

**2021 HOUSE GOVERNMENT AND VETERANS AFFAIRS**

**HB 1342**

# 2021 HOUSE STANDING COMMITTEE MINUTES

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

HB 1342  
2/4/2021

Relating to increased employer and employee contributions under the PERS defined benefit and defined contribution plans; to provide an appropriation; and to provide a statement of legislative intent

**Chairman Kasper** opened the hearing on HB 1342 at 9:08 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	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:

- Increased employer and employee contributions under PERS
- Cash infusion

**Rep. Lefor** introduced and testified in favor, #5425.

**Lisa Kudelka, Director of Operations, HRMS**, within **OMB**, testified in favor, #5332.

**Scott Miller, Executive Director, NDPERS**, testified in favor, #5237.

**Additional written testimony:** #5242, #5253, #5310, #5318, #5320

**Chairman Kasper** closed the hearing at 10:10 a.m.

*Carmen Hart, Committee Clerk*

Rep. Mike Lefor

## HB 1342 Testimony

Good Morning Chairman Kasper and members of the Government and Veterans Affairs committee, for the record my name is Mike Lefor and I represent District 37 – Dickinson in the House.

Today, I bring HB 1342 to you for your consideration. For the past three years, I have served as chair of the Employee Benefits Programs Committee. The reports we received regarding the unfunded liability of our PERS plan is concerning. HB 1342 attempts to change the downward trend. At this time, I will grow through the bill with you. On page one, line thirteen you will note the increase in the temporary employee percentage is an update in code. Lines 16-20 updates code as well, it is my understanding the temporary employee pays all the contributions. Lines 19-20 reflects the increased percentage. (Defined Benefit Plan)

Section two updates code and provides for an increase in the contribution percentage for permanent employee contributions to the defined benefit plan.

Section three updates code and increases the employer contribution to the defined benefit plan.

Section four updates code and increases the temporary employee contribution to the defined contribution plan.

Section five increases the permanent employee contributions to the defined contribution plan.

Section six updates code and reflects the increase in employer contributions to the defined contribution plan.

Section seven reflects a cash infusion into the plan from the general fund from legacy earnings. The cash infusion is \$24 million. In addition, you will note the temporary employees rate of increase is two percent as they pay all. Permanent employer and permanent employee contribution increases are 1% each.

You will note the cash infusion in this bill is a one-time appropriation. I am bringing this bill forward for a few reasons.

1. The plan is no longer on track to be 100% funded.
2. The current unfunded liability is \$1.44 billion and growing.
3. The current funded ratio is 68.3%, one of the lowest in the country.
4. Based on an actuarial from GRS, these increases could lead the fund to be 100% funded by the year 2067.
5. By increasing the percentage, the result for those in the defined contribution plan will enjoy a 13.11% increase in their retirement benefits over twenty years.

