19.0907.02000

FISCAL NOTE
Requested by Legislative Council
01/28/2019

Revised
Amendment to: Engrossed HB 1419

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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$0	$0	$0	$0
Appropriations	$0	$0	$0	$0	$0	$0

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties	$0	$0	$0
Cities	$0	$0	$0
School Districts	$0	$0	$0
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 requires Legislative Management to consider conducting a study on the spectrum of public employee retirement options, including receipt of information from an unbiased, nonprofit third party regarding pension fund risk.

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.*

The study required by this Bill would most likely require actuarial analyses of several options, each of which could cost between $10,000 and $15,000 depending on the complexity. The potential cost of the third party's involvement is unknown.

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.*

The study required by this Bill would most likely require actuarial analyses of several options, each of which could cost between $10,000 and $15,000 depending on the complexity. The potential cost of the third party's involvement is unknown.

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.*

N/A

Name: Scott Miller

Agency: NDPERS

Telephone: 701-328-3901

Date Prepared: 01/30/2019

19.0907.02000

FISCAL NOTE
Requested by Legislative Council
01/28/2019

Amendment to: Engrossed HB 1419

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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$0	$0	$0	$0
Appropriations	$0	$0	$0	$0	$0	$0

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties	$0	$0	$0
Cities	$0	$0	$0
School Districts	$0	$0	$0
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 requires Legislative Management to consider conducting a study on the spectrum of public employee retirement options, including receipt of information from an unbiased, nonprofit third party regarding pension fund risk.

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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.*

The study required by this Bill would most likely require actuarial analyses of several options, each of which could cost between $10,000 and $15,000 depending on the complexity. The potential cost of the third party's involvement is unknown.

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.*

N/A

Name: Scott Miller

Agency: NDPERS

Telephone: 701-328-3901

Date Prepared: 01/30/2019

2019-2021 NDPERS Retirement Main Plan **12.22%**

	Department	19-21 Funding Adjustments General	Other	Total
101	Office of the Governor	$239,941.17	$0.00	$239,941.17
108	Office of the Secretary of State	$272,083.05	$17,172.42	$289,255.47
110	Office of Management and Budget	$1,177,785.56	$249,076.35	$1,426,861.92
112	Information Technology Department	$650,587.93	$5,378,071.35	$6,028,659.28
117	Office of the State Auditor	$615,319.92	$216,891.50	$832,211.42
120	Office of the State Treasurer	$87,205.71	$0.00	$87,205.71
125	Office of the Attorney General	$1,546,634.92	$516,143.72	$2,062,778.65
127	Office of the Sate Tax Commissioner	$1,608,205.28	$0.00	$1,608,205.28
140	Office of Administrative Hearings	$0.00	$83,145.34	$83,145.34
150	Legislative Assembly	$0.00	$0.00	$0.00
160	Legislative Council	$568,050.46	$0.00	$568,050.46
180	Judicial Branch	$3,802,567.42	$89,369.81	$3,891,937.23
188	Legal Counsel of Indigents	$481,977.06	$13,622.61	$495,599.67
190	Retirement and Investment Office	$0.00	$330,620.87	$330,620.87
192	Public Employees Retirement System	$0.00	$384,323.00	$384,323.00
201	Department of Public Instruction	$381,550.21	$747,435.64	$1,128,985.85
215	ND University System	$1,529,144.31	$738,941.43	$2,268,085.74
226	Department of Trust Lands	$0.00	$367,974.75	$367,974.75
227	Bismarck State College	$366,052.81	$486,108.98	$852,161.79
228	Lake Region State College	$160,301.27	$184,192.38	$344,493.65
229	Willliston State College	$108,068.69	$150,342.98	$258,411.67
230	University of North Dakota	$1,884,098.58	$5,327,105.71	$7,211,204.29
232	UND Medical Center	$3,056,844.46	$4,787,353.66	$7,844,198.12
235	North Dakota State University	$1,358,419.23	$3,532,405.94	$4,890,825.17
238	ND State College of Science	$506,520.22	$494,143.90	$1,000,664.12
239	Dickinson State University	$244,548.38	$256,800.21	$501,348.60
240	Mayville State University	$219,022.74	$331,994.47	$551,017.21
241	Minot State University	$369,287.69	$449,303.16	$818,590.85
242	Valley City State University	$203,557.87	$145,498.22	$349,056.08
243	Dakota College Bottineau	$85,852.71	$70,955.13	$156,807.83
244	ND Forest Service	$267,544.22	$0.00	$267,544.22
250	State Library	$210,160.45	$25,931.78	$236,092.23
252	School for the Deaf	$404,583.32	$23,518.04	$428,101.37
253	N.D. Vision Services	$276,035.09	$10,279.51	$286,314.60
270	Dept of Career and Technical Ed	$631,313.55	$0.98	$631,314.53
301	North Dakota Department of Health	$1,134,558.14	$1,208,030.89	$2,342,589.03
303	Department of Environmental Quality	$626,447.17	$1,213,614.37	$1,840,061.54
313	Veterans Home	$958,441.88	$44,713.29	$1,003,155.17
316	Indian Affairs Commission	$54,298.13	$0.00	$54,298.13
321	Department of Veterans Affairs	$62,828.98	$13,055.11	$75,884.09
325	Department of Human Services	$11,860,814.37	$9,450,695.23	$21,311,509.59
360	Protection and Advocacy Project	$363,612.67	$0.00	$363,612.67
380	Job Service North Dakota	$2,893.86	$1,583,143.48	$1,586,037.34
401	Office of the Insurance Commissioner	$0.00	$525,341.83	$525,341.83
405	Industrial Commission	$1,368,961.01	$86,555.46	$1,455,516.47
406	Office of the Labor Commissioner	$156,301.28	$0.00	$156,301.28
408	Public Service Commission	$363,513.51	$240,505.26	$604,018.78
412	Aeronautics Commission	$0.00	$98,932.78	$98,932.78
413	Department of Financial Institutions	$0.00	$464,597.31	$464,597.31
414	Office of the Securities Commissioner	$140,967.05	$0.00	$140,967.05
471	Bank of North Dakota	$0.00	$2,308,630.32	$2,308,630.32
473	North Dakota Housing Finance Agency	$0.00	$540,823.44	$540,823.44
475	North Dakota Mill & Elevator Association	$0.00	$2,523,928.64	$2,523,928.64
485	Workforce Safety & Insurance	$0.00	$2,846,532.70	$2,846,532.70
504	Highway Patrol	$511,732.92	$171,497.40	$683,230.31
530	Department of Corrections and Rehabilitation	$8,960,434.21	$442,632.07	$9,403,066.28
540	Adjutant General	$855,732.34	$1,308,005.38	$2,163,737.72
601	Department of Commerce	$670,293.41	$183,489.95	$853,783.36
602	Department of Agriculture	$407,749.91	$346,681.36	$754,431.27
627	Upper Great Plains Transportation Institute	$64,709.57	$113,938.55	$178,648.12
628	Branch Research Centers	$319,063.62	$120,228.30	$439,291.92
630	NDSU Extension Service	$301,551.88	$264,544.69	$566,096.57
638	Northern Crops Institute	$12,329.78	$5,192.14	$17,521.92
640	NDSU Main Research Center	$344,886.77	$215,498.18	$560,384.94
649	Agronomy Seed Farm	$0.00	$34,078.13	$34,078.13
670	Racing Commission	$24,184.98	$2,029.49	$26,214.47
701	State Historical Society	$732,097.45	$60,607.42	$792,704.86
709	Council on the Arts	$59,823.75	$0.98	$59,824.72
720	Game & Fish Department	$0.00	$2,044,141.16	$2,044,141.16
750	Department of Parks & Recreation	$673,574.41	$38,394.51	$711,968.91
770	State Water Commission	$0.00	$1,205,004.12	$1,205,004.12
801	Department Of Transportation	$0.00	$11,473,255.47	$11,473,255.47
	State Total	**$54,345,067.33**	**$66,587,043.24**	**$120,932,110.57**

19.0907.01000

FISCAL NOTE
Requested by Legislative Council
01/14/2019

Bill/Resolution No.: HB 1419

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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$54,345,067	$106,893,335	$54,345,067	$106,883,335
Appropriations	$0	$0	$54,345,067	$106,853,335	$54,345,067	$106,853,335

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties	$0	$45,385,499	$45,385,499
Cities	$0	$27,625,574	$27,625,574
School Districts	$0	$53,397,692	$53,397,692
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 closes the defined benefit retirement plan in 2025; provides for an estimate of accumulated value transfer to the defined contribution plan; provides a $20M annual transfer from the strategic investment and improvements fund.

