

House Bill 1150
North Dakota Retirement and Investment Office (RIO) on behalf of the
Teachers' Fund for Retirement Board of Trustees
Opposition Testimony related to HB 1150 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. Opposition Testimony relating to HB 1150

Opposition to HB 1150 should, in no way, be misconstrued as a lack of support for military veterans. The TFFR Board stands in staunch support of its military veterans and holds them and their service in the highest regard. The opposition of HB 1150 relates only to the concern that creating exemptions to retirement plan participation will erode the viability of the TFFR plan.

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.

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

TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. The TFFR Board recognizes that public pension reform is a major topic under consideration by the 68th Legislative Assembly. H.B. 1040 proposes closing the PERS Main Defined Benefit Plan due to concerns over that plans unfunded liability. During the testimony of several individuals at the hearings on H.B. 1040 and related bills it was noted 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. We note that the changes proposed by HB 1040 reflect an attempt to correct a funding shortfall for the PERS Main Defined Benefit Plan and hope that the public policy implications of these bills do not extend to defined benefit plans that are projected to reach 100% fully funded status such as the TFFR plan.

The passing of H.B. 1134 in 2011 reflected a concerted effort on the part of our many members, stakeholder groups, and legislators to seek solutions and compromise on plan design changes that would support the TFFR program as a viable and valuable recruitment tool for our North Dakota educators. The success of those compromises is evidenced through TFFR's improved funding status and increased membership. Any exemption, including the one proposed in H.B. 1150, erodes the viability of the plan and the compromises reached in 2011.

In addition to these public policy implications there is an actuarial and fiscal impact to the fund and its administration. So long as the exemptions were not expanded, our actuaries estimated a relatively small group of our members would qualify resulting in a delay of approximately one week to reach fully funded status.⁴ Further, we have estimated an increased cost of approximately \$5000 in the next biennium to track and administer this exemption.

III. Summary

The TFFR Board observes that the legislature must pursue some type of change to address the PERS Main Defined Benefit Plan funding shortfall due in part to inaction in prior years. No action is needed to address the funding status of TFFR because of the actions taken by this legislature in 2011. We respectfully submit that the introduction of exemptions of any kind to participation in the fund by licensed teachers, regardless of how much we support and value those individuals, will nonetheless erode the work accomplished by the 62nd Legislative Assembly to the detriment of the retirement plan for all North Dakota educators. The House Education subcommittee concurred with the position of the TFFR Board, and gave H.B. 1150 a Do Not Pass recommendation of 10-4-0. The committee recommendation was ultimately overturned on the House floor and H.B. 1150 passed 54-37. The TFFR Board of Trustee's opposes H.B. 1150 and respectfully requests a Do Not Pass recommendation.

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.

⁴ 6-21-22 ND Legislature Employee Benefits Programs Committee meeting, actuarial analysis of proposed legislation.