## HB 1342 Testimony

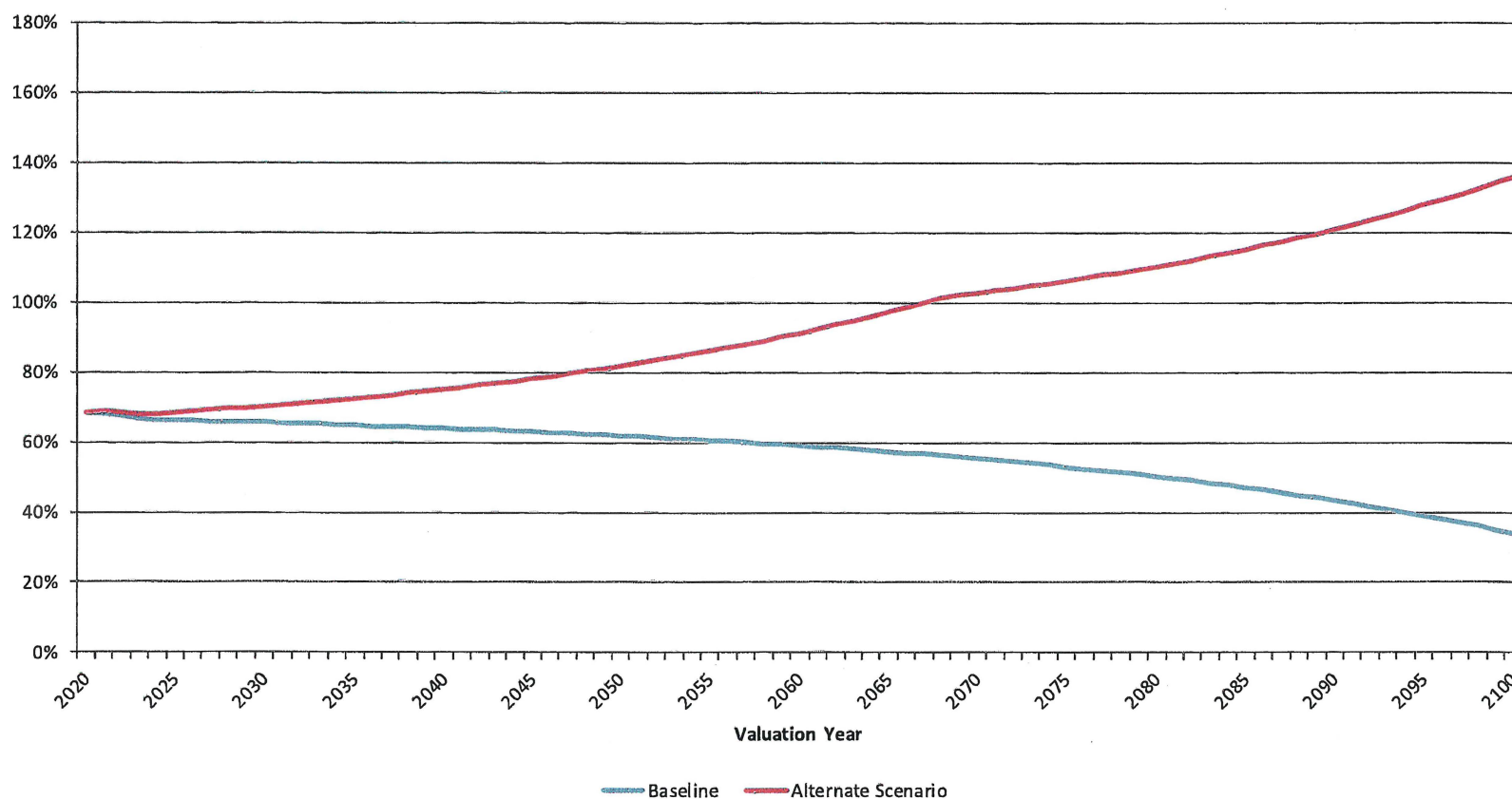
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I have attached a graph to my testimony showing the effect of HB 1342 on the PERS retirement plan as opposed to if the current scenario going forward. Separately, I have forwarded legislation that would continue the \$24 million per biennium cash infusion, if that were to be followed, the plan would reach 90% funded in 31 years.

It is often stated that we do not want to bind future legislative assemblies, the fact of the matter is that inaction will result in a growing deficit to the plan as reflected in the chart. We need to invest in our promise to our state's employees.

I thank you for your time and your consideration of HB 1342. I would be happy to answer questions.

**Main System Projected Funded Ratio as of July 1, 2020  
Based on Updated Assumptions Adopted by the Board  
Under Baseline and Alternate Scenario (1.00% Increase to both Employee and Employer  
Contributions beginning January 1, 2022 and \$24 Million Cash Infusion on July 1, 2021)**



TESTIMONY OF

**Lisa Kudelka, Director of Operations, Human Resource Management Services (HRMS)**

Chairman Kasper and members of the Government and Veterans Affairs Committee, I am Lisa Kudelka, Director of Operations, HRMS within the Office of Management and Budget (OMB). I am here to testify in support of House Bill No. 1342 relating to increased employer and employee contributions under the public employee's retirement defined benefit and defined contribution plans.

