House Bill 1271
North Dakota Retirement and Investment Office (RIO) on behalf of the Teachers' Fund for Retirement Board of Trustees
Opposition Testimony related to HB 1271 before the House Education Committee
Representative Pat. D. Heinert, Chair
Representative Cynthia Schreiber-Beck, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions (43%) and investment earnings (57%). During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.[1]

[1] H.B. 1134, 62nd N.D. Legislative Assembly (2011-2013).

II. Opposition Testimony relating to HB 1271

Attached following this testimony is the analysis performed by the fund actuaries which indicates that if passed, HB 1271 would significantly negatively impact the TFFR plan because instead o being on a path to fully funded status, the fund would never reach 100% funded. The pertinent section of the actuarial analysis may be found on page 2 which states:

"If adopted, HB 23.0374.01000 would increase the active Actuarial Accrued Liability by $130 million (an increase of 3% of AAL). The funded percentage would decrease by 1.9%. Because of the increase in liability and the decrease in expected payroll, the plan is no longer projected to ever reach 100% funding (as indicated by the "infinite" effective amortization period metric)."[2]

The TFFR Board of Trustees believes that defined benefit plans provide a valuable recruitment and retention tool for government entities when managed correctly and funded appropriately. TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. The TFFR Board recognizes that public pension reform is a major topic under consideration by the 68th Legislative Assembly. H.B. 1039 and H.B. 1040 have been introduced and involve closing the PERS Main Defined Benefit Plan due to concerns over that plans unfunded liability. During the testimony of several individuals at the hearings on those bills last week it was noted that the PERS Main Defined Benefit Plan and the TFFR plan are currently on distinctly different funding paths. While the TFFR plan is projected to reach fully funded status by 2044,[3] the PERS Main Defined Benefit Plan is not projected to reach 100% fully funded status.[4] The TFFR Board recognizes that TFFR's funding success is largely attributable to the plan design and contribution changes adopted by the Legislature through H.B. 1134 in 2011. We note that the changes proposed by HB 1039 and HB 1040 reflect an attempt to correct a funding shortfall for the PERS Main Defined Benefit Plan and hope that the public policy implications of these bills do not extend to defined benefit plans that are projected to reach 100% fully funded status such as the TFFR plan.

The passing of H.B. 1134 in 2011 reflected a concerted effort on the part of our many members, stakeholder groups, and legislators to seek solutions and compromise on plan design changes that would support the TFFR program as a viable and valuable recruitment tool for our North Dakota educators. The success of those compromises is evidenced through TFFR's improved funding status and increased membership. H.B. 1271 would eliminate the viability of the TFFR plan and negate the compromises reached in 2011.

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[2] 1-18-23 letter from Segal Group, Inc. to ED Jan Murtha, Retirement & Investment Office (TFFR).

[3] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by the Segal Group, Inc. regarding the July 1, 2022, actuarial valuation of TFFR, p. 28, 29.

[4] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by GRS regarding the July 1, 2022, actuarial valuation of PERS Main System, p. 33.

III. Summary

The TFFR Board observes that the legislature must pursue some type of change to address the PERS Main Defined Benefit Plan funding shortfall due in part to inaction in prior years. No action is needed to address the funding status of TFFR because of the actions taken by this legislature in 2011. We respectfully submit that the introduction of HB 1271 will nonetheless erode the work accomplished by the 62nd Legislative Assembly to the detriment of the retirement plan for all North Dakota educators. For these reasons the TFFR Board of Trustee's opposes H.B. 1271.

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Via Email

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Re: Actuarial Impact Analysis of House Bill 23.0374.01000

Dear Jan:

As requested, we have prepared an actuarial impact analysis on the North Dakota Teachers' Fund for Retirement (TFFR or Fund), regarding the proposed modifications to current TFFR provisions if enacted under HB 22.0374.01000. Under current law, a retired member who returns to teaching is required to pay member contributions. Similarly, participating employers are required to pay contributions on behalf of the rehired retirees.

