

FISCAL NOTE
Requested by Legislative Council
12/20/2016

Bill/Resolution No.: HB 1053

- 1 A. **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.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$5,057,681	\$4,850,470	\$6,743,620	\$6,467,249
Appropriations	\$0	\$0	\$5,057,681	\$4,850,470	\$6,743,620	\$6,467,249

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

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties	\$0	\$2,639,813	\$3,519,750
Cities	\$0	\$1,400,727	\$1,867,636
School Districts	\$0	\$2,792,033	\$3,722,710
Townships	\$0	\$0	\$0

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

The bill is the final year of the four year recovery plan for the NDPERS main retirement plan. The bill would increase employer and member contributions by 1% beginning January 2018.

- 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.*

Employer contributions would increase by 1% January 2018.

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.*

N/A

- 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.*

Employer contributions would increase 1% beginning January 2018. See HB1053 agency detail in the attachment for NDPERS main system figures.

- 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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Employer contributions would increase 1% beginning January 2018. The appropriation is not in the executive budget. See HB1053 agency detail for additional appropriation that would be needed by each state agency for this increase.

Name: Bryan Reinhardt

Agency: NDPERS

Telephone: 701-328-3919

Date Prepared: 01/03/2017

	Executive Budget		17-19 Funding Adjustments		
	2017-2019	Biennium			
Department	FTE	Salary	General	Other	Total
101 Office of the Governor	18.00	\$2,619,788.00	\$19,648.41	\$0.00	\$19,648.41
108 Office of the Secretary of State	33.00	\$3,036,441.00	\$22,084.18	\$689.12	\$22,773.31
110 Office of Management and Budget	119.00	\$16,771,067.00	\$103,407.10	\$22,375.90	\$125,783.00
112 Information Technology Department	349.30	\$53,676,441.00	\$71,948.62	\$330,624.69	\$402,573.31
117 Office of the State Auditor	53.80	\$8,215,384.00	\$46,754.47	\$14,860.91	\$61,615.38
120 Office of the State Treasurer	8.00	\$950,615.00	\$7,129.61	\$0.00	\$7,129.61
125 Office of the Attorney General	234.00	\$31,503,830.00	\$216,452.40	\$19,826.32	\$236,278.73
127 Office of the Sate Tax Commissioner	133.00	\$15,681,167.00	\$117,608.75	\$0.00	\$117,608.75
140 Office of Administrative Hearings	5.00	\$867,994.00	\$0.00	\$6,509.96	\$6,509.96
150 Legislative Assembly	141.00	\$0.00	\$0.00	\$0.00	\$0.00
160 Legislative Council	36.00	\$5,816,001.00	\$43,620.01	\$0.00	\$43,620.01
180 Judicial Branch	354.50	\$40,828,949.00	\$306,217.12	\$0.00	\$306,217.12
188 Legal Counsel of Indigents	40.00	\$5,208,671.00	\$38,119.23	\$945.80	\$39,065.03
190 Retirement and Investment Office	19.00	\$3,269,674.00	\$0.00	\$24,522.56	\$24,522.56
192 Public Employees Retirement System	34.50	\$4,422,601.00	\$0.00	\$33,169.51	\$33,169.51
201 Department of Public Instruction	97.75	\$12,795,844.00	\$29,622.02	\$66,346.81	\$95,968.83
215 ND University System	148.40	\$23,837,807.00	\$125,163.75	\$53,619.80	\$178,783.55
226 Department of Trust Lands	32.00	\$4,407,193.00	\$0.00	\$33,053.95	\$33,053.95
227 Bismarck State College	358.35	\$9,762,709.00	\$28,245.70	\$44,974.61	\$73,220.32
228 Lake Region State College	129.61	\$3,655,514.00	\$11,964.22	\$15,452.14	\$27,416.36
229 Williston State College	100.75	\$2,429,915.00	\$7,720.34	\$10,504.03	\$18,224.36
230 University of North Dakota	2218.07	\$85,771,471.00	\$168,315.34	\$474,970.69	\$643,286.03
232 UND Medical Center (included in 230)	435.75	\$0.00	\$0.00	\$0.00	\$0.00
235 North Dakota State University	1895.66	\$67,710,271.00	\$124,497.79	\$383,329.24	\$507,827.03
238 ND State College of Science	345.04	\$12,040,009.00	\$44,633.54	\$45,666.53	\$90,300.07
239 Dickinson State University	168.90	\$5,105,769.00	\$21,360.60	\$16,932.67	\$38,293.27
240 Mayville State University	210.53	\$6,250,430.00	\$15,430.40	\$31,447.83	\$46,878.23
241 Minot State University	441.65	\$11,827,763.00	\$38,717.56	\$49,990.67	\$88,708.22
242 Valley City State University	202.75	\$3,791,088.00	\$13,816.78	\$14,616.38	\$28,433.16
243 Dakota College Bottineau (included above)	84.30	\$0.00	\$0.00	\$0.00	\$0.00
244 ND Forest Service	27.00	\$2,856,230.00	\$21,421.73	\$0.00	\$21,421.73
250 State Library	29.75	\$2,763,128.00	\$18,095.27	\$2,628.19	\$20,723.46
252 School for the Deaf	45.61	\$4,906,629.00	\$35,730.46	\$1,069.25	\$36,799.72
253 N.D. Vision Services	29.50	\$3,151,079.00	\$23,613.49	\$19.60	\$23,633.09
270 Dept of Career and Technical Ed	25.50	\$3,428,456.00	\$25,713.42	\$0.00	\$25,713.42
301 North Dakota Department of Health	381.00	\$44,564,651.00	\$172,834.01	\$161,400.87	\$334,234.88
305 Tobacco Prevention	0.00	\$0.00	\$0.00	\$0.00	\$0.00
313 Veterans Home	120.72	\$10,037,037.00	\$25,673.91	\$49,603.87	\$75,277.78
316 Indian Affairs Commission	4.00	\$583,977.00	\$4,379.83	\$0.00	\$4,379.83
321 Department of Veterans Affairs	9.00	\$928,234.00	\$6,044.18	\$917.57	\$6,961.76
325 Department of Human Services	2204.23	\$235,369,622.00	\$1,481,109.38	\$284,162.78	\$1,765,272.17
360 Protection and Advocacy Project	27.50	\$3,710,602.00	\$27,829.52	\$0.00	\$27,829.52
380 Job Service North Dakota	181.61	\$18,136,925.00	\$911.35	\$135,115.59	\$136,026.94
401 Office of the Insurance Commissioner	47.00	\$6,093,797.00	\$0.00	\$45,703.48	\$45,703.48
405 Industrial Commission	105.25	\$14,734,526.00	\$103,885.31	\$6,623.64	\$110,508.95
406 Office of the Labor Commissioner	14.00	\$1,663,918.00	\$12,479.39	\$0.00	\$12,479.39
408 Public Service Commission	45.00	\$6,982,433.00	\$31,806.39	\$20,561.85	\$52,368.25
412 Aeronautics Commission	7.00	\$1,015,108.00	\$0.00	\$7,613.31	\$7,613.31
413 Department of Financial Institutions	30.00	\$5,126,768.00	\$0.00	\$38,450.76	\$38,450.76
414 Office of the Securities Commissioner	9.00	\$1,320,814.00	\$0.00	\$9,906.11	\$9,906.11
471 Bank of North Dakota	181.50	\$23,822,496.00	\$0.00	\$178,668.72	\$178,668.72
473 North Dakota Housing Finance Agency	46.00	\$5,732,308.00	\$0.00	\$42,992.31	\$42,992.31
475 North Dakota Mill & Elevator Association	153.00	\$16,798,025.00	\$0.00	\$125,985.19	\$125,985.19
485 Workforce Safety & Insurance	260.14	\$32,876,422.00	\$0.00	\$246,573.17	\$246,573.17
504 Highway Patrol	206.00	\$17,294,144.00	\$103,656.93	\$26,049.15	\$129,706.08
530 Department of Corrections and Rehabilitation	846.29	\$89,981,237.00	\$631,302.59	\$43,556.69	\$674,859.28
540 Adjutant General	234.00	\$25,592,333.00	\$76,988.21	\$114,954.28	\$191,942.50
601 Department of Commerce	66.40	\$9,358,029.00	\$54,952.04	\$15,233.18	\$70,185.22
602 Department of Agriculture	75.00	\$8,394,329.00	\$34,594.83	\$28,362.64	\$62,957.47
627 Upper Great Plains Transportation Institute	43.88	\$7,661,446.00	\$14,463.84	\$42,997.00	\$57,460.85
628 Branch Research Centers	110.29	\$12,335,478.00	\$67,549.78	\$24,966.30	\$92,516.09
630 NDSU Extension Service	252.98	\$30,883,929.00	\$118,034.87	\$113,594.60	\$231,629.47
638 Northern Crops Institute	11.80	\$1,681,359.00	\$10,656.87	\$1,953.33	\$12,610.19
640 NDSU Main Research Center	336.12	\$43,800,225.00	\$212,029.32	\$116,472.37	\$328,501.69
649 Agronomy Seed Farm	3.00	\$342,741.00	\$0.00	\$2,570.56	\$2,570.56
670 Racing Commission	2.00	\$273,925.00	\$2,054.44	\$0.00	\$2,054.44
701 State Historical Society	77.00	\$8,385,122.00	\$57,509.24	\$5,379.18	\$62,888.42
709 Council on the Arts	5.00	\$625,022.00	\$4,687.67	\$0.00	\$4,687.67
720 Game & Fish Department	163.00	\$21,239,056.00	\$0.00	\$159,292.92	\$159,292.92
750 Department of Parks & Recreation	65.00	\$7,646,150.00	\$55,195.23	\$2,150.90	\$57,346.13
770 State Water Commission	96.00	\$13,754,314.00	\$0.00	\$103,157.36	\$103,157.36
801 Department Of Transportation	1054.01	\$132,980,415.00	\$0.00	\$997,353.11	\$997,353.11
State Total	16078.69	\$1,321,086,845.00	\$5,057,681.41	\$4,850,469.93	\$9,908,151.34

