Members of the Senate Appropriations Committee,

Below is a summary of five amendments I have prepared for HB 1040. If this bill is to become law, there are several portions that should be improved:

1. **This amendment removes the $10k incentive for current employees to switch plans.** The dates are wrong from an IRS compliance perspective — Rep. Weisz, the author of the amendment, has acknowledged this too.
   a. This incentive — along with paying the net present value of the employees defined benefit — would dramatically drive up the costs over the next three years. It also presents a fairness issue to employees who will join the state shortly after its enacted, or employees who have already elected the DC Plan. Additionally, by removing all those people immediately from the Defined Benefit, it's funding level would immediately become even worse.

2. **This amendment clearly states North Dakota has a contract to pay the benefits currently obligated.** While this seems to be agreed upon, it is fairly ambiguous in the NDCC currently.
   a. If 1040 passes, this would be an assurance that we intend to pay the benefits to current public workers and retirees.

3. **This amendment would make it so the default contributions remain 7% from the employee and 8.26% from the employer for the DC plan.** 1040 allows employees to go up to that amount, but the default is lowered to 4% and 5.26%. **This also removes the language that requires an annuity in the plan as the default option.**
   a. The current DC plan has higher default contribution rates for workers, and this results in employees getting their full match and saving 15.26% for retirement. This is what our current plan does and is identified as best-practice by many financial advisors and supporters of 1040.
   b. While an annuity could be a good option for some on the DC plan, this should be an option, not the default.

4. This amendment would strike the provisions that make the state cover the majority of the political subdivisons's portion of the liability.
   a. If political subs are on the retirement plan, they should cover their share of the liability. They represent ~60% of the plan members. Taking on their liability dramatically drives up cost for the state.

5. **This amendment strikes the language related to the Legacy funds stream from 1040.** This may be unnecessary with Senator Hogue's amendment to the 1379. But it would make the bills consistent with one another.
   a. There are trade-offs with eliminating the streams as a funding source. <u>The Legislature would either have to replace that funding somehow or the state will continue to underfund the pension liability.</u> This will impact the actuarial analysis for the fund.

Prepared by Sen. Sean Cleary