The proposed bill would allow the following:

- Retired members who return to active service would be able to opt to not pay member contributions, and

- If such a member opts to not pay member contributions, the participating employer would not be required to make employer contributions on behalf of the member.

Such changes would apply to both regular and critical shortage retirees returning to active service, as described in Section 15-39.1-19.1 and Section 15-39.1-19.2 of TFFR's ordinances.

Summary of Actuarial Impact

Because the bill would allow for eligible members to retire and immediately return to work while receiving retirement benefits, the effect of HB 22.0374.01 was modeled by assuming all active members eligible for unreduced retirement will retire immediately and projected payroll for the upcoming fiscal year does not reflect salary for new entrants. In addition, we would anticipate that this change would cause the level of total covered payroll to increase at a much slower rate than currently assumed (current assumption is 3.25% increase per year), or potentially even result in year-over-year decreases in covered payroll. As a result, it would be appropriate to change the basis for determining the actuarially determined contribution rate from level percentage of payroll to level dollar; this change is reflected in the actuarially determined contribution rate and effective amortization period illustrated in the table below:

Plan Year Beginning July 1, 2022	Valuation	HB 23.0374.01000	Increase/ (Decrease)
Actuarially determined contribution rate	12.12%	19.62%	7.50%
Actuarial Accrued Liability (AAL)			
Retired participants and beneficiaries	$2,606.5	$2,606.5	$0.0
Inactive vested members	133.5	133.5	-
Active members	1,722.4	1,852.7	130.3
Inactive vested members due a refund of employee contributions	17.6	17.6	-
Total AAL	4,480.0	4,610.3	130.3
Employer normal cost	98.8	95.8	(3.0)
Fair value of assets (FVA)	$3,023.9	$3,023.9	$0.0
Actuarial value of assets (AVA)	3,133.0	3,133.0	-
Unfunded AAL based on FVA	$1,456.1	$1,586.4	$130.3
Funded percentage on FVA basis	67.5%	65.6%	(1.9%)
Unfunded AAL based on AVA	$1,347.0	$1,477.3	$130.3
Funded percentage on AVA basis	69.9%	68.0%	(1.9%)
Effective amortization period on an AVA Basis	19	Infinite	N/A
Projected Annual Payroll for Fiscal Year Beginning July 1	$810.0	$733.4	($76.60)

$ in Millions

Change in Plan Costs

If adopted, HB 23.0374.01000 would increase the active Actuarial Accrued Liability by $130 million (an increase of 3% of AAL). The funded percentage would decrease by 1.9%. Because of the increase in liability and the decrease in expected payroll, the plan is no longer projected to ever reach 100% funding (as indicated by the "infinite" effective amortization period metric). The proposed bill would have a significant impact on ND TFFR's actuarial valuation.

Note that the analysis of the proposed bill assumes that it will have no actuarial impact on deferred vested participants. That is because the actuarial valuation already assumes that 100% of deferred vested participants retire at their earliest available unreduced retirement age.

Actuarial Assumptions

For purposes of this analysis, the AAL amounts are calculated using the actuarial assumptions and plan provisions as described in the Actuarial Valuation Report and Review as July 1, 2022, for TFFR, dated October 20, 2022, for illustrative purposes unless stated otherwise. Active members as of July 1, 2022, that are currently eligible for unreduced retirement are assumed to retire immediately. Remaining active members are assumed to retire at the first age they reach eligibility for unreduced retirement. Any proposed legislation would not change the July 1, 2022, actuarial valuation results, and these are used as a proxy for the effect on plan costs.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Certification

Use of this information is subject to the caveats and limitations of use described in the July 1, 2022, actuarial valuation report. This report has been prepared in response to a request from the North Dakota Retirement & Investment Office on behalf of the Employee Benefits Programs Committee of the North Dakota Legislature.

The signing actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions, comments, or concerns.

Sincerely,

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Senior Vice President and Actuary

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Vice President and Actuary

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