House Bill 1219
North Dakota Retirement and Investment Office (RIO)
Testimony on behalf of the Teachers' Fund for Retirement Board of Trustees in support of HB 1219 before the House Government and Veterans Affairs Committee
Representative Austen Schauer, Chair
Representative Bernie Satrom, 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]

During this past biennium RIO underwent a strategic review and plan initiative to evolve both programs and the agency to better serve the needs of our clients, members, stakeholders, and the State of North Dakota. This review has resulted in changes to our board and agency governance, identifying and implementing improvements to our infrastructure, a concerted focus on the development of our workforce and a focus on improving communication and outreach efforts with our clients, members, employers, and other stakeholders.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both Boards and Board staff relations to establish a foundation of governance that supported

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

program growth. During this past biennium the TFFR Board established a new Governance and Policy Review ("GPR") Committee to better support the needs of the program. The TFFR GPR Committee oversaw a review of program plan laws, rules, and policies in anticipation of the implementation of a new pension system modernization project ("Pioneer Project") and made several recommendations to the TFFR Board for consideration in relation to this project.

The Pioneer Project is a large multi-year IT project for the development and deployment of a modernized pension administration system. The project is currently on-time and in the development and implementation of the vendor solution phase (the third and final phase), with an expected completion date of 4th quarter 2024. During the first phase of the project TFFR retained a consultant to perform an analysis of our current business state and provide recommendations for a desired future business state. This analysis served to guide the procurement efforts of the TFFR Board, RIO agency, and Executive Steering Committee (ESC) for the vendor solution. These consultant recommendations identified the need to proactively address clarification needs in current program documents to effectively and efficiently inform how the new vendor solution would be developed, programed, and implemented. Program documents include the state laws, administrative rules, and board policies governing the TFFR plan.

The changes proposed in H.B. 1219 reflect the recommendations and requested changes of the TFFR Board related to clarifying program rules and regulations in anticipation of programing the new pension administration system. It also includes two policy related requests that the TFFR Board is requesting to incentivize retired teachers to return to the classroom as an effort to address teacher shortage in K-12 education in North Dakota.

II. <u>TFFR Board Support of H.B. 1219</u>

A. Sections 1 through 3, and Section 9 of H.B. 1219

Sections 1 through 3 and 9 of H.B. 1219 do not change administration of the TFFR plan, rather the requested changes clarify existing law. Section 1 clarifies the definition of retirement annuity as a payment as opposed to a timing of a payment. Section 2 clarifies that the TFFR Board is not restricted to conveying input to the State Investment Board only through resolution (as opposed to surveys, letters, staff recommendations etc.). Section 3 doesn't remove any requirements of qualified domestic relations orders (QDRO's) under the plan, rather because the model language for QDRO's is found in Title 82 of the North Dakota Administrative Code, the recommended change is an attempt to reduce confusion and provide clarify to the members and attorneys who must draft QDRO's. Section 9 doesn't change but clarifies computation of service by referring to service hours to reflect how school district employers report service hours.

B. Sections 4 through 6 of H.B. 1219

Section 4 through 6 of H.B. 1219 reflect minor adjustments to the TFFR plan design that will provide consistency in administration of the plan so as to aid in the development and programing of the new pension administration system. Section 4 relates to teachers who have withdrawn from the fund and desire to return to teach and buy back their service credit; this section provides that the cost to repurchase that service shall be based on an actuarial determined basis for all members as opposed to differentiating between those that have been out of the fund for more or less than five years. Sections 5 and 6 remove the level retirement income with social security option for members. This option is very rarely selected by members at the time of retirement and was also removed as an option in the PERS Main Defined Benefit Plan several sessions ago.

C. Sections 7 & 8 of H.B. 1219

Sections 7 and 8 of H.B. 1219 reflect the TFFR Boards support of retired teachers returning to the classroom. Section 7 serves to incentive returning retired teachers to work full time under the annual hour limit rule, and whose retirement benefit would be suspended upon returning full time to the classroom, by allowing for a recalculation of the retirement benefit to include any amount of new service upon re-retirement and clarifies that professional development and extracurricular activities do not disqualify a teacher from returning to teach under the critical shortage area rule in the following section. Section 8 merely reflects that the Education Standards and Practices Board (ESPB) does not define critical shortage areas by administrative rule.

III. Summary

The changes proposed in Section 7 of the H.B. 1219 have been reviewed by TFFR plan actuaries and are expected to extend the projected date of reaching 100% fully funded status by one month. To aide in the programming and administration of the new pension administration system, and to incentivize retired teachers to return to the classroom, the TFFR Board supports H.B. 1219.