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.*

The bill provides a $20M annual transfer from the strategic investment and improvements fund.
Funding includes 2 full-time temporary positions to provide transfer calculations for members and actuarial fees to run estimates. Retirement consultant GRS estimates a contribution increase of 12.22% is needed to fund the defined benefit retirement plan.

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.*

The bill provides a $20M annual transfer from the strategic investment and improvements fund.
Funding includes 2 full-time temporary positions to provide transfer calculations for members and actuarial fees to run estimates. Expenditures are $306,292 in 2019-2021 and $296,292 in 2021-2013. Retirement consultant GRS estimates a contribution increase of 12.22% is needed to fund the defined benefit retirement plan.

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.*

The bill provides a $20M annual transfer from the strategic investment and improvements fund.
Funding includes 2 full-time temporary positions to provide transfer calculations for members. Appropriations are $266,292 in 2019-2021 and $266,292 in 2021-2023.
Retirement consultant GRS estimates a contribution increase of 12.22% is needed to fund the defined benefit retirement plan. Attached is the agency cost for the main system contribution increase.

The provisions of this bill are not in the executive budget.

Name: Bryan Reinhardt

Agency: NDPERS

Telephone: 701-328-3919

Date Prepared: 01/20/2019

2019-2021 NDPERS Retirement Main Plan **12.22%**

	Department	19-21 Funding Adjustments General	Other	Total
101	Office of the Governor	$239,941.17	$0.00	$239,941.17
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770	State Water Commission	$0.00	$1,205,004.12	$1,205,004.12
801	Department Of Transportation	$0.00	$11,473,255.47	$11,473,255.47
	State Total	**$54,345,067.33**	**$66,587,043.24**	**$120,932,110.57**

2019 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1419

2019 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Fort Union Room, State Capitol

HB 1419
1/24/2019
31444

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature Carmen Hart Typed by Elaine Stromme

Explanation or reason for introduction of bill/resolution:

Relating to transfers from the strategic investment and improvements fund and membership in the public employee defined contribution retirement plan; relating to closure of the public employee defined benefit retirement plan for state employees and participation in the defined contribution retirement plan; relating to the retirement fund one hundred percent trigger; to provide for a legislative management study; to provide for an estimate of accumulated value transfer; to provide an effective date; and to provide a contingent expiration date

Minutes:

Testimony : 1- 7

Chairman Kasper opened the hearing on HB 1419.

Vice Chair Steiner: End 3:12 (Testimony # 1)

Representative Johnson: I would like to ask a question about vesting, typically private industry vesting is 7 years at100%. If a person transfers to a different company, they only get the percentage that they actually invested in not the full amount of their contribution. Are you going to let employees take 100% of their contributions with them?

Vice Chair Steiner: The money they put in is what they take with them. Younger people are going through several jobs to encourage their talent to come to this state I was hoping that we could let them come and go, they could come for 3 years and then maybe in 3 years they could come back again. They could leave their money in and then come back and get it at some point if they decide they want options. We are trying to attract young people.

Jennifer Clark, Legislative Council, appeared in a neutral position. Helped in the drafting of this bill. The intent was to have the defined benefit contribution closed in January of 2025. Up until 2025 the state employees would have two options. I think there is a drafting error in the term “eligible employee” On page 2 line 9. It would lead you to believe we are not closing that plan to political subs. Clearly there is two ways to read this and it needs to be changed. $40 million per biennium. On section one of your bill, Non biased study Removes existing triggers. When reaches 100%. The Employee Benefits Committee will be meeting at 4:00 today. Forward that to you.

Rep. Schauer: When is the retirement plan projected to reach 100%?

Jennifer Clark: Today we are not on a trajectory to meet 100%. They have a legislative package in, and any one of those on their own would change the trajectory and would get us 100% each at different times, if any combination or all of those were passed. It would get us there sooner.

Representative Steiner: So explain the triggers again and how they sit today.

Jennifer Clark; My understanding is that the trigger is set at 100% right now, so if we hit 100% our employee and employer contributions decrease.

Representative Steiner: How much for each side? Equally or they decrease or do they completely go away for the employee and they stay with the state or how does that work?

Jennifer Clark: We don't go to oral contribution we go to pre-increase. I know we have individuals here from PERS that will tell you those numbers.

Chairman Kasper: Opposition?

Scott Miller, Executive Director of the North Dakota Public Employees Retirement System (NDPERS) appeared in opposition. (Testimony # 2) 15:21-18:11

Vice Chair Steiner: We are separate from them?

Mr. Miller: They are joining our plan.

Chairman Kasper: Are all the employees that are not in the state of ND in this plan? Are we guaranteeing their benefits through the plan? Or do their individual contributions guarantee their benefits? Are their assets separate or are they all lumped together?

Mr. Miller: They are all in one single trust. They are altogether.

Chairman Kasper: What city is in the plan?

Mr. Miller: Fargo
the city of
Chairman Kasper: If Fargo said they were going to leave the plan; how much money do they get? How do you calculate that?

Mr. Miller: They have to give us 60 days' notice, then we calculate what their exit liability will be. So that is a fairly expensive calculation, it would cost a lot of money for a study.

Chairman Kasper: Explain the hybrid plan please.

Mr. Miller: The hybrid plan; People that leave have 3 options, to take their money out, Leave it in there if they are vested and take a retirement benefit when they reach they reach the normal retirement age, or if they are at a retirement age they can take a retirement packet.

The benefit for participating in that is that there is more retirement savings and we also guarantee a 7.25 % interest rate for all the money that's in the plan. employer contribution, so they take the employee contribution plus up to 4% of the employer contribution with a guaranteed interest rate.

Rep. B. Koppelman: Where you pointed out on Page 2, Line 29 where it talked about an employee of the political subcommittee is not an eligible employee. Do the political subs continue to have an upside liability that they have to make up and fill the hole if they are going to participate in a plan like this?

Mr. Miller: Right now we are about 72% funded. We are about 1.1 billion dollars short of the money that we would need to pay all of the liabilities that have occurred to this point. We are never projected to get to 100% funding. We would become insolvent by 2052 worst case 2048. Without this bill be will become insolvent in 2106. 108 now in defined contribution plan continued on with (testimony # 2) (26:52-50:30)

Rep. Louser: The way the bill is written and going insolvent in 2018 is that taking into consideration the $20 million per year up to that point or are you saying it does not take into consideration the 40-year biennium?

Mr. Miller: That includes receipt of 20 million dollars basically into the indefinite future since the 20 million doesn't get shut off until we are 100% funded and we never become 100% funded we will continue taking that 20 million. Continued on with (Testimony # 2) (51:12-1:00)

Vice Chair Steiner: What year do you use for your mortality tables?

Mr. Miller: Right now it is the 2000 mortality tables that's adjusted. Three years ago we did our last study and they felt that 2020 fit best with an adjustment. We also have a mortality improvement scale that is built into our mortality table. We have a new mortality table just for public employees, generally public employees live longer than anyone else.

Rep. B. Koppelman: What needs to be done with our current plan to avoid catastrophe short of a government bailout?

Mr. Miller: It is very difficult to do this, we have three new funding proposals; retiree health credit for new employees, 2108 reduce multiplier down to 1.75%, The 4th year recovery funding program. If that bill would pass it would get us back to full recovery by 2057.

Rep. Louser: How does that compare to TFFR?

Lisa Feldner: So the employee their TFFR is 11.75%, and the employer under TFFR is 12.75% is what they contribute.

Chairman Kasper: So you are introducing a bill that will take care of this?

Mr. Miller: Yes, that is correct.

Nick Archuleta, President of North Dakota United, appeared in opposition. (Testimony # 3) 1:09-1:12

Joe Gaa: Dickinson City Auditor, appeared in opposition. City just joined the PERS defined benefit plan. We have a workforce shortage. I made sure that we were switching over to the defined benefit plan before I took this job. 1:16

Chairman Kasper: Didn't you know that our benefit plan was in the hole?

