21.0287.01002
Title.
Fiscal No. 2

Prepared by the Legislative Council staff for
Senator Mathern
February 2, 2021

PROPOSED AMENDMENTS TO SENATE BILL NO. 2005

Page 1, replace lines 9 through 14 with:

"	Base Level	Adjustments or Enhancements	Appropriation
Salaries and wages	$870,079	$37,087	$907,166
Operating expenses	228,560	(42,951)	185,609
Total general fund	$1,098,639	($5,864)	$1,092,775
Full-time equivalent positions	4.00	0.00	4.00"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2005 - Indian Affairs Commission - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	$870,079	$37,087	$907,166
Operating expenses	228,560	(42,951)	185,609
Total all funds	$1,098,639	($5,864)	$1,092,775
Less estimated income	0	0	0
General fund	$1,098,639	($5,864)	$1,092,775
FTE	4.00	0.00	4.00

Department 316 - Indian Affairs Commission - Detail of Senate Changes

	Adjusts Funding for Base Payroll Changes[1]	Adds Funding for Salary and Benefit Increases[2]	Reduces Funding for Operating Expenses[3]	Increases Funding for the Youth Leadership Academy[4]	Adds Funding for Information Technology Department Key Customer Management Fee[5]	Adds Funding for Microsoft Office 365 License Expenses[6]
Salaries and wages	($210)	$37,297				
Operating expenses			($54,722)	$5,000	$6,000	$771
Total all funds	($210)	$37,297	($54,722)	$5,000	$6,000	$771
Less estimated income	0	0	0	0	0	0
General fund	($210)	$37,297	($54,722)	$5,000	$6,000	$771
FTE	0.00	0.00	0.00	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	$37,087
Operating expenses	(42,951)
Total all funds	($5,864)
Less estimated income	0
General fund	($5,864)
FTE	0.00

[1] Funding is adjusted for base payroll changes.

[2] The following funding is added for 2021-23 biennium salary adjustments of 3 percent on July 1, 2021, with a minimum monthly increase of $120 and a maximum monthly increase of $300 and 3 percent on July 1, 2022; a 1 percent increase in the employer and 1 percent increase in the employee retirement contribution effective January 1, 2022; and increases in health insurance premiums from $1,427 to $1,429 per month:

	General Fund
Salary increase	$32,638
Retirement increase	4,464
Health insurance increase	195
Total	$37,297

[3] Funding for operating expenses is reduced. The agency may determine the specific areas to reduce.

[4] Funding for the Youth Leadership Academy is increased to provide a total of $54,300.

[5] Funding is added for an Information Technology Department key customer management fee.

[6] Funding is added for Microsoft Office 365 license expenses.

Legislative Council

North Dakota Legislative Council

Prepared by the Legislative Council staff
LC# 21.9600.01000
January 2021

PUBLIC EMPLOYEES RETIREMENT SYSTEM MAIN SYSTEM FUNDING HISTORY

This memorandum provides information regarding the North Dakota Public Employees Retirement System (PERS) main system defined benefit retirement plan.

ORIGINAL MAIN SYSTEM DEFINED CONTRIBUTION PLAN

In Senate Bill No. 154 (1965), the Legislative Assembly created PERS, effective July 1, 1966, as a defined contribution plan. In Senate Bill No. 2068 (1977), the Legislative Assembly converted the main system retirement plan to a defined benefit plan.

MAIN SYSTEM DEFINED BENEFIT PLAN

The PERS main system defined benefit plan is funded from employer contributions, employee contributions, and investment earnings. Contributions are calculated based on a percentage of gross pay. From 1977 through 1989, the employer contribution was 5.12 percent of state employee salaries and the employee contribution was 4 percent. In lieu of state employee salary increases in 1983 and 1984, the state began to pay the 4 percent employee contribution. In 1989, the employer contribution was reduced by 1 percent and reallocated for a retiree health benefit credit. In January 2012, January 2013, and January 2014, the employer and employee contributions each increased by 1 percent annually. Senate Bill No. 2046 (2019) reallocated the 1.14 percent employer contribution for the retiree health insurance credit to the main system defined benefit retirement plan for employees hired after December 31, 2019. A history of employer and employee contribution rates for the main system defined benefit plan are shown below.

