

FISCAL NOTE
Requested by Legislative Council
02/12/2013

Amendment to: HB 1452

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$6,028,000	\$5,278,500	\$6,028,000	\$5,278,500
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$2,792,500	\$2,792,500
Cities	\$0	\$1,197,500	\$1,197,500
School Districts	\$0	\$2,986,500	\$2,986,500
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The proposed legislation would provide NEW State employees, including judges, BCI law enforcement officers and National Guard employees, the opportunity to irrevocably elect to participate in the Defined Contribution Plan pursuant to rules adopted by the PERS board.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

The increase is due to having fewer members in the various retirement plans to pay off the unfunded liability. This bill would allow new state employees the opportunity to elect out of the existing retirement plan and join the defined contribution retirement plan. The above assumes that 10% of the new members would elect to transfer (these estimates assume the recovery plan will be adopted and therefore these amounts would be in addition to recovery plan estimates). At this level, contributions would need to increase by 1.06% of payroll to support this option for the Main/hybrid plan. This would have a total biennium cost of \$18.3 million. Over the last 10 years about 16% of newly hired nonclassified employees elected to transfer to the DC plan and over the last 5 years this fell to about 7.8% . Assuming these election rates, the number of members in the existing defined benefit/hybrid plans would decrease, while the unfunded liability would not go down proportionately. Consequently there would be fewer members to pay off the remaining unfunded liability. Therefore, the contribution amount required from those remaining is higher in order to generate approximately the same amount of revenue to make the necessary payments to pay off the unfunded liability. If we assumed that the number making this election to transfer was annually 5% of the new hires, then the main hybrid plan contributions would need to increase by .58% to support this option at the level for the Main/hybrid plan. This would have a total biennium cost of \$10.0 million. Alternatively, if we assume that 15% of the new hires, then contributions would need to increase by 1.57% in the Main/Hybrid Plan. This would have a total biennium cost of \$27.0 million. As illustrated, the cost varies substantially depending on the number electing to transfer. This transfer risk will be an ongoing risk for the plan if this bill is adopted and may cause contribution requirements to vary substantially.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The effective date of the bill is 8/1/2013 and its provisions would be implemented when administrative rules are promulgated pursuant to the bill. From this date forward the number of state employees in the existing defined benefit/hybrid plan will start to decrease. The actuary has determined that this declining membership will mean the remaining members will need a higher contribution to raise approximately the same amount of funds to pay off the unfunded liability. These actuarial effects will start to take place with the implementation of the bill. If contributions are not increased, funds are not appropriated, and the actuarial assumptions are not met, the additional contribution for the remaining members will continue to accrue and roll over into future bienniums for additional payment. In addition, NDPERS estimates additional administration expenses for printing, mailings, meetings, etc. of \$22,000.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The bill as proposed does not appropriate funds to pay the additional cost identified above. If appropriated, retirement contributions would need to be increased for the state and political subdivisions by 1.06%, assuming 10% of the new hires transfer, or .58%, assuming 5% of the new hires transfer, or 1.57% if 15% of the new hires transfer. Contribution requirements for the other smaller systems would need to change as well. At the level of 10% of the new hires, the Judges contribution would need to go up by 1.07%, the law enforcement contribution would need to go up .52% and National Guard would need to go up .34%.

Name: Sparb Collins

Agency: NDPERS

Telephone: 701-328-3900

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