Mr. Gaa: I didn't, but didn't surprise me.

Rep. B. Koppelman: Do you think the Local political subs would or are able to shell out their portion in liability in cash to address this shortfall or do you think another solution is going to be required?

Mr. Gaa: I would think other solutions are going to be required. I don't believe, in Iowa, there were infusions of cash from the state. It was done a lot by changing policies in vesting contribution rates. It was policy and procedure differences rather than a large infusion of cash.

Kevin Ternes: Minot City Assessor, appeared in opposition. Refer to (Testimony # 4) by Tom Barry, Minot City Manager and Lisa Jundt, Minot Human Resources Director 1:20-1:22

Jan Murtha: Dickinson City Attorney, appeared in opposition. (Testimony # 5). 1:23-1:28

Chairman Kasper: Did you know what you were getting into?

Jan Murtha: I knew. It is not unique across the country.

Rep. B. Koppelman: Would you be able to write those checks.

Jan Murtha: No. That would be an increase in contributions.

(Testimonies # 6 & 7 were handed in with no oral testimony.)

Closed the hearing on HB1419

2019 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Fort Union Room, State Capitol

HB 1419
1/25/2019
31520

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature: Carmen Hart Typed by: Elaine Stromme

Explanation or reason for introduction of bill/resolution:

Relating to transfers from the strategic investment and improvements fund and membership in the public employee defined contribution retirement plan; relating to closure of the public employee defined benefit retirement plan for state employees and participation in the defined contribution retirement plan; relating to the retirement fund one hundred percent trigger; to provide for a legislative management study; to provide for an estimate of accumulated value transfer; to provide an effective date; and to provide a contingent expiration date

Minutes:

Chairman Kasper opened the hearing on HB 1419.

Representative Steiner : Moved to adopt the Hog house amendment

Representative Rohr: Seconded

Voice Vote amendment passes

Representative Rohr: Made the Motion to Do Pass as Amended

Re**presentative Steiner:** Seconded

A Roll Call Vote was taken; Yes -14 No – 0 Absent - 0

Do Pass as Amended Carries.

Representative Steiner will carry HB1419

DA 1/25/19

19.0907.01001
Title.02000

Adopted by the Government and Veterans Affairs Committee
January 25, 2019

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1419

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study considering the spectrum of public employee retirement options.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PUBLIC EMPLOYEES RETIREMENT FUND. During the 2019-20 interim, the legislative management shall consider studying the spectrum of public employee retirement fund options, including a defined benefit plan, hybrid plan, and defined contribution plan. The study must include receipt of information from an unbiased, nonprofit third party regarding pension fund risk. The legislative management shall report its findings and recommendations, together with any legislation necessary to implement the recommendations, to the sixty-seventh legislative assembly."

Renumber accordingly

Date: 1-25-19
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1419

House Government and Veterans Affairs Committee

☐ Subcommittee

Amendment LC# or Description: 19.0907.01001

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 Rep. Steiner Seconded By Rep. Rohr

Representatives	Yes	No	Representatives	Yes	No
Chairman Jim Kasper			Rep. Pamela Anderson		
Vice Chair Vicky Steiner			Rep. Mary Schneider		
Rep. Jeff Hoverson					
Rep. Craig Johnson					
Rep. Daniel Johnston			Motion		
Rep. Karen Karls			Carries		
Rep. Ben Koppelman					
Rep. Vernon Laning					
Rep. Scott Louser					
Rep. Karen Rohr					
Rep. Austen Schauer					
Rep. Steve Vetter					

Total (Yes) ______ No ______

Absent ______

Floor Assignment ______

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

Date: 1-25-19
Roll Call Vote #: 2

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1419

House Government and Veterans Affairs Committee

☐ Subcommittee

Amendment LC# or Description: 19.0907.01001

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 Rep. Rohr Seconded By Rep. Steiner

Representatives	Yes	No	Representatives	Yes	No
Chairman Jim Kasper	X		Rep. Pamela Anderson	X	
Vice Chair Vicky Steiner	X		Rep. Mary Schneider	X	
Rep. Jeff Hoverson	X				
Rep. Craig Johnson	X				
Rep. Daniel Johnston	X				
Rep. Karen Karls	X				
Rep. Ben Koppelman	X				
Rep. Vernon Laning	X				
Rep. Scott Louser	X				
Rep. Karen Rohr	X				
Rep. Austen Schauer	X				
Rep. Steve Vetter	X				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Steiner

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

REPORT OF STANDING COMMITTEE

HB 1419: Government and Veterans Affairs Committee (Rep. Kasper, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1419 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study considering the spectrum of public employee retirement options.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PUBLIC EMPLOYEES RETIREMENT FUND. During the 2019-20 interim, the legislative management shall consider studying the spectrum of public employee retirement fund options, including a defined benefit plan, hybrid plan, and defined contribution plan. The study must include receipt of information from an unbiased, nonprofit third party regarding pension fund risk. The legislative management shall report its findings and recommendations, together with any legislation necessary to implement the recommendations, to the sixty-seventh legislative assembly."

Renumber accordingly

2019 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1419

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

HB1419
3/21/2019
34129

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Pam Dever

Explanation or reason for introduction of bill/resolution:

To provide for a legislative management study considering the spectrum of public employee retirement options.

Minutes:

Att # 1- Scott Miller

Chairman Davison: Let's open hearing for HB1419. Any here in support? Any agencies?

Scott Miller. Ex. Director N.D. PERS: I am here to provide neutral testimony. (see att #1) We are just here to help. (2.26) Any questions?

Chairman Davison: Within any study, there is an overall fiscal note.

Sen. Kristin Roers: Do you feel you are not able to do this without the study or have you adequately studies the options as part of your regular daily job? (3.30)

Scott: It is not our mission to do a study of the different options. The original language of this bill would have closed the defined benefit plan for new hires and had everyone going to defined contribution plan. It is very expensive to do that. (4.50)

Chairman Davison: Any opposition? Hearing is closed. (5.14)

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

HB1419
3/21/2019
34132

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Pam Dever

Explanation or reason for introduction of bill/resolution:

To provide for a legislative management study considering the spectrum of public employee retirement options.

Minutes:

Chairman Davison: We hear this bill every year. We discuss and go into depth every session. I did a lot of work on this in 2015.

Sen. Erin Oban: I move a DO NOT PASS. **Sen. Kristin Roers**: I second.

Chairman Davison: Discussion? Call roll: **YES -- 6 NO -- 1 -0-absent**
The **DO NOT PASS – passed**. **Chairman Davison will carry the bill**.

Done

Date: 3-21-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1419 engrossed

Senate Government and Veterans Affairs 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 Sen. Oban Seconded By Sen. Roers

Senators	Yes	No	Senators	Yes	No
Chair Davison	✓		Sen. Oban	✓	
Vice Chair Meyer	✓		Sen. Marcellais	✓	
Sen. Elkin	✓				
Sen. K. Roers	✓				
Sen. Vedaa		✓			

Total (Yes) 6 No 1

Absent -0-

Floor Assignment Sen. Davison

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

REPORT OF STANDING COMMITTEE

HB 1419, as engrossed: Government and Veterans Affairs Committee (Sen. Davison, Chairman) recommends **DO NOT PASS** (6 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1419 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

HB 1419

#1
HB1419
1-24-19
p1

GVA

Chairman Jim Kasper

Thank you Mr. Chairman Kasper. Members of the GVA committee. Vicky Steiner, District 37, Dickinson.

House Bill 1419 deals with the Public Employees Retirement System or PERS. It exempts highway patrol, judges and other special groups including political subdivisions.

The PERS plan has seen an a growing unfunded liability since 2003.

As you may know, we have a Defined Benefit retirement plan for our PERS system. In our plan, we don't have enough money today to pay all our commitments to these employees. The fancy term for that is "unfunded liability" We don't have 100% of the money we need to meet our obligation. Some will say but we don't have to pay it all out today. That's true. We are hoping that the stock market will return at least 7.75% rate of return over the next 40 years on the investments and our PERS will be at 80% funded. We are underwater and we need to being addressing this issue. If we don't, the gap could grow into multi billions. I don't think our residents want us to drain the Legacy Fund in the future.

