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September 13, 2010

Representative Better Grande, Chair
Legislative Employee Benefits Committee
State Capital
600 East Boulevard
Bismarck, ND 58505-0360

Re: **Technical Comments – Bill Draft No. 10052.0100**

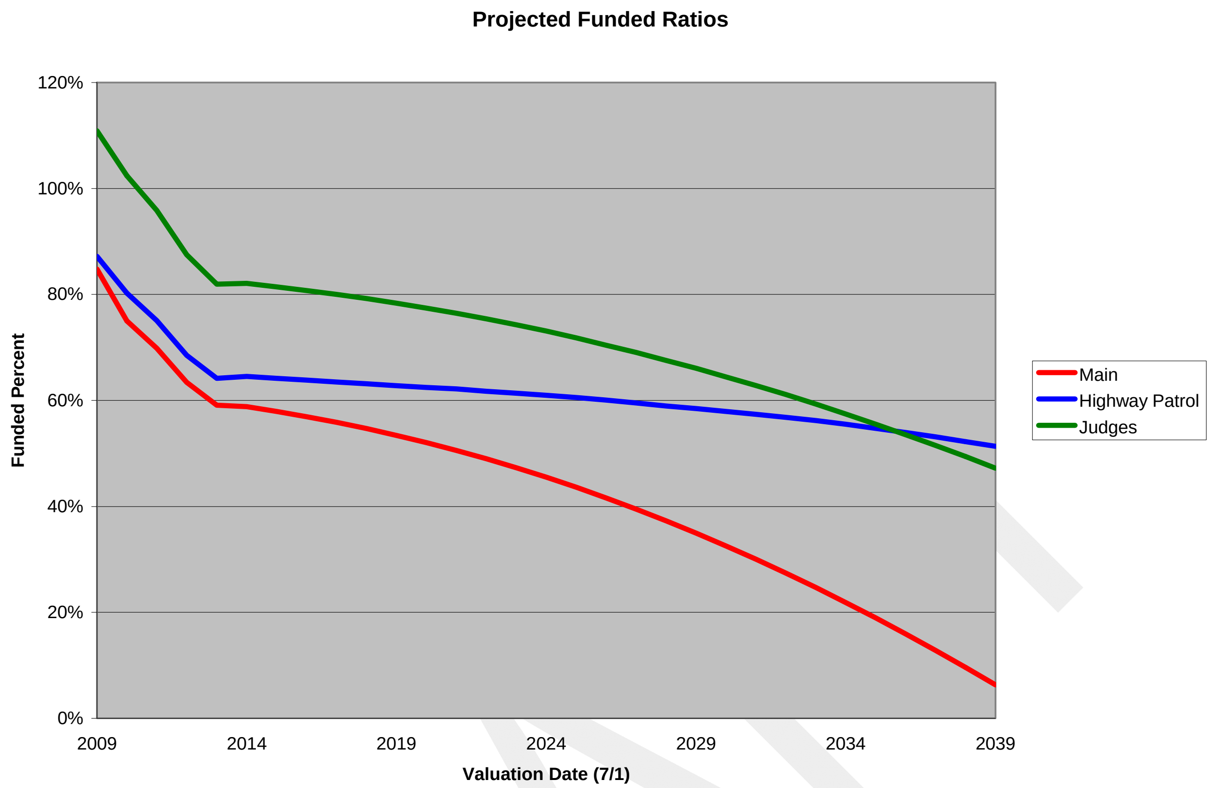
Dear Representative Grande:

The following presents our analysis of the proposed changes found in Bill Draft No. 10052.0100:

Systems Affected: North Dakota Public Employees Retirement System (PERS) Hybrid Plan, Defined Contribution Plan and Highway Patrolmen's Retirement System (HPRS)

Summary: The proposed legislation would increase the employer contribution rate mandated by statute in the HPRS, Hybrid Plan (Main and Judges only) and Defined Contribution Plan by 2% of the member's monthly salary beginning January 2012, plus an additional 2% increase in employer contribution rates each calendar year thereafter through January 2015. The board sets the rate for the law enforcement plans and has indicated that it would increase those rates in a manner consistent with the statutory rate changes.

