

TESTIMONY OF DERRICK HOHBEIN

Senate Bill 2120 – HP Cash Infusion

Good Morning, Mr. Chairman and members of the committee. My name is Derrick Hohbein and I am the Chief Operating/Financial Officer of the North Dakota Public Employees Retirement System, or NDPERS. I appreciate the committee taking the time to analyze Senate Bill 2120, which is intended to help fund a critical benefit within the State. I am here today on behalf of the NDPERS Board to testify in support of Senate Bill 2120.

The Highway Patrol Defined Benefit Plan (the Plan) is the primary retirement benefit to 147 retirees, and also includes 167 active employees. As of January 2025, employees contribute 15.3% (the employer picks up 4% of this contribution), and the employer contributes 21.7% of pay into the Plan. The average monthly benefit paid to retirees is \$4,346. Employees of the Highway Patrol do not participate in Social Security, and for many this is the only source of income at retirement.

The NDPERS Board submitted Senate Bill 2120 on behalf of the Highway Patrol to provide funding stability to the Plan by inserting a lump sum deposit of \$35.7 million into the trust. Our actuary has calculated this as the amount the Plan would need to receive on July 1, 2025 to be 90% funded by January 1, 2026.

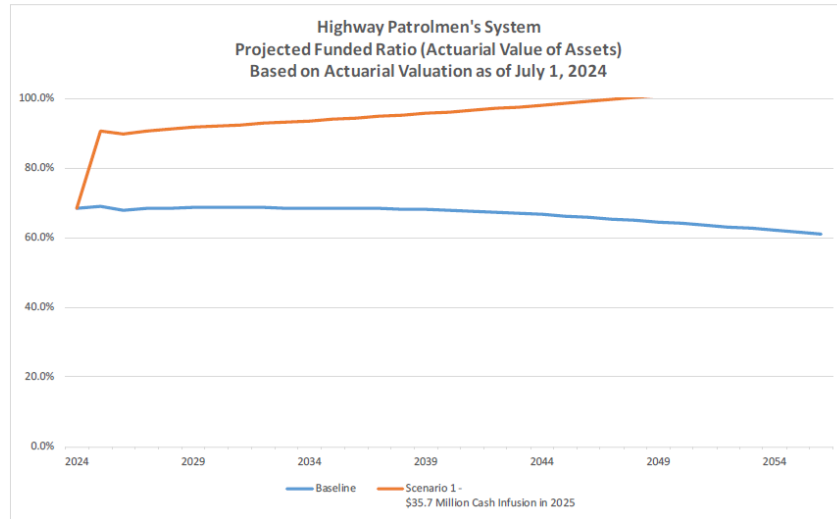
Working in coordination with the Legislative Assembly over the last two sessions, progress has been made to try and help stabilize this plan. In 2021, Senate Bill 2043 was passed, which established gradual retirement contribution increases to the Plan. The statutory employer and employee contributions each increased by 0.5 percent of pay every year from January 1, 2022 to January 1, 2025, ultimately increasing both by 2.0 percent of pay. In addition, after last session the Plan received a one-time cash infusion of \$3 million.

Despite these efforts to try and stabilize the funding of this benefit, the Plan is never expected to reach a 100 percent funded status. In fact, the Plan currently is in danger of running out of money by 2109.

Getting the Plan to 90 percent funding by January 1, 2026 will put the Plan on a trajectory to be fully funded in roughly 25 years.

The following charts show the actuarial analysis of the bill, comparing the plan as it sits today (baseline) as well as the trajectory if the \$35.7 million is received by the Plan.

**Projected Funded Ratios under Baseline and Scenario With Cash Infusion
Based on July 1, 2024 Actuarial Valuation**



**Projected Funded Ratios under Baseline and Scenario
With Cash Infusion During 2025-2027 Biennium
Based on July 1, 2024 Actuarial Valuation**

