



**North Dakota  
Public Employees' Retirement System  
Legislative Employee Benefits Programs  
Committee**

**Analysis of Bill Draft No. 10080.0200**

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## Summary of Bill Draft Provisions

- Closes participation in the PERS Hybrid and HPRS Plans and establishes a new Defined Contribution (DC) Plan for employees hired after July 31, 2011.
- New employees of political subdivisions would still be eligible to participate in the Hybrid Plan. Currently, political subdivisions represent approximately 47% of the active population of the Main System.
- Temporary State employees hired after July 31, 2011 would only be able to elect to participate in the DC Plan.
- Contribution rates for new State employees in the DC Plan would be the same contribution rate as statutorily required under the defined benefit plans applicable to the appropriate employee group.
  - 8.12% of payroll for Main System members
  - 27.00% of payroll for Highway Patrol members

## Actuarial Cost and Technical Analysis

- If the Statutory Contribution Rate were adjusted to achieve full funding, the increase would be greater under the proposed legislation than it would be under the current plan.

Estimated Total\* Contribution Requirements to Achieve Full Funding

	Current Plan		Closed Plan	
	Amount (000's)	Percentage of Payroll	Amount (000's)	Percentage of Payroll
Main System (State Only)	\$74,125	17.10%	\$101,348	23.38%
Highway Patrol	2,919	38.94%	3,613	48.20%

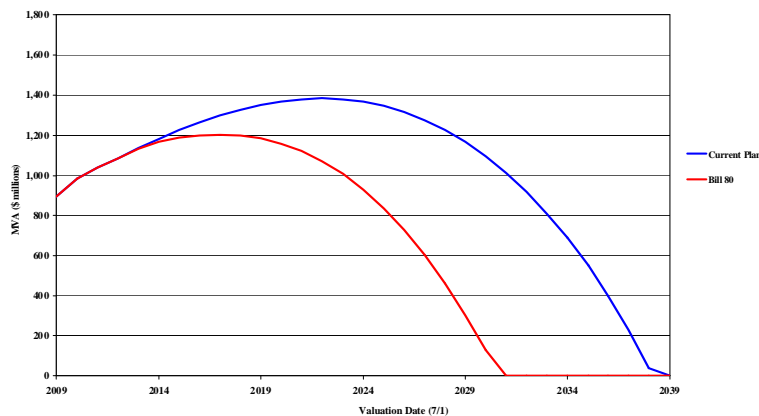
\* Employer plus member contributions

- Using current Statutory Contribution Rates, assets exhausted earlier under proposed plan
  - Main System State assets would be exhausted in 2031 (proposed plan) vs. 2039 (current plan)
  - Highway Patrol assets would be exhausted in 2040 (proposed plan) vs. 2072 (current plan).

## Main System State Employees

### Asset Exhaustion Date Based on Current Contributions

Chart 1  
North Dakota Main System State Employees  
Market Value of Assets  
(Market Return 13.67% for FY 2010 and 8.0% Thereafter)

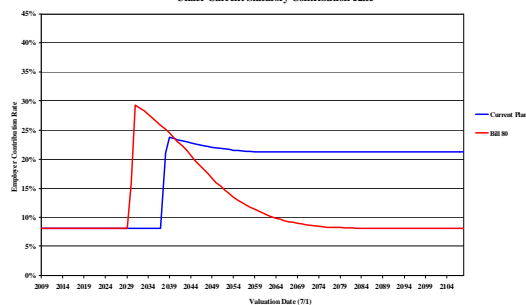


## Main System State Employees

### Total Contributions

- When assets are exhausted, the annual contribution will equal the annual benefit payments
  - Plan's liabilities must still be met
  - Under Bill 80, the employer contributions for the Main System are projected to rise to over 29% of payroll in the year that the funds are depleted
  - Under the Main System's current Plan, the employer contributions are projected to rise to 24% in the year that the funds are depleted

Chart 4  
North Dakota Main System State Employees  
Statutory Contribution Rate Plus Required Benefit Payments  
Combined Total Contributions (DB Plus DC) as a Percent of Total Payroll  
Under Current Statutory Contribution Rate



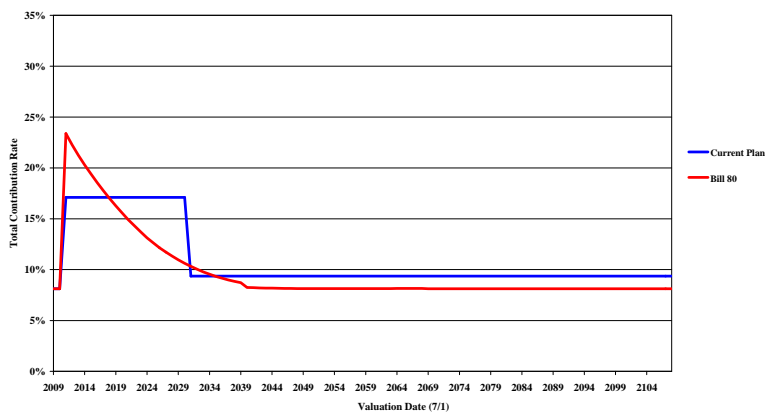
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## Main System State Employees

### Contributions Needed to Amortize Current Plan over 20 Years

Chart 5  
North Dakota Main System State Employees  
Level Prefunding Contribution Rates  
Combined Total Contributions (DB Plus DC) as a Percent of Total Payroll  
20 Year Amortization for Current DB Plan

