

**Testimony of**  
**Sparb Collins**  
**On Engrossed SB 2108**

Good morning, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System (PERS). I appear before you today concerning the retirement plans we administer. Our agency provides services to the state and participating political subdivisions. Approximately 55% of our members are from the state and 45% are from political subdivisions. We have approximately 7,000 members retired under our plans.

The proposed legislation (engrossed SB 2108) before you today 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 and Judges) and the PERS Defined Contribution Plan by 2% of the member's monthly salary beginning January 2012, plus an additional 2% increase in contribution rates for 2013. The increase is split in both years with 1% coming from the employee and 1% from the employer. Consequently, both our members and employers are sharing in the recovery. The Bill also would increase the member contribution rates for the following two 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; 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.

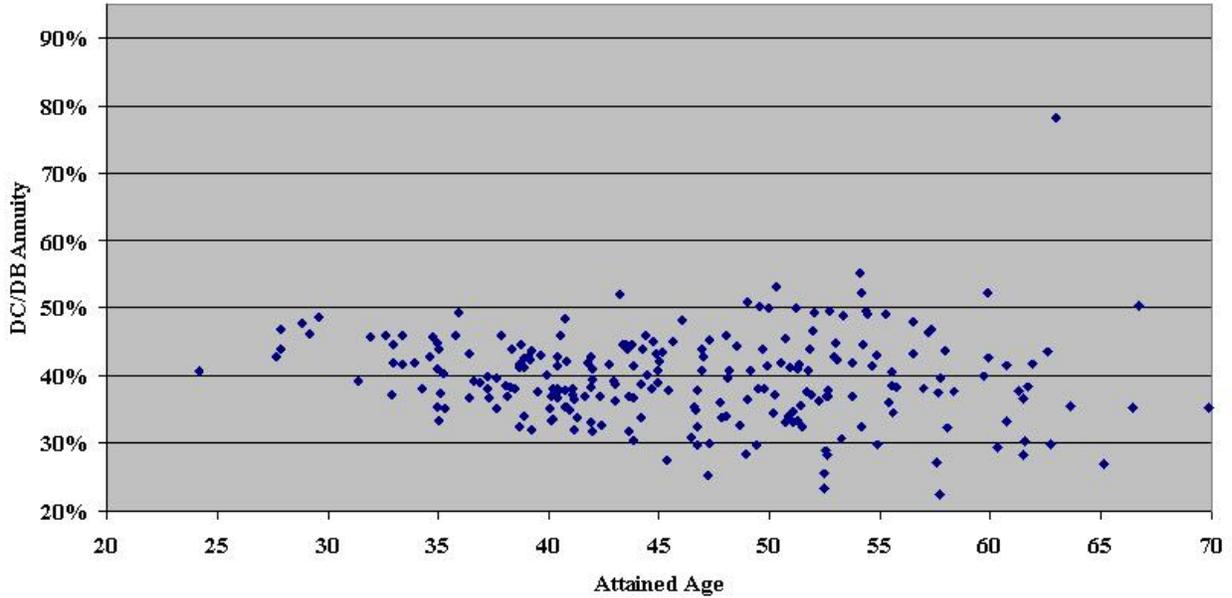
The following details the above changes in the Bill:

<b>Retirement Fund</b>	<b>SB 2108</b> <i>Increase employee and employer contributions equally</i>
<b>Highway Patrol</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012)               <ul style="list-style-type: none"> <li>○ <b>Section 1</b> increases the employee contribution</li> <li>○ <b>Section 2</b> increases the employer contribution</li> </ul> </li> </ul>
<b>Main</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012)               <ul style="list-style-type: none"> <li>○ <b>Section 3</b> increases the temporary employee contribution (pay both the employer and employee contribution)</li> <li>○ <b>Section 4</b> increases the employee contribution</li> <li>○ <b>Section 5</b> increases the employer contribution</li> </ul> </li> </ul>
<b>Judges</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012)               <ul style="list-style-type: none"> <li>○ <b>Section 6</b> increases the employer and employee contribution</li> </ul> </li> </ul>
<b>Law Enf</b>	<ul style="list-style-type: none"> <li>• .5% employee increase (beginning in Jan of 2012)               <ul style="list-style-type: none"> <li>○ <b>Section 7</b> increases the employee contribution</li> <li>○ <b>Section 8</b> increases the employee contribution for BCI</li> </ul> </li> </ul>
<b>DC Plan</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2012)               <ul style="list-style-type: none"> <li>○ <b>Section 9</b> increases temporary employees contribution (pay both the employer and employee contribution)</li> <li>○ <b>Section 10</b> increases employer and employee contributions</li> </ul> </li> </ul>

This Bill as amended begins a process to address the funding shortfall that has occurred in both the PERS defined contribution plan and the PERS defined benefit plans as a result of the recent downturn in the financial markets.

