2011 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2108

2011 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veteran's Affairs Committee
Missouri River Room, State Capitol

SB 2108
January 13, 2011
12854

☐ Conference Committee

Committee Clerk Signature	Katie Oliver

Explanation or reason for introduction of bill/resolution:

Relating to increased employer and employee contributions under the highway patrolman's retirement plan and public employees retirement system.

Minutes:

Testimony Attached

Chairman Dever called the committee to order & roll was called. All member of the Senate Government Veteran's Affairs committee were present.

Sparb Collins: Executive Director North Dakota Public Employees Retirement System. See Attached testimony #1.

Chairman Dever then asked Mr. Collins to explain the fiscal note to the committee

Sparb Collins: What the fiscal note does is it highlights the state fiscal effect and identifies it for the biennium 2011-2013. We project the cost on the general fund as 5.5 million and the other funds are about 4.5 million. There is a slight difference between the expenditures and the appropriations. The appropriations are what is actually built into the executive budget under the appropriation amount. The expenditures for the state is slightly higher because higher education has some members that are not reflected in the appropriation amount. The cost going into 2013-2015 you see that cost is 16 million in general funds and that includes the 5 million from the previous biennium.

Chairman Dever: Do these reflect employer & employee cost?

Sparb Collins: It only reflects the employer cost.

Chairman Dever: Should it be increased by 1percent, should it say 1 percentage point?

Sparb Collins: It's a 1% increase for both the employer & employee; it is difficult to capsulate into a sentence or 2.

Vice Chairman Sorvaag: They are factoring 8% growth on all earnings, yes?

Sparb Collins: That has been the returned assumption, yes. Looking back since Public Employees Retirement System started in 1977 we have made on average about 8.5% and each 5 years we examine each of those economic and demographic assumptions and test them it see if they are still applicable. We just finished an experience study and the 8% was acceptable but this last time we had to expand our mortality assumption.

Vice Chairman Sorvaag: The previous 5 years have not been 8%?

Sparb Collins: Keep in mind that our planning horizon and as long as the system is open we look at a return assumption. Some plans during the 1990's got into a lot of trouble by taking a short term perspective to their return assumption. In the 90s we were making double digits almost every year and some pension plans increased the return assumption from 8-12% and what that allowed them to do was drop their contributions.

Vice Chairman Sorvaag But you are using a short term assumption, yes?

Sparb Collins: They are looking at the contributions and returning them over a period of 20 or 30 years so they are a little longer in terms of those contributions. If we came to you today and said we wanted a contribution increase to put us back to 100% in 5 years, we would be talking about more than 8%. We are looking, on both sides of the equations, over a longer term.

Senator Berry: Do you have those numbers each year of returns?

Sparb Collins: Yes I can get those for you.

Senator Berry: My question as it relates in what the previous questioner was mentioning, the idea that projections in the market. Investment portfolios in the last 10 yeas have taken a hit. Percentages can vary if you just use numbers things can get tricky.

Sparb Collins: One of the things that I think that you are asking is how effective is our investment program compared to the benchmarks? We do are doing well against the benchmarks.

Senator Berry: I wouldn't expect you to beat the S&P but I would assume that the goal would be to lose less in the down year and get more in an up year.

Sparb Collins: We do take a longer term as to how those moneys are invested. It is based on a long term perspective.

Senator Berry: So you don't do market waiting.

Sparb Collins: What we do is set up an assist allocation. During the course of the year you may find that the domestic equities perform better than other classes. On a regular basis it is suggested back to the assist allocation and remains in place throughout the period. It is adjusted back. There are specific people that allocate those policies. In all of that is specified in the allocations that is what given to the investment managers to implicate. That is part of the investment offices manages.

Senator Berry: So they have an actually sound mission. Who determines that?

Sparb Collins: It is determined by the respective fund based upon an assisted liability study. They look at what the investment provides and the risk we/ various policies. They try to put together to see where we want to go; once that is adopted it is put over to the state investment board. They implement the policies and monitor the money managers to make sure they are doing what they are hired to do. It is a fairly sophisticated process. The investment officer has monthly meetings with them. That is set in the assisted allocation process. That carries through to the implementation process

Senator Cook: The government appropriation is a million light.

Sparb Collins: The governor's appropriation includes all the necessary funds for the agencies that receive an appropriation. But there will be some additional expenditures in the higher education area.

Senator Cook: First off, this changes nothing in the rules as far as when someone can retire.

Sparb Collins: Yes, that is correct

Senator Cook: You mentioned that this is an open plan and that we continually have new hires coming in. What would the fiscal note be to reach these goals if it did not continue to be an open plan?

Sparb Collins: You will get an opportunity to see a defined contribution study which would close the state portion of the plan. In a period of time we will be able to give you information on that. The issues as it is today: if the plan is closed the unfunded liability or the depth that the plans has today doesn't go away, it is just that now you have less people to help contribute to pay for it. So the contributions for the remaining people have to be higher to generate enough money that will remain pretty constant.

Senator Cook: According by the survey by the Associated Press there seems to be a lot of interest in eliminating a defined benefit plan. I would appreciate if you can give us some sort of indication as far as what it would cost to reach these goals actuarially if it did not continue to be an open plan.

Sparb Collins: I can tell you based on the interim study on a defined contribution plan; the required actuarial contribution rises from 16% to 23%.

Senator Cook: The other question that I am sure will come up, we have a contract that defines what the rules for qualifying for retirement are and there are questions involving the contract obligation on behalf of the state. Is that contract renewed every time there is a pay increase?

Sparb Collins: There is a provision in the North Dakota Statue that says basically that the benetis are part of the employment contract. And that is where it originates, so when somebody becomes employed my understanding is, it means it is a part of the employment contract.

Senator Cook: Are wages part of an employment contract?

Sparb Collins: I don't think so?

Vice Chairman Sorvaag: The local subdivision that are participating in whatever area and we make the change it becomes forced on them. They are opted in for good, yes?

Sparb Collins: Yes, they make an election as to if they want to participate or not.

Chairman Dever: I know that the desire is to be 100% funded, I am curious what we would be if not for the incident in 2008.

Sparb Collins: I am not sure. I went back and asked the actuary about that and they can generate the number with assumptions. It is $5,000 to $7,000 to do it. I can tell you where we were going into it, as bad as that year was, in 2000 and the risk before was 15% as opposed to 12%. Coming into this recent one we were coming into it.

Chairman Dever: What are the implication to employee's salaries and shift it from them to the state?

Sparb Collins: Employee salaries would go from 3-4% and the retirement plans would go away. If I recall the employee pays it then it would be subject to FICA taxes. There would be a shift over then it increase employer FICA taxes. From the employee standpoint, the final average retirement salary would be 1% higher. It would affect the trends a little bit as we looks to the future. The other things is, that while you as the legislators would make that decision for state employees within the political subdivisions would have different implications and effects, too.

Chairman Dever: Do political subdivisions contribute to the employee side too?

Sparb Collins: No. Today it is split 50/50

Laura Glatt: NDUS See attached testimony #2.

Bill Kalaneck: Association of Public Employees. See attached testimony #3.

Josh Askvig: North Dakota Education Association See attached testimony #4.

Seenator Dever: One of the challenges that we have is that our constituents are not. They took a big hit in their 401K's, I'm not sure how to respond to them when they express concern about shoring up the defined benefit.

Josh Askvig: The reality is that we do believe that all North Dakotans should have a defined benefit plans. We certainly aren't proposing to have the state guarantee that now, and it is unfortunate that they don't.

Senator Nelson: 21 school districts didn't have Social Security, do you have an updated list

Josh Askvig It is not 28 anymore.

Stewart Savokol: Executive Director of the North Dakota Public Employee Association. I just wanted to respond to one question that you had, Mr. Chairman. How our legislators are expected to sell this contribution increase in their district. The answer lies in the question that was posed earlier that revolved around the concept of having the employees paying the entire portion. In North Dakota state employment we talk a lot about toal compensation we talk a lot about salaries, health insurance and retirement. We know that when you take all of that into consideration we still lag the market by 10-12% and that market is defined as the employers that we were taking employees from and employers that we were losing employees to.

There was no further testimony in opposition or neutral position on SB 2108 and with that Chairman Dever closed the public hearing.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veteran's Affairs Committee
Missouri River Room, State Capitol

SB 2108
January 13, 2011
12861

☐ Conference Committee

Committee Clerk Signature	Katie Oliver

Explanation or reason for introduction of bill/resolution:

Relating to increased employer and employee contributions under highway patrolman's retirement plan and public employees retirement system.

Minutes:

Testimony Attached

Chairman Dever opened committee work on SB 2108.

Chairman Dever: The bill itself lays out what the increases and how they are paid pretty clearly.

Senator Berry: I was a little unclear of the fiscal note. What would be the impact of increasing the salary and having the employee make the payment.

Chairman Dever My understanding is their FICA would be affected as it would be taxable income. The other point that he made is that it would have the effect of increasing their average final salary so it would increase their benefit. I think that if you consider someone who is 25 years old compounding that with every pay increase over time it could be pretty significant.

Vice Chairman Sorvaag: The employer would pay half of FICA so it is not like the state is getting off scot free.

Senator Cook: I certainly am not close to knowing where I am at position-wise. In order to get there I need to get my arms around all of the legislation that is out there. I think that this issue is directly related to state employee compensation issues. We have already had some conversations about raising the salaries of state employees. Another option is to take money for state employee salaries and put it into the retirement plan, and then it wouldn't be subject to any FICA tax. My biggest concern is how we solve this dilemma and prevent further ones. As we move forward on this we need to be diligent. No matter which way I go I will have a lot of friends and a lot of enemies.

Chairman Dever: The last thing I want to do is hurry this bill, possibly we can have a list compiled of all of the bills that are up for consideration involving employee compensation so we can put it all into context.

Senator Cook: This bill has a fiscal note with a deadline of February 7

Senator Schaible: How many of these types of bills are out there? I think that we need an understanding of the bills and a breakdown of what they do.

Chairman Dever: Intern can gather lists of all the bills that deal will PERS.

Chairman Dever then closed the committee work on SB 2108

2011 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veteran's Affairs Committee
Missouri River Room, State Capitol

SB 2108
February 3, 2011
13968

☐ Conference Committee

Committee Clerk Signature	Katie Oliver

Explanation or reason for introduction of bill/resolution:

Minutes:

No testimony attached.

Chairman Dever opened the floor to discussion on SB 2108. Sparb Collins was present to answer questions on the bill.

Chairman Dever: My understanding is that this bill increases the employer contribution to the retirement by 1 point for each year for the next 4 years and employee side by the same number. Currently I think that the employer side is 4.12% the employee side is 4% but the employer pays for both side.

Vice Chairman Sorvaag: This is the Highway Patrol and it's more than 4%.

Sparb Collins: The increase amount in uniform. The main system is 4.12% employer and 4% employee the defined contribution plan is 4.12% for employee.

Chairman Dever: Vice Chairman Sorvaag just asked me about what the House is doing about how this retirement program relates to that one and what they have is the TFFR plans. They are basically are doing the same thing but there are some other considerations, going to the Rule of 90 for teachers who have more than 10 years left before retirement I believe they put an amendment on it this morning to require that the increases be paid by the employee because right now some school districts pay both sides and some don't.

Vice Chairman Sorvaag: But they are not doing anything with PERS in the House, correct?

Chairman Dever: They have other bills that do not come from employee benefits and these do; one of those bills goes to defined contributions.

Senator Cook: Can I get a list of every bill that is in either chamber that deals with retirement plans?

Chairman Dever: The question for now is anyone looking for changes in this bill before tomorrow.

A motion for a do pass was made by Senator Nelson with a second by Senator Marcellais. After discussion the motion was withdrawn and the committee set aside SB 2108.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veteran's Affairs Committee
Missouri River Room, State Capitol

SB 2108
February 10, 2011
14306

☐ Conference Committee

Committee Clerk Signature	Katie Aiwell

Explanation or reason for introduction of bill/resolution:

Relating to increased employer contributions under the highway patrolman's retirement plan and public employees retirement system.

Minutes: No testimony attached

Chairman Dever: Increases the employer and employee side in each of the next 4 years starting January 1, 2012. What I would like to do is rather than making that commitment out 4 years make it out 2 years and look at it next session

Senator Nelson: You may need a new actuarial study to do that.

Chairman Dever: A survey would only be necessary if we only plan on doing it for 2 years. My suggestion is that we do it for 2 years and then in 2 years look at it again.

Senator Nelson: If I can add one other thing, when PERS was founded the contributions were 4% and 4%. This is the first time there has been a request for an increase in contributions since it started.

Chairman Dever: I think that it was astute on the Vice Chairman Sorvaag part when he talked about the TFFR plan. When you look at PERS there are total non retired 26,405 and retired is 7758 that is one reason I think that TFFR is harder than PERS.

Senator Cook: This is going to be a major policy decision that the legislature will make this session. I have not formed in my mind where I think we need to be; I am getting closer but I am uncomfortable and worry about future liability for taxpayers 30 years from now. If we follow what you are suggesting and send it down the road to appropriations but I am comfortable with that because I am not a fan of the bill as written.

Vice Chairman Sorvaag: If we go out 2 years we are doing what the bill says we are just only going half way. I personally have problems with the bill and how we are increasing and 8%

growth is not realistic there is nothing to prove it. You can take it back to 1930 but to use it to model something this significant concerns me. This is delaying an inevitable day but I could go along with 2 years.

Chairman Dever: Yesterday I handed out sheet that has the funded ratio for PERS.I understand that when we look at the actuarial accrued liability that's projecting out for retirement. When we look at the actuarial value of assets, is that the amount of dollars in the fund or does that assume future contributions?

Senator Nelson: I think that is the actuarial value of the 20%. We still have 2 more years of 2008 to roll through the system.

Chairman Dever: So the reason that this is continuing to go up is that it doesn't reflect the market downturn.

Vice Chairman Sorvaag: I interpret it differently; the money needs to be available. The accrued liability will be that is why the ratio is changing. We and the employees are putting money in. The market isn't growing and the retirees are going up that is why we need to get the ratios up to 100% we need to increase the contributions.

Senator Nelson: I would disagree. I would say 2010 is based on 2006-2010 the market values of those funds in those 5 years taking 20% of each and constantly rolling out. So next year 2011 will be 2007-2011 and that is how they have done it with the rolling. A thing that I think is amazing is the change that has happened from 2001-2010 and the accrued liability and I can't figure out why most of the years all of a sudden between 2009 and 2010 it is 16.1%.

Senator Cook: You raise a good point but let me go back to 2001 and look at the actuarial value of assets there. Total of the cash in the funds plus the contributions they plan on being made into the fund plus 8% growth. That is what I would look at that number.

Senator Nelson: I am looking at the funded ratio and the assets are bigger than the liability. Perhaps over this period of time there have been increases in salaries

Senator Cook: I would s ay again they are using 8% as their growth.

Senator Nelson: I think it has to do with the market value of our assets and not what is coming in.

Vice Chairman Sorvaag: They have to value all those assets by going and picking a date and a market and saying this is the value. Each year that has to be based on what is there.

Senator Nelson: Allen didn't sit in on meetings for employee benefits, Jeff Nelson did

Senator Berry: what are other states doing with their problems?

Chairman Dever: One problem that we have is that people hear that other states do but we have not had the problems they have had.

Senator Nelson: One thing that happens is that it doesn't come from the employees the state does. We don't come in and say that we don't need these things. It is run totally different from the majority of the states. They are included in the compensation package.

Allen Kundson: Legislative Council staff. I think that this is more of a rolling average and I believe it is based on that.

Chairman Dever: On the actuarial accrued liability, as that has grown from 2009-2010 it grew $300,000,000 and I am not quite sure how that works. Vice Chairman Sorvaag suggested that people are living longer so you projected longer.

Allen Kundson: They have a number of assumptions that they use and if they change some of those assumptions this year that would have an effect on that. But again, maybe Jeff Nelson would be the person we would want to talk to.

Senator Nelson: You are now rolling into the people who have the higher salaries to retirement and that's going to have a huge affect.

Vice Chairman Sorvaag: I called Fargo and asked how they are doing it. The City of Fargo Police and Fire are on their own. All our older employees are on the city's plan; the middle had the option of old plan or PERS and the young employees are all on PERS. All the money goes to PERS but the liability is being absorbed locally.

Senator Nelson: A 16% increase in liability over the next year is huge compared to the 987's of the previous 9 years.

Allen Kundson: Another thing in play between 2009 and 2010 might be the 5 and 5 salary increase that you gave state employees was more than previous bienniums and that could be part of it too.

Chairman Dever: They must have changed something in their assumptions.

Senator Nelson: They basically take a sampling of everyone in the system when they are working out the liability and if you are planning this year, next year and the following year with that 5% on there that is going to raise what you are basing your retirement on.

Vice Chairman Sorvaag: The concern is that we are still losing ground from year to year.

Jeff Nelson: Legislative Council staff. That is the 5 year rolling average so that would be the value at the date of evaluation. So on July 1 when the actuarial evaluation is calculated they will do the 5 year rolling average so 20% of the market value of assets each year is rolled to calculate the actuarial value of the assets.

Chairman Dever: Is that based on the current value or does it take into account future contribution?

Jeff Nelson: There are other factors, recognition of gain or loss anticipation of pay increases the actuarial factors that they use in that calculation.

Chairman Dever: On the liability side of that, it increased $300,000,000 in one year. Is there some consideration taking into account life expectancy do you know?

Jeff Nelson: The big loss is because of the market losses in 2008 and 2009 are beginning to be recognized in that calculation that is why the actuarial value is declining.

Vice Chairman Sorvaag: If you are using a 5 year average on the asset side to pull the value down then we actually have more assets than we are showing here.

Jeff Nelson: True but it also works the opposite way when the market raises faster than the actuarial value. It's a smoothing affect so there are not as many increases or decreases.

Senator Berry: I understand the smoothing out but basically what we are looking at is a nagging indicator. If we are looking at something that had a very low October of 2008 and has been climbing back since March of 2009 and the assets are higher. Is there a possibility that we can legislate something that will correct itself?

Jeff Nelson: The reason for calculating the actuarial value of the assets using the 5 year smoothing mechanism, like you said, is to smooth out that average so it is more reflective of what is really happening so when the legislative assembly makes decisions based upon that they are recognizing the trend.

Senator Berry: That is my point, if we are looking at 5 years and the latest which is 2009 was the Nader of the market.

Jeff Nelson: If we were standing here in 2008 or 2009 when the market has just corrected those would not have been seen and the values would have been larger than the market value.

Senator Cook: What are the other factors besides age that you look at to come up with the number and what flexibility do you have in changing these numbers?

Jeff Nelson: The actuarial consultant will do a study on mortality and salary increases. How accurate were we in making those assumptions? What should we assume and based on the study? Then the retirement board will select the assumptions that they want used to figure out the accrued assets.

Senator Cook: Understanding that once a year someone stand in front of the retirement board and gives the facts?

Jeff Nelson: Right. I am not sure if it is as often as once a year but you can kind of see a trend.

Senator Cook: The main thing I am looking for is the justification of the 8%.

Jeff Nelson: 8% is the majority rate but there are other ones.

Senator Berry: If the assets are from July 2009 can we assume that the liability is from the same date. I would like to have the most up to date info because if this is something that has already self corrected obviously things need to be done.

Chairman Dever: The bill as it is constructed right now extends the contributions each year for the next 4 years. If we changed it to 2 years do we need another meeting of employee benefits or any actuarial input?

Jeff Nelson: In a perfect world it would because it would have an actuarial impact on the bill.

Chairman Dever: That impact would only need to be considered if we only did the 2 years and didn't look at it in the next session.

Jeff Nelson: That would have an actuarial impact in that the analysis of the bill is based on the amendment in the bill. I assume that would change the analysis on the bill.

Senator Nelson: As of June 30, 2010 there was $1,460.000, 000 in market value so the actuarial value is higher than market value.

Chairman Dever: There has not been an amendment drafted. It would change it from 2015 to 2013.

The motion on the floor for a do pass made by Senator Nelson and seconded by Senator Marcellais was withdrawn. A motion was then made by Senator Cook to adopt the amendments with a second by Vice Chairman Sorvaag, roll was taken and the motion passed 6-1. A further motion was then made by Senator Berry for a do pass with a re referral to appropriations with a second by Senator Schaible, there was no further discussion, roll was taken and the motion passed 5-2.

FISCAL NOTE
Requested by Legislative Council
02/11/2011

Amendment to: SB 2108

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$5,541,415	$4,588,456	$11,082,830	$9,176,912
Appropriations	$0	$0	$4,858,970	$4,204,581	$9,717,940	$8,408,162

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
$0	$0	$0	$2,430,000	$1,027,000	$2,064,000	$4,860,000	$2,054,000	$4,128,000

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The engrossed bill increases member and employer contributions for the NDPERS Main, Judges, DC and Highway Patrol Systems by 1% each in January of 2012 and 2013. The Law enforcement plan is 1/2% increase for the member and 1/2% for the employer.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

The increase in employer contributions authorized in the bill will have a fiscal impact on participating employers. Specifically the increase outlined above for participating employers will be for contributions to the respective retirement fund (Main, judges, HP and defined contribution plan)

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

N/A

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Expenditures is the cost to cover the increase in employer contributions for all state FTE's.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Appropriations is the increase in the 2011-2013 state budget to cover the increase in employer contributions for State FTE's as detailed in the executive budget.

Name:	Sparb Collins	**Agency:**	PERS

Phone Number:	328-3901	Date Prepared:	02/14/2011

FISCAL NOTE

Requested by Legislative Council
12/29/2010

Bill/Resolution No.: SB 2108

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$5,541,415	$4,588,456	$16,624,244	$13,765,368
Appropriations	$0	$0	$4,858,970	$4,204,581	$14,576,909	$12,613,743

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
$0	$0	$0	$2,430,000	$1,027,000	$2,064,000	$7,290,000	$3,080,000	$6,192,000

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill increases member and employer contributions for the NDPERS Main, Judges, and Highway Patrol Systems by 1% each in January of 2012, 2013, 2014 and 2015. The Law Enforcement Plans increase is 1/2% for the member and 1/2% employer occurring over the same period of time.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

The increase in employer contributions authorized in the bill will have a fiscal impact on participating employers.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

N/A

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Expenditures is the cost to cover the increase in employer contributions for all state FTE's.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Appropriations is the increase in the 2011-2013 state budget to cover the increase in employer contributions for State FTE's as detailed in the executive budget.