1989 Through December 31, 2011		Effective January 1, 2012		Effective January 1, 2013		Effective January 1, 2014	
Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
4.12%	4.00%[1]	5.12%	5.00%[1]	6.12%	6.00%[1]	7.12%[2]	7.00%[1]

[1]The state pays 4 percent of the employee share of retirement contributions.

[2]Senate Bill No. 2046 (2019) reallocated the 1.14 percent employer contribution for the retiree health insurance credit to the main system defined benefit retirement plan for employees hired after December 31, 2019, resulting in a total employer contribution rate of 8.26 percent for employees hired after December 31, 2019.

Benefit Levels and Recent Changes in Benefit Calculations

Members of the main system retirement plan are eligible for a normal service retirement benefit at age 65. For employees hired prior to January 1, 2016, employees are also eligible for retirement when age plus years of service is equal to 85 (commonly known as the "Rule of 85"). For employees hired on or after January 1, 2016, employees are eligible for retirement when age plus years of service is equal to 90 (commonly known as the "Rule of 90").

Retirement benefits under the defined benefit plan are calculated using the following mathematical formula provided in North Dakota Century Code Section 54-52-17(4):

Final average salary[1] x benefit multiplier[2] x years of service credit[3] = monthly single life retirement benefit.

[1]For employees who retired prior to August 1, 2010, the final average salary was the average of an employee's highest salaries in 36 of the last 120 months worked. For employees who terminate employment on or after August 1, 2010, but before January 1, 2020, it is the average of the employee's highest salaries in 36 of the last 180 months worked. For employees who terminate employment on or after January 1, 2020, it is the average of the employee's highest three 12 consecutive month periods of the last 180 months worked.

[2]The benefit multiplier is the rate at which benefits are earned. For defined benefit members enrolled before January 1, 2020, the benefit multiplier is 2 percent. For members enrolled after December 31, 2019, the benefit multiplier is 1.75 percent.

[3]The service credit is the amount of public service an employee has accumulated under PERS for retirement purposes.

The following is a summary of benefit changes approved by the Legislative Assembly since 1977:

Year	Benefit Multiplier	Change in Retirement Rule Levels
July 1977	1.04%	
July 1983	1.20%	
July 1985	1.30%	Rule of 90 established as an alternative for retirement eligibility
July 1987	1.50%	
July 1989	1.65%	
July 1991	1.69%	
August 1993	1.725%	Rule of 90 changed to Rule of 88
January 1994	1.74%	
August 1997	1.77%	Rule of 88 changed to Rule of 85
August 1999	1.89%	
August 2001	2.00%	
January 2016	2.00%	Rule of 85 changed to Rule of 90 for employees hired after December 31, 2015
January 2020	1.75%	Benefit multiplier of 1.75 percent for members enrolled after December 31, 2019, but remains 2 percent for members enrolled prior to January 1, 2020

Similar adjustments were made to the benefit calculations of members who retired prior to the above changes being made. Benefits were increased in amounts that equaled the benefit multiplier changes. In addition, retirees received a 13th check in 2006 and 2008. In 2006 the 13th check was equal to one-half of the retiree's normal monthly check and in 2008 the 13th check was equal to three-fourths of the retiree's normal monthly check.

Funded Ratio

The actuarial funded ratio is the percentage of the retirement fund's actuarial value of assets to its actuarial accrued liabilities. The actuarial value of assets is determined by spreading market appreciation or depreciation over 5 years. This procedure results in recognition of all changes in market value over 5 years.