OMB is supportive of legislative action that would increase the long-term funding for the public employee's retirement system. We support legislation that would increase the contribution rate for both employers and employees and provide additional funds for the retirement plan.

The financial stability of the North Dakota Public Employees Retirement System (NDPERS) defined benefit retirement plan is important to the financial well-being of state government and the political subdivisions that participate in the retirement programs. We understand increasing the employer and employee contributions to NDPERS is a sizable financial commitment. However, pushing this commitment forward will not decrease the cost; instead, it will continue to increase the cost for both employers and employees.

The commitment of state funds and the funds of political subdivisions is difficult with many competing needs and interests. Just as each of us determines how much or little we wish to invest in our own retirement plans vs. our present day needs and wants. When I was 21, my father, who was an accountant, encouraged me to invest in my first IRA. To say I was skeptical, is an understatement. At the time, I had many other important priorities in my life. After all, I had bills to pay and other items I wanted to purchase. However, I did take his advice and continued to invest in my retirement. Today I'm thankful for his advice. This is the same advice financial consultants give their clients. The earlier you begin investing in your retirement account the longer the period to maximize your investment and decrease your overall investment of money.

OMB is asking you to support increased funding for NDPERS by increasing the contribution rates for both the employer and employee. In the 2019-21 executive budget, the governor endorsed the idea of improving the financial solvency of the NDPERS fund by providing a one-

time transfer, similar to the idea proposed in this bill. Having a solid defined benefit retirement plan helps state government and political subdivisions recruit new employees and retain our veteran employees. A defined benefit plan also provides a stable source of income for retirees who continue to support North Dakota businesses and pay taxes on these benefits.

We urge your support of HB 1342. Mr. Chairman and committee members, this concludes my testimony. I would be happy to answer any questions.

## TESTIMONY OF SCOTT MILLER

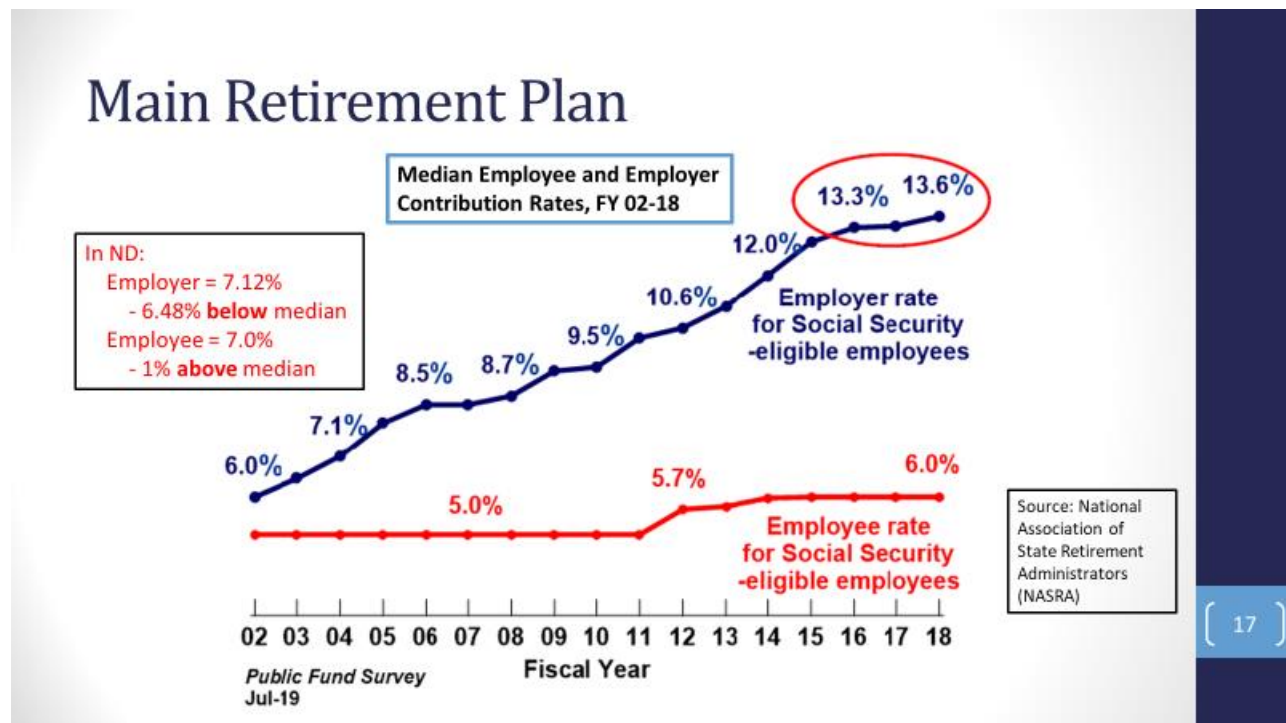
### House Bill 1342 – Fourth Year of the NDPERS Recovery Plan

Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today on behalf of the NDPERS Board in support of House Bill 1342. Note that the Employee Benefits Programs Committee gave this bill a favorable recommendation.

This bill is a combination of the fourth, and final, year of the four-year recovery plan for the NDPERS Main Retirement Plan that was originally proposed in the 2011 session, with the addition of a \$24 million cash infusion into the plan. House Bill 1342 increases both the employer and the employee contributions into both the Main NDPERS Hybrid/Defined Benefit (DB) Retirement Plan and the Defined Contribution (DC) plan by 1% each, starting in January of 2022. Temporary employees, who pay both the employee and the employer contribution, will see a 2% increase.

- Employer: 7.12% → 8.12%
  - Main 2020 Employer: 8.26% → 9.26% (new employees)
- Employee: 7% → 8%
- Temporary Employee: 15.26% → 17.26%

For comparative purposes, the median employer contribution rate in other state-wide public retirement systems is 13.6%, and the median employee contribution rate is 6%.





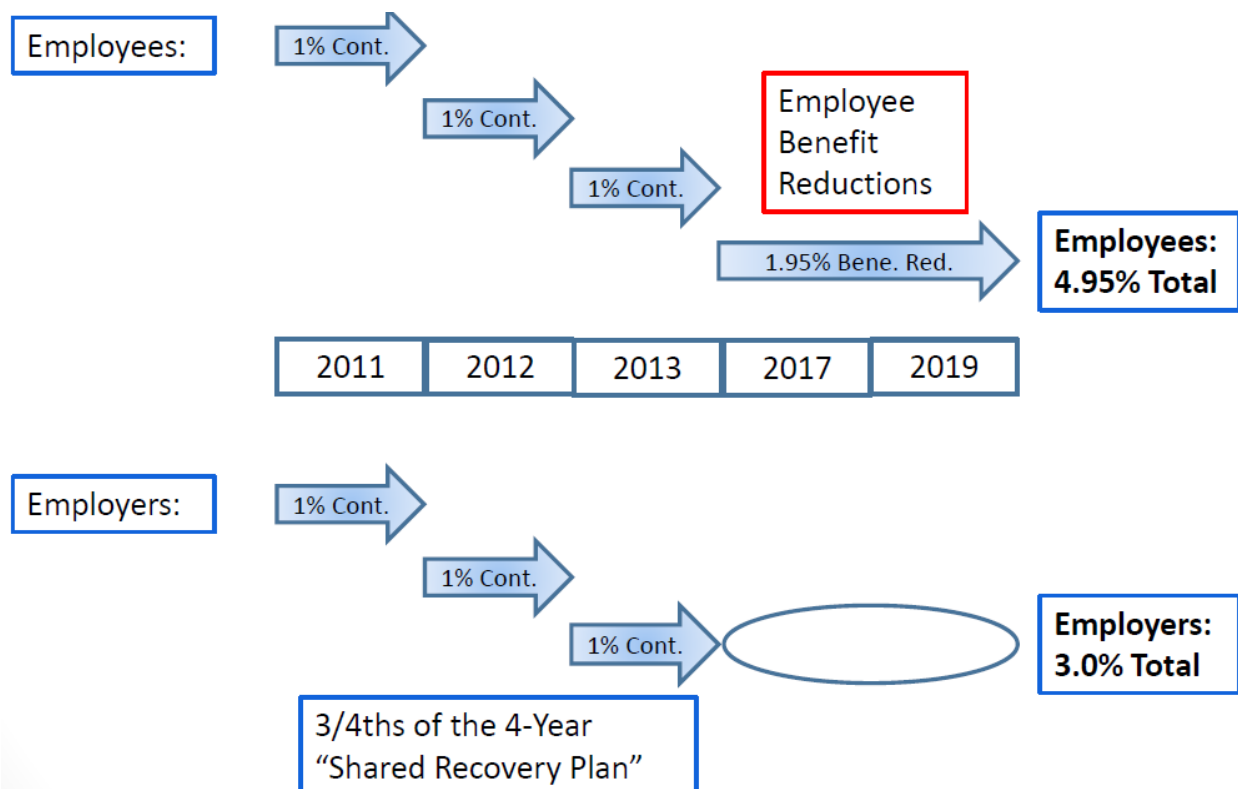
This bill is necessary because the main PERS plan is underfunded, and is never projected to become fully funded. In fact, we are projected to run out of money in our pension trust within the next 100 years. At that point we will become a pay-as-you-go system, requiring Legislative appropriations every biennium to make hundreds of millions of dollars of retirement payments.

