

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1217

2001 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1217

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1217 A

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 2/1/01

Tape Number	Side A	Side B	Meter #
3	X		0-END
		X	0-363
Committee Clerk Signature <i>Robin L. Small</i>			

Minutes:

REP. M. KLEIN called the meeting to order, with all members present.

In favor:

REP. GRANDE introduced the bill to the committee since she is one of the sponsors.

REP. M. KLEIN asks for a review of what was done last session, and the non-classified hybrid plan.

REP. BELLEW asks about the actuarial. REP. GRANDE replies that the report was done by the PERS board.

REP. KROEBER wants to know about the public employees. REP. GRANDE replies that is a optional mechanism, and is not quite sure what the money figures are for that.

Neutral:

SPARB COLLINS, EXECUTIVE DIRECTOR OF THE ND EMPLOYEES RETIREMENT SYSTEM, OR PERS

Please see attached testimony.

REP. GRANDE asks where does the fidelity fit in? COLLINS replies that it will determine the goals. REP. GRANDE asks is there fidelity educational staff? COLLINS replies that there will be local access and a financial planner available.

REP. KASPER then explains to the committee a little bit if the background of fidelity since that is his expertise.

REP. GRANDE comments on HB 1216.

REP. KROEBER asks about a loan over 4 to 10 years, what would the percentage be and how would it be paid back? COLLINS replies that in Jan. 2003 there will be funding coming in and it could be paid off over 10 years.

REP. GRANDE asks if defined contribution members draw from their accounts? COLLINS replies that yes they do.

REP. KASPER comments that he is confused on the funds that they are asking for.

REP. M. KLEIN asks COLLINS to define the benefit plan, and the difference between the two multipliers.

REP. BELLEW asks is social security deducted out of the checks then? COLLINS replies yes it is.

REP. KASPER and COLLINS clarifies to the committee how fidelity would work and come in and give options to the employees.

REP. KLEMIN asks how much fidelity charges. COLLINS states that it would be \$8.00 an account. REP. KLEMIN questions the plans. COLLINS states that an interim study would have an analysis for both plans.

REP. M. KLEIN states that there is information available.

Oppose:

JIM COLLINS JR., INDEPENDENT ND STATE EMPLOYEES ASSOC.

Please see attached testimony.

REP. M. KLEIN asks if you have the option of joining or not joining? COLLINS replies that is true. REP. M. KLEIN asks if COLLINS belongs to the defined contribution plan? COLLINS replies no that he does not. He belongs to the defined benefit.

REP. KLEMIN asks about the short term loss that happened last year. COLLINS replies that they can not say for certain that the markets will always stay that way. REP. KLEMIN states that if you look historically the market has been a good investment. COLLINS states, yes, historically.

REP. METCALF asks when they offered this, was COLLINS in any meetings that were educational. COLLINS states that he attended the PEP plan. REP. METCALF asks if the good points were as well as the bad points, addressed at this meeting? COLLINS replies that was part of the thing that he liked, they were both stressed. The education of it was good.

Oppose:

GISELE BARTH, PROJECT COORDINATOR WITH THE ND PUBLIC EMPLOYEES ASSOC. (Standing in for CHRIS RUNGE, NDPEA EXECUTIVE DIRECTOR)

Please see attached testimony.

Page 4

House Government and Veterans Affairs Committee

Bill/Resolution Number HB 1217 A

Hearing Date 2/1/01

REP. MEIER asks how many employees are currently participating in the portability enhancement program? BARTH replies that she does not know. SPARB COLLINS answers the question, with about 4,000 or 5,000.

REP. KASPER asks if is a choice, why do you object to that plan? BARTH replies that their members want to keep their current plan. REP. KASPER asks if they have done a poll of their members and 100% do not want it? BARTH replies that they have done a survey.

REP. GRANDE asks if they are being told that they have to change plans? BARTH states not that she is aware of. REP. GRANDE states then there should not be a problem to have that option out there. BARTH then comments then they should be educated, if they do opt out.

Oppose:

TOM TUPA, ASSOC. OF FORMER PUBLIC EMPLOYEES & INDEPENDENT ND STATE EMPLOYEES

Please see attached testimony.

REP. M. KLEIN asks if it is the individuals choice? TUPA replies that yes it is.

REP. GRANDE asks if the next twenty years, wouldn't this nearly triple if we added this plan?

TUPA replies that he can't agree.

REP. KASPER comments on the fears of the people. TUPA states that sometimes they change their minds.

Being no further testimony the hearing was then closed. There was no action taken on this bill at this time.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1217 B

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 2/08/01

Tape Number	Side A	Side B	Meter #
2		X	2427-END
Committee Clerk Signature <i>Opkins L. Small</i>			

Minutes:

ACTION: HB 1217 HEARD ON 2/01/01

General discussion.

REP. GRANDE goes over her amendments to the committee. REP. HAAS has concerns about the two full time employees. REP. KASPER comments that he thinks there are smoking mirrors here. REP. KLEMIN talks about section 7 and 8 of the bill.

REP. CLARK motions to accept the amendments, seconded by REP. BRUSEGAARD. A voice vote was taken with the majority passing it. REP. KASPER voted NO against the amendments.

REP. BRUSEGAARD motioned for a DO PASS AS AMENDED, seconded by REP. DEVLIN.

The roll call vote was taken with 13 YES, 2 NO and 0 ABSENT AND NOT VOTING. The motion carries. The CARRIER of the bill is REP. GRANDE.

HB 1217: DO PASS AS AMENDED 13-2

CARRIER: REP. GRANDE

## FISCAL NOTE

Requested by Legislative Council  
02/12/2001

Bill/Resolution No.:

Amendment to: HB 1217

**1A. State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures				\$418,692		\$247,524
Appropriations				\$250,000		\$247,524

**1B. County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

**2. Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

**3. State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

**A. Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

**B. Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

*The "Technical Analysis" of the proposed bill that was prepared for the Legislative Employee Benefits Committee identified "Transactions Costs" and "Administrative Issues and Costs" associated with the implementation of the DC plan. The following excerpts from that report discuss these issues and costs.*

Administration Issues  
Implementation Issues

The first administrative requirement is the calculation of the transfer amount, which is the present value of the accrued benefit or the actual employer and employee contributions plus interest. The member gets the higher of these calculations to transfer to the defined contributions system if they so elect. Last time the



actual contributions were higher for 78% of the eligible group and 90% of the members that elected the defined contribution plan. The calculation of the present value is done by the actuary and is expected to not take more than six weeks including auditing of the numbers. The calculation of the employer and employee contribution is much more extensive. For the original implementation of the new DC plan, the initial calculation took six weeks for the 640 eligible members. This means that it takes .375 hours per member. Expanding this to the entire eligible group under this bill means that it would take 21 months of effort or 3 people 7 months to complete this effort. This calculation needs to be complete before PERS can send the member a personal benefit comparison also required under the proposed legislation. Consequently, it must be completed before the educational meetings. Also a final calculation of these numbers needs to be done for those people electing the defined contribution plan prior to transfer. Similar to the first effort this does not take long for the present value calculation. However for the employer and employee contribution this took on average of 15 minutes for each electing member. If 38% would elect this, PERS would require an estimated 885 hours ( $9316 \times .38 \times 15/60$ ) to complete the final calculation or three people 2 months to complete this effort.

The second administrative requirement is the educational meetings. The format for the previous optional program was to have two sets of meetings. The first set of meetings was Pension Education Meetings. The focus of these meetings was to provide greater detail on the two types of retirement plans, to review the personalized illustration, and to discuss what personal factors they may want to consider when selecting a plan. The second set of meetings was Investment Strategy Workshops. These interactive meetings were designed to help members develop a retirement investment strategy for the defined contribution plan. In order to be effective these meetings should have no more than 30 people in attendance. With approximately 9316 eligible this means PERS would need to conduct an estimated 311 Pension Education meeting. For the original implementation of the DC Plan, PERS conducted an equal number of Investment Strategy Workshops; however some people had made up their minds and did not attend the second set of meetings. Therefore, PERS has indicated that it could possibly reduce the number of Workshops by 20%. This means that PERS would need to conduct 250 of these Investment Strategy Workshop meetings. The total number of Pension Education and Investment Strategy Workshops would require an estimated 561 meetings. If PERS can average 3 meetings a day, it will require 187 days ( $561/3$ ) to complete the required implementation meetings. If PERS uses two teams, it appears the meeting time frame could be reduced to 93.5 days. Recognizing that only 80% of the number of days in month ( $21 \times .8 = 17$ ) could be devoted meeting days (the remainder would be for travel and other administrative activities) this would mean it would take two teams about 5.5 months ( $187/2/17 = 5.5$ ) to complete this effort.

In addition to the above major activities numerous other activities must be done including: preparation of material, printing, mailing, coordination with agencies, scheduling of meetings, allowing the member time to consider what to do, time for one on one meetings, responding to member inquiries, correspondence, etc.

#### • Administrative Costs

The PERS Board will incur three types of costs for this proposed legislation. These are implementation, operation and consulting.

• Implementation: Concerning implementation PERS has indicated it would need an appropriation of \$282,524 added to this bill for the 2001 to 2003 biennium. These costs can be broken down into the following areas:

### 1. Calculation of employer and employee contribution.

Based upon the information presented under the *Implementation Issues* section of this memo it will take 3 people 7 months to do the initial calculation and 3 people 2 months to do the final calculation. PERS would hire 2 temporary employee to assist with this effort. However on an ongoing basis, PERS estimates there would be about 100 new eligible employees each month. A similar calculation would need to be done for them requiring PERS to need one permanent account tech. Therefore, PERS would need \$131,197 and authorization for one FTE to accomplish this effort.

### 2. Educational meetings

As discussed under *Implementation Issues* PERS will need to conduct about 561 meetings (Pension Education Meeting and Investment Strategy Workshops). To get this done in 5.5 months two teams would be needed. The teams would be composed of one PERS Benefits Specialist and a representative from its defined contribution plan administrator. PERS would need two additional specialists to assist with this effort. One would be temporary the second would be needed on a full time basis. This permanent FTE would be needed for new employees. As discussed above there would be about 100 new eligible members a month. Because of the dispersion of the membership and the need for timely meetings under the bill the average size of these meetings would 10 to 15. This means that each month there would be a need for 8 Pension Education Meeting and 8 Investment Strategy Workshops. One permanent Benefits Specialist would be required for this effort. The estimated appropriation authority for this effort for the 2001 to 2003 biennium is \$91,269 and an authorized FTE.

### 3. Travel

PERS estimates that for the 561 meetings PERS will need additional appropriation for travel, lodging and per diem of \$15,623.

### 4. Administrative support

To assist PERS staff with the additional requirements of correspondence, scheduling of meetings, working with agencies, etc., PERS estimates one additional secretarial position would be required during part of the 2001 - 2003 biennium and permanently in future bienniums. The needed appropriation authority for 2001 to 2003 is \$44,435 and one authorized FTE.

• Operation: Concerning cost for operating the plan, these will occur in future bienniums beginning in 2003. The costs in future bienniums would be for the account tech, benefits specialists and secretarial positions. The additional costs would be for travel, lodging, per diem, printing and other general support activities.

• Consulting Expenses: Consulting expenses are expected to be minimal since the 401(a) plan is already set up. The main costs for implementation will be the calculation of the present value of the accrued benefit. It is estimated that this will cost \$11,000. Last time PERS also had these numbers and the method audited by a second actuary. PERS would propose to do the same with implementation of this program. It is

estimated that this would cost \$8,800.

#### ESTIMATED TRANSACTION COSTS

Total Change in Equities     \$    29,526,316  
Average Stock Price           \$            45  
Estimated # of Stocks           656,140  
Average Cost per Share        \$            0.06  
Estimated Cost for Equities   \$        39,368.42

Total Change in Bonds        \$    22,000,000  
Average Cost (2) 0.3500%  
Estimated Cost for Fixed Income \$        77,000.00

Total Estimated Cost     \$    116,368.42

#### (2) Bond Transaction Cost Assumptions

20% treasuries at 1/32 20% 0.031%

65% Corp at 1/2 65% 0.500%

15% agencies at 1/8 15% 0.125%

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

<b>Name:</b>	Sparb Collins	<b>Agency:</b>	Public Employees Retirement System
<b>Phone Number:</b>	328-3901	<b>Date Prepared:</b>	02/13/2001

## FISCAL NOTE

Requested by Legislative Council  
01/12/2001

Bill/Resolution No.: HB 1217

Amendment to:

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the accrued benefit or the actual employer and employee contributions plus interest. The member gets the higher of these calculations to transfer to the defined contributions system if they so elect. Last time the actual contributions were higher for 78% of the eligible group and 90% of the members that elected the defined contribution plan. The calculation of the present value is done by the actuary and is expected to not take more than six weeks including auditing of the numbers. The calculation of the employer and employee contribution is much more extensive. For the original implementation of the new DC plan, the initial calculation took six weeks for the 640 eligible members. This means that it takes .375 hours per member. Expanding this to the entire eligible group under this bill means that it would take 21 months of effort or 3 people 7 months to complete this effort. This calculation needs to be complete before PERS can send the member a personal benefit comparison also required under the proposed legislation. Consequently, it must be completed before the educational meetings. Also a final calculation of these numbers needs to be done for those people electing the defined contribution plan prior to transfer. Similar to the first effort this does not take long for the present value calculation. However for the employer and employee contribution this took on average of 15 minutes for each electing member. If 38% would elect this, PERS would require an estimated 885 hours ( $9316 \times .38 \times 15/60$ ) to complete the final calculation or three people 2 months to complete this effort.

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65% Corp at 1/2 65% 0.500%

15% agencies at 1/8 15% 0.125%

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

The appropriated amount is those costs identified on the above as *implementation* and *operation* costs. The *transaction* cost and the *consulting* costs are paid directly from the fund and do not require a supplemental appropriation.

<b>Name:</b>	Sparb Collins	<b>Agency:</b>	Public Employees Retirement System
<b>Phone Number:</b>	328-3901	<b>Date Prepared:</b>	01/18/2001

VR  
2/9/01  
1082

HOUSE AMENDMENTS TO HB 1217 HOUSE GVA 2-09-01  
Page 1, line 1, replace the second "and" with a comma

Page 1, line 2, remove "and" and after "54-52.6-03" insert ", 54-52.6-06, and subsection 2 of section 54-52.6-09"

Page 1, line 3, after "In" insert "and payment of administrative expenses of" and after "plan" insert "; to authorize the borrowing of funds; to provide an appropriation; to provide an effective date; and to provide for application"

HOUSE AMENDMENTS TO HB 1217 HOUSE GVA 2-09-01

Page 3, line 5, after the period insert "An eligible employee may not elect to participate in the defined contribution retirement plan until the eligible employee has attended an education program developed by the board."

HOUSE AMENDMENTS TO HB 1217 HOUSE GVA 2-09-01

Page 4, line 1, after the period insert "An eligible employee may not elect to participate in the defined contribution retirement plan until the eligible employee has attended an education program developed by the board."

HOUSE AMENDMENTS TO HB 1217 HOUSE GVA 2-09-01

Page 5, line 23, overstrike "and employee" and overstrike "pursuant to sections"

Page 5, line 24, overstrike "54-52-05 and 54-52-06" and insert immediately thereafter "less vested employer contributions made pursuant to section 54-52-11.1"

Page 5, line 25, after "election" insert "plus the employee account balance"

Page 5, after line 27, insert:

**"SECTION 5. AMENDMENT.** Section 54-52.6-06 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

**54-52.6-06. Administrative expenses - Continuing appropriation.** The administrative expenses of the plan must be paid by the participating members in a manner determined by the board. The board ~~or~~ and vendors contracted for by the board may charge reasonable administrative expenses and deduct those expenses from the contribution to a participating member's account in the defined contribution retirement plan established under this chapter, from the moneys already in a participating member's account, or from both. In determining reasonable administrative expenses, the board may include an amount necessary to implement an appropriate investment education program. The board shall place any money deducted by the board in an administrative expenses account with the state treasurer. The board may also use funds from the payroll clearing account established pursuant to section 54-52.3-03 to pay for consulting expenses. All moneys in the payroll clearing account and the administrative expenses account, not otherwise appropriated, or so much of the moneys as may be necessary, are appropriated to the board on a continuing basis for the purpose of retaining a consultant as required for the administration of this chapter.



208-

**SECTION 6. AMENDMENT.** Subsection 2 of section 54-52.6-09 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

2. The employer shall contribute an amount equal to four and twelve hundredths percent of the monthly salary or wage of a participating member. If the employee's contribution is paid by the employer under subsection 3, the employer shall contribute, in addition, an amount equal to the required employee's contribution. Of the amount contributed by the employer on behalf of an employee first electing to participate in this program after June 30, 2001, the board may withhold up to six hundredths percent of the monthly salary or wage of the participating member for general administrative expenses, which moneys must be deposited into the administrative expenses account. The employer shall pay monthly such contribution into the participating member's account from its funds appropriated for payroll and salary or any other funds available for such purposes. If the employer fails to pay the contributions monthly, it is subject to a civil penalty of fifty dollars and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.

**SECTION 7. AUTHORITY TO BORROW FUNDS.** The public employees retirement system board may borrow up to \$250,000 from the Bank of North Dakota for the purpose of defraying the administrative expenses of the defined contribution retirement program until such time as there are sufficient assets in that program to pay off any loan and support the administrative expenses of the program. The term of the loan may not be longer than thirteen years. If requested by the public employees retirement system board, the Bank of North Dakota shall make any loan, at a rate agreed to by the parties.

**SECTION 8. APPROPRIATION.** There is appropriated out of any moneys in the administrative expense account created by section 54-52.6-06 and the payroll clearing account created by section 54-52.3-03, in the state treasury, the retirement fund, and the loan authorized by section 7 of this Act, not otherwise appropriated, the sum of \$250,000, or so much of the sum as may be necessary, to the public employees retirement system board for the purpose of administering this chapter, for the biennium beginning July 1, 2001, and ending June 30, 2003. The public employees retirement system board is authorized two additional full-time equivalent positions to implement this Act. The transaction costs experienced by the fund in liquidating securities to transfer to the defined contribution program on behalf of employees electing to transfer to that program must be reimbursed to the retirement fund in the same manner as contributions to the fund.

**SECTION 9. EFFECTIVE DATE.** Sections 5, 6, 7, and 8 of this Act become effective July 1, 2001, and sections 1, 2, 3, and 4 of this Act become effective July 1, 2003.

**SECTION 10. APPLICATION OF ACT.** This Act does not apply to nonclassified employees who did not elect to transfer to the defined contribution retirement plan within the timeframe provided by section 54-52.6-02 as that section was in effect on June 30, 2001."

Renumber accordingly

Date: 2/8/2001

Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1217

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_  
or  
☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Accept the Amendments

Motion Made By Clark Seconded By Busegaard

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN			REP KROEBER		
VICE CHAIR GRANDE					
REP BELLEW					
REP BRUSEGAARD					
REP CLARK					
REP DEVLIN					
REP HAAS					
REP KASPER					
REP KLEMIN					
REP MEIER					
REP WIKENHEISER					
REP CLEARY					
REP HUNSKOR					
REP METCALF					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

Date: 2/8/2001

Roll Call Vote #: 2

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1217

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_  
or  
☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass As Amended Referred to Approp.

