

Testimony of Sparb Collins on House Bill 1121

Madame Chair, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill.

HB 1121 proposes:

1. To give retirees a 13th check in 2010 if the fund meets specific earnings targets (sections 2 & 7)
2. To give retirees a percentage increase including:
 - a. 2% in January of 2011 for members of PERS & the Highway Patrol Plan (sections 2 & 5)
 - b. 5% increase August of 2009 for OASIS members (section 3)
 - c. 2% for Judges if the fund can support it (section 6)
3. To allow political subdivisions to individually elect if they want to participate in the retiree increase provision for their retirees (section 5).
4. To increase contributions for two years for PERS (including those participating political subdivisions) and the Highway Patrol plan to pay the 2% increase (sections 1 & 4)
5. To increase contributions for the defined contribution plan members for two years (section 8).
6. To provide an appropriation to state agencies (section 9)

Concerning the 13th check provision, please note this bill was submitted to the Legislative Employee Benefits Committee last March. Since then we have seen dramatic declines in the market. Consequently, it is almost impossible at this

point for PERS to meet the targets in this bill for the 13th check. Therefore, it is unlikely this will occur even if passed.

The second aspect of this bill is to propose a 2% increase to address the issue of inflation on our members' retirement benefit that is funded by a one time two year increase in employer contributions.

The biggest challenge retirees face is inflation, whether it is medical inflation or general inflation. Over time the effect is to reduce the value of retirement benefits. The "rule of 72" is used to help people understand this dynamic by telling us how many years it will take to diminish a fixed benefit by 50% at a specified level of inflation. For example, what if inflation averaged 3%? What would this do to the value of a \$1000 a month retirement benefit? By dividing 72/3 we find that it would reduce the benefit by 50% in 24 years or that \$1,000 would have the purchasing power of \$500. If inflation was 6% it would reduce the value of the benefit in half in 12 years. If it was 9% it would be reduced by 50% in just 8 years. Inflation has a very powerful effect on the value of the dollar. Another example is an employee can work for 30 years to earn a benefit equal to 60% of their final average salary at retirement. Inflation at 6% can cut that in half in 12 years.

The PERS defined benefit plan provides a fixed retirement benefit to its members. The plan does provide ad hoc adjustments when approved by the legislature. In the 80's & 90's investment earnings allowed the plan to fund cost of living adjustments or percentage increases for its members.

The following is that history:

1985	8.33%
1987	15.4%
1989	15.7%
1991	2.42%
1993	2%
1994	1%
1997	5%
1999	8%
2001	6%

All of the above increases were funded by the investment earnings of the plan which had a funded status of over 100% at both market and actuarial values. Since 2001 there have been no percentage increases in benefits for PERS or Highway Patrol retirees. The reason this has not occurred is that investment returns for the fund and generally within the economy decreased. As this has happened, our funded status at actuarial value of assets dropped below 100%. We do not project returning back to 100% funded at actuarial value for many years.

The fund has been able to help our retirees by giving or proposing one time payments or 13th checks. One was paid in January of 2006 and another in January of 2008. While these are helpful, they do not provide the long term inflation adjusted benefit increase that is necessary to help maintain the value of a retirement income over time.

Since it is unlikely PERS will be able to fund an increase from investment returns in the near future, the only other way to provide these adjustments is to increase the employer contributions to the plan to pay for such an increase. This bill proposes a one-time 2 year contribution increase to fund a 2% increase in our

The cost of this bill was estimated this last summer based upon the 07-09 budget. Since the new budget has been released with its proposed increases for salaries and some changes in funding sources, we are offering the attached amendment to update the appropriation based upon the most recent information. Also reflected in this update is a request by Higher Education to add their cost since this was not included in their parity request. A new fiscal note, if requested, based upon the above updates and the attached amendment would be:

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

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$6,390,230	\$5,999,685		
Appropriations			\$6,390,230	\$5,625,985		

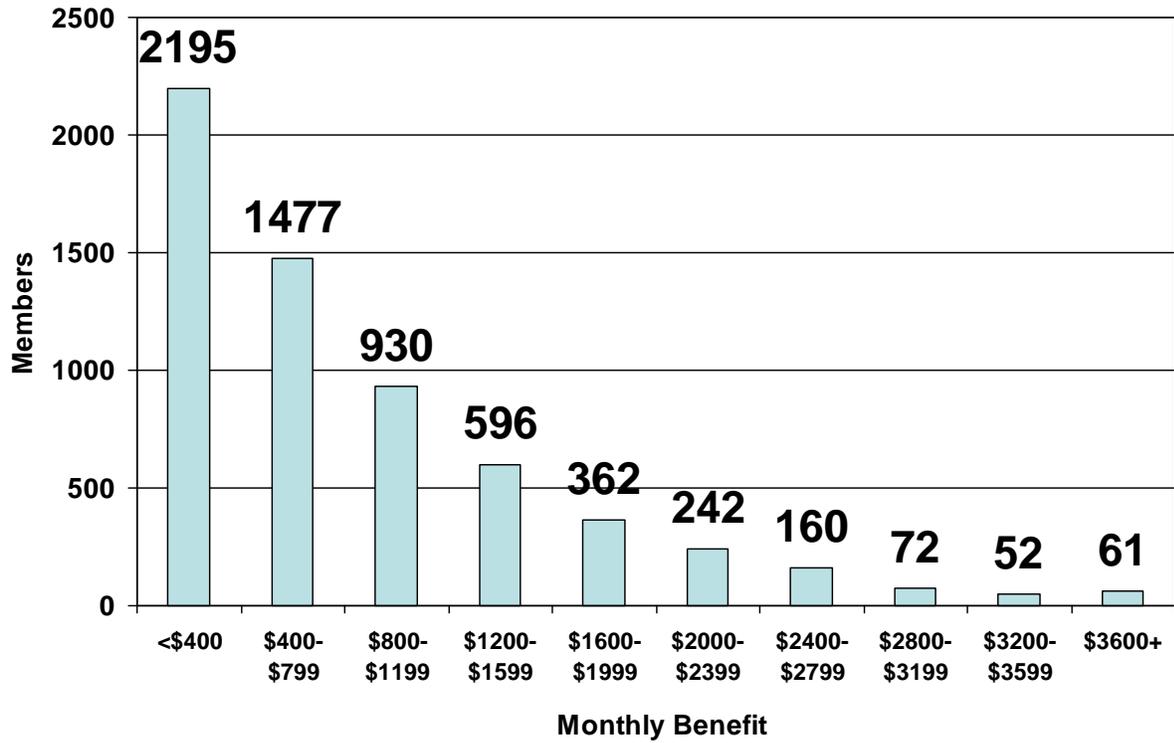
1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

