FISCAL NOTE

Requested by Legislative Council
01/12/2011

Bill/Resolution No.: HB 1258

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						
Expenditures			$691,600		$764,700	
Appropriations			$250,000			

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
			$49,800		$61,708,600	$86,200		$106,849,100

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).*

HB1258 closes TFFR defined benefit plan and opens defined contribution plan for new employees. Bill does not include funding source to pay additional costs incurred. Contributions for defined benefit plan would need to increase an additional 12.15%. This cost would be in addition to cost of HB1134.

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.*

HB1258 does not include a funding source to pay additional costs incurred to fund benefits and pay off unfunded liability in the closed TFFR defined benefit plan. It is unknown whether costs would be funded by the state or by employers.

According to actuarial analysis dated 1/19/11 (attached), if contributions for the defined benefit plan were increased, they would need to increase an additional 12.15%, explained as follows:

The contribution rate necessary to fully fund the current open defined benefit plan over the next 30 years is 26.40%. The contribution rate necessary to fully fund the closed defined benefit plan provided for in HB1258 by the time the last member in the closed defined benefit plan retires is 38.55%. The difference of 12.15% is the additional (shortfall) contributions that would be required based on payroll that is projected to decline. Since there would be fewer members in the closed defined benefit plan, the total contributions required on the remaining members payroll would need to be higher in order to generate approximately the same amount of funds to pay off the unfunded liability.

Estimated total fiscal impact of contribution increases on state, counties, and school districts would be $62.2 million for 2011-13 biennium and $107.7 million for 2013-15 biennium. Estimates are based on assumptions and calculations from TFFR's actuary. Fiscal impact may be more or less depending on actual payroll. Actuarial analysis does not include the provision allowing current members to elect to transfer to the defined contribution plan in Section 4, 15-39.3-03.

Section 5 includes a general fund appropriation of $250,000 for consulting and administrative expenses related to initial implementation of the bill.

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.*

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.*

The TFFR defined contribution plan provided for under HB1258 is created as of July 1, 2012, and all new teachers and administrators employed after that date would participate in the defined contribution plan. At that time, the number of members in the closed TFFR defined benefit plan would start to decline. The actuary has determined that higher contribution rates on the smaller payroll of the declining membership would be required to raise approximately the same amount of funds to pay off the unfunded liability of the closed plan. If the increased cost is not funded or contributions are not increased to pay the additional cost, and if actuarial assumptions are met, this cost will continue to increase and roll over to future bienniums for payment.

According to actuarial analysis (attached), if statutory contribution rates would be increased, the estimated total additional expenditures by state, counties, and school districts would be $62.2 million for 2011-13 biennium and $107.7 million for 2013-15 biennium, detailed as follows:

208 school districts, special education units, vocational centers, and other public education entities employ the majority of TFFR participating members (99.21%). Additional shortfall contributions required total $61,708,600 for 2011-13 and $106,849,100 for 2013-15.

9 counties currently employ 9 county superintendents (0.08%) who are TFFR participating members. Additional shortfall contributions required total $49,800 for 2011-13 and $86,200 for 2013-15.

4 state entities currently employ about 74 TFFR participating members (0.71%). Additional shortfall contributions required total $441,600 for 2011-13 and $764,700 for 2013-15.

2011-13, 2013-15
ND Center for Distance Education $132,480, $229,410
ND Youth Correctional Center $132,480, $229,410
ND School for the Deaf $ 88,320, $152,940
ND School for the Blind $ 88,320, $152,940

Section 5 includes a general fund appropriation of $250,000 for consulting and administrative expenses related to initial implementation of the bill.

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.*

If contributions rates would be increased, a general fund appropriation would be required for the 4 state entities affected by this bill. See 3b estimated Expenditures.

Section 5 includes a non-recurring general fund appropriation of $250,000 to pay consulting and administrative expenses related to initial implementation of the TFFR defined contribution plan. This includes hiring a consultant to assist the Board in vendor selection, review of investment options, and vendor oversight. It also includes updating business system code and administrative costs incurred in setting up the new plan.