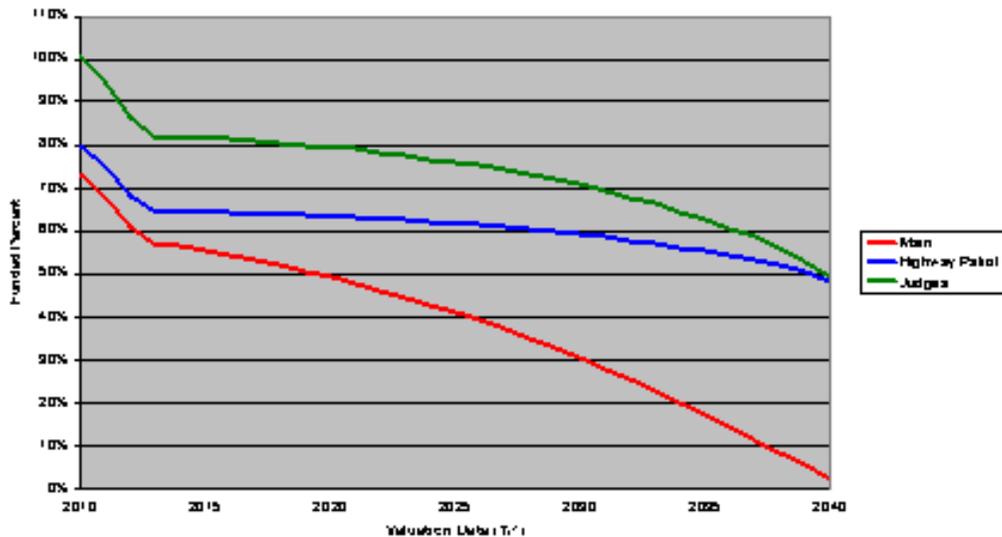
The following tables illustrate the funding challenge to both our defined contribution plan and defined benefit plan.

**Exhibit III**  
**Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit**  
**by Attained Age as of July 1, 2010**  
**With 8.12% Future Contribution Rate**

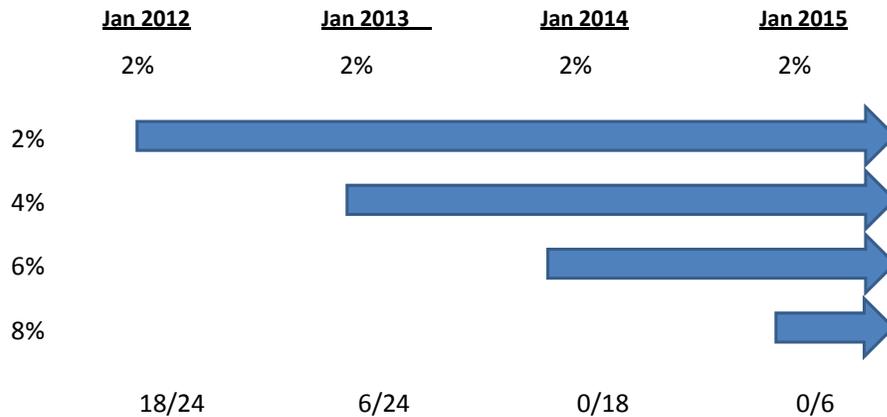


**Senate Bill 2108 – Current Plan Projections**

**Projected Funded Ratio**  
**(Actuarial Value of Assets to Actuarial Assumed Liability)**  
**Based on July 1, 2010 Data**



The engrossed bill before you today changes the approach to address the funding challenge. Specifically, SB 2108 originally proposed a plan for full recovery of the retirement funds spread over two biennium's.