Year	Baseline Scenario	One-Time Infusion During 2025-2027 Biennium 90% Funded Ratio in 2026
2024	68.6%	68.6%
2025	69.1%	90.8%
2026	67.9%	90.0%
2027	68.4%	90.8%
2028	68.6%	91.4%
2029	68.7%	91.8%
2030	68.7%	92.1%
2031	68.7%	92.5%
2032	68.7%	92.9%
2033	68.6%	93.3%
2034	68.6%	93.7%
2035	68.6%	94.1%
2036	68.5%	94.5%
2037	68.4%	94.9%
2038	68.3%	95.4%
2039	68.1%	95.8%
2040	67.9%	96.2%
2041	67.7%	96.7%
2042	67.4%	97.1%
2043	67.1%	97.6%
2044	66.8%	98.1%
2045	66.4%	98.6%
2046	65.9%	99.1%
2047	65.5%	99.7%
2048	65.0%	100.3%
2049	64.6%	100.9%
2050	64.1%	101.5%
2051	63.6%	102.1%
2052	63.2%	102.8%
2053	62.7%	103.5%
2054	62.2%	104.2%
2055	61.7%	104.9%
2056	61.2%	105.6%
Cash Infusion Amount		\$35,712,457

In previous discussions with the Highway Patrol, they are also interested in having the PERS Board set the contribution levels on a biennial basis based on the Actuarially Determined Employer Contribution, or ADEC, similar to how the Public Safety Plan contribution rates are set. This would help ensure the plan is never at risk of underfunding in the future. In order for an ADEC arrangement to be a possibility, however, the funding status of the plan needs to be increased so the contribution adjustments set by the Board are not so varied from where the contributions sit today.

Please note that Senate Bill 2120 was submitted by the PERS Board to get the conversation started on the proper way to fund the Highway Patrol Plan. In our eyes, the earlier you address the issue at hand the less expensive it will be in the long run. So our Board chose January 1, 2026, as that was the earliest realistic option to shoot for after session ends. The 90% funding level was chosen, knowing the Highway Patrol office is interested in moving to an ADEC funding arrangement, so we never have to worry about the stability of this plan ever again. The arrangement also lines up with becoming fully funded around the same time the Main plans will be funded. Finally, we do not have insight into the proper funding source of this lump sum deposit, but the SIIF Fund was chosen since that is where our funds received some money after last session. If there is an alternative source the Legislature is interested in, of course the Board would be amenable to changing the source.

During the interim, the Employee Benefits Programs Committee reviewed the draft bill and gave the bill a favorable recommendation. In addition, they requested our actuary perform some additional analysis on differing levels of funding, in the event an alternate arrangement may be desired (please note this analysis was based off the July 1, 2023 valuation, and the \$35.7 lump sum deposit request in the bill is based off the July 1, 2024 valuation):

- Scenario 1: what amount per biennium would result in 100% funding in 20 years?
- Scenario 2: what one-time contribution would result in 100% funding in 20 years?
- Scenario 3: what amount per biennium would result in 100% funding in 30 years?
- Scenario 4: what one-time contribution would result in 100% funding in 30 years?

Scenario	Years to Achieve 100% Funding	Amount	Year of Initial Payment	Total Number of Payments
1	20	\$6,563,000	2025	10
2	20	\$39,710,000	2025	1
3	30	\$4,899,000	2025	15
4	30	\$35,132,000	2025	1

Mr. Chairman, I appreciate you taking the time this morning to learn more about this crucial benefit and the challenges it currently faces. This concludes my testimony, and I'd be happy to answer any questions the committee may have.



June 7, 2024

Representative Austen Schauer, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: North Dakota Public Employees Retirement System Legislative Studies

Dear Representative Schauer:

In accordance with your request, we have analyzed the impact of Bill No. 25.0120.01000 on the North Dakota Public Employees Retirement System (NDPERS). Our review is actuarial in nature; we are not attorneys and cannot provide legal advice.

Systems Affected

North Dakota Highway Patrolmen's Retirement System (HPRS).

Summary

Bill No. 25.0120.01000

A Bill for an Act to establish an amount to be transferred to the Highway Patrolmen's Retirement Fund during the biennium beginning July 1, 2025 and ending June 30, 2027 so that the funded ratio of the Fund as of January 1, 2026 is 90 percent.

Actuarial Impact of Bill 0120 on NDPERS

Based on the valuation projection as of July 1, 2023 which assumes (1) continuation of the current statutory employee and employer contribution rates (including scheduled increases in 2024 and 2025), (2) no changes to benefit provisions, and (3) no gains or losses and all actuarial assumptions from the 2023 valuation are realized, the Highway Patrolmen's System is never expected to reach 100 percent funded.