Motion Made By Brusegaard Seconded By Devlin

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP KROEBER		✓
VICE CHAIR GRANDE	✓				
REP BELLEW	✓				
REP BRUSEGAARD	✓				
REP CLARK	✓				
REP DEVLIN	✓				
REP HAAS	✓				
REP KASPER	✓				
REP KLEMIN	✓				
REP MEIER	✓				
REP WIKENHEISER	✓				
REP CLEARY		✓			
REP HUNSKOR	✓				
REP METCALF	✓				

Total (Yes) 13 No 2

Absent \_\_\_\_\_

Floor Assignment Rep. Grande

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

**REPORT OF STANDING COMMITTEE**

**HB 1217: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (13 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HB 1217 was placed on the Sixth order on the calendar.

Page 1, line 1, replace the second "and" with a comma

Page 1, line 2, remove "and" and after "54-52.6-03" insert ", 54-52.6-06, and subsection 2 of section 54-52.6-09"

Page 1, line 3, after "in" insert "and payment of administrative expenses of" and after "plan" insert "; to authorize the borrowing of funds; to provide an appropriation; to provide an effective date; and to provide for application"

Page 3, line 5, after the period insert "An eligible employee may not elect to participate in the defined contribution retirement plan until the eligible employee has attended an education program developed by the board."

Page 4, line 1, after the period insert "An eligible employee may not elect to participate in the defined contribution retirement plan until the eligible employee has attended an education program developed by the board."

Page 5, line 23, overstrike "and employee" and overstrike "pursuant to sections"

Page 5, line 24, overstrike "54-52-05 and 54-52-06" and insert immediately thereafter ", less vested employer contributions made pursuant to section 54-52-11.1"

Page 5, line 25, after "election" insert "plus the employee account balance"

Page 5, after line 27, insert:

**"SECTION 5. AMENDMENT.** Section 54-52.6-06 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

**54-52.6-06. Administrative expenses - Continuing appropriation.** The administrative expenses of the plan must be paid by the participating members in a manner determined by the board. The board ~~or~~ and vendors contracted for by the board may charge reasonable administrative expenses and deduct those expenses from the contribution to a participating member's account in the defined contribution retirement plan established under this chapter, from the moneys already in a participating member's account, or from both. In determining reasonable administrative expenses, the board may include an amount necessary to implement an appropriate investment education program. The board ~~shall~~ place any money deducted by the board in an administrative expenses account with the state treasurer. The board may also use funds from the payroll clearing account established pursuant to section 54-52.3-03 to pay for consulting expenses. All moneys in the payroll clearing account and the administrative expenses account, not otherwise appropriated, or so much of the moneys as may be necessary, are appropriated to the board on a continuing basis for the purpose of retaining a consultant as required for the administration of this chapter.

**SECTION 6. AMENDMENT.** Subsection 2 of section 54-52.6-09 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

2. The employer shall contribute an amount equal to four and twelve hundredths percent of the monthly salary or wage of a participating member. If the employee's contribution is paid by the employer under subsection 3, the employer shall contribute, in addition, an amount equal to the required employee's contribution. Of the amount contributed by the employer on behalf of an employee first electing to participate in this program after June 30, 2001, the board may withhold up to six hundredths percent of the monthly salary or wage of the participating member for general administrative expenses, which moneys must be deposited into the administrative expenses account. The employer shall pay monthly such contribution into the participating member's account from its funds appropriated for payroll and salary or any other funds available for such purposes. If the employer fails to pay the contributions monthly, it is subject to a civil penalty of fifty dollars and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.

**SECTION 7. AUTHORITY TO BORROW FUNDS.** The public employees retirement system board may borrow up to \$250,000 from the Bank of North Dakota for the purpose of defraying the administrative expenses of the defined contribution retirement program until such time as there are sufficient assets in that program to pay off any loan and support the administrative expenses of the program. The term of the loan may not be longer than thirteen years. If requested by the public employees retirement system board, the Bank of North Dakota shall make any loan, at a rate agreed to by the parties.

**SECTION 8. APPROPRIATION.** There is appropriated out of any moneys in the administrative expense account created by section 54-52.6-06 and the payroll clearing account created by section 54-52.3-03, in the state treasury, the retirement fund, and the loan authorized by section 7 of this Act, not otherwise appropriated, the sum of \$250,000, or so much of the sum as may be necessary, to the public employees retirement system board for the purpose of administering this chapter, for the biennium beginning July 1, 2001, and ending June 30, 2003. The public employees retirement system board is authorized two additional full-time equivalent positions to implement this Act. The transaction costs experienced by the fund in liquidating securities to transfer to the defined contribution program on behalf of employees electing to transfer to that program must be reimbursed to the retirement fund in the same manner as contributions to the fund.

**SECTION 9. EFFECTIVE DATE.** Sections 5, 6, 7, and 8 of this Act become effective July 1, 2001, and sections 1, 2, 3, and 4 of this Act become effective July 1, 2003.

**SECTION 10. APPLICATION OF ACT.** This Act does not apply to nonclassified employees who did not elect to transfer to the defined contribution retirement plan within the timeframe provided by section 54-52.6-02 as that section was in effect on June 30, 2001."

Renumber accordingly

2001 HOUSE APPROPRIATIONS

HB 1217

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1217

House Appropriations Committee

☐ Conference Committee

Hearing Date February 16, 2001

Tape Number	Side A	Side B	Meter #
02-16-01 tape #1	0 - 2937		
Committee Clerk Signature <i>Kathleen Lall</i>			

Minutes:

The committee was called to order, and opened the hearing on HB 1217.

Rep. Grande: Did not go completely through the bill. It is the defined contribution bill, opening defined contribution to all employees. We have an appropriation, on the amendments its section 6. First there is an administration expense, continuing appropriation that takes participating members' accounts and determining a reasonable administration expense for the PERS board, and take that amount and implement it into a program, so we end up with a step process. They have an opportunity to have the money, but then also the authority to spend the money. That's why there is a difference in here, money coming out of each of the employee's retirement fund. Section 5 of the engrossed bill. The amendment on 6 then is that the board be able to withhold up to 6/100's of a percent of a monthly salary that goes into a pool of money that helps to administer switching over from a defined benefit to a defined contribution. Mr. Collins is the expert on this. Section 7 provides for the authority to borrow funds. They need a line of

credit so that they can start administering this because they will do the administering of this to set it up, but the money doesn't come out of the employees funds until 2 years later when they enter the program. So they need to be working on things before they can take the money from the employees. The 6/100's percent is the same amount we used last session when we opened this up to the non classifieds. We've given them the line of credit in 7 and then in 8 we give them the right to spend the money. Mr. Collins will go over what other types of appropriations were asked for in this bill, and this is what our committee came up with for its recommendations. There is another expense in there for 2 new FTE's. There is quite a large number of people involved in the opportunity to switch from DB to DC plan. There will be a lot of personnel needs in there. This committee had earlier taken an FTE out of PERS that had been used for the defined contribution program, so they now had no one working on that, so we went with 2, even though they had asked for 3.

Rep. Kerzman: Can you explain DB and DC plans?

Rep. Grande: DB means defined benefit plan and DC is defined contribution plan. This is a defined contribution plan. The defined benefit plan is what is currently in place, other than the non classifieds that have opted out into the defined contribution plan. Either you will retire with a definite dollar amount, or you went into defined contribution where you invested and you have whatever is in your investment plan.

Rep. Wald: Last session we passed legislation that allowed elected, appointed and non classified employees to join a defined contribution plan. This bill opens it up to all state employees, if they want to.

Rep. Warner: Did the committee hear any testimony regarding what percentage of employees you expect to switch over and which will remain in the old plan?



Rep. Grande: Yes. The actuary looked at the test group from last change, and 37% moved out. They believe out of this group it would be closer to 30 - 33% who would opt in.

Rep. Huether: Is there more or less risk in one or the other plan?

Rep. Grande: If you are in a defined benefit plan you have a set dollar amount you will retire with. In a defined contribution plan you have the opportunity to invest in whatever level you choose. Fidelity holds those plans and they have it in mostly stable, mutual plans. It's overseen by PERS.

Rep. Delzer: Is portability easier under defined contribution?

Rep. Grande: Yes. That's why we are trying to move this. This is a good selling point for bringing young professionals into state employment. They want the flexibility of investing their own money and they want the flexibility of taking it when they move on to another position. The PEP program has some of the funds that are portable when you go.

Sparb Collins, Executive Director PERS: Provided written testimony. In the interest of time, he did not read through it. At the end of the testimony, on the last two pages, there is a table relating to the work efforts that are associated with the implementation of this bill. He reviewed the table. Basically the bill before you, as Rep. Grande pointed out, provides for two things in the funding, an appropriation to PERS for \$250,000 in 2 FTE's, and the authority for a bank loan of up to \$250,000. We are suggesting amendments, and are requesting an appropriation authority of \$283,000 and 3 FTE. And a bank loan authority of \$450,000. In the implementation of this bill there are basically three tasks that are required. One, the task required of PERS; two, transaction costs; and three, consulting costs.

Task one is the cost to PERS. There are three sub-tasks to do under the bill. First, they must do a transfer calculation for each person who is offered the option. There are 9,300 people

who are eligible under this program to decide. We need to calculate for each of these people what the actual employer and employee contribution plus interest is, and provide that to them so they can make their consideration of making the transfer or not. When we did this calculation for the non classified group, 630 people, it took us an average of 30 minutes to do the calculation per employee. If we extend that calculation out to the entire group that we need to do it for under the bill, it will take about 21 man months of effort. We also need to do a final calculation for those employees that do elect to make the transfer, about 38% that elected to do so in the non classified group, or maybe 2,900 people that will elect to transfer out of the defined benefit plan. Again we will need to do a final calculation of the transfer amount prior to the time they leave the system, that takes us about 15 minutes, but comes to about 800 hours of work effort. Also during the interim process there will be about 700 people that come into the program while implementing that we will have to do calculations for, and during the biennium we have about 9 months of operations in the bill. Therefor, what we are requesting for the transfer calculation portion of this, is about \$131,197, and 1 FTE. Second, is the education effort associated with the implementation of the bill. Last time we had two sets of meetings for the employees, one for pension education, and one for investment education. Those two meetings we provided to groups of about 30, recognizing that there are about 9,300, we would have to do about 531 meetings. That will involve 11 man months of effort just for the initial implementation group, and then we have the additional new employees, 900 plus 700. The education and travel associated with that is identified under sub-task B on the chart, \$106,892, and 1 FTE. Third, there is administrative support during the election period, all paper and election materials to be distributed. That comes to about \$44,435. Total the effort for PERS is \$282,524, and three FTE.

The second task that we have is transaction costs. When the 2900 people elect to join the DC system, the actuaries who did the interim study, estimate that we will have to transfer about \$59 million from the defined benefits plan to the defined contribution plan. We will have to sell some stocks, sell some bonds in order to come up with that transfer, and there are transactions costs associated with that, and those transaction costs are about \$106,000.

The third task is an actuarial calculation of the transfer amount, which is the present value calculation. We will have to retain actuaries to do this calculation, and estimate that will run about \$20,000. Those three task total up to be about \$420,000. That is why we are requesting the bank loan authority be increased from \$250,000 to \$450,000 to cover those tasks. The appropriation authority for PERS tasks be increased from \$250,000 to \$283,000.

Chairman Timm: Mr. Collins, did you not know about these costs when the bill was before the Government Affairs committee?

Sparb Collins: Yes, and we presented the same testimony. They decided to include \$250,000 in appropriation authority and 250,000 in bank loan authority.

Rep. Wald: On page 3 of the engrossed bill, on line 9: if an election is made by an eligible employee under this section is it irrevocable, and you are in it forever? What is the logic behind that.

Sparb Collins: Yes. That was in the original bill, the same language that was there from last session. It's just to let the employee know that once the switch is made, they cannot come back.

Rep. Wald: Top of page 4, lines 5-7: an eligible employee need not elect to participate in the defined contribution plan until the employees has attended an education program developed by the board. If I'm a state employee and I want to have some control over the investing of my

own retirement funds, why do I have to go to this session if you're not enthusiastic about a defined contribution plan?

Sparb Collins: The purpose of that is that the education meetings are to provide information regarding the implementations. Back in 1977 PERS used to be a defined contribution plan, and at that time was switched to a defined benefit plan. In the years after that we had employees wanting other opportunities because they did not understand the program correctly, or because someone gave them incorrect information. The purpose is to make sure everyone has a clear understanding of what they do, come to the meeting, hear the information, make their decision. We can be assured that the information was given the same to all.

Rep. Wald: On the bottom of page 6, you withhold 6/100th of 1 % of their monthly salary if they switch to a defined contribution plan. Is that the same amount that goes or is subtracted if they remain in the defined benefit plan?

Sparb Collins: That actually is a change. In the present bill, the defined benefit plan has a charge against the gross assets of the plan. That's the same in the present defined contribution plan. The problem with that methodology is that there is now about \$8 million in the defined contribution plan, roughly \$4 million is held by about 25 people. Of the 230 in the plan, roughly 25 have half the assets. The remaining 210 have the other half assets. If we use the same methodology we use in the DB plan, that means that 20 people pay half the administrative assessment. Therefore, this is being suggested to be changed so that administrative assessment will come out of payroll, and be more evenly distributed among the base.

Rep. Wald: On the bottom of page 7, section 9 of the bill, it says sections 5, 6, 7 and 8 are effective July 1, 2001. Then sections 1, 2, 3 and 4 become effective July 1, 2003. Are there any conflicts in those two implementation dates?

Sparb Collins: Yes. The 2003 will maybe need to be moved back earlier. Suggesting something about 1 year earlier.

Rep. Martinson: What kind of program did we have before we changed to the defined benefit plan, and why did we change?

Sparb Collins: PERS 1966 to 1977 was a defined contribution plan. The plan was changed to the existing plan because under the previous defined contribution plan, and the investment environment at that time, was flat and the earnings were poor. They were incurring losses and being unable to retire.

Rep. Martinson: What happens in 10 years from now if the investment environment isn't any good. And can you change again if you make the election? Compliments Sparb Collins in that we were the only retirement system in the country that did not have an unfunded liability at one time.

Sparb Collins: That is basically part of the educational effort, and that in the defined contribution plan the amount you have to retire on is your account value, only. If the account value is sufficient to carry you a lifetime through retirement then that's good. If it is insufficient, then it is your responsibility when you make the election to make sure you invest in a manner that is going to provide for you. This can be done with no actuarial effect on the plan, but we know that we are not going to be able to allow people to come back into the plan without incurring an actuarial cost in the future.

Rep. Martinson: Wasn't there a five year period you were not able to take money out. If you have young employees that come to the state and move quickly, they aren't able to take their money out. That's the portability factor. But the program was geared to those who were making state government a career, and to guarantee them a benefit when they retired. What possible

reason would a new state employee just out of college, why would they even think of getting into the defined benefit plan.

Sparb Collins: The defined benefit plan was changed last session to become a hybrid plan. That means that the plan is kind of a DB-DC plan. It incorporates a lot of the DC features in it. In terms of portability now a brand new employee can come into the hybrid plan and if they put additional savings into the 457 plan, they can now make that employer contribution portable to them just like they can in the DC plan.

Rep. Wald: Would it be fair to say that if you are 55 years old, you may want to stay with the DB plan. But if you are young, wouldn't they go into a DC plan. They would have more control over investments, be more aggressive, more conservative, but at least they have some input into their future, that they won't have in the DB plan. Also under the DC plan you have quicker vesting and better portability. This is better for young professionals.

Sparb Collins: The defined benefit plan really is not a straight DB plan, it really is more of a hybrid plan, and is as portable as the DC plan. The only difference is the directing of investments or guarantee plan.

Chairman Timm: What happens if you don't get the proposed amendments passed, and the bill is passed out the way it is now. Will you be able to do the job?

Sparb Collins: It will be much more challenging for us without the higher levels. The other issue is the bank loan authority at \$450,000. We will incur these transaction costs and the consulting costs no matter what. The question on the bank loan authority is where does this money get paid from, to the extent that the bank loan authority goes up we can incur the costs and pay for them through the operation of the DC plan, and those costs are apportioned to the costs of implementing the program. To the extent that the bank loan authority doesn't go up, we

will have to look at paying for that somewhere else, like in the DB plan, and that will raise questions. We also need the appropriation authority to be increased, and the FTE's.

Rep. Skarphol: The \$200,000 increase in borrowing authority, is that for the educational process?

Sparb Collins: The additional \$200,000 will be to cover the transaction costs, \$30,000 would be educational costs of PERS.

Rep. Aarsvold: Has the PERS Board taken a position on the legislation.

Sparb Collins: The PERS Board is neutral. Because it has no actuarial impact, the board felt it better for the legislature to decide.

The chairman closed the hearing on this bill.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1217

House Appropriations Committee

☐ Conference Committee

Hearing Date February 21, 2001

Tape Number	Side A	Side B	Meter #
02-21-01 tape #1	1345 - 3240		
Committee Clerk Signature <i>[Signature]</i>			

Minutes:

The committee was called to order, and opened committee work on HB 1217. This is a bill on the benefit program for employees.

Rep. Wald: We had a hearing on this bill, and Sparb Collins appeared from PERS and Rep. Grande has been taking care of this bill in committee. Basically what the bill does is open up the state employee retirement plan to a concept called defined contribution. This allows younger workers more mobility, quicker vesting. Its not mandatory, its optional. It would appeal to young professional type people who may not want to make employment in state government a 40 year career. Moves a DO PASS. Seconded by Rep. Delzer.

Rep. Glassheim: At the forum on this I had some questions on this as to whether this was still in PERS or undermining PERS if money was being taken out of the overall system. My impression was that this was a different account within PERS, can you explain?



Rep. Wald: If you had a defined contribution plan, your account would be identified, not just part of the big pool. Its still under PERS, managed by PERS and the money is invested by PERS, it's just simply a different concept in funding the retirement. It is attractive to younger professional people. Many states are moving in this direction. This opens the choice up to all classified employees. Two years ago we opened this up to appointed, elected, and non classified positions. It will not weaken those remaining in the other plan.

Rep. Wentz: Does all of the retirement get transferred or just a percentage?

Rep. Wald: If they make the election to participate all the fund is transferred. They cannot participate in both defined benefits plan and defined contribution plan.

Rep. Grande: Under the PERS employee benefits package there are various plans. You have a defined benefit plan, a PEP plan (a combination), or defined contribution plan. If they want to do a PEP plan, they could do both.

Rep. Martinson: The PERS board really doesn't invest that money. The money is taken out of the PERS system. He does not understand how this cannot affect the PERS system. If everyone took their money out, the system would disappear. What has made this system work is that the investment has been greater than what has been paid out. That's what's made the system sound. If you take out that, you take out the ability to have the money get a better investment return.

Rep. Wald: Argues there is no problem with the program. That if half the employees went with a defined contribution, and take their money out of the pot, the remaining half still have their money invested to guarantee their retirement plan. There is no liability to those who stay in the defined benefit plan.

Rep. Martinson: He argues that there would be a loss of investment equal to the amounts taken out.

Rep. Wald: The only benefit to remaining in the defined benefit plan is that all forfeiture, those people who leave without being vested, go into the pot. That is a benefit to the older workers. We are trying to make it more attractive to young professionals where they will vest quicker and have more portability and if they work here you can take more with them than in the defined benefit plan. Remember it is strictly optional.