The hardship for our taxpayers is they are always responsible when the market falls. None of the responsibility is shared with our retirees.

So, this bill recognizes we need to infuse cash but to do that, we need to get out of this type of retirement and go to a defined contribution plan.

The governor's plan puts in $240 million, over 18 years and goes over 100% funding. We still have 100% risk on the taxpayer in his plan. That's not acceptable in my opinion. The risk is still on the taxpayer.

I've been told that there has been some confusion between what the bills does, and how the PERS office interpreted the bill.

The experts are here to describe the bill but I'll tell you what I asked for.

I asked to remove the vesting requirement for new employees. Young people want portability.

I asked to end the Defined Benefit program in 2024.

I asked that the triggers at 90 or 95% funding be removed. I don't have the history but our staff does on the triggers.

The fiscal note is daunting but hopefully we can study this at least if the bill doesn't survive.

Thank you for your consideration of this concept.

#2
HB 1419
1-24-19

TESTIMONY OF SCOTT MILLER

House Bill 1419 – Closure of the Hybrid/Defined Benefit Plan

Good afternoon, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System (NDPERS). I appear as the Board's representative today to provide testimony in opposition to House Bill 1419.

House Bill 1419 closes the PERS Hybrid/Defined Benefit Plan (Hybrid Plan) to all new employees who begin employment after December 31, 2024. After that date, all new state employees must participate in the Defined Contribution (DC) plan. It gives current Hybrid Plan employees the opportunity to elect to transfer to the DC plan between July 1, 2020 and December 30, 2024. The Bill requires NDPERS to provide those individuals with an estimate of the amount that would be available to transfer, and to make that transfer if elected. House Bill 1419 also provides for an annual $20 million transfer from the Strategic Investment and Improvements Fund (SIIF) to the PERS Hybrid Plan beginning January 1, 2020.

Our review of House Bill 1419 resulted in a number of considerations, which I will address section by section below.

Section 1 – SIIF Transfer. No questions.

Section 2 – Defined Benefit Plan Definition Amendments.

Page 2, line 9 begins the amendment to the definition of "eligible employee". Line 29 provides that an "employee of a political subdivision" is not included in the definition of "eligible employee". As a result, we interpreted the Bill as closing the Hybrid Plan for both the State and Political Subdivisions, and that is how we had our actuary analyze the Bill. I have since learned that that was not the intent, and that the intent was to not change anything for Political Subdivisions. I have spoken with Legislative Council staff on possible amendments to reflect that intent, including adding them back into the definition of "eligible employee", and removing them from the list of ineligible employees.

Section 3 – Newly elected and appointed state officials. No questions.

Section 4 – Temporary employee membership. No questions.

Section 5 – Defined Contribution Plan Definition Amendments.

Note that Political Subdivision employees are also ineligible to participate in the DC plan. (Page 6, line 26)

Section 6 – Defined Contribution Plan Election.

The amendments to section 54-52.6-02(1) provide an opportunity for Hybrid Plan members to elect to transfer to the DC plan. They have the opportunity to do so from July 1, 2020 through December 30, 2024. We question why that date is the 30th, and not the 31st – the 31st is also a weekday.

New hires after July 1, 2020 would also have the opportunity to transfer during that period. However, for employees hired between July 1, 2019 and June 30, 2020, the soonest they could transfer to the DC Plan would be after July 1, 2020, unless they were otherwise eligible for the DC plan.

There is also a semicolon on page 8, line 11, that we suggest removing.

Allowing a four and a half year window for Hybrid Plan members to elect to transfer to the DC plan could have a number of implications. First, a member could request numerous transfer estimates, which could take up significant staff time. Note we have requested two full-time temporary positions to help us with the transfer calculations and other administrative work necessary for this bill.

Second, an extended election period like this may result in eligible employees not taking action. Since they have so long to choose, they may put it off, and fail to do so by the deadline.

Third, in previous elections, all the funds were transferred at one time. This extended election period appears to mean that funds would be transferred over the course of that period, but we are not sure what an appropriate timeframe would be. Your guidance would be helpful.

On page 8, lines 20-24, the Bill removes the Board's authority to extend an individual's election period if the Board determines that they did not get notice or other necessary information. Given the large number of individuals to whom this bill would apply, it is possible there may be miscommunications. This amendment removes the Board's authority to correct any oversight. We would recommend allowing the Board the continued authority to do so.

Section 7 – DC Plan Membership.

On page 12, line 12, we suggest replacing "public employees retirement system", which commonly refers to the Hybrid Plan, with "defined contribution retirement plan".

Section 8 – Transfer of Fund Balances.

Section 8 provides the method for determining the transfer amount as being the higher of the actuarial present value of the member's accrued benefit, or the actual employee and employer contributions plus interest. Determining the contribution plus interest amount method is a very time intensive effort since the information needed to determine compounded interest on the employer contributions is not stored in the NDPERS business system. Therefore, a manual calculation needs to be made for each member. In 1999 this calculation was done for about 600 members and we hired three temporary staff to assist. However, under this bill, the calculation would be for many times that number. We have added two full-time temporary positions to the fiscal note for this work effort. We anticipate that we would need these positions for the 19-21, 21-23 and 23-25 biennium, due to the extended election period. The fiscal note also includes estimated costs for actuarial services to calculate the actuarial present value of the member's accrued benefit.

Pursuant to the bill we would only be determining the transfer amount after an election is made. Therefore we would not be able to transfer funds to the DC plan until this analysis is completed, which could be after the election period, depending on when the elections are received, how many are received and staffing. Without additional staffing it is uncertain when this could be completed but it would certainly be more than 12-18 months. This means that people who made the election to transfer would need to wait a long period of time for it to occur. We expect this would become an issue that would frustrate many members. Also, since there would be a long delay, and if the investment environment was positive, it could expose the plan/state to lawsuits for lost earnings. Further guidance and funding is needed for this section.

Another issue with the transfer methodology is that every transfer by an employee who receives the full actuarial present value of their benefits will result in an actuarial loss to the system. Currently we are only 72% funded – that is, we only have assets to fund 72% of the benefits promised. This transfer methodology requires the fund to transfer 100% of the benefit – 28% more than is currently funded. That will cause a loss that the State and political subdivisions will have to make up.

Another important note is that the forced liquidation of investment assets to fund these transfer amounts may decrease our returns and affect our asset allocation.

Finally, page 12, line 28-29 provides that interest on the actuarial present value will be paid from January 1, 2001 until the date of transfer. This would not be accurate for calculation transfers under this bill and we would suggest that this date be removed.

Section 9 – Vesting in Contributions. No questions.

Section 10 – Repeal. No questions.

Section 11 – Legislative Management Study.

Legislative Management commissioned an independent study in 2014 to study the actuarial costs of closing the Hybrid Plan to new employees. That study did not analyze other retirement plan options, to my knowledge.

We also performed a study before the 1999 session, which explored expanding portability within the Defined Benefit Plan. That study resulted in the Legislative Assembly adopting the Portability Enhancement Provision, or "PEP". PEP modified the Defined Benefit Plan into a Hybrid Plan by allowing members to vest in part of the employer contribution if they contributed to the 457 deferred compensation plan.

That same session, the Legislative Assembly created the DC Plan, which we continue to operate today.

Section 12 – Transfer Estimate.

The stated period of between January 1, 2020 and June 30, 2021 is not consistent with the election period provided in Section 6, which extends to December 30, 2024.

It is clear that PERS would only provide members an estimate of the actuarial value of the transfer amount. However, members would get the higher of the actuarial value or the contributions plus interest, as noted above. Pursuant to this section, we would not be providing members with information on what they would actually be getting, which will be frustrating to many. Based upon the two previous opportunities for employees to transfer into the DC plan, 61% of the eligible members in 1999 had a transfer amount greater than the actuarial value, and in 2001 66% did. Consequently, many members will need to consider an election without knowing the exact value of what they could get. We expect some members may be dissatisfied without having a full disclosure and could subsequently argue they would have made a different decision if they had been fully informed.

There is also a concern that for employees hired between July 2019 and December 2024, the actuarial value estimate would not be a clear representation of what they would be eligible to transfer. This could be remedied in Section 8, page 13, lines 5 and 6 by reinstating language that requires the transfer amount to be the actual contributions and interest for new hires.