Name:	Sparb Collins	Agency:	NDPERS
Phone Number:	701-328-3900	Date Prepared:	01/05/2011

11.0331.01001
Title.02000

Adopted by the Government and Veterans Affairs Committee
February 10, 2011

PROPOSED AMENDMENTS TO SENATE BILL NO. 2108

Page 1, line 16, replace "2015" with "2013"

Page 3, line 6, replace "2015" with "2013"

Page 3, line 21, replace "2015" with "2013"

Page 4, line 25, replace "2015" with "2013"

Page 6, line 12, replace "2015" with "2013"

Page 7, line 12, replace "2015" with "2013"

Page 7, line 20, replace "2015" with "2013"

Page 8, line 3, replace "2015" with "2013"

Page 8, line 19, replace "2015" with "2013"

Page 9, line 9, replace "2015" with "2013"

Page 9, line 26, replace "2015" with "2013"

Page 10, line 1, replace "2015" with "2013"

Renumber accordingly

11.0331.01001
Title.02000

Adopted by the Government and Veterans Affairs Committee
February 10, 2011

2-10-11
1012

PROPOSED AMENDMENTS TO SENATE BILL NO. 2108

Page 1, line 14, after "and" insert "with an additional"

Page 1, line 14, remove "annually"

Page 1, line 15, replace "thereafter by an additional" with "of"

Page 1, line 15, remove "with the final increase taking place"

Page 1, line 16, replace "2015" with "2013"

Page 3, line 5, after "and" insert "with an additional"

Page 3, line 5, replace "annually thereafter by an additional" with "of"

Page 3, line 6, remove "with the final increase taking place"

Page 3, line 6, replace "2015" with "2013"

Page 3, line 20, replace "increases annually thereafter by" with "with"

Page 3, line 20, remove ", with the final"

Page 3, line 21, replace "increase taking place" with "increase."

Page 3, line 21, replace "2015" with "2013"

Page 4, line 23, after "and" insert "with an additional"

Page 4, line 23, replace "annually thereafter by an additional" with "of"

Page 4, line 24, remove "with the final increase taking place"

Page 4, line 25, replace "2015" with "2013"

Page 6, line 10, after "and" insert "with an additional"

Page 6, line 10, remove "annually thereafter"

Page 6, line 11, replace "by an additional" with "of"

Page 6, line 11, remove "with the final increase taking place"

Page 6, line 12, replace "2015" with "2013"

Page 7, line 10, after "and" insert "with an additional"

Page 7, line 10, remove "annually thereafter"

Page 7, line 11, replace "by an additional" with "of"

Page 7, line 11, remove "with the final increase taking place"

Page 7, line 12, replace "2015" with "2013"

Page 7, line 19, after "and" insert "with an additional"

Page 7, line 19, replace "annually thereafter by an additional" with "of"

Page 7, line 19, remove "with the final"

Page 7, line 20, remove "increase taking place"

Page 7, line 20, replace "2015" with "2013"

Page 8, line 1, after "and" insert "with an additional"

Page 8, line 2, replace "annually thereafter by an additional" with "of"

Page 8, line 2, remove "with the final increase taking place"

Page 8, line 3, replace "2015" with "2013"

Page 8, line 17, after "and" insert "with an additional"

Page 8, line 18, replace "annually thereafter by an additional" with "of"

Page 8, line 18, remove "with the final increase taking place"

Page 8, line 19, replace "2015" with "2013"

Page 9, line 7, replace "increases annually thereafter by" with "with"

Page 9, line 8, after "additional" insert "increase of"

Page 9, line 8, remove "with the final increase taking place"

Page 9, line 9, replace "2015" with "2013"

Page 9, line 25, after "and" insert "with an additional"

Page 9, line 25, replace "annually thereafter by an additional" with "of"

Page 9, line 25, remove "with the"

Page 9, line 26, remove "final increase taking place"

Page 9, line 26, replace "2015" with "2013"

Page 9, line 30, after "and" insert "with an additional"

Page 9, line 30, remove "annually"

Page 9, line 31, replace "thereafter by an additional" with "of"

Page 9, line 31, remove "with the final increase taking place"

Page 10, line 1, replace "2015" with "2013"

Renumber accordingly

Date: 2-10-11
Roll Call Vote #: 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2103

Senate Government and Veteran's Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken Amend 2103

Motion Made By Cook Seconded By Sorvaag

Senator	Yes	No	Senator	Yes	No
Chairman Dever	Y		Senator Marcellais	X	
Vice Chairman Sorvaag	X		Senator Nelson		X
Senator Barry	X				
Senator Cook	X				
Senator Schaible	X				

Total (Yes) 6 No 1

Absent ______

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

Date: 2-10-11
Roll Call Vote #: 2

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2108

Senate Government and Veteran's Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken Do Pass As Amended w Re Refer to Approp

Motion Made By Berry Seconded By Schaible

Senator	Yes	No	Senator	Yes	No
Chairman Dever	X		Senator Marcellais		X
Vice Chairman Sorvaag	X		Senator Nelson		X
Senator Barry	X				
Senator Cook	X				
Senator Schaible	X				

Total (Yes) 5 No 2

Absent ______

Floor Assignment Dever

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2108: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2108 was placed on the Sixth order on the calendar.

Page 1, line 14, after "and" insert "with an additional"

Page 1, line 14, remove "annually"

Page 1, line 15, replace "thereafter by an additional" with "of"

Page 1, line 15, remove "with the final increase taking place"

Page 1, line 16, replace "2015" with "2013"

Page 3, line 5, after "and" insert "with an additional"

Page 3, line 5, replace "annually thereafter by an additional" with "of"

Page 3, line 6, remove "with the final increase taking place"

Page 3, line 6, replace "2015" with "2013"

Page 3, line 20, replace "increases annually thereafter by" with "with"

Page 3, line 20, remove ", with the final"

Page 3, line 21, replace "increase taking place" with "increase,"

Page 3, line 21, replace "2015" with "2013"

Page 4, line 23, after "and" insert "with an additional"

Page 4, line 23, replace "annually thereafter by an additional" with "of"

Page 4, line 24, remove "with the final increase taking place"

Page 4, line 25, replace "2015" with "2013"

Page 6, line 10, after "and" insert "with an additional"

Page 6, line 10, remove "annually thereafter"

Page 6, line 11, replace "by an additional" with "of"

Page 6, line 11, remove "with the final increase taking place"

Page 6, line 12, replace "2015" with "2013"

Page 7, line 10, after "and" insert "with an additional"

Page 7, line 10, remove "annually thereafter"

Page 7, line 11, replace "by an additional" with "of"

Page 7, line 11, remove "with the final increase taking place"

Page 7, line 12, replace "2015" with "2013"

Page 7, line 19, after "and" insert "with an additional"

Page 7, line 19, replace "annually thereafter by an additional" with "of"

Page 7, line 19, remove "with the final"

Page 7, line 20, remove "increase taking place"

Page 7, line 20, replace "2015" with "2013"

Page 8, line 1, after "and" insert "with an additional"

Page 8, line 2, replace "annually thereafter by an additional" with "of"

Page 8, line 2, remove "with the final increase taking place"

Page 8, line 3, replace "2015" with "2013"

Page 8, line 17, after "and" insert "with an additional"

Page 8, line 18, replace "annually thereafter by an additional" with "of"

Page 8, line 18, remove "with the final increase taking place"

Page 8, line 19, replace "2015" with "2013"

Page 9, line 7, replace "increases annually thereafter by" with "with"

Page 9, line 8, after "additional" insert "increase of"

Page 9, line 8, remove "with the final increase taking place"

Page 9, line 9, replace "2015" with "2013"

Page 9, line 25, after "and" insert "with an additional"

Page 9, line 25, replace "annually thereafter by an additional" with "of"

Page 9, line 25, remove "with the"

Page 9, line 26, remove "final increase taking place"

Page 9, line 26, replace "2015" with "2013"

Page 9, line 30, after "and" insert "with an additional"

Page 9, line 30, remove "annually"

Page 9, line 31, replace "thereafter by an additional" with "of"

Page 9, line 31, remove "with the final increase taking place"

Page 10, line 1, replace "2015" with "2013"

Renumber accordingly

2011 SENATE APPROPRIATIONS

SB 2108

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

SB 2108
February 16, 2011
Job # 14591

☐ Conference Committee

Committee Clerk Signature	Rose Laning

Explanation or reason for introduction of bill/resolution:

A bill relating to increased employer and employee contributions under the highway patrolmen's retirement plan and public employee retirement system.

Minutes: See attachments # 1-3.

Chairman Holmberg called the committee hearing to order on SB 2108. Roll call was taken. Also present: Sara Chamberlin, Legislative Council and Lori Laschkewitch, OMB.

Senator Dick Dever, State Senator, District 32, Bill Carrier, Testimony attached - # 1- 104 North Dakota Public Employees Retirement System
He stated that he is the carrier of the bill and the Chairman of the Government Veterans Affairs Committee where the bill was heard. The bill simply, applied to PERS, came with an increase in each of the next four years on both the employer and employee side. They considered the bill and took out the last two years, so they are committed for the next two years with the intention of taking a look where they are at in the next biennium. When the Stock market went down it affected the 401k and they would like to see where the market goes in the next two years to determine whether or not they need to continue. He talked about what they were trying to do with the PERS program and some of that is referencing and comparison to TFFR. He had passed out sheets and went over the charts that showed what PERS has been doing over the years.

Senator Christmann, Asked if on the graphs there is the administrative cost per member for the TFFR also available or is it blended in with the graph on the first page.

Senator Dever, Said he thought the bottom number on the charts on top, is administrative cost per member.

Sparb Collins, Executive Director, Public Employees Retirement System (PERS): Testified in favor of SB 2108. Testimony attached - # 2.
The proposed legislation (engrossed SB 2108) would increase both the employer contribution rates and the member contribution rates that are in the statute for the Highway Patrol Retirement Plan, the PERS Hybrid Plan (Main & Judges) and the PERS defined Contribution Plan. The engrossed bill differs from the original bill - instead of approving the increases beginning in 2013-2015 during this session, the next legislative session will now have the

opportunity to review that increase with the additional information that will be available at that time.

Senator Christmann asked what the red line was for.

Sparb Collins said that it is the main retirement system and that it is a big one that they administer.

Senator Wardner, We can assume looking at that graph, the judges are 100% funded, the Highway Patrol is 80% and the main plan is around 73 to74%?

Sparb Collins said approximately and this is where they are going, if they make 8% every year going forward. He continues with his testimony.

Chairman Holmberg said that (on page 5) the green line the bill as amended, appears to buy time. If we do nothing this session, and wait down the road, wouldn't the price be higher?

Sparb Collins answered yes, but they would be following the red line then.

Chairman Holmberg this has nothing to do with the House Bills, this is the system that we have.

Sparb Collins said that all of the information he is going over now, assumes that the retirement system stays the same as it is today. If there are changes to the retirement plan, such as those propose in the House, these numbers will change. They may get worse it depends on what comes out.

Senator Bowman commented as you look at these plans and you look at other states that are in financial trouble, one of the factors that he read that the retirement for all these states is breaking the state. As we continue to put money into this, I'm not saying it is right or not, but we keep pumping these up to maintain a certain level but Private system can't do that, they rely on whether the markets are good or low. That is where we get are retirement, why should it be different and what is the right answer to keep us so we can afford to pay these retirements but not get us into financial trouble twenty years down the road.

Sparb Collins said how we relate to other states, every state is different. For example many other states' have an automatic Cost of Living Adjustment that causes theirs to keep getting bigger and bigger. North Dakota doesn't have that. Some retirement plans have health insurance benefits and guarantee paying all or a part of somebody's health insurance plan benefit. That health insurance goes up every year, so their liability goes up. North Dakota has had a Legislature oversight committee so these things don't happen. Some states have unaffordable plans and it's their own fault. Some states never listen to their actuary. The costs keep getting more and more expensive.
The private sector has defined benefit plans and they face the same challenges. A lot of them have defined contribution plans. Our plan faces the same challenge. We're not just talking defined benefits we are talking defined contribution as well.

Senator Wanzek asked if this 8% return was an investment in the fund. What if there's a 10% return, he would assume the line would go up?

Sparb Collins said yes and to the extent that any one of the underlying assumptions is better than the next years it helps the funding challenge. Right now as of today, we're sitting at about 18 percent, what that would cause the line to do is to move up over the long term over the sixty percent ratio.

Senator Wanzek, addressing it at this point in time, with not an overreaction, but a 2 year change like this bill proposes, gives us the time to see what that market might do, but keeps us from dropping to much further?

Sparb Collins the bill here does everything as the original 2108, but they wanted to makes sure as they brought this recovery plan, is that the full picture is provided. The bill as engrossed does everything that is requested for this next biennium.

Senator Wanzek, if we do that, and get to 2013 and see that it isn't necessary to raise it again, the way the bill is written does the 2% that has been added, in the next few years does that continue on?

Sparb Collins Yes as you can see from these projections that will be needed for a long time to come even if we get better investment returns. They asked their actuary, what if we didn't do anything what would it take over twenty years, in investment returns every year for us to get back to 100%? He continued with his testimony.

Senator Christmann Asked if it was said that the implementation date for PERS was in 1977 and how many times have benefits been increased on the same contribution level.

Sparb Collins said it was 1977 and when it started it was like 1.04 for the benefits. They have gone up since then to the 2 point that it is now. The multiplier was 1.04 and the long term goal of both PERS and TFFR was to provide a benefit that was 90% of final average salary to a carrier employee with twenty five years, including social security. The average employee gets about 40 % from social security, so the employee would need about 50% of their average salary from pers. A multiplier of 2 met that goal. We've met the goal as of 2000 and unfortunately, then the market turned on them.

Senator Christmann Asked if he had said that some of the States didn't listen to actuaries, the ones that say 8% is do-able over the long term, did any of them say, when we increased benefits, ever voice any concern that it wouldn't be sustainable at that time?

Sparb Collins said did anyone anticipate a down turn in the market, no.

Chairman Holmberg perhaps committee members should be reminded that after the big drop in 2002, the legislature formed its retirement committee which now requires all of these bills that impact the retirement programs to go through extensive studies and actuarial work. Prior to those bills, they were put in and passed and sometimes they weren't thought through.

Sparb Collins pointed out that one thing they are fortunate in their challenge, that others don't' have in PERS case, is they went into this almost 100% funded. The way things were managed throughout the 90s, they were fortunate that the enhancements that came in weren't paid for and didn't compromise their funding status and they also went through a significant market down turn. They made it through that because they were so well funded.

Senator Wardner asked if he was talking about the employees benefit committee being started in 2000?

Chairman Holmberg said that he was talking about the fact that now they have to have the study and the committee gets to approve bills even if they are introduced during the session it goes to employee benefits.

Senator Wardner said he thought it was gone a long time sooner because he was on that committee at the end of the 90's.

Chairman Holmberg asked if the change was that they had to go through that committee even during the session because the committee meets during session.

Senator Wardner said he thinks he is correct.

Laura Glatt, NDUS office: Testified in Favor of SB 2108. Testimony attached - #3.

Senator Christmann asked if they had the 2 options for 20 years or is that a newer plan.

Laura Glatt,said they have had the two plans as long as she had been here.

Senator Christmann stated that if some of the people who are in the defined contribution plan had benefited greatly compared to the defined contribution people in the 90's and now when the pendulum swings we are going to pick them up equally, was that considered?

Laura Glatt,said it would have been considered the actuarial that was done and while they may of had significant gains in the 90's and their retirement portfolio may have been larger going into the last market loss, they also lost a substantially larger portion then others as well.

Senator Wardner asked what the criteria is for which plan they go into because he has known that faculty has been on the defined contribution plan for years.

Laura Glatt,said that the university system bands positions by job families and it depends on what job family you are in. Outside of faculty and researchers it would be primarily upper level administrators that are in the defined contribution plan. You do have the option, if you were covered in the defined contribution plan at one time through PERS and you changed positions and you moved to a job that now qualified you for the other plan you have a one only option to elect to stay or move.

Chairman Holmberg closed the hearing on SB 2108.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

SB 2108
February 18, 2011
Job # 14729 (Meter 42:12)

☐ Conference Committee

Committee Clerk Signature	Rose Laning

Explanation or reason for introduction of bill/resolution:

A committee vote on SB 2108 relating to increased employer and employee contributions under the highway patrolmen's retirement plan and public employee retirement system.

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg opened the hearing on SB 2108 and said this is the PERS bill. This increases the employer and employee contributions and adds state employee contribution of 1% each year of the biennium. The original bill also extended that out to the next biennium for 1% each year from each side. That was removed by the policy committee. Sparb brought some graphs that showed the impact of what would happen if nothing was done versus doing this.

Senator Robinson moved Do Pass on SB 2108.
Senator O'Connell seconded.
A Roll Call vote was taken. Yea: 13 Nay: 0 Absent: 0
Senator Dever will carry the bill from GVA.

Date: 2-18-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2108

Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken: ☑ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Robinson Seconded By O'Connell

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell	✓	
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment GVA - Dever

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2108, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2108 was placed on the Eleventh order on the calendar.

2011 HOUSE GOVERNMENT AND VETERANS AFFAIRS

SB 2108

2011 HOUSE STANDING COMMITTEE MINUTES

House Government and Veterans Affairs Committee
Fort Union Room, State Capitol

SB 2108
March 10, 2011
15248

☐ Conference Committee

Committee Clerk Signature Carmen Hart

Explanation or reason for introduction of bill/resolution:

Relating to increased employer and employee contributions under the highway patrolmen's retirement plan and public employees' retirement system

Minutes:

Chairman Bette Grande opened the hearing on SB 2108.

Sparb Collins, Executive Director, North Dakota Public Employees Retirement System (PERS) appeared in support. **Attachment 1.**

Chairman Bette Grande: For information for the committee because we have not really dealt a lot with the PERS with the new members, I want to do a couple of quick questions. On the fiscal note why do you have counties, cities, and school districts? What would that have to do with the public employees' side?

Sparb Collins: Why that is reflected on there is because about 45% of our membership in the PERS plan is from the cities, counties, and school districts. In fact, our second largest client is school districts. There we do not cover the teachers' fund for retirement. The teachers' fund for retirement covers all of the certified staff in the school districts. We would cover, for those school districts that elect to participate in PERS, the noncertified staff. Our third largest client is counties. Cities are in the plan. The larger cities that elect this plan are Fargo, Grand Forks, and Jamestown and some smaller political subdivisions as well. They can also elect to withdraw from the plan. It is more complicated withdrawing than joining because if you withdraw from the plan, there has to be a settlement of the liabilities.

Chairman Bette Grande: With the school districts we allow for the option for technical teachers? There are some groups that we allow them to opt out of TFFR and come to PERS.

Sparb Collins: There was a couple of sessions ago consideration and change made for employees certified teaching staff that work for the state like in the department of public instruction.

Chairman Bette Grande: School for the Deaf, School for the Blind, and technical and career.

Sparb Collins: As a result of legislative changes--they were originally because of that certification had to be in the teachers' system--they were allowed to elect to switch over to the PERS system. That has all been completed at this particular point.

Chairman Bette Grande: On Page 2, Section1 and 2, I am not seeing the language on Highway Patrol in the bill versus main system. How am I missing that?

Sparb Collins: Chapter 39-03 is the Highway Patrol. If you go to Chapter 54-52, that is going to be the PERS system and 54-52 is going to include the main, judges, law enforcement, and the national guard. If you go to 54-52.6, that is going to be the defined contribution plan changes.

Rep. Roscoe Streyle: We are looking at data from July. Is there any indication when we would get, if any, new actuarial data?

Sparb Collins: Our fiscal year ends June 30. The first thing that happens on June 30 is the auditors come in, audit all the assets, and come up with that number. Concurrently the actuary starts work on the actuarial reports. All that comes together in September and in October the new information then is reported to the employee benefits committee. This year does look like it is going to be a good year for the retirement plans. Right now the returns are in the upper double digits. If you go to the table on Page 6 and this is the main system, let us say we get a good return this year in the range of 18 or 20%--that green line when it gets out to 2040 it gets to about 52%--that green line would probably rise up to about 58% at that point. It definitely is helpful but it doesn't solve it. During this last interim one of the things we did before coming up with this proposal we ran a whole bunch of different scenarios and shared those with the employee benefits committee. One of the questions we asked is what if we didn't increase contributions at all? What type of return would we have to have each and every year for 11 years or for 20 years to bring this system back to 100%? We would have needed, assuming we got 8% this year, something in the 11 to 12% range each and every year for 20 years. Historically, we have made about 8 ½% so it is probably going to be unlikely that we would be able to sustain a 11 to 12% return every year to bring the plan back. Every year that is over 8 is helpful.

Rep. Roscoe Streyle: In the real world 10% is usually the employee's contribution, then 3 or 5 in retirement plans. We have been historically at a 8.12 which I think was way too low to begin with but is it really too much to ask for the employee to pay the full 4% if they want this system to be solvent?

Sparb Collins: That is a policy decision. As we looked at the recovery, sharing that recovery seemed like a reasonable approach. We did put in three bills to kind of assess which would be best. One had the employee pay the full amount. One had the employer pay the full amount. The third had this split. Those went through the interim and had hearings on and the one that received the favorable recommendation is the one that is before you.

Rep. Lonny Winrich: In your response about the actuarial data, you suggested that it looks like this year is going to come in at about 18%?

Sparb Collins: Upper double digits.

Rep. Lonny Winrich: That would push the green line up to about 58%. Is that 18% or whatever for this year and then 8% on out?

Sparb Collins: Yes. If we had an offsetting year which is equally as probable, that is going to affect again. When you start getting out there longer distance, it gets a little more volatile in terms of the projections.

Rep. Mark Sanford: That is probably a good example of the reason why we see smoothing employed by the actuaries.

There was a little bit of conversation that was cut out.

Sparb Collins: ...we have structure.

Chairman Bette Grande: If you want to distribute that to the committee later, you may.

Chancellor William Goetz, North Dakota University System, appeared in support. **Attachment 2.**

Chairman Bette Grande: Your trade, technical support and some professional staff do they have the option to be in PERS or TIAA-CREF or they must participate?

Chancellor Goetz: They must participate in the PERS plan.

Rep. Glen Froseth: You have almost twice as many employees now that are in the defined contribution plans and defined benefit plans. Are most of your new employees now choosing to go to the defined contribution?

Chancellor Goetz: I could not answer that question. I would have to visit with our human resource people to give me that answer, but I certainly could get it for you.

Rep. Glen Froseth: Could you provide that because that could be kind of interesting information.

Rep. Karen Karls: From what I understand the TIAA-CREF is in very good shape. Is it a national pension for university people?

Chancellor Goetz: Yes, it is.