Name:	Fay Kopp	**Agency:**	ND Retirement & Investment Office
Phone Number:	328-9895	**Date Prepared:**	01/19/2011

HB1258 Actuarial Report.pdf

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January 19, 2011

Ms. Fay Kopp
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P.O. Box 7100
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Re: Table of Contribution Amounts in Connection with Bill 1258

Dear Fay:

Enclosed is a table with a projection of certain TFFR membership, payroll, and contribution information under the current plan, as well as if Bill 1258 were enacted. Note that this analysis does not reflect the possible enactment of HB 1134, the TFFR bill. If both HB 1134 and HB 1258 were enacted, the contribution rates called for in HB 1134 would not be adequate to fully fund the closed DB plan. If both bills were enacted, contributions for the closed DB plan would need to increase above those in HB 1134. We would need to prepare a separate analysis in this event. The summary below provides an explanation of the information shown in the enclosed table.

Column (2) provides the projected number of active TFFR members covered by the current defined benefit plan if HB 1258 is enacted, i.e., all members hired by June 30, 2012. Column (3) provides the projected active membership that would be covered by the defined contribution plan under Bill 1258, i.e., members hired after June 30, 2012. The projection assumes that the total number of active members remains unchanged from the current level of 9,707, and new members are only hired to replace members as they terminate or retire. Therefore, in each year the sum of these two columns is 9,707. Columns (4) and (5) provide the projected payroll for each biennium associated with columns (2) and (3) respectively.

Columns (6), (7) and (8) show the contributions (member plus employer) for each biennium. Column (6) provides the total contributions under the current design and contribution rates. The current contribution rate is 16.50% of payroll, which is comprised of an employer contribution rate of 8.75% and a 7.75% membership contribution rate. These projected amounts do not include possible additional contributions that would be necessary to provide benefits in the event that the plan's assets are exhausted.

Column (7) shows the total contributions as though the rate were increased to 26.40%, which is the contribution rate necessary to fully fund the current plan by the year 2042 (i.e. 30-years from June 30, 2012). (This assumes there is no sunset of the employer contribution rate back to 7.75% when the plan reaches 90% funded.) The contribution rate could decrease from 26.40% of pay to 10.57%, the plan's normal cost, after the plan becomes fully funded in 2042. Note that the contribution rate of 26.40% is slightly higher than the 26% of pay contribution rate determined in our analysis of Bill

2, which was communicated in our letter dated October 22, 2010. This difference is the result of the change in the effective date of the plan change in Bill 1258 to June 30, 2012.

Column (8) provides the total amount of the employer and employee contributions that will be necessary under Bill 1258, which is the sum of 16.50% contributions made on behalf of employees in the defined contribution plan and 38.55% contributions made on behalf of the active members in the closed defined benefit plan. The 38.55% contribution rate is the rate necessary to fund all future benefits by the time the last active member retires. The contribution rate of 38.55% is slightly higher than the 37% of pay discussed in our comparable analysis of Bill 2. As previously explained, this difference is due to the change in effective date of the plan change to June 30, 2012.

The fiscal impact shown in column (9) is the difference between the annual contributions under Bill 1258, column (8), and the costs shown in column (7). The fiscal impact shown here is over and above the contribution increase that would be needed to adequately fund the current DB plan. Likewise, the fiscal impact here is over and above the fiscal impact required if HB 1134 were enacted. As you can see, the annual contributions under Bill 1258 are initially higher as a result of the higher contribution rate necessary to adequately fund the defined benefit plan over the closed payroll of the current membership. The dollar amount of this cost difference decreases as the projected payroll of the closed membership group also declines, until the defined benefit plan becomes fully funded and the contribution rate necessary to maintain the plan decreases from 26.40% to 10.57%, the normal cost .

Section 15-39.3-03 of the proposed legislation would provide current members an opportunity to opt out of the defined benefit plan and earn benefits in the defined contribution plan. Our analysis does not take this into consideration. Therefore, an additional analysis would be required in the event this provision remains in final version of this legislation.