Administrative Cost Considerations:

The bill will have an impact on the administrative resources needed for both the Hybrid Plan and the DC Plan because it would add a relatively large number of new members to the DC Plan. Administrative expenses for the DC plan are primarily funded from an administrative fee that is charged against the participant's account balance and also from forfeitures. With the change in vesting schedule, we anticipate that the reduction of this funding source may require PERS to increase the administrative fee that is charged to the participants.

Furthermore, PERS would be required to provide detailed calculations to Hybrid Plan members in order for them to transfer to the DC Plan. As noted earlier, this would involve significant time and expense to prepare for transferring members. Since this cost is going to be directly related to the number of members making the election and the methodology, it may be appropriate to add limited continuing appropriation authority for this effort.

Actuarial Considerations:

Closing a defined benefit plan is never a low-cost option. That becomes exacerbated when the plan is only 72% funded, as is the Hybrid Plan. We have $1.1 billion in unfunded liabilities. As you all know, those liabilities never just disappear – they need to be paid off in order to make all of the promised benefits.

House Bill 1419, as written, does not retire those liabilities. In fact, House Bill 1419 causes the Hybrid Plan to become insolvent, at the latest, in 2052. At that point we would begin using the other funds in our trust fund – those that belong to the Judges and public safety systems – to pay our benefits, but that would only last a few years. At that point we would become a pay-as-you-go system, and would be before you every biennium requesting hundreds of millions of dollars to pay the promised benefits. The graph below shows our situation.

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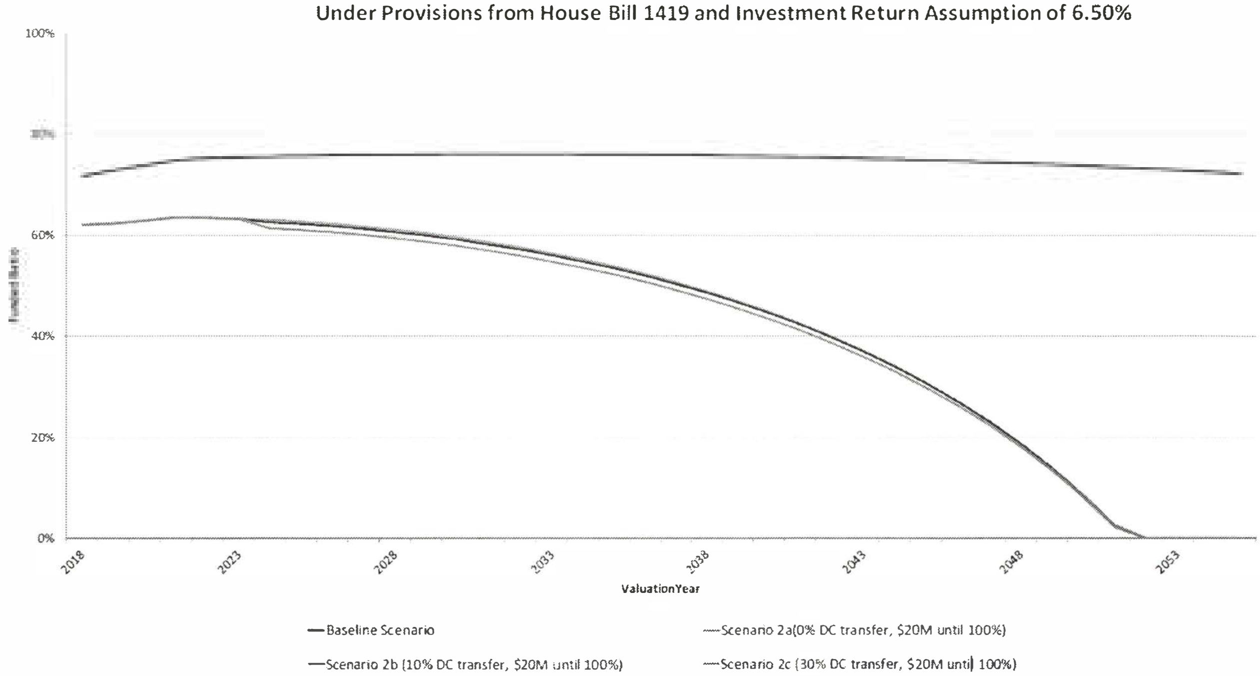
1-24-19

Main System
Projected Funded Ratio (Actuarial Value of Assets)
Based on July 1, 2018 Actuarial Valuation
Under Provisions from House Bill 1419 and Investment Return Assumption of 6.50%



The table below shows this in numerical format.

Scenario	Investment Return Assumption/ Discount Rate (Liabilities)	Percent of Current Active State Members Transferring to the Defined	Year Assets are Depleted for Main System	Main System Funded Ratio in Year				Main System Total Actuarial Rate in Year			
				2018	2028	2038	2048	2018	2028	2038	2048
Baseline - July 1, 2018 Valuation	7.75%	NA	2106	71.64%	75.96%	75.83%	74.24%	18.25%	17.86%	18.41%	19.38%
House Bill 1419 - Scenario 1a	5.50%	0%	2048	54.80%	49.10%	32.55%	0.00%	30.59%	37.93%	61.66%	135.51%
House Bill 1419 - Scenario 1b	5.50%	10%	2048	54.80%	48.56%	32.13%	0.00%	30.59%	37.94%	61.34%	133.34%
House Bill 1419 - Scenario 1c	5.50%	30%	2048	54.80%	47.24%	30.89%	0.00%	30.59%	38.11%	60.99%	129.80%
House Bill 1419 - Scenario 2a	6.50%	0%	2052	62.01%	61.13%	48.95%	18.60%	24.54%	29.10%	46.75%	106.47%
House Bill 1419 - Scenario 2b	6.50%	10%	2052	62.01%	60.64%	48.58%	18.70%	24.54%	29.12%	46.50%	104.66%
House Bill 1419 - Scenario 2c	6.50%	30%	2052	62.01%	59.42%	47.39%	18.12%	24.54%	29.32%	46.35%	102.06%

North Dakota Century Code section 54-52-17.1 requires us to determine the total cost of these changes. Our actuary has calculated that the ongoing increase in the required contributions is approximately 12.22% of pay, or an increase in the employer contribution from 7.12% to 19.34%. That is the amount that is reflected in the fiscal note.

This large increase is primarily due to two things: (1) closing the Hybrid Plan will require us to gradually de-risk the asset allocation, which is reflected in the different investment return assumptions you see in the above table; and (2) eliminating future contributions for new employees. Even with the $20 million SIIF transfer every year, these two issues send the Hybrid Plan down a very steep trajectory toward insolvency. Increasing contributions by 12.22% is necessary to prevent that from happening.

The various scenarios provided in the above tables are a reflection of our uncertainty regarding how many current Hybrid Plan members will transfer to the DC plan, and what our average assumed rate of return will be for the remaining life of the Hybrid Plan. Because of those uncertainties, we had our actuary model three different election rates – 0%, 10%, and 30% – and two different assumed rates of return – 5.5% and 6.5%. That is how the scenarios 1a, 1b, 1c, 2a, 2b, and 2c were created.

And please note that all of the actuarial information is based on an analysis of HB 1419 that closed the Hybrid Plan for both the State and political subdivision employees. If this bill is amended to not close the plan for political subdivision employees, we would need to have a new analysis.

In summary, HB 1419, as written, would cause the Hybrid Plan to become insolvent at the latest in 2052. We would need a statutory amendment increasing the employer contribution up to 19.34% in order to avoid that situation. The damage to the Hybrid Plan is the reason the Board has directed me to testify in opposition to HB 1419.

Mr. Chairman, that concludes my testimony.

#3
HB 1419
1-24-19
Pg 1

Testimony Before the House Government and Veteran Affairs Committee
HB 1419
Thursday, January 24, 2019

Chairman Kasper, members of the Committee. For the record, my name is Nick Archuleta and I am the president of North Dakota United. On behalf of our 11,500 members, I rise today to urge a DO NOT PASS recommendation for HB 1419.

Mr. Chairman, we know that salaries for state employees have historically lagged those in the private sector by between 3.5% (small to medium employers) and 11.5% (large employers). In addition, many state agencies have, in recent years, reduced their budgets by reducing their workforce and by leaving vacant positions unfilled. The results have been that there are fewer state employees doing more work with less help. It is no wonder, then, that state employees are feeling more frustrated now than at any time in recent memory.

