

Does SB 2046 Meet the Objectives for Good Pension Reform?



| Objectives | Status Quo | SB 2046 |
|--|---------------------------|-----------------------------------|
| Keeping Promises <i>Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees</i> | Uncertain | NO Funding Improvements Needed |
| Retirement Security <i>Provide retirement security for all current and future employees</i> | FOR SOME | IMPROVED But RISK REMAINS |
| Predictability <i>Stabilize contribution rates for the long-term</i> | Yes *But Unsustainable | IMPROVED But RISK REMAINS |
| Risk Reduction <i>Reduce pension system exposure to financial risk and market volatility</i> | NO | NEEDS IMPROVEMENT |
| Affordability <i>Reduce long-term costs for employers, employees</i> | NO | NEEDS IMPROVEMENT |
| Attractive Benefits <i>Ensure the ability to recruit 21st Century employees</i> | FOR SOME | IMPROVED |
| Good Governance <i>Adopt best practices for board organization, investment management, and financial reporting</i> | YES | N/A |

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| Keeping Promises | NDPERS does not have all the funds needed today to ensure promised benefits are paid in the future. | SB 2046 increases funding via legacy fund streams, but it is unclear if that will be enough to deliver NDPERS to full funding. The pivot to full defined contribution (DC) does not explicitly fund existing DB benefits, creating more risk of underfunding. |
| Retirement Security | NDPERS is accumulating pension debt, meaning its members' retirement security faces long-term risk. | Members vested in the NDPERS will keep the same benefit structure. New hires will be placed in a DC plan with a 15% total contribution rate that is consistent with best practices. Members who remain in the DB plan will still have the existing insecurity that comes with structurally underfunded retirement plans. |
| Predictability | Rates are predictable because they are fixed in statute opposed to being calculated by professional actuaries according to an established funding timetable, creating systematic underfunding. | Supplemental payments from legacy fund earnings will increase total contributions, but a contribution policy based on a fixed statutory rate remains at the cost of likely continuing to underfund accrued and legally protect benefits. |
| Risk Reduction | The current assumed return of 7% has about a 45% probability of being achieved on average over the next 10 years. Without a shift in expectations, NDPERS is still likely to accrue pension debt from a lack of investment returns. | SB 2046 does reduce some risk by moving most new hires into a defined contribution plan, but the bill does not meaningfully tackle the system's current and future debt exposure to market volatility. Additional future steps may be needed to address the plan's overall financial risk. NDPERS will also continue to face a lower-yield investment climate and an assumed rate of return and discount rate that are likely higher than economic conditions warrant. |
| Affordability | NDPERS unfunded liabilities generate major long-term costs through interest on the pension debt, creating fiscal pressures for employers. | The DC plan for new hires will provide a predictable, affordable means of controlling employer retirement costs over the long term. However, SB 2046 will result in additional <i>near-term</i> contributions sourced from Legacy Fund earnings, it's unlikely that such payments will be sufficient to cover the amortization of current and future unfunded liabilities in the legacy NDPERS system. Because of this, state policymakers will still likely need to address long-term costs again in the near future. |
| Attractive Benefits | The current NDPERS DB plan disproportionately benefits those who stay for a full 30 years of service (unreduced retirement benefit), which only 15% achieve. | SB 2046 allows current members to opt into the existing DC, and new hires (except judges, public safety and some higher education employees) will be placed in the DC plan, which has adequate contributions relative to public and private sector best practices, promotes advances retirement security for members, and offers portability for an increasingly mobile professional workforce. |
| Good Governance | NDPERS generally is a well operated enterprise delivering high quality services. | SB 2046 does not address the plan's governing structure, but it does require the NDPERS board separate state and political subdivision finances within the NDPERS DB plan. |