Rep. Grande: There is an actuary study that was done on two different scenarios. We have just finished a 2-year test period on the non classifieds. We only had 37% of the people move, and that was the highest % that would leave it is felt. The actuaries took the study to 40% leaving. They did a survey and feel that only 33% will want to move. The actuary studies are finding that this will increase the actuary soundness of the fund because of the decreased liability. The PERS fund does so well, because they do not have to follow ERISA, and can keep all funds of leaving individuals not vested. In private business that would be against the law.

Rep. Skarphol: To make this clear, we have a defined benefits program, a defined contributions program, and a PEP program. Can they opt out and do a percentage of their program into PEP?

Rep. Grande: The PEP plan is an opt in program. There is no window, whereas the defined contribution plan does have a two year window that this is only open for. The PEP plan you could any day any time decide to join in. What you would do is taking a percentage of what you wish to invest outside of your defined benefit contribution. It doesn't affect your defined benefits, it is an added to portion.

Rep. Gullerson: Regarding the additional FTE that PERS feels is necessary to deal with this, are those included in the PERS budget, or are we allowing them additional administrative support for this?

Rep. Grande: I believe that in the amendment there were two FTE's, appearing in the engrossed bill.

Rep. Glassheim: The PEP plan is over and above the normal plan, and the state does not participate.

Rep. Grande: I don't deal with the PEP plan.

Christine Runge, Executive Director of the North Dakota Public Employees Association: The PEP plan is a companion plan to the current defined benefit plan. Basically what happened is that the defined benefit plan became a hybrid plan, where the state makes a match. It makes the plan more portable. She gives an example of herself personally. It is an incentive plan. She prefers the PEP plan, not either of the other two solely.

Rep. Skarphol: Is the PEP plan a hybrid? How much is defined benefits and how much is defined contribution? Shouldn't a person be able to invest their own money?

Christine Runge: If the employee chooses to participate, they get the best of both worlds. They get the defined benefit plan, plus they are able to also manage their own money in the 401-k deferred plan (PEP). When you leave, you get it all. Self investing really is a public policy issue, but should be looked at as what is best for the employee. Her organization is against the bill.

Rep. Koppelman: In the current program, can someone elect to go only in the PEP plan and not participate in the defined benefits program, or you do the defined benefits first and then have the option of the PEP.

Christine Runge: Right. That's one of the benefits, that you are automatically in the defined benefits plan. You can opt in at anytime. It is an additional thing, an enhancement done last session.

Rep. Gullerson: A large portion of our state employees are under TIAA CREF which is much more similar to a defined contribution plan.

Rep. Koppelman: Makes some comments on learning about these plans. Cannot see how this plan would be bad for the employee.

Rep. Delzer: Will support the bill also. It gives the employee better portability and all around the fund will be fine.

Vote on Do Pass: 12 yes, 9 no, 0 absent and not voting. Motion passes.

Rep. Wald is assigned to carry this bill to the floor.

Date: 2-21-01  
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1217

House APPROPRIATIONS Committee

☐ Subcommittee on \_\_\_\_\_  
or  
☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken DO PASS

Motion Made By Rep. Wald Seconded By Rep. Delzer

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman	✓				
Wald - Vice Chairman	✓				
Rep - Aarsvold		✓	Rep - Koppelman	✓	
Rep - Boehm	✓		Rep - Martinson		✓
Rep - Byerly	✓		Rep - Monson	✓	
Rep - Carlisle		✓	Rep - Skarphol	✓	
Rep - Delzer	✓		Rep - Svedjan	✓	
Rep - Glassheim		✓	Rep - Thoreson	✓	
Rep - Gulleeson		✓	Rep - Warner		✓
Rep - Huether		✓	Rep - Wentz		✓
Rep - Kempenich	✓				
Rep - Kerzman		✓			
Rep - Kliniske	✓				

Total (Yes) 12 No 9

Absent Ø

Floor Assignment Rep. Wald

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

2001 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1217

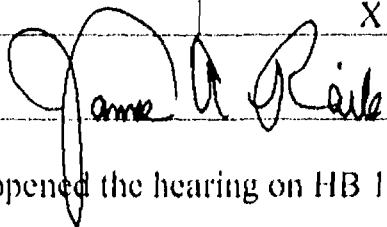
# 2001 SENATE STANDING COMMITTEE MINUTES

## BILL/RESOLUTION NO. HB 1217

Senate Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date March 8, 2001

Tape Number	Side A	Side B	Meter #
1		X	32.9-End
2	X		0.0-27.0
March 22, 2001 2		X	25.8-End
March 29, 2001 2	X		8.0-18.0
March 30, 2001 1	X		0.0-End
March 30, 2001 1		X	0.0-25.0
Committee Clerk Signature 			

Minutes: **Chairman Krebsbach** opened the hearing on HB 1217 which relates to eligibility to participate in the defined contribution retirement plan. Appearing before the committee to explain the proposed legislation was **Representative Bette Grande**, District 41. She indicated this bill is based on a defined contribution retirement plan. What this bill lays out to us is the current plan only has the non classified employees involved. This plan also includes classified employees. The normal exemptions of TIAA-CREF, Judges, and a couple of other exemptions that already have their own retirement plans and programs. This bill is similar to a bill introduced last session. It simply is opening it up to a larger group of people. **Chairman Krebsbach** noted that there were some extensive amendments by the house. She asked if **Representative Grande** had an explanation for that. Representative Grande noted that what they needed to do was put some form of appropriation on this bill. As the bill was written there was no appropriation made so the house added for administrative expenses set aside that they

will take money already in the participating members account, then determining any reasonable administrative expenses the board may determine an amount necessary to implement an appropriate investment education program. In setting that up it looks a little awkward in that we have an authority to borrow but we also have an appropriation and those dollars match. They can get the dollars together but we must also give them the authority to spend the dollars. The administrative expenses will be that they need to take each of these employees, do an assessment of how much money they have to invest and to ensure that they are aware of what they are stepping into. We have also put in an appropriation for authorizing two additional FTE's for the administration of this program. **Senator T. Mathern** inquired who would bear the burden of this \$250,000 expenditure. Representative Grande indicated those who wish elect to do this, if you look at section 6, part two, there will be an amount contributed by the employer on behalf of the employee first electing to participate in this program. The board may hold out up to .06% of the monthly salary or wage of the participating member. **Senator T. Mathern** indicated so all of the people going into the defined contribution program will pay the administrative expenses. No defined benefit administrative money would pay for this. **Representative Grande** indicated as far as she understands, no. **Senator Wardner** indicated if you are an employee and you have 10 years as a state employee and you are under the defined benefits and you want to go to the defined contribution program. Do you take your defined benefit money with you or are you in two different systems. **Representative Grande** indicated you will take your portion and you go to one plan or the other. **Senator C. Nelson** inquired if after the extensive amendments were added it went back to employee benefits committee. She also wondered what the actuaries had to say about the administrative expenses for the costs. **Representative Grande** indicated she did not recall. **Sparb Collins** indicated that these amendments were talked about during the



employee benefits committee meeting. These were offered at the October employee benefits committee meeting so they were a part of the discussion. The only thing that wasn't talked about at that time was the bank loan because a funding source hadn't been identified specifically.

**Senator C. Nelson** inquired if there was a reason that wasn't put into the bill before it was printed the first time. **Mr. Collins** indicated he wasn't sure. **Sparb Collins** appeared before the committee in a neutral position on HB 1217. A copy of his written testimony is attached. He also handed out amendments which are proposed and an explanation of administrative costs and funding requirements for Engrossed HB 1217. **Senator T. Mathern** inquired if there is an actuarial analysis of the potential adverse selection issue. Are there people of different abilities who tend to move between these two different programs at a different history of life or length of life? Is in your actuarial work any consideration done regarding adverse selection? **Mr. Collins** indicated, the actuarial analysis looked at several things. First of all whether there would be an adverse effect on the retirement plan itself as a result of some of these people withdrawing. That conclusion was no, the retirement plan itself would not have an adverse actuarial impact based on the assumptions that were made. The technical analysis that was done by the Siegal Company indicated that if you took 8% and went into the defined contribution plan and you got an 8% return, would you be able to get the same level of benefits as you did in the defined benefit plan? The answer was no. It would be about 1/3 less. If you are under the defined contribution plan you would need to do higher risk investing to receive the same return as those who are under the defined benefit program. Further questions were offered by **Senators Kilzer** and **C. Nelson**. **Mr. Collins** responded (Tape 2, Side A, Meter #'s 1.8-5.4). Appearing in opposition to HB 1217 was **Chris Runge**, Executive Director of NDPEA. A copy of her written testimony is attached. There were no questions for Ms. Runge. **Howard Snortland**, representing the Association of

Former Public Employees, appeared in opposition to HB 1217. He indicated that he does not believe the bill is good public policy. It means that the individual has better investment judgement than the state investment board. The state investment board has a wonderful record of what they have done over the years and there aren't many individuals who can beat the record of the state investment board. If this plan goes into effect it will no longer be a state employees trust fund. It will primarily become the political subdivisions retirement program. The state investment board guarantees a protection for the employee by first of all guaranteeing 8%. There were no questions from the committee. **Former State Senator Evan Lips** appeared in opposition to the bill. He presented a history lesson on the pension program to the committee. He indicated that he was not in favor of remodeling the plan every session. There were no questions from the committee. **Tom Toupa** representing INDSEA appeared in opposition. He indicated members of his organization are concerned somewhat that if there is a major shift over to the defined contribution plan that in the future is there going to be sufficient money and margins left to adjust future, current as well as future retirees. The actuaries say that there won't be adverse impact on the fund. That may be, but is it going to generate a margin. This whole thing is a matter of timing. **Senator T. Mathern** inquired if some of the people of those who lost money in the last year by switching retirement plans were members of Mr. Toupa's organization. **Mr. Toupa** indicated yes. **Mr. Dennis Fewless**, a state employee, appeared before the committee on his own behalf. He indicated he has been a state employee for 25 years. He testified as to his concerns about HB 1217. There were no questions from the committee. **Representative Grande** appeared before the committee once again. She indicated that this plan will be a recruiting tool for bringing new employees with technical skills into state positions. She talked about the smoothing plan for losses suffered under the investment program. The

investment education program is an important part of steering employees in the right direction with investment advice which should make for successful investment with good returns. It is the job of the investment agencies to provide the investment education to those who are a part of the program. There was nothing further. **Chairman Krebsbach** closed the hearing on HB 1217. On March 22, 2001, **Chairman Krebsbach** reopened the discussion on HB 1217. **Chairman Krebsbach** inquired of the committee if there were any proposed amendments to this bill. It was indicated that Sparb Collins had offered a number of amendments. **Sparb Collins** indicated that there were five issues addressed as they related to the bill. These issues were investment education, administrative costs methodology, disability, administrative support, and implementation date and applicability. The first was investment education. PERS has suggested that some additional funding be set aside so that they could try and provide for some one on one investment education for members who join the defined contribution plan. That is what the amendment proposes and provides that .15 of the contribution would go into a fund to provide for investment counseling. The second thing is the administrative costs methodology. Presently the PERS administrative costs are assessed as a percent of the value of the account. Half of the amount of money in this plan is held by 20 people. What that means is 20 people pay half the administrative costs. They are suggesting that rather than doing it as part of the value of the account rather it be spread across or taken out of the employer contribution and that would more evenly spread it across all of the participants. The house agreed with that. PERS had suggested that should be up to .12 of the employer contribution. The house set it at .06. We are asking for the authority to go up to .12. The third issue is disability retirement. One of the benefits in the defined benefit plan is that if you become permanently and totally disabled while you are under covered employment, there is a benefit that is 25% of your final average salary that you become

payable for. There is no equivalent benefit in the defined contribution plan at the present time. We are suggesting that if this plan is going to be expanded to eligibility for all state employees that should be some disability component to it just like there is in the defined benefit plan. We are suggesting that based on our advice from the consultant it has to be a mandatory provision. The last time we looked at it a disability insurance policy would have cost up to a half of a percent. That would come out of the employer contribution. The 4th area is the administrative support and funding for this bill. In order to provide the same enrollment procedure as we did for the non classifieds we estimated that it will require \$283,000 and 2 to 3 staff. The house funded \$250,000 and 2 staff. We are asking that be increased to \$283,000 and 3 staff. Without that we know that we will not be providing an equivalent enrollment for the classified group as we did for the non classified group. The other issue is who is going to pay for all of this. In addition to the PERS cost of \$283,000 there is \$116,000 in transaction costs that have been identified. What are these, Sparb explained. Questions were offered from **Senators T. Mathern, Krebsbach, Wardner, C. Nelson and Dever**. **Sparb Collins** offered responses to each question. (Tape 2, Side B, Meter #'s 35.9 to End. Following this discussion it was decided to hold on further action on HB 1217 at this time. On March 29, 2001 the committee again took up the discussion of HB 1217. Senators participating in the discussion were **Senators Wardner, C. Nelson, T. Mathern, Kilzer and Dever** participating. Since it was late in the day **Chairman Krebsbach** decided to table further discussion until the following day. The committee was adjourned. The committee met on March 30, 2001 to further discuss HB 1217. **Sparb Collins**, **NDPERS**, further reviewed the amendments which had been proposed by PERS to be amended into the bill. **Chairman Krebsbach** indicated her first question centers around why on page 7 line 7 you need \$450,000 as a loan rather than \$250,000. **Mr. Collins** indicated the \$450,000

includes their costs which were identified during the interim were three portions of the cost. The first cost was the PERS administrative cost which was estimated at \$283,000 and 3 staff. The second cost was the transaction cost. They estimate or he should say Watson/Wyatt estimated that about 2900 people could potentially make the election to switch to the defined contribution system. Based on the election rates that were for the non-classified employees. Further they estimated that would be about \$59 million, and amount that would be transferred from the defined benefit to the defined contribution program. In order for PERS to come up with \$59 million they are going to have to sell some stocks and bonds to do that. When the trades are executed there is a transaction fee to pay for those trades so that is what will be paid for out of the DB Plan, the money managers to make these trades, sell these instruments and come up with cash. We're suggesting that that should be paid as part of the DC costs because those trades are being executed for the benefit of the DC participants. If it wasn't for this plan we wouldn't be making those trades. That is about another \$100,000 in there. The third cost item is for consulting expenses. Underneath the statute we are required to provide to the members the higher of either the present value of the accrued benefits or the actual employer, employee contributions plus interest. PERS staff will compute the employer/employee contributions plus interest. An actuary has to calculate the present value. Then we compare the two to get the higher of. We suggesting that potentially that could cost \$20,000 plus, and that is a charge that should be charged to the DC participants. Then there is about \$20-\$30,000 extra in case we have to go out and bid or rebid the plan with someone other than fidelity. These three costs are what make up that \$450,000.00 loan amount. **Senator T. Mathern** inquired if these amendments that you handed out to us previously to your estimation still reflect what the costs are? Are they pretty much the same? Nothing has changed here? **Mr. Collins** indicated that

these cost figures were generated during the interim study. **Chairman Krebsbach** noted that the amendments also delay the implementation to what date? **Mr. Collins** indicated that the delayed implementation date was January 1, 2003. What was done in the amendment was a clarification of a couple of dates. One was just the result of an error we had made. **Senator Wardner** inquired about the disability benefit aspect of the bill. He wondered if it had to be a part of this bill. **Mr. Collins** elaborated on this. Mr. Collins elaborated at length on the need for 3 FTE's which are required in this bill. Questions on the issue were offered by **Senators, Wardner, T. Mathern, Krebsbach, and Dever** (Tape 1, Side A, Meter #'s 9.3-18.9). **Sparb Collins'** discussion of issues continued throughout the remainder of the question and response period of this meeting. For specific questions and answers listen to Tape 1, Side A, Meter #'s 19-55.). Following the discussion the committee felt they had discussed this bill sufficiently to take action. Senator Wardner moved the adoption of the amendments presented by **Sparb Collins** to the committee, seconded by **Senator T. Mathern**. **Roll Call Vote** indicated 6 Yeas, 0 Nays, and 0 Absent or not voting. At this point the committee temporarily adjourned until later in the day due to members required attendance at conference committees. **Chairman Krebsbach** called the committee back to order. At this point she indicated that there was one concern that she still had concerning this bill. If we were to mandate that disability be a part and parcel of the defined contribution, is it clear that you can do that without any further legislation or do we need to amend to do so? **Mr. Collins** indicated that the other option that he does not believe the bill provides for is it could continue to be provided through the defined benefit plan. **Chairman Krebsbach** and then just assess the DC plan for that coverage. **Mr Collins** indicated what happens then is the actuary would determine what the amount which the actuary had recently calculated at .41. That .41 in payroll would be deducted from the payroll of the DC

participants. They would retain the membership in the DB plan for the purposes of disability. There was some discussion if this was workable and was it fair to the people in the DB plan vs. The DC plan. **Senator T. Mathern** felt that the costs would be different for the two groups and that would cause problems. A discussion continued with **Senators T. Mathern, C. Nelson, and Wardner** participating (Tape 1, Side B, Meter #'s 3.5-8.8). **Senator Wardner** moved a Do Pass as amended on HB 1217, seconded by **Senator Kilzer**. A few remarks were offered by **Senator Dever** concerning choices and representation of his district. He spoke about the fears that employees have about the defined benefit program being hurt by the defined contribution program. He indicated he has two choices, the first is to vote for this bill and convince people that it was a good decision. The second is to vote no on this bill, go out and give the kind of education that he thinks the people need in order to understand the benefit of the options and why it might be a good decision for us to make two years from now. Some of the fear that he hears in the state employees has been played to and he thinks it has been played to by the NDPEA and by his predecessors in this legislature. As a matter of good marketing and as a matter of politics for the people he represents he thinks he has to vote no on this. More comments were offered from **Senators C. Nelson, T. Mathern, Kilzer, Dever, and Krebsbach**. A Roll Call Vote was taken on the Do Pass as Amended motion. Roll Call Vote indicated 3 Yeas, 3 Nays, and 0 Absent or not Voting. The vote fails. **Senator T. Mathern** moved a Do Not Pass as Amended, seconded by **Senator C. Nelson**. Roll Call Vote indicated 3 Yeas, 3 Nays, and 0 Absent or Not Voting. The motion fails. **Senator C. Nelson** moved Without Committee Recommendation, seconded by **Senator Wardner**. Comments were offered by **Senator T. Mathern**. **Senator Dever** also offered a few closing remarks before the vote. **Senator Kilzer** offered a few remarks as well.

Page 10

Senate Government and Veterans Affairs Committee

Bill/Resolution Number HB 1217

Hearing Date March 8, 2001

Roll Call Vote indicated 5 Yeas, 1 Nays, and 0 Absent or Not Voting. **Senator Wardner** will carry the bill. **Chairman Krebsbach** adjourned the committee.