It is not difficult to see how we got to this point. The tech bubble, the Global Financial Crisis, the pandemic; each of them affected our assets negatively. Unfortunately, our contributions have not kept up – we are now nearly six percent below the contribution rate our actuary has determined is necessary, or the “actuarially determined contribution” rate (ADC). Because of that, we have experienced actuarial losses year after year due to contributions that were lower than the ADC rate – over the past ten years, we have had a contribution deficiency of more than \$460 million.

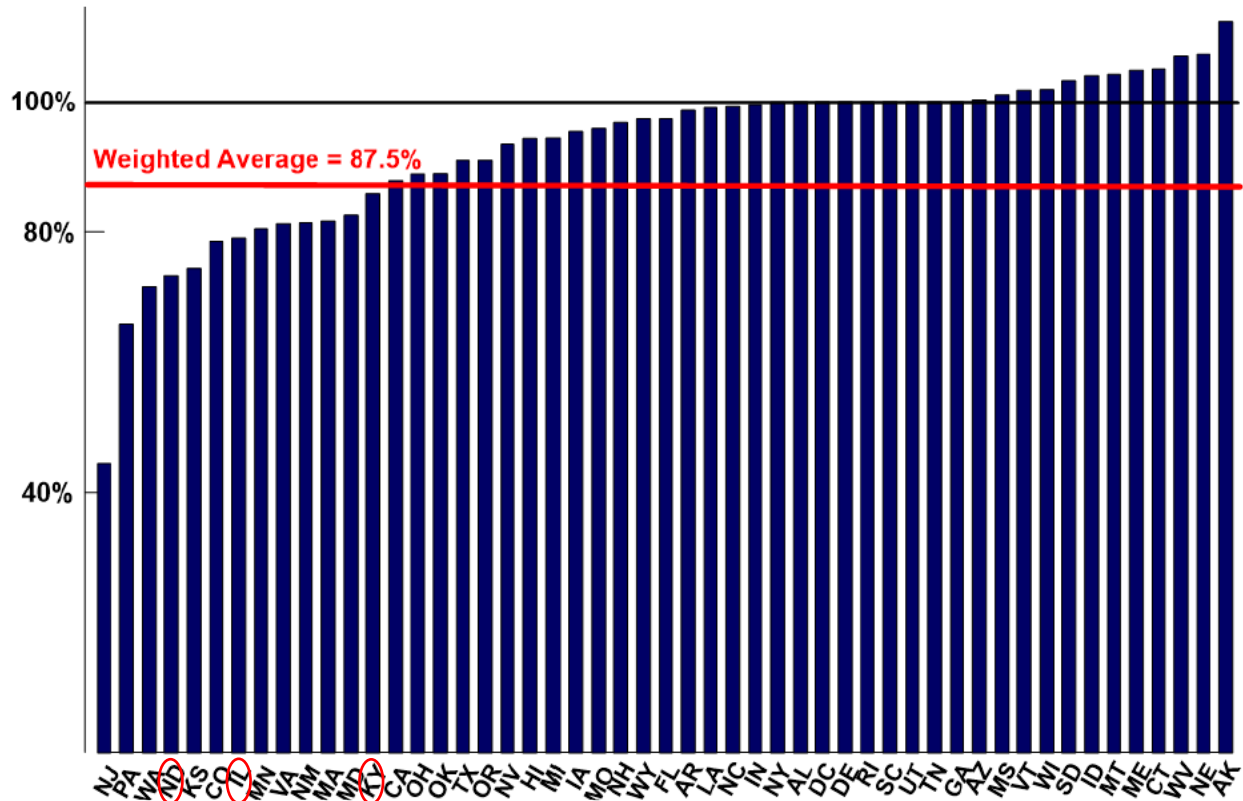
There are very few levers we can use to try to get the PERS plan back on the course to full funding. The general formula for funding a defined benefit retirement plan is below:

