TESTIMONY OF SPARB COLLINS

SENATE BILL 2059

Good morning, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System (NDPERS). I appear before you today concerning the retirement plans we administer and in support of SB 2059. Our agency provides services to the state and participating political subdivisions. The following table provides some statistical information on the retirement plans we administer:

January 1, 2013

RETIREMENT PROGRAMS
MANAGED AND ADMINISTERED BY NDPERS

	TOTAL RETIREMENT	Main System	D.C. 401(a)	Highway Patrol	Judges	Guard	Law Enforcement	Job Service	DEFERRED COMP	HEALTH CREDIT
PARTICIPATION										
AGENCY										
State	93	93	32	1	1	1	1	1	89	93
Counties	49	48					11		35	49
School Dist	114	114							18	114
Cities	81	75					6		34	81
Others	73	73							29	73
	410								*205*	*410*
EMPLOYEES										
State	10,512	10,014	219	141	47	36	37	18	4,561	10,512
Counties	3,583	3,388					129		580	3,583
School Dist	4,988	4,988							75	4,988
Cities	1,475	1,431					44		225	1,475
Others	557	457							189	557
Retirees	7,816	7,214	49	109	22	12	11	120		4,442
	28,931	*27,492*	*268*	*250*	*69*	*48*	*221*	*138*	*5,630*	*25,557*

As you will note, our agency is responsible for the administration of approximately 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Several of the above plans were assigned to our agency by the 2001 and 2003 legislative session. Those were the Job Service Retirement Plan and the Law Enforcement Plans for political subdivisions. The Law Enforcement Plan has since been expanded to certain state employees. The 401(a) plan or optional defined contribution plan for non-classified state employees was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main/Hybrid retirement system which provides services to not only the state, but also to political subdivisions. In this plan

about 50% of the active members are state employees and 50% are political subdivision employees. School districts are our second largest group followed by counties and cities.

The proposed legislation before you today is the second part of a four year recovery plan for the PERS Retirement Plans. The first two years were approved last session. The second two years are in this bill and would increase both the employer contribution rates and the member contribution rates that are in statute for the Highway Patrol Retirement Plan, the PERS Hybrid Plan (Main/hybrid and Judges only) and the PERS Defined Contribution Plan by 1% for the employer and member's rate beginning January 2014, plus an additional 1% increase in both employer and member contribution rates for calendar year January 2015. The bill also would increase the member contribution rates for the following three groups:

- Peace officers and correctional officers in the Hybrid Plan that are employed by political subdivisions, for which the member contribution rate would increase by 0.5% annually, instead of 1%, over the same time period;

- National Guard members in the National Guard Retirement Plan would increase .05% annually; and

- Temporary employees in the Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% annually, instead of 1%, over the same period.

The following details the above changes in the Bill:

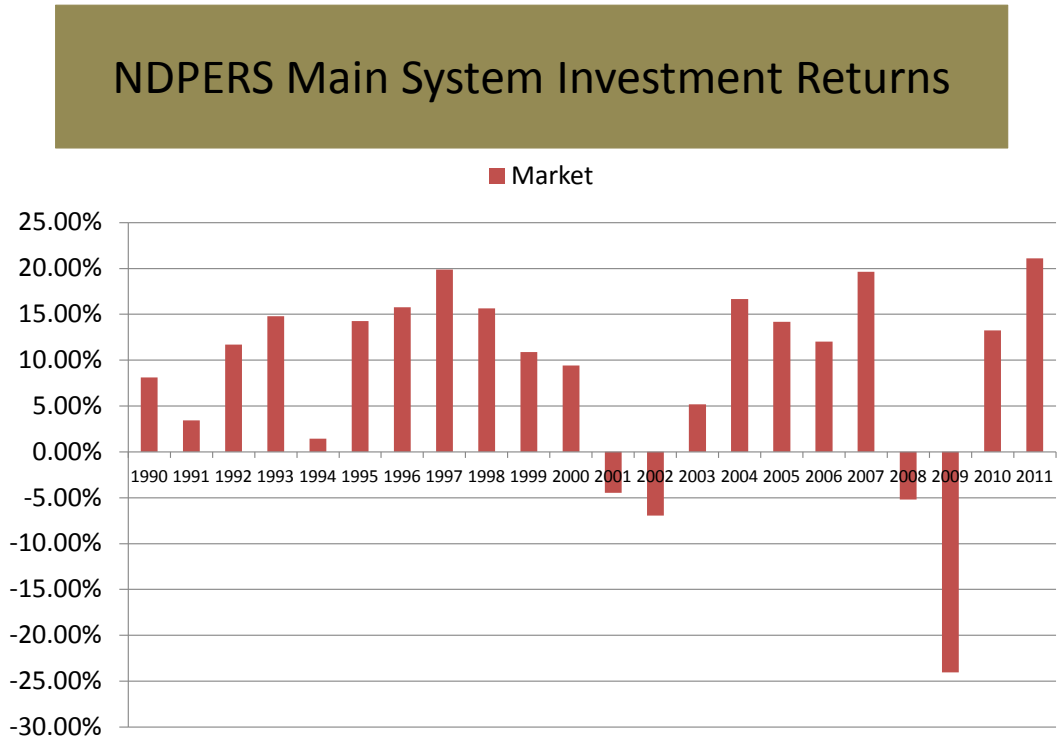
Retirement Fund	***SB 2059*** ***Increase employee and employee contributions equally****
Highway Patrol	• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014) o ***Section 1*** increases the employee contribution o ***Section 2*** increases the employer contribution
Main	• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014) o ***Section 3*** increases the temporary employee contribution* o ***Section 4*** increases the employee contribution o ***Section 5*** increases the employer contribution
Judges	• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014) o ***Section 6*** increases the employer and employee contribution
National Guard	• .5% employee increase (beginning in Jan of 2014) o ***Section 7*** increases the employee contribution
Law Enf	• .5% employee increase (beginning in Jan of 2014) o ***Section 8*** increases the employee contribution
DC Plan	• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014) o ***Section 9*** increases temporary employees contribution o ***Section 10*** increases employer and employee contributions

**Temporary employee contributions increase by 2% each year beginning in January of 2014.*

This bill addresses the funding shortfall that has occurred in both the PERS defined contribution plan and the PERS defined benefit/hybrid plans as a result of the downturn in the financial markets. Let me start by providing you some background and a summary of the actions taken to date.

