Legislative Hot Topics Impacting Counties

NDACo

Panelists

Rep. Mike Lefor, Dist. 37 - Dickinson

Sen. Donald Schaible, Dist. 31 – Mott

Sen. Dale Patten, Dist. 39 – Watford City

PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS) STUDY

HB 1209 - Develop a plan for new hires under the Public Employees Retirement System main system to participate in the defined contribution plan and to close the defined benefit plan to new entries effective January 1, 2024.

During the 2021-2022 interim, the Legislative Management may develop a plan for new hires under the Public Employees Retirement System main system to participate in a defined contribution, cash benefit or hybrid plan and to close the defined benefit plan to hires effective on a date certain. (Legislative Management Directive.)

FUNDED RATIO

Fiscal Year	Actuarial Assets	Actuarial Liabilities	Actuarial Unfunded	Actuarial Funded Ratio
2000	1,009,744,796	879,189,877	130,554,919	114.8%
2005	1,210,287,848	1,333,491,341	(123,203,493)	90.8%
2010	1,576,794,397	2,156,560,553	(579,766,156)	73.1%
2015	2,027,476,214	2,976,071,808	(948,595,594)	68.1%
2020	3,112,920,033	4,557,679,020	(1,444,758,987)	68.3%

January 2016 Rule of 85 changed to Rule of 90 for employees hired after December 31, 2015

January 2020 Benefit multiplier lowered from 2.0% to 1.75% for members enrolled after December 31, 2019.

Current projections to close the defined benefit plan. (PERS) – A total of $3 billion would be needed to keep the plan solvent until the last current defined benefit members benefits are paid. An actuarial analysis would be necessary to provide the most accurate estimates of the cost or cost-savings of closing the main system defined benefit plan.

2021 HB 1380 (Legacy Streams) was passed into law. One of the provisions in that legislation provides for funding going to the PERS retirement system. In the 2023 session, there will be legislation which seeks to allow for the PERS retirement system to have a stream which is not coupled with the bonds passed by state to pay off debt. The amount of the stream would be $70 million per biennium to stay until the fund reaches a 90% funded level

The retirement committee was advised not to bond for one-time dollars rather, if a cash infusion is to be considered it should be from cash. If the Legacy provision discussed passes and is left intact for the next 20 years that would provide an infusion of $35 million per year or a total of $700 million over two decades. In addition, there may be legislation to provide for an additional cash infusion next session.

The retirement committee will also look at how the closing of the defined benefit plan would affect the political subdivisions included in the plan. Another provision to look at is the states current defined contribution plan. The states chief people officer, Stacey Breuer, and her staff will weigh in on what is needed to provide for a plan with “best practices” to become more competitive in the marketplace.

In the past three years, the state has had a turnover rate totaling 38%. In 2016, the millennial generation became the largest in the workforce at 35%. By 2025, millennials and younger (Gen Z) will make up 75% of the work force.

It is predicted that these U.S. will hold 10-14 jobs by age 38. They look at jobs as “projects”

Job Changes	2019	2022
Remote	8%	32%
Hybrid	32%	59%
Onsite	60%	9%

Work is no longer limited to the office. The younger work force expects flexibility to manage their work and life.

"When we capture early talent at Team ND at less than 30 years of age, we are not retaining them."

- Stacey Breuer, chief people officer, state of North Dakota.

TOTAL REWARDS OVERVIEW

1. COMPENSATION
2. WELL-BEING
3. BENEFITS – HEALTH CARE, VACATION, RETIREMENT
4. DEVELOPMENT
5. RECOGNITION

Actuarially Determined Employer Contributions (ADEC) and Modeling Scenarios

Prepared for: Rep. Mike Lefor, North Dakota House of Representatives

Prepared by: Ryan Frost, Senior Policy Analyst

Date: September 15, 2022

reason FOUNDATION

Per your request, this memo provides a definition of Actuarially Determined Employer Contribution—or ADEC—and forecasts the amount needed to pay for the implementation of an ADEC policy for NDPERS for the next two years.