Rep. Karen Karls: You are saying now that we need more money? What is that for exactly?

Chancellor Goetz: The issue is comparable to that of what has taken place in the PERS plan in the fact that there has been a reduction in the value of those portfolios and as a result we have basically the same issue.

Chairman Bette Grande: Would it not be an issue of fairness that all employees be treated equally? If you are going to increase on one end, you would increase with the others in other plans just because the plans are different that they would be treated equally as we do with PERS?

Chancellor Goetz: That is correct. That is why we are dealing with that part of it within our university system budget.

Rep. Roscoe Streyle: Is the TIAA-CREF at 8.12? Do you know what the breakdown is on that, what the contribution rates are from employee and employer?

Chancellor Goetz: It varies based upon category of employee. There are differences in terms of administration and faculty in terms of what that contribution is. Also it depends upon, in some cases, length of service. I can get you those breakdowns as far as the system office is concerned.

Rep. Roscoe Streyle: Why are you forcing the ones into the defined benefit? Is it just because they are in those specific services and allowing, I am assuming, that professors to go into the defined contribution? Why don't they have an option, these 2,475?

Chancellor Goetz: As I understand, it really is a contract that exists with TIAA-CREF nationally and the guidelines that TIAA-CREF puts forward in terms of who can participate and who cannot.

Some of the recording cut out.

Josh Askvig, North Dakota Education Association, appeared. We support this as a proposal to help shore up the PERS fund. As you heard, school districts are the second largest part of PERS after state employees and we represent members that are in PERS as well. We think this is a good option to share the cost between employees and employers and hope you will support it.

Stuart Savelkoul, Executive Director, North Dakota Public Employees Association, appeared. I really wish I didn't have to be here today asking for an increase in contributions to this fund. It is extremely unfortunate that we are in this position. It is unfortunate for state employees and public employees that belong in this system. It is certainly unfortunate for people that aren't in the system that don't necessarily receive direct static benefit from this plan and yet will be somewhat responsible for increasing the funds. I know on a couple of occasions the chairman of this very committee mentioned that the state legislature has an obligation to state employees in North Dakota to deliver on the promise that was made. I think 2108 represents a responsible approach to delivering on that promise. He talked about the three bills presented this session. If you were to have the employer pick up 100% of the responsibility then you don't have to worry about any particular employee's salary decreasing over the course of the biennium. If you have the employee pick up 100% of the responsibility assuming that you are also going to give salary increases to go along with it, because as this committee has made a constant priority getting public employees' salaries up to market rate is certainly important to all of you, then employees could probably pay the entire contribution increase. The downside is that becomes more expensive for the state. It actually becomes more affordable for the state to pick up a certain amount if not all of the amount of the contribution increases. There is the general PR aspect of it which is this is an uncomfortable situation and it needs to be made clear that all of us are sharing this burden and I think that is the compromise that 2108 arrived at. I want to speak on behalf of our membership across the state in saying that we endorse this plan. We hope you will endorse this plan and look forward to working with you in the future.

Rep. Roscoe Streyle: What do your members pay now out of their salary for their retirement?

Stuart Savelkoul: Presently they pay zero. Some of the recording cut out. Stuart did give a little history of paying in for part of retirement.

Rep. Roscoe Streyle: Some of the recording cut out. Rep. Streyle talked about an article in USA Today about ND. Aren't you already at market rate right now?

Stuart Savelkoul: That USA Today article was certainly interesting fiction. I found it interesting that so many people wanted to point at the disparity between public sector salaries and private sectors but nobody chose to focus on the fact that we rank 50th out of 51 in public employee pay in general and yet we have had a budget surplus for the last six years. Some would say that should have been the story. To your question I would say that particular poll self proclaimed that it didn't do any job to job comparison. Education requirements were not taken into account. All it was doing was saying according to the bureau of labor statistics all of the people working in the public sector average this particular wage and all of the people working in the private sector average this particular wage and at the end of the day they found that over the course of a year somebody in public employment makes $389 more per year.

Rep. Roscoe Streyle: There is another one coming from the Hay Group. What are your thoughts on what that is going to come in at?

Stuart Savelkoul: The Hay Group is attempting to compare job to job. Rather than comparing what an engineer makes for the state of North Dakota to what a sales associate makes at Claire's, it is going to compare what an engineer for the state of North Dakota makes to what an engineer makes for MDU.

Rep. Roscoe Streyle: It will be interesting to see if USA Today is closer.

Stuart Savelkoul: I too will be quivering with anticipation.

Vice Chairman Randy Boehning: With this bill where the employee is going to pay 1% into the fund, is that pre taxed dollars?

Stuart Savelkoul: You are talking about the employees?

Vice Chairman Randy Boehning: On the employee's side.

Stuart Savelkoul: I should defer to Sparb on this. As I understand, those monies will be taxed on the employee's side and the employer's side before the contributions are made. Sparb, no I am incorrect.

Sparb Collins: It will actually be up to the employer. We have a provision in statue that allows an employer to make decisions on how this can be done. It is going to come out of the employee's check one way or another.

Bill Kalanek, Representing the Association for Public Employees, appeared. This issue is of great concern to our association. Both our board and membership endorsed the bill as you took it out of the interim and brought it into the legislative session. We agree with the changes that were made in the senate as a matter of not taxing future sessions with the responsibility and just in general we support the philosophy behind the bill. I think it will do a good job at least getting a start in repairing the status of the PERS funds.

There was no one in opposition or neutral to this bill.

Chairman Bette Grande: I am not going to close the hearing. I have been requested and I have not seen them yet so I am just going to hold the hearing open. There was a request that there would be possible amendments. To have this bill amended it has to come through the employee benefits committee so I need a timeframe to deal with that. If and when I ever see some amendments, we will have to see the amendments, go to employee benefits, then come back to the committee and have a hearing. We will open it up to a full hearing on the calendar at that time.

Attachment 3 was handed out by the law intern that had been given to him by Chancellor Goetz.

2011 HOUSE STANDING COMMITTEE MINUTES

House Government and Veterans Affairs Committee
Fort Union Room, State Capitol

SB 2108
March 25, 2011
16024

☐ Conference Committee

Committee Clerk Signature	Carmen Hart

Explanation or reason for introduction of bill/resolution:

Relating to increased employer and employee contributions under the highway patrolmen's retirement plan and public employees' retirement system

Minutes:

Vice Chairman Randy Boehning opened the discussion on SB 2108 on March 24, 2011. This has a fiscal note with it.

Rep. Bill Amerman: We haven't closed the hearing on this, right? She kept it open.

Vice Chairman Randy Boehning: Were we waiting for some more information on that one?

Rep. Bill Amerman: When we first heard the bill, Chairman Bette Grande stated that we wouldn't be closing because of some amendments.

Vice Chairman Randy Boehning: When I talked to her this morning, I don't know if she had any amendments to that. We can hold that until this afternoon.

Rep. Roscoe Streyle: I don't think the amendments are coming unfortunately. It probably would be smart to hold it.

Vice Chairman Randy Boehning: Why don't we just sit on that?

Rep. Lonny Winrich: There is a meeting of the constitutional revision committee this afternoon too. I think it is 3:15.

Vice Chairman Randy Boehning: We can kick this out tomorrow morning too. This has to do with raising the percentage increase, 1% and 1%.

Chairman Bette Grande opened the discussion on SB 2108 on March 25, 2011. The hearing was still open. I left that open due to I had been asked by others that they possibly would have amendments. I have had people approach me with some amendments. In further discussion with them, none of them appeared to me to be a workable solution to things. I thought some were too drastic to move on at this stage. I asked most of those people to continue their efforts of trying to deal with the public employees benefit system in the interim where it is a more open forum and they can present it in bill form. They all seemed to be in agreement with that and so with that I am going to ask the committee that we just leave this bill as it is and not take up amendments. As it is actuarially, we are okay. It is where the PERS board can work with this that we can move forward in the interim.

Rep. Lonny Winrich: I will move a Do pass.

Rep. Vicky Steiner seconded the motion.

DO PASS, 11 YEAS, 1 NAY, 1 ABSENT. Chairman Bette Grande is the carrier of this bill.

Date: 3-25-11
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2108

House GOVERNMENT AND VETERAN AFFAIRS Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Winrich Seconded By Steiner

Representatives	Yes	No	Representatives	Yes	No
Chairman Bette Grande	✓		Bill Amerman	✓	
Vice Chairman Randy Boehning	✓		Ron Guggisberg	✓	
Glen Froseth	✓		Lonny Winrich	✓	
Karen Karls	✓				
Lisa Meier					
Gary Paur	✓				
Karen Rohr	✓				
Mark Sanford	✓				
Vicky Steiner	✓				
Roscoe Streyle		✓			

Total (Yes) 11 No 1

Absent 1

Floor Assignment Grande

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2108, as engrossed: Government and Veterans Affairs Committee (Rep. Grande, Chairman) recommends **DO PASS** (11 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2108 was placed on the Fourteenth order on the calendar.

2011 TESTIMONY

SB 2108

Testimony of
Sparb Collins
On SB 2108

Good morning, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System (NDPERS). I appear before you today concerning the retirement plans we administer. Our agency provides services to the state and participating political subdivisions. Approximately 55% of our members are from the state and 45% are from political subdivisions. We have approximately 7,000 members retired under our plans.

The proposed legislation before you today would increase both the employer contribution rates and the member contribution rates that are in statute for the Highway Patrol Retirement Plan, the PERS Hybrid Plan (Main and Judges only) and the PERS Defined Contribution Plan by 1% of the member's monthly salary beginning January 2012, plus an additional 1% increase in both employer and member contribution rates each calendar year thereafter through January 2015. The Bill also would increase the member contribution rates for the following two groups:

- Peace officers and correctional officers in the Hybrid Plan that are employed by political subdivisions, for which the member contribution rate would increase by 0.5% annually, instead of 1%, over the same time period; and

- Temporary employees in the Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% annually, instead of 1%, over the same period.

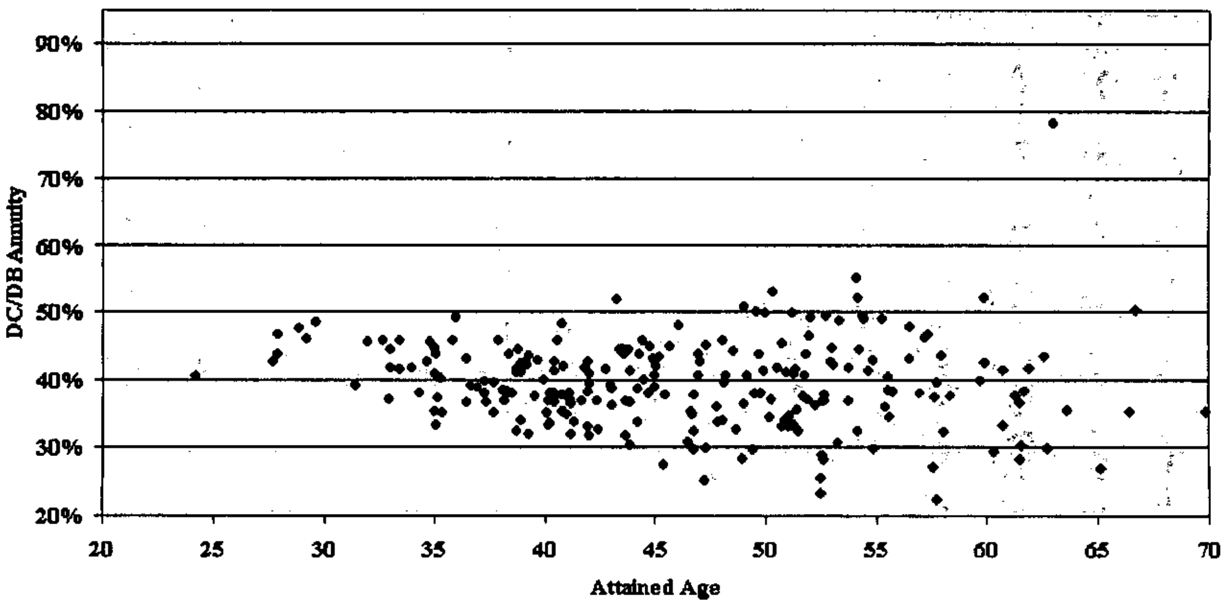
The following details the above changes in the Bill:

Retirement Fund	SB 2108 *Increase employee and employee contributions equally**
Highway Patrol	• 4% employee increase and a 4% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012) o ***Section 1*** increases the employee contribution o ***Section 2*** increases the employer contribution
Main	• 4% employee increase and a 4% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012) o ***Section 3*** increases the temporary employee contribution o ***Section 4*** increases the employee contribution o ***Section 5*** increases the employer contribution
Judges	• 4% employee increase and a 4% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012) o ***Section 6*** increases the employer and employee contribution
Law Enf	• .5% employee increase (beginning in Jan of 2012) o ***Section 7*** increases the employee contribution o ***Section 8*** increases the employee contribution for BCI
DC Plan	• 4% employee increase and a 4% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012) o ***Section 9*** increases temporary employees contribution o ***Section 10*** increases employer and employee contributions

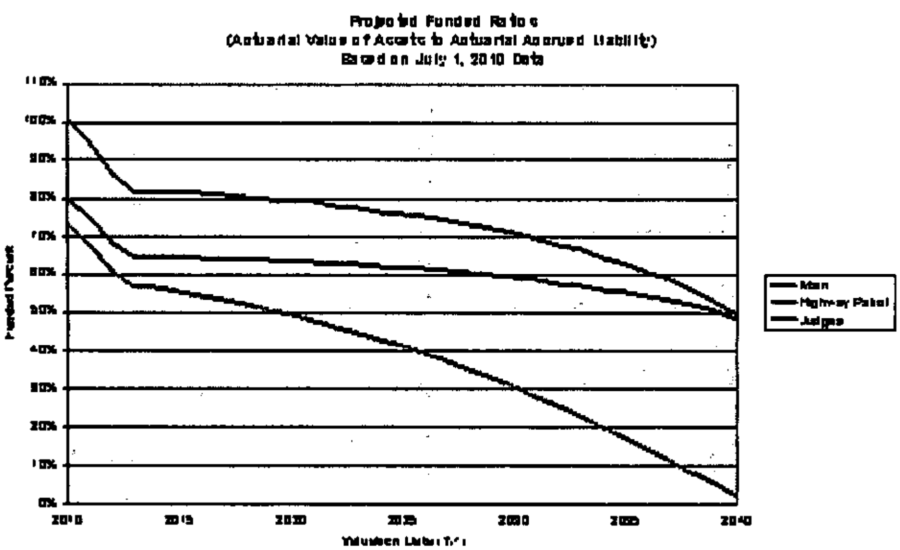
This Bill addresses the funding shortfall that has occurred in both the PERS defined contribution plan and the PERS defined benefit plans as a result of the recent downturn in the financial markets.

The following tables illustrate the funding challenge to both our defined contribution plan and defined benefit plan.

Exhibit III
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Attained Age as of July 1, 2010
With 8.12% Future Contribution Rate



Senate Bill 2108 – Current Plan Projections



*SEGAL

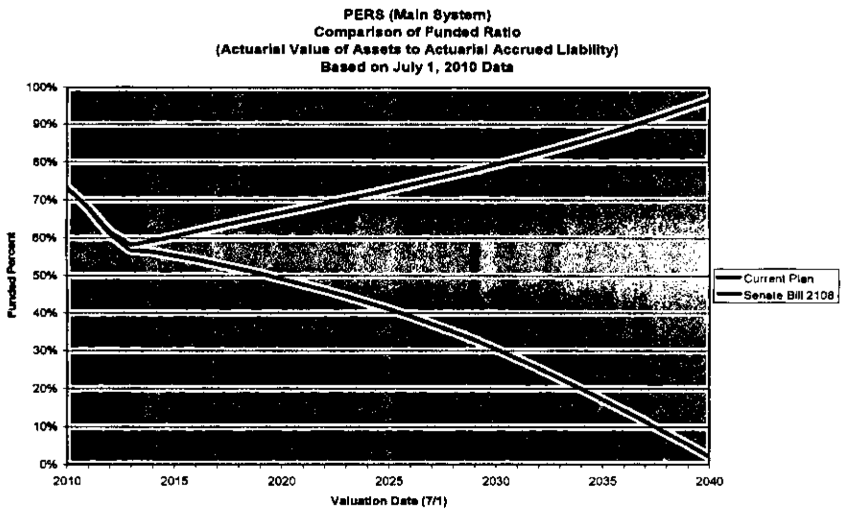
As of July 1, 2010, the Main plan had a funding deficit. This means the statutory contributions are less than the actuarially required contributions. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized. Projections of the future funded status have indicated that unless this gap is addressed, the Main plan will become insolvent in approximately 2040 (as noted in the above graph). Increasing the 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, 2010, the Highway Patrol Retirement System (HPRS) plan had a funding deficit. 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. While 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 80% to 48%. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit.

This Bill would also increase the employer contributions for the Judges retirement plan. The employer contributions for the Law Enforcement 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.

The following graphs project and contrast the funding ratio of each system without this proposal and with this proposal.

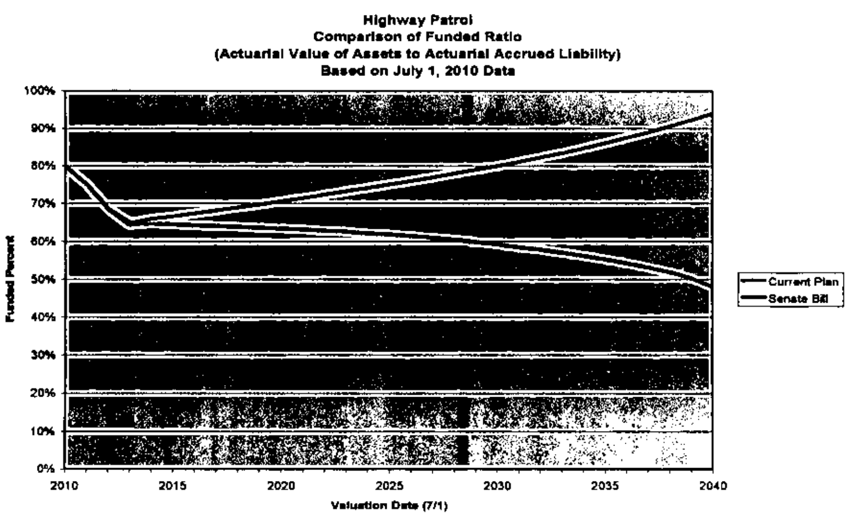
Senate Bill 2108 – Actuarial Cost & Technical Analysis



*SEGAL

1

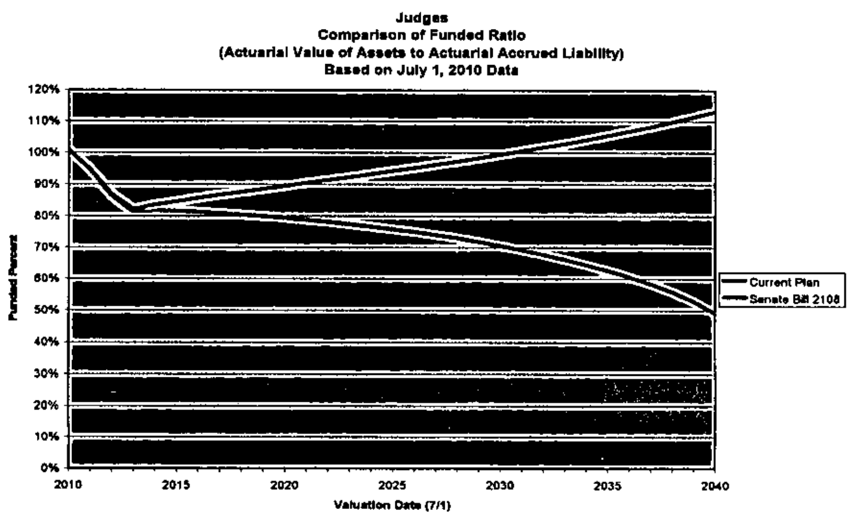
Senate Bill 2108 – Actuarial Cost & Technical Analysis



*SEGAL

2

Senate Bill 2108 – Actuarial Cost & Technical Analysis

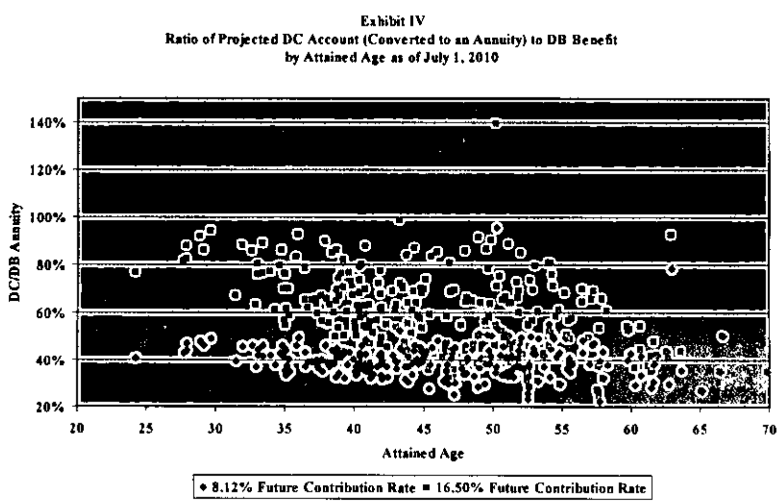


*SEGAL

3

For the defined contribution plan, the following table shows how this proposal helps the funding of these member's retirement benefits:

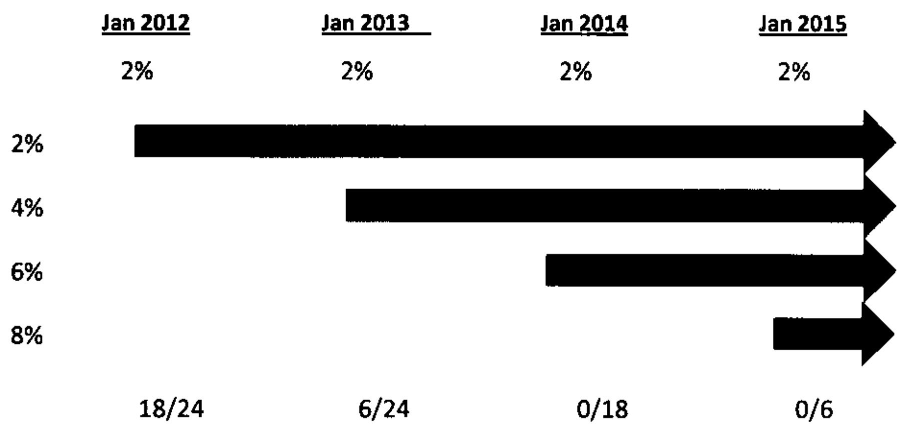
Defined Contribution Analysis



*SEGAL

4

The proposed contribution increase is phased in over 4 years beginning in January 2012 and ending in January 2015. The following graph shows the phase in:



Months increase effective for 2011-2013/ Months effective for 2013-2015

2015 and beyond 100% effective

2

This proposal is brought forward after extensive review by the PERS Board, our member groups and the Legislative Employee Benefits Committee. This proposal:

1. Reflects the challenge faced by both our defined benefit plan (hybrid plan) and our defined contribution plan. If PERS was entirely a defined contribution plan, I would still be here before you today. This challenge is not unique to one type of plan versus another type. It is a retirement challenge for all types of plans – defined benefit or defined contribution.

