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1078

2007 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1078

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1078

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: January 11, 2007

Recorder Job Number: 931

Committee Clerk Signature	Morgan Berntt

Minutes:

Wayne Kutzer: Testimony Attached

Rep. Kasper: In your blue handout I am puzzled. Currently TFFR contribution totals 15.5% of salary. If you move to PERS it is a 8.12% salary for retirement benefits and 1% for health benefits. That is a 6% difference. Aren't you going to reduce retirement process by moving to the PERS plan or is the TFFR plan not using adequate retirement benefits compared to PERS.

Wayne Kutzer: PERS benefits are virtually exactly the same as TFFR. Same multiplier, same rule of 85. There is no difference in the retirement plan other than the fact that PERS with the extra 1% has health insurance premium credit. There is no difference. It has more to do with the funds.

Rep. Kasper: Therefore the PERS fund is being managed better and the earnings are better because it is taking 6% less to give you the same benefits.

Wayne Kutzer: Yes. From my looking at it over the course. Someone from TFFR is here to talk about it.

Rep. Amerman: You stated that the PERS plan can draw out both employee and employer contributions

Wayne Kutzer: Yes

Rep. Amerman: In TFFR you can only draw out the employees. So under TFFR you can't draw them out?

Wayne Kutzer: They stay in the fund.

Rep. Froseth: There are 16 employees that would now have the option to transfer. Any new employees would not?

Wayne Kutzer: New employees would have the option.

Doug Vannurden: Testimony Attached

Rep. Wolf: In your office there are 16 employees and 9 additional employees.

Doug Vannurden: Those 9 are staff members.

Rep Wolf: Those 9 support staff personal are all under PERS, while you 16 are under TFFR?

Doug Vannurden: That is correct.

Arnie Zent: *I'm not a lobbyist, nor am I representing any group regarding this bill. I'm here to present real time testimony from a person retired from career and technical education. I have nothing to gain from what I am about to say, only to help deserving people that I have worked with in the state dept. of career and technical education. The history of the issue goes back to the legislative session of 2001. I wont go over the history because that has already been talked about. If passed this bill will affect only 16 people that are enrolled in TFFR. It will not affect the 1000's of teachers under TFFR. The difference between the 16 people vs. the practicing teachers is that the teachers receive salary adjustments annually. Career and Technical Education employees do not. Licensed teachers deal with students daily, CTE employees do not. Licensed teachers have 9 month contracts. CTE employees are 12 months. Please don't get the feeling that I'm standing before you blasting teacher salaries. I'm proud that we do not hold the lowest paying slot in teacher salaries in the US. Putting into perspective when I started as a state employee over 2 decades ago my beginning salary was comparable to what*

I was making 9 months in the teaching year prior. During my time in state government, and using 2 other teachers with comparable credentials, who were teaching when I moved out of the classroom into the state, and who are still teaching when I retired, really demonstrates the issue. A high school teacher recognized a 30.4% salary increase. A college professor recognized a 45.1% increase. The same people that I referenced with those increases are the same teachers who really appreciate many issues that I can help them with, as their state supervisor. I had that same feeling with most all other teachers in the state of ND. Our dept was one that was recognized as the link between industry and education. Today with the recent Blue Cross Blue Shield premium increases, just for my wife and me, is rapidly approaching and consuming about one half of my retirement. Today if I could apply years of service credits to the premium, believe me I would notice the difference. This begs the question, why not change health plans to save money. I can't because in 2004 I was diagnosed with cancer. That brand is now on everything my name appears on health related. I was very happy and proud to be a state employee. I was happy and proud to be a staff member of CTE. I was very proud and happy to commit 20 plus years of my life to state service. I wish I could only say today that I am very happy and proud to recognize those years of service every month when I balance my checkbook, but can't because those years count for nothing under TFFR. Please remember those 16 devoted CTE employees when you recommend your decision.

Rep Haas: Is there any opposition testimony to HB 1078?

Fay Kopp: Testimony Attached

Rep. Grande: Can I request information on 20-30 DPI bill. Could you get me information on how many people use it, and what are the transfer dollar amounts. If you could get these to the committee on a later day?

Fay Kopp: See attachment A, Page 3.

Rep. Grande: All 22 chose the option then?

Fay Kopp: Yes, the Dept. of career and public instruction, the opportunity came first. New employees were awarded the opportunity from January 6, 2001 – today, they make an election to join either TFFR or PERS. Since that time the 6 new employees who would have normally been in TFFR opted to go into PERS. So there were 6 from that period of time on. So even in 2003 when current employees were allowed to transfer, all new employees still had to make the transfer election. They are continuing to make the election. In state law it still says that the Dept. of Public Instruction, it says the law still requires them all to be members of TFFR. Another section of the law that was added in says now they can opt out. They are automatically in unless they have that window election to leave, or they are new. Since those 2 bills passed at different times, the first bill excluded the supt. Of public instruction to be able to make an election. The second one included the Supt. of Public Instruction and allows him to transfer over. What this means that any new Supt. of Public Instruction is going to be required to be in the TFFR plan and will not have the opportunity to transfer to PERS. See page 4, attachment A.

Rep. Kasper: Do you have anyone here from Gabriel, Roeder, and Smith?

Fay Kopp: NO there is not, but I can request someone to be here.

Rep. Kasper: Your testimony talks about the loss that you anticipate. You assume you are going to lose future contributions and earnings. Do you know what the interest percentage is?

Fay Kopp: Is indefinite assumption at 8%.

Rep. Kasper: Do you know what the funds are referring to the last year or two?

Fay Kopp: It has been well in excess of the 8%. I think 11% one year, and 14% the year before. However in years prior to that we assume much less.

Rep. Kasper: Would you be able to have them tell us what percentage over the 8% that would wipe out loss?

Fay Kopp: I would agree with you that it is a small number.

Rep. Kasper: Earnings were achieved and there would be no loss.

Fay Kopp: I don't know if I can respond to that or not. It is all on how you look at it. We would have experienced the return on those funds.

Rep. Grande: We are behind by almost $500 million.

Fay Kopp: We have an unfunded liability of about that. We are currently collecting from employers and employees. It is the result of investment losses taken in 2001. We are experiencing strong investment. We are trying to stop any potential loss to the plan.

Rep. Kasper: Even though there was a loss, that loss had nothing to do with what the employees did.

Fay Kopp: yes that is correct. The investments are handled by the state investment board and their decisions. The manager's selection and all that is handled by that board.

Rep. Grande: How did you loose $500 million?

Fay Kopp: Over $300 million of that was due to investment losses. About $95-100 million was due to benefit enhancements. Another $100 million the result of demographic features, earlier retirement, higher salary. Teachers are living longer, females have a higher life expectancy. All of those hit us at the same time to the tune of $75-$100 million dollars. Females live longer. We have a higher longevity rate. Also, teaching has a very small turnover rate. If you can get someone straight out of college and hold them the first five years, chances are you will have them for thirty.

Rep. Wolf: Do CTE supervisors try to stop us from joining because TFFR is in trouble?

Fay Kopp: The TFFR has proposed a bill that includes employer contribution increase of 1%.

It includes contribution by the employer on all employee retiree. It includes benefit changes and reductions for any newly hired teachers.

Rep. Kasper: On your comments about teachers living longer and retiring earlier. Teachers also on the average would have a higher salary when they retired. If the average state employee retires at a lower salary, that means they have lower benefits.

Fay Kopp: Even with the whole salary increase idea, we see teacher's salary increase quite dramatically in the last five year period. When do these salary increases occur? If they occur prior to retirement, 3-5 years, we are obviously paying a much higher retirement benefit, had there been a lower or slower retirement increase.

Rep. Haas: Is there other testimony in opposition of HB 1078?

Nicholas Whittman: *I am here to testify about our membership and the concerns about the funds. The loss combined with the shrinking numbers of teachers in the state does pose some concerns for our membership in the future.*

Doug Johnson: *We are in opposition to this. We see it as a drain on the fund. We have worked hard to get the numbers down. Our biggest concern is the deduction of numbers of teachers. Another thing you need to know is that the North Dakota Council of Education leader's staff is no longer eligible for TFFR, so I'm on my own self funded retirement now.*

Rep. Haas: Additional testimony to HB 1078? If not we will close hearing on HB 1078.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1078

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: January 12, 2007

Recorder Job Number: 982

Committee Clerk Signature	Morgan Pennie

Minutes:

Rep. Haas: We had a brief debate over this bill yesterday.

Rep. Schneider: I move for a do pass on this bill.

Rep Wolf: I Second that

Rep Haas: Is there any additional discussion on HB 1078.

Committee Clerk takes roll

Rep. Haas: HB 1078 passes 13-0-0. Rep. Wolf would like to be the carrier.

FISCAL NOTE

Requested by Legislative Council
12/27/2006

Bill/Resolution No.: HB 1078

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			($9,221)	($952)	($9,221)	($3,952)
Appropriations				$3,000		

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1078 would allow employees of Career & Tech Ed to transfer retirement plan membership from TFFR to PERS. It would reduce expenditures for CTE by about $13,173 each biennium; increase appropriations for PERS by $3,000 (one time); and produce an actuarial loss of about $235,766 for TFFR.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Sections 1, 2 and 3 provide for new and current CTE employee transfer option, describes process, asset transfer method, and retirement contributions. Section 4 describes retiree health benefits fund contribution rates. Section 5 provides for $3,000 appropriation to PERS.

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.*

No impact.

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.*

1) CTE Expenditures - HB 1078 would decrease total amount of retirement contributions that would be paid by CTE of about $13,173 each biennium. (This estimate assumes no salary increases, and assumes SB 2046, the TFFR proposal to increase employer contribution rates, does not pass. However, CTE retirement contribution savings would be greater if salaries increase, and/or TFFR contribution rates increase.) $13,173 decrease in salary expenditures is because of difference in retirement contribution rates. Net difference from current TFFR rates to PERS rates is .78% for CTE transferring employees. Based on total biennial salaries of $1,688,904 X .78% = $13,173. Of total, general funds 70% X $13,173 = $9,221, and other funds 30% X $13,173 = $3,952.

