NDPERS BOARD MEETING
Agenda

Bismarck Location:
ND Association of Counties
1661 Capitol Way
Fargo Location:
BCBS, 4510 13th Ave SW

February 20, 2014 **Time: 8:30 AM**

I. MINUTES
A. December 27, 2013
B. January 22, 2014

II. RETIREMENT
A. Audit Report –Brady Martz (Information)
B. Retirement Consultant – Sparb (Board Action)
C. Retirement Legislation – Sparb (Board Action)
D. Retiree Health Legislation – Sparb (Board Action)
E. Defined Contribution Plan Legislation – Sparb (Board Action)
F. Halliburton Amicus Brief – Jan (Information)
G. 4th Quarter DC Investment Report – Bryan (Board Action)

III. GROUP INSURANCE
A. Political Subdivision Participation – Sparb (Board Action)
B. Consultant – Sparb (Board Action)
C. Plan Placement – Sparb (Board Action)

IV. MISCELLANEOUS
A. Technical Legislation – Sparb/Kathy (Board Action)
B. Board Election – Kathy (Board Action)
C. Administrative Rules Update – Deb (Information)
D. Quarterly Consultant Fees – (Information)
E. August 21, 2013 Audit Committee Minutes – (Information)

Any individual requiring an auxiliary aid or service must contact the NDPERS ADA Coordinator at 328-3900, at least 5 business days before the scheduled meeting.

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb

DATE: January 31, 2014

SUBJECT: 2013 AUDIT REPORT

Included is the 2013 NDPERS audit report. Mr. John Mongeon and Ms. Stacy DuToit from Brady Martz & Associates will be at the Board meeting to review the report with you and answer any questions you may have.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 12, 2014

SUBJECT: Retirement Consultant (Segal)

At the January 2014 meeting it was decided to seek a renewal offer from Segal for two more years since they have been extensively involved in developing our recovery plan, doing all the requested projections and working on the DC option.

In addition to the attached work efforts, we discussed the Experience Study:

Experience study


SEGAL
Benefits, Compensation and HR Consulting
North Dakota Public Employees Retirement System (PERS)
North Dakota Highway Patrolmen's Retirement System
North Dakota PERS Retiree Health Insurance Credit Fund
ACTUARIAL EXPERIENCE STUDY
Analysis of Actuarial Experience
During the Period July 1, 2004 through June 30, 2009
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THE SEGAL GROUP, INC.,
THE PARENT OF THE SEGAL COMPANY
ALL RIGHTS RESERVED

- **NDCC section 54-52-04 states:**

  The board shall arrange for actuarial and medical advisers for the system. The board shall cause a qualified, competent actuary to be retained on a consulting basis. The actuary shall make an annual valuation of the liabilities and reserves of the system and a determination of the contributions required by the system to discharge its liabilities and pay the administrative costs under this chapter, and to recommend to the board rates of employer and employee contributions required, based upon the entry age normal cost method, to maintain the system on an actuarial reserve basis; ***once every five years make a general investigation of the actuarial experience under the system including mortality, retirement, employment turnover, and other items required by the board, and recommend actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation;*** and perform other duties as may be assigned by the board. (Emphasis added)
- Last one for 2004-2009

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If you elect to extend the Segal contract for the next two years, I will follow-up with them to get a quote on the experience study.

Staff would recommend extending the Segal contract due to:

1. Experience with the recovery plan.
2. Experience with the DC option.
3. The ability to coordinate with the TFFR in the next two years on the GASB implementation.

<u>BOARD ACTION REQUESTED</u>

Determine if the Segal contract should be extended.

Segal Consulting

5990 Greenwood Plaza Boulevard Suite 118 Greenwood Village, CO 80111-4708
T 303.714.9900 www.segalco.com

February 7, 2014

Mr. Sparb Collins
Executive Director
North Dakota Public Employees' Retirement System
400 East Broadway, Suite 505
Bismarck, ND 58502

Re: Proposed Contract Extension

Dear Sparb:

The current consulting services contract extension expires on June 30, 2014. Based upon your request, we are proposing our fees for the next two years of the current contract. Due to the increasing costs of providing actuarial and consulting services, we are requesting an approximate 3% increase in our fixed fee in both years of the extension period.

Segal values our over 20-year relationship with the System and has made every effort to provide increases that support the ever increasing level of diligence and care required for all public employee retirement systems. Our knowledge of the System's plans and provisions enhances assessing the impact of proposed changes and identifying future challenges. We will continue to work closely with the Board and staff through increased communications utilizing team calls to assure concurrence on and the outcome of core services and special projects.

The following tables set forth the proposed fees for consideration.

Fixed Fee Rates	Existing Fee 7/1/13-6/30/14	Proposed Fee Year One 7/1/14-6/30/15	Proposed Fee Year Two 7/1/15-6/30/16
Actuarial Valuation and Consulting Services			
• Plans: General, Judges, Law Enforcement with prior service. Law Enforcement without prior service. Highway Patrol, National Guard, et.al.	$71,000	$73,100	$75,300
• Retiree Health Insurance Credit Fund	$13,100	$13,500	$13,900
• Job Service North Dakota	$19,000	$19,600	$20,200
Total Fixed Fee Matters	**$103,100**	**$106,200**	**$109,400**

Time Charge Rates		
QDRO, Compliance Consulting, General Consulting and Special Projects	Time Charges per schedule	Time Charges per schedule
Flexible Compensation	Time Charges per schedule	Time Charges per schedule
Legislative Analysis	Time Charges per schedule	Time Charges per schedule
401(a) Defined Contribution Plans	Time Charges per schedule	Time Charges per schedule
457 Plan	Time Charges per schedule	Time Charges per schedule

The overall fixed fee covers the valuations listed above and two onsite meetings, one with the Board and one before the Legislative Committee. Other special projects or consulting will be charged on an hourly rate basis as listed below with prior approval from the System.

Hourly Rates	**Existing Fee 7/1/13-6/30/14**	**Proposed Fee Year One 7/1/14 - 6/30/15**	**Proposed Fee Year Two 7/1/15 - 6/30/16**
Blended Rate	$280	$290	$300

We respectfully submit this proposal for an extension. Please do not hesitate to call if I can answer any questions.

Sincerely,

Brad Ramirez, FSA, MAAA, FCA, EA
Consulting Actuary

/cz

cc: John Coyle
Cathie Eitelberg
Tammy Dixon
Steve Ohanian

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Memorandum

TO: PERS Board

FROM: Sparb

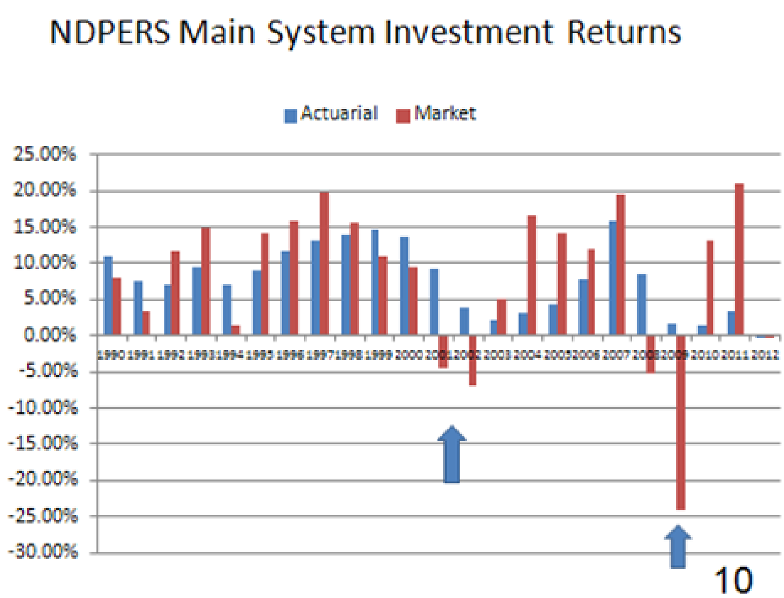
DATE: February 13, 2014

SUBJECT: Retirement Legislation

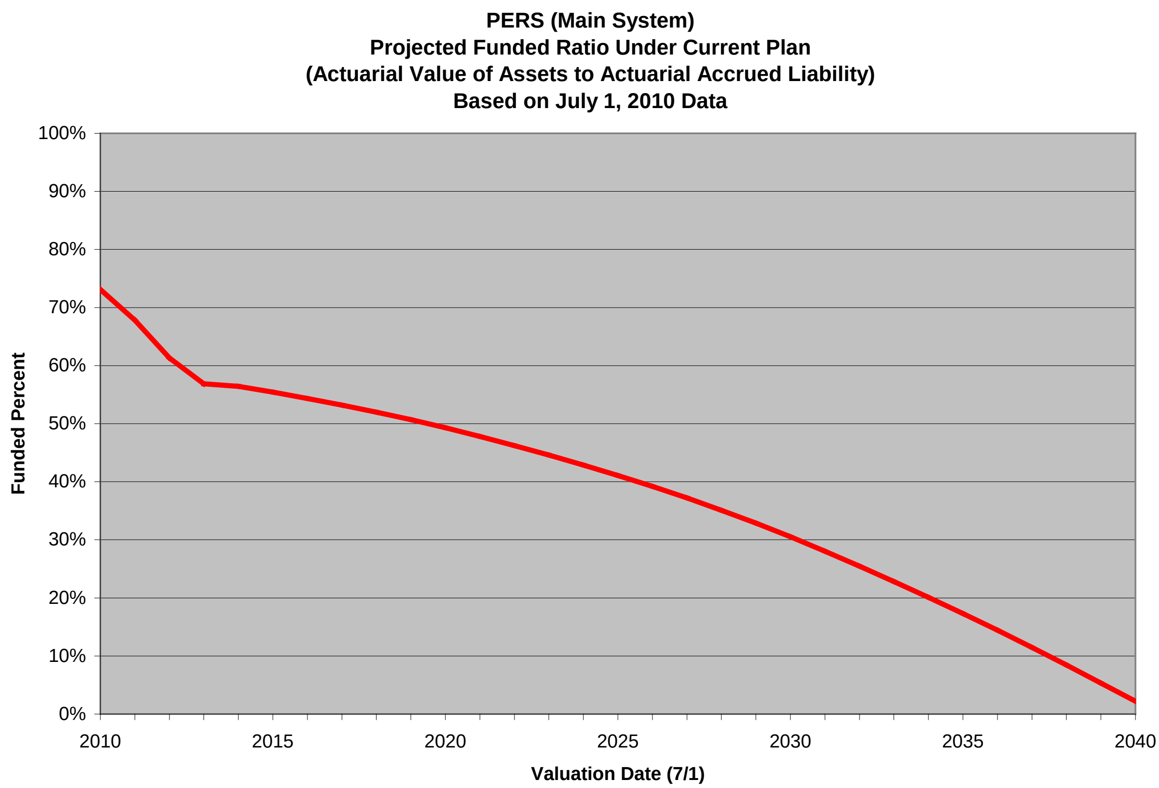
We need to finalize our proposed legislation for the 2015 session by March and submit it to the Legislative Employee Benefits Committee. This memo will provide some background on the issues faced by our retirement plans, review the status of each, provide options for going forward and a staff recommendation.

BACKGROUND

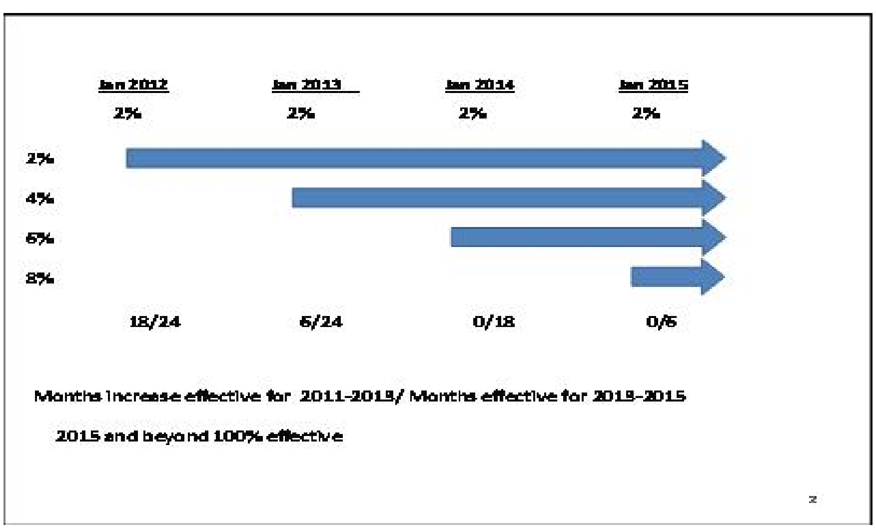
As a result of the dramatic downturn in the financial markets(see graph below) in 2001 and 2008/2009, the long term funding status of all the retirement plans under PERS was projected to deteriorate over time and in some cases go to a “0” funded status by the mid 2040’s.