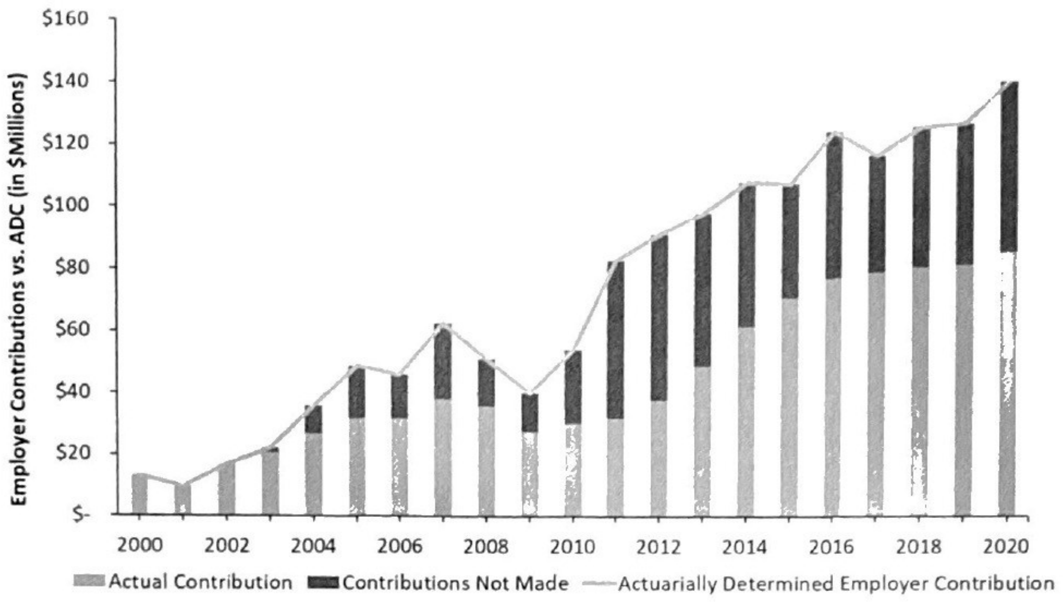
Actuarially Determined Employer Contribution (ADEC) Definition

The actuarially determined employer contribution (ADEC) is the amount actuarially calculated each year that is required to be contributed by an employer to a pension plan's pool of assets in order to ensure there will be enough funds to pay promised pension benefits.

- The contribution rate can be reported either in dollars or a percent of salary.
- Actuaries annually determine how much should be paid by employers in a given year in order to properly fund a pension plan. This amount is a combination of the employer's share of normal cost plus the unfunded liability amortization payment.
- The actuarially determined amount is the "required" contribution and is typically reported in actuarial valuation reports, but employers are not necessarily legally bound to actually contribute this amount unless statutes require employers to make full ADEC payments each year, which is the law in many states and is prudent policy.
- North Dakota does not require full employer ADEC payments by law, which is a primary reason NDPERS has unfunded liabilities today and have little chance to ever pay them off.
- The ability for employers to not pay 100% of their pension bill is one of the reasons unfunded liabilities can increase.

The difference between ADEC rates and NDPERS statutory rates may be easier to understand visually. Figure 1 on the following page displays the difference, from 2000-2020, between the ADEC and the actual (statutory) contributions made to NDPERS.

