

**2021 HOUSE GOVERNMENT AND VETERANS AFFAIRS**

**HB 1209**

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee Pioneer Room, State Capitol

HB 1209  
1/21/2021

Relating to public employees retirement system employer and temporary employee contribution rates; and to provide an effective date

**Vice Chairman B. Koppelman** opened the hearing at 2:07 p.m.

Representatives	Roll Call
Representative Jim Kasper	P
Representative Ben Koppelman	P
Representative Pamela Anderson	P
Representative Jeff A. Hoverson	P
Representative Karen Karls	P
Representative Scott Louser	P
Representative Jeffery J. Magrum	P
Representative Mitch Ostlie	P
Representative Karen M. Rohr	P
Representative Austen Schauer	P
Representative Mary Schneider	P
Representative Vicky Steiner	P
Representative Greg Stemen	P
Representative Steve Vetter	P

### Discussion Topics:

- Participation by temporary employees
- Contribution rate tie

**Rep. M. Ruby** introduced the bill and testified in favor, #2172, #2173.

**Scott Miller, Executive Director, NDPERS**, testified in favor with testimony #1952.

**Raheem Williams, Reason Foundation**, testified neutral with testimony #2156, #2120.

**Additional written testimony:** #1958, #1961, #2048, #2080

**Vice Chairman B. Koppelman** closed the hearing at 3:07 p.m.

*Carmen Hart, Committee Clerk*

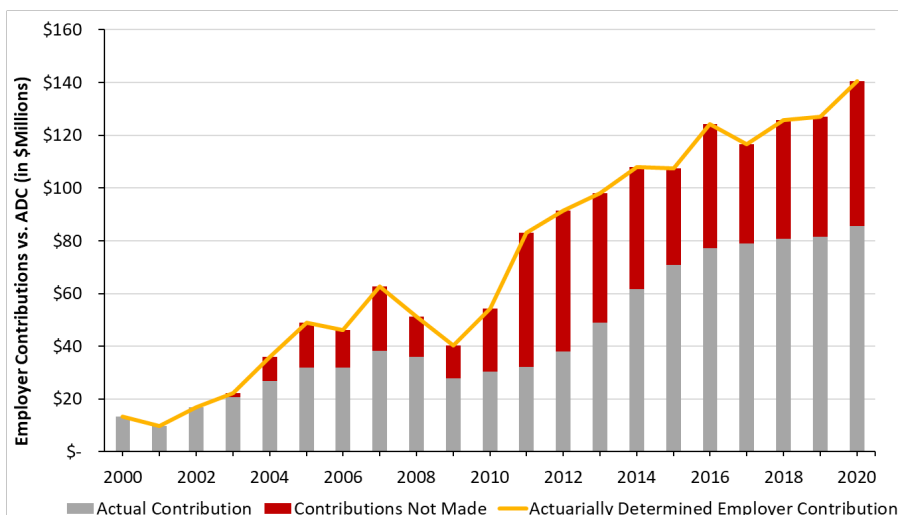
## Actuarially Determined Contributions Would Reverse NDPERS Debt Trends

Pension systems like NDPERS need to rely on consistent contributions from government workers and their employers—as well as compounding investment returns—over long periods of time to save the necessary amounts needed to pay the retirement benefits promised to generations of public employees. Unfortunately, consistent funding has not meant adequate funding for NDPERS, which holds over \$1.4 billion in unfunded pension liabilities today in part due to the legislature's history of statutorily establishing pension contribution rates less than what NDPERS' actuaries calculate is necessary to achieve full funding over the next few decades—in short, the legislature has been structurally underfunding NDPERS. Moving from an arbitrary statutory contribution rate to an actuarially determined employer contribution (ADEC) is an important needed step for the long-term financial future of NDPERS.



### Missed Contributions are Pushing NDPERS Debt Higher

- ❖ The North Dakota legislature has historically been reluctant to raise employer contribution rates for NDPERS to a level that meets the actuarially required amount (ADEC).
- ❖ NDPERS had a \$135 million surplus in FY 2000 but failed to make the ADEC contribution for the last 18 years (2003-2020), with actual employer contributions to NDPERS falling short of ADEC by over \$576.8 million over that period.



### How ADEC Saves Taxpayers Long-Term

- ❖ Using an ADEC funding policy is an industry best practice that would depoliticize and automate the funding process and make it more adaptable to the plan's experience.
- ❖ ADEC funding would limit the impact of missed actuarial assumptions by ensuring the subsequent contributions needed to make up for the lost revenue.
- ❖ The contribution increases needed now to meet ADEC pale in comparison to the costs of doing nothing and accepting the continued structural accumulation of high-interest pension debt. The current policy ensures that NDPERS unfunded liabilities will never be paid off, while shifting to ADEC would immediately start a path to full funding.

### Pension Integrity Project Contacts —

- Raheem Williams, Policy Analyst ([Raheem.Williams@reason.org](mailto:Raheem.Williams@reason.org))
- Leonard Gilroy, Senior Managing Director ([leonard.gilroy@reason.org](mailto:leonard.gilroy@reason.org))

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1209

Page 1, line 1, remove "54-52-06.5,"

Page 2, line 15, after "by" insert "the board after the"

Page 2, line 15, replace "valuations" with "valuation in each even-numbered year, beginning on July 1 of each odd-numbered year"

Page 2, line 25, remove "either"

Page 2, line 25, replace ", or a period less than twenty years as" with "The board shall advise the office of management and budget and the next legislative assembly of the required contribution rate for their use in the budget-making process."

Page 2, remove lines 26 and 27

Page 3, remove lines 27 and 28

Page 4, remove lines 1 through 29

Renumber accordingly

## **TESTIMONY OF SCOTT MILLER**

### **House Bill 1209 – Set PERS Main and Defined Contribution Plan Contribution Rates at the Actuarially Determined Contribution Rate**

Good Afternoon, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I am here to testify in favor of House Bill 1209.

I believe the intent behind House Bill 1209 is an excellent one – this would tie the contribution rate to the Main PERS Plan and the Defined Contribution Plan to the Actuarially Determined Contribution (ADC) rate, which is that rate necessary to get the Main PERS Plan to 100% funding within 20 years. The Bill would also create a stabilization fund in the future on which the Main PERS Plan could rely in the event our funding again became an issue. But while the intent is excellent, there are some amendments that need to be made to make the bill workable and consistent with the Internal Revenue Code.

Section 1 sets the contribution rate paid by temporary employees to the combined employee and employer rates that are set later in statute. Since temporary employees are required to pay both the employee and employer contributions, this is consistent with statute.

Section 2 sets the employer contribution rate at the rate “determined by actuarial valuations” to get the Main PERS Plan to 100% funded “over a closed period of either twenty years, or a period less than twenty years as established by the board taking into account the recommendation of the plan's actuary.” I would recommend changing the “determined by actuarial valuations” language to something that requires the NDPERS Board to set the contribution rate as of a certain date prior to the next legislative session pursuant to information contained within the annual actuarial valuations. As the Bill is currently written, there is no mechanism for transferring the information from the valuations to the employers or a date on which the contribution rate should be changed. Further, setting a date certain gives the Office of Management and Budget the opportunity to put those contributions in agencies’ respective budgets, and the Legislative Assembly the ability to review and approve those budget expenditures.

Section 3 provides for the creation of a stabilization fund on which the Board could potentially draw for future funding problems. There are a few things I would suggest

changing to clarify the section and ensure it complies with Internal Revenue Code requirements. Alternatively, I would suggest deleting this section.

First, section 3 of the bill uses the phrase “valuation assets”. We are unclear what that phrase is intended to mean, as it is not a phrase that is typically used in an actuarial valuation. I would suggest changing the phrase to “actuarial value of assets” or “market value of assets”, depending on what is intended in this section. Most likely the intent is to use “actuarial value of assets”.

Second, we presume this phrase, “the board shall account for fifty percent of the excess valuation assets in a stabilization reserve account”, is intended to require the Board to transfer fifty percent of either the actuarial value of assets or market value of assets above the 120% funding level from the PERS trust fund to a separate “stabilization reserve account”. Making that absolutely clear and requiring that transfer on the 1<sup>st</sup> of the January following the valuation date would be helpful clarifications.

However, the transfer itself would violate the Internal Revenue Code (IRC). As reflected in NDCC section 54-52-14.3, the IRC requires that all monies deposited into the trust fund be used for the “exclusive benefit of the members, retirees, and beneficiaries of that system, including the payment of system administrative costs.” NDCC section 54-52-14.3. Once the monies are deposited in the trust fund, they are the property of the members and beneficiaries of the system, and can only be used to pay benefits and reasonable administrative costs. The Board cannot remove trust fund money to fund the stabilization fund without violating the IRC and potentially disqualifying the retirement plan. Accordingly, a different funding mechanism for the stabilization fund is required. Alternatively, given that 100% funding is still at least 20 years away, this section could be removed and the topic considered in a later legislative session.

Section 4 makes the rate applicable to the Defined Contribution plan. I do not see any issues with that section.

I have provided Representative Ruby with proposed amendments that should accomplish the clarifications I noted above.

That concludes my testimony.

## Testimony on North Dakota House Bill 1209

Prepared for: Government and Veterans Affairs Committee,  
North Dakota House of Representatives

Prepared by: Raheem Williams, Policy Analyst  
Pension Integrity Project at Reason Foundation

Date: January 21, 2021



Chairman Koppelman, committee members, thank you for inviting me to offer a brief technical assessment on House Bill 1209 and the implications of the state adopting an actuarially determined employer contribution funding policy—commonly referred to as the ADEC rate—to address the underfunding of the North Dakota Public Employees Retirement System (NDPERS).

My name is Raheem Williams and I serve as a policy analyst with the Pension Integrity Project at Reason Foundation, a national 501(c)(3) libertarian-leaning think tank. We offer pro-bono technical assistance and policy research to help public officials and other stakeholders design and implement policy solutions aimed at improving public pension plan resiliency, promoting retirement security for public employees, and lowering long-term financial risks to taxpayers. I am also a former NDSU research specialist and am currently collaborating with them on an independent assessment of NDPERS's long-term solvency.

Public pension systems like NDPERS rely on contributions from public employees and their public employers—as well as compounding investment returns—over long periods of time to save the necessary amounts needed to pay the retirement benefits promised to generations of public employees.

Over the last 20 years, NDPERS has gone from 115% funded and holding a surplus of \$135 million to holding over \$1.4 billion in earned, yet unfunded, pension obligations that are implicitly protected by both the state and federal constitutions.

Over \$585 million of that \$1.4 billion in NDPERS pension debt—nearly a third—can be attributed to the way the state systematically underfunds its largest public pension system, according to annual public reports published by NDPERS. In their most recent report, NDPERS actuaries determined that the state needed to contribute 12.94% of payroll to put the plan on the path to full funding. However, the statutory employer contribution rate established in state law is only 7.16% of payroll, shorting NDPERS the 5.78% needed to get back on track to full funding.

The consistent practice of setting NDPERS contribution rates too low in state law instead of paying the amount actuaries calculate is needed has consistently shorted the system of expected revenue, every single year for the last 18 years (2003-2020). In short, the state is structurally underfunding the plan, which only drives up costs for taxpayers since, like any debt, pension debt that is not paid down will only grow. If not addressed, the system will never reach full funding, nor will the current funding method ever pay down the current \$1.4 billion in pension debt. This only drives up the cost to taxpayers, higher and higher.

The current NDPERS funding policy is inadequate. By statutorily setting contribution rates below the ADEC rate policymakers ensure the required revenue will never make it into the fund to be invested, and thus will never earn a return. To put this in context, the fund was shorted \$1.6 million in 2003—that's \$1.6 million that did not earn a return in subsequent years. This

effectively compounds each year, stifling fund growth as interest on the debt is accumulated. According to NDPERS' 2020 Comprehensive Annual Financial Report, the annual contribution deficiency has grown to \$55 million.

Ignoring pension obligations is a costly decision that put taxpayers at risk, threatens retirement security for retirees, and runs counter to prudent stewardship of public finances. Courts nationwide have interpreted pension benefits as contractual obligations that have to be paid, one way or the other. Generally speaking, in the context of underfunded pensions, debt is debt—you either pay more now or pay even more later.

And credit ratings agencies routinely evaluate pension solvency as they make credit rating determinations, generally taking a dim view of pension underfunding. Michigan and Colorado have recently enacted similar pension funding policy reforms designed to pay down pension debt faster. By demonstrating a willingness to improve plan funding, the aforementioned states received credit rating upgrades.

Furthermore, the Society of Actuaries Blue Ribbon Panel on Public Pensions Funding advises that a plan should not settle for any level of funding below 100% and should always guide their funds to reach full funding within 20 years or less.

The increases needed now to meet the ADEC rate will pale in comparison to maintaining the structural underfunding of today and the ever-compounding accumulation of pension debt. ADEC funding alone will not guarantee the plan reaches full funding, nor will it address the systemic risk inherent in making assumptions about future investment returns and demographic changes. However, shifting to the use of an actuarially determined contribution rate for NDPERS would be a prudent funding policy step to ensure that today's missed contributions do not become the financial burden of tomorrow's North Dakotans.





# Does HB 1209 (North Dakota PERS ADEC Funding) Meet the Objectives for Good Pension Reform?

Objectives	Status Quo	HB 1209
<b>Keeping Promises</b> <i>Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees</i>	Uncertain	YES
<b>Retirement Security</b> <i>Provide retirement security for all current and future employees</i>	FOR SOME	IMPROVED
<b>Predictability</b> <i>Stabilize contribution rates for the long-term</i>	Yes *But Unsustainable	IMPROVED But RISK REMAINS
<b>Risk Reduction</b> <i>Reduce pension system exposure to financial risk and market volatility</i>	NO	IMPROVED But RISK REMAINS
<b>Affordability</b> <i>Reduce long-term costs for employers, employees</i>	NO	IMPROVED LONG-TERM *Cost will rise initially and then fall as debt amortize.
<b>Attractive Benefits</b> <i>Ensure the ability to recruit 21st Century employees</i>	FOR SOME *For long- term employees	N/A
<b>Good Governance</b> <i>Adopt best practices for board organization, investment management, and financial reporting</i>	YES	N/A

Objectives	Status Quo	HB 1209
<b>Keeping Promises</b>	NDPERS does not have all the funds needed today to ensure promised benefits are paid in the future.	Adopting a funding policy based on actuarially determined (ADEC) rates would put NDPERS on a path to full funding and greatly reduce long-term risk.
<b>Retirement Security</b>	NDPERS is accumulating pension debt, meaning its members' retirement security faces long-term risk. Over 40% of new NDPERS members leave before vesting. Only 15% work long enough to earn a full pension.	HB 1209 increases contributions and ensures future rates align with actuarial recommendations that steer NDPERS toward a path of long-term solvency. However, the measure does not expand access to more portable retirement benefit design options for NDPERS members of shorter-term employment duration.
<b>Predictability</b>	Rates are predictable in the short-term, but for a problematic reason: contributions are set using rates fixed in law as opposed to the rates calculated by professional actuaries as being needed to keep NDPERS solvent, creating systematic underfunding.	Despite contributions rates varying more year-over-year to account for returns and missed assumptions, the state contributing to NDPERS on an actuarially determined basis would bring the total annual contributions closer to the level needed to fully-fund promised pension benefits. Current statutory rates fall 5.37% short of what actuaries say is needed.
<b>Risk Reduction</b>	The current assumed return of 7.0 has about a 55% probability of being achieved on average over the next 30 years.	Increasing contributions is a positive step towards long-term solvency, but additional future steps may be needed to address the plan's overall financial risk. NDPERS will continue to face market volatility, a lower-yield investment climate, and an assumed rate of return and discount rate that are likely higher than economic conditions would warrant.
<b>Affordability</b>	NDPERS unfunded liabilities generate major long-term costs through interest on the pension debt, creating fiscal pressures for employers.	HB 1209 will generate additional <i>near-term</i> contributions to pay off pension debt faster and reduce NDPERS unfunded liabilities and <i>long-term</i> costs if assumptions are accurate. The full effectiveness of this reform will be missed if experience does not meet actuarial assumptions. Lower returns could prevent this plan from achieving more affordability in the long-run, and interest costs could continue to be a problem.
<b>Attractive Benefits</b>	The current NDPERS benefit primarily supports those who stay for a full 30 years of service (unreduced retirement benefit), which only 15% achieve.	HB 1209 maintains the current benefit formula and does not address the recruitment or retention of younger, more mobile workers.
<b>Good Governance</b>	NDPERS generally is a well operated enterprise delivering high quality services.	HB 1209 does not address the plan's governing structure.

## **TESTIMONY OF REBECCA FRICKE**

### **House Bill 1209 – Set PERS Main and Defined Contribution Plan Contribution Rates at the Actuarially Determined Contribution Rate**

Good afternoon, my name is Rebecca Fricke. I am the Chief Benefits Officer of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in favor of House Bill 1209. I am available should there be any questions related to the impact of the bill on any of the NDPERS benefits.

## **TESTIMONY OF DERRICK HOHBEIN**

### **House Bill 1209 – Set PERS Main and Defined Contribution Plan Contribution Rates at the Actuarially Determined Contribution Rate**

Good afternoon, my name is Derrick Hohbein. I am the Chief Operating / Financial Officer of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in favor of House Bill 1209. I am available should there be any questions related to the impact of the bill on any of the NDPERS benefits.

255 N. 4th St.  
PO Box 5200  
Grand Forks, ND 58206-5200



City of Grand Forks  
(701) 746-4636

**TESTIMONY ON HOUSE BILL 1209  
Government and Veterans Affairs Committee  
January 21, 2021**

**Tangee Bouvette, Human Resources Director  
Maureen Storstad, Finance and Administrative Services Director  
City of Grand Forks, ND**

Mr. Chairman and members of the committee, we are Tangee Bouvette, Human Resources Director and Maureen Storstad, Finance and Administrative Services Director for the City of Grand Forks. We want to thank you for the opportunity to provide testimony and express the City of Grand Forks' opposition to this legislation.