Date: 3/30/01

Roll Call Vote #:

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 48 1212

Senate GOVERNMENT AND VETERAN'S AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

Legislative Council Amendment Number

Action Taken	H Dept	Amendments
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Motion Made By Sen. Wardner Seconded By Sen. T. Mathern

[illegible]

Total (Yes) 6 No 0

**Absent** 0

### Floor Assignment

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

Date: 3/30/01  
Roll Call Vote #:

**2001 SENATE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. HR 1217**

Senate GOVERNMENT AND VETERAN'S AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

**Legislative Council Amendment Number** \_\_\_\_\_

Action Taken No Pass as Amended

Motion Made By Sen. Wardner Seconded By Sen. Kilzer

[illegible]

Total (Yes) 3 No 3

Absent

**Floor Assignment**

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

Date: 3/30/01  
Roll Call Vote #: 3

**2001 SENATE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO.**

Senate GOVERNMENT AND VETERAN'S AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_

or

☐ Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Up Not Pass

Motion Made By Sen. T. Mothorn Seconded By Sen. C. Nelson

[illegible]

Total (Yes) 3 No 3

**Absent** \_\_\_\_\_

### Floor Assignment

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

Date: 3/30/01  
Roll Call Vote #: 4

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1217

Senate GOVERNMENT AND VETERAN'S AFFAIRS Committee

☐ Subcommittee on \_\_\_\_\_  
or \_\_\_\_\_

☐ Conference Committee

Legislative Council Amendment Number

Action Taken Without Committee Recommendation

Motion Made By Sen. C. Nelson Seconded By Sen. Wardner

[illegible]

Total (Yes) 5 No 1

Absent 0

Floor Assignment Senator Wardner

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

**REPORT OF STANDING COMMITTEE**

**HB 1217, as engrossed:** Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **BE PLACED ON THE CALENDAR WITHOUT RECOMMENDATION** (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Engrossed HB 1217 was placed on the Sixth order on the calendar.

Page 1, line 2, remove "and" and after "54-52.6-09" insert ", and section 54-52.6-14"

Page 1, line 4, after "plan" insert "and disability benefits under the defined contribution retirement plan"

Page 1, line 5, after the first semicolon insert "and" and remove "; and to provide for application"

Page 5, after line 9, insert:

"5. Notwithstanding any other provision of this chapter, eligible employees may not have more than one opportunity to make an election to participate in the retirement plan established under this chapter."

Page 6, line 28, replace "six" with "twelve"

Page 6, line 30, after "expenses" insert "and up to fifteen-hundredths percent of the monthly salary or wage of the participating member specifically for investment education expenses"

Page 7, after line 5, insert:

**"SECTION 7. AMENDMENT.** Section 54-52.6-14 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

**54-52.6-14. Disability benefits.** The board shall provide a procedure whereby a participating member may who first becomes eligible to participate in this plan after September 30, 2002, shall use a portion of that person's account contributions under this chapter to purchase disability insurance. For members eligible to participate in this plan before October 1, 2002, the board shall allow distribution of the participating member's vested account balance if the board determines the participating member has become totally and permanently disabled. If approved, the disabled member has the same distribution options as provided in subdivisions a and c of subsection 3 of section 54-52.6-13. However, if the member chooses the periodic distribution option, the member may only receive distributions for as long as the disability continues and the member submits the necessary documentation and undergoes medical testing required by the board, or for as long as the member participates in a rehabilitation program required by the board, or both. If the board determines that a member no longer meets the eligibility definition, the board shall discontinue the disability retirement benefit.

Page 7, line 7, replace "\$250,000" with "\$450,000"

Page 7, line 16, replace "7" with "8" and replace "\$250,000" with "\$283,000"

Page 7, line 19, replace "two" with "three"

Page 7, line 24, remove "7, and" and after "8" insert ", and 9"

Page 7, line 25, replace "July 1, 2003" with "October 1, 2002"

**REPORT OF STANDING COMMITTEE (410)**  
April 2, 2001 2:09 p.m.

**Module No: SR-57-7486**  
**Carrier: Wardner**  
**Insert LC: 10050.0401 Title: .0500**

Page 7, remove lines 26 through 28

Renumber accordingly

2001 TESTIMONY

HB 1217

**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
BILL NO. 50**

**Sponsor:** Representatives Francis J. Wald and Bette Grande

**Proposal:** Provides that all state employees except Supreme Court or district court judges or employees of the State Board of Higher Education and state institutions under the jurisdiction of the board who are eligible to participate in TIAA-CREF may elect to become members of the defined contribution retirement plan.

**Actuarial Analysis:** Concerning the impact of this proposal on the defined benefit plan, the consulting actuary concluded that a guaranteed cost-of-living adjustment for the defined benefit plan cannot be adopted by either 2005 or 2007, without higher investment return or additional contributions or other changes or gains; that based on assumptions and methods, the defined benefit plan is not harmed by the optional defined contribution program; that expansion of the optional program to political subdivisions helps, not hurts, the defined benefit plan; that diversion of some members to the defined contribution program allows a guaranteed cost-of-living adjustment to be paid out of overfunding as the overfunding goes further when spread over fewer defined benefit members; and that external cash flow may become an issue in 15 to 20 years but will not force significant changes to allocation or assumed investment return. However, the actuarial consultant identified several administration issues and recommended delaying the implementation date of the expanded plan to January 1, 2003; moving the eligibility date to September 30 and allowing all employees after that date the normal six months to make a decision; moving the end of the election window to December 15; excluding existing nonclassified employees who had an opportunity to choose the defined contribution plan under prior legislation from the provisions of the bill; and considering an alternative methodology to allocate administrative expenses. One such methodology identified by the consulting actuary would be to pay administrative costs out of contributions instead of account assets. As an example, pursuant to this methodology the employer contribution would remain at 4.12 percent but .12 percent would be deposited into an administrative account, and the remaining 4.00 percent would go to the employee's account. This methodology would distribute administrative costs to all members.

**Committee Report:** Favorable recommendation.



TESTIMONY  
OF  
SPARB COLLINS  
ON  
HB 1217

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

I appear before you today neither in favor nor opposed to HB 1217. This bill did receive significant study during the interim and I would refer you to the Actuarial Analysis conducted by Watson Wyatt and the Technical Analysis conducted by the Segal Company concerning the policy implications of the proposed bill. Today however, I appear before you concerning some implementation issues. Some of these issues have been identified in the "Technical Analysis" done during the interim and by the PERS Board based upon its experience in implementing the defined contribution option for non-classified employees that was passed by the last legislative session. The following are the issues that have been identified for which we are making the suggested amendments:

1. Enrollment procedures
2. Transfer calculation
3. Investment education

4. Administrative cost methodology
5. Disability Insurance
6. Administrative support/ funding
7. Non-classified employees

First, we are proposing that a provision be added to the bill that would require new employees to attend an educational meeting prior to enrollment. During the last enrollment some employees elected not to attend an enrollment meeting. While these employees were mailed all the educational materials they did not take the opportunity to attend an education meeting provided by PERS/Fidelity which, reviewed the materials sent and provided additional explanation and information. As a result of this they may not have obtained a full understanding of the DC options. Our concern is that we want to insure that we do not have a repeat of the last time that the PERS Retirement Plan was modified. From 1966 to 1977 PERS was a Defined Contribution Retirement Plan. In 1977 employees were given the opportunity to leave the DC Plan, and join the new DB Plan that was started that year. In the 10-year period that followed, the legislature was asked to provide other windows in which employees could move into the DB plan and the most often cited reason was because of misunderstandings that occurred during the initial enrollment. Therefore, we believe that it is critical that we make every attempt to document and provide each employee as much information as possible so we can avoid a situation in later years where due to a misunderstanding a new window is requested. Since it is likely that providing windows for rejoining the DB Plan, similar to those in the past, would required additional employer contribution, we believe it is prudent to require

attendance in order to minimize any potential for a misunderstanding. This change in the amendment is on page 3, line 5 and page 4, line 1.

Second, we are also proposing on page 5, line 23, 24 and 25 an amendment that would clarify the transfer calculation in view of the changes made last session to the Defined Benefit Plan allowing a member to add employer contributions to their account balance. This amendment ensures that we will not double count the employer contribution in calculating the transfer amount.

Third, concerning investment education, we would refer you to the discussion under employee communication/fiduciary issues on page 12 and 13 of the Technical Analysis. Specifically, that discussion concerns providing members of Defined Contribution Plans access to retirement and financial planning services so they will have the necessary understanding to direct their financial investments in a manner that will allow them to acquire sufficient assets for retirement. To accomplish this the PERS Board is proposing that an investment education fund be established and be funded by fifteen hundredths of a percent of the monthly salary and wage of the participating member and paid out of the existing employer contribution. These funds would be used by PERS to contract with investment advisors who would be available to the members to assist them in financial planning, asset allocation and other investment needs as they manage their retirement funds. We note that Montana, which is also establishing a defined contribution option for its 30,000 members, allocated \$1.4 million to member education for the initial

enrollment. The amendment implementing this suggestion is the proposed new "Section 5" and "Section 6".

Fourth, the administrative cost assessment methodology is discussed on page 12 of the Technical Analysis. Under present statute PERS's administrative costs are reimbursed in one of two ways:

1. PERS administrative assessment
2. Non-vested contributions.

Presently PERS assesses an administrative charge of 6 basis points or .06 percent against the members account for administrative cost. Presently there is approximately eight million dollars in approximately 230 accounts. About 20 of those accounts represent \$4,000,000.00 or half the value of the Defined Contribution Plan. Therefore, the existing methodology, which is based on account value results in those 20 people paying almost fifty percent (50%) of the administrative assessment. Therefore, we are proposing that the administrative assessment methodology be changed to one that was used in the Defined Contribution Plan from 1966 to 1977. Under that plan .12% of payroll went into the administrative account. By doing it in this manner the administrative assessment is more equally divided across all the participants in the Defined Contribution Plan and not concentrated on those with larger account balances. We believe that this alternative methodology is more equitable to all participants. The amendment adding "Section 6" provides for this change.

The fifth suggestion relates to a disability insurance benefit. The Defined Contribution Plan passed last session stated that a disability insurance benefit be provided as an optional benefit for a DC participant. They could elect to take this coverage and pay for it out of their retirement contribution. In implementing this provision it was determined that it was not consistent with IRS regulations. The only way to avoid this conflict would have been to make the disability insurance mandatory for all employees. Since the legislature did not provide specific guidance to make the program mandatory the PERS Board decided to provide a disability program that was the equivalent of a member's account balance rather than the disability insurance. For example, if a disabled member had \$1000.00 in their account balance, they could take a monthly distribution or take a lump sum up to the value of the account, which would be the extent of their disability benefit with PERS. The PERS Board also noted that the non-classified employees have an average salary of about \$44,000.00 a year and it was felt that many of those employees might already have disability insurance coverage. It was also noted that the non-classified jobs were primarily office jobs. With the group that is proposed under this bill, this situation is not the same. These employees have an average salary of about twenty four thousand dollars (\$24,000) a year and some have non-office jobs (Highway Department, Game and Fish, Parks Department etc). Due to the lower salaries many may not have disability insurance coverage except for the benefit in the Defined Benefit Plan. In order to provide a more equivalent benefit in both the DB and DC plan and to insure that employees are covered, we are suggesting that a mandatory disability insurance provision be provided in the Defined Contribution Plan for all new employees. Based upon our previous experience this would cost about a half a percent of payroll and would be

funded out of the employer contribution portion. This is provided in the amendment adding "Section 7" to House Bill 1217.

Sixth, are the additional administrative efforts associated with implementation and operation of the new Defined Contribution Plan. PERS is requesting an appropriation be added to the bill of approximately \$283,000 and 3 full-time employees to support this effort. Pages 9, 10, 11 and 12 of the Technical Analysis detail the reasoning for this additional appropriation authority. One hundred thirty one thousand dollars (\$131,000) of this amount is associated with the calculation of the employer and employee contribution. Approximately one hundred and seven thousand dollars (\$107,000) relates to the educational effort and forty-four thousand five hundred dollars (\$44,500) is for administrative support. While the above amount may seem significant, again note that Montana set aside two million dollars (\$2,000,000) for implementation of their DC Plan. This amount is in addition to the 1.4 million dollars for investment education.

Associated with the appropriation authority is the need for a funding source for this initial implementation effort. We recognize the difficulty the general fund would have supporting this effort and therefore, we are proposing that we be authorized to have a long-term loan from the Bank of North Dakota. The loan will be paid back over ten years from the fees received from the DC participants over that time period. The funding source and appropriation additions are in the new "Section 8"

Seventh, is a proposed amendment that non-classified employees not be included under the provisions of this bill and is discussed on page 10 of the Technical Analysis. We note that HB 1216 provides an opportunity for non-classified employees who did not elect the Defined Contribution Plan last time to have a new election opportunity in the first year of the new upcoming biennium. This bill would provide a third election opportunity for non-classified employee. We believe that by having two election opportunities this close for the non-classified employees would potentially be confusing and duplicative. Therefore, we are suggesting that they not be a part of this bill because they are already included under House Bill 1216. This is provided in the amendment adding "Section 10" to the bill.

Attached are the proposed amendments to the bill implementing the above provisions.

Mr. Chairman, members of the committee, this concludes my testimony.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1217

Page 7, line 7, replace "\$250,000" with "\$450,000"

Page 7, line 16, replace "\$250,000" with "\$283,000"

Page 7, line 19, replace "two" with "three"



02/15/01

**TASK 1 - PERS COSTS**

**SUBTASK 1 - A SUBTASK 1 - B SUBTASK 1 - C 01-03 Biennium**  
**Transfer calculation Education/Travel Admin Support Total**

**SALARY & WAGES**

Accounting/Budget Specialist I (Grade 8)	58,067			58,067
Benefits Specialist (Grade 11)		40,033		40,033
Administrative Assistant I (Grade 6)			24,676	24,676
<b>TOTAL</b>	<b>58,067</b>	<b>40,033</b>	<b>24,676</b>	<b>122,776</b>

**OPERATING EXPENSE**

<b>Data Processing</b>				
Network Access Charge (\$27/person/month)	1,404	486	324	2,214
CPU time to run batch jobs (\$100/month)	0	0	600	600
Programming changes - ded admin fee from employer cr	0	0	3,000	3,000
<b>Telephone</b>				0
Basic phone service (\$28.50/person/month)+installation	754	513	342	1,609
Long distance (4% increase)	777	777	777	2,330
Office Rent (4% increase)	5,590	5,590	5,590	16,770
<b>In-state travel (1st set of meetings)</b>				
Motor pool (8,750 miles * .26)	0	2,275	0	2,275
Meal reimbursement (82 days * \$20)	0	1,640	0	1,640
Lodging reimbursement (64 nights * \$48)	0	3,072	0	3,072
<b>In-state travel (2nd set of meetings - 20% less)</b>				
Motor pool (7,000 miles * .26)	0	1,820	0	1,820
Meal reimbursement (66 days * \$20)	0	1,320	0	1,320
Lodging reimbursement (52 nights * \$48)	0	2,496	0	2,496
<b>Out of state travel</b>	0	3,000	0	3,000
Temporary help - Kelly Services	58,229	28,595	0	66,823
Legal Fees (50 hrs @ \$55/hr)	0	0	2,750	2,750
Printing	0	0	0	0
Office Supplies (4% increase)	1,536	1,536	1,536	4,609
Computer software	600	600	600	1,800
<b>TOTAL</b>	<b>68,890</b>	<b>53,719</b>	<b>15,519</b>	<b>138,128</b>

**EQUIPMENT**

Office furniture	1,740	1,740	1,740	5,220
<b>Computers Equipment</b>				
Laptops (2)	0	5,400	0	5,400
Projector (1)	0	3,500	0	3,500
Desktop PC	2,500	2,500	2,500	7,500
<b>TOTAL</b>	<b>4,240</b>	<b>13,140</b>	<b>4,240</b>	<b>21,620</b>

**TOTAL COSTS FOR TASK 1**

131,197 106,892 44,435 282,524

TASK 2 - TRANSACTION COSTS

TASK 3 - CONSULTING COSTS

116,368

19,800

TOTAL COST FOR ALL TASKS

418,692

ASSUMPTIONS:

1. The accounting position will be filled 7/1/01; the benefit specialist position will be filled 1/1/02; the administrative assistant will be filled 7/1/02.
2. Increase in one FTE is a 4% increase.
3. Temporary help includes 2 data entry positions for 14 months @ \$12/hr to do transfer calculations; 1 benefits specialist for 11 months @ \$15/hr to do employee meetings.
4. Consulting/actuary fees assume a 10% increase over fees paid in 1999/2000 for same type of work.
5. Printing: Election forms will be printed by Fidelity; increase in DC member handbooks and retirement applications will be offset by decreases in DB member handbooks and retirement applications.
6. Office furniture includes desk (\$800), file cabinet (\$540), and chair (\$400) per person
7. Programming costs are to allow for collection of an administrative fee through the employer contribution.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1217

Page 1, line 2, after "54-52.6-02," remove "and"

Page 1, line 2, after "54-52.6-03" insert ", and 54-52.6-06, subsection 2 of section 54-52.6-09, and section 54-52.6-14"

Page 1, line 3, after "plan" insert ", payment of administrative expenses, and disability benefits; to authorize the borrowing of funds; to provide an appropriation; to provide an effective date; and to state the applicability of this Act"

Page 3, line 5, after the period, insert "An eligible employee may not elect to participate in the defined contribution retirement plan until the eligible employee has attended the education program developed by the board."

Page 4, line 1, after the period, insert "An eligible employee may not elect to participate in the defined contribution retirement plan until the eligible employee has attended the education program developed by the board."

Page 5, line 23, overstrike "and employee"

Page 5, line 23, after "made" insert ", less vested employer contributions pursuant to section 54-52-11.1"

Page 5, line 23, overstrike "pursuant to sections"

Page 5, line 24, overstrike "54-52-05 and 54-52-06"

Page 5, line 25, after "election" insert "and the employee account balance"

Page 5, after line 27, add the following:

"Section 5. Amendment. Section 54-52.6-06 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

54-52.6-06. Administrative expenses - Continuing appropriation. The administrative expenses of the plan must be paid by the participating members in a manner determined by the board. The board ~~or~~ and vendors contracted for by the board may charge reasonable administrative expenses and deduct those expenses from the contribution to a participating member's account in the defined contribution retirement plan established under this chapter, directly from the monies already in a participating member's account, or both. In determining reasonable administrative expenses, the board shall include

an amount necessary to implement an appropriate investment education program. The board shall place any money deducted by the board in an administrative expenses account with the state treasurer. The board may also use funds from the payroll clearing account established pursuant to section 54-52.3-03 to pay for consulting expenses. All moneys in the payroll clearing account or the administrative expenses account, not otherwise appropriated, or so much of the moneys as may be necessary, are appropriated to the board on a continuing basis for the purpose of retaining a consultant as required for the administration of this chapter.

SECTION 6. Amendment. Subsection 2 of section 54-52.6-09 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

2. The employer shall contribute an amount equal to four and twelve hundredths percent of the monthly salary or wage of a participating member. If the employee's contribution is paid by the employer under subsection 3, the employer shall contribute, in addition, an amount equal to the required employee's contribution. Of the amount contributed by the employer on behalf of employees electing to participate in this program after June 30, 2001, the board shall have the authority to withhold up to twelve hundredths percent of the monthly salary or wage of the participating member for general administrative expenses, and in addition up to fifteen hundredths percent of the monthly salary or wage of the participating member specifically for investment education expenses, all of which moneys shall be deposited into the administrative expenses account. The employer shall pay monthly such contribution into the participating member's account from its funds appropriated for payroll and salary or any other funds available for such purposes. If the employer fails to pay the contributions monthly, it is subject to a civil penalty of fifty dollars and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.

