19.0129.02000

FISCAL NOTE
Requested by Legislative Council
12/21/2018

Bill/Resolution No.: SB 2046

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						
Expenditures						
Appropriations						

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			
Cities			
School Districts			
Townships			

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).*

This bill directs new employee Retiree Health Insurance Credit contributions to the retirement plan.

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.*

There is no fiscal impact for the changes in this bill.

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.*

N/A

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: Bryan Reinhardt
Agency: NDPERS
Telephone: 701-328-3919
Date Prepared: 12/26/2018

2019 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2046

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

SB2046
1/11/2019
#30768

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Pam Dever

Explanation or reason for introduction of bill/resolution:

Relating to the public employees defined benefit plan, defined contribution plan, & retiree health plan & participation in the retiree health plan.

Minutes:

Att #1- Scott Miller, Att #2 -Nick Archuleta, Att #3-Tangee Bouvette(delivered couple days later)

Chairman Davison: Let's open SB2046.

Sen. Dever, Dist. 32, Bismarck: I am here not to introduce the bill but to give some history. I serve on the PERS board and have chaired Government and Veterans Affairs Committee before Appropriations and previously chaired the Employee Benefits Committee and now Vice Chair of that committee. (1.07) In 2001, there was a bill to move us to defined contributions. Sen Wardner sat next to me and said if I vote for this I will kick you. It is important to know the difference between defined contributions and. Under defined contribution both employer and employee make contributions just like a 401-K. When you retire you have a pot of money that is yours. Under defined benefit plan, there is employer contribution and employee contribution that goes into the plan and when you retire, your retirement is based on a multiplier by the number of years. In 2001, we moved that multiplier from 1.9 to 2.0. If you work for the state for 30 years and then retire, your retirement is 60% of your final average 3 years of salary. If you are Chief Justice, it is 120% because he started in 1958. There is no upper limit on what you can receive. In 2001 the main pension plan was 104% funded. (3.29) In 1999-2000 the dot.com boom went bust and there was a recession. In 2008-2009 I believe it lost 24% of its value. That made things a real struggle. In 2011, we had a bill regarding TFFR and the PERS pension plan. Then, the contribution point for employers was 4.12% and employees side was 4%. On employee's side, in the early 1980's, the legislature didn't have the money to give a pay increase so they agreed to pick up the employee side of that. The state was paying both sides. The bill regarding PERS, was considered a recovery plan that would increase both sides by an additional 4 points. What we adopted in 2011 was the first two points of that plan. I made that amendment. I thought do first two years and we how market was in next two years and adopt next two points. (5.2) I did not know it would become the struggle it then became. In 2013 we had a couple of bills, that did the second two years. Another bill would have decreased the benefits and put some cash in on the plan. That was amended in the House to reduce the benefits and take the cash out. So we killed that in the Senate. Over the years there have been some legislators

that believe that we should move to a defined contribution plan. The problem is you should not walk away from a defined benefit plan. The belief to move to defined contribution is because that is where the private sector is. (6.44) Also, under defined contribution the risk is on the employee, because it is all invested in the market; and in defined benefit, the risk is on the state. It is important to adopt a perspective that considers the long term implications of whatever we do with the plan. A 22-year-old recent college grad goes to work for the state, and works for 40 years, and then lives another 40 years, which is more and more likely; we are looking 80 years out on the health of the plan. What we do at this point, however small, has large implications going forward 80 years. I started saying, a few months ago, it is time for us to make move to amend decision. Either we stay with define benefits or we move to defined contributions. If we stay with defined benefits, we need to fund it. And that is a hill. If we move to defined contributions, we need to fund that; and that is a mountain. (8.17) We have several bills this session, three of which you heard this morning, that make some changes. One eliminates the retiree health insurance credit for new employee. One changes that multiplier from 2 to 1.75 and bumping the contributions on both sides. Together, those will put us in good shape. There a more bills, but I don't know what they are. I sponsored one that is in the governor's budget address he proposed putting $265 million of SIF plan into the plan. The three bills you heard this morning includes and have had a bill drafted to that effect. (9.18) There has been reluctance of legislators to increase contributions rates to defined benefits. Not because they don't want to move to defined contributions but because they feel they are throwing good money after bad. One bill I know of will move us to defined contributions and then contribute $20 million per biennium to defined benefits plan. That is throwing good money after bad because it will only delay the demise of the defined benefit plan. It will not rescue it. Those who want to move to defined contributions, we could do if we were 100% funded. The governor's budget puts us there in 18 years. This is a huge issue that needs careful consideration, because you can go wrong really big. (He gave an example of Alaska) (11.24)

Chairman Davison: Any questions? Thanks you. Any more I support?

Scott Miller, Executive Director of PERS: I am here in support of bill. This is a portion of the three most important bills this session are PERS funding bills. (see att #1) (13.17) Right now PERS is only 72% funded. We are short $1.1 billion in assets to cover our liabilities. We are projected to be insolvent in 2106. In summary, the employees benefit program committee, PERS Board, the legislative assembly, and all of our members have worked together for 8 years to come up with a course to get to 100% funded. SB2046 may not be a perfect solution, it will insure that all of your hard work. We need to finish the job that began in 2011. The governor and employee benefits program committee support this bill. (22.11) Thank you.

Chairman Davison: Do you run on fiscal year? Is that why December 31as opposed to July 1, 2019? Could it be start July 1st for new employees go on the new system?

Scott: No, it would just require an emergency.

Chairman Davison: I don't think it would require an emergency. Sooner something happens the sooner the fix begins.

Scott: We had originally proposed a July 1, 2019 and for the multiplier change was Jan. 2020 implementation. In the interim, we decided to make them consistent. So we created only one tier of benefits.

Chairman Davison: So regarding the actuaries, and the single point. We can't use the actuary number because we are not showing a pathway to be fully funded. We have to use the single point discount. We don't have a plan in place to do that? (24.14)

Scott: That is correct.

Chairman Davison: In regards to that, are those consistent to other states for their retire benefits. How do other states determine what their actuary number is? It is based on investments and % investment that here and there. Is that discount rate and our actuary when we look at other state, is that a constant number?

Scott: The single discount rate is determined by the actuary using the crossover point. I don't fully know what the crossover point is. When we hit a point of no return. That is when we have to start using the municipal bond rate – 3.5% rate. We combine that with our 7.75% rate in order to come up with a single discount rate. If an employer has the same crossover point, they would have the same single discount rate, but that is very rare. Everything depends on where the crossover point is. (25.53)

Chairman Davison: Do you know if there is a bill coming through that asks the legislator to go to a defined contribution for PERS?

Scott: There were two different to the Employee Benefit Program Committee this summer. They both received unfavorable recommendations from that committee. I have heard that there will be changes to one of those bills. I have not seen it yet.

Chairman Davison: You can put those variables out there as much as you want. We don't control the variables. The argument for legislatures is if we move to defined contribution, those variables, those risks go away. In 2015 we were using 8% as the actuary number. Do we do that annually to figure that number or come up with a longer term projection?

Scott: All of our actuarial assumptions as determined through an experience study which we do every five years.

Sen. Erin Oban: If we move to defined contribution, the risk goes off the employer or the state and on to the backs of the workers. This is frustrating to me. (28.16) When these changes are suggestions are brought forward by you and PERS, how much input do you get from the actual members? Do you survey retirees of current employees? When we try to employ people that will make less than in the private sector, we can offer benefits to make up for that. If we chip away from that, what do we have left is my fear.

Scott: Sharon Scheirmeister from my staff has information for you.

Sharon Scheirmeister, Chief operating officer at PERS: We have not done specific surveys. The model that we use is a benefits committee that we invite HR people from all

over and talk about legislative measures. We have a retiree sub-committee where we get input. We bring people in to help consult or suggest ideas for us as we look at the funding challenges.

Sen. Erin Oban: (29.51) Do you guys ever share concerns that individuals serving in those positions don't talk to the people they should be representing in those discussions? Are you hearing the voices of the people who participate in those programs when you suggest changes? A handful of people is not always good, I feel.

Sharon: The perspective we are getting is more so from an employer for recruiting. Clearly, two of these bills forward now are benefit reductions. We don't have hard data on how current employees feel. People do want out retirement plan to be sound. Scott talks about that. They want the plan there when they retire. (31.16)

Chairman Davison: Thanks, Sharon. I got a bit ahead of myself. More questions? Any more in favor of this bill? Any against?

Nick Archuleta, NDUnited: I am here do urge a NO NOT pass. (see att #2)

Chairman Davison: This does not affect any current employees, correct?

Nick: No, understood. It makes the profession of public service, no matter what field, less attractive who want to work for the state. We have a great tradition of public service in North Dakota.

Chairman Davison: Any questions? More testimony against? Seeing none, we will close the hearing.

Testimony turned in days later: **Tangee Bouvette, Compensation & Benefits Admistrator**, **Grand Forks, North Dakota against SB2046. (see att #3)**

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Sheyenne River Room, State Capitol

SB2046
2/1/2019
31991

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature : Pam Dever

Explanation or reason for introduction of bill/resolution:

Relating to the public defined benefit plan, defined contribution plan, and retiree health plan and participation in the retiree health plan.

Minutes:

Chairman Davison: I think Sen Dever's bill SB2227 from PERS combined everything. (1.11) This added the $265 million to it. I do have an amendment removing the language for the first three bills out of SB2227. I would like them to come to the floor as individual bills. They each have an impact of the PERS retirement plan.

Sen. Erin Oban: I move a DO NOT PASS. **Sen. Richard Marcellais**: I second.

Chairman Davison: Discussion. I will be voting no on this. This is an important part of the governor's package.

Vice Chair Meyer: I agree. After hearing from Scott in PERS. I want to keep this alive.

Chairman Davison: Take the roll on a DO NOT PASS. **YES -2 NO -5 -0-absent**.
The DO NOT PASS - FAILED

Vice Chair Meyer: I move a DO PASS. **Sen. Shawn Vedaa**: I second.

Roll call: **YES -- 5 NO -- 2 -0- absent**. Bill Passed. **Chairman Davison will carry**.

Done (6.53)

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

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2046

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. Marcellais

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

Total (Yes) 2 No 5

Absent _____

Floor Assignment _____

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

Vote Failed

2/1/19
Date:
Roll Call Vote #: 2

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2046

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. Meyer Seconded By Sen. Vedaa

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

Total (Yes) 5 No 2

Absent _____

Floor Assignment Chair Davison

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

REPORT OF STANDING COMMITTEE

SB 2046: Government and Veterans Affairs Committee (Sen. Davison, Chairman) recommends **DO PASS** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2046 was placed on the Eleventh order on the calendar.