2) PERS Expenditures - HB1078 would increase PERS expenditures in the amount of $3,000 (special funds 2007-09 only) for system programming modifications. There is no actuarial impact on PERS.

3) TFFR Impact - Based on actuarial estimate, HB1078 would require TFFR to transfer assets of about $2.9 million to PERS for CTE employees who elect to transfer to PERS. While the asset transfer is actuarially neutral to PERS, this proposal increases TFFR's funded cost because TFFR would receive less employer and member contributions in the future since there would be a smaller number of members over which to spread the cost of amortizing TFFR's unfunded actuarial accrued liability (UAAL). Therefore, there is an actuarial loss of about $235,766 which is not reflected in Section 1a of this fiscal note. If SB 2046, the TFFR proposal to increase contribution rates, is approved, the loss to TFFR would be approximately $282,749.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

1) CTE Appropriations - HB 1078 could decrease appropriations to CTE by about $13,173.

2) PERS Appropriations - HB1078 would increase PERS continuing appropriations in the amount of $3,000 (special funds, 2007-09 only)for system programming modifications.

3) TFFR Appropriations - There is no impact on TFFR appropriations.

Name:	Fay Kopp	**Agency:**	ND Retirement & Investment Office
Phone Number:	328-9895	**Date Prepared:**	12/29/2006

Date: 1-12-07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. "Click here to type Bill/Resolution No."

House Government and Veterans Affair Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number HB 1078

Action Taken Do pass

Motion Made By Rep. Schneider Seconded By Rep. Wolf

Representatives	Yes	No	Representatives	Yes	No
Rep. C.B Haas Chairman	X		Rep. Bill Amerman	X	
Rep. Bette Grande V.P	X		Rep. Louise Potter	X	
Rep. Randy Boehning	X		Rep. Jasper Schneider	X	
Rep. Stacey Dahl	X		Rep. Lisa Wolf	X	
Rep. Glen Froseth	X				
Rep. Karen Karls	X				
Rep. Jim Kasper	X				
Rep. Lisa Meier	X				
Rep. Dave Weiler	X				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Rep. Wolf

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

REPORT OF STANDING COMMITTEE

HB 1078: Government and Veterans Affairs Committee (Rep. Haas, Chairman) recommends **DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1078 was placed on the Eleventh order on the calendar.

2007 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1078

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1078

Senate Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: 03/01/07

Recorder Job Number: 4172

Committee Clerk Signature	Veronica Sparling

Minutes:

Roll was taken and all members were present except Senator Dever who was in another hearing at the time.

Senator Oehlke, Vice Chairman, opened the hearing on HB 1078.

Senator Dwight Cook from District 34 introduced the bill and urged its passage. He stated that he was one of the sponsors of the bill two years ago.

Senator Dever joined the committee and took over the chairmanship.

Wayne Kutzer, Director of the Department of Career and Technical Education, spoke in favor of the bill. See attachment #1.

Senator Nelson expressed concern about the health benefit. It is a relatively new fund and what she has heard is that several of the long term employees will retire very quickly after this bill becomes law. The people who replace those people will have a lower income. She is concerned about the viability of that fund. The Teachers Retirement Fund is being stretched already because of the teachers who have been brought back out of retirement to teach. This would cause them to lose 16 more people. She also said the new teachers are not coming on line. She is concerned for the welfare of the fund. The change of the health benefit would be an additional $100.00 per month per employee. Some people feel when they take advantage of this benefit they will be getting something they never paid for because they retire right away. Wayne Kutzer said the additional health benefit has all been factored in and it is still actuarially sound. He feels they do have some employees who will be retiring whether this bill passes or not. None of the four other groups have expressed an interest in leaving TFFR. He feels they are different than other groups just as the DPI is different. The actuarial impact is a very small amount.

Senator Nelson asked if the changes would be budgeted for. She also asked if the money that is being spent on the health benefit would be taking away from money that could have been spent to hire new employees.

Wayne said the dollars would be budgeted for in their salary budget. Even with this expense the state will be saving $13,000.00 per biennium. Their payroll cost will be going down even with paying that amount.

Senator Horne asked what criteria is used to determine which retirement program a person will sign up with when they are hired to work or to teach in North Dakota.

Wayne said if they are hired to teach they sign up with TFFR. If the employee has held a teaching license, they sign up with TFFR. The nine staff that are currently under PERS are all administrative. They were not teachers so they automatically fell into PERS.

Senator Horne asked if he had been a teacher and then had joined DCTE, would he have come under TFFR?

Wayne said under the current law that is how it would be. DPI has the option of moving into PERS but DCTE employees don't have that option.

Senator Dever asked if they are hired by DPI, do they have the option to transfer from TFFR to PERS?

Wayne said it is a one time election. New hires choose a plan and stay with it. It is irrevocable. Current staff is allowed to switch to PERS or stay with TFFR. Once they make the election they have to stay with it. (They have a month window.)

Senator Nelson asked whether DCTE employees have to keep their teaching licensure current.

Wayne said they do not have to keep it current. Some have the lifetime accreditation and the majority of them do keep up their licensure. If the ones who have let their licenses lapse do go into the classroom, it's with a licensed teacher. They do not provide instruction in a classroom.

Senator Nelson asked if DCTE is part of DPI or is it free standing.

Wayne said they are free standing and have a 9 member board that reports to the governor.

Senator Nelson asked about where their budget runs through.

Wayne said it is through OMB.

Senator Oehlke asked why anyone in DCTE would stay with TFFR.

Wayne said he's not sure but maybe because they had been with TFFR their whole career. He isn't sure but he thinks they would all take advantage of the opportunity.

Senator Oehlke asked if what they may want to do in the future might have an impact on the decision, like if they want to go back into teaching.

Wayne said that possibly could affect their decision. He mentioned employees can be in both simultaneously and they have the option to move back.

Senator Nelson asked about the $3000.00 for transfer or administrative costs for coming from other funds. Would TFFR pay it or would PERS pay it?

Wayne said PERS would pay it.

Doug Vannurden, Assistant Supervisor of Agriculture Education in the Department of Career & Technical Education, spoke in favor of the bill. See attachment # 2. The acronym PAS in the last paragraph on page one of his testimony stands for Post Secondary Agriculture.

Doug also distributed a testimony from a retired member of their department who could not be in attendance at the committee hearing. See attachment # 3.

Support: -

Opposition: - Shelly Schumacher, Retirement Program Manager for Teachers' Fund For Retirement, spoke in opposition to HB 1078. See attachment # 4. Due to school closings and consolidations the TFFR already has a declining active membership.

Senator Dever asked how many people are covered under TFFR.

Shelly: around 9500 active membership. 5800 retired.

Senator Oehlke asked where Shelly had her retirement.

Shelly said as an employee of Teachers Fund For Retirement hers is with PERS.

Opposition: -

Neutral: -

Chairman Dever closed the hearing on HB 1078.

The committee will wait until a later date to act on this bill.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1078

Senate Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: 03/02/07

Recorder Job Number: 4254

Committee Clerk Signature	Vanessa Sperling

Minutes:

All members of the committee were present.

Chairman Dever opened discussion on HB 1078.

Senator Nelson had done research on the background of the bill. In one of the letters from an employee of the Department of Career and Technical Education they said the DPI budget passed unanimously. She doesn't disagree with that. Her concern was that the addition of Section 16 through Section 20 on SB 2013 in 2003 was made in conference committee at their last meeting without policy committee study. She is not happy that it happened. She would have voted against that. She is upset with the way it happened and now DCTE is saying if they (DPI) got it, we (DCTE) deserve it.

Senator Dever mentioned there was a memo put out by legislative council that spelled out which bills had to go through employee benefits. He recalls that if they don't go through employee benefits, that they are null and void.

Senator Nelson said she went up to see Jay Buringrud in Legislative Council on that and he said it sounds good but you can't bind future legislatures. She asked why it is there because every time we have employee benefits committee and the first day the rules are handed out it has that paragraph in there saying you have to go through this system. The purpose of the system when it was started was to avoid adverse effects on the pension plan.

Senator Dever added that another reason was so they would be given actuarial consideration.

Senator Nelson said this bill has gone through the right channels, but the DPI bill did not.

Senator Dever said if they look back at that bill, he's not sure that the proper transfers were made either. (....... "appear to be appropriate"... *(I could not understand the recording)*)

Senator Nelson said something about making them retroactive.

Senator Nelson said she just wanted to bring it to the attention of the committee how it had been done in the first place. It was not through anything the Government and Veterans' Affairs Committee or the Employee Benefits Committee did. It was something that happened with six people on Appropriations.

Senator Marcellais said he has some concerns and needs more time to research the background of HB 1078. He also questioned if there is a check-off list for bills and the process they are supposed to go through. Is that available to the committee members? Does someone document the route of the bill through the different committees? Sponsor, co-sponsor, legislative council for review, a committee, subcommittee, interim committee........ He feels every step should be tracked.

Senator Dever said if a bill has been through employee benefits committee a report from that committee has to be attached to the bill.

Senator Marcellais said it seems there should be a report from any committee that has considered the bill.

Senator Dever said these types of bills are the only ones that require the reports to be included. Other bills you have to look at the sponsorship of the bill. This bill was submitted by

Dept. Of Career and Technical Education and because it came from an agency it had to be submitted prior to the deadline a few weeks following the legislature's organizational session.

Senator Nelson said they had to have the initial bill in by last April. Then it went to her committee and then to an actuary, who attached a report to it.

