1999 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1257

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1257

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 1-22-1999

Tape Number	Side A	Side B	Meter #
1	X		3.5 - 60.4
1		X	0.3 - 16.0
Committee Clerk Signature			

Minutes: Some of the individuals testifying submit written testimony. When noted please refer to it for more detailed information.

Representative Klein, Chairman of the GVA Committee opened the hearing on January 22, 1999.

Summary of the Bill: Relating to a defined contribution retirement plan for non classified state employees. Also, Relating to definitions, confidentiality of records and retiree health benefit fund contributions under the public employees retirement system. Also, relating to newly appointed officials as members of the public employees retirement system.

Testimony in Favor:

Jeff Nelson, Staff Attorney Legislative Council appeared before the committee to go over the bill with the committee. I am neither for or against the bill. ***For a detailed explanation of the bill, please refer to the tape. 5.1 to 17.8**. Mr. Nelson went through the bill, section by section reading it to committee and explaining what the sections will do.

Representative Klein, What is the date that the state or employer picked up the employee contributions? What is the differences between classified and non classified state employees.

Nelson, 1983. Central personal division they establish a schedule for classification. The rest of what he listed judicial, higher education is hard to hear on the tape!

Representative Klein, Is this modeled after other states?

Nelson, Yes, Michigan.

Representative Winrich, Page 11, line 22-24, the last sentence it says the board is not liable for decision made on the basis of information provided by the board. Even if it's false or misleading?

Nelson, This is used to or defined to protect them from the employees investment decisions.

Representative Klein, In a nut shell, if I was a member of this plan and I put my assets in a certain category and the system goes belly up, I made the decision and it's my loss.

Representative Winrich, In private sector if an investment is sold as a can't loose proposition and this can be proven that it's irresponsible. I am trying to make it clear although I can't see the board doing that.

Rod Backman, OMB we have worked with PERS to try and make the current retirement plans more portable. Say if a employee is vested and in 5 years takes out their money, they would loose there employer contributions. That is if they draw the employee contribution out, they loose the employer contribution. What we like about this bill is that it protects employees who have a vested benefit in the plan. This is an option for the employee to go into the defined contribution plan. There has been a concern that some employees think they will be forced into this and I want to make this clear that they will not. Our current retirement plan is structured off the 40's

50's and 60's when people were going to work for an employer for 25 or 30 years. We need to protect our employees contributions.

Representative Klein, Present system is very beneficial to long term employees, but in this day and age the present system doesn't do them any good.

Backman, If your a 10 yr. employee and worked from ages 22 to 32 and sit down and do the math to determine whether you should take the money out rather than wait another 30 some years to see what's there for a monthly benefit. Those younger ones are those who get the short end of the stick.

Representative Winrich, It's only optional for present employees. An employee who leaves after being vested and withdraws their employee contributions, forfeits their employer contributions. If they elect to leave their employee contributions in, do they forfeit their employer contributions?

Backman, No they don't, but it's obvious to take their money and roll it over to an IRA. Their better off forfeiting their employer contributions.

Representative Metcalf, What investment options do they have?

Backman, It's structured between low-medium-high risk.

Representative Metcalf, Page 8, line 9 it says may. How come not the word shall?

Representative Klein, I believe it makes the two plans compatible.

Reagan Pufall, ND Workers Compensation stated that the current plan is a big negative for them when they do their recruiting for employees. Potential employee knows that they will never see the money. This plan being offered offers more flexibility. We need this option to go out there and recruit, its a portable plan.

Representative Klein, At the present time, the employees at workers comp. can come under the PERS plan?

Pufall, They are under the PERS plan

Representative Kroeber, On your workers comp., you are obviously very concerned with injured workers. How do you compare the disability plans between the two. They would have to purchase disability insurance under the new plan.

Pufall, I guess we are focusing more on the investment part of it. The kind of people we are trying to attract, they want that individual choice to choose.

Testimony Neutral:

Keithe Nelson, State Court Administrator submitted an amendment to this bill. This would include judiciary (our people).

Deb Knudsen, PERS submitted written testimony which she read in it's entirety (**please refer to her testimony**).

Representative Hawken, Does this add to the fiscal note or is it included?

Knudsen, Yes it is included.

Testimony in Opposition:

Chris Runge, NDPEA submitted a written testimony which she read in it's entirety (**please refer to her testimony**).

Representative Klein, Are you finding that many of the companies are moving towards the defined contribution plan?

Runge, Many are staying with defined benefit plan and offering supplemental plans to the employees.

Representative Klein, Isn't true that many of the long term employees are benefiting from the short term people who either quit at especially a younger age and could not use or access that money.

Runge, That's correct.

Howard Snortland, AARP stated that the current plan is a good one.

Weldee Baetsch, Association of Former Public Employees submitted a written testimony which he read in it's entirety (**please refer to his testimony**).

Representative Klein, If you had 10 employees age 25 for example, come in and choose, what plan do you think they would choose? Based on your experience.

Baetsch, I don't know.

Tom Tupa, ND State Employees Association stated that they have had a defined contribution in the past. Creates another program for retirement and the disability provision and it cost approximately 60-70 dollars per month. Might I suggest that you take the section on page 9, the vesting section and apply it to the current system.

Representative Cleary, Why isn't it possible to take their contributions (defined contributions) with them?

Tupa, Under the defined contribution plan that currently exists, that is not a options.

Representative Wald, We must allow them the employees be able to direct their own money. Government cannot hold ever bodies hand all the time.

Representative Klein, Closed the hearing on HB 1257.

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1257

House Government and Veterans Affairs Committee

❑ Conference Committee

Hearing Date 1-28-1999

Tape Number	Side A	Side B	Meter #
2		X	0 - 34.1
3	X		40.0 - 55.4
Committee Clerk Signature			

Minutes: Representative Klein, Brought the committee back to order and instructed them to work on HB 1257.

Summary of the Bill: Relating to defined contribution retirement plan for non classified state employees. Relating to definitions, confidentiality of records, and retiree health benefit fund contributions under the public employees retirement system. Relating to newly appointed officials as members of the public employees retirement system.

Representative Klein, Part of the problem was that it made it mandatory for people to join after whatever date it was. What we would like to do is leave that open so that there is no mandatory date, you didn't have to join at anytime. But to give an opportunity to people like workers comp. and other non classified people to have a type of retirement and have younger people use this as an option. The biggest objections now, is that it forces you to do that.

Representative Grande, Submitted amendments to the committee. She read the amendments and walked the committee through the amendments and bill. **Please refer to the tape for this portion of the minutes, tape 2/B meter #1.0 - 16.5**. I put together the amendments off the testimony that was submitted to committee (public employees, etc.). This all the amendments put into one amendment.

Rod Backman, As I understand it most of the money relates to the costs of getting the plan started because their going to have some consulting costs and just doing all of the policies and dealing with some of the issues that aren't specific in the statute and their going to need a consultant. Those dollars as I understand it will be coming from the savings from the flex benefit plan. PERS currently has available for administrative fees and this one of the amendments that PERS had suggested. The other section that you dealt with, page 9 line 14, the problem with that was that it had problems with some revenue codes. What this does is that any forfeitures that happen within the new plan now can be used for administrative costs. Forfeitures could come from say a person who made the election in the first six months to be in the new plan and they left after a year and nine months. They left before their second year, and they would have had some dollars contributed to their plan that they are not vested in, so they would lose those dollars. Those forfeited dollars instead going back over to the old plan would stay in this plan and be used for administrative costs.

Representative Kroeber, This is not general fund money, this is money that people basically have already put into the plan that is being used to start up the new program?

Backman, Yes, but were those monies actually come from is that when employees are involved in the flex benefit plan where you have to pay your medical expenses through PERS. When you do that there is a savings of the federal budget tax (not sure that's what he's saying-can't hear it on the tape) the employer and employee save by leaving that flex plan. The employers share of those savings is what is in the account. PERS gets all the tax savings and would be funneled into the plan for administrative fees. They will use monies out of that fund to get the up front consulting costs.

Representative Klein, What has happened with that flex savings plan is that what you have to pay to FICA that comes out goes into this savings plan. Those savings in this plan is what he is referring to, that percentage that goes to FICA.

Representative Kroeber, So the vesting is a two year process in this program?

Backman, Yes.

Representative Klein, The bottom line is that we are trying to set up another plan that the employees that can't belong to the PERS one can belong to this one.

Representative Gorder, I don't fully understand this and I'll tell you this right off. Chris Runge testified that the disability benefits would be covered. In this bill the employee would have to use a portion of their personal retirement account to purchase this insurance. She thought they had a terrific retirement plan already in place (ND PERS). They also support SB 2071.

Representative Klein, One thing lets not talk the senate bill that we don't have yet. We shouldn't mix that up. Were trying to fit together one piece at this point and one of their big concerns was that it was mandatory and that after a certain date everybody would have to join. That's out of it now. If you want to join the new system your aware of it up front and you don't have to go into it.

Representative Gorder, Why do we need to start a new program and have all these administrative costs. Can we just not add some good points to the present program.

Representative Grande, As far as the disability portion, that is the part of when you decide to switch programs if you were to switch over from benefits to contribution. You have that laid out to you as options and directions on how to invest in that. If an employee is paying for the disability benefits package, they know that up front and have elected to do so. The reason we just can't enhance the current program is that because your unclassified employees are looking for looking for the opportunity to invest and make decisions on their own and don't want their hands tied in a benefits package. They want the option to invest in a higher rate or a different competitive rate structure that allows them diversity in their plan. If they don't want to, they can stay in and have the benefits package that is already available to them.

Representative Haas, There are people who want to manage their own resources and want that responsibility. This gives them that opportunity.

Representative Fairfield, Let me understand this, are these amendments in part to respond to NDPEA. Did NDPEA work with Representative Grande on these amendments or have they seen them?

Representative Grande, I got these amendments on my desk last night. I am looking at them with you right now. I didn't ask her if they had changed their idea on the amendments she (Chris Runge) submitted to committee originally.

Representative Cleary, Is SB 2071 a better bill and if so why bother with this one?

Representative Kliniske, This one works with non classified employees.

Representative Thoreson, I think this is a good way to proceed. There are a lot of people who want to think for themselves and do their own investing.

Representative Klemin, I agree.

Committee Action:

Representative Haas, Made the motion for a Do Pass on the amendments.

Representative Grande, Seconded the motion.

Motion Passes: Yes (vocal).

Representative Klein, Closed the hearing on HB 1257.

Representative Klein, Instructed the committee to take a look at this bill again. We took the mandate out, we added those amendments they wanted as to who pays for it, made it strictly optional, new employees do not have to join. It's another avenue that we wanted to make available.

Chris Runge, NDPEA still has a concern and our bottom line is that this may be a door to totally change our current PERS system to become solely a defined contributions plan. I guess we would be willing to gamble on SB 2071 and it meets the needs of shorter term employees versus long term employees.

Representative Winrich, Does 2071 maintain just one system that would still be administered, the contributions would just be encouraged. Is that correct.

Runge, 2071 will have a fiscal note on it because of increase of contribution in the defined contributions plan. There would be a need for staff increase in the defined contributions plan.

Representative Gorder, Disability aspect?

Runge, You would have to purchase your own with this plan.

Rod Backman, If you have a defined contribution plan and set up a group disability plan, your going to get a group rate. A good premium at low price. It's still being paid out of retirement funds at this point, it's not coming directly out of your account. There isn't any reason why both of the plans wouldn't work, there going in different directions, but both could be adopted. The other one might find problems with lower paid people who would say that if you put 4% of your salary to deferred compensation, then match. Some might say I can't afford the 4%.

Representative Klein, Will sit on this until everyone figures out what were going to do.

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1257

House Government and Veterans Affairs Committee

❑ Conference Committee

Hearing Date 1-29-1999

Tape Number	Side A	Side B	Meter #
1	X		48.6 - 61.8
1		X	0 - 6.0
Committee Clerk Signature			

Minutes: Representative Klein instructed the committee to move on to HB 1257. We amended it and they passed and then we asked for some people to look at it and see what their decision or impression was.

Summary of the Bill: Relating to defined contributions retirement plan for non classified state employees. Relating to definitions, confidentiality of records, and retiree health benefit fund contributions under the public employees retirement system. Relating to newly appointed officials as members of the public employees retirement system.

Chris Runge, NDPEA this bill wasn't given the study that SB 2071 has been given. We would rather have you not pass this bill and then study it. We are opposed to this bill.

Representative Klemin, I think we should pass it now and then look at SB 2071. Reconcile it later in a conference committee.

Representative Melcalf, We need more study on this bill.

Representative Klein, It has been studied.

Representative Kroeber, Didn't come out of the interim committee with no recommendation? Even though they did all of this work, they still didn't recommend it.

Representative Klein, We just keep studying and studying. Let's get it out and let some people make a decision on which way they want it to go.

Representative Grande, You can get the information of the study in the book we get from legislative council, all of the information is in there that the interim committee did. Sigel company did do an actuarial review and you where given that during testimony. Before I put my name on this bill, I did sit down with Sparb Collins and one of the issues was vesting and fees. We took care of this in the amendment. I believe a lot of the concern brought up has been addressed.

Committee Action:

Representative Grande, Made a motion for a Do Pass as amended.

Representative Klemin, Seconded the motion.

Representative Hawken, I guess I am confused as to why the NDPEA would not want this option available to the employees? It is no longer mandated.

Runge, We feel that wanted to move wholesale into the defined contributions area. Next session it may be mandated and start take away from the current defined benefits plan. That is the move on across the country. We believe SB 2071 is the plan we sponsored and the one we want.

Representative Hawken, But the defined contributions and the senate bill is employee driven.

Representative Klemin, What's the problem with us keeping this bill alive until we can see what the other bill does say (SB 2071).

Runge, We feel this is the beginning of the end of the PERS plan.

Representative Gorder, I talked to OMB and they said this helps shorter term employees.

Runge, I cannot disagree with that. This doesn't help anybody in the classified system.

Representative Gorder, What about the people in rift. They would have portability. Are you concerned that the long term employee would be jeopardized?

Runge, This wouldn't help. Yes I do.

Waldee Baetsch, Association of Public Employees stated his concerns basically are a cash flow problem down the road. Sigle company suggests that you do a study.

Representative Klein, The reason the margin has been growing is that the more senior employees have been reeking some benefits from employees that have left.

Representative Kroeber, The actuarial has been done on this bill and SB 2071? Has a study been done if we have both plans?

Representative Klein, There is no data on how many people are going to move into the plans, so there is some guessing being done.

Motion Passes: Do Pass **9-6**.

Representative Grande, Is the carrier for the bill.

FISCAL NOTE

MAR 17 1999

(Return original and 10 copies)

Bill/Resolution No.: ____________ Amendment to: Eng. HB 1257

Requested by Legislative Council Date of Request: 3-16-99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

The actuarial report indicated a need for funding to implement this bill. These funds would be for the consultant to develop the new plan document and other provisions required to conform to IRS requirements. Also funds would support PERS administrative efforts to implement and administer this new program.

2. State fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:						
Expenditures:				197,000		126,600

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

a. For rest of 1997-99 biennium: ____________

b. For the 1999-2001 biennium: 197,000

c. For the 2001-03 biennium: 126,600

4. County, City, and School District fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed, attach a supplemental sheet.

Signed Sparb Collins

Typed Name Sparb Collins

Department P.E.R.S.

Phone Number 328-3901

Date Prepared: 3/16/99

FEB - 5 1999

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: ______ Amendment to: HB 1257

Requested by Legislative Council Date of Request: 2-2-99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

The actuarial report indicated a need for funding to implement this bill. These funds would be for the consultant to develop the new plan document and other provisions required to conform to IRS requirements. Also funds would support PERS administrative efforts to implement and administer this new program.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:						
Expenditures:				197,000		126,600

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

a. For rest of 1997-99 biennium: ______

b. For the 1999-2001 biennium: 197,000

c. For the 2001-03 biennium: 126,600

4. **County, City, and School District** fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed, attach a supplemental sheet.