2. Shares the cost of the recovery between the employer and employee.

3. Allows each employer to consider how they will fund their share as part of their overall compensation planning process and does not request a fixed sum or up front payment.

4. Phases in the adjustment over time to reduce the net effect on the employers and employees.

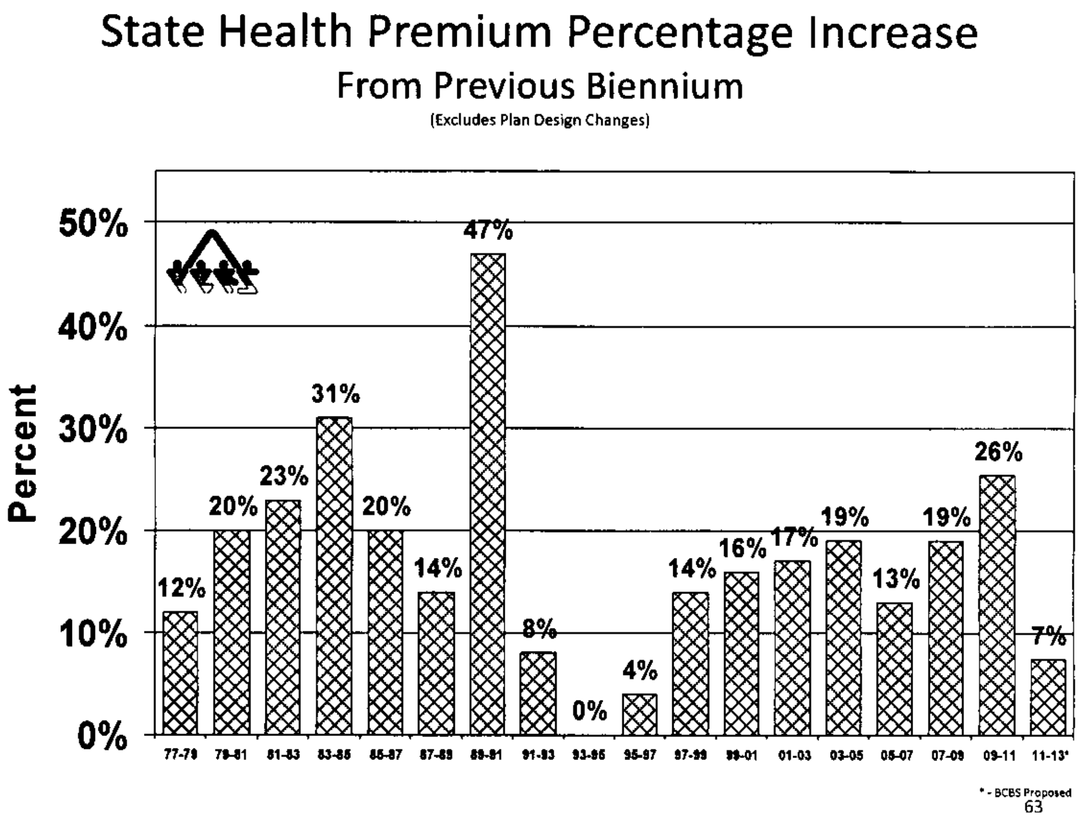
5. Addresses the challenge in both our defined contribution plan and defined benefit plan and puts both on a positive recovery. However, in our defined contribution plan, our employees who are late in their career will still have a substantial challenge.

6. Delays the initial starting date to January 2012 to allow political subdivisions to plan for the adjustment.

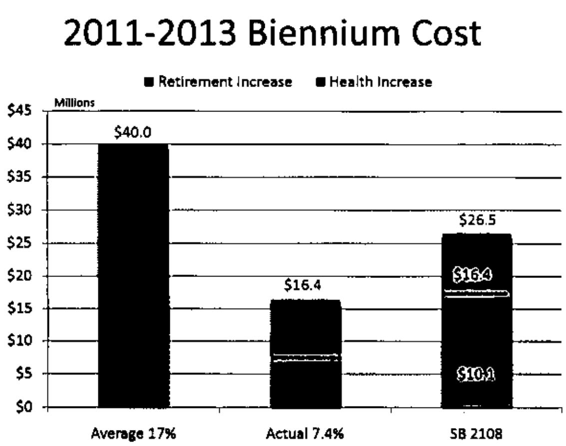
During the interim, your Legislative Employee Benefits Committee held hearings on this and two other proposals: 1) to have the employer pay the entire increase, or 2) have the employee pay the entire increase. No testimony was given in opposition to the proposal before you; however, there were concerns expressed with the other two concepts. The committee also received detailed information from the actuary, and after several hearings, the committee gave the other two proposals an unfavorable recommendation and gave this proposal a favorable recommendation.

This concept was also considered in the development of the executive budget and is included in the executive recommendation.

Attached is the fiscal note for this Bill. While it is significant, one offsetting feature when considering our total benefits is that unlike previous years, this year our health costs are low. The following table is the history of health plan cost increases, including the cost of our upcoming renewal of approximately 7%.



Not including this year's renewal, our average increase over the years has been about 17%. The following table shows the projected cost of funding that increase and compares it to the actual cost for both the phased in retirement increase and the new health premium.



By our members reducing their utilization of services this past biennium, for whatever reasons, it has helped to offset the phased in retirement cost for this biennium since both can be funded for less than the average of just the health.

Mr. Chairman, members of the committee, I wish I did not have to appear before you today with this Bill. PERS has never had to request an increase since its inception in 1977. I wish I did not have to today. However, the investment consultant to the State Investment Board stated that the year we had the loss that created this situation was truly unique. In fact, out of 218 years of returns in this country, there were only 4 that were worse. We likely will not experience such an event again in our lifetimes. Unfortunately, this was an unforeseen circumstance and now it needs our consideration and so I stand before you today. In addition, to those I listed above who support the Bill, the PERS Board also supports this proposal. If we can assist you with your considerations, please let me know. Thank you.

North Dakota University System
SB2108 - Senate GVA – January 13, 2011
Laura Glatt, NDUS Office

The ND State Board of Higher Education supports SB2108 to increase employer and employee contribution rates under the PERS retirement plans.

The NDUS has approximately 2,475 employees (e.g. trade, technical, support, and some professional staff) who participate in the PERS ***defined benefit*** plan that would be impacted by this legislation. In addition, the SBHE has statutory authority per NDCC 15-10-17 to establish an alternate retirement plan and has done so for roughly 4,615 employees (e.g. faculty, research, administrators and upper level professional staff) who participate in a ***defined contribution*** plan administered through TIAA-CREF.

Retirement contribution rates for each plan are currently as follows:

	Employer Paid	**Employee Paid**
PERS defined benefit	9.26% 1/	0%
TIAA-CREF, 2 year or less of service (asst. professor, instructor, research personnel, and lecturers, and professional staff	4.50%	0.50%
TIAA-CREF, 3-10 years of service (asst. professor, instructor, research personnel, and lecturers, and professional staff	9.50%	1.50%
TIAA CREF, 10 years or less of service (professor, assoc. professor, executive and administrative staff)	9.50%	1.50%
TIAA-CREF, over 10 years of service (all positions)	10.0%	2.0%

1/ with 0.26% for retiree health care; 4% of total 9.26% was an employee contribution, but in the 80's the state elected to pay the employee contribution in lieu of a salary increase.

Separate actuarial analyses completed by both PERS and the NDUS during the 09-11 interim on their separate defined contribution plans suggest that defined contribution plan participants are generally in a worse position, relative to retirement benefits, as a result of recent market losses. In other words, it is unlikely they will be able to meet their retirement goals, even with the recommended adjustments in this legislation. In recognition of this, and in order to treat all NDUS employees evenly, the SBHE endorsed as part of their budget request, equal retirement adjustments for all NDUS employees, similar to what is being recommended for all other state government employees who participate in either the PERS defined benefit or PERS defined contribution plan.

The 11-13 executive budget recommendation for the NDUS (HB1003) includes $2.2 million for both NDUS employee participants in the PERS defined benefit and TIAA-CREF defined contribution plans consistent with proposed SB2108. It should be noted that this figure does not include NDSU Extension and Research, which are handled differently for budgeting purposes and would be included in the state agency cost calculations provided by PERS.

Also, the above costs do not include that portion of the cost that would need to be covered by other sources for positions paid in whole or in part by other fund sources (e.g. grant and contract, auxiliaries, etc.).

Thank you for your support of this important measure. I will be happy to try to answer any questions.

Testimony on SB 2108
Bill Kalanek, Association For Public Employees
Senate Government and Veterans Affairs Committee
January 13, 2011

Chairman Dever and members of the Senate Government and Veterans Affairs Committee my name is Bill Kalanek and I represent the Association For Public Employees, an independent association of active and retired state employees.

I would like to voice support for Senate Bill 2108 which as you know provides for a small increase in the retirement contribution for both state employees and their employers. The modest increase and shared responsibility AFPE feels is the most prudent methodology to implement at this time to help the PERS fund recover from the most recent market downturn. Through this incremental increase in contributions it is believed that over time the PERS fund can return to a more satisfactory funded status assuming modest market returns.

AFPE was actively involved during the interim studying the issue and offering input to the PERS board and management. AFPE's board and membership have endorsed Senate Bill 2108 as the most prudent option for ensuring the health of the PERS retirement system into the future.

I would asked that you give Senate Bill 2108 a "Do Pass" recommendation and forward it to the floor of the Senate as this is an important issue for all state employees and retirees.

Thank you.

Senate Government and Veterans Affairs Committee
TESTIMONY IN SUPPORT OF SB2108
January 13, 2011

Josh Askvig – 701-223-0450 – josh.askvig@ndea.org

Chairman Dever, members of the Senate Government and Veterans Affairs Committee, for the record my name is Josh Askvig from the North Dakota Education Association (NDEA). On behalf of our 8,800 members including current public school teachers, retired teachers, students going into the profession of education, and also education support professionals (teacher aides, clerical staff, custodial staff, bus drivers, etc...), I rise today in support of SB2108.

The NDEA believes that retirement should be a reward for a life's work. In order for it to be rewarding, your retirement funds must be safe and secure to retire. One should not have to fret about if they will have enough to get through the remaining days of his/her life, but should enjoy retirement with family and friends. That is why providing retirement security is the right thing to do. The best way to provide retirement security is to ensure that ALL North Dakotans have strong defined benefit retirement plans. Defined benefit (DB) plans are much better for employees, employers, and the state in which they reside than defined contribution (DC) plans. DB plans provide a consistent and stable stream of retirement income until death, while DC plans only provide income until the individual's funds run out.

Keeping this principal in mind, as the NDEA studied the NDPERS funding shortfall we judged all efforts to fix this problem on four criteria: 1) we want to preserve the defined benefit for current and future members; 2) we want to avoid drastic benefit changes; 3) we wanted to minimize member contribution increases; and 4) we want to maintain the two percent multiplier. **SB2108 meets these objectives!**

As I mentioned above, our membership consists of education support professionals. These individuals, if they receive a retirement plan, receive it generally through the NDPERS plan. In fact, as you have probably learned school districts are a large volume of non-state employers in the NDPERS plan. We certainly understand and support the fairness of splitting the contribution increases equally between the employer and employee. However, we must note that the members we represent generally fall on the lower end of the wage scale for individuals and any increases in their contributions to NDPERS. Increases in their contributions may disproportionately affect their take home pay and ability to ensure that their living expenses do not go backwards. Something we don't believe is desirable for anyone and we would encourage the committee to support efforts to mitigate the impact on employees take home pay.

Having said this it is far more desirable to ensure that a strong DB plan remains intact than move to some other system that provides less retirement security. A defined benefit plan is good not only for educators, but it is good for local North Dakota economies as well. As you can see on the attached handout from the National Institute on Retirement Security (NIRS), a non-partisan, not-for-profit organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security, estimates that in 2006, for every dollar that was invested in PERS and TFFR, the state got back $9.33 in economic activity. That's because our retirees tend to stay in this state when they retire. Having a safe and secure retirement when they stay here, they continue to own houses, purchase automobiles, refrigerators and other consumer goods that stimulate business growth, especially in our smaller communities. NIRS also estimates that each dollar paid out in the state pension plans generated $1.24 of economic activity in the state. A solid defined benefit retirement plan enables our retired members to be six times less likely than those who do not have a defined benefit retirement to require public assistance in their retirement, according to NIRS.

Again, Chairman Dever and members of the Senate Government and Veterans Affairs Committee, we urge you to give SB2108 a DO PASS Recommendation. Thank you for your time and I would be happy to answer any questions.

NORTH DAKOTA

NATIONAL INSTITUTE ON Retirement Security

Pensionomics:

Measuring the Economic Impact of State and Local Pension Plans

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of North Dakota.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a *multiplier effect*.

Expenditures stemming from state and local pensions supported...

- 1,584 jobs that paid $71.4 million in wages and salaries
- $203.8 million in total economic output
- $27.0 million in federal, state, and local tax revenues

... in the state of North Dakota.

Each dollar paid out in pension benefits supported $1.24 in total economic activity in North Dakota.

Each dollar "invested" by North Dakota taxpayers in these plans supported $9.33 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to North Dakota communities and the state economy. In 2006, 13,017 residents of North Dakota received a total of $164.22 million in pension benefits from state and local pension plans, with $153.20 million paid from plans within the state and the remainder originating from plans in other states.

The average pension benefit received was $1,051 per month or $12,616 per year. These modest benefits provide retired teachers, public safety personnel and others who served the public during their working careers income to meet basic needs in retirement.

Impact on Jobs and Incomes

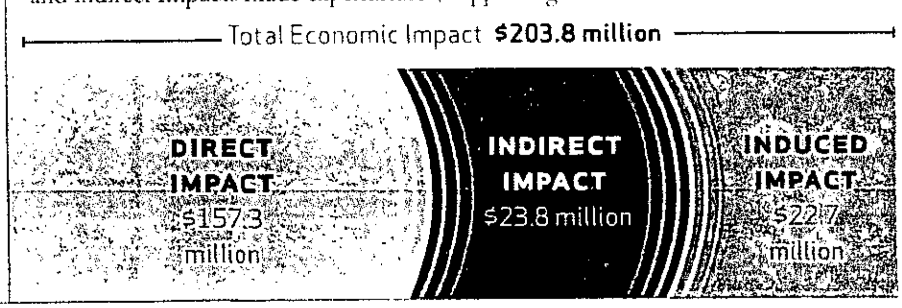
Retiree expenditures stemming from state and local pension plan benefits supported 1,584 jobs in the state. The total income to state residents supported by pension expenditures was $71.4 million.

Of this, the greatest share, $38.0 million, was comprised of employee compensation (wages and salaries). Proprietors' income (self-employment income) represented $5.6 million, and other property income (including payments from interest, rent, royalties, profits and dividends) totaled $27.7 million.

Economic Impact

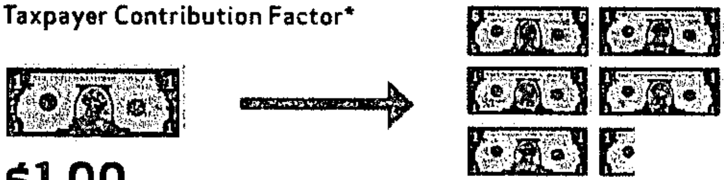
State and local pension funds in North Dakota and other states paid a total of $164.22 million in benefits to North Dakota residents in 2006. Retirees' expenditures from these benefits supported a total of $203.8 million in total economic output in the state, and $79.6 million in value added in the state.

$157.3 million in direct economic impacts were supported by retirees' expenditures on goods and services from businesses in the state. An additional $23.8 million in indirect economic impact resulted when these businesses purchased additional goods and services, generating additional income in the local economy. $22.7 million in induced impacts occurred when employees hired by businesses as a result of the direct and indirect impacts made expenditures, supporting even more additional income.



Economic Multipliers

Taxpayer Contribution Factor*



$1.00
Contributed by taxpayers to North Dakota pensions over 30 years

$9.33
total output

Each $1 in taxpayer contributions to North Dakota's state and local pension plans supported $9.33 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits - investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier

$1.00
pension benefits paid to retirees in North Dakota

$1.24
total output

Each $1 in state and local pension benefits paid to North Dakota residents ultimately supported $1.24 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

* Caution should be used in interpreting this number, because the Census data used reflect the taxable status of contributions only; because employee contributions may be reported as taxpayer contributions, the multiplier here may be underestimated.

Impact on Tax Revenues

State and local pension payments made to North Dakota residents supported a total of $27.0 million in revenue to federal, state and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled $6.9 million. Taxes attributable to direct, indirect and induced expenditures accounted for $20.1 million in tax revenue.

Federal Tax	16.88 million
State/Local Tax	10.11 million
Other Corporate Taxes	0.04 million
Total	**$27.02 million**

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in the state. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Value Added Impact ($ millions)	Income Impact ($ millions)	Output Impact ($ millions)
Health Care and Social Assistance	384	$16.0	$15.8	$27.5
Retail Trade	361	12.6	10.0	19.8
Accommodation and Food Services	201	3.8	3.4	8.8
Other Services (Except Public Administration)	149	2.9	2.7	6.0
Finance and Insurance	66	5.5	5.3	10.3
Real Estate and Rental and Leasing	63	3.8	3.2	5.8
Professional, Scientific, and Technical Services	45	2.2	2.1	4.3
Wholesale Trade	44	4.1	3.2	6.1
Arts, Entertainment, and Recreation	40	0.7	0.7	1.5
Administrative and Waste Services*	40	1.1	2.4	2.0

* The North American Industry Classification System classifies this industry as Administrative and Support and Waste Management and Remediation Services

2011 Legislative Session
North Dakota Public Employees Retirement System

Bill Number	Sponsor	Bill Summary	Program
HB1228	Representatives Grande, Vigesaa, Weisz, Senators Andrist, Grindberg, Miller	A BILL for an Act to amend and reenact subsection 4 of section 54-52-01 and sections 54-52-02.5, 54-52-02.9, 54-52.6-01, 54-52.6-02, and 54-52.6-03 of the North Dakota Century Code, relating to a defined contribution retirement plan for state employees.	Retirement
HB1364	Representative Carlson	Creation of a high-deductible health plan with a health savings account and to provide an appropriation	Health
SB 2022	PERS	PERS appropriation bill	Administration
SB 2108	PERS	A BILL for an Act to amend and reenact sections 39-03.1-09, 39-03.1-10, 54-52-02.9, 54-52-05, 54-52-06, 54-52-06.1, and 54-52-06.3, subsection 6 of section 54-52.6-02, and section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the highway patrolmen's retirement plan and public employees retirement system.	Retirement
SB 2109	PERS	A BILL for an Act to amend and reenact section 15-10-17, Subsection 6 of Section 39-03.1-11, Subsection 1 of Section 39-03.1-11.2, 39-03.1-14.1, 54-52-03, Subsections 3 and 6 of Section 54-52-17, 54-52-27, 54-52-28, Subsection 3 of Section 54-52.1-03 and Subsection 3 of Section 54-52.6-09 of the North Dakota Century Code, relating to special annuity purchases in the alternate retirement program for university system employees, surviving spouse payment options under the highway patrolmen's retirement plan, calculation of member service credit under the highway patrolmen's retirement plan, election of members to public employees retirement system board, calculation	Retirement

Bill Number	Sponsor	Bill Summary	Program
		of normal retirement date for a peace officer or correctional officer under the public employees retirement system, payment of member account balance under the public employees retirement system, purchase of sick leave credit under public employees retirement system, spousal election to participate in uniform group insurance program, reporting of employer pick-ups under the defined contribution retirement plan, and Internal Revenue Code compliance under the highway patrolmen's retirement plan and public employees retirement system.	
SB 2110	PERS	A BILL for an Act to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to subgroups under the uniform group insurance program.	Health
SB2302	Senators Hogue, Stenehjem, Christmann Representatives Carlson, Grande, Vigesaa	Relating to the membership of the state investment board and management of the legacy fund	Investments
SB2268	Representative N. Johnson Senators Wardner, Nelson	Medical benefits coverage for autism spectrum disorders	Health
SB2344	Senator Christmann	Composition of the State Investment Board	Investments
SB2358	Representatives Kaldor, J. Kelsh Senators Taylor, Mathern	Expansion of the uniform group insurance program to allow participation by permanent and temporary employees of private sector employers	Health

ND SCHOOL DISTRICTS NOT COVERED BY SOCIAL SECURITY

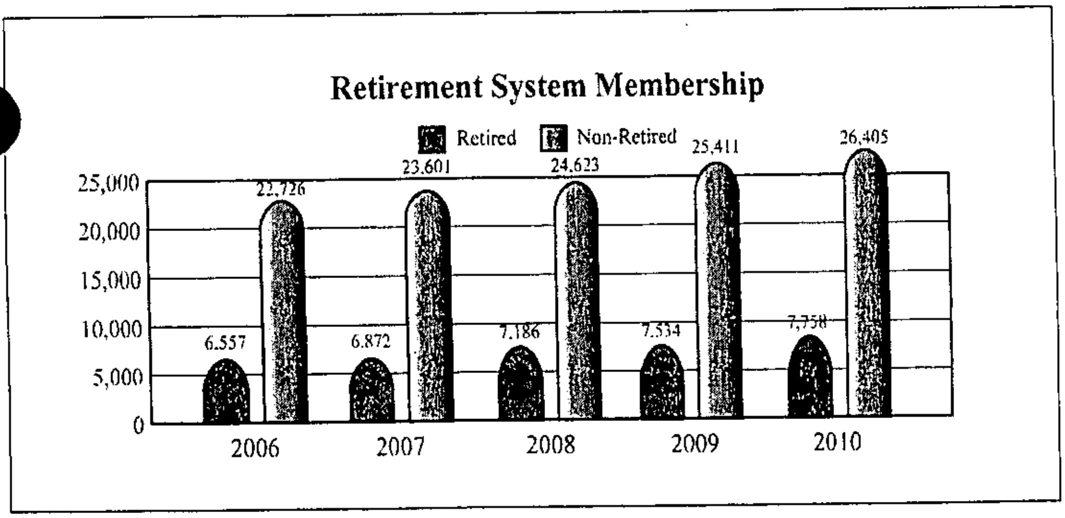
School District	County	Teachers Not Covered	Teachers Covered
Bakker Elem	Emmons	1	0
Edinburg	Walsh	16	0
Fordville-Lankin	Walsh	13	0
GST Special Ed	Trail	31	0
Manvel	Grand Forks	24	0
Mapleton	Cass	12	0
Naughton	Burleigh	2	0
Robinson	Kidder	2	0
Rural Cass Spec Ed	Cass	19	0
Selfridge	Sioux	14	0
Thompson	Grand Forks	11	25
Twin Buttes	Dunn	1	13
Wolford	Pierce	14	0
Zeeland	McIntosh	12	0