The one area that state employees could count on to be competitive with the private sector was in the area of benefits. HB 1419 serves to eliminate the Defined Benefit (DB) retirement plan for state employees and shift to a Defined Contribution Plan. In addition, more than three hundred political subdivisions would lose access to any established retirement plan because the DC plan does not allow political subdivision employees to participate.

Research compiled by the National Retired Teachers Association finds that:

- Establishing a DC plan for new hires does nothing to reduce existing unfunded liabilities. The federal government, which 25 years ago froze its DB plan, still faces massive unfunded liabilities;
- When DB plans-which have a mixture of early, mid, and late career members-are starved of new members and their contributions to the plan, active member

#3 HB1419
1-24-19
p. 2

contributions will decline thus increasing liability or requiring much higher active member and employer contributions;

- In general, 401(k) accounts generate lower investment returns that DB pensions which benefit from professional management, diversity of investments, and their ability to invest over a longer time horizon.

The American Association of Retired Persons have studied ND PERS and have concluded that:

- DB pensions help to recruit and retain effective and experienced public employees who deliver the vital public services that North Dakotans deserve and expect;
- Spending by retired public employees from their pension checks support our economy. This spending supports:
    - $401.4M in economic output
    - 2,767 jobs
    - $67.7M in federal, state, and local tax revenues based on benefits and spending in ND.

Chairman Kasper and members of the Committee, as mentioned above, benefits like the PERS DB plan serve as important tools to recruit and retain highly competent and hardworking public employees. Any legislation that diminishes benefits for current or future public employees also diminishes the likelihood that the best and the brightest will choose public service as a career. And that is unfortunate because North Dakota's citizens deserve the very best.

For that reason, Mr. Chairman and members of the Committee, I urge you to return a DO NOT PASS recommendation for HB 1419.

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1-24-19

North Dakota House of Representatives
Government and Veterans Affairs Committee
Chairman Jim Kasper

By: Tom Barry
City Manager, City of Minot
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701-857-4750

Lisa Jundt
Human Resources Director, City of Minot
lisa.jundt@minotnd.org
701-857-4753

HB 1419

Chairman Kasper and members of the House Government and Veterans Affairs Committee thank you for allowing me to provide testimony today on behalf of Tom Barry and Lisa Jundt, the City Manager and Human Resources Director, respectively, concerning HB 1419.

In 2014 the Minot City Council voted to close the existing defined benefit pension plan in favor of offering a defined contribution plan to future employees. This decision was made not only for financial reasons, but with the premise of offering a more conventional retirement plan similar to that of the private sector. By doing this, the City felt it would be able to improve the attraction and retention of potential employees. That was not the case.

In the past several years, with employees hired under a defined contribution retirement plan, the City of Minot has continued to see significant turnover. Although our organization has struggled with high turnover for several years due to extremely low City and State unemployment rates (2.4% and 2.6% respectively), and difficult recruitment conditions relative to the economic upturn of the oil industry earlier this decade, turnover had essentially affected less critical positions in the organization. This however, has not been the case in the last couple of years, where turnover has been especially tough on our first responders and critical staff, to the detriment of operational effectiveness and employee and public safety.

At the beginning of 2018 the Human Resources Department conducted a longevity assessment of the police and fire departments as well as the Engineering Department. That assessment revealed very disturbing results with regard to longevity and experience levels in each of those departments. The longevity /experience assessment indicated the following:

- Police Department - 35 of 81 sworn officers, or 43.2% of the overall police force, had 5 years or less experience.
- Fire Department – 34 of 60 fire control personnel, or 56.7% of the control force, had 5 years or less experience.
- Engineering Department – 5 of 9 staff members had approximately 1 year of experience or less.

This information was presented to the Minot City Council during a workshop addressing workforce issues in April of 2018. At that time, additional information was also provided in the form of employee comments compiled from exit interviews, employee evaluations and an employee satisfaction survey. A majority of the employee comments cited the lack of a comparable defined benefit plan as the main reason for unsuccessful recruitment efforts and continued retention issues. Based on the presented information, the Minot City Council asked that research be done to restructure many benefits including the retirement benefit, which they agreed should be structured like a more conventional government pension. The City of Minot had the option as a political subdivision to participate in the North Dakota Public Employees Retirement System (NDPERS) defined benefit (DB) plan. As such, the City Council decided it was the most logical and prudent retirement plan to move to. So the City began participation in the NDPERS-DB plan as of January 1, 2019.

Provisions in HB 1419, which eliminate the defined benefit option of the plan, will impede Minot's efforts to stabilize recruitment and retention for first responders and critical positions at a time when our organization is already dealing with high turnover and limited experience levels in the departments. This compromises the efforts of these essential departments to effectively and safely perform their duties.

Elimination of the defined benefit option in HB 1419 is also harmful to the State and other North Dakota government entities who are competing for talent during a statewide workforce shortage. Therefore, it is important to find ways for public sector employers to attract employees from out of state agencies, to fill critical positions (i.e. police, fire, engineering etc.) Public Employee defined benefit pensions are the standard retirement mechanism for most governmental agencies, and most State pensions give the option to transfer service credit from other public sector employment plans. This is an important recruitment tool in attracting out of area/state talent. Moreover, all of our neighboring states and the vast majority of states across the nation offer a public sector defined benefit retirement plan for public employees. By eliminating the defined benefit component of the NDPERS Plan, the State of North Dakota would place itself in a wholly uncompetitive market for public sector employees, further exacerbating the recruitment challenges for the State and its counties, cities, townships, districts, and educational institutions.

Minot provides important and essential services to its citizens especially with regard to the police and fire departments. We believe HB 1419 will further hinder employment efforts for the City of Minot and the State of North Dakota equally by eroding comparable and expected public sector retirement benefits. The attempt by the State to reduce its unfunded liability in the pension fund by moving to a defined contribution plan is a mistake the City of Minot made and learned from. We implore you to learn from our past decision and urge you to give HB 1419 a "Do Not Pass" recommendation. Thank you for your time and consideration in this matter.

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p1

CITY OF DICKINSON NORTH DAKOTA

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North Dakota House Government and Veterans Affairs Committee
RE: Testimony in opposition to HB 1419

January 24, 2019

Dear Chairman Kasper,

Please accept this letter presenting testimony in opposition to HB 1419 on behalf of the City of Dickinson. As you are aware many political subdivisions, including the City of Dickinson, have joined the NDPERS Defined Benefit Hybrid Retirement Plan. As currently written HB 1419 negatively impacts the retirement security for these public employees.

Section 2 of HB 1419 modifies 54-52-01(4)(b)(3) to exclude political subdivision employees as eligible employees for purposes of participation in the defined benefit hybrid retirement plan. Section 13 makes this change effective on January 1, 2025.

Currently the second retirement plan offered to state employees, which is a defined contribution retirement plan managed by NDPERS, is not open to participation by employees of political subdivisions. Section 5 of HB 1419 modifying 54-52.6-01(3)(b) states that political subdivision employees will also not be eligible to participate in the defined contribution plan.

If HB 1419 were to go into effect as written, all political subdivisions currently enrolled in NDPERS and wishing to provide retirement benefits to employees would need to create their own retirement plans, as political subdivision employees would no longer be eligible to participate in NDPERS retirement programs.

Even if however, political subdivision employees were given the option to participate in the NDPERS defined contribution plan, the City still opposes being prohibited from participating in and closing the defined benefit hybrid plan. The City chose to join the NDPERS defined benefit hybrid retirement plan because it valued the plan as both a tool for recruitment and retention. To lose this option would negatively impact the City's efforts in this area as we struggle to fill positions and compete with private industry.

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Finally, we wish to make the Committee aware that this legislation, as written, would impair the obligations of the contract entered into between the City and NDPERS. In order to join NDPERS, political subdivisions and NDPERS enter into a contract which among its terms prevents the political subdivision from establishing other retirement plans after joining and requires that all new employees of political subdivisions join NDPERS. If enacted, HB 1419 would impair or negate these contractual obligations.

Thank you for your time and consideration of this matter.