Date Prepared: 2/5/99

Signed Sparb Collins

Typed Name Sparb Collins

Department P.E.R.S.

Phone Number 328-3901

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: HB 1257 Amendment to: ______

Requested by Legislative Council Date of Request: 1-13-99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

The actuarial report indicated a need for funding to implement this bill. These funds would be for the consultant to develop the new plan document and other provisions required to conform to IRS requirements. Also funds would support PERS administrative efforts to implement and administer this new program. No appropriation is presently contained in this bill to support implementation or operation.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:						
Expenditures:				196,610		126,600

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

   a. For rest of 1997-99 biennium: ______

   b. For the 1999-2001 biennium: 196,610 needed

   c. For the 2001-03 biennium: 126,600 needed

4. **County, City, and School District** fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed, attach a supplemental sheet.

Signed Sparb Collins

Typed Name Sparb Collins

Department P.E.R.S.

Phone Number 328-3901

Date Prepared: 1-20-99

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1257

Page 1, line 20, after "employees" insert ", except employees of the judicial branch."

Page 3, line 23, after "division" insert "and is not an employee of the judicial branch"

Renumber accordingly

Prepared by the Legislative Council staff for
Representative Grande
January 27, 1999

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1257

Page 1, line 3, replace the second "section" with "sections 54-52-02.5,"

Page 1, line 4, after the second comma insert "participation by newly appointed officials in a defined contribution retirement plan,"

Page 1, line 6, remove "to repeal section 54-52-02.5 of the North Dakota Century Code, relating to newly"

Page 1, line 7, remove "appointed officials as members of the public employees retirement system;"

Page 1, line 8, replace "effective date" with "appropriation and a continuing appropriation"

Page 1, line 16, remove the overstrike over "~~and appointed officials~~" and after "~~eligible~~" insert "who elect to participate"

Page 1, line 17, remove the overstrike over "~~under section 54-52-02.5~~"

Page 1, line 20, replace "and nonclassified state employees who enter upon the" with "but does include employees of the judicial branch"

Page 1, line 21, remove "payroll after December 31, 1999"

Page 1, after line 21, insert:

"**SECTION 2. AMENDMENT.** Section 54-52-02.5 of the North Dakota Century Code is amended and reenacted as follows:

54-52-02.5. Newly appointed officials. After ~~July 1, 1979, any~~ December 31, 1999, a person appointed to an office for the first time must, from and after the date ~~he~~ that person qualifies and takes office, be a participating member of the public employees retirement system unless that person makes an election at any time during the first six months after the date the person takes office to participate in the retirement plan established under chapter 54-52.6. As used in this section, the phrase "for the first time" means a person appointed, who, after ~~July 1, 1979~~ December 31, 1999, does not hold office as an appointed official at the time of ~~his~~ that person's appointment."

Page 3, line 21, after the second "employee" insert ", except an employee of the judicial branch,"

Page 3, line 28, remove "or is required"

Page 5, line 4, replace "must be a participant" with "may make an election at any time during the first six months after the date of employment to participate"

Page 6, line 3, after "<u>3.</u>" insert "<u>An employee who elects to participate in the retirement plan established under this chapter must remain a participant even if that employee returns to the classified service.</u>

<u>4.</u>"

Page 6, line 9, replace "<u>4</u>" with "<u>5</u>"

Page 6, line 17, remove "<u>before April 30, 2000</u>"

Page 7, line 10, after "**<u>expenses</u>**" insert "**<u>- Continuing appropriation</u>**"

Page 7, line 14, after the underscored period insert "<u>The board shall place any money deducted in an administrative expenses account with the state treasurer. The board may also use funds from the payroll clearing account established pursuant to section 54-52.3-03 to pay for consulting expenses. All moneys in the payroll clearing account, not otherwise appropriated, or so much of the moneys as may be necessary, are appropriated to the board on a continuing basis for the purpose of retaining a consultant as required for the administration of this chapter.</u>"

Page 9, line 14, replace "<u>public employees retirement fund</u>" with "<u>administrative expenses account</u>"

Page 12, replace lines 14 through 16 with:

"**SECTION 5. APPROPRIATION.** There is hereby appropriated out of any moneys in the administrative expense account under section 54-52.6-06 and the payroll clearing account under section 54-52.3-03, in the state treasury, not otherwise appropriated, the sum of $197,000, or so much of the sum as may be necessary, to the public employees retirement system board for the purpose of administering this chapter, for the biennium beginning July 1, 1999, and ending June 30, 2001. The public employees retirement system board is authorized one additional full-time equivalent position to implement this Act."

Renumber accordingly

Date: 1-29-99

Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1257

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Subcommittee on

or

☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass as Amended

Motion Made By Grande Seconded By Klemin

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP. WINRICH		✓
VICE-CHAIR KLINISKE	✓				
REP. BREKKE	✓				
REP. CLEARY		✓			
REP. DEVLIN	✓				
REP. FAIRFIELD		✓			
REP. GORDER		✓			
REP. GRANDE	✓				
REP. HAAS	✓				
REP. HAWKEN	✓				
REP. KLEMIN	✓				
REP. KROEBER		✓			
REP. METCALF		✓			
REP. THORESON	✓				

Total (Yes) 9 No 6

Absent ~~Grande~~ 0

Floor Assignment Grande

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1257: Government and Veterans Affairs Committee (Rep. Klein, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (9 YEAS, 6 NAYS, 0 ABSENT AND NOT VOTING). HB 1257 was placed on the Sixth order on the calendar.

Page 1, line 3, replace the second "section" with "sections 54-52-02.5,"

Page 1, line 4, after the second comma insert "participation by newly appointed officials in a defined contribution retirement plan,"

Page 1, line 6, remove "to repeal section 54-52-02.5 of the North Dakota Century Code, relating to newly"

Page 1, line 7, remove "appointed officials as members of the public employees retirement system;"

Page 1, line 8, replace "effective date" with "appropriation and a continuing appropriation"

Page 1, line 16, remove the overstrike over "~~and appointed officials~~" and after "~~eligible~~" insert "who elect to participate"

Page 1, line 17, remove the overstrike over "~~under section 54-52-02.5~~"

Page 1, line 20, replace "and nonclassified state employees who enter upon the" with "but does include employees of the judicial branch"

Page 1, line 21, remove "payroll after December 31, 1999"

Page 1, after line 21, insert:

"**SECTION 2. AMENDMENT.** Section 54-52-02.5 of the North Dakota Century Code is amended and reenacted as follows:

54-52-02.5. Newly appointed officials. After ~~July 1, 1979, any~~ December 31, 1999, a person appointed to an office for the first time must, from and after the date ~~he~~ that person qualifies and takes office, be a participating member of the public employees retirement system unless that person makes an election at any time during the first six months after the date the person takes office to participate in the retirement plan established under chapter 54-52.6. As used in this section, the phrase "for the first time" means a person appointed, who, after ~~July 1, 1979~~ December 31, 1999, does not hold office as an appointed official at the time of ~~his~~ that person's appointment."

Page 3, line 21, after the second "employee" insert ", except an employee of the judicial branch,"

Page 3, line 28, remove "or is required"

Page 5, line 4, replace "must be a participant" with "may make an election at any time during the first six months after the date of employment to participate"

Page 6, line 3, after "3." insert "An employee who elects to participate in the retirement plan established under this chapter must remain a participant even if that employee returns to the classified service.

4."

Page 6, line 9, replace "4" with "5"

Page 6, line 17, remove "before April 30, 2000"

Page 7, line 10, after "**expenses**" insert "**- Continuing appropriation**"

Page 7, line 14, after the underscored period insert "The board shall place any money deducted in an administrative expenses account with the state treasurer. The board may also use funds from the payroll clearing account established pursuant to section 54-52.3-03 to pay for consulting expenses. All moneys in the payroll clearing account, not otherwise appropriated, or so much of the moneys as may be necessary, are appropriated to the board on a continuing basis for the purpose of retaining a consultant as required for the administration of this chapter."

Page 9, line 14, replace "public employees retirement fund" with "administrative expenses account"

Page 12, replace lines 14 through 16 with:

"**SECTION 6. APPROPRIATION.** There is hereby appropriated out of any moneys in the administrative expense account under section 54-52.6-06 and the payroll clearing account under section 54-52.3-03, in the state treasury, not otherwise appropriated, the sum of $197,000, or so much of the sum as may be necessary, to the public employees retirement system board for the purpose of administering this chapter, for the biennium beginning July 1, 1999, and ending June 30, 2001. The public employees retirement system board is authorized one additional full-time equivalent position to implement this Act."

Renumber accordingly

1999 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1257

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1257

Senate Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date March 5, 1999

Tape Number	Side A	Side B	Meter #
1	X		2421-END
1		X	0-END
2	X		0-417
Committee Clerk Signature James A Raile			

Minutes: CHAIRMAN KREBSBACH called the committee to order and opened the hearing on HB 1257 which relates to a defined contribution retirement plan for non classified state employees. Appearing before the committee was Representative Frank Wald, district 37, Dickinson. He indicated that HB 1257 is a new venture in state employee retirement. It's a defined contribution plan versus our current defined benefit plan. I think the reason this bill is before you is to address the concerns of younger employees, the issue of portability. It's a bill he thinks will help to attract younger professionals in those classifications where we need, or job descriptions where we need to attract young people who look at our current system in terms of the vesting schedule and other concerns. I think this bill before you is a matter of fairness, a matter of choice and of course it's strictly voluntary. The plan only covers elected, appointed, and non-classified employees by choice. No one will be forced into this plan. I think this a trend that you see going on in other states where other states are looking at dual systems for the reasons I have stated. JEFF NELSON, with legislative council reviewed the bill section by section with the committee. He appeared in neutral position on the bill as staff council for the Employee Benefits Interim Committee. A written copy of his review is attached. This review information is contained in the report entitled Actuarial Review and Technical Comments and is dated October 23, 1998. He also included a report from the Interim Committee on Employee Benefits. SENATOR DEMERS posed a question concerning where faculty fit into this? A question was also posed by SENATOR KILZER concerning what other states do as far as types of pension plans used. Appearing in support of HB 1257 was REPRESENTATIVE BETTY GRANDE, District 41, Fargo. ROD BACKMAN of the Office of Management and Budget, appeared before the committee. He indicated that we have been involved with this for some time as the last legislative session directed us and PERS to do a study of the current plan and what could be done to promote more portability. Now out of that study came a recommendation for some items that are in SB 2071 which passed the senate and is now in the house. This particular bill I believe came out of the committee without a recommendation. The governor basically has stayed neutral on this bill. As we got into session and this bill was in committee he talked with the governor about what kind of position we could take on it. Basically the position he has taken is we will support any bill that promotes fairness and equity among all of our state employees and I believe that's what can be said about HB 1257. Currently there are many short term and especially younger employees who when they leave state employment end up losing the employer contribution or one-half of their retirement program. Granted it is their choice to do so but depending on their age and personal circumstances, many times financially that is the only prudent thing to do. They draw out their approximate half of what has been contributed for them and roll that into an IRA or another company plan and in the process end up losing the employer contribution, approximately one-half of what is in the plan. When we did the interim study we did an analysis along with PERS of people who left from 1993-1997. In that group there were about 1000 people who had more than 5 years of service and were vested in our current plan but left and ended up losing one-half of their retirement contribution and of that group there were actually 342 people who had over 10 years of service and still opted to lose the employer contribution. Some of the opposition I have heard to this is that if we allow this to happen these people may leave and take that money with them and they may not put this money into a retirement plan but they might spend it. That is true and that happens some on the national level, I don't know how much we can continue to take care of people because for many people this is a prudent financial decision. The other comment I have heard against it is that it is going to be negative to the employee benefit plan. However, the basis of a defined benefit plan is that the state in effect guarantees the formula coming out of that defined benefit plan. The benefit that any individual would get under the defined benefit plan is going to be there and the state is responsible to make sure it is there. Even if this were to cause a smaller dollar amount of forfeitures to go into the defined benefit plan the state is still legally obligated to provide the benefits that the defined benefits plan provides for. He indicated that he believes 1257 is really about letting employees keep the retirement benefits that we as employers have paid in for them and that the days of the one size fits all retirement plan are over. I would encourage your support and vote for 1257. Questions were offered by SENATORS DEMERS and KILZER.

BETHANIE JENSEN appeared in support of HB 1257. She indicated that she is currently a state employee and has taken personal leave in order to appear before the committee today. She indicated that she has been a state employee for seven years and she has enjoyed. However, as you know life is full of uncertainties and choices and it is possible and probable that she may not remain a state employee until she retires. If she left the state today and it was financially a better choice to run her retirement through an IRA, she would lose seven years of contributions made on her behalf by the state. She likes the idea that 1257 would provide an option for her to choose the retirement plan that best suits her needs. It is an issue of fairness as far as she is concerned. She asked for the committees support of HB 1257. REAGAN PUFALL, with the Workers Compensation Bureau appeared before the committee to testify in support of HB 1257. All of the employees at the workers compensation bureau are non classified and since 1995 we've had our own personnel system at the workers compensation bureau and it has been a tremendous success. We've dramatically reduced turnover, increased productivity, and have very high levels of customer satisfaction due in large part to the personnel system we have created at the bureau. In his role as chief operating officer he spends quite a bit of time in recruiting and hiring new people into the bureau. Workers Compensation has a very high commitment to operating at or above the levels of the national industry in all aspects of its operation. We realized early on that to achieve this goal we were going to have to actively recruit and hire the very best new employees we could. Because any customer service organization is only as good as its employees. What we have found is that when we go out into the hiring marketplace and try to attract the best talent we can the current retirement system is a negative. It's an obstacle to hiring the best people that we can find. The job market has changed. People's attitudes about work have changed. Employees who are looking for work now, particularly the kind of individuals we are looking for, people who are open to change, energetic, ambitious, innovative. These are not individuals whose life plan consists of going to work for a state agency at an early age and staying their for thirty or thirty-five years. People in the job market now who are applying for jobs have in mind a career which may consist working for four, five, or six different employers in their lifetime. So when we present our retirement plans to these individuals once they learn the details of the plan they immediately realize they'll never see that employer contribution and they are never going to receive those retirement benefits because we might get four or five or six good years out of them which is what we want and then they are going to move on to another career opportunity and that's fine with us. The options that would be created by this bill is what these people are looking for. They can control the overall investment strategy and it has a high portability so when they do leave to pursue new career options they can take not only their contributions but the matching contributions with them. There were no questions from the committee. PAT TRAYNOR, Director of Workers Compensation, appeared to testify in support of HB 1257. A question was offered by CHAIRMAN KREBSBACH. Appearing in neutral position was SPARB COLLINS, Executive Director of NDPERS. A copy of his written testimony is attached. Questions were offered by SENATORS WARDNER and DEMERS. ROD CRANE, Benefits Consultant for the SEGAL Company appeared before the committee to respond to questions from the committee. Questions were offered by SENATOR KILZER. MIKE SANDAL, Director of Human Resources NDUS, appeared before the committee to offer an amendment. His written testimony is attached. SENATORS DEMERS and WARDNER offered questions. Testifying in opposition to HB 1257 was CHRIS RUNGE, Executive Director of the North Dakota Public Employees Association, AFT #4660. A copy of her written testimony is attached. TOM TUPA, representing the Independent North Dakota State Employees

Association (INDSEA), testified in opposition to HB 1257. A copy of his testimony is attached. A question was offered by SENATOR WARDNER. WELDEE BAETSCH representing the Association of Former Public Employees testified in opposition to HB 1257. A copy of his written testimony is attached. HOWARD SNORTLAND representing the AARP spoke in opposition of the bill. JOE PRATSCHNER a retiree under PERS spoke in opposition to the bill. DENNIS FEWLESS appeared before the committee. He indicated that he has been a state employee for 24 years with ND and I guess I just want to make a short comment. I've been listening to all the comments today, and I'm just concerned that I don't have a comfort level as to what is going to happen to our existing program. I'm not against innovative ideas but I don't think there's been a proper effort to get the information out to state employees as to what this whole plan entails and how it will affect present employees, employees in the future, employees that have four years of service versus employees who have twenty five years of service. I just think there needs to be an effort to get the information out as to all the ramifications. I guess I didn't hear from the consultant as to the future affects. They have not predicted if 5% of our employees go over to the new plan, how that affects the existing program. SENATOR WARDNER and SENATOR DEMERS asked questions of Mr. Backman. CHAIRMAN KREBSBACH asked a question of Mr. Collins. SENATOR DEMERS inquired about how this might affect parallel system employees? There was no further testimony at this time so CHAIRMAN KREBSBACH closed the hearing on HB 1257.

