

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1070

2005 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1070

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1070


House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 1/20/05

Tape Number	Side A	Side B	Meter #
1		x	2.1-47.5

Committee Clerk Signature



Minutes: HB 1070 Calculation of final average salary under the highway patrolmen's retirement system. 13 members present, 1 absent.

**Sparb Collins-Executive Director of the North Dakota Public Employees Retirement**

**System or PERS-For- See Attached Testimony**

**Chairman Haas:** I have two questions, number one can you give us an example where the last 36 months would not be the highest and where you would have to go back into the previous 180 months to find the three highest.

**Sparb:** A couple of examples, first of all you could have someone in a management position or our political subdivision and as a result of different things, maybe as a result just wanting to have a change that person could move to another job in a lower paying position and if that went on for to long that would affect their retirement benefits and that change could come about as a result of reorganization with the employer or just manager may feel a need to take a job with less pressure.

**Chairman Haas:** The second question is the one time payment versus doing what you could do to enhance the benefit on an on going basis, the pros and cons of those two ideas. Why this situation would not allow for a continuing increase.

**Sparb:** While what we are balancing here is the ability to the fund to be able to afford and the needs of the retirees'. Clearly our retirees have not had an adjustment in years, so they need some assistance. If we give a cost of the living adjustment like we have in the past, of lets say 4 per cent, that gets built into the liability, that 4 percent gets built in a retiree adjustment for perpetuity, until they pass away **and** so it has a long term affect on the liabilities of the fund. It increases those liabilities by 4 percent, not only this year, but every year there after, until that group of retirees passes away, so that is extensive in the sense on going type of thing. The one time payment we don't build any long term liability increase, we make a one time payment, liability is funded a longer term will remain basically the same. Therefore it was felt that might be a more affordable way to do it, not necessarily the preferred way, but something the fund could do, if the fund makes that 11.2% return that means we are continuing on the road to recovery. You can share part of that return of that 11.2% with the retirees, that would be about .85, share that with them and the remaining positive return goes back to the fund, to continue to gain some of those pass losses. .

**Tom Tupa-Association of Former Public Employees (AFPE)-For-Attached Testimony**

**Rep. Froseth:** Your amendment would have an affect on the fund more then likely, we would need a new fiscal, just for your amendment, to see how that would affect it.

**Tom:** If the amendments were accepted, there is a possibility that if the return were increased by one-half percent it would be an additional cost, in the amount that would be issued to the retirees,

**that** is correct. Those could be calculated I think on the fiscal note by just adding 25% to each one, Mr. Collins and the pers folks would be able to calculate that figure rather quickly.

**Rep. Froseth:** Could we have Mr. Collins speak to us, because I don't think we can consider this amendment unless we have a new fiscal note.

**Chairman Haas:** I think you are right Rep. Froseth, we wouldn't consider the amendments, until we have some actual information on it.

**Rep. Klemin:** I understand that this, I thought these bills had to go through the employees benefit committee in advance, did you present that to that committee at the time when we were considering this?

**Tom:** We did not present it to that committee, however we had, I suggested to Sparb that we would be talking about changing it to reach that 100% level and there was some discussion with committee members that we would be seeking some additional compensation for the retirees.

**Chairman Haas:** Mr. Collins testimony, I believe, indicated that this did receive a favorable recommendation, am I not right.

**Mr. Klemin:** I guess I am wondering from a legal standpoint here, since this has to go through the employee benefits committee to start with, shouldn't these kinds of amendments gone through the employee benefits committee too?

**Chairman Haas:** Technically I believe you are correct, I think Rep. Froseths comment is very appropriate and that we would not consider these amendments until we have some kind of information on the fiscal impact on the funds.

**Rep. Klemin:** Can we even consider them if they haven't gone through this committee at this time.

**Rep. Grande:** The procedures for the employee benefit committee to have to hear his amendment, be only if has a certain negative amount to the fund, if it is not going to have a great enough negative impact to the fund, the employee benefits committee does not have to hear it, again. So we will need to hear an actuary report, if it proves not to have a great affect then we can as a committee move forward with out the recommendation of the employee benefit committee, if we have an amendment that has a great affect to the fund, then we have to take it back to the employee benefits, they have to take jurisdiction of it again, they have to make a recommendation, they can only recommend, they don't vote up or down and then they pass that back to us.

