

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1068

2005 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1068

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1068

House Government and Veterans Affairs Committee

Conference Committee

Hearing Date 1/20/05

Tape Number	Side A	Side B	Meter #
1	x		51.9-53.4
1		x	0-1.6

Committee Clerk Signature



Minutes: HB 1068 Teachers' fund for retirement compliance with the Internal Revenue Code.

13 members present, 1 absent.

Fay Kopp, Deputy Executive Director ND Retirement and Investment Office-For-See

Attached Testimony

Rep. Haas: Thank you very much. Any more questions?

Rep. Sitte: I move a DO PASS on HB 1068.

Rep. Conrad: I second.

VOTE 13 NO 0 ABSENT 1 DO PASS REP. SANDVIG will carry the bill.

FISCAL NOTE
Requested by Legislative Council
12/22/2004

Bill/Resolution No.: HB 1068

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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

There is no fiscal or actuarial impact to HB 1068.

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.*

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.*

Name: Fay L. Kopp

Agency: ND Retirement & Investment Office

Phone Number: 328-9895

Date: 12/22/2004

Prepared:

Date: 1/20/05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1068

House . . . House Government and Veterans Affairs

Committee

Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Do Pass
Rep. Sitte

Motion Made By

Seconded By

Rep. Conrad

Representatives	Yes	No	Representatives	Yes	No
Chairman C.B. Haas	✓		Rep. Bill Amerman	✓	
Bette B. Grande - Vice Chairman	✓		Rep. Kari Conrad	✓	
Rep. Randy Boehning	✓		Rep. Louise Potter	AB	
Rep. Glen Froseth	✓		Rep. Sally M. Sandvig	✓	
Rep. Pat Galvin	✓				
Rep. Stacey Horter	✓				
Rep. Jim Kasper	✓				
Rep. Lawrence R. Klemin	✓				
Rep. Lisa Meier	✓				
Rep. Margaret Sitte	✓				

Total (Yes)

13

No

0

Absent

1

Floor Assignment

Rep. Sandvig

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

REPORT OF STANDING COMMITTEE (410)
January 20, 2005 5:11 p.m.

Module No: HR-13-0813
Carrier: Sandvig
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1068: Government and Veterans Affairs Committee (Rep. Haas, Chairman)
recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).
HB 1068 was placed on the Eleventh order on the calendar.

2005 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1068

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1068**

Senate Government and Veterans Affairs

Business and Conference Committee

Hearing Date February 24, 2005

Tape Number	Side A	Side B	Meter #
1	x		4450-6037

Committee Clerk Signature



Chairman Krebsbach opens hearing on **HB 1068**

**Relating to teachers' fund for retirement compliance with the Internal Revenue Code
(meter #1068)**

Fay Kopp - Deputy Executive Director ND Retirement and Investment Office - See written testimony. Requests a do pass.

Senator Nelson - Asked if we could put IRS code most recently revised in so that we wouldn't have to do this every two years.

Kopp - Said no, that would not be a possibility. She said they would like to be working towards that.

Senator Nelson - Asked what impact does this have on new teachers.

Kopp - Replied she doesn't know if retired teachers return to work take away from new teachers.

Maybe because they do not have to pay in to TFFR they would just as soon as hire retirees.

There is a strong concern of that situation.

Senator Lee - Brought up that maybe they hire retired teachers because they appreciate the skills and experience of those just retired.

Senator Krebsbach - Asked Fay Kopp to explain to the committee the Education Foundation donation, that was enacted several sessions ago.

Kopp - Stated there is a provision in the law that allows an individual to retire and continue drawing their benefits and continuing working for a school district as long as they donate 50% of their salary to an educational foundation or someone under a 501 C 3. There was some interest in it early on but that was also at the same time as a number of law changes that allowed critical shortage areas, that allowed 700 hours at the same time.