The NDPERS retirement system is an excellent defined benefit pension plan and a key recruitment and retention tool for the City of Grand Forks as well as numerous other local government entities, in addition to the State.

The City of Grand Forks, in general, has supported the NDPERS plan and its efforts to become fully funded. The City supports current legislation to moderately increase contribution rates and has supported past legislation to increase contribution rates over the last 12 years as the City of Grand Forks has been able to manage these incremental increases through budget planning.

Conversely, the City of Grand Forks is against House Bill 1209 which would require each governmental unit to contribute an amount determined by actuarial valuation to meet both the normal cost plus the actuarially determined amount required to amortize the unfunded accrued liability over a period of twenty (20) years or less. The impact of this bill creates uncertainty and may cause extreme hardship. The volatile nature of investment performance could result in wide variations for annual contributions making it difficult to budget and forecast for local government entities.

The City of Grand Forks supports making incremental contribution changes to the NDPERS plan and monitoring funding every two years, but for the reasons outlined above the passage of House Bill 1209 is not in the best interests of the City of Grand Forks nor any other North Dakotan political subdivision. Thank you for your time and consideration. We respectfully ask for a DO NOT PASS on House Bill 1209.

## **TESTIMONY OF MARYJO ANDERSON**

### **House Bill 1209 – Set PERS Main and Defined Contribution Plan Contribution Rates at the Actuarially Determined Contribution Rate**

Good afternoon, my name is MaryJo Anderson. I am the Retirement Programs Manager of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in favor of House Bill 1209. I am available should there be any questions related to the impact of the bill on any of the NDPERS benefits.

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee Pioneer Room, State Capitol

HB 1209  
2/11/2021

Relating to PERS employer and temporary employee contribution rates; and to provide an effective date

**Chairman Kasper** opened the committee work meeting at 10:15 a.m.

Representatives	Roll Call
Representative Jim Kasper	P
Representative Ben Koppelman	P
Representative Pamela Anderson	P
Representative Jeff A. Hoverson	P
Representative Karen Karls	P
Representative Scott Louser	A
Representative Jeffery J. Magrum	A
Representative Mitch Ostlie	P
Representative Karen M. Rohr	P
Representative Austen Schauer	P
Representative Mary Schneider	P
Representative Vicky Steiner	P
Representative Greg Stemen	P
Representative Steve Vetter	P

### Discussion Topics:

- Amendment discussion

**Rep. B. Koppelman** explained Rep. Ruby's amendment 21.0566.01007, #6448, #6447. He moved to **adopt amendment**. **Rep. Stemen** seconded. **Voice vote. Motion carried.**

**Rep. B. Koppelman** moved **Do Pass as amended**. **Rep. Ostlie** seconded.

Representatives	Vote
Representative Jim Kasper	Y
Representative Ben Koppelman	Y
Representative Pamela Anderson	N
Representative Jeff A. Hoverson	Y
Representative Karen Karls	Y
Representative Scott Louser	A
Representative Jeffery J. Magrum	A
Representative Mitch Ostlie	Y
Representative Karen M. Rohr	Y
Representative Austen Schauer	Y
Representative Mary Schneider	Y
Representative Vicky Steiner	Y
Representative Greg Stemen	Y
Representative Steve Vetter	Y

**Motion passes.** 11-1-2. **Rep. Schauer** is the carrier.

**Chairman Kasper** closed the meeting at 10:21 a.m.

*Carmen Hart, Committee Clerk*



PROPOSED AMENDMENTS TO HOUSE BILL NO. 1209

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of the public employees retirement system defined benefit and defined contribution retirement plans."

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS.** During the 2021-22 interim, the legislative management shall develop a plan for new hires under the public employees retirement system main system to participate in the defined benefit plan and to close the defined benefit plan to new entries effective January 1, 2024. Upon approval of the chairman of the legislative management, the study may use the services of a third-party contractor to assist in the study. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-eighth legislative assembly."

Renumber accordingly

**REPORT OF STANDING COMMITTEE**

**HB 1209: Government and Veterans Affairs Committee (Rep. Kasper, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (11 YEAS, 1 NAY, 2 ABSENT AND NOT VOTING). HB 1209 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of the public employees retirement system defined benefit and defined contribution retirement plans.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS.** During the 2021-22 interim, the legislative management shall develop a plan for new hires under the public employees retirement system main system to participate in the defined benefit plan and to close the defined benefit plan to new entries effective January 1, 2024. Upon approval of the chairman of the legislative management, the study may use the services of a third-party contractor to assist in the study. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-eighth legislative assembly."

Renumber accordingly

21.0566.01007

Sixty-seventh  
Legislative Assembly  
of North Dakota

**HOUSE BILL NO. 1209**

Introduced by

Representatives M. Ruby, Dockter, O'Brien, Schauer

Senators Anderson, Dever

A BILL ~~for an Act to amend and reenact section 54-52-02.9, 54-52-06, 54-52-06.5, and 54-52-09 of the North Dakota Century Code, relating to public employees retirement system employer and temporary employee contribution rates; and to provide an effective date.~~ for an Act to provide for a legislative management study of the public employees retirement system defined benefit and defined contribution retirement plans.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

~~**SECTION 1. AMENDMENT.** Section 54-52-02.9 of the North Dakota Century Code is amended and reenacted as follows:~~

~~**54-52-02.9. Participation by temporary employees.**~~

~~1. Within one hundred eighty days of beginning employment, a temporary employee may elect to participate in the public employees retirement system and receive credit for service after enrollment. Monthly, the temporary employee shall pay to the fund an amount equal to eight and twelve hundredths four percent times the temporary employee's present monthly salary. The amount required to be paid by a temporary employee increases by two percent times the temporary employee's present monthly salary beginning with the monthly reporting period of January 2012, and with an additional two percent increase, beginning with the reporting period of January 2013, and with an additional increase of two percent, beginning with the monthly reporting period of January 2014 plus the amount of the employer contribution under subdivision a of subsection 1 of section 54-52-06.~~

~~2. If the temporary employee first enrolled:~~

~~a. Before January 1, 2020, in addition the temporary employee shall pay the required monthly contribution to the retiree health benefit fund established under~~

~~section 54-52.1-03.2. This contribution must be recorded as a member-  
contribution pursuant to section 54-52.1-03.2.~~

~~b. After December 31, 2019, the temporary employee shall pay to the fund an  
additional amount equal to one and fourteen hundredths percent times the  
temporary employee's present monthly salary.~~

~~3. An employer may not pay the temporary employee's contributions. A temporary  
employee may continue to participate as a temporary employee in the public  
employees retirement system until termination of employment or reclassification of the  
temporary employee as a permanent employee. A temporary employee may not  
purchase any additional credit, including additional credit under section 54-52-17.4 or  
past service under section 54-52-02.6.~~

~~**SECTION 2. AMENDMENT.** Section 54-52-06 of the North Dakota Century Code is  
amended and reenacted as follows:~~

~~**54-52-06. Employer's contribution to retirement plan -- Report to the legislative  
assembly.**~~

~~1. Each~~

~~a. As determined by actuarial valuations, each governmental unit shall contribute an  
amount equal to four and twelve hundredths percent of the monthly salary or  
wage of a participating member. Governmental unit contributions increase by one  
percent of the monthly salary or wage of a participating member beginning with  
the monthly reporting period of January 2012; with an additional increase of one  
percent, beginning with the reporting period of January 2013; and with an  
additional increase of one percent, beginning with the monthly reporting period of  
January 2014 on a level percent of compensation basis for all employees  
sufficient under the actuarial valuation to meet both the normal cost plus the  
actuarially determined amount required to amortize the unfunded accrued liability  
over a closed period of either twenty years, or a period less than twenty years as  
established by the board taking into account the recommendation of the plan's  
actuary.~~

~~b. For a participating member who first enrolls after December 31, 2019, the  
governmental unit shall contribute an additional amount equal to one and~~

1                   fourteen-hundredths percent of the monthly salary or wage of the participating  
2                   member.

3     ~~2. For those members who elect to exercise their rights under section 54-52-17.14, the~~  
4     ~~employing governmental unit, or in the case of a member not presently under covered~~  
5     ~~employment the most recent employing governmental unit, shall pay the associated~~  
6     ~~employer contribution. If the employee's contribution is paid by the governmental unit~~  
7     ~~under subsection 3 of section 54-52-05, the employer unit shall contribute, in addition,~~  
8     ~~an amount equal to the required employee's contribution. Each governmental unit~~  
9     ~~shall pay the contribution monthly, or in the case of an election made pursuant to~~  
10    ~~section 54-52-17.14 a lump sum, into the retirement fund from the governmental unit's~~  
11    ~~funds appropriated for payroll and salary or any other funds available for these~~  
12    ~~purposes. Any governmental unit failing to pay the contributions monthly, or in the~~  
13    ~~case of an election made pursuant to section 54-52-17.14 a lump sum, is subject to a~~  
14    ~~civil penalty of fifty dollars and, as interest, one percent of the amount due for each~~  
15    ~~month of delay or fraction thereof after the payment became due. In lieu of assessing~~  
16    ~~a civil penalty or one percent per month, or both, interest at the actuarial rate of return~~  
17    ~~may be assessed for each month the contributions are delinquent. If contributions are~~  
18    ~~paid within ninety days of the date the contributions became due, penalty and interest~~  
19    ~~to be paid on delinquent contributions may be waived.~~

20    ~~3. An employer is required to submit contributions for any past eligible employee who~~  
21    ~~was employed after July 1, 1977, for which contributions were not made if the~~  
22    ~~employee would have been eligible to become vested had the employee participated~~  
23    ~~and if the employee elects to join the public employees retirement system. Employer~~  
24    ~~contributions may not be assessed for eligible service that an employee has waived~~  
25    ~~pursuant to subsection 1 of section 54-52-05.~~

26    ~~4. The board shall report to each session of the legislative assembly the contributions~~  
27    ~~necessary, as determined by the actuarial study, to maintain the fund's actuarial~~  
28    ~~soundness.~~

29    ~~**SECTION 3. AMENDMENT.** Section 54-52-06.5 of the North Dakota Century Code is~~  
30    ~~amended and reenacted as follows:~~

~~**54-52-06.5. Reduction in member and employer contributions – Stabilization reserve account.**~~

~~1. The required increase in the amount of member and employer contributions under sections 54-52-02.9, 54-52-05, 54-52-06, 54-52-06.1, 54-52-06.3, 54-52.6-02, and 54-52.6-09 and in the amount of employer contributions under section 54-52-06.1 must be reduced to the rate in effect on July 1, 2013, effective on the July first that follows the first valuation of the public employees retirement system main system showing a ratio of the actuarial value of assets to the actuarial accrued liability of the public employees retirement system main system that is equal to or greater than one hundred percent.~~

~~2. Under subdivision a of subsection 1 of section 54-52-06:~~

~~a. During the fiscal year an employer's contribution to the plan in combination with a member's contribution may not be less than the actuarially determined normal cost for that fiscal year. After the close of any fiscal year, if the plan's actuary determines the actuarial valuation of the fund contains excess valuation assets and is more than one hundred twenty percent funded, the board shall account for fifty percent of the excess valuation assets in a stabilization reserve account. After the close of a fiscal year, if the plan's actuary determines the actuarial valuation of the fund has a valuation asset deficiency and an unfunded actuarial accrued liability, the board shall use any valuation assets in the stabilization reserve account, to the extent available, to limit the decline in the fund's funding ratio to not more than two percent.~~

~~b. The board may not suspend contributions to the system unless:~~

~~(1) The retirement system actuary, based on the annual valuation, determines continuing to accrue excess earnings could result in disqualification of the system's tax-exempt status under the provisions of the Internal Revenue Code; and~~

~~(2) The board determines the receipt of additional contributions required under this subsection would conflict with the board's fiduciary responsibility.~~

~~**SECTION 4. AMENDMENT.** Section 54-52.6-09 of the North Dakota Century Code is amended and reenacted as follows:~~

~~54-52.6-09. Contributions -- Penalty.~~

~~1. Each participating member shall contribute monthly four percent of the monthly salary or wage paid to the participant, and this assessment must be deducted from the participant's salary in equal monthly installments commencing with the first month of participation in the defined contribution retirement plan established under this chapter. Participating member contributions increase by one percent of the monthly salary or wage paid to the participant beginning with the monthly reporting period of January 2012; with an additional increase of one percent, beginning with the reporting period of January 2013; and with an additional increase of one percent, beginning with the monthly reporting period of January 2014.~~

~~2. a. The employer shall contribute an amount equal to four and twelve-hundredths percent of the monthly salary or wage of a participating member. Employer contributions increase by one percent of the monthly salary or wage of a participating member beginning with the monthly reporting period of January 2012; with an additional increase of one percent, beginning with the monthly reporting period of January 2013; and with an additional increase of one percent, beginning with the monthly reporting period of January 2014~~the employer contribution rate under subdivision a of subsection 1 of section 54-52-06.

~~b. For members first enrolled after December 31, 2019, the employer contribution includes an additional increase of one and fourteen-hundredths percent. If the employee's contribution is paid by the employer under subsection 3, the employer shall contribute, in addition, an amount equal to the required employee's contribution.~~

~~c. Monthly, the employer shall pay such contribution into the participating member's account from the employer's funds appropriated for payroll and salary or any other funds available for such purposes. If the employer fails to pay the contributions monthly, the employer is subject to a civil penalty of fifty dollars and, as interest, one percent of the amount due for each month of delay or fraction of a month after the payment became due. In lieu of assessing a civil penalty or one percent per month, or both, interest at the actuarial rate of return may be~~

1                   assessed for each month the contributions are delinquent. If contributions are  
2                   paid within ninety days of the date the contributions became due, penalty and  
3                   interest to be paid on delinquent contributions may be waived.

4       ~~3. Each employer, at its option, may pay the employee contributions required by this~~  
5       ~~section for all compensation earned after December 31, 1999. The amount paid must~~  
6       ~~be paid by the employer in lieu of contributions by the employee. If the employer~~  
7       ~~decides not to pay the contributions, the amount that would have been paid will~~  
8       ~~continue to be deducted from the employee's compensation. If contributions are paid~~  
9       ~~by the employer, they must be treated as employer contributions in determining tax~~  
10      ~~treatment under this code and the federal Internal Revenue Code. Contributions paid~~  
11      ~~by the employer may not be included as gross income of the employee in determining~~  
12      ~~tax treatment under this code and the federal Internal Revenue Code until they are~~  
13      ~~distributed or made available. The employer shall pay these employee contributions~~  
14      ~~from the same source of funds used in paying compensation to the employee. The~~  
15      ~~employer shall pay these contributions by effecting an equal cash reduction in the~~  
16      ~~gross salary of the employee or by an offset against future salary increases or by a~~  
17      ~~combination of a reduction in gross salary and offset against future salary increases.~~  
18      ~~Employee contributions paid by the employer must be treated for the purposes of this~~  
19      ~~chapter in the same manner and to the same extent as employee contributions made~~  
20      ~~before the date on which employee contributions were assumed by the employer. An~~  
21      ~~employer shall exercise its option under this subsection by reporting its choice to the~~  
22      ~~board in writing.~~

23       ~~SECTION 5. EFFECTIVE DATE.~~ This Act becomes effective January 1, 2022.

24       **SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PUBLIC EMPLOYEES**

25       **RETIREMENT SYSTEM DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS.** During  
26       the 2021-22 interim, the legislative management shall develop a plan for new hires under the  
27       public employees retirement system main system to participate in the defined benefit plan and  
28       to close the defined benefit plan to new entries effective January 1, 2024. Upon approval of the  
29       chairman of the legislative management, the study may use the services of a third-party  
30       contractor to assist in the study. The legislative management shall report its findings and



- 1 recommendations, together with any legislation required to implement the recommendations, to
- 2 the sixty-eighth legislative assembly.

21.0566.01007  
Title.

Prepared by the Legislative Council staff for  
Representative M. Ruby  
February 4, 2021

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1209

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of the public employees retirement system defined benefit and defined contribution retirement plans.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. LEGISLATIVE MANAGEMENT STUDY - PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT AND DEFINED CONTRIBUTION**

**PLANS.** During the 2021-22 interim, the legislative management shall develop a plan for new hires under the public employees retirement system main system to participate in the defined benefit plan and to close the defined benefit plan to new entries effective January 1, 2024. Upon approval of the chairman of the legislative management, the study may use the services of a third-party contractor to assist in the study. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-eighth legislative assembly."

Renumber accordingly

**2021 SENATE GOVERNMENT AND VETERANS AFFAIRS**

**HB 1209**

# **2021 SENATE STANDING COMMITTEE MINUTES**

## **Government and Veterans Affairs Committee Room JW216, State Capitol**

HB 1209  
3/18/2021

**To provide for a legislative management study of the PERS benefit & defined contribution retirement plans.**

Chair Vedaa opened the hearing at 9:00 AM with Sen Vedaa, Meyer, Elkin, K Roers, Weber, Wobbema, and Marcellais present.

### **Discussion Topics:**

- Unfunded liabilities
- Contribution Plan
- Defined contribution plan
- Holding employees harmless

**Rep Matt Ruby - Dist 40** - Introduced the bill

**Scott Miller – Ex Dir of ND PERS** – opposed #9917, #9918

**Nick Archuleta – President – ND United** – opposed #9913

### **Additional written testimony:**

**Rebecca Fricke** - opposed #9864

**Derrick Hobein** – opposed #9786

**Mary Jo Anderson** – opposed #9925

**Darren Schimke** – opposed #9972

Adjourned at 9:37 AM

*Pam Dever, Committee Clerk*

## **TESTIMONY OF SCOTT MILLER**

### **House Bill 1209 – Close the Defined Benefit Plan**

Good Afternoon, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I am here to testify in opposition to House Bill 1209.