The Main retirement plan was one of the plans whose funded status was projected to go to "0" which is shown on the following:



As a result of this challenge the Board developed a proposed recovery plan to return all plans back to 100%. That plan was based upon a shared recovery between both the employer and employee. The plan that emerged was to increase contributions by 8% over four years with employees paying 4% and the employers paying 4%. The following table shows the proposed timetable for the increases:



This plan was based upon three goals the Board had set for the plans:

- Stop the downward trend
- Stabilize the plans
- Put them on a track back to 100% funded

The initial recovery plan was submitted to the 2011 legislative session and the 2012 and 2013 increases were approved. Consideration of the 2014 and 2015 increase was deferred to the 2013 session.

In 2013 the Board submitted the final two years of the recovery plan. The following is the process of considerations:

- *Recommended by:*
  - *Legislative Employee Benefits Committee*
  - *In the Executive Recommendation*
- *Submitted as SB 2059*
  - *Passed the Senate (35-12)*
  - *Defeated in the House (32 -59)*
- *Provisions put in HB 1452 (defined contribution bill for state employees)*
  - *Passed the Senate*
  - *Not concurred by the House*
- *Conference Committee*
  - *Amended to provide third year of recovery but not the fourth year & add a DC option for state employees to 2017*

As the above highlights, the third year of the recovery was approved, but a DC plan option for all state employees was added until 2017 with no funding for this new option. Also, please note that the funding for SB 2059 was taken out by the House's Appropriations Committee at the very beginning of the session before the hearings on SB 2059.

The 2011 Session and the 2013 session accomplished much for the retirement plans. For all the plans the first two goals were achieved:

- The downward trend had been stopped
- The plans have been stabilized

The third goal was not quite as clear and, therefore, the need to consider our course of action for the 2015 session.

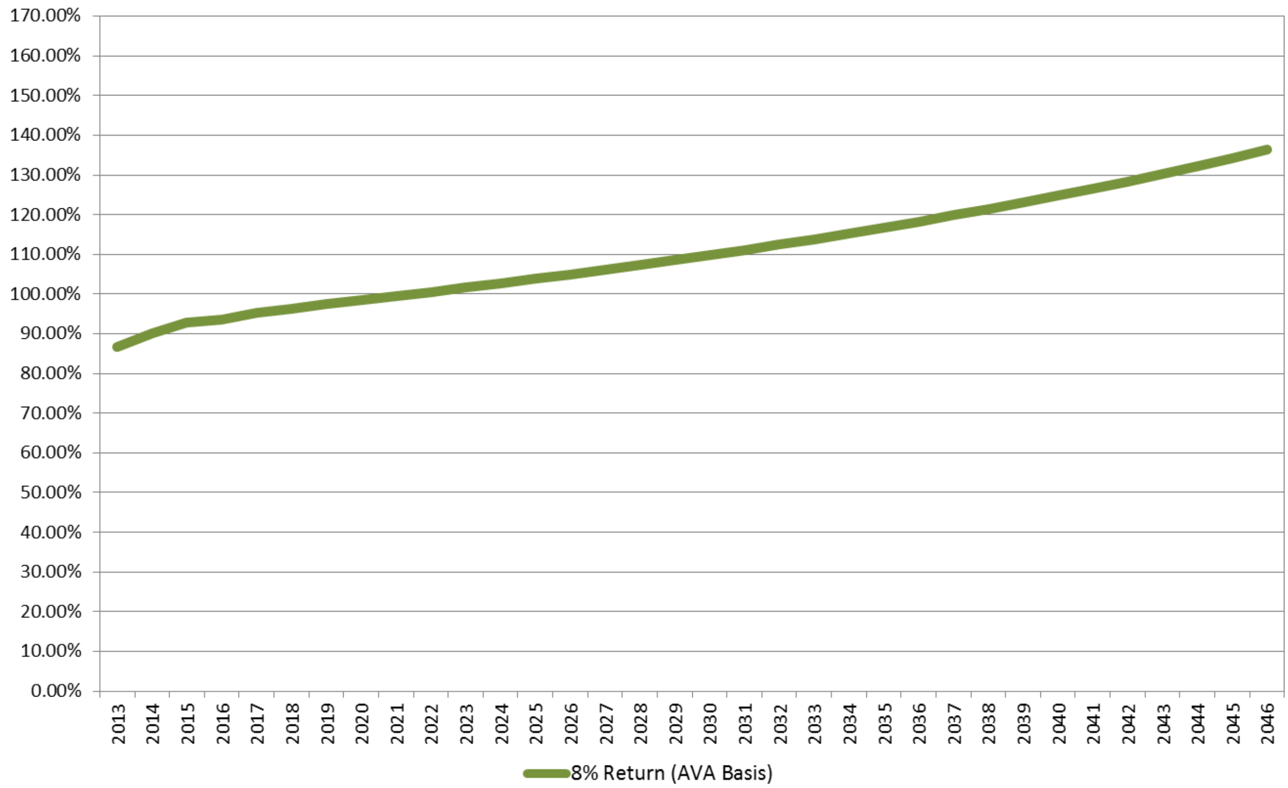
2015 RETIREMENT LEGISLATION

The question at this point is whether or not additional actions need to be taken to accomplish the third goal of our recovery "to put the plan on track to 100%". The following will assess this in two subsections. The first subsection will look at the Judges, Law Enforcement Plans, National Guard and Highway Patrol plans. The second will examine the Main Retirement Plan.

1. ***Judges, Law Enforcement Plans, National Guard and Highway Patrol Plans***

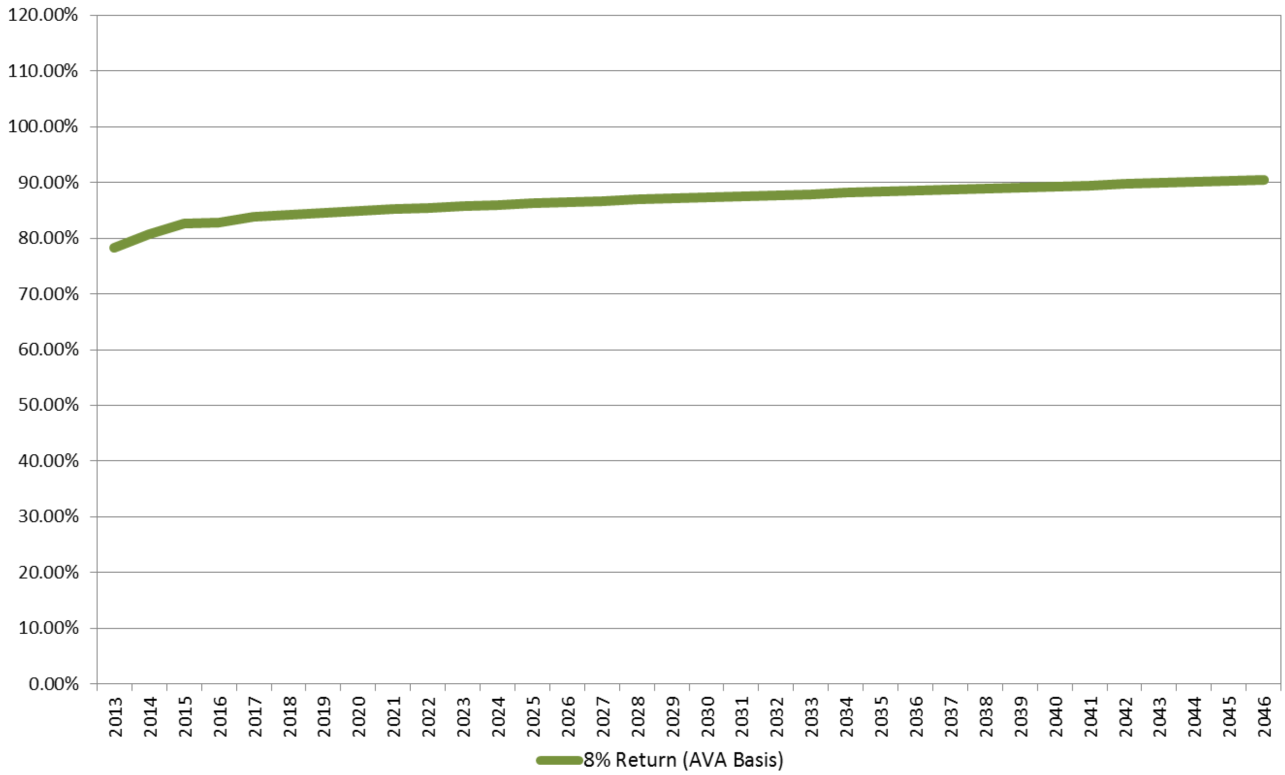
The adoption of the third year of the recovery plan and recent investment returns have resulted in the following projections for the Judges, Law Enforcement with Prior Service, Law Enforcement without Prior Service, the National Guard and the Highway Patrol Plans.

For the Judges retirement plan the following is the most recent projection based upon the increases passed to date:



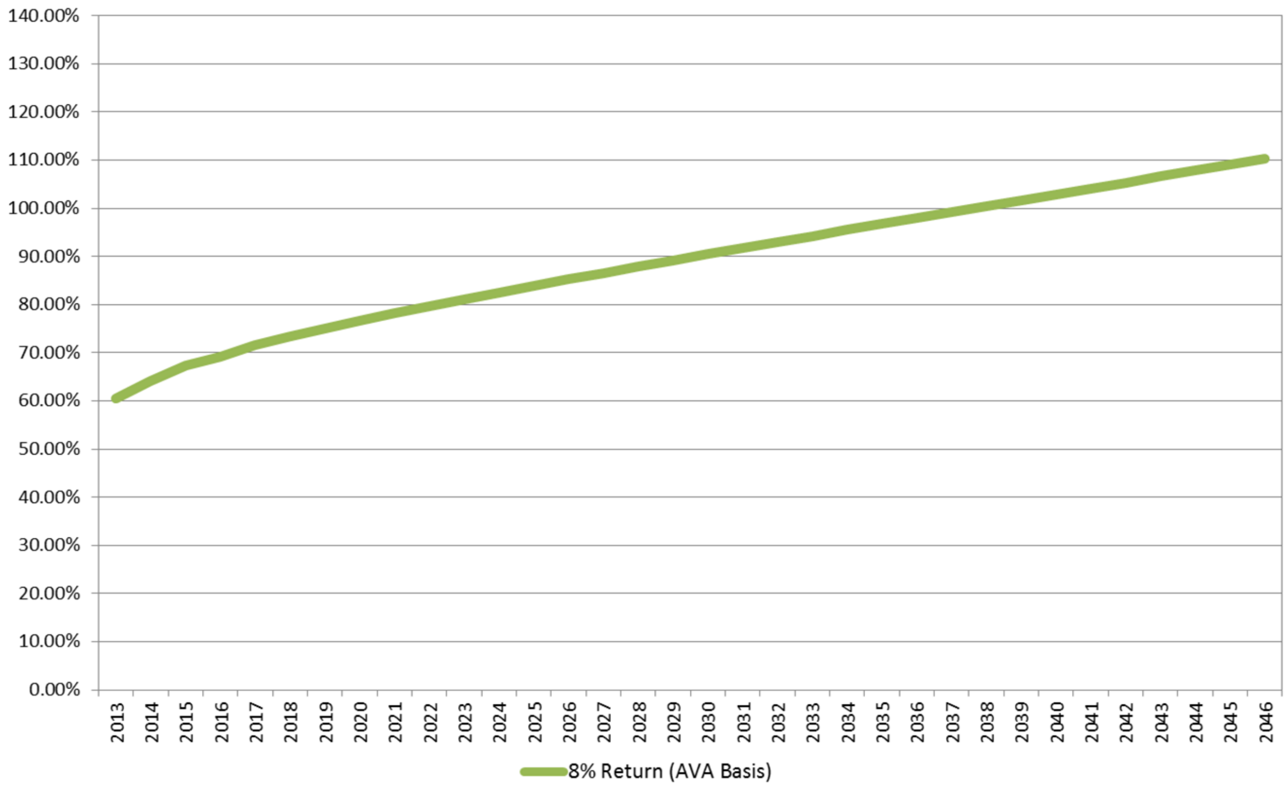
The above show shows this plan is on track to get to 100% by about 2020 with no additional increases. Clearly all three goals have been accomplished for this plan.