Based on the Alternate Scenario projections of the Highway Patrolmen's System results as of July 1, 2023, with the provisions proposed in the bill, which assumes (1) on July 1, 2025, an additional contribution of \$34.3 million, (2) no changes to benefit provisions, and (3) no gains or losses and all actuarial assumptions from the 2023 valuation are realized, the funded ratio of the Highway Patrolmen's System is projected to improve to 90 percent in 2026 and reach a 100 percent funded ratio in 2055.



This analysis is based on information as of July 1, 2023 and does not reflect actual investment performance since the most recent measurement date. Investment performance that is higher or lower than the assumed rate of 6.50 percent will impact the additional contribution needed to achieve a 90 percent funded ratio in 2026.

The following graphs and exhibits provide additional information on the projected funded ratio for the Highway Patrolmen's System:

- Graph I: Comparison of Projected Funded Ratios for the Highway Patrolmen's System under Baseline Scenario and the scenario with the additional cash infusion
- Table I: Funded Ratio Projection Results under the Baseline and the scenario with the additional cash infusion from 2023 to 2056

Projected funded ratios are based on the actuarial value of assets.

Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

No Impact.
- Competitiveness

No Impact.
- Benefits Equity and Group Integrity

No Impact.
- Purchasing Power

No impact.
- Preservation of Benefits

Increased funding to the Highway Patrolmen's System in the form of a cash infusion of \$34.3 million is expected to prevent the funded status of the Highway Patrolmen's System from declining and the fund potentially becoming insolvent. By requiring additional funding, the Highway Patrolmen's System will achieve financial stability and the members' promised benefits will be more secure than without the additional funding.



- Portability

No impact.

- Ancillary Benefits

No impact.

- Social Security

No impact

Funding Policy Issues

- Actuarial Impacts

As previously noted, the additional cash infusion required by the bill will have a positive actuarial impact on the funded status of the Highway Patrolmen's System.

- Investment Impacts

- Cash Flow: The change required by the bill is expected to have a positive impact on the net cash flow of the System in the year the cash infusion is received.
- Asset Allocation: The asset allocation may need to be reviewed based on the significant increase in funding that is expected to be achieved.

Administration Issues

- Implementation Issues

No impact.

- Administrative Costs

No impact.

- Needed Authority

The Bill appears to provide appropriate levels of administrative and governance authority to the PERS Board to implement the changes made by the Bill.



- Integration

No impact.

- Employee Communications

No impact.

Disclosures and Additional Information

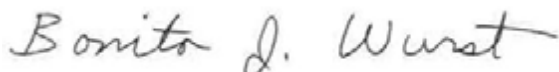
We have reviewed the bill and provided an actuarial impact analysis as well as a policy issue analysis. However, the policy issue analysis should not be considered to be comprehensive and there may be additional benefits policy or administration issues that are not discussed in this letter.

The signing actuaries are independent of the North Dakota Public Employees Retirement System.

Bonita J. Wurst and Abra D. Hill are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,
Gabriel, Roeder, Smith & Company