2017 HOUSE APPROPRIATIONS

HB 1053

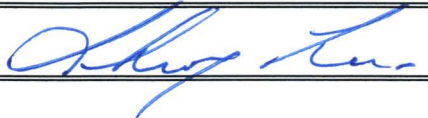
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division Medora Room, State Capitol

HB1053
1/17/2017
Recording Job# 26941

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 54-52-02.9, subsection 2 of section 54-52-05, and sections 54-52-06, 54-52.6-02, and 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans.

Minutes:

Attachment A through C

Chairman Brandenburg: Opened the hearing on HB1053.

Sparb Collins, Director, ND Public Employees Retirement System: See testimony attachments A and B.

Representative Vigesaa: The fiscal note on page 10 with the amendment would just be funding that for the final six months of that biennium?

Sparb Collins: Referenced testimony.

Representative Brabandt: When you mentioned the 42,000 PERS members, that includes the teachers. Right?

Sparb Collins: No it doesn't. The teachers are in a separate system. What that does include is the state of North Dakota; that's about 50% of our members. The other 50% are political subdivisions that elect to participate in our plan. School districts are our second largest client. We don't do teachers in the school districts, we do the non-teaching staff. We have 9,000.00 people we refer to as deferred. Those people have earned benefits in the retirement plan; but they are no longer working in employment under the retirement plan and they have not retired yet. The last 10,000 to 11,000 are people that are retired under the plan.

Representative Nathe: The current fiscal note is around \$12 million. So we put it off for two more years until the next biennium, to do the same with the fiscal note is around \$3 million. Is that right?

Sparb Collins: Right.

Representative Nathe: If we put it off for another two years after that will it be down \$1.5 million?

Sparb Collins: Yes.

Representative Nathe: I know it takes longer to get to the 100%.

Sparb Collins: The thing to keep in mind is in adopting this, you're able to say you have a plan. What's happened in the past is it hasn't been adopted; so the state doesn't have a plan. If we had another column that was 2021-2023, the number is going to look like the 2017-2019 number. Because you'd have a full two years in there.

Representative Nathe: How many states are 100% funded?

Sparb Collins: I'd have to look that up. That's a static number. You may have a state that's 90% funded; but is in a worse situation then a state that is 60% funded. The one that's 90% funded maybe showing a funded status that's declining over time. The one that is 60% funded may have a strong recovery plan and their long term prospect may be going up.

Representative Nathe: It sounds like it depends on what their projections are; how they're projecting out.

Sparb Collins: The rating agencies look at that. The way the plan is funded today, is we get money in in contributions; those get earnings. Most of the money we get to fund the plan is off of the contribution's earnings.

Representative Brabandt: The 42,000 PERS, how many are active and how many are retired?

Sparb Collins: About 20,000 are active; about half of those are state and half are political subdivisions. About 11,000 are retired.

Chairman Brandenburg: On the sheet you handed out with the departments, there's 16,000 people on that. I'm assuming that all of them are part of the plan. There's 42,000 on the plan that would be affected by this plan. It shows \$9.9 million; percentagewise there's 16,000 in this plan, but there's another 26,000. If it's proportioned right, it should be more like \$20 million. Maybe we need some more information.

Sparb Collins: I can reconcile that sheet for you. Keep in mind that that sheet, if you adopt this amendment, will no longer be applicable. All that is deferred.

Chairman Brandenburg: You're pushing it into the next biennium.

Sparb Collins: We're pushing most of it into the following biennium.

Chairman Brandenburg: With the 42,000; how does it break down to 16,000?

Sparb Collins: What it's showing there is the state has 15,000 active employees. Not all of those employees are in the PERS plan.

Chairman Brandenburg: Then the supreme court is a little different also.

Sparb Collins: The supreme court and the district court people are in the judge's retirement plan; which we administer. They're not part of this contribution increase because they're funded fine. The staff in the court system is in the PERS system; they're not in the judge's system.

Chairman Brandenburg: The highway patrol would be different a little different also.

Sparb Collins: The highway patrol members have their own retirement system; that's another one that we administer separate from this. There is no contribution increase built in for them at this time. The officers are in that system. The administrative staff is in the PERS system. The big difference between the highway patrol system and this system is that highway patrol members don't get social security; whereas our members do. This system was designed with the goal of getting for employees about 90% of salary at retirement; 40% for the average employee will come from social security. This was designed around getting about the remaining 50% at retirement from PERS; that goal has been met many years ago. In the highway patrol system, they don't have social security, so that system is designed to provide about 90% of salary to the officers at retirement.