COMMITTEE DISCUSSION *March 11, 1999, Tape 1, Side A, Meter #'s 5590-END, Side B, Meter #'s 0-2369.* **CHAIRMAN KREBSBACH indicated that the reason for this discussion was to address the amendments which had been proposed for HB 1257. These**

amendments were completed to address some of the concerns expressed by Rosie Sand of the Attorney General's office. Before these amendments prepared by Jeff Nelson were reviewed by the committee, SPARB COLLINS, Executive Director of PERS spoke with the committee about his proposed amendments. He noted that his amendments were included in his testimony which he had presented to the committee in the previous week. He also suggested that the bill might be amended to include the Emergency Clause, mainly just on the appropriations section. Should the bill pass, he indicated that would allow the board to hire the consultant and get to work on this by July 1. SENATOR KREBSBACH indicated what we can do is add the emergency clause, you wanted that referenced to that specific chapter. MR. COLLINS indicated that might best be done by consulting with the attorney. He indicated that he was not sure if it was made for the whole bill what it might imply. SENATOR KREBSBACH indicated what you are requesting it for is to implement the study on it. MR. COLLINS, just so we can start work on it and retain the consultant on it. CHAIRMAN KREBSBACH, other amendments that were proposed were from MR. SANDAL, MIKE SANDAL. Those were on page 3 of the bill, line 30. He wanted the wording or an employee eligible for TIAA-CREF removed. MR. COLLINS indicated that this amendment (higher ed) was one to clarify that members of TIAA-CREF were not eligible to go under this bill. A discussion ensued involving SENATOR DEMERS and MR. COLLINS concerning the PERS system and non-classified personnel in higher education. JEFF NELSON appeared before the committee to explain amendments version .0301 which were drafted for HB 1257. CHAIRMAN KREBSBACH indicated to the committee that these amendments were drafted for her because of concerns that Rosie Sand of the

Attorney General's Office expressed. The first amendment is on Page 7, line 20 and 21. This amends section 6 of the new chapter 54-52.6. He went on to explain each of the amendments and how it would affect the bill. (This testimony covers meter #'s 250-850, Side B, Tape 1, March 11, 1999).

CHAIRMAN KREBSBACH indicated that there was one more question that has come up. It has been suggested that we (the committee) add Emergency Clause to the appropriation of this bill, just to implement that section sooner or immediately to get the process rolling if the bill were to pass. If that were to be done could that be applied to strictly section six without interference with the rest of the bill? MR. NELSON indicated that the one problem he sees is that there is a reference to 54-52.6-06 in the appropriation clause. Rather than making only the appropriation clause an emergency, the entire bill would need to be made an emergency to allow the board to access administrative expenses accounts under 54-52.6 and for the board to use the payroll steering account as established under present law those moneys the 197, then if the emergency clause is just applied to the appropriation then it would work. The board would have access to those funds prior to July 1.

MIKE SANDAL of the state university system appeared before the committee to answer questions. SENATOR DEMERS and SENATOR WARDNER asked questions with responses offered by Mr. Sandal (Meter #'s 1073-1950, Tape 1, Side B, March 11, 1999). There was further discussion involving SENATORS DEMERS and WARDNER. The committee discussion was closed at this time.

Committee Discussion was reopened on HB 1257. Amendments were handed out which were an *incorporation of all amendments that had been proposed by Rosie Sand, Mike Sandal, and Sparb Collins. The intern had put these together for the committee to examine. The primary issue of discussion at this time was whether or not the University System personnel should be kept; in the bill or left out. SENATORS WARDNER, KILZER, DEMERS, and CHAIRMAN KREBSBACH participated in the discussion. (Meter #'s 3612-4550, Tape 1, Side B, March 11, 1999).*

COMMITTEE DISCUSSION/ACTION March 12, 1999, Tape 1, Side A, Meter #'s 4615-END and Side B, Meter #'s 0-529. ***SENATOR WARDNER presented amendments to the committee for its consideration. He explained that he had two versions drafted. One set of amendments included higher education personnel the other version excluded higher education personnel. SENATOR KREBSBACH reviewed some information with the committee from Sparb Collin's testimony indicating how many people would be left if higher ed personnel were taken out of this bill. SENATOR DEMERS indicated she wasn't going to make a motion but she would prefer to see the elimination of the University System personnel from the bill. SENATOR WARDNER moved to adopt amendment version .0304 which would be the amendment that excludes the non-classified employees in the university system. The motion was seconded by SENATOR DEMERS. SENATOR MUTZENBERGER, indicated he thought there were several reasons for amending this down to include a small number of people. The educational factor is one of them. Another one is we really don't have a down the road forecast of what this will do to the current fund. This will give us a chance to move slowly into expanding this option which I think is a decent option, but it just gives us more time to let this develop and it takes away some of the fears that some people have that this will destroy what is already a very good program. SENATOR STENEJEM, This is a major shift for me from what out intention***

has been with this program all along. This will allow time for this to be tested and for a level of comfort to develop. ROLL CALL VOTE indicated 7 Yeas, 0 Nays, 0 Absent or Not Voting. A motion for DO PASS AS AMENDED was made by SENATOR WARDNER, seconded by SENATOR KILZER. Comments were made by CHAIRMAN KREBSBACH who indicated that she is pleased with the work that the committee did on this bill. It is a far cry different from what it was when it was introduced. Although the intent was never to take anything away from the state employees, I think taking the cautious approach that we are doing is the proper thing to do. We are changing our retirement system to allow and there is definitely a change in the employment of state employees today, and we are addressing the fairness and equity issue of that shorter term employee and still maintaining for the long term employees their defined benefit plan if they so choose it gives them an option and we are opening the door to giving them the benefit of the defined contribution plan. So I think we are having a good menu for our state employees. I think that is the intent of the committee and the people that are responsible. SENATOR DEMERS indicated she wondered if someone could tell her what we can do under HB 1257 that we can't do under SB 2071? One of her concerns with the other one has to do with the long term actuarial report. CHAIRMAN KREBSBACH indicated she believed that in her understanding the 451 is just optional funding for excess dollars that you want to put in the plan, over and above the defined benefit and that is the difference. 1257 allows a person to go into the defined contribution in its entirety. Further comments were offered by SENATORS WARDNER and KILZER. SENATOR STENEHJEM commented on the need for a new fiscal note. SENATOR DEMERS indicated that this is a real tough vote for her because she is a member of a defined contribution plan that she has

been very happy with (TIAA-KREF). On the other hand she is still not certain what the long term impact of this is on the deferred plan. She thinks that a lot of people who are planning on voting no may depend on whether they can participate or not. I think there is also a genuine concern on the long range impact. She would feel a lot more comfortable on this bill to delay implementation to allow a complete actuarial study to be done to see what the long range impact might be. ROLL CALL VOTE indicated 6 YEAS, 1 NAY, 0 ABSENT OR NOT VOTING. SENATOR WARDNER will carry the bill. This bill will be rereferred to appropriations.

90060.0301
Title.

Prepared by the Legislative Council staff for
Senator Krebsbach
March 9, 1999

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1257

Page 7, line 20, remove "<u>who have not</u>"

Page 7, line 21, remove "<u>closed their accounts</u>"

Page 12, line 28, replace "<u>make up</u>" with "<u>seek to collect</u>"

Page 13, line 3, after the first comma insert "including consulting expenses,"

Renumber accordingly

90060.0302
Title.

Prepared by the Legislative Council staff for
Senator Wardner
March 12, 1999

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1257

Page 1, line 7, remove the first "and" and after the second "appropriation" insert "; and to declare an emergency"

Page 3, line 30, after "branch" insert "or an employee who is eligible to participate in the teachers' insurance and annuity association of America - college retirement equities fund (TIAA-CREF)"

Page 7, replace lines 1 through 7 with:

"for employees electing to transfer prior to January 1, 2000, using the two following formulas, and shall transfer the greater of the two amounts obtained:

1. The actuarial present value of the individual's accumulated benefit obligation under the public employees retirement system based on the assumption that the individual will retire under the earliest applicable normal retirement age, plus interest from January 1, 2000, to the date of transfer, at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election; or

2. The actual employer and employee contributions made pursuant to sections 54-52-05 and 54-52-06, plus interest at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election.

The board shall calculate the amount to be transferred for persons employed after December 31, 1999, using only the formula contained in subsection 2."

Page 7, line 20, remove "who have not"

Page 7, line 21, remove "closed their accounts"

Page 12, line 28, replace "make up" with "seek to collect"

Page 13, line 3, after the first comma insert "including consulting expenses,"

Page 13, after line 5, insert:

"**SECTION 7. EMERGENCY.** This Act is declared to be an emergency measure."

Renumber accordingly

90060.0303
Title.

Prepared by the Legislative Council staff for
Senator Wardner
March 12, 1999

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1257

Page 1, line 20, after "<u>branch</u>" insert "<u>and employees of the board of higher education and state institutions under the jurisdiction of the board</u>"

Page 3, line 30, after "<u>branch</u>" insert "<u>or an employee of the board of higher education and state institutions under the jurisdiction of the board</u>"

Renumber accordingly

Put these in

Remove page 3 line 30

Proposed Amendment to
Engrossed House Bill No. 1257

Page 1, line 7, remove the first "and" and after the second "appropriation" insert "; and to declare an emergency"

Page 3, line 30, after the comma insert "or an employee eligible for TIAA-CREF,

Page 7, replace lines 1 through 7 with:

"for employees election to transfer prior to January 1, 2000, using the two following formula, and shall transfer the greater of the two amounts obtained:

a. The actuarial present value of the individual's accumulated benefit obligation under the public employees retirement system based on the assumption that the individual will retire under the earliest applicable normal retirement age, plus interest from January 1, 2000, to the date of transfer, based on eight percent annual interest, compounded annually.

b. The actual employer and employee contributions made pursuant to sections 54-52-05 and 54-52-06, plus eight percent annual interest, compounded annually.

The board shall calculate the amount to be transferred for persons employed after December 31, 1999, using only formula (b) above."

Page 7, line 20, remove "who have not"

Page 7, line 21, remove "closed their accounts"

Page 12, line 28, replace "make up" with "seek to collect"

Page 13, line 3, after the first comma insert "including consulting expenses,"

Page 13, after line 5 insert:

"**Section 7. Emergency.** This Act is declared to be an emergency measure."

Renumber accordingly

90060.0304
Title.

Prepared by the Legislative Council staff for Senator Wardner
March 12, 1999

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1257

Page 1, line 7, remove the first "and" and after the second "appropriation" insert "; and to declare an emergency"

Page 1, line 20, after "branch" insert "and employees of the board of higher education and state institutions under the jurisdiction of the board"

Page 3, line 30, after "branch" insert "or an employee of the board of higher education and state institutions under the jurisdiciton of the board"

Page 7, replace lines 1 through 7 with:

"for employees electing to transfer prior to January 1, 2000, using the two following formulas, and shall transfer the greater of the two amounts obtained:

1. The actuarial present value of the individual's accumulated benefit obligation under the public employees retirement system based on the assumption that the individual will retire under the earliest applicable normal retirement age, plus interest from January 1, 2000, to the date of transfer, at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election; or

2. The actual employer and employee contributions made pursuant to sections 54-52-05 and 54-52-06, plus interest at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election.

The board shall calculate the amount to be transferred for persons employed after December 31, 1999, using only the formula contained in subsection 2."

Page 7, line 20, remove "who have not"

Page 7, line 21, remove "closed their accounts"

Page 12, line 28, replace "make up" with "seek to collect"

Page 13, line 3, after the first comma insert "including consulting expenses,"

Page 13, after line 5, insert:

"**SECTION 7. EMERGENCY.** This Act is declared to be an emergency measure."

Renumber accordingly

Date: 3/12/99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1257

Senate **GOVERNMENT AND VETERAN'S AFFAIRS** Committee

☐ Subcommittee on ______
or
☐ Conference Committee

Legislative Council Amendment Number ______

Action Taken Move to Amend using .0304

Motion Made By Sen. Wardner Seconded By Sen. DeMers

Senators	Yes	No	Senators	Yes	No
SENATOR KREBSBACH	✓				
SENATOR WARDNER	✓				
SENATOR KILZER	✓				
SENATOR STENEHJEM	✓				
SENATOR THANE	✓				
SENATOR DEMERS	✓				
SENATOR MUTZENBERGER	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

Date: 3/10/99
Roll Call Vote #: 2

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1257

Senate **GOVERNMENT AND VETERAN'S AFFAIRS** Committee

☐ Subcommittee on ____________________
or
☐ Conference Committee

Legislative Council Amendment Number ____________________

Action Taken Do Pass as Amended - Rerefer to Approp

Motion Made By Sen. Wardner Seconded By Sen. Kilzer

Senators	Yes	No	Senators	Yes	No
SENATOR KREBSBACH	✓				
SENATOR WARDNER	✓				
SENATOR KILZER	✓				
SENATOR STENEHJEM	✓				
SENATOR THANE	✓				
SENATOR DEMERS		✓			
SENATOR MUTZENBERGER	✓				

Total (Yes) 6 No 1

Absent 0

Floor Assignment Sen. Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1257, as engrossed: Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (6 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1257 was placed on the Sixth order on the calendar.

Page 1, line 7, remove the first "and" and after the second "appropriation" insert "; and to declare an emergency"

Page 1, line 20, after "branch" insert "and employees of the board of higher education and state institutions under the jurisdiction of the board"

Page 3, line 30, after "branch" insert "or an employee of the board of higher education and state institutions under the jurisdiction of the board"

Page 7, replace lines 1 through 7 with:

"for employees electing to transfer prior to January 1, 2000, using the two following formulas, and shall transfer the greater of the two amounts obtained:

1. The actuarial present value of the individual's accumulated benefit obligation under the public employees retirement system based on the assumption that the individual will retire under the earliest applicable normal retirement age, plus interest from January 1, 2000, to the date of transfer, at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election; or

2. The actual employer and employee contributions made pursuant to sections 54-52-05 and 54-52-06, plus interest at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election.

The board shall calculate the amount to be transferred for persons employed after December 31, 1999, using only the formula contained in subsection 2."

Page 7, line 20, remove "who have not"

Page 7, line 21, remove "closed their accounts"

Page 12, line 28, replace "make up" with "seek to collect"

Page 13, line 3, after the first comma insert "including consulting expenses,"

Page 13, after line 5, insert:

"**SECTION 7. EMERGENCY.** This Act is declared to be an emergency measure."