2019 HOUSE GOVERNMENT AND VETERANS AFFAIRS

SB 2046

2019 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Fort Union Room, State Capitol

SB 2046
3/7/2019
33374

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Carmen Hart

Explanation or reason for introduction of bill/resolution:

Relating to employer contributions to the public employees defined benefit plan, defined contribution plan, and retiree health plan and participation in the retiree health plan

Minutes: Attachments 1-4

Chairman Kasper opened the hearing on SB 2046.

Scott Miller, Executive Director of NDPERS, appeared in support. Attachment 1. (1:46-12:34)

Rep. Schauer: Do you have anything built in here that is going to be able to handle those economic downfalls that gets us on that right path?

Mr. Miller: Our current asset allocation is diversified to the point that will help us in the long term.

Vice Chair Steiner: When did the state add health benefits to the retirement package?

Mr. Miller: The retiree health credit was added in 1989. It is a separate benefit for retirees of the system.

Vice Chair Steiner: When you add that, though, does that come into that unfunded liability piece, or do they have their own unfunded liability piece?

Mr. Miller: That is a separate program and a separate trust. It is not part of the main PERS plan.

Vice Chair Steiner: Could you provide us a history of when it started, how much it was, and when we started these credits.

Rep. Rohr: You said 2101 is when it will be fully funded. Do these projections incorporate those retirees who will be accessing that retirement fund?

Mr. Miller: Yes. When an actuary does an evaluation, they project benefits for everyone going forward and bring that back to a present value to make those determinations.

Rep. Louser: TFFR is on track for a couple reasons. One is the contribution levels are much higher for both employee and employer. Secondly, we have in place that we will not revert lower contribution levels until they hit 100%. Do we need to do the same thing for the PERS plan?

Mr. Miller: We actually have that in our statues right now where the contribution increases that were made after 2013 stay in effect until we get to 100% funding. Once they get to 100%, then they go back down to their pre-2013 levels which is 6% for the employee and 6.12% for the employer.

Rep. B. Koppelman: Is 7.75% attainable over time?

Mr. Miller: It is. Over the past 30 years, our return which includes 2008-09 and 01-02 has been higher than that 7.75% rate.

Chairman Kasper: You use a five-year rolling average on your investment return results?

Mr. Miller: We smooth over five years.

Chairman Kasper: Would you provide us the history of the projections and the results over the last 10 years. I am talking about numbers. How much of that recovery is included in the numbers you gave us today?

Mr. Miller: This is through June 30, 2018.

Chairman Kasper: So, they are totally deflated compared to where the market is right now?

Mr. Miller: We have had a significant uptake since January, but we lost quite a bit of money in November and December of last year. Right now we are barely above zero for the fiscal year.

Chairman Kasper: If your numbers are only until June 2018, they are totally under reported right now?

Mr. Miller: That is accurate, because they are based on our 2018 evaluation.

Chairman Kasper: That shows the results of an up and down market.

Mr. Miller: Depending on the day it really can affect it. On June 30, 2017 everything looked really bad. July 1 came back roaring, but we were stuck with those lower numbers on June 30, 2017.

Opposition

Nick Archuleta, President of North Dakota United, appeared in opposition. Attachment 2. (21:54-23:47)

Rep. B. Koppelman: Would you suggest that instead of eliminating this, we raise the employer and employee contributions to the plan like we do with TFFR?

Mr. Archuleta: When we get to SB 2048, I am going to suggest that we do just that.

Chairman Kasper: This will only affect new employees. How would this affect your current employees, and the new employees are going to know? Where is the concern from that perspective?

Mr. Archuleta: Our organization has adopted a legislative agenda at our delegate assembly, and part of that agenda says that we don't support the diminishment of benefits for current or future employees. That is why I am here.

Chairman Kasper: Do you have a policy statement you can share.

Vice Chair Steiner: Do you talk about ways to bring this plan to be fully funded? Would you support if we fully funded in 18 years and then went to defined contribution?

Mr. Archuleta: No. The defined benefit contribution plan is superior to a defined contribution plan. In a defined contribution plan, the only thing that is defined is the money you put in. A defined benefit plan allows a certain security in that when people have put in their time and had a good career in public service, they will have a reliable, not extravagant, retirement.

Vice Chair Steiner: The plan is underfunded, so there isn't enough money to pay your current employees right now. You understand that, correct?

Mr. Archuleta: I do. Had the legislature funded that fourth year back in 2011 or taken any steps since then, this plan would be a lot closer to funded.

Chairman Kasper: As of today, it is moving back up.

Mr. Archuleta: You are right.

Rep. Louser: Why would the potential employee be worried about whether or not the plan is on track or 80% or 60%, etc. if retirement is guaranteed?

Mr. Archuleta: I think people are always concerned about that. A lot of folks, frankly, lack the investment sophistication to manage that money wisely. I think they appreciate the fact that a professional organization like PERS is managing the retirement.

Rep. Louser: My question is more directed to this bill and why there would be opposition if the potential employee knows when they take a job with the state, they have a guaranteed retirement?

Mr. Archuleta: I don't know that would be necessarily a huge concern if they were guaranteed that this was going to be here for them.

Rep. Louser: I think the state guarantees that. That is my point.

Chairman Kasper: That is correct. The state has an obligation. The state is going to pay it some way.

Rep. Schauer: My concern is a lack of appreciation. You are looking at $186 per employee per month increase in your overall health benefits. Many in the private sector are paying $500 to $700 to $1,000 a month in full health benefits. Yet we just picked this one part of it. What about the lack of appreciation? Do you think that is a problem with your organization?

Mr. Archuleta: No. Our public employees are appreciative of what they have negotiated and have received in terms of their retirement package and salary. For the last two years those same public employees didn't get a raise at all, and they have seen there are fewer colleagues. The work didn't go away. The colleagues did. Yes, they are appreciative of what they are getting from the state.

Rep. Schauer: The benefits now for health is over $1,400 a month for what the state is paying. They did not get an increase in the salaries, but they certainly got an increase in the benefits.

Mr. Archuleta: They are appreciative of this. It is not to say that their out of pocket costs for their health insurance didn't go up.

Rep. C. Johnson: I look at this as a shift from that retiree health insurance credit to retirement benefits.

Mr. Archuleta: As it fits our legislative agenda, I was sent here to talk about how they perceive this and that is as a benefit cut for future employees which it is.

Darren Schimke, President of the Professional Fire Fighters of North Dakota, appeared in opposition. Attachment 3. (34:17-40:30)

Chairman Kasper: This bill affects state employees having the health benefit being put into the retirement plan. You are not eligible for that benefit as a Grand Forks employee?

Mr. Schimke: We are members of the NDPERS plan.

Chairman Kasper: Do you receive this health benefit from the state of ND, or are they just managing your plan for you?

Mr. Schimke: It is my understanding that the new hires do receive this.

Chairman Kasper: I am talking about the current employees.

Mr. Schimke: There are some.

Mr. Miller: It is for retirees of PERS. We have 330 political subs that participate in our retirement plan. All their retirees would be eligible for this as well.

Chairman Kasper: Do they receive the current health retirement benefit right now?

Mr. Miller: Yes, the retiree health insurance credit.

Chairman Kasper: Even though they are not state employees, they receive this benefit because they are a member of the PERS plan?

Mr. Miller: Yes, that is correct.

Attachment 4 was written testimony in opposition submitted by **Tangee Bouvette, Compensation & Benefits Administrator, City of Grand Forks.**

Chairman Kasper closed the hearing.

2019 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee
Fort Union Room, State Capitol

SB 2046
3/22/2019
#34170

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Carmen Hart -typed by Jeanette Cook

Explanation or reason for introduction of bill/resolution:

Relating to employer contributions to the public employees defined benefit plan, defined contribution plan, and retiree health plan and participation in the retiree health plan

Minutes:

Chairman Kasper opened the meeting on SB 2046. This is the bill that would move the credit that is being contributed to the retiree health insurance credit account for employees that are hired after Dec. 31, 2019 to the defined benefit plan. Right now, employees are getting a credit of $5.00 times the years of service that they have worked for the state to use against a health insurance cost when they retire, which will not change. This is new hires only. It will take 1.14% of the employer contribution, and after Dec. 31, 2019 that contribution will be contributed into the defined benefit retirement plan. Scott Miller testified about the unfunded liability that we are currently experiencing with the plan. We are at 72% of what funding should be. This should help solve the issue. But to totally solve the problem, we are going to need a boost of contribution from someplace of over 4%. In this case the contribution amount, instead of accumulating for the employee's health expenses when they retire, will go to the defined benefit retirement account. There is no employee contribution required, just employer.

Rep. C. Johnson: It looks like a fairly reasonable change. They are not losing any benefits; they are just moving it from the health insurance plan to the retirement benefits plan. I would be in favor of this bill.

Rep. B. Koppelman: We have had plenty of discussion how our retirement benefit plan has to be retooled in some way to continue for future generations. This seems to be one step that needs to be taken to work toward that goal. I am going to support the bill.

Rep. Vetter: I can't quite remember the opposition's reasoning. Was it getting new employees?

Chairman Kasper: Read Mr. Archuleta's opposing testimony

Rep. Schauer: The biggest comment was diminished benefits for future employees.

Rep. C. Johnson moved a DO PASS and rereferred to Appropriations on SB 2046. Rep. Laning seconded the motion.

Rep. Schneider: I am going to resist the motion and vote against it. I think we find money for a lot of things less important than recruiting and retaining good employees for the state. I think the oppositional testimony emphasized that. I think we should prioritize that and fix the PERS dilemma.

Chairman Kasper: In looking at these three bills, it is best if we get them in front of Appropriations, and they can take a look at them. That is why we will rerefer them.

Rep. Vetter: Does one of these three plans somewhat fix the problem, or do we have to do all three of them to make us solvent?

Chairman Kasper: We have to look at each bill on the merit of the bill. You can think about how your vote is going to go based on the other two bills. The other two bills, plus this one, will not get anywhere near to solving the 72% of where we are at for funding responsibility. They move in the direction, but there is a lot more work to be done, mainly a much higher contribution somewhere.

Rep. P. Anderson: I totally agree with Rep. Schneider's comments, but on this one I need to put my PERS Board hat on and support it. Some of the options are difficult from the PERS Board standpoint too.

Rep. C. Johnson: This plan affects 1.14% of the employer's contributions. I believe that 2048 has about a 1% contribution by the employer and the employee. That will have a double effect. 2047 also has .25% on a multiplier, so that would have the least effect on the plan.

Chairman Kasper: Each one of the bills moves in the right direction.

A roll call vote was taken for DO PASS and rereferred to Appropriations on SB 2046.
Yes 10 No 2 Absent 2
The motion passed.
Rep. Schauer will carry SB2046.