Vice Chairman Boehning: I'm trying to remember what the total is that we're contributing in the plan per employee and employer. What is the breakdown on that?

Sparb Collins: Today the contribution rate is 14.12%; that's the total contribution rate. Of that in statute, 7.12% is called the employer contribution and 7% is called the employee contribution. In 1982 and 1983 in lieu of a salary increase, the state picked up 4% of the 7% employee contribution. So the state is paying the employer contribution and they're paying 4% of the employee contribution. By picking it up they saved the FICA tax; so the employee got the full benefit of the salary increase, but, the state saved all this money in FICA so it didn't cost them the full amount to do it. They've saved that FICA tax every year going forward.

Vice Chairman Boehning: When I look at the fiscal note, you have the general fund of \$5 million; which is the 7.12%. Correct?

Sparb Collins: No. This fiscal note only includes the additional 1% employer contribution.

Vice Chairman Boehning: Can you get the full amount?

Sparb Collins: If this would have passed the way it is today, this \$6 million would be matched by another \$6 million in state employee money; because this is only the 1%. The other 1% doesn't show up on here because the fiscal note doesn't ask for the impact on the employee. The total contribution increase is actually doubled; because half of this part comes from the employers and the other part comes from the employee.

Vice Chairman Boehning: What are we counting as other funds? Is that from special funded agencies?

Sparb Collins: Yes.

Vice Chairman Boehning: Out of those special funded agencies, there's really a small percentage of that that isn't tax dollars. Correct?

Sparb Collins: Right.

Vice Chairman Boehning: What would that number be?

Sparb Collins: I don't know. I would suspect that most all of the other funds are going to be from their own funding source.

Dr. Aimee Copas, Executive Director, ND Council of Educational Leaders: See testimony attachment C.

Chairman Brandenburg: Closed the hearing.


2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division Medora Room, State Capitol

HB1053
1/19/2017
Recording Job# 27115

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 54-52-02.9, subsection 2 of section 54-52-05, and sections 54-52-06, 54-52.6-02, and 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans.

Minutes:

Chairman Brandenburg: Opened the hearing on HB1053.

Vice Chairman Boehning: If we pass this bill, it doesn't do anything at all this biennium.

Vice Chairman Boehning: Made a motion for a "Do Not Pass".

Representative Kempenich: Seconded the motion.

Representative Delmore: It's my understanding that would not be until the next biennium?

Chairman Brandenburg: That's correct.

Representative Kempenich: It's not that it ties a future legislative's hands. Unless there's some action going on today, we can make a decision two or four years from now. This is asking for additional increases to get their program going. I think at this time that this would be the way to go.

Representative Delmore: What they were asking to do is for us to adopt an amendment for 2019? So we're just voting on this bill as it is right now?

Chairman Brandenburg: That's correct.

Roll Call Vote: 6 Yeas 0 Nays 1 Absent

Motion Passed.


Chairman Brandenburg: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1053
1/19/2017
27163

☐ Subcommittee
☐ Conference Committee



Explanation or reason for introduction of bill/resolution:

Relating to increased employer and employee contributions under the public employee's retirement system defined benefit and defined contribution plans.

Minutes:

No Attachments

Representative Boe: This bill was supposed to go into effect in 2018. PERS did come in with an amendment, that we did not adopt, but it would have extended it to start in 2021 which would have been 6 months into that biennium. Since this won't have anything done with it until the next biennium we thought there is no reason to keep this bill so we recommended a Do Not Pass

Chairman **Delzer**: Do you care to make that motion?

Representative **Boehning**: Motion to do not pass for HB 1053

Second Representative **Brandenburg**

Chairman **Delzer**: Some of the hearing on this also was that it would also be a burden on their employees that they did not want to pass on at this point?

Representative **Boehning**: Yes, North Dakota Council Education leaders came in and opposed the bill because of high cost to them and with the budget coming in with no increase in benefits they didn't want it at this time.

Representative **Meier**: In discussion did you talk about what it would take to make that fund fully funded? What dollar amount?

Representative **Boehning**: It hard to put a dollar amount on that, it's so long term and depends on the market

Representative **Kempenich**: They were using 2045 as a year out

Chairman **Delzer**: But it still depends on the market and the rate they use.

3:45 Representative **Brabandt**: I talked to someone with PERS and they were thinking about a billion dollars

Chairman **Delzer**: We're under funded by a billion dollars but you wouldn't have to put a billion dollars in the fund.

A Roll Call vote was taken. Yea: 15 Nay: 0 Absent: 6

Motion for a Do Not Pass

Representative **Boehning** will take it to the floor

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB1053**

House Appropriations - Government Operations Division Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ _____

Motion Made By Vice Chairman Boehning Seconded By Representative Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	x		Representative Delmore	x	
Vice Chairman Boehning	x				
Representative Kempenich	x				
Representative Nathe					
Representative Brabandt	x				
Representative Vigesaa	x				

Total (Yes) 6 No 0

Absent 1

Floor Assignment Vice Chairman Boehning

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

Date: 1-19-17
Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. "Enter Bill/Resolution No."**

House Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ _____

Motion Made By Boehning Seconded By Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X				
Representative Kempenich	X		Representative Streyle	A	
Representative: Boehning	X		Representative Vigesaa	X	
Representative: Brabandt	X				
Representative Brandenburg	X				
Representative Kading	A		Representative Boe	X	
Representative Kreidt	X		Representative Delmore	X	
Representative Martinson	X		Representative Holman	A	
Representative Meier	X				
Representative Monson	A				
Representative Nathe	A				
Representative J. Nelson	X				
Representative Pollert	X				
Representative Sanford	X				
Representative Schatz	X				
Representative Schmidt	A				

Total (Yes) 15 No 0

Absent 0

Floor Assignment Boehning

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

REPORT OF STANDING COMMITTEE

HB 1053: Appropriations Committee (Rep. Delzer, Chairman) recommends **DO NOT PASS** (15 YEAS, 0 NAYS, 6 ABSENT AND NOT VOTING). HB 1053 was placed on the Eleventh order on the calendar.

2017 TESTIMONY

HB 1053

TESTIMONY OF SPARB COLLINS

HB 1053 - PERS Recovery Bill (4th yr)

Good morning, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System (NDPERS). I appear before you today concerning the retirement plans we administer and in support of House Bill 1053.

The bill before you today is for the last year of the four year recovery plan for the PERS Main Retirement Plan. The first two years were approved during the 2011 session. The third year was approved during the 2013 session. In the 2015 session the last year was not approved. This last year of the recovery plan as proposed would increase both the employer contribution rates and the member contribution rates for the PERS Main/Hybrid Plan (Main/Hybrid) and the PERS Defined Contribution Plan (DC) by 1% for the employer and member beginning January 2018. The bill also would change the member contribution rates for the following groups:

- Temporary employees in the Main/Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% annually, instead of 1%, over the same period.