**Rep. Froseth:** Could we have Sparb come back to the podium.

**Chairman Haas:** I think what we would like to have you do Sparb, if it is possible, is to take this information that is in here and maybe run some numbers, whatever you could do with it and get back to us by 2:30 or 3:00 this afternoon.

**Sparb:** That takes some time.

**Chairman Haas:** That can't be done that rapidly.

**Sparb:** It has to go down to our actuary and the actuary would have to take a look at it, the amendment is doubling the pay out amount and lowering the threshold and to give you a report as it came forward. Our long term plan, from an actuarial stand point we would turn back to a positive situation in about six or seven years. If we made a rate of return at about 10.3% per year and so the proposal you have before you, as you noticed get us to that point making that 10.3% a year. What this would do is lower the threshold and extend the time frame and that would be something the actuary would have to look at.

**Rep. Klemm:** How did you arrive at the local .2% to start with.

**Sparb:** That basically has to do with that long term. The losses that we accrued on a actuary basis, how long would it take us to get back to a 100% fund and we made about a 10.3% return for about six or seven years we would get back to a 100% fund on an actuarial basis. Right now, today we are at about 92 to 94 percent on an actuary basis. On a market value basis, we are about 99%, so what we did, we said OK if our target is to get 10.3% , to kind of set the losses that we accrued, then if we are going to get the retirees half of a thirteen check, how much more do we need to get to generate the additional funds to share with them and to keep us on our 10.3% course, that is where you add up 10.3 and the .85, that should total somewhere right around 11.2% and so if that method was going to apply here and we were going to a 100% if suggested in this bill, you would be going up the 11.2 threshold, you would be going over a 12% threshold.

**Rep. Kasper:** Could you give the committee a cost to have the actuary run this request.

**Sparb:** I think they can do this in hour or two and pay them a couple of hundred dollars an hour.

**Rep. Kasper:** This is not a magnificent cost.

**Sparb:** I think about three hundred dollars.

**Chairman Haas:** Thank you Sparb. Any further testimony in favor of HB 1070? Any more testimony on HB 1070?

The hearing will be closed on HB 1070.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1070

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 2/10/05

Tape Number	Side A	Side B	Meter #
7	x		24.3-28.2

Committee Clerk Signature



Minutes: Calculation of final average salary under the highway patrolmen's retirement system.

13 members present, 1 absent.

Discussion and voting.

**Chairman Haas:** This was if you recall was a bill the Sparb Collins testified on. It received a favorable recommendation from the employees benefits committee. The purpose of the bill, if the margin in the fund reaches a certain percentage, then the public employees who are on retirement will receive a thirteenth check. We did not amend the bill.

**Rep. Sitte:** I move a DO PASS on HB 1070.

**Chairman Haas:** A DO PASS MOTION by Rep. Sitte. Is there a second, seconded by Rep.

**Grande.** Is there any discussion, if not I will ask the clerk to take the roll.

**VOTE: YES 13 NO 0 ABSENT 1 DO PASS**

**REP. GRANDE WILL CARRY THE BILL.**



**FISCAL NOTE**  
**Requested by Legislative Council**  
12/22/2004

Bill/Resolution No.: HB 1070

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

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

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

No fiscal effect since the proposed payment would be made directly from the retirement fund and no increase in contributions is required.

**3. State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

**A. Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

**B. Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

**Name:** Sparb Collins  
**Phone Number:** 328-3901

**Agency:** Public Employees Retirement System  
**Date Prepared:** 12/30/2004

Date: 2/10/05  
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1070

House House Government and Veterans Affairs

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

DO PASS

Motion Made By

Rep Sitte

Seconded By

Rep Grande

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

Total (Yes)

13

No

0

Absent

1

Floor Assignment

Rep Grande

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

**REPORT OF STANDING COMMITTEE (410)**  
February 10, 2005 5:37 p.m.

**Module No: HR-27-2494**  
**Carrier: Grande**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1070: Government and Veterans Affairs Committee (Rep. Haas, Chairman)**  
recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).  
HB 1070 was placed on the Eleventh order on the calendar.