SECTION 7. Amendment. Section 54-52.6-14 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

**54-52.6-14. Disability benefits.** The board shall provide a procedure whereby a participating member electing

to participate in this plan after June 30, 2001, may shall use a portion of that person's account contributions under this chapter to purchase disability insurance. For members electing to participate in this plan prior to July 1, 2001, the board shall allow distribution of the participating member's vested account balance if the board determines the participating member has become totally and permanently disabled. If approved, the disabled member has the same distribution options as provided in subsections 54-52.6-13(3)(a) and (c). However, if the member chooses the periodic distribution option, the member will only be allowed to receive distributions for as long as the disability continues and the member submits the necessary documentation and undergoes medical testing required by the board, or for as long as the member participates in a rehabilitation program required by the board, or both. If the board determines that a member no longer meets the eligibility definition, the board shall discontinue the disability retirement benefit.

SECTION 8. AUTHORITY TO BORROW FUNDS. The Public Employees Retirement System Board is authorized to borrow up to \$500,000 from the Bank of North Dakota for the purpose of defraying the administrative expenses of the defined contribution retirement program until such time as there are sufficient assets in that program to pay off any such loan and support the administrative expenses of that program. The term of the loan shall not be longer than thirteen years. If requested by the Public Employees Retirement System Board, the Bank of North Dakota shall make any such loan, at a rate agreed to by the parties.

SECTION 9. APPROPRIATION. There is hereby appropriated out of any moneys in the administrative expense account created by section 54-52.6-06 and the payroll clearing account created by section 54-52.3-03, in the state treasury, the retirement fund, and the loan authorized by section 8 of this Act, not otherwise appropriated, the sum of \$283,000, or so much of the sum as may be necessary, to the Public Employees Retirement System Board, for the purpose of administering this chapter, for the biennium beginning July 1, 2001, and ending June 30, 2003. The Public Employees Retirement System Board is authorized three additional full-time equivalent positions to implement this Act. The transaction costs experienced by the fund in liquidating securities to transfer to the defined contribution program on behalf of employees electing to transfer to that program shall be reimbursed to the retirement fund in the same manner as contributions to the fund."

**SECTION 10. EFFECTIVE DATE.** Sections 1, 2, 3, 4 and 7 shall become effective July 1, 2003, and sections 5, 6, and 8 shall become effective July 1, 2001.

**SECTION 11. APPLICABILITY.** This Act shall not apply to non-classified employees who did not elect to transfer into the defined contribution retirement plan within the time frame provided by section 54-52.6-02 as that section provided prior to this Act."

Renumber accordingly

Testimony on HB 1217

Chairman Klein and Members of the Committee,

For the record, my name is Jim Collins Jr. and I am here today representing the Independent North Dakota State Employees Association. I am employed in the ND Department of Health and have taken annual leave to be here today.

I would like to voice our opposition to HB 1217. We have several concerns regarding this legislation, however I would like to point out two in particular.

First, is the problem that some employees are having with their retirement accounts that switched to the defined contribution (DC) system, currently they have lost twenty percent of their retirement dollars. If they were a long-term employee, this could be devastating. This would then force they employee to work well past their intended retirement date in order to recoup those losses. This is not the first try at switching to a defined contribution system. Before my tenure began with the state it was attempted and employees lost retirement dollars then. Subsequently legislation was needed to bring them back into the current, defined benefit (DB) system. It has been rumored that members of another state agency maybe looking at attempting this because their DC system failed. Furthermore, I do not personally know of any employee that has said they wish to move to a DC system for retirement.

I believe we need to learn from history.

Secondly, some monies from the current system are used by the Bank of North Dakota to finance projects within the state. If the markets change and a majority of employees switch to a DC system, that money would no longer be available. Additionally, I am not an expert, but I would say that there are few if any investment companies that invest heavily in North Dakota companies.

Finally, I would like to point out that we have a well designed hybrid of the DB/DC system that exists today, in the PEP plan. This is open to all employees and of those I know that are enrolled, they say they like it.

In closing, I urge you to give this bill a do not pass recommendation.

Thank you for your time.

Respectfully,

Jim Collins Jr.  
President, INDSEA



NORTH DAKOTA  
PUBLIC EMPLOYEES ASSOCIATION

AMERICAN FEDERATION  
OF TEACHERS LOCAL 4860 AFL-CIO



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## TESTIMONY IN OPPOSITION TO HB 1217

Before the House Government and Veterans Affairs Committee  
North Dakota Public Employees Association, AFT Local 4660, AFL-CIO  
February 1, 2001

Chairman Klein members of the House Government and Veterans Affairs Committee, my name is Gisele Barth and I am a Project Coordinator with the North Dakota Public Employees Association. Chris Runge, NDPEA Executive Director, was unable to be here today due to a previous legal commitment in Fargo. She sends her apologies to the Committee. NDPEA is opposed to HB 1217. This bill would create a new defined contributions retirement system for classified state employees and we are opposed to changing the current well-run system.

In the past few years governors and state legislatures have looked to overhaul the pension systems for public employees. One idea prevalent among some lawmakers is establishing defined contribution pensions for public employees and moving them out of existing defined benefit pension plans.

NDPEA strongly believes it is not a matter of choosing a defined benefits pension system over a defined contributions pension system. It is what is in the best interests of the public employee, what will provide the employee with the best possible retirement plan for the years of service and loyalty the employee has provided to the citizens of this state. In 1998, the North Dakota Public Employees Retirement System conducted a retirement portability study. In response to the results of the study, legislation was developed and enacted last session that led to the creation of the Portability Enhancement Program. We no longer have a defined benefits pension plan. What we have is a hybrid pension system

*Quality Services from Quality People*

# Testimony



taking the best of both worlds. NDPEA strongly supported the establishment of the hybrid system and we are actively encouraging our members to participate in the new system. We believe that it will provide public employees with a strong retirement.

NDPEA has spent a great deal of time over the past two years 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.

There has been no overwhelming movement to change the current hybrid retirement system that we worked so hard to implement with your help. We believe that the current hybrid retirement system is the best system for public employees and answers all the portability questions brought up during the last session. We have already seen a substantial increase in employees participating in the new Portability Enhancement Program under the main retirement system. Over the last two years our members have not asked for a change to a defined contributions system. In fact just the opposite; they have strongly supported the current retirement system.

We have some serious concerns with HB 1217. While this bill allows any state employee to opt out of the main system, we believe strongly that if the Committee does decide to pass this bill, that there should be amendments to require investment education to those who decide to opt out of the current system. In a defined contribution plan the total risk of loss shifts to the employee therefore, we believe that there should be an education component to the defined contribution program. It is important that if employees will be relying on their own education on investment choices, that sound public policy would dictate that the state make sure that an education component be a part of this bill.

We are aware that the proponents of the bill argue that this will give employees a choice in managing their own money and controlling their investment decisions. However, it is our opinion that

because we are dealing with long-term retirement issues and investment decisions, that public policy requires that we do everything we can do to make sure that those employees have all the tools necessary to manage their money effectively. If you have any questions, I will try to answer them. Ms. Runge will be available as well upon her return later today.

NDPEA urges a DO NOT PASS on HB 1217.

## TESTIMONY ON HB 1217

February 1, 2001

Chairman Klein, and members of the committee, my name is Tom Tupa, and I am representing the Association of Former Public Employees and the Independent ND State Employees Association. I am here this morning in opposition to HB 1217.

First I would like to provide some history. In the late 60's and early 70's ND had a DC plan for its public employees. During that period of time, public employees would get their year end account balance statements showing a balance less than the amount of contributions. It was then that the PERS board proposed a DB program for its members. The legislature in its wisdom approved the DB plan and thereby made a commitment to public employees to provide them with a retirement system which would take the worry and guessing out of having enough money to someday retire after many years of dedicated public service.

The system has worked well. It has aided in recruiting and retaining quality state employees.

I need to provide you with a few reasons not to change from the current DB plan to the DC plan.

1) Retirees, both current and future, are concerned about whether or not there will be future retirement adjustments. If sufficient numbers of employees move to the DC plan, it may leave only ample money to maintain the status quo after retirement. If that were to become the case, then it would be logical to assume employees would not retire until they could be assured they would be able to survive on their unchanging retirement check.

2) Not all employees are comfortable with the responsibility of managing their own retirement accounts. They are generally pleased with the PERS board management and would prefer that arrangement be left in tact.

3) Approximately \$133 million from the SIB, made up partially from the TFFR and the PERS plans, is now used for investment in NID's economy through the Bank of NID's match loan program. Last Session, that amount was at approximately \$60 million. Should 50% of the participants decide to move from the DB plan to the DC plan, would the money currently available to the Bank be reduced by an equal amount--leaving less money to invest in NID's future?

4) I recently visited with an individual who opted out of the DB after the last Session. That person told me his retirement account is now 20% less than it was when he changed plans almost a year ago. If that person had anticipated on retiring today, he may have to change his plans as a result of having less money than he counted on for his retirement years.

5) There has be no load outery from the present participants to change from the present system to a DC plan.

Mr. Chairman and members of the committee, during the last Session we opposed moving toward the DC plan. We were not totally successful in our efforts but we are willing to live with the results of making it available to elected and appointed officials. But, to go beyond what happened last session, is not necessary and is not what AFPE and INDSEA want.

We ask for a DO NOT PASS ON HB 1217.

2-16-01  
HB 1217

**TESTIMONY**  
**OF**  
**SPARB COLLINS**  
**ON**  
**HB 1217**

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

I appear before you today concerning the appropriation in House Bill 1217. This bill provides for a defined contribution option for classified state employees. Please note, this bill is similar to a bill that was passed last legislative session that provided a defined contribution option for non-classified state employees. The bill passed last session applied to approximately six hundred thirty (630) participants. The bill before you today applies to approximately nine thousand three hundred (9300) active state employees. This bill was studied extensively during the interim and I would refer you to the interim studies conducted by the Watson Wyatt Company and the Segal Company. Those analyses also discussed the implementation costs associated with this bill. Specifically, the costs relate to the following tasks:

- Task - 1    PERS Cost
- Task - 2    Transaction Cost
- Task - 3    Consulting Cost

## **Task 1 PERS Cost**

Concerning the cost relating to PERS the bill provides for an appropriation of two hundred and fifty thousand dollars (\$250,000). You will note that the technical analysis estimated the level of effort for PERS at two hundred eighty two thousand five hundred twenty four dollars (\$282,524). The bill provides for two full-time employees and the technical analysis provided identifies a need for three full-time employees. Attached are proposed amendments reflecting the level of effort discussed in the technical analysis and our request. The cost relating to PERS are based upon the requirements of the bill and providing an implementation process that is the same as was provided to the non-classified employees.

Costs for this task can be broken down into three primary sub tasks:

Subtask 1 -- A. Calculation of the transfer amounts.	\$131,197
Subtask 1 -- B. Conducting the enrollment and education meetings	\$106,892
Subtask 1 -- C. Support service cost for implementation and operation.	\$ 44,435

### *Sub Task 1-A Calculation of the transfer amount*

Section four of the bill specifies that for the amount that will be transferred from the Defined Benefit Plan to the Defined Contribution Plan should a member elect to make that transfer. The amount to be transferred is the greater amount of two calculations:

1. The actuarial present value of the individuals accumulated benefit obligation  
or
2. The actual employer and employee contributions made pursuant to sections 54-52-05 and 54-52-06, plus interest.

PERS efforts relate to item number two above. When we completed this task for the existing DC Plan for non-classified employees it required PERS to take approximately a half-hour to conduct this initial calculation for each member. This is necessary to calculate interest on the employer contribution for each individual because previously it was aggregated and not accounted for separately. Expanding this process to the entire eligible group under this bill means that it would take twenty-one months of continuous effort to complete this task. Since this calculation needs to be completed before PERS can send the member a personal benefit comparison as required under NDCC 54-52.6-15, we will have to complete this effort by early spring of 2002 to comply with the requirements in the law. In addition, once this calculation is completed, it will be used as a projected transfer amount that will be provided to the membership for their consideration in making their decision on whether they want to elect to participate. For those employees that do elect to participate, PERS must also do a final transfer calculation. This calculation will be done after the election period is closed in late 2002. If the same percent of the non-classified group elect the DC Plan option as the classified group then approximately thirty-eight percent (38%) of the nine thousand three hundred (9,300) members will elect to make this transfer. Based upon our experience with the non-classified group, this will take about 15 minutes per employee to make this calculation. This will require approximately eight hundred (800) hours of effort to do the final calculation. In addition to the efforts relating to the initial and final calculation for the base group, we expect approximately seven hundred (700) new employees to enter the system during the implementation period for which new calculations will need to be

done. Also, we will have nine months of operation in 2002/2003 during which an estimated nine hundred (900) new eligible employee will enter the system. To support these efforts, PERS has proposed the addition of one permanent full time employee, which is an accounting budget specialist position. To assist this person in meeting those time frames, we are also requesting funds to hire two temporary staff. These temporary staff will help us to make it through the implementation when we must perform the calculation for the full nine thousand three hundred (9,300) participants. On an ongoing basis, we estimate one full-time employee should be enough to support PERS for this responsibility. The proposed appropriation associated with completing this task is one hundred thirty one thousand one hundred ninety-seven (\$131,197) dollars.

#### *Sub Task 1 --B Education/Enrollment*

The second sub task is educational meetings. The format for the previous optional program provided to non-classified members was to have two sets of meetings. The first set of meetings was pension education. The PERS's staff and Fidelity, our record keeper, presented this meeting. PERS's staff reviewed and explained the Defined Benefit Plan, the PEP Program, the Retiree Health Credit Program, Health Plan and Life Plan. Fidelity explained the defined contribution option. The focus of these meetings was to provide greater detail on the two types of retirement plans and associated benefits, to review the personalized illustration, and to discuss what personal factors an individual might want to consider when selecting a plan. The second set of meetings presented was an investment strategy workshop. These interactive meetings were designed to help members develop a retirement investment strategy for the Defined Contribution Plan should they elect to join



the plan. Also at these meeting we discuss the DB-DC decision process again in the question and answer session. These meetings should have no more than thirty (30) people in attendance. With approximately nine thousand three hundred (9,300) eligible members this means that PERS and Fidelity would need to conduct an estimated three hundred eleven (311) pension education meetings. For the original implementation of the DC Plan PERS conducted an equal number of investment strategy workshops; however, some members had already their decision and did not attend the second set of meetings. Therefore, PERS believes that under this bill we could reduce the number of investment education meetings to approximately two hundred fifty (250). Therefore, the total number of meetings associated with this initial implementation effort would be approximately five hundred sixty-one (561) meetings. If PERS and Fidelity could manage three meetings a day it would require approximately one hundred eighty seven (187) days to complete the required implementation meetings. If we use two teams it appears that we could reduce the time frame to approximately ninety-three (93) days. Recognizing that only eighty percent (80%) of the number of days in a month could be devoted to meetings, it would take two teams approximately five point five (5.5) months to complete the education. We anticipate this work effort to begin in April of 2002 and are hoping to complete it by October of 2002. In October and November we anticipate having additional meetings for those who could not attend previous meetings and for the approximately seven hundred (700) new employees that will enter the system during the first set of meetings. Beginning in October of 2002 we will begin having enrollment meetings for new employees who would not be part of the initial enrollment. Again, we are anticipating approximately one hundred (100) new employees each month or nine

hundred (900) in this group. To support these efforts PERS is proposing the addition of one permanent benefit specialist for approximately 18 months before the election period closes and a second temporary benefits specialist that would be available during the implementation stage only. The cost of the educational effort is anticipated at one hundred six thousand eight hundred ninety-two dollars (\$106,892).

#### *Sub Task 1 - C Enrollment / Administrative Support*

The third sub task for PERS is the administrative support. To assist with this we are proposing an additional permanent administrative assistant. This administrative support position would be for twelve months during the upcoming biennium. This position would assist with processing all the necessary paper work generated as a result of the enrollment efforts and respond to questions and handle administrative correspondence related to this effort. The total cost of this position is approximately forty-four thousand four hundred and thirty five dollars (\$44,435).

The above are the cost that are associated with PERS and for which we are requesting a total appropriation authority of approximately two hundred eight two thousand five hundred twenty four dollars (\$282,524).

#### **Task 2 - Transaction Costs**

The transaction costs are associated with the amount of funds that would be transferred from the Defined Benefit Plan to the Defined Contribution Plan. Under the study conducted during the interim it was estimated that approximately twenty nine hundred

(2900) people will elect to join the DC Plan. That election rate will mean that approximately fifty - nine million dollars (\$59,000,000) in assets will need to be transferred from the Defined Benefit Plan to the Defined Contribution Plan. For PERS to come up with the cash necessary for that transfer we will have to sell certain stocks and bonds and other assets in the Defined Benefit Plan. There will be a transaction cost associated with those sales. It is estimated that the transaction costs will be approximately one hundred sixteen thousand three hundred sixty eight dollars (\$116,368). No additional appropriation is requested since this is paid directly from the fund.

### **Task 3 - Consulting**

The final task is the consulting service expense. As mentioned earlier, the calculation of the transfer amounts is done in two ways. The one method we discussed earlier was that PERS calculates the actual employer and employee contributions plus interest. The statute also provides that the present value of the accrued benefit needs to be calculated. This is an actuarial calculation for which we will need to retain actuaries. We estimate that the consulting cost could run approximately nineteen thousand eight hundred dollars (\$19,800). This is based upon a ten percent (10%) increase in the amount we paid in fees for the same work for the six hundred thirty (630) members. This amount may be low however, as the fee will likely be higher for the nine thousand three hundred (9,300) eligible under this bill. Here again, no additional appropriation is requested since these costs are paid directly from the fund.

## FUNDING SOURCE

The next question is, how are the above tasks and subtasks going to be funded? Since this effort relates solely to the implementation of the DC Plan it would not appear to be appropriate to charge these expenses against the Defined Benefit Plan. Further we recognize the difficulty it would be for the general fund to support this implementation effort. Therefore, we are suggesting that these costs would be paid by the DC Plan participants in the same manner as the DB Plan participants pay the costs associated for their program administration. However, the DC Plan participants will not begin to make their contributions toward administrative cost until the program begins in 2003. Most of the implementation cost will be incurred in 2001 and 2002, which leaves a funding gap. The bill provides that the funding gap would be funded by a loan from the Bank of North Dakota. That loan would be for a thirteen-year period and the bill authorizes PERS to borrow the up front cost for implementation. Once the program begins and the DC Plan participants began making their administrative cost payments, the loan to the Bank of North Dakota will be paid. This reduces any implementation burden to the general fund, but funds the program in a manner consistent with the program participants paying those costs. You will note that section seven authorizes PERS to borrow up to two hundred fifty thousand dollars (\$250,000). However, as discussed above, the costs for each task are:

Task - 1	\$282,524
Task - 2	\$116,368
Task - 3	<u>\$ 19,800</u>
Total	\$418,692

Therefore, we are requesting that the loan amount authorization be increased to four hundred fifty thousand dollars (\$450,000). The higher amount would allow us to also pay for any additional cost associated with tasks 2 and 3 if they should be higher. This would be a cost of about forty-eight dollars (\$48) per person for implementation.