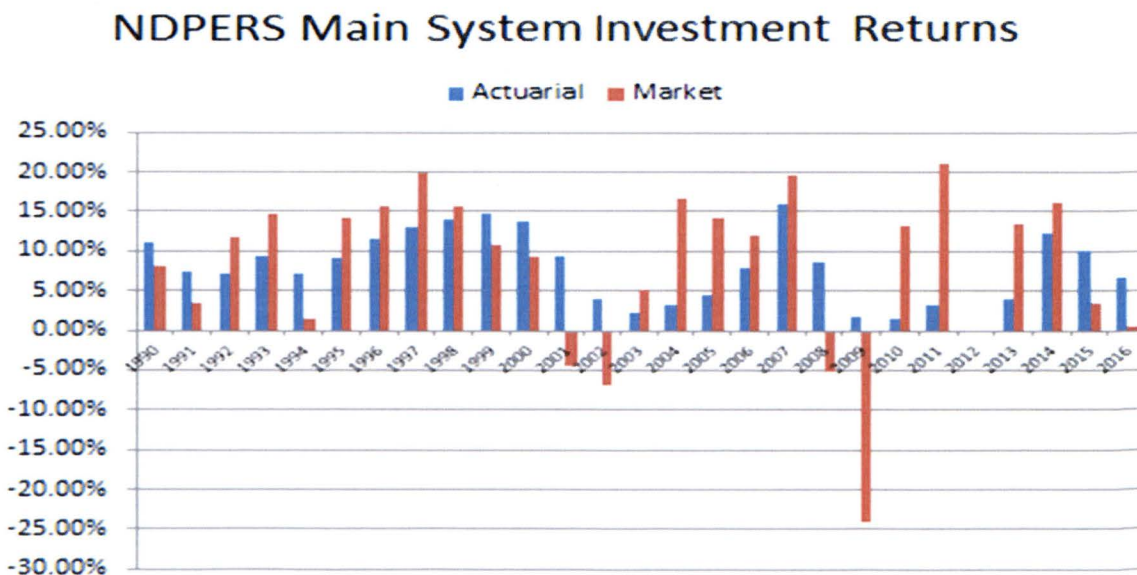
<i>Retirement Fund</i>	<i>HB 1053</i> <i>Increase employee and employee contributions equally*</i>
<i>Main/Hybrid</i>	<ul style="list-style-type: none"> • 1% employee increase and a 1% employer increase (Eff 1/1/2018) <ul style="list-style-type: none"> ○ Section 1 increases the temporary employee contribution* ○ Section 2 increases the employee contribution ○ Section 3 increases the employer contribution
<i>DC Plan</i>	<ul style="list-style-type: none"> • 1% employee increase and a 1% employer increase (Eff 1/1/2018) <ul style="list-style-type: none"> ○ Section 4 increases temporary employee contribution* ○ Section 5 increases employer and employee contributions

*Temporary employee contributions increase by 2%.

This bill addresses the funding shortfall that has occurred in both the PERS defined contribution plan and the PERS defined benefit/hybrid plans as a result of the downturn in the financial markets. Let me start by providing you some background and a summary of the actions taken to date.

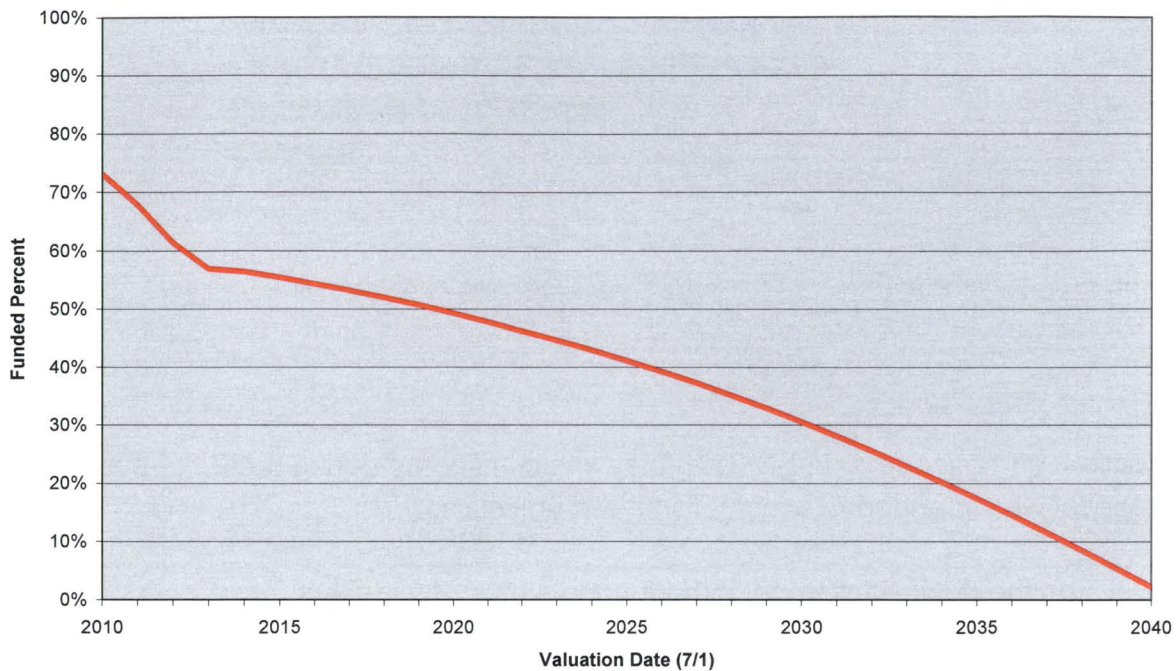
Background

In the 2008-2009 fiscal year the financial market had a major correction that was preceded by the tech market collapse in 2001-2002. However, the most significant effect occurred in 2008-2009 when the PERS plan lost about 24.5%. The following table shows the history of returns and the returns in that year.

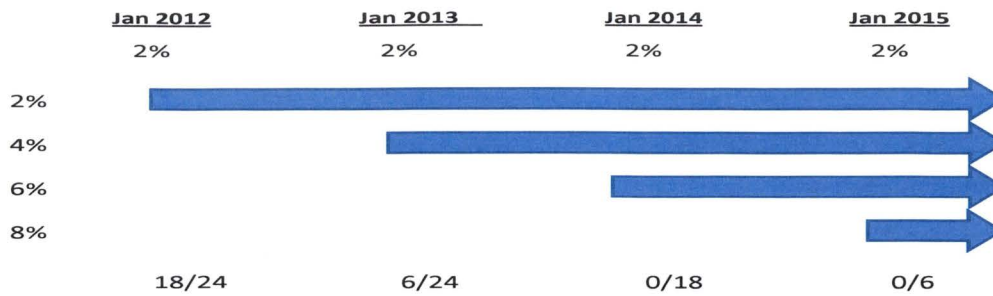


The financial consultant to the State Investment Board, which manages the PERS assets, reported that out of 224 years of US stock performance only 4 years were worse than the returns in 2008. What the plan experienced was truly a unique and significant event. As a result of this dramatic downturn in the financial markets, the long term funded status of PERS was affected as shown on this graph.