2005 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1070

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1070**

**Senate Government and Veterans Affairs**

Business and Conference Committee

Hearing Date March 4, 2005

Tape Number

1

Side A

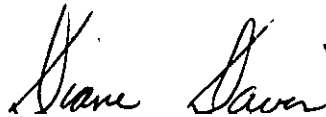
x

Side B

Meter #

2125-3537

Committee Clerk Signature



**Chairman Krebsbach** opens hearing on **HB 1070**

**Relating to supplemental payments to retirees under the highway patrolmen's retirement system and the public employees retirement system.**

(meter #2125)

**Sparb Collins** - PERS - See written testimony.

(meter #2503)

**Senator Brown** - Asked if the fiscal note has no dollars.

**Collins** - Said there should be no fiscal effect because it will be paid directly from the fund.

**Senator Brown** - Asked how they are doing year to date.

**Collins** - He said as of February 24, we are at 10.8%.

**Senator Krebsbach** - Mentioned that the Public Employees Retirement Committee report was favorable.

(meter #2688)

**Chris Runge** - NDPEA - Said this bill is very important to their retirees. In favor, strong support of this bill.

**Tom Tupa** - Association of Former Public Employees - Whole heartedly endorse this bill but would like the committee to consider an amendment that reduces the trigger from 11.2 % down to 9%.

**Senator Krebsbach** - Pointed out that this amendment that is proposed would have to go back to the PERS board for their approval.

**Tupa** - He said that it has been suggested to them.

**Senator Krebsbach** - Asked why the trigger of 11.2 was chosen.

**Collins** - Replied that if their fund can get a 10.3 return every year for another 7 years on an actuarial basis they would return back a positive margin. The actuary came back at .85, they only recognize a gain or loss of 20% in a year, so they added 10.3. Came up with 11.2.

**Senator Syverson** - Asked what the total value of the fund is right now.

**Collins** - Replied, about 1.2 billion.

**Senator Krebsbach** - Said if there was time they could have a PERS overview.

Closed hearing on 1070.

(meter #3367)

**Senator Brown** moved for a do pass on the bill

**Senator Nelson** seconded

Page 3

Senate Government and Veterans Affairs

Bill/Resolution Number **HB 1070**

Hearing Date March 4, 2005

**Senator Brown** made the motion because he feels the actuary has determined what it is going to take in order for the plan to afford the 13th check.

**Senator Nelson** seconded for the same reason.

Called roll on 1070 for do pass

**Senator Brown** will carry

(meter #3537)

Date: 3/4/05  
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1070

Senate **Government and Veterans Affairs**

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

*Do Pass*

Motion Made By

*Senator Brown*

Seconded By

*Senator Nelson*

Senators
Karen K. Krebsbach, Chairman
Richard L. Brown, Vice Chairman
Judy Lee
John O. Syverson

Yes

No

*X*  
*X*  
*X*  
*X*

Senators
Carolyn Nelson

Yes

No

*X*

Total (Yes)

*5*

No

*0*

Absent

*0*

Floor Assignment

*Senator Brown*

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



**REPORT OF STANDING COMMITTEE (410)**  
March 4, 2005 11:09 a.m.

**Module No: SR-40-4158**  
**Carrier: Brown**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1070: Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman)**  
recommends **DO PASS** (5 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1070  
was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1070

**REPORT OF THE LEGISLATIVE COUNCIL'S  
EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
HOUSE BILL NO. 1070**

**Sponsor:** Retirement Board

**Proposal:** Defines final average salary for purposes of the Highway Patrolmen's retirement system and the PERS main system for contributors who retire on or after July 1, 2009, as the average of the highest salary received by the contributor for any 36 months employed during the last 180 months of employment; defines final average salary, for an employee employed on August 1, 2005, as the average of the highest salary received by the contributor for any 36 months employed during the last 120 months of employment multiplied by 1.03; provides that if the Retirement Board determines that the retirement fund has obtained a total return on investment of 11.2 percent or higher for the fiscal year ending June 30, 2005, or June 30, 2006, and that the retirement fund has the necessary margin to pay for the benefit, the board is required to authorize a one-time payment to each retiree receiving benefit payments of 50 percent of the retiree's then current monthly benefit payment.