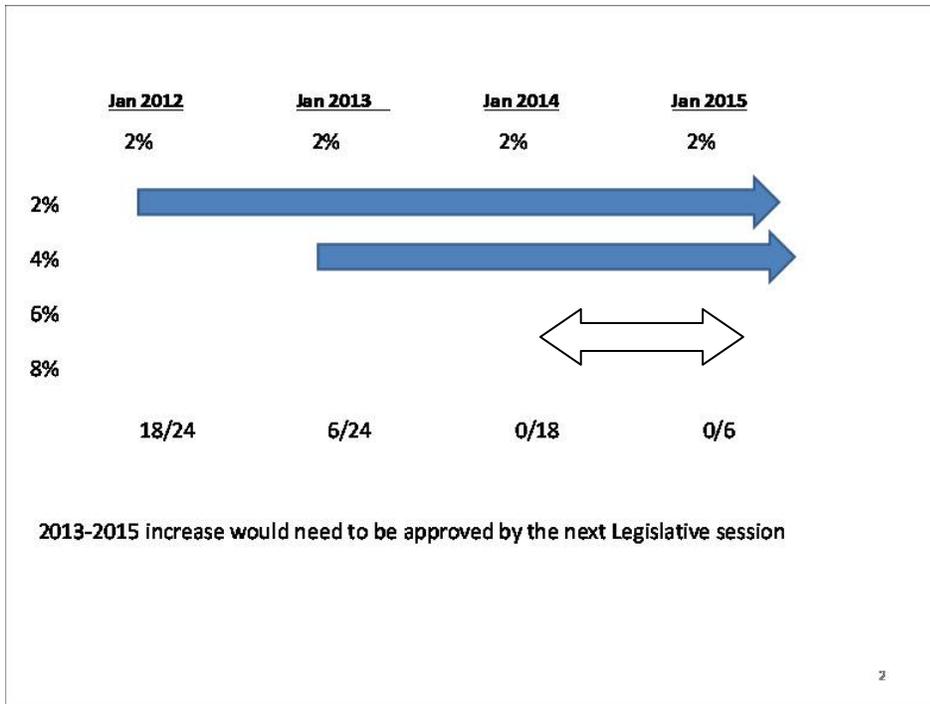


Months increase effective for 2011-2013/ Months effective for 2013-2015

2015 and beyond 100% effective

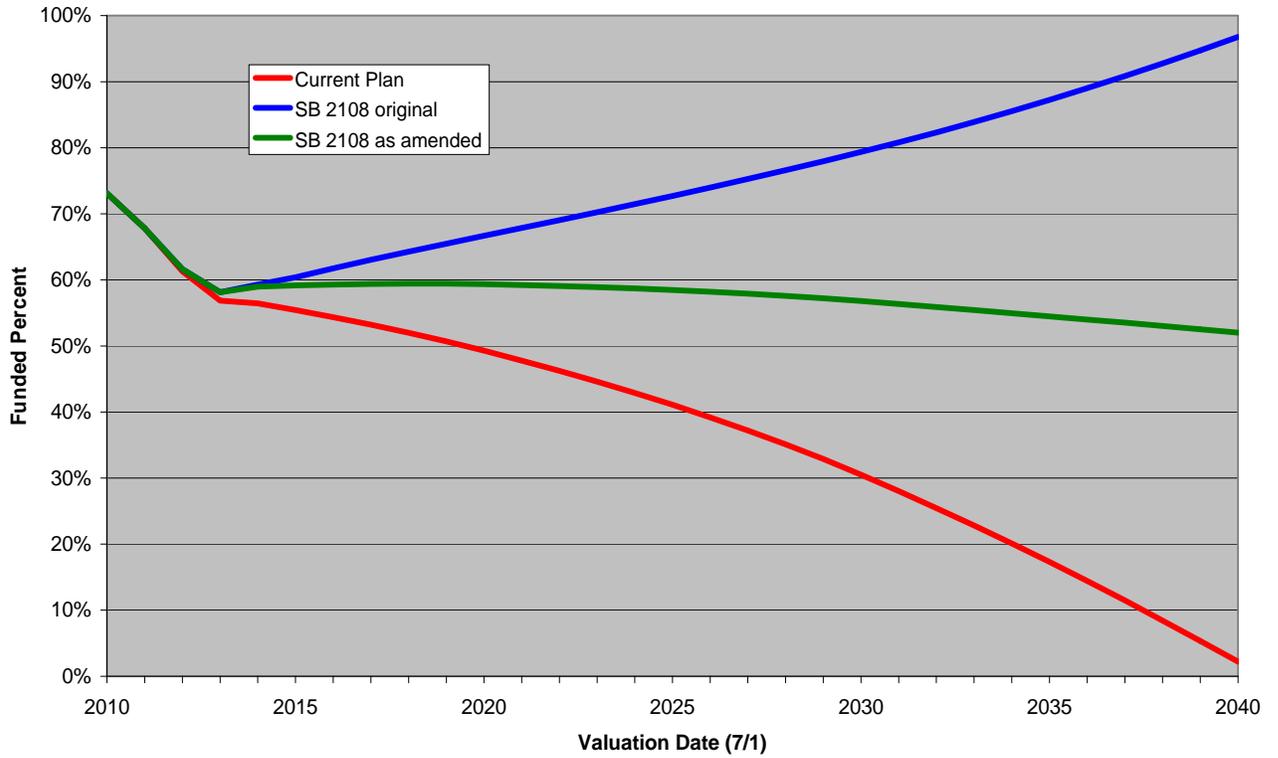
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That is, in addition to the increases for the 2011-13 biennium in the engrossed bill before you today, the original SB 2108 proposed additional increases for the 2013-15 biennium. The increases for 2013-15 biennium were an additional 2% increase in employer contributions and an additional increase of 2% in employee contributions. SB 2108 as amended starts the process of recovery this biennium and provides that the additional recovery steps necessary for 2013-15 biennium will need to be addressed by the next legislative session.