In addition, the proposed legislation would increase the member contribution rate mandated by statute only for temporary employees in the Hybrid Plan and Defined Contribution Plan by 2% of the member's monthly salary beginning January 2012, plus an additional 2% increase in member contribution rates each calendar year thereafter through January 2015. The challenges facing the PERS system are shown in the following graph:



Actuarial Cost Analysis: This bill would not have an actuarial impact on the liabilities of either the Hybrid Plan and Highway Patrolmen's Retirement System. Exhibits I and II show the current funding level and how the current funding levels would be positively affected by this increased contribution rate

As of July 1, 2009, the Main plan had a funding deficit of 3.62% of covered payroll based upon a 20-year open amortization method. This means the statutory contributions are less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the Main plan will become insolvent in approximately 2040. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the Main plan would no longer be expected to become insolvent in the next 30 years under the assumed 8.0% investment return scenarios.

As of July 1, 2009, the HPRS plan had a funding deficit of 2.03% of covered payroll based upon a 20-year open amortization method. This means that the amount of statutory contributions is less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the HPRS plan will not become insolvent in the next 30 years but the funding ratio will drop from 87% to 51%. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the HPRS plan would have a drop in the funded ratio from 87% to 81% over the next 30 years under the assumed 8.0% investment return scenarios.

This bill would also increase the employer contributions for the judges retirement plan. The employer contributions for the law enforcement plans and national guard plans are set by the PERS Board and they have indicated that those contributions will rise as well based upon the legislative action for the other systems.

Exhibits I, II, and the following charts illustrate the results of these projections.

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

General

The bill would significantly increase funding to the Systems in the form of additional employer contributions and member contributions by temporary employees.

Benefits Policy Issues

- Adequacy of Retirement Benefits

  No impact on the defined benefit plans. The additional contributions to the DC plan will provide additional retirement income.

- Benefits Equity and Group Integrity

  No impact.

- Competitiveness

  No impact.

- Purchasing Power Retention

  No impact.

- Preservation of Benefits

Increased funding to the Systems in the form of additional employer and member contributions by temporary employees provides additional funds to pay down the unfunded actuarial accrued liability of the Systems at a faster rate. This in turn will free up additional funds that may be used to increase retirement and/or post-retirement benefits in future years. By setting up this additional funding mechanism it will help preserve the value of benefits from the Systems for several years.

- Portability

No impact.

- Ancillary Benefits

  - No impact.

  - Social Security: No impact.

Funding Policy Issues

- Actuarial Impacts

As previously noted, the bill will have an actuarial impact on the Hybrid Plan and the HPRS.

- Investment Impacts

  - *Cash Flow*: The bill would have a substantial, positive impact on cash flow.

  - *Asset Allocation:* The bill does not create new investment asset allocation issues.

Administration Issues

- Implementation Issues

While this bill would have minimal impact on administrative costs of the PERS, it would have an effect on the participating employers and temporary employees, since their required contributions would increase substantially.

- Administrative Costs

No impact.

- Needed Authority

The bill appears to provide appropriate levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

- <u>Integration</u>

  No impact.

- <u>Employee Communications</u>

  Communications to temporary employees will be necessary to describe the impact of increased member contributions on their pay.

- <u>Miscellaneous and Drafting Issues</u>

  This bill does not present any drafting issues.

The projections were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2009 and asset returns through July 1, 2010 and use assumptions adopted by the Board for the July 1, 2010 valuation. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

Please call if you have any questions or comments.