The committee amended the bill at the request of the sponsor to remove the provisions of the bill that have an actuarial cost.

**Actuarial Analysis:** The proposal, as amended, has no actuarial cost impact. The actuarial consultant reported that a total annualized additional return on the market value of assets of approximately .85 percent from the trust fund would offset the cost for the one-time postretirement payment. This payment is contingent on an 11.20 percent annualized return on investment.

**Actuarial Cost Analysis:** The bill's impact on the July 1, 2004 actuarial valuation results for the affected retirement systems is summarized in the following tables:

**Highway Patrolmen's Retirement System**

	Valuation Results	Three Percent Final Average Salary Increase
Actuarial accrued liability	\$44,468,717	\$45,092,327
Normal cost	\$1,251,027	\$1,287,436
Required contribution	\$1,026,385	\$1,106,315
Required contribution increase	-	\$79,930
As a percentage of payroll	-	1.48%
Payroll	\$5,393,150	\$5,393,150

For the one-time postretirement payment equal to 50 percent of the member's current monthly benefit payment, the increase in the actuarial accrued liability would be \$97,078. A total annualized additional return on the market value of assets of approximately .29 percent from the trust fund would offset the cost for the one-time postretirement payment. This payment is contingent on an 11.20 percent annualized return on investments.

**Main, Judges, and National Guard - One-Time Postretirement Payment**

For the one-time postretirement payment equal to 50 percent of the member's current monthly benefit payment, the increase in the actuarial accrued liability would be \$2,063,273. A total annualized additional return on the market value of assets of approximately .85 percent from the trust fund would offset the cost for the one-time postretirement payment. This payment is contingent on an 11.20 percent annualized return on investments.

**Public Employees Retirement System - Main System**

	Valuation Results	Three Percent Final Average Salary Increase
Actuarial accrued liability	\$1,250,849,240	\$1,274,301,827
Normal cost	\$44,743,189	\$45,862,040
Required contribution	\$31,157,298	\$33,912,912
Required contribution increase	-	\$2,755,614
As a percentage of payroll	-	.56%
Payroll	\$494,519,798	\$494,519,798

**Public Employees Retirement System - Judges**

	Valuation Results	Three Percent Final Average Salary Increase
Actuarial accrued liability	\$18,420,517	\$18,793,908
Normal cost	\$935,392	\$963,806
Required contribution	\$548,288	\$604,824
Required contribution increase	-	\$55,536
As a percentage of payroll	-	1.26%
Payroll	\$4,415,921	\$4,415,921

**Public Employees Retirement System - National Guard**

	Valuation Results	Three Percent Final Average Salary Increase
Actuarial accrued liability	\$1,150,323	\$1,174,966
Normal cost	\$56,058	\$57,590
Required contribution	\$18,502	\$21,754
Required contribution increase	-	\$3,252
As a percentage of payroll	-	0.57%
Payroll	\$569,829	\$569,829

**Public Employees Retirement System - Law  
Enforcement With Prior Main Service**

	Valuation Results	Three Percent Final Average Salary Increase
Actuarial accrued liability	\$2,427,097	\$2,498,956
Normal cost	\$223,964	\$117,100
Required contribution	\$91,822	\$99,973
Required contribution increase	-	\$8,151
As a percentage of payroll	-	0.79%
Payroll	\$1,165,355	\$1,165,355

**Public Employees Retirement System - Law  
Enforcement Without Prior Main Service**

	Valuation Results	Three Percent Final Average Salary Increase
Actuarial accrued liability	\$10,430	\$10,671
Normal cost	\$40,185	\$41,336
Required contribution	\$27,667	\$28,835
Required contribution increase	-	\$1,168
As a percentage of payroll	-	0.35%
Payroll	\$331,277	\$331,277

**Committee Report:** Favorable recommendation.

TESTIMONY OF  
SPARB COLLINS  
ON  
HOUSE BILL 1070

Mr. Chairman, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill.

