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July 25, 2008

Representative Bette Grande, Chair
Legislative Employee Benefits Programs Committee
3510 42nd Ave S
Fargo, ND 58104-6669

Re: **Technical Comments – Bill Draft No. 90118.0100**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 90118.0100:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan) and Retiree Health Benefit Fund

Summary: The proposed legislation would transfer peace officers and correctional officers employed by the State department of corrections and rehabilitation from participation in the Public Employees Retirement System (PERS) Hybrid Plan under the rules applicable to general State employees to participation under the rules applicable to peace officers and correctional officers of political subdivisions.


Actuarial Cost Analysis: The bill would transfer approximately 546 members of the Hybrid Plan from the main retirement plan to the law enforcement plan. Consistent with other such transfers we have assumed that assets equal to the actuarial accrued liability in the main retirement plan would be transferred to the law enforcement plan, and all service would be counted in the law enforcement plan. This will cause a cost decrease in the main retirement plan and a cost increase in the law enforcement plan.

Technical Comments: Our comments on the bill are as follows:

General

The Hybrid Plan provides very similar levels of benefits to both general State employees and peace officers and correctional officers of political subdivisions, including the benefit accrual

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formula (2% of final average salary times years of service), death benefits, and optional forms of retirement benefits. However, these employee groups have different normal retirement dates and early retirement dates. For general State employees, the normal retirement date is age 65 or attaining Rule of 85 eligibility, and the early retirement date is age 55 with three years of eligible employment. For peace officers and correctional officers of political subdivisions, the normal retirement date is age 55 with three consecutive years of eligible employment or attaining Rule of 85 eligibility, and the early retirement date is age 50 with three years of eligible employment. These differences may have important implications for the System, including actuarial costs.

Benefits Policy Issues

➤ **Adequacy of Retirement Benefits**

The bill will enhance retirement benefits for peace officers and correctional officers employed by the State department of corrections and rehabilitation because they will now be able to retire (both reduced and unreduced retirement) at an earlier age.

➤ **Benefits Equity and Group Integrity**

Under the bill, peace officers and corrections officers employed by the State department of corrections and rehabilitation would retire under normal and early retirement dates that are similar to the retirement dates of their peers (other peace officers and corrections officers in the State) who are employed by political subdivisions.

➤ **Competitiveness**

The bill may increase the benefits competitiveness of the System only for peace officers and correctional officers employed by the State department of corrections and rehabilitation.

➤ **Purchasing Power Retention**

No impact.

➤ **Preservation of Benefits**

No impact.

➤ **Portability**

Since peace officers and correctional officers employed by the State department of corrections and rehabilitation would participate under PERS rules for peace officers and correctional officers of political subdivisions, there would be complete portability of benefits between these two groups. That is, such officers could transfer employment one group to the other without affecting PERS benefits in any way.

➤ Ancillary Benefits

- ♦ No impact.
- ♦ Social Security: No impact.

Funding Policy Issues

➤ Actuarial Impacts

The following table illustrates the effect on the actuarially calculated cost of both plans had the transfer of members and assets been effective July 1, 2007. Note that while both plans show a decrease in the actuarially determined contribution rate of 0.02%, the actual effect of the transfer is a cost increase, since members are switching from the less expensive plan to the more expensive plan.

| | July 1, 2007 Before Transfer* | July 1, 2007 After Transfer |
|--|----------------------------------|--------------------------------|
| Law Enforcement with Prior Main Service | | |
| Actuarial accrued liability | \$9,278,936 | \$47,567,007 |
| Assets at market value | \$8,074,771 | \$41,388,907 |
| Assets at actuarial value | \$6,459,817 | \$33,111,126 |
| Unfunded liability | \$2,819,119 | \$14,455,881 |
| Amortization payment | \$196,747 | \$1,008,880 |
| Normal cost | \$424,407 | \$2,099,878 |
| Administrative expense | \$3,270 | \$5,000 |
| Total cost | \$624,424 | \$3,113,758 |
| Payroll | \$4,870,238 | \$24,330,706 |
| Total cost as percent of pay | 12.82% | 12.80% |
| Member cost as percent of pay | 4.00% | 4.00% |
| Employer cost as percent of pay | 8.82% | 8.80% |
| Main Plan | | |
| Actuarial accrued liability | \$1,575,666,628 | \$1,542,352,492 |
| Assets at market value | \$1,834,842,842 | \$1,801,528,706 |
| Assets at actuarial value | \$1,467,874,273 | \$1,441,222,964 |
| Unfunded liability | \$107,792,355 | \$101,129,528 |
| Amortization payment | \$7,522,858 | \$7,057,857 |
| Normal cost | \$49,460,425 | \$47,888,557 |
| Administrative expense | \$710,000 | \$710,000 |
| Total cost | \$57,693,283 | \$55,656,414 |
| Payroll | \$570,355,040 | \$550,894,572 |
| Total cost as percent of pay | 10.12% | 10.10% |
| Member cost as percent of pay | 4.00% | 4.00% |
| Employer cost as percent of pay | 6.12% | 6.10% |

- * The "before transfer" column reflects an assets transfer of \$3,116,031 from the Main Plan to the Law Enforcement Plan for members who transferred prior to July 1, 2007. This asset transfer was not reflected in the July 1, 2007 valuation.