In conclusion, you will note that PERS is requesting approximately two hundred eighty two thousand five hundred twenty four dollars (\$282,524) in additional appropriation authority, three staff and the authority to borrow through the Bank of North Dakota. These additional funds are to support the cost to PERS as well as, the transactions and consulting service expenses. We note that this proposed funding methodology is not much different then the methodology that is being utilized by the State of Montana for implementation of its program. They faced the same dilemma of having certain up front costs being incurred before the program began and income from the program was available. Therefore, it is our understanding that they did a similar type of loan provision. We note that while our total cost for this program may appear to be high, in Montana they authorized two million dollars (\$2,000,000) for the up front implementation for about thirty thousand (30,000) members or about sixty-seven dollars (\$67) per person.

Funding the program at the required level of effort will provide for the same type of implementation that was conducted for the non-classified employees. We note that the non-classified employees deemed this implementation effort positive. To the extent that

these costs are not funded, implementation efforts and statutory provisions will need to be modified accordingly.

I should also note that PERS does not appear before you today either in support nor opposed to this bill but only to provide you the information on what it will take for PERS to implement this bill pursuant to this statute.

Mr. Chairman, members of the Committee, thank you for allowing me this opportunity to provide you this testimony.

**TESTIMONY  
OF  
SPARB COLLINS  
ON  
ENGROSSED HB 1217**

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

I appear before you today neither in favor nor opposed to HB 1217. This bill did receive significant study during the interim and I would refer you to the Actuarial Analysis conducted by Watson Wyatt and the Technical Analysis conducted by the Segal Company concerning the policy implications of the proposed bill (Available on PERS web site under "News"). Today however, I appear before you concerning some implementation issues. Some of these issues have been identified in the "Technical Analysis" done during the interim and by the PERS Board based upon its experience in implementing the defined contribution option for non-classified employees that was passed by the last legislative session. The following are the issues that have been identified for which we are making the suggested amendments:

1. Investment education
2. Administrative cost methodology

3. Disability Insurance
4. Administrative support/funding
5. Implementation date and applicability

First, concerning investment education, we would refer you to the discussion under employee communication/fiduciary issues on page 12 and 13 of the Technical Analysis. Specifically, the discussion that concerns providing members of the Defined Contribution Plan access to retirement and financial planning services so they will have the necessary understanding to direct their financial investments in a manner that will allow them to acquire sufficient assets for retirement. To accomplish this the PERS Board is proposing that an investment education fund is established and be funded by fifteen hundredths of a percent of the monthly salary and wage of the participating member and paid out of the existing employer contribution. These funds would be used by PERS to contract with investment advisors who would be available to the members to assist them in financial planning, asset allocation and other investment needs as they manage their retirement funds. We note that Montana, which is also establishing a defined contribution option for its 30,000 members, allocated \$1.4 million to member education for the initial enrollment.

Second, the administrative cost assessment methodology is discussed on page 12 of the Technical Analysis. Under present statute PERS's administrative costs are reimbursed in one of two ways:



1. PERS administrative assessment
2. Non-vested contributions

Presently PERS assesses an administrative charge of 6 basis points or .06 percent against the members account for administrative cost. There is approximately eight million dollars in approximately 230 accounts. About 20 of those accounts represent \$4,000,000 or half the value of the Defined Contribution Plan. Therefore, the existing methodology, which is based on account value results in those 20 people paying almost fifty percent (50%) of the administrative assessment. The House did change the administrative assessment methodology as suggested. The change provides that a specified amount of payroll will go into the administrative account. We suggested the amount should be up to .12%. The House authorized up to .06% of payroll. We are suggesting in the attached amendment that the amount be increased to .12% of payroll.

The third suggestion relates to a disability retirement benefit. The Defined Contribution Plan passed last session stated that a disability insurance benefit be provided as an optional benefit for the DC participant. They could elect to take this coverage and pay for it out of their retirement contribution. In implementing this provision it was determined that it was not consistent with IRS regulations. The only way to avoid this conflict would have been to make the disability insurance mandatory for all employees. Since the legislature did not provide specific guidance to make the program mandatory the PERS Board decided to provide a disability program that was the equivalent of a member's account balance rather than the disability insurance. For example, if a disabled

member had \$1,000 in their account balance, they could take a monthly distribution or take a lump sum up to the value of the account, which would be the extent of their disability benefit with PERS. Please note that under the present defined benefit retirement plan all members have a disability benefit of twenty five percent (25%) of their final average salary after 6 months of employment. We feel the Defined Contribution Plan should also have an equivalent benefit. Therefore, we are suggesting that a mandatory disability insurance provision be provided in the Defined Contribution Plan for all new employees. Based upon previous experience this would cost about a half a percent of payroll and would be funded out of the employer contribution. This is provided in the amendment adding "Section 7" to House Bill 1217. The importance of this is to note the following:

**Disability Retirements in the Defined Benefit Plan**

<u>Fiscal Year</u>	<u>Disability Retirement</u>
1992-2000	24
1998-1999	23
1997-1998	27
1996-1997	37
1995-1996	23

This means that over the past five years we have averaged 27 disability retirements per year in the Defined Benefit Plan. Recognizing we have about 16,400 active members per year this means we average 1.5 disability retirements per thousand members.

The actuarial analysis done by Watson Wyatt estimated the number of members joining the DC Plan. The following table shows the expected number of disabilities there would be in the DC system based upon the above experience.

<u>Years</u>	<u>DC Participants</u>	<u>Expected Disabilities per year</u>
1 <sup>st</sup>	2912	4
5 <sup>th</sup>	3638	5
10 <sup>th</sup>	4207	6
15 <sup>th</sup>	4690	7
20 <sup>th</sup>	5034	8

If a disability provision is not added to this bill then the above people (Expected disabilities) will become disabled when actively employed and have no employer sponsored disability retirement benefit to assist them except their account balance. Therefore, we are suggesting in the attached amendment that this should be a mandatory provision and funded out of the employer contributions.

Fourth we are proposing amendments relating to the implementation/operation costs of the program. Concerning the PERS administrative costs the House provided an appropriation of \$250,000 and 2 FTE. We requested and are requesting in the attached amendment that the amount be \$280,000 and 3 FTE. Attached is a detailed explanation of the administrative costs for implementation. We feel that these cost estimates are accurate since they are based upon our experience with implementing the DC plan option for the nonclassified group. That implementation went well and all seemed to feel that it

was appropriate for the decision that the members needed to make. The requested appropriation is to provide that same level of effort for all state employees as the nonclassified employees received. Without that appropriation the classified employees will not get the same enrollment opportunity.

The bill also provides that the implementation cost will be funded by a loan from the Bank of North Dakota. The loan will be repaid out of the administrative assessments once the program is operational.

We are requesting the loan authority be increased to \$450,000 instead of \$250,000. HB 1217 only provides enough authority to cover the PERS administrative costs. As discussed in the attached and the technical review PERS will incur two other costs that are:

1. Transaction costs
2. Consulting costs.

Transaction costs are associated with the funds that will be transferred from the defined benefit plan to the defined contribution plan. Watson Wyatt estimated that approximately \$59,000,000 would be transferred. This means that we will need to sell some stocks or bonds to come up with the cash. The question is who should pay for the costs of liquidating the assets. We believe that cost should be charged to the defined contribution plan. We do not believe that the defined benefit plan participants should pay the cost for coming up with this cash for the DC participants. Therefore in order for the DC plan to pay this cost the loan authority needs to be increased by \$116,383.

Relating to consulting cost, we will need to hire consultants to do the present value calculations for this effort as required under the statute. We believe that this cost should also be part of the loan amount as well. Therefor in light of the above we believe that loan amount authorization should be increased to \$450,000, this will cover the transaction costs and the consulting costs.

While the above amount may seem high please note that Montana is also in the process of implementing a defined contribution option for its 30,000 members and they allocated \$2,000,000 to this effort. This is approximately \$67 per eligible member. Our total request equals about \$48 per eligible member.

Lastly, we are proposing on page 7, line 25 changing the date from July 1, 2003 to October 1, 2002. We note that we had wrong effective date in the original amendment. Also we are suggesting that Section 10 be deleted and replaced with the following wording:

*Notwithstanding any other provision of this chapter, eligible employees shall not have more than one opportunity to make an election to participate in the retirement plan established under this chapter.*

We believe that this more clearly states the intent not to provide for multiple election opportunities for non-classified employees since they are already provided an opportunity

in HB 1216. We note that our original proposed and accepted wording in Section 10 was not clear.

Attached are the proposed amendments to the bill implementing the above provisions.

Madame Chair, members of the committee, this concludes my testimony.

## Hypothetical Personal Illustration for

**Pay Out Option Selected**

Single

DONALD C PARTICIPANT

126 MAIN ST

BARNET, VT 05824

**Scenario†**Anticipated Separation from Service

Normal Retirement\* X

Early Separation

Employee Contributions

Minimum X

Additional N/A

Potential Investment Return

Low (0 to 7.5%)

Medium (7.6 to 9.9%) X

High (10 to 12%)

Dear Plan Participant:

Based on the information provided by you, your employer, and your employer's actuary here is a general comparison of the payments that you may receive from your current defined benefit plan or the new defined contribution plan. This illustration assumes you work for the state of Vermont until age 62. Changing any assumptions will change the results of this illustration.

In the event your career plans include an earlier age for separation from service you should contact a Fidelity representative or your retirement office.

Be certain to review the following assumptions closely and verify their accuracy.

Be sure you fully understand their impact on your benefit calculations.

This illustration should not be considered investment advice, nor should it serve as the primary basis for your plan selection decision. Please refer to your plan documents for additional plan features which may alter your decision. The information contained herein is intended to assist you in determining the retirement plan best suited to your retirement goals.

**1. General Information about you**

Name	DONALD C PARTICIPANT
Current Age	34
Age when you leave employment	62 †
Age when you anticipate taking distributions from your plan	62 †
Current years of service	0.00
Current salary	\$36,589
Plan you participate in:	GROUP F PLAN

† These assumptions were provided from your employer

\* As defined by your employer

†† These assumptions were provided from the participant

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**Fidelity Investments Public Sector Services Company**

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22 Devonshire Street, MM1K, Boston, MA 02109

## 2. A summary of both plans

### Defined Benefit (DB):

- You are required to contribute 2.85% of your salary.
- Assuming your salary grows annually by 4.50%† and assuming you work here for another 28† years, you will retire with a total of 28\* years of service. At that time your estimated final average salary should be \$120,163\*.
- Based on your current plan's formula<sup>1</sup>, you will be entitled to 46.76%† of your final average salary, or \$4,682
- Assuming your Cost of Living Adjustment after retirement remains relatively constant at 2.00%.

1. This is based on the distribution option selected. Your benefit could be reduced if you choose to cover the life of your spouse or select another distribution option.

2. Assumes that you are 100% vested when you leave employment. Pre-tax contributions are subject to the annual IRS dollar limit. This document only provides a summary of the main features of your employer's retirement plan offering, and the Plan documents will govern in the event of any discrepancies. These hypothetical projections are for illustrative purposes only based on the assumptions provided by you and your employer. They do not reflect the performance of a specific investment product and do not constitute investment advice. Returns will vary and your defined contribution account may earn more or less than the amounts in this example. Past performance is no guarantee of future results. Monthly withdrawals during retirement from both the Defined Benefit Plan and Defined Contribution Plan will be taxed as ordinary income. All benefits shown are Pre-Tax. Applicable Federal Income tax will be withheld when benefits are paid to you in retirement.

3. Your monthly benefit reflects an early retirement penalty if you elect to begin payments prior to normal retirement age.

4. IAM'83 Life expectancy table

† These assumptions were provided from your employer

†† These assumptions were provided from the participant

\* A change to this variable can alter the results of this illustration

\*\* Investments offering the potential for higher rates of return involve a higher degree of risk to principle

### Based on potential final average salary

**Your Potential Monthly Benefit<sup>1</sup> From  
Defined Benefit Plan \$5,730**

**Your Potential Monthly Benefit<sup>2</sup> From  
Defined Contribution Plan \$7,502**

### Defined Contribution (DC):

The amount transferred from the DB plan to your account will be \$36,897†. Then over the next 28\* years you and your employer will make the following contributions:

- Your employer will contribute 7.00% of your salary
- You are required to contribute 2.85% of your salary
- Assuming you chose to contribute 0.00%† of your salary as an additional voluntary contribution
- Assuming your employer will contribute an additional 0.00%† of your salary as a matching contribution
- Your total contribution is 2.85% of your salary

Assuming your account balance grows by the rate of 8.50%†\*\* per year, your account balance when you leave employment will be \$962,943. Your account balance could continue to grow for the next 0† years after you leave employment until you are ready to take disbursements. At that time your account balance is estimated to be \$962,943.

You have assumed that your account balance will continue to grow at the rate of 7.50%†\*\* during your retirement years. Current normal life expectancy<sup>1</sup> for a person taking distributions at age 62.0 is 82.7 years. Based on 20.7 years of distributions, your monthly payments would be \$7,502.

Refer to footnote<sup>1</sup>

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### 3. Hypothetical Benefit Comparison

This table compares the amounts which could be paid to you under each plan given the number of years you expect to need income in retirement.

A defined benefit plan generally pays a fixed benefit, but your plan also includes a cost-of-living adjustment. A defined contribution plan payments can fluctuate considerably given investment performance, contributions, and the number of years you expect to receive payments.

Based on final average life expectancy

Your Potential Lifetime Benefit<sup>1</sup> From  
Defined Benefit Plan **\$1,422,206**

Your Potential Lifetime Benefit<sup>2</sup> From  
Defined Contribution Plan **\$1,861,896**

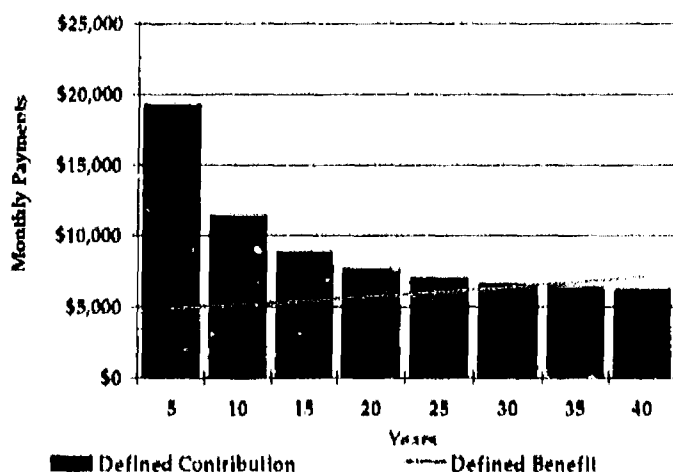
1. In column A, find the row closest to the number of years you anticipate receiving disbursements.
2. Then compare the monthly, annual and lifetime payments you receive for both the DB and DC plans.

### Distribution Comparison

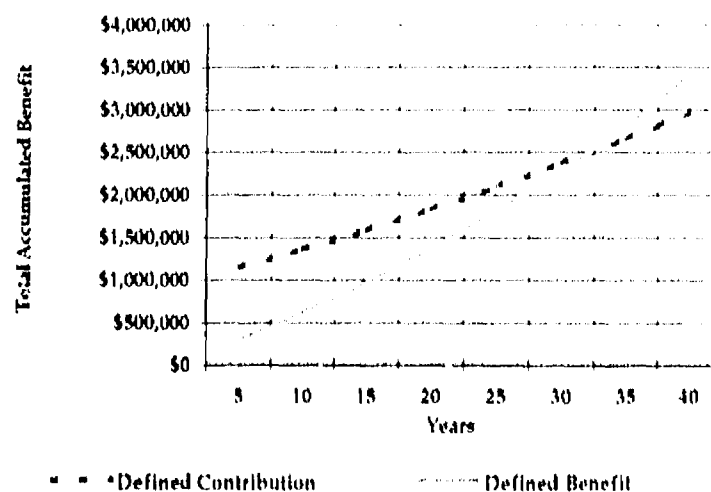
#### Single

	Defined Benefit Plan			Defined Contribution Plan		
	Monthly Benefit	Annual Benefit	Lifetime Benefit Received	Potential Monthly Benefit	Potential Annual Benefit	Potential Lifetime Benefit Received
5	4,873	58,481	292,406	19,183	230,196	1,150,979
10	5,127	61,525	615,245	11,307	135,684	1,356,840
15	5,398	64,779	971,686	8,792	105,510	1,582,644
20	5,688	68,261	1,365,226	7,613	91,358	1,827,155
25	5,999	71,989	1,749,726	6,963	83,552	2,088,792
30	6,332	75,982	2,279,448	6,572	78,858	2,365,747
35	6,688	80,260	2,809,101	6,324	75,889	2,656,108
40	7,071	84,847	3,393,880	6,162	73,949	2,957,967
Life Expectancy Example						
20.7	5,730	68,764	1,422,206	7,502	90,023	1,861,896

### Monthly Payment Comparison



### Total Benefit Paid Comparison



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PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1217

Page 1, line 2, after "54-52.6-06," remove "and", and after "54-52.6-09" insert ", and section 54-52.6-14"

Page 1, line 4, after "plan" insert ", and disability benefits under the defined contribution retirement plan"

Page 5, after line 9 insert the following:

5. Notwithstanding any other provision of this chapter, eligible employees shall not have more than one opportunity to make an election to participate in the retirement plan established under this chapter.

Page 6, line 28, replace "six" with "twelve"

Page 6, line 30, after "expenses," insert "and in addition up to fifteen-hundredths percent of the monthly salary or wage of the participating member specifically for investment education expenses,"

Page 7, after line 5, insert the following:

"SECTION 7. Amendment. Section 54-52.6-14 of the 1999 Supplement to the North Dakota Century Code is amended and reenacted as follows:

54-52.6-14. Disability benefits. The board shall provide a procedure whereby a participating member who first becomes eligible to participate in this plan after September 30, 2002, may shall use a portion of that person's account contributions under this chapter to purchase disability insurance. For members eligible to participate in this plan prior to October 1, 2002, the board shall allow distribution of the participating member's vested account balance if the board determines the participating member has become totally and permanently disabled. If approved, the disabled member has the same distribution options as provided in subsections 54-52.6-13(3)(a) and (c). However, if the member chooses the periodic distribution option, the member will only be allowed to receive distributions for as long as the disability continues and the member submits the necessary documentation and undergoes medical testing required by the board, or for as long as the member participates in a rehabilitation program required by the board, or both. If the board determines that a member no longer meets the eligibility definition, the board shall discontinue the disability retirement benefit."

Page 7, line 7, replace "\$250,000" with "\$450,000"

Page 7, line 16, replace "\$250,000" with "\$283,000"

Page 7, line 19, replace "two" with "three"

Page 7, line 24, remove "7, and" and after the "8" insert ", and 9"

Page 7, line 25, replace "and 4" with "4, and 7"

Page 7, line 25, replace "July 1, 2003" with "October 1, 2002"

Page 7, remove lines 26-28

Renumber Accordingly

**Explanation of Administrative Cost  
and Funding Requirement for  
Engrossed HB 1217**

This bill is similar to a bill that was passed last legislative session that provided a defined contribution option for non-classified state employees. The bill passed last session applied to approximately six hundred thirty (630) participants. The bill before you today applies to approximately nine thousand three hundred (9300) active state employees.