Sincerely,

Brad Ramirez, FSA, MAAA, FCA, EA
Consulting Actuary

/cz

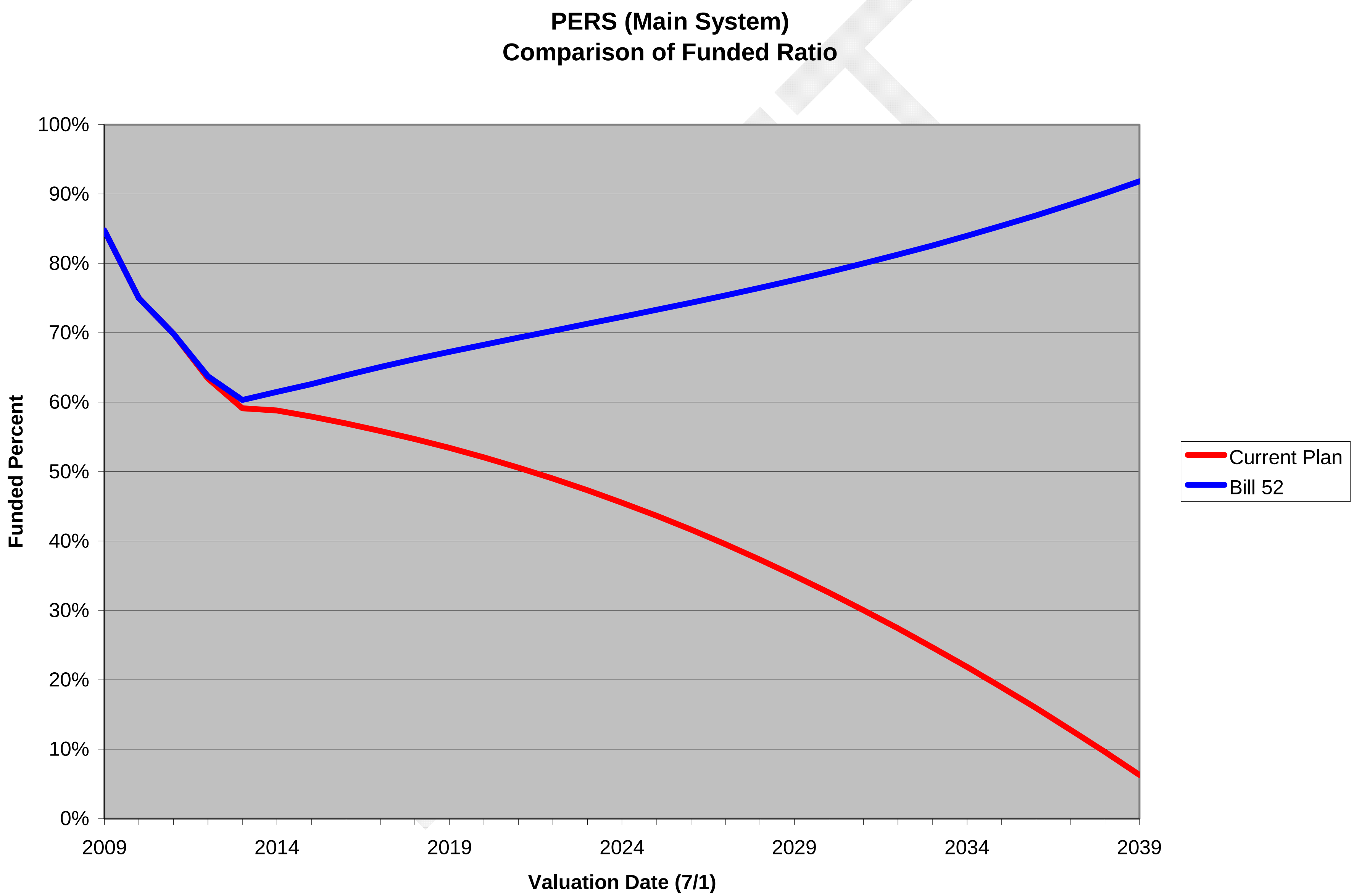
Attachments