The provisions of this bill have been reviewed by the PERS actuary. The actuary determined that this adjustment could be paid for with the increase in contributions specified in the bill. These provisions have also been reviewed by the Legislative Employee Benefits Committee and given "no recommendation". On behalf of the PERS Board and its retirees, I would request your favorable consideration of this bill. Mr. Chairman and members of the committee, thank you for your review of this bill and this concludes my testimony.

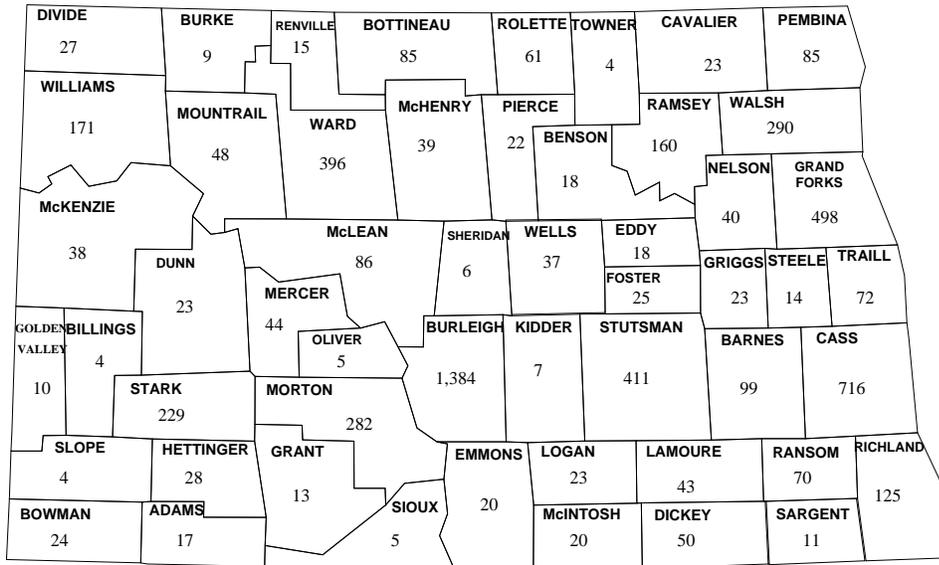
NDPERS Retirement Benefits

July 1, 2008



NDPERS Retirees

January 2008

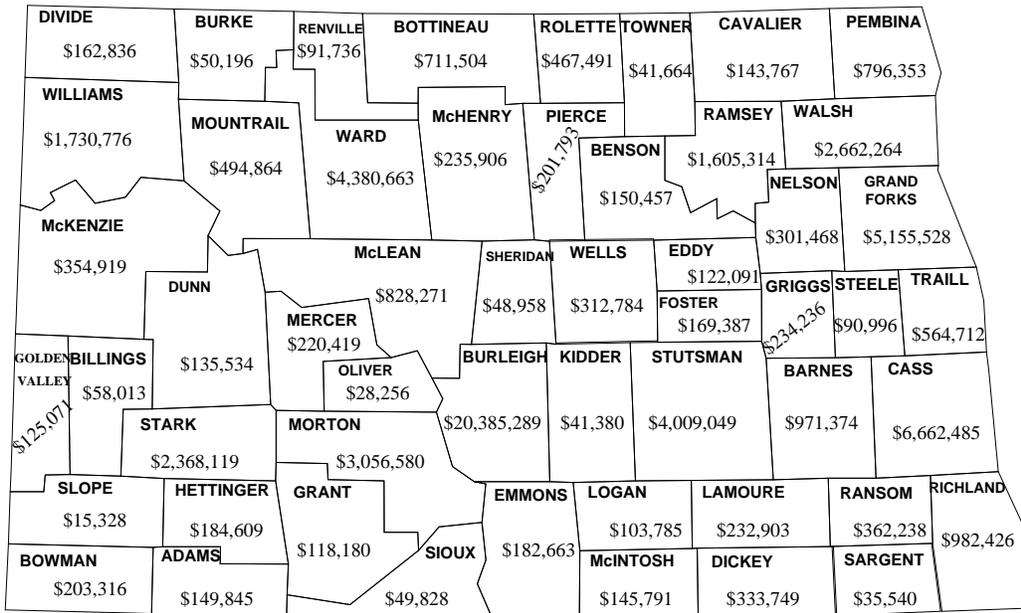


Out-of-State - 962

Total - 6,939

NDPERS Retirees

Annual Benefits 2008



Out-of-State - \$8,977,063

Total - \$72,336,527