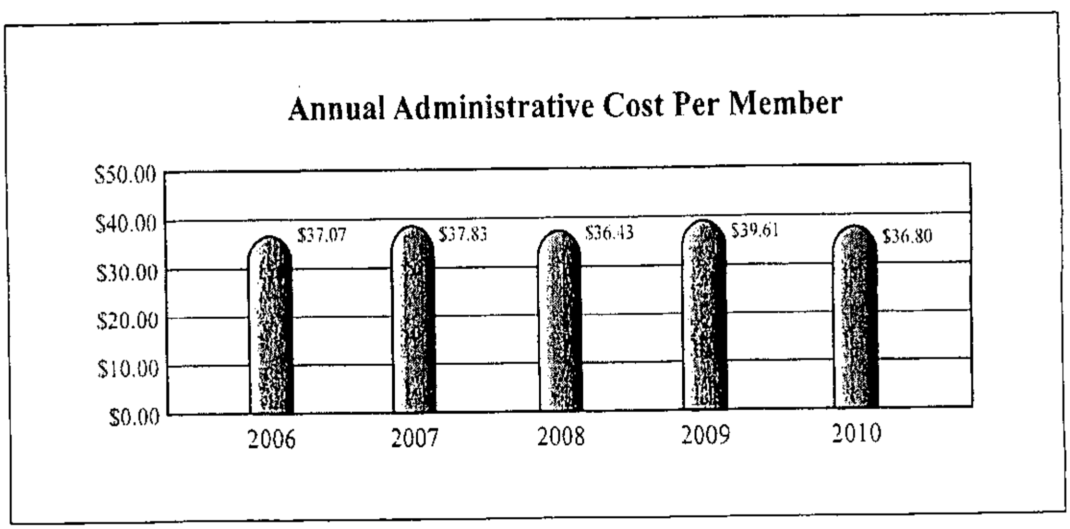
Totals: 14 Schools **172 Teachers Not Covered by Social Security** **As of June 30, 2009**

Retirement System Membership – PERS, HPRS, Job Service and OASIS
As of June 30

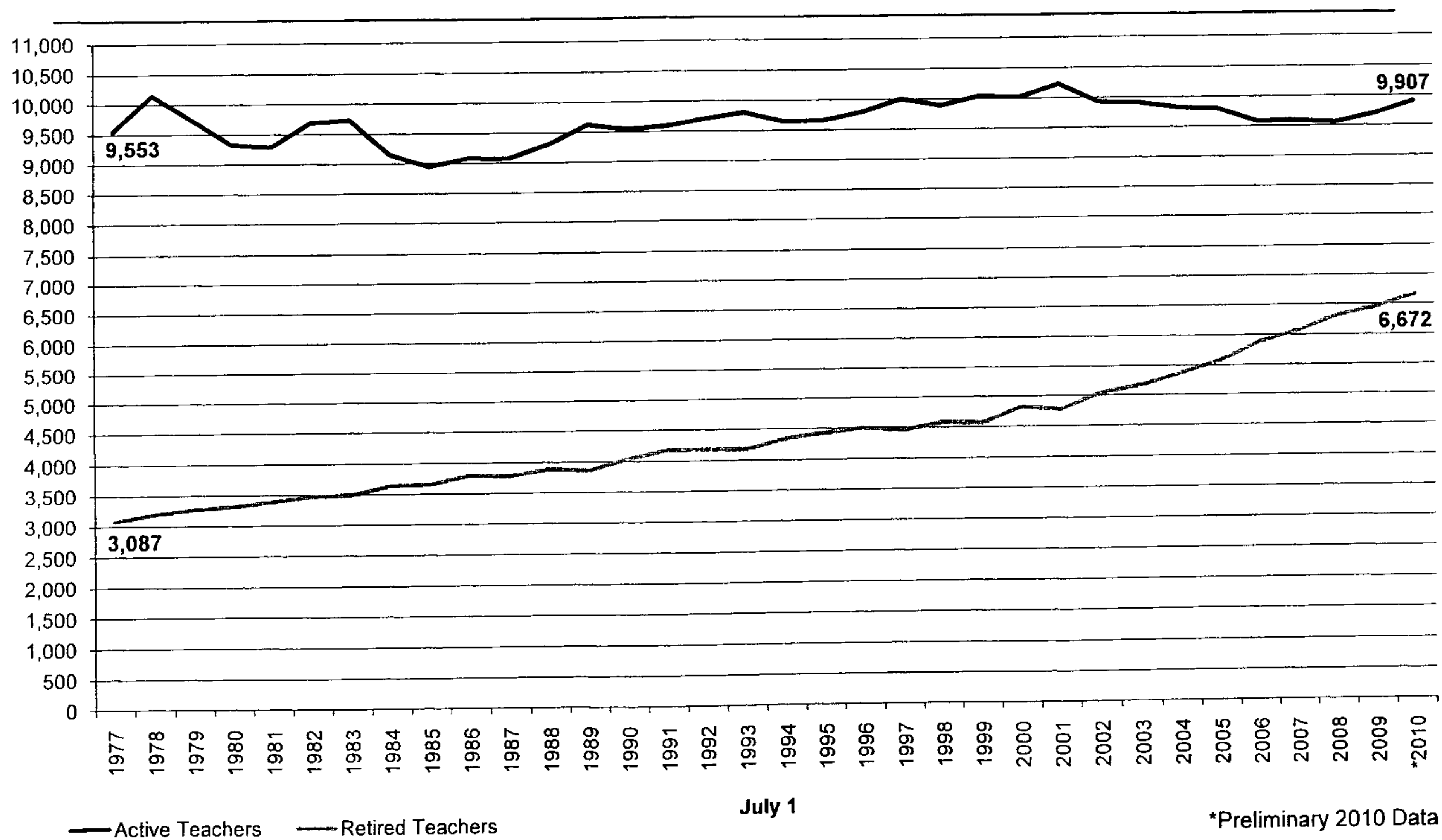
	2006	2007	2008	2009	2010
State Agencies	11,959	12,619	13,381	13,714	14,031
Cities	594	633	1,046	1,327	1,418
Counties	3,885	3,980	3,855	4,019	4,208
School Districts	5,886	6,146	6,080	6,085	6,440
Other Political Subdivisions	402	223	261	266	308
Total Non-Retired [1]	22,726	23,601	24,623	25,411	26,405
Retired Members & Beneficiaries	6,557	6,872	7,186	7,534	7,758
Total Membership	29,283	30,473	31,809	32,945	34,163
Administrative Expenses	$1,085,563	$1,152,813	$1,158,809	$1,305,055	$1,257,205
Administrative Cost per Member	$ 37.07	$ 37.83	$36.43	$39.61	$36.80

[1] Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.





Active and Retired TFFR Members 1977-Present



*Preliminary 2010 Data

Prepared by the North Dakota Legislative Council
staff for Senator Cook
February 2011

STATE LIABILITY FOR POLITICAL SUBDIVISION PARTICIPATION IN THE PUBLIC EMPLOYEES RETIREMENT SYSTEM

This memorandum discusses potential state liability for participation by political subdivisions in the Public Employees Retirement System. North Dakota Century Code Section 54-52-02.1 authorizes political subdivisions to join the Public Employees Retirement System. This section provides:

1. A political subdivision may, on behalf of its permanent employees, on behalf of its peace officers and correctional officers separately from its other employees, and permanent noncertified employees only in the case of school districts, enter into agreements with the retirement board for the purpose of extending the benefits of the public employees retirement system, as provided in this chapter, to those employees. The agreement may, in accordance with this chapter, contain provisions relating to benefits, contributions, effective date, modification, administration, and other appropriate provisions as the retirement board and the political subdivision agree upon, but the agreement must provide that:
   a. The political subdivision will contribute on behalf of each eligible employee an amount equal to that provided in section 54-52-06 or 54-52-06.3 for peace officers and correctional officers participating separately from other political subdivision employees.
   b. A portion of the moneys paid by the political subdivision may be used to pay administrative expenses of the retirement board.
2. Notwithstanding any other provision of law, a political subdivision having an existing police pension plan may merge that plan into the public employees retirement system under rules adopted by and in a manner determined by the board.
3. Notwithstanding any other provision of this chapter, a political subdivision of this state not currently participating in the public employees retirement system may not become a participant in the retirement system until an actuarial study is performed under the direction of the board to calculate the required employer contribution. The required employer contribution must be an amount determined sufficient to fund the normal cost and amortize any past service liability over a period not to exceed thirty years as determined by the board. Any fees incurred in performing the actuarial study must be paid for by the political subdivision in a manner determined by the board.

Section 54-52-02.1(1) provides that the agreement between the political subdivision and the Retirement Board may contain provisions relating to benefits, contributions, effective date, modification, administration, and other appropriate provisions as the Retirement Board and the political subdivision agree upon.

The Public Employees Retirement System has adopted rules governing participation by governmental units. Among other things, the rules provide that the Retirement Board calculate the cost to the governmental unit to participate in the retirement plan and the requirements that must be met before a political subdivision may withdraw from the plan.

If a political subdivision were to cease making contributions on behalf of its employees, the first course of action for the Retirement Board would be to bring a civil action against the political subdivision for breach of the agreement governing participation by the political subdivision in the Public Employees Retirement System. If the political subdivision failed to make contributions on behalf of its employees, the employees would no longer accrue a benefit under the plan. Under an extreme scenario, if a political subdivision declared bankruptcy and its obligations were somehow discharged, the cost of the accrued benefits would be spread against the overall assets of the plan and the remaining employers.

In *Louisiana Municipal Associations v. State*, 893 So. 2[nd] 809 (La. 2005), the Louisiana Supreme Court found that employers participating in defined benefit retirement systems could not avoid their constitutional duty to fund the systems or the benefits owed to their employees. Courts in New York and Colorado have reached a similar result.

PUBLIC EMPLOYEES RETIREMENT SYSTEM RETIREMENT FUND

The Public Employees Retirement System retirement fund is a trust fund in which all retirement assets managed by the Retirement Board are commingled or aggregated in a unitary fund. However, a representative of the Retirement Board has indicated that if a bill establishing a defined contribution retirement plan for new state employees were to be enacted, the Retirement Board would segregate the state portion of the retirement trust fund from the political subdivision portion of the trust fund and trust funds appropriated to each would be treated separately going forward.

PERS Update

Background on Retirement Programs
The Challenge
The Considerations
Proposed Legislation

PERS BOARD

- *Jon Strinden* — *Chair*
- *Levi Erdmann* — *Elected - Actives*
- *Joan Ehrhardt* — *Elected - Actives*
- *Mike Sandal* — *Elected - Actives*
- *Howard Sage* — *Elected - Retirees*
- *Arvy Smith* — *Health Officer*
- *Tom Trenbeath* — *Attorney General*

RETIREMENT

- *DEFINED BENEFIT PLANS – 7*
  - *Main*
  - *Judges*
  - *National Guard*
  - *Law Enforcement*
  - *Highway Patrol*
  - *Job Service*
- *DEFINED CONTRIBUTION PLANS – 2*
  - *457*
  - *401(a)*
- *RETIREE HEALTH CREDIT*
- *ADMINISTRATIVE SERVICES*
  - *PRIOR JUDGES*
  - *JOB SERVICE RETIREE HEALTH CREDIT*

January 1, 2010

RETIREMENT PROGRAMS
MANAGED AND ADMINISTERED BY NDPERS

	TOTAL RETIREMENT	Main System	D.C. 401(a)	Highway Patrol	Judges	Guard	Law Enforcement	Job Service	DEFERRED COMP	HEALTH CREDIT
PARTICIPATION										
AGENCY										
State	99	99	32	1	1	1	1	1	96	99
Counties	47	47					10		44	47
School Dist	110	110							53	110
Cities	78	78					5		27	78
Others	64	64							27	64
	398								*247*	*398*
EMPLOYEES										
State	10,813	10,318	244	133	47	36	37	35	4,225	10,813
Counties	3,391	3,247					144		1,454	3,391
School Dist	5,026	5,026							556	5,026
Cities	1,280	1,250					30		684	1,280
Others	502	502							249	502
Retirees	7,537	7,214	49	109	22	12	11	120	1,584	4,068
	28,549	*27,557*	*293*	*242*	*69*	*48*	*185*	*155*	*8,174*	*25,080*

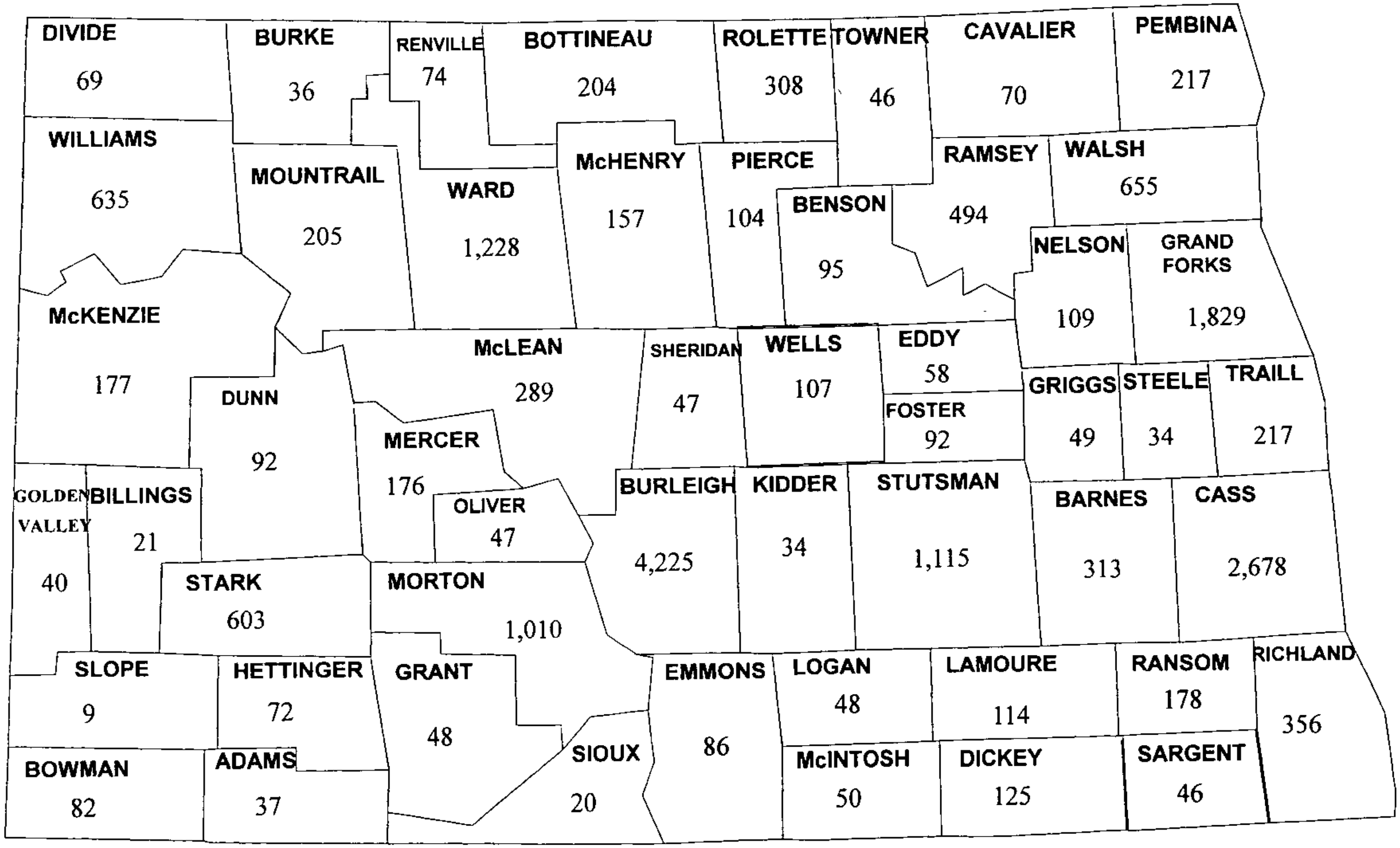
January 1, 2010

GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS

	HEALTH	LIFE	DENTAL	VISION	EAP	FLEXCOMP	LT Care
PARTICIPATION							
AGENCY							
State	99	99	99	99	99	99	97
Counties	39	28					
School Dist	28	5					
Cities	57	22					
Others	65	22					
	288	*176*	*99*	*99*	*99*	*99*	*97*
EMPLOYEES							
State	14,682	15,385	4,796	3,774	15,358	8,375	55
Counties	1,865	2,439					
School Dist	1,180	123					
Cities	1,009	180					
Others	521	281					
Legislators	127						
Retirees	5,694	2,977	1,361	764			
COBRA	354		36	17			
	25,432	*21,385*	*6,193*	*4,555*	*15,358*	*8,375*	*55*

