

OPPOSITION TO HOUSE BILLS 1039 AND 1040

Coalition for Retirement Stability

House Bills 1039 and 1040 Close the Defined Benefit Plan and Requires All New Employees to Enroll in a Defined Contribution Plan

HOW MUCH DOES IT COST?

The table below compares the cost of closing the Defined Benefit Plan over 20 years to providing Actuarial Determined Employer Contribution (ADEC) funding to the Defined Benefit Plan over the same time period.

	Total cash outlays over 20 years to close ND Defined Benefit Plan Assumes 4.5% Investment Return Due to Sold Assets	Total cash outlays over 20 years with ADEC funding. Defined Benefit Plan funded over 80% after 20 years Assumes 6.5% Investment Return
General Fund Transfer	\$250 Million	\$0
Legacy Fund Earnings Transfers	\$630 Million	\$0
ADEC for Defined Benefit Plan	\$3.721 Billion: General Fund: \$1.974B, Special Funds: \$1.414B, Federal Funds: \$333M	\$725 Million: General Fund: \$362M, Special Funds: \$261M, Federal Funds: \$102M
ADEC Allocation Based on Defined Contribution State Payroll	\$946 Million	\$0
	Additional State Cost to Close Defined Benefit Plan: \$5.547 Billion	Additional State Cost to fund Defined Benefit Plan with ADEC: \$725 Million Increased Employer Contributions for Political Subdivisions Amounts to \$795M

USE OF LEGACY FUND EARNINGS IS WRONG

Using funds from the Legacy Fund Earnings to close out North Dakota's Defined Benefit Plan is wrong.



Appropriating \$630 million from the Legacy Fund earnings to close the defined benefit plan provides absolutely nothing for the citizens of North Dakota.

BAD FOR RECRUITMENT AND RETENTION

- State employees are paid less than the private sector is paid. The Defined Benefit Plan helps make up for the lesser salary. Closing the Defined Benefit Plan takes away that benefit.
- Only 2.87% of new employees elected to join the Defined Contribution Plan when it was made available to them from 2013 to 2017.
- Just 3.95% of State employee survey respondents preferred a Defined Contribution Plan over a Defined Benefit Plan in the HRMS Survey of Current Employees.
- Current Defined Contribution Plan has mandatory contribution rate of 15.26% (7% employee + 8.26% employer). New Defined Contribution Plan has a mandatory contribution rate of 9.26% (4% employee + 5.26% employer). Employees may elect to contribute 3% more and State would match.

In general terms, a Defined Benefit Plan is similar to a pension, whereas a Defined Contribution Plan is similar to a 401k



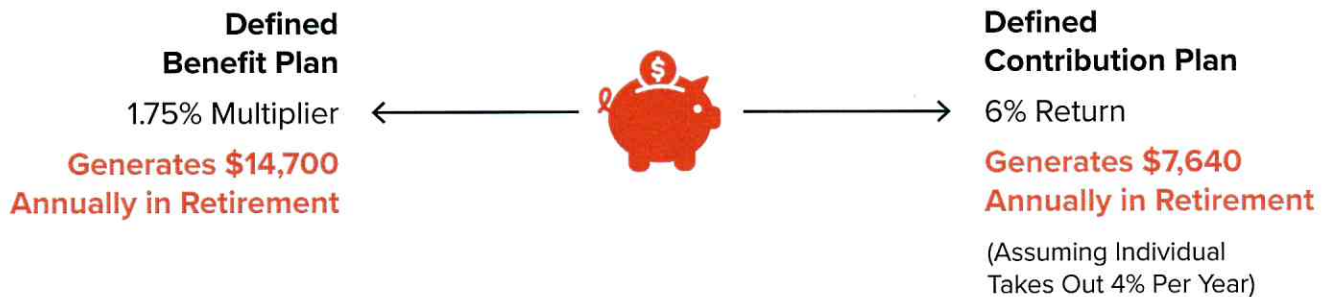
The proposed Defined Contribution Plan generates about half of the retirement income of the current Defined Benefit Plan.



Defined Benefit Plan with 1.75% multiplier vs Defined Contribution Plan with 6% return

EXAMPLE:

An employee with 21 years of service, final average salary of \$40,000.



› NO DISABILITY PLAN

The Defined Contribution Plan does not provide an option for long-term disability, while the Defined Benefit Plan includes long-term disability. This is particularly bad for public safety personnel.

› HOW DID WE GET HERE?

The 2008 financial crisis caused the fund's assets to drop by over 20% and subsequent legislative assemblies have not funded the complete recovery plan to get the fund back on track.

› NO LEGISLATURE CAN BIND A FUTURE LEGISLATURE

This bill assumes future legislatures will appropriate very large sums of money over 20 years, but cannot require them to do so.

› WHAT HAPPENS IF FUTURE LEGISLATORS DO NOT APPROPRIATE ALL THE FUNDING?

The fund will continue to pay retirement benefits until the fund is spent down to zero, when no more retirement benefits will be able to be paid, even though the state is obligated to pay those retirement benefits.