The NDPERS Board was fully supportive of the original version of HB 1209. In its original form, this bill increased the employer contribution to the Main PERS Defined Benefit/Hybrid (DB) plan to the “actuarially determined contribution rate”. That would have resulted in the plan becoming fully funded in 20 years.

As amended, we are not exactly sure what House Bill 1209 directs:

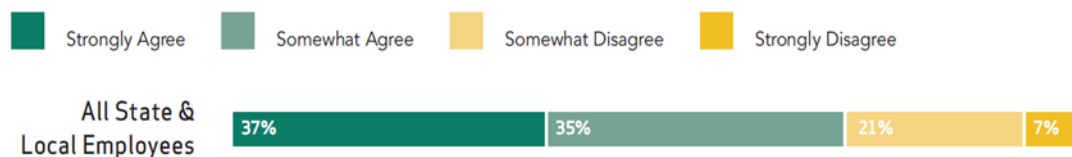
During the 2021-22 interim, the legislative management shall develop a plan for new hires under the public employees retirement system main system to participate in the defined benefit plan and to close the defined benefit plan to new entries effective January 1, 2024. Upon approval of the chairman of the legislative management, the study may use the services of a third-party contractor to assist in the study. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-eighth legislative assembly.

The bill first states that Legislative Management must develop a plan for new employees to participate in the DB plan. But the bill then states that Legislative Management’s plan must also close the DB plan to new employees on January 1, 2024. The end result appears to be that the DB plan would be closed on January 1, 2024, and new employees would not get a retirement plan.

Failing to offer a retirement plan to new employees would destroy state and political subdivision efforts to recruit and retain employees. I question whether anyone could dispute that. If that is what HB 1209 is actually proposing, this bill needs to fail. As the below graph shows, access to a retirement plan, and specifically a defined benefit pension plan, is far too important to our employees.

**Figure 22: Across professions, state and local employees overwhelmingly agree that a pension benefit is a major reason they chose a public sector job.**

To what extent do you agree or disagree with the following statement: A pension benefit is a major reason I chose a public sector job in the first place.



“State and Local Employee Views on Their Jobs, Pay and Benefits” by Tyler Bond and Kelly Kenneally, National Institute on Retirement Security, 2019.

The floor discussion on HB 1209 did not clarify the purpose. We suspect the intent is to require a “study” to close the DB plan, and force all new employees to become members of the Defined Contribution, or DC, plan. The NDPERS Board has two concerns if this is the actual intent.

First, we realize the description of the bill calls it a “study”. However, as one observer put it, HB 1209 “is actually a mandate masquerading as a study”. You can see this from the first line of the bill: “During the 2021-22 interim, the legislative management shall develop a plan for new hires under the public employees retirement system main system to participate in the defined benefit plan and to close the defined benefit plan to new entries effective January 1, 2024.” HB 1209 looks like a mandate to introduce legislation next session to close the DB plan, and possibly only offer the DC plan.

Second, even if this was just a study, we question why the Legislative Assembly wishes to spend additional funds to learn what it already knows – that it is incredibly expensive to close the DB plan. The Legislative Assembly has received significant information on this very issue over the years.

Just last session the Legislative Assembly considered HB 1419. That bill proposed to close the DB plan to new entrants, allow DB plan participants to elect to transfer to the DC plan, and provided a \$20 million per year cash infusion. The actuarial analysis of that bill showed that the latest the DB plan would become insolvent would be in 2052 – 54 years earlier than our current projection of 2106. In order to keep the plan from becoming insolvent, the employer contribution rate would have to have gone up by 12.22%. For just the state, that was an increase of over \$160 million a biennium.

Other states have tried it. When Michigan decided to close its DB plan in 1997, the plan was 109% funded, with over \$730 million in excess assets. In 2019, the plan was 64.7% funded, with an unfunded liability of \$6.6 billion. If we take that as a potential guideline, we would need the Main PERS plan to be significantly overfunded before we could be

reasonably confident that closing the plan would not result in the State having to appropriate hundreds of millions of dollars of additional monies in the future. If that overfunded status is 120% funded, we would need a cash infusion of over \$2.6 billion. To achieve a 130% funding status, we would need over \$3.1 billion. This is information we already have.

The Legislative Assembly did have a study on this same issue performed in 2014. During that interim, the Legislature retained the actuarial firm Arthur J. Gallagher & Co. to perform an independent analysis of the one-time cost to close the DB plan. I have uploaded that study for your review and information. Based on the DB plan's situation and the actuarial analysis at the time, Gallagher determined that a one-time contribution of \$445 million was necessary if the DB plan was closed for all new employees. Again, this is information we already have.

The state has a constitutional obligation to provide the benefits it has promised to state and political subdivision employees. I would wholeheartedly support a study that recognized that obligation and tried to determine the best way to make our current plan stable. Proposals to close the plan do not do that. We already know that. On behalf of the NDPERS Board, I urge you to give HB 1209 a "do not pass" recommendation.

#9918

# **Independent Study of Actuarial Costs to Close NDPERS**

**August 14, 2014**



**Arthur J. Gallagher & Co.**



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▪ Correspondence between Gallagher and Segal	
▪ Segal July 1, 2013 Actuarial Valuation report (pages 27&28)	

*This report is intended for use by the North Dakota Legislative Management Government Finance Committee. The purpose of the report is to summarize results of an independent review by Gallagher Benefit Services, Inc., a division of Arthur J. Gallagher & Co. (Gallagher) of information originally prepared by The Segal Company for the NDPERS relative to the costs if NDPERS is closed to new employees.*

*Participant data for this review was provided by both NDPERS and The Segal Company and the results included herein are dependent on the accuracy of that data. Results were based on an attempted match of the July 1, 2013 actuarial valuation report, the Plan provisions in effect at that time, and except as noted, the assumptions used for that valuation.*

*Gallagher expresses no opinion on the proposed plan design changes other than providing a range of reasonable cost forecasts as noted in this report. The actuaries preparing this report are members of the American Academy of Actuaries and meet the Qualification Standards to provide the actuarial opinions contained in this report.*

## Executive Summary

August 14, 2014

Representative Jeff Delzer & Legislative Management Government Finance Committee Members  
State Capitol  
Bismarck, ND

Chairman Delzer & Committee Members:

Gallagher Benefit Services, Inc., a division of Arthur J. Gallagher & Co. (Gallagher) is pleased to provide an independent study of the actuarial costs of the North Dakota Public Employees Retirement System (NDPERS) Main System if it is closed to new state employees.

This report will discuss several findings related to the cost estimates provided by The Segal Company (Segal) to NDPERS. The findings are mainly related to adjustments made by Segal that result in inconsistencies between their valuation results and their closed plan study results. The adjustments are concerning for several reasons: (1) the adjustments were not disclosed to NDPERS, (2) the adjustments were made to valuation outputs that had been carefully calculated based on reasonable Board approved assumptions, (3) the adjustments do not appear to be based on the results of an actuarial software calculation system, but rather reflect an arbitrary adjustment methodology, and (4) the magnitude of the adjustment (\$264M) is significant.

The adjustments made by Segal significantly impacted the cost estimates provided by Segal to NDPERS for the estimated one-time contribution needed to fully fund the Plan if closed for either State or both State and Political Subdivision employees. This report will provide detail to support and to summarize the above findings. The report will also provide additional information that will be helpful to understand the impact of other assumptions on the cost estimates.

### ***Background***

This report is in response to a request by the Legislative Management Council for an independent study of the actuarial costs of the North Dakota state employee main defined plan if it is closed to new state employees. Also, in accordance with the Personal Service Contract, an independent valuation using raw census data was to be performed. The report also addresses requests by the Council to review and comment on Plan assumptions. Requests were also made to demonstrate how defined contribution benefit amounts would differ from the defined benefits provided by this Plan. That information is provided separately as it does not specifically fall under the scope of the audit. This report attempts to meet the scope of requested services as well as provide the Committee with other information that we believe is important to fully understand the potential cost impact of closing the Plan.

Our work includes a review of the Participant data, the Plan's assumptions, and the Plan's provisions. We have also reviewed the July 1, 2013 Actuarial Valuation report, the March 6, 2014 Study, and Segal's 2010 Actuarial Experience Study for the period from July 1, 2004 through June 30, 2009. Collectively we believe that all of the information provided to us for our review allows us to perform a complete analysis of Segal's plan closure cost estimates.

We presented preliminary findings to the Committee on July 1<sup>st</sup> and August 5<sup>th</sup>. Due to the preliminary nature of those reports, some adjustments to our results have been made and final results are reflected in this report. These changes are primarily related to the sensitivity analysis results. We also present results in a different order within this report to help clarify the information and make findings clearer to understand.

### Key Findings

Our key findings all relate to the March 6, 2014 Study. A review of the Participant data, actuarial assumptions, and July 1, 2013 actuarial valuation did not result in any significant findings related to those items. Relatively less significant comments resulting from our review for those components of the audit are noted in Sections One and Two of this report. The more significant findings related to the March 6, 2014 Study are summarized below:

	Gallagher Finding	Gallagher Comments
Issue #1 Disclosure	<ul style="list-style-type: none"> <li>Segal's March 6, 2014 Study results are not consistent with their July 1, 2013 Actuarial Valuation results.</li> <li>Segal made adjustments to the July 1, 2013 valuation outputs to reduce projected benefit payments from years 2014 through 2028 without disclosing in their report the reason for the change or the magnitude of the cost impact.</li> <li>The adjustments reduced estimated plan costs by \$264M.</li> </ul>	<ul style="list-style-type: none"> <li>Segal's March 6, 2014 study states that "cost estimates are based on the July 1, 2013 actuarial valuation results."</li> <li>Actuarial Standards of Practice (ASOP) No. 41 states that an actuarial report should "identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."</li> </ul>
Issue #2 Methodology	<ul style="list-style-type: none"> <li>The reason provided for the adjustment, fewer observed retirements than expected, was identified in the July 1, 2013 Actuarial Valuation as <b>increasing</b> costs. This contradicts the reductions in the Study.</li> <li>Segal said no other adjustments were made, implying no offsetting increases for increased benefits at later retirements or higher contributions due to later retirements.</li> </ul>	<ul style="list-style-type: none"> <li>Segal explained the reduction in projected benefit payments was due to "The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed."</li> <li>Gallagher results (see July 1 presentation) have shown that adjustments due to retirement assumptions do not significantly impact present values. A \$264M present value adjustment due to retirement differences seems disproportionately large.</li> </ul>
Issue #3 Omission	<ul style="list-style-type: none"> <li>Segal excluded from the Study the impact of Participants entering after 7/1/2013 and before the assumed closure date of 1/1/16.</li> </ul>	<ul style="list-style-type: none"> <li>The inclusion of Participants during this period adds significant benefit payments to the Plan. However, additional assumed Member and Employer contributions are nearly offsetting.</li> </ul>

The above findings were all a result of noting inconsistencies between Segal's July 1, 2013 Actuarial Valuation results, which were matched closely by Gallagher, and Segal's March 6, 2014 Study results. Generally speaking, our opinion is that Segal's Actuarial Valuation results are reasonable based on the Participant data, plan provisions, and assumptions provided. Our concerns entirely relate to the adjustments made in the March 6, 2014 Study.

## Independent Study of Actuarial Costs to Close NDPERS

The adjustments made for purposes of the Study have a significant impact on the results communicated as either the date of insolvency if the Plan is closed or the cost to fully fund the Plan if it is closed. The cost impact can be summarized as follows:

	Segal March 6, 2014 Letter Results Based on Adjusted Benefit Payments	Gallagher's Estimate Based on Unadjusted Benefit Payments	Difference
<b>Projected Values if Plan is Closed for State Employees Only</b>			
Years to insolvency	35 Years	30 Years	5 Years
One-time contribution to fully fund	\$163M	\$301M	\$138M
<b>Projected Values if Plan is Closed for State and Political Subdivision Employees</b>			
Years to insolvency	42 Years	32 Years	10 Years
One-time contribution to fully fund	\$99M	\$445M	\$346M

We believe it is very important to note that the differences stated above are almost entirely due to adjustments Segal made to their July 1, 2013 Actuarial Valuation outputs. Very little is due to differences between Segal's July 1, 2013 Actuarial Valuation and Gallagher's replication of those results. The differences are not due to the difference of opinion between two actuaries, rather the difference is primarily due to two different methodologies employed by Segal. Further detail of these results is provided in Section Three of this report.

Understanding that even the best developed assumptions will not be met, our report includes a sensitivity analysis that demonstrates the potential cost impact under different sets of economic and demographic assumptions. This information was not part of the audit of Segal's results, but rather is information we believe is valuable when considering the potential cost of these closed Plan scenarios. The sensitivity analysis is provided in Section Five of this report.

### Report Contents

This report consists of the following components:

- **A *Participant Data Review*** to verify that the Participant data provided by NDPERS to The Segal Company (Segal), the Plan's actuary, was consistent with the Participant data that was used by Segal for purposes of their July 1, 2013 Actuarial Valuation and their March 6, 2014 letter to NDPERS summarizing the cost of closing the Plan to future State and Political Subdivision employees (the March 6, 2014 Study).

- A **July 1, 2013 Actuarial Valuation Audit** to verify the accuracy of the July 1, 2013 Actuarial Valuation.
- A **Closed Plan Cost Study Audit** to verify the accuracy of Segal's March 6, 2014 Study results that provided estimates of projected dates of insolvency and required contributions to fully fund the Plan if the Plan is closed to future State employees only or State and Political Subdivision employees.
- An **Actuarial Assumption Review** to provide a thorough analysis of the economic and demographic assumptions and the actuarial cost methods used to determine the results presented by the Plan's actuary.
- A **Sensitivity Analysis** to demonstrate the potential range of costs and insolvency dates if the Plan's current assumptions are not precisely met.
- A **Summary of Conclusions** to state the significant findings of the previous five sections.

### **Conclusion**

The role of an actuary is to use the best information available from past experience to estimate future outcomes. In our opinion, Segal performed that role well when recommending assumptions and performing the July 1, 2013 Actuarial Valuation. Our concern lies entirely with their variance from the valuation results when performing the March 6, 2014 Study. In particular, Segal adjusted outputs, rather than relying on results based on well thought through assumptions.

While lack of disclosure of the changes is concerning, the larger concern is the magnitude of the change and that the adjustments do not appear to be consistent with the reasoning provided. If Segal believes an adjustment to the assumptions was prudent, a better approach would have been to adjust the assumption and then rely on the outputs from their valuation process. The absence of that approach creates the appearance that the adjustment was arbitrary as well as being inconsistent with some findings within the Actuarial Valuation report. Based on our experience and calculations, fewer retirements than observed would not create such a significant liability reduction.

For those reasons, it is our opinion that Segal's estimates of the contributions to fully fund the closed plan scenarios are significantly understated. At a minimum, we believe they are inconsistent with the outputs generated from the Board approved assumptions. Alternatively, if the adjustments made for the Study are considered to be reasonable, the implication would be that the Actuarial Valuation results are significantly overstating the actual cost of the Plan.

Gallagher appreciates the opportunity to provide services to the Committee. If you have any questions regarding our report, or if you would like additional information, please contact us.

Sincerely,



Douglas A. Anderson, M.A.A.A., E.A., A.S.A.  
Senior Vice President, Actuarial & Retirement Services  
Arthur J. Gallagher & Co.



Jen Turk, M.A.A.A., E.A., F.S.A.  
Actuarial Consultant  
Arthur J. Gallagher & Co.

## Section One – Participant Data Review

Gallagher received two Participant data files. One file was a duplicate of the data provided by NDPERS to Segal for purposes of performing the July 1, 2013 Actuarial Valuation. The other file was provided by Segal and represented their adjusted Participant data file as used for the July 1, 2013 Actuarial Valuation. The file provided by Segal was used for the validation audit described in Section Two without any adjustments. This is to ensure that the valuation audit result differences are not due to Participant data differences.

The two files were compared with the intention of determining whether any significant data issues resulted from the transmission from NDPERS to Segal. The data was also reviewed for general reasonableness. Specifically this means checking each data field for potential data outliers (excessive salaries, service, dates of birth, dates of hire, etc.).

Gallagher found that the two files matched and had reasonable field values for over 99% of the records. The remaining less than 1% had issues as noted here:

Issue	Count	Comments
Missing Records	63	Based on EEID, 60 records (mostly retirees) from NDPERS don't appear in Segal's file; 3 records from Segal don't appear in NDPERS file.
Spouse DOB	1	NDPERS reported year as 2080; Segal appeared to correct to 1980
Benefit Amount	6	Benefit amount differs for 6 retirees; differences range from 5.6% high to 15.3% high.
Deferred Benefit Amount	138	NDPERS reports benefit amount for vested terminated participants as \$0; Segal shows benefit as >\$0.
Employee Contributions	38	NDPERS reports employee account balance as \$0; Segal shows balance as >\$0. 36 of 38 are new hires; 2 are retirees.
Benefit Service	37	NDPERS reports benefit service as 0; Segal shows service as >0. 36 of 37 are new hires; 1 is terminated vested.