Date: 3-22-19
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2046

House 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 Rep. C. Johnson Seconded By Rep. Laning

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	A				
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	A				
Rep. Austen Schauer	X				
Rep. Steve Vetter	X				

Total (Yes) 10 No 2

Absent 2

Floor Assignment Rep. Schauer

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

REPORT OF STANDING COMMITTEE

SB 2046: Government and Veterans Affairs Committee (Rep. Kasper, Chairman) recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (10 YEAS, 2 NAYS, 2 ABSENT AND NOT VOTING). SB 2046 was rereferred to the **Appropriations Committee**.

2019 HOUSE APPROPRIATIONS

SB 2046

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2046
3/27/2019
34251

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Risa Bergquist

Explanation or reason for introduction of bill/resolution:

Relating to employer contributions to the public employees defined benefit plan, defined contribution plan, and retiree health plan and participation in the retiree health plan.

Minutes:

1:45 Chairman Delzer: Called the meeting order for SB 2046, this is a bill that changes the health insurance, currently members get 5 dollars a month per year of service to help with health insurance once they retire. This bill would take that money and put it toward the fund and would no longer be available for new hires.

Representative Kasper: Currently there is a benefit for employees when they retire which equals up to 5 dollars a month per year of service up to 100 dollars a month. This bill, after December 31st of 2019, for new hires only would redirect that money to the retirement fund, which would be equivalent to 1.14% increase in the retirement contributions. It doesn't cost the employee or the employers any extra money it's simply redirecting the money. Currently the retirement plan sits at about 72% funding and there are two other bills to help address this as we try to get that funding up and closer to100%. 2008 the plan was at 92% funding and through varies consequences with the stock market being down a couple of times we are now in that 72%. If all three bills pass they are thinking the earliest it would be before we are projected to equal full funding would be 2058.

Chairman Delzer: Questions by the committee? Was there any discussion about what kind of dollars this actually puts into the fund?

Representative Kasper: No we didn't get any actual numbers, we talked more about percentages and future funding levels.

Chairman Delzer: This came with a Do Pass recommendation from the employee benefits committee?

Representative Kasper: Yes, they supported it.

Representative Monson: There's no fiscal impact from this?

Chairman Delzer: No, it's just a redirection of money.

Representative Kasper: The current employees get to keep their 100 month it only affects new hires after December 31st 2019.

Representative Bellew: How long does that 100 a month last?

Representative Kasper: Until they die.

Chairman Delzer: Did you ask if the money currently comes from the state?

Representative Kasper: That's correct, it's state dollars.

Chairman Delzer: How much is the administration on this? The state pays a percentage to PERS for the administration of it, I think it's .25 on top of the 1.14.

Representative Kasper: We didn't talk about the administration, that shouldn't change it's just a redirection of the money.

Chairman Delzer: Any further discussion? Seeing none we will close the hearing for SB 2046.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2046
4/1/2019
34385

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Risa Bergquist

Explanation or reason for introduction of bill/resolution:

Relating to employer contributions to the public employees defined benefit plan, defined contribution plan, and retiree health plan and participation in the retiree health plan.

Minutes: Attachment 1

Chairman Delzer: SB 2046 is a bill that starts January 1st of 2020. It takes the 1.2 or 1.4 that currently goes towards paying the 5 dollars a month for health insurance for retirees and puts in into the fund. It doesn't change for anyone that is already there. Brady do you have a list for this particular bill?

Brady Larson, Legislative Council: There are copies being passed out but this would provide for the 100% fund ratio in 2101. **(see attachment 1)**

Chairman Delzer: Did they do anything as to what these 3 bills would do together?

Mr. Larson, LC: No they only did them separately.

Chairman Delzer: We did increase this from 4 or 4 ½ to 5 dollars a month. Another thing to think about is out of the 14% we are paying 12.12. If the new hires did pay half of their retirement plan that would create about 6 million dollars' savings for the state. Where does the 1.14 go?

Mr. Larson, LC: That would go to the Retiree Health Credit fund, it is used for the 5-dollar credit and also for any administrative costs.

Chairman Delzer: We are paying the 11 plus the 1.14? So we are paying 12.14 of the 14 going to the fund. I don't know how we would change it at all without going back to employee's benefits.

6:30 Representative Beadle: How underfunded are we right now? What does that translate into dollars?

Chairman Delzer: We are at 71% right now, it's over a billion.

Mr. Larson, LC: It is 1 billion 89 million.

Chairman Delzer: Is that the highest it's been?

Mr. Larson, LC: 2016 it was 1.11 billion, negative balance, and this is the entire plan.

Chairman Delzer: I think it's 52 political subs and 48 state, everything we do here affects the political subs as well, except maybe the health insurance. With no discussion or motion we will hold this until tomorrow.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2046
4/2/2019
34457

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Risa Bergquist

Explanation or reason for introduction of bill/resolution:

Relating to employer contributions to the public employees defined benefit plan, defined contribution plan, and retiree health plan and participation in the retiree health plan.

Minutes:

Chairman Delzer: SB 2046 is the bill that, for new hires, moves the 1.14% that the sate currently pays, to the fund, for state employees to be used to help pay for health insurance once they retire. This doesn't change anything for current employees. We talked about the other two bills about the rate that the fund is recuperating, it was at 61% 3-4 sessions ago it's now at 71%. We did pass that we are going 1.75 instead of 2%, that should fund this by 2085. This bill would by itself would have the fund whole by 2101. Further discussion?

Representative Schobinger: Make a motion for a Do Pass

Representative J. Nelson: Second

Representative Bellew: Is this just state employee or is it the counties as well?

Chairman Delzer: I know it's the state but I don't know if it affects the counties.

Representative J. Nelson: Is there anything saying how that date moves up with the combination of these 3 bills?

Chairman Delzer: Well there is just the two bills, we changed the other one into a study. I think it would take a fair amount of time to get that. Any discussion on the motion for a Do Pass? Seeing none we will call the roll.

A Roll Call vote was taken. Yea: 11 Nay: 8 Absent: 2

Motion carries Representative Shauer will carry the bill.

Chairman Delzer: With that we will close the meeting.

Date: 4/2/2019
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2046

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 **Representative Schobinger** Seconded By **Representative J. Nelson**

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X				
Representative Kempenich	A				
Representative Anderson	X		Representative Schobinger	X	
Representative Beadle		X	Representative Vigesaa		X
Representative Bellew		X			
Representative Brandenburg	X				
Representative Howe	X		Representative Boe	A	
Representative Kreidt		X	Representative Holman		X
Representative Martinson	X		Representative Mock		X
Representative Meier		X			
Representative Monson		X			
Representative Nathe	X				
Representative J. Nelson	X				
Representative Sanford	X				
Representative Schatz	X				
Representative Schmidt	X				

Total (Yes) 11 No 8

Absent 2

Floor Assignment **Representative Schauer**

Motion Carries

REPORT OF STANDING COMMITTEE

SB 2046: Appropriations Committee (Rep. Delzer, Chairman) recommends **DO PASS** (11 YEAS, 8 NAYS, 2 ABSENT AND NOT VOTING). SB 2046 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

SB 2046

EMPLOYEE BENEFITS PROGRAMS COMMITTEE
REPORT TO THE 66TH LEGISLATIVE ASSEMBLY
REGARDING PROPOSED SENATE BILL NO. 2046

Date: January 1, 2019

Original LC#: 19.0129.02000

Sponsor: Public Employees Retirement System (PERS)

Proposal: This bill draft maintains retiree health insurance credit fund (RHIC) benefits for employees hired before January 1, 2020; provides employees hired after December 31, 2019, do not receive RHIC benefits; and provides the 1.14 percent employer RHIC contributions for employees hired after December 31, 2019, are redirected to the PERS retirement plan.

Actuarial analysis: The PERS consulting actuary reports:

- The RHIC fund remains solvent under current actuarial assumptions.
- The PERS main plan moves from becoming insolvent in 2106 to being fully funded in 2101.
- The bill draft lowers the PERS main plan's unfunded liability for Governmental Accounting Standards Board reporting.
- The bill draft increases benefits for defined contribution plan members.
- The bill draft creates benefit inequity between current and new employees.
- Future changes to actuarial assumptions, especially assumed rate of return, may create an unfunded liability.

Committee report: Favorable recommendation.

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Att #1
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TESTIMONY OF SCOTT MILLER

Senate Bill 2046 – Ending the Retiree Health Insurance Credit (RHIC) for New Employees

Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today on behalf of the PERS Board and in support of Senate Bill 2046.

Senate Bill 2046 ends the Retiree Health Insurance Credit, or RHIC, for employees first hired after December 31, 2019. Employers will no longer submit the 1.14% contribution for those employees to the RHIC fund, but will instead submit that contribution to the Main NDPERS Defined Benefit (DB) Plan or, if the member is in the Defined Contribution (DC) Plan, to the DC plan. Note that our actuaries project that the RHIC plan will be sustainable even without the contributions for new employees. The Employee Benefits Programs Committee gave this bill a favorable recommendation. Governor Burgum has also voiced his support for this bill.

This bill is necessary because the main PERS plan is significantly underfunded, and is never projected to become fully funded. I am frequently asked, ""How did we get to this point?" As you are aware, both the tech bubble in 2001-2002 and the global financial crisis of 2008-2009 caused historic losses in our investment portfolio – in 2009 alone, we lost 24%. Those losses caused a significant reduction in our funded ratio. On July 1, 2008, the Main PERS Plan was over 92% funded. By July 1, 2013, our funded ratio had declined to 62% - an over 30% decline in our funded ratio in just five years, which can be attributed to the global financial crisis. Right now, we are about 72% funded – meaning we only have assets to pay off about 72% of our liabilities. In dollar terms, we are about $1.1 billion underfunded – we have $1.1 billion less than we need to pay off all of our liabilities in the future. You can see our funding path on the following graph.