Figure 1. NDPERS Actual Contributions vs. Actuarially Required Contributions



NDPERS ADEC Modeling

The following table compares baseline (current statutory rate-based) costs vs a DC+ADEC scenario that includes:

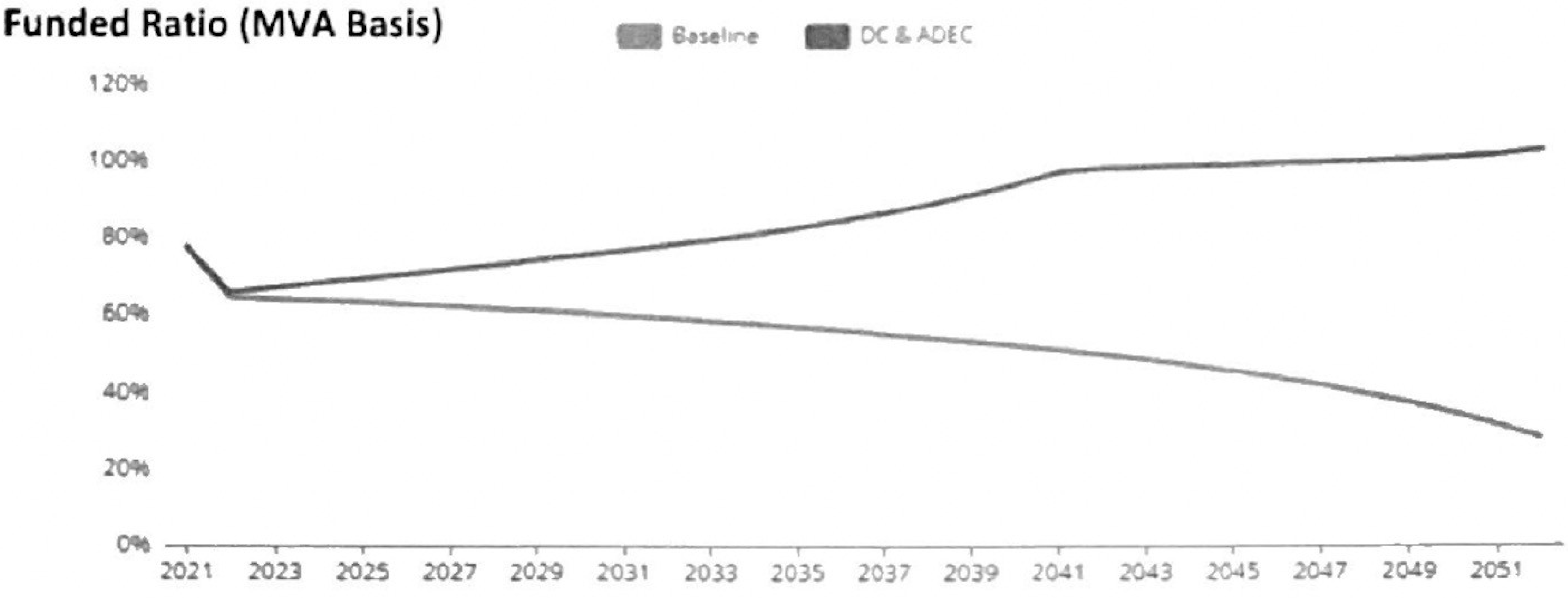
- 100% DC participation for new employees.
- ADEC for NDPERS defined benefit plan.

No cash infusions were included but can be easily added in the future to see long-term cost savings and funded ratio trajectories.

Employer Contributions (in millions)