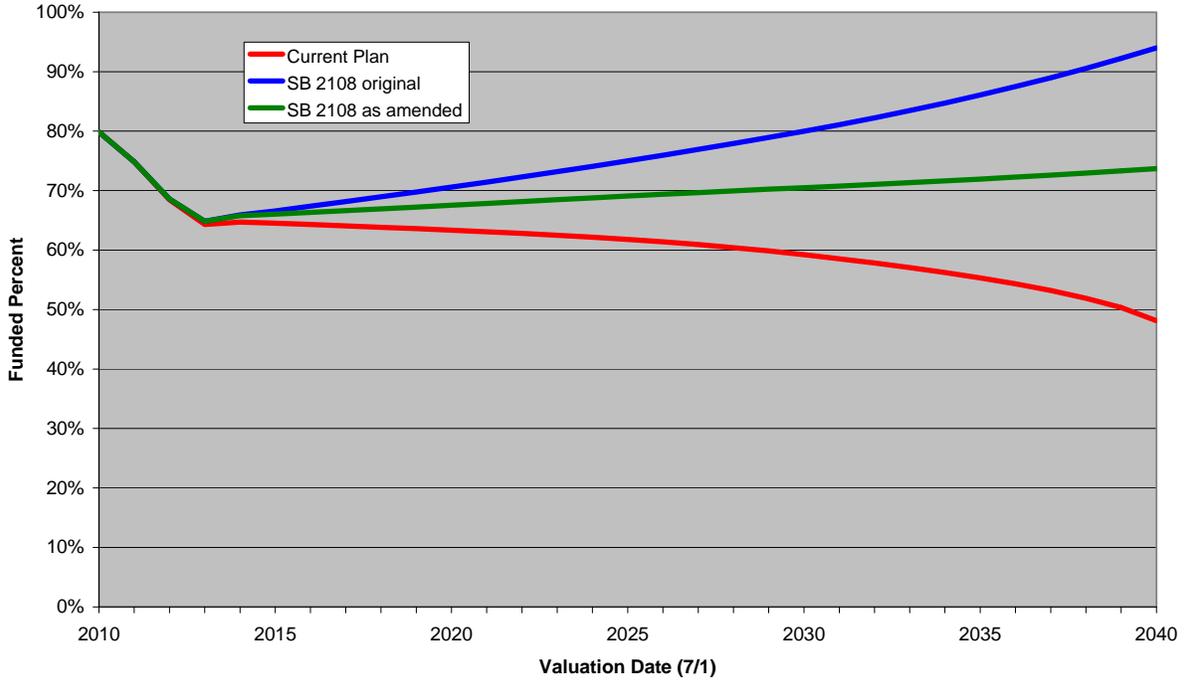


The following graphs illustrate the current projected funded ratio of each system and the effects of SB 2108 as originally proposed with those in the engrossed bill before you today. The red line is the projection for the funded status of the plan without any change in contribution, the green line is with the change in the engrossed bill and the blue line is with the changes in the engrossed bill and the additional contributions beginning in 2013-15 as proposed in the original SB 2108. As you will note the bill before you today provides for significant steps to improve the funding status of the retirement plans. However, we will need to consider additional steps next session possibly within the same range of those that were originally proposed in SB 2108.