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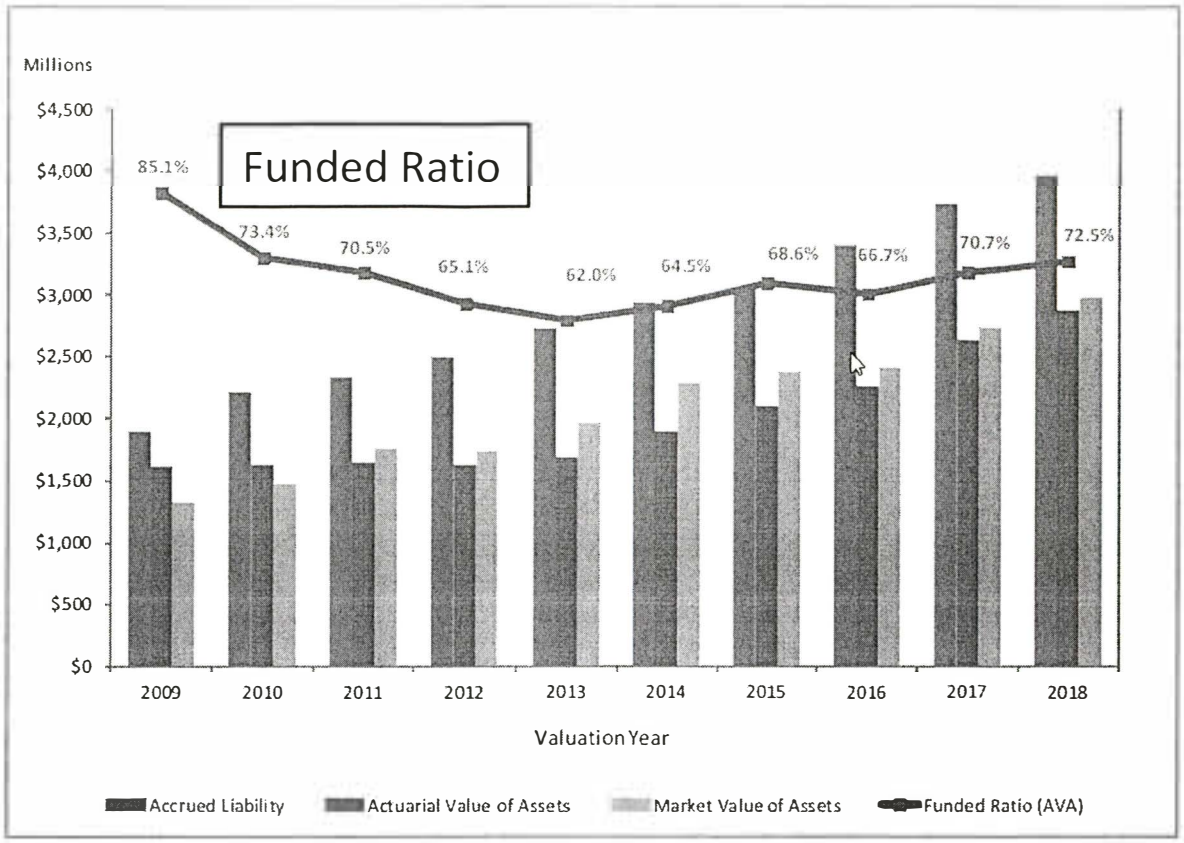
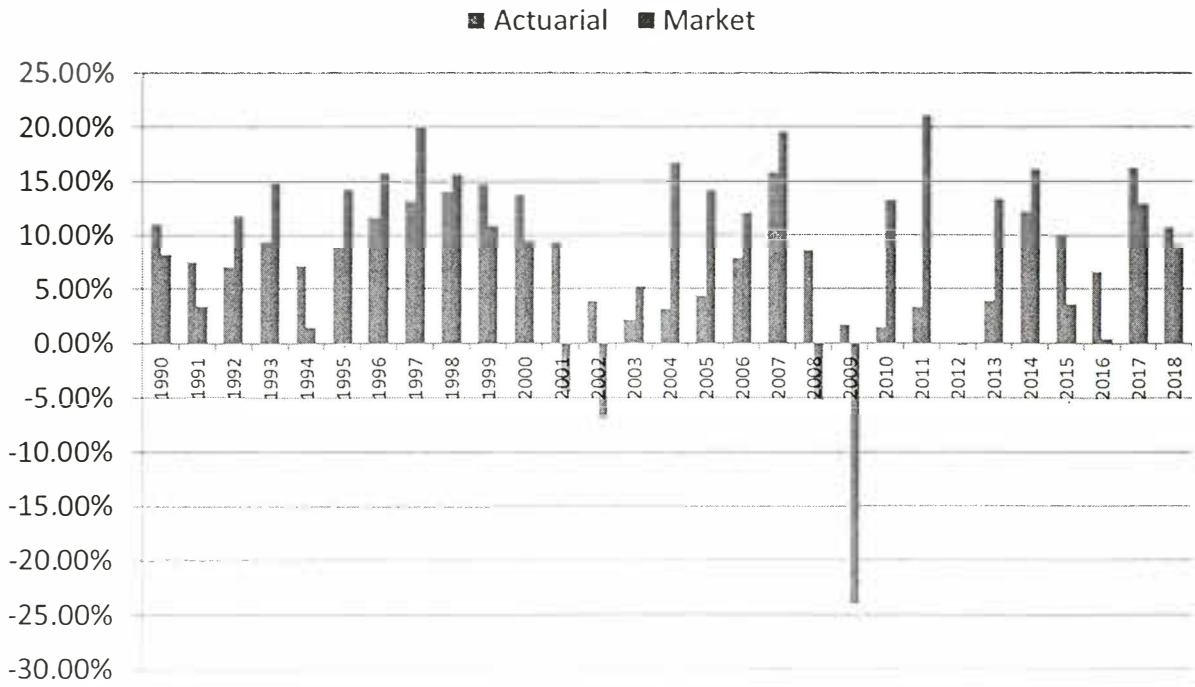
pg 2



While the markets since then have been somewhat beneficial, returns have not been high enough to put us back on the course to full funding.



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pg 3

There are very few levers we can use to try to get us back on the course to full funding. I have provided the general formula for funding a defined benefit retirement plan below:

Contributions + Investment Returns = ***Benefits*** + Expenses

Since investment returns are not high enough to put us back on the course to full funding, and expenses are not significant enough to have any effect on the equation, we must look at altering either "Contributions" or "Benefits".

Benefits are difficult to change for current members and retirees. This bill, Senate Bill 2046, addresses the "Contributions" sides of the equation by removing a non-retirement benefit, but only for new employees who begin employment after December 31, 2019. Those employees will no longer receive the RHIC. Their employer will instead submit that required 1.14% contribution to the Main PERS DB or DC plan, thereby increasing contributions to the plan by 1.14%. Note that when the RHIC was originally created, the funding for it came out of employer contributions to the Main PERS DB plan – employer contributions to the DB plan were reduced by 1.00%, and re-directed into the RHIC trust. In a subsequent legislative session the employer contribution was increased to 1.14%. This bill essentially reverses that for new employees and redirects the original 1% employer contribution back to the retirement plan and the subsequent increase to the retirement plan as well.

Our actuary has calculated that the contribution rate to the Main PERS DB plan is currently 4.13% below what is necessary to get us back to fully funded within a reasonable time period. While Senate Bill 2046 only increases contributions by 1.14%, it is sufficient to get us back on the course to full funding – our actuaries estimate that we would reach 100% funding by 2101, assuming all of our actuarial assumptions are met.

While 2101 is still a long way off, it still gets us back on the course to full funding, which is essential for two very important reasons – member confidence, and GASB liability reporting. GASB stands for "Governmental Accounting Standards Board". GASB provides "statements" that provide guidance for governmental entities, like the state and its political subdivisions, on how to report certain things in their financial statements. In the past few years, GASB issued a statement that requires retirement plans that are not projected to ever reach 100% funding – like the PERS plan – to report their liabilities using a discount rate that is below those plans' assumed rates of return. GASB calls that a "single discount rate".

The problem with using that single discount rate is that the rate is significantly below our assumed rate of return – our assumed rate of return is 7.75%, and the single discount rate we have to use is 6.32%. Using a lower rate to determine our liabilities results in a significant increase in those projected liabilities: using the 7.75% rate results in the $1.1

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pg 4

billion of unfunded liabilities I have already mentioned, whereas using the 6.32% rate results in almost $1.7 billion in unfunded liabilities – a 50% increase.

GASB also now requires the state and its political subdivisions to report that higher unfunded liability figure in their financial statements. As a result, the pension liabilities that have to be reported in the financial statements are 50% higher than they would be if we were on the course to being 100% funded. That is causing a significantly negative impact on many of our participating political subdivisions' financial statements. Those increased liabilities may also result in negative rating outlooks from the rating agencies, or even a reduction in the bond rating for your political subdivisions, increasing their cost of borrowing money.

Importantly, if this bill is passed, our actuary can take the increased funding into account when it performs the next actuarial valuation, and that single discount rate will move back to 7.75%. That, in turn, will significantly reduce the liabilities that the state and its political subdivisions must report, and may help their credit rating. That is one of the reasons it is imperative that we get back on the course to full funding as quickly as possible.

The second reason it is so important that we get back on the course to full funding is to provide confidence to your employees and retirees that the retirement benefit that you have guaranteed them will be there when they need it. As I mentioned, right now the main PERS plan is projected to be insolvent by 2106. At that point, the plan will be a pay-as-you-go plan, and we will need biennial appropriations of hundreds of millions of dollars in order to pay retirement benefits. In the below graph, you can see what our current trajectory looks like – it is the line that curves downward, and will eventually reach zero by 2106.

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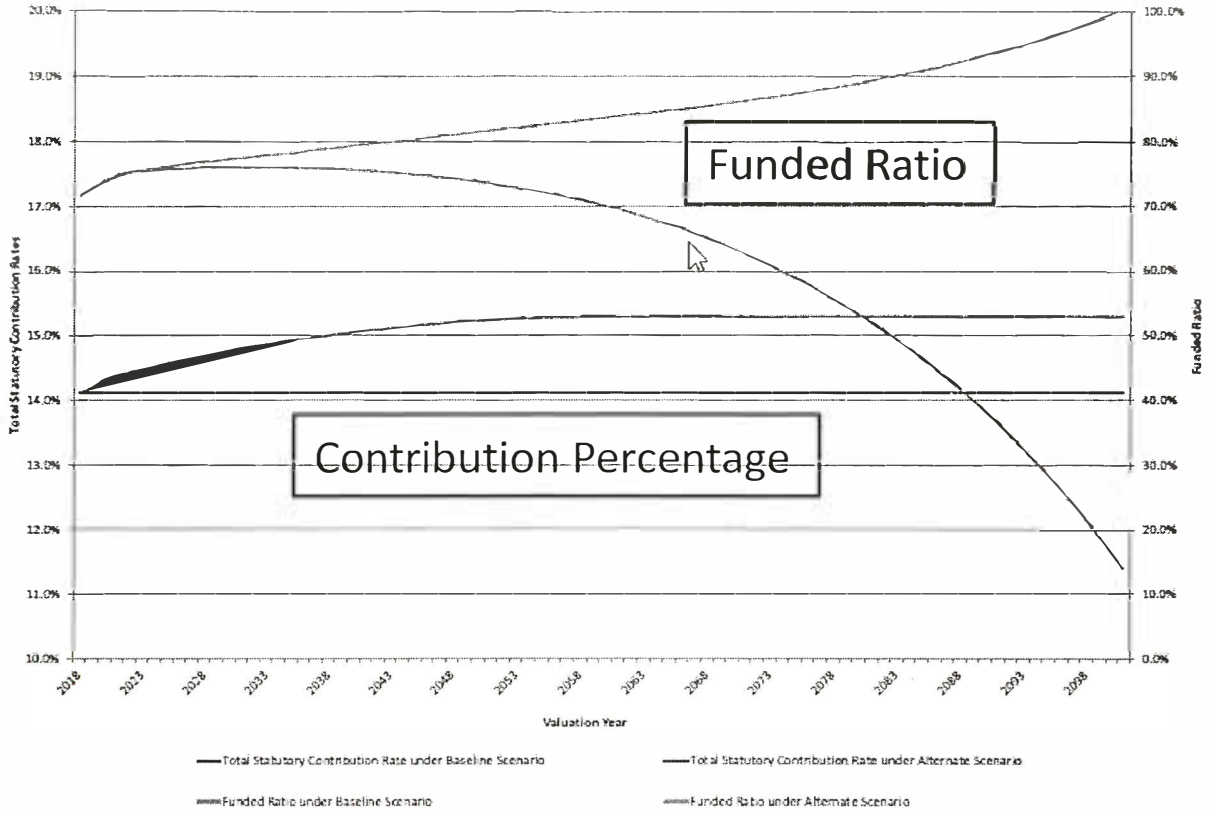
Main System Projected Funded Ratio (Actuarial Value of Assets) and Total Contribution Rates (Employee Plus Employer) Based on Actuarial Valuation as of July 1, 2018 Under Baseline and Alternate Scenario (Additional 1.14% Employer Contribution Rate for Members hired after December 31, 2019)