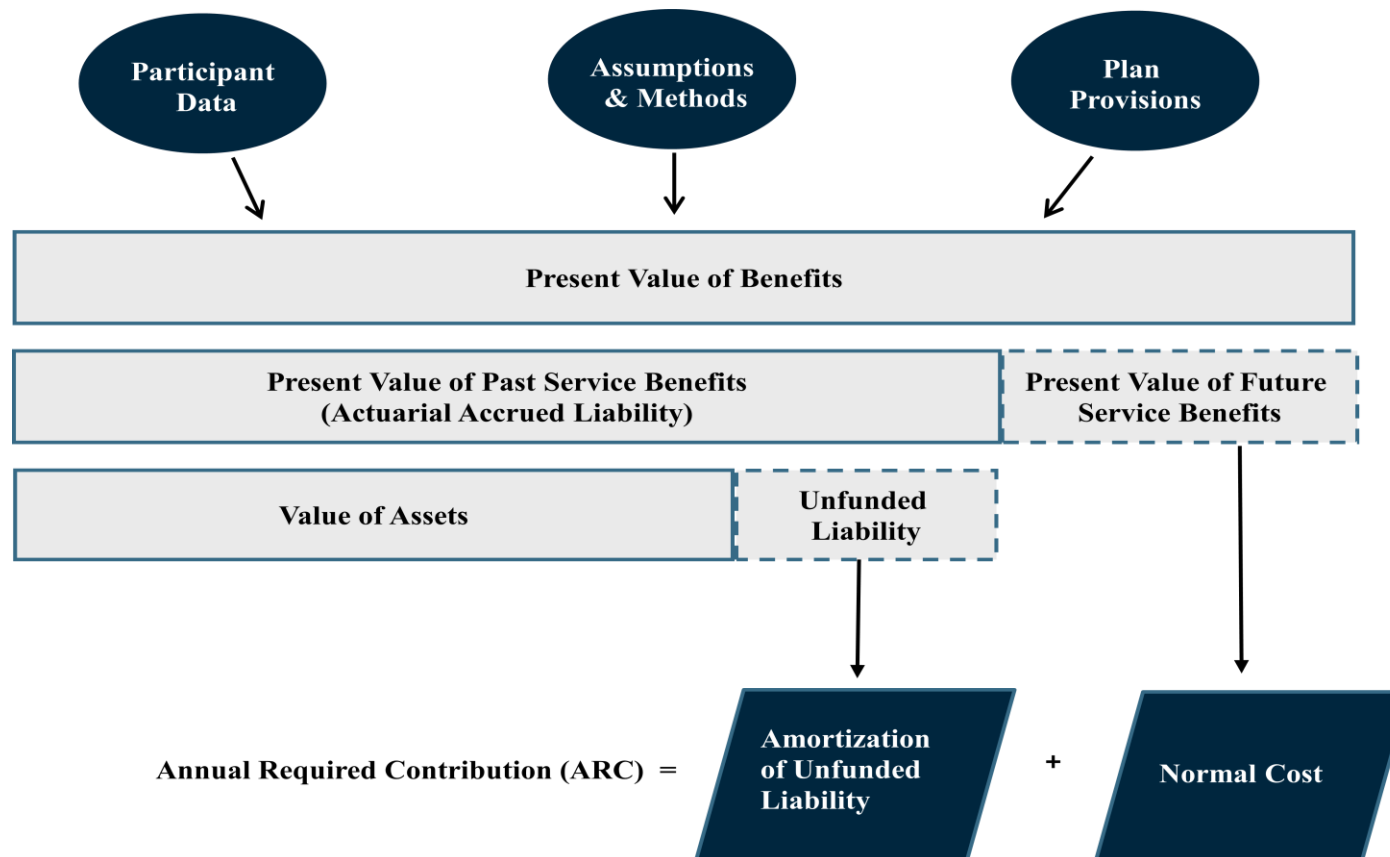
Although the above data questions were raised, the significance of these items is not of concern. It is common during the data review process for the actuary to review and question data. The adjustments noted above by Segal may either have been a result of clarifying questions to NDPERS or reasonable adjustments to conservatively estimate missing data fields. The adjustments made by Segal generally appear reasonable.

In our opinion, the impact of any inaccurate changes by Segal would not significantly impact the calculations within the July 1, 2013 Actuarial Valuation or the March 6, 2014 Study. The goal was to ensure no significant systemic errors occurred during data transition. None were observed; as a result, we did not request further clarification from NDPERS or Segal.

## Section Two – July 1, 2013 Actuarial Valuation Audit

An actuarial valuation audit is an attempt to duplicate results obtained by the Plan's actuary using the same Participant data, assumptions, and plan provisions. If a reasonable match is obtained, it provides evidence that the actuary is correctly interpreting provisions, applying assumptions, and performing calculations. Since the March 6, 2014 Study was based on the July 1, 2013 actuarial valuation (except as noted by our audit findings), the performance of an actuarial audit is a very important step to complete prior to reviewing the March 6, 2014 Study results.

The actuarial validation audit attempts to replicate the calculation of all future benefit payments, the discounting of those benefit payments to determine a Present Value of Benefits, the allocation of those present values to past and future service, and finally the determination of the Annual Required Contribution (ARC). The valuation process is demonstrated below:



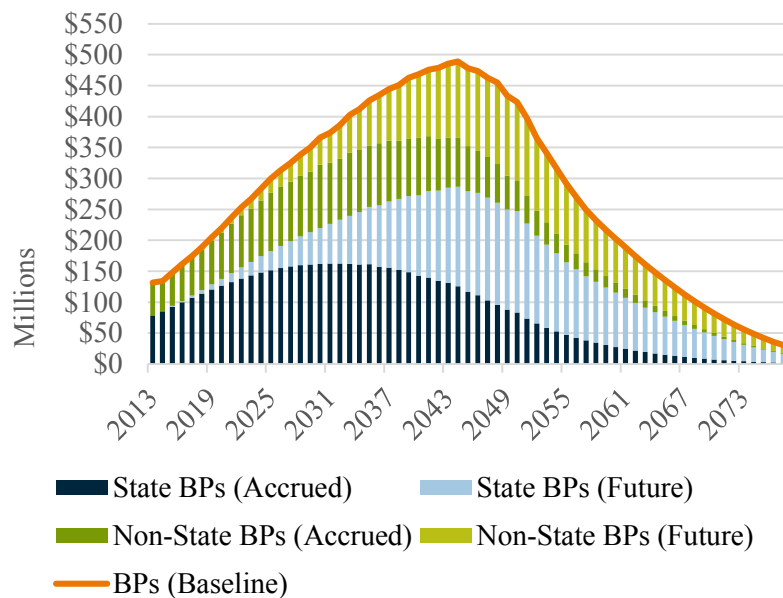
The first step of the actuarial valuation audit is to develop the projected expected benefit payments for each participant over the course of their entire possible lifetime. Since mortality tables extend to age 120, there is a chance, although small, of payments being made all the way up to that age for each Participant. The first figure below shows Gallagher's estimates of future benefit payments for both State and Non-State (Political Subdivision) employees. It also breaks those expected payments into those that have been earned to date and those that are expected to be earned prospectively. The expected benefit payments are anticipated to rise rapidly as a large number of employees reach retirement in the near future.

After benefit payments are projected for all current employees, each payment is discounted back to the valuation date at the same rate of interest that assets are assumed to earn. The Plan currently uses an 8% investment return assumption, net of expenses. As a result, all projected benefit payments are discounted to the valuation date at the rate of 8% per year. If the investment return assumption is lowered, the effect of discounting is less and the cost of the Plan will be higher.

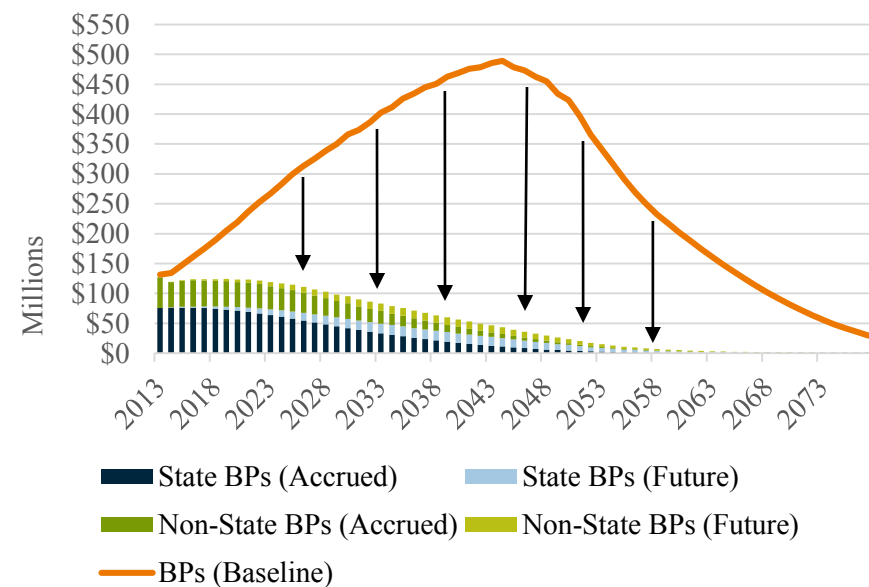
The Present Value of Benefits (PVB) provided by Segal was \$3.4B. Gallagher's results also rounded to \$3.4B. The actual difference was only \$15M, which is a difference of less than 1%.

While the Present Value of Benefits may be closely matched, there is the possibility that projected benefit amounts may follow different patterns. These differences are a factor in the audit findings and will be explained in detail in Section Three.

**Projected Benefit Payments**



**Discounted Benefit Payments**





## Independent Study of Actuarial Costs to Close NDPERS

The following is a summary of the differences between Segal's July 1, 2013 Actuarial Valuation and the results calculated by Gallagher:

	Segal July 1, 2013 Actuarial Valuation	Gallagher Results	Difference	Comments
<i>Present Value of Benefits (PVB)</i>				
<i>Active Members:</i>				<p>The Actuarial Valuation Audit indicates that the Present Value of Benefits and the Actuarial Accrued Liability estimates by Gallagher are reasonably close to estimates by the Plan’s actuary.</p> <p>Differences less than 5% are generally considered to be a reasonable match. Gallagher’s PVB estimate is less than 1% different than the amount determined by the Plan’s actuary.</p>
▪ <i>Retirement</i>	\$ 1,976,691,333	\$ 1,975,840,698	0.0%	
▪ <i>Disability</i>	51,346,152	49,765,185	(3.1%)	
▪ <i>Withdrawal</i>	198,418,550	184,731,918	(6.9%)	
▪ <i>Death</i>	<u>59,213,630</u>	<u>58,586,035</u>	(1.1%)	
<i>Actives Total:</i>	\$ 2,285,669,665	\$ 2,268,923,836	(0.7%)	
<i>Retired Members and Beneficiaries*</i>	943,671,725	940,013,710	(0.4%)	
<i>Inactive Non-retired Members</i>	<u>154,900,691</u>	<u>159,939,147</u>	3.3%	
<i>Total PVB</i>	\$ 3,384,242,081	\$ 3,368,876,693	(0.5%)	
<i>Development of Unfunded Actuarial Accrued Liability</i>				
<i>Actuarial Accrued Liability:</i>				
▪ <i>Active Members</i>	\$ 1,551,952,602	\$ 1,617,869,073	4.2%	
▪ <i>Retired Members and Beneficiaries*</i>	943,671,725	940,013,710	(0.4%)	
▪ <i>Inactive Non-retired Members</i>	<u>154,900,691</u>	<u>159,939,147</u>	3.3%	
▪ <i>Total AAL</i>	\$ 2,650,525,018	\$ 2,717,821,930	2.5%	
<i>Actuarial Value of Assets</i>	<u>1,632,915,720</u>	<u>1,632,915,720</u>	0.0%	
<i>Unfunded Actuarial Accrued Liability</i>	\$ 1,017,609,298	\$ 1,084,906,210	6.6%	

\*Includes Special Prior Service Pensions

	Segal July 1, 2013 Actuarial Valuation	Gallagher Results	Difference	Comments
Development of Annual Required Contribution (ARC)				
Normal Cost	\$ 89,254,673	\$ 88,160,907	(1.2%)	Normal Cost differences are also very small with a result matching within 1.2%.  Larger percentage differences appear in the UAAL and ARC due to the leveraging effect of taking differences to calculate these values. The amortization period is very sensitive to small results, particularly when the amortization period is high, or measured as infinite as in this case.
Member Contributions (6.5%)	(56,281,437)	(56,360,431)	0.1%	
Net Employer Normal Cost	\$ 32,973,236	\$ 31,800,476	(3.6%)	
Administrative Expense	1,100,000	1,100,000	0.0%	
Amortization of UAAL	71,019,268	75,715,897	6.6%	
Annual Required Contribution	\$ 105,092,504	\$ 108,616,373	3.4%	
Total Payroll	\$ 865,868,265	\$ 867,083,551	0.1%	
Total ARC Percentage	12.14%	12.53%	3.2%	
Development of Amortization Period				
Annual Required Contribution	12.14%	12.53%	3.2%	The success of the audit of the March 6, 2014 Study is dependent on the ability to accurately capture all future benefit payments. We believe the 0.5% difference in the Present Value of Benefits is an indication that Gallagher’s valuation results are reasonably aligned with Segal’s results.
Member Contribution Increase	(0.50%)	(0.50%)	0.0%	
Total Scheduled Contribution	(7.12%)	(7.12%)	0.0%	
Contribution (Surplus)/Deficit	4.52%	4.91%	8.6%	
Amortization Period	Infinite	Infinite		
In our opinion, the closeness of the actuarial valuation audit allows us to thoroughly assess the March 6, 2014 results.				

### Section Three – Closed Plan Cost Study Audit

Upon completing the July 1, 2013 Actuarial Valuation Audit, Gallagher was able to use the obtained projected benefit payments to independently project future dates of insolvency and required contribution amounts to fully fund the closed plan options as were developed by Segal in their March 6, 2014 Study. Upon completing these calculations, the difference in results was very surprising for the closed plan scenarios given how close the July 1, 2013 Actuarial Valuation was matched. This led to a more thorough inspection of projected benefit payments as provided by Segal in their March 6, 2014 Study. A review of Segal's projected benefit payments from their study showed that after discounting the projected benefits back to July 1, 2013, the present value of the Study benefit payment stream (\$3,120M) was significantly less than the Present Value of Benefits as provided by Segal to Gallagher for match purposes (\$3,384M).

The work to demonstrate this difference is included as an Attachment to this report. Segal was requested to respond to our inquiry about the \$264M difference and provided the following response on July 16<sup>th</sup>: *"With respect to item 5, for the purposes of the closed group projection, we adjusted the benefit payments projected in the valuation to be closer to the actual benefit payments from the Main system. For example, in 2013, the unadjusted projected benefit payment amount was \$179 million and the actual benefit payments from the Main system were \$106 million."*

Seeking further clarification, Gallagher posed additional questions to Segal on July 23<sup>rd</sup>, and received the following responses on July 29<sup>th</sup>. The following are Gallagher's questions and Segal's answers, presented in their entirety:

- Q. You note an adjustment for FYE 2014 benefit payments from an unadjusted amount of \$179M to an amount more in alignment with \$106M actual payments in FYE 2013. What is the reason for the overstatement of the FYE 2014 unadjusted amount?
- A. **The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed.**
- Q. How many other years were adjusted in a similar manner?
- A. **The adjustment was made for years prior to 2028.**
- Q. Were any adjustments made to benefit payments from the years 2030 to 2055. As shown on the attachment, these years show the largest differences between a BP stream discounting to \$3,369 (Gallagher result) and \$3,120M.
- A. **No adjustments were made in the years 2030 to 2055.**
- Q. What was the methodology for adjusting the benefit payments?
- A. **The benefit payments used in the projection were actual benefit payments as of June 30, 2013, increased by 8% per year for ten years, then 6% for five years, then the payment stream from the valuation system was used.**
- Q. Were adjustments made in a similar manner for State and Political Subdivision participants?
- A. **The adjustment was made for all PERS Main System benefit payments.**
- Q. Do all of these adjustments account for the \$264M difference that I have calculated in the attached spreadsheet?
- A. **Our analysis indicates that the difference is mostly due to the adjustments in benefit payments and the difference in timing of payments between our valuation systems.**

Q. Were any other adjustments made?

A. No.

Q. Should the adjustments made for the study also have been made for the July 1, 2013 actuarial valuation? Will they be considered for the 2014 actuarial valuation?

A. **The July 1, 2013 actuarial valuation was based on the assumptions approved by the board, based on the most recent experience study. We will continue to monitor gains and losses in this area and will recommend changes, if necessary.**

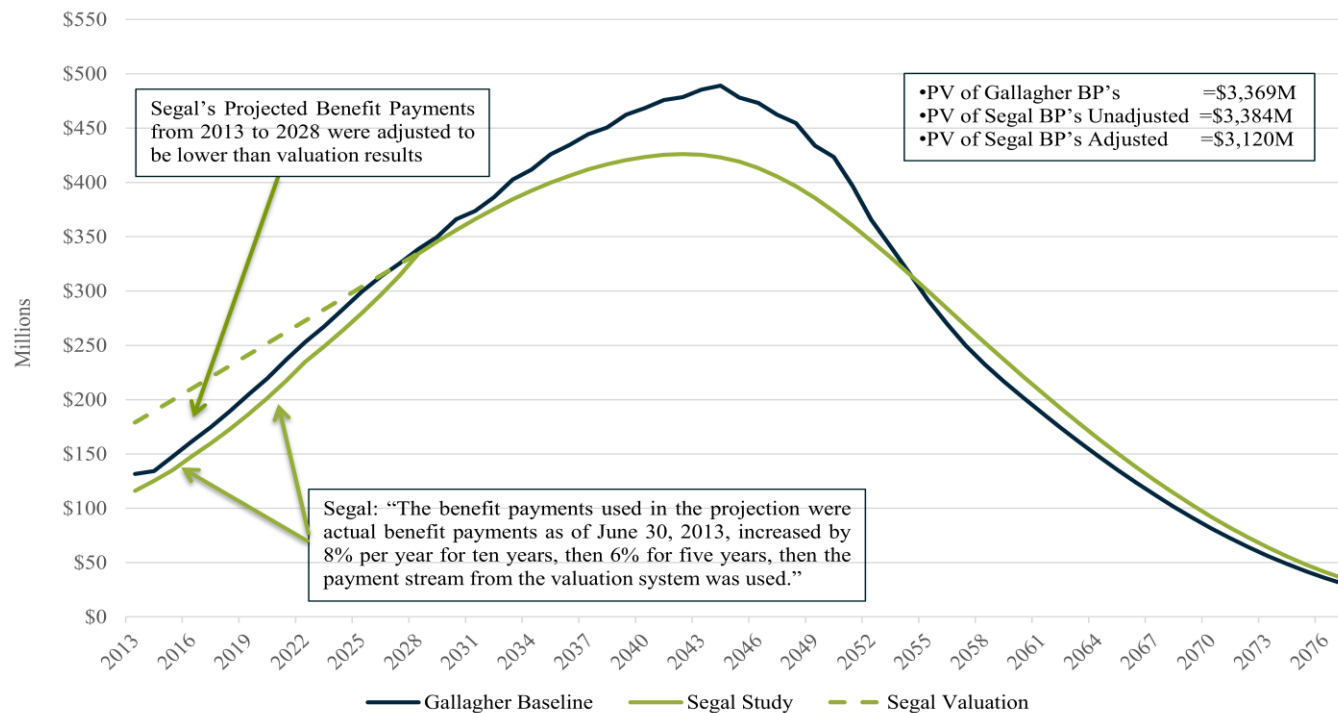
Q. Were the adjustments communicated either in writing or verbally to NDPERS?

