TESTIMONY EMPLOYEE BENEFITS PROGRAMS COMMITTEE BILL #2 9/21/10

North Dakota Education Association

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The North Dakota Education Association (NDEA) wishes to go on record urging the Employee Benefits Programs Committee to oppose Bill #2. This bill proposes to end the current TFFR defined benefit retirement program by barring future participation by North Dakota teachers as of July 31, 2011. The NDEA opposes this bill for multiple reasons.

First, defined contribution plans (DC plans) were never intended to be retirement plans. These plans were first enacted in 1977 as a tax deferment plans for executives. Money management practitioners soon saw that there was money to be made in these plans, so they were extended to everyone as a means of reducing tax payments in exchange for saving money for retirement. They were not intended to be used as replacements for defined benefit plans (DB plans) and they should not be used as such for future North Dakota teachers. DC plans were intended to be the third leg of retirement in combination with the DB plan and social security. This bill asks employers and employees to put the same funding into an inferior product. This doesn't appear to be good public policy.

The National Institute on Retirement Security (NIRS) estimates that it costs 46 percent more to fund a DC plan as it does to fund a DB plan if one hopes to achieve an equal benefit. In its report issued in August of 2008 NIRS attributed the efficiency of the DB plan to three factors: Longevity risk pooling in a DB plan saves 15 percent; Maintenance of a balanced portfolio diversification in a DB plan saves 5 percent; and a DB plan's superior investment returns saves 26 percent.

DB plans also give back to the state of North Dakota. In February 2009 NIRS issued a report called "Pensionomics: Measuring the Impact of State and Local Pension Plans." In the state of North Dakota the report found that in 2006 state and local pensions supported: 1,584 jobs that paid $71.4 million in wages and salaries; $203.8 million in total economic output; and $27 million in federal , state and local tax revenues. The NIRS report further concluded that for each dollar "invested" by North Dakota taxpayers in these plans supported $9.33 in total economic activity in the state.

Although we do not have the figures, it is a safe guess that ending the DB plan will exacerbate the funding hole. West Virginia tried this experiment and they ended up going back to the DB plan because no one was happy with the outcome. We do not need to repeat a failed