For the National Guard retirement plan the following is the most recent projection based upon the increases passed to date:



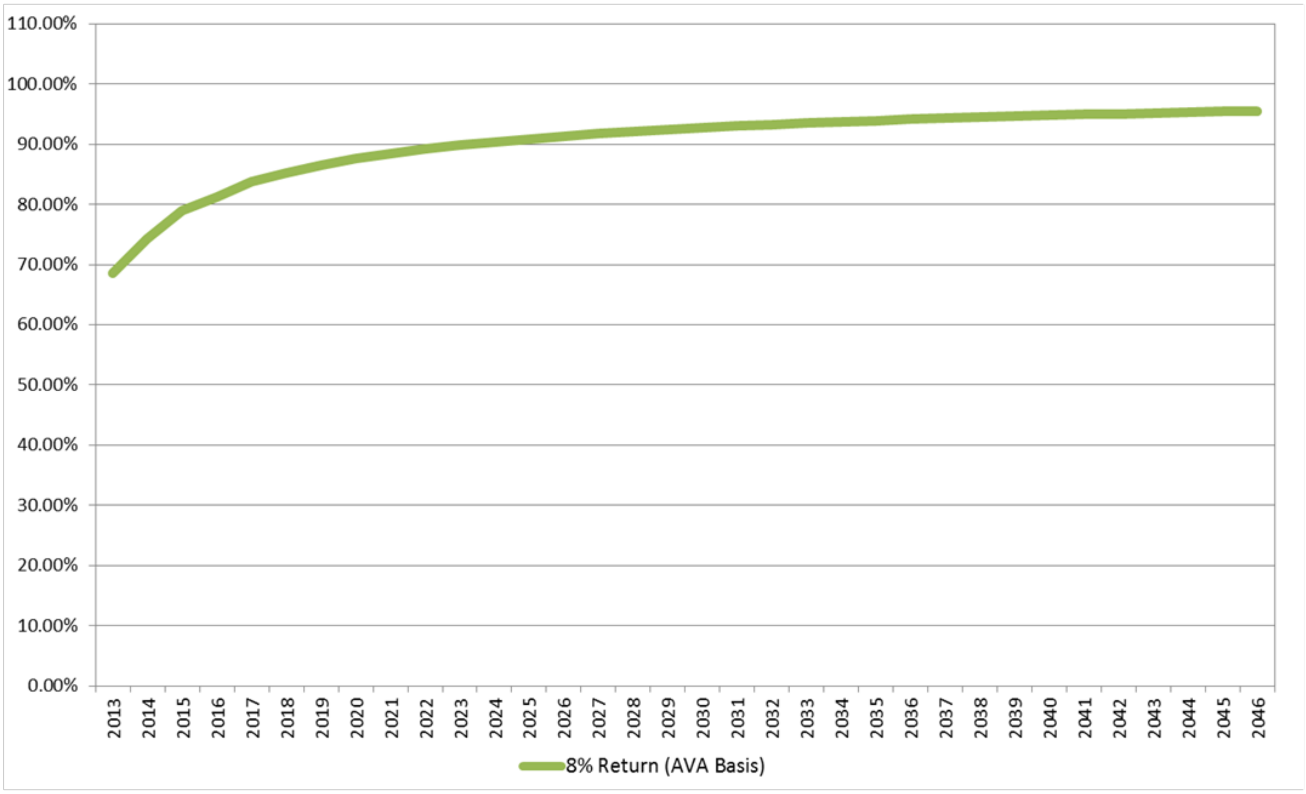
This plan is on track to get back to 90% at this point. We are working with the National Guard at this time on a plan to address this and will likely bring a proposal to the PERS Board at the March meeting. Since the PERS Board has the authority to adjust the employer contribution, no legislation should be needed.

For the Law Enforcement Plan with Prior Service the following is the most recent projection based upon the increases passed to date:



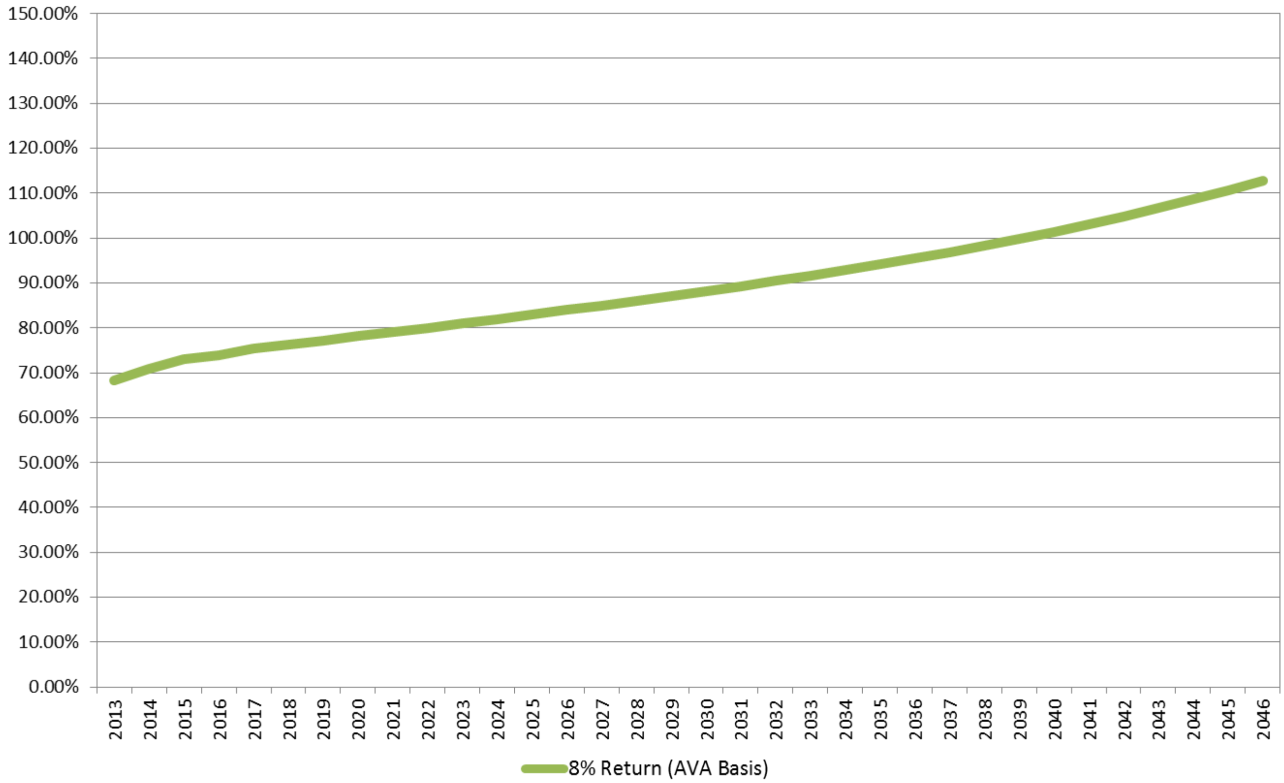
The above shows this plan is on track to 100% in about 2039 with no additional increases. Staff would recommend not additional increases for this plan. This plan has membership from political subdivisions and state BCI employees. Presently the BCI employees and employers pay ½% more than the other members. If the fourth year of the recovery had been passed, everyone would have been at the same level. Since staff's recommendation at this point is not to submit the 4th year of the recovery for this plan, staff would further recommend submitting a proposal to reduce the employee contribution for BCI employees to the same level as the other members. The Board has the authority to reduce the employer contribution.

For the Law Enforcement Plan with no Prior Service the following is the most recent projection based upon the increases passed to date:



As the above shows, this plan is on track to get back to about 98%.

For the Highway Patrol Plan the following is the most recent projection based upon the increases passed to date:



The above shows the HP plan is on track to get back to 100% in about 2019.

As the above projections show, the Judges, Law Enforcement with prior service and the Highway Patrol plans are now clearly on a track to 100% funded status. The Law Enforcement without prior service is very close and so could be considered on track. The National Guard is improving but is at 90% over the period. The following table summarizes the above.

Where are we at

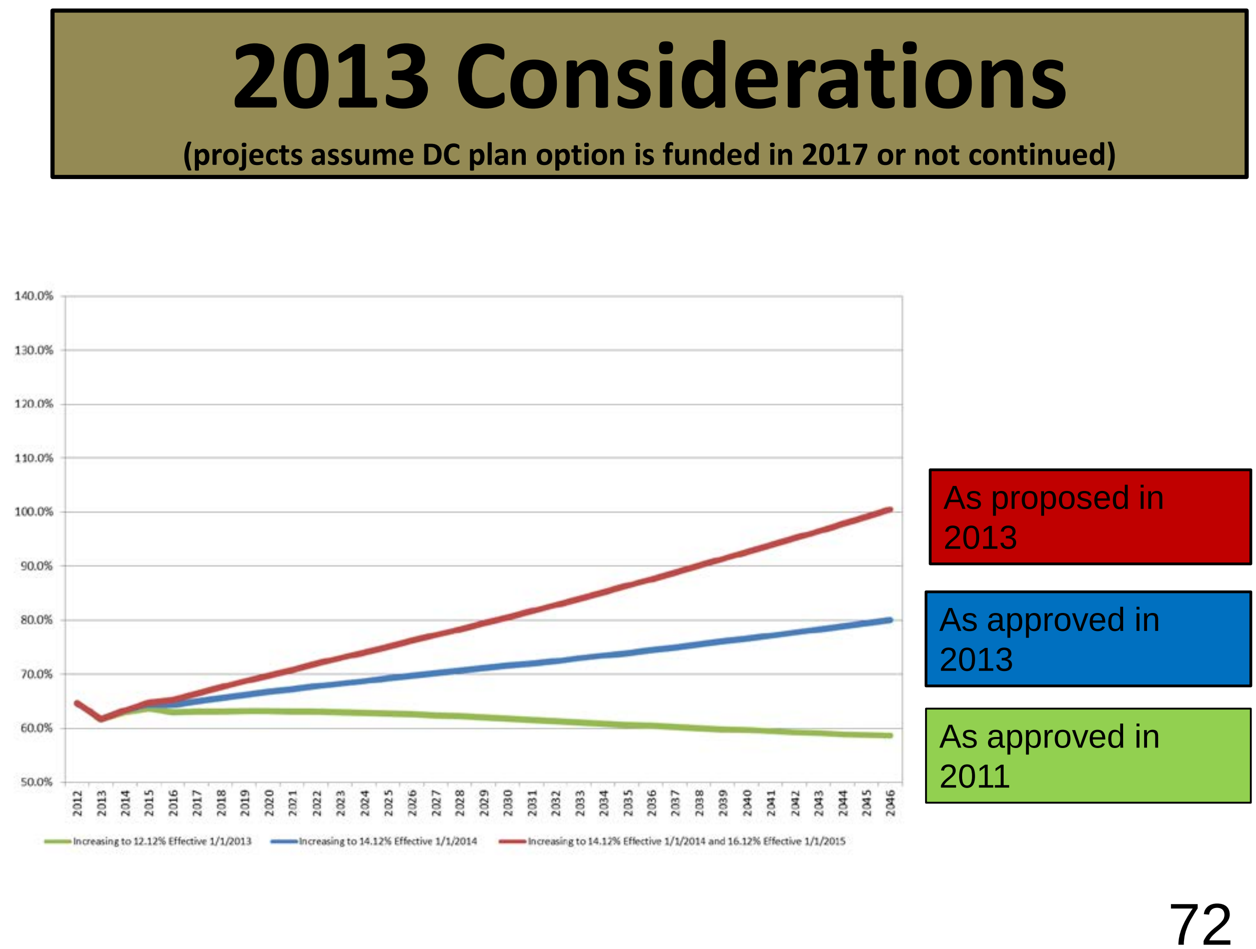
	Judges	Nat Guard	Law Enf (with)	Law Enf (without)	Highway Patrol
Stop downward trend	☑	☑	☑	☑	☑
Stabilize Plan	☑	☑	☑	☑	☑
Get on track to 100%	☑		☑	☑	☑

Staff Recommendation:

Given the above finding, it is staff's recommendation that we not submit any further legislation for the Judges, Law Enforcement Plans and the Highway Patrol Plan. Concerning the National Guard Plan, staff is working on a proposal with the National Guard that will likely be presented at the next meeting. At this time no consideration is being given to increasing member contributions which is the only contribution proposal which would require legislation. The Board has the authority to increase employer contributions. However, staff is recommending legislation that would match the employee contribution for BCI employees to the same level as the other members of the law enforcement plan.

2. ***Main Retirement Plan***

The following projection shows the projected funded status of the Main Retirement Plan under three scenarios:



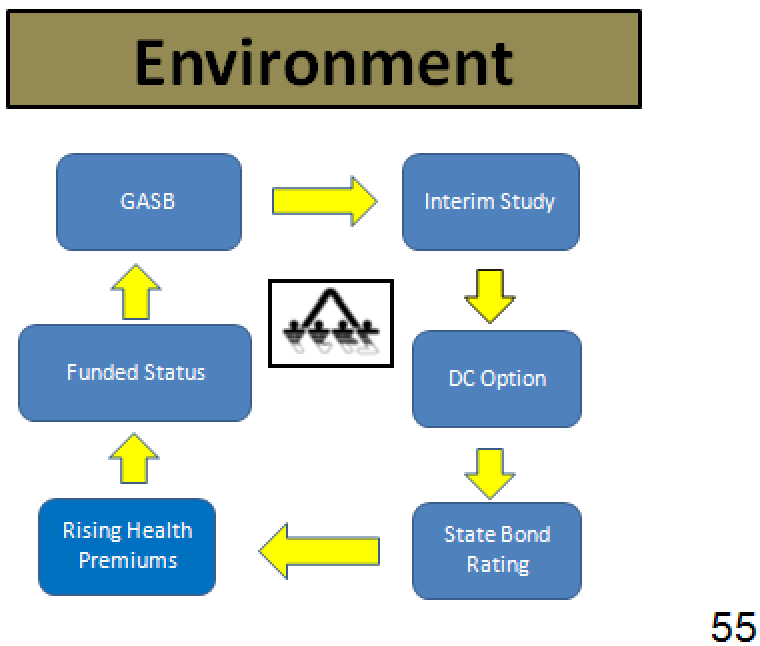
The lower line is the projected funded status (out to the year 2046) with the adoption of the first two years of the recovery plan in 2011 (improved the long term funding from "0" to 60%). The middle line is the projected funded status with the approval of the third year of the recovery plan in 2013 (improves the long term funding from 60% to 80%). The top line is the projected funding status if the fourth year of the recovery had been approved (100% funded status). We are presently on course with the middle line to about 80%.