This bill was studied extensively during the interim and we would refer you to the interim studies conducted by the Watson Wyatt Company and the Segal Company. Those analyses also discussed the implementation costs associated with this bill. Specifically, the costs relate to the following tasks:

Task - 1    PERS Administrative Cost

Task - 2    Transaction Cost

Task - 3    Consulting Cost

**Task 1 PERS Administrative Cost**

Concerning the cost relating to PERS the bill provides for an appropriation of two hundred and fifty thousand dollars (\$250,000). You will note that the technical analysis estimated the level of effort for PERS at two hundred eighty two thousand five hundred twenty four dollars (\$282,524). The bill provides for two full-time employees and the technical analysis provided identifies a need for three full-time employees. The cost relating to PERS are based upon the requirements of the bill and providing an implementation process that is the same as was provided to the non-classified employees.

Costs for this task can be broken down into three primary sub tasks:

Subtask 1 - A. Calculation of the transfer amounts.	\$131,197
Subtask 1 - B. Conducting the enrollment and education meetings	\$106,892
Subtask 1 - C. Support service cost for implementation and operation.	\$ 44,435

*Sub Task 1-A Calculation of the transfer amount*

Section four of the bill specifies that for the amount that will be transferred from the Defined Benefit Plan to the Defined Contribution Plan should a member elect to make that transfer. The amount to be transferred is the greater amount of two calculations:

1. The actuarial present value of the individuals accumulated benefit obligation  
or
2. The actual employer and employee contributions made pursuant to sections 54-52-05 and 54-52-06, plus interest.

PERS efforts relate to item number two above. When PERS completed this task for the existing DC Plan for non-classified employees it required PERS to take approximately a half-hour to conduct this initial calculation for each member. This is necessary to calculate interest on the employer contribution for each individual because previously it was aggregated and not accounted for separately. Expanding this process to the entire eligible group under this bill means that it would take twenty-one months of continuous effort to complete this task. Since this calculation needs to be completed before PERS can send the member a personal benefit comparison as required under NDCC 54-52.6-15, we will have to complete this effort by early spring of 2002 to comply with the

requirements in the law. In addition, once this calculation is completed, it will be used as a projected transfer amount that will be provided to the membership for their consideration in making their decision on whether they want to elect to participate. For those employees that do elect to participate, PERS must also do a final transfer calculation. This calculation will be done after the election period is closed in late 2002. If the same percent of the non-classified group elect the DC Plan option as the classified group then approximately thirty-eight percent (38%) of the nine thousand three hundred (9,300) members will elect to make this transfer. Based upon our experience with the non-classified group, this will take about 15 minutes per employee to make this calculation. This will require approximately eight hundred (800) hours of effort to do the final calculation. In addition to the efforts relating to the initial and final calculation for the base group, PERS expects approximately seven hundred (700) new employees to enter the system during the implementation period for which new calculations will need to be done. Also, we will have nine months of operation in 2002/2003 during which an estimated nine hundred (900) new eligible employee will enter the system. To support these efforts, PERS has proposed the addition of one permanent full time employee, which is an accounting budget specialist position. To assist this person in meeting those time frames, we are also requesting funds to hire two temporary staff. These temporary staff will help us to make it through the implementation when we must perform the calculation for the full nine thousand three hundred (9,300) participants. On an ongoing basis, we estimate one full-time employee should be enough to support PERS for this responsibility. The proposed appropriation associated with completing this task is one hundred thirty one thousand one hundred ninety-seven (\$131,197) dollars.

### *Sub Task 1 -B Education/Enrollment*

The second sub task is educational meetings. The format for the previous optional program provided to non-classified members was to have two sets of meetings. The first set of meetings was pension education. The PERS's staff and Fidelity, our record keeper, presented this meeting. PERS's staff reviewed and explained the Defined Benefit Plan, the PEP Program, the Retiree Health Credit Program, Health Plan and Life Plan. Fidelity explained the defined contribution option. The focus of these meetings was to provide greater detail on the two types of retirement plans and associated benefits, to review the personalized illustration, and to discuss what personal factors an individual might want to consider when selecting a plan. The second set of meetings presented was an investment strategy workshop. These interactive meetings were designed to help members develop a retirement investment strategy for the Defined Contribution Plan should they elect to join the plan. Also at these meeting we discuss the DB/DC decision process again in the question and answer session. These meetings should have no more than thirty (30) people in attendance. With approximately nine thousand three hundred (9,300) eligible members this means that PERS and Fidelity would need to conduct an estimated three hundred eleven (311) pension education meetings. For the original implementation of the DC Plan PERS conducted an equal number of investment strategy workshops; however, some members had already made their decision and did not attend the second set of meetings. Therefore, PERS believes that under this bill the number of investment education meetings could be reduced to approximately two hundred fifty (250). Therefore, the total number of meetings associated with this initial implementation effort

would be approximately five hundred sixty-one (561) meetings. If PERS and Fidelity could manage three meetings a day it would require approximately one hundred eighty seven (187) days to complete the required implementation meetings. If PERS uses two teams it appears that PERS could reduce the time frame to approximately ninety-three (93) days. Recognizing that only eighty percent (80%) of the number of days in a month could be devoted to meetings, it would take two teams approximately five point five (5.5) months to complete the education. PERS anticipates this work effort to begin in April of 2002 and are hoping to complete it by October of 2002. In October and November PERS anticipates having additional meetings for those who could not attend previous meetings and for the approximately seven hundred (700) new employees that will enter the system during the first set of meetings. Beginning in October of 2002 PERS will begin having enrollment meetings for new employees who would not be part of the initial enrollment. Again, PERS is anticipating approximately one hundred (100) new employees each month or nine hundred (900) in this group. To support these efforts PERS is proposing the addition of one permanent benefit specialist for approximately 18 months before the election period closes and a second temporary benefits specialist that would be available during the implementation stage only. The cost of the educational effort is anticipated at one hundred six thousand eight hundred ninety-two dollars (\$106,892).

#### *Sub Task I – C Enrollment / Administrative Support*

The third sub task for PERS is the administrative support. To assist with this PERS is proposing an additional permanent administrative assistant. This administrative support position would be for twelve months during the upcoming biennium. This position



would assist with processing all the necessary paper work generated as a result of the enrollment efforts and respond to questions and handle administrative correspondence related to this effort. The total cost of this position is approximately forty-four thousand four hundred and thirty five dollars (\$44,435).

The above are the cost that are associated with PERS and for which we are requesting a total appropriation authority of approximately two hundred eight two thousand five hundred twenty four dollars (\$282,524).

## **Task 2 - Transaction Costs**

The transaction costs are associated with the amount of funds that would be transferred from the Defined Benefit Plan to the Defined Contribution Plan. Under the study conducted during the interim it was estimated that approximately twenty nine hundred (2900) people will elect to join the DC Plan. That election rate will mean that approximately fifty - nine million dollars (\$59,000,000) in assets will need to be transferred from the Defined Benefit Plan to the Defined Contribution Plan. For PERS to come up with the cash necessary for that transfer it will have to sell certain stocks and bonds and other assets in the Defined Benefit Plan. There will be a transaction cost associated with those sales. It is estimated that the transaction costs will be approximately one hundred sixteen thousand three hundred sixty eight dollars (\$116,368). No additional appropriation is requested since this is paid directly from the fund.

### **Task 3 - Consulting**

The final task is the consulting service expense. As mentioned earlier, the calculation of the transfer amounts is done in two ways. The one method we discussed earlier was that PERS calculates the actual employer and employee contributions plus interest. The statute also provides that the present value of the accrued benefit needs to be calculated. This is an actuarial calculation for which we will need to retain actuaries. We estimate that the consulting cost could run approximately nineteen thousand eight hundred dollars (\$19,800). This is based upon a ten percent (10%) increase in the amount we paid in fees for the same work for the six hundred thirty (630) members. This amount may be low however, as the fee will likely be higher for the nine thousand three hundred (9,300) eligible under this bill. Here again, no additional appropriation is requested since these costs are paid directly from the fund.

### **FUNDING SOURCE**

The next question is, how are the above tasks and subtasks going to be funded? Since this effort relates solely to the implementation of the DC Plan it would not appear to be appropriate to charge these expenses against the Defined Benefit Plan. Further PERS recognizes the difficulty it would be for the general fund to support this implementation effort. Therefore, PERS is suggesting that these costs would be paid by the DC Plan participants in the same manner as the DB Plan participants pay the costs associated for their program administration. However, the DC Plan participants will not begin to make their contributions toward administrative cost until the program begins in 2003. Most of the implementation cost will be incurred in 2001 and 2002, which leaves a funding gap.

The bill provides that the funding gap would be funded by a loan from the Bank of North Dakota. That loan would be for a thirteen-year period and the bill authorizes PERS to borrow the up front cost for implementation. Once the program begins and the DC Plan participants began making their administrative cost payments, the loan to the Bank of North Dakota will be paid. This reduces any implementation burden to the general fund, but funds the program in a manner consistent with the program participants paying those costs. You will note that section seven authorizes PERS to borrow up to two hundred fifty thousand dollars (\$250,000). However, as discussed above, the costs for each task are:

Task - 1	\$282,524
Task - 2	\$116,368
Task - 3	<u>\$ 19,800</u>
Total	\$418,692

Therefore, PERS is requesting that the loan amount authorization be increased to four hundred fifty thousand dollars (\$450,000). The higher amount would allow us to also pay for any additional cost associated with tasks 2 and 3 if they should be higher. This would be a cost of about forty-eight dollars (\$48) per person for implementation.

In conclusion, you will note that PERS is requesting approximately two hundred eighty two thousand five hundred twenty four dollars (\$282,524) in additional appropriation authority, three staff and the authority to borrow through the Bank of North Dakota. These additional funds are to support the cost to PERS as well as, the transactions and consulting service expenses. We note that this proposed funding methodology is not

much different then the methodology that is being utilized by the State of Montana for implementation of its program. They faced the same dilemma of having certain up front costs being incurred before the program began and income from the program was available. Therefore, it is PERS's understanding that they did a similar type of loan provision. We note that while our total cost for this program may appear to be high, in Montana they authorized two million dollars (\$2,000,000) for the up front implementation for about thirty thousand (30,000) members or about sixty-seven dollars (\$67) per person.

Funding the program at the requested level of effort will provide for the same type of implementation that was conducted for the non-classified employees. We note that the non-classified employees deemed this implementation effort positive. To the extent that these costs are not funded, implementation efforts and statutory provisions will need to be modified accordingly.

**NDPEA**NORTH DAKOTA  
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1-800-472-2898EMAIL: [ndpea@btigate.com](mailto:ndpea@btigate.com)  
WEBSITE: [www.ndpea.org](http://www.ndpea.org)**TESTIMONY IN OPPOSITION TO HB 1217****Before the Senate Government and Veterans Affairs Committee  
North Dakota Public Employees Association, AFT Local 4660, AFL-CIO  
March 8, 2001**

Chairman Krebsbach members of the Senate Government and Veterans Affairs Committee, my name is Chris Runge and I am the Executive Director of the North Dakota Public Employees Association. I am here to testify in opposition to HB 1217. This bill would create a new defined contributions savings plan for classified state employees and we are opposed to changing the current well-run pension system.

In the past few years governors and state legislatures have looked to overhaul the pension systems for public employees. One idea prevalent among some lawmakers is establishing defined contribution savings accounts for public employees and moving them out of existing defined benefit pension plans.

NDPEA strongly believes it is not a matter of choosing a defined benefits pension system over a defined contributions pension system. It is what is in the best interests of public employees, what will provide the employee with the best possible pension plan for the years of service and loyalty the employee has provided to the citizens of this state. In 1998, the North Dakota Public Employees Retirement System conducted a retirement portability study. In response to the results of the study, legislation was developed and enacted last session with your support. It is now known as the Portability Enhancement Program. We no longer have a pure defined benefits pension plan. What we have is a

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*Quality Services from Quality People*

# Testimony

hybrid pension system taking the best of both worlds. NDPEA strongly supported the establishment of the hybrid system and we are actively encouraging our members to participate in the new system. We believe that it will provide public employees with a strong retirement.

NDPEA has spent a great deal of time over the past two years 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. We have accomplished this through the main retirement system and the addition of the Portability Enhancement Program.

There has been no overwhelming movement to change the current hybrid retirement system that we worked so hard to implement with your help. We believe that the current hybrid retirement system is the best system for public employees and answers all the portability questions brought up during the last session. We have already seen a substantial increase in employees participating in the new Portability Enhancement Program under the main retirement system. Over the last two years our members have not asked for a change to a defined contributions system. In fact just the opposite, they have strongly supported the current retirement system.

We have some serious concerns with HB 1217. While this bill allows any state employee to opt out of the main system, we believe strongly that if the Committee does decide to pass this bill, that there should be amendments to require investment education to those who decide to opt out of the current system. In a defined contribution plan the total risk of loss shifts to the employee therefore, we believe strongly that there should be an education component to the defined contribution program. While the proponents of the bill are stressing "choice", NDPEA believes that there must be an education component to this program. To leave these employees out there without PERS providing investment education we believe would be irresponsible. It is important that if employees will be relying on their own education

on investment choices, that sound public policy would dictate that the state make sure that an education component be a part of this bill.

This bill also lacks a significant benefit offered under the main retirement system, namely a disability plan. What happens if an employee chooses to opt out of the main system and then becomes disabled? Will that disabled state employee have to use what money is in the account to live on thereby depleting his retirement savings account? What then? In a few years will this legislature be faced with state employees who have lost money exercising their choice asking to come back in as you were back in the 70's? What then? The reason the defined benefits pension plan was created in the first place was to provide a secure retirement for the loyal employees in state service.

We are aware that the proponents of the bill argue that this will give employees a choice in managing their own money and controlling their investment decisions. However, it is our opinion that because we are dealing with long-term retirement issues and investment decisions, that public policy requires that we do everything we can do to make sure that those employees have all the tools necessary to manage their money effectively. If you have any questions, I will try to answer them. NDPEA urges a DO NOT PASS on HB 1217.



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# ALEC Issue Analysis

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## Defined Contribution Plans A Flexible Retirement Option for Women

March 1999

**T**he debate over how to improve retirement benefits is raging throughout the country. The question of how different retirement plans affect demographic groups like women, however, has been largely ignored. As the number of women entering into the workforce continues to grow, this question is gaining importance, particularly among public employers.

Currently, more than 90 percent of all public employees are enrolled in defined benefit retirement plans.<sup>1</sup> Defined benefit plans pay retirement benefits based on actuarial formulas that rely on tenure and final average salary as major components of their calculations. Unfortunately for women, these benefit formulas are discriminatory because women generally have shorter work tenures, receive smaller salaries, and move in and out of the workforce more frequently than men. To counterbalance the discriminatory effects of defined benefit plans, public employees should be free to choose personal retirement savings accounts, called *defined contribution plans*, that provide equitable treatment for all employees.

*Defined contribution plans* are 401(k) type accounts in which employers contribute a specific percentage of an employee's salary to an individual retirement account. In many cases, employees make their own contributions in tandem with an additional matching contribution from the employer. In contrast to defined benefit plans, these contributions are then invested and retirees can enjoy the earned investment income after they retire.

Women, who comprise over 60 percent of today's workforce,<sup>2</sup> would benefit from being given a choice between traditional defined benefit plans and modern *defined contribution plans* for several reasons:

### Vesting

Vesting, the point at which an employee is actually entitled to retirement benefits, is a particularly discriminatory characteristic of many defined benefit plans. Defined benefit pension plans can require up to 10 years of service before an employee is entitled to retirement benefits. With these stringent

requirements, up to 70 percent of public employees will never vest or receive benefits in some defined benefit systems.<sup>3</sup> The median employment tenure for women is only 8.9 years, making them less likely than men to vest in these plans.<sup>4</sup> Despite some efforts by defined benefit managers to reduce their plans' vesting schedules, this remains a major problem for many women.

Several defined benefit retirement systems have studied the demographic characteristics of their own members and made some rather startling discoveries. In Kansas, for example, only 11 percent of women who start working before they are 25 will earn retirement benefits in the Kansas Public Employee Retirement System (KPEERS) plan. Newly employed women, age 45 and above, working at local schools are most likely to earn benefits; but, even 40 percent of this group will leave service before they are vested in the system.<sup>5</sup>

Women are also more likely to have their careers interrupted because of family responsibilities, like raising children. Some defined benefit plans offer the opportunity to buy back in after an extended absence, but this can be rather costly. Even worse, women who choose their families over their jobs stop earning benefits once they stop contributing to the defined benefit plan.

In contrast, *defined contribution plans* offer immediate vesting in employee contributions, and most plans require four years or less of service to vest in employer contributions. Many women, because of their shorter average tenures, would clearly benefit from the less stringent vesting requirements of *defined contribution plans*.

### Portability

Women will also benefit from the portability of *defined contribution plans*. Portability gives employees the flexibility to take their benefits with them when they change jobs. Existing earnings can be taken either in a lump sum or rolled into an Individual Retirement Account (IRA) or another retirement plan. *Defined contribution accounts* continue to earn investment income even after

By Matthew Lathrop, Director of the ALEC Commerce and Economic Development Task Force



contributions end; another characteristic that benefits shorter-term employees. Women who choose to leave the workforce continue to earn retirement benefits, even though they are no longer making contributions to their accounts.

Conversely, defined benefit plans offer little or no flexibility. Once the contributions end, retirement earnings end. If, for example, a 40 year-old employee leaves public service after 11 years, at a salary of \$35,000 a year, their benefits will be based on these numbers. Inflation will begin to eat away at these benefits until retirement, because these benefits earn no market returns on the invested contributions. Most are entirely formula-driven, although some pay employees nominal interest rates over time.

### Lower Wages and Tenure

Interrupted careers and part-time jobs mean lower overall wages for women. According to the AFL-CIO, in 1996 females only earned 75 percent of the average male salary. While this inequity is overstated because all occupations were lumped together for this calculation, women leave and re-enter the workforce more frequently than men, which probably accounts for a large portion of this wage gap. Table 1, containing Public Employee data from a 1996 Bureau of Labor Statistics study, illustrates this problem.

Table 1

Gender	Average Salary	Average Tenure
Male	\$794 per week	10.3 years
Female	\$663 per week	8.9 years

Because women historically have slightly lower salaries, they are penalized because defined benefit formulas rely on average salaries as a main component of the benefit calculation. The lower the salary, the lower the benefit. *Defined contribution plans* employ no such formula; instead, benefits are based on investment earnings made from employer and employee contributions.

Table 2

Race	Gender	Average Salary
Caucasian	Both Sexes	\$747 per week
Hispanic	Both Sexes	\$634 per week
African-American	Both Sexes	\$615 per week
Caucasian	Women	\$680 per week
African-American	Women	\$590 per week
Hispanic	Women	\$584 per week

In addition, women work fewer years, on average, than men. This is important because long-term public employees benefit most from defined benefit plans

because benefit formula calculations include years of service. This discriminatory feature is excluded from *defined contribution plans*.

Table 2, taken from Bureau of Labor Statistics data, depicts the problem of lower wages is something which also applies to minorities, particularly minority women.

The problem of lower wages for women is something which retirement systems have studied. In a 1998 study for the Texas Pension Review Board, women in the Texas Teachers Retirement System (TRS), on average, made \$4,100 less than men, and have slightly lower average service credits.

### Summary

Women need a choice between traditional defined benefit pension plans and more modern *defined contribution plans*. Defined benefit formulas and vesting schedules are particularly discriminatory toward women.

*Defined contribution plans*, on the other hand, offer the flexibility of portable benefits, no vesting periods, and no benefit formulas. In a *defined contribution system*, women's retirement benefits grow through investment income, regardless of whether they choose to continue working or decide to leave the workforce to care for their families. *Defined contribution plans* offer something for everyone – even the ability for working women to accumulate nest-eggs that can be passed on to their children.