$$\text{Contributions} + \text{Investment Returns} = \text{Benefits} + \text{Expenses}$$

Since investment returns are not high enough to put us back on the course to full funding, and expenses are not significant enough to have any effect at all on the equation, we must look at altering either “Contributions” or “Benefits”. We have tried pulling both of those levers over the past ten years, implementing both contribution increases and benefit reductions, as you can see below:

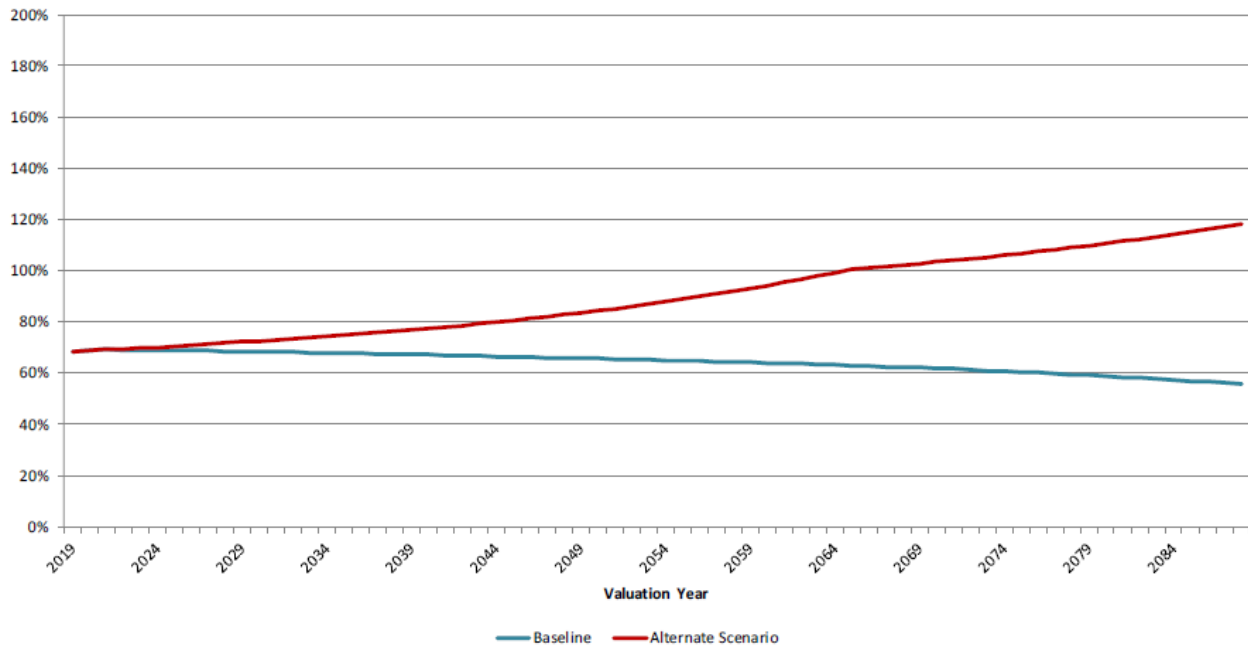


This bill, House Bill 1342, addresses the “Contributions” side of the equation. Our actuary has calculated that our statutory contribution rate is currently 5.78% below the ADC rate. That gives us the fourth-lowest percentage of ADC contributed to the plan in the country, according to the below graph from the National Association of State Retirement Administrators (NASRA). Note that we are below Illinois and Kentucky, two states that are experiencing even more dire funding problems.



While House Bill 1342 only increases contributions to the main PERS DB plan by a total of 2%, it is sufficient to get us back on the course to full funding. Our actuaries estimate that we would reach 100% funding by 2067, assuming all of our actuarial assumptions are met.

**Main System Projected Funded Ratio as of July 1, 2019  
Based on Updated Assumptions Adopted by the Board  
Under Baseline and Alternate Scenario (1.00% Increase to Both Employee and  
Employer Contributions beginning January 1, 2022)**



Interestingly, when NDPERS first proposed the shared recovery plan back in 2011, had the Legislative Assembly approved all four years of increases at that time, we were projected to become fully funded in 2041. Now, seven years later, if HB 1342 is approved, we are not projected to become fully funded until 2067 – waiting just seven years to approve this additional increase has extended our funding horizon 26 additional years.