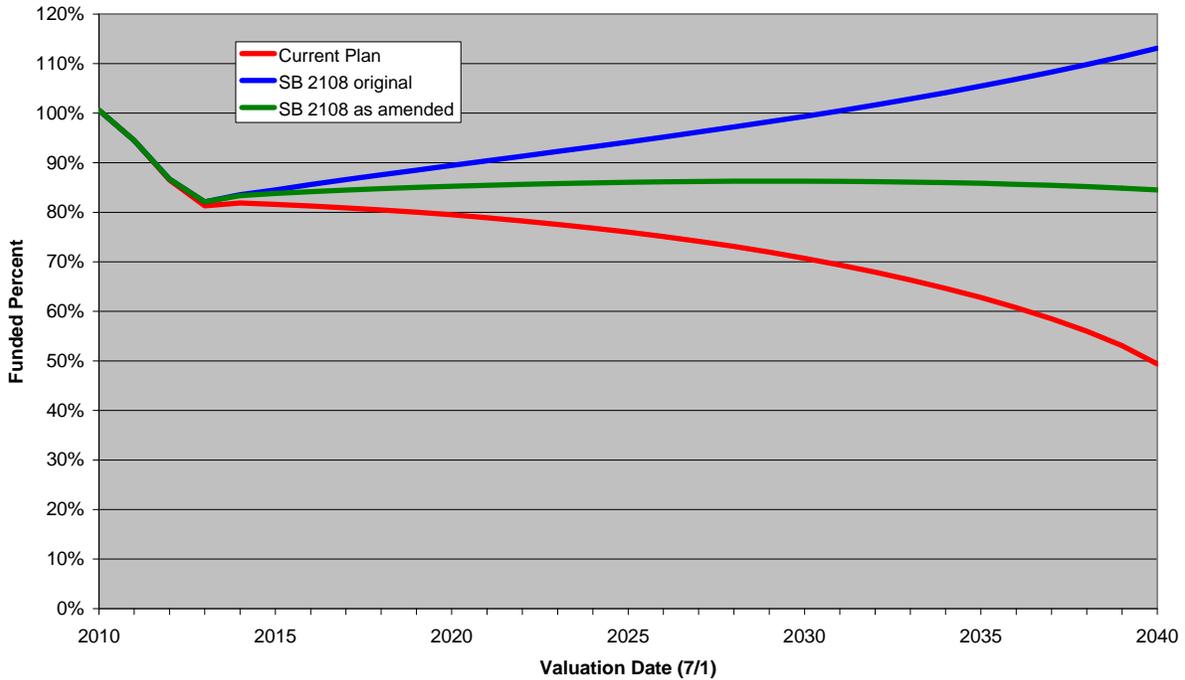
**PERS (Main System)  
Comparison of Funded Ratio  
(Actuarial Value of Assets to Actuarial Accrued Liability)  
Based on July 1, 2010 Data**



**Highway Patrol  
Comparison of Funded Ratio  
(Actuarial Value of Assets to Actuarial Accrued Liability)  
Based on July 1, 2010 Data**