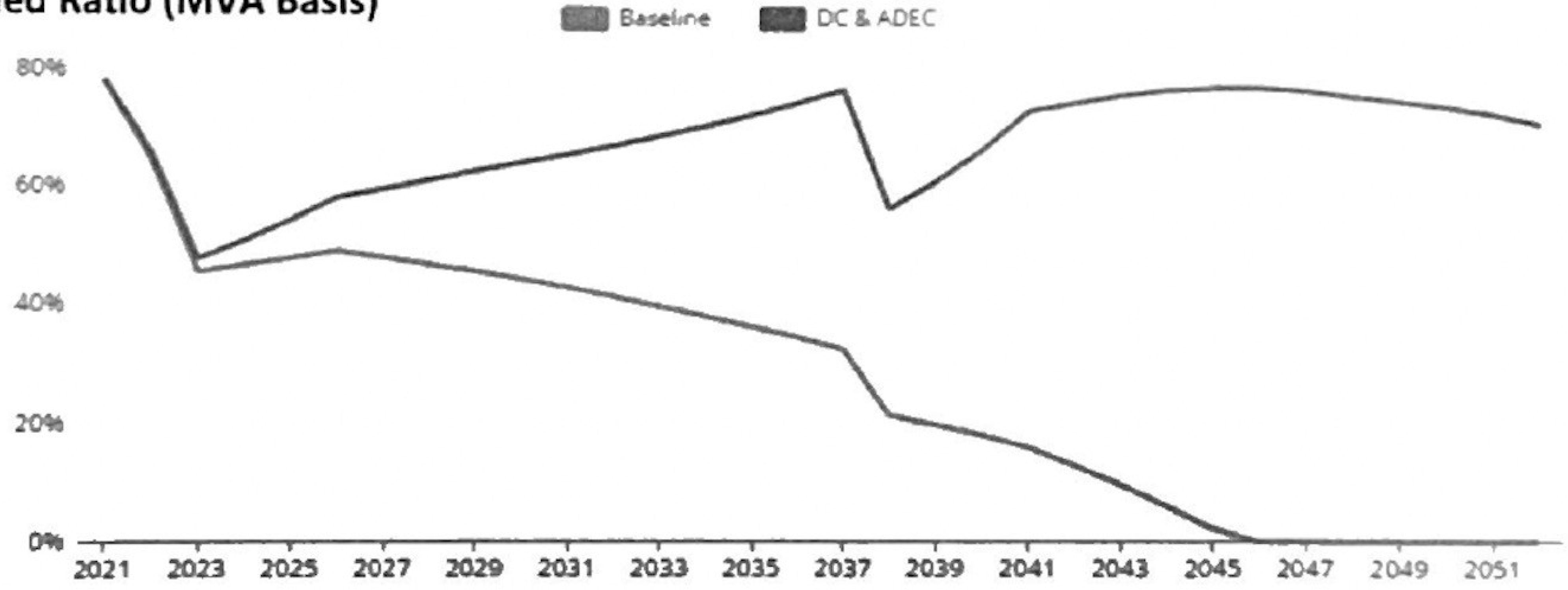
Year	Baseline	DC + ADEC
2022	$83.8	$155-160
2023	$85.5	$170-175
Total	$169.3	$325-335

The following chart shows a 30-year funded ratio trajectory of baseline vs DC+ADEC for NDPERS. This assumes experience matches all of NDPERS current actuarial and demographic assumptions:



The following chart shows a 30-year funded ratio trajectory of baseline vs DC+ADEC but assumes that two recession scenarios occur in 2022 and 2037, respectively.

Funded Ratio (MVA Basis)



TIAA Retirement Readiness Snapshot

Plan outcomes are driven by plan design and participant behaviors

250,000

retirees getting lifetime income checks

40%

of TIAA active participants who are exhibiting good in-plan behaviors (save, manage & protect)

What is a "good in-plan behavior"? We run each active participant through TIAA Advice and compare how each participant saves and invests relative to their advice recommendation. Those who are meeting or exceeding their advice recommendations may be exhibiting a good in-plan behavior.

Saving

Designing your plan to incentivize adequate employee savings is the primary driver of your participants' retirement readiness.

- 56% of active participants are meeting their advice recommended contribution rate.

Managing

Providing employees with access to investments and advice that drives appropriate risk-based asset allocation helps participants stay on track over the long-term.

- 77% of active participants are meeting their advice recommended risk-based asset allocation

Protecting

Providing participants with access to downside protection and access to income they can't outlive in retirement helps protect against key challenges such as market and longevity risks.

- *32% of active participants are meeting their advice recommended exposure to the guaranteed asset class.*[2]

[1]This data is as of 3/31/2022 and is based on 974,585 participants who are actively contributing to a TIAA record-kept plan. This report uses actual salary and/or compensation data provided to TIAA by more than 950 institutional clients. [2]Only participants who are receiving a recommendation to invest in the guaranteed asset class are scored for this category.

