ERS Analysis of Comparability and Equity Issues Related to LC #80 and Considerations

September 20, 2010

Issues	Description	Considerations	Cost Estimate[3]
Law Enforcement plans (Highway patrol, Law Enforcement and National Guard	The plan design for law enforcement provides for retirement at age 55. It was noted in testimony provided over the last several biennium's that it is important for the public interest and safety to allow this transition out of the profession at this age due to the physical capabilities necessary to successful meet the job requirements. A DC plan was considered but last session it was decided to use the DB plan. Also it should be noted that for the Highway Patrol members that: • They are not in Social Security and this is their only retirement plan. • They have a mandatory retirement age of 60 set in statute (39-03.1-18 NDCC). • The "presumption clause" for WSI. The effect of having older troopers as a result of a change to the DB plan could effect this cost. • They have a higher disability benefit (70%) and special consideration would need to be given to providing a disability insurance for them. • It should be reviewed if a change to the DC retirement plan would effect their exemption from social security and if so if it would require them to start participating. If it did this would an additional cost to the state for FICA payments and to the trooper	If the goal of the state is to continue to provide this type of plan design an option would be to not include the law enforcement plans in the DC plan	Would be the cost of maintaining the existing plan

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	trooper The DB format is the optimum method to provide for an age 55 retirement		
Judges Retirement Plan	According to the Report of the Legislative Councils Retirement Committee that did the initial study establishing the system "The deescalating multiplier was adopted by the committee because it both encourages mid-career attorneys to assume positions on the bench because of its high benefit accrual rate and it encourages older judges to retiree because of its low benefit Accrual rate after 20 years of service". This policy that is reflected in the plan design cannot be implemented in the DC plan as proposed	If the goal of the state is to continue to provide this type of plan design an option would to not include the Judges in the DC plan	Would be the cost of maintaining the existing plan
Survivor Benefit	The DB plan provides for survivor benefits. Four options are provided including a lifetime benefit of 50% of the accrued benefit payable to the spouse for the remainder of their life. The DC spouse benefit is the account balance. Consequently the DC plan does not provide as sound of a benefit for spouses for employees without a significant account balance. For many employers that is offset since they provide their employees employer paid life insurance that will help the spouse. In North Dakota we provide $1,300 in coverage but since the DB plan had a sound spouse benefit this was not as critical	An alternative to providing survivor benefits in the retirement plan could be to expand the employer provided life insurance coverage from the existing $1,300 to a higher amount such as $50,000. This would equal about $300 a month for 25 years or about $460 for 12 years	$5.1 Million[1]
Disability	The PERS DB plan has a disability retirement benefit of 25% of final average salary. The DC plan only benefit is that account balance which for many members unless they are	An alternative to providing this in the DB plan would be to add an employer paid disability insurance as a benefit for state	$1.6 Million[1]

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	account balance which for many members unless they are older with many years of service would not be adequate. Some employers have employer paid disability that insures against this contingency	disability insurance as a benefit for state employees to offset the reduction in the disability retirement benefit	
Adequacy & Equity	1. PERS had Segal do a study of the adequacy of the retirement benefit in the existing PERS defined contribution plan. The finding was that for most of the DC members the projected benefit was less then 50% of the PERS DB benefit. To make the systems comparable it was noted that contribution needed to more then doubled. 2. PERS and TFFR have provided essentially the same level of benefits to their members, that is both system have a "2%" multiplier. If the plans are changed to a DC plan the benefit will largely be passed on contributions. The existing TFFR contribution is about 17% and the existing PERS contribution is about 8%. To maintain equity in benefits between the two systems PERS DC contribution need to be increased	Based upon the study and to provide a similar equity to the two plans as it is today the tow plans could have the same contribution level. The DC analysis appears to show that 16% to 20% contribution could provide a similar benefit. Therefore considerations could be given to the PERS plan at the same level of contribution as TFFR – 16.5%	$77 million[2]
Investor Education	In a DC plan the individual member is responsible for setting up their investment plan. In the DB plan that responsibility is with the PERS Board and the SIB. In the DC plan the members ability to retiree and the type of retirement they will be afford is directly related to how effective they are in establishing and maintaining their investment strategy in and age appropriate manner.	To provide DC member the resources to manage their investments consideration could be given to allowing each members up to 4 hours per year of employer work time to meet with their investment advisor, participate in investment education meetings and view on line education video's	$1.9 Million[2] (this is a soft dollar cost)
Savings	The PERS plan added the PEP program to its plan design in	Since the DC plan does have a similar	$37 Million[1]

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Savings Incentive	The PERS plan added the PEP program to its plan design in the late 90's. This provision enhances the portability of the plan and also provides an incentive for members to engage in supplemental retirement savings in the deferred comp program by matching their contribution in the DB plan with increased vesting in the employer contribution. This program has been very successful and since its initiation supplemental retirement savings has increased. The proposed DC plan does not have a similar incentive.	Since the DC plan does have a similar incentive an alternative would be to provide a direct match to employees participating in supplemental retirement savings	$37 Million[1]
Retiree Increases	The states present process for providing retiree increases is Ad Hoc adjustments. That is if the fund can support an increase it is considered by the Legislature and Governor and if passed will then take effect. Given the retirement plans existing funded status it is unlikely that it will be able to support any increases for many years. However if new employees are moved to a DC Plan it will insure that the fund will likely never to able to give retiree a retiree increase due to the continued decline in covered payroll.	If the DC plan is passed a new method for considering and funding retiree increases may need to be considered. One option would be set up a separate funding mechanism. An example would be to put a 1% contribution of all covered payroll into the plan for such increases (this would need a study to determine what would be appropriate)	$9.3 Million
Administration and plan design	1. The PERS Business system will need to be modified to provide for the different eligibility procedures 2. The implementation is early and may be a challenge 3. Not clear what should happen to a member of the DB plan who returns to service as a new employee after the DC bill would be implemented	1. Update the business system code 2. The implementation date should be moved to Jan 2012 3. Have a returning member stay in the Hybrid Plan to maintain continuity of retirement plan	1. $40,500 general fund appropriation required 2. No Cost 3. Minimal cost

Assumptions: 10,800 PERS State FTE & $926,151,000 biennium payroll

1. Assumes the benefit is provided to all PERS employees at the same time, except for the life insurance which assumes all state employees including Higher Education. If only applied to DC plan members it would start lower and then grow as more members joined the plan.

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1. Assumes the benefit is provided to all PERS employees at the same time, except for the life insurance which assumes all state employees including Higher Education. If only applied to DC plan members it would start lower and then grow as more members joined the plan.
2. Would be the full cost at full implementation, that is when all employees are in the DC system.
3. All cost estimates are very preliminary and are only provided to give a very general estimate. Full cost is shown so it can be factored down based upon estimated participation