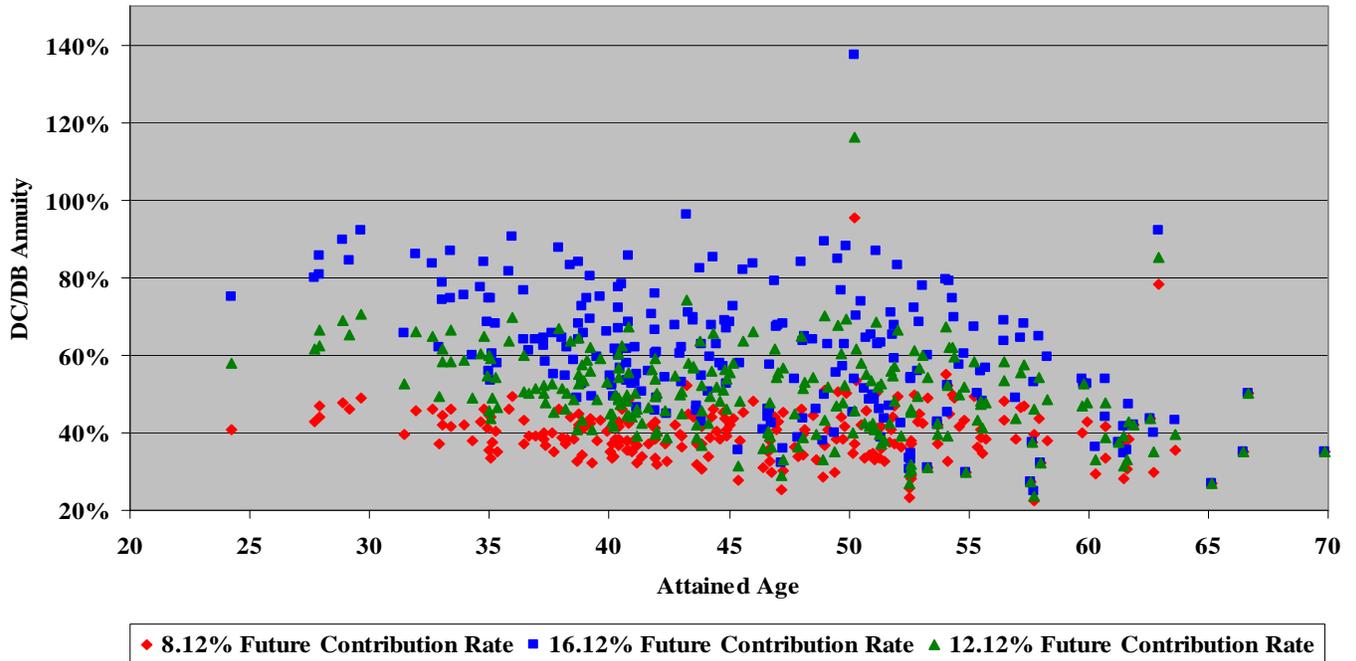


**Judges  
Comparison of Funded Ratio  
(Actuarial Value of Assets to Actuarial Accrued Liability)  
Based on July 1, 2010 Data**



For the defined contribution plan, the following table shows how this proposal helps the funding of these member's retirement benefits:

**Exhibit IV**  
**Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit**  
**by Attained Age as of July 1, 2010**



The proposal for the full recovery of the retirement plans in SB 2108 as originally proposed was brought forward after extensive review by the PERS Board, our member groups and the Legislative Employee Benefits Committee. These proposals:

- Reflected the challenge faced by both our defined benefit plans (including the hybrid plan) and our defined contribution plan. If PERS was entirely a defined contribution plan, I would still be here before you today. This challenge is not unique to one type of plan versus another type. It is a retirement challenge for all types of plans – defined benefit or defined contribution.

- Shared the cost of the recovery between the employer and employee.
- Allowed each employer to consider how they will fund their share as part of their overall compensation planning process and does not request a fixed sum or up front payment.
- Phased in the adjustment over time to reduce the net effect on the employers and employees.
- Addressed the challenge in both our defined contribution plan and defined benefit plan and puts both on a positive recovery. However, in our defined contribution plan, our employees who are late in their career will still have a substantial challenge.
- Delayed the initial increased contribution starting date to January 2012 to allow political subdivisions to plan for the adjustment.

As further background, during the last interim, your Legislative Employee Benefits Committee held hearings on this and two other proposals: 1) to have the employer pay the entire increase, or 2) have the employee pay the entire increase. No testimony was given in opposition to the proposal before you. However, there were concerns expressed with the other two concepts. The committee also received detailed information from the plans' actuary, and after several hearings, the committee gave the other two proposals an unfavorable recommendation and gave the proposal in SB 2108 as originally submitted a favorable recommendation.

This concept was also considered in the development of the executive budget and is included in the executive recommendation.