With the action last session the question is what if anything should be done going forward to get the plan back to 100%.

<u>Decision Environment</u>

However, before considering what action to take for the 2015 session it is noteworthy to assess how our decision environment has changed since we first developed the recovery plan based on contribution increases shared by the employee and employer. Specifically, new variables need to be considered going forward that were not part of the consideration in 2009. Also the existing variables considered last time have changed as well.

The following graph shows some of the present environmental decision variables:



Except for the funded status variable, all the other variables in the decision environment are new since the initial recovery plan was developed. The following discussion reviews each of these variables and their implications.

<u>GASB</u>
New Governmental Accounting Standards Board requirements will be implemented in 2014 and 2015. These new requirements will mean that our participating political subdivisions will now have to show a part of the retirement unfunded liability on their financial statements. This will be a significant change for them and having to absorb this as well as additional contribution increases may be a challenge to them in 2015.

Interim DC Study
This last session the legislature passed the following study resolution:

> SECTION 16. LEGISLATIVE MANAGEMENT STUDY - NORTH DAKOTA RETIREMENT PLANS.
> **During the 2013-14 interim, the legislative management shall consider studying the feasibility and desirability of existing and possible state retirement plans. The study must include an analysis of both a defined benefit plan and a defined contribution plan with considerations and possible consequences for transitioning to a state defined contribution plan. The study may not be conducted by the employee benefits programs committee. The legislative management shall report its findings and recommendations, together with any legislation needed to implement the recommendations, to the sixty-fourth legislative assembly.**

If a bill is passed out of the committee, the next legislative session could be actively considering closing the PERS Hybrid plan to new state employees. Having to consider both a contribution increase for the DB plan and closing it to new employees by having everyone go into the DC plan may overshadow considerations of the merits of a DC plan.

DC Option
The 2013 session adopted a DC option for new state employees until 2017. This was not funded this last session since the option had an expiration date. This will need to be considered in 2017 if a new bill is not passed in 2015. The question in 2017 will be to extend the option going forward, and if extended, how to fund it. Here again considerations of both issue may overshadow the merits of either on their own.

State Bond Rating
The state has been very active in working to reach an AAA rating. Having a funding plan for the retirement plan that was acceptable to the rating agency was considered very important by the Executive Branch in order to get the AAA rating. The state has now achieved an AAA rating which indicates the actions of the 2013 session were considered enough to satisfy the rating agencies (the adoption of 3 years of the recovery plan). For the state, this eliminates one of the key reasons for the additional contribution increases.

Health Plan
This last session the legislature considered benefits and salary as a single issue. As a result the House removed 1% of the employee's salary increase and the retirement increase. The explanation was that it would not affect the employees' take home pay and the state was paying an additional 1% employer contribution. This next session health insurance costs could increase about 14% or more based upon current trends. Combine this with an additional increase for retirement, if proposed, and the two are more significant than last session.

In 2011 when we developed the four year recovery plan based upon contribution increases, our health insurance increase was 7% or 3.5% per year. We noted at that time it was our third lowest increase since 1977 and that when combined with the proposed retirement increase was still less than an average health plan increase. This session the increase may be twice what it was in 2011 and the same rational cannot be put forward.

Funded Status

In 2011 the projected funded status of the plan was going to "0". At that time the only method to stop the downward trend, stabilize the plan and get it back on track to 100% was to increase contributions. No other approach accomplished all three goals.

As of 2013 the long term funded status is projected to go to 80% assuming the DC option goes away in 2017 or is funded over the same planning period. With a higher starting point now, contribution increases are now not the only option. The challenge in 2013 is significantly different than 2011.

Summary

Most of the above are new considerations that were not part of the considerations in the development of the initial recovery plan (GASB, Interim Study, DC Option, State Bond Rating, Health premiums) or if not new have significantly changed since then (Funded Status). As the above demonstrates, the decision environment is dramatically different since the initial recovery plan was developed.

Options for 2015

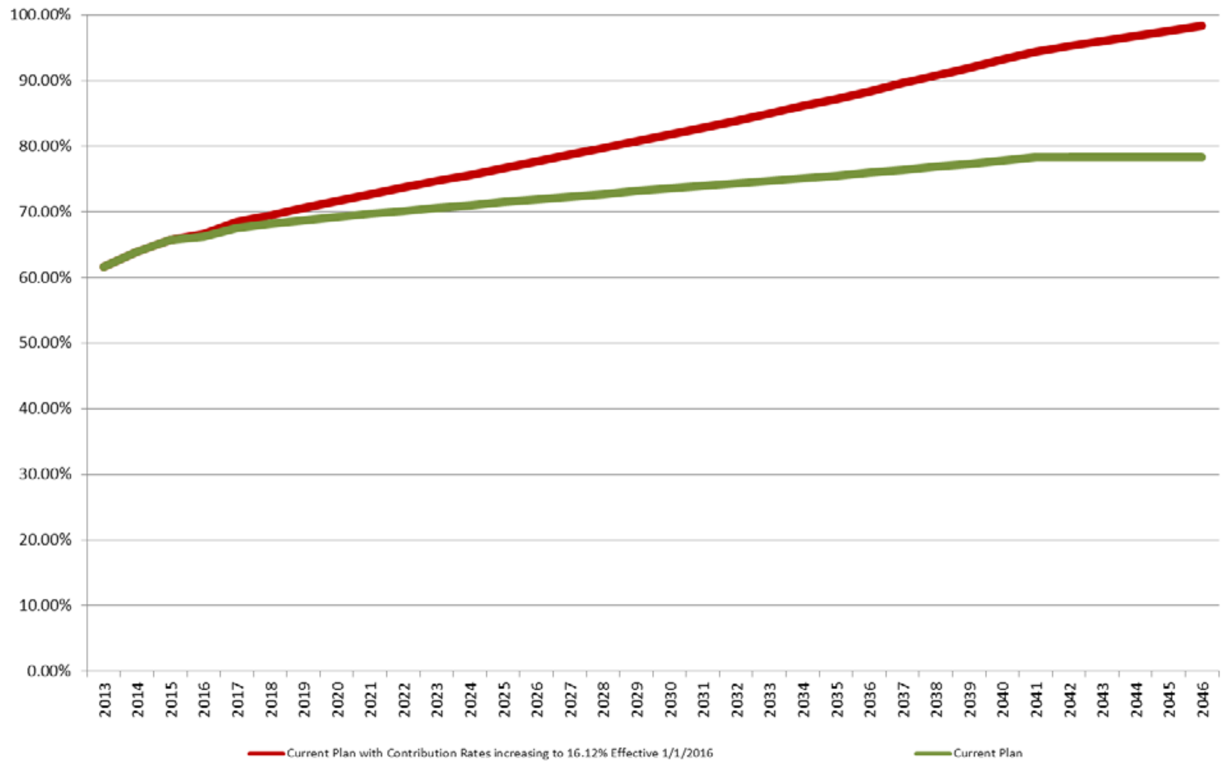
There are three options for 2015 and they are:

1. Stay with the original recovery plan and submit the fourth year.
2. Adjust the plan for new employees by making the changes the Teachers Fund for Retirement (TFFR) made for their members. Some of these were a part of their recovery plan.
3. Submit no legislation and rely on investment returns for future improvement in the funded status.

At this point this memo will review each of the options.

OPTION #1 – SUBMIT FOURTH YEAR OF RECOVERY PLAN

Option #1 is to submit the fourth year of the recovery plan. The fourth year has been considered by the 2011 and 2013 sessions and was not adopted by either. In both cases the recovery plan had a favorable recommendation by the Legislative Employee Benefits Committee, the Governor and all of our employee organizations. In both cases there was no opposition at the hearings.   However, even with this support the fourth year has not been passed by the legislature twice. The following table shows the benefit of receiving the fourth year of additional contributions.



The top line is what happens to our long term funding projections with the fourth year of contribution increases. As you will note, we get back to 100% by 2046. The bottom line is our funding projection without the fourth year and assuming in 2017 the DC option goes away or is funded. This option clearly meets all three of our goals.

The next graph shows the cost to our participating employees for their share of the 2% increase which would be 1% for the employer and 1% for employees.

	Jul-13	2013-2015	1.00%
Plan	Employees	Biennium Payroll	
Main - State	11631	$ 1,093,946,372	$ 10,939,464
Judges	47	$ 12,810,520	$ 128,105
Highway Patrol	141	$ 18,073,433	$ 180,734
DC Plan	219	$ 33,540,006	$ 335,400
Total	**12038**	**$ 1,158,370,331**	**$ 11,583,703**
General Fund	53.38%	$ 618,338,083	$ 6,183,381
Political Subs			
County	3581	$320,111,689	$ 3,201,117
City	1475	$162,456,950	$ 1,624,570
Schools	4988	$303,998,340	$ 3,039,983
Others	557	$47,604,153	$ 476,042
Subs Total	**10601**	**$834,171,132**	**$ 8,341,711**
Total			**$ 19,925,415**

As the above chart shows, the cost for the next biennium for our participating employers is almost $20 million. The state's portion is almost $12 million and the political subdivision's is about $8 million for a total of about $20 million for 2015-2017 (two years).

Please note an equal amount would be deducted from our participating employee's salaries. Specifically our participating employees would need to contribute almost $20 million as well.

In total for both our employers and employees, the total cost for 2015-17 would be about $40 million. The total increase (considering inflation on payroll which will occur and make the amount larger) for the period until the plan becomes 100% funded is $1.25 billion. This amount would be split equally between employers and employees (about $625 million each over the period).

OPTION #2 – IMPLEMENT SIMILAR CHANGES TO PERS AS TFFR HAS IMPLEMENTED FOR ITS MEMBERS.

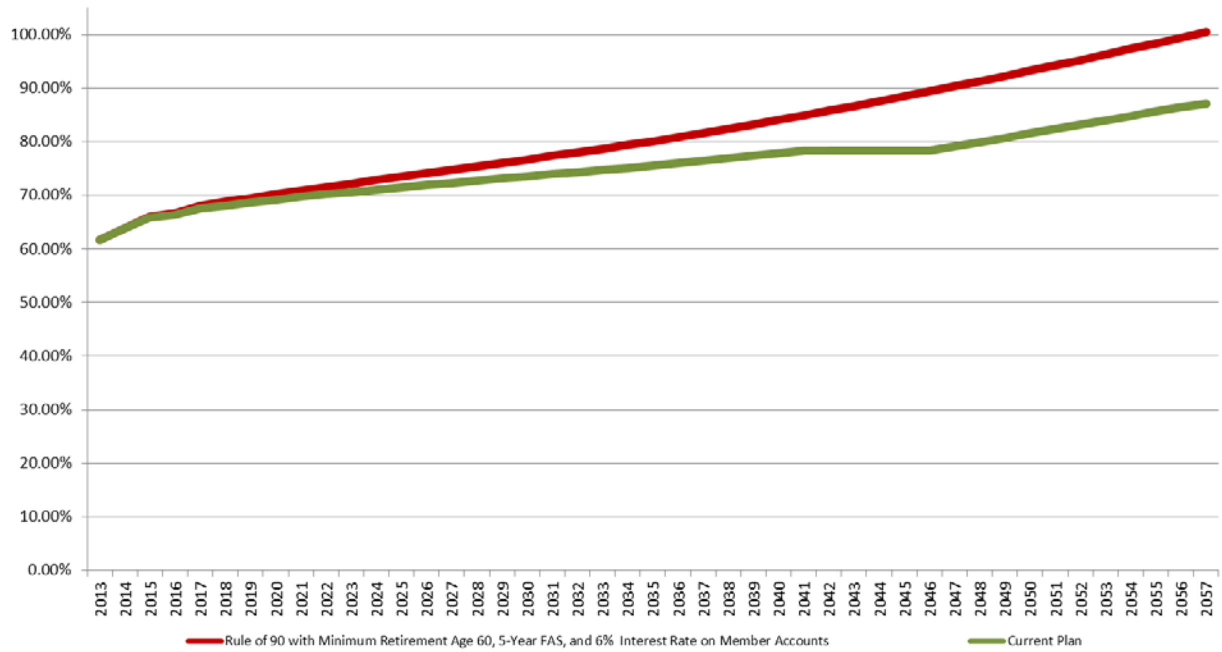
Option #2 is to implement similar changes to the plan design for PERS as TFFR has for its members. Some of these changes were a part of TFFR's recovery. The changes discussed here for PERS would be for new employees only (TFFR had some of these apply to existing members).

In making our plan similar to TFFR, we are not opening up the plan design for Board considerations but only matching provisions in our sister system that have been agreed to by the groups and the legislature. If we went beyond those, we would be opening the plan design to broader considerations which could be a more extensive process. For example, some have suggested that we should have a cash balance plan design and that is what the PEW organization is advocating nationally. Opening up the plan design for broader considerations beyond matching our sister system means that many ideas could emerge, consequently the narrow focus offered here.

The changes that would match those in TFFR are:

1. Match the interest on member accounts to TFFR which is 6%
2. Change early retirement reduction from 6% per year to 8% per year
3. Change FAS to high 5 years instead of 3 years
4. Change rule of 85 to 90 with minimum age of 60

When the above was discussed with the PERS benefits committee, they expressed concern with applying some of the above changes to existing employees as TFFR did, consequently the above is proposed to apply to new employees only. If these changes were made, the following table shows their effect on the long term funded status of the plan.