Background

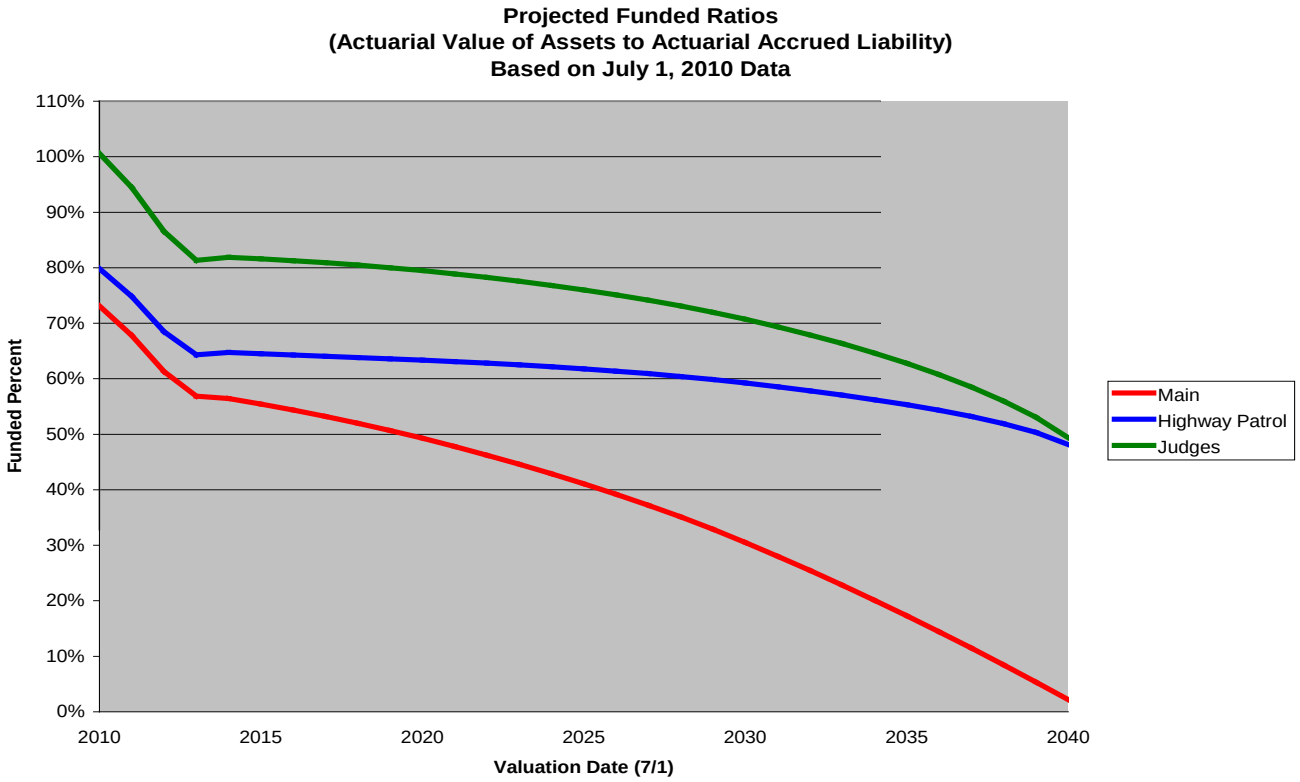
In the 2008/2009 fiscal year the financial market had a major correction that was preceded by the tech market collapse in 2001-2002. However the most significant effect was the 2008/2009 year in which the PERS plan lost about 24.5%. The following table shows the history of returns and the returns in that year.



The financial consultant to the State Investment Board, which manages the PERS assets reported that out of 224 years of US stock performance only 4 years were worse than the returns in 2008. What the plan experienced was truly a unique and significant event.

This event created a long term challenge for the funding status of the plans. Based upon the July 2010 actuarial review the following projection of the long term funded status of the Main Hybrid Plan, the Highway Patrol Plan and Judges plan was developed by the actuarial consultant.

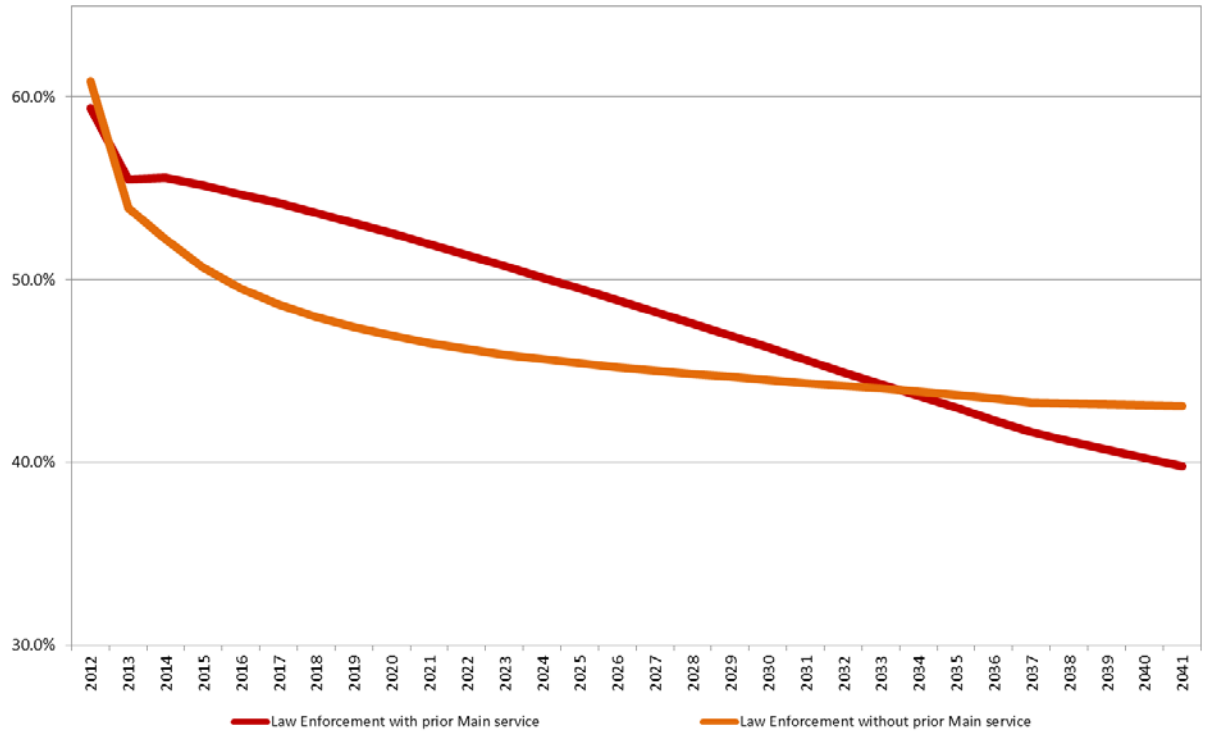
Graph 1



Projections of the future funded status at that time indicated the Main plan could become insolvent in approximately 2040 (as noted in the above graph). It also projected a decline in the funded status of the other plans (the Judges and HP).