Best Practices for Plan Design

When a defined contribution plan is not designed or managed to provide a personal pension, potential shortfalls could exist

Ensure Plan Participation

Allow all employees access to plan

Include automatic enrollment

Drive Adequate Savings

Set a target savings rate of 12-15%

Include auto escalation

Offer Core Investment Options Including Guaranteed Lifetime Income

Provide a low-cost investment solution including a component of guaranteed lifetime income

Offer investment menu of 15-20 low-cost funds and annuities

Require Default Investment Option that includes the option to annuitize a portion of their retirement savings into guaranteed lifetime income

Drive Employee Engagement

Offer in-plan advice via preferred channels

Develop multi-channel engagement programs focused on overall financial well-being

Set, measure, and adjust plan goals based on outcomes, actual behavior, and needs

Illustration of Yearly Retirement Benefits

PERS Defined Contribution Plan
Dollar Amount and Percentage of Final Salary

Entry Age	Entry Salary		Terminates at the end of 10 Years	Terminates at the end of 20 Years	Continues to Age 67
25	$25,000	Accumulation	$340,232	$583,428	$901,743
		Income	$23,945	$41,061	$63,464
		Replacement	34.8%	59.7%	92.2%
30	$30,000	Accumulation	$305,090	$523,165	$760,872
		Income	$21,472	$36,820	$53,550
		Replacement	29.4%	50.5%	73.4%
35	$35,000	Accumulation	$265,978	$456,096	$614,112
		Income	$18,719	$32,100	$43,221
		Replacement	24.9%	42.7%	57.4%
40	$45,000	Accumulation	$255,541	$438,199	$534,085
		Income	$17,985	$30,840	$37,589
		Replacement	21.0%	36.1%	44.0%
45	$55,000	Accumulation	$233,389	$400,214	$427,369
		Income	$16,426	$28,167	$30,078
		Replacement	17.8%	30.5%	32.6%
50	$65,000	Accumulation	$206,112	—	$314,308
		Income	$14,506	—	$22,121
		Replacement	15.0%	—	22.9%

1. Benefits calculations and replacement rates assume annual salary increase of 2.5% until retirement
2. DC benefits, payable as a Single Life Annuity, assumes a 14% contribution rate, interest rate of 6% before and 4.25% after retirement, and the current (2022) TIAA mortality basis. The interest rate and mortality basis are not guaranteed for the future.

ANY QUESTIONS OR COMMENTS?