A. **The details of the adjustments were not communicated.**

Q. Did the projections in the March 6<sup>th</sup> Study include benefit payments for employees that were expected to be hired after July 1, 2013 and before the assumed January 1, 2016 plan closure dates (for scenarios that assume plan closure)?

A. **We did not include these employees in the plan closure projection.**

The following graph summarizes how the adjustments made by Segal affect expected benefit payments and the Present Value of Benefits.



The adjustments made to the outputs by Segal were concerning for several reasons: (1) the adjustments were not disclosed to NDPERS, (2) the adjustments were made to valuation outputs that had been carefully calculated based on reasonable Board approved assumptions, (3) the adjustments do not appear to be based on the results of an actuarial software calculation system, but rather reflect on arbitrary adjustment methodology, and (4) the magnitude of the adjustment (\$264M) is significant. In addition to these adjustments, as noted in their final answer on July 29<sup>th</sup>, Segal did not include the impact of Participants entering after July 1, 2013 and before the assumed January 1, 2016 plan closure date.

The most significant of these concerns is the methodology and magnitude of the adjustment. When retirement assumptions are not met, it often does not have a significant impact on present value results. It may change the timing of benefit payments, but the present value often does not change. This is a result of the trade-off of either paying less for longer, or more for a shorter period. When Gallagher was evaluating the impact of retirement assumption changes, we noted a common result which is that retirement assumption changes do not have a very significant impact on present values. This leads us to question the magnitude of benefit reductions by Segal in that they appear to be one-sided.

The following is summary of the findings resulting from the Closed Plan Audit:

	Gallagher Finding	Gallagher Comments
Issue #1 Disclosure	<ul style="list-style-type: none"> <li>Segal's March 6, 2014 Study results are not consistent with their July 1, 2013 Actuarial Valuation results.</li> <li>Segal made adjustments to the July 1, 2013 valuation outputs to reduce projected benefit payments from years 2014 through 2028 without disclosing in their report the reason for the change or the magnitude of the cost impact.</li> <li>The adjustments reduced estimated plan costs by \$264M.</li> </ul>	<ul style="list-style-type: none"> <li>Segal's March 6, 2014 study states that "cost estimates are based on the July 1, 2013 actuarial valuation results."</li> <li>Actuarial Standards of Practice (ASOP) No. 41 states that an actuarial report should "identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."</li> </ul>
Issue #2 Methodology	<ul style="list-style-type: none"> <li>The reason provided for the adjustment, fewer observed retirements than expected, was identified in the July 1, 2013 Actuarial Valuation as <b>increasing</b> costs. This contradicts the reductions in the Study.</li> <li>Segal said no other adjustments were made, implying no offsetting increases for increased benefits at later retirements or higher contributions due to later retirements.</li> </ul>	<ul style="list-style-type: none"> <li>Segal explained the reduction in projected benefit payments was due to "The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed."</li> <li>Gallagher results (see July 1 presentation) have shown that adjustments due to retirement assumptions do not significantly impact present values. A \$264M present value adjustment due to retirement differences seems disproportionately large.</li> </ul>
Issue #3 Omission	<ul style="list-style-type: none"> <li>Segal excluded from the Study the impact of Participants entering after 7/1/2013 and before the assumed closure date of 1/1/16.</li> </ul>	<ul style="list-style-type: none"> <li>The inclusion of Participants during this period adds significant benefit payments to the Plan. However, additional assumed Member and Employer contributions are nearly offsetting.</li> </ul>

## Independent Study of Actuarial Costs to Close NDPERS

In addition to the above findings we observed that Segal's cost to close and fully fund both groups (State Employees and Political Subdivision) was lower than the State employees only. We would expect, and our results showed, that the combined group, if closed, would require a higher one-time contribution to fully fund the Plan than if only the State employees group was closed and separated.

Finally, we observed some differences in the projections for the open group scenarios, both when the entire Plan is assumed to remain open and for just the Political Subdivision group. In general, our projections resulted in more favorable funding than Segal's results. This likely is due to different methodology as our results were based on total active headcounts remaining constant, whereas Segal assumed 4.5% total payroll growth.

The following quantifies the impact of the previously stated findings:

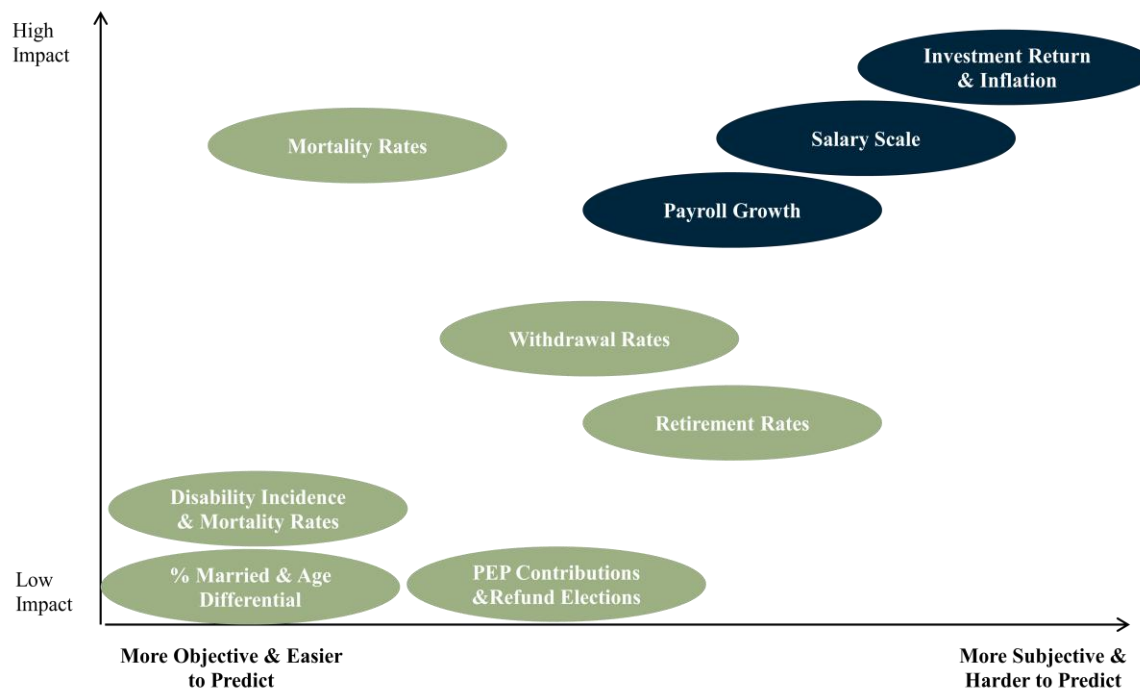
	Segal	Gallagher	Difference
<b>Estimated Present Values as of July 1, 2013 for:</b>			
July 1, 2013 Actuarial Valuation Result	\$3,384M	\$3,369M	(\$15M)
Segal Adjustments for Study	<u>(264M)</u>	<u>0M</u>	<u>264M</u>
All Participants as of 7/1/13	\$3,120M	\$3,369M	\$249M
New Participants entering between 7/1/13 and 1/1/16	<u>0M</u>	<u>112M</u>	<u>112M</u>
All Participants entering before 1/1/16	\$3,120M	\$3,481M	\$361M
<b>Estimated Future Contributions for:</b>			
New Participants entering between 7/1/13 and 1/1/16	\$0M	\$155M	\$155M
<b>Main System – Existing Plan No Change (entire group)</b>			
Years to reach fully funded status	63 Years	38 Years	25 Years
One-time contribution to fully fund	\$0M	\$0M	\$0M
<b>Main System – Existing Plan No Change (Political Subdivision)</b>			
Years to reach fully funded status	45 Years	26 Years	19 Years
One-time contribution to fully fund	\$0M	\$0M	\$0M
<b>Projected Values for Closed State Employee Only</b>			
Years to insolvency	35 Years	30 Years	5 Years
One-time contribution to fully fund	\$163M	\$301M	\$138M
<b>Projected Values if Both Groups are Closed</b>			
Years to insolvency	42 Years	32 Years	10 Years
One-time contribution to fully fund	\$99M	\$445M	\$346M

## Section Four – Actuarial Assumption Review

In the July 1, 2013 Actuarial Valuation Audit section of this report, the assumptions and methods used by the Plan’s actuary to calculate liabilities were applied to determine the accuracy of the estimated liabilities. In this Actuarial Assumption Review section, the assumptions and methods are examined for reasonableness. In Section Five, the impact of changes to the assumptions and methods are explored. The key assumptions consist of ***economic assumptions*** regarding investment returns, salary increases, and inflation and ***demographic assumptions*** related primarily to individual participant expectations for turnover, disability, retirement, and death.

From time to time, assumption changes are warranted. The most effective way to study and update assumptions is to perform an experience study to evaluate actual plan experience versus expectations. Experience studies are common for public sector plans and are typically done in five-year intervals. The results of the most recent Experience Study prepared by Segal were provided to us. The study covered the period from July 1, 2004 through June 30, 2009. The Plan’s actuary determines the value of liabilities and assets using ***actuarial cost methods***. An actuarial cost method is used to separate the total liability into past service and future service components and convert current liability estimates into recommended funding requirements. An Actuarial Asset Value is used to determine how asset values should be determined each year. Other cost methods are used to determine how assumptions should be applied to value liabilities.

The following is a guide to the impact of each assumption on valuation results from high to low. Also shown is the relative difficulty to develop an assumption. For example, the investment return assumption has a very high impact on the liability estimate, but is also the most subjective and difficult to predict. Economic assumptions are shown in blue. Demographic assumptions are shown in green.



I. Economic Assumptions	
Actuarial Valuation Assumption	Gallagher Analysis
<b><i>Inflation Rate:</i></b>	<b><i>Inflation Rate:</i></b>
3.5% per year	<p>The inflation assumption should reflect long-term future expected inflation. The inflation assumption is only implicitly used in the actuarial valuation as a component of the investment return assumption, salary increase assumption, and total payroll growth assumption.</p> <p>Segal relied primarily on historical data as well as on a survey by the National Association of Retirement Plan Administrators (NASRA) for their recommendation. Their experience study includes data from 1930 to 2009 which supports that over any given 15 year period, the median inflation rate has been 3.5%.</p> <p>Since this assumption is only implicitly used within other assumptions, we are only concerned that it is reasonable and consistent with those assumptions.</p>



## I. Economic Assumptions (continued)

## Actuarial Valuation Assumption

## Gallagher Analysis

**Investment Return:****Investment Return:**

8.00% per year after investment expenses

The investment return assumption should reflect long-term future expected investment returns based on the Plan's investment policy. Segal evaluated the future expected investment returns of SEI, the Plan's investment consultant as well as the returns obtained from a survey from 11 California Counties. The expected returns, including the weighted averages were as follows:

Asset Class	2009 Asset Allocation	SEI's Assumed ROR	Segal sample ROR	June 30, 2013 Allocation
Domestic Large Cap Equity	30%	8.40%	7.19%	16.6%
Domestic Small Cap Equity	10%	10.30%	7.89%	4.8%
Developed International Equity	10%	9.20%	7.63%	11.1%
Global Equity	0%	--%	--%	16.0%
Emerging Market Equity	5%	13.60%	10.49%	3.5%
Domestic Fixed Income	24%	3.90%	2.74%	12.0%
High Yield Fixed Income	5%	6.20%	5.62%	5.0%
International Fixed Income	5%	2.80%	2.50%	5.0%
Real Estate	5%	5.10%	4.80%	10.0%
Private Equity	5%	10.40%	10.40%	5.0%
Infrastructure	0%	--%	--%	5.0%
Commodities (Timber)	0%	--%	--%	5.0%
Cash and Equivalents	1%	0.10%	0.66%	1.0%
Total Portfolio	100%	7.31%	6.06%	100%
Inflation		2.30%	3.50%	
Expenses		(0.60%)	(0.60%)	
Total Portfolio		9.01%	8.96%	
Risk Adjustment			(0.96%)	
Recommended Assumption			8.00%	

I. Economic Assumptions (continued)

Actuarial Valuation Assumption

Gallagher Analysis

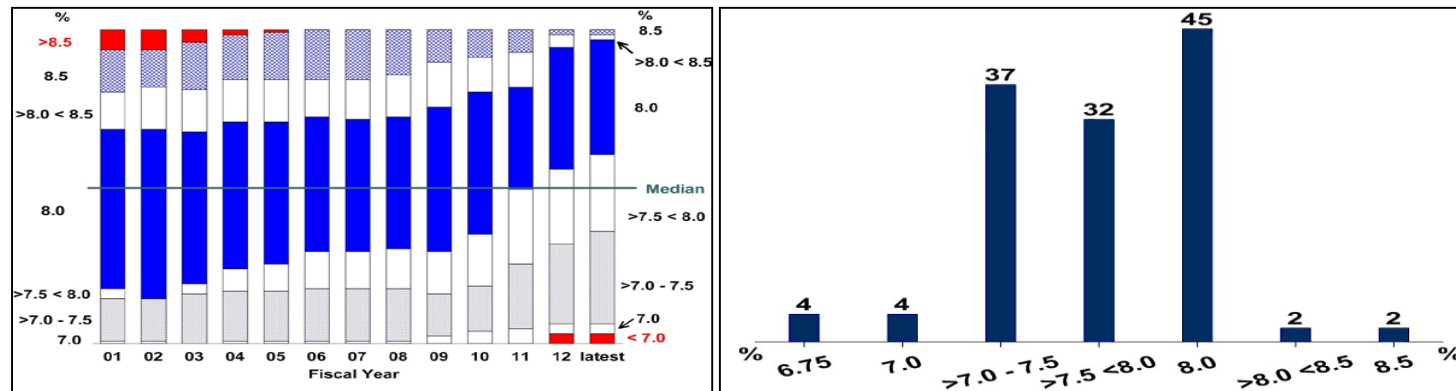
Investment Return (continued)

Investment Return (continued)

8.00% per year after investment expenses

The SEI forecast was discounted by Segal in favor of the results from the survey of the 11 California Counties. Segal stated that this allows for "... a broader range of capital market information...." The investment consultants for the 11 California Counties were not listed, so it is difficult to tell whether this is a broader range of information. Also, it would seem as though SEI may have a better understanding of some of the specific investments held by NDPERS. Nevertheless, the methodology used by Segal is reasonable and reflects that differences of opinion can exist for the same investment allocation. Both methods shown by Segal resulted in a Total Portfolio expected return close to 9% before expenses.

Segal adjusted the Total Portfolio expected return to reflect (1) assumed expenses of 0.60%, and (2) a Risk Adjustment of 0.96%. The Risk Adjustment accounts for the impact of investment volatility. The net result was an 8.0% recommendation. The recommended assumption was consistent with other large public sector plans back in 2010. However, as noted below, there has been a 10 year trend towards more conservative assumptions. Where 8% used to be the median assumption, the median is now below 8%. The majority of plans now use an assumption of less than 8%.



Source: NASRA Issue Brief: Public Pension Plan investment Return Assumption, Updated April 2014

Our conclusion is that Segal used a reasonable approach to recommend a reasonable assumption. However, a trend has been towards the use of more conservative assumptions in large public sector plans. As a result, we will demonstrate the impact of a more conservative assumption of 7.5% in our Sensitivity Analysis section of this report.