NDPERS Active Retirement Members

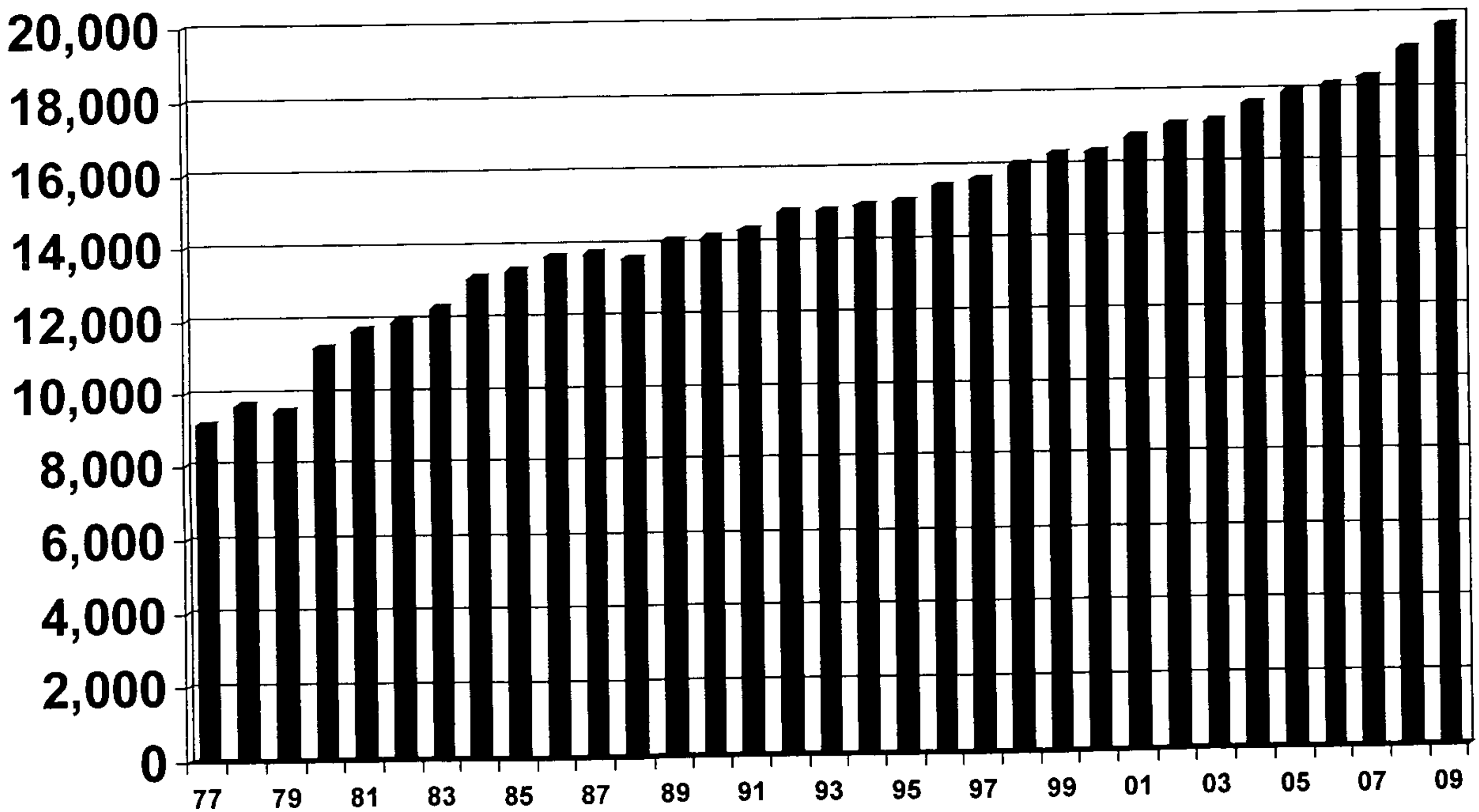
July 2009



Out-of-State – 944

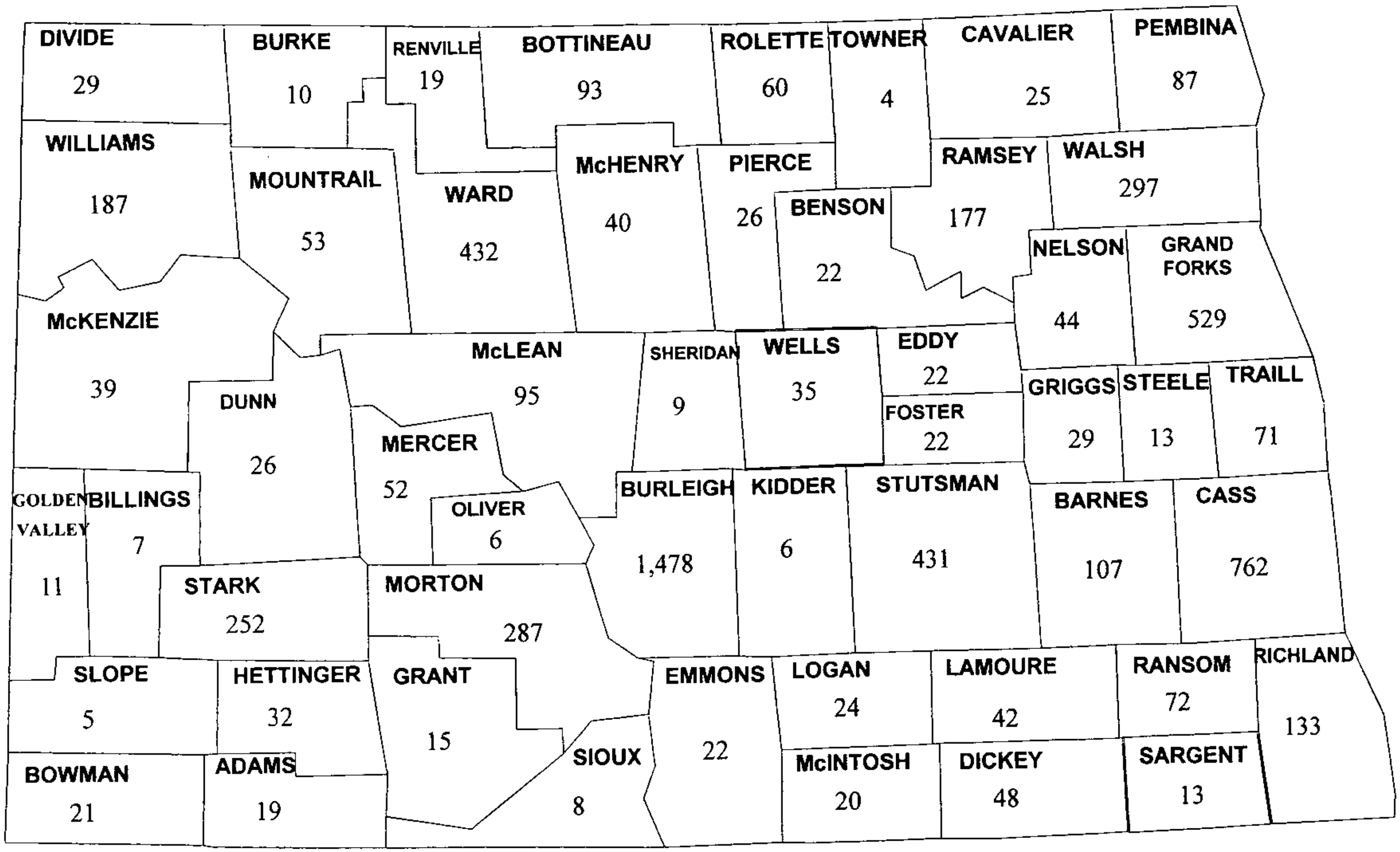
Total – 20,174

NDPERS
Main System Active Members



NDPERS Retirees

June 2009

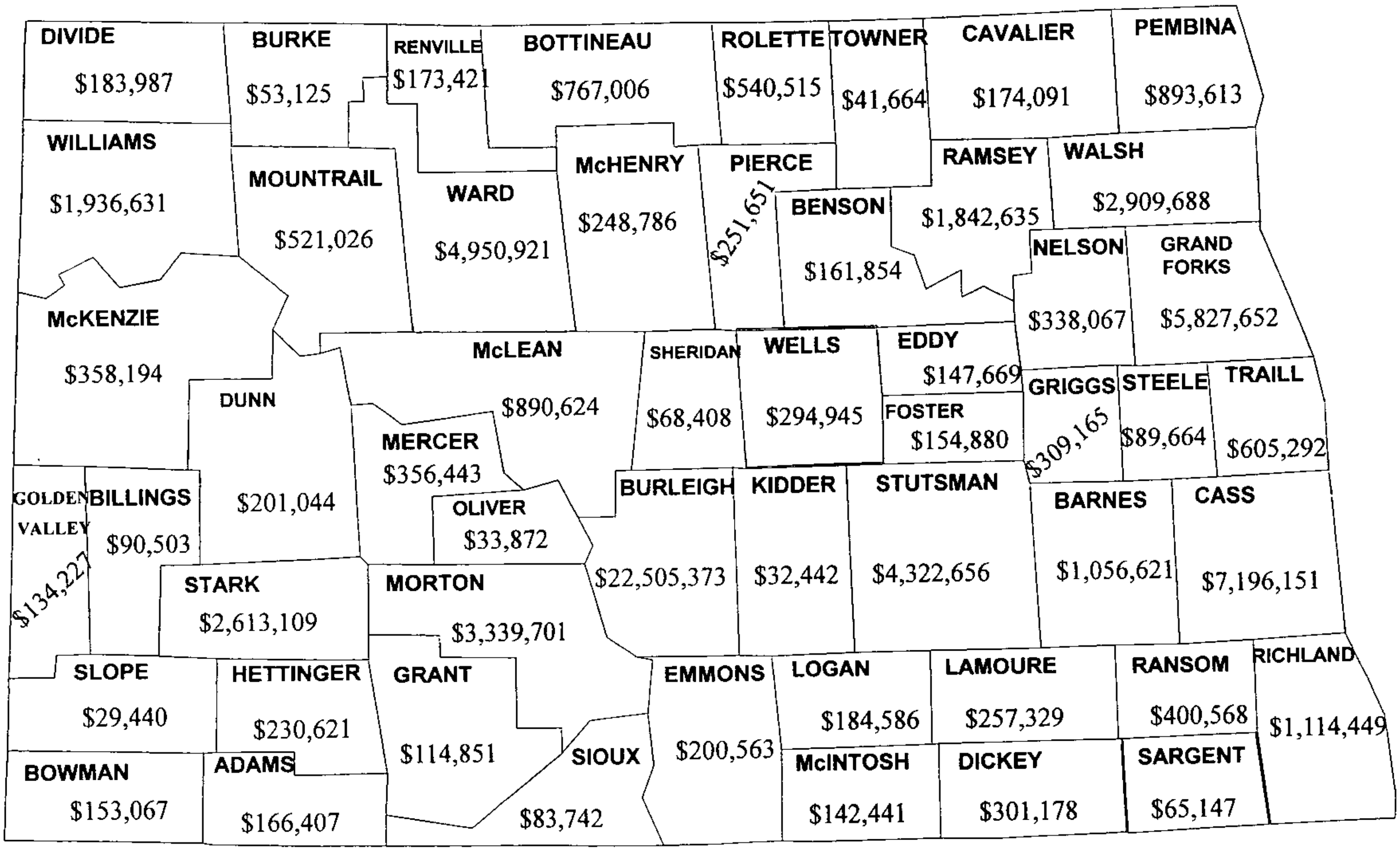


Out-of-State – 1,015

Total – 7,383

NDPERS Retirees

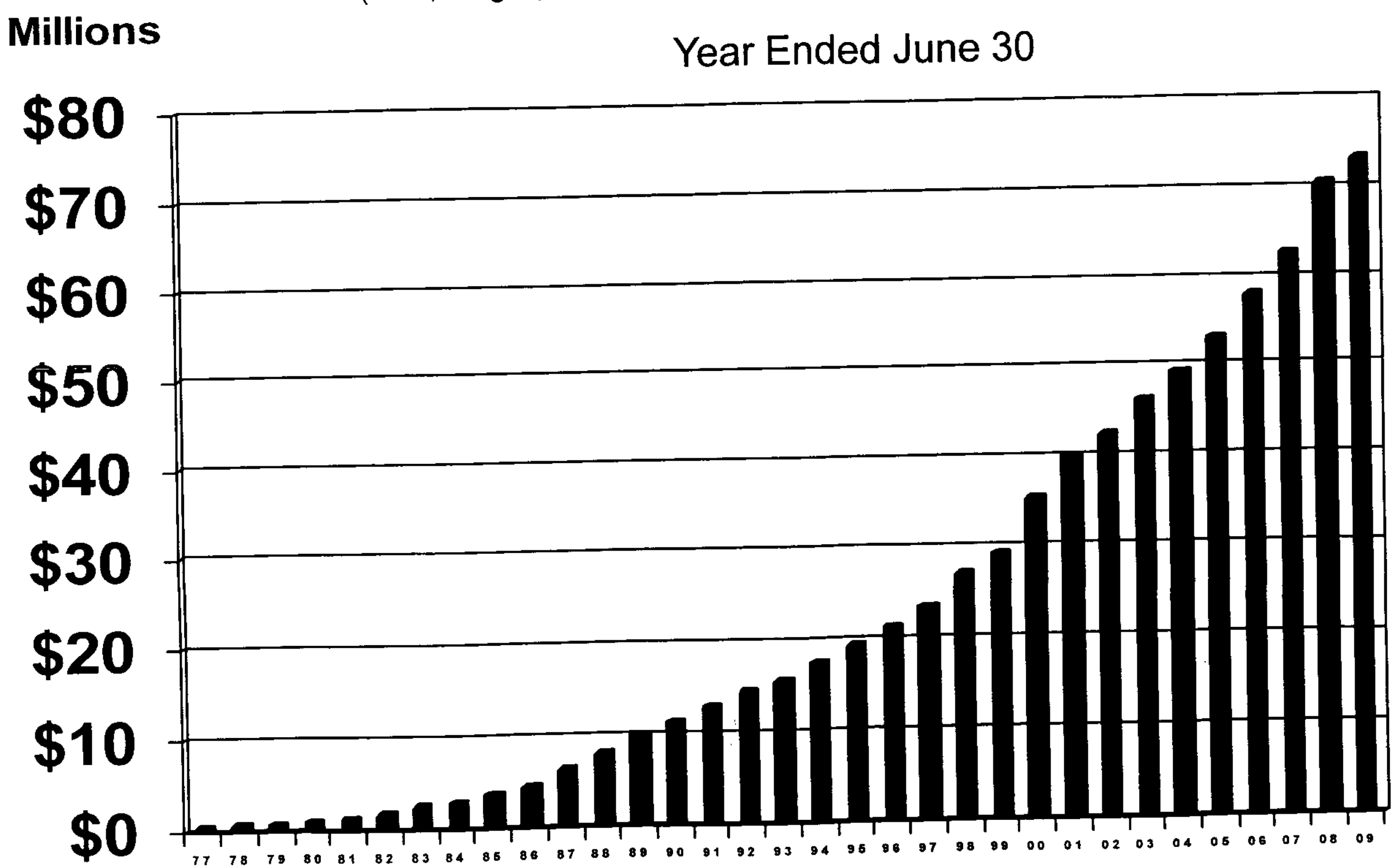
Annual Benefits 2009



Out-of-State - $9,783,540

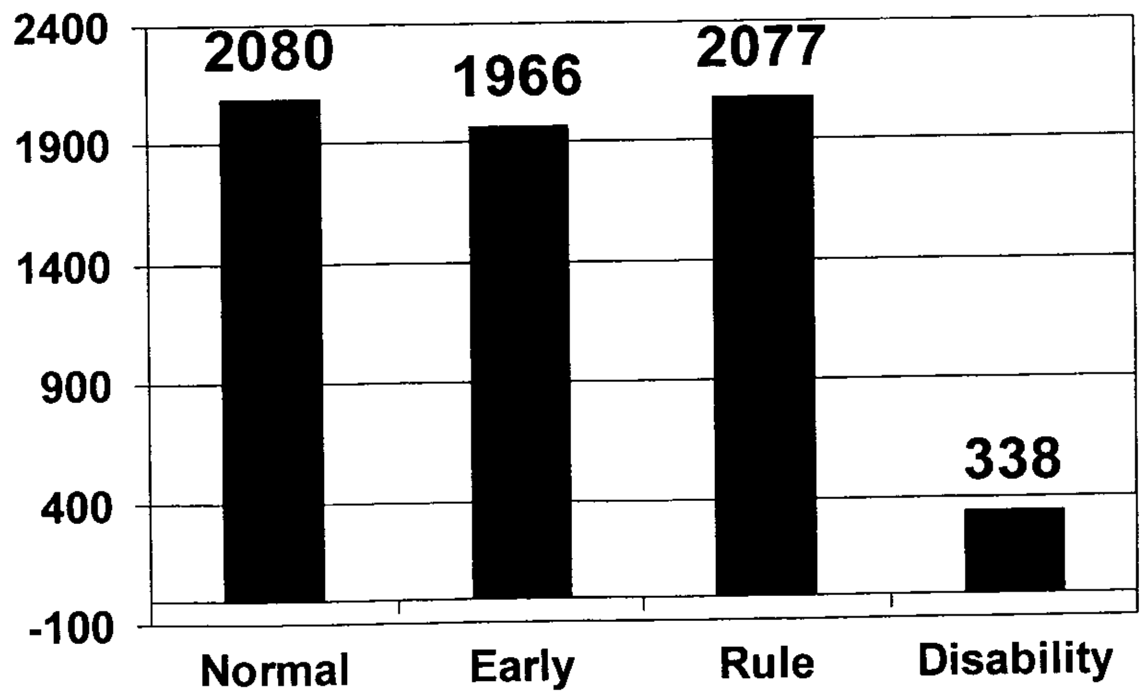
Total - $79,845,245

NDPERS Retiree Benefits
(Main, Judges, Guard, and Law Enforcement Systems)



NDPERS Pensions In Force

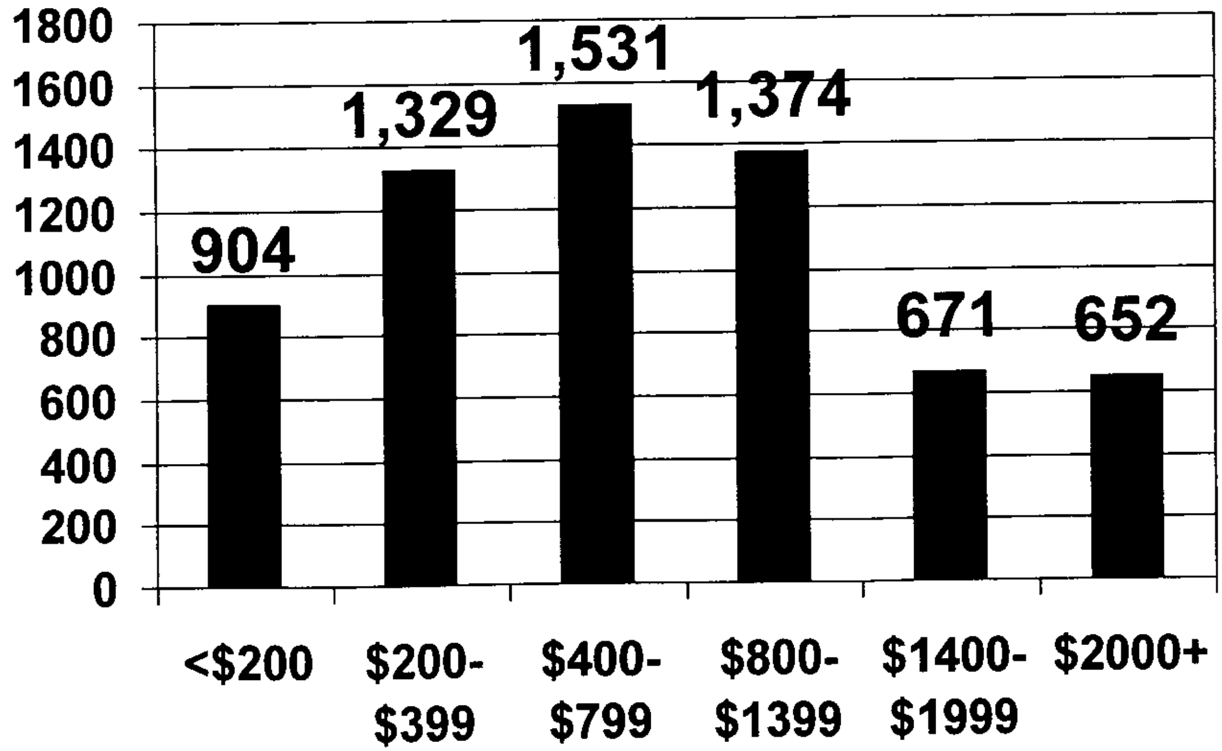
July 1, 2009



Main System, Judges, Guard, and Law Enforcement Plans

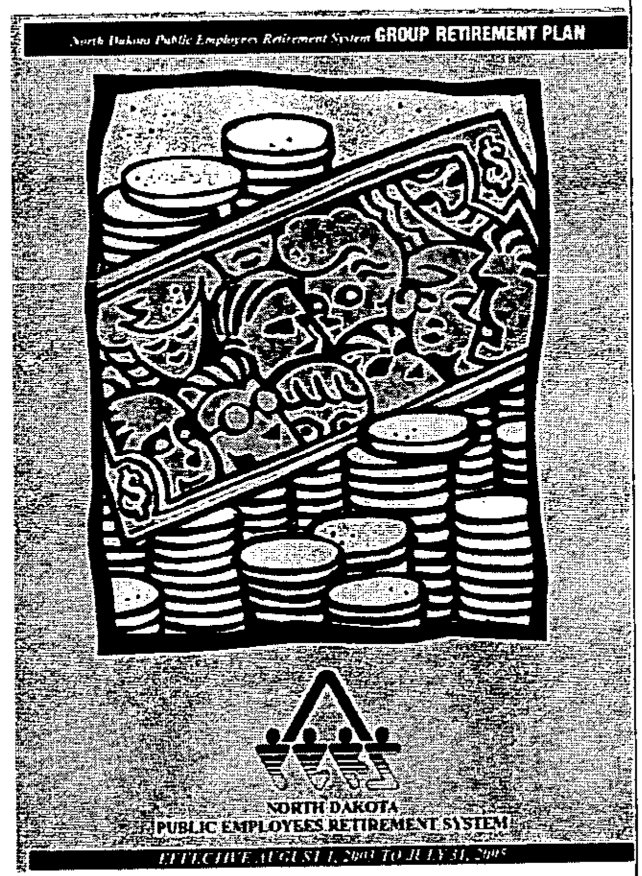
NDPERS Pensions In Force

Monthly Benefit - July 1, 2009



Main System, Judges, Guard, and Law Enforcement Plans

Main System


North Dakota Public Employees Retirement System GROUP RETIREMENT PLAN
NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM
EFFECTIVE AUGUST 1, 2003 TO JULY 31, 2005

History

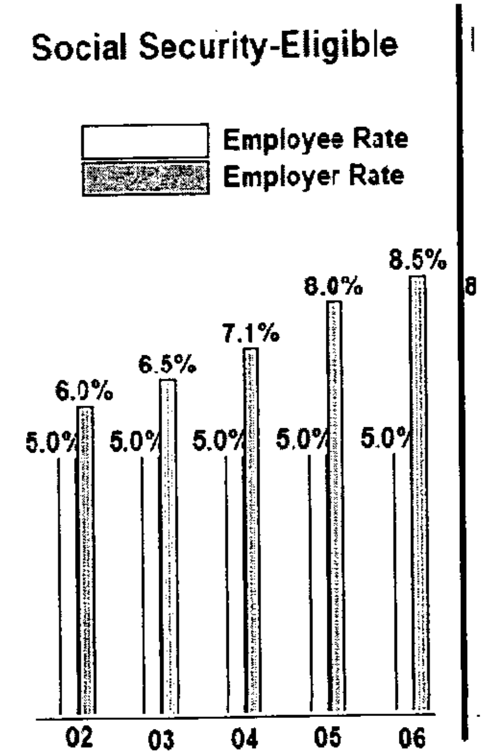
- PERS created in Mid 1960's
- Started as a defined contribution plan
- In 1977 changed to defined benefit plan
- No increase in contributions since 1977
- In 1999 non-classified were given the opportunity to go to newly created DC plan

RETIREMENT - Main

Public Employees Retirement Plan
Chapter 54-52, NDCC

Employer Contribution:	4.12%
Employee Contribution:	4.00%
Total Retirement Contributions:	8.12%

Vesting in Disability Benefit:	180 days
Vesting in Retirement Benefit:	36 months
Normal Retirement:	Age 65 or Rule of 85



RETIREMENT - Main

Retirement Formula:

Final Average Salary x 2% x Years of Credited Service

Example:

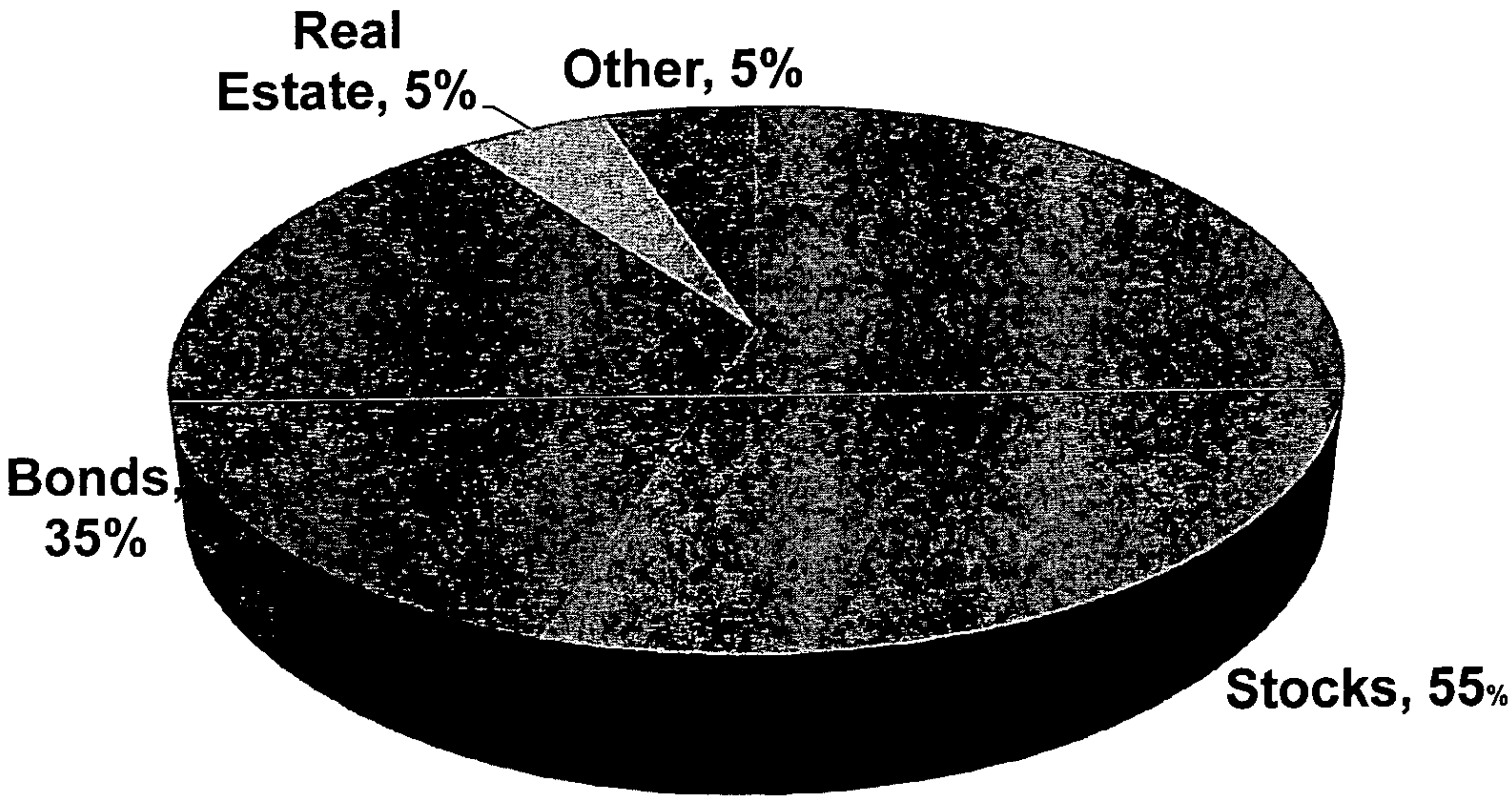
$2000 x 2% x 20 = $800

Goal: 50% of final average salary for a career employee (25 years)