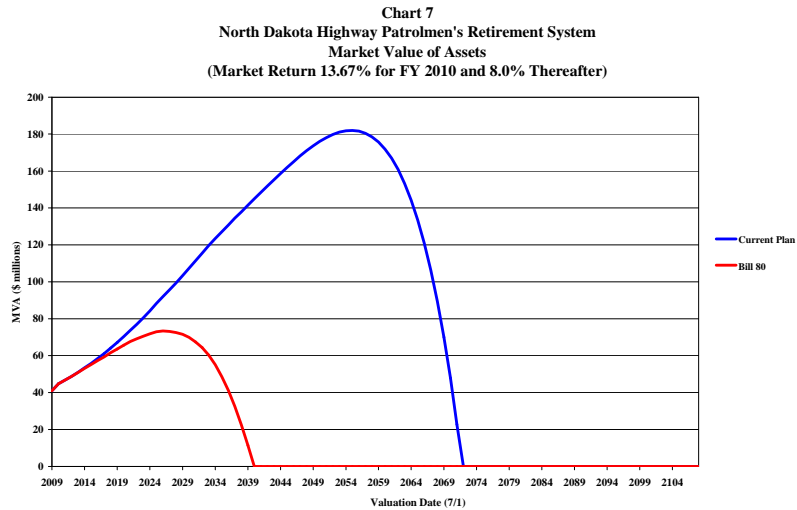


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## Highway Patrol

### Asset Exhaustion Date Based on Current Contributions



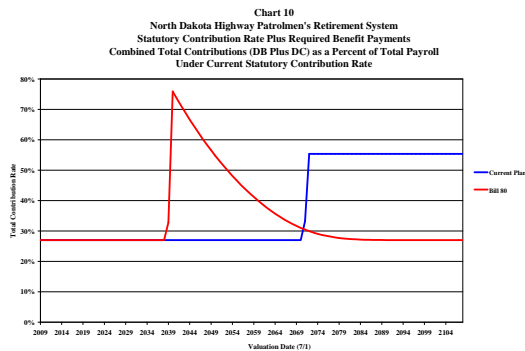
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## Highway Patrol

### Total Contributions

- When assets are exhausted, the annual contribution will equal the annual benefit payments
  - Plan's liabilities must still be met
  - Under Bill 80, the employer contributions for Highway Patrol are projected to rise to over 75% of payroll in the year that the funds are depleted
  - Under the Highway Patrol's current Plan, the employer contributions are projected to rise to 55% in the year that the funds are depleted

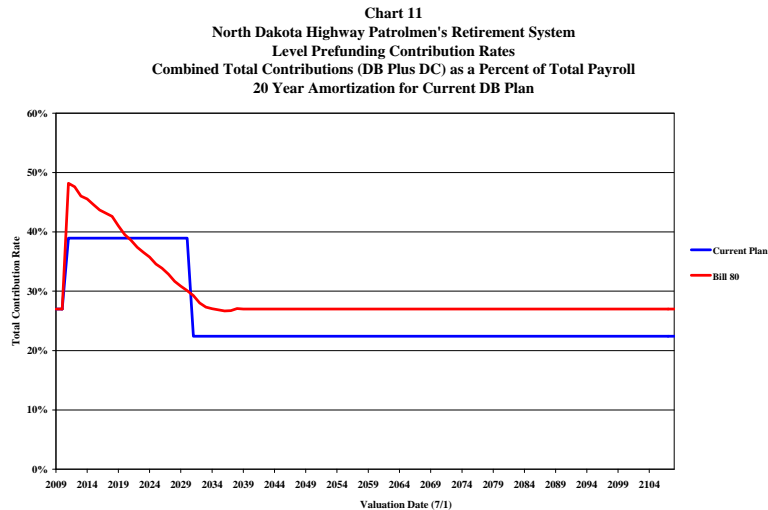


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## Highway Patrol

### Contributions Needed to Amortize Current Plan over 20 Years



## Other Issues

- Ancillary benefits under the proposed DC Plan
  - Lower spouse and disability benefits equal to the member's account balance
  - Eliminates Portability Enhancement Provision (PEP) – an incentive for supplemental retirement savings under the Hybrid Plan
- Ability to provide Ad Hoc adjustments to retiree benefits would be challenging since contributions to the Hybrid plan will be reduced
- Special plan design provisions for law enforcement officers (including the Highway Patrol) and judges are not replicated in Bill 80.
- Investment risk
  - Bill 80 shifts the investment risk from the employer to the members
  - Investment education will be needed to help the member with this added responsibility

## Level of Retirement Benefits

- Proposed DC Plan provides lower retirement benefits
  - To provide benefits comparable to the Hybrid plan would require greater DC Plan contributions
  - Analysis of projected retirement benefits of 240 participants in DC plan compared to DB benefit that would have been earned
  - Over 90% of the participants are projected to receive less than 50% of the DB benefit at the 8.12% contribution level

Ratio of DC to DB	Future Contribution Rate		
	Current Plan 8.12%	16.50%	20.00%
Less than 50%	227	59	39
50% - 75%	10	129	107
75% - 100%	3	51	71
100% and Over	1	2	24
Total	241	241	241

## Other Considerations

- Ancillary benefits (Death, Disability) must be provided outside the proposed DC Plan.
- Retiree Health Benefits are currently coordinated with retirement eligibility under the Hybrid Plan.