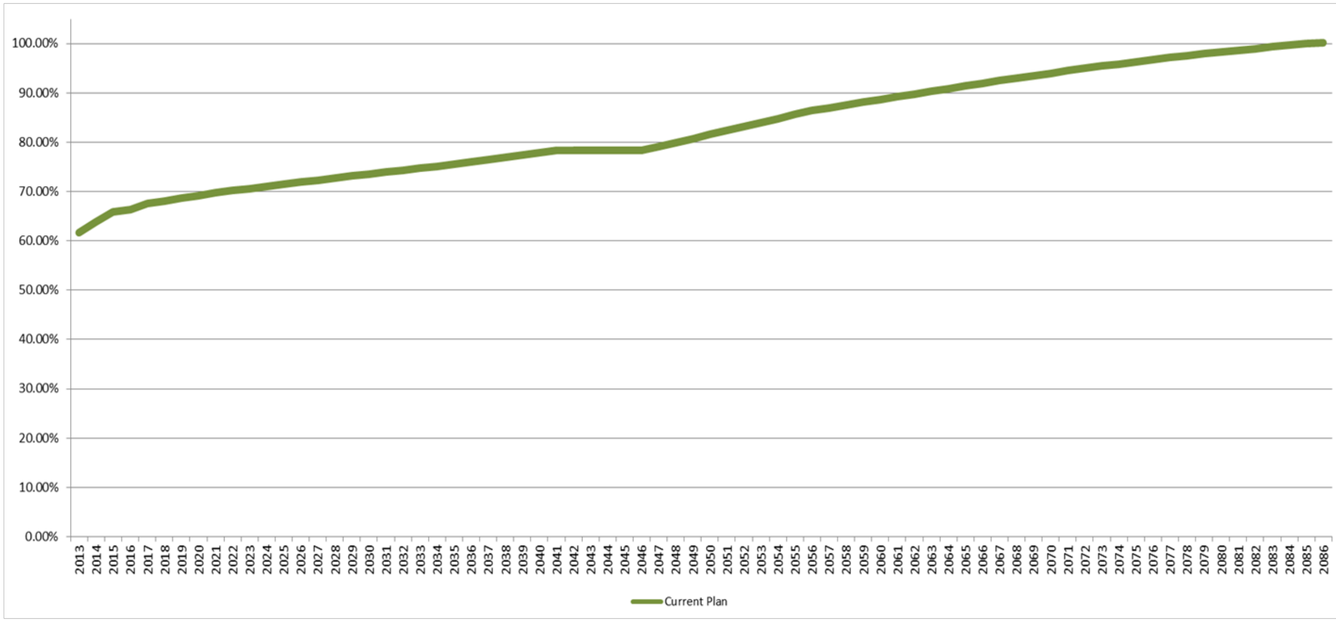


The lower line is the plan funding based upon the existing contributions and the top line is the plan funding with the changes offered here. As the above shows this will return the plan to 100% by 2057. This is about 10 years later than Option #1. Option # 2 would meet all of three goals and would not require employees or employers to pay the additional $40 million next biennium and going forward would save our employee/employer members $1.25 billion.

<u>OPTION #3 – SUBMIT NO LEGISLATION AND RELY ON WHAT HAS BEEN ACCOMPLISHED TO DATE AND FUTURE RETURNS</u>

Option #3 is that no new legislation relating to the recovery would be submitted in 2015 and we would relay on what has been accomplished to date with contributions and future investment returns to get the plan back to 100%.

The following chart shows when the plan would return to 100% with the existing contributions and 8% returns each year going forward.



As this chart shows, the plan would return back to 100% in about 2086 (the last year on the above projection) based on the existing contributions and 8% returns. This is about 29 years longer than Option #1 and about 19 years longer than Option #2.

Looked at from a different perspective, the following are the returns required over 20 years to get back to 100% each year if the assumed return for 2014 is between 24% and -24%. For example if the return this year is 8%, then the plan will need 9.6% annually for the next 20 years to get back to 100%.

Target Funded Ratio	Rate of Return Required for All Years Beginning on and after 2014/2015 To Achieve Target in 2033						
	Assumed 2013/2014 Return						
	24.0%	16.0%	8.0%	0.0%	-8.0%	-16.0%	-24.0%
70%	6.8%	7.3%	7.7%	8.3%	8.8%	9.5%	10.2%
80%	7.5%	7.9%	8.4%	9.0%	9.5%	10.2%	10.9%
90%	8.1%	8.6%	9.1%	9.6%	10.2%	10.8%	11.5%
100%	8.7%	9.1%	9.6%	10.1%	10.7%	11.4%	12.1%

It can be argued that Option #3 meets all three goals if you accept that getting to 100% in 2086 meets the goal. However, as noted above, this option does move the date down the line significantly and to rely on investment returns to get it to 100% sooner will require strong returns.

Staff Recommendation

Staff is recommending Option #2. Staff is not recommending Option #3 since it makes no changes on the income side (contributions) or the liability side (benefits) with the result being a significantly longer recovery.

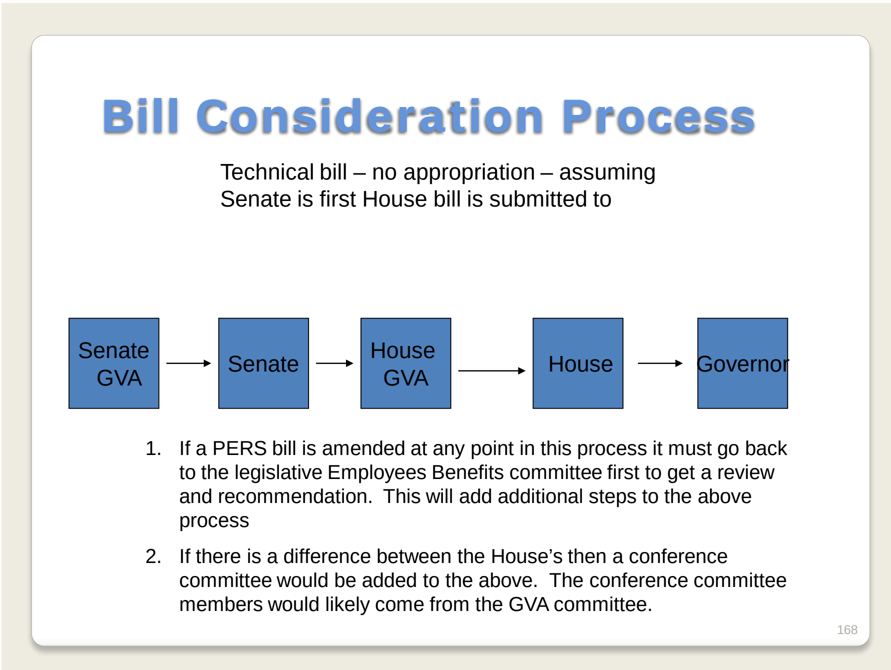
In developing this recommendation for Option #2, staff reviewed each of the variables in our decision environment for both Options #1 & #2 and makes the following observations:

Variable	Option #1	Option #2
Governmental Accounting Standards Bd (GASB)	Additional contributions being required of our employers and the recognition of the GASB liability will be a difficult challenge for our political subdivision boards.	This option would mean that our participating employers would have no additional contributions and could focus solely on the recognition of the new liability. This would reduce the magnitude of retirement issues facing our employers in 2015
DC Option	The requirement for $20 million in additional employer contributions for 2015 -2017 and $625 million over the recovery period could be an argument for the need to change the DB/Hybrid plan and overshadow considerations relating to a DC plan based solely upon its merits	With no contribution increase policy makers could focus on the merits of the DC plan option change only.
State Bond Rating	The attainment of AAA rating by the state means that it does not need to make additional contributions to satisfy the needs of the rating agency.	Since this option is budget neutral for our employers they would not need to consider the merits of additional contributions.
Rising Health Premiums	When our recovery plan was developed, health premiums were going up 7% or 3.5% a year. We testified that the lower premiums made the increase more affordable. Now premiums are projected to increase 14% or more making it less affordable and	No budget issues so it would not affect considerations relating to salary or other benefits for our members

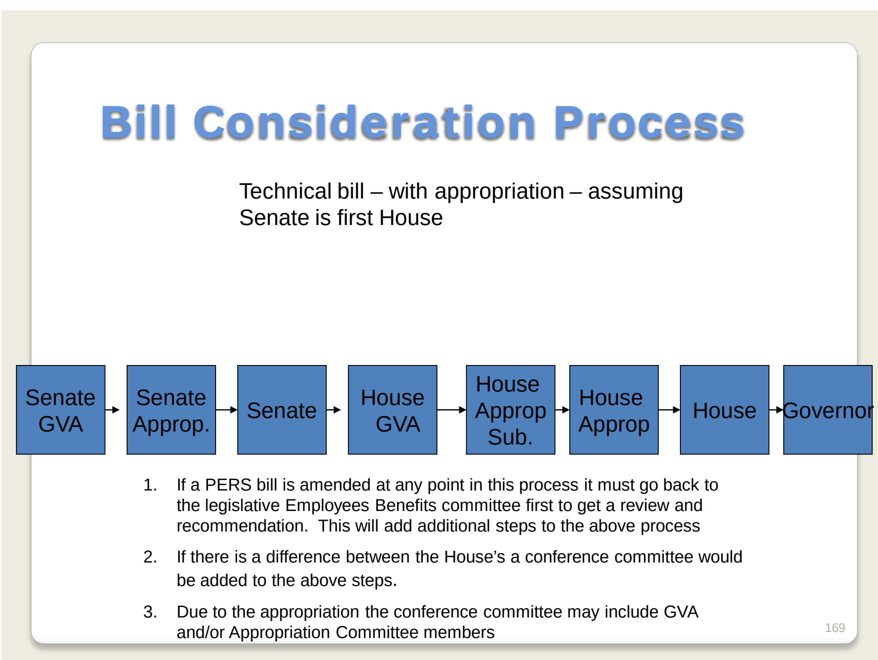
Variable	Option #1	Option #2
	could affect considerations of salary and health premium contributions for our participating members. If so, our members could receive less salary or health support in addition to paying 1% more in retirement contributions. Our members could be affected significantly	
Funded Status	This option will get us to 100% faster than Options #2 or #3. However, when the recovery plan was originally developed, this option (contribution increases) was the only option to 100%. This is no longer the case as we look to closing the final 20%.	This option helps close the last 20% without requiring additional contributions from our members or employers who have already contributed 3%.
Interim Study	As with the DC option, this proposal requires $20 million in additional employer contributions and over the recovery period $625 million which could be an argument/ impetus for the need to change the DB/Hybrid plan instead of focusing on the merits.	With no contribution increase, policy makers could focus on the merits of such a change

Based upon the above review of the environmental decision variables and the significant savings to our members ($625 million over the recovery period), staff concludes that Option #2 is more favorable for our employers and employees while meeting our goals.

In addition to the above, staff noted that the likelihood of success of Option #2 is greater than Option #1 due to the legislative consideration process relating to Option #1 versus Option #2. If Option #2 is selected, the Bill Consideration Process is:



The legislative consideration process for Option #2 is that it needs to pass two standing committees, the floor of both chambers and get signed by the Governor. Whereas for Option #1 the following process is required since there is an appropriation:



In addition to the steps for Option #2, Option #1 must also go through the Appropriation Committees of both the House and Senate (two additional steps). This means the consideration of retirement increases are a part of allocating funds for all governmental efforts and prioritized against all other requests. When funding for any effort is part of overall considerations, it may or may not be funded based solely on its own merits but also how it compares to other competing priorities. In 2013 you will remember that it was the House Appropriations Committee that removed funding for the recovery plan before any hearings on the bill since other funding considerations were given a higher priority and therefore it was not included.

In addition to the above, another consideration compared to 2009 is that at this point in time the legislature has on two occasions not passed the fourth year of the recovery plan. Unlike the first time when there was no legislative history relating to the fourth year of the recovery plan, we now have that to consider as well.

Consequently, since Option #2 is more positively aligned with the decision variables identified/discussed above, and the legislative considerations relating to a bill without an appropriation allows considerations based solely on its merits, staff feels that Option #2 would have a greater chance for success and for us to fulfill our goals sooner. In addition, staff notes that not requiring more contributions from our existing members is beneficial to them since they have already had to give up 3% of take home pay over the years and Option #2 instead of Option #1 saves future employees about $625 million in salary contributions over the recovery period while maintaining our core plan benefit which is 50% of final average salary at retirement.

In summary, staff recommendations are:

1. No additional legislation for the Judges, Law Enforcement Plans, National Guard Plan and Highway Patrol plan. Also, for the Law Enforcement Contributions for the BCI to drop them to equal the level of the other members.
2. Submit Option #2 for the Main Plan.

If you need additional time to consider the above, a final decision is not needed until March. However, we will need to develop legislation for your final consideration, so if you could narrow the options, we can begin work based upon that direction. In addition, another option would be to submit both Options #1 and #2 to the Legislative Employee Benefits Committee to allow them both to get further study and comment.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 13, 2014

SUBJECT: Pre-Medicare Retiree Health/Retiree Health Credit

Last session we submitted HB 1058 which did:

1. Closed the PERS health plan to pre-Medicare retirees on July 1, 2015 (Section 1).
2. Made the retiree health credit portable (Section 2 & 3).