House Bill 1070 relates to the PERS retirement plan and Highway Patrol retirement plan.

Section 1 of the bill relates to the Highway Patrol retirement plan and changes the definition of final average salary from highest 36 consecutive months to highest 36 months out of the last 120 months and in 2009 changes it to 180 months. Please note the final average salary is a key variable in figuring a member's retirement benefit in these plans. Specifically a member's benefit is figured by taking the final average salary times the years of service times the multiplier. For example, if someone's final average salary is \$3,000 and their years of service is 25 and the multiplier is "2%" the calculation would be as follows:

$$\$2,000 \times 25 \times .02 = \$1,000$$

The first change relating to the change to highest 36 months instead of consecutive 36 months would make the final average salary calculation the same as it is the PERS plan. This means that instead of adding up the highest 36 consecutive months which is generally the last 36 months of employment and dividing by 36, we would add the highest 36 months from the last 120 months of employment and divide that number by 36 to determine final average salary. The proposed method helps to avoid having an abnormal situation in the final three years reduce a member's retirement benefit. The second change is to make it the highest 36 months out of 180 months instead of 120

months. This same proposal is also made to the PERS retirement plan in Section 3 of the bill. This change is in recognition of our changing work environment. That is, some of our members now elect to continue in employment in lower paying positions. For example, a member may have transitioned from management to a staff position or due to agency reorganization or other change in covered employment a member may elect to take a lower paying position. Under present statute if that occurs for more than 7 years the member's final retirement benefit is reduced. This provision would allow a member up to 12 years before it would have an effect on the calculation. This provision would make a member's benefit more portable and help to ensure that a member's retirement income is not reduced as a result of change in positions. Under our present statute the member would need to leave covered employment to avoid this situation. Also some members do not become aware of this situation until too late.

Section 2 and 4 of the bill provide a benefit increase for the retirees of the PERS plan and Highway Patrol plan of an amount equal to half of their retirement check in either January of 2006 or 2007 if the total return of the fund is 11.2% or more in the preceding fiscal year's actuary report. For example let's assume a retiree's monthly annuity is \$1,000. If the plan would earn 11.2% or more in one of those years that member would get an additional check in one of the years equal to \$500, which is half their monthly annuity of \$1,000. This method is proposed since the retirement funds are still recovering from several years of losses. By using this method we would only be providing the increase if the fund continues to have positive earnings and we would be sharing only a part of those positive earnings with the retirees and the other part would go to the fund. This method is not as beneficial as the method we used in the 90's when we were able to give cost of living adjustments, however, it does provide an affordable method to provide some assistance to our retirees who have not received an increase in benefits since August of 2001 or almost 4 years.

The provisions of this bill have been reviewed by the PERS actuary. The actuary determined that the one time retiree adjustments could be paid from positive returns and for the main system if the return was 11.2% it would take .85% of that to make the one

time payment with the remaining earning of 10.35% going to the fund. These provisions have also been reviewed by the Legislative Employee Benefits Committee and given a favorable recommendation. The fiscal note for this bill indicates no fiscal effect since the proposed payment would be made directly from the retirement fund and no increase in contributions is required. On behalf of the PERS Board I would request your favorable consideration of this bill. Mr. Chairman this concludes my testimony.

DIRECT DIAL NUMBER  
303 714-9919

E-MAIL ADDRESS  
wmalles@segalco.com

January 27, 2005

Mr. J. Sparb Collins  
Executive Director  
North Dakota Public Employees Retirement System  
P.O. Box 1657  
Bismarck, ND 58502

Re: Proposed Amendment to HB 1070

Dear Sparb:

We have reviewed the proposed amendment to HB 1070. The following contrasts the existing proposal compared to the amendments and what they mean to the future funding status of PERS.