Renumber accordingly

1999 TESTIMONY

HB 1257

1257

REPORT OF THE LEGISLATIVE COUNCIL'S EMPLOYEE BENEFITS PROGRAMS COMMITTEE
_____ BILL NO. 60

Sponsor: Representative Francis J. Wald

Affected Retirement Program: Public Employees Retirement System main system and retiree health benefit fund

Proposal: Establishes a defined contribution retirement plan for nonclassified state employees; provides that participating members would direct the investment of their accumulated employer and employee contributions and earnings to one or more investment choices within available categories of investment provided by the Public Employees Retirement System Board; provides that a participating member is immediately 100 percent vested in that member's contributions and vests in 50 percent of the employer's contributions upon completion of two years of service, 75 percent of the employer's contributions upon completion of three years of service, and 100 percent of the employer's contributions upon completion of four years of service.

The committee amended the proposal at the request of the sponsor to remove the general fund appropriation for the purpose of administering the Act.

Actuarial Analysis: The consulting actuary estimated costs under two scenarios, whether five percent of eligible employees elect to participate in the new plan or 30 percent of eligible employees elect to participate in the new plan. The consulting actuary assumed that of the total elections, 43 percent would be over age 40 and 57 percent under age 40, similar to the election results for the recently implemented newly defined contribution plan for the state of Michigan. Based on the July 1, 1998, valuation results, which show the market value of assets equal to 138 percent for the main system and 141 percent for the National Guard retirement system of actuarial accrued liabilities, the consulting actuary assumed that the transfer on behalf of each employee would be 138 percent and 141 percent, respectively, of the value of the employee's accrued benefit. The consulting actuary noted that if the Public Employees Retirement System Board elected to use a different measurement of funding surplus, e.g., the actuarial value instead of market value of assets, the results would differ. Using the market value of assets provides a more conservative estimate of the possible cost impact of the proposal. The actuarial cost impact of the proposed changes to the Public Employees Retirement System and the National Guard retirement system is summarized in the following tables:

Main System	If 5% Elect	If 30% Elect
Number of employees	161	967
Assets transferred	$2.9 million	$17.6 million
Pension liability released	$3.5 million	$21.1 million
Reduction in actuarial required contribution rate	0.02%	0.12%

National Guard	If 5% Elect	If 30% Elect
Number of employees	2	10
Assets transferred	$62,000	$68,000
Pension liability released	$80,000	$353,000
Reduction in actuarial required contribution rate	0.72%	2.08%

Committee Report: No recommendation.

TESTIMONY

OF

DEB KNUDSEN

ON

HB 1257

Mr. Chairman, members of the Committee, good morning. My name is Deb Knudsen. I am the manager of the retirement programs for the North Dakota Public Employees Retirement System, or PERS. I appear before you today neither in opposition to, nor in favor of, HB 1257. I am here rather to offer technical comments concerning the bill.

First of all, during the interim study it was noted that, in order to implement this bill, PERS would need an appropriation. That appropriation would be necessary to cover consulting expenses that would be required to do the necessary actuarial work. Second, it was noted that PERS would need to retain additional staff in order to assist with the implementation and ongoing administration of this program. We are proposing one additional staff member; a benefits specialist who would assist members in this new retirement system. I have attached to my testimony a proposed amendment to this bill that would provide the necessary appropriation to PERS for the one FTE, and also for the necessary consulting expenses.

Also note that the bill authorizes PERS to charge administrative expenses to the various accounts once the program is established (proposed section 54-52.6-06). However, during implementation much will need to be done by the agency to enroll the members and educate them about their opportunity to transfer to the new plan. During this period there will be no funding source to charge administrative expenses since the accounts under proposed section 54-52.6-06 have not been established. Therefore, we are also proposing in the amendment that it authorize PERS to charge some of the initial administrative expenses to the FICA tax savings that are generated as a result of the flexcomp program, which are in the payroll clearing account. This would give us funding for the first seven months of the program to implement the bill. The FICA tax savings are retained in a separate fund and are generated as a result of employee participation in the flexcomp program.

Also, during the interim the actuary pointed out various miscellaneous and drafting issues concerning the proposed bill. I have attached those for your review in considering this bill. These changes would facilitate implementation and operation.

Mr. Chairman, members of the committee, this concludes my testimony.

Attachments

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1257

Page 1, line 7, after "penalty;" insert "to provide an appropriation; to provide a continuing appropriation;"

Page 7, line 14, after "chapter." insert "The money deducted by the board shall be placed in an administrative expenses account with the state treasurer. The board may also use funds from the payroll clearing account established pursuant to section 54-52.3-03 to pay for consulting expenses. All of the moneys from the payroll clearing account, not otherwise appropriated, or so much of the moneys as may be necessary, are appropriated to the board for the purpose of retaining a consultant as required for the administration of this chapter."

Page 12, after line 15, insert:

"**SECTION 6. APPROPRIATION.** There is hereby appropriated out of any moneys in the administrative expense account created by section 54-52.6-05 and the payroll clearing account created by section 54-52.3-03, in the state treasury, not otherwise appropriated, the sum of $197,000, or so much of the sum as may be necessary, to the Public Employees Retirement System Board, for the purpose of administering this chapter, for the biennium beginning July 1, 1999, and ending June 30, 2001. The Public Employees Retirement System Board is authorized one additional full-time equivalent position to implement this Act."

Renumber accordingly

investment risk. Because the new plan will be the primary retirement vehicle for its participants, it will be critical to provide these education services.

- Consideration should be given to requiring PERS to provide retirement and financial planning services for members, and ensuring employees could have specified amount of time each year as a paid leave to attend financial planning seminars and to meet with their investment advisors.

- <u>Miscellaneous and Drafting Issues</u>

  - Will the transfer election be provided to rehired retirees of PERS? If yes, what should happen to the PERS annuity benefit being paid? Should it be suspended or allowed to continue?

  - We recommend that the PERS Board be allowed to establish a written plan document for the new plan that separately incorporates all necessary IRC compliance requirements and ancillary administrative structures for the plan.

  - Does 54-52.6-07 of the bill create a conflict with a §457 deferred compensation program or with the Retiree Health Benefit Fund? The purpose of the second sentence is not clear to us.

  - Are plan assets held within the PERS trust fund or in a separate trust fund administered by PERS? If not determined within the bill, does the PERS board have sufficient authority to establish an appropriate trust vehicle for the plan?

    - The bill provides that forfeited benefits occurring because of termination of employment before full vesting will be deposited in the PERS fund. The federal IRC will not allow forfeited benefits to be deposited in a different trust fund than that holding the new plan's assets. To do so would be considered a violation of the "exclusive benefit" requirements of the IRC.

      As an alternative, the IRS does allow forfeitures to be used to offset administrative expenses.

  - The disability benefits under the plan must be designed to conform with applicable provisions of the IRC. The IRC does not generally permit employees to choose between disability and retirement benefits without potentially creating current taxable income for the contribution amounts subject to the choice. Because of this the PERS Board may be required to implement provision of the bill by either:

    - Making a uniform mandatory amount for disability benefits for all participants in the new plan, or

    - Allowing a one-time irrevocable election by employees before participation begins.

If the latter approach is adopted, we suggest that a private letter ruling be obtained from the IRS before it is implemented.

- The bill may require clarification allowing both PERS and third party administrative expenses to be charged against the new plan member accounts.
- Because a PERS member may elect to transfer to the new plan as late as December 31, 1999, the bill should be clarified to apply to payroll periods beginning after that date.
- Consideration should be given to not allowing PERS benefits subject to a qualified domestic relations order to be transferred to the new plan.
- Clarification of RHIC benefits for the new plan members is necessary.

Please call if you have any questions or comments.

Sincerely,

Leslie

Leslie L. Thompson, E.A., A.S.A., M.A.A.A.
Vice President and Consulting Actuary

Roderick B. Crane

Roderick B. Crane, J.D.
Vice President

\mfl

Attachment

cc: Larry J. Sniff
Denver Actuarial Department

TSC_DEN:33730.1

THE SEGAL COMPANY

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Suite 200
wood, Colorado
-6722
303-714-9900
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October 23, 1998

Representative Frank Wald
Chairman
Employee Benefits Committee
North Dakota Legislative Council
Bismarck, North Dakota

Re: **Actuarial Review and Technical Comments - Retirement Bill No. 60.01**

Dear Representative Wald:

The following presents our analysis of the proposed changes found in Retirement Bill No. 60.01.

Systems Affected: North Dakota Public Employees Retirement System, Retiree Health Benefit Fund

Summary: The bill would create a new defined contribution plan with the following major design elements:

- **<u>Eligible Employees</u>**
  - ▸ All non-classified State employees hired after 1999 must participate in the new defined contribution plan.
  - ▸ All existing non-classified State employees on December 31, 1999 may elect to remain a member of PERS or to join the new defined contribution plan.
  - ▸ All deferred vested PERS members who are reemployed may also elect to participate in the new plan.

- **<u>Election Window</u>**
  - ▸ Existing eligible employees will be provided a period of time beginning with the effective date of the Act and ending at the end of 1999 to choose whether to join the new plan.
  - ▸ Rehired deferred vested employees will be provided a 60 day election period to choose whether to join the new plan.

- **Contributions**

  - Transferred Assets

    Existing and deferred vested employees will have the actuarial present value of their accrued PERS benefit transferred to their account under the new defined contribution plan. The determination of "actuarial present value" is determined by the PERS Board. A pro-rata allocation of any asset surplus also appears to be required to be included in the asset transfer.

  - Member Contributions

    Participants will be required to contribute 4% of their covered compensation to the new plan.

    - Employers will be allowed to "pickup" employee contributions as permitted under IRC §414(h) in the same manner as permitted for PERS member contributions.

  - Employer Contributions

    Employers will be required to contribute 4.12% of each participant's covered compensation to the new plan.

- **Retirement and Death Benefits**

  The account balance with accumulated investment gains or losses will be paid to the participant upon death or termination of employment.

- **Vesting**

  Member contributions are always 100% vested and nonforfeitable. Employer contributions are subject to the following vesting schedule:

  Two years of service: 50% vested
  Three years of service: 75% vested
  Four years of service: 100% vested

  Forfeitures are deposited in the PERS retirement fund.

- **Disability Benefits**

  The PERS Board must establish a method for the member to use a portion of the member contribution to purchase disability coverage.

- **Retiree Health Insurance Credit Fund (RHIC)**

  Participants in the new defined contribution plan retain all prior accrued benefits under the Retiree Health Benefit Fund and remain as participants for future service. The bill is unclear as to how and when new plan participants will become eligible for benefits under the Retiree Health Insurance Credit Fund.

- **Administration and Governance**

  The new plan will be administered and governed by the PERS Board as fiduciary and trustee.

- **Investment**

  The participants of the plan will be allowed to direct the investment of their accounts among choices made available by the PERS Board.

Actuarial Cost Analysis:

- **Methodology**

  We have estimated costs under two scenarios: (1) 5% of eligible employees elect the new plan and (2) 30% of eligible employees elect the new plan. Further, we have assumed that of the total elections, 43% are over age 40 and 57% are under age 40 (similar to the election results for the recently implemented new defined contribution plan for the State of Michigan).

- **Results**

  Based on the July 1, 1998 valuation results, which show the market value of assets equal to 138% for the Main System and 141% for National Guard of actuarial accrued liabilities, we have assumed that the transfer on behalf of each employee would be 138% and 141%, respectively, of the value of the employee's accrued benefit. Note that if the PERS Board elects to use a different measurement of funding surplus (e.g., the actuarial value instead of market value of assets), the results will differ. Using the market value of assets provides a more conservative estimate of the possible cost impacts of the proposal.

Main System	If 5% Elect	If 30% Elect
Number of Employees	161	967
Assets Transferred	$2.9 million	$17.6 million
Pension Liability Released	$3.5 million	$21.1 million

Reduction in Actuarial Required Contribution Rate	0.02%	0.12%

National Guard	If 5% Elect	If 30% Elect
Number of Employees	2	10
Assets Transferred	$62,000	$268,000
Pension Liability Released	$80,000	$353,000
Reduction in Actuarial Required Contribution Rate	0.72%	2.08%

Please see the attached for additional detail of the cost analysis.

- **Retiree Health Insurance Credit Fund**

In the absence of additional guidance, we will be assuming that members of the new defined contribution plan will become vested in their RHIC benefit as they become vested under the new plan. Further, we will be assuming that RHIC benefits will be payable upon termination of covered employment without any minimum age or service requirement. This is in contrast to PERS members who must be receiving an annuity benefit as an early or normal retiree. We will also be assuming an unreduced 100% survivor benefit for spouses and that actual reductions will apply for early retirement in the same fashion as for PERS members.

This will increase the actuarial contribution requirement by 0.01% from 1.02% to 1.03%, based on the 5% election assumption. The increase would be 0.02%, to 1.04% under the 30% election assumption. Further analysis should be done on the impact on RHIC of future new entrants into the defined contribution plan.

Technical Comments: Our comments on the bill are as follows:

- **General**

The bill creates a new defined contribution plan design for "non-classified" employees of the State. It is our understanding that employees falling within this category will include all elected and appointed officials, higher education employees not covered by TIAA-CREF, and employees of Workers' Compensation. The employee groups covered are assumed to be:

Legislative Council	32
North Dakota Supreme Court	226
Education Standards Practice Board	3
Bismarck State College	65
University of North Dakota-Lake Region	27
University of North Dakota	1,100
North Dakota State University	738
North Dakota State College of Science	159
Dickinson State College	61
Mayville State University	49
Minot State University	157
Valley City State University	53
North Dakota Bar Board	3
Workers Compensation Bureau	164
State Board of Accounting	5
State Board of Medical Examiners	4
State Board of Pharmacy	2
Real Estate Commission	2
State Electrical Board	10
Other	417
Total	3,277

- **Benefits Policy Issues**

  - Adequacy of Retirement Benefits

    - Replacement Ratio: The following table illustrates the expected amount of income at retirement that would be replaced at various service and salary combinations without full Social Security benefits. For this purpose we have assumed a 7.5% total contribution to the new plan setting aside some of the total contribution to purchase disability and death benefits. We have also assumed the investments for the new plan earn 8% per year, (which is the same long term assumption used in the defined benefit plan and is used here for purposes of comparability). Should the investment expense structure increase over that which is assumed in PERS, higher returns would be required in the defined contribution plan in order to net to the 8% investment return assumption.

Service (Years)	Replacement Ratio New Plan	Replacement Ratio Current Plan
20	20%	33%
25	27%	42%

Under the proposed plan design, and assuming some of the total contributions are used for ancillary benefits, career employees (25-years of service) earning above $20,000 per year are expected to experience retirement income replacement gaps when combined with Social Security. For higher paid individuals the retirement income gaps will be more substantial. In comparison to the current defined benefit plan, the replacement ratios for the members are expected to decrease from that which is currently provided.

- Retirement Savings: The defined contribution nature of the new plan with lump sum benefit payments may decrease the amount of a member's retirement benefit that will be available for retirement because it is used for current consumption. Employee Benefit Research Institute statistics indicate that because of this "leakage" effect, less than 100% of the employer contributions will actually be used to provide retirement benefits.

Based upon the EBRI study, "Reported Uses for Any Portion of Lump-sum Distributions", the average amount of distributed funds retained in retirement vehicles (tax-qualified financial savings) is 41.5%. Seventeen percent is saved, and the remainder (41.5%) is used for debt, education or consumption.

Nationally, 58.5% of any lump sum distributions are not used for retirement purposes. The leakage rate for the current NDPERS plan has no leakage of employer contributions.

On average, refund payments under PERS are approximately 24% of the employee contributions. Of these refunds, 58.5% will be used for non-retirement purposes if the national statistics are applied. Thus, the leakage rate on employee contributions is estimated to be about 14% per year or .12% of PERS payroll.