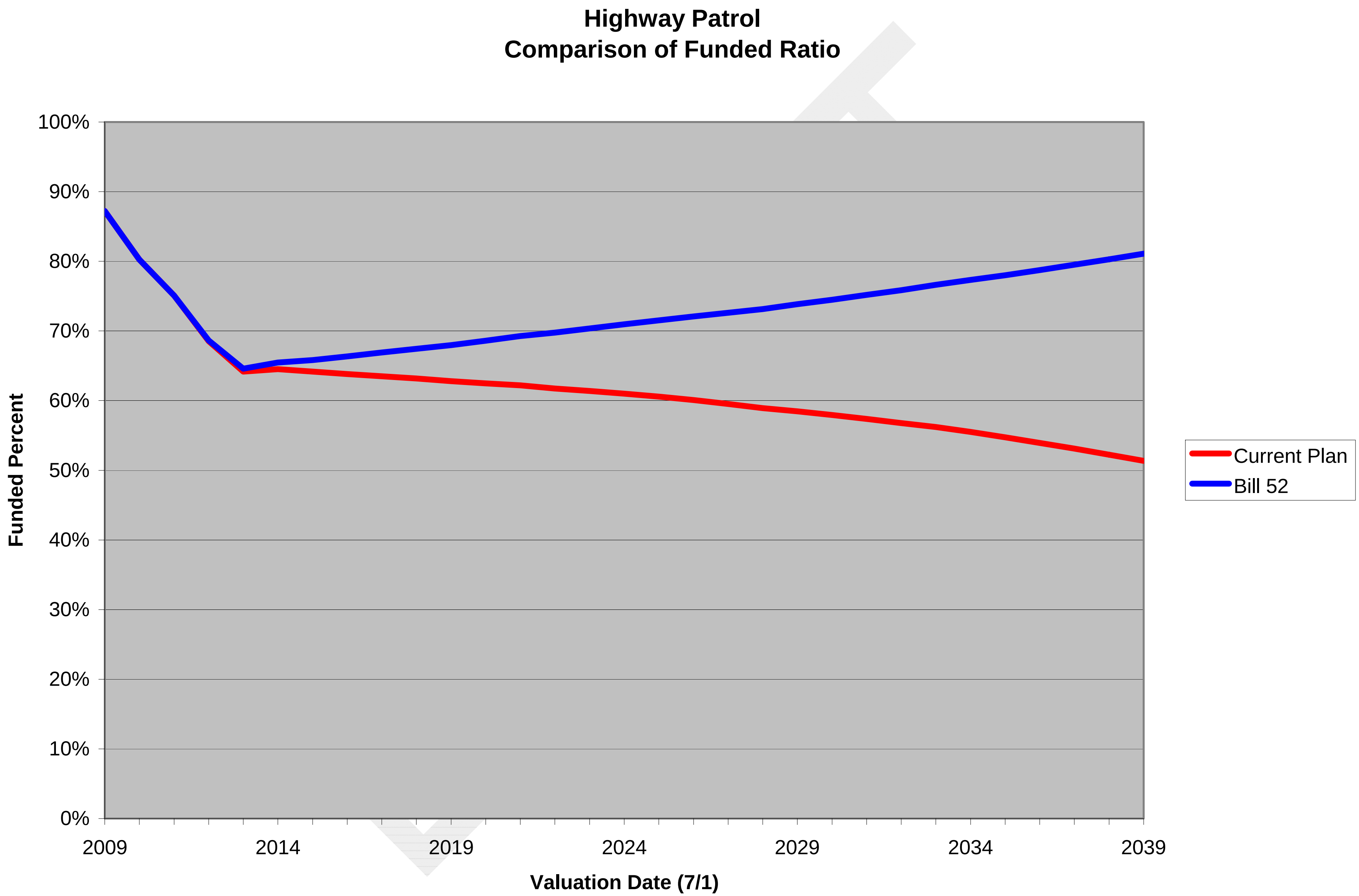
Exhibit I
Current Contribution Levels
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