PERS (Main System)
Projected Funded Ratio Under Current Plan
(Actuarial Value of Assets to Actuarial Accrued Liability)
Based on July 1, 2010 Data



The above projections of the future funded status of the Main plan showed the plan could become insolvent in approximately 2040. After a significant amount of study, a proposal was brought forward to increase the contributions by 8% over the period from January 2012 to January 2015 which was projected to close this funding deficit. It became known as the PERS 4-year recovery plan and was based upon the concept that the recovery should be shared between the employer and employee. The thought was that neither party should be responsible for the full cost of the recovery. It was proposed to be spread over 4 years to reduce the effect of the increase in any given year on either party.



Months increase effective for 2011-2013/ Months effective for 2013-2015
2015 and beyond 100% effective

2

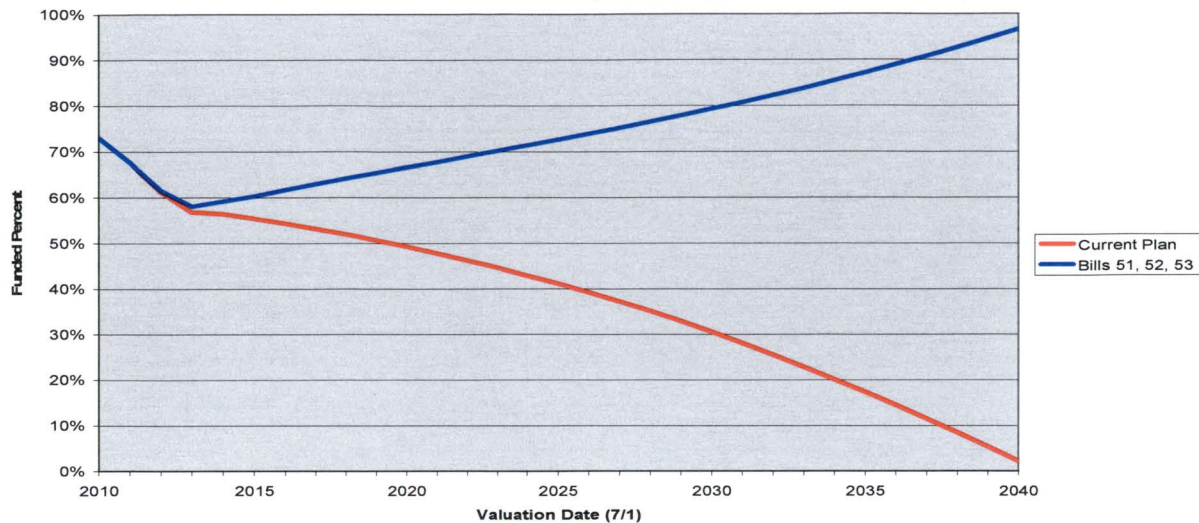
This proposal came together in SB 2108 that was considered during the 2011 session. This proposal was intended to accomplish three objectives:

1. To stop the downward trend in the funded status of the plans
2. To stabilize the plans
3. To put the plans on a course back to 100% funded status

The following graphs were reviewed during that session showing the projected status of the funds without the increase and the projected status with the increases proposed in the recovery plan.

Graph 2

PERS (Main System)
Comparison of Funded Ratio
(Actuarial Value of Assets to Actuarial Accrued Liability)
Based on July 1, 2010 Data

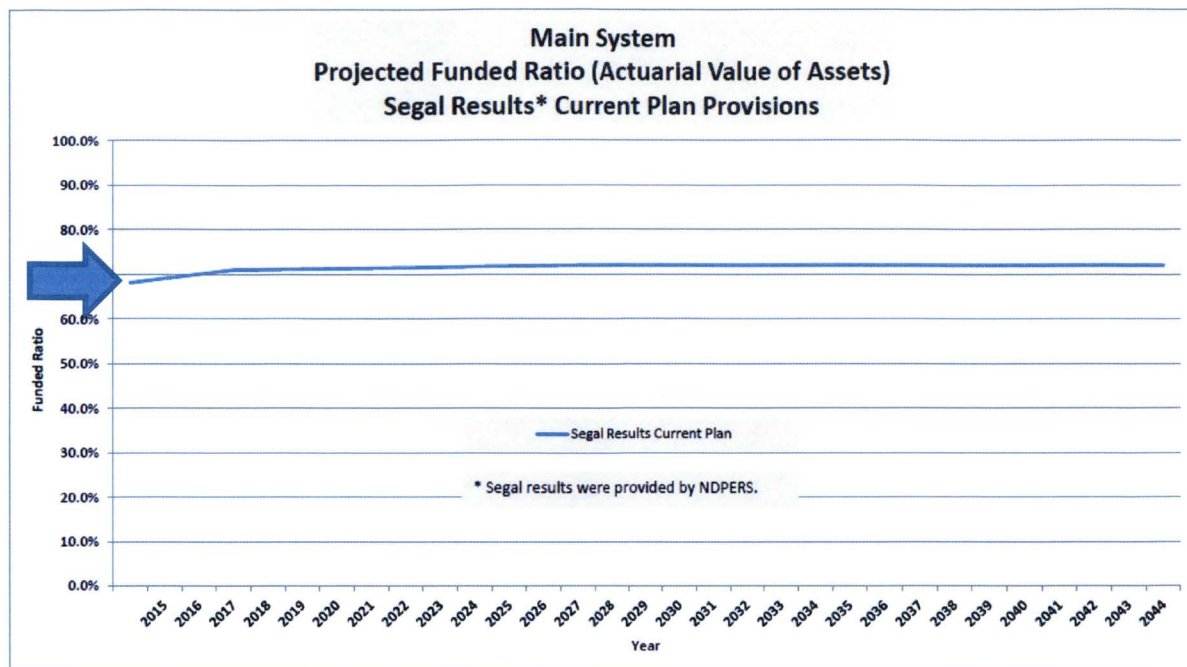


The proposed recovery plan outlined above for the retirement plan accomplished all three goals. That is, the downward trend in funding would have been reversed. The plans would be stabilized and be put on a course to 100% funded status.