PROPERTY & INCOME TAX RELIEF PROPOSALS

TAX RELIEF DISCUSSION

INCOME TAX RELIEF

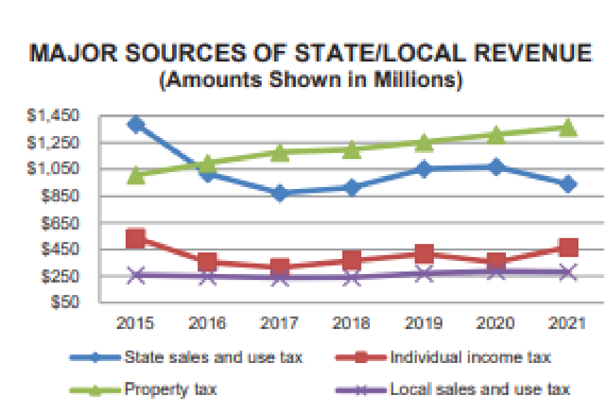
VS

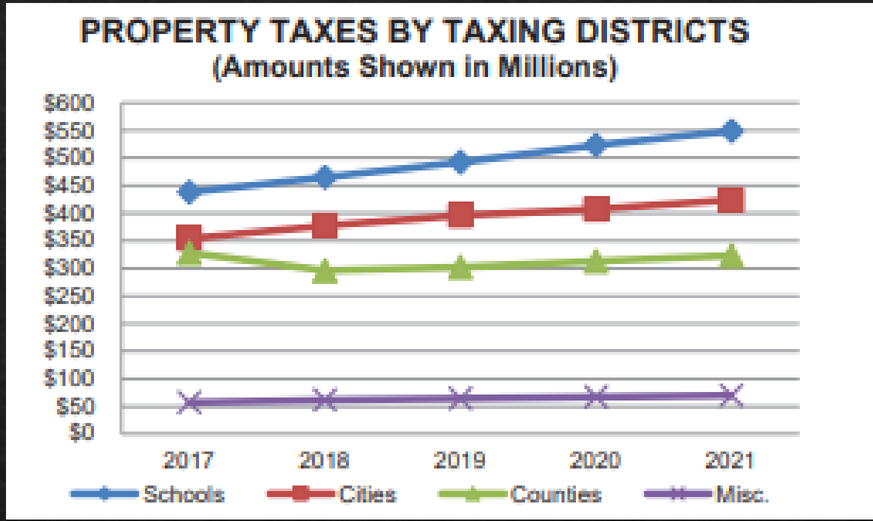
PROPERTY TAX RELIEF

PRIOR
PROPERTY TAX
RELIEF

- Expansion of Homestead Tax & Disabled Veterans' Homestead Tax Credits
- Increase State Share of School Funding
- 12% Property Tax Credit
- State Assumption of Social Service Costs

- Reform: Consolidated Mill Levies





Year Payable	2017	2018	2019	2020	2021
Schools	$438	$465	$492	$523	$549
Cities	354	377	396	407	424
Counties	328	296	302	313	323
Misc.	57	61	64	67	70
Total	$1,177	$1,199	$1,254	$1,310	$1,366[1]

[1]The increase for 2021 is primarily due to continuing growth in taxable valuations and to support the increasing budgets of political subdivisions.

Based on property taxes levied in 2021, payable in 2022, one mill generated approximately $5.3 million statewide.

Source: North Dakota Tax Department

PROPERTY TAX DATA

PROPERTY TAX RELIEF thru School Funding

- $340 Million in Relief
- 30 mill buydown
  - Result in 25% property tax reduction statewide
- Increase State Share of School Funding from 70% to 85%
- Transparency Requirement
  - Eliminate reference to mills: speak only in dollars
- Freeze Property Valuations for 2 years for Taxing Purposes

INCOME TAX RELIEF

- $250 Million in Relief
- Eliminates Individual Tax Burden for 60% ND Taxpayers
  - 388,000 ND's - $54,725 single/$95,600 married
- Creates Flat Tax Rate – 1.5%
  - 26%-48% reduction in tax liability
- Expands Income Tax Credit Approve in Special Session for 2021 & 2022 tax years
  - $211 Million - $350 credit/single & $700 credit /married