There was discussion about fully tracking a bill and which committees attach reports. The difference between "no recommendation" and a recommendation of "no" is causing some confusion. They would rather see it as "favorable "or "unfavorable" or "without committee recommendation." That way they would know exactly what it means.

Senator Dever said the question is was there a bill that was voted no but the committee just decided not to act on it.

Senator Nelson said it is a 9 person statutory committee, 5 members from the house and 4 from the senate.

Senator Dever said when Legislative Council is asked to draft a bill, when it was going to have that effect, should make it known to whoever asked to have it drafted. Maybe they could make a note attached to it that says "this bill did not go through employee benefits."

Senator Nelson said, "They always read the fiscal note. On bills that went through employee benefits could they please read the bottom line." It is important to know that it went through the process.

Senator Lee expounded on the confusion caused by "no recommendation" and a recommendation of "no." It seemed to her that employee benefits didn't have a strong feeling either way and was leaving it up to this committee as a policy decision because there was not a big fiscal impact.

Senator Dever asked if it would be safe to say that if there were a bill with a significant fiscal impact, employee benefits would make a recommendation.

Senator Lee and Senator Nelson said that is the case.

Senator Marcellais asked again if there is a tracking system of some sort.

Senator Dever said there is a way to check the status of bills.

Senator Marcellais wondered if they initial off on the bills.

Senator Oehlke referred to a large orange book the legislators got when they came in December, The Legislative Council Report. It was a training booklet that had different colored pages.

Senator Marcellais asked if it gave a recommendation.

The other senators said yes.

Senator Marcellais said it would be nice if there were an automated tracking system.

Senator Dever said the employee benefits committee is the only one to have that requirement.

There was discussion on how to keep track of the path of a bill.

Senator Marcellais said the reason they want to go with a different retirement plan is because of the health plan.

There was discussion about the merits of the healthcare plan.

Senator Dever questioned how one plan can be so superior to another.

Senator Nelson said TFFR was started in 1913 and PERS was started in 1969 and has a lot of people still in the system. When they started TFFR the most they put in was $50.00 per year. After they were in it for 5 years they raised it to $200.00 per year. It stayed at that level until 1970 and people are living longer now than they used to. Right now there are 1 ½ employees per retiree. PERS is a younger system and has more people paying into it and not as many retired.

Senator Dever said when Social Security came into effect in 1936 they chose age 65 for the year they could collect Social Security because that was the age people were expected to die.

Senator Horne asked why they don't have everyone in one retirement system.

Senator Nelson said that was studied in 1989 and it is not an easy switch to make, there were big problems.

Senator Lee said that TFFR and PERS are not united because they don't want to be joined and mix the good solid fund with one that isn't so solid.

Senator Dever asked if there is any further information they want or whether there are any amendments they would suggest. He wants to make sure the committee will be ready to act on this bill next week.

Senator Nelson said she will speak to Karen Krebsbach who has been on Employee Benefits Committee.

Senator Lee mentioned that she will also speak to _–*(I couldn't understand who she said)*___ who has been on Employee Benefits Committee and very strongly favors the passage of this bill.

The committee will wait until a later date to act on this bill.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1078

Senate Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: 03/09/07

Recorder Job Number: 4797

Committee Clerk Signature	Veronica Sparling

Minutes:

All members of the committee were present.

Senator Dever, Chairman, opened discussion on HB 1078.

Senator Dever said he understands that this bill does have to go to Appropriations so they need to act on it today. There was discussion about whether it went to Appropriations in the House. There was discussion about whether it would have to be sent to Appropriations.

Senator Nelson said they did go through the right channels. It's just that she voted against it and… *(I couldn't hear the tape)* … cutting away.

Senator Lee moved a do pass.

Senator Horne seconded the motion.

Roll Call Vote: Yes 4 No 2 Absent 0

Carrier: Oehlke

Date : 3-9-07
Roll Call Vote # : 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. ~~[illegible]~~ 1078

Senate **Government and Veterans Affairs** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ____________

Action Taken do pass

Motion Made By Lee **Seconded By** Horne

Senators	Yes	No	Senators	Yes	No
Senator Dick Dever - Chairman	✓		Senator Robert Horne	✓	
Senator Dave Oehlke – VC	✓		Senator Richard Marcellais		✓
Senator Judy Lee	✓		Senator Carolyn Nelson		✓

Total (Yes) 4 **No** 2

Absent 0

Floor Assignment Oehlke

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

REPORT OF STANDING COMMITTEE

HB 1078: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends **DO PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HB 1078 was placed on the Fourteenth order on the calendar.

2007 TESTIMONY

HB 1078

HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
HB 1078

Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office
January 11, 2007

Teachers and administrators employed in state agencies, state institutions, and school districts have participated in the Teachers' Fund for Retirement (TFFR) for many years. (Attachment A provides background information on TFFR membership requirements.)

Legislative changes made in the past few sessions have allowed certain state education supervisors, directors and administrators (non teaching employees) from the Department of Public Instruction (DPI) to transfer their retirement membership from TFFR to PERS (2001 and 2003). HB 1078 outlines a similar proposal from the State Board for Career and Technical Education (CTE) to allow 16 state supervisors, directors, and administrators (professional staff) who are currently participating in TFFR, as well as future new employees of CTE, to join PERS.

Interim Study by Employee Benefits Programs Committee

State law requires any proposal affecting the state's retirement and insurance programs to be studied by the interim Legislative Employee Benefits Programs Committee. Additionally, an actuarial analysis must be conducted by the Funds' actuarial consultant to determine if there is an impact on the retirement systems.

TFFR's actuarial consultant, Gabriel, Roeder, Smith & Co. (GRS) reviewed this proposal and provided comments in a letter dated October 19, 2006 (Attachment B). As outlined in their analysis, for CTE employees who elect to transfer, TFFR would move the membership accounts and service history from TFFR to PERS. PERS would be responsible for any benefits due based on this service, and TFFR would no longer be responsible for paying benefits to these employees. TFFR would transfer assets to PERS for each member that elects to transfer. The amount transferred would be equal to the larger of the actuarial present value of the employee's accrued benefit under TFFR, increased by 7.5% interest for the period from July 1, 2007 through the actual date of transfer, or the member's account balance as of the actual date of transfer. This transfer amount is estimated to be about $2.9 million as of 6/30/06 (or $3.1 million as of 6/30/07).

At the time the analysis was conducted, there were 16 members of TFFR employed by CTE. Their average age was 53, and average service was 20 years. The group had an average salary of about $49,337. Many of these employees had previous teaching service with public schools or vocational centers before being employed by CTE.

According to TFFR's actuary, the net impact of transferring these 16 members from TFFR to PERS produces a small actuarial loss to TFFR. In the case of the proposed CTE transfer, the actuarial loss amounts to approximately $235,766 (or $282,749 if SB 2046 also passes). The loss is not the result of the actual asset transfer amount, but results because TFFR would no longer receive future employee and employer contributions that TFFR would have received without this transfer option. Therefore, there becomes a smaller payroll over which to spread the cost of amortizing TFFR's unfunded actuarial accrued liability (UAAL).

TFFR Issues

TFFR is concerned about the potential actuarial loss to the Fund that HB 1078 produces. As currently structured, HB 1078 is not actuarially neutral to TFFR.

- TFFR would experience a small actuarial loss estimated at about $235,766 (or $282,749 if SB 2046 passes). When combined with earlier estimated loss of $129,000 from DPI transfer, the total cost to TFFR increases. Any changes made to TFFR membership provisions that result in a reduced number of participants in the plan will result in a small actuarial loss to TFFR.

- TFFR is also concerned about the continued precedence of allowing various employee groups to transfer from TFFR to PERS because it would have a cumulative negative cost impact on TFFR. If such a transfer option is expanded in the future to include TFFR members from other state agencies or institutions such as the Division of Independent Study, Youth Correctional Center, School for the Deaf, School for the Blind, or any other select employee group, the amount of potential loss will continue to increase. Similarities and differences exist within any of these entities. Some of the employees having teaching licenses; some do not. Some have teaching contracts; some do not. Some received teacher raises from the Legislature; some did not. However, all of these employees are involved in public education which is why they have historically been required to participate in TFFR.

- To address the financial implications of HB 1078, and possibly other future similar bills, please consider requiring CTE, to pay TFFR the amount of anticipated actuarial loss. Since the State/CTE share of the PERS contribution would be less than the State/CTE share of the TFFR contribution for these employees, it is possible that agency savings could be used to pay for the actuarial loss TFFR would experience.

Fiscal Note

As you can see from the fiscal note, HB 1078 affects three agencies in three different ways.

1) CTE – reduces expenditures by about $13,173 each biennium because amount of retirement contributions are less under PERS.

2) PERS – increases expenditures and appropriations by $3,000 for the 2007-09 biennium for system programming modifications.

3) TFFR – does not affect budget expenditures or appropriations, but produces an actuarial loss to TFFR of about $235,766, (or $282,749 if SB 2046 passes).

Summary

The interim Legislative Employee Benefits Programs Committee gave "no recommendation" on this proposal.

As your Committee reviews this bill and decides which retirement plan CTE professional staff of directors, supervisors, and administrators should participate in, please be aware of the negative financial impact on TFFR, as well as the positive financial impact on CTE employees and CTE as a state agency.

ATTACHMENT A

BACKGROUND INFORMATION

- **TFFR MEMBERSHIP PROVISIONS**

State statutes define teachers for TFFR membership purposes. While the definition has been modified many times since TFFR began in 1913, state law has generally required TFFR membership by both teachers and administrators on both a state and local level.

Under current law (NDCC 15-39.1-04 (11), teachers are defined as:

> a. *"all persons who are licensed by the Education Standards and Practices Board who are contractually employed in teaching, supervisory, administrative, or extracurricular services by a state institution, special education unit, school board, or other governing body of a school district of this state...."*

Generally speaking this includes superintendents, assistant superintendents, business managers, directors, coordinators, principals, classroom teachers, and special teachers.