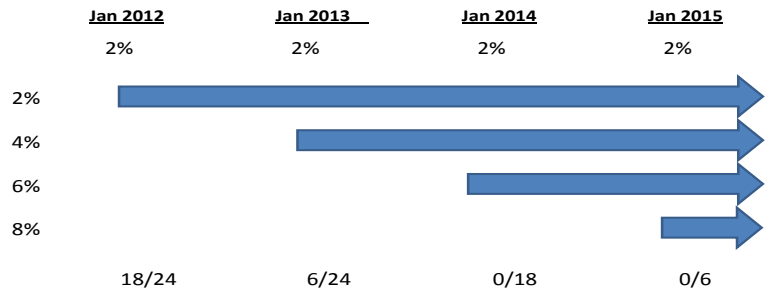
The projections for the Law Enforcement Plan at that time was:

Graph 2



After a significant amount of study, a proposal was brought forward to increase the contributions by 8% over the period from January 2012 to January 2015 which was projected to close this funding deficit for the Main, Judges and HP plans. It became known as the 4 year recovery plan and was based upon the concept that the recovery should be shared between the employer and employee. The thought was that neither party should be responsible for the full cost of the recovery. It was spread over 4 years to reduce the effect of the increase in any given year on either party.

This proposal also increased the employee contributions for the Law Enforcement plans by 4%. The employer contributions are set by the PERS Board and they have indicated that those contributions would rise as well based upon the legislative action for the other systems.



Months increase effective for 2011-2013/ Months effective for 2013-2015

2015 and beyond 100% effective

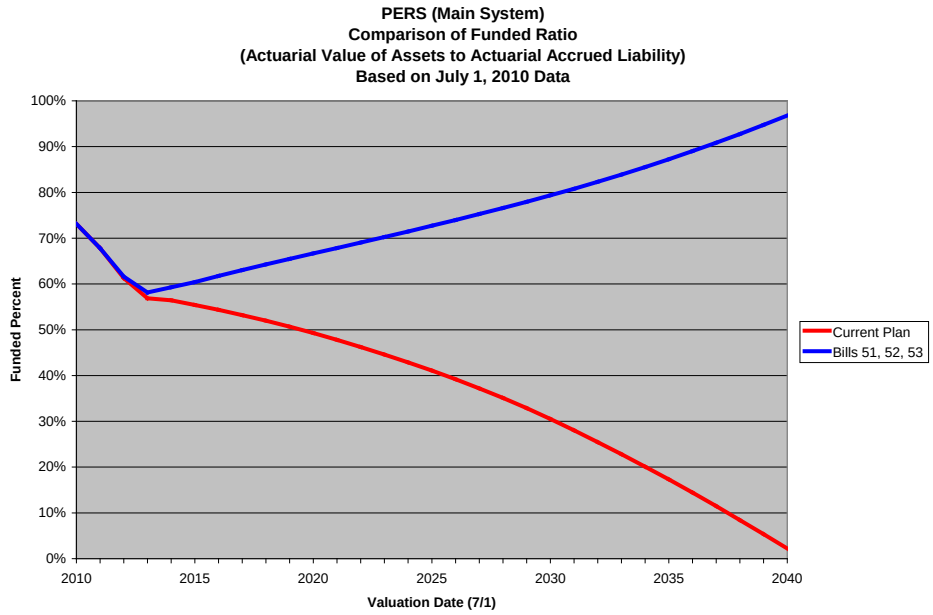
2

This proposal came together in SB 2108 that was considered last session. This proposal accomplished three objectives:

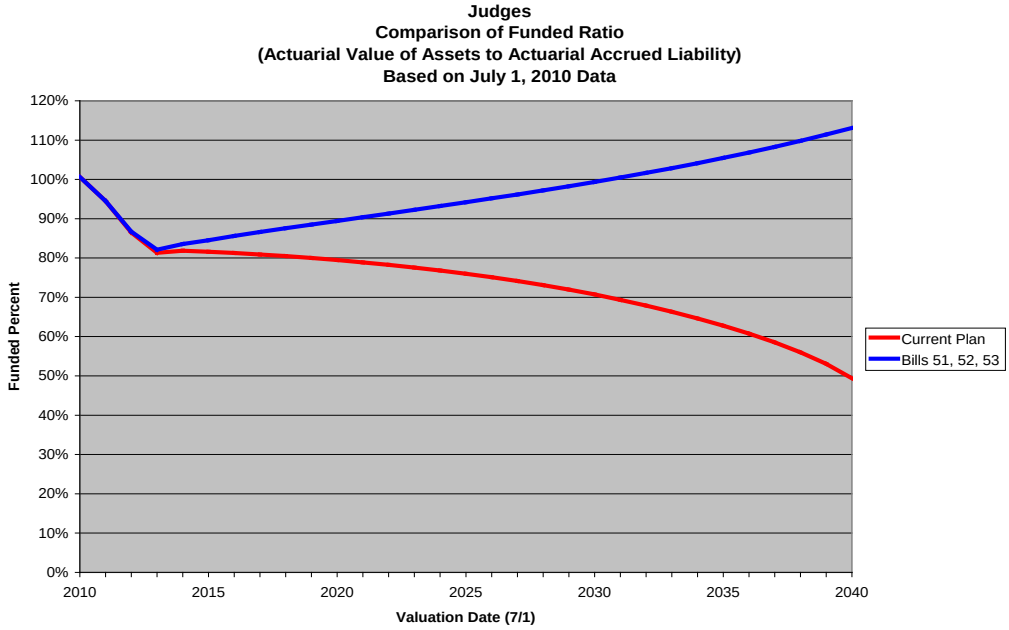
1. To stop the downward trend in the funded status of the plans
2. To stabilize the plans
3. To put the plans on a course back to 100% funded status

The following graphs were reviewed showing the projected status of the funds without the increase and the projected status with the increases proposed in the recovery plan.