This analysis was prepared based on member and financial data used for the June 30, 2010 actuarial valuation and on the actuarial assumptions and methods used in preparing that report.

Our calculations are based upon assumptions regarding future events, which may or may not materialize. Please bear in mind that actual results could deviate significantly from our projections, depending on actual plan experience.

If you have any questions, or require any additional or clarifying information, please do not hesitate to call me.

Sincerely,

J. Christian Conradi

J. Christian Conradi
Senior Consultant

Enclosure

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North Dakota Teachers' Fund for Retirement

Table 1 - Projected Contributions under Current Plan and Bill 1258
Combined Employee and Employer Contributions for the DB and DC Plan

Fiscal Biennium Beginning July 1:	Active Member Count		Payroll (Biennium Period)		Total Biennium Contributions (Employee & Employer)			**Fiscal Impact**
	DB Members (Closed)	DC Members (Open)	DB Members (Closed)	DC Members (Open)	Current Plan 16.50% x [(4)+(5)]	Current Plan 26.40%* x [(4)+(5)]	Bill 1258 38.55% x (4) + 16.50% x (5)	(8)-(7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2011	9,707	0	$ 1,009.4	$ 0.0	$ 166.6	$ 217.2	$ 279.4	$ 62.2
2013	8,704	1,003	968.3	100.7	176.4	282.2	389.9	107.7
2015	7,395	2,312	918.8	217.7	187.5	300.0	390.1	90.1
2017	6,380	3,327	877.5	335.3	200.1	320.2	393.6	73.4
2019	5,523	4,184	836.9	460.5	214.1	342.5	398.6	56.1
2021	4,795	4,912	797.7	593.7	229.6	367.3	405.5	38.2
2023	4,168	5,539	757.9	737.3	246.7	394.7	413.8	19.1
2025	3,604	6,103	713.5	894.4	265.3	424.5	422.6	(1.9)
2027	3,089	6,618	663.7	1,066.5	285.5	456.8	431.8	(25.0)
2029	2,620	7,087	609.0	1,254.7	307.5	492.0	441.8	(50.2)
2031	2,198	7,509	552.9	1,458.1	331.8	530.9	453.7	(77.2)
2033	1,828	7,879	494.8	1,677.6	358.5	573.5	467.6	(105.9)
2035	1,490	8,217	432.6	1,915.7	387.5	620.0	482.9	(137.1)
2037	1,186	8,521	368.7	2,172.6	419.3	670.9	500.6	(170.3)
2039	933	8,774	311.9	2,444.4	454.8	727.7	523.6	(204.1)
2041	727	8,980	257.4	2,732.8	493.4	789.4	550.1	(239.3)
2043	519	9,188	189.8	3,047.7	534.2	342.2	576.0	233.8
2045	304	9,403	118.4	3,379.6	577.2	369.7	603.3	233.6
2047	170	9,537	70.2	3,704.7	622.9	399.0	638.4	239.4
2049	87	9,620	37.6	4,033.6	671.8	430.3	680.1	249.8
2051	40	9,667	19.2	4,371.8	724.5	464.1	728.8	264.7
2053	19	9,688	10.0	4,727.1	781.6	500.7	783.8	283.1
2055	10	9,697	5.3	5,107.8	843.7	540.5	844.8	304.3
2057	4	9,703	2.8	5,519.0	911.1	583.7	911.7	328.0
2059	2	9,705	1.2	5,964.7	984.4	630.6	984.6	354.0

$ amounts in millions

* The contribution rate required to fund the unfunded liability over a 30-year period, 26.40%, reverts to 10.57%, the cost of the benefits earned by the members, after the plan becomes fully funded in 2042.

All contribution amounts and rates shown include both the member and employer contributions.

Payroll for current employees includes those hired prior to June 30, 2012 who will participate the current plan. Payroll for future employees are for those hired after June 30, 2012.

Contribution rates for the defined benefit plan under the adequacy scenarios (columns 7 and 8) are assumed to become effective at the same date of the plan change, June 30, 2012.

The employer contribution rates under columns (6) and (8) are not assumed to sunset back to 7.75% when the plan becomes 90% funded.