In comparison, the top line is the projection for the main PERS plan in the event that this legislation is passed. As you can see, the main PERS plan becomes 100% funded in 2101.

Although Senate Bill 2046 does increase the contributions into the main PERS plans, there is no additional cost to employers because it re-directs a contribution that must already be made by employers from the retiree health credit program to the retirement plan. As such, there is no fiscal effect to our participating employers for this bill. Yet with its passage, you will be able to guarantee the thousands of retirees across the state that they will continue to receive the benefits they were promised in exchange for their careers in public service, as you can see in the following map.

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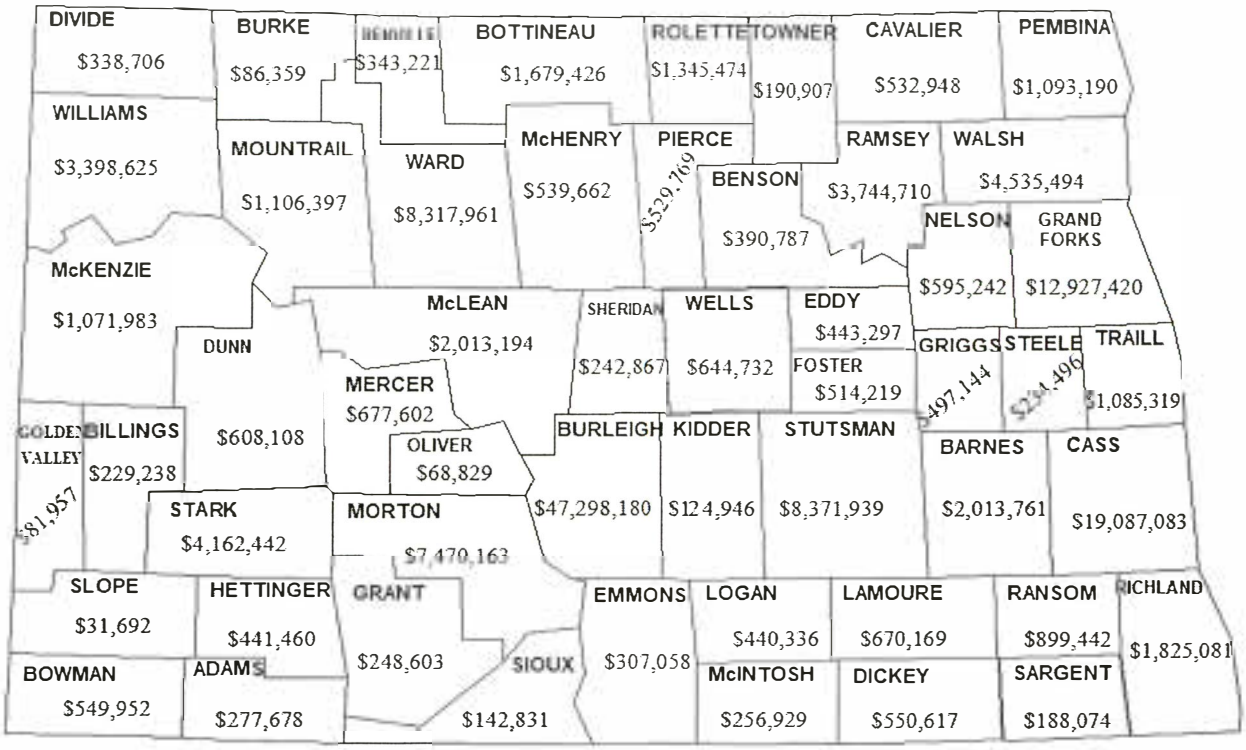
Annual Benefits 2017



Out-of-State - $23,452,715

In-State - $145,530,719

Total - $168,983,434

Please note that the RHIC is part of a comprehensive benefits package that makes it easier for the state and its political subdivisions to recruit and retain employees. Removing a benefit from that package is detrimental to both recruitment and retention. However, it is imperative that we get the main PERS plan back on the course to full funding. When the funded status of the plan dropped as a result of the dramatic drop in the financial markets, PERS presented a four-year recovery plan that would have put the plan on track to 100% funding. That plan was identical to the recovery plan proposed by TFFR, which was adopted. However, for PERS the Legislature only adopted 3 years of the 4 year plan. That was sufficient to stabilize the plan, but was not enough to put it on track to 100% like it was for TFFR. Consequently, to this point we have not been successful in getting approval for legislation that would get us back on the course to full funding. Because of that, the Board determined that it was best to make additional proposals that would not have a fiscal effect on our participating employers. This is one of those proposals.

In summary, the Employee Benefits Programs Committee, the NDPERS Board, the Legislative Assembly, and all of our members have worked together over the past eight years to try to come up with a way to get back on the course to full funding. While Senate Bill 2046 is not the perfect solution, it will help ensure that all of your hard work,

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and all of the contribution increases to date, finish the job you began in 2011, and set us back on the path to full funding of the retirement plan.

Thank you for all of your work and support in the past, and for your positive consideration of this Bill. With your leadership, we can again become fully funded.

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Great Public Schools *Great Public Service*

Testimony Before the Senate Government and Veterans Affairs Committee
SB 2046
Friday, January 11, 2019

Good morning, Chairman Davison and 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 stand before you today to urge a DO NOT PASS recommendation for SB 2046.

Mr. Chairman, North Dakota's state employees provide the vital public services that their fellow citizens deserve and depend on every day. And whether they are repairing our roads, caring for vulnerable North Dakotans, or collecting revenue due the state, they do so professionally and with great integrity. I am proud to represent them here today.

In North Dakota, state employees have gone the past two years without an increase in salaries while virtually everything they need to sustain themselves and their families has increased in cost. We know that salaries 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 reduced their budgets by reducing their workforce and 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. SB 2046 serves to diminish benefits for future employees in that it discontinues the RHIC for employees hired after December 31, 2019. Benefits serve as important tools to recruit and retain highly competent and hard working 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

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Pg 2

career. For that reason, Mr. Chairman and members of the Committee, I urge you to return a DO NOT PASS recommendation for SB 2046.

Thank you for the opportunity to speak with you today, Mr. Chairman. I will stand for any questions.

SB 2046

Michael R. Brown
Mayor

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City of Grand Forks

255 North Fourth Street • P.O. Box 5200 • Grand Forks, ND 58206-5200
(701) 746-2607
Fax: (701) 787-3773

Against

TESTIMONY ON SENATE BILL 2046
Government and Veterans Affairs Committee
January 11, 2019

Tangee Bouvette, Compensation & Benefits Administrator
City of Grand Forks, ND

Mr. Chairman and members of the committee, my name is Tangee Bouvette, and I am the Compensation & Benefits Administrator for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express my opposition to this legislation.

The NDPERS retirement system is an excellent defined benefit pension plan and a key recruitment and retention tool for the City of Grand Forks as well as numerous other local government entities, in addition to the State.

The City of Grand Forks, in general, has supported the NDPERS plan and its efforts to become fully funded. The City supports current legislation to increase contribution rates and has supported past legislation to increase contribution rates over the last 10 years.

The City of Grand Forks opposes Senate Bill 2046, which would discontinue the Retiree Health Insurance Credit (RHIC) benefit for new employees hired on or after 1/1/2020 and transfer the employer contribution to the Main Defined Benefit and Defined Contribution plans prospectively. Implementing this change would reduce current benefits and create disparity between current and future employees.

The City supports implementing incremental funding changes to the NDPERS plan and monitoring funding every two years, but is compelled to contest reducing the value of this benefit to future employees. It is for these reasons the City of Grand Forks opposes Senate Bill 2046.

Thank you for your consideration.

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SB 2046
3-7-19

TESTIMONY OF SCOTT MILLER

Senate Bill 2046 – Ending the Retiree Health Insurance Credit (RHIC) for New Employees

Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today on behalf of the PERS Board and in support of Senate Bill 2046. The Employee Benefits Programs Committee gave this bill a favorable recommendation. Governor Burgum has also voiced his support for this bill.

Senate Bill 2046 ends the Retiree Health Insurance Credit, or RHIC, for employees first hired after December 31, 2019. The RHIC is an additional benefit for retirees under the PERS retirement plans. It provides a monthly benefit to retirees for them to use for health-related insurance costs. That benefit equals $5 times the number of years of service credit, payable to them each month. For example, if a person retired with 20 year of service credit, they would be entitled to an RHIC benefit of $100 per month (20 X $5 = $100/month) to use to pay for health-related insurance costs.

If this bill is passed, employers will no longer submit the 1.14% contribution for new employees to the RHIC fund, but will instead submit that contribution to the Main NDPERS Hybrid/Defined Benefit (DB) Plan or, if the member is in the Defined Contribution (DC) Plan, to the DC plan. Note that our actuaries project that the RHIC plan will be sustainable even without the contributions for new employees.