If these patterns of refunds and uses of lump sum distributions remain unchanged, the leakage rate on an employer contribution could be presumed to be 14%. For every $1,000,000 of employer contributions, about $140,000 will not be available for retirement purposes.

- ♦ Personal savings: The plan may increase interest of members to save for retirement because of the participant directed investment feature and the awareness that it is important to save for their own early retirement or post-employment inflation protection. However, the plan does not provide any separate monetary incentive to increase personal savings.

▸ <u>Benefits Equity and Group Integrity</u>

- ♦ We understand that the eligible employees for the new plan will include regular rank and file employees of the university system of the State and possibly some State agencies, e.g., workers compensation). This will create benefit differences for similarly situated State workers who perform similar services but for different State agencies.

  For example, a secretary with one State agency will be in the PERS defined benefit system, whereas a secretary working at the Workers' Compensation Bureau or the Supreme Court will be in the new defined contribution plan. This will create a situation of different benefits for employees in similar positions. This benefit difference will be contrary to a goal of providing similar benefits for similarly situated employees.

- ♦ In addition, we note that nonvested PERS employees who transfer to the new plan may be immediately increasing their vesting percentage in their pension benefits compared to similar employees who do not transfer.

- ♦ We note also that PERS members who transfer to the new plan who are near Normal Retirement Age or the Rule of 85 will receive a smaller transfer amount than a member with similar service and pay who has reached Normal Retirement Age or the Rule of 85. The transfer benefit difference is due to the application of the early retirement reduction factor under PERS.

- ♦ To the extent RHIC benefits eligibility is more liberal for new plan members, a benefits inequity will result.

▸ <u>Competitiveness</u>

The new design increases the ability of shorter term elected and appointed officials to earn and retain a valuable retirement benefit. Other states have taken similar approaches. Alternatively, some states have instituted more liberal defined benefit plan withdrawal benefits for their elected and appointed officials.

The new design, however, may be less competitive, for any non-political employee positions compared to other public employee retirement plans. The design could motivate job mobility and increase turnover. This may or may not be desirable depending on the workforce issues facing the employer.

In another sense, the bill will be matching the trend among smaller private sector employers to use defined contribution plans instead of defined benefit arrangements. However, it does not match the designs of most larger private sector employers which have continued to maintain a combination plan structure - a core defined benefit plan with a supplemental set of defined contribution and profit sharing arrangements.

- Purchasing Power Retention

  A defined contribution plan does not provide guaranteed purchasing power retention after benefits are distributed. The ability to maintain purchasing power will depend solely on the investment performance of the distributed assets. It is not possible under current federal tax laws to provide post-retirement increases for defined contribution plan retirees.

  Members may be exposed to longevity risk; that is, the risk of outliving their funds in a defined contribution plan.

- Preservation of Benefits

  The proposed plan can work well to preserve the value of benefits for former members but actual preservation of such values will depend on the investment performance on the amounts distributed. To the extent the benefits are not invested adequately, then the ability to preserve the value of the retirement benefits is diminished.

- Portability

  - Benefits: Due to the enhanced vesting schedule, a greater amount of benefits will become available upon termination of employment for the shorter service employee.

  - Assets: The proposal provides a high degree of portability of assets after termination of employment.

  - Service: The proposal appears to provide less internal (intrastate) portability of benefits for the new plan member who may later move to regular PERS or TFFR covered employment. Does new plan service count for purposes of PERS and TFFR eligibility for and vesting of benefits? Should the new plan assets be allowed to be transferred to PERS or TFFR or other State retirement systems for the purpose of purchase of service credit?

- Ancillary Benefits

  - The new plan does not provide comparable pre-retirement death benefits.

  - Unlike many defined contribution plans, the new plan does not provide for full vesting upon pre-retirement death of the member.

  - Disability benefits will be an option under the new plan, but only at the cost of reduced retirement contributions. It is uncertain at this time whether disability benefits purchased under the new plan will be adequate. There is a substantial possibility that the current contribution level for the new plan will not be sufficient to provide both adequate retirement and ancillary benefit protection.

- Social Security: No impact

- **<u>Funding Policy Issues</u>**

  - <u>Actuarial Impacts</u>

    - The movement of the non-classified employees from PERS will change the salary demographics of the System in a way that raises concerns about appropriate funding of its current liabilities. Care will need to be taken (and it is addressed in the bill) to make sure the new plan does not result in an unfair funding impact on the remaining members. Consideration should be given to examining the long-range impact on the System by conducting asset-liability and cash flow modeling studies. These studies may help identify changes in liability and cash flows for the plan that impact investment asset allocation policies, which, in turn, may impact actuarial contribution requirements for the future.

  - <u>Investment Impacts</u>

    - The investments of the plan will be participant directed among choices selected by the PERS Board. These choices could be established in a manner similar to the new Section §457 Deferred Compensation Companion Plan.

    - Depending on the performance of the capital markets and the investment choices made by participants, a participant may experience greater or lesser benefits. The risk of loss or gain is born by the participant.

    - Cash Flow Impacts: At the inception of the new plan, there will be an initial transfer out of the PERS fund equal to the present value of the accrued benefits and a portion of any unallocated surplus. It should be confirmed as to whether, if there is an unfunded liability instead of a surplus, the transfer would be similarly decreased.

    - After the initial impact on cash flow, cash flow will be altered only when a deferred vested later elects, upon return to employment, to participate in the new defined contribution plan.

    In general, the new plan may cause cash flows under PERS to be altered as membership does not enter PERS as currently anticipated. This may impact cash flow needs for funding and benefits and may cause a change in the asset allocation policies for investment of the PERS fund. These changes may result in unknown impacts on the overall funding of PERS for the future. As indicated above, it may be desirable to consider conducting asset-liability and cash flow studies to better predict the outcomes on the System.

- **Administration Issues**

  - Implementation Issues

    - The new plan could be established in a manner similar to the new Section §457 Deferred Compensation Companion Plan.

    - Consideration should be given to providing a statement of legislative purpose that would provide guidance to PERS as to the design and administration of the new plan.

    - The PERS Board will need to establish a benefits policy for determining the amount of funding surplus that is used to determine the transfer amounts to the new plan.

  - Administrative Costs

    The PERS Board will incur start-up costs for the new plan to establish and acquire appropriate administration, recordkeeping, investment and employee communication services for the new plan. Ongoing costs for consulting should decrease somewhat, but administrative costs will continue. External implementation costs for the new plan for administration, recordkeeping, investment, and employee education and communication services are likely to exceed $100,000. In addition, a biennial appropriation of $250,000 is needed for administrative costs.

  - Needed Authority

    The bill appears to provide appropriate levels of administrative and governance authority to the PERS Board to operate the new plan.

  - Type of Plan

    The bill does not specify the type of plan to be established, but presumably, the PERS Board will have discretion to create the plan as an IRC §401(a) qualified arrangement as the most advantageous approach.

  - Cross Impact on Other Plans

    - The 1% contribution for the retiree health insurance credit fund is still required.

- It is not clear how the vesting provisions of the proposal will or should impact benefits under the Retiree Health Insurance Credit Fund. If RHIC benefits are to be paid for individuals with less than 5 years of service, or if benefits are payable before PERS early or normal retirement eligibility, costs for the RHIC will increase.

- <u>Employee Communications</u>

  - The nature of defined contribution plans allowing participant directed investments will require additional employee education effort regarding retirement and investment planning. The need for this effort is supported by information found in the recently completed "Retirement Portability Study" conducted by PERS and OMB. A survey of employees indicated an overall low level of understanding of the how to invest moneys for retirement. The survey indicated a low level of understanding regarding investment categories and investment risk. Because the new plan will be the primary retirement vehicle for its participants, it will be critical to provide these education services.

  - Consideration should be given to requiring PERS to provide retirement and financial planning services for members, and ensuring employees could have specified amount of time each year as a paid leave to attend financial planning seminars and to meet with their investment advisors.

- **<u>Miscellaneous and Drafting Issues</u>**

  - Will the transfer election be provided to rehired retirees of PERS? If yes, what should happen to the PERS annuity benefit being paid? Should it be suspended or allowed to continue?

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  - Making a uniform mandatory amount for disability benefits for all participants in the new plan, or

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If the latter approach is adopted, we suggest that a private letter ruling be obtained from the IRS before it is implemented.

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- Because a PERS member may elect to transfer to the new plan as late as December 31, 1999, the bill should be clarified to apply to payroll periods beginning after that date.
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- Clarification of RHIC benefits for the new plan members is necessary.

Please call if you have any questions or comments.

Sincerely,

Leslie L. Thompson, E.A., A.S.A., M.A.A.A.
Vice President and Consulting Actuary

Roderick B. Crane, J.D.
Vice President

\mfl

Attachment

cc: Larry J. Sniff
Denver Actuarial Department

TSC_DEN:33780.1

ATTACHMENT

Impact of Bill No. 60.01 on Retirement System Funding

Methodology

We have evaluated the bill based on two scenarios regarding employee elections. These are based in part on our understanding of the election results for the recently implemented new defined contribution plan for the State of Michigan. We understand that roughly 5% of the eligible employees in Michigan opted to switch to the new program.

Scenario A:

- Main System: 8.3% of eligible employees under age 40 and 3.3% of those over age 40 transfer to the new plan (total of 5% of the eligible employees).
- National Guard: 4.8% of eligible employees under age 40 and 9.1% of those over age 40 transfer to the new plan (total of 5% of the eligible employees).

Scenario B:

- Main System: 50.0% of eligible employees under age 40 and 19.7% of those over age 40 transfer to the new plan (total of 30% of the eligible employees).
- National Guard: 28.6% of eligible employees under age 40 and 36.4% of those over age 40 transfer to the new plan (total of 30% of the eligible employees).

Our analysis is based on the participant census data, the System's benefit provisions, and the actuarial assumptions and methods as of July 1, 1998. Significant changes in any of these items could affect the results of this study.

We have estimated the assets that would be transferred to the defined contribution plan based on the current valuation assumptions of 8% interest and the 1983 Group Annuity Mortality tables. As of July 1, 1998 (the date of the most recent actuarial valuation), the ratio of market value of assets to actuarial accrued liabilities was 138% for the Main System and 141% for National Guard (based on the Entry-Age cost method). We have assumed for purposes of this analysis that the fund transfers about 138% (Main System) and 141% (National Guard) of the value of each participant's accrued benefit. The actual asset transfer may be based on the funded ratio at the time assets are actually transferred. To the extent the actual funded ratio is greater than 138% and 141%, respectively, the value of assets transferred could be greater than the amounts shown in this analysis.

Note that the actuarial accrued liabilities for this surplus allocation are calculated using projected pay while the assets withdrawn are based on liabilities using current pay.

Impact on Asset and Liabilities

The impact of each scenario is shown in the tables below:

Main System	Assets Transferred (Based on 138% Funded Ratio)	Liabilities Released	Number of Employees Transferred
<u>Scenario A</u>: 8.3% under 40 transfer; 3.3% over 40 transfer	$2,938,000	$3,514,000	161
<u>Scenario B</u>: 50.0% under 40 transfer; 19.7% over 40 transfer	$17,635,000	$21,094,000	967

National Guard	Assets Transferred (Based on 141% Funded Ratio)	Liabilities Released	Number of Employees Transferred
<u>Scenario A</u>: 4.8% under 40 transfer; 9.1% over 40 transfer	$62,000	$80,000	2
<u>Scenario B</u>: 28.6% under 40 transfer; 36.4% over 40 transfer	$268,000	$353,000	10

Impact on Ongoing Contribution Rates and Amount of Contributions

Ongoing, the actuarially required contribution rates for PERS will be affected by several factors, including (1) the demographics of the members who actually elect to transfer to the new defined contribution plan, (2) the actual amount of the transferred assets, and (3) the impact on amortization of having fewer future new entrants.

As shown above, we would expect the System to experience a net gain as a result of the transfer if the released liabilities exceed the transferred assets. For National Guard, we have changed the amortization to a level-dollar basis rather than assuming future payroll will increase. The expected total contributions as a result of the transfers based on each of the scenarios are shown below:

Main System	Normal Cost* Dollars	Amortization Dollars	Total Contribution	Total Cost as a % of Payroll
July 1, 1998 Valuation Results	$29,817,000	$(5,466,000)	$24,351,000	6.51%
<u>Scenario A</u>: 8.3% under 40 transfer; 3.3% over 40 transfer	$29,544,000	$(5,506,000)	$24,038,000	6.49%
<u>Scenario B</u>: 50.0% under 40 transfer; 19.7% over 40 transfer	$28,180,000	$(5,708,000)	$22,472,000	6.39%

*Includes $600,000 for administrative expenses.

National Guard	Normal Cost* Dollars	Amortization Dollars	Total Contribution	Total Cost as a % of Payroll
July 1, 1998 Valuation Results	$82,000	$(12,000)	$70,000	7.44%
<u>Scenario A</u>: 4.8% under 40 transfer; 9.1% over 40 transfer	$77,000	$(18,000)	$59,000	6.72%
<u>Scenario B</u>: 28.6% under 40 transfer; 36.4% over 40 transfer	$59,000	$(25,000)	$34,000	5.36%

*Includes $5,000 for administrative expenses.

Considerations

The Legislature (or Board) has several decisions to make regarding the asset transfer:

1. *Actuarial Present Value of Accumulated Benefit Obligations:* Although, for purposes of this analysis, we have chosen one method for determining the "value" of accrued benefits, several actuarial methods are acceptable. Another method will produce values that differ from the amounts determined in this study.

2. *Actuarial Assumptions:* Our analysis is based on the actuarial assumptions used in the latest actuarial valuation. The asset transfer could technically be based on a different set of assumptions.

3. *Asset Surplus:* According to the bill, the Board should apportion any unallocated assets between the System and the defined contribution plan. We have employed one method (based on the market value of assets and Entry-Age actuarial accrued liabilities) for determining this surplus. Again, one of several acceptable methods could be adopted. For example, the amount of unallocated assets could be based on the actuarial value of assets rather than the market value.

In addition, consideration should be given to examining the long-range impact on the System by conducting asset-liability and cash flow modeling studies. These studies may help identify changes in liability and cash flows for the plan that impact investment asset allocation policies, which, in turn, may impact actuarial contribution requirements for the future.

NDPEA NORTH DAKOTA PUBLIC EMPLOYEES ASSOCIATION

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TESTIMONY IN OPPOSITION TO HB 1257

Before the House Government and Veterans Affairs Committee
North Dakota Public Employees Association, AFT Local 4660, AFL-CIO

Chairman Klein, members of the House Government and Veterans Affairs Committee, my name is Chris Runge and I am the Executive Director of the North Dakota Public Employees Association, AFT #4660. I am here to testify in opposition to HB 1257. This bill would create an entirely new defined contribution retirement system for non-classified state employees and we are opposed to changing the system.

In the past few years governors and state legislatures have looked to overhaul the pension systems for public employees. One idea prevalent among some lawmakers is establishing defined contribution pensions for public employees and moving them out of existing defined benefit pension plans. Often lost in the discussion of the advantages and disadvantages of both types of plans is the question of benefit adequacy. Since the fundamental purpose of any pension plan is to complement Social Security and personal savings in providing an adequate level of income during retirement, this is an important gap. While I do not understand all the ins and outs of the pension system and I am not a number cruncher, there is great concern with whether this bill will create parity with those in the current PERS system. I would recommend that the question of benefit adequacy for those who will be forced to participate in this plan be explored thoroughly by this committee before seriously considering this bill.

NDPEA strongly believes it is not a matter of choosing a defined benefits pension system over a defined contributions pension system. It is what is in the best interests of the public employee, what will provide the employee with the best possible retirement plan for the years of service and loyalty that employee has provided to the citizens of this state.