State law also defines other specified persons or positions as teachers for TFFR participation purposes; for example, state teachers and administrators employed by state agencies. These employees have participated in TFFR for many years. In fact, TFFR records show reports from the Department of Public Instruction and Division of Independent Study (formerly Division of Correspondence Study) since 1913, and the Department of Career and Technical Education (formerly State Board for Vocational Education) since 1969.

There are no minimum participation requirements for TFFR. That is, teachers do not have to teach a certain number of days or hours to be eligible for TFFR membership. Teachers become TFFR participating members at their date of employment.

- **TFFR PARTICIPATING EMPLOYERS AS OF 6/30/06**

	Employers	Members
School Districts	200	9,063
Special Ed Units	17	345
Counties	13	13
Vocational Centers	3	45
State Institutions	3	59
State Agencies	2	43
Other	8	17
TOTAL	246	9,585

- **STATE INSTITUTIONS**

Under current law, (NDCC 15-39.1-04 (10), there are three entities defined as state institutions:

> *"State institution" includes North Dakota vision services - school for the blind, the school for the deaf, and the North Dakota youth correctional center."*

Therefore, employees at these three state institutions who are licensed by ESPB and who are contractually employed in teaching, supervisory, administrative, or extracurricular services, are required to participate in TFFR.

ND Vision Services - School for the Blind	14
ND School for the Deaf	18
ND Youth Correctional Center	27
TOTAL TFFR Members in State Institutions	59

As TFFR members, the contribution rate required for these state teachers is 7.75% employee and 7.75% employer. The State pays the 7.75% employer contribution and picks up 4.00% of the 7.75% employee contribution on a pretax basis. The remaining 3.75% is deducted from the state teacher's paycheck.

- **STATE AGENCIES**

Under current law, other persons or positions are also defined as teachers for TFFR purposes:

> *b. "The superintendent of public instruction, assistant superintendents of public instruction, county superintendents, assistant superintendents, supervisors of instruction, the professional staff of the department of career and technical education, the professional staff of the division of independent study,..."*

There are three state agencies that employ the above persons or positions and who are required to participate in TFFR. While these employees do not need to be licensed in order to be TFFR members, many of these employees may be licensed.

*Department of Public Instruction	0 (prev. 22)
** Dept. of Career and Technical Education	16
Division of Independent Study	27
TOTAL TFFR Members in State Agencies	43

As TFFR members, the contribution rate required for these state teachers is 7.75% employee and 7.75% employer. The State pays the 7.75% employer contribution and picks up 4.00% of the 7.75% employee contribution on a pretax basis. The remaining 3.75% is deducted from the state teacher's paycheck.

***Recent Legislative History - Department of Public Instruction (DPI) and TFFR**

In 1999, there was a bill approved to allow new DPI employees hired after January 6, 2001 to join PERS instead of TFFR (SB 2204).

> *"A person, except the superintendent of public instruction, who is certified to teach in this state by the education standards and practices board and who is first employed and entered upon the payroll of the superintendent of public instruction after January 6, 2001, may elect to become a participating member of the public employees retirement system. An election made by a person to participate in the public employees retirement system under this subsection is irrevocable."*

At that time, TFFR's actuary indicated the impact of the change on TFFR was very small. Since 2001, TFFR records indicate six new DPI employees who elected to join PERS.

In 2003, there was an amendment included in the DPI appropriations bill (SB2013) to allow 22 nonteaching DPI employees to transfer their retirement account and participation to PERS.

> *"Non teaching employees of the superintendent of public instruction, including the superintendent of public instruction, may elect to transfer to the public employees retirement system pursuant to section 54-52-02.13."*

At that time, TFFR's actuarial consultant analyzed the bill and indicated that the net impact would be a small actuarial loss to TFFR of approximately $129,000. (The loss is not the result of the actual asset transfer amount of the actuarial present value for this group of employees ($3.8 million), but would result because TFFR would no longer receive the mandated 7.75% in future employee and employer contributions that TFFR would have expected to receive without this transfer option. Therefore, there becomes a smaller payroll over which to spread the cost of amortizing TFFR's unfunded actuarial accrued liability.) The amount of potential loss to TFFR ($129,000) was not considered to be material by the actuary since it increased the funded cost by less than 0.01%.

There was concern that TFFR members employed in other state agencies or state institutions might also want the option to transfer all of their TFFR credit and participation to PERS. It was also noted that should this transfer option be expanded to include TFFR members from other state agencies, the amount of potential loss would increase.

The Legislature approved this transfer provision. As a result, 22 DPI employees elected to move their retirement account, so TFFR transferred $3.8 million to PERS. There are currently no TFFR participating members being reported by DPI.

An unusual outcome to these two pieces of related legislation approved at different times is that a future new superintendent of public instruction (whether licensed by ESPB or not) would be required to participate in TFFR, and would not have the option to join PERS. This is because the 1999 legislation was for all new employees excluding the superintendent of public instruction, but the 2003 legislation was for all current employees including the superintendent of public instruction who elected to transfer within the stated time frame pursuant to NDCC 54-52-02.13.

****Recent Legislative History - Career and Technical Education (CTE) and TFFR**

In 2005, a similar bill was filed to allow new employees of the CTE to elect to join PERS, and to allow current employees to transfer their retirement account and future participation to PERS (SB 2413). According to TFFR's actuary, the bill would have resulted in a very small actuarial loss. This bill was not approved.

ATTACHMENT B

GRS Gabriel Roeder Smith & Company
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October 19, 2006

Rep. Matthew M. Klein, Chairman
Employee Benefits Programs Committee
c/o Allen Knudson
Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: Bill No. 70073.0100 – Transfer of Career and Technical Education Employees

Dear Rep. Klein:

Bill 73, if enacted, would permit employees of the State Board of Career and Technical Education (CTE) to transfer from the Teachers' Fund for Retirement (TFFR) to the Public Employees Retirement System (PERS). This bill is similar to a bill that was enacted in 2003, allowing TFFR members in the Department of Public Instruction (DPI) to transfer to PERS. Our comments are limited to the impact on TFFR; presumably the Committee will receive comments from PERS and its actuary discussing the impact on PERS.

Provisions of the Bill

The bill would allow employees of CTE to make an election to transfer from TFFR to PERS. The election would have to be made between the date the bill is enacted and August 31, 2007.

For employees who elect to transfer, TFFR would move their service, account balance, and pay and contribution history to PERS. PERS would be responsible for any benefits due based on this service. TFFR would pay no benefits to any of these employees based on this service. TFFR would also transfer assets to PERS for each member that elects to transfer. The amount transferred would be equal to the larger of: (a) the actuarial present value (APV) of the employee's accrued benefit under TFFR as of June 30, 2007, increased by 7.50% interest for the period from July 1, 2007 through the actual date of transfer, or (b) the member's account balance as of the actual date of transfer. In computing the transfer amount, the accrued benefit would be the monthly retirement benefit determined using the member's service and Final Average Salary as of June 30, 2007.

The bill would also allow employees hired by CTE after the effective date of the Act to elect to join PERS rather than TFFR.

CTE

There are currently 16 members of TFFR who are employed by CTE. As of June 30, 2006, the average age for the group was 53, and the average service was 20 years. The group earned $789,389 in FY 2006, and the average salary was $49,337.

Effect on TFFR

The net impact of transferring these members from TFFR to PERS is the difference between (a) the savings from not having to pay benefits to these members, and (b) the assets transferred to PERS, including the value of future contributions that TFFR would have received. As of June 30, 2006, this is equal to:

- The actuarial present value (APV) of future benefits for the 16 transfers ($3,389,777), minus
- The APV of future 7.75% member contributions for these 16 transfers ($364,121), minus
- The APV of future 7.75% employer contributions for those 16 transfers ($364,121), minus
- The assets transferred to PERS ($2,897,301). (Note, because this analysis was prepared as of June 30, 2006, the expected transfer of $3,129,085 was discounted by 8.00%.)

If this amount is positive, TFFR is better off on a net basis. If it is negative, TFFR is worse off. The analysis in this case shows that TFFR is worse off by $235,766 under Bill 73.

Actuaries often use the terms "actuarial gain" or "actuarial loss" as a measure of the change in the unfunded actuarial accrued liability (UAAL). The use of the term in the analysis above, however, is intended to be broader. If we had just focused on the impact on the UAAL, then for TFFR, removing these CTE employees and transferring the assets (with the member contribution account minimum) would produce a $38,906 increase in the UAAL, i.e., a much smaller actuarial loss. However, we believe this is misleading, because it does not factor in the mandated 7.75% member and employer contributions that TFFR could expect to receive.

In addition to increasing the UAAL, Bill 73 would increase the GASB ARC (the 30-year funding cost) from 12.29% to 12.31%. In theory, there would also be a slight increase in the calculated funding period based on the 7.75% statutory employer contribution rate; however, it is currently infinite so no change will be apparent. The funded ratio would remain unchanged at 75.4% if Bill 73 is enacted.

It should also be noted that if Bill 68—the TFFR sponsored bill—is enacted, the loss to TFFR will be slightly larger. This is because Bill 68 would increase the employer contribution rate from 7.75% to 8.75%. In this scenario, TFFR's loss would be $282,749.

Technical Comments

Gabriel, Roeder, Smith & Co. does not practice law, but we do not believe this creates any issues with regard to the continued qualification of TFFR under the Internal Revenue Code, nor have we identified any conflicts with other federal or state law. We also do not believe that the transfer would create a taxable event for members.