Janilyn K. Murtha
City Attorney
City of Dickinson
(701)-456-7028

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THE HEARTLAND INSTITUTE

FREEDOM RISING

Testimony before the North Dakota House Government and Veteran Affairs Committee
Bette Grande, Research Fellow
The Heartland Institute
January 24, 2019

Chairman Kasper, and members of the Committee, thank you for taking the time today to discuss the issue of pension reform. The Heartland Institute is a 34-year-old independent, national, nonprofit organization whose mission is to discover, develop, and promote free-market solutions to social and economic problems. Heartland is headquartered in Illinois and focuses on providing national, state, and local elected officials with reliable and timely research and analyses on important policy issues. Heartland would like to submit the following testimony.

The Public Employees Retirement System (PERS) Plan has seen a growing unfunded liability since 2003.

In 2012 the PERS Plan had a funded ratio of 64.7% and an Unfunded Liability of $862 million.

Based on the 2018 actuarial report for the PERS Plan the funded ratio was 71.6%, which seems like an improvement, but the Unfunded Liability in dollar terms was just under $1.1 Billion.

The Taxpayers, who are ultimately responsible for paying the PERS Plan obligations are less concerned with the Funded Ratio percentage than they are with the $1.1 Billion (and growing) Unfunded Liability.

In 2012, the Legislature increased the combined Employer/Employee contribution rate by 2%. An additional 2% increase was made in 2013 and another 2% increase in 2014. Even with these increases in Plan contributions the Unfunded Liability has grown by over 27% since 2012.

Currently the statutory contribution rates for the PERs Plan are 7.12% for the Employer and 7% for the Employee for a total of 14.12% of each employee's compensation. It should be added that the State pays 4% of the employee share.

How does a Defined Benefit Retirement Plan work?

Defined Benefit (DB) Plans are complicated. The retirement benefit due to a retiree is determined by formula based, in part, on the employee's average compensation in the years prior to retirement. A new employee, age 25, may not retire for forty years and estimating that employee's retirement benefit over a 20 year or so retirement in difficult at best.

DB Plans utilize actuaries to estimate the Plan's ultimate liability to the participating employees and the Plan contributions required to meet those future obligations.

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Actuaries also estimate the Plan investment returns and for the PERS Plan the annual assumed rate of return on Plan investments is 7.75%. Actual investment returns above that assumed rate increase the Plan's Funded Ratio and returns below that assumed rate of return decrease the Plan's Funder Ratio.

There are also many misconceptions about DB Plans. With the current (June 30, 2018) Unfunded Liability of nearly $1.1 billion, many assume that if it were possible to inject $1.1 billion into the Plan that the problem would be solved. But, sadly, that is not the case. It is important to understand that the $1.1 billion figure is the Present Value of the future calculated Plan liability. That $1.1 billion added to the Plan would need to increase by 7.75% a year, every year, for the actuarial period to cover the Plan liability.

It is also important to understand that each DB Plan has a "Normal Rate" of contribution. Actuaries will tell you that the Normal Rate of Contribution is the % of each employee's compensation that (invested at 7.75%/year) will be sufficient to fully pay that employee's retirement benefit through retirement. For the PERs Plan, the Normal rate of contribution is about 11%. So, by definition according to the actuaries, any Plan Contribution over the Normal Rate is only done to reduce the Plan's Unfunded Liability.

The current combined Employer/Employee Contribution is 14.12%, which is 3% higher than the Normal Rate. For 2018, this additional 3% contribution amounted to $31 million based on 2018 covered compensation. Yet, the Unfunded Liability increased from the 2017 level.

The recommendation from the actuaries is to increase the combined employer/employee contribution to at least 16.69%, but their analysis shows that the contribution rate will need to be increased to over 18% to begin reducing the Unfunded Liability. And that is assuming an investment rate of return of 7.75% a year, every year.

So, what to do?
A large, one-time, deposit into the PERS Plan is like putting all your chips on red. A bad year or two in the stock market and the impact of any large deposit on the Unfunded Liability will be minimal.

The projected Plan liabilities will be paid out to retirees over generations, adding funding on an annual basis is the more prudent approach.

But, to truly address the issues posed by the PERS Plan, fundamental reform is required.

The experience with the PERS Plan over the past 15 years shows a pattern that cannot be ignored. The State continues to make promises to its Employees that the State cannot pay. The taxpayer, who is ultimately responsible to make good on these promises deserves consideration.

For more information about The Heartland Institute's work, please visit our website at www.heartland.org, or contact Bette Grande by phone at 701/388-7451 or by email at bette@bettegrande.com

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HB 1419 Legislative Testimony
Governmental Affairs Committee
City of Fargo 1/24/2019

Chairman Kasper and members of the Government Affairs Committee, the City of Fargo would like to express our thanks for the opportunity to testify on HB 1419.

The City of Fargo addressed our defined benefit pension funding issues in 2011 – 2012 with a comprehensive study that included City Commissioners, Pension Boards, Pension members, our investment advisors, and our actuaries. This study included three separately administered defined benefit pension funds. The purpose of our study was to look at our pension funded status and to come up with a long-term financial plan that would put us back into a solid funded status over a twenty-year time period.

We looked at a conversion to a defined contribution plan but determined that such a move was not in the best interest of the City or of our City Employees. We increased our % of payroll contribution for both employees and the City so that our liabilities were funded within a twenty-year period. Fargo was an early adopter of a sustainable funding policy that is based upon strong actuarial principles. This is critically important because we learned that our fixed funding % in our pension ordinances were not aligned with actuarial principles. As a result of this fixed funding contribution method we failed to fund the amount needed to keep up with the rise in our pension liabilities.

We closed enrollment in our City Pension fund and moved new employees into NDPERS on a voluntary basis as determined by our employees that chose to join NDPERS. Our 2012 pension funding strategy is moving us steadily forward without any harsh consequences to our employees.

Kent Costin

Review of NDPERS Funding Strategy:

NDPERS produces a Comprehensive Annual Financial Report that describes the State's current funding strategy for NDPERS main system. A fixed funding % of payroll is presently used to establish how much money goes into the fund. The report shows a chronic underfunding of contributions for many years as compared to what actuaries are recommending. Past efforts to increase contribution levels have failed in the legislative process. There is a summary table in this report that shows that employer contributions which are currently at 7.12% should be 11.25% to meet funding requirements. This is a significant disconnect that needs a higher prioritization by the Legislature.

Additional Funding and Other Significant Changes Included in HB 1419:

Section 1 transfers funds from the strategic investment and improvement fund to the public employee retirement system in the amount of $20 million per year while Section 14 of this bill requires that the additional $20 million per year be maintained until the public employee retirement system has assets equal to its accrued liabilities.

Both of these section have a positive impact on the NDPERS, however, Section 2 of the bill eliminates participation by political subdivisions in NDPERS. There are 350 political subdivisions across the State that are currently members of NDPERS, so in essence this removes defined benefit pensions for thousands of future government workers. This proposal will disrupt political subdivision's retirement benefit systems and cause a long-term degradation of their ultimate retirement benefits. We already have a workforce shortage in our State. This change will make matters worse.

Government workers are willing to forfeit corporate pay levels for a strong benefit package to include a defined pension benefit system. Removing this type of pension will have a significant impact or workforce quality and workforce availability.

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Ironically, Section 11 establishes a legislative management study of public employee retirement options. The study is to provide information from nonbiased, non-profit third parties regarding pension fund risks. All other sections of HB 1419 are putting the cart before the horse. Pension funding and deployment of retirement benefits are highly technical and often times difficult to understand. The study should not only focus on risk but also funding adequacy so that benefits can be properly sustained.

An educational effort of all stakeholders should be required prior to altering the existing NDPERS plan design.

The City of Fargo is in strong opposition of HB 1419 because we recently moved into NDPERS and would not favor becoming ineligible to participate. We recommend a DO NOT PASS Committee vote.

Thank you for the opportunity to testify.

GRS Retirement Consulting

P: 312.456.9800 | F: 312.683.3271 | www.grsconsulting.com

December 3, 2018

Board Members
North Dakota Public Employees Retirement System
Bismarck, North Dakota

Members of the Board:

At your request, we have performed an actuarial valuation which includes actuarial valuation results for funding purposes and separate actuarial valuation results for accounting purposes for the North Dakota Public Employees Retirement System ("NDPERS") as of July 1, 2018. The purpose of the funding actuarial valuation, which is performed annually, is to determine the funding status and actuarial employer contribution rate for NDPERS. The actuarial valuation was performed at the request of the Board and is intended for use by the Board and NDPERS and those designated by the Board and NDPERS. This report may be provided to parties other than the Board and NDPERS only in its entirety and only with the permission of the Board and NDPERS. GRS is not responsible for reliance upon this valuation for any other purpose, or by any other party.