I. Economic Assumptions (continued)	
Actuarial Valuation Assumption	Gallagher Analysis
<b><i>Salary Increases:</i></b>	<b><i>Salary Increases:</i></b>
Various rates based on service and age, ranging from 8.25% at hire down to 4.86%	<p>This assumption is based on inflation (3.5%) plus productivity (1.0%) plus merit (various). The merit component is based on 5 year historical data over and above inflation and productivity. Segal provided detailed calculations of the merit component. However, when developing their recommended assumption, they subjectively recommended assumptions up to almost 1% lower than the observed rates.</p> <p>The use of an assumption lower than observed values would seem to be an aggressive assumption (an assumption that results in lower liabilities). The subjective adjustment may have reflected the view that recently higher increases will not be sustained over a longer period of time. Our opinion is that it is reasonable and appropriate to use some subjectivity in setting assumptions. However, that reasoning was not disclosed.</p> <p>The assumption used by Segal does not seem unreasonable and future salary increases are very challenging to predict. We believe it is valuable for the Committee to understand the impact of alternative assumptions. Accordingly, our sensitivity analysis section of this report will include results based on salary increases both 10% higher and 10% lower than the current assumption.</p>
<b><i>Total Payroll Growth:</i></b>	<b><i>Total Payroll Growth:</i></b>
Total payroll is assumed to increase 4.5% per year.	<p>The total payroll growth assumption does not affect liability calculations, but does influence the Annual Required Contribution (ARC) and the expected future contributions to the Plan. Thus it will impact the open group projections, but not the closed group projections.</p> <p>Segal states that the assumption is based on 3.5% inflation plus 1.0% productivity growth. Other Segal reports we have reviewed do not necessarily use inflation plus productivity as the assumption. We believe it is possible that the inflation plus productivity approach may not appropriately capture shifts in demographics and the resulting pay adjustments that occur when an entry level hire replaces an experienced hire. The assumption could be supported by projecting results that reflect actual turnover, retirements, and individual salary increase rate increases. It is uncertain to us whether this analysis would justify the 4.5% assumption.</p> <p>Despite the above reservation, the closed group projections which are the primary focus of this audit are not dependant on this assumption. Instead, future benefit payments and contributions will be a function of all the other individual assumptions. As a result, we are not concerned with this assumption for closed group audit purposes.</p>

II. Demographic Assumptions	
Actuarial Valuation Assumption	Gallagher Analysis
<b><i>Mortality Rates:</i></b>	<b><i>Mortality Rates:</i></b>
<p>RP-2000 Combined Healthy Mortality Table setback 3 years for both males and females.</p>	<p>The mortality assumption was changed for the July 1, 2010 Actuarial Valuation and likely was a cause of the significant increase in required contribution resulting from the 2010 assumption changes. The table was based on actual experience, with a 10% margin for future mortality improvements (i.e. lower mortality rates are used than past results would seem to indicate).</p> <p>Segal indicated that the data from the study period showed that the proposed mortality table was close to observed rates for females. Since the proposed mortality table predicts total male and female mortality occurrences to be 11% higher than expected, the implication is that the proposed mortality rates for males would result in actual male deaths more than 11% higher than expected. In other words, the proposed table reflects observed female death rates, but would appear to be very conservative for males since it predicts significantly fewer deaths for males than past data observations would seem to indicate.</p> <p>Based on the above, it would seem that the 3-year setback for males may not have been necessary to create a margin for future mortality improvements. Segal acknowledged that this experience was not consistent with the experience of the prior study and noted that they will closely monitor this assumption in future studies.</p> <p>For purposes of understanding the sensitivity of results, we propose that the sensitivity analysis later in this report reflect the elimination of the 3-year setback for males. This would reduce the conservatism of the current assumption. We also suggest evaluating another assumption that is more conservative. We propose to evaluate the impact of using RP-2000 with Scale BB projected future mortality improvements.</p>
<b><i>Disability Incidence &amp; Mortality Rates:</i></b>	<b><i>Disability Incidence &amp; Mortality Rates:</i></b>
<ul style="list-style-type: none"> <li>• 33% (males) and 20% (females) of OASDI disability incidence rates</li> <li>• RP-2000 Disabled Retiree Mortality Table set back one year for males</li> </ul>	<p>Disability rates were lowered at all ages as a result of the 2010 Experience Study. The new assumption was still higher than the observed actual rates. The assumption may be conservative, but the low rates of incidence minimize the impact of this assumption. Disability benefits comprise less than 2% of total plan costs.</p> <p>This assumption does not seem unreasonable. We do not suggest considering alternative assumptions for the sensitivity analysis part of this study as resulting changes would not be significant.</p>

## II. Demographic Assumptions (continued)

Actuarial Valuation Assumption	Gallagher Analysis
<b><i>Withdrawal Rates:</i></b>	<b><i>Withdrawal Rates:</i></b>
<p>Current rates are as high as 22% in the first year of employment, dropping to 14% in the fourth year. Thereafter rates are based on age, decreasing from about 9% down to about 3% at age 55, and very small after age 55. Rates are the same for males and females.</p>	<p>Segal increased the withdrawal rates at each year of service under 5 years, but not as high as the observed rates. When service exceeds 5 years, recommended rates were close to the observed rates. Our experience within the State indicates withdrawal rates in the past five years have been increasing as alternative employment options have been increasing.</p> <p>We believe the current assumption is not unreasonable. Predicting long term future withdrawal rates can be very challenging. As a result, we recommend evaluating the impact of higher and lower withdrawal rates in the sensitivity analysis of section five. For demonstration purposes, we will evaluate if rates are either 10% higher and 10% lower at each age (e.g., currently 5.0%, would be evaluated at 4.5% and 5.5%)</p>
<b><i>PEP Election Rates and Refund Election Rates:</i></b>	<b><i>PEP Election Rates and Refund Election Rates:</i></b>
<ul style="list-style-type: none"> <li>Members that contributed to PEP last year are assumed to continue each year prospectively</li> <li>Members that contribute to PEP are assumed to contribute the maximum amount</li> <li>Terminated members are assumed to elect the more valuable benefit between a Refund of contributions (including the PEP balance) and a deferred annuity</li> </ul>	<p>The form of benefit assumption is the most conservative approach that is possible. Segal indicates that few new participants start making elections.</p> <p>We recommend using this assumption and not looking at alternatives for purposes of the sensitivity analysis study in this report. Alternatives are difficult to assess without more data.</p>

## II. Demographic Assumptions (continued)

Actuarial Valuation Assumption	Gallagher Analysis
<p><b><i>Retirement Rates:</i></b></p> <p>Rates vary from age 55 to 75 and depend on eligibility for early retirement and unreduced retirement (age 65 and rule of 85)</p>	<p><b><i>Retirement Rates:</i></b></p> <p>The 2010 Experience Study changed the assumption to shift to earlier retirements. The recommended rates are consistent with observed data for unreduced benefit retirements. Recommended rates are generally higher than observed data for reduced benefit retirements. Periods of low rates are often followed by periods of higher rates and vice versa. Economic conditions are in flux and trends are difficult to predict.</p> <p>The current assumption is reasonable. For sensitivity analysis in section five, we believe it would be prudent to consider results if rates from age 55 to 59 are either increased or decreased by 5% per year. For example, the assumed retirement assumption of 10% at a certain age would be evaluated at 5% and 15%. This will have the effect of evaluating results if retirements shift earlier or later.</p> <p>Retirement rates are difficult to estimate, but often have minimal impact on valuation results as either a smaller benefit is assumed payable for a longer period or a larger benefit is assumed payable for a shorter period. The sensitivity analysis can help demonstrate that the net present value impact will be minimal.</p>
<p><b><i>Marriage &amp; Spouse Age:</i></b></p> <ul style="list-style-type: none"> <li>80% males and 65% females assumed married at retirement</li> <li>Male spouses are assumed 3 years older than female spouses</li> </ul>	<p><b><i>Marriage &amp; Spouse Age:</i></b></p> <p>Segal stated that actual data indicated 84% of recently retired males were married and 70% of recently retired females were married. No explanation was given for why the assumption was not changed to be closer to the observed data.</p> <p>No data was included in the Experience Study for spouse age differences, but the age difference was changed from 4 to 3 years based on studies done for other systems.</p> <p>Gallagher's review of the 2013 data indicates that 85% of recently retired males and 75% of females are married. While there may be some evidence to support higher marriage rates, the current assumptions are not unreasonable. Since the assumption has little impact on valuation results, we do not suggest looking at different assumptions for sensitivity analysis reasons.</p>

III. Cost Methods	
Actuarial Valuation Assumption	Gallagher Analysis
<b><i>Actuarial Cost Method:</i></b>	<b><i>Actuarial Cost Method:</i></b>
Entry Age Normal Actuarial Cost Method	<p>This cost method is one of the cost methods permitted by GASB and is the most commonly used in large public sector pension valuations.</p> <p>We support continued use of this cost method.</p>
<b><i>Actuarial Asset Method:</i></b>	<b><i>Actuarial Asset Method:</i></b>
<p>The actuarial value of assets is a smoothed market value. Calculation of the actuarial value of assets begins with the market value of assets as of the valuation date. The expected amount of return over each of the last five years is calculated and subtracted from the actual amount of return for each year. The difference for each year is phased in to the valuation assets at a rate of 20 percent per year until it is fully recognized.</p>	<p>This assumption smoothes potential volatility in future funding requirements. It does not affect long-term funding of the plan. Any smoothing method is reasonable provided that it is consistently used and is not created with the intent to bias results. This method is reasonable.</p>

## Section Five – Sensitivity Analysis

Actuarial projection results will vary based on assumptions for future expectations. The sensitivity of results to different assumptions can help provide a better understanding of a reasonable range of outputs. In this section, we show the effect of different assumptions, as well as the impact of investment volatility.

### Demographic Assumptions

The projections on the pages 26 and 27 include results under the baseline valuation assumption set as well as under two sets developed by Gallagher representing cost favorable and cost unfavorable sets of demographic assumptions.

	NDPERS July 1, 2013 Valuation	Gallagher Recommended Assumption Sets for Sensitivity Analysis	
		Cost Favorable (8% Best)	Cost Unfavorable (8% Worst)
Salary Increases	Rates based on Experience Study	10% lower	10% higher
Mortality Rates	Rates based on Experience Study	Study rates without Male margin	RP 2000 Table with projected improvements
Withdrawal Rates	Rates based on Experience Study	10% lower	10% higher
Retirement Rates	Rates based on Experience Study	Shifted later	Shifted earlier

The following graphs compare projected funding ratios for the two closed plan scenarios under the three sets of assumptions above. The Baseline results are based on Segal’s valuation assumptions. The “8% Worst” results represent the Cost Unfavorable set of assumptions while the “8% Best” represent the Cost Favorable assumptions. The estimated cost to fully fund the Plan in each case is shown below the title in the legend.

### 7.5% Investment Return

In addition to showing the effect of more or less conservative demographic assumptions, the following graphs show results if the plan’s investment return is 7.5% per year. Because this assumption has the largest impact, this change has been shown in isolation (i.e., only the investment return was changed, all other assumptions are the same as the baseline valuation).

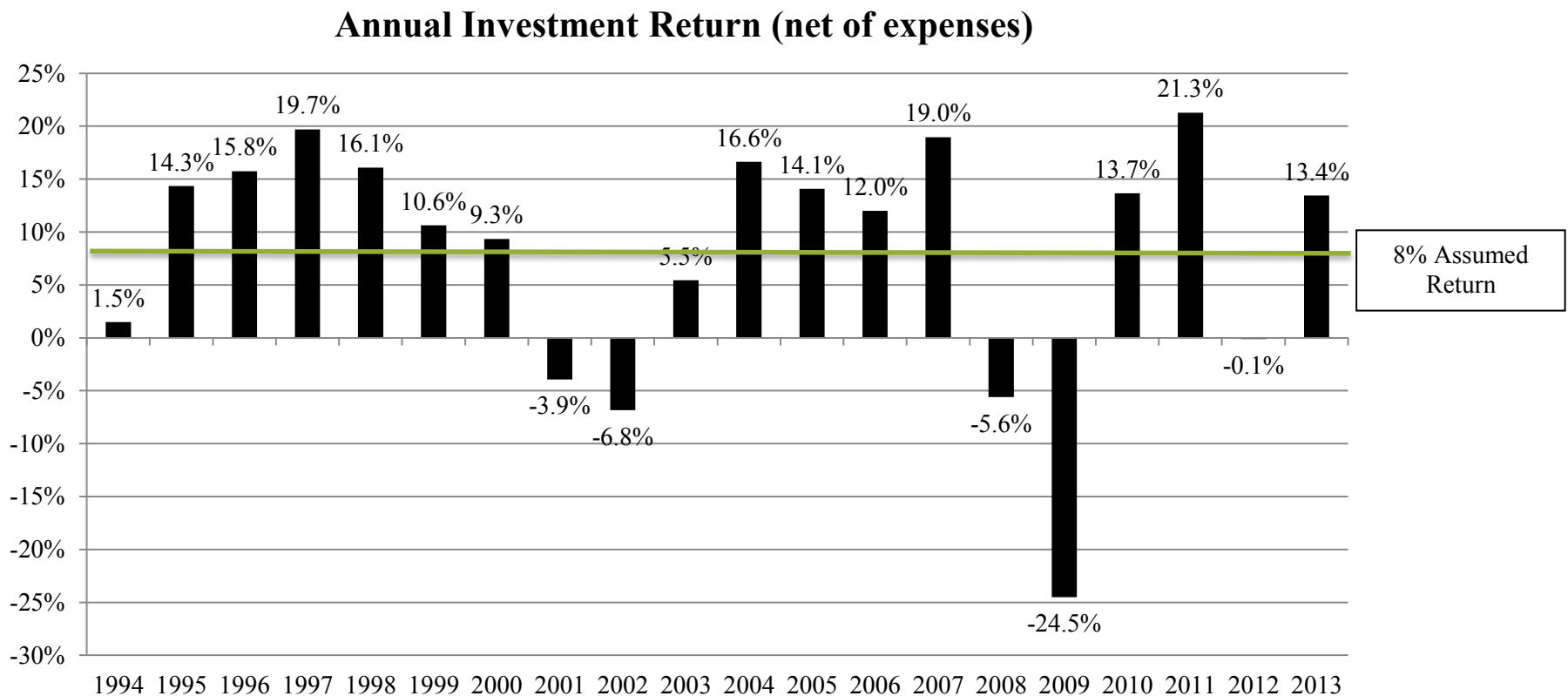


### Investment Volatility

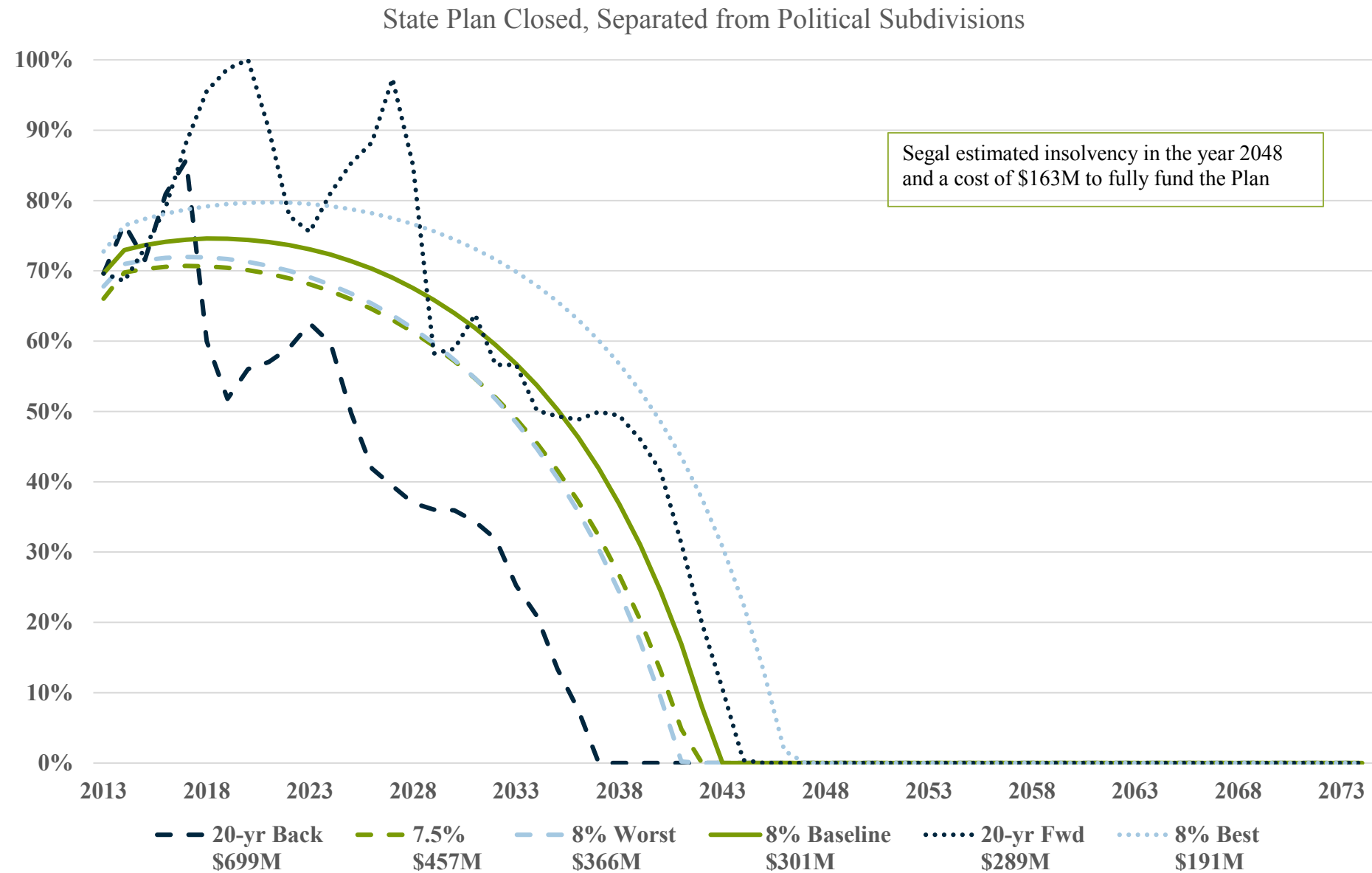
The graph at the bottom of this page shows actual annual investment return rates for NDPERS for the 20 years ending June 30, 2013. Note that the average arithmetic and annually compounded returns over the past 20 years have been close to the assumed return of 8%.