(meter #5930)

Closed hearing on 1068

(meter #6037)

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1068**

Senate Government and Veterans Affairs

Business and Conference Committee

Hearing Date February 24, 2005

Tape Number

1

Side A

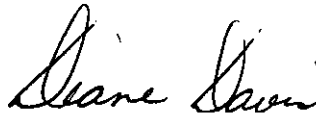
Side B

x

Meter #

4290-4465

Committee Clerk Signature



Chairman Krebsbach opens committee work on 1068

(tape 1, side B, meter #4290)

Senator Nelson - moved for do pass

Senator Lee - seconded

Senator Lee will carry

(meter #4465)

Date: 2/24/05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1068

Senate **Government and Veterans Affairs**

Committee

Check here for Conference Committee

Legislative Council Amendment Number

Action Taken *No Pass*

Motion Made By *Senator Nelson* Seconded By *Senator Lee*

Senators	Yes	No	Senators	Yes	No
Karen K. Krebsbach, Chairman	X		Carolyn Nelson	X	
Richard L. Brown, Vice Chairman					
Judy Lee	X				
John O. Syverson	X				

Total (Yes) *4* No *0*

Absent *1*

Floor Assignment *Senator Lee*

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

REPORT OF STANDING COMMITTEE (410)
February 24, 2005 2:07 p.m.

Module No: SR-34-3614
Carrier: J. Lee
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1068: Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman)
recommends **DO PASS** (4 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1068
was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1068

Department of Public Instruction transferred from the Teachers' Fund for Retirement to the Public Employees Retirement System. Actuarial assumptions and methods are set by the board of trustees, based upon recommendations made by the plan's actuary. These assumptions were last changed in 2000 following an analysis of the plan experience for the preceding five years. The consulting actuary reported that the assumptions are internally consistent and are reasonable, based on the actuarial experience of the Teachers' Fund for Retirement. The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates, and funding. The actuarial calculations are intended to provide information for rational decisionmaking.

The fund had 16,720 members on July 1, 2004. Of this total, 9,826 were active members, 5,373 were retirees and beneficiaries, 1,346 were inactive vested members, and 175 were inactive nonvested members. The total payroll was \$376.5 million. The average salary was \$38,321, the average age was 44.9 years, and the average service was 14.7 years.

The assets at market value were \$1,374.7 million with an actuarial value of \$1,445.6 million. The return on the market value of assets was 18.9 percent for the year ending June 30, 2004. This compares to 2.1 percent for the fiscal year ending June 30, 2003. The return on the actuarial value of assets was 1.9 percent for the year ending June 30, 2004. This compares to .6 percent for the fiscal year ending June 30, 2003. The ratio, actuarial value to market value, was 105.2 percent and the external cashflow was -1.5 percent. The consulting actuary reported that the normal cost percentage is 10.29 percent, the unfunded actuarial accrued liability increased from \$251.9 million to \$354.8 million and the funded ratio, actuarial assets divided by actuarial accrued liability, decreased from 85.1 to 80.3 percent. The funding period increased from 43.6 years to infinity. The benchmark contribution requirement based on the 20-year funding rate is 11.34 percent and thus the available margin is -3.59 percent. The total losses were \$107.5 million, of which \$87.8 million was due to asset experience and \$19.7 million was due to liability experience.

The following is a summary of the proposals affecting the State Investment Board and the Teachers' Fund for Retirement over which the committee took jurisdiction and the committee's action on the proposals:

Bill No. 50 HB 1068

Sponsor: Board of Trustees

Proposal: Revises the definition of salary for purposes of TFFR to incorporate changes in the federal Internal Revenue Code made through August 1, 2005; revises minimum distribution requirements for purposes of TFFR to incorporate changes in the federal Internal

Revenue Code made through August 1, 2005; revises benefit limitations for purposes of TFFR to incorporate changes in the federal Internal Revenue Code made through August 1, 2005; provides that retired members who return to teaching are required to pay the required contributions on all salary unless the employer has elected to pick up all or a portion of its employees' contributions, in which case the employer and employee are required to pay the employee contribution based on the pickup methodology used by the employer; provides that a retired member who returns to teaching under the annual hour limit is not entitled to earn any additional service credit during the period of reemployment and is not entitled to receive a refund of any additional contributions paid and that retirement benefits may not be adjusted to reflect changes in the retired member's age or final average salary at the end of the period of reemployment; provides that the form of payment elected by the retired member remains effective during and after the period of reemployment and that additional benefits normally available to active members, such as disability benefits, are not available to reemployed retired members; provides that members who return to active service in a critical shortage area or discipline are required to pay the required contributions on all salary received by the retired member unless the employer has elected to pick up all or a portion of its employees' contributions, in which case the employer and employee are required to pay the employee contribution based on the pickup methodology used by the employer and that the employer must pay the required employer contributions in a like manner; provides that a retired member who returns to active service in a critical shortage area or discipline is not entitled to receive a refund of any additional contributions paid; revises the withdrawal provisions applicable to TFFR to incorporate changes in the federal Internal Revenue Code made through August 1, 2005; provides that the TFFR Board administer the plan in compliance with the federal Internal Revenue Code and regulations adopted pursuant to the code as they apply to governmental plans.

