Does House Bill 1040 Meet the Objectives for Good Pension Reform?

Objectives	Status Quo	HB 1040
Keeping Promises *Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees*	NO	YES
Retirement Security *Provide retirement security for all current and future employees*	Partially	YES
Predictability *Stabilize contribution rates for the long-term*	NO	YES
Risk Reduction *Reduce pension system exposure to financial risk and market volatility*	NO	YES
Affordability *Reduce long-term costs for employers, employees*	NO	YES
Attractive Benefits *Ensure the ability to recruit 21st Century employees*	NO	YES
Good Governance *Adopt best practices for board organization, investment management, and financial reporting*	YES	YES

2023 North Dakota House Bill 1040 Analysis
by the Pension Integrity Project at Reason Foundation

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Objectives	Status Quo	HB 1040
Keeping Promises	The North Dakota Employees Retirement System (NDPERS) is approx. $1.8 billion short of the funds needed today to ensure promised benefits are paid in the future. NDPERS is forecasted, under status quo, to exhaust its assets completely in approx. 80 years.	Adopting a funding policy based on actuarially determined contribution rates guarantees the state fully funds all earned NDPERS benefits regardless of market performance and helps the state better manage any accruing unfunded liabilities into the future.
Retirement Security	While NDPERS pension benefits are legally protected, structural underfunding and other factors have led to rapidly growing NDPERS pension debt. Absent reforms, NDPERS is projected to continue accruing unfunded liabilities in the coming decades, meaning the state's ability to ensure its members' retirement security faces long-term risk.	HB 1040 eliminates structural underfunding by ensuring that future rates align with actuarial recommendations designed to steer NDPERS toward a path to full funding and long-term solvency.
Predictability	Contribution rates today may be considered *technically* predictable because they are fixed in statute, but this has also led to structural underfunding and increases in unfunded liabilities, resulting in highly variable and unexpected cost volatility over time.	Long-term budget predictability and predictability about contribution rates are two very different things. The historical focus on the latter has made the former unachievable. HB 1040 exchanges the false predictability of today's fixed, but insufficient, NDPERS contributions with the true predictability of a policy designed to pay off NDPERS unfunded liabilities completely, on a fixed scheduled with a certain end date.
Risk Reduction	Based on NDPERS current asset allocation the current assumed return of 6.5% has, according to BNY Mellon projections, about a 36% probability of being achieved on average over the next 10 years. Without a shift in expectations, NDPERS is still likely to accrue pension debt due to structural underfunding and weak investment returns.	Increasing contributions is a critical step towards long-term solvency, but additional future steps may be needed to address the overall financial risk in the legacy NDPERS pension plan. The legacy plan will continue to face market volatility, a lower-yield investment climate, and an assumed rate of return and discount rate that are likely higher than economic conditions would warrant. The NDPERS actuary cautioned that the current 6.5% return assumption is "really an upper bound". Current capital market assumptions may necessitate the adoption of a lower return assumption as early as next year.
Affordability	NDPERS unfunded liabilities generate major long-term costs through interest on the pension debt, creating fiscal pressures for employers.	The defined contribution plan for new hires will provide a predictable, affordable means of controlling employer retirement costs over the long term. However, due to years of structural underfunding, HB 1040 will result in additional *near-term* contributions in exchange for approximately $1.1 billion in savings over the next 20 years.
Attractive Benefits	The current NDPERS pension has the lowest multiplier of any statewide defined benefit system. In addition, around 46% of all new hires leave before becoming vested in the system. Another 20% will leave before year 10. Only 17% of all new paid members hired next year will work long enough to qualify for an unreduced benefit.	Given nearly half of all new hires are likely to leave their public employer before initially vesting, HB 1040 meets the retirement security needs of members more equitably, by offering a benefit with enhanced portability for an increasingly mobile professional workforce.
Good Governance	NDPERS generally is a well operated enterprise delivering high quality services.	HB 1040 directs the NDPERS Board to provide education services, including investment and retirement income planning, education on how to set measure and adjust income and savings goals based on desired retirement income and financial objectives, participant behaviors and changing circumstances. This is significantly enhanced over the current treatment of the DC plan as a secondary option for eligible employees. For more info on the DC plan, please see the DC Scorecard one-pager.

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