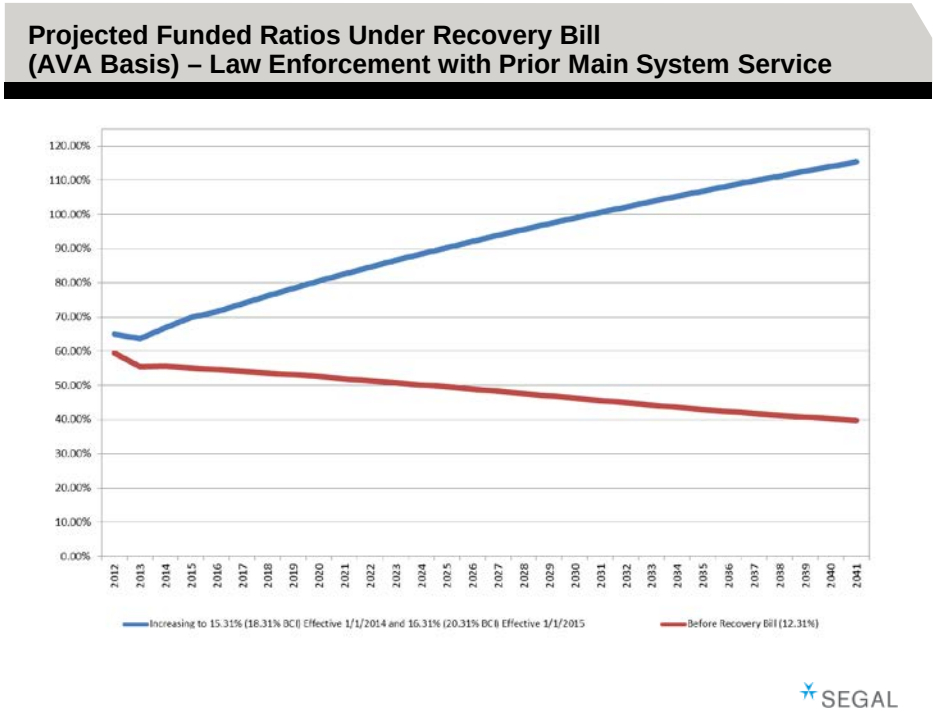
Graph 3



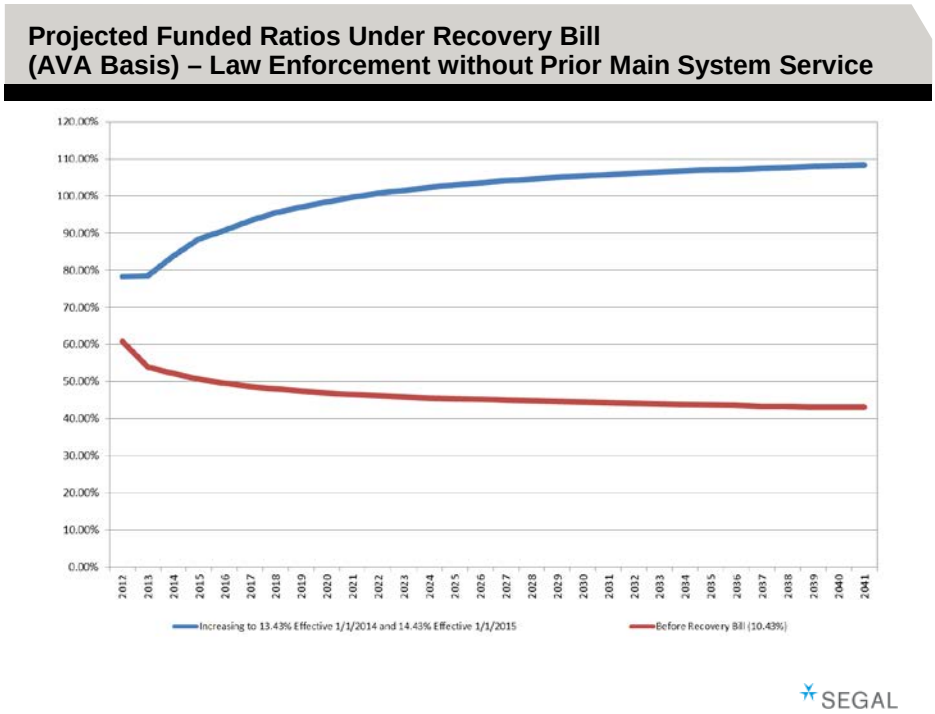
Graph 4



Graph 5

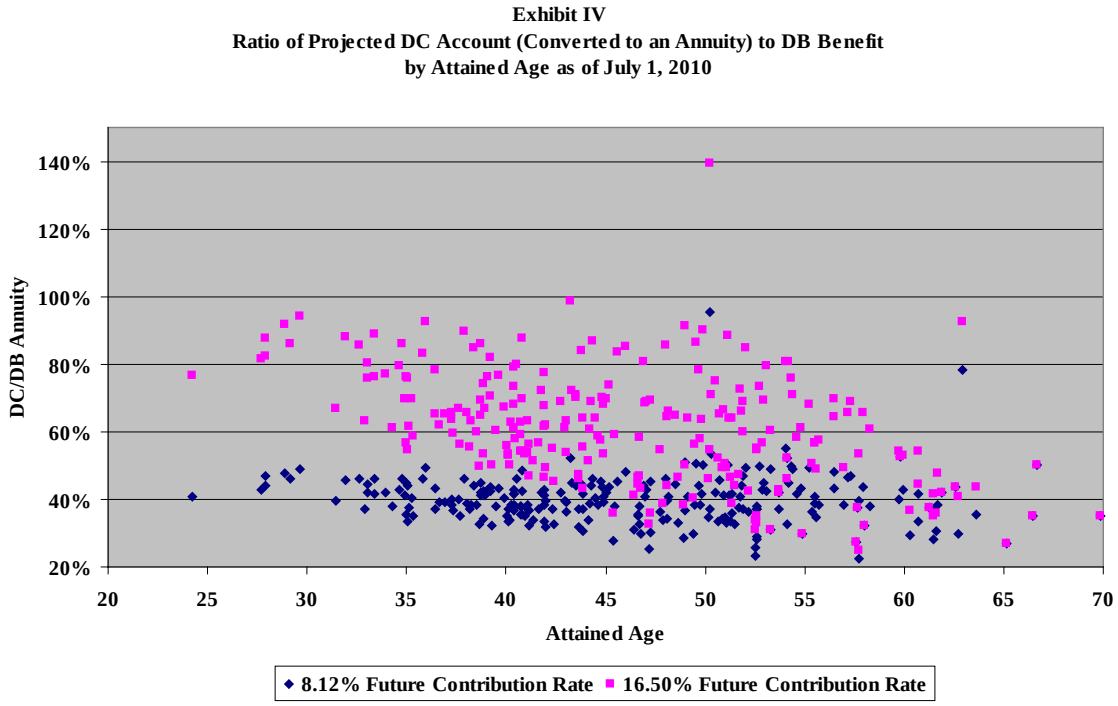


Graph 6



For the defined contribution plan, the following table shows the challenge faced by that plan in 2010:

Graph 7



The blue diamonds show the challenge the defined contribution plan members face as a result of the downturn in the financial markets. The squares show the benefit of the increase in contributions to 16.5%.