This bill is necessary because the main PERS plan is significantly underfunded, and is never projected to become fully funded. I am frequently asked, ""How did we get to this point?" As you are aware, both the tech bubble in 2001-2002 and the global financial crisis of 2008-2009 caused historic losses in our investment portfolio – in 2009 alone, we lost 24%. Those losses caused a significant reduction in our funded ratio. On July 1, 2008, the Main PERS Plan was over 92% funded. By July 1, 2013, our funded ratio had declined to 62% - an over 30% decline in our funded ratio in just five years, which can be attributed to the global financial crisis. Right now, we are about 72% funded – meaning we only have assets to pay off about 72% of our liabilities. In dollar terms, we are about $1.1 billion underfunded – we have $1.1 billion less than we need to pay off all of our liabilities in the future. You can see our funding path on the following graph.

#1
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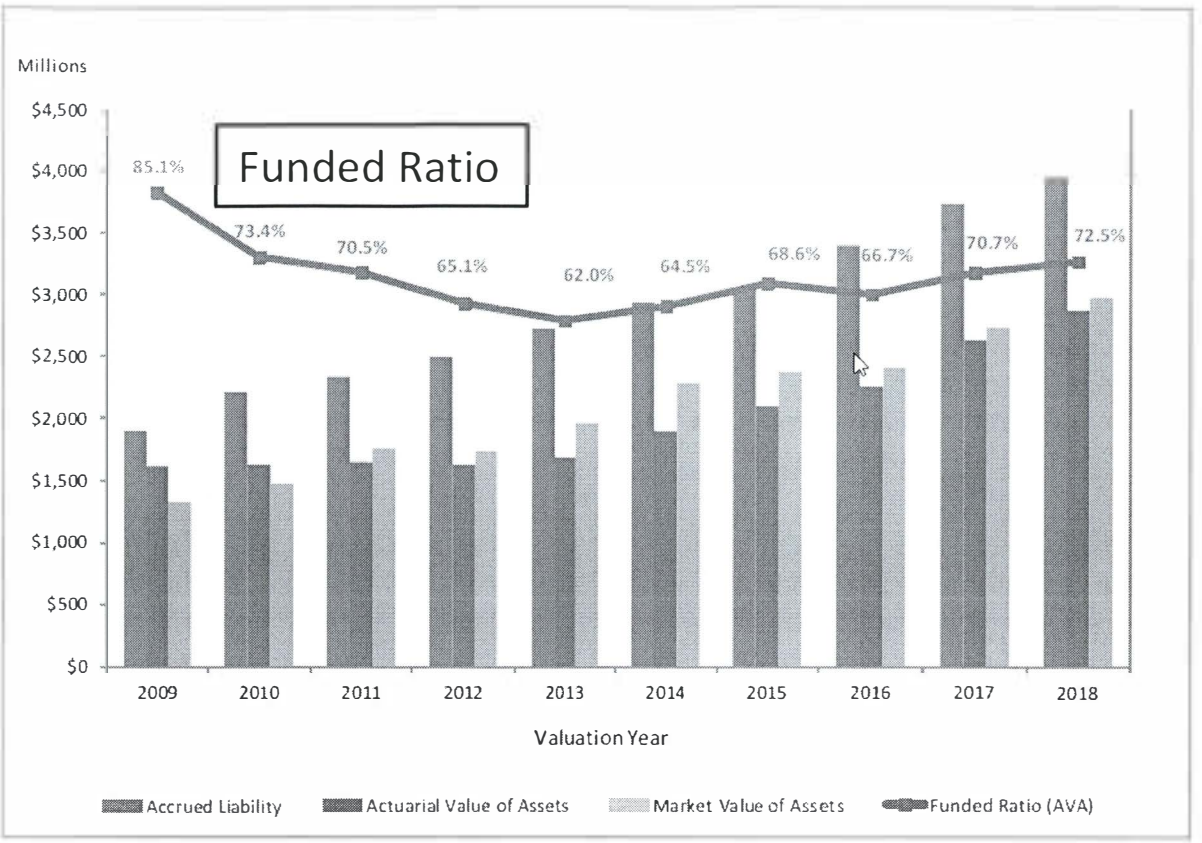
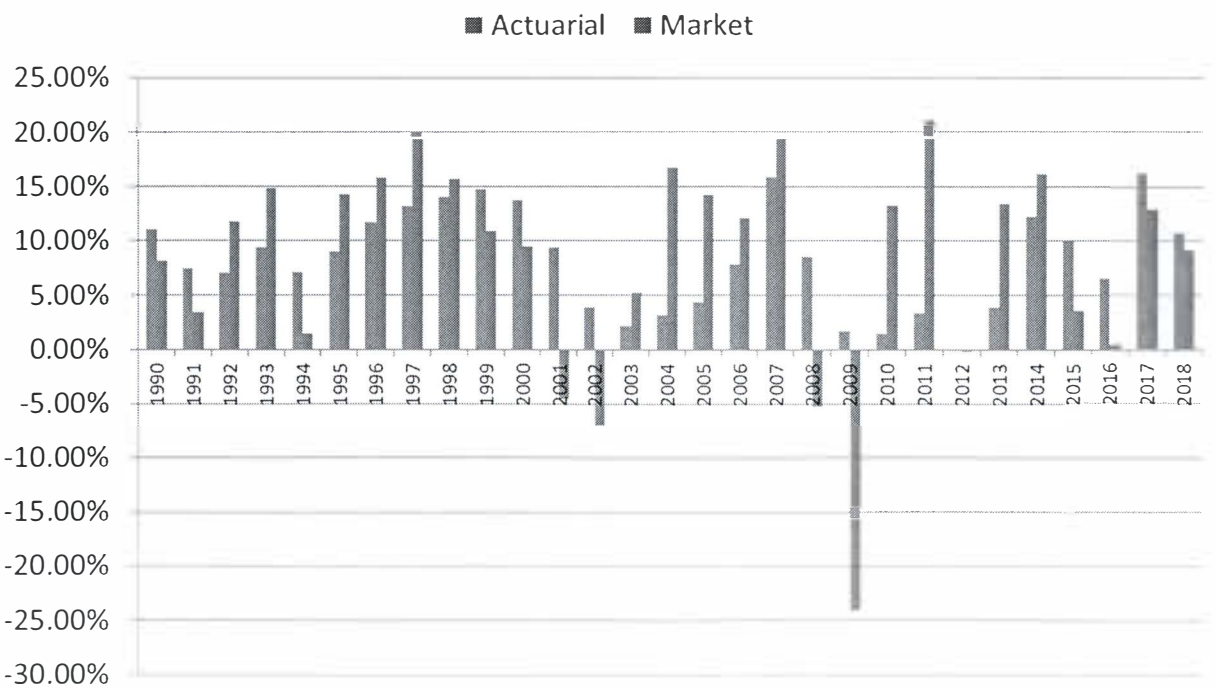
3-7-19



While the markets since then have been somewhat beneficial, returns have not been high enough to put us back on the course to full funding.



#1
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3-7-19

There are very few levers we can use to try to get the PERS plan back on the course to full funding. I have provided the general formula for funding a defined benefit retirement plan below:

Contributions + Investment Returns = ***Benefits*** + Expenses

Since investment returns are not high enough to put us back on the course to full funding, and expenses are not significant enough to have any effect on the equation, we must look at altering either "Contributions" or "Benefits".

Benefits are difficult to change for current members and retirees. This bill, Senate Bill 2046, addresses the "Contributions" sides of the equation by removing a non-retirement benefit, but only for new employees who begin employment after December 31, 2019. Those employees will no longer receive the RHIC. Their employer will instead submit that required 1.14% contribution to the Main PERS DB or DC plan, thereby increasing contributions to the plan by 1.14%. Note that when the RHIC was originally created in 1989, the funding for it came out of employer contributions to the Main PERS DB plan – employer contributions to the DB plan were reduced by 1.00%, and re-directed into the RHIC trust. In a subsequent legislative session the employer contribution was increased to 1.14%. This bill essentially reverses that for new employees and redirects the 1.14% RHIC employer contribution back into the retirement plan.

Our actuary has calculated that the contribution rate to the Main PERS DB plan is currently 4.13% below what is necessary to get us back to fully funded within a reasonable time period. While Senate Bill 2046 only increases contributions by 1.14%, it is sufficient to get us back on the course to full funding – our actuaries estimate that we would reach 100% funding by 2101, assuming all of our actuarial assumptions are met.

While 2101 is still a long way off, it still gets us back on the course to full funding, which is essential for two very important reasons – member confidence, and GASB liability reporting. GASB stands for "Governmental Accounting Standards Board". GASB provides "statements" that provide guidance for governmental entities, like the state and its political subdivisions, on how to report certain things in their financial statements. In the past few years, GASB issued a statement that requires retirement plans that are not projected to ever reach 100% funding – like the PERS plan – to report their liabilities using a discount rate that is below those plans' assumed rates of return. GASB calls that a "single discount rate".

The problem with using that single discount rate is that the rate is significantly below our assumed rate of return – our assumed rate of return is 7.75%, and the single discount rate we had to use this past year is 6.32%. Using a lower rate to determine our liabilities results in a significant increase in those projected liabilities: using the 7.75% rate results

#1
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3-7-19

in the $1.1 billion of unfunded liabilities I have already mentioned, whereas using the 6.32% rate results in almost $1.7 billion in unfunded liabilities – a 50% increase.

GASB also now requires the state and its political subdivisions to report that higher unfunded liability figure in their financial statements. As a result, the pension liabilities that have to be reported in the financial statements are 50% higher than they would be if we were on the course to being 100% funded. That is causing a significantly negative impact on many of our participating political subdivisions' financial statements. Those increased liabilities may also result in negative rating outlooks from the rating agencies, or even a reduction in the bond rating for your political subdivisions, increasing their cost of borrowing money.

Importantly, if this bill is passed, our actuary can take the increased funding into account when it performs the next actuarial valuation, and that single discount rate will move back to 7.75%. That, in turn, will significantly reduce the liabilities that the state and its political subdivisions must report, and may help their credit rating. That is one of the reasons it is imperative that we get back on the course to full funding as quickly as possible.

The second reason it is so important that we get back on the course to full funding is to provide confidence to your employees and retirees that the retirement benefit that you have guaranteed them will be there when they need it. As I mentioned, right now the main PERS plan is projected to be insolvent by 2106. At that point, the plan will be a pay-as-you-go plan, and we will need biennial appropriations of hundreds of millions of dollars in order to pay retirement benefits. In the below graph, you can see what our current trajectory looks like – it is the line that curves downward, and will eventually reach zero by 2106.