### Notes

<sup>1</sup> The Prospect of Liberty in Kansas Pension Reform, Kansas Public Policy Institute, Joel Mobray, 1998.

<sup>2</sup> Labor Force Participation Rates for Adult Men and Women 1948-1998, Employment Policies Foundation, 1998.

<sup>3</sup> Pension Liberation: A Proactive Solution for the Nation's Public Pension Systems, The American Legislative Exchange Council, Peter J. Ferrara, 19997.

<sup>4</sup> Data from Bureau of Labor Statistics

<sup>5</sup> Mobray, p. 7.

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## Bringing Pensions into the 21<sup>st</sup> Century: How to Modernize Public Pensions

July 2000

Facing labor shortages created by a graying workforce, state and local governments are asking themselves how to entice younger, more mobile employees to public service. This is not just a long-term problem. School districts in Dallas and Houston, for example, need to recruit 15,300 teachers to fill vacancies for the 2000-2001 school year.<sup>1</sup> One answer to this question is to modernize public retirement plans by offering workers a choice between traditional defined benefit (DB) pension plans and modern, fully portable defined contribution (DC) pension plans. In fact, offering DC pension plans, which are similar to popular 401(k) plans available to private sector employees, is a public policy solution that is gaining momentum in state legislatures across the country.

Recently the Florida Legislature, with the support of Governor Jeb Bush, enacted legislation to give 600,000 state and local employees this option. Nationally, however, most public employees have no choice but to enroll in DB pension plans, which promise fixed monthly payments for the life of the employee, much like a level payment annuity. By 1994, 91 percent of public workers were enrolled in these plans. In contrast, according to a survey done in 1997, 57 percent of private sector workers at medium and large firms were participating in DC plans.<sup>2</sup> Most public workers that do participate in DC plans do so through voluntary supplemental deferred compensation accounts. Public employers seldom match employee contributions to these accounts, so there is little incentive for employee participation.

In DB pension systems, actuaries calculate pensioners' benefits using complicated formulas that generally multiply the employee's final average salary and years of service by a small multiplier. Usually, it is the average salary for the last two or three years of work that is plugged in to this calculation. While defined benefit payments are generous for workers that spend 20 or 30 years with the same employer, shorter-term, younger workers are often short-changed by this system. For this reason, it is imperative that all public employees be given the opportunity to select the kind of plan that best fits their lifestyles.

There are many features of DC pension plans that make them attractive to public workers and an important human resources tool for employers. These features include:

### *On the Employer/Taxpayers' Side*

- DC plans are good employee recruiting tools because portable retirement benefits and flexible retirement savings options are desirable, especially to younger workers;
- DC plans mean no future unfunded liabilities paid for by the taxpayers;
- More precise budgeting because employers are only responsible for contributing a defined percentage of their workers' salaries to these accounts;
- DC plans take much of the politics out of employer benefits budgeting, insulating taxpayers from underfunded pension systems unable to meet their benefit obligations.

### *On the Employees' Side*

- DC plans give employees completely portable retirement benefits;
- Short vesting periods for employer contributions. More equitable and sometimes higher retirement benefits;
- More flexibility to decide what kind of investment portfolio meets their personal needs.

Although there are many benefits to offering DC pension plans, this article explores two, in particular: portability and helping working women.

### **Portable Benefits**

Because they offer fully portable pension benefits, DC plans can make public jobs more attractive to prospective employees. In fact, according to a recent survey of firms that switched from DB to DC pension plans by Buck Consultants, the second most popular reason for making this change, according to respondents, was to accommodate employees who wanted the new plan.<sup>3</sup>

Most experts assert that the average employee will have a minimum of seven different jobs over his or her lifetime, making portability one of the most important advantages of DC plans.<sup>4</sup> This prediction underscores the need for different retirement options such as DC pension plans, that offer real portability in the public arena. This is important, especially for employees that want to move between the public and private sectors.

*By Matt Lathrop, Director of the Commerce and Economic Development Task Force*

The Milbank Memorial Fund published a study entitled "Pension Portability for State and Local Governments." This study presented hypothetical employment scenarios for mobile public officials. Each of these officials held several different positions over their careers, and all would have been better off in a DC pension plan because they each accumulated only a few years of service with each employer under the DB structure.

Some critics have argued that public employees will withdraw their DC pension benefits when they leave the system and spend them. However, studies indicate that the likelihood of this happening depends on the age of the employee. For example, one study found that while 48 percent of workers aged 35-44 roll over lump sum distributions, 73 percent of 55 to 64 year olds, with much higher account balances, with roll them over.<sup>5</sup> Regardless, this concern could be mitigated in the plan design of the DC option.

Increasingly, as both private firms and state and local governments use new technology that requires higher degrees of specialization to understand, these two sectors will battle each other for well trained employees. Offering workers the option of selecting a DC pension plan will make government more competitive for these highly skilled employees.

### **Gender Equity**

Women, a growing part of the workforce, benefit from DC plan characteristics. Women benefit from short vesting schedules, the absence of benefit formulae and the provision of portable retirement benefits. In a study by University of Wisconsin business professor Ramon Aldag completed last year, the professor found that a female University of Wisconsin faculty member that disrupts her career at age 30 could earn from 3 1/2 to 5 1/2 times more in retirement benefits with an optional, portable DC pension plan than she could in the DB system.<sup>6</sup>

Women are much more likely to have interrupted work histories than men, which was verified by the Wisconsin study. This means that women will receive fewer benefits than men in DB plans. For example, according to the Kansas Public Policy Institute, only 11 percent of women who begin working before they are 25 will earn benefits in the Kansas Public Employee Retirement System (KPRS).<sup>7</sup> Women are also the victims of DB plan formulas because their salaries are lower, on average, than those of men. According to a 1998 Texas Pension Review Board, women in the Texas Teachers Retirement System (TRS) make \$4,100 less than men, on average, and have slightly fewer service credits. This results in a lower formula-driven DB benefit than women might expect from a DC plan if they could choose to participate in one.

It also appears that DC pensions are popular among women. In North Dakota for example, which just implemented an optional DC pension for non-classified workers, 44 percent of eligible women selected the new plan compared to 33 percent of men.<sup>8</sup>

### **State Legislative Activity**

State legislatures are increasingly considering optional DC pension plans to enhance their overall benefit packages. Besides Florida, Ohio, South Carolina, and Utah adopted a DC option for certain segments of their employee populations in 2000, including new employees. Since Michigan switched its state employee pension to a DC plan in 1997, North Dakota, Arizona, Colorado, Louisiana, Vermont and Virginia have all passed these plans for smaller segments of public workers. Montana enacted an optional DC plan for all its employees last year. Overall, more than twenty states are considering DC pension plans for segments of their workforces.

### **Conclusion**

Every public employee deserves the opportunity to choose a retirement program that meets his or her personal needs and goals. Public employers, in turn, could use flexible retirement options as a carrot to attract younger, well educated workers to public service. ■

### **NOTES**

1 Testimony of Pamela Tackett, State Board of Educator Certification, before the Texas House Committee on Pensions and Investments Subcommittee on Reemployment, April 10, 2000

2 Lawrence E. Kochard, "The Transition from Defined Benefit to Defined Contribution Pension Plans in the Public Sector," The Kansas Public Policy Institute, January 2000, p. 3

3 *Ibid.*, p. 5

4 Dr. Edward T. Burton, III and Matthew Lathrop, "Modernizing Public Pension Systems: The Case for Defined Contribution Plans," The American Legislative Exchange Council, July 1999, p. 5.

5 Kochard, p. 6

6 Dennis Chaptman, "UW wants to let new professors bring pensions with them: Legislator, system official say change would aid recruiting," Milwaukee Journal Sentinel, Wisconsin Section, September 2, 1999, p. 2B.

7 Burton and Lathrop, p. 6.

8 Information from NDPERS. For more information, please contact Sarah Collins, Executive Director  
400 East Broadway, Suite 505, Box 1214, Bismarck, ND 58502 or call (800) 803-7377. The fax number is (701) 328-3920.

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# ALEC Issue Analysis

## Pension Reform in Florida: A Case Study

July 200

*Once again state legislatures are blazing a reform trail designed to make government more efficient and competitive. During the 2000 legislative session Florida lawmakers carried this mantle on behalf of public employees by authorizing an optional defined contribution (DC) pension plan for them. DC pension plans, unlike traditional defined benefit (DB) pensions, give workers the freedom to save and invest in personal retirement accounts, which are fully portable. The roadmap to reform drawn by the Florida legislature this session will likely be followed by other lawmakers hoping to make similar improvements to their retirement systems.*

*-- Matt Lathrop, Commerce and Economic Development Task Force Director*

### Plan Overview

The new DC pension plan adopted by the Florida Legislature will be open to all 600,000 current members and all new members of the Florida Retirement System (FRS) during 2002. This optional plan grants each employee an opportunity to choose Florida's existing defined DB pension plan or the new DC plan when the program starts, or upon employment for new employees. It also gives workers one additional opportunity to switch plans at any time in the future.

The Governor, Comptroller and Treasurer, acting as the State Board of Administration (SBA), will manage the plan, according to the legislation. The SBA is also responsible for hiring a single third party administrator for record keeping duties who is independent of all of the investment products offered to participants.

The SBA is required to select a diversified mix of individual investment products and, if additional benefits are available to employees, to select one or more providers who offer a mix of products. Contributions to these providers will be made entirely by employers.

In addition, the legislation requires a strong educational program both before an employee makes a selection and throughout their participation in the program.

### Beginning of the Process

The Florida Legislature had actively considered DC pension legislation for several years, but struggled to build a consensus bill. In 1999, the Florida Senate

passed a version of this legislation near the session's close but ultimately House and Senate members decided to study the issue in the interim before the start of the 2000 legislative session.

In the interim, House Speaker John Thrasher and General Appropriations Chair Ken Pruitt decided that the House DC legislation for the 2000 session should be developed as a product of the General Appropriations Committee. That decision, designed to give the legislation a real chance of passing, had several important advantages:

1. Many committee members are part of the House leadership, including the chairs of all other fiscal committees and the Speaker designate for 2001-2002.
2. The committee has expertise in dealing with complex budgetary issues.
3. Because public employee pay packages and many other benefits are ultimately decided in the appropriations process, the committee has a longstanding working relationship with both employee unions and government employers.

### Opening a Dialogue

Chairman Pruitt decided that work on the bill would begin from scratch so his committee could conduct thorough research of the issues raised by creating a DC program, including a study of similar plans and an open dialogue between all interested parties, including public workers, union leadership, retirement system officials and industry professionals.

This open dialogue, which was instrumental to building a consensus for this legislation, yielded three basic challenges:

1. Industry lobbyists, union representatives, and employer representatives were already knowledgeable and involved in the process. The challenge was simply scheduling enough time to meet with them and discuss every option fully.
2. Representative Pruitt wanted to hear directly from those most affected by the plan: the 600,000 FRS members. The solution was to conduct a random survey of thousands of FRS members, asking about their attitudes toward job benefits, retirement and investing. Among other things, the survey found that of the 80 percent of respondents who had preference for DB or DC, they were fairly even, split for all classes of employees.

*Richard Herring, Florida Committee on Government Appropriations*

3. Ultimately, the people most affected by a DC program would be new hires and could affect recruitment and retention. One of the most important questions was whether or not a DC plan could help to recruit new teachers. The Appropriations Committee's best estimates were that Florida will need 160,000 new teachers over the next 10 years and after accounting for in-migration and university graduates, it will end up 23,000 short. To answer this question the committee conducted a survey of undergraduate education majors and found that retirement benefits that are both portable and guaranteed are important.

### Basic Principles of Modernization

After the survey results had come in and as discussions with interested parties continued, the General Appropriations Committee concluded that the state would benefit from a more modern, flexible menu of retirement options for public workers. As the committee moved into the actual drafting process, it voted to adopt a set of principles for reforming the FRS. These principles were the following:

1. Provide levels of retirement income that are comparable with other public retirement systems at a cost that is affordable for employers, employees, and taxpayers.
2. Promote consistency in the terms and benefits for public employees unless well-defined reasons exist for treating certain groups differently.
3. Keep benefits competitive.

Drafting the actual legislation occurred in two stages. first, the committee prepared a summary of the issues it had discussed and an initial position on each issue and second, a draft bill was prepared that included all of the final positions along with many technical changes. In short, most of the substance of the bill written in committee and no amendments were adopted that changed its basic structure.

### The Senate's Turn

Soon the Senate developed its own DC retirement legislation and each chamber scrutinized the other's product although no formal conference was established. (Conference committees are used regularly in Florida only for the General Appropriations Bill and its implementing legislation.)

The respective chambers reached final agreement during the closing hours of the appropriations conference, since many of the leadership members of each house were involved with both budget and retirement issues. The final legislation was based on the House bill although specific compromises that were important to the Senate were included in the final legislation.

### Current Status

The SBA has a detailed implementation plan to get the DC program up and running by its implementation date. There are separate tracks for initial and on-going education,

TPA criteria and selection, investment criteria and selection, and administration. The legislation creates an advisory body of legislators and others who will review the implementation and operation of the DC program.

The initial window for employees to opt into the DC program opens in June 2002. The law provides for 3 consecutive 90-day windows, one each for state employees, school employees, and local government employees. This is designed to provide the educator and TPA with a more manageable volume of work.

The legislation also provides the SBA with \$20 million in 2001-02 and again in 2002-03 to pay for startup activities. The biggest expense will be to provide thorough educational information to the 600,000 employees eligible for the plan.

### The New Legislation is Greeted Warmly

The new plan has been met with a warm reception among most interested parties.

• **Employers:** School boards were supportive throughout the process since they see DC pension plans as an important recruiting tool. Local governments recognize that the DC program costs are in line with the cost of the current DB program and state agencies have followed the lead of Governor Jeb Bush, who supported the creation of a DC program in his proposed budget.

• **Unions:** Teacher unions have been supportive of DC legislation in Florida for the last two years. Most of the other unions took a more neutral position, being wary of DC, but recognizing that Florida's DC program is optional for each employee. The bigger issue for some of the unions has been the use of the FRS surplus to improve retirement benefits for DB plan participants.

• **Employees:** As indicated by our survey, employees in every class are strongly interested in having an option. Based on the statistically representative sample, we can estimate that 240,000 or more employees will initially opt into the DC program.

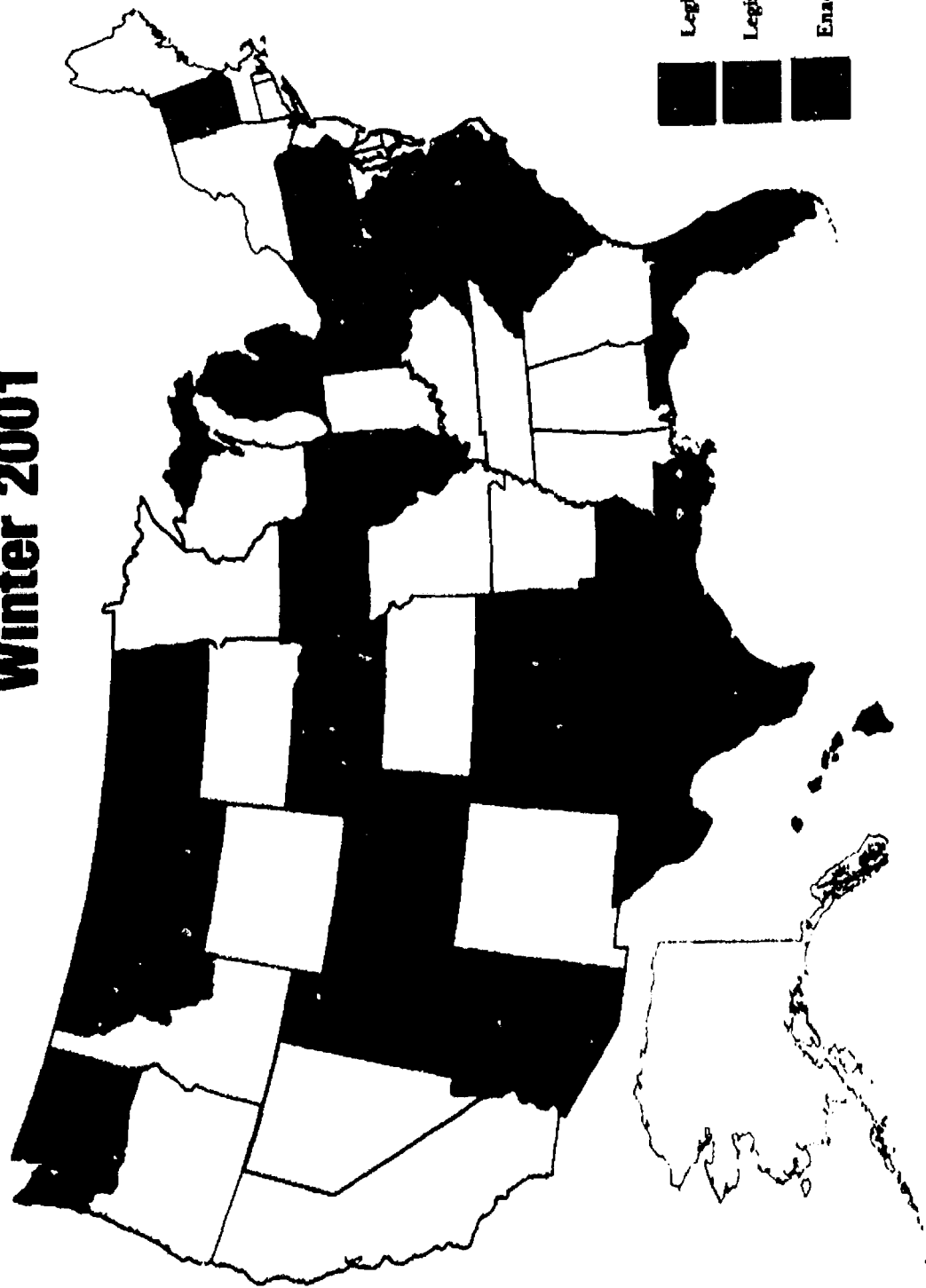
The Florida Legislature's success was the result of a well-planned, open process designed to give everyone a chance to be heard on this subject. Legislative leadership made a conscious decision to modernize Florida's retirement plan so that all employees had an equal opportunity to save for a secure retirement for themselves and their families. This vision made it possible for Florida to pave the way to public pension modernization and made Florida a leader in government reform.

*This article should not be construed as advocating for or against a DB or DC plan nor for or against the ultimate outcome of the debate in Florida, but is simply a summary of Florida's decision-making process.*

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# Defined Contribution Legislation in the States Winter 2001



- Notes:**
- i. Michigan's plan, enacted in 1996, includes all state employees except for teachers.
  - ii. Since 1983, all state employees, and since 1985 all county employees in Minnesota have been included in a defined contribution plan.
  - iii. Colorado has a limited plan that excludes legislators.
  - iv. West Virginia's system includes all teachers - state employees have the option to become involved in the defined contribution plan.
  - v. Vermont's system includes all nonclassified employees. 1999 legislation expanded defined contribution to municipal employees.
  - vi. Virginia's system includes school superintendents. 1999 legislation for defined contribution option to other employees introduced.

Source: American Legislative Exchange Council, 2001