

**Public Employees Retirement System
Budget No. 192
Senate Bill No. 2023**

	FTE Positions	General Fund	Other Funds	Total
2023-25 legislative appropriations	40.50	\$0	\$10,903,218	\$10,903,218
2023-25 base budget	35.50	0	9,855,296	9,855,296
Legislative increase (decrease) to base budget	5.00	\$0	\$1,047,922	\$1,047,922

**SUMMARY OF LEGISLATIVE CHANGES TO THE BASE BUDGET AND MAJOR FUNDING ITEMS
Changes to Base Budget**

	FTE Positions	General Fund	Other Funds	Total
The legislative action:				
Adjusted funding for base payroll changes			\$53,963	\$53,963
Added funding to provide employee salary increases of 6 percent on July 1, 2023, and 4 percent on July 1, 2024			508,874	508,874
Added funding for employee health insurance premiums to reflect a revised premium estimate of \$1,643 per month			210,904	210,904
Transferred funding for new FTE positions and estimated savings from vacant FTE positions to a new and vacant FTE funding pool in the Office of Management and Budget			(1,201,247)	(1,201,247)
Added funding for salary equity increases			180,000	180,000
Added funding for FTE positions, including an FTE retirement processing lead position, an FTE receptionist position, and an FTE member services representative position	3.00		503,385	503,385
Added funding for contingent FTE positions, including an FTE benefit manager position and an FTE counselor position	2.00		481,110	481,110
Reduced funding for temporary salaries to provide a total of \$100,000 from other funds			(160,368)	(160,368)
Added funding for information technology rate increases			16,301	16,301
Added one-time funding for temporary salaries to close the main system defined benefit retirement plan			200,000	200,000
Added one-time funding for third-party developer costs to upgrade the PERSLink business system			125,000	125,000

Added one-time funding for third-party developer costs to modify the PERSLink business system due to the closure of the main system defined benefit retirement plan			125,000	125,000
Added one-time funding to purchase chairs for new FTE positions			5,000	5,000
Total	5.00	\$0	\$1,047,922	\$1,047,922

FTE Changes

The Legislative Assembly approved 40.50 FTE positions for the Public Employees Retirement System (PERS) for the 2023-25 biennium, an increase of 5 FTE positions from the 2021-23 biennium, as follows:

FTE Position Description	FTE Position	Other Funds
Retirement processing lead	1.00	\$215,357
Receptionist	1.00	125,711
Member services representative	1.00	162,317
Benefit manager ¹	1.00	294,451
Counselor ¹	1.00	186,659
Total	5.00	\$984,495

¹The \$481,110 added for an FTE benefit manager position and FTE counselor position was only available if the Legislative Assembly closed the main system defined benefit retirement plan to new hires. The contingency was met as the plan was closed in House Bill No. 1040 (2023).

One-Time Funding

In Section 2 of Senate Bill No. 2023, the Legislative Assembly identified one-time funding of \$455,000 from other funds for PERS for the 2023-25 biennium, as follows:

	Other Funds
Temporary salaries to close the main system defined benefit retirement plan ¹	\$200,000
Third-party developer costs to upgrade the PERSLink business system	125,000
Third-party developer costs to modify the PERSLink business system due to the closure of the main system defined benefit retirement plan ¹	125,000
New FTE position chairs ¹	5,000
Total	\$455,000

¹The \$327,000 of one-time funding added for temporary salaries (\$200,000), third-party developer costs to modify the PERSLink business system (\$125,000), and new FTE position chairs (\$2,000 of the \$5,000) was only available if the Legislative Assembly closed the main system defined benefit retirement plan to new hires. The contingency was met as the plan was closed in House Bill No. 1040.

