----------------------------------|
| • FlexComp Program | • Retirement Programs | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees | • Deferred Compensation Program |
| • Dental/Vision Program | - Highway Patrol | • Long Term Care Program |
| | - National Guard | |
| | - Judges | |
| | - Prior Service | |

North Dakota Public Employees Retirement System

	Retirement Multiplier	Retiree Benefit Increase	Cost of Living (CPI) 1	Funding Ratio 2	NDPERS Margin History		
					Valuation 3	Changes 4	After 5
1989-1990	1.650	0.0%	6.1%	100.4	0.00	0.00	0.00
1990-1991	1.690	2.4%	3.1%	101.5	0.42	0.34	0.08
1991-1992	1.690	0.0%	2.9%	100.7	0.24	0.00	0.24
1992-1993	1.725	2.0%	2.7%	100.9	0.59	0.59	0.00
1993-1994	1.740	1.0%	2.7%	99.7	0.13	0.13	0.00
1994-1995	1.740	0.0%	2.5%	98.9	0.00	0.00	0.00
1995-1996	1.740	0.0%	3.3%	102.8	0.70	0.00	0.70
1996-1997	1.770	5.0%	1.7%	104.0	0.89	0.84	0.05
1997-1998	1.770	0.0%	1.6%	108.9	1.18	0.00	1.18
1998-1999	1.890	8.0%		111.3	1.61	1.58	0.03

1. U.S. Department of Labor Statistics – Consumer Price Index (CPI-U)
2. Funding Ratio is actuarial value of assets divided by actuarial accrued liabilities based on that year's annual valuation.
3. Valuation is the margin as of the date of the annual valuation which is as of July 1 of each year (i.e. 1989-1990 would be July 1, 1989).
4. Changes is the estimated actuarial cost of legislative changes considered during that Session.
5. After is the projected remaining margin after legislative changes.

NDPERS BENEFIT CHANGE HISTORY

- 7-1-77 Defined benefit pension plan established with a multiplier of 1.04%. Service credit was limited to a maximum of 30 years for benefit calculation purposes. Vesting requirement of 10 years of service or age 65.
- 7-1-83 Multiplier was increased to 1.20%. The 30-year maximum was removed in the benefit calculation and also used in recalculating retirees benefits. Disability benefit changed from the multiplier to 60% of final average salary minus social security and workers compensation benefits.
- 7-1-85 Multiplier was increased to 1.30%. Benefits were increased by 8.33% for retirees. Rule of 90 with minimum age 60 implemented.
- 7-1-87 Multiplier was increased to 1.50%. Benefits were increased by 15.4% for retirees. Vesting requirement was changed to 8 years of service or age 65. Minimum age for Rule of 90 repealed.
- 7-1-89 Multiplier was increased to 1.65%. Benefits were increased by 15.76% for retirees, (5.76% associated with the change from 60 to 36 months in the final average salary calculation and 10% associated with the multiplier increase). All individuals receiving disability benefits were given the 5.76% increase regardless of whether or not benefits were based on the multiplier. Disability pensioners whose benefits were based on the multiplier were given a 10% increase also. Disability benefits were increased to 70% of final average salary minus workers compensation benefits and social security benefits. A minimum disability benefit of \$100 per month was established. Vesting requirement was changed to 5 years of service or age 65.
- 7-1-91 Multiplier was increased to 1.69%. Benefits were increased by 2.42% for retirees. Disability benefit changed from 70% formula to 25% of pay with a minimum benefit of \$100 per month. Eligibility for Social Security disability benefits was removed as a requirement for applicants for NDPERS disability benefits.
- 8-1-93 Multiplier was increased to 1.725%. Rule of 88 implemented. Benefits were increased by 2% for retirees.
- 1-1-94 Multiplier was increased to 1.74%. Benefits were increased by 1% for retirees.
- 8-1-97 Multiplier increased to 1.77%. Rule of 85 implemented. Benefits increased by 5% for retirees. (2% for multiplier and 3% for Rule of 85).