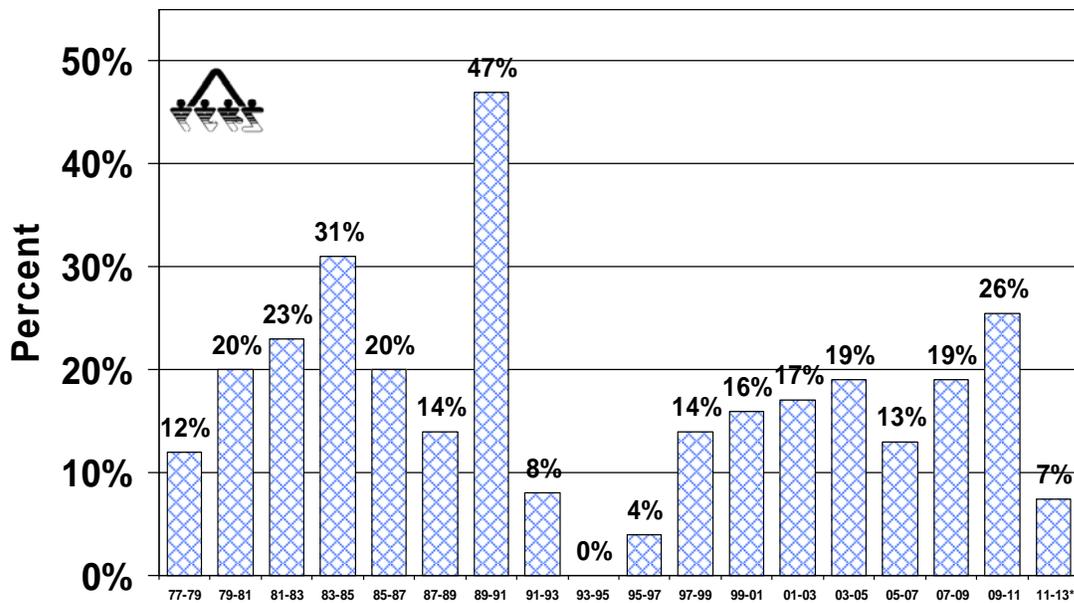
The proposal in the engrossed bill before you today does all the items originally proposed for the 2011-13 biennium and starts the recovery process for the PERS retirement plans.

The engrossed bill differs from the original bill in one respect. Instead of approving the increases for 2013-15 during this session, the next legislative session will now have the opportunity to review that increase with the additional information that will be available at that time. Based upon the information we know today those increases will still be needed but would need to be approved next session instead of in one comprehensive bill this session.

Attached is the fiscal note for this Bill. While it is significant, one offsetting feature when considering our total benefits is that unlike previous years, this year our health insurance costs are lower. The following table is the history of health plan cost increases, including the cost of our upcoming renewal which is approximately 7%.

## State Health Premium Percentage Increase From Previous Biennium

(Excludes Plan Design Changes)

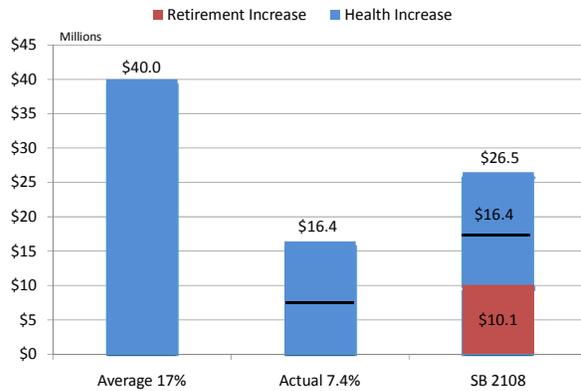


\* - BCBS Proposed  
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Not including this year's renewal, our average increase over the years has been about 17%. The following table shows the projected cost of funding that increase and compares

it to the actual cost for both the phased in retirement increase for this biennium and the new health premium.

### 2011-2013 Biennium Cost



Due to reduced utilization of services this past biennium, for whatever reasons, it has helped to offset the phased in retirement cost for this biennium since both can be funded for less than the average of past health cost increases. In this respect, our members have stepped up in another way to help pay for the retirement increase for the employer.

Mr. Chairman, members of the committee, I wish I did not have to appear before you today with this Bill. PERS retirement contributions have not been increased since its inception in 1977. I wish I did not have to ask for this increase today or inform you that I will have to come back to you again next biennium for additional increases. However, the investment consultant to the State Investment Board stated that the year we had the loss that created this situation was truly unique. In fact, out of 218 years of returns, there were only 4 that were worse. We likely will not experience such an event again in our lifetimes. Unfortunately, this was an unforeseen circumstance and now it needs our consideration, thus I stand before you today. As noted above, this is not an issue confined to just our defined benefit plan but also includes our defined contribution retirement plan.

The PERS Board also supports this proposal and would request your positive consideration. If we can assist you with your considerations, please let me know. Thank you.