One of our other concerns with this bill is the provision of disability benefits. Right now public employees enjoy the peace of mind of knowing that if they become disabled they will receive a disability benefit from NDPERS. In this bill, the employee would have to use a portion of their personal retirement account to purchase disability insurance thus taking away valuable money to be used for their future retirement. This will create a differing benefits system for public employees who may be sitting right next to each other in the workplace.

We believe that we have a terrific retirement system already in place: NDPERS. The current pension provides a strong defined benefit pension and offers a supplementary defined contribution plan as well. And in another bill currently in the Senate, SB 2071, we are supporting enhancements to the current program based on a pension portability study conducted during the interim that will encourage participation in the supplementary defined contributions plan while keeping intact the strong defined benefits program.

NDPERS involved employee organizations such as NDPEA in studying the pension portability issue during this past interim and we are thankful for the opportunity to have participated in this most important discussion and in the design of SB 2071. SB 2071 more than adequately addresses, I believe, the questions that the 1997 Legislature had concerning portability and defined contribution and defined benefit pension plans. I have spent a great deal of time over the last eighteen months talking to public employee union members about pension issues and what we call the three legged retirement stool. The three-legged stool consists of a strong Social Security system, an employee sponsored defined benefits pension plan, and a good supplementary defined contributions pension plan again. PERS has two out of the three. The third leg, Social Security will have to be handled on a national level and we are involved in that discussion but SB 2071 deals with the other two legs, a strong employer sponsored defined benefits plan and a supplemental personal savings plan.

NDPEA has made the retirement program one of its top priorities for this session. At our recent Delegate Assembly, NDPEA delegates unanimously passed a resolution supporting the recommendations of the portability study, which is now SB 2071.

NDPEA urges a DO NOT PASS on HB 1257.

Thank you and I am available to answer any questions you may have.

House Committee Hearing
Government & Veterans Affairs
January 22, 1999
HB 1257

Mr Chairman, Committee members, for the record my name is Weldee Baetsch representing the Association of Former Public Employees.

Our organization is in opposition to HB 1257 because the bill directs current employees and retirees to be on a path that leads us back to a 1966 retirement plan (defined contribution) that failed public employees. We favor supporting a retirement system designed to meet not only present day needs of our retirees but also emerging retirement issues of the 21st Century. One issue is finding ways to establish methods allowing employees easier access to their employers contribution upon termination.

Such a retirement plan must at least provide a dependable,reliable, adjustable basic source of income to our seniors when needed. Concurrently, such a plan should contain features offering incentives to current employees to use their discretionary income to make financial investments of their choosing through the main retirement system. Successful retirement programs of the future should contain an investment formula that blends the best features of defined benefit program and a defined contribution program. The first priority of any retirement system is to be fully funded and to maintain financial solvency before opening up opportunities for individual investments. In the totality of retirement systems, moving money from one plan to another benefits no one. Offering the opportunity for employees to save more out of their pay check adds new capital to the investment world.

We do not believe dividing the Public Employees Retirement System into another administrative component results in efficiency . In June of last year, the Governor asked appointed and elected officials to find ways to cut administrative costs by consolidating operations and eliminating duplication of services as they prepared their budgets. The administration of HB 1257 along with the current retirement system, does not support the interest in achieving better and more efficient services to participants in the retirement system at less cost.

HB 1257 does not meet our expectations of a retirement program that puts us on the path to the future.It does not provide equal incentives and opportunities to all employees who may wish to build a more financially secure retirement future because it determines program eligibility based on job classification.

We believe there must be a better way to address the retirement expectation of job applicants and younger employees while, still maintaining fiscal integrity in our current system, than what is offered in HB 1257.

Therefore, we strongly urge a **do not pass** vote on HB 1257.

DEFINED BENEFIT vs. DEFINED CONTRIBUTION PENSION PLAN

Much has been made of the growth of defined **contribution** (401K type) pension plans for American workers. Despite claims to the contrary, defined **benefit** pension plans still provide the best benefit to retired workers and to workers planning their retirement. Defined **benefit** plans are not only better for employees, but are also better for employers, and are simply better public policy.

Defined Benefit Pension Plans are Better for Employees

- **Defined benefit pension plans provide *guaranteed* income security to workers for their retirement**; no matter what happens in the stock market, how long an employee lives after retirement, or whether he or she becomes disabled.
- **Employees are not subject to investment risk.** Pension funds invest assets with an optimum mix of growth potential and risk. Studies show that individuals responsible for their own retirement income typically invest too conservatively, and thus do not adequately protect their retirement benefits from inflation.
- **Retirement benefits are not dependent on employees' ability to save.** Lower-income workers and workers facing declining incomes lose twice under defined contribution plans, where employer contributions are often tied to employee savings. While defined benefit plans often have mandatory employee contributions, their contributions provide workers a secure retirement.
- **Defined benefit plans provide cost of living adjustments** and pension formulas that are tied to the highest-paid years, which protect employees from inflation while they save throughout their working lives.
- **Death and disability insurance, which are typically provided under definded benefit plans, provide income security for participants.** Defined contribution plans provide no insurance benefit in case of an employee's death or disability; employees must purchase this coverage at additional cost.
- **Defined benefit plans provisions can allow for portability** with shorter vesting periods, reciprocity agreements, and buybacks for prior or related service. Defined benefit plans may also allow employee borrowing.

Defined Benefit Pension Plans are Better for Employers

- **Defined benefit plans allow employers to set and to guarantee income-replacement goals for their workforce.** Employees with inadequate retirement income may work longer at higher wage rates than their younger replacements, negotiate higher employer contributions to their 401K type pension plans, or even sue employers for not providing enough investment and retirement-planning education.

- **Employers benefit from the favorable investment performance of pooled pension fund assets.** The wide range of investment options open to large funds makes it possible for employers to provide adequate benefits to employees while limiting contributions. Studies of some pension funds show that investment earnings have exceeded both actuarial assumptions and the interest credited to employee accounts over the last two decades.

- **Defined contribution plans are not a "magic pill" to solve employers' budget constraints.** Defined contribution plans are not more efficient at providing benefits equal to defined benefit plans. Comparable benefits often require comparable employer contributions. Plus, features such as employee loans, investment options, education and information obligations, and periodic statements can make defined contribution plans expensive to administer.

- **Employers face high costs to switch to defined contribution plans.** For example, Michigan offered early retirement to employees — at a cost of $270 million — to win support for a switch to a defined contribution plan. The high cost of defined benefit plans today is often the result of large, unfunded liabilities accumulated for years, that still have to be paid even if the employer switches to a defined contribution plan. This is why states like West Virginia, which moved certain employees to a defined contribution plan, now favor switching back.

- **Defined benefit plans offer an incentive for government employees to stay in public service.** Many valuable employees, who would earn a higher salary in the private sector, stay in public service because of the guarantee of income security when they retire.

- **Defined benefit plans are not hard to budget.** Actuarial projections are made each year and announced months in advance, allowing employers adequate time to budget the expense. Pension liability in mature, ongoing plans typically changes little from year to year.

Defined Benefit Pension Plans are Better Public Policy

- **Defined contribution plans shift the cost of administration onto employees.** Employees pay significant management fees to mutual funds and other plan services directly out of their retirement savings, whereas pension funds use their own managers.

- **Defined contribution plans can create other social costs.** Individuals who fare poorly investing their defined contribution plan account, or who outlive their retirement benefit, may use more social services and need financial assistance such as Medicaid and welfare benefits in their retirement years, offsetting any perceived "savings" to taxpayers.

- **Defined benefit plans promote retirement savings among lower-income workers,** by mandating a single, low level of employee contribution to participate.

- **Many defined contribution advocates resent pension fund power and influence on corporate governance issues.** Corporations and executives who don't like pension fund activism hope to use defined contribution plans to erode investor power, by breaking up large pension plans into small pools of individuals' savings.

American Federation of State, County and Municipal Employees, AFL-CIO
Department of Research and Collective Bargaining Services
1625 L Street, NW
Washington, DC 20036
11/6/97

Defined Benefit Plans Still Measure Up

by R. Evan Inglis

Before trading in your company's defined benefit retirement plan for a defined contribution program, carefully consider the traditional plan's advantages.

Are you embarrassed by the fact that your company still has a traditional defined benefit (DB) pension plan? Does the plan seem too big and bloated—a relic from another era? If you've secretly envied other firms' sleek new defined contribution (DC), cash balance or pension equity plans, hide your head no longer. Here are great arguments you can use in defense of your company's plan.*

Even if you haven't already read the statistics, you're probably aware of the trend in the number of defined benefit vs. the number of defined contribution plans. According to Watson Wyatt Worldwide, the total number of DB plans has shrunk from 168,000 in 1984 to 78,000 in 1995. During that same period the total number of DC plans has risen from 436,000 to 660,000.

What those statistics do not reveal is that the total enrollment in DB plans has remained at about 40 million and total assets invested are still higher than for DC plans. According to the EBRI Quarterly Investment Report, 1st Quarter 1996, $1.46 trillion was invested in DB plans at the beginning of 1996, vs. about $1.30 trillion invested in DC plans. Many larger employers have simply added a 401(k)-type plan to their existing pension plan. Most of the DB plans that have been discontinued were small plans covering fewer than 10 employees.

Benefits per dollar

Many people think that a defined benefit plan is costly and that going with a defined contribution plan will save money. That is simply not true. Benefits paid out in a retirement plan, whether a DB or a DC type, cannot be higher than contributions made into the plan plus investment income earned. A DC plan could only "save" money—that is, reduce contributions—if it either reduced benefits or increased investment earnings. Because DB plans can usually earn a higher rate of return—especially compared with DC plans in which employees make their own investment decisions—there is no reason to believe a DC plan saves money.

Actually, a defined benefit plan almost always delivers more retirement benefits per dollar of contribution. Here's why a DB program is more effective at providing retirement benefits:

As you may know, the benefit value that a participant accrues in a DB plan increases faster and faster as the participant ages. The value of DB benefits at younger ages is very low but increases dramatically as a participant nears retirement. In a DC plan, benefit value is accrued more linearly, which means that participants at younger ages have more benefit value in a DC plan than in a DB plan. Some hybrid plans, like pension equity plans, provide benefit value somewhere between pure DB and DC approaches.

Since more value is accrued at younger ages in a DC plan, more money is paid to participants who terminate employment at an early age and less money is available for retirement benefits.

Let's take a look at what happens when five employees retire from a company and 10 other employees leave during a year. If these 15 participants' benefits were worth a total of $1 million, a typical DB plan might pay benefits worth $750,000 to the retirees and $250,000 to the 10 terminated participants. In a typical DC plan, the five retirees would have benefits worth $500,000 and the other 10 participants' benefits would also be worth $500,000. The DC plan pays more benefits to terminated employees and less to retirees.

Of course, in DC plans like 401(k) plans, much of the cost is shifted from employer to employee, and DC plans are not required to pay premiums to the Pension Benefit Guaranty Corp. (PBGC). However, other costs may favor DB plans when compared to 401(k) plans and similar arrangements in which employees direct their own investments. These include lower administrative costs and, most important, higher investment earnings.

Equitable outcomes

In a DC plan, in which benefits are almost always available as lump sums, some participants are going to retire with more money than they will ever use and some will retire with less income than they need. DB plans, which often do not pay lump sum benefits at retirement, are more likely to make retirement income "just right."

Consider Joe, a widower who retired from Western Widget Works with $500,000 of employer money in his DC plan account. Unfortunately, Joe died soon after he retired and Western Widget's retirement program provided Joe's kids with a pile of cash.

Another of Western Widget's retirees, Julie, also retired with $500,000 in her account. In contrast to Joe, Julie lived a long and happy life. Well, it was happy until she reached 90 and her lump sum was used up, even though she had spent it frugally. Too bad that some of those retirement funds that Joe's kids were spending on fancy cars and designer clothes couldn't have been shifted to Julie instead.

A more appropriate allocation between Joe and Julie is exactly what a DB plan accomplishes through its annuity payments. Joe gets one month of retirement benefits and Julie gets higher income for her long life. The employer thereby provides better retirement benefits for everyone. It is also worth mentioning that the annuity a pension plan provides will cost significantly less than an annuity purchased from an insurance company.

Baby boomer preferences

DC plans are widely regarded as better appreciated by employees and more popular than DB plans. A DC plan works a lot like a bank account or mutual fund, and employees love to watch the account grow. DB plans are full of actuarial concepts, and the benefit is something payable many years in the future.

But wait a minute. Isn't the retirement of the future right around the corner for the "boomers," those 40-plus-year-olds who probably make up more than half of your company's workforce? Shouldn't they be waking up to the fact that an annuity for life is going to be a very nice benefit, allowing them to plan for a secure retirement? You bet they should!

And, in fact, they probably are. Look at the table below. On behalf of the Department of Labor, the Census Bureau surveyed people whose employers provided both a DB and a DC plan. Predictably, younger employees viewed the DC plan as more important. However, you may be surprised by the fact that employees over age 45 overwhelmingly viewed the DB plan as more important.

Managing the money

Generally, defined benefit plans place control in the hands of employers while defined contribution plans shift risk and decision making to employees. The question is, is that shift appropriate?

Okay, so companies have long outgrown the paternalistic culture of the past. It's time for employees to take care of themselves, right? Maybe, but let's face it, we're dealing with an extremely complicated subject. How much money do employees need for retirement? How should it be invested? How much should they use each year after retirement? When should they retire? A defined benefit plan, by its very nature, goes much further toward helping employees answer those questions.

The account balance concept may be better appreciated by younger employees, but when people actually start thinking about retirement, a monthly benefit is easier to understand. After all, most people make purchase decisions based on monthly payments, not the actual cost of a good. The same planning process applies to pension benefits. Most retirees probably have no idea how long $200,000 will last in retirement, but $1,500 a month is something they can base their financial planning on.

In addition, it's much easier and less expensive for the company to hire professional money managers than it is for employees to hire someone or try to become expert investors themselves. Proper investing is the single most important factor in making the most of retirement savings. Is it better for the company to make the relatively easy arrangements for the money to be managed professionally? Or should employees be left to their own devices, with some worksheets and brochures to help them learn how to invest?

A tool for staffing

You've probably read the stories about how many people are going to have to work during retirement because they are not financially prepared. You may also understand that there are not going to be as many "working age" folks left and, if all the baby boomers really do retire, there won't be enough worker bees left to keep things going. With issues like that looming, a retirement program that helps to adjust the size and demographics of a company's workforce could be a real asset.

A DB plan does allow an employer to plan for a desired career pattern. Certain ages or age and service combinations at which retirement makes sense can be identified. For example, it may be possible to ident-ify certain ages or age and service combinations at which employee productivity starts to decline. Partial retirement in which a portion of a retirement benefit is paid as an employee reduces hours worked may well provide help in the future labor market.

On the other hand, consider this DC scenario: The economy hits a rut—profits are down and so are your employees' DC account balances. The company wants to downsize, preferably from among the ranks of older, more highly paid employees. Unfortunately, those employees are reluctant to leave because their retirement savings have recently become inadequate. With a DB plan, the company would be able to make periodic adjustments in the workforce through early retirement windows.

Designing the best plan

We haven't even covered arguments such as how traditional DB plans reward high-performing employees, while DC plans leave them with lower benefits as a percent of pay than others receive. Still, despite all the arguments in favor of DB plans, I do not mean to imply that every company should have a traditional defined benefit plan. But employers should not be too quick to jump off the defined benefit bandwagon without considering all the advantages they're leaving behind.

When weighing the pros and cons of DB and DC plans for your organization, do not get hung up on preconceived notions about "defined benefit" and "defined contribution." Consider the "hybrid" plan types that combine elements of traditional DB and traditional DC plans—for example, "cash balance," "pension equity" and "floor" plans. And remember, a few key modifications to any basic DB, DC or hybrid plan can make it look and feel just like any of the others.