The PERS Benefits Committee is suggesting that we submit legislation this session to move back the effective date from July 1, 2015 to July 1, 2017.

Background on HB 1058

SECTION 1 - CLOSED THE PERS HEALTH PLAN TO PRE-MEDICARE RETIREES

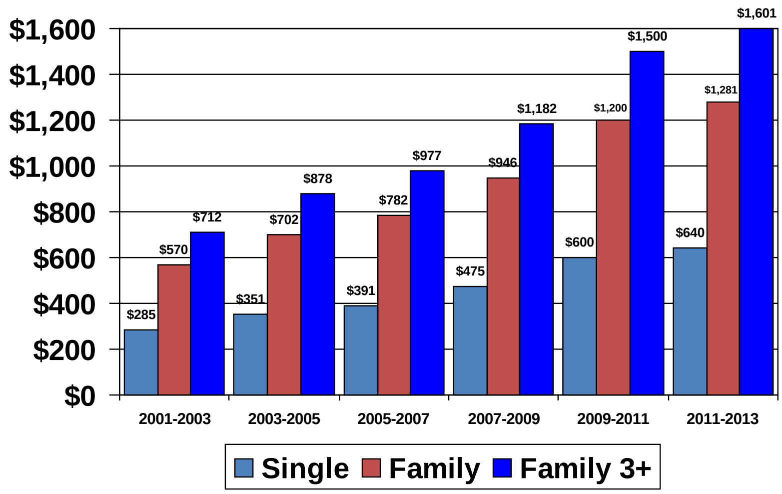
Section 54-52.1-02 (1) authorizes retired employees not eligible for Medicare the option to participate in the PERS Health Plan. Historically this option was available to insure that retiring employees would be able to find health coverage when they retired without having to be exposed to medical underwriting requirements or pre-existing condition provisions. The rate for this coverage is also set in statute as:

– the rate for a non-Medicare retiree single plan is one hundred fifty percent of the active member single plan rate,

– the rate for a non-Medicare retiree family plan of two people is twice the non-Medicare retiree single plan rate, and

– the rate for a non-Medicare retiree family plan of three or more persons is two and one-half times the non-Medicare retiree single plan rate.

The following is a history of the premium for that coverage:



Since the above rate is set by a state statute and is not based upon the actuarial requirements of the group, the above rates while high, do not reflect the full cost of that coverage. If the rate was set based upon the actuarial requirement for the pre-Medicare group, it would be even higher. This difference between the statutory rate and the actuarial rate is called an <u>implicit subsidy</u> of the plan.

Relating to financial reporting of this implicit subsidy, the Governmental Accounting Standards Board (GASB) finalized Statements No. 43 (GASB 43 for funded OPEB plans) and 45 (GASB 45 for employers) in 2004. The statements' objectives are to establish uniform standards of financial reporting by state and local governmental entities for post-employment benefit plans other than pension benefits (OPEB plans). This includes post-employment health care benefits such as the one provided to North Dakota pre-Medicare retirees. Pursuant to these statements the State must report the present value of this implicit subsidy as a footnote on the State's financial reports. The most recent valuation put this amount at $65.2 million. With the adoption of this bill PERS will no longer offer this coverage. Consequently, this liability would be substantially eliminated and, therefore, would not appear on the financial statements.

The second aspect of the implicit subsidy is that in the near term (the cost for one year) the actuarial difference in the cost is applied to the active contracts in the plan. The estimated cost of this to the active contracts in the plan is about $2.46 per contract per month on premiums for 2013-15. Again, if the provisions of this bill are approved, this cost would no longer be applied to the active contracts in the plan. In the fiscal note, we assumed that this would reduce the active health insurance coverage by about half of this amount in 2015-17. We would expect that by 2018 nearly all pre-Medicare members would be off the health plan and this entire savings would then be reflected in the active premiums.

While the provisions of this bill will result in the above two savings for the employer (no longer having to report the present value of the subsidy on the states financial statements and the subsidy being reflected on the active rates), what about the effect on retirees? First, as mentioned at the beginning, this coverage was offered to pre-Medicare retirees to insure they had access to coverage when they retired. Due to the passage of the

Affordable Care Act (ACA), there are provisions in the bill that provide access to insurance without having to be concerned with being medically underwritten or having pre-existing condition provisions. Consequently, the primary reason that PERS offers this coverage to this group may no longer apply. Additional advantages for the pre-Medicare retirees to access coverage through the new health care exchanges may be:

- Possible subsidies for coverage
- More selection of plans

The primary disadvantage to our pre-Medicare retirees is that at this time the PERS Retiree Health Insurance Credit is not portable, so they would lose that benefit by going to the health care exchange. That is why Sections 2 & 3 of the bill were proposed. You will note, however, that the effective date of this act is not until July 1, 2015. The reason for this is to allow us enough time to confirm our understanding when the Affordable Care Act provisions are implemented in 2014. We noted in our testimony if our understanding proves to be incorrect, then corrective provisions can be proposed to the 2015 legislative session before we stop offering non-Medicare coverage. The PERS benefits committee is suggesting that due to the rocky rollout of the ACA more time is needed to access its viability as an alternative to the PERS plan for pre-Medicare retirees.

<u>SECTIONS 2 & 3 – RETIREE HEALTH CREDIT PORTABILITY</u>

In 1989, the North Dakota Legislature started the Retiree Health Insurance Credit Program (RHIC). The purpose of this program was to help retirees offset the cost of health insurance. It was recognized at the time that the cost of health insurance was becoming increasingly unaffordable. The monthly benefit formula and benefit paid information is:

<u>BENEFIT FORMULA:</u>

$5 for each year of credited service

<u>Example:</u> $*5 x 25 years = $125*

During the last year, the program paid out the following benefits:

<u>BENEFITS PAID</u>

Average benefit: $118 per month to 4,442 members

This program is presently funded by a 1.14% contribution from payroll.

Presently, this benefit can only be used to purchase PERS retiree health insurance coverage.

If the provision in Section 1 of this bill alone was passed, it would mean that pre-Medicare retirees would not be able to participate in the PERS health plan and would lose this benefit. Consequently, the proposal in Sections 2 & 3 would make this coverage portable for any health insurance coverage and also allow it to be used for the PERS dental, vision, prescription and long term care coverage. This provision adds the portability feature for not only pre-Medicare retirees but also Medicare retirees.

Summary

HB 1058 did two basic things:

1. Closed the PERS Health Plan to pre-Medicare retirees on July 1, 2015 (Section 1). As discussed above, this will eliminate the implicit subsidy associated with offering this coverage, which consists of a present value of about $65 million, thus reducing that amount on the state's financial statements. In addition, this change will reduce the active rates in the future by the annual implicit subsidy cost of about $2.46 per contract per month.

2. Made the retiree health insurance credit portable. While this will increase the cost of this program based upon the most recent actuarial valuation, the additional cost can be paid within the existing contribution.

Recommendation

The PERS Benefits Committee is recommending moving back the effective date of the bill to allow more time to determine that the ACA is a viable alternative for PERS pre-Medicare Retirees.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 13, 2014

SUBJECT: Defined Contribution Plan Legislation

As we have reviewed, there is much discussion about Defined Contribution Plans these days. Among our responsibilities in NDCC 54-52.6 is the administration of the state DC option which has given us an administrative perspective on the plan with regard to its strengths and weaknesses. Among its strengths are the lower costs, enhanced services and additional investment options that have been added to the DC plan since its inception in 1999 through the bidding process. Among its weaknesses we have noted the following:

1. Pension Adequacy - Contribution levels
2. Limited disability benefit
3. Limited spouse benefit
4. Time for financial planning

It should be noted that while there is discussion on DB vs. DC and who should be in what plan, there is little to no discussion of the above plan design features. This memo outlines each of the above features and provides a staff recommendation for proposed legislation.

1. Pension Adequacy - Contribution Levels

In recent years we have had Segal do a study concerning the benefit levels in the DC plan compared to the DB/Hybrid plan. The following table summarizes their findings for the existing population:

	Future Contribution Rate		
Ratio of Projected DC to DB Benefits	Current Plan 14.12% effective January 1, 2014	Increase to 16.12% effective July 1, 2015	Increase to 20.00% effective July 1, 2015
Less than 50%	49	41	32
50% - 75%	149	131	106
75% - 100%	27	52	69
100% and Over	2	3	20
Total	227	227	227

In that report Segal said:

> Concerning the above, the Segal report stated: *Overall, this analysis shows that the majority of the current DC Plan members are projected to receive significantly less retirement income under the DC Plan than projected under the DB Plan. In particular, the ratio of DC Plan to DB Plan benefits declines somewhat as age increases, and declines dramatically as length of service increases. The DC Plan benefits are projected to be higher with an increase in the contribution rate but are still less than 100% of the DB Plan benefits for most participants. Under existing contribution levels, the only way that DC Plan benefits would consistently reach the level of DB Plan benefits would be to earn long term investment returns above the assumed 8%.*

For many of the above members the reason the benefit is so low is due to the poor timing of the plan's implementation, which was when the markets crashed, and secondly, due to the low contribution level. While little can be done about the investment environment, we can consider actions relating to the contribution levels. To that extent we did include the DC plan in our recovery plan legislation with the goal of increasing the contributions to plan to provide a more reasonable benefit.

In considering what is a reasonable level for the DC plan, we have been benchmarking it against that DB plan which pays a benefit at 25 years of service of 50% of final average salary. For a new DC member entering the plan at age 35 and retiring at their normal retirement age, they would receive a benefit of equal to about 85.5% of the DB benefit. This review would indicate that the DC plan is providing a lower benefit then the DB plan to its participants (this does not include a risk premium).

With the above in mind, in recent years we have worked to increase the contribution level to the DC plan. It is now at 14.12% compared to 8.12% when the plan started (at that point the DC benefit would have been about 49.5% of the DB benefit). This has helped the plan for new employees going forward. These increases have been included in the recovery plan legislation and were proposed to go to 16.12% (which would have gotten the DC benefit to about 94% of the DB benefit based upon the above situation). If we do not submit additional contribution increase legislation for the DB plan (Option #1 in the retirement memo) and go with Option #2, the question is if we should continue pursuing additional contributions to this plan? The following table shows for a new employee the projected level of benefits compared to the DB/Hybrid plan. It would suggest that enhancing the contribution level would be appropriate.

For a new participant entering at age 35, these are the ratios we calculated.

Contribution	DC/DB ratio
8.12%	49.50%
14.12%	85.54%
16.12%	94.31%
20.00%	116.05%

The options relating to pension adequacy/contributions would be based upon the original recovery plan:

Options #1	Option #2 (assuming no Hybrid increase)	Option #2 (assuming no Hybrid increase)	Option #3 (assuming no Hybrid increase)
No action on Pension Adequacy	Increase employee contributions for DC plan by 2%	Increase employer contributions for DC plan by 2%	Increase employer/ employee contributions for DC plan by 1%

Staff Recommendation
Staff would suggest that if Option #1 (in the retirement memo) is submitted for the DB/Hybrid plan, then Option #3 above should be submitted for the DC plan (this would be the same approach as used in the past). If Option #2 (in the retirement memo) for the DB/Hybrid plan is submitted then staff would suggest Option #1 above (increase employee contributions by 2%) should be submitted for new employees to the DC plan. Please note this would be just for new employees and that the PERS Benefits Committee had no recommendation on this.

2. Limited Disability Benefit

The DC plans disability benefit is the member's cash balance. We note that the DB/Hybrid Plan's benefit is 25% of salary after 6 months of employment. We have noted this in our testimony on the DC plan as an area of concern with the existing DC plan since the benefit level is so low.

Staff Recommendation
Staff would suggest legislation providing for disability insurance to DC plan members that would be equal to that in the DB/Hybrid plan to be paid by the employer with an increase in employer contributions. To provide time to implement this option, it is suggested that it not be effective until July 2017. The PERS Benefits committee did not make a recommendation on this but a couple of members though it may be beneficial.

3. Limited Spouse Benefit

The DC plan surviving spouse benefit is the member's cash balance. In the DB/Hybrid plan the spouse is entitled to 50% of the accrued benefit for life. Clearly the DC plan does not have an adequate spouse benefit.

Staff Recommendation
Staff would suggest legislation providing for a spouse benefit upon the death of the member of $50,000 that would paid by the employer with an increase in employer contributions. To provide time to implement this option and get it included in the budget, it is suggested that it not be effective until July 2017. The PERS Benefits committee did not make a recommendation on this, but a couple of members though it may be beneficial.

4. Time for Financial Planning

One of the key elements of the DC plan is the member's responsibility for investing their own funds. They direct the asset allocation and are responsible for monitoring it and rebalancing their portfolio as needed. We know that many of the DC members need assistance in this effort to be successful. To date, our participating employers have allowed employees to meet with investment advisors, provided by our vendor, during working hours. However, with the expansion of the program to more employees and more state employers, it may be beneficial to specify in legislation that DC members get up to 4 hours of leave each year to meet with investment advisors.

