Clerk

Testimony in Opposition to House Bills 1039 and 1040

Pam Sharp, Coalition for Retirement Stability

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Good morning Chairman Schauer and members of the Government and Veteran's Affairs Committee.

My name is Pam Sharp and I represent the Coalition for Retirement Stability. This coalition is comprised of AARP, ND United, and a large group of retired state employees that have been following the interim retirement committee and this bill.

A little bit about myself for those of you who do not know me. I am a retired state employee myself. I spent over 30 years in state government - all of those years working in financial type positions within the state, including 15 years as the Director of the Office of Management and budget.

I have been following this topic for many years and have made it a point to understand the issues in PERS related to the defined benefit plan, the defined contribution plan, all aspects of the unfunded liability and why and when it happened.

As required by law, an actuarial analysis must be completed for any bill that impacts employee benefits. That actuarial analysis was completed by GRS and was received in December just in time for the Employee Benefits Committee.

All of the numbers I am going to talk about came from the actuarial analysis.
You heard Mr. Miller tell you that the present value of the cost of this bill is $4.5 Billion. I am going to talk about the cash outlays over the 20 years instead of the present value.

The actuarial analysis provided the cash outlays required to implement this plan for the next twenty years, and then even went 20 years beyond that. So that is what I used to put these numbers together.

Let's look at the first column of numbers with the heading" Total cash outlays over 20 years to close the ND Defined Benefit Plan, Assumes 4.5% Investment Return due to the Sold Assets.

Let me explain why we are using 4.5% investment return. To close the fund over 20 years, assets will have to be sold off and moved to more fixed income investments which will generate a lower return. As Scott mentioned, the actuaries assumed a few years earning 6.5%, a few years earning 5.5%, then down to 4.5%, 3.5% etc. Their estimate is that the average would amount to 4.4%. They actually provided a scenario with 4.5% so that is what is used here.

Going through those cash outlays -
General Fund 250 million
Legacy Fund 630 million
ADEC for Defined Benefit Plan - This is the new contribution rate required to close out the plan. $3.7 Billion more than what we are paying now.

The next line which says ADEC Allocation Based on Defined Contribution State Payroll of $946 million is confusing. This is an employer contribution that will go into the defined benefit plan, but the calculation is based off the payroll for the new employees in the new Defined Contribution plan. It is how the bill is written.

Those additional cash outlays over 20 years amount to $5.5 billion.

The column on the right side of the page is also from the actuarial analysis. These numbers show the difference between what we are doing right now, (our baseline) compared to if we used ADEC funding over the next 20 years. So it shows no general fund transfer, no legacy fund transfer, but it does increase employer contributions by $725 million over those 20 years. In addition, employer contributions from the political subdivisions would increase by about $795 million.

I put this example here to show that there are other solutions to consider in dealing with the unfunded liability - not just the solution that costs $5.5 billion.

Moving on - the solution proposed in HB 1040 uses $630 million of legacy fund earnings. This is part personal opinion, but also an opinion based on knowledge of the intent of the legacy fund. I was the OMB director when the legacy fund was proposed, talked about, voted in and then implemented. Spending legacy fund money for this purpose is not what anyone had in mind when the fund was created. Use of legacy fund money in this bill provides absolutely no benefit to the citizens of North Dakota. No bridge to drive over or road to drive on, no floods averted.

This bill is horrible for recruitment and retention of employees. Workforce is a problem all over the state and, as you all know, state employees are paid less than the private sector. A pension plan and health insurance benefits have always helped make up for that lack of salary. This bill takes away one of those key benefits that truly helps to recruit and retain employees.

You've already heard from Mr. Miller about the other points in this section - that only 2.87% of new employees selected the DC plan when it was made available to all new employees over a 4 year period of time and also compares the existing DC rate with the proposed DC rate.

The back side of the page shows the example that Mr. Miller talked about that shows the DC plan generating about half the retirement income of the DB plan.

The last four points on the handout are important. The fact that a DC plan doesn't provide anything for disability, while a long term disability plan is built in to a defined benefit plan. Think of a 25 to 30 year old that suffers an injury or illness three years after starting employment and has a DC plan. All that person has for disability is whatever the balance is in his fund. If it has only been three years, those funds probably wouldn't last a year, much less a lifetime.

In a nutshell, we are at this point because the 2008 financial crisis resulted in the fund losing about 20% of its value. Subsequent legislative assemblies were not willing to fully fund the recovery plan, and the unfunded liability has grown since. On the other hand, the legislative assemblies did fully fund the recovery plan for TFFR plan, and that plan is doing well.

This bill has a very large price tag, and assumes future legislatures will be willing to continue funding the closure of the DB plan over 20 years. They cannot be required to do so, and they may very well choose not to. Right now, the state has a lot of money, but what happens if we have a few years of low oil prices, what if we have a drought at the same time, or a flood or similar disaster? That legislative body will likely have different funding priorities and this payment would likely fall to the bottom of the priority list. Also consider term limits and the fact that ten years from now we could have all new legislators that may or may not want to foot this bill.

That would be the worst case scenario. If that were to happen, that fund would continue to pay retirement benefits until there is no more money, then the benefits would stop for all retirees - including the judges retirements in the judges's DB plan and all the retirees in the public safety DB plan, because all the funds are in the same trust. Obviously, that is truly the worst-case scenario, and I am certainly not saying that will happen, but this bill could potentially set that in motion.

I urge you to vote no on this bill, and to come up with a more affordable solution to deal with the issue of the unfunded liability.

Thank you Mr. Chairman. This concludes my testimony.