NDPERS COMPARED TO OTHER STATE RETIREMENT PLANS

Asset class	***PERS***
Domestic Equities	40
International Equities	15
Domestic Fixed Income	29
International Fixed Income	5
Real Estate	5
Alternatives	5
Other	1

PERS Asset Allocation



1977-2010

TOTAL
CONTRIBUTIONS:
$967,800,000

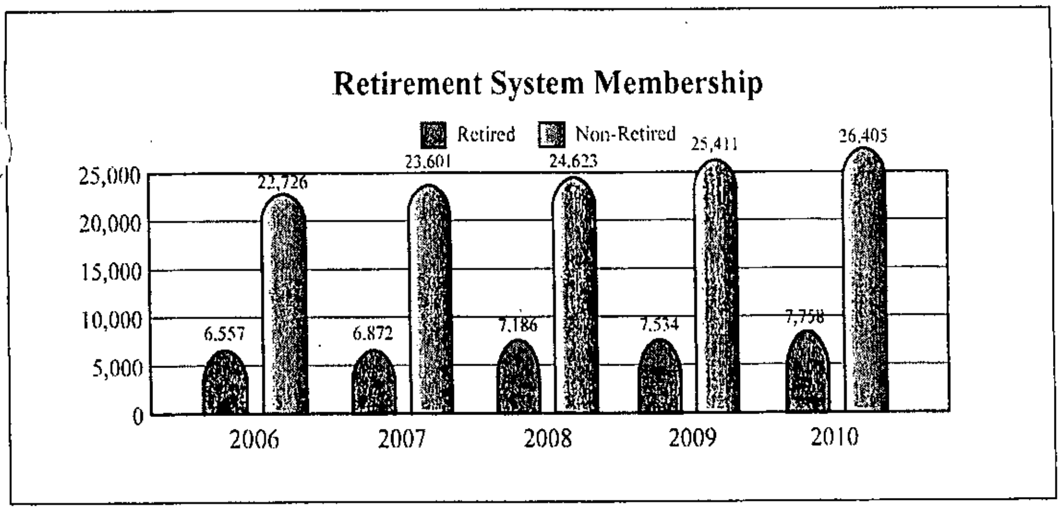
TOTAL PAYMENTS:
$846,966,000

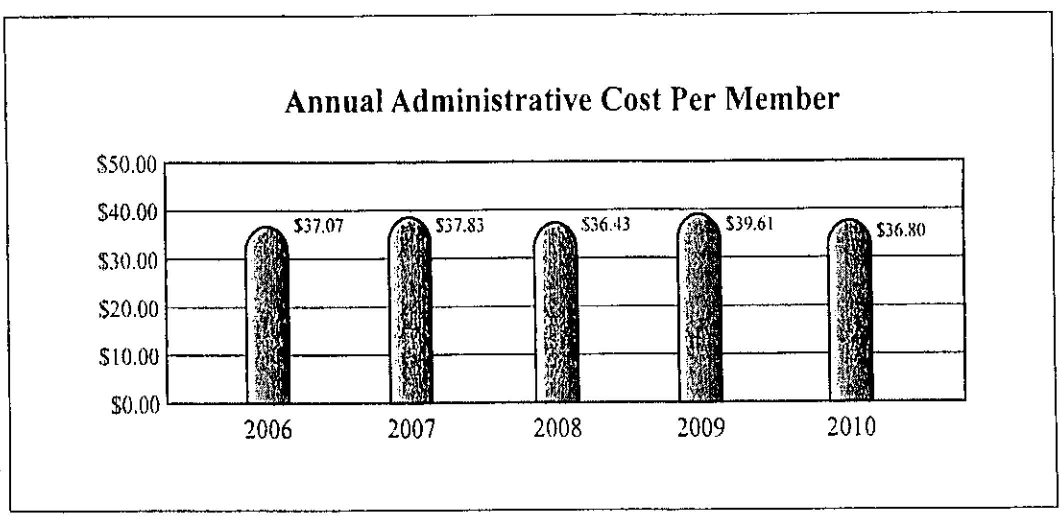
FUND BALANCE:
$1,475,000,000

Retirement System Membership – PERS, HPRS, Job Service and OASIS
As of June 30

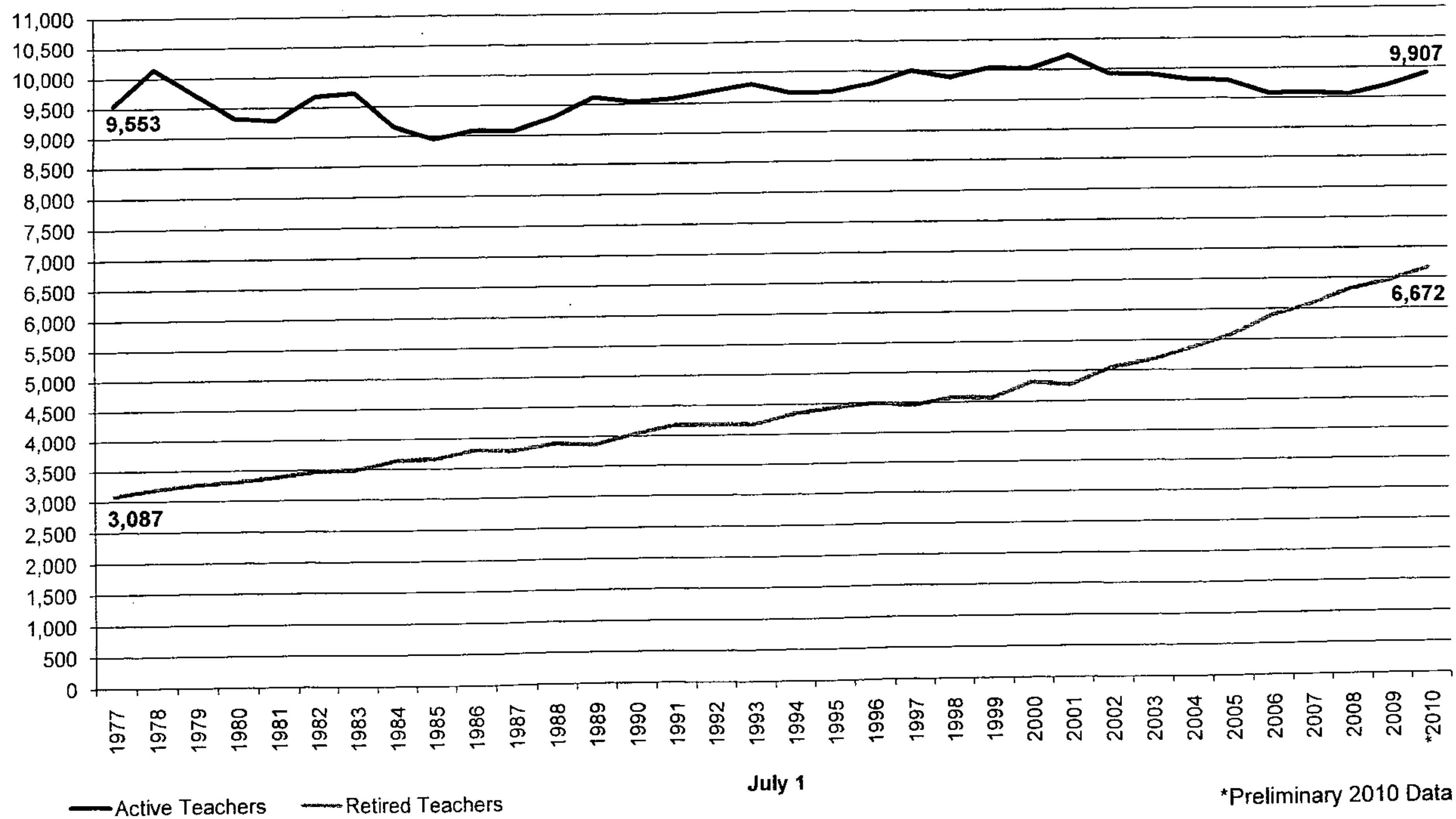
	2006	2007	2008	2009	2010
State Agencies	11,959	12,619	13,381	13,714	14,031
Cities	594	633	1,046	1,327	1,418
Counties	3,885	3,980	3,855	4,019	4,208
School Districts	5,886	6,146	6,080	6,085	6,440
Other Political Subdivisions	402	223	261	266	308
Total Non-Retired (1)	22,726	23,601	24,623	25,411	26,405
Retired Members & Beneficiaries	6,557	6,872	7,186	7,534	7,758
Total Membership	29,283	30,473	31,809	32,945	34,163
Administrative Expenses	$1,085,563	$1,152,813	$1,158,809	$1,305,055	$1,257,205
Administrative Cost per Member	$ 37.07	$ 37.83	$36.43	$39.61	$36.80

(1) Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.





Active and Retired TFFR Members
1977-Present



*Preliminary 2010 Data

2-16-11

2

Testimony of

Sparb Collins

On Engrossed SB 2108

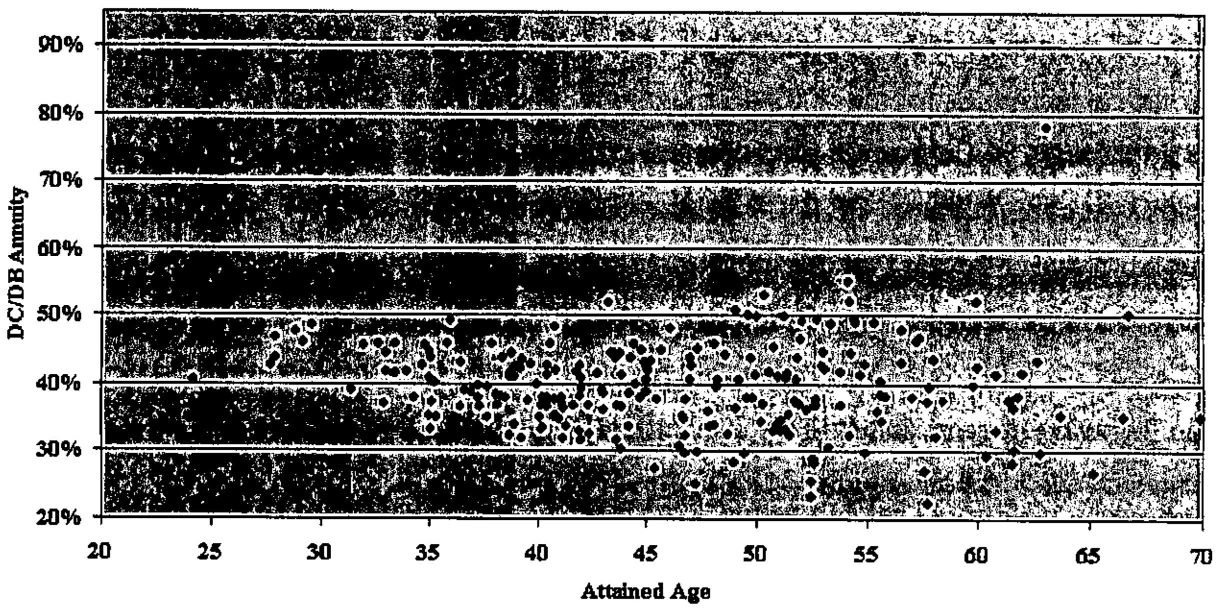
Good morning, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System (PERS). I appear before you today concerning the retirement plans we administer. Our agency provides services to the state and participating political subdivisions. Approximately 55% of our members are from the state and 45% are from political subdivisions. We have approximately 7,000 members retired under our plans.

The proposed legislation (engrossed SB 2108) before you today would increase both the employer contribution rates and the member contribution rates that are in statute for the Highway Patrol Retirement Plan, the PERS Hybrid Plan (Main and Judges) and the PERS Defined Contribution Plan by 2% of the member's monthly salary beginning January 2012, plus an additional 2% increase in contribution rates for 2013. The increase is split in both years with 1% coming from the employee and 1% from the employer. Consequently, both our members and employers are sharing in the recovery. The Bill also would increase the member contribution rates for the following two groups:

- Peace officers and correctional officers in the Hybrid Plan that are employed by political subdivisions, for which the member contribution rate would increase by 0.5% annually, instead of 1%, over the same time period; and

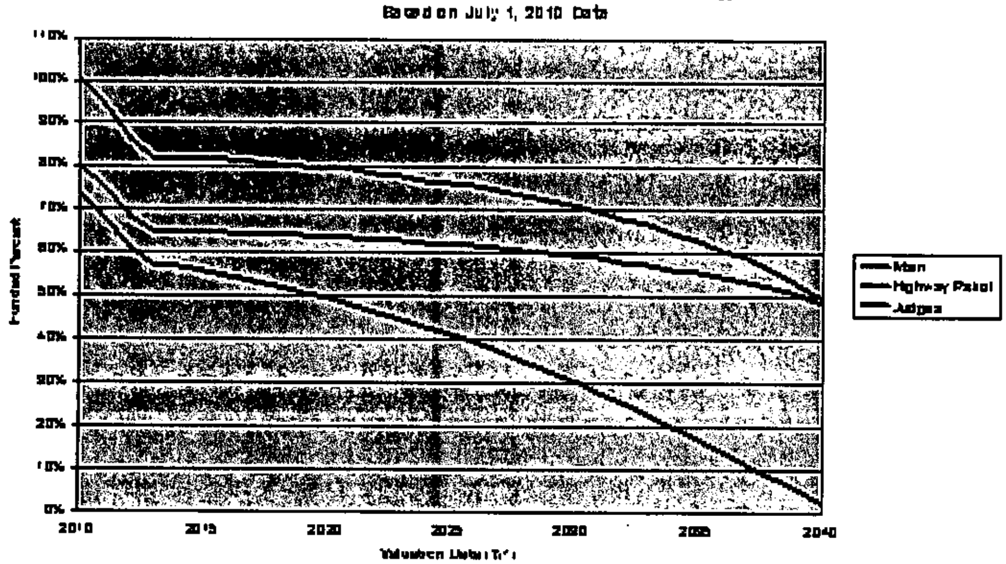
- Temporary employees in the Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% annually, instead of 1%, over the same period.

Exhibit III
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Attained Age as of July 1, 2010
With 8.12% Future Contribution Rate



Senate Bill 2108 – Current Plan Projections

Projected Funded Ratios
(Actuarial Value of Assets to Actuarial Accrued Liability)
Based on July 1, 2010 Data



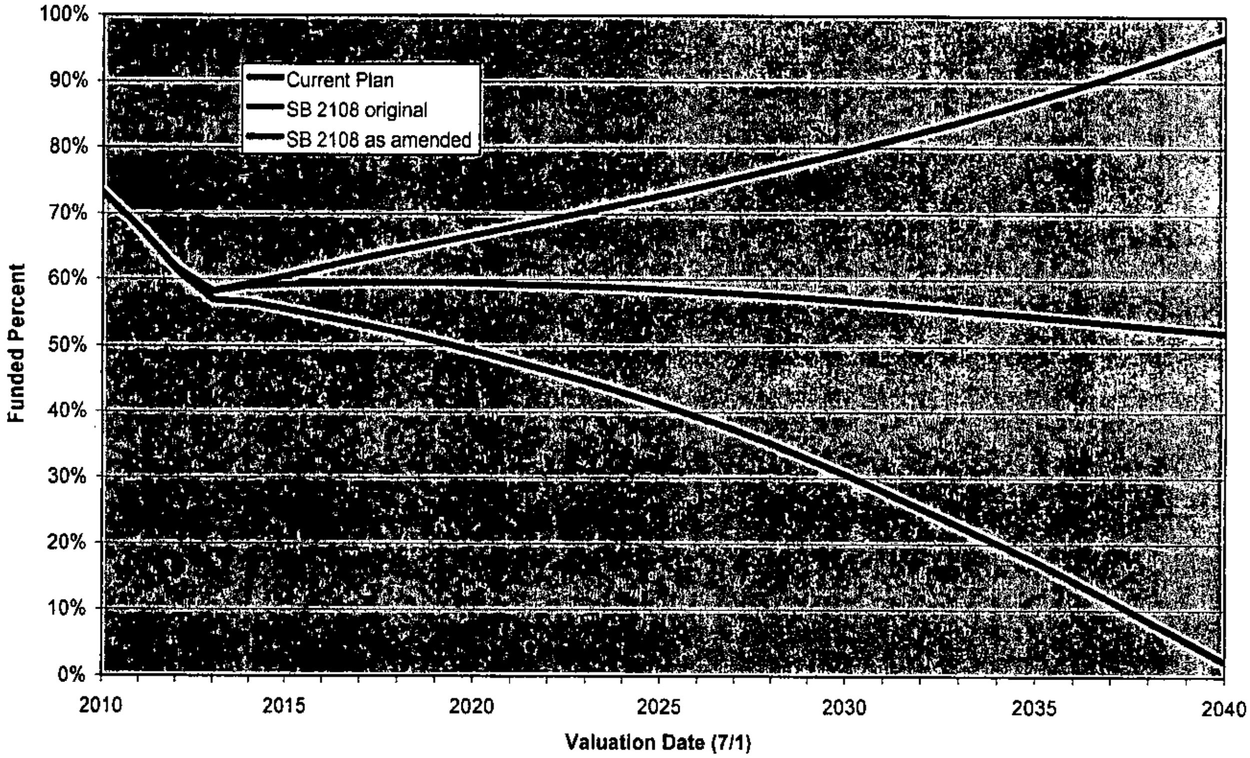
*SEGAL

0

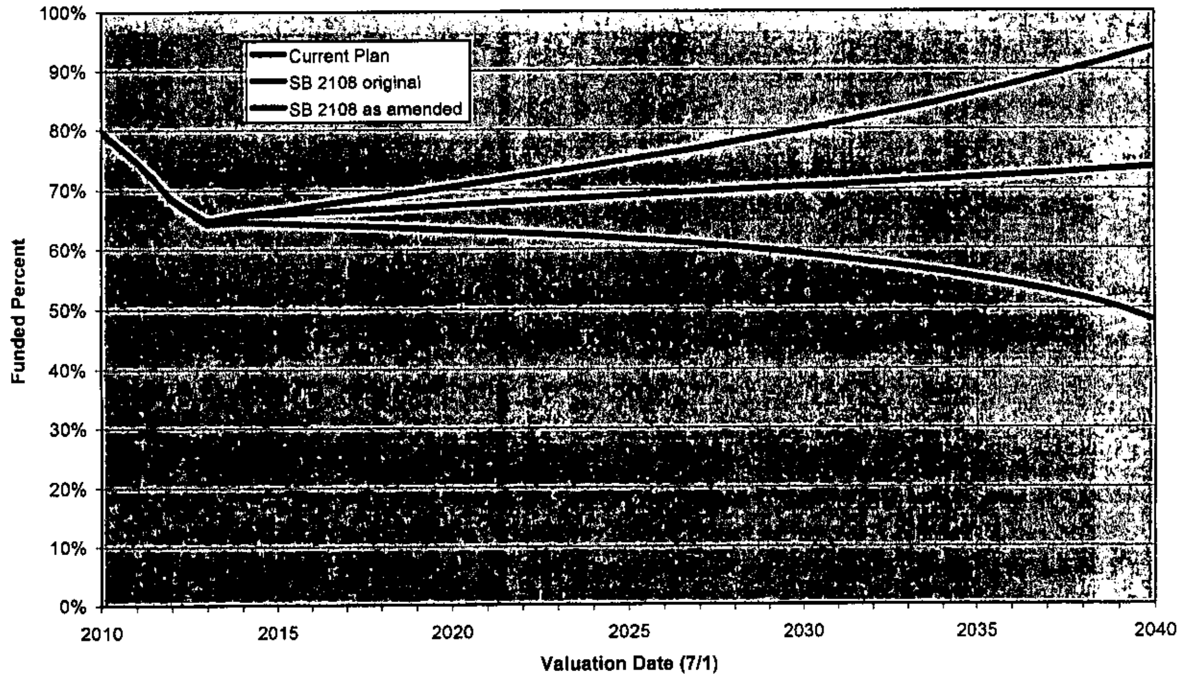
The engrossed bill before you today changes the approach to address the funding challenge. Specifically, SB 2108 originally proposed a plan for full recovery of the retirement funds spread over two biennium's. That is, in addition to the increases for the 2011-13 biennium in the engrossed bill before you today, the original SB 2108 proposed additional increases for the 2013-15 biennium. The increases for 2013-15 biennium were an additional 2% increase in employer contributions and an additional increase of 2% in employee contributions. SB 2108 as amended starts the process of recovery this biennium and provides that the additional recovery steps necessary for 2013-15 biennium will need to be addressed by the next legislative session.

The following graphs illustrate the current projected funded ratio of each system and the effects of SB 2108 as originally proposed with those in the engrossed bill before you today. The red line is the projection for the funded status of the plan without any change in contribution, the green line is with the change in the engrossed bill and the blue line is with the changes in the engrossed bill and the additional contributions beginning in 2013-15 as proposed in the original SB 2108. As you will note the bill before you today provides for significant steps to improve the funding status of the retirement plans. However, we will need to consider additional steps next session possibly within the same range of those that were originally proposed in SB 2108.