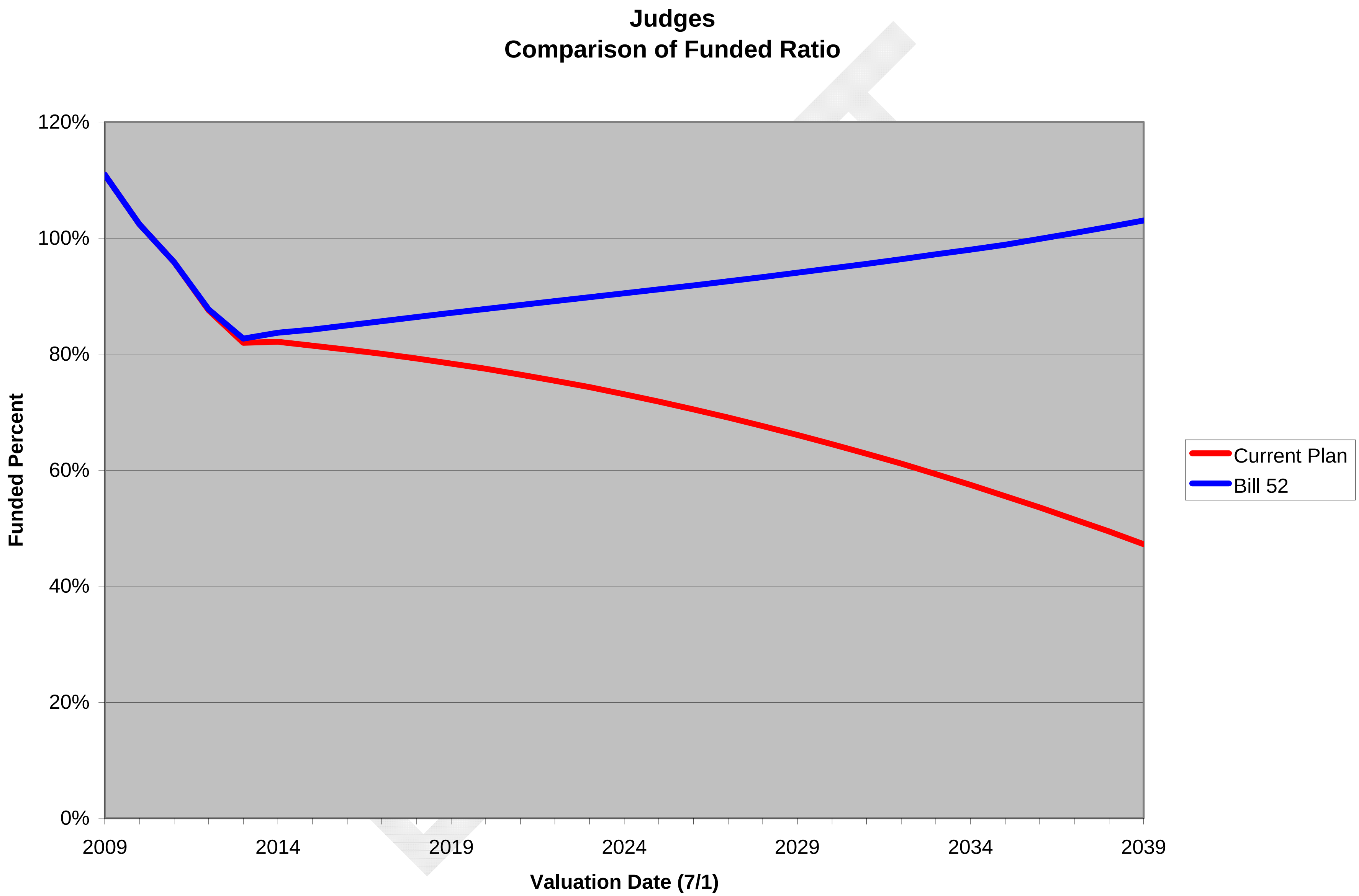
	Main	**Highway Patrol**	**Judges**
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	63%	69%	88%
07/01/2013	59%	64%	82%
07/01/2014	59%	65%	82%
07/01/2015	58%	64%	81%
07/01/2016	57%	64%	81%
07/01/2017	56%	63%	80%
07/01/2018	55%	63%	79%
07/01/2019	53%	63%	78%
07/01/2020	52%	62%	77%
07/01/2021	51%	62%	76%
07/01/2022	49%	62%	75%
07/01/2023	47%	61%	74%
07/01/2024	46%	61%	73%
07/01/2025	44%	61%	72%
07/01/2026	42%	60%	70%
07/01/2027	40%	60%	69%
07/01/2028	37%	59%	68%
07/01/2029	35%	58%	66%
07/01/2030	33%	58%	64%
07/01/2031	30%	57%	63%
07/01/2032	27%	57%	61%
07/01/2033	25%	56%	59%
07/01/2034	22%	56%	57%
07/01/2035	19%	55%	55%
07/01/2036	16%	54%	54%
07/01/2037	13%	53%	52%
07/01/2038	10%	52%	49%
07/01/2039	6%	51%	47%

Exhibit II
Bill 52 – 2% additional employer contributions
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

	Main	**Highway Patrol**	**Judges**
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	64%	69%	88%
07/01/2013	60%	65%	83%
07/01/2014	62%	65%	84%
07/01/2015	63%	66%	84%
07/01/2016	64%	66%	85%
07/01/2017	65%	67%	86%
07/01/2018	66%	67%	86%
07/01/2019	67%	68%	87%
07/01/2020	68%	69%	88%
07/01/2021	69%	69%	88%
07/01/2022	70%	70%	89%
07/01/2023	71%	70%	90%
07/01/2024	72%	71%	90%
07/01/2025	73%	72%	91%
07/01/2026	74%	72%	92%
07/01/2027	75%	73%	93%
07/01/2028	76%	73%	93%
07/01/2029	78%	74%	94%
07/01/2030	79%	74%	95%
07/01/2031	80%	75%	96%
07/01/2032	81%	76%	96%
07/01/2033	83%	77%	97%
07/01/2034	84%	77%	98%
07/01/2035	85%	78%	99%
07/01/2036	87%	79%	100%
07/01/2037	88%	80%	101%
07/01/2038	90%	80%	102%
07/01/2039	92%	81%	103%


PERS (Main System)
Comparison of Funded Ratio
Funded Percent
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 52


Highway Patrol
Comparison of Funded Ratio
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 52



Judges
Comparison of Funded Ratio
120%
100%
80%
60%
40%
20%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 52