It is, in fact, helpful to completely do away with the terms "defined benefit" and "defined contribution" when considering the appropriate plan design for your organization. Rather than deal with specific types of plans, analyze retirement plans by breaking them down into their key components and make decisions about each of those components. This will ensure that whichever basic design is used, it will have the features appropriate for your organization. Here are a few key questions to consider:

- What should the relative value of benefits for older and younger employees be?
- Who should provide the contributions—employees or employer?
- Who should invest the pension funds—employees or employer?
- Who should benefit from good investment performance—employees or employer?
- Should lump sum benefits, annuities or both be emphasized?
- How can the retirement program help mold the workforce?
- Should benefits be linked to performance of employees or the company?
- How should the program be communicated?

There is no one right answer to any of those questions. To make the best decisions, you'll need to be aware of the advantages and disadvantages of each of the possible answers and be able to relate them to your organization's values and human resource objectives.

In general, it can be said that a traditional DB plan, with its accruals at older ages, annuity payments, and professional investment management is better at delivering retirement benefits. A standard DC plan, with its account balances, lump sum payments, and self-directed accounts, is more of a savings plan. It may be more appreciated by younger employees and involve employees more directly in the retirement planning process.

All employers have to start with the question, "Why do we offer retirement benefits?" and develop specific objectives for their own programs.

R. Evan Inglis, FSA, is a consulting actuary with Watson Wyatt Worldwide in Seattle.

Nonprofit organizations falling under §501(c)(3) of the Internal Revenue Code have been entitled to establish defined contribution pension plans under §403(b). These plans are similar to the 401(k) plans that have become so popular in the private sector.

"The 403(b) is a great plan," says Emile Schoffelen, president of Charles W. Cammack Associates Inc. in New York, a retirement planning firm for nonprofits. "At the very least, nonprofit organizations should promote their 403(b) plans as aggressively as their 401(k) counterparts, since both plans offer similar tax-deferred savings advantages."

Too much of a good thing?

But participants in 403(b)s haven't always had the same advantages as 401(k) plan participants, according to Michael Rosenbaum, a partner who specializes in employee benefits at Gardner, Carton & Douglas, a Chicago law firm. A variety of administrative issues have undermined the effectiveness of 403(b) plans.

One issue is that 403(b) salary reduction plans have been exempt from the protections of the Employee Retirement Income Security Act of 1974 (ERISA). Because the plans are considered voluntary, employers are encouraged to take a "hands-off" approach toward administration. Participants usually are allowed to choose a tax-deferred retirement savings plan from among a group of vendors, instead of choosing a single retirement plan source, as is common with 401(k)s.

"Multiple vendors add to employee confusion about options and the employer's ability to deal with compliance issues," says Rosenbaum.

The use of multiple vendors has led to an average of 24 investment options in the 403(b) plans surveyed by Access Research of Windsor, Conn. By contrast, the number of investment options is more tightly controlled in 401(k) plans, which average six, and usually no more than 10, options. The study also found that participants in 403(b) plans with liberal contract withdrawal options may jump from provider to provider in search of higher interest rate offers.

Offering too many investment options can discourage employees from saving at all, lowering participation rates. Average participation rates for 403(b)s hover between 30 and 35 percent, compared with 78 percent for 401(k) plans, according to the Access Research study.

Increasing participation

To counteract the problems raised by multiple vendors, many nonprofits have looked at consolidating the number of plan vendors down to one or two providers. "They've begun to recognize that they can't always best serve the plan participant with multiple vendors, because it cripples their ability to communicate the benefits and investment options of any one plan," says Rosenbaum.

The "hands-off" policy of employers seeking to remain exempt from ERISA has also meant minimal education for employees. With little or no information on investing, workers often fail to set realistic retirement savings goals or pick the investments most likely to achieve them.

However, public policy is moving toward making employers more accountable for their employees' retirement funding deficiencies. Lack of a thorough retirement education program may some day leave employers open to legal action, which, if successful, could result in a dramatic change in the way 403(b) plans are administered.

In the meantime, a major problem plaguing workers covered by 403(b) retirement plans is that fewer employers make contributions to these plans. According to Access Research, only 52 percent of 403(b) plan sponsors contribute to employees' accounts, compared with 88 percent of 401(k) sponsors. Matching contributions from employers are the single greatest factor motivating employees to participate in retirement plans.

Poor investment strategies

Stable-value investments, such as guaranteed accounts that promise a fixed rate of interest, receive more attention in 403(b) plans than do equity funds. As a result, participants do not always put enough of their assets into potentially higher-returning equities, and so decrease their chances of accumulating adequate retirement savings.

Access Research reported that 403(b) participants typically invest about 60 percent of their assets in stable value investments, much more than the 22 percent in these investments in 401(k) programs. And only 33 percent of 403(b) plans' total assets are invested in equities, compared with 53 percent in 401(k) plans.

Among investment elections for new contributions, stable-value investments are higher in 403(b) programs, at 32 percent, than they are in 401(k) plans, which are at 16 percent. Equity investment of new 403(b) funds is now 62 percent, somewhat improved from recent years. That figure still lags the 75 percent of new 401(k) contributions going into equities.

Suggestions for reengineering

Because of those differences, "many nonprofit employees aren't on track to save sufficient assets for their retirement," says Peter Gold, a principal and benefits consultant with Buck Consultants in Stamford, Conn. "Although that's changing, for many participants in these plans who are nearing retirement, it's probably not changing fast enough."

Since 403(b) plans are a viable means to save for retirement, nonprofit employers should review their plans to be sure that their employees are on track with their savings goals.

To begin with, choosing to comply with ERISA regulations could prove beneficial for 403(b) plan sponsors. Given the increasingly stringent regulatory environment for retirement plans in general, ERISA compliance could be seen as a wise proactive move-it brings 403(b) plans into line with the prevailing regulatory climate and requires stepped-up educational efforts that often lead to significantly higher participation rates. The importance of such enhanced educational efforts cannot be overemphasized.

Reevaluating the number of vendors in 403(b) plans can also prove useful. Multiple vendors can sow confusion among employees. Streamlining them can increase the success of an existing 403(b). In addition, investment choices should be reevaluated. Sufficient diversification is necessary so that participants can reap maximum retirement benefits from their investments. Finally, benefits professionals can help determine the best design for a plan.

Benefits for a changing environment

With downsizing and government funding cutbacks pelting nonprofits with the message "do more with less," a properly engineered 403(b) plan can be a powerful tool in retaining and attracting employees. These plans, like their 401(k) counterparts, can be a solid foundation for retirement savings if they are promoted aggressively and employees take full advantage of their tax-deferral benefits.

TESTIMONY

OF

SPARB COLLINS

HB 1257

Madame Chair, members of the Committee, good morning. My name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System, or PERS. I appear before you today neither in favor of, or opposed to, HB 1257. I would, however, like to highlight one of the changes that occurred in this bill as part of the considerations by the House. Specifically, the bill was changed to make the defined contribution plan an option for new employees. As originally proposed the bill would have been mandatory for new employees. The implications of this change relate to the amount of funds that would be transferred should a new employee decide to go into the defined contribution plan. Specifically, the bill provides that the amount of transfer will be the actuarial present value of the individual's accumulated benefit obligation under the defined contribution system, based upon the assumption that the individual will retire at the earliest applicable normal retirement date. However, when this transfer methodology is applied to new employees, as a result of the change, it will result in an unintended outcome. That is, a new employee who elects to transfer to the defined contribution system will find that, when we calculate the amount to be transferred using the proposed methodology, the amount will be less than the amount of employer and employee contribution that has been submitted on that employee's behalf. This will not be the case when you apply this methodology to existing employees, as originally anticipated by the bill, because they will have longer lengths of service. The methodology problem only occurs in the case of short-term employees or new employees. Leaving the language as is would mean that all new employees, who now have the option of being in the defined benefit or defined contribution plans, would find that it would have an initial negative impact for them to go into the defined contribution plan. The amount that would be transferred would be less than the contributions received. Therefore, the purpose of my testimony today is to present this information to you for your consideration. We have prepared the attached amendment to address this situation.

I have also attached to my testimony, for your information, a summary of the actuarial review prepared by our consultant during the interim. The actuarial review includes a listing of those employees who would be eligible under this bill, by agency.

Also with me today is Rod Crane, from The Segal Company. Segal is NDPERS actuary and provided the attached review and determined the implications for new employees that I previously discussed. Rod is available to answer any questions you may have.

Madame Chair, members of the Committee, this concludes my testimony.

Attachments

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1257

Page 7, replace lines 1 through 7 with:

"for employees electing to transfer prior to January 1, 2000, using the two following formulas, and shall transfer the greater of the two amounts obtained:

a. The actuarial present value of the individual's accumulated benefit obligation under the public employees retirement system based on the assumption that the individual will retire under the earliest applicable normal retirement age, plus interest from January 1, 2000, to the date of transfer, at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election.

b. The actual employer and employee contributions made pursuant to sections 54-52-05 and 54-52-06, plus interest at the rate of one-half of one percent less than the actuarial interest assumption at the time of the election.

The board shall calculate the amount to be transferred for persons employed after December 31, 1999, using only formula (b) above."

Renumber accordingly

House Bill No. 1257
A Summary of the Actuarial Review of the Proposed
Defined Contribution Retirement Plan
for Non-Classified Employees

<table>
<tr><td rowspan="9">Benefit Policy Issues</td><td>Retirement Benefit Adequacy</td><td>Retirement earnings for the non-career employee would increase. Specifically, a non-career employee who cashes out of the retirement plan would get a greater amount under this plan then the present plan because they would get the opportunity to receive their vested portion of the employer contribution.

Retirement benefits for career employees would be reduced. The replacement ratios for a 25-year career employee under the current plan and the new plan (assuming a net contribution , which is less the cost of the disability benefit , of 7.5% of pay earning 8%) is expected to be as follows:<table><tr><th>Service</th><th>Replacement Ratio
New Plan</th><th>Replacement Ratio
Current Plan</th></tr><tr><td>20</td><td>20%</td><td>33%</td></tr><tr><td>25</td><td>27%</td><td>42%</td></tr></table>As shown above, the current plan would provide a greater replacement ratio for a career employee.
Replacement ratio is the amount of final average salary that is replaced by the retirement benefit at retirement</td></tr>
<tr><td>Retirement Savings</td><td>In aggregate, total retirement savings would likely be reduced. National statistics show that 50% of those people who leave a retirement fund and withdraw spend the amount they cash out. However, for non-career employees who continue to preserve their retirement funds for retirement, their overall savings would increase.</td></tr>
<tr><td>Benefit Equity</td><td>Similar employees making different selections will end up with different benefits at retirement. The perceived equity of these situations will be viewed either positively or negatively in retrospect. Having a single uniform retirement plan does not create these types of comparisons or potential conflicts.</td></tr>
<tr><td>Group Integrity</td><td>The proposed group is a heterogeneous group. It is composed of a mix of job classes carved out of a larger group. Generally, when subsets of groups are selected to receive different retirement benefits, they are more homogeneous in nature.</td></tr>
<tr><td>Competitiveness</td><td>The new design increases the ability of shorter term elected and appointed officials to earn and retain a valuable retirement benefit. Other states have taken similar approaches. The new design, however, may be less competitive compared to other public employee retirement plans. It could also motivate job mobility and increase turnover. This may or may not be desirable. This bill does match the trend among smaller private sector employers who use a defined contribution plan instead of a defined benefit plan. However, it does not match the designs of most larger private sector employers who use a combination of a core defined benefit plan with a supplemental set of defined contribution and profit sharing plans.</td></tr>
<tr><td>Purchasing Power Retention</td><td>As a defined contribution design, the new plan does not guarantee the purchasing power of the retirement benefit. Whether purchasing power is retained or not will depend on the investment performance of the distributed assets. The current PERS plan, as a defined benefit design, can and has provided post-retirement increases.</td></tr>
<tr><td>Preservation of Benefits</td><td>As a defined contribution design, the new plan can work well to preserve the value of benefits of former members because the retirement asset investments are credited directly to the participant. The actual level of benefit preservation will depend on investment performance.</td></tr>
<tr><td>Portability (Internal & External)
Of Assets
Of Benefits
Of Service</td><td>

Increased – because a member could take all or part of the employer contribution
Increased – because the vesting schedule is reduced
Decreased – because service is not recognized in other state systems</td></tr>
</table>

		House Bill No. 1257 A Summary of the Actuarial Review of the Proposed Defined Contribution Retirement Plan for Non-Classified Employees
	Impact on Other Benefits: **Ancillary** **Social Security**	Ancillary benefits such as disability and pre-retirement death benefits are impacted by the new plan. Social Security: No impact
Funding Policy Issues	**Actuarial Impacts**	For the group that initially transfers out of the defined benefit plan, there could be an actuarial gain for PERS because the transfer amount will likely be less than the liabilities held for these members. However, the effects on PERS over time of future members not selecting the defined benefit plan have not been determined. The actuary has recommended that a study should be conducted to determine the implications of this on the funding of the plan over time and its ability to meet its goals while continuing to be able to provide ad hoc adjustments to its retirees
	Investment Impacts: Asset Allocation	Asset allocation decisions and investment risk (gain or loss) will be shifted to the participant.
	Investment Impacts: Cash Flow	The initial transfer of assets out of PERS for members who choose the new plan will have an impact on the cash flow patterns of PERS. Also, cash flows for PERS will be affected in the future as new employees choose the new plan. The actuary has recommended that a study should be conducted to determine the implications of this on the funding of the plan over time and its ability to meet its goals while continuing to be able to provide ad hoc adjustments to its retirees
Administration	**Implementation**	A new plan will need to be created (plan documents, administrative rules, forms and procedures)
	Administrative Costs	Initial start up cost is estimated to be $196,000. This includes $96,000 in PERS administrative expenses and one FTE. It also includes $100,000 in consulting expenses to set up the new plan.
	Appropriate Authority	The PERS Board appears to have been granted sufficient authority to interpret and administer the new plan.
	Plan Type	The new plan will be a §401(a) qualified defined contribution plan.
	Cross Impact On Other Plans	If the new vesting schedule is intended to apply to the Retiree Health Program this will result in an accelerated vesting for that program as well. Consequently this could increase the contribution requirement for that program. If the existing vesting schedule would continue to apply, then there would be no effect on that program.
	Employee Communications	The nature of defined contribution plans allowing participant investments will require additional employee education efforts regarding retirement and investment planning.
Miscellaneous	**Drafting Issues**	A new plan and trust will need to be created. The amount of the benefits transferred for new employees choosing the new plan should be clarified.

