TESTIMONY OF
SPARB COLLINS
ON
HOUSE BILL 1070

Mr. Chairman, 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.

House Bill 1070 relates to the PERS retirement plan and Highway Patrol retirement plan.

Section 1 of the bill relates to the Highway Patrol retirement plan and changes the definition of final average salary from highest 36 consecutive months to highest 36 months out of the last 120 months and in 2009 changes it to 180 months. Please note the final average salary is a key variable in figuring a member's retirement benefit in these plans. Specifically a member's benefit is figured by taking the final average salary times the years of service times the multiplier. For example, if someone's final average salary is $3,000 and their years of service is 25 and the multiplier is "2%" the calculation would be as follows:

$2,000 * 25 * .02 = $1,000

The first change relating to the change to highest 36 months instead of consecutive 36 months would make the final average salary calculation the same as it is the PERS plan. This means that instead of adding up the highest 36 consecutive months which is generally the last 36 months of employment and dividing by 36, we would add the highest 36 months from the last 120 months of employment and divide that number by 36 to determine final average salary. The proposed method helps to avoid having an abnormal situation in the final three years reduce a member's retirement benefit. The second change is to make it the highest 36 months out of 180 months instead of 120 months. This same proposal is also made to the PERS retirement plan in Section 3 of the bill. This change is in recognition of our changing work environment. That is, some of our members now elect to continue in employment in lower paying positions. For example, a member may have transitioned from management to a staff position or due to agency reorganization or other change in covered employment a member may elect to take a lower paying position. Under present statute if that occurs for more then 7 years the member’s final retirement benefit is reduced. This provision would allow a member up to 12 years before it would have an effect on the calculation. This provision would make a member’s benefit more portable and help to ensure that a member’s retirement income is not reduced as a result of change in positions. Under our present statute the member would need to leave covered employment to avoid this situation. Also some members do not become aware of this situation until to late.

Section 2 and 4 of the bill provide a benefit increase for the retirees of the PERS plan and Highway Patrol plan of an amount equal to half of their retirement check in either January of 2006 or 2007 if the total return of the fund is 11.2% or more in the preceding fiscal year’s actuary report. For example let’s assume a retiree’s monthly annuity is $1,000. If the plan would earn 11.2% or more in one of those years that member would get an additional check in one of the years equal to $500, which is half their monthly annuity of $1,000. This method is proposed since the retirement funds are still recovering from several years of losses. By using this method we would only be providing the increase if the fund continues to have positive earnings and we would be sharing only a part of those positive earnings with the retirees and the other part would go to the fund. This method is not as beneficial as the method we used in the 90’s when we were able to give cost of living adjustments, however, it does provide an affordable method to provide some assistance to our retirees who have not received an increase in benefits since August of 2001 or almost 4 years.

The provisions of this bill have been reviewed by the PERS actuary. The actuary determined that the one time retiree adjustments could be paid from positive returns and for the main system if the return was 11.2% it would take .85% of that to make the one time payment with the remaining earning of 10.35% going to the fund. These provisions have also been reviewed by the Legislative Employee Benefits Committee and given a favorable recommendation. The fiscal note for this bill indicates no fiscal effect since the proposed payment would be made directly from the retirement fund and no increase in contributions is required. On behalf of the PERS Board I would request your favorable consideration of this bill. Mr. Chairman this concludes my testimony.