Bonita J. Wurst, ASA, EA, MAAA, FCA
Senior Consultant

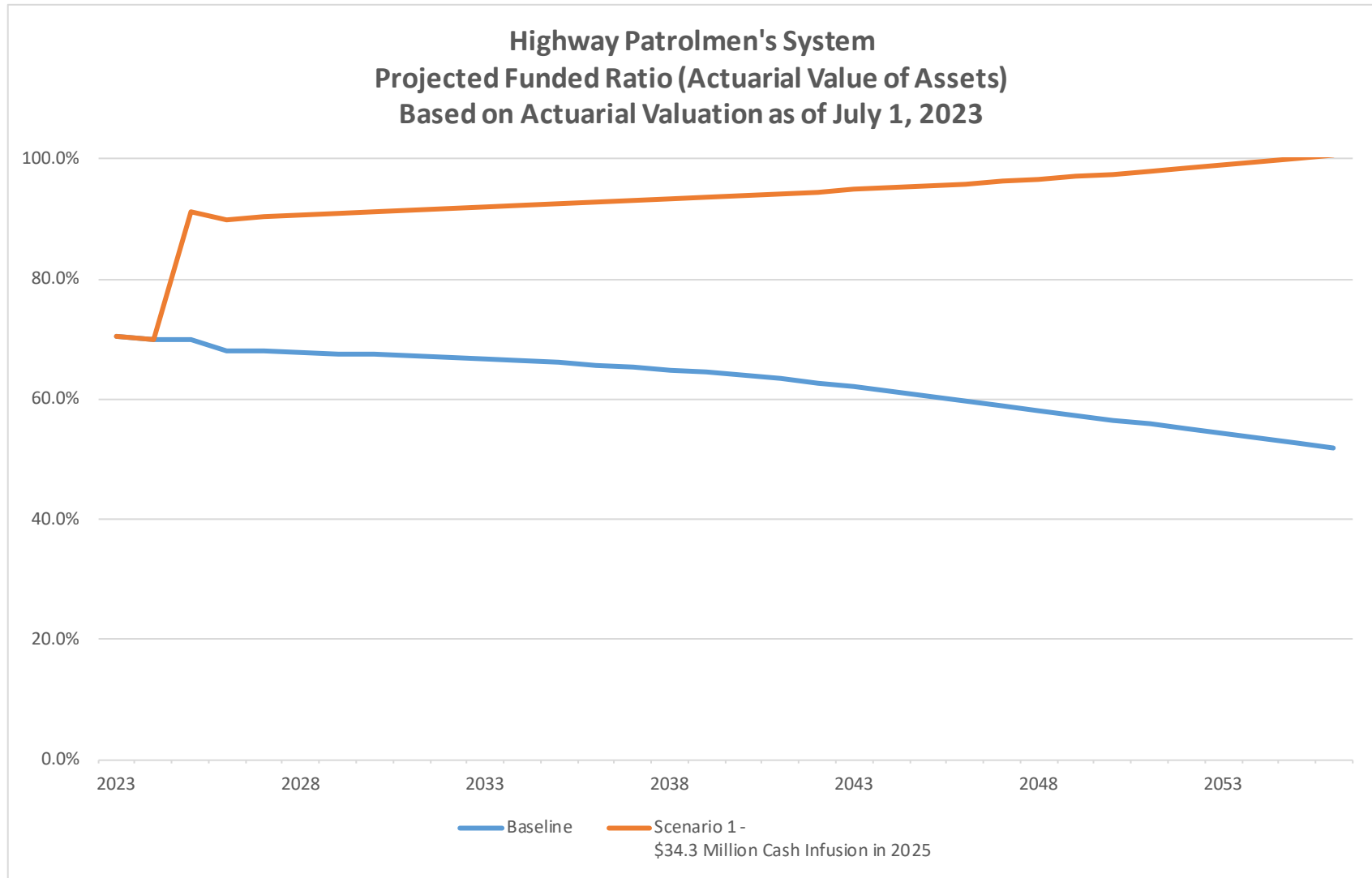


Abra D. Hill, ASA, MAAA, FCA
Consultant

cc: Ms. Rebecca Fricke, NDPERS
Joshua Murner, GRS



Projected Funded Ratios under Baseline and Scenario With Cash Infusion Based on July 1, 2023 Actuarial Valuation



Projected Funded Ratios under Baseline and Scenario With Cash Infusion During 2025-2027 Biennium Based on July 1, 2023 Actuarial Valuation

Year	Baseline Scenario	One-Time Infusion During 2025-2027 Biennium 90% Funded Ratio in 2026
2023	70.5%	70.5%
2024	69.9%	69.9%
2025	69.8%	91.3%
2026	68.1%	90.0%
2027	68.0%	90.4%
2028	67.8%	90.6%
2029	67.6%	90.9%
2030	67.4%	91.1%
2031	67.1%	91.4%
2032	66.9%	91.6%
2033	66.6%	91.9%
2034	66.3%	92.2%
2035	66.0%	92.5%
2036	65.7%	92.8%
2037	65.3%	93.0%
2038	64.9%	93.3%
2039	64.5%	93.6%
2040	64.0%	93.9%
2041	63.4%	94.2%
2042	62.8%	94.5%
2043	62.1%	94.9%
2044	61.3%	95.2%
2045	60.5%	95.5%
2046	59.7%	95.9%
2047	58.9%	96.3%
2048	58.1%	96.7%
2049	57.4%	97.1%
2050	56.6%	97.5%
2051	55.8%	98.0%
2052	55.1%	98.5%
2053	54.3%	99.0%
2054	53.5%	99.5%
2055	52.8%	100.0%
2056	52.0%	100.5%
Cash Infusion Amount		\$34,330,843