HB 1070 as proposed

As proposed, HB 1070 provides an increase to retirees in the form of a 13<sup>th</sup> check that is half the amount of their existing annuity if the fund's return is 11.20% or greater in either the first year of the biennium or the second. The net return to the fund under this proposal is assumed to be 10.30% per year. The following projects the funded status of PERS if the fund returns 10.30% each year:

Year	Funded Ratio (AVA)	Funded Ratio (MVA)	Contribution Margin
2004	93.72%	99.23%	-2.18%
2005	90.20%	101.19%	-2.84%
2006	89.53%	103.22%	-3.01%
2007	91.57%	105.32%	-2.66%
2008	94.33%	107.51%	-2.16%
2009	96.31%	109.80%	-1.79%
2010	98.40%	112.21%	-1.39%
2011	100.60%	114.75%	-0.95%
2012	102.93%	117.44%	-0.48%
2013	105.42%	120.31%	0.03%
2014	108.08%	123.39%	0.58%
2015	110.95%	126.70%	1.17%



2016	114.06%	130.30%	1.79%
2017	117.46%	134.23%	2.46%
2018	121.20%	138.55%	3.17%
2019	125.36%	143.35%	3.93%
2020	130.02%	148.74%	4.73%
2021	135.31%	154.86%	5.57%
2022	141.40%	161.89%	6.46%
2023	148.50%	170.10%	7.40%
2024	156.94%	179.87%	8.39%

As the above demonstrates, the fund could provide the benefit increase and still return to 100% funded status at actuarial value within about seven years and a positive margin in nine years, assuming the fund earns a market value rate of return of 10.30% per year.

#### Proposed Amendment

We understand the proposed amendment would provide a 13<sup>th</sup> check at the following points:

- At 9.50% market value rate of return, a 13<sup>th</sup> check equal to one quarter of the monthly annuity.
- At 10.00% market value rate of return, a 13<sup>th</sup> check equal to half of the monthly annuity.
- At 10.50% market value rate of return, a 13<sup>th</sup> check equal to three quarters of the monthly annuity.
- At 11.00% market value rate of return, a 13<sup>th</sup> check equal to the monthly annuity.

The following information shows the payments from the fund at the various rate of return points for each proposal.

<b>Annual Rate of Return</b>	<b>HB 1070 as Proposed</b>	<b>HB 1070 as Amended</b>
9.50%	N/A	\$1,159,666
10.00%	N/A	\$2,319,331
10.50%	N/A	\$3,478,997
11.00%		
to		
11.20%	\$2,319,331	\$4,638,663

We have also calculated the effect on the funding period resulting due to the payment of the 13<sup>th</sup> check at the 10.50% level, as shown below:

Year	Funded Ratio (AVA)	Funded Ratio (MVA)	Contribution Margin
2004	93.72%	99.23%	-2.18%
2005	89.90%	100.86%	-2.90%
2006	89.24%	102.88%	-3.06%
2007	91.27%	104.97%	-2.72%
2008	94.01%	107.15%	-2.22%
2009	95.98%	109.42%	-1.86%
2010	98.05%	111.82%	-1.46%
2011	100.24%	114.34%	-1.02%
2012	102.56%	117.01%	-0.55%
2013	105.02%	119.86%	-0.05%
2014	107.66%	122.92%	0.50%
2015	110.51%	126.20%	1.08%
2016	113.60%	129.77%	1.70%
2017	116.97%	133.66%	2.36%
2018	120.68%	137.95%	3.07%
2019	124.80%	142.71%	3.82%
2020	129.42%	148.05%	4.61%
2021	134.66%	154.11%	5.45%
2022	140.68%	161.08%	6.33%
2023	147.71%	169.21%	7.27%
2024	156.07%	178.87%	8.24%
2025	166.21%	190.61%	9.27%

You will note in the above the effect is to move back by one year reaching a positive margin.

