15.0176.04000

FISCAL NOTE
Requested by Legislative Council
12/19/2014

Bill/Resolution No.: SB 2038

1 A. **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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$31,245,000	$23,414,000	$41,660,000	$31,219,000
Appropriations	$0	$0	$0	$0	$0	$0

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

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties	$0	$0	$0
Cities	$0	$0	$0
School Districts	$0	$0	$0
Townships	$0	$0	$0

2 A. **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 closes the NDPERS Main Retirement Plan to new employees and gives existing employees the option to move to the Defined Contribution Plan.

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 above plan cost increases relating to the employer contribution requirements are based upon a 7% return assumption and the assumption that 40% of plan members will transfer from the PERS DB/Hybrid plan to the DC plan pursuant to the provisions of this bill. The financial effect on this fiscal note is shown as the actuarial required employer contributions needed to pay for this benefit change as calculated by the Segal Company and provided to the Legislative Employee Benefits Committee. No appropriation is shown for the cost of this bill since the bill does not provide funding to the retirement trust to pay for the cost of the proposed change. If funding to the trust is delayed the cost will increase if the bill is passed and the trust is not funded to support the change. Concerning the assumptions used in this cost estimate:

1. The 7% assumption is lower then the plans present 8% return assumption but is consistent with how PERS manages its other closed retirement plan – Job Service. In the longer term PERS would expect further reductions in the return assumption (for Job Service we expect it to drop to 5% over time and possible lower) which will mean additional employer contributions will be needed in the future to offset the lower returns associated with a closed plan. Investment returns decline when plans are closed since new employees are switched out of the plan, as is proposed in this bill for the PERS Main Retirement plan, and this loss of new enrollee's forces two key changes in investment strategy which are: 1) A shorter investment horizon and 2) a need for more liquid assets to pay retirement benefits.

2. The assumption of 40% transfer is based upon the 1999 offering to non-classified employees and the condition of the PERS state plan at the time of the transfer offer pursuant to this bill (member's confidence in the PERS plan may not be strong since this bill will put the plan on a path to insolvency sometime between 2033 and 2049 depending on returns).since this bill does not provide an appropriation to fund the necessary increases in employer contributions to pay the cost of the change proposed by this bill.

Alternatively, instead of a contribution increase, a one time deposit could be made into the PERS fund. If the deposit was on July 1, 2017 it would need to be $104 million assuming a 8% return; $354 million assuming a 7% return; $655 million assuming a 6% return; $1.02 billion assuming a 5% return and 1.5 billion assuming a 4% return. This also assumes 40% of members will transfer. As noted above the board would assume a 7% return assumption in the near term with it decreasing over time as the investment horizon shortened and the liquidity requirements increased. Therefore a one time contribution of $354 million would be the first payment with additional payments needed as the asset allocation changed over time (based upon the long term return this could total from $354 million to 1 billion or more).

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.*

   See 2B above.

   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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

   This bill does not provide an appropriation to pay the actuarially required cost to make the proposed change.

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