The election and transfer will present only modest administrative issues, and these will be substantially similar to those encountered when the DPI employees were allowed to transfer in 2003. These include:

- Providing employees of CTE with information about the election (TFFR & PERS)
- Establishing election procedures (TFFR & PERS)
- Providing data to TFFR actuaries on CTE members electing to transfer
- TFFR actuaries must calculate actuarial present value
- TFFR must determine transfer amount, based on account balances and information provided by TFFR actuary
- PERS and PERS actuary must review data and calculations
- CTE must establish procedures for reporting to both TFFR and PERS, unless all (or no) members elect to transfer
- Future CTE employees must receive information about their election rights

Our major concern about the bill is that it could lead to other groups requesting and being granted the right to transfer to PERS. We believe the committee should consider the cumulative negative impact of such transfers, if other groups follow behind DPI and CTE.

Assumptions and Methods

Our analysis assumes that all 16 current CTE members would remain in service at CTE until the time of the election, and all 16 would elect to transfer to PERS. We assumed CTE would not add any new employees prior to the time for the election. The actuarial present values were determined as of June 30, 2007, based on service, salary and contribution account information projected to June 30, 2007. This information was provided by the Retirement and Investment Office.

The bill does not specify how the calculation of the actuarial present value should be made. In the absence of statutory guidance, if the bill is enacted we will follow the precedent set in 2003 at the time similar transfers were made for members of the Department of Public Instruction. We will use the interest and post-retirement mortality assumptions used in preparing the TFFR actuarial valuation as of July 1, 2007. (The current TFFR interest rate is 8.00%.) We will assume that members would have remained in service with TFFR until they reached eligibility for an unreduced retirement benefit (e.g., at Rule of 85), and then they would have immediately retired. We will ignore the possibility that the employee could have left TFFR service before becoming eligible for normal retirement due to death, disability, termination, or reduced retirement.

Our determination of the consequences of Bill 73 on TFFR is based on the actuarial assumptions and methods used to prepare the June 30, 2006 actuarial valuation.

If you have any questions about this analysis, please do not hesitate to call or write.

Sincerely,

J. Christian Conradi

J. Christian Conradi
Senior Consultant

Enclosure

cc: Ms. Fay Kopp, Deputy Executive Director, Retirement and Investment Office

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Government and Veterans Affairs Committee
January 11, 2007
Testimony on HB 1078

Mr. Chairman and members of the committee, I am Wayne Kutzer, Director of the Department of Career and Technical Education.

HB 1078 allows employees from the Department of Career and Technical Education who would be newly hired or are currently participating in the Teachers' Fund for Retirement (TFFR) to have the option to select the Public Employees Retirement System (PERS) as their retirement system. This request comes to you specifically because that same option was granted to employees from the Department of Public Instruction in 2003, by the legislature.

First I would like to go over the contents of the bill.

Lines 13 and 14 on page one refer to a new section added which is at the bottom of page two, lines 24 to31. Number 3 starting on line 16 allows people who are first hired by DPI an option to become a member of PERS. This new language on lines 24 to 31 will give that same option to new employees of the Department of Career and Technical Education (DCTE) and allow present employees the option to choose if they want to participate in PERS. Currently new DCTE employees do not have that option but new DPI employees do have that option.

On page 3, lines 9 to 11 adds DCTE employees to the PERS law and at the bottom of the page Section 3, line 18 to line 10 on page 4 set up the transfer process stating when it takes place, that the transfer is irrevocable, and the actual transfer of funds between TFFR and PERS.

At the bottom of page 4 in lines 30 and 31 it adds DCTE employees in the health benefit coverage offered by PERS. On page 5, lines 9 to 18 it builds in a "catch up" contribution of 2.85% of wages by the DCTE for the health benefit for a period of eight years and at that time the contribution will return to the current rate of 1% of wages.

Finally, on page 6, Section 5 is a $3,000 appropriation to PERS for the implementation of this act, used to do the necessary programming and paperwork in order for the transfer to take place.

I have attached a handout showing the impact of the change on both the employee and the agency. If you would look at that handout I will walk through the numbers with you. Starting at the top, there are a potential 16 employees who would be eligible to make the switch. It is important to know that this is an option; employees do not have to switch. We have 9 employees in our agency that are members of PERS.

Next it shows the difference in total contributions for TFFR and PERS, Under TFFR the agency contributes 11.75% and the employee contributes 3.75% for a total of 15.50%. Under PERS the agency contributes 8.12% plus 1% for a health benefit and there is no employee contribution for a total of 9.12%. At this point it is important to note the benefits of each plan and the reason that employees want to have the option to switch plans just as was allowed to the employees of DPI. Both retirement plans have the rule of 85 for retirement, both have a multiplier of 2 when figuring retirement, PERS has an added health premium credit of $4.50 per year of service, and in PERS you are vested in the employer share but under TFFR you are never vested in the employer share, which means if you quit under PERS you have the opportunity to withdraw both the employee and the employers share of contributions – under TFFR you can only draw your share, never the employer share. There are some other minor differences but they generally weigh in on the side of PERS.

In the middle of the sheet it shows what makes up the total agency contribution: the basic contribution of 8.12%; the 1% for the health benefit, and 1.85% for the catch up for the health benefit which will be reduced to zero in eight years for a total agency contribution of 10.97% .

At the bottom of the page under "Impact", it shows the savings to employees of 3.75% of salary because there is no employee contribution, it would mean about $150 more take home per month per employee. The savings to the agency is relatively small to start at .78% which is the difference between the current contributions of 11.75% and the potential contribution of 10.97%. This would amount to a savings to the state of $13,173 per biennium and after eight years when the catch-up is done the savings would rise to $44,418 per biennium. It also states that employees would be eligible for a health premium credit that I referred to earlier.

As you can see, passing this bill will definitely benefit DCTE employees and the state just as it did when the legislature allowed DPI employees to switch.

Through the course of hearings here are concerns that were raised:

1) A concern that other state employees that are under TFFR would also want to change. In our research we know of four such groups of state employees, School for the Deaf, School for the Blind, Youth Correctional Center, and the Division of Independent Study. All of these groups are actively involved in teaching students, they are all licensed teachers, and they received teacher raises when the

legislature approved increases in teacher salaries. Additionally when they were contacted to find out this information, two years ago, none of them have stepped forward to either question or pursue the same option.

2) A concern from TFFR on the negative impact of the transfer of 16 DCTE employees would produce an actuarial loss (future contributions) of about $235,766 for TFFR. While there will be an impact, it is on future contributions that TFFR would not receive and we need to put it into perspective.

    a. DPI did not have to make up this loss when their 22 employees elected to switch.

    b. When you look at the assets involved, the 16 DCTE employees' assets within the fund are $2.9 million compared to the 9,585 members of TFFR with assets of $1.7 billion, which is less than 0.17% of the current TFFR assets.

    c. The total liability for paying future retirement benefits becomes the responsibility of PERS when TFFR transfers the assets of the potential 16 DCTE employees. If all eligible DCTE employees retired when this became effective PERS would not be negatively impacted.

    d. An October 19, 2006 report presented by TFFR actuary, Mr. Conradi, to the Employee Benefits Committee stated on page 2 that the "30 year funding cost" would increase from 12.29% to 12.31%, a difference of .02%, if this legislation passed. That is a true statement, but from 2005 to 2006 that "30 year funding cost" figure increased from 12.12% to 12.29%, a difference of 0.17%, on its own and no groups left TFFR.

e. On page 3 of the same report the actuary states "Our major concern about the bill is that it could lead to other groups requesting and being granted the right to transfer to PERS". You have to can infer from that statement, the major concern is not the .02% increase in the "30 year funding cost" which will not materially add to the negative position of the fund. The other state employee groups, which were mentioned earlier, are active teachers which fall into the TFFR guidelines and they have not indicated any desire to seek permission to switch.

f. In March 16, 2005 testimony, before the Employee Benefits Committee TFFR stated "The amount of potential loss to the system ($129,000 for the DPI election) was not considered to be material by the actuary since it increased the funded cost by less that 0.01%". The impact of this bill is only .017%

Mr. Chairman and members of the committee, the staff of the Department of Career and Technical Education believe that in light of the information presented, the very minimal impact that this will have on TFFR, and the fact that the legislature allowed the employees of the Department of Public Instruction to switch retirement plans from TFFR to PERS, it is only fair to allow DCTE staff to have that same option.

I urge a Do Pass on HB 1078.

I would be glad to answer any questions that you may have.

Government and Veterans Affairs Committee
January 11, 2007
Testimony on HB 1078
Dept of Career and Technical Education

Worksheet showing impact on staff and the agency in allowing CTE employees, now under TFFR to move to PERS (16 potential)

Current contribution levels for CTE staff
16 participate in TFFR and 9 participate in PERS

Same given to Senate

<u>TFFR total contribution level 15.50%</u>

Agency contribution	11.75%
Employee Contribution	3.75%
Total	15.50%

<u>PERS total contribution level 9.12%</u>

Agency contribution	8.12%
Agency health benefit contribution	1.00%
Employee contribution	0%
Total contribution	9.12%

If CTE employees are allowed to move to PERS the impact is:

Agency contribution	8.12%
Agency health benefit contribution	1.00%
Agency health benefits catch up	1.85% (for 8 years – then it is reduced to 0)
Total agency contribution	10.97%

Impact:

<u>Savings to employee</u> - 3.75% or about $150 per month (No employee contribution under PERS)

<u>Savings to the Agency</u> - .78% (11.75%– 10.97%) or $13,173 per biennium
(After 8 years the agency contribution would return to the current rate of 9.12% a savings of 2.63% or $44,418 per biennium)

Employees are also eligible for a health benefit upon retirement of $4.50 per year of service towards PERS health premium.

**<u>The State Board for Career and Technical Education, at its January 17, 2006 meeting, endorsed pursuing the option for staff to switch from TFFR to PERS.</u>

Testimony for House Bill No. 1078
January 11, 2007

Doug Vannurden
Assistant Supervisor
Agriculture Education
Department of Career & Technical Ed.