Actuarial Assumptions and Methods

The actuarial valuation report was prepared using actuarial assumptions adopted by the Board as authorized under North Dakota Administrative Code Section 71-02. All actuarial assumptions used in this report are reasonable for the purposes of this actuarial valuation. There were no changes in actuarial assumptions since the previous actuarial valuation as of July 1, 2017.

Beginning with the actuarial valuation as of July 1, 2017, the Board adopted changes to the economic actuarial assumptions (excluding the salary increase assumption) and asset valuation method. The actuarial assumptions were based on a review of the economic actuarial assumptions performed by GRS.

All other actuarial assumptions used in the actuarial valuation as of July 1, 2018, were based on an experience review for the five year period ending July 1, 2014, which was performed by the prior actuary, and were first adopted for use commencing with the July 1, 2015, actuarial valuation.

The actuarial employer contribution rate is calculated using a 20-year open period, level percentage of payroll amortization method. The remaining amortization period will be reset to 20 years in each future actuarial valuation. We believe that calculating the actuarial contribution rate using a slightly longer period would also be reasonable.

The actuarial assumptions and methods used, including the economic and demographic assumptions, the actuarial cost method and the asset valuation method, meet the Actuarial Standards of Practice issued by the Actuarial Standards Board for the funding of public sector pension plans and are set by the Board. Assumptions and methods required under GASB Statement Nos. 67 and 68 were used in the preparation of the accounting disclosures and schedules required by GASB Statement Nos. 67 and 68.

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Benefit Provisions

There were no changes in benefit provisions since the previous actuarial valuation as of July 1, 2017.

Participant Data

A total of 23,483 active members (including the Main System, Judges and Public Safety) were included in the actuarial valuation as of July 1, 2018. Between the 2017 and 2018 actuarial valuations, the number of active employees increased by 240 members, or 1.0 percent. The average annual actuarial valuation pay increased by 0.1 percent, from $45,750 to $45,819 between the 2017 and 2018 actuarial valuations. There were 6,532 active members who were eligible for retirement (normal, early or Rule of 85) as of July 1, 2018.

The number of benefit recipients increased from 11,103 to 11,704, or 5.4 percent, since the last actuarial valuation. The average monthly benefit increased by 5.0 percent, from $1,181 to $1,240. During the year ending July 1, 2018, there were 977 members awarded a benefit.

There were 5,998 inactive members as of July 1, 2018, who were vested and elected to receive a deferred benefit. The average monthly deferred benefit is $496. There were 6,188 inactive members as of July 1, 2018, who were not vested or elected to receive a refund of contributions.

Actuarial Valuation Assets

On a market value basis, NDPERS assets had an investment return of approximately 9.15 percent (net of investment expenses). On an actuarial value of asset basis, NDPERS assets had an investment return of approximately 9.22 percent on an actuarial value of assets basis, which compares to the prior year assumed rate of return of 7.75 percent.

The actuarial value of assets is currently 96.6 percent of the market value of assets. There is $101,391,547 in net asset gains currently being deferred that will be phased into the actuarial value of assets over the next four years.

Statutory and Actuarial Employer Contributions

The actuarially determined contribution rate is calculated as the normal cost contribution (to fund benefits accruing during the year) plus a contribution to amortize the unfunded liability. The unfunded liability contribution rate is calculated using a 20-year open period, level percentage of payroll amortization method. The remaining amortization period will be reset to 20 years in each future actuarial valuation. If employers contributed the actuarial contribution rate, the contribution rate would be expected to gradually decrease using a 20-year open amortization period as the funded ratio gradually increased. An open amortization period is expected to gradually improve the funded ratio. However, the funded ratio is not expected to reach 100 percent under this method (assuming no actuarial gains or losses) because the remaining unfunded liability at each future valuation date is re-amortized over a new 20 year period.

GRS

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The contributions that are made by employers are based on fixed contribution rates that are set by statute (and not based on the actuarially determined rate). The statutory contribution rates and the actuarial contribution rates are as follows.

	Employer Contribution Rates as a % of Projected Annual Compensation for Fiscal Year Ending June 30, 2019	
	Statutory Rate	Actuarial Rate
Main System	7.12%	11.25%
Judges	17.52%	2.03%
Public Safety with prior Main System service	9.81%	7.64%
Public Safety without prior Main System service	7.93%	6.20%
Total PERS (Combined)	7.29%	11.04%

The portion of the statutory contribution that is applied toward the unfunded liability is the statutory contribution rate minus the employer normal cost rate. The unfunded liability contribution rate from the statutory contribution is significantly lower than the rate calculated using the 20-year level percentage of payroll amortization period. The unfunded liability contribution rate from the statutory contribution for the Main System rate is not high enough to amortize the unfunded liability over any period of time.

Because the statutory employer rate is higher than the actuarial employer rate (based on a 20-year amortization period) for the Judges and Public Safety Systems, the statutory employer rate amortizes the unfunded liability over a period shorter than 20 years.

We recommend an increase to the statutory contribution rate such that the unfunded liability is amortized over a period of no longer than 30 years. Based on the current actuarial valuation and the current actuarial assumptions and methods and benefit provisions, the current total statutory contribution rate of 14.12 percent (total employer and employee contributions) for the Main System is not expected to ever amortize the unfunded liability. The Main System funded ratio is projected to ultimately decrease from the current funded ratio of about 72 percent. We recommend an increase to the Main System total statutory contribution rate (to at least 16.69 percent) such that the unfunded liability is amortized over a period of no longer than 30 years and the Main System funded ratio will increase toward 100 percent.

Reliance on Others

The actuarial valuation was based upon information furnished by the NDPERS Staff, concerning benefits provided by the North Dakota Public Employees Retirement System, financial transactions, plan provisions and census data for active members, terminated members, retirees and beneficiaries as of July 1, 2018. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the NDPERS Staff.

GRS

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The trend data in the Financial Section and the schedules and other data in this Section are prepared by NDPERS Staff with our input. Data prior to fiscal year 2016 was prepared by NDPERS Staff and the prior actuary. Specifically these exhibits are:

- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions and Cost Method
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Monthly Benefit Payments

Accounting Schedules under GASB Statement Nos. 67 and 68

The total pension liability (actuarial accrued liability) is based on a measurement date of July 1, 2018, using the Entry Age Normal actuarial cost method. A single discount rate of 6.32 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.75 percent and the municipal bond rate of 3.62 percent. All other assumptions and methods used in the funding actuarial valuation for calculation of the actuarial accrued liabilities as of July 1, 2018, were used in the GASB 67/68 actuarial valuation for calculation of the total pension liability for fiscal year ending June 30, 2018.

The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position (market value of assets) as of June 30, 2018.

Certification

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the North Dakota Public Employees Retirement System as of the actuarial valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements in this report.

GRS

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This report should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

Lance J. Weiss | Amy Williams

Lance J. Weiss, E.A., M.A.A.A., F.C.A.
Senior Consultant and Team Leader

Amy Williams, A.S.A., M.A.A.A., F.C.A.
Consultant

AW:nn

GRS

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TESTIMONY OF SCOTT MILLER

Engrossed House Bill 1419 – Legislative Management Study of Public Employee Retirement Options

Good afternoon, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System (NDPERS). I appear as the Board's representative today to provide neutral testimony regarding Engrossed House Bill 1419.

House Bill 1419 requires that Legislative Management consider studying the spectrum of public employee retirement fund options, including defined benefit plans, hybrid plans, and defined contribution plans. We have no position on the proposed study, but we would certainly offer any help or information we could provide as this study progresses. As you can see from the fiscal note, we estimate a cost of between $10,000 and $15,000 per studied option, depending on the complexity. As an example, HB 1419 as originally drafted cost over $17,000 for our actuary to analyze. We do not know what the third party might charge for their risk study.

Mr. Chairman, that concludes my testimony.

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