STATE OF NORTH DAKOTA
NON-CLASSIFIED EMPLOYEES BY DEPARTMENT

ATTACHMENT A

Department	Nonclassified Employees	Department	Nonclassified Employees
Governor's/Lt. Governor's Office	16	Public Service Commission	4
Secretary of State's Office	3	Aeronautics Commission	1
Office of Management & Budget	10	Department of Banking & Finance	3
Information Services Division	1	ND Bar Board	3
State Auditor's Office	2	State Board of Cosmetology	1
State Treasurer's Office	3	ND Plumbing Board	3
Attorney General's Office	32	Bank of North Dakota	19
State Tax Department	6	Municipal Bond Bank	3
Office of Administrative Hearing	1	Housing Finance Agency	1
Legislative Council	32	ND Mill & Elevator	120
Retirement & Investment Office	3	Worker's Compensation Bureau	164
Public Employees Retirement System	1	ND Highway Patrol	1
Department of Public Instruction	3	Division of Emergency Management	3
Education & Standards Practice Board	3	State Penitentiary	1
ND University System	1	Roughrider Industries	5
Land Commission	2	Department of Corrections	1
Bismarck State College	65	Adjutant General Army National Guard*	36
UND – Lake Region	27	Econ. Dev. & Fin	4
University of North Dakota	1100	Department of Agriculture	4
ND State University	738	Milk Stabilization Board	1
ND State College of Science	159	ND Oil Seed Council	1
Dickinson State University	61	ND Soybean Council	1
Mayville State University	49	ND Seed Department	6
Minot State University	157	ND Beef Commission	2
Valley City State University	53	ND Wheat Commission	1
ND State Library	1	ND Barley Commission	1
School for the Deaf	1	ND Fair Association	8
State Board of Nursing	8	ND Council of the Arts	5
Health Department & Consolidated Labs	5	ND Game & Fish Department	3
Developmental Center of Grafton	6	ND Tourism Department	3
Jamestown State Hospital	18	ND Parks & Recreation	1
ND Veteran's Home	1	ND Water Commission	2
Indian Affairs Commission	1	Department of Transportation	6
Department of Veteran's Affairs	1	State Board of Accountancy	5
Department of Human Services	26	State Board of Medical Examiners	4
Protection & Advocacy Project	1	State Board of Pharmacy	2
Job Service	2	Real Estate Commission	2
ND Insurance Department	5	State Electrical Board	10
ND Industrial Commission	1		
ND Labor Department	3	**TOTAL**	**3049**

- Includes 32 National Guard Members

101495/01640.001

HOUSE BILL NO. 1257
TESTIMONY BEFORE SENATE
GOVERNMENT AND VETERANS AFFAIRS

MIKE SANDAL, DIRECTOR, HUMAN RESOURCES
NORTH DAKOTA UNIVERSITY SYSTEM

The North Dakota University System is neutral on HB 1257. However, we offer a minor amendment to the bill for this Committee's consideration. This proposed amendment is on page three line thirty of the engrossed bill. The amendment would exclude from the definition of an eligible employee, those employees currently eligible for the TIAA-CREF retirement plan. The TIAA-CREF retirement plan is a defined contribution plan administered by the State Board of Higher Education. Positions currently eligible for this retirement plan are primarily instructional and professional level positions. Presently, we have approximately 3400 NDUS positions eligible for TIAA-CREF retirement.

We do not believe that the origional intent of this bill was to provide an alternative for those positions already under a defined contribution retirement plan since the TIAA-CREF retirement plan has many of the same portability provisions proposed in HB 1257.

I therefore ask for your support on this amendment.

the monthly salaries of all supreme or district court judges who are participating members of the public employees retirement system under chapter 54-52. Each governmental unit that contributes to the public employees retirement system fund under section 54-52-06 or the retirement plan under chapter 54-52.6 shall contribute monthly to the retiree health benefits fund an amount equal to one percent of the monthly salaries or wages of all participating members of the public employees retirement system under chapter 54-52 or chapter 54-52.6. The employer of a national guard security officer or firefighter shall contribute monthly to the retiree health benefits fund an amount equal to one percent of the monthly salaries or wages of all national guard security officers or firefighters participating in the public employees retirement system under chapter 54-52. Job service North Dakota shall reimburse monthly the retiree health benefits fund for credit received under section 54-52.1-03.3 by members of the retirement program established by job service North Dakota under section 52-11-01. The board, as trustee of the fund and in exclusive control of its administration, shall:

a. Provide for the investment and disbursement of moneys of the retiree health benefits fund and administrative expenditures in the same manner as moneys of the public employees retirement system are invested, disbursed, or expended.

b. Adopt rules necessary for the proper administration of the retiree health benefits fund, including enrollment procedures.

SECTION 5. Chapter 54-52.6 of the North Dakota Century Code is created and enacted as follows:

54-52.6-01. Definition of terms. As used in this chapter, unless the context otherwise requires:

1. "Board" means the public employees retirement system board.

2. "Deferred member" means a person who elected to receive deferred vested retirement benefits under chapter 54-52.

3. "Eligible employee" means a permanent state employee, except an employee of the judicial branch, or an employee eligible for TIAA-CREF, who is eighteen years or more of age and who is in a position not classified by the central personnel division.

NDPEA NORTH DAKOTA PUBLIC EMPLOYEES ASSOCIATION

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TESTIMONY IN OPPOSITION TO HB 1257

Before the Senate Government and Veterans Affairs Committee
North Dakota Public Employees Association, AFT Local 4660, AFL-CIO
March 5, 1999

Chairman Krebsbach, members of the Senate Government and Veterans Affairs Committee, my name is Chris Runge and I am the Executive Director of the North Dakota Public Employees Association, AFT #4660. I am here to testify in opposition to amended HB 1257. This bill would create an entirely new defined contributions retirement system for non-classified state employees and we are opposed to changing the current well-run system. The bill was amended in the House and it is now optional and the judicial system opted out of the bill altogether.

In the past few years governors and state legislatures have looked to overhaul the pension systems for public employees. One idea prevalent among some lawmakers is establishing defined contribution pensions for public employees and moving them out of existing defined benefit pension plans. Often lost in the discussion of the advantages and disadvantages of both types of plans is the question of benefit adequacy. Since the fundamental purpose of any pension plan is to complement Social Security and personal savings in providing an adequate level of income during retirement, this is an important gap. While I do not understand all the ins and outs of the pension system and I am not a number cruncher, there is great concern with whether this bill will create parity with those in the current PERS system. I would recommend that the question of benefit adequacy for those who will participate in this plan be explored thoroughly by this committee before seriously considering this bill.

NDPEA strongly believes it is not a matter of choosing a defined benefits pension system over a defined contributions pension system. It is what is in the best interests of the public employee, what will provide the employee with the best possible retirement plan for the years of service and loyalty that employee has provided to the citizens of this state. The Segal Company did an initial study of this bill when the Interim Public Employees Benefits Committee first discussed it.

We are concerned with this new plan for a number of reasons. According to the Segal Company, "[T]he defined contribution nature of the new plan with lump sum benefit payments may decrease the amount of a member's retirement benefit that will be available for retirement because it is used for current consumption. Employee Benefit Research Institute statistics indicate that because of this "leakage" effect, less than 100 percent of the employer contributions will actually be used to provide retirement benefits. Nationally, 58.5% of any lump sum distributions are not used for retirement purposes. The leakage rate for the current NDPERS plan has no leakage of employer contributions."

One of our other concerns with this bill is the provision of disability benefits. Right now public employees enjoy the peace of mind of knowing that if they become disabled they will receive a disability benefit from NDPERS. In this bill, the employee would have to use a portion of their personal retirement account to purchase disability insurance thus taking away valuable money to be used for their future retirement. This will create a differing benefits system for public employees who may be sitting right next to each other in the workplace.

There are other funding and investment impacts that need to be studied before this bill is passed even though it is now totally optional. It is our fear that we will be back here in two years to include the classified staff and to make it mandatory. The proverbial camel has its nose under the tent and eventually it will want all the way in.

I have to ask the question: if this is a billion dollar business, and it is, would any CEO or board of directors seriously consider starting another competing program without knowing all the potential fiscal impacts on your main business. The answer is **absolutely not**. So why should we not demand any less fiduciary responsibility when it comes to our retirement system?

We believe that we have a terrific retirement system already in place: NDPERS. The current pension provides a strong defined benefit pension and offers a supplementary defined contribution plan as well. And in another bill currently in the House, SB 2071, we are supporting enhancements to the current program based on a pension portability study conducted during the interim that will encourage participation in the supplementary defined contributions plan while keeping intact the strong defined benefits program. In fact, you passed it unanimously a few weeks ago.

NDPERS involved employee organizations such as NDPEA in studying the pension portability issue during this past interim and we are thankful for the opportunity to have participated in this most important discussion and in the design of SB 2071. SB 2071 more than adequately addresses, I believe, the questions that the 1997 Legislature had concerning portability and defined contribution and defined benefit pension plans. I have spent a great deal of time over the last eighteen months talking to public employee union members about pension issues and what we call the three legged retirement stool. The three-legged stool consists of a strong Social Security system, an employee sponsored defined benefits pension plan, and a good supplementary defined contributions pension plan again. PERS has two out of the three. The third leg, Social Security will have to be handled on a national level and we are involved in that discussion but SB 2071 deals with the other two legs.

There is a fiscal note attached to this bill. In our opinion that money should go to state employee salary raises which are much more needed than this bill.

NDPEA urges a DO NOT PASS on HB 1257.

Thank you and I am available to answer any questions you may have.

Independent North Dakota
State Employees Association

P.O. Box 1714 Bismarck, North Dakota 58502

TESTIMONY ON
HB 1257
MARCH 5, 1999

Madam chair and members of the committee, I am Tom Tupa, and I am representing the Independent North Dakota State Employees Association (INDSEA). I am here in opposition to HB 1257. INDSEA sees this bill as opening the door to a defined contribution system for State employees.

State employees have had a defined contribution plan in the past and the PERS Board, in its wisdom, moved from the contribution plan to the current defined benefit plan. When I was a State employee back in the 70's I remember getting a personal statement from the retirement system showing my ending balance to be less than the contributions I put in for that year. We do not need to go back to that kind of system.

Retirement systems were originally created to attract and retain long term employees, and, provide for the employee in his or her retirement years. The current defined benefit plan does that. Conversely, a defined contribution plan during poor market times or at times when an employee needs money, could promote the exact opposite.

We understand the desire of short term elected and appointed officials wanting to capitalize on taking some of the employer contribution upon their departure from employment. There is another bill, SB 2071, that would allow them to do just that without jeopardizing the current defined benefit plan.

Madam Chair and committee members, I want to point out two things that could be a problem in the future if the State were to move a substantial number of employees to a DC plan. In the past, post retirement adjustments for the retirees and multiplier enhancements for active employees were generally given from the created margin of the plan. This would end if we go to the DC plan. Without the multiplier and retiree adjustments, there might be an impact on employees retiring from service and opening up jobs for new and younger employees. In other words, if retirees would not be able to look at future adjustments, they may decide to continue working.

The other point I would like to make is one about economic development in ND. Under the present PERS and TFFR plans, the SIB has made arrangements to funnel 60 million dollars to the Match Loan Program at the Bank of ND. Not all of the 60 millions come from the retirement systems. (Some of the money comes from the insurance funds.) The purpose of the Match Loan dollars is for investments in ND businesses. Currently, not all of the 60 million is invested, but as HB 1257 moves through the legislative process, the Bank of ND is looking at investing in some new ventures in ND using the Match Loan dollars.

The problem is this. If large numbers of employees move voluntarily or by mandate, to the DC plan, this source of money for ND investment could dry up. Because the DB retirement money is currently pooled for investment purposes within the SIB, the SIB can arrange with the BND, as one of its money managers, to make a portion of its money available to help ND businesses. If the DC plan became a reality, the money would perhaps not be available for investment in ND since it would be in the individual employee account. I think this is a real hidden benefit of the current DB plan to the State of ND -- and one that warrants substantial consideration.

Madam Chair and committee members, if you are absolutely adamant about passing this bill, then please consider amending it to include only elected and senior appointed officials. However, with SB 2071, this bill is not necessary and I ask you to give it a DO NOT PASS.

Thank you for your time and I will try to answer any questions.

Senate Committee Hearing
Government & Veterans Affairs
March 5, 1999
HB 1257

Madam Chair, Committee members, for the record my name is Weldee Baetsch representing the Association of Former Public Employees.

Our organization is in opposition to HB 1257 because the bill directs current employees and retirees to be on a path that leads us back to a 1966 retirement plan (defined contribution) that failed public employees. We favor supporting a retirement system designed to meet not only present day needs of our retirees but also emerging retirement issues of the 21st Century. One issue is finding ways to establish methods allowing employees easier access to their employers contribution upon termination.

Such a retirement plan must at least provide a dependable,reliable, adjustable basic source of income to our seniors when needed. Concurrently, such a plan should contain features offering incentives to current employees to use their discretionary income to make financial investments of their choosing through the main retirement system. Successful retirement programs of the future should contain an investment formula that blends the best features of defined benefit program and a defined contribution program. The first priority of any retirement system is to be fully funded and to maintain financial solvency before opening up opportunities for individual investments. In the totality of retirement systems, moving money from one plan to another benefits no one. Offering the opportunity for employees to save more out of their pay check adds new capital to the investment world.

We do not believe dividing the Public Employees Retirement System into another administrative component results in efficiency . In June of last year, the Governor asked appointed and elected officials to find ways to cut administrative costs by consolidating operations and eliminating duplication of services as they prepared their budgets. The administration of HB 1257 along with the current retirement system, does not support the interest in achieving better and more efficient services to participants in the retirement system at less cost.

We are very much concerned that this bill takes the first step in transferring investment risk to the employee. Opportunities for employees to test their risk tolerance and investment skills are already provided for in another bill heard before this committee (SB 2071).

In addition to our concern about the transfer of investment risk, your attention is drawn to a recommendation made by Segal Co. in a letter to Representative Wald stating that an asset-liability and cash flow study should be conducted to better predict the long term impact of this bill. The same letter went on to say that a study should be done “to make sure the new plan does not result in an unfair funding impact on the remaining members”. If the Segal Co. is concerned then we are concerned.

HB 1257 does not meet our expectations of a retirement program that puts us on the path to the future.It does not provide equal incentives and opportunities to all employees who may wish to build a more financially secure retirement future because it determines program eligibility based on job classification.

We believe there must be a better way to address the retirement expectation of job applicants and younger employees while, still maintaining fiscal integrity in our current system, than what is offered in HB 1257.

Therefore, we strongly urge a **do not pass** vote on HB 1257.

North Dakota Public Employees Retirement System

End of Month	Salary(1)	PERS Cash Balance Present Plan(2)	SB 2071(3)	HB 1257(4)
12	$20,000	828	$1,138	828
24	$21,000	1,758	$2,526	1,758
36	$21,630	2,785	$4,282	4,220
48	$22,279	3,916	$6,447	6,941
60	$22,947	5,159	$8,829	10,473
72	$23,636	6,524	$11,447	13,244
84	$24,345	8,021	$14,320	16,282
96	$25,075	9,660	$17,469	19,609
108	$25,827	11,453	$20,917	23,249
120	$26,602	13,412	$24,687	27,227
132	$27,400	15,552	$28,806	31,570
144	$28,222	17,886	$33,302	36,308
156	$29,069	20,430	$38,205	41,473
168	$29,941	23,201	$43,548	47,098
180	$30,839	26,217	$49,366	53,221
192	$31,764	29,498	$55,696	59,880
204	$32,717	33,064	$62,581	67,119
216	$33,699	36,938	$70,063	74,984
228	$34,710	41,144	$78,190	83,523
240	$35,751	45,709	$87,013	92,790
252	$36,824	50,661	$96,586	102,842
264	$37,928	56,030	$106,969	113,741
276	$39,066	61,848	$118,224	125,552
288	$40,238	68,152	$130,420	138,349
300	$41,445	74,978	$143,632	152,206

(1) Salary increases 5% the first year; 3% each year thereafter.

(2) Employee contribution is 4% of salary. Interest at 7.5% per year is credited monthly on contributions.

(3) Employee contribution is 4% of salary. Matching 457 plan contribution is 1% per year of service with a maximum of 4% of salary (minimum 457 annual plan contribution is $300). Interest at 7.5% per year is credited monthly on contributions.

(4) Employee contribution is 4% of salary. Matching contribution is 4.12% of salary with the following vesting schedule:

Years of Service	*% Vested*
1	0%
2	50%
3	75%
4	100%

Assumed return is 7.5% per year after payment of administrative, fund and disability expenses. The return is credited monthly on contributions