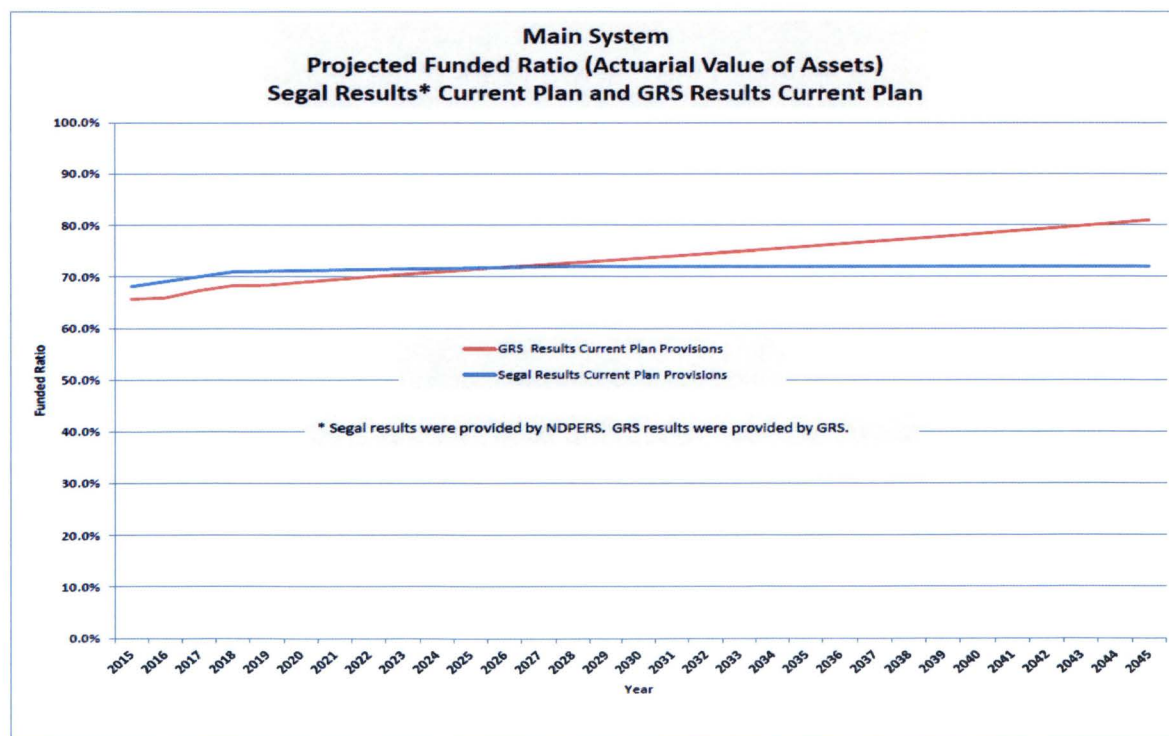
That session, the legislature approved the first two years of the recovery plan which included the 2012 and 2013 increases, and in the 2013 session the third year was approved.

Accomplishments and Final Year of Recovery Plan

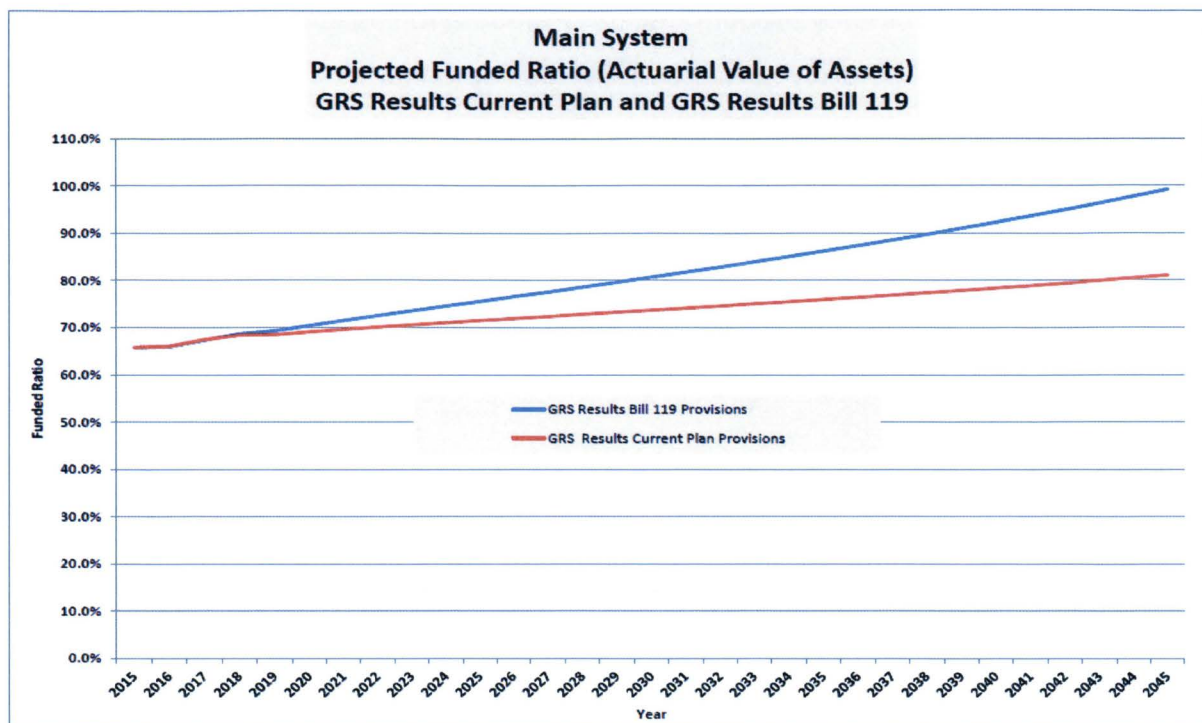
New projections have been completed for the plan this year as part of the ongoing study and consideration process for the last year of the recovery plan. The following graphs show what was accomplished by the action of adopting the first three years of the recovery plan and the effect of adopting the last year of the recovery plan proposed in this bill.



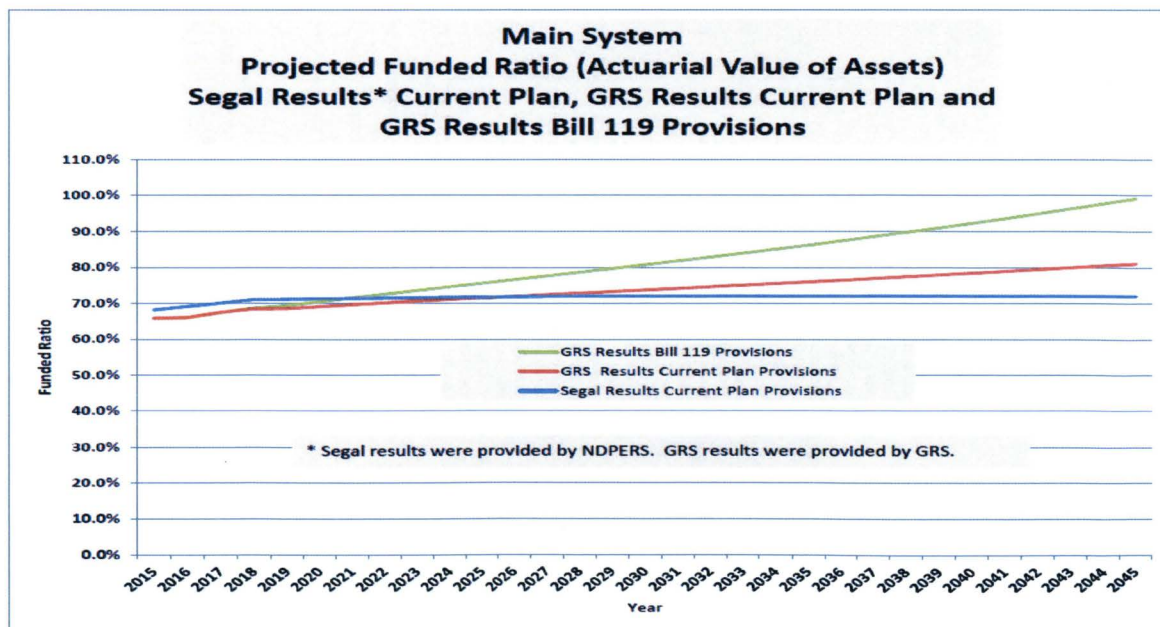
As the above shows, the PERS plan is on a course to remain at about 70% funded status. NDPERS switched retirement actuaries this past year. A new projection from GRS shows a slight improvement in the funded status.



If the provisions of HB 1053 are passed, the following graph shows that the plan will be on a course to 100% funded status by about 2045.