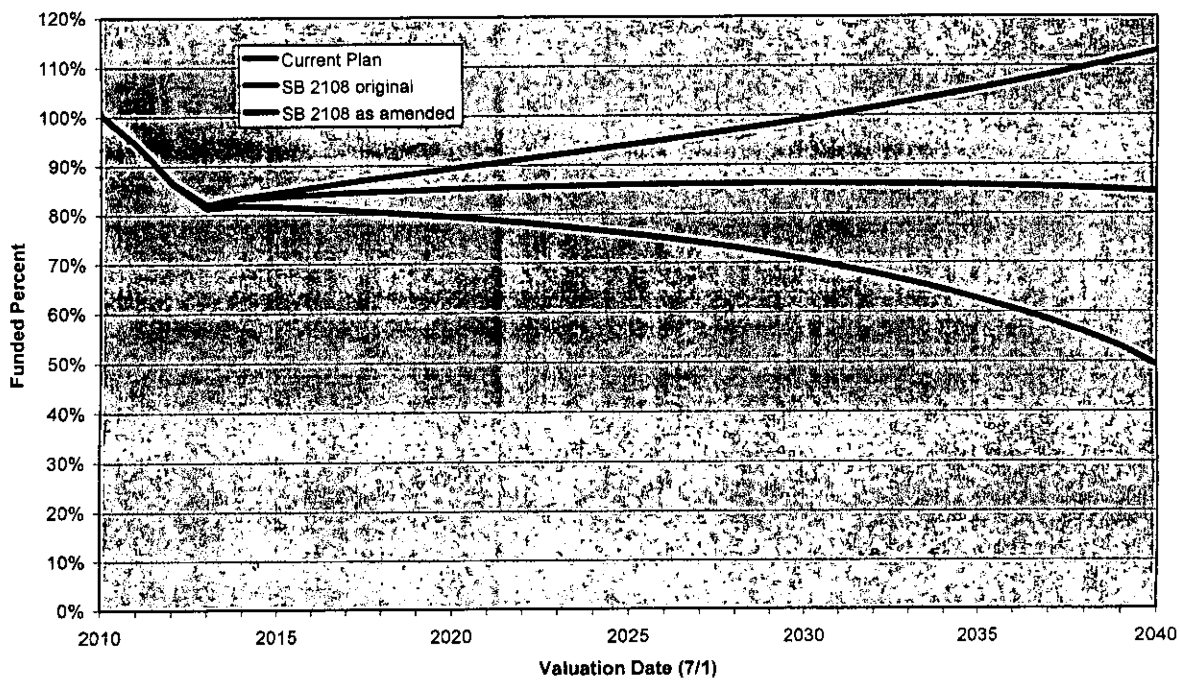
PERS (Main System)
Comparison of Funded Ratio
(Actuarial Value of Assets to Actuarial Accrued Liability)
Based on July 1, 2010 Data



Highway Patrol
Comparison of Funded Ratio
(Actuarial Value of Assets to Actuarial Accrued Liability)
Based on July 1, 2010 Data

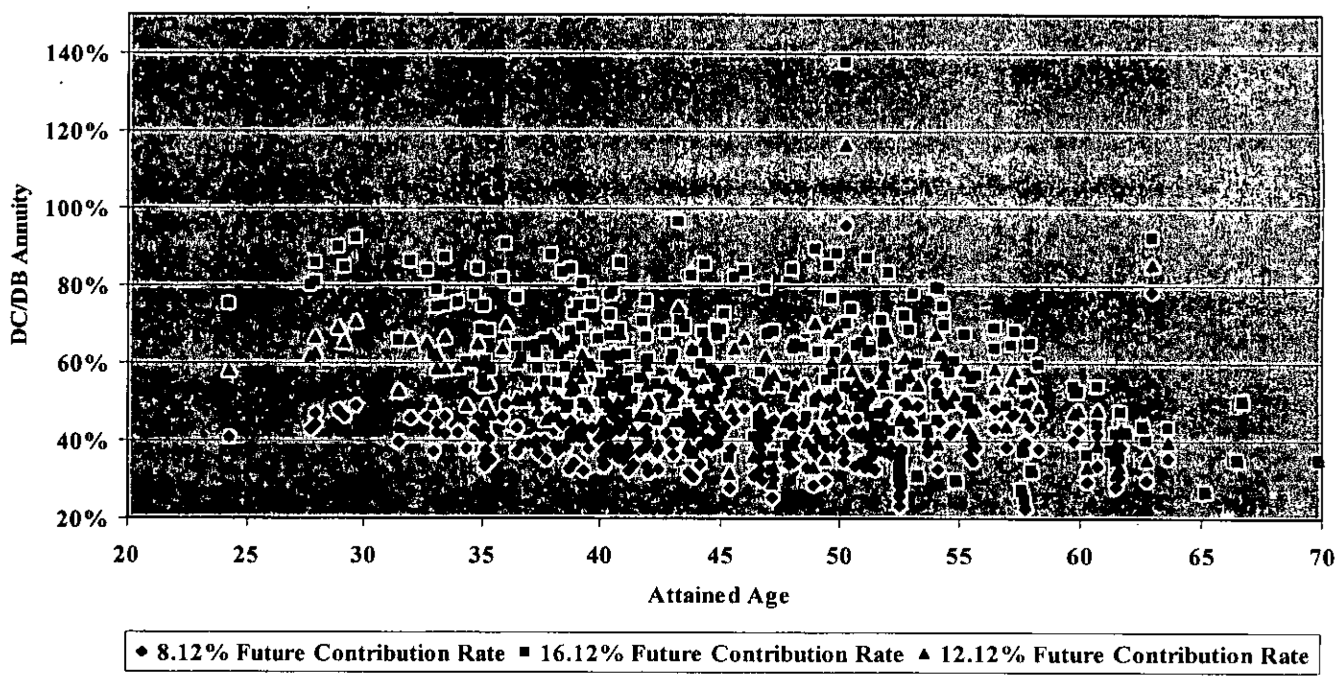


Judges
Comparison of Funded Ratio
(Actuarial Value of Assets to Actuarial Accrued Liability)
Based on July 1, 2010 Data



For the defined contribution plan, the following table shows how this proposal helps the funding of these member's retirement benefits:

Exhibit IV
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit by Attained Age as of July 1, 2010



The proposal for the full recovery of the retirement plans in SB 2108 as originally proposed was brought forward after extensive review by the PERS Board, our member groups and the Legislative Employee Benefits Committee. These proposals:

- Reflected the challenge faced by both our defined benefit plans (including the hybrid plan) and our defined contribution plan. If PERS was entirely a defined contribution plan, I would still be here before you today. This challenge is not unique to one type of plan versus another type. It is a retirement challenge for all types of plans – defined benefit or defined contribution.

- Shared the cost of the recovery between the employer and employee.

- Allowed each employer to consider how they will fund their share as part of their overall compensation planning process and does not request a fixed sum or up front payment.

- Phased in the adjustment over time to reduce the net effect on the employers and employees.

- Addressed the challenge in both our defined contribution plan and defined benefit plan and puts both on a positive recovery. However, in our defined contribution plan, our employees who are late in their career will still have a substantial challenge.

- Delayed the initial increased contribution starting date to January 2012 to allow political subdivisions to plan for the adjustment.

As further background, during the last interim, your Legislative Employee Benefits Committee held hearings on this and two other proposals: 1) to have the employer pay the entire increase, or 2) have the employee pay the entire increase. No testimony was given in opposition to the proposal before you. However, there were concerns expressed with the other two concepts. The committee also received detailed information from the plans' actuary, and after several hearings, the committee gave the other two proposals an unfavorable recommendation and gave the proposal in SB 2108 as originally submitted a favorable recommendation.

This concept was also considered in the development of the executive budget and is included in the executive recommendation.

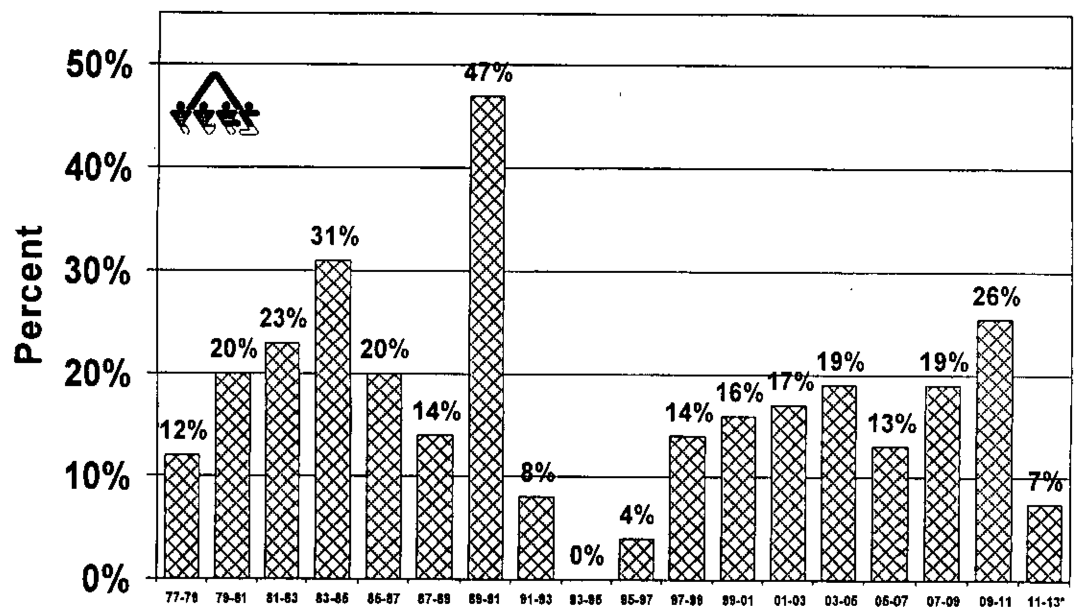
The proposal in the engrossed bill before today does many of the things proposed in the original bill and starts the recovery process as originally proposed. The engrossed bill differs from the original bill in one respect. Instead of approving the increases beginning in 2013-15 during this session, the next legislative session will now have the opportunity to review that increase with the additional information that will be available at that time.

Attached is the fiscal note for this Bill. While it is significant, one offsetting feature when considering our total benefits is that unlike previous years, this year our health insurance costs are lower. The following table is the history of health plan cost increases, including the cost of our upcoming renewal which is approximately 7%.

State Health Premium Percentage Increase

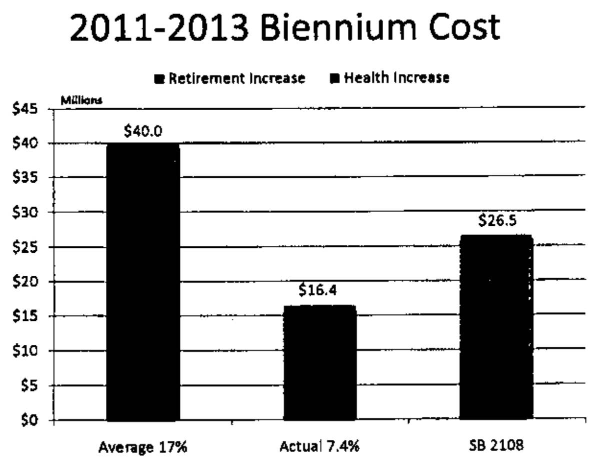
From Previous Biennium

(Excludes Plan Design Changes)



* - BCBS Proposed
63

Not including this year's renewal, our average increase over the years has been about 17%. The following table shows the projected cost of funding that increase and compares it to the actual cost for both the phased in retirement increase and the new health premium.



Due to reduced utilization of services this past biennium, for whatever reasons, it has helped to offset the phased in retirement cost for this biennium since both can be funded for less than the average of past health cost increases. In this respect, our members have stepped up in another way to help pay for the retirement increase for the employer.

Mr. Chairman, members of the committee, I wish I did not have to appear before you today with this Bill. PERS retirement contributions have not been increased since its inception in 1977. I wish I did not have to ask for this increase today or inform you that I will have to come back to you again next biennium for additional increases. However, the investment consultant to the State Investment Board stated that the year we had the loss that created this situation was truly unique. In fact, out of 218 years of returns in this country, there were only 4 that were worse. We likely will not experience such an event again in our lifetimes. Unfortunately, this was an unforeseen circumstance and now it needs our consideration, thus I stand before you today. As noted above, this is not an issue confined to just our defined benefit plan but also includes our defined contribution retirement plan. I should also point out that the projections I have shared with you today are based upon the various retirement plans maintaining their existing membership going out into the future. If this should change it will likely change the above projections.
In addition, to those I listed above who support the Bill, the PERS Board also supports this proposal. If we can assist you with your considerations, please let me know. Thank you.

North Dakota University System

SB2108 - Senate Appropriations – February 16, 2011

Laura Glatt, NDUS Office

The ND State Board of Higher Education supports SB2108 to increase employer and employee contribution rates under the PERS retirement plans.

The NDUS has approximately 2,475 employees (e.g. trade, technical, support, and some professional staff) who participate in the PERS ***defined benefit*** plan that would be impacted by this legislation. In addition, the SBHE has statutory authority per NDCC 15-10-17 to establish an alternate retirement plan and has done so for roughly 4,615 employees (e.g. faculty, research, administrators and upper level professional staff) who participate in a ***defined contribution*** plan administered through TIAA-CREF.

Separate actuarial analyses completed by both PERS and the NDUS during the 09-11 interim on their separate defined contribution plans suggest that defined contribution plan participants are generally in a worse position, relative to retirement benefits, as a result of recent market losses. In other words, it is unlikely they will be able to meet their retirement goals, even with the recommended adjustments in this legislation. In recognition of this, and in order to treat all NDUS employees evenly, the SBHE endorsed as part of their budget request, equal retirement adjustments for all NDUS employees, similar to what is being recommended for all other state government employees who participate in either the PERS defined benefit or PERS defined contribution plan.

The 11-13 executive budget recommendation for the NDUS (HB1003) includes $2.2 million for both NDUS employee participants in the PERS defined benefit and TIAA-CREF defined contribution plans consistent with proposed SB2108. It should be noted that this figure does not include NDSU Extension and Research, which are handled differently for budgeting purposes and would be included in the state agency cost calculations provided by PERS.

Also, the above costs do not include that portion of the cost that would need to be covered by other sources for positions paid in whole or in part by other fund sources (e.g. grant and contract, auxiliaries, etc.).

Thank you for your support of this important measure. I will be happy to try to answer any questions.

g:\laura\docswp\legis\2011 legis session\sb2108 testimony senate appropriations.docx

Attachment 2
2108

North Dakota University System
Engrossed SB2108 – House GVA – March 10, 2011
William Goetz, Chancellor

Good morning, Madam Chair and members of the House Government and Veterans Affairs. For the record, my name is William Goetz, Chancellor, North Dakota University System.

The ND State Board of Higher Education supports Engrossed SB2108 to increase employer and employee contribution rates under the PERS retirement plans.

The NDUS has approximately 2,475 employees (e.g. trade, technical, support, and some professional staff) who participate in the PERS ***defined benefit*** plan that would be impacted by this legislation. In addition, the SBHE has statutory authority per NDCC 15-10-17 to establish an alternate retirement plan and has done so for roughly 4,615 employees (e.g. faculty, research, administrators and upper level professional staff) who participate in a ***defined contribution*** plan administered through TIAA-CREF.

Separate actuarial analyses completed by both PERS and the NDUS during the 09-11 interim on their separate defined contribution plans suggest that defined contribution plan participants are generally in a worse position, relative to retirement benefits, as a result of recent market losses. In other words, it is unlikely they will be able to meet their retirement goals, even with the recommended adjustments in this legislation. In recognition of this, and in order to treat all NDUS employees evenly, the SBHE endorsed as part of their budget request, equal retirement adjustments for all NDUS employees, similar to what is being recommended for all other state government employees who participate in either the PERS defined benefit or PERS defined contribution plan.

Engrossed HB1003, the appropriation bill for the NDUS, includes $2.2 million for both NDUS employee participants in the PERS defined benefit and TIAA-CREF defined contribution plans consistent with proposed Engrossed SB2108. It should be noted that this figure does not include NDSU Extension and Research, which are handled differently for budgeting purposes and would be included in the state agency cost calculations provided by PERS.

Also, the above costs do not include that portion of the cost that would need to be covered by other sources for positions paid in whole or in part by other fund sources (e.g. grant and contract, auxiliaries, etc.).

Thank you for your support of this important measure. I will be happy to try to answer any questions.

g:\terry\1100\11ses\sb2108 testimony house gva 3-10-11.docx

Attachment 3 Page 1 of 2
2108

Company History

Thanks to legendary philanthropist Andrew Carnegie, colleges and universities in the United States offer some of the best retirement plans in the nation. With customary foresight, Carnegie recognized that colleges needed to offer adequate pensions in order to attract talented teachers.

In 1918 the Carnegie Foundation established Teachers Insurance and Annuity Association (TIAA), a fully-funded system of pensions for professors. Funding was provided by a combination of grants from the foundation and Carnegie Corporation of New York — including an initial gift of $1 million — and ongoing contributions from participating institutions and individuals. Incorporated as a life insurance company in the state of New York, TIAA began operation under the leadership of Henry S. Pritchett, a former president of the Massachusetts Institute of Technology. By the end of its first year, 30 public and private institutions had signed on.

From the beginning, the Carnegie Foundation wanted educators to assume a role in running the organization, and in 1921 policyholders voted to nominate Professor Samuel M. Lindsay of Columbia to represent them on the TIAA board of trustees.

Lifetime Income for Longer Lives

TIAA's portfolio followed the prudent thinking of its time, investing in government, railroad and industrial bonds. This strategy allowed TIAA to weather the depression. Assets under management grew from $19 million in 1929 to $105 million in 1939.

When the Second World War ended, government grants made it possible for many returning veterans to go to college. The number of graduates tripled between 1944 and 1950. TIAA now had nearly 600 participating institutions, but it was facing new challenges. During the 1940s, inflation averaged more than 7 percent per year, with a record 18.2 percent in 1946. In addition, increased longevity was radically changing actuarial projections. In just 50 years, the average life expectancy in the United States had increased from 48 years to nearly 70.

TIAA's pensions were meant to last a lifetime, and with lives lasting longer and the dollar shrinking, new strategies were needed. TIAA responded with a pioneering economic study and financial innovation. Over a period of 18 months from 1950-51, a TIAA task force analyzed historical data to determine how a combination of TIAA and a "variable annuity" funded by periodic investments in common stocks would have fared during the 70 years from 1880 to 1950 — a span that included two world wars, several financial panics and a severe depression.

The task force concluded that investing retirement assets in fixed-income instruments alone was unwise because of the inflation risk. On the other hand, market risk made the sole use of equities unwise as well. A mix of the two, however, provided the best possible protection against fluctuations in stock prices and changes in the value of the dollar.

Inflation had generally occurred during times of rapid growth. By investing in the companies that were generating that growth, a stock-based fund would offset the loss of buying power experienced by the income from a fixed-rate account. When stocks declined, the fixed-rate account would provide stability. This is the strategy recommended by virtually every financial planner today.

To implement these conclusions, TIAA created the College Retirement Equities Fund, the world's first variable annuity, which began operation on July 1, 1952. Later that year, an editor at Fortune wrote to a colleague: "I think this is the biggest development in the insurance-investment business since the passage of the Social Security Act."

New Ways to Help Retirement Assets Grow

TIAA-CREF continued to provide innovative solutions for building retirement assets. In the 1970s, it was one of the first companies to use an extensive portfolio of international stocks as part of its investment strategy. In 1988, it began expanding its variable annuity offerings, which now number 10 and include the TIAA Real Estate Account, allowing participants to invest in directly-owned real estate properties.

The balanced approach to building retirement assets pioneered by TIAA-CREF has helped thousands of participants retire with financial security. Since its inception in 1952, the CREF Stock Account has generated an average annual rate of return of 10.40 percent per year (as of 1/31/2008). TIAA's Traditional Annuity has paid its guaranteed interest rate plus a dividend since 1948.

As the stock market continued its protracted decline in 2003, retirement participants flocked to TIAA-CREF, producing the highest yearly increase in premiums in the organization's history.

TIAA-CREF Today

Today the TIAA-CREF group of companies offers a wide range of products to the general public, while continuing to serve its core constituents in the academic, medical, cultural and research fields.

In order to better serve our clients, TIAA-CREF currently operates offices in nearly 60 U.S. cities including Ann Arbor, Houston, Iowa City and Salt Lake City, with others planned.

C41129

EMPLOYEE BENEFITS PROGRAMS COMMITTEE REPORT TO THE 62ND LEGISLATIVE ASSEMBLY REGARDING PROPOSED SENATE BILL NO. 2108

Date: October 26, 2010

Sponsor: PERS Retirement Board

Proposal: Increases both the employer contribution rates and the member contribution rates that are mandated by statute in the Highway Patrolmen's retirement system, hybrid plan for main and judges' members, and defined contribution plan by 1 percent of the member's monthly salary beginning January 2012, plus an additional 1.00 percent increase in both employer and member contribution rates each calendar year thereafter through January 2015. The proposal also would increase member contribution rates for peace officers and correctional officers in the hybrid plan employed by political subdivisions, for which the member contribution rate would increase by 0.50 percent annually, instead of 1.00 percent, over the same time period, and for temporary employees in the hybrid plan and defined contribution plan, for which the member contribution rate would increase by 2.00 percent annually, instead of 1.00 percent, over the same period.

Actuarial Analysis: The consulting actuary reported the proposal would not have an actuarial impact on the liabilities of either the hybrid plan or Highway Patrolmen's retirement system. As of July 1, 2010, the main plan had a funding deficit of 6.64 percent 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 8.00 percent over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicated the main plan would no longer be expected to become insolvent in the next 30 years under the assumed 8.00 percent investment return scenarios.

As of July 1, 2010, the Highway Patrolmen's retirement system plan had a funding deficit of 5.84 percent of covered payroll based upon a 20-year open amortization method. This means 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 Highway Patrolmen's retirement system plan will not become insolvent in the next 30 years, but the funding ratio will drop from 80.00 percent to 48.00 percent. Increasing the member contributions by 8.00 percent over the period January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the Highway Patrolmen's retirement system plan would have an increase in the funded ratio from 80.00 percent to 94.00 percent over the next 30 years under the assumed 8.00 percent investment return scenarios.

The bill also would increase the employer contributions for the judges' retirement system plan. The employer contributions for the law enforcement plan and National Guard plan are set by the PERS Board, and it has indicated that those contributions will rise as well based upon the legislative action for the other systems.

Committee Report: Favorable recommendation.