The proposed recovery plan outlined above for the retirement plans including the DC plan accomplished all three goals. That is, the downward trend in funding is stopped. The plans are stabilized and they are put on a course to 100% funded status. However, for the DC plan we note that while the proposal does much to help the members they are not returned to a 100% level.

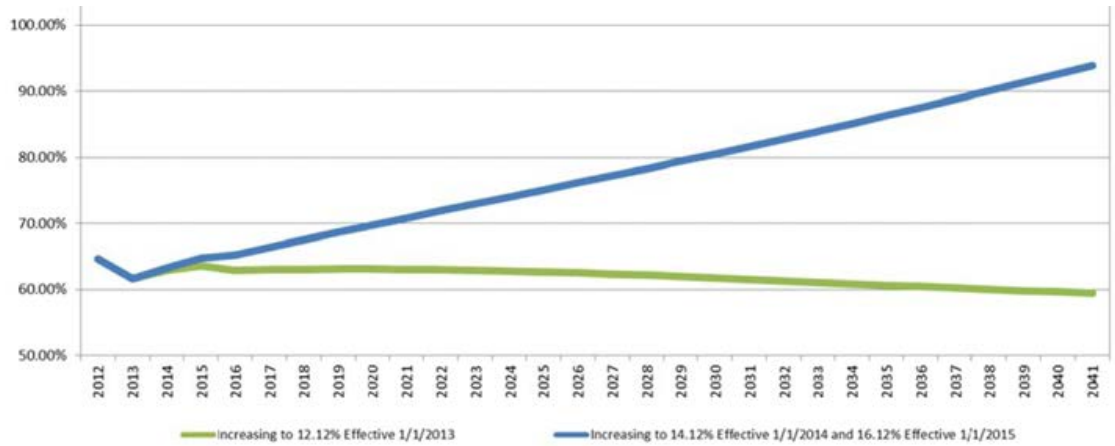
Last session the legislature approved the first two years of the recovery plan which included the 2012 and 2013 increases. It was decided to consider the 2014 and 2015 increase this session.

Accomplishments and Final Two years of Recovery Plan

New projections have been completed for each plan this year as part of the planning and consideration process for the last two years of the recovery plan. The following graphs show what was accomplished by the action of adopting the first two years of the recovery plan and the effect of adopting the last two years of the recovery plan.

This table is for the Hybrid/Main Plan**:**

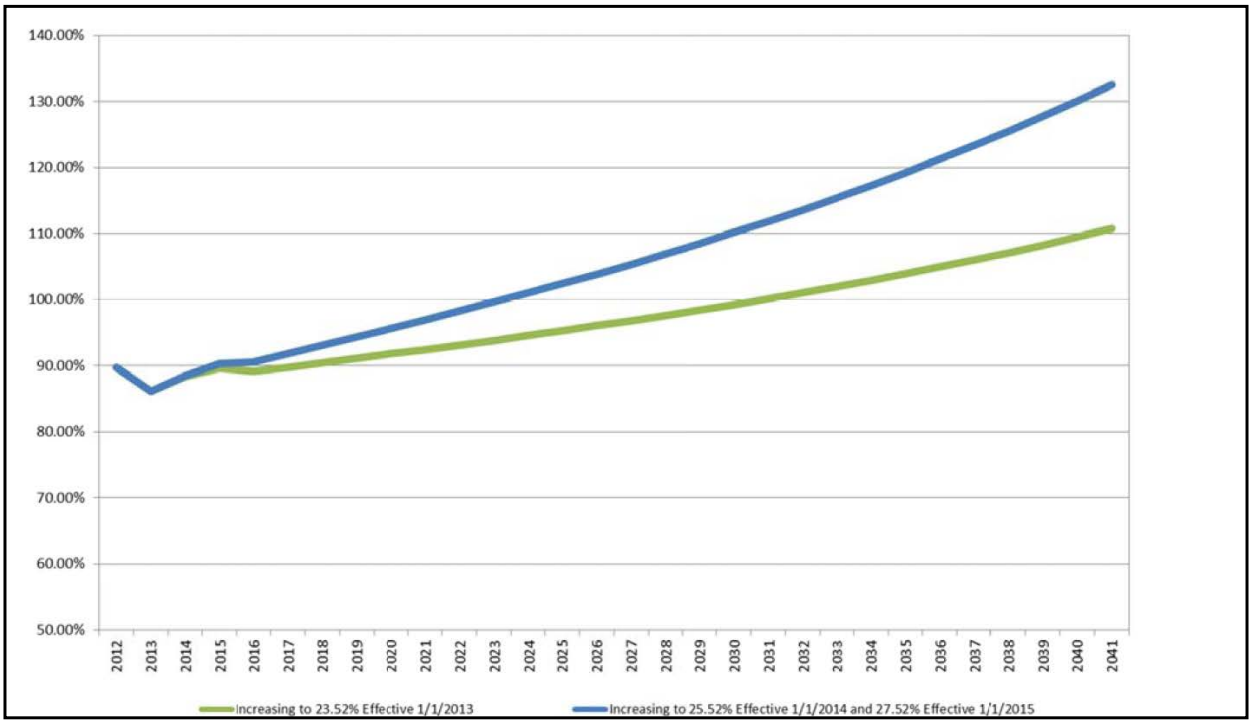
Graph 8



As the above shows, the action of adopting the first two years (green line) of the recovery plan stopped the downward trend in the funding status and stabilized the plan at around 60% funded status for the next 30 years or so. Adopting the last two years of the recovery plan will put this plan on a course back to 100% by about 2044 as shown by the blue line above.