Other Sections in Senate Bill No. 2023

Defined benefit retirement plan closure - Contingent appropriation - Section 3 identifies \$372,027 in a newly created defined benefit plan closure line item in Section 1 is a contingent appropriation for 2 FTE positions, temporary salaries, and operating expenses that is effective only if the 2023 Legislative Assembly approves legislation to close the main system defined benefit retirement plan to new hires. The contingency was met as the plan was closed in House Bill No. 1040.

Of the amount in the defined benefit plan closure line item, \$47,027 is for a portion of salaries and wages and related operating expenses for 2 FTE positions, \$200,000 is for temporary salaries, and \$125,000 is for modification of the PERSLink business system. Of this amount, \$327,000 is considered one-time funding. In addition, PERS may request the Office of Management and Budget to transfer up to \$479,660 of additional funding from the new and vacant FTE funding pool to this line item for salaries and wages of the contingent FTE positions identified in this section.

Main System Defined Benefit Retirement Plan Closure

Plan Closure and Contribution Rate Increases

In House Bill No. 1040, the Legislative Assembly closed the main system defined benefit retirement plan to new hires beginning January 1, 2025. The bill increased employer contributions by 1 percent beginning January 1, 2024, resulting in total employer contributions of 8.12 percent for employees hired on or before December 31, 2019. For employees hired after December 31, 2019, the employer contribution rate is 9.26 percent, which includes the 1.14 percent that was reallocated from the retiree health insurance credit beginning in the 2019-21 biennium. Employee contributions remain at 7 percent, of which 4 percent is paid by the state on behalf of employees.

Beginning January 1, 2026, the employer contribution rate for state agencies will change to the actuarially determined employer contribution (ADEC) rate to address the unfunded liability of the main system defined benefit plan over a closed period of 31.5 years. The state will pay for the political subdivision portion of the unfunded liability. The estimated ADEC rate on January 1, 2026, is 30.5 percent. The employer contribution rate for political subdivisions will increase from 7.12 to 8.12 percent.

Section 17 of House Bill No. 1040 provides state employees with no more than 5 years of experience who are enrolled in the main system defined benefit retirement plan and elect to transfer to the new defined contribution plan between January 1, 2025, through March 31, 2025, are eligible for a \$3,333 additional annual contribution in January 2026, January 2027, and January 2028.

Sections 33 and 34 of House Bill No. 1040 provides for Legislative Management studies of the PERS main system retirement plan.

Section 56 of Senate Bill No. 2015 (2023) provides during the 2023-25 biennium, the retirement board may not reduce the actuarial rate of return assumption for the PERS main system defined benefit plan below 6.5 percent. Section 57 provides during the 2023-25 biennium, PERS shall conduct an informational campaign to educate current and prospective state employees of the transition from the defined benefit retirement plan to the defined contribution retirement plan.

Defined Contribution Plan

House Bill No. 1040 provides employees hired after December 31, 2024, be enrolled in a new defined contribution plan. The default employee contribution rate of the new defined contribution plan is 4 percent and the employee may elect to contribute up to an additional 3 percent. The employer is required to match the employee contribution up to 7 percent. If a state employee in the new defined contribution plan contributes less than 7 percent but participates in the PERS 457 deferred compensation plan, the state employer is required to match contributions to the deferred compensation plan up to a total of 7 percent. The deferred compensation plan option may not be available for political subdivision employees. For employees participating in the (existing) defined contribution plan before January 1, 2025, the employer contribution rate remains at 7 percent and the employer contribution rate remains at 7.12 percent.

The new defined contribution plan has an investment option that must include one or more annuity products as part of the investment menu. The existing defined contribution plan has an investment menu but does not provide for annuity products.

Funding

Section 31 of House Bill No. 1040 amends North Dakota Century Code Section 57-51.1-07.5 to provide \$65 million of the state share of oil and gas tax revenues be deposited in the PERS fund for the main system plan beginning in the 2023-25 biennium. Section 35 of the bill provides for a \$135 million transfer from the strategic investment and improvements fund to the PERS fund for the purpose of reducing the unfunded liability of the PERS main system plan during the 2023-25 biennium.