- Average arithmetic return from 1994 – 2013 (20 Years): 8.1%
- Average annual compounded return from 1994 – 2013 (20 Years): 7.4%

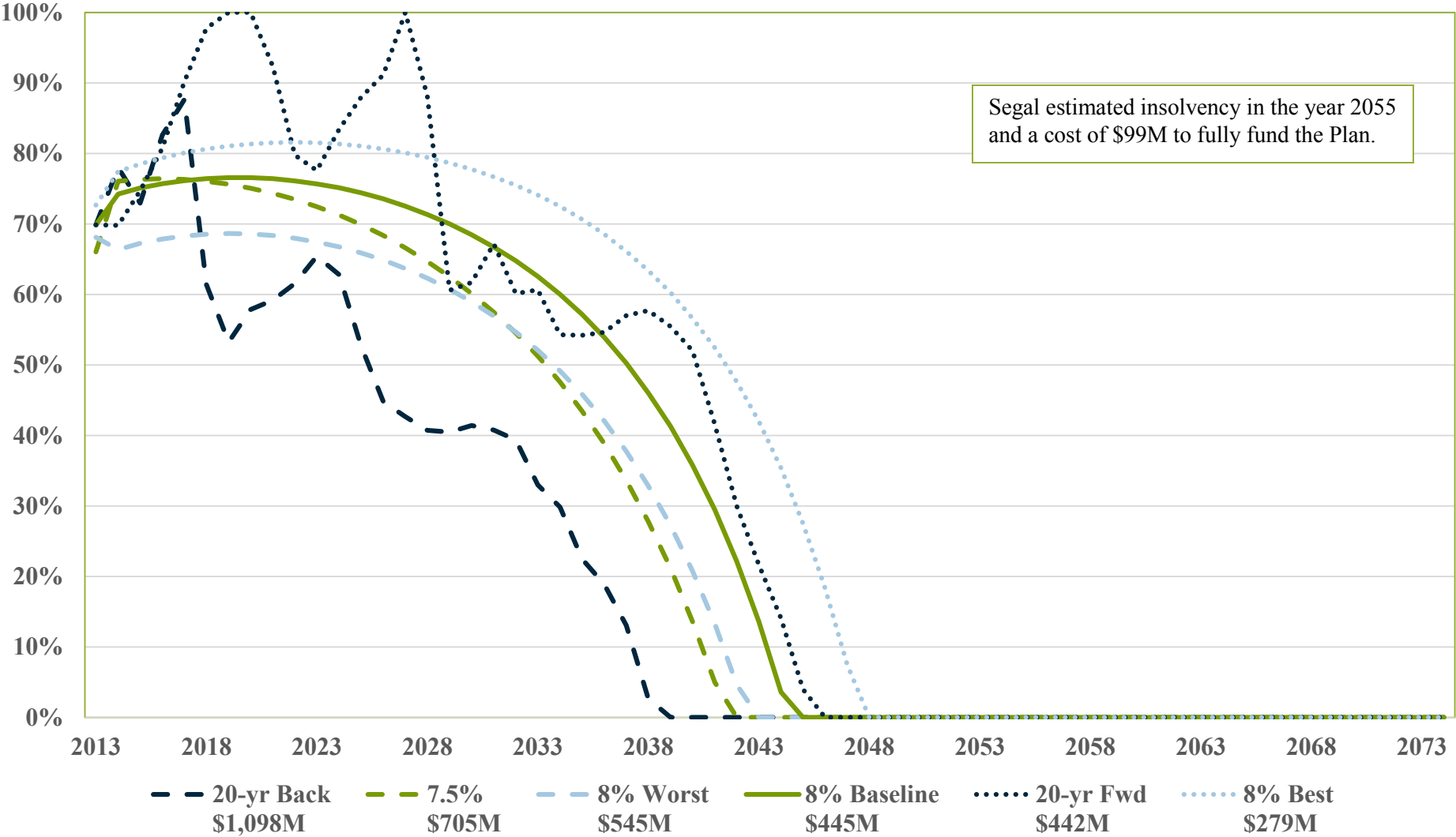
The Plan, like most pension plans, has experienced a significant amount of volatility over the past 20 years. This volatility explains the difference between the arithmetic average rate of return which is simply the sum of the annual returns divided by the number of years included in the sample as compared to the annual compounded average, which tracks the value of a fixed amount over that time period on an annually compounded method.



The following graphs demonstrate the effect of investment volatility by showing the effect if historical returns for the prior 20 year period are repeated in the future. Results are shown both if returns are repeated in the same order forward (Fwd), or backward (Back).



Both Plans Closed



## Independent Study of Actuarial Costs to Close NDPERS

The following chart shows a summary comparison of Segal's estimated one-time cost to fully fund the closed plan scenarios with Gallagher's results. The Baseline result differences are primarily due to Segal's output adjustments as noted in Section Three. Also shown is a summary of the range in results when demographic assumptions are different than expected, as well as the impact of both investment volatility (with an 8% average return), or no investment volatility with a fixed 7.5% rate of return.

		Segal Result	Gallagher Result
State Plan Closed (separated from Political Subdivisions)	Baseline Result	\$163M	\$301M
	Results Reflecting 7.5% Investment Return		\$457M
	Results Reflecting Alternative Demographic Assumptions		\$191M to \$366M
	Results Reflecting Investment Volatility (Repeating the past 20 years)		\$289M to \$699M
		Segal Result	Gallagher Result
Plan Closed for State and Political Subdivisions	Baseline Result	\$99M	\$445M
	Results Reflecting 7.5% Investment Return		\$705M
	Results Reflecting Alternative Demographic Assumptions		\$279M to \$545M
	Results Reflecting Investment Volatility (Repeating the past 20 years)		\$442M to \$1,098M

The results are shown independently by category. The compounded effect of multiple factors is not shown. For example, if demographic experience was unfavorable and a 7.5% return with high volatility occurred, the result variances would be compounded.

## Section Six – Summary of Conclusions

The following summarizes all conclusions from this report:

### Conclusions

- Segal’s Plan closure study was not based on the same outputs as the July 1, 2013 actuarial valuation.
- Segal adjusted costs downward to reflect fewer retirements. This contradicts the actuarial valuation which noted that fewer retirements increased plan costs.
- Segal’s adjustments reduced the present value of projected benefit payments by about \$264M.
- No other adjustments were made to reflect increased benefits or increased contributions due to deferred retirements.
- Segal did not include post 7/1/13 hires in their study.
- Gallagher estimates if no adjustments were made and post 7/1/13 hires were included:
  - If only the State employees group was closed and separated from the Non-State
    - The insolvency date would be in 30 years, not 35 years
    - The one-time contribution would be \$301M instead of \$163M
  - If the entire plan is closed
    - The insolvency date would be in 32 years, not 42 years
    - The one-time contribution would be \$445M instead of \$99M
- In addition to the above, alternative assumptions or actual investment returns with volatility may significantly affect the one time funding costs.
- If the adjustments to the closed plan study made by Segal are considered reasonable, then the Actuarial Valuation results significantly overstate the contribution required to fund the Plan.

## Attachments

## Laura Hafermann

---

**From:** Ramirez, Brad <bramirez@segalco.com>  
**Sent:** Tuesday, July 29, 2014 2:14 PM  
**To:** Doug Anderson  
**Cc:** Sparb Collins (scollins@nd.gov); Dixon, Tammy; Mitchell, Laura; Larson, Brady A. (bradylarson@nd.gov); Knudson, Allen H. (aknudson@nd.gov)  
**Subject:** RE: North Dakota Legislative Committee Audit

Doug,

Our responses are below. Please contact me if you have any further questions.

I'm out of the office this afternoon but will be back tomorrow.

Thanks,  
Brad

---

**From:** Doug Anderson [[mailto:Doug\\_Anderson@ajg.com](mailto:Doug_Anderson@ajg.com)]  
**Sent:** Wednesday, July 23, 2014 10:06 AM  
**To:** Ramirez, Brad  
**Cc:** Sparb Collins ([scollins@nd.gov](mailto:scollins@nd.gov)); Dixon, Tammy; Mitchell, Laura; Larson, Brady A.; Knudson, Allen H.  
**Subject:** RE: North Dakota Legislative Committee Audit

Brad,

Thank you for your response. After visiting with some representatives of the Legislative Committee, I do want to submit some follow-up questions so I can fully explain this situation to the Legislative Committee. I am primarily interested in understanding differences between your July 1, 2013 actuarial valuation results and the results in your March 6, 2014 letter to NDPERS.

On August 5<sup>th</sup> I will provide another update to the Legislative Committee. I would appreciate if you could provide answers to the following questions prior to that date.

1. You note an adjustment for FYE 2014 benefit payments from an unadjusted amount of \$179M to an amount more in alignment with \$106M actual payments in FYE 2013. What is the reason for the overstatement of the FYE 2014 unadjusted amount?

**The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed.**

2. How many other years were adjusted in a similar manner?

**The adjustment was made for years prior to 2028.**

3. Were any adjustments made to benefit payments from the years 2030 to 2055. As shown on the attachment, these years show the largest differences between a BP stream discounting to \$3,369 (Gallagher result) and \$3,120M.

**No adjustments were made in the years 2030 to 2055.**

4. What was the methodology for adjusting the benefit payments?

**The benefit payments used in the projection were actual benefit payments as of June 30, 2013, increased by 8% per year for ten years, then 6% for five years, then the payment stream from the valuation system was used.**

5. Were adjustments made in a similar manner for State and Political Subdivision participants?  
**The adjustment was made for all PERS Main System benefit payments.**

6. Do all of these adjustments account for the \$264M difference that I have calculated in the attached spreadsheet?  
**Our analysis indicates that the difference is mostly due to the adjustments in benefit payments and the difference in timing of payments between our valuation systems.**

7. Were any other adjustments made?  
**No.**

8. Should the adjustments made for the study also have been made for the July 1, 2013 actuarial valuation? Will they be considered for the 2014 actuarial valuation?  
**The July 1, 2013 actuarial valuation was based on the assumptions approved by the board, based on the most recent experience study. We will continue to monitor gains and losses in this area and will recommend changes, if necessary.**

9. Were the adjustments communicated either in writing or verbally to NDPERS?  
**The details of the adjustments were not communicated.**

10. Did the projections in the March 6<sup>th</sup> Study include benefit payments for employees that were expected to be hired after July 1, 2013 and before the assumed January 1, 2016 plan closure dates (for scenarios that assume plan closure)?  
**We did not include these employees in the plan closure projection.**

Using scenario No. 5 from your March 6<sup>th</sup> letter, I am attempting to reconcile the \$3,384M PVB you provided to us as a valuation result, with the \$3,120M in the attached spreadsheet. Further to that end, we had matched your PVB for the valuation rather closely (we had \$3,369M). As an estimate, we have valued the PVB as of July 1, 2013 for participants that had been hired in the past two and half years and obtain a PVB of roughly \$150M. When combining that result with our match results, we have a PVB for this scenario of about \$3,500M. Here is a summary:

	Segal Valuation	Segal Letter	Gallagher
Est. PVB @ 7/1/13 for Participants as of 7/1/13	\$3,384		\$3,369
Est. PVB @ 7/1/13 for New Participants entering between 7/1/13 and 1/1/16			<u>150</u>
Est. PVB @ 7/1/13 for all pre 1/1/16 Participants		\$3,120	\$3,519
Scenario 5 – Both Groups Closed- years to insolvency		42	30
Scenario 5 – Both Groups Closed - cost to fully fund		Approximately \$100M (PV of unfunded BPs)	Approximately \$350M (\$100M - \$15M + \$264M + net effect of new hires)

**The adjustments to the benefit payments and the timing of the benefit payments are responsible for the change in PVB.**

As noted above, the difference between your results and ours leads to some more significant differences when evaluating insolvency periods and amounts needed to fully fund the plan. It is these differences that I wish to explain to the Committee.



Thank you for considering these questions as well as your past prompt responses to our requests.

Doug

Doug Anderson  
Area Senior Vice President  
Retirement Plan Consulting | Actuarial

Arthur J. Gallagher & Co.  
3600 American Blvd. W, Suite 500 | Bloomington, MN 55431  
P: 952.356.3848 | F: 866.743.5313 | M: 612.270.6125  
[www.ajg.com](http://www.ajg.com)  
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-----Original Message-----

From: Ramirez, Brad [<mailto:bramirez@segalco.com>]  
Sent: Wednesday, July 16, 2014 6:26 PM  
To: Doug Anderson  
Cc: Sparb Collins ([scollins@nd.gov](mailto:scollins@nd.gov)); Dixon, Tammy; Mitchell, Laura  
Subject: FW: North Dakota Legislative Committee Audit

Doug,

See our response below. Please let me know if you have any questions.

Thanks,  
Brad

---

From: Collins, J. Sparb [[scollins@nd.gov](mailto:scollins@nd.gov)]  
Sent: Wednesday, July 16, 2014 5:20 PM  
To: Ramirez, Brad  
Subject: Re: North Dakota Legislative Committee Audit

Yes please forward and we can discuss

sparb

On Jul 16, 2014, at 4:13 PM, "Ramirez, Brad"  
<[bramirez@segalco.com](mailto:bramirez@segalco.com)<<mailto:bramirez@segalco.com>>> wrote:

Sparb,

With respect to item 5, for the purposes of the closed group projection, we adjusted the benefit payments projected in the valuation to be closer to the actual benefit payments from the Main system. For example, in 2013, the unadjusted projected benefit payment amount was \$179 million and the actual benefit payments from the Main system were \$106 million. The benefits Gallagher used were higher therefore their projected date of insolvency was sooner.

This results in a different outlay of projected payments as Doug pointed out below. We believe that this adjustment provides a more accurate projection for when the fund will become insolvent.

As always, emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

If you would like, I will forward this explanation to Doug and see if he has any questions.

Thanks,  
Brad

From: Doug Anderson [mailto:Doug\_Anderson@ajg.com]  
Sent: Wednesday, July 09, 2014 3:37 PM  
To: Ramirez, Brad; Mitchell, Laura; Tanji, Hiroko  
Cc: Collins, J. Sparb; Anthony Pluth  
Subject: North Dakota Legislative Committee Audit

Hello Brad,

The purpose of this email is to update you on our work for the North Dakota Legislative Management Committee related to the NDPERS audit. On July 1st I presented an update to the Committee. Sparb may have provided you with a copy of our presentation. Their key points were as follows:

1. We had no significant findings with respect to the participant data. We may have a few minor questions later, but it's not a high priority.
2. We were able to obtain a reasonable match of the July 1, 2013 actuarial valuation results (< 1.0% in total).
3. We had no significant issues with the assumptions recommended by Segal and adopted by NDPERS in 2010.
4. We had some recommendations for alternative assumptions that should be considered as they deliberate on plan design changes. This primarily is intended to recognize that no single assumption will be accurate and understanding the sensitivity of results to various assumptions is valuable.
5. We did identify some differences in projection results for the plan design options which in our opinion should be investigated and reconciled.

With regard to item #5 above, based on the close valuation match, we expected that our projections for the date of insolvency under good and bad assumptions should bracket the results from your March 6, 2014 letter to NDPERS. For example, the final scenario in that letter titled "Main Systems - Existing Plan with No New Entrants as of 1/1/2016" shows insolvency in the year 2055. Our results, which we expected to bracket the year 2055, instead ranged from 2045 to 2048.

While looking at this closer, we note a difference between the present value of projected benefit payments shown in that letter for that scenario and the present

value of benefits as of the valuation date that you provided to us in June. Specifically, the PV of benefit payments in the letter appears to be about \$264M less than the PVB you provided to us for purposes of matching the valuation. This difference may explain why we had unexpected insolvency dates.

Can you review the attached Excel document where we attempt to reconcile your PV of BP's from the March 6th letter with the PVB provided to us for the valuation match? My expectation is that the PV of BP's for the scenario in the letter should actually be higher than the PVB for the valuation, rather than \$264M lower, due to the inclusion of an additional two and half years of new hires.

I would appreciate any insight you have to help me understand this difference. I've also demonstrated the difference between your benefit payments in the exhibit and what we have calculated for our close match results. You can see that most of the difference in benefit payments appears from about 2030 to 2050.

My next update for the Committee is on August 5th and I hope to report on this issue at that time.

Please let me know if you have questions or would like to discuss this directly. I am out of the office until July 15th.

Thank you,  
Doug

Doug Anderson  
Area Senior Vice President  
Retirement Plan Consulting | Actuarial

Arthur J. Gallagher & Co.  
3600 American Blvd. W, Suite 500 | Bloomington, MN 55431  
P: 952.356.3848 | F: 866.743.5313 | M: 612.270.6125  
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<PVFB Reconciliation.xlsx>

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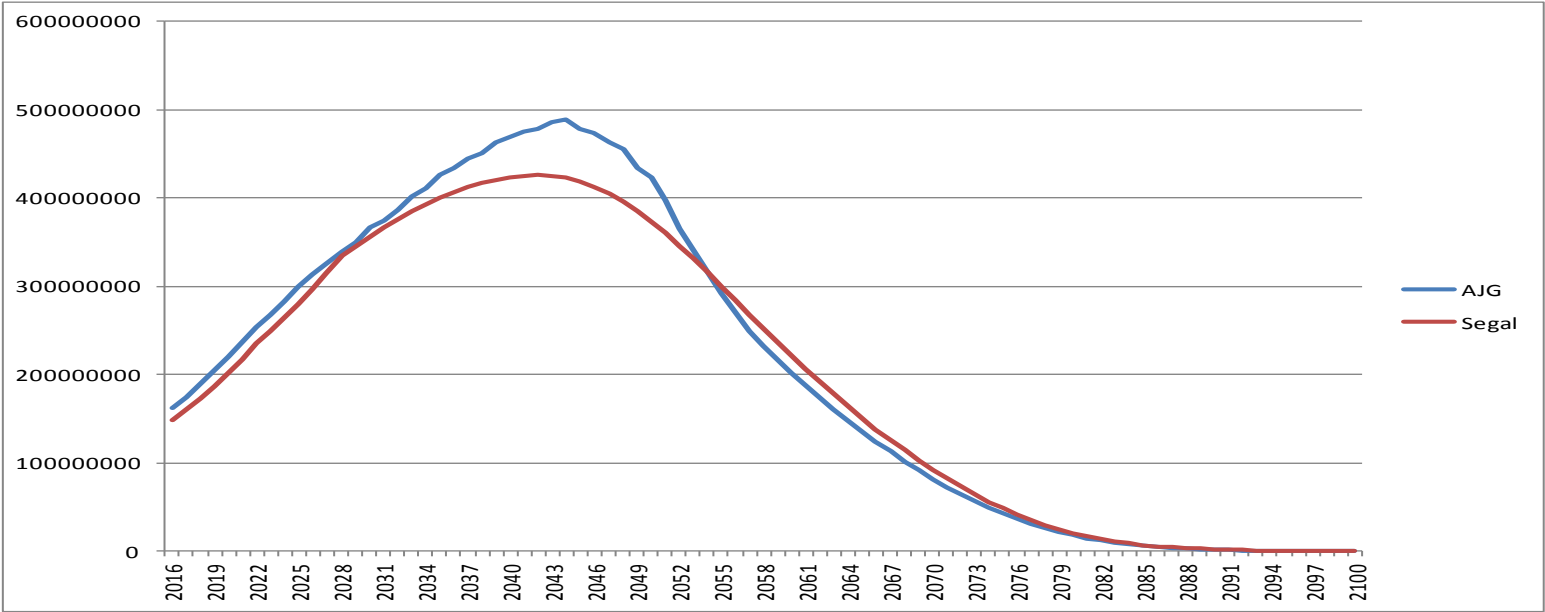
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Thank you.

