The North Dakota Public Employees Retirement System commenced on July 1, 1966. Pursuant to the plan adopted by the Legislative Assembly in 1965, individual retirement accounts were established to receive employer and employee contributions. A participating full-time employee contributed four percent of that person's base salary and the employer contributed four percent of the employee's salary, up to a maximum of $300. These moneys were distributed into three funds—the employee contribution went into the employee fund, three dollars of every four dollars the employer contributed went into a vesting fund, and the remaining one dollar went to the administrative expense and benefit fund. When an employee left state employment, for any reason, that person was entitled to receive 100 percent of the amount contributed from that person's salary plus earnings on that amount. In addition, the employee could receive up to 100 percent of the employer contribution in the vesting fund, plus a percentage of the interest thereon, if the employee retired at age 65 after any length of service, became permanently and totally disabled at any age, or died at any age. If the employee left state employment voluntarily or involuntarily for any reason except these, the employee was entitled to the total employee contribution, the vested portion of the employer account, and earnings thereon. The employee gained a vested interest in the vesting fund based upon a vesting schedule beginning with 20 percent plus 20 percent credited earnings after three years of service with full vesting plus 100 percent of credited earnings after 20 years of service, or 15 years of service after 1975. Within these parameters, the member's accumulated retirement moneys were payable upon termination. If the employee's account balance was significantly large enough to provide a minimum of $100 per month annuity, the employee was able to purchase an annuity through a vendor who was under contract with the retirement board.

The Public Employees Retirement System was created by 1965 Senate Bill No. 164. The bill provided that the Act was designed to provide for the general welfare of state employees and that the retirement system was designed to provide for the payment of benefits to state employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents. The bill also stated that the retirement plan would improve state employment, reduce excessive personnel turnover, and offer career employment to high-grade men and women.
SIGNIFICANT CHANGES IN THE DEFINED CONTRIBUTION RETIREMENT PLAN 1965-77

In 1969 the Legislative Assembly expanded the Public Employees Retirement System to include employees of political subdivisions. The bill increased the ceiling on the employer's matching contribution from $300 to $500 per year. The 1969 Legislative Assembly also extended membership in the Public Employees Retirement System to noncertified school district employees.

In 1971 the Legislative Assembly extended the Public Employees Retirement System to cover employees of the Garrison Diversion Conservancy District and district health units. In 1973 the Legislative Assembly extended membership in the Public Employees Retirement System to supreme and district court judges and closed the then current retirement system for supreme and district court judges to new members.

In 1975 the Legislative Assembly increased the matching of the four percent of a participating member's salary from $500 to $600 annually. The Legislative Assembly also revised the vesting schedule at this time. It is interesting to note that a representative of the North Dakota State Employees Association testified that North Dakota was the last state that had a money-purchase plan, and the only state that did not have a benefit formula.

The 1975 Legislative Assembly also adopted a resolution to study the Public Employees Retirement System for the purpose of determining the feasibility of a change in the Public Employees Retirement System from a money purchase plan for receiving retirement benefits to a benefit formula plan. The resolution noted that a money purchase retirement benefit plan is subject to cyclical and irregular shifts in the stock and corporate bond markets which can act to the detriment of public employees through reduction in retirement benefits available. The resolution noted that every state in the nation had a public employees retirement program with a benefit formula plan for the receipt of retirement benefits except North Dakota. The resolution also noted that a benefit formula plan offers retirement benefits to employees that are not based upon cyclical and irregular shifts in the stock and corporate bond markets.

1975-76 PUBLIC EMPLOYEES RETIREMENT SYSTEM STUDY

Following adoption of 1975 Senate Concurrent Resolution No. 4025, the Legislative Council assigned a study of the Public Employees Retirement System to the State and Federal Government Committee. The committee compared money purchase and benefit formula type plans, reviewed the current law, and proposed a final average salary plan.

The report of the State and Federal Government Committee noted that there are several significant differences between a money purchase type plan and a benefit-formula type retirement plan. Under a money purchase plan, the employer's and
employee's cost is fixed while benefits vary. Under a final average salary plan, the benefits are fixed by formula, the employee's cost is fixed by statute, and the employer becomes responsible to see that sufficient funds are made available to provide the benefits. Under the money purchase type plan, upon buying an annuity, the employee's monthly lifetime benefit payments are determined by the value of the fund at the time, and only at the time, when that employee leaves state or political subdivision employment.

Since retirement benefits available to employees are subject to change because of fluctuations in the stock and corporate bond markets, employees are uncertain of their retirement benefits. Under a benefit formula type plan, benefits are not directly affected by the fluctuation in the stock and corporate bond markets. Under a final average salary benefit-formula plan, the benefit produced is the product of a percentage factor applied to the member's years of service and the salary basis specified in the benefit formula. Percentage factors generally range from one to two percent. A final average salary plan recognizes salary increases over the working life of the employee and thus relates benefits to economic conditions at the time of retirement. In addition, final average salary benefit-formulas reward employees who realize steep progression in salary and may thereby encourage long-term service and provide incentive for improved performance. Thus, the report indicated that one of the reasons for converting the defined contribution plan to a defined benefit plan was to encourage career employees to remain in state employment.