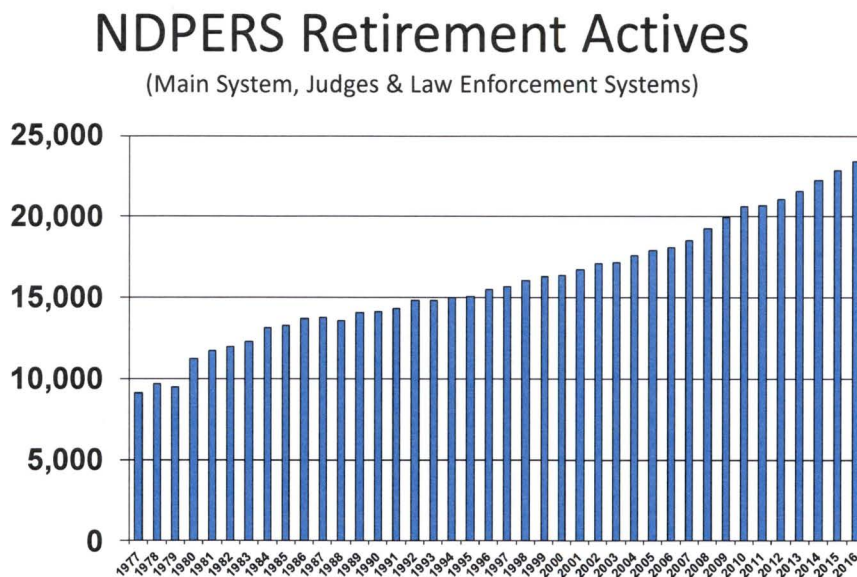


The following is a summary of all three graphs:



NDCC Section 54-35-02.4 requires that proposed bills relating to the PERS Retirement Plan must be submitted to the Legislative Employee Benefits Committee (LEBC) for review prior to the session they are introduced. Pursuant to this legislative direction PERS submitted the bill before you to the LEBC last March for study and analysis. That committee examined the information I have reviewed with you and other information and gave this bill a favorable recommendation this last fall.

The PERS Board met this month and at its meeting reviewed this bill, the executive budget recommendation and the challenges facing the state and our members for the upcoming biennium. The Board also noted the fiscal note attached to this bill and while it is significant the board recognizes that the plan needs to be funded to meet the long term needs of its members. As we noted in our budget presentation we have 20,000 active members and another 9,500 inactive members.

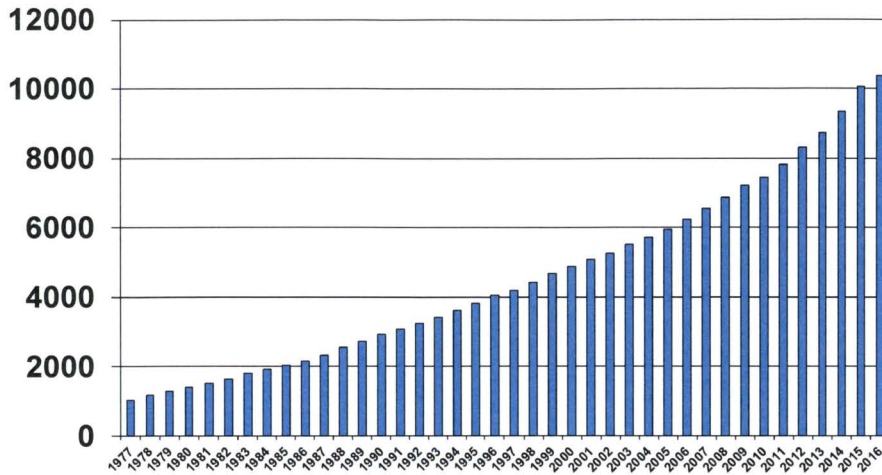


1

We also have slightly over 10,000 retirees:

NDPERS Retirement Retirees

(Main System, Judges & Law Enforcement Systems)

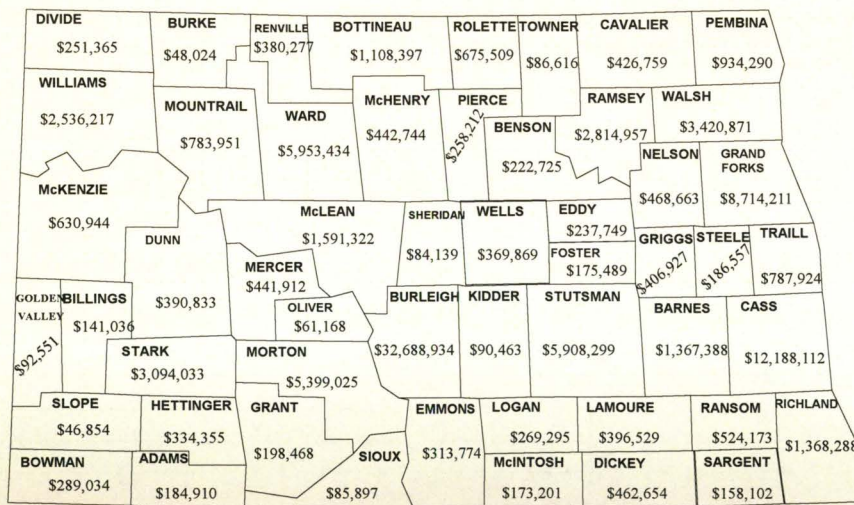


2

We have almost 42,000 members counting on the plan. We pay out almost \$130 million in benefits with most of that going in-state. This map shows the payout by county in 2014:

NDPERS Retirees

Annual Benefits 2014



Out-of-State - \$15,474,063

Total - \$116,141,494

Therefore, accomplishing our third goal to put the plan on a strong path back to 100% funded status is critical. However the board noted the near term challenge to our employers and employees. In recognition of this, at the January 2018 meeting the PERS Board decided to recommend the attached amendment to move the date for the contribution increase from January of 2018 to January of 2021. The following shows the change in the fiscal note from the following:

- 1 A. **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.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$5,057,681	\$4,850,470	\$6,743,620	\$6,467,249
Appropriations	\$0	\$0	\$5,057,681	\$4,850,470	\$6,743,620	\$6,467,249

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

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties	\$0	\$2,639,813	\$3,519,750
Cities	\$0	\$1,400,727	\$1,867,636
School Districts	\$0	\$2,792,033	\$3,722,710
Townships	\$0	\$0	\$0

To:

