Testimony on North Dakota Senate Bill 2046

Prepared for: Government and Veterans Affairs Committee,
North Dakota House of Representatives

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Date: April 21, 2021

Chairman Kasper, committee members, thank you for the opportunity to offer a brief technical assessment of Senate Bill 2046 (as amended) and the implications of the state adopting a new approach to offering future public employees a secured retirement option through the North Dakota Public Employees Retirement System (NDPERS).

My name is Raheem Williams, and I am a policy analyst with the Pension Integrity Project at Reason Foundation, a national 501(c)(3) nonpartisan think tank offering pro-bono technical assistance and policy research to lawmakers and other stakeholders to help design and implement policies aimed at improving public pension plan resiliency, promoting retirement security for public employees, and lowering long-term financial risks to taxpayers. I am also a former NDSU research specialist and am currently collaborating with them on an independent assessment of NDPERS's long-term solvency.

Over the last 20 years, the NDPERS defined benefit (DB) plan has gone from 115 percent funded and a surplus of $135 million to holding over $1.4 billion in unfunded pension obligations. We commend those legislators and stakeholders raising awareness of the need to finally tackle the structural underfunding of the NDPERS defined benefit plan.

As currently written SB 2046 would primarily close the current system to most new entrants (except for those in public safety, the courts, municipal employment and other categories) and dedicate a portion of future Legacy Fund earnings to additional NDPERS unfunded liability payments. The proposed plan design would reduce risk to the state by limiting the flow of new entrants into a structurally underfunded pension system that bears significant financial risk to current and future taxpayers. However, any switch to a defined contribution plan should be paired with a viable funding strategy to pay off current and future NDPERS plan debt, which is where we see gaps in the current proposal.

If fully implemented as currently written, our preliminary actuarial modeling shows SB2046 would have little chance of accomplishing the goal of ending the structural underfunding of NDPERS benefits. While additional supplemental funding from the Legacy Fund would certainly be warranted, what is needed first is a viable ongoing pension funding policy, which starts with adopting the actuarially required contribution as policy instead of continuing to structurally underfund the plan with legislatively determined contributions. We also believe that the current concept would be more effective if paired with other changes to funding, amortization, and assumption-setting policies to effectively contain the risks of growing pension debt.

To that end we offer the following technical adjustments to SB 2046 that would improve the chances that any policy changes would achieve the goal of eliminating the NDPERS unfunded liability on a sustainable basis:

- Committing to pay the actuarially required contribution rate annually would guarantee that the state will contribute at a level that fully funds all accrued retirement benefits regardless of market volatility;

- Lowering the NDPERS assumed rate of return on investments gradually to 6.0 percent over a 10-year period would limit the system's exposure to market volatility;

- Amortizing current NDPERS debt on a fixed schedule, ideally less than 30 years, would avoid runaway interest driving up unfunded liabilities and perpetuating intergenerational inequities;

- Amortizing any prospective future NDPERS debt in a given year on a closed schedule of 20 years or less, ensuring the legislature won't need to address the issue again in the future; and

- Amortizing unfunded liabilities for the legacy DB plan over total state payroll (legacy pension participants + new and existing defined contribution participants)—as Oklahoma, Arizona, Florida, Utah and other states have done in similar situations—in order to ensure that legacy unfunded liabilities are paid down in a fiscally prudent manner.

Again, we commend legislators, NDPERS members, and stakeholders for recognizing the current financial challenges with NDPERS and being willing to engage these important issues. We will continue to offer our technical perspective on any policy proposals stemming from today's discussion and thank you for the opportunity to share our perspective. We look forward to providing our modeling and technical expertise to help facilitate a productive exchange of ideas.