Thank you for the opportunity to testify today on behalf of HB 1078. My name is Doug Vannurden, and I have been the Assistant State Supervisor for Agriculture Education with the State Department for Career & Technical Education for the past twenty years. Prior to that, I served as the Agriculture Instructor at Beach High School for 11 years. I had eleven very successful years as a teacher and was proud to accept my position as assistant supervisor for agriculture education in 1986 as I knew I could make a positive difference for Agriculture Education in our state.

When I was teaching at Beach High School, I had a teachers contract with the local school board. There was a salary schedule in place with steps for years of experience as well as additional education. For several years I was a part of the negotiations team representing our teachers in determining salary and benefits. And I taught 6 out of 7 periods a day, and Advised a very successful FFA Chapter. I was a teacher.

As the Assistant State Supervisor for Agriculture Education, my duties are to provide technical assistance to the High School, Postsecondary and Adult Agriculture Education programs in North Dakota. This technical assistance includes developing/selecting programming, developing/designing curriculum, evaluating program effectiveness, and advising students and instructors all across the state. I also coordinate funding support for programs, serve as the State Advisor to two Student Organizations – FFA & PAS, and represent North Dakota Agriculture Education on many levels. --- I am no longer a teacher, I am an Assistant Program Director for North Dakota CTE.

When I came to work for the State Board for Vocational Education - now the Department of Career and Technical Education – I became a state employee. No contract, no salary schedule, no negotiations, and no benefits for additional education or experience and no extra curricular pay. As a state employee, I am covered by the Public Employee Retirement System (PERS) for my Health Insurance, Life Insurance Benefit, and the Employee Assistance Program and all other benefits such as sick leave, personal leave etc. --- with the exception that my Retirement Fund remains with the Teachers Fund for Retirement (TFFR). I am treated as a state employee <u>in every way except for my retirement fund</u>.

It also should be noted that members of our agency did not benefit from the tremendous efforts to raise teacher salaries made by the Governor and the Legislatures in the past three sessions - However - The teachers that we supervise, advise, support and assist did.

In the 2003 legislative session, SB 2013 was passed allowing TFFR members of the Department of Public Instruction (DPI) to transfer to PERS. We are asking for the same consideration. The 22 individuals at DPI that made this transfer, including Superintendent Sandstead, were Program Directors, Assistant Program Directors, Regional Coordinators, Division Managers and Administrators – all similarly situated to the 16 employees of the Department of Career and Technical Education and who are also Program Directors, Assistant Program directors, and Division Managers and Administrators. We are asking for this same opportunity. We are asking for fair and equal treatment as non-teaching employees of the Department of Career &Technical Education.

DPI and CTE employees mirror each other when it comes to being non-teaching state employees. The Education Standards and Practices Board does not require teacher licenses for staff of either agency, employees do not have a contract, and did not received raises for teachers that have been provided over the past 3 sessions of this legislature.

One question continues to surface in the process of considering this proposal. That is "If we let CTE transfer, who will be next?" Please let me answer this by saying that no other agencies or groups currently covered by TFFR are qualified to make this change except DPI and CTE. The change has already been made for DPI, and we are asking you to please make it right for CTE as well. Please refer to the attached chart.

Included in the language for the ND Century Code Chapters 15-39.1 creating the Teachers Fund for Retirement, seven other entities are named as covered employee groups. These include 3 State Agencies – DPI, DCTE and the Division of Independent Study (Information Technology Department) 3 State Institutions – School for the Deaf, School for the Blind, and the Youth Correctional Center. And three other "closed groups" including: NDEA Staff, NDHSAA Staff and NDCEL Staff.

As a state agency, the Division of Independent Study stands alone as staff are actively teaching or administering teachers and curriculum and are required by ESPB to be licensed teachers. Furthermore, these teachers did benefit from the recent teacher raises provided through the legislature. One similarity to state employees is that these active teachers have not had a contract, nor do they negotiate for salary and benefits.

Similarly, staff of all three state institutions – the school for the deaf, the school for the blind and the youth correctional center, are required to hold teaching licenses, they have teaching contracts and they have benefited from the legislated raises.

As far as the other closed groups, coverage by TFFR was granted primarily for staff members who were previous members of the fund (primarily as active teachers) and had left full time teaching to work for the High School Activities Association, NDEA, or the NDCEL as staff members. In surveying these groups, I found that very few of these individuals continue to contribute to TFFR and in fact are covered by their own retirement funds such as the retirement fund available for NDEA employees through NEA. But also – the fact is that these individuals do not qualify as "State Employees" and would not be eligible for coverage under PERS definitions – NDCC 54-52-01

In many ways retirement plans for TFFR and PERS are alike. The calculation of retirement salary, the multiplier, and the rule of 85 are essentially the same. However, this change is important to DCTE employees for two reasons. One – it eliminates a monthly employee contribution of 3.75 % to retirement fund. To the 16 of us currently employed as well as future employees of DCTE this means about $150 per month more take-home pay – for the same retirement benfits. Two - it provides a monthly Health Insurance premium benefit of $4.50 per year of service upon retirement. For me with 31 years of service that amounts to about $140 per month in retirement towards my Health Insurance costs.

So on behalf of the 16 eligible – non-teaching employees of the Department of Career and Technical Education – we encourage you to do the Right Thing. Give us equal opportunity to benefit from the PERS retirement system – an opportunity that should have been extended to us in 2003, - the coverage choice we should have had when we first became state employees – and the choice that future non teaching employees of the DCTE should be able to make.

Thank You - Are there any questions.?

Comparing State Employees & Teachers

State Employees

North Dakota Department of Career & Technical Education:

- Not required to be licensed by ESPB.
- Not eligible to negotiate contracts.
- Did not receive legislatively approved raises for teachers.
- All benefits, except retirement, currently tied to PERS. (Currently TFFR)
- Salaries provided through state and federal funds.
- Primary responsibility to provide oversight and technical assistance to instructors in career and technical education programs and centers.
- Have very limited contact with students.
- Required to work 12 months.

North Dakota Department of Public Instruction:

- Not required to be licensed by ESPB.
- Not eligible to negotiate contracts.
- Did not receive legislatively approved raises for teachers.
- All benefits, except retirement, currently tied to PERS. (Approved in 2003 legislative session to move retirement benefits to PERS)
- Salaries provided through state and federal funds.
- Primary responsibility to provide oversight and technical assistance to instructors and schools.
- Have very limited contact with students.
- Required to work 12 months.

State Institution Teachers

North Dakota Youth Correctional Center:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute 54-44.3-20.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted employee.

North Dakota School for the Blind:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted employee.

North Dakota School for the Deaf:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute 54-44.3-20.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted employee.

North Dakota Division of Independent Study:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute 54-44.3-20.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted Employees

attach. #1

Senate Government and Veterans Affairs Committee
March 1, 2007
Testimony on HB 1078

Mr. Chairman and members of the committee, I am Wayne Kutzer, Director of the Department of Career and Technical Education.

HB 1078 allows employees from the Department of Career and Technical Education who would be newly hired or are currently participating in the Teachers' Fund for Retirement (TFFR) to have the option to select the Public Employees Retirement System (PERS) as their retirement system. This request comes to you specifically because that same option was granted to employees from the Department of Public Instruction in 2003, by the legislature.

First I would like to go over the contents of the bill.

Lines 13 and 14 on page one refer to a new section added which is at the bottom of page two, lines 24 to31. Number 3 starting on line 16 allows people who are first hired by DPI an option to become a member of PERS. This new language on lines 24 to 31 will give that same option to new employees of the Department of Career and Technical Education (DCTE) and allow present employees the option to choose if they want to participate in PERS. Currently new DCTE employees do not have that option but new DPI employees do have that option.

On page 3, lines 9 to 11 adds DCTE employees to the PERS law and at the bottom of the page, Section 3, line 18 to line 10 on page 4 set up the transfer process stating when it takes place, that the transfer is irrevocable, and the actual transfer of funds between TFFR and PERS.

At the bottom of page 4 in lines 30 and 31 it adds DCTE employees in the health benefit coverage offered by PERS. On page 5, lines 9 to 18 it builds in a "catch up" contribution of 2.85% of wages by the DCTE for the health benefit for a period of eight years and at that time the contribution will return to the current rate of 1% of wages.

Finally, on page 6, Section 5 is a $3,000 appropriation to PERS for the implementation of this act, used to do the necessary programming and paperwork in order for the transfer to take place.

I have attached a handout showing the impact of the change on both the employee and the agency. If you would look at that handout I will walk through the numbers with you. Starting at the top, there are a potential 16 employees who would be eligible to make the switch. It is important to know that this is an option; employees do not have to switch. We have 9 employees in our agency that are members of PERS.

Next it shows the difference in total contributions for TFFR and PERS, under TFFR the agency contributes 11.75% and the employee contributes 3.75% for a total of 15.50%. Under PERS the agency contributes 8.12% plus 1% for a health benefit and there is no employee contribution for a total of 9.12%. At this point it is important to note the benefits of each plan and the reason that employees want to have the option to switch plans just as was allowed to the employees of DPI. Both retirement plans have the rule of 85 for retirement, both have a multiplier of 2 when figuring retirement and PERS has an added health premium credit of $4.50 per year of service. Additionally in PERS you are vested in the employer share but under TFFR you are never vested in the employer share, which means if you quit under PERS you have the opportunity to withdraw both the employee and the employer's share of contributions – under TFFR you can only draw your share, never the employer share. There are some other minor differences but they generally weigh in on the side of PERS.

In the middle of the sheet it shows what makes up the total agency contribution: the basic contribution of 8.12%; the 1% for the health benefit, and 1.85% for the catch up for the health benefit which will be reduced to zero in eight years for a total agency contribution of 10.97%.