The net effect of the transfer of members from the main retirement plan to the law enforcement plan is an increase in employer costs of \$452,466.

These cost estimates are based on the July 1, 2007 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

➤ Investment Impacts

- ◆ Asset Allocation: The bill does not create new investment asset allocation issues.
- ◆ Cash Flow Impacts: The bill may create new cash flow needs, but the impact on the System is minimal.

Administration Issues

➤ Implementation Issues

The bill will require that the System reprogram the prior service of peace officers and correctional officers employed by the State department of corrections and rehabilitation to be counted under the rules applicable to peace officers and correctional officers of political subdivisions. While this bill would have minimal impact on administrative costs of the System, it would have an effect on the participating employer since the required contributions would increase.

➤ Administrative Costs

The bill will have minimal effect on administrative resources. However, employer contributions for the State will increase as follows:

There are approximately 546 correctional officer and peace officers that work for the State who would be transferred from the PERS main retirement plan to the PERS law enforcement plan. Table 1, below, gives an estimate of those who would be eligible and where they work. The immediate fiscal effect of transferring them from the main system to the law enforcement plan is on the employer contribution. The contribution rate in the main system is 4.12% of salary, while the rate in the law enforcement plan is 8.31% of salary.

TABLE 1

| Department | Employees | Monthly Salary | Cost at Main Contribution Rate (4.12%) | Cost at Law Enforcement Contribution Rate (8.31%) | Monthly Increase |
|------------------------------|------------|--------------------|--|---|------------------|
| 125 – Attorney General | 36 | \$129,502 | \$5,335 | \$10,762 | \$5,427 |
| 223 – Youth Corrections | 50 | \$134,594 | \$5,545 | \$11,185 | \$5,640 |
| 504 – Highway Patrol | 1 | \$4,085 | \$168 | \$339 | \$171 |
| 502 – Parole | 85 | \$271,322 | \$11,178 | \$22,547 | \$11,369 |
| 518 – Jamestown Penitentiary | 123 | \$300,267 | \$12,371 | \$24,952 | \$12,581 |
| 519 – Bismarck Penitentiary | 174 | \$474,216 | \$19,538 | \$39,407 | \$19,869 |
| 520 – Roughrider | 19 | \$52,635 | \$2,169 | \$4,374 | \$2,205 |
| 720 – Game & Fish | 34 | \$136,098 | \$5,607 | \$11,310 | \$5,703 |
| Higher Education | 24 | \$80,125 | \$3,301 | \$6,658 | \$3,357 |
| TOTAL | 546 | \$1,582,844 | \$65,212 | \$131,534 | \$66,322 |

Table 2 provides an estimate of the increase in expenditures by employer and funding source.

TABLE 2

| Department | Biennium Increase* | Funding Source Gen, Fed, Other | General Increase | Other Increase |
|------------------------------|--------------------|-----------------------------------|--------------------|------------------|
| 125 – Attorney General | \$130,248 | 76%, 22%, 03% | \$98,988 | \$31,260 |
| 223 – Youth Corrections | \$135,360 | 100%, 00%, 00% | \$135,360 | \$0 |
| 504 – Highway Patrol | \$4,104 | 76%, 00%, 24% | \$3,119 | \$985 |
| 502 – Parole | \$272,856 | 98%, 02%, 00% | \$267,399 | \$5,457 |
| 518 – Jamestown Penitentiary | \$301,944 | 100%, 00%, 00% | \$301,944 | \$0 |
| 519 – Bismarck Penitentiary | \$476,856 | 98%, 02%, 00% | \$467,319 | \$9,537 |
| 520 – Roughrider | \$52,920 | 00%, 00%, 100% | \$0 | \$52,920 |
| 720 – Game & Fish | \$136,872 | 00%, 00%, 100% | \$0 | \$136,872 |
| Higher Education | \$80,568 | 00%, 00%, 100% | \$0 | \$80,568 |
| TOTAL | \$1,591,728 | 84%, 04%, 12% | \$1,274,129 | \$317,599 |

* Assumes no increase in salaries over the 24-month period.

➤ Needed Authority

No impact.

➤ Cross Impact on Other Plans

The bill may have an impact on the Retiree Health Benefit Fund due to a specific group of employees being permitted to retire at an earlier age than under current rules, as noted earlier.

➤ Employee Communications

The bill will require employee communications to the peace officers and correctional officers employed by the State department of corrections and rehabilitation to describe the new retirement rules applicable to them, including the normal retirement age and early retirement age.

Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



Melanie Walker, JD
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