### Conclusions

- The proposed amendment would provide an increase to retirees earlier.
- The effect on the system would be to add an additional year to being able to return to a positive margin.
- All proposals assure that the fund would reach the actuarial required rate of return.

~~While all proposals assure that the actuarial rate of return is achieved it is then a policy decision relating to the sharing of the gain with the retirees versus the plan.~~

Mr. J. Sparb Collins  
January 27, 2005  
Page 4

If you have any questions about the information contained in this letter, please let us know.

Sincerely,

Wally Malles, ASA, MAAA, EA  
Associate Actuary

Cc: Leslie L. Thompson, FSA, MAAA, EA

139817/01640.004

## TESTIMONY ON HB 1070

### HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE

January 20, 2005

Mr. Chairman and members of the committee, my name is Tom Tupa and I am representing the Association of Former Public Employees (AFPE). I am here in urging your support for HB 1070.

AFPE is a 1300 member organization made up of retired State employees. In 2004 they established two objectives for their membership. One was to seek a 13<sup>th</sup> retirement check in the amount of 100% of the current retirement monthly benefit.

In 2001 the retiree participants received a 6 % increase in their checks. This was as a result of the good performance of the retirement fund during the previous 2 years. After 9-11, the market dropped off and in the 2003 Session, no requests were made for a retiree adjustment. The retirees knew there would be some slim years ahead and accepted that fact. But, the retiree costs continued to increase and, in the last year, the fund has returned to positive gains. Hopefully, in future years, the gains will continue, allowing retirees to see enhancements to make up for some of the losses.

What HB 1070 does, is provide for a 13<sup>th</sup> check to retirees if the retirement fund performs beyond a certain level. The trigger for the 13<sup>th</sup> check is set at 11.2 % return. If the return achieves or exceeds that level, a 13<sup>th</sup> check in the amount of 50% of the retiree's regular monthly check will be provided. For some retirees that amount could be very little.

For that reason, I would like to offer 2 amendments. The first one is on page 1, line 24. I am asking the committee to delete "eleven and two tenths" and replace it with "nine". This lowers the trigger but keeps it above the assumed rate of return.

The second change is on the second page, line four. At the end of the first "payment" and before the period, insert words to the affect "and for each one half per cent increase over nine percent, an additional one quarter of the monthly retiree check, be added not to exceed one hundred percent of the monthly retiree amount".

Mr. Chairman and members of the committee, these changes would give the retirees more hope of getting the one time, non-recurring increase adjustment and would help offset some of the rising costs they have been seeing -- costs that have been reducing their standard of living for the past couple of years and which could continue if this bill is not passed. I encourage the committee to give a "do pass" to an amended version of HB 1070.

Thank you, Mr. Chairman and committee members. I will try to respond to any question you might have.

TESTIMONY OF  
SPARB COLLINS  
ON  
HOUSE BILL 1070

Madame Chair, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill.

House Bill 1070 relates to the PERS retirement plan and Highway Patrol retirement plan.

Section 1 of the bill relates to the Highway Patrol retirement plan and changes the definition of final average salary from highest 36 consecutive months to highest 36 months out of the last 120 months and in 2009 changes it to 180 months. Please note the final average salary is a key variable in figuring a member's retirement benefit in these plans. Specifically a member's benefit is figured by taking the final average salary times the years of service times the multiplier. For example, if someone's final average salary is \$2,000 and their years of service is 25 and the multiplier is "2%" the calculation would be as follows:

$$\$2,000 \times 25 \times .02 = \$1,000$$

The first change relating to the change to highest 36 months instead of consecutive 36 months would make the final average salary calculation the same as it is the PERS plan. This means that instead of adding up the highest 36 consecutive months which is generally the last 36 months of employment and dividing by 36, we would add the highest 36 months from the last 120 months of employment and divide that number by 36 to determine final average salary. The proposed method helps to avoid having an abnormal situation in the final three years reduce a member's retirement benefit. The