At the bottom of the page under "Impact", it shows the savings to employees of 3.75% of salary because there is no employee contribution, it would mean on average about $140 more take home per month per employee. The savings to the agency is relatively small to start at .78% which is the difference between the current contributions of 11.75% and the potential contribution of 10.97%. This would amount to a savings to the state of $13,173 per biennium and after eight years when the catch-up is done the savings would rise to $44,418 per biennium. It also states that employees would be eligible for a health premium credit that I referred to earlier.

As you can see, passing this bill will definitely benefit DCTE employees and the state just as it did when the legislature allowed DPI employees to switch.

Through the course of hearings here are concerns that were raised:

1) A concern that other state employees that are under TFFR would also want to switch. In our research we know of four such groups of state employees, School for the Deaf, School for the Blind, Youth Correctional Center, and the Division of Independent Study. First of all we believe that we are different from these other groups just as DPI is in that we are not actively involved in teaching and we do not have contact with students, in the way that a principal or superintendent does. All of these groups are actively involved in teaching students, they are all licensed teachers, and they received teacher raises when the legislature approved increases in teacher salaries. Additionally when they were contacted to find out this

information two years ago and we told them what we were doing none of them have stepped forward to either question or pursue the same option.

2) A concern from TFFR on the negative impact of the transfer of 16 DCTE employees would produce an actuarial loss (future contributions) of about $235,766 for TFFR. While there will be an impact, it is on future contributions that TFFR would not receive and we need to put it into perspective.

   a. DPI did not have to make up this loss when their 22 employees elected to switch.

   b. When you look at the assets involved, the 16 DCTE employees' assets within the fund are $2.9 million compared to the 9,585 members of TFFR with assets of $1.7 billion, which is less than 0.17% of the current TFFR assets.

   c. The total liability for paying future retirement benefits becomes the responsibility of PERS when TFFR transfers the assets of the potential 16 DCTE employees. If all eligible DCTE employees retired when this became effective PERS would not be negatively impacted.

   d. An October 19, 2006 report presented by TFFR actuary, Mr. Conradi, to the Employee Benefits Committee stated on page 2 that the "30 year funding cost" would increase from 12.29% to 12.31%, a difference of .02%, if this legislation passed. That is a true statement, but from 2005 to 2006 that "30 year funding cost" figure increased from 12.12% to 12.29%, a difference of 0.17% on its own and no groups left TFFR. Even in this scenario our leaving TFFR has a very small impact in comparison.

e. On page 3 of the same report the actuary states "Our major concern about the bill is that it could lead to other groups requesting and being granted the right to transfer to PERS". You have to infer from that statement, the major concern is not the .02% increase in the "30 year funding cost" which will not materially add to the negative position of the fund. The other state employee groups, which were mentioned earlier, are active teachers which fall into the TFFR guidelines and they have not indicated any desire to seek permission to switch.

f. In March 16, 2005 testimony, before the Employee Benefits Committee TFFR stated "The amount of potential loss to the system ($129,000 for the DPI election) was not considered to be material by the actuary since it increased the funded cost by less that 0.01%". DPI had 22 employees switch, we will have a maximum of 16 if all would elect to switch, and the impact of this bill is only .02%

Mr. Chairman and members of the committee, the staff of the Department of Career and Technical Education believe that in light of the information presented, the very minimal impact that this will have on TFFR, and the fact that the legislature allowed the employees of the Department of Public Instruction to switch retirement plans from TFFR to PERS, it is only fair to allow DCTE staff to have that same option.

I urge a Do Pass on HB 1078.

I would be glad to answer any questions that you may have.

attach # 2

Testimony for House Bill No. 1078
March 1, 2007

Doug Vannurden
Assistant Supervisor
Agriculture Education
Department of Career & Technical Ed.

Chairman Dever and members of the Committee:

Thank you for the opportunity to testify today on behalf of HB 1078. My name is Doug Vannurden, and I have been the Assistant State Supervisor for Agriculture Education with the State Department for Career & Technical Education for the past twenty years. Prior to that, I served as the Agriculture Instructor at Beach High School for 11 years. I had eleven very successful years as an agriculture teacher and was proud to accept my position as assistant supervisor for agriculture education in 1986 as I knew I could make a positive difference for Agriculture Education and FFA in our state.

When I was teaching at Beach High School, I had a teachers' contract with the local school board. There was a salary schedule in place with steps for years of experience as well as lanes for additional education. For several years I was a part of the negotiations team representing our teachers in determining salary and benefits. And I taught 6 out of 7 (or more) periods a day, plus I Advised a very successful FFA Chapter. I was a teacher.

As the Assistant State Supervisor for Agriculture Education, my duties are to provide technical assistance to the High School, Postsecondary and Farm Management Education programs in North Dakota. This technical assistance includes developing/selecting programming, developing/designing curriculum, evaluating program effectiveness, and advising students and instructors all across the state. I also coordinate funding support for programs, serve as an Advisor to two Student Organizations – FFA & PAS - and represent North Dakota Agriculture Education on many levels. --- I am no longer a teacher, I am an Assistant Program Director for North Dakota CTE.

When I came to work for the State Board for Vocational Education - now the Department of Career and Technical Education – I became a state employee. No contract, no salary schedule, no negotiations, and no benefits for additional education or experience and no extra curricular pay. As a state employee, I am covered by the Public Employee Retirement System (PERS) for my Health Insurance, Life Insurance Benefit, and the Employee Assistance Program and all other benefits just as any other classified state employee- with the exception that my Retirement Fund remains with the Teachers Fund for Retirement (TFFR). And I am not alone - there are 16 state employees in the department of CTE that are treated as a state employee in every way except for retirement.

It also should be noted that members of our agency did not benefit from the tremendous efforts to raise teacher salaries made by the Governor and the Legislatures in the past three sessions - However - The teachers that we supervise, advise, support and assist did.

We are dependent upon the economy and generosity of each legislature such as the 4% plan for state employees that was recently passed. And by the way - Thankyou! It should also be noted that the Support Staff at the Department of CTE are already covered by PERS retirement. (10 Administrative Assistants, Receptionists and one Accountant)

In the 2003 legislative session, SB 2013 was passed allowing non-teaching employees of the Department of Public Instruction (DPI) to transfer their retirement from TFFR to PERS. – This bill was passed unanimously by the senate. We are asking for the same consideration and support.

The 22 individuals at DPI that made this transfer, including Superintendent Sanstead, were Program Directors, Assistant Program Directors, Regional Coordinators, Division Managers and Administrators – all similarly situated to the 16 employees of the Department of Career and Technical Education and we are simply asking for this same opportunity.

Please refer to the attached chart.

DPI and CTE employees mirror each other when it comes to being non-teaching state employees. The Education Standards and Practices Board does not require teacher licenses for staff of either agency, most staff members come to these agencies from the ranks of teachers, employees do not have a contract, and did not received raises for teachers that have been provided over the past 3 sessions of this legislature. Both are classified employees under the State Human Resources System.

Included in the language for the ND Century Code Chapters 15-39.1 creating the Teachers Fund for Retirement, seven other entities are named as covered employee groups. These include 3 State Agencies – DPI, DCTE and the Division of Independent Study (Information Technology Department) 3 State Institutions – School for the Deaf, School for the Blind, and the Youth Correctional Center. And three other "closed groups" including: NDEA Staff, NDHSAA Staff and NDCEL Staff. Everyone else covered by TFFR is a teacher as defined in the TFFR NDCC chapters.

As a state agency, the Division of Independent Study stands alone as staff are actively teaching or administering teachers and curriculum and are required by ESPB to be licensed teachers. Furthermore, these teachers did benefit from the recent teacher raises provided through the legislature. One similarity to state employees is that these active teachers have not had a contract, nor do they negotiate for salary and benefits.

Similarly, staff of all three state institutions – the school for the deaf, the school for the blind and the youth correctional center, are required to hold teaching licenses, they have teaching contracts and they have benefited from the legislated raises.

As far as the other closed groups, coverage by TFFR was granted primarily for staff members who were previous members of the fund (and had left full time teaching to work for the High School Activities Association (3), NDEA(4), or the NDCEL(0) as staff members.) In surveying these groups, I found that only 7 individuals continue to contribute to TFFR as they were hired prior to 1995. By legislative action, since 1995 all new employees from these closed groups are prohibited from joining TFFR and are instead covered by their own retirement funds such as the retirement fund available for NDEA employees through NEA. However - these individuals do not qualify as "State Employees" and would not be eligible for coverage under PERS. (NDCC 54-52-01)

One question continues to surface in the process of considering this proposal. That is "If we let CTE transfer, who will be next?" The TFFR Actuary – Gabriel, Roeder, Smith and Company stated in an October 19, 2006 report to the Employee benefits Committee that the "major concern about this bill is that it could lead to other groups requesting and being granted the right to transfer to PERS" Please let me answer this by saying that <u>no other</u> agencies or groups covered by TFFR are qualified to make this change except DPI and CTE. CTE stands alone as the only entity left in State Government that is placed in the wrong retirement system.

In many ways TFFR and PERS are alike. The calculation of retirement salary, the multiplier, and the rule of 85 are <u>currently</u> - essentially the same. However, this change is important to DCTE employees for two reasons.

> <u>One</u> – it eliminates a monthly employee contribution of 3.75 % to retirement fund. To the 16 CTE program staff currently employed as well as future employees of DCTE this means an increase in take-home pay .
>
> <u>Two</u> - it provides a monthly Health Insurance premium benefit upon retirement.

As our state director Mr. Wayne Kutzer has noted – PERS retirement coverage will save our employees out of pocket money, save our agency money and save the state money. It is simply a better retirement program and The State Board for Career and Technical Education unanimously approves this change.