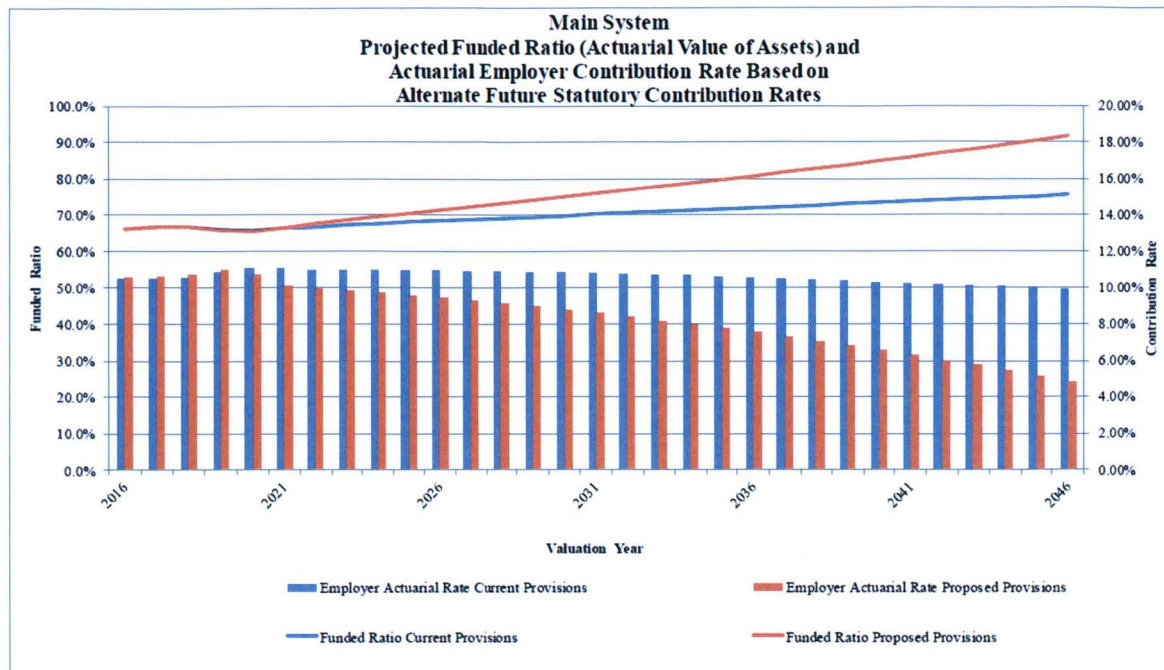
- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$1,685,905	\$1,616,812
Appropriations	\$0	\$0	\$0	\$0	\$1,685,905	\$1,616,812

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

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties	\$0	\$0	\$879,938
Cities	\$0	\$0	\$466,909
School Districts	\$0	\$0	\$930,678
Townships	\$0	\$0	\$0

Our actuary shows the effect of the change on the funded status going forward:



As you will note in the above, the top line shows that the bill as amended still puts the plan on a strong path back to 100%. This plan will:

1. Show the rating agencies the state has a plan to deal with the funded status of the PERS plan
2. Provide reassurance to the members that the state is committed to getting the plan back to 100% funded
3. Share the responsibility for funding this with both the employer and employee.

Summary

This recovery plan as originally proposed and offered in the attached amendment has had considerable study over the years including:

1. The PERS Board worked with our members in developing this proposal. The significant outcome of this effort is the development of a shared recovery plan with both the member and employer sharing the contribution increase.
2. The Legislative Employee Benefits Committee studied the 4 year recovery proposal in the 2010 interim. They had several hearings on the proposal and

reviewed detailed actuarial information over a 5 month period. That committee gave the 4 year recovery plan a favorable recommendation. During the 2012 interim, the Legislative Employee Benefits Committee reviewed the proposal for the last 2 years of the recovery plan. They held hearings and reviewed updated actuarial information and again gave it a favorable recommendation. During the 2014 interim the committee studied the bill and gave it “no recommendation”. Lastly during the 2016 interim the committee reviewed this bill and gave it a favorable recommendation.

3. Funding for the recovery plan had been included in previous Executive Budgets for the 2011-13 biennium and the 2013-15 biennium, but was not included in the most recent Executive Budget.

If we are going to meet our future challenges as effectively as our past leaders in the Executive and Legislative Branches have prepared us for this last one, we need to regain the same funded basis that they gave us. Consequently, I stand before you today to request your positive consideration of this bill, as amended, for the last year of the original recovery plan which will put the PERS Main/Hybrid plan on a course back to 100% funded status and make sure we have a strong future.

Thank you and this concludes my testimony. If we can assist you with your considerations, please let me know.

Mr. Chairman, members of the committee, I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided our members valuable benefits that have truly made a significant difference in people’s lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you, and this concludes our testimony.

January 17, 2017

HB1053

Attachment B

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1053

Page 1, line 18, replace "2018" with "2021"

Page 2, line 14, replace "2018" with "2021"

Page 2, line 26, replace "2018" with "2021"

Page 8, line 28, replace "2018" with "2021"

Page 9, line 25, replace "2018" with "2021"

Page 10, line 2, replace "2018" with "2021"

Renumber accordingly

January 17, 2017

HB 1053

Attachment C

**NDCEL - Testimony in opposition to HB 1053
Increase in contribution in PERS
Dr. Aimee Copas - 1/17/2017**

Good morning Chair Brandenburg, and members of the committee. For the record, my name is Dr. Aimee Copas and I serve as the Executive Director for the North Dakota Council of Educational Leaders. NDCEL represents all school leaders within our state including Superintendents, County Superintendents, Principals, REA Directors, Athletic Directors, Career and Tech Ed Directors, Technology Directors, School Business Officials, and Special Education Directors. We come to you today in opposition to HB 1053 regarding the increase to contributions to the PERS retirement plan, however, please allow me to be clear. We as school leaders are proponents of having the PERs fund and the TFFR fund completely solvent over time. Our suggestion to this committee is not "never" it is just "not right now". This plan impacts our schools in North Dakota significantly as many of our full time employees who are not teaching professionals fall under the PERs plan for their retirement.

It is no secret to anyone that the fiscal challenges this year are significant - our state has not encountered this type of challenge for many years. All agencies and entities are trying to figure out how to survive on less. Unfortunately, during this time, the other increased costs that our entities experience do not stop - this is true for our schools as well. The cost of operation still increases. Heating costs go up, teachers make their step across the pay scale, health insurance will see a possible 13% increase (or more), negotiations and contracts must be honored. All of these things happen while at the same time we are figuring out how to operate with less. We recognize that all entities are struggling, but I am here today representing schools, so that is the group I will keep as the example.

The fiscal impact statewide is significant with regard to HB1053. The fiscal note for this bill shows an impact on the schools of nearly 3 million for the upcoming biennium and nearly 4 million in the next. There are a number of things happening at the same time.

Please allow me to share some real examples of what schools are facing this year in a couple cost areas before considering an increased cost associated with PERs:

School	Deficit	Notes
West Fargo	\$4,500,000	These expenses are based on assuming <u>no increase</u> for existing staff. This does, however account for increases in insurance. At this time, schools are paid in the rears for students, so districts like West Fargo, as an example, are trying to reconcile how to operate their district with 500 new students, new schools opening and no money for those 500 students they will having this coming fall.
Mandan	\$800,000	Staffing payment scale step increases & insurance cost increase
Minot	\$619,157 + 53,333 per 1% increase of insurance	Staffing payment scale step increases & insurance cost increase
Jamestown	\$800,000	Staffing payment scale step increases & insurance cost increase

I say this with the understanding that we are all feeling the pain. However, because of this pain, we strongly feel that now is not the time to additionally increase costs of retirement contributions as an additional unfunded mandate on the schools. This is a time to hold steady as a state as much as possible. I am certain this pinch is being felt elsewhere as well. The fiscal impact on cities and counties is likely nearly impossible to bear as well. For this reason, your schools are asking for a DO NOT PASS on HB 1053.