In 1977 the state adopted and implemented the defined benefit plan.

**BENEFIT ENHANCEMENTS UNDER THE DEFINED BENEFIT PLAN 1977-2008**

- **7-1-77** Defined benefit pension plan established with a multiplier of 1.04%. Service credit was limited to a maximum of 30 years for benefit calculation purposes. FAS equaled 60 consecutive months in 120. Vesting requirement of 10 years of service or age 65.

- **7-1-83** Multiplier was increased to 1.20%. The 30-year maximum was removed in the benefit calculation. Disability benefit changed from the multiplier to 60% of final average salary minus social security and workers compensation benefits.

- **7-1-85** Multiplier was increased to 1.30%. Benefits were increased by 8.33% for retirees. Rule of 90 with a minimum age 60 implemented.

- **7-1-87** Multiplier was increased to 1.50%. Benefits were increased by 15.4% for retirees. Vesting requirement was changed to 8 years of service or age 65. Minimum age for Rule of 90 repealed.
7-1-89  Multiplier was increased to 1.65% Benefits were increased by 15.76% for retirees, (5.76% associated with the change from highest consecutive 60 to non-consecutive 36 months (months no employed were excluded from the 120 month count) in the final average salary calculation and 10% associated with the multiplier increase). All individuals receiving disability benefits were given the 5.76% increase regardless of whether or not benefits were based on the multiplier. Disability pensioners whose benefits were based on the multiplier were given a 10% increase also. Prior Service 5.75% only. Disability benefits were increased to 70% of final average salary minus workers compensation benefits and social security benefits. A minimum disability benefit of $100 per month was established. Vesting requirement was changed to 5 years of service or age 65.  

Retiree Health Insurance Credit Program was established (known as prefunded credit). Rate was $3.00 for every year of retirement service credit, subject to reduction for early retirement.

5-1-90  Prior Service Retirees were entered in the main business system. Life-to-date balance is for the period beginning January 1, 1990 They also received a retroactive benefit increased February 1990 for the increase beginning July 1, 1989.

7-1-91  Multiplier was increased to 1.69%. Benefits were increased by 2.42% for retirees. Disability benefit changed from 70% formula to 25% of pay with a minimum benefit of $100 per month. Eligibility for Social Security disability benefits was removed as a requirement for applicants for NDPERS disability benefits. Disability retirees did not receive this increase.

Retiree Health Insurance Credit rate was changed to $4.00 for every year of retirement service credit, subject to reduction for early retirement.

8-1-93  Multiplier was increased to 1.725%. Benefits were increased by 2% for retirees. Rule of 90 changed to rule of 88. Disability did not receive this increase.

Retiree Health Insurance Credit rate was changed to $4.50 for every year of retirement service credit, subject to reduction for early retirement.

1-1-94  Multiplier was increased to 1.74%. Benefits were increased by 1% for retirees. Disability did not receive this increase.

8-1-97  Multiplier increased to 1.77%. Rule of 85 implemented. Benefits increased by 5% for retirees. (2% for multiplier and 3% for Rule of 85). 50% & 100% retiree health credit options implemented.
8-1-99 Multiplier increased to 1.89%. Benefits increased by 8% for retirees. Vesting requirements was changed to 3 years of service or age 65, except Judges who remained at 5 years.

1-1-00 Incentive Matching-Vesting in Employer Contribution program (PEP)

8-1-01 Multiplier increased to 2.00%. Benefits increased by 6% for retirees. Early retirement reduction changed to .5% for each month a member retires before reaching age 65 or the Rule of 85.

8-1-03 The National Guard Retirement Plan was change to the National Guard/Law Enforcement Retirement Plan. This plan changed allowed political subdivisions to join and include their peace and correctional officers of political subdivisions. Contributions are variable and reviewed annually. Generic purchases were capped to 5 years. Employer purchase options were implemented.

8-1-05 Law Enforcement minimum requirements changed from 20/20 rule to 32/20 rule. 5 Year Term Certain was replaced with the 20 year term certain retirement option. The Partial Lump Sum Option (PLSO) option was implemented.

1-1-06 Members who have a retirement effective date on or before June 1, 2005 were issued a one-time supplemental payment equal to 50% of their June 2005 benefit paid in January 2006. 13th check was also issued to the estate of a retiree that passed away between June 1 and December 31 were also issued the 13th check.

8-1-07.1 The Deferred Normal Retirement Option (DNRO) was implemented. The ability for spouse’s to combine RHIC was implemented. This provision also applies to retirees who receive both a retirement benefit and a surviving spouse benefits. This provision does not apply to a member who is receiving multiple surviving spouse accounts.

1-1-08 Members who have a retirement effective on or before December 1, 2007 were issued a one-time supplemental payment equal to 75% of their January 2008 benefit paid in January 2008.

These benefit increases or enhancements have been funded from the positive investment results of the Public Employees Retirement System fund or other positive experience results. The Legislative Assembly has not increased employer or employee contributions to fund benefits and in fact reduced the employer contribution from 5.12 percent of salary to 4.12 percent of salary in 1989. The one percent reduction in the employer contribution to the Public Employees Retirement System fund was used to fund the retiree health benefits fund.