North Dakota Public Employees Retirement System (NDPERS)

Scrutinizing NDPERS' Cost Claims on House Bill 1040

- According to NDPERS' latest 2022 actuarial valuation, under status quo policy ***"[NDPERS] is not expected to ever amortize the unfunded liability."***

- Absent reform, pension checks will need to be paid directly from the state budget on a PAYGO basis when NDPERS exhausts its assets, the most expensive way to fund retirement benefits.

- HB 1040 was proposed by an interim legislative committee as a feasible solution to NDPERS' current challenges that would pay off $1.8 billion in legacy pension debt in full over 20 years and shift all new hires to an upgraded version of the state's defined contribution plan option.

NDPERS Today:

1. Holds $1.8 billion in unfunded liabilities;
2. Structurally underfunded by legislatively set contribution rates;
3. Expected to become insolvent around the turn of the century even if all its actuarial assumptions are met (faster if they do not).

Despite its current path to insolvency, NDPERS misleadingly claims that closing the defined benefit pension plan to new entrants under HB 1040 would inherently result in cash flow issues decades from now. Their recommendation to lower the plan's assumed rate of investment return and discount rate on liabilities to 4.5% (down from the current 6.5% assumption) would be unprecedented and needlessly generate billions in previously unrecognized unfunded liabilities and spike costs.

- It is disingenuous and false to suggest that there is financial risk under HB1040 that doesn't already exist for a plan headed toward insolvency.
  - Lowering the assumed rate of return below 6.5% would likely be a prudent policy choice whether or not the plan is closed, but it is not a requirement of reform.
  - According to a December 2022 memo from NDPERS consulting actuary GRS regarding the policy envisioned in HB 1040: "[…] **There is no way to quantitatively determine the actual closure cost of a defined benefit plan. In reality, the asset allocation would most likely be changed gradually over time, and costs will be different than shown for a number of reasons.**"
- There are no legal, financial, or professional requirements or mandates that the discount rate be immediately changed when closing a defined benefit plan or opening a new benefit tier:
  - States like Texas, Oklahoma, Florida, Michigan, and Arizona have all recently enacted plan design and funding policy reforms similar in scope to those envisioned in House Bill 1040. None of these states significantly lowered their assumed investment return or discount rate as part of reform. None of those reforms have created any cash flow issues, and all have seen significant funding progress to their pension systems.
- The risk associated with future negative cash flow exists *with or without reform*, and if the state wanted to address it, it is not necessary to immediately lower the discount rate.
  - The state could make up the difference between cash inflows and outflows decades from now through supplemental amortization payments in the event they are actually needed.

MAIN TAKEAWAY: NDPERS is choosing to adopt the costliest interpretation of HB 1040 and is cherry-picking the worst from a range of actuarial cost estimates to scare away proponents.

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