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OPINION

Dustin Gawrylow, Mandan, N.D., column: Pension thundercloud looms on N.D.'s horizon

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MANDAN, N.D. -- During the past few months, as has been a tradition for the past six years or so, North Dakota officials have been very proud to brag about all the revenue coming into the state's treasury because of the oil boom.

Last week, Gov. Jack Dalrymple released his budget proposal for the next two years. While there certainly is plenty of money (and even more ways to spend that money), Herald readers also must remember the prospect of high costs in future years and the way those costs could derail the state budget's long term health.

While most people understand the threat that the federal government poses to North Dakota's economy in the matter of taxes and regulation, there are major areas in North Dakota's internal policies that also could pose major problems down the line -- and so far, the Legislature and governor have ignored these issues.

During the regular session in 2011, a strong effort was led by state Rep. Bette Grande, R-Fargo, to reform and modernize North Dakota's public pension system.

With a 69-25 Republican majority, the effort to move both the teachers' retirement system and the public employees' retirement system away from a defined benefit program toward a 401(k)-style defined contribution program failed to pass the North Dakota House.

In the past two years, North Dakota's public pension funds have continued the downward slide that began in 2008. They now represent a $2 billion unfunded liability over the next 30-odd years.

The Public Employee Pension Fund now is funded at a 65 percent level and is nearly $874 million short of the level it needs to cover projected retiree benefits over that same stretch of 30-plus years.

The Teacher's Retirement Fund is funded at a rate of 60.9 percent and is more than $1 billion short of being able to meet its projected obligations over that time.

These are alarming figures, especially in light of how North Dakota's leaders spend most of their time bragging about all the surplus dollars the state budget is seeing come in because of the oil boom. But this crisis is not a surprise to anyone.

Even more staggering is that from 2010 to 2012, these pension funds have seen their unfunded liabilities increase from $1.3 billion to $2 billion.

These pension funds are in trouble for two reasons:

** They are based on the antiquated defined benefit approach to retirement. This means that the state and local governments have made promises to employees to provide fixed benefits, no matter what the market does.

The state is obligated to make these benefit payments regardless of how much revenue is earmarked for that purpose or what the market returns are.

** The investment philosophy of these pension funds is to chase an 8 percent annual return. Even high-flying (liberal) investment geniuses such as Warren Buffet say that goal is out of line, and a 6 percent return is more realistic.

The time to fix these problems is now, while North Dakota has the money to rebalance its tax code and get future liabilities under control.

Continuing to ignore these problems and to hope they go away is the Washington Way, not The North Dakota Way.

Gawrylow is managing director of the North Dakota Watchdog Network.