second change is to make it the highest 36 months out of 180 months instead of 120 months. This same proposal is also made to the PERS retirement plan in Section 3 of the bill. This change is in recognition of our changing work environment. That is, some of our members now elect to continue in employment in lower paying positions. For example, a member may have transitioned from management to a staff position or due to agency reorganization or other change in covered employment a member may elect to take a lower paying position. Under present statute if that occurs for more than 7 years the member's final retirement benefit is reduced. This provision would allow a member up to 12 years before it would have an effect on the calculation. This provision would make a member's benefit more portable and help to ensure that a member's retirement income is not reduced as a result of change in positions. Under our present statute the member would need to leave covered employment to avoid this situation. Also some members do not become aware of this situation until too late.

Section 2 and 4 of the bill provide a benefit increase for the retirees of the PERS plan and Highway Patrol plan of an amount equal to half of their retirement check in either January of 2006 or 2007 if the total return of the fund is 11.2% or more in the preceding fiscal year's actuary report. For example let's assume a retiree's monthly annuity is \$1,000. If the plan would earn 11.2% or more in one of those years that member would get an additional check in one of the years equal to \$500, which is half their monthly annuity of \$1,000. This method is proposed since the retirement funds are still recovering from several years of losses. By using this method we would only be providing the increase if the fund continues to have positive earnings and we would be sharing only a part of those positive earnings with the retirees and the other part would go to the fund. This method is not as beneficial as the method we used in the 90's when we were able to give cost of living adjustments, however, it does provide an affordable method to provide some assistance to our retirees who have not received an increase in benefits since August of 2001 or almost 4 years.

The provisions of this bill have been reviewed by the PERS actuary. The actuary determined that the one time retiree adjustments could be paid from positive returns and

for the main system if the return was 11.2% it would take .85% on an actuarial recognition basis to make the one time payment with the remaining earning of 10.35% going to the fund. These provisions have also been reviewed by the Legislative Employee Benefits Committee and given a favorable recommendation. The fiscal note for this bill indicates no fiscal effect since the proposed payment would be made directly from the retirement fund and no increase in contributions is required. On behalf of the PERS Board I would request your favorable consideration of this bill. Madame Chair this concludes my testimony.



#1070  
TESTIMONY ON HB 1070

SENATE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE

March 4, 2005

Madame Chairman and members of the committee, my name is Tom Tupa and I am representing the Association of Former Public Employees (AFPE). I am here in urging your support for HB 1070.

AFPE is a 1300 member organization made up of retired State employees. In 2004 they established two objectives for their membership. One was to seek a 13<sup>th</sup> retirement check in the amount of 100% of the current retirement monthly benefit.

In 2001 the retiree participants received a 6 % increase in their checks. That was as a result of the good performance of the retirement fund during the previous 2 years. After 9-11, the market dropped off and in the 2003 Session, no requests were made for a retiree adjustment. The retirees knew there would be some slim years ahead and accepted that fact. But, their costs have continued to increase and, in the last year, the fund has returned to positive gains. Hopefully, in future years, the gains will continue, allowing retirees to see enhancements to make up for some of the losses.

What HB 1070 does, is provide for a 13<sup>th</sup> check to retirees if the retirement fund performs beyond a certain level. The trigger for the 13<sup>th</sup> check is set at 11.2 % return. If the return achieves or exceeds that level, a 13<sup>th</sup> check in the amount of 50% of the retiree's regular monthly check will be provided. For some retirees that amount may be rather small while for others it could be a nice bonus.

OVER

For that reason, I would like to offer an amendment. On page 1 line 24, and on page 2 line 21, I am asking the committee to delete "eleven and two tenths" and replace it with "nine". This lowers the trigger but keeps it above the assumed rate of return by 2 percent.

Madame Chair and members of the committee, this change would give the retirees more hope of getting the one time, non-recurring increase adjustment which would help offset some of the rising costs they have been seeing – costs that have been reducing their standard of living for the past couple of years and which could continue if this bill is not passed. I encourage the committee to give a "do pass" to an amended version of HB 1070.

Thank you, Madame Chair and committee members. I will try to respond to any question you might have.