This table is for the Judges retirement plan:

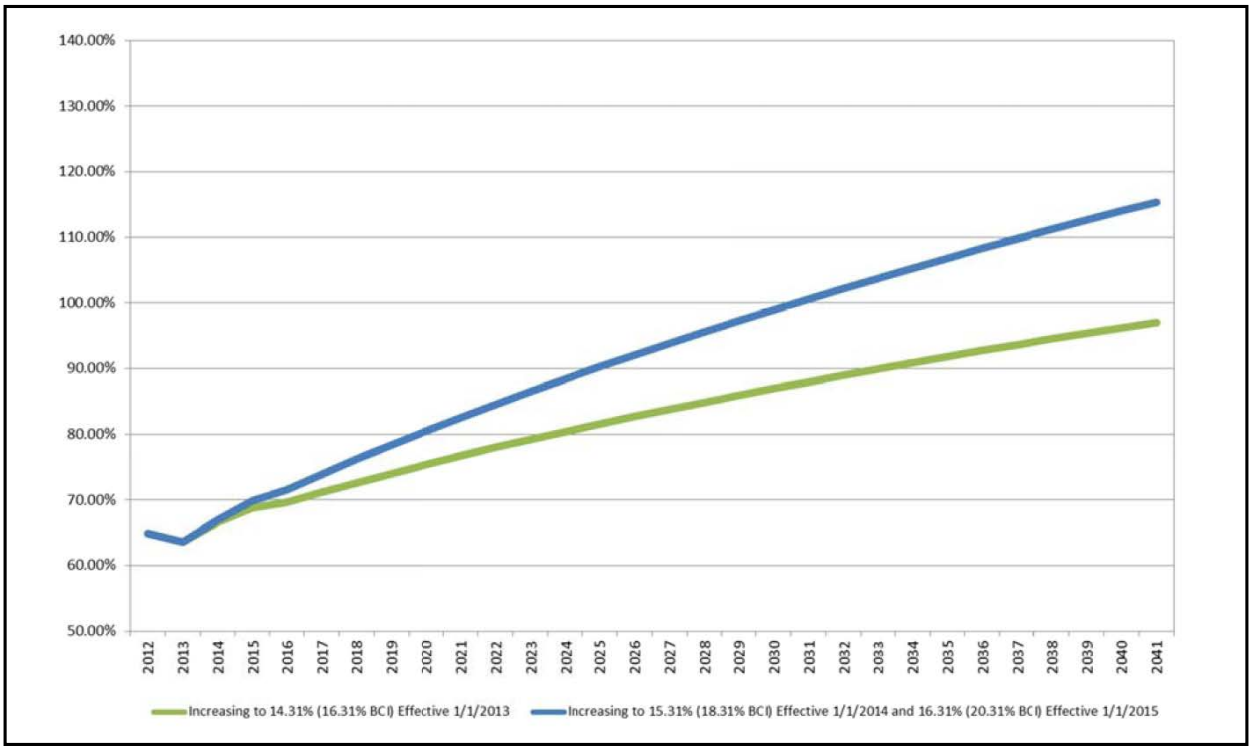
Graph 9



For this plan the first two years of the recovery plan and the returns for the last two years have put this plan on a track to 100% funded status (green line) around 2035. The approval of the remaining two years of the recovery plan will get this plan back to 100% by around 2023.

This table is for the Law Enforcement Plan With Prior Service.

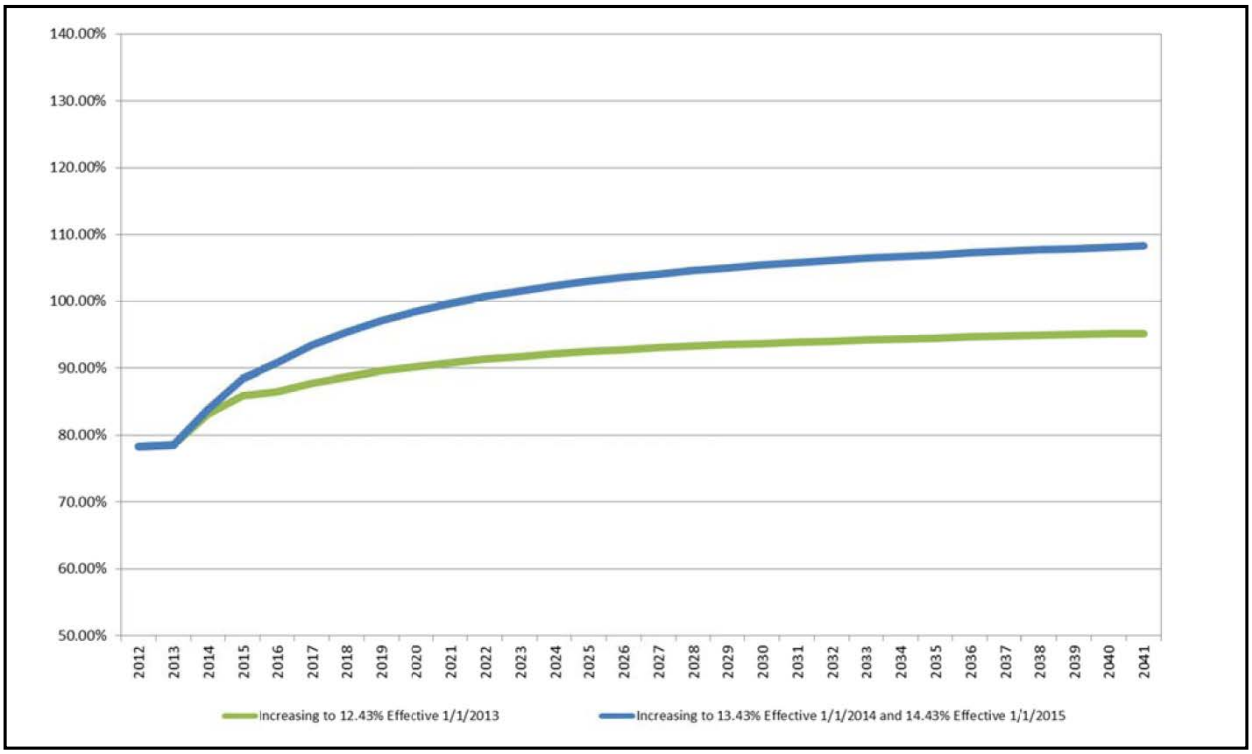
Graph 10



For this plan the first two years of the recovery plan and the last two years of returns have put this plan on a positive course and a return to 100% by around 2043 (green line). The adoption of the last two years of the recovery plan will get this plan to 100% funded status by around 2031 (blue line).

The table is for the Law Enforcement Plan Without Prior Service.

