House Bill 1040
North Dakota Retirement and Investment Office (RIO) on behalf of the Teachers' Fund for Retirement Board of Trustees
Neutral Testimony related to HB 1040 before the Senate State and Local Government Committee
Senator Kristin Roers, Chair
Senator Jeff Barta, 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 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]

II. Neutral Testimony relating to H.B. 1040

The TFFR Board of Trustees believes that defined benefit plans provide a valuable recruitment and retention tool for government entities when managed correctly and funded appropriately. TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. From a public policy perspective, the TFFR Board is concerned that closing the PERS Main Defined Benefit plan will have a negative impact on the recruitment and retention efforts for the non-teaching employees of its school district employers.

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

The TFFR Board does recognize, however, that the PERS Main Defined Benefit Plan and the TFFR plan are currently on distinctly different funding paths. While the TFFR plan is projected to reach fully funded status by 2044,[2] the PERS Main Defined Benefit Plan is not projected to reach 100% fully funded status.[3] The TFFR Board recognizes that TFFR's funding success is largely attributable to the plan design and contribution changes adopted by the Legislature through H.B. 1134 in 2011; whereas the version of S.B. 2108, the PERS funding bill, which was ultimately approved in 2011, removed the final contribution increase needed for the PERS Main Defined Benefit plan. The TFFR Board observes that the legislature must pursue some type of change to address the PERS Main Defined Benefit Plan funding shortfall. The TFFR Board is therefore not opposed to HB 1040 in their current form so long as the public policy of closing defined benefit plans does not extend to defined benefit plans that are on a correct funding path, such as the TFFR plan.

III. Summary

The changes proposed by H.B. 1040 reflect an attempt to correct a funding shortfall for the PERS Main Defined Benefit Plan and to the extent that the public policy implications of these bills do not extend to defined benefit plans that are projected to reach 100% fully funded status the TFFR Board of Trustees takes a neutral position on this legislation.

[2] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by the Segal Group, Inc. regarding the July 1, 2022, actuarial valuation of TFFR, p. 28, 29.

[3] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by GRS regarding the July 1, 2022, actuarial valuation of PERS Main System, p. 33.