Segal July 1, 2013 Implied Total Present Value from Study	Segal July 1, 2013 Present Value Provided to Gallagher	Difference
\$ 2,784,903,140		
335,339,266		
\$ 3,120,242,406	\$ 3,384,242,081	\$ (263,999,675)

Attempt to obtain 7/1/2013 Benefit Payments via asset reconciliation

	Segal Provided Values	Market Value of Assets (BOY)	Contributions	Earnings	Benefit Payments	Market Value of Assets (EOY)
Actives	\$ 2,285,669,665	1,899,500,000	113,600,000	151,900,000	116,300,000	2,048,700,000
Prior Service	10,275	2,048,700,000	127,000,000	164,000,000	125,400,000	2,214,300,000
Retirees & Bens	943,661,450					
Inactive	154,900,691					
	\$ 3,384,242,081					

Graph Comparison of Segal vs Gallagher Benefit Payments



March 6, 2014 Letter to NDPERS (pages 12-14) Results for Main Systems - Existing Plan with no New Entrants as of 1/1/2016.  
Discounted by Gallagher to July 1, 2013

Total: \$ 16,785,300,000      Total: \$ 2,784,903,140

Assumed Additional Amounts From Other Sources

Total: \$ 335,339,266

Plan Year Beginning	Benefit Payments	Discount Factor	PV of Benefit Payment
7/1/2013	N/A		N/A
7/1/2014	N/A		N/A
7/1/2015	N/A		N/A
7/1/2016	147,900,000	0.7639	112,975,697
7/1/2017	159,800,000	0.7073	113,023,792
7/1/2018	172,600,000	0.6549	113,034,271
7/1/2019	186,400,000	0.6064	113,029,420
7/1/2020	201,300,000	0.5615	113,022,682
7/1/2021	217,400,000	0.5199	113,020,602
7/1/2022	234,800,000	0.4814	113,024,453
7/1/2023	248,800,000	0.4457	110,892,186
7/1/2024	263,800,000	0.4127	108,868,341
7/1/2025	279,600,000	0.3821	106,841,561
7/1/2026	296,400,000	0.3538	104,871,505
7/1/2027	314,200,000	0.3276	102,934,682
7/1/2028	334,300,000	0.3033	101,407,054
7/1/2029	345,500,000	0.2809	97,041,184
7/1/2030	356,200,000	0.2601	92,635,659
7/1/2031	366,100,000	0.2408	88,157,700
7/1/2032	375,500,000	0.2230	83,723,372
7/1/2033	384,400,000	0.2064	79,359,037
7/1/2034	392,500,000	0.1912	75,028,959
7/1/2035	399,800,000	0.1770	70,763,335
7/1/2036	406,200,000	0.1639	66,570,476
7/1/2037	412,000,000	0.1517	62,519,458
7/1/2038	416,800,000	0.1405	58,562,815
7/1/2039	420,600,000	0.1301	54,719,201

Plan Year Beginning	Benefit Payments	Discount Factor	PV of Benefit Payment
7/1/2013	116,300,000	0.9623	111,909,727
7/1/2014	125,400,000	0.8910	111,727,969
7/1/2015	135,400,000	0.8250	111,701,570

Notes:

1. 7/1/2013 value determined as plug value to reconcile 7/1/2013 assets with 7/1/2014 assets (see calculation to the right)
2. 7/1/2014 and 7/1/2014 values obtained from March 6, Letter to NDPERS (pages 1-3) Results for Main Systems - Existing Plan No Change (entire group)

7/1/2040	423,500,000	0.1205	51,015,264
7/1/2041	425,500,000	0.1115	47,459,432
7/1/2042	426,100,000	0.1033	44,005,884
7/1/2043	425,400,000	0.0956	40,679,251
7/1/2044	423,100,000	0.0885	37,462,325
7/1/2045	419,100,000	0.0820	34,359,403
7/1/2046	413,200,000	0.0759	31,366,388
7/1/2047	405,600,000	0.0703	28,508,764
7/1/2048	396,500,000	0.0651	25,804,763
7/1/2049	385,700,000	0.0603	23,242,485
7/1/2050	373,500,000	0.0558	20,840,099
7/1/2051	360,200,000	0.0517	18,609,261
7/1/2052	346,000,000	0.0478	16,551,515
7/1/2053	331,000,000	0.0443	14,661,078
7/1/2054	315,600,000	0.0410	12,943,483
7/1/2055	299,900,000	0.0380	11,388,509
7/1/2056	284,000,000	0.0352	9,985,849
7/1/2057	268,100,000	0.0326	8,728,502
7/1/2058	252,400,000	0.0301	7,608,665
7/1/2059	237,000,000	0.0279	6,615,211
7/1/2060	221,800,000	0.0258	5,732,356
7/1/2061	207,000,000	0.0239	4,953,569
7/1/2062	192,400,000	0.0222	4,263,136
7/1/2063	178,200,000	0.0205	3,656,016
7/1/2064	164,300,000	0.0190	3,121,147
7/1/2065	151,000,000	0.0176	2,656,010
7/1/2066	138,100,000	0.0163	2,249,172
7/1/2067	125,800,000	0.0151	1,897,081
7/1/2068	114,000,000	0.0140	1,591,792
7/1/2069	102,800,000	0.0129	1,329,079
7/1/2070	92,100,000	0.0120	1,102,538
7/1/2071	82,100,000	0.0111	910,025
7/1/2072	72,700,000	0.0103	746,141
7/1/2073	63,900,000	0.0095	607,245
7/1/2074	55,800,000	0.0088	490,991
7/1/2075	48,300,000	0.0081	393,516
7/1/2076	41,500,000	0.0075	313,069
7/1/2077	35,400,000	0.0070	247,270
7/1/2078	29,800,000	0.0065	192,735
7/1/2079	24,900,000	0.0060	149,114

7/1/2080	20,600,000	0.0055	114,226
7/1/2081	16,900,000	0.0051	86,768
7/1/2082	13,700,000	0.0048	65,128
7/1/2083	11,000,000	0.0044	48,419
7/1/2084	8,700,000	0.0041	35,459
7/1/2085	6,800,000	0.0038	25,662
7/1/2086	5,300,000	0.0035	18,520
7/1/2087	4,100,000	0.0032	13,265
7/1/2088	3,100,000	0.0030	9,287
7/1/2089	2,400,000	0.0028	6,657
7/1/2090	1,800,000	0.0026	4,623
7/1/2091	1,300,000	0.0024	3,092
7/1/2092	1,000,000	0.0022	2,202
7/1/2093	700,000	0.0020	1,427
7/1/2094	500,000	0.0019	944
7/1/2095	400,000	0.0017	699
7/1/2096	300,000	0.0016	486
7/1/2097	200,000	0.0015	300
7/1/2098	200,000	0.0014	278
7/1/2099	100,000	0.0013	128
7/1/2100	-	0.0012	-





**Testimony on HB 1209  
Senate Government Affairs Committee  
March 18, 2021**

Chairman Vedaa and members of the Committee, for the record my name is Nick Archuleta, and I am the president of North Dakota United. North Dakota United is a union of professionals which includes state, county, and municipal employees. I am pleased to be here today and to urge a Do Not Pass recommendation on HB 1209.

In its original form, HB 1209 offered some interesting ideas on how to get the PERS Plan to fully funded status in twenty years. ND PERS executive director, Scott Miller, offered praise of the original version of HB 1209, along with some suggested amendments that would improve the bill. In the view of our members, these ideas deserved to be considered and judged on their merit.

Mr. Chairman and members of the Committee, that is not the bill we see here today. This version of HB 1209 calls for a study of the PERS system, which in and of itself might be fine. However, the bill goes on to call for the development of a plan that will close off the defined benefit retirement plan to new employees effective January 1, 2024. In essence, the study being called for is one with an apparent foregone conclusion: that the PERS DB plan must end. So, Mr. Chairman, our members are left to wonder what purpose a study will serve.

Members of the Committee, the PERS defined benefit plan is a tool that agency heads recognize as a critical piece of their efforts to recruit and retain skilled public employees. State government and political subdivisions are competing not just regionally, but nationally for highly skilled employees. And they are not only competing with other state governments and political subs, but they are also competing with the private sector which can pay more for the skills they seek. The PERS DB plan, along with the PERS health insurance plan, help to attract and retain new employees.

Senator Vedaa and members of the Committee, public employees have told us repeatedly that they are frustrated that the PERS plan has still not received a similar fix to what TFFR received several sessions ago. HB 1209 serves only to justify that concern since rather than offering ideas designed to set it on course to fully funded status, it offers the means to end the PERS DP plan.

Thank you for the opportunity to be here today. Please issue a Do Not Pass recommendation for HB 1209.

## **TESTIMONY OF REBECCA FRICKE**

### **House Bill 1209 – Close the Defined Benefit Plan**

Good morning, my name is Rebecca Fricke. I am the Chief Benefits Officer of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in opposition to House Bill 1209. I am available should there be any questions related to the impact of the bill on any of the NDPERS benefits.

## **TESTIMONY OF DERRICK HOHBEIN**

### **House Bill 1209 – Close the Defined Benefit Plan**

Good morning, my name is Derrick Hohbein. I am the Chief Operating/Financial Officer of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in opposition to House Bill 1209. I am available should there be any questions related to the impact of the bill on any of the NDPERS benefits.

**TESTIMONY OF MARYJO ANDERSON**  
**House Bill 1209 – Close the Defined Benefit Plan**

Good morning, my name is MaryJo Anderson. I am the Retirement Programs Manager of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in opposition of House Bill 1209. I am available should there be any questions related to the impact of the bill on any of the NDPERS benefits.

# Professional Fire Fighters of North Dakota #9972

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Darren Schimke, President | 218-779-4122 | [dschimke@wiktel.com](mailto:dschimke@wiktel.com)

3-18-2021

Senate Government and Veterans Affairs Committee

Mr. Chairman and members of the Government and Veterans Affairs Committee,

My name is Darren Schimke, President of the Professional Fire Fighters of North Dakota (PFFND) representing 415 professional firefighters across our great state. We appreciate the opportunity to provide testimony in opposition of HB 1209 and Engrossed House Bill 1209.

The defined benefit pension plan through the NDPERS retirement system has been, and continues to be, an excellent aid to participating municipalities for recruitment and retention of firefighters across our State. This statement is reinforced by the many plan participants statements given to me during zoom meetings the past 4 months.

My employer, the City of Grand Forks, joined the NDPERS retirement system defined benefit plan approximately 12 years ago. We came from a defined contribution plan. As our Local President at that time, my involvement with City Government was quite high and we were witnessing a mass exiting of employees for a number of years. The Police Department was having the most trouble with this and the Fire Department started to see the same thing as well. The number one reason given for ceasing their employment with the City during exit interviews was more attractive defined benefit plans. Once the City made the change to NDPERS defined benefit, the recruitment and retention improved greatly!

The PFFND and its plan participating member's support making the incremental contribution increases to the plan that are suggested within the actuarial reports, such as the failed HB 1342 contained. Originally, the PFFND was opposed to HB 1209 due to the contributions becoming too volatile when determined by actuarial valuation to meet both the normal cost plus the actuarially determined amount required to amortize the unfunded accrued liability over a period of twenty years.

The PFFND members are opposed to HB 1209 and Engrossed House Bill 1209 for the reasons stated in paragraph 2 and 3 above. The closing of the defined benefit plan will send us down a path of extreme hardship and affect morale negatively within the workplace. The closing of the plan will be financially extreme. We respectfully request your consideration of a Do Not Pass vote.

Darren Schimke

# 2021 SENATE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee Room JW216, State Capitol

HB 1209  
3/25/2021

**Provide for a legislative management study of the PERS defined benefit and defined contribution retirement plans.**

**Chair Vedaa** called to order at 11:27 AM with Sen Vedaa, Meyer, Elkin, Elkin, K Roers, Weber, Wobbema, and Marcellais.

**Discussion Topics:**

- Committee Work
- 21.0566.02003

**Sen K Roers** moved amendment 21.0566.02003

**Sen Marcellais** seconded

**Voice Vote Taken: Motion Passed**

**Sen K Roers** moved a **Do Pass as Amended**

**Sen Weber** seconded

**Roll Call Vote: 6 -- YES 1 -- NO -0-ab Motion Passed**

Senators	Vote
Senator Shawn Vedaa	Y
Senator Scott Meyer	N
Senator Jay R. Elkin	Y
Senator Richard Marcellais	Y
Senator Kristin Roers	Y
Senator Mark F. Webber	Y
Senator Michael A. Wobbema	Y

**Sen Weber will carry the bill**

Adjourned at 11:27 AM

*Pam Dever, Committee Clerk*

21.0566.02003  
Title.03000

Prepared by the Legislative Council staff for  
Representative M. Ruby  
March 25, 2021

SK  
101  
3/8

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1209

Page 1, line 7, replace "benefit" with "contribution"

Renumber accordingly

**REPORT OF STANDING COMMITTEE**

**HB 1209, as engrossed: Government and Veterans Affairs Committee (Sen. Vedaa, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (6 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Engrossed HB 1209 was placed on the Sixth order on the calendar.

Page 1, line 7, replace "benefit" with "contribution"

Renumber accordingly



**2021 CONFERENCE COMMITTEE**

**HB 1209**

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee

Pioneer Room, State Capitol

HB 1209

4/14/2021

Conference Committee

Relating to public employees retirement system employer and temporary employee contribution rates; and to provide an effective date

**Chairman Kasper** opened the conference committee at 3:00 p.m.

All conference committee members were present:

Chairman Kasper-P  
Rep. B. Koppelman-P  
Rep. Steiner-P

Chairman Vedaa-P  
Senator Weber-P  
Senator Marcellais-P

### Discussion Topics:

- Upcoming amendments

**Chairman Kasper** adjourned at 3:01 p.m.

*Carmen Hart, Committee Clerk*

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee Pioneer Room, State Capitol

HB 1209  
4/21/2021  
Conference Committee

Relating to public employees retirement system employer and temporary employee contribution rates; and to provide an effective date
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**Chairman Kasper** opened the conference committee meeting at 9:31 a.m.

All members were present:

Chairman Kasper-P  
Rep. B. Koppelman-P  
Rep. Steiner-P

Chairman Vedaa-P  
Senator Weber-P  
Senator Marcellais-P

### Discussion Topics:

- Word correction

**Rep. B Koppelman** moved the **House accede to Senate amendments**. **Rep. Steiner** seconded.

**Roll call vote** was taken. 6-0-0. **Motion passes**. **Rep. B. Koppelman** is the House carrier. **Senator Weber** is the Senate carrier.

**Chairman Kasper** adjourned at 9:33 a.m.

*Carmen Hart, Committee Clerk*

Date: 4/21/2021  
Roll Call Vote #:   1  

**2021 HOUSE CONFERENCE COMMITTEE  
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB 1209 as (re) engrossed

**House Government and Veterans' Affairs Committee**

- Action Taken**    ☒ **HOUSE accede to Senate Amendments**  
☐ **HOUSE accede to Senate Amendments and further amend**  
☐ **SENATE recede from Senate amendments**  
☐ **SENATE recede from Senate amendments and amend as follows**
- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Rep. B. Koppelman      Seconded by: Rep. Steiner

Representatives	4/14	4/21		Yes	No		Senators	4/14	4/21		Yes	No
Chairman Kasper	X	X		X			Chairman Vedaa	X	X		X	
Rep. B. Koppelman	X	X		X			Senator Weber	X	X		X	
Rep. Steiner	X	X		X			Senator Marcellais	X	X		X	
Total Rep. Vote				3			Total Senate Vote				3	

Vote Count      Yes:   6        No:   0        Absent:   0  

House Carrier Rep. B. Koppelman      Senate Carrier Senator Weber

LC Number \_\_\_\_\_ . \_\_\_\_\_ of amendment

LC Number \_\_\_\_\_ . \_\_\_\_\_ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

**REPORT OF CONFERENCE COMMITTEE**

**HB 1209, as engrossed:** Your conference committee (Sens. Vedaa, Weber, Marcellais and Reps. Kasper, B. Koppelman, Steiner) recommends that the **HOUSE ACCEDE** to the Senate amendments as printed on HJ page 1340 and place HB 1209 on the Seventh order.

Engrossed HB 1209 was placed on the Seventh order of business on the calendar.