In House Bill No. 1379 (2023), Section 6-09.4-10.1 was amended to remove the statutory transfer of funding from the legacy sinking and interest fund to the PERS fund. The estimated transfer at the end of the 2021-23 biennium would have been approximately \$48 million.

In Section 1 of Senate Bill No. 2015, the Legislative Assembly appropriated \$12.5 million, of which \$5.5 million is from the general fund and \$7 million is from other funds, for an employer retirement contribution pool, related to the increased cost of employer contribution increases in House Bill No. 1040, House Bill No. 1183 (2023), and House Bill No. 1309 (2023). Section 23 of Senate Bill No. 2015 identifies the additional contributions for each agency. Of the total, \$10 million, including \$4.2 million from the general fund and \$5.8 million from other funds, relates to House Bill No. 1040. Section 8 of the bill appropriates \$347,518, of which \$343,245 is from the general fund and \$4,273 is from other funds, to the judicial branch for the cost of the 1 percent employer retirement contribution increase in House Bill No. 1040. Section 9 of the bill appropriates \$58,283 from the general fund to the Legislative Council for the cost of the 1 percent employer retirement contribution increase in House Bill No. 1040.

The Public Employees Retirement System estimates the cost to continue reducing the unfunded liability based on the estimated ADEC rate of 30.5 percent during the 2025-27 biennium is approximately \$402 million, of which \$154 million is from the general fund and \$248 million is from other funds. This total includes the \$65 million of ongoing funding provided from oil and gas tax revenues and funding necessary for 6 months of the 1 percent employer retirement contribution increase through December 31, 2025, after which the ADEC rate will be applied.

Contingent Effective Date

In Sections 36 through 40 and Sections 44 through 50 of Senate Bill No. 2015, the Legislative Assembly amended House Bill No. 1040 to provide the PERS main system defined benefit retirement plan be closed to new hires beginning January 1, 2024, instead of January 1, 2025. Section 66 of Senate Bill No. 2015 provides these sections are effective only if the PERS board certifies to the Legislative Council before January 1, 2024, that PERS is prepared to close the main system defined benefit retirement plan on December 31, 2023, and to open the new defined contribution retirement plan on January 1, 2024.

Related Legislation

House Bill No. 1183 - Peace officer retirement - Expands the definition of peace officer to individuals employed by the state, allowing peace officers to transfer from the PERS main system defined benefit retirement plan to the public safety defined benefit retirement plan. This bill does not include peace officers employed by the Highway Patrol who are enrolled in the Highway Patrol defined benefit retirement plan.

House Bill No. 1309 - Peace officer retirement - Adjusts retirement vesting and multiplier provisions for peace officers of the public safety defined benefit plan.

House Bill No. 1411 (2023) - Prosthetic limb coverage - Expands the PERS health insurance plan to provide coverage for prosthetic limbs, sockets, and other related services.

Senate Bill No. 2015 - Funding pools - Includes funding pools from which the agency may receive allocations, including the:

- Employer retirement contribution pool from which the agency is to receive \$36,736 from other funds, in accordance with provisions of Section 23 of Senate Bill No. 2015 for the 1 percent employer retirement contribution increase provided for in House Bill No. 1040;
- New and vacant FTE funding pool from which the agency may request funding when hiring new FTE positions or if the agency does not realize sufficient savings from vacant FTE positions in accordance with provisions of Section 22 of Senate Bill No. 2015; and
- Targeted market equity pool from which the agency may receive an allocation as determined by the Office of Management and Budget in accordance with provisions of Section 20 of Senate Bill No. 2015.

Senate Bill No. 2140 (2023) - Insulin drug and medical supplies benefits - Expands the PERS health insurance plan to provide coverage for insulin drug and medical supplies benefits. The bill provides out-of-pocket costs for a 30-day supply of covered insulin drugs or covered medical supplies is limited to \$25 per pharmacy or distributor.