I would like to quote a March 15, 2005 Actuarial Impact Report to the Employee Benefits Committee from Gabriel, Roeder, Smith and Company – William B. Forinia, Senior Consultant; which says "Although the transfer of these 16 employees does produce a slight loss for TFFR, in the context of the entire system – over 2 billion in the present value of future benefits – we consider the loss immaterial." As you have heard the loss to TFFR is less than 2 Hundreths of a percent.

So on behalf of the 16 eligible – non-teaching employees - of the Department of Career and Technical Education – we encourage you to give HB 1078 a "do pass" recommendation. Give us the opportunity that should have been extended to us along with DPI in 2003.

Thank You - Are there any questions.?

Doug Vannurden
Cell Phone # 701-400-6037, Home 663-0124
My office is on the 15th floor if you have any questions.
(328-3179 –Office Phone)

SIDEBAR:
It is my understanding that TFFR staff are covered by the PERS retirement plan – why are they not covered by TFFR? - The answer is – because they are not teachers – they are state employees as a part of a state agency.

Comparing State Employees & Teachers

State Employees

North Dakota Department of Career & Technical Education:

- Not required to be licensed by ESPB.
- Not eligible to negotiate contracts.
- Did not receive legislatively approved raises for teachers.
- All benefits, **except retirement (TFFR)**, currently tied to PERS.
- Classified State Employees
- Salaries provided through state and federal funds.
- Primary responsibility to provide oversight and technical assistance to instructors in career and technical education programs and centers.
- Have very limited contact with students.
- Required to work 12 months.

North Dakota Department of Public Instruction:

- Not required to be licensed by ESPB.
- Not eligible to negotiate contracts.
- Did not receive legislatively approved raises for teachers.
- All benefits tied to PERS.
- Classified State Employees
- Salaries provided through state and federal funds.
- Primary responsibility to provide oversight and technical assistance to instructors and schools.
- Have very limited contact with students.
- Required to work 12 months.

State Institution Teachers

North Dakota Youth Correctional Center:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute 54-44.3-20.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted employee.

North Dakota School for the Blind:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted employee.

North Dakota School for the Deaf:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute 54-44.3-20.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted employee.

North Dakota Division of Independent Study:

- Teachers are required to be licensed by ESPB.
- Specifically exempt from PERS by state statute 54-44.3-20.
- Daily contact with students.
- Negotiated contracts.
- Received legislatively approved raises for teachers.
- Contracted Employees

Attach #3

Government and Veterans Affair Committee
ND Senate
March 1, 2007

Mr. Chairman, Members of the Committee and guests:

My name is Arnie Zent I am not a lobbyist nor am I representing any groups pertaining to this bill.

I'm here to present real time testimony from a person retired from CTE.

I have nothing to gain from what I am about to say but only hope to help deserving people who have given years of service with the state of ND.

The history of this issue goes way back to the legislative session of 2001.

If passed, this bill will only affect no more then 16 people who are enrolled in TFFR. It will not affect the 1000's of practicing licensed teachers currently teaching in the state of ND

The differences between these 16 people versus the practicing licensed teacher are:

- Licensed teachers receive salary adjustments annually <u>Not state employees of CTE</u>
- Licensed teachers deal with students daily
  <u>Not state employees of CTE</u>
- Licensed teachers have 9-month contracts
  <u>Not state employees of CTE</u>

Please don't get the feeling that I am standing before you blasting teacher salaries. That is far from true. In fact, I am proud that we do not hold the lowest pay slot in teacher salaries within the US as we have in the past.

Putting this into perspective when I started as a state employ over two decades ago my beginning salary was comparable to what I was making in the 9 months of teaching the year prior.

During my time in state government and using two other teachers with comparable credentials who were teaching when I move out of the class room into the state, and who were sill teaching when I retired, really demonstrates the issue.

- High School or secondary educator recognized a <u>**30.4%**</u> increase during my employment with the state
- College or postsecondary educator recognized a <u>**45.1%**</u> increase during my employment with the state

You might be asking yourself: WHY DID YOU STAY in State government?

The same people I have referenced with those increases were the same teachers who really appreciate the many issues that I could help them with as their state supervisor. I had that same feeling with most all the teachers that I dealt with across the state.

Our agency, and especially the department I represented, was one that was recognized as the LINK between Industry and Education and this was important to me.

Today with the recent BC&BS premium increase just for my wife and me is rapidly approaching and consuming about 1/2 of my retirement check.

Today if I could apply years of service credits to that premium, believe me -- I would notice that and it would make a big difference.

This begs the question: Why not change health plans to save money? I can't because in 2004 I was diagnosed with cancer and that "brand" is now on everything related to my name when it comes to health insurance issues.

In closing I want you to know that:

- I was very happy and proud to be a State employee
- I was very happy and proud to be a staff member of CTE
- I was very happy and proud to commit 20+ years of my life to state service.
- I wished I could say today that I am very happy and proud to recognize those years of service every month when I balance my check book, but can't because the years of service count for **nothing** under TFFR.

Please remember those 16 devoted and dedicated CTE state employees when you recommend your decision on HB 1078

I hope that of course house bill 1078 will receive a do pass.

Thank you for this time and I will be happy to answer any questions related to this testimony.

attach #4

SENATE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
HB 1078

Shelly Schumacher, Retirement Program Manager
ND Retirement and Investment Office
March 1, 2007

Teachers and administrators employed in state agencies, state institutions, and school districts have participated in the Teachers' Fund for Retirement (TFFR) for many years. (Attachment A provides background information on TFFR membership requirements.)

Legislative changes made in the past few sessions have allowed certain state education supervisors, directors and administrators (non teaching employees) from the Department of Public Instruction (DPI) to transfer their retirement membership from TFFR to PERS (2001 and 2003). HB 1078 outlines a similar proposal from the State Board for Career and Technical Education (CTE) to allow 16 state supervisors, directors, and administrators (professional staff) who are currently participating in TFFR, as well as future new employees of CTE, to join PERS.

Interim Study by Employee Benefits Programs Committee

State law requires any proposal affecting the state's retirement and insurance programs to be studied by the interim Legislative Employee Benefits Programs Committee. Additionally, an actuarial analysis must be conducted by the Funds' actuarial consultant to determine if there is an impact on the retirement systems.

TFFR's actuarial consultant, Gabriel, Roeder, Smith & Co. (GRS) reviewed this proposal and provided comments in a letter dated October 19, 2006 (Attachment B). As outlined in their analysis, for CTE employees who elect to transfer, TFFR would move the membership accounts and service history from TFFR to PERS. PERS would be responsible for any benefits due based on this service, and TFFR would no longer be responsible for paying benefits to these employees. TFFR would transfer assets to PERS for each member that elects to transfer. The amount transferred would be equal to the larger of the actuarial present value of the employee's accrued benefit under TFFR, increased by 7.5% interest for the period from July 1, 2007 through the actual date of transfer, or the member's account balance as of the actual date of transfer. This transfer amount is estimated to be about $2.9 million as of 6/30/06 (or $3.1 million as of 6/30/07).

At the time the analysis was conducted, there were 16 members of TFFR employed by CTE. Their average age was 53, and average service was 20 years. The group had an average salary of about $49,337. Many of these employees had previous teaching service with public schools or vocational centers before being employed by CTE.

According to TFFR's actuary, the net impact of transferring these 16 members from TFFR to PERS produces a small actuarial loss to TFFR. In the case of the proposed CTE transfer, the actuarial loss amounts to approximately $235,766 (or $282,749 if SB 2046 also passes). The loss is not the result of the actual asset transfer amount, but results because TFFR would no longer receive future employee and employer contributions that TFFR would have received without this transfer option. Therefore, there becomes a smaller payroll over which to spread the cost of amortizing TFFR's unfunded actuarial accrued liability (UAAL).

TFFR Issues

TFFR is concerned about the potential actuarial loss to the Fund that HB 1078 produces. As currently structured, HB 1078 is not actuarially neutral to TFFR.

- TFFR would experience a small actuarial loss estimated at about $235,766 (or $282,749 if SB 2046 passes). When combined with earlier estimated loss of $129,000 from DPI transfer, the total cost to TFFR increases. Any changes made to TFFR membership provisions that result in a reduced number of participants in the plan will result in a small actuarial loss to TFFR.

- TFFR is also concerned about the continued precedence of allowing various employee groups to transfer from TFFR to PERS because it would have a cumulative negative cost impact on TFFR. If such a transfer option is expanded in the future to include TFFR members from other state agencies or institutions such as the Division of Independent Study, Youth Correctional Center, School for the Deaf, School for the Blind, or any other select employee group, the amount of potential loss will continue to increase. Similarities and differences exist within any of these entities. Some of the employees having teaching licenses; some do not. Some have teaching contracts; some do not. Some received teacher raises from the Legislature; some did not. However, all of these employees are involved in public education which is why they have historically been required to participate in TFFR.

- To address the financial implications of HB 1078, and possibly other future similar bills, please consider requiring CTE, to pay TFFR the amount of anticipated actuarial loss. Since the State/CTE share of the PERS contribution would be less than the State/CTE share of the TFFR contribution for these employees, it is possible that agency savings could be used to pay for the actuarial loss TFFR would experience.

Fiscal Note

As you can see from the fiscal note, HB 1078 affects three agencies in three different ways.

1) CTE – reduces expenditures by about $13,173 each biennium because amount of retirement contributions are less under PERS.

2) PERS – increases expenditures and appropriations by $3,000 for the 2007-09 biennium for system programming modifications.

3) TFFR – does not affect budget expenditures or appropriations, but produces an actuarial loss to TFFR of about $235,766, (or $282,749 if SB 2046 passes).

Summary

The interim Legislative Employee Benefits Programs Committee gave "no recommendation" on this proposal.

As your Committee reviews this bill and decides which retirement plan CTE professional staff of directors, supervisors, and administrators should participate in, please be aware of the negative financial impact on TFFR, as well as the positive financial impact on CTE employees and CTE as a state agency.