Staff Recommendation

Staff would suggest legislation providing up to 4 hours of paid leave annually for DC members to meet with investment advisors. There was some concern expressed by one of the members on the PERS Benefits Committee about adding this to state statute.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 11, 2014

SUBJECT: Halliburton Amicus Brief

Jan will provide information to the Board at the February meeting.

NDPERS

Memo

To: NDPERS Board

From: Bryan T. Reinhardt

Date: 2/14/2014

Re: 457 Companion Plan & 401(a) Plan 4th Quarter 2013 Reports

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Attached is the 4th quarter 2013 investment report for the 401(a) & 457 Companion Plan. The reports are available separately on the NDPERS web site. The NDPERS Investment Sub-committee reviewed the 4th quarter report.

Assets in the 401(a) plan increased to $30.8 million as of Dec 31, 2013. The number of participants is at 283 (228 active), about the same as when the plan started. The largest funds are the TIAA-CREF Lifecycle funds with 68% of assets.

Assets in the 457 Companion Plan increased to $58.3 million as of Dec 31, 2013. The number of participants is increasing and is now at 4,873 (3,827 active). The largest funds are the TIAA-CREF Lifecycle funds with 74% of assets.

Benchmarks:
Fund returns for the quarter were all positive, except for the PIMCO Bond funds and the Cohen & Steers Realty fund. The markets have rebounded and all the funds in the core lineup have positive returns across the 3-year and 5-year periods. Most of the core funds performed well compared to their benchmarks and peer funds. Note that index funds are expected to slightly underperform their benchmarks because of fund administration fees.

Fund / Investment News:
The NDPERS Investment Sub-Committee reviewed a 4th quarter plan and investment overview with TIAA-CREF. There were 836 new 457 enrollments and 9 new 401(a) members for 2013. The Investment Sub-Committee marked the Vanguard Intl Stock Index (VGTSX) and Parnassus Small Cap (PARSX) as underperforming for the quarter.
The Sub-Committee continues to work on the Job Service and RHIC plans. Asset definitions work will continue along with a review of the investment policy statements with the new SIB Director. The Sub-Committee is investigating adding Exchange Traded Funds (ETF's) to the brokerage window.

Board Action
The NDPERS Investment Subcommittee recommends putting the Parnassus Small Cap fund (PARSX) on Formal Fund Review. The committee tracked this fund as underperforming for the last four quarters. By placing this fund "On Watch" we would note this in the investment reporting on this fund and notify the membership by the newsletter.

NDPERS
Quarterly Investment Report
4th Quarter
10/1/2013 – 12/31/2013

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NDPERS 401(a) Defined Contribution Plan & 457 Companion Plan - TIAA-CREF

INITIAL OFFERING:

	VALUE	BLEND	GROWTH	
	Hartford Dividend & Growth T.Rowe Price Equity Income	Vanguard 500 Index Signal Vanguard Dividend Growth	Franklin Growth Adv Wells Fargo Adv Growth Adm	**LARGE**
	RidgeWorth Mid Cap Value Equity I	ASTON/Fairpointe Mid Cap I Columbia Mid Cap Index A	Prudential Jennison Mid Cap Growth Z	**MEDIUM**
	Allianz NFJ Small Cap Value	Parnassus Small Cap	Brown Capital Mgmt Small Co Inv	**SMALL**

BALANCED FUND:	T.Rowe Price Capital Appreciation		
INCOME FUNDS:	Wells Fargo Stable Value Fund J	Vanguard Prime Money Market	
BOND FUNDS:	PIMCO Total Return Bond Fund	Prudential High Yield Z	
	PIMCO Real Return Admin Bond Fund	Templeton Global Bond	
REAL ESTATE:	Cohen & Steers Realty Shares		
INTERNATIONAL FUNDS:	Mutual Global Discovery Z	Vanguard Total Intl Stock Index	Oppenheimer Developing Markets Y
LIFESTYLE FUNDS:	TIAA-CREF Lifecycle Ret Income	TIAA-CREF Lifecycle 2025	TIAA-CREF Lifecycle 2045
	TIAA-CREF Lifecycle 2010	TIAA-CREF Lifecycle 2030	TIAA-CREF Lifecycle 2050
	TIAA-CREF Lifecycle 2015	TIAA-CREF Lifecycle 2035	TIAA-CREF Lifecycle 2055
	TIAA-CREF Lifecycle 2020	TIAA-CREF Lifecycle 2040	

FUND STYLE CHANGES:

	VALUE	BLEND	GROWTH	
				LARGE
		RidgeWorth Mid Cap Value Equity		**MEDIUM**
				SMALL

OTHER FUNDS:

CURRENT LINEUP:

	VALUE	BLEND	GROWTH	
	Hartford Dividend & Growth T.Rowe Price Equity Income	Vanguard 500 Index Signal Vanguard Dividend Growth	Franklin Growth Adv Wells Fargo Adv Growth Adm	**LARGE**
		RidgeWorth Mid Cap Value Equity Columbia Mid Cap Index A ASTON/Fairpointe Mid Cap I	Prudential Jennison Mid Cap Growth Z	**MEDIUM**
	Allianz NFJ Small Cap Value	Parnassus Small Cap	Brown Capital Mgmt Small Co Inv	**SMALL**

BALANCED FUND:	T.Rowe Price Capital Appreciation		
INCOME FUNDS:	Wells Fargo Stable Value Fund J	Vanguard Prime Money Market	
BOND FUNDS:	PIMCO Total Return Bond Fund	Prudential High Yield Z	
	PIMCO Real Return Admin Bond Fund	Templeton Global Bond	
REAL ESTATE:	Cohen & Steers Realty Shares		
INTERNATIONAL FUNDS:	Mutual Global Discovery Z	Vanguard Total Intl Stock Index	Oppenheimer Developing Markets Y
LIFESTYLE FUNDS:	TIAA-CREF Lifecycle Ret Income	TIAA-CREF Lifecycle 2025	TIAA-CREF Lifecycle 2045
	TIAA-CREF Lifecycle 2010	TIAA-CREF Lifecycle 2030	TIAA-CREF Lifecycle 2050
	TIAA-CREF Lifecycle 2015	TIAA-CREF Lifecycle 2035	TIAA-CREF Lifecycle 2055
	TIAA-CREF Lifecycle 2020	TIAA-CREF Lifecycle 2040	

NDPERS Investment Benchmarks - 4th Quarter 2013

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Stable Value / Money Market Fund					
Vanguard Prime Money Market - VMMXX	0.00%	0.02%	0.02%	0.03%	0.14%
Wells Fargo Stable Return Fund J - WFSJ#	0.18%	0.89%	0.89%	1.23%	1.68%
3 Month T-Bill Index	0.01%	0.05%	0.05%	0.07%	0.10%
Fixed Income Fund					
PIMCO Real Return Admin - PARRX	-2.15%	-9.27%	-9.27%	3.24%	7.03%
PIMCO Total Return Bond Fund - PTRAX	-0.10%	-2.17%	-2.17%	3.82%	6.65%
Barclays Aggregate Bond Index	-0.14%	-2.02%	-2.02%	3.26%	4.44%
Taxable Bond Fund Universe	0.78%	-0.23%	-0.23%	4.04%	7.79%
Prudential High Yield Z - PHYZX	3.29%	7.23%	7.23%	8.75%	16.96%
ML High Yield Bond Fund Index	3.50%	7.42%	7.42%	9.03%	18.65%
High Yield Bond Fund Universe	3.16%	6.90%	6.90%	8.00%	16.12%
Templeton Global Bond Adv - TGBAX	2.71%	2.41%	2.41%	5.17%	9.40%
Citi World Govt Bond Index	-1.09%	-4.00%	-4.00%	1.25%	2.28%
World Bond Fund Universe	0.48%	-2.62%	-2.62%	2.84%	5.95%
Real Esate Fund					
Cohen & Steers Realty Shares - CSRSX	-0.12%	3.09%	3.09%	8.20%	16.37%
FTSE NAREIT All Equity REITs Index	-0.17%	2.86%	2.86%	10.06%	16.90%
Real Estate Fund Universe	-0.33%	1.55%	1.55%	8.68%	16.23%
Balanced Fund					
T.Rowe Price Capital Appreciation - PACLX	6.21%	22.06%	22.06%	12.83%	16.73%
60% Large Cap Value Univ & 40% Taxable Bond Universe	6.49%	20.26%	20.26%	10.54%	14.52%
60% Russell 1000 Value & 40% Agg Bond Index	5.95%	18.71%	18.71%	10.94%	11.78%
Large Cap Equities - Value					
Hartford Dividend & Growth - HDGTX	9.81%	31.35%	31.35%	14.64%	16.13%
T.Rowe Price Equity Income - PRFDX	8.73%	29.75%	29.75%	14.73%	16.92%
Russell 1000 Value Index	10.01%	32.53%	32.53%	16.06%	16.67%
Large Cap Value Fund Universe	10.29%	33.92%	33.92%	14.88%	19.01%
Large Cap Equities - Blend					
Vanguard 500 Index Signal - VIFSX	10.49%	32.33%	32.33%	16.14%	17.94%
Vanguard Dividend Growth Fund - VDIGX	9.15%	31.53%	31.53%	16.69%	16.60%
S&P 500 Index	10.51%	32.39%	32.39%	16.18%	17.94%
Large Cap Blend Fund Universe	9.73%	31.50%	31.50%	14.47%	17.09%
Large Cap Equities - Growth					
Wells Fargo Adv Growth Adm - SGRKX	7.77%	33.44%	33.44%	19.08%	25.92%
Russell 3000 Growth Index	10.25%	34.23%	34.23%	16.47%	20.56%
Franklin Growth Adv - FCGAX	10.16%	29.73%	29.73%	14.26%	18.25%
Russell 1000 Growth Index	10.44%	33.48%	33.48%	16.45%	20.39%
Large Cap Growth Fund Universe	10.29%	33.92%	33.92%	14.88%	19.01%
Mid Cap Equities - Value					
RidgeWorth Mid Cap Value Equity I - SMVTX	8.27%	31.21%	31.21%	13.99%	22.68%
Russell Mid Cap Value	8.56%	33.46%	33.46%	15.97%	21.16%
Mid Cap Value Fund Universe	9.03%	35.14%	35.14%	14.82%	20.34%
Mid Cap Equities - Blend					
Columbia Mid Cap Index A - NTIAX	8.21%	32.92%	32.92%	15.13%	21.35%
S&P Mid Cap 400	8.33%	33.50%	33.50%	15.64%	21.89%
ASTON/Fairpointe Mid Cap I - ABMIX	9.24%	44.82%	44.82%	16.58%	26.63%
Wilshire 4500 Index	8.52%	38.39%	38.39%	16.12%	22.47%
Mid Cap Blend Fund Universe	8.79%	34.10%	34.10%	14.23%	20.01%
Mid Cap Equities - Growth					
Prudential Jennison Mid Cap Growth Z - PEGZX	7.21%	28.08%	28.08%	15.10%	20.94%
Russell Mid Cap Growth	8.23%	35.74%	35.74%	15.63%	23.37%
Mid Cap Growth Fund Universe	8.30%	34.93%	34.93%	14.09%	20.80%

Fund Returns in RED do not meet both benchmarks. **Fund Returns in BLACK meet both benchmarks.**