Nonetheless, while 2067 is still a long way off, it still gets us back on the course to full funding, which is essential for the state’s political subdivisions and their GASB liability reporting. GASB stands for “Governmental Accounting Standards Board”. GASB provides “statements” that provide guidance for governmental entities, like the state and its political subdivisions, on how to report certain things in their financial statements. In the past few years, GASB issued a statement that requires governmental entities that have retirement plans that are not projected to ever reach 100% funding – like the Main PERS plan – to report their liabilities using a discount rate that is below those plans’ assumed rates of return. GASB calls that a “single discount rate”.

The problem with using that single discount rate is that the rate is significantly below our assumed rate of return – our assumed rate of return is 7.0%, and the single discount rate we had to use last fiscal year is 4.64%. Using a lower rate to determine our liabilities results in a significant increase in those projected liabilities: using the 7.0%

rate results in \$1.4 billion of unfunded liabilities, whereas using the 4.64% rate results in over \$3.1 billion in unfunded liabilities – a 121% increase in the unfunded liabilities.

GASB also now requires the state and its political subdivisions to report that higher unfunded liability figure in their financial statements. As a result, the pension liabilities that have to be reported on our political subdivisions' financial statements are 121% higher than they would be if we were on the course to being 100% funded. That is causing a significantly negative impact on many of our participating political subdivisions' financial statements. Those increased liabilities may also result in negative rating outlooks from the rating agencies, or even a reduction in the bond rating for your political subdivisions, increasing their cost of borrowing money. That is one of the reasons it is imperative that we get back on the course to full funding as quickly as possible.

The cost of House Bill 1342 is not insignificant. However, keep in mind that without a legislative change, we will become an insolvent, pay-as-you-go system. The question becomes this: do you want to pay for this now, or do you want to pay a lot more for this later? Every day we wait makes it more expensive. The cost now is a small fraction of the hundreds of millions of dollars we will need from you every year in the future to make ongoing retirement benefit payments.