TAX REFORM DISCUSSION

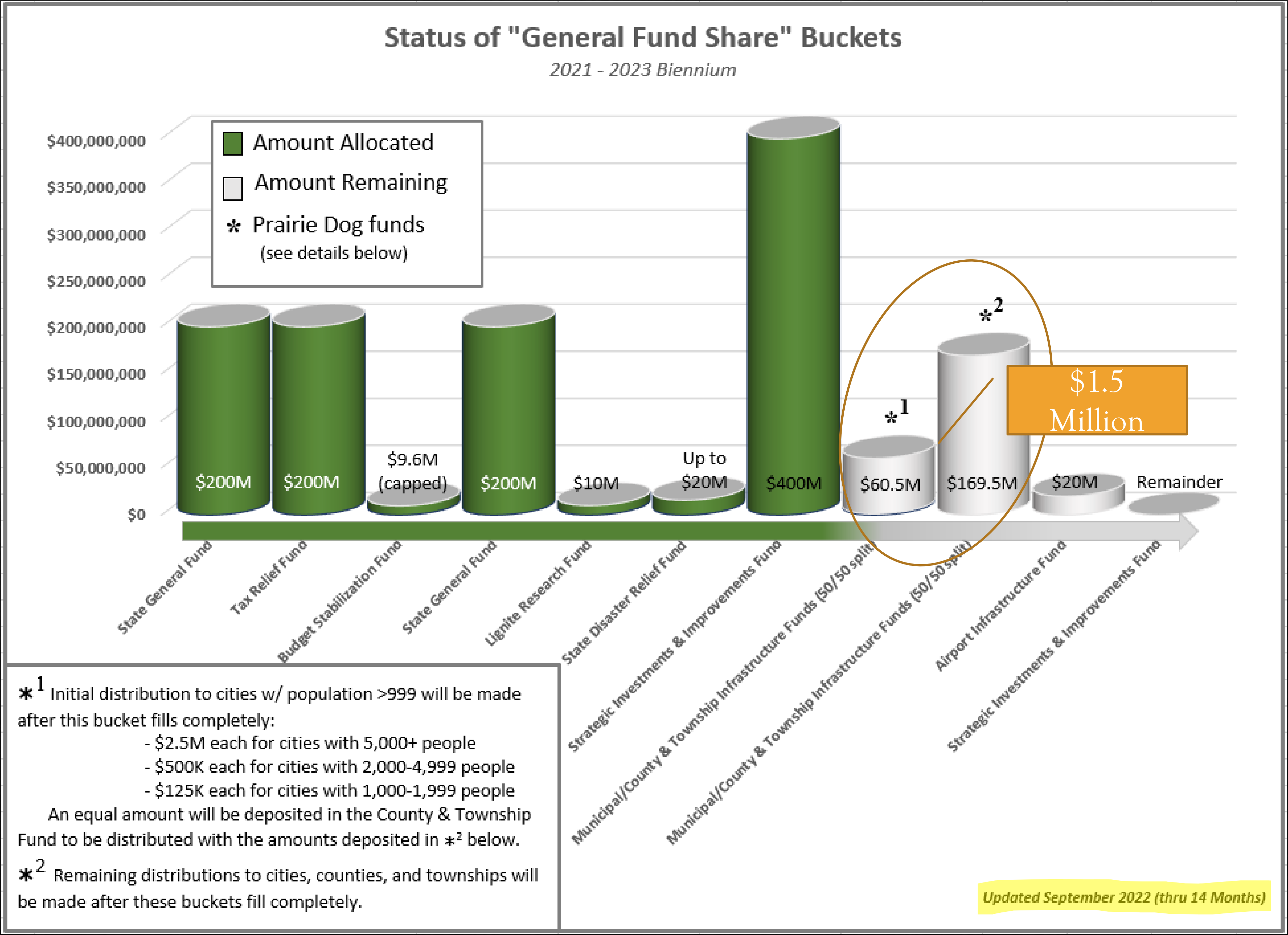
- Baseline Budgeting
- Eliminate Reference to Mills – Speak in Dollars
- Require Formal Acknowledgement of Taxable Valuation Growth
- Limiting Budget Growth
- Capping Taxable Valuation

OPERATION PRAIRIE DOG UPDATE

Prairie Dog Fund Update

$250 Million

- $115 Million to Cities
- $115 Million to Counties & Townships ($100M/$15M)
- $20 Million to Airports



PRAIRIE DOG DISTRIBUTION

- Use for "Road & Bridge Infrastructure Projects"
  - New construction, maintenance, repair or replacement
- Buckets Continue to Fill through Biennium – June 2023
- $ Distributed the Month <u>After</u> the Bucket Fills
- $ Based on UGPTI Needs Study Data
- Reporting Requirement – Nov. 30th (even years)

BUDGET / LEGACY FUND EARNINGS

- $1 Billion in Carry Over in Revenues
- $8 Billion in Legacy Fund
- $487 Million in Legacy Fund Earnings Available to Spend in 2023 Session
- General Fund & Oil Tax Revenues at All Time Highs