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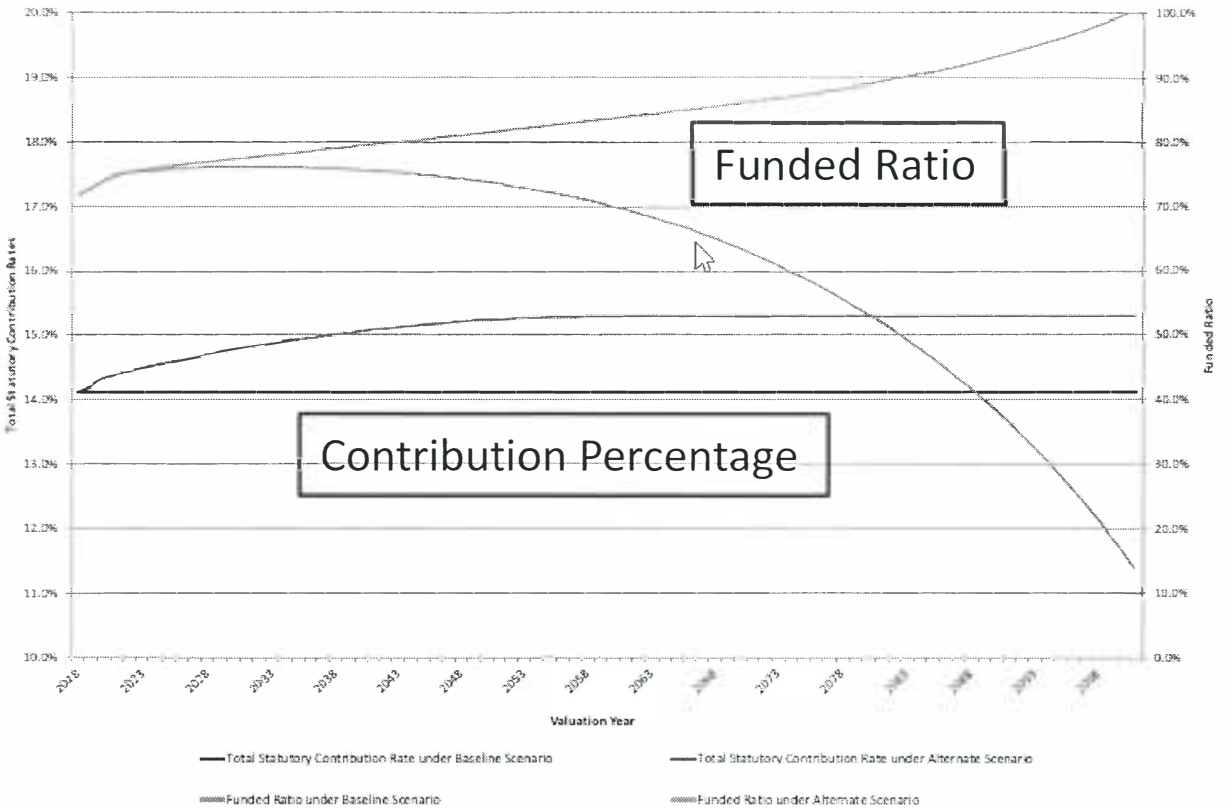
Main System Projected Funded Ratio (Actuarial Value of Assets) and Total Contribution Rates (Employee Plus Employer) Based on Actuarial Valuation as of July 1, 2018 Under Baseline and Alternate Scenario (Additional 1.14% Employer Contribution Rate for Members hired after December 31, 2019)



In comparison, the top line is the projection for the main PERS plan in the event that this legislation is passed. As you can see, the main PERS plan becomes 100% funded in 2101.

Although Senate Bill 2046 does increase the contributions into the main PERS plans, there is no additional cost to employers because it re-directs a contribution that must already be made by employers from the retiree health credit program to the retirement plan. As such, there is no fiscal effect to our participating employers for this bill. Yet with its passage, you will be able to guarantee the thousands of retirees across the state that they will continue to receive the benefits they were promised in exchange for their careers in public service, as you can see in the following map.

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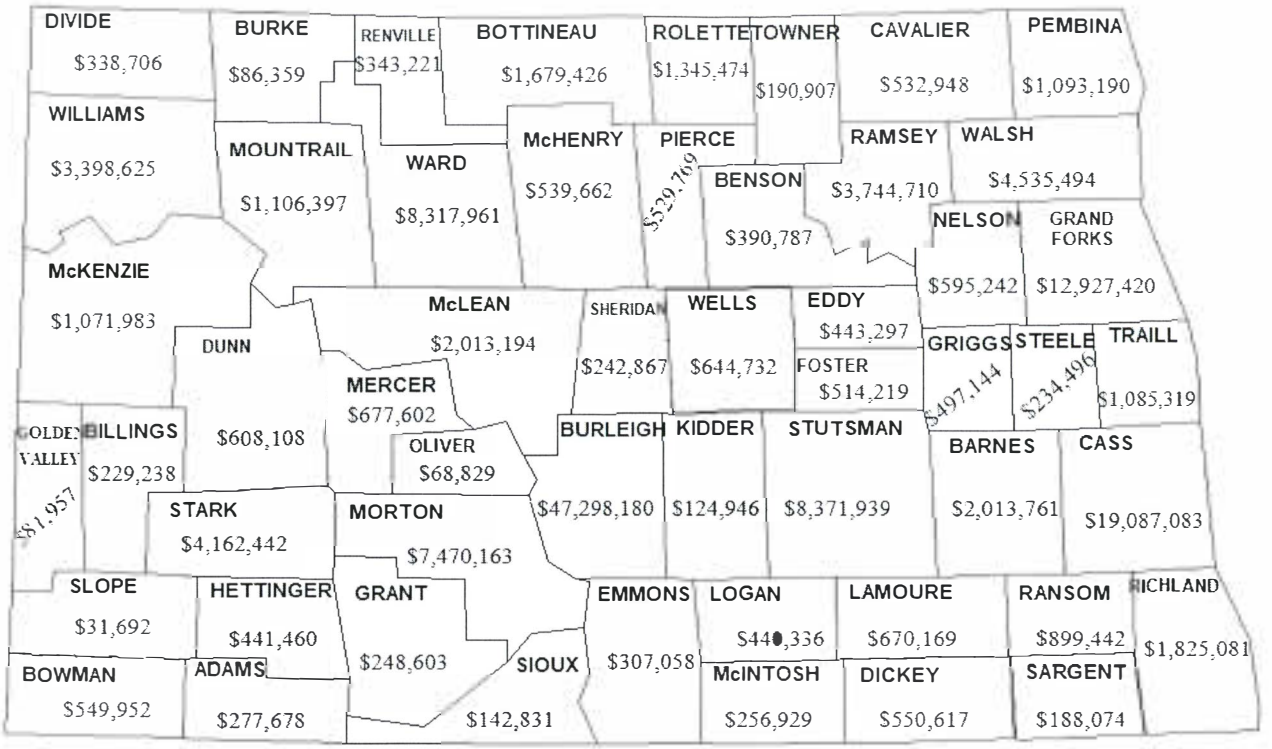
Annual Benefits 2017



Out-of-State - $23,452,715

In-State - $145,530,719

Total - $168,983,434

Please note that the RHIC is part of a comprehensive benefits package that makes it easier for the state and its political subdivisions to recruit and retain employees. Removing a benefit from that package is detrimental to both recruitment and retention. However, it is imperative that we get the main PERS plan back on the course to full funding. When the funded status of the plan dropped as a result of the dramatic drop in the financial markets, PERS presented a four-year recovery plan that would have put the plan on track to 100% funding. That plan was identical to the recovery plan proposed by TFFR, which was adopted. However, for PERS the Legislature only adopted 3 years of the 4 year plan. That was sufficient to stabilize the plan, but was not enough to put it on track to 100% like it was for TFFR. Consequently, to this point we have not been successful in getting approval for legislation that would get us back on the course to full funding. Because of that, the Board determined that it was best to make additional proposals that would not have a fiscal effect on our participating employers. This is one of those proposals.

In summary, the Employee Benefits Programs Committee, the NDPERS Board, the Legislative Assembly, and all of our members have worked together over the past eight years to try to come up with a way to get back on the course to full funding. While Senate Bill 2046 is not the perfect solution, it will help ensure that all of your hard work,

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and all of the contribution increases to date, finish the job you began in 2011, and set us back on the path to full funding of the retirement plan.

Thank you for all of your work and support in the past, and for your positive consideration of this Bill. With your leadership, we can again become fully funded.

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Great Public Schools *Great Public Service*

Testimony Before the House Government and Veterans Affairs Committee
SB 2046
Thursday, March 7, 2019

Good morning, Chairman Kasper and 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 stand before you today to urge a DO NOT PASS recommendation for SB 2046.

Mr. Chairman, North Dakota's state employees provide the vital public services that their fellow citizens deserve and depend on every day. And whether they are repairing our roads, caring for vulnerable North Dakotans, or collecting revenue due the state, they do so professionally and with great integrity. I am proud to represent them here today.

In North Dakota, state employees have gone past two years without an increase in salaries while virtually everything they need to sustain themselves and their families has increased in cost. We know that salaries 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 reduced their budgets by reducing their workforce and 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. SB 2046 serves to diminish benefits for future employees in that it discontinues the RHIC for employees hired after December 31, 2019. Benefits serve as important tools to recruit and retain highly competent and hard working 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. For that reason, Mr. Chairman and members of the Committee, I urge you to return a DO NOT PASS recommendation for SB 2046.

Thank you for the opportunity to speak with you today, Mr. Chairman. I will stand for any questions.

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3-7-19

Professional Fire Fighters of North Dakota

Darren Schimke, President | 218-779-4122 | dschimke@wiktel.com

3/7/2019

House Government and Veterans Affairs Committee

Mr. Chairman and members of the House Government and Veterans Affairs Committee,

My name is Darren Schimke, President of the Professional Fire Fighters of North Dakota. I rise before you on behalf of the PFFND in opposition of SB 2046.

Management consulting firm McKinsey reports that organizations that appear on "best places to work" lists often make the cut because their business strategy is premised on a long-term relationship with their employees. McKinsey credits companies for both the large and small signals sent to employees that an organization cares about its people.

Valued by employers as a workforce management tool to recruit and retain talent, offering defined benefit (DB) pension benefits is one way that employers send a loud signal to employees that they are committed to a long-term relationship. This provides a meaningful incentive for employees to stay in their job. Employees value pensions as a path of economic security in retirement. Decreasing plan benefits negatively affect that security. The recruitment and retention effects of pensions are key reasons why the public sector has maintained this type of retirement plan.

It's important to remember that one of the main reasons many entities throughout the State attract and retain its public employees is largely because these workers understand the long-term value of their pensions.

There are experiences logged throughout the internet that offer important cautionary tales for governments to consider when changes to pension benefits are being studied. Drastic changes can actually encourage employees to leave their employment/town rather than stay long term.

