House Bill 1486
January 26, 2023
House Government and Veterans Affairs
Josh Askvig, State Director AARP North Dakota

Chair Schauer and members of the committee,

I'm Josh Askvig, State Director for AARP North Dakota. AARP is a nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families, with nearly 38 million members nationwide and our 83,000 members in North Dakota. We're here today to offer testimony in opposition to House Bill 1486.

Financial and health security are key components of our advocacy agenda. AARP strongly believes that all individuals have the right to be self-reliant and live with dignity in retirement. We further believe that Americans of all ages are faced with a crisis where the goal of achieving an adequate and secure retirement is becoming increasingly difficult.

Following the Great Recession, there was widespread discussion and consideration around converting from traditional defined benefit plans to defined contribution plans. Yet, nearly every state retained a traditional pension as a component of the primary retirement benefit for most public employees. We followed this bill during the Interim Retirement Committee, offered similar comments during that process and have listened to the subsequent discussions.

Upon review we urge the state to exercise similar caution as other states who have explored this change. Modifying retirement plan designs can have unintended outcomes. These following cost related reasons should be noted:

- ***Does not reduce legacy plan liabilities.*** Closing off the pension plan to new employees does not resolve any existing unfunded obligations. In fact, it diverts contributions that would otherwise go into the plan and earned investment income; it requires higher contributions as a percentage of payroll for the legacy plan; and, as the actuarial analysis on this bill and others has shown, necessitates accelerated near-term additional payments to eliminate the unfunded pension liability. (Enduring Challenges: Examining the Experiences of States that Closed Pension Plans, NIRS, August 2019)

- ***Increases benefit costs.*** For any given level of retirement income, defined contribution plans cost significantly more than a traditional pension. Pension plans have economies of scale that cost less to administer. Their pooled assets can achieve higher investment returns due to professional management, more diversified portfolios, longer time-horizons and lower fees. Longevity risk is also pooled, which is inherently less expensive than what individuals would need to accumulate to ensure they do not outlive their savings. (Still a Better Bang for the Buck, National Institute on Retirement Security, December 2014). Furthermore, two plans are more costly than one. Higher administrative costs of a new defined contribution plan would be in addition to the traditional pension that must still be maintained for current workers and retirees. (Look Before you Leap: The Unintended Consequences of Pension Freezes, NIRS, October 2008)

- ***Creates workforce challenges and expenses.*** Retaining employees promotes the efficient delivery of public services, allowing taxpayers to maximize the training and experience invested in public employees and an orderly progression of personnel. Pension plans are an important workforce management tool to meet this objective. State and local governments that closed their traditional pensions saw increased turnover, workforce challenges, and training expenses. (Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions, NIRS, February 2018; The Cost of Teacher Turnover in Alaska, Center for Alaska Education Policy Research, March 2017)

Beyond the costs of switching from a traditional pension to a defined contribution plan, additional policy considerations when transitioning pension plans for new public employees in North Dakota.

- ***Traditional pensions are economic drivers for Main Street America.*** Economic gains attributable to pensions in the U.S. are substantial. Their long-time horizon enables monthly benefits to be distributed on time and in full, even during market shocks and economic declines, to retirees in virtually every community across the country. In North Dakota, retiree spending of these benefits in 2018 generated $805.8 million in total economic output, supporting 4,610 jobs across the state. Pension spending also added $110.7 million to government coffers at the federal, state and local levels. (AARP-In-The-States-Snapshot-ND-Public-Employee-Retirement-System 2021). Additionally, North Dakota's rural and small towns benefit from public defined benefit pension plans as most retirees remain in their communities and contribute to the economic stability of the region as their income is both stable and predictable. (Fortifying Main Street: The Economic Benefit of Public Pension Dollars in Small Towns and Rural America, Linea Solutions and NIRS, March 2020).

- ***Defined contribution plans can increase retirement insecurity and reliance on social safety nets***. Moving away from defined benefit plans means that individuals must face the risk of poor investment returns, the risk that they might outlive their assets, and the risk that inflation will erode the value of their income in retirement. **(**Defined Contribution Plans and the Public Sector: An Update, Center for State and Local Government Excellence, April 2014). Defined contribution plans do not provide predictable benefits sufficiently to ensure some retirees will not need access to other government assistance programs (Medicaid, TANF, etc.). Defined contribution plan participants experience different retirement plan success depending on such factors as their level of contribution and investment knowledge and their understanding and appetite for risk.

- ***Most Americans support pensions to retain public employees and compensate for lower pay and higher risks.*** Most Americans believe providing pensions is a good way to recruit and retain public employees. They additionally appreciate that public workers help finance the cost of these benefits and that pensions compensate for comparatively lower pay and higher risk in many public sector jobs. (Americans' Views of State and Local Employee Retirement Plans, NIRS, March 2021).

We urge you to vote no on HB 1486.

Thank you.