PERS HB 1040

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Good morning, Chair Roers, vice chair Barta, and members of the Senate State and Local Government Committee, for the record my name is Mike Lefor and I represent District 37 – Dickinson in the House. I bring HB 1040 to you for consideration. This bill comes to you from the interim Retirement Committee which was required to study closing the defined benefit plan for the PERS main system retirement plan to new hires effective January 1, 2025 and to open a defined contribution plan to new hires after that date.

In this process, the committee sought the guidance of TIAA, and the Reason Foundation known for their expertise in retirement planning. The committee received testimony from four other states and their experience with pension plans. An important component to the bill would be to ascertain the cost of funding the states portion of the following;

1. The employer contribution and employee contribution portion paid by the state for the defined benefit plan.

2. The employer contribution and employee contribution portion paid by the state for the new defined contribution plan.

3. A twenty-year plan to pay off current NDPERS unfunded liability.

Those components are also called actuarially determined employer contribution or ADEC for short. The figure would be provided to the legislature no later than November 15th of each even numbered year prior to the following assembly.

We also looked at many statistics (all statistics are actuarial in nature).

Fiscal	Assets	Liabilities	Unfunded	Funded Ratio
2000	1,009,744,796	879,189,877	130,554,919	114.8%
2005	1,210,287,848	1,333,491,341	(123,203,493)	90.8%
2010	1,576,794,397	2,156,560,553	(579,766,156)	73.1%
2015	2,027,476,214	2,976,071,808	(948,595,594)	68.1%
2020	3,112,920,033	4,557,679,020	(1,444,758,987)	67%
2022	3,440,000.000	5,300,000,000	(1,860,000,000)	64.95%

Additionally, the legislature has made a couple of changes to code to lower future expenses.

1. In January 2016 – the rule of 85 changed to the rule of 90 for employees hired after December 31, 2015.

2. In January 2020 – the benefit multiplier was lowered from 2% to 1.75% for members enrolled after December 31, 2019.

Both measures make our defined benefit less attractive when compared to other states who have higher multipliers. It lowers the normal cost of the defined benefit plan; however, the results of those changes will not be felt for years and there is still no plan to pay off any of the NDPERS unfunded liabilities.

In conversations with former state chief people officer Stacy Breuer, she cited the following statistics.

1. In the past three years, the state has had a turnover rate totaling 38%. In 2016, the millennial generation become the largest in the workforce at 35%. By 2025, millennials and younger (Gen Z) will make up 75% of the workforce.
2. It is predicted these individuals will hold many different jobs by age 38, they look at their jobs as "projects."
3. From 2019 to 2022 the number of individuals who work remotely has skyrocketed as employers struggle to maintain workforce and give employees more options. Additionally, those who are in a hybrid status, meaning some work at the office and some remotely has grown as well. Working onsite has dropped.
4. "When we capture early talent at Team ND at less than 30 years of age, we are not keeping them."

In addition, the executive branch has visited with every department in state government and, as a result, their strategy to improve workforce recruitment and retention will be;

1. Increase compensation to compete in the marketplace.
2. Offer more training opportunities. Professional development.
3. Well being – Work – Home – Office
4. Benefits – Healthcare – Vacation – Retirement

With all of this information, we tasked our experts to do the following:

1. Design a "best practices" defined contribution plan to be competitive in the marketplace.
2. How do we successfully exit the defined benefit plan? What amount – percentage should we as employers invest in a defined contribution plan as a component of "best practices.?"
3. What amount of time should be given to allow for an orderly transition?
4. What are all of the potential costs associated with moving from a DB to a DC plan?

If we were to fund the actuarially determined employer contribution (ADEC) to properly fund the defined-benefit plan, the defined contribution plan and fund the unfunded liability over a twenty year period, the increased cost based on current employee levels would be approximately $95-$100 million per year. Nearly all of these increased costs come from finally beginning to pay the bill for NDPERS. Once debts from the defined benefit plan is paid off, our state will no longer need to worry about these sorts of massive unfunded liabilities again.

The bill being presented to you this morning, would allocate a one-time cash infusion of $250 million.

That is a big ask and I understand that, however, the sooner we can invest these dollars the sooner we get that money working to get a return for the plan. Of the assets raised for the plan currently, about 50% of the dollars came from employer and employee contributions and the remaining 50% from returns on those investments.

Some of the unfunded liability comes from the political subdivisions involved in the plan. HB 1040 provides for these subdivisions to increase their employer contribution rates 1%.

Regarding a defined contribution plan, TIAA (the #1 not-for-profit retirement market provider, paid more than $545B in guaranteed retirement income payments to millions of educators, healthcare professionals, and others in service) and the Reason Foundation (known across the country as pension experts.) weighed in with the committee the following objectives for a "best practices" defined contribution plan.

1. All employees after January 1, 2025 would be enrolled in a defined contribution plan.
2. A contribution rate of up to 12%-15% (employer and employee contributions) This plan would be up to 14%.
3. Throughout their working careers, this contribution and Social Security participation, should achieve adequate retirement security including the income target range of 70%-100%.
4. Provide 15-20 low risk investments, including in-plan annuities and a default investment option that adjusts its glide path over time including the option to annuitize a portion of their retirement savings into guaranteed lifetime income.
5. Provide employees with advice and guidance education, tools, and services throughout their lifetime that considers changing life events, (marriage, children, elder care, etc.) which allows employees to be on track to reach their lifetime goals.

These components allow for a "best practices" defined contribution plan to become more competitive in the marketplace against the public and private sectors. A defined contribution plan which provides for a 7% employer contribution and paying 4% of the employee contribution which is currently done in our states DB plan, makes it highly attractive retirement plan to recruit and maintain good employees.

The state's current defined contribution plan is missing many of the "best practices" components I have listed in my testimony.

It is important to mention that for the state's defined benefit plan, the state would continue to provide the employer contribution and a portion of the employees contribution this bill does nothing to change that. The liability for the DB plan is already there. Equate it to having a credit card debt and paying the minimum each month, you will never get it paid. Let's begin to pay this off over twenty years, right the ship, offer a “best practices” defined contribution plan, lower our turnover rate and maintain employees.

We need to fully fund our defined benefit plan until the last retiree has drawn the last check in the plan, we promised that to our valued employees.

This plan is good for our employees, provides an excellent recruitment tool for the future and gives today’s employees exactly what they are looking for. The interim Retirement committee did their job and did it well. I would request a do pass recommendation from the Senate State and Local Government committee with a referral to House Appropriations. Ms. Chairman, that completes my testimony and I would be happy to answer any questions.