As an employee of the City of Grand Forks, I have witnessed firsthand the negative affects of decreases made to a retirement plan. In the mid 1990's, the City proposed decreases to the benefit multiplier and extending the average final years salary from 5 to 10, along with an increase in employee contribution. After a lengthy negotiation period, a compromise was made within all areas and implemented. A short time later, the City choose to close the DB plan to all new hires and open a DC retirement plan for them. Approximately 5 years later, as the firefighter's union president, I was seeing within my own department, and hearing from other departments, that we were experiencing major turnover. The majority of these departures were not due to retirements, as years prior, but for seeking employment elsewhere. At the time, the Grand Forks Police Dept FOP President told me that the number one reason for leaving employment stated during exit interviews was "better retirement benefits". The same reasons were being stated during exit interviews at the Fire Department, according

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to our then Fire Chief, Peter O'Neill. As the President of the City Employee Representative Group, I inquired with the members about the morale of their departments. It was staggering to hear how low it was and the actions that were being taken to demonstrate low morale by employees (or not being done). This was also being demonstrated within the fire department. With that concern, I inquired with HR and Finance about joining the ND PERS Retirement Plan. One of my many selling points was the longevity and stability of the plan. Long story short, the City of Grand Forks joined and DC plan participants are now in a DB plan along with all new hires. Within a few short years, I can honestly say the level of morale rose drastically. We understand that things change and adjustments need to be made from time to time. But things like completely cutting out a benefit and drastically decreasing another benefit all at once has the appearance of a knee jerk reaction that when something less would be more palatable and have the same results in the long run.

I currently serve on the City of Grand Forks Pension and Insurance Committee. Interestingly, we were not afforded the opportunity by ND PERS to provide our input in advance of this bill being heard at the Senate or House Committee hearings.

With the ever-growing competition within the job market, to be a best place to work, employers must signal to employees that they are valued over the long-term. Cuts within pension benefits sends the exact opposite message.

Thank you for the opportunity to stand in front of you today and now I will take any questions that you may have.

Darren Schimke

#4, SB 2046

Michael R. Brown
Mayor

3-7-19

City of Grand Forks

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TESTIMONY ON SENATE BILL 2046
Government and Veterans Affairs Committee
March 7, 2019

Tangee Bouvette, Compensation & Benefits Administrator
City of Grand Forks, ND

Mr. Chairman and members of the committee, my name is Tangee Bouvette, and I am the Compensation & Benefits Administrator for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express my opposition to this legislation.

The NDPERS retirement system is an excellent defined benefit pension plan and a key recruitment and retention tool for the City of Grand Forks as well as numerous other local government entities, in addition to the State.

The City of Grand Forks, in general, has supported the NDPERS plan and its efforts to become fully funded. The City supports current legislation to increase contribution rates and has supported past legislation to increase contribution rates over the last 10 years.

The City of Grand Forks opposes Senate Bill 2046, which would discontinue the Retiree Health Insurance Credit (RHIC) benefit for new employees hired on or after 1/1/2020 and transfer the employer contribution to the Main Defined Benefit and Defined Contribution plans prospectively. Implementing this change would reduce current benefits and create disparity between current and future employees.

The City supports implementing incremental funding changes to the NDPERS plan and monitoring funding every two years, but is compelled to contest reducing the value of this benefit to future employees. It is for these reasons the City of Grand Forks opposes Senate Bill 2046.

Thank you for your consideration.

GRS Retirement Consulting

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4/1/19

October 24, 2018

Representative Mike Lefor, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: North Dakota Public Employees Retirement System Legislative Studies – Provisions from Bill No. 19.0131.01000

Dear Representative Lefor:

In accordance with your request, we have analyzed the impact of provisions from Bill No. 19.0131.01000 on the North Dakota Public Employees Retirement System (NDPERS).

Systems Affected

North Dakota Public Employees Retirement System (PERS) and Defined Contribution Plan

Summary

Bill No. 19.0131.01000 (Affects the Main System and the Defined Contribution Plan):

- The employee contribution rate on behalf of temporary employees increases by 2.00% of salary effective with the monthly reporting period of January 2020.
  - The rate increases from 14.12% of salary to 16.12% of salary for the Main System and the Defined Contribution Plan.
- The employee contribution rate on behalf of full time employees increases by 1.00% of salary effective with the monthly reporting period of January 2020.
  - The rate increases from 7.00% of salary to 8.00% of salary for the Main System and the Defined Contribution Plan.
- The employer contribution rate increases by 1.00% of salary effective with the monthly reporting period of January 2020.
  - The rate increases from 7.12% of salary to 8.12% of salary for the Main System and the Defined Contribution Plan.

This analysis is based on projections of the actuarial valuation results for the Main System of the North Dakota Public Employees Retirement System (NDPERS) based on the actuarial valuation as of July 1, 2018.

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Actuarial Impact of Bill 131 on the Main System

Based on the baseline projection which assumes (1) no increase in employee or employer contributions, (2) no changes to benefit provisions, and (3) no gains or losses and all actuarial assumptions from the actuarial valuation as of July 1, 2018 are realized, the funded ratio of the Main System is not projected to reach 100%. The funded ratio is projected to be 76.1% in 2032 and decrease thereafter.

Based on the projection of the Main System actuarial valuation results as of July 1, 2018, with the provisions proposed in the bill, which assumes (1) a one percent of pay increase in both employee and employer contribution rates beginning January 1, 2020, (2) no changes to benefit provisions, and (3) no gains or losses and all actuarial assumptions used in the actuarial valuation as of July 1, 2018 are realized, the funded ratio of the Main System is projected to reach 100% in 2057.

Under North Dakota Century Code Section 54-52-06.5, effective July 1 following the first actuarial valuation of the PERS Main System that show a funded ratio of 100% or higher (based on the actuarial valuation of assets), the members and employer contribution rates must be reduced to the rate in effect on July 1, 2013. Employee contribution rate was 6.00% and employer contribution rate was 6.12% on July 1, 2013.

The following graphs and exhibits provide additional information on the projected funded ratio for the Main System:

- Graph I: Comparison of Projected Funded Ratios for the Main System Under Baseline Scenario and the scenario proposed in the Bill (Alternate Scenario)
- Table I: Detailed Projection Results Under the Baseline Scenario
- Table II: Detailed Projection Results Under the Alternate Scenario

Actuarial Impact of Bill 131 on the Defined Contribution Plan

Under Bill 131, the employee contribution rate and the employer contribution rate to the Defined Contribution Plan would each increase by 1.00 percent of pay. By definition, a defined contribution plan is always 100 percent funded. Therefore, there is no impact to the funded status of the defined contribution plan as a result of this change.

Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

The 1.00 percent increase in both member and employer contributions would have no impact on retirement benefits for existing members in the Main System.

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October 24, 2018

Representative Mike Lefor, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: North Dakota Public Employees Retirement System Legislative Studies – Provisions from Bill No. 19.0129.02000

Dear Representative Lefor:

In accordance with your request, we have analyzed the impact of provisions from Bill No. 19.0129.02000 on the North Dakota Public Employees Retirement System (NDPERS).

Systems Affected

North Dakota Public Employees Retirement System (PERS) and Defined Contribution Plan (DC Plan) and North Dakota Retiree Health Insurance Credit Fund (RHIC)

Summary

Bill No. 19.0129.02000 (Affects the PERS Main System, DC Plan and RHIC):

- If first enrolled after December 31, 2019, the employee contribution rate to PERS or the DC Plan on behalf of temporary employees increases by 1.14% of salary.
  - The rate increases from 14.12% of salary to 15.26% of salary for the Main System or the DC Plan.
  - Employees enrolled after December 31, 2019, in the Main System or the DC Plan are not eligible to receive credit under RHIC.
- If first enrolled after December 31, 2019, the employer contribution rate to PERS or the DC Plan increases by 1.14% of salary.
  - The rate increases from 7.12% of salary to 8.26% of salary for the Main System or the DC Plan.
  - Employees enrolled after December 31, 2019, in the Main System or the DC Plan are not eligible to receive credit under RHIC.

This analysis is based on projections of the actuarial valuation results for the Main System of the North Dakota Public Employees Retirement System (NDPERS) based on the actuarial valuation as of July 1, 2018, and reallocating employer statutory contributions from the Retiree Health Insurance Credit Fund (RHIC) of 1.14% of pay for PERS Main System members hired after December 31, 2019, to the PERS Main System beginning January 1, 2020.

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For DC Plan members enrolled after December 31, 2019, employer statutory contributions previously made to RHIC will be made to members' DC accounts.

Actuarial Impact of Bill 129 on the Main System

Based on the baseline projection which assumes (1) no increase in employee or employer contributions, (2) no changes to benefit provisions, and (3) no gains or losses and all actuarial assumptions from the actuarial valuation as of July 1, 2018 are realized, the funded ratio of the Main System is not projected to reach 100%. The funded ratio is projected to be 76.1% in 2032 and decrease thereafter.

Based on the projection of the Main System actuarial valuation results as of July 1 ,2018, with the provisions proposed in the bill, which assumes (1) no increase in employee or employer contributions for current employees and beginning January 1, 2020, a 1.14% of pay increase in employer contributions for employees hired after December 31, 2019, (2) no changes to benefit provisions, and (3) no gains or losses and all actuarial assumptions from the actuarial valuation as of July 1, 2018 are realized, the funded ratio of the Main System is projected to reach 100% in 2101.

Under North Dakota Century Code Section 54-52-06.5, effective July 1 following the first actuarial valuation of the PERS Main System that show a funded ratio of 100% or higher (based on the actuarial valuation of assets), the members and employer contribution rates must be reduced to the rate in effect on July 1, 2013. Employee contribution rate was 6.00% and employer contribution rate was 6.12% on July 1, 2013.

Based on the current employee and employer contribution rates and all assumptions being realized in the future, a Single Discount Rate (SDR) of 6.34% is needed for PERS for GASB 67 for fiscal year ending June 30, 2018, and for GASB 68 for fiscal year ending June 30, 2019. This is based on a projected crossover year of 2061 and a long-term expected rate of return of 7.75% for PERS. Based on additional employer contributions of 1.14% of pay for new hires beginning January 1, 2020, no crossover year is projected, which results in a SDR of 7.75%. However, because the funded ratio is not projected to reach 100% until 2101 with the additional contributions, future unfavorable experience or future assumption changes may result in a crossover year and a SDR that is lower than the long-term expected rate of return in a future GASB 67/68 measurement.

The following graphs and exhibits provide additional information on the projected funded ratio for the Main System:

1. Graph I: Comparison of Projected Funded Ratios for the Main System Under Baseline Scenario and the scenario proposed in the Bill (Alternate Scenario)
2. Table I: Detailed Projections under the Baseline Scenario
3. Table II: Detailed Projections under the Alternate Scenario

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