The committee amended the bill at the request of the board of trustees to remove the provisions requiring employer and employee contributions when retirees return to covered employment.

Actuarial Analysis: The consulting actuary reported that there is no measurable actuarial cost to the bill.

Committee Report: Favorable recommendation.

Bill No. 51

Sponsor: State Investment Board

Proposal: Requires the executive director of the Retirement and Investment Office to conduct an employee criminal history record investigation for any individual first employed by the Retirement and Investment Office after July 31, 2005, who has unescorted physical access to the office or any security-sensitive area of the office as designated by the executive director.

**HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
HOUSE BILL 1068**

**Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office
January 20, 2005**

HB 1068 was submitted by the TFFR Board. Proposed changes fall into two main categories.

1) Incorporate Federal Internal Revenue Code (IRC) Changes

Amendments to five sections of this bill are being proposed to stay current with federal IRC changes made through August 1, 2005, as they relate to qualified governmental plans like TFFR, and are intended to prevent a change in the federal IRC sections from automatically triggering a change in ND law.

- **Section 1** - updates the definition of salary and the maximum annual compensation limit that can be used in benefit calculations (\$210,000 in 2005).
- **Section 2** - updates minimum distribution requirements for qualified plans.
- **Section 3** - updates maximum benefit limitations (\$170,000 in 2005).
- **Section 5** - updates the rollover and plan-to-plan transfer provisions.
- **Section 6** - provides that the TFFR Board administer the plan in compliance with federal Internal Revenue Code and regulations (above), in particular with Section 415 maximum benefit limitation; Section 401(a)(9) minimum distribution requirements; Section 401(a)(17) maximum compensation limit; and Section 401(a)(31) rollovers and transfers.

2) Modify Retiree Re-employment Provisions

Under current law, after a 30-day waiting period, a retiree may return to TFFR covered employment for a maximum number of hours and continue to receive a monthly retirement benefit. The maximum annual hour limit is based on length of contract duties.

9 month contract = 700 hours
10 month contract = 800 hours
11 month contract = 900 hours
12 month contract = 1,000 hours

Substitute teaching, extracurricular duties, and continuing professional development do not apply to the annual hour limit.

Retirees can also return to teach under other exceptions including critical shortage area, educational foundation donation, and benefit suspension and recalculation. Special provisions apply in these situations.

Section 4 proposed changes would remove the June 30, 2005 sunset provision, and make permanent the option for retirees to return to TFFR covered employment full time in critical shortage areas and continue receiving retirement benefits, under certain eligibility conditions. Critical shortage areas are determined annually by the Education Standards and Practices Board and currently include all areas except for elementary education, social studies, and physical education.

Retiree Re-employment Summary Statistics	1999	2004
Number of retirees who returned to teaching	26	92*
Superintendents/Administrators	9	26
Teachers	17	66
% of total who retired previous year	53%	84%
Average age	62	60
Average salary	\$13,000	\$22,000

*Of the 92 retirees who returned to teach in 2003-04:

General rule	84
Critical shortage area	5
Suspend and recalculation	3
Educational foundation donation	<u>0</u>

To date for the 2004-05 school year, 129 members have returned to TFFR covered employment, with 6 in critical shortage areas.

SUMMARY

According to TFFR's actuary, none of the amendments impose new requirements on TFFR, and there are no actuarial or administrative implications. There is no fiscal or actuarial impact to HB 1068.

The interim Employee Benefits Programs Committee gave this bill a favorable recommendation. The TFFR Board respectfully requests that your Committee give the bill a DO PASS recommendation.

1068

SENATE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE HOUSE BILL 1068

Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office
February 24, 2005

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