The Employee Benefits Programs Committee, the NDPERS Board, and the Legislative Assembly have studied the recovery plan in detail over the past ten years. Our members – your employees – played a significant role in developing the recovery plan. Every increase in the employer contribution was also an increase to your employees. On top of that, new employees are paying the same amount, but receiving a benefit that is significantly reduced. The final recovery plan contribution increase in House Bill 1342 will help ensure that all of your hard work, and all of the increases to date, finish the job you began in 2011, and set us back on the path to full funding of the retirement plan. It will also help ensure that we do not become like Illinois or Kentucky, both of which are in dire circumstances in large part because they did not pay the actuarially determined contribution rate to their retirement plans.

Thank you for all of your work and support in the past, and for your positive consideration of this Bill.

**TESTIMONY OF DERRICK HOHBEIN**  
**House Bill 1342 – Fourth Year of the NDPERS**  
**Recovery Plan**

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 a support of House Bill 1342. I am available should there be any questions related to the impact of the bill on any of the NDPERS benefits.

**TESTIMONY OF REBECCA FRICKE**  
**House Bill 1342 – Fourth Year of the NDPERS**  
**Recovery Plan**

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 support of House Bill 1342. 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 1342  
Government and Veterans Affairs Committee  
February 4, 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, I am Tangee Bouvette, Human Resources Director for the City of Grand Forks. I want to thank you for the opportunity to provide testimony to express the City of Grand Forks' support of 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 supports the NDPERS plan and its efforts to become more fully funded. The City supports this bill which designates a more moderate and incremental increase that can be managed through budget planning. The City also supports the \$24 million cash infusion into the plan to support the efforts to become fully funded.

The City of Grand Forks supports making incremental contribution changes to the NDPERS plan and monitoring funding every two years and for the reasons outlined above the passage of House Bill 1342 is in the best interests of the City of Grand Forks. Thank you for your time and consideration. I respectfully ask for a DO PASS on House Bill 1342.

**TESTIMONY OF MARYJO ANDERSON**  
**House Bill 1342 – Fourth Year of the NDPERS**  
**Recovery 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 support of House Bill 1342. 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

## #5320

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

2-4-2021

House 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 representing 415 professional firefighters across our great state. We appreciate the opportunity to provide testimony in support of HB 1342.

The NDPERS defined benefit pension plan is an excellent retirement plan and the top choice among participating firefighters across the State. It truly assists with morale, recruitment and retention.

We do realize the importance of decreasing the unfunded liability within the plan as a long-term goal. To accomplish said goal, we also realize the need to increase employer/employee contributions. We believe the best route for increases are in the form of smaller, incremental increases as set forth within HB 1342 with re-evaluation every 2 years in conjunction with the Legislative session and an actuarial report.

With that being said, the PFFND requests the consideration of a Do Pass recommendation of HB 1342 from the Government and Veterans Affairs Committee.

Thank you,

Darren Schimke

# 2021 HOUSE STANDING COMMITTEE MINUTES

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

HB 1342  
2/11/2021

Relating to increased employer and employee contributions under the PERS defined benefit and defined contribution plans; to provide an appropriation; and to provide a statement of legislative intent

**Chairman Kasper** opened the committee work meeting at 10:22 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	P
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:

- PERS employer and employee contributions

**Vice Chair B. Koppelman** moved **Do Not Pass**. **Rep. Rohr** seconded the motion.

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	Y
Representative Jeffery J. Magrum	A
Representative Mitch Ostlie	Y
Representative Karen M. Rohr	Y
Representative Austen Schauer	Y
Representative Mary Schneider	N
Representative Vicky Steiner	N
Representative Greg Stemen	Y
Representative Steve Vetter	N

**Motion passes.** 9-4-1. **Rep. Stemen** is the carrier.

House Government and Veterans Affairs Committee

HB 1342

2/11/2021

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**Chairman Kasper** ended the meeting at 10:29 a.m.

*Carmen Hart, Committee Clerk*

**REPORT OF STANDING COMMITTEE**

**HB 1342: Government and Veterans Affairs Committee (Rep. Kasper, Chairman)**  
recommends **DO NOT PASS** (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). HB  
1342 was placed on the Eleventh order on the calendar.