The schedule below shows the actuarial assets and liabilities of the main system defined benefit plan since 2000.

Fiscal Year	Actuarial Assets	Actuarial Liabilities	Actuarial Surplus or (Unfunded Liability)	Actuarial Funded Ratio
2000	$1,009,744,796	$879,189,877	$130,554,919	114.8%
2001	$1,096,115,648	$993,851,809	$102,263,839	110.3%
2002	$1,129,697,099	$1,087,003,336	$42,693,763	103.9%
2003	$1,145,284,302	$1,170,477,887	($25,193,585)	97.8%
2004	$1,172,258,036	$1,250,849,240	($78,591,204)	93.7%
2005	$1,210,287,848	$1,333,491,341	($123,203,493)	90.8%
2006	$1,286,478,642	$1,450,113,412	($163,634,770)	88.7%
2007	$1,470,367,098	$1,575,666,628	($105,299,530)	93.3%
2008	$1,571,159,912	$1,700,171,588	($129,011,676)	92.4%
2009	$1,577,552,012	$1,861,032,305	($283,480,293)	84.8%
2010	$1,576,794,397	$2,156,560,553	($579,766,156)	73.1%
2011	$1,603,718,656	$2,284,199,019	($680,480,363)	70.2%
2012	$1,579,933,179	$2,442,299,210	($862,366,031)	64.7%
2013	$1,632,915,720	$2,650,525,018	($1,017,609,298)	61.6%
2014	$1,837,902,845	$2,866,511,290	($1,028,608,445)	64.1%
2015	$2,027,476,214	$2,976,071,808	($948,595,594)	68.1%
2016	$2,180,748,616	$3,299,381,100	($1,118,632,484)	66.1%
2017	$2,529,631,008	$3,618,083,973	($1,088,452,965)	69.9%
2018	$2,752,053,305	$3,841,701,179	($1,089,647,874)	71.6%
2019	$2,949,967,049	$4,136,252,987	($1,186,285,938)	71.3%
2020	$3,112,920,033	$4,557,679,020	($1,444,758,987)	68.3%

The changes to the actuarial funded ratio of the PERS main system defined benefit plan is due to several factors, primarily from:

- Actual contributions to the plan being less than the actuarially determined contributions needed for the plan to reach 100 percent funded status; and
- A decrease in the assumed rate of investment returns on plan assets.

As of July 1, 2020, the actuarially determined contribution rate for the main system defined benefit plan to reach 100 percent funded status within 30 years was 19.94 percent, an increase of 5.82 percent from the current total contribution rate of 14.12 percent.

As of July 1, 2020, the actuarially assumed rate of investment return was 7 percent, a decrease of 0.5 percent from the July 1, 2019 actuarially assumed rate of investment return of 7.5 percent. The actuarially assumed rate of investment return was 7.75 percent as of July 1, 2018, 7.75 percent as of July 1, 2017, and 8 percent as of July 1, 2016.

2021-23 BIENNIUM EXECUTIVE RECOMMENDATIONS

The 2021-23 executive budget recommendation includes increasing contributions to the retirement plan by 2 percent, 1 percent paid by the employee and 1 percent paid by the state, beginning January 1, 2022. The estimated cost of the retirement plan increase for the 2021-23 biennium is $9.4 million, of which approximately $4.2 million is from the general fund.

The total retirement contribution recommended is 16.12 percent, including 8.12 percent from state contributions and 8 percent from employee contributions, for employees hired before January 1, 2020. For employees hired after December 31, 2019, the total retirement contribution recommended is 17.26 percent, including 9.26 percent from state contributions and 8 percent from employee contributions, due to the passage of Senate Bill No. 2046 (2019), which reallocated the 1.14 percent employer contribution for the retiree health insurance credit to the main system defined benefit retirement plan for employees hired after December 31, 2019. The 2021-23 executive budget recommendation continues the state paying 4 percent of the employee share of retirement contributions.