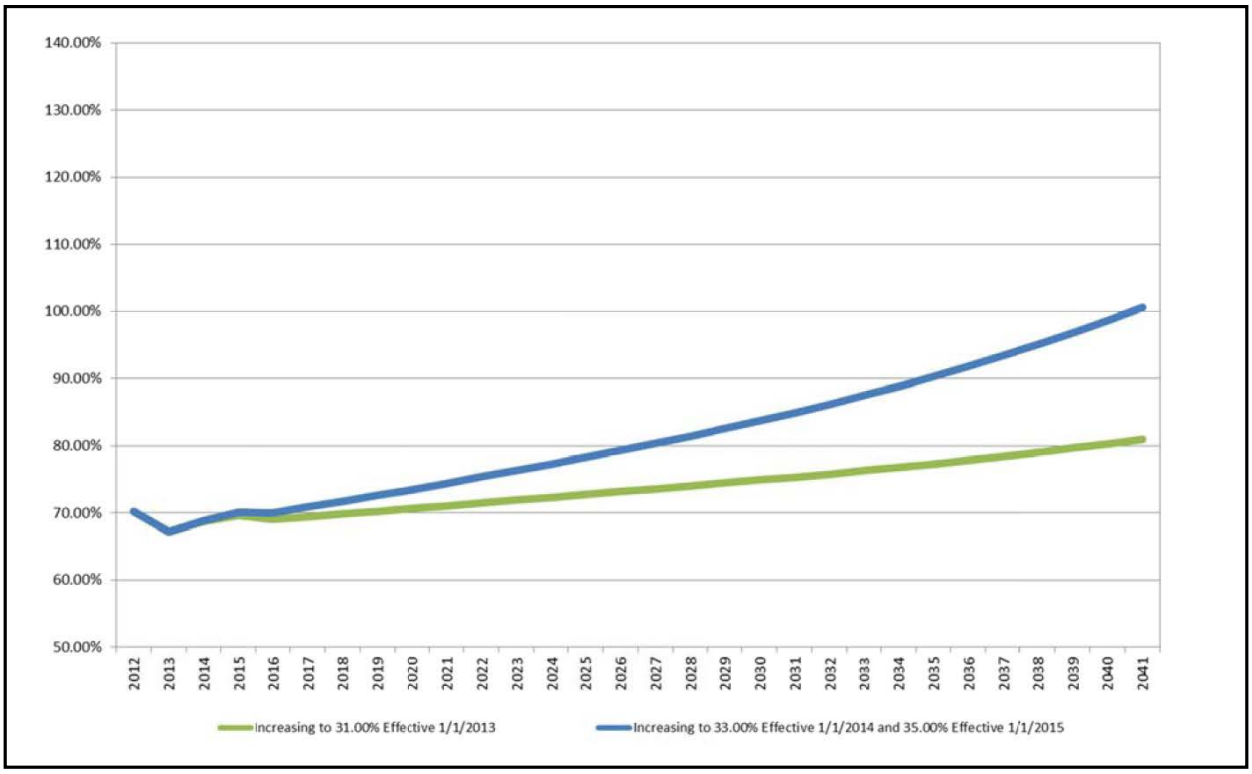
Graph 11



The adoption of the first two years of the recovery plan has stabilized this plan at about 95% funded status over the planning period (green line). The approval of the last two years of the recovery plan will get this plan back to 100% by about 2022 (blue line).

The table is for the Highway Patrol plan.

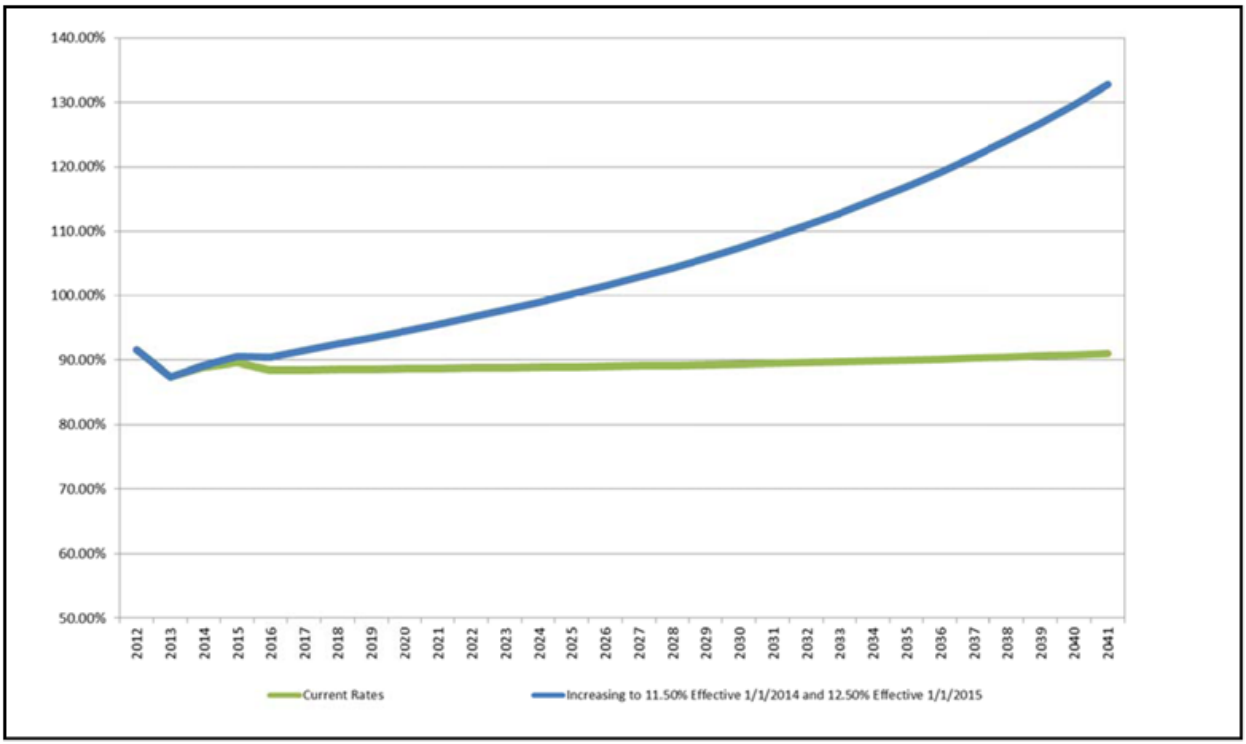
Graph 12



The adoption of the first two years of the recovery plan and the last two years of returns has stabilized this plan over the planning period and will increase the funded status over time (green line). The adoption of the last two years of the recovery plan will get this plan back to 100% by 2041 (blue line)

The table is for the National Guard plan.

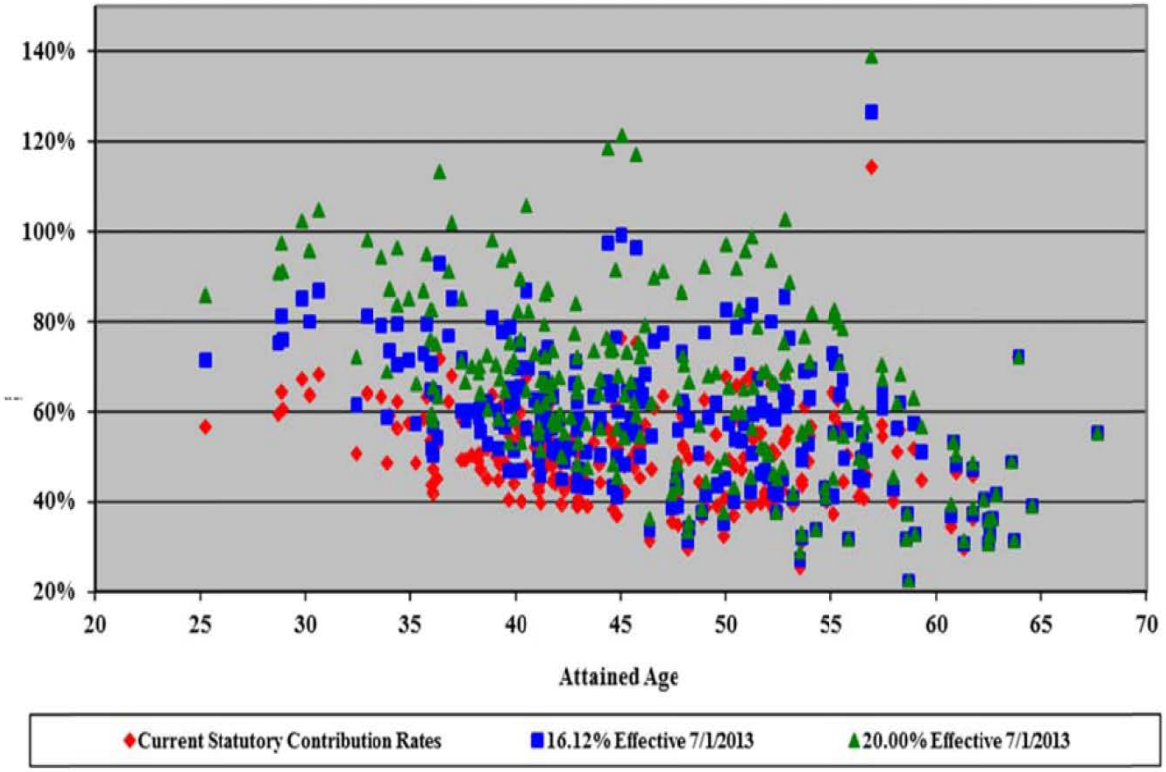
Graph 13



This plan is stable over the planning period at about 90% (green line); however, the adoption of the increase for the next two years will get this plan back to 100% by 2016 (blue line).

The table is for the defined contribution plan.

Graph 14



The red diamonds show how the adoption of the first two years of the recovery plan has helped this plan's members. The adoption of the second two years is shown by the blue squares and clearly improves their position. The last set is the green triangles and shows the benefit of a 20% contribution level to this plan.

Summary

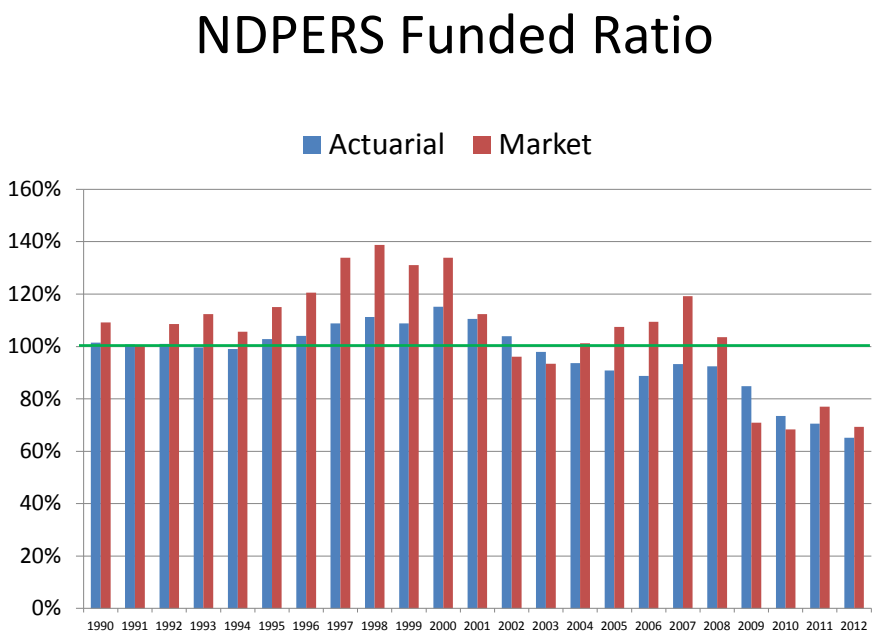
This recovery plan has had considerable study over the years including:

1. The PERS Board's work with our members in developing this proposal. The significant part of this effort is the development of a shared recovery plan with both the member and employer sharing the contribution increase. This is supported by the employee groups.

2. The Legislative Employee Benefits Committee studied the 4 year recovery proposal in the 2010 interim. They had several hearings on the proposal and reviewed detailed actuarial information over a 5 month period. That committee gave the 4 year recovery plan a favorable recommendation. During the 2012 interim, the Legislative Employee Benefits Committee reviewed the proposal for the last 2 years of the recovery plan. They held hearings and reviewed updated actuarial information and again gave it a favorable recommendation
3. The Executive budget for 2011-13 recommended the 2012 and 2013 increases and the Executive budget for 2013 to 2015 recommends the 2014 and 2015 increase to complete the recovery plan.

Attached is the fiscal note for this Bill. We appreciate the cost of the recovery is significant but we are confident that based upon the studies to date, this will put all plans back on track to 100% funded status.

Mr. Chairman, members of the committee, I wish I did not have to appear before you today with this bill. PERS has never had to request an increase since its inception in 1977 except for this recovery plan. I wish I did not have to today. However, as a result of the tech market collapse and in particular the 2008/2009 downturn, we face the challenge we do today. As noted at the beginning the investment consultant to the State Investment Board stated that the year we had the large loss that created this situation was truly unique. Out of 224 years of returns in this country, there were only 4 that were worse. And to have this event preceded by the tech market collapse is truly a significant combination of events and hopefully we will not experience such an event again in our lifetimes. Thankfully, as result of your leadership and others the plans went into this situation in a strong funded position. The following shows the funded status of the PERS plan on both an actuarial and a market basis.



If we are going to meet our future challenges as effectively as our past leaders have prepared us for this one, we need to regain the same funded basis that they gave us. Consequently, I stand before you today to request your positive consideration of this bill, the last half of the recovery plan which will put us on a course back to 100% funded status and make sure we have a strong future.

Thank you and this concludes my testimony. If we can assist you with your considerations, please let me know.