NDPERS Investment Benchmarks - 4th Quarter 2013

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Small Cap Equities - Value					
Allianz NFJ Small Cap Value - PVADX	8.36%	31.73%	31.73%	14.20%	18.25%
Russell 2000 Value Index	9.30%	34.52%	34.52%	14.49%	17.64%
Small Value Fund Universe	9.26%	36.22%	36.22%	14.22%	20.36%
Small Cap Equities - Blend					
Parnassus Small Cap - PARSX	9.26%	28.35%	28.35%	9.63%	20.87%
Russell 2000 Index	8.72%	38.82%	38.82%	15.67%	20.08%
Small Blend Fund Universe	9.22%	37.39%	37.39%	15.12%	20.34%
Small Cap Equities - Growth					
Brown Capital Mgmt Small Co Inv - BCSIX	7.90%	48.98%	48.98%	20.55%	25.60%
Russell 2000 Growth Index	8.17%	43.30%	43.30%	16.82%	22.58%
Small Growth Fund Universe	8.15%	40.91%	40.91%	15.83%	22.16%
International Equity Funds					
Mutual Global Discovery Z - MDISX	7.52%	25.64%	25.64%	11.59%	13.42%
Vanguard Total Intl Stock Index Inv - VGTSX	4.87%	15.14%	15.14%	5.17%	N/A
MSCI EAFE	5.71%	22.78%	22.78%	8.17%	12.44%
International Stock Fund Universe	5.73%	17.51%	17.51%	6.44%	14.05%
Oppenheimer Developing Markets Y - ODVYX	3.69%	8.68%	8.68%	2.69%	20.23%
MSCI Emerging Markets Index	1.83%	-2.60%	-2.60%	-2.06%	14.79%
Diversified Emerging Mkts Universe	2.63%	-0.14%	-0.14%	-1.79%	14.21%
Asset Allocation Funds:					
TIAA-CREF Lifecycle Ret Income - TLIRX	3.09%	9.01%	9.01%	7.44%	9.46%
Income Benchmark	3.90%	12.14%	12.14%	7.82%	10.47%
TIAA-CREF Lifecycle 2010 - TCLEX	4.51%	11.78%	11.78%	8.39%	11.13%
2010 Benchmark	4.45%	14.14%	14.14%	8.52%	11.09%
TIAA-CREF Lifecycle 2015 - TCLIX	5.14%	13.66%	13.66%	8.96%	12.01%
2015 Benchmark	4.96%	15.99%	15.99%	9.15%	11.70%
TIAA-CREF Lifecycle 2020 - TCLTX	5.86%	16.30%	16.30%	9.76%	13.00%
2020 Benchmark	5.61%	18.36%	18.36%	9.96%	12.51%
TIAA-CREF Lifecycle 2025 - TCLFX	6.71%	19.12%	19.12%	10.56%	13.97%
2025 Benchmark	6.27%	20.73%	20.73%	10.77%	13.32%
TIAA-CREF Lifecycle 2030 - TCLNX	7.48%	21.84%	21.84%	11.31%	14.86%
2030 Benchmark	6.96%	23.21%	23.21%	11.60%	14.22%
TIAA-CREF Lifecycle 2035 - TCLRX	8.20%	24.40%	24.40%	11.97%	15.68%
2035 Benchmark	7.69%	25.81%	25.81%	12.46%	15.23%
TIAA-CREF Lifecycle 2040 - TCLOX	8.59%	25.85%	25.85%	12.40%	16.00%
2040 Benchmark	8.10%	27.24%	27.24%	12.94%	15.78%
TIAA-CREF Lifecycle 2045 - TTFRX	8.61%	25.98%	25.98%	12.40%	15.96%
2045 Benchmark	8.10%	27.24%	27.24%	12.94%	15.78%
TIAA-CREF Lifecycle 2050 - TLFRX	8.66%	25.98%	25.98%	12.42%	15.92%
2050 Benchmark	8.10%	27.24%	27.24%	12.94%	15.78%
TIAA-CREF Lifecycle 2055 - TTRLX	8.52%	25.92%	25.92%	N/A	N/A
2055 Benchmark	8.10%	27.24%	27.24%	12.94%	15.78%

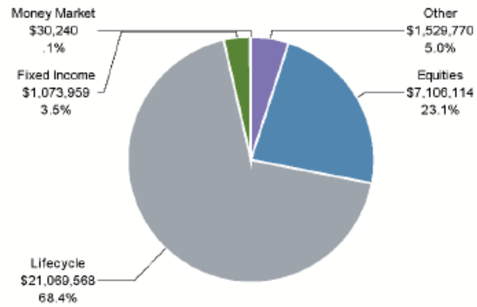
Income Benchmark is comprised of 30% Wilshire 5000, 10% MSCI EAFE, 40% Ag Bond, 10% ML HY Bond, 10% 3 Month T-Bill
2010 Benchmark is comprised of 35.4% Wilshire 5000, 11.8% MSCI EAFE, 38.6% Ag Bond, 7.1% ML HY Bond, 7.1% 3 Month T-Bill
2015 Benchmark is comprised of 40.2% Wilshire 5000, 13.4% MSCI EAFE, 36.2% Ag Bond, 5.1% ML HY Bond, 5.1% 3 Month T-Bill
2020 Benchmark is comprised of 46.2% Wilshire 5000, 15.4% MSCI EAFE, 32.2% Ag Bond, 3.1% ML HY Bond, 3.1% 3 Month T-Bill
2025 Benchmark is comprised of 52.2% Wilshire 5000, 17.4% MSCI EAFE, 28.2% Ag Bond, 1.1% ML HY Bond, 1.1% 3 Month T-Bill
2030 Benchmark is comprised of 58.2% Wilshire 5000, 19.4% MSCI EAFE, 22.4% Ag Bond
2035 Benchmark is comprised of 64.2% Wilshire 5000, 21.4% MSCI EAFE, 14.4% Ag Bond
2040 Benchmark is comprised of 67.5% Wilshire 5000, 22.5% MSCI EAFE, 10% Ag Bond
2045 Benchmark is comprised of 67.5% Wilshire 5000, 22.5% MSCI EAFE, 10% Ag Bond
2050 Benchmark is comprised of 67.5% Wilshire 5000, 22.5% MSCI EAFE, 10% Ag Bond
2055 Benchmark is comprised of 67.5% Wilshire 5000, 22.5% MSCI EAFE, 10% Ag Bond

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Wilshire 5000 Index	10.11%	33.06%	33.06%	15.96%	18.58%
MSCI EAFE	5.71%	22.78%	22.78%	8.17%	12.44%
Barclays Aggregate Bond Index	-0.14%	-2.02%	-2.02%	3.26%	4.44%
ML High Yield Bond Fund Index	3.50%	7.42%	7.42%	9.03%	18.65%
3 Month T-Bill Index	0.01%	0.05%	0.05%	0.07%	0.10%

Fund Returns in RED do not meet both benchmarks. **Fund Returns in BLACK meet both benchmarks.**

PLAN ASSETS
BY CATEGORY CLASS

Total Plan Assets:	**$30,809,651**
Average Account Balance:	**$108,867**
Default Fund:	**AGE-BASED LIFECYCLE FUNDS Retirement**



PLAN ASSETS
BY INVESTMENT OPTION

Default Investment: AGE-BASED LIFECYCLE FUNDS Retirement

FUND/ACCOUNT	ASSETS	PERCENTAGE of TOTAL
Money Market		
VANGRD PRIME MONEY MARKET FUND	$30,240	.10%
Money Market Total	**$30,240**	**.10%**
Fixed Income		
PIMCO REAL RETURN FUND ADMIN	$88,375	.29%
PIMCO TOTAL RETURN ADMIN CLASS	$675,074	2.19%
PRUDENTIAL HIGH YIELD FUND Z	$160,984	.52%
TEMPLETON GLOBAL BOND ADVCLASS	$149,527	.49%
Fixed Income Total	**$1,073,959**	**3.49%**
Lifecycle		
TIAA-CREF LFCYLE RTMT INC-RTMT	$32,537	.11%
TIAA-CREF LIFECYCLE 2010-RTMT	$1,200,465	3.90%
TIAA-CREF LIFECYCLE 2015-RTMT	$1,929,818	6.26%
TIAA-CREF LIFECYCLE 2020-RTMT	$3,431,117	11.14%
TIAA-CREF LIFECYCLE 2025-RTMT	$4,343,036	14.10%
TIAA-CREF LIFECYCLE 2030-RTMT	$4,599,840	14.93%
TIAA-CREF LIFECYCLE 2035-RTMT	$4,013,557	13.03%
TIAA-CREF LIFECYCLE 2040-RTMT	$1,288,335	4.18%
TIAA-CREF LIFECYCLE 2045-RTMT	$171,900	.56%
TIAA-CREF LIFECYCLE 2050-RTMT	$47,750	.15%
TIAA-CREF LIFECYCLE 2055-RTMT	$11,213	.04%
Lifecycle Total	**$21,069,568**	**68.39%**
Equities		
ALLIANZGI NFJ SML CAP VAL ADM	$502,203	1.63%
ASTON/FAIRPOINTE MID CAP I	$177,086	.57%
BROWN CAPITAL MGMT SML CO INV	$351,983	1.14%

PLAN ASSETS
BY INVESTMENT OPTION

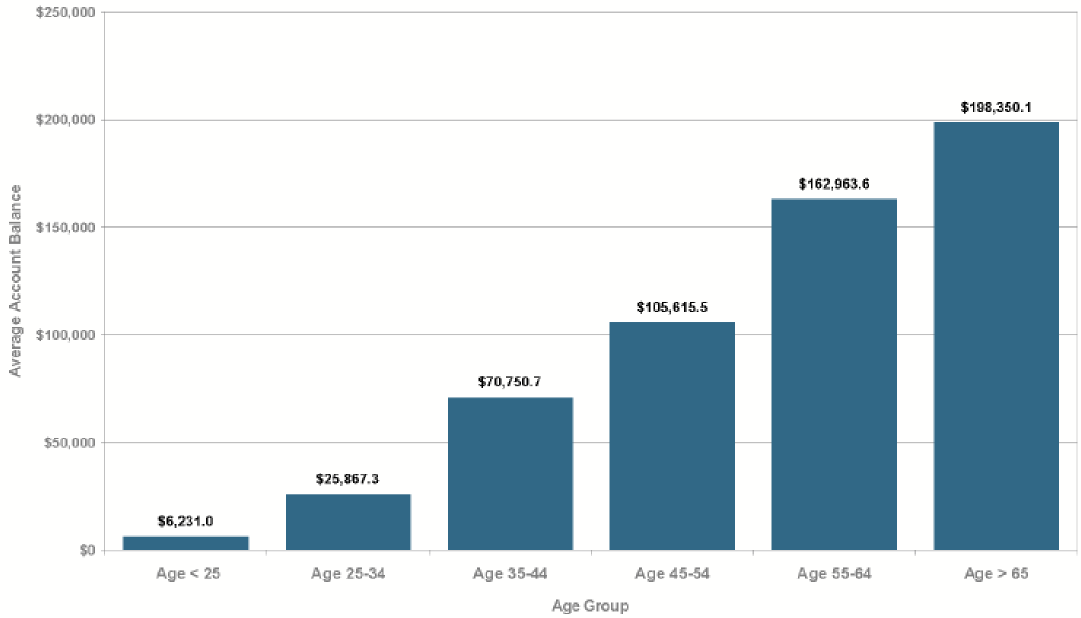
Default Investment: AGE-BASED LIFECYCLE FUNDS Retirement

FUND/ACCOUNT	ASSETS	PERCENTAGE of TOTAL
Equities (cont'd)		
COHEN & STEERS REALTY SHARES	$339,578	1.10%
COLUMBIA MID CAP INDEX FUND A	$233,862	.76%
FRANKLIN GROWTH FUND ADVISOR	$357,443	1.16%
FRANKLIN MUTUAL GLOB DISCOV Z	$335,746	1.09%
HARTFORD DIVIDEND & GROWTH R5	$411,137	1.33%
OPPENHEIMER DEVELOP MARKETS Y	$341,024	1.11%
PARNASSUS SMALL CAP FUND	$101,989	.33%
PRUDENTIAL JENNISON MC GRW Z	$325,242	1.06%
RIDGEWORTH MID CP VAL EQ FD I	$312,012	1.01%
T ROWE PRICE EQUITY INCOME	$430,987	1.40%
T. ROWE PRICE CAP APPREC ADV	$366,631	1.19%
VANGUARD 500 INDEX FUND SIGNAL	$303,628	.99%
VANGUARD DIVIDEND GROWTH INV	$344,189	1.12%
VANGUARD TOTAL INT STKINDX SIG	$652,647	2.12%
WELLS FARGO ADV GROWTH ADMIN	$1,218,728	3.96%
Equities Total	**$7,106,114**	**23.06%**
Other		
SELF DIRECTED ACCOUNT	$452,820	1.47%
WELLS FARGO STABLE RETURN J	$1,076,950	3.50%
Other Total	**$1,529,770**	**4.97%**
Total	**$30,809,651**	**100%**

PLAN ASSETS

BY AGE - AVERAGE ACCOUNT BALANCE

Average Account Balance:	$108,867



PLAN ASSETS
BY INVESTMENT OPTION

FUND/ACCOUNT	ASSETS	PERCENTAGE of TOTAL
Money Market		
VANGRD PRIME MONEY MARKET FUND	$337,247	.58%
Money Market Total	**$337,247**	**.58%**
Fixed Income		
PIMCO REAL RETURN FUND ADMIN	$127,862	.22%
PIMCO TOTAL RETURN ADMIN CLASS	$1,356,530	2.32%
PRUDENTIAL HIGH YIELD FUND Z	$315,086	.54%
TEMPLETON GLOBAL BOND ADVCLASS	$556,482	.95%
Fixed Income Total	**$2,355,960**	**4.04%**
Lifecycle		
TIAA-CREF LFCYLE RTMT INC-RTMT	$125,670	.22%
TIAA-CREF LIFECYCLE 2010-RTMT	$2,417,680	4.14%
TIAA-CREF LIFECYCLE 2015-RTMT	$6,935,309	11.89%
TIAA-CREF LIFECYCLE 2020-RTMT	$9,437,332	16.17%
TIAA-CREF LIFECYCLE 2025-RTMT	$9,511,861	16.30%
TIAA-CREF LIFECYCLE 2030-RTMT	$5,470,272	9.38%
TIAA-CREF LIFECYCLE 2035-RTMT	$3,474,396	5.95%
TIAA-CREF LIFECYCLE 2040-RTMT	$2,685,618	4.60%
TIAA-CREF LIFECYCLE 2045-RTMT	$1,901,082	3.26%
TIAA-CREF LIFECYCLE 2050-RTMT	$943,226	1.62%
TIAA-CREF LIFECYCLE 2055-RTMT	$92,468	.16%
Lifecycle Total	**$42,994,913**	**73.69%**
Equities		
ALLIANZGI NFJ SML CAP VAL ADM	$1,358,673	2.33%
ASTON/FAIRPOINTE MID CAP I	$254,461	.44%
BROWN CAPITAL MGMT SML CO INV	$269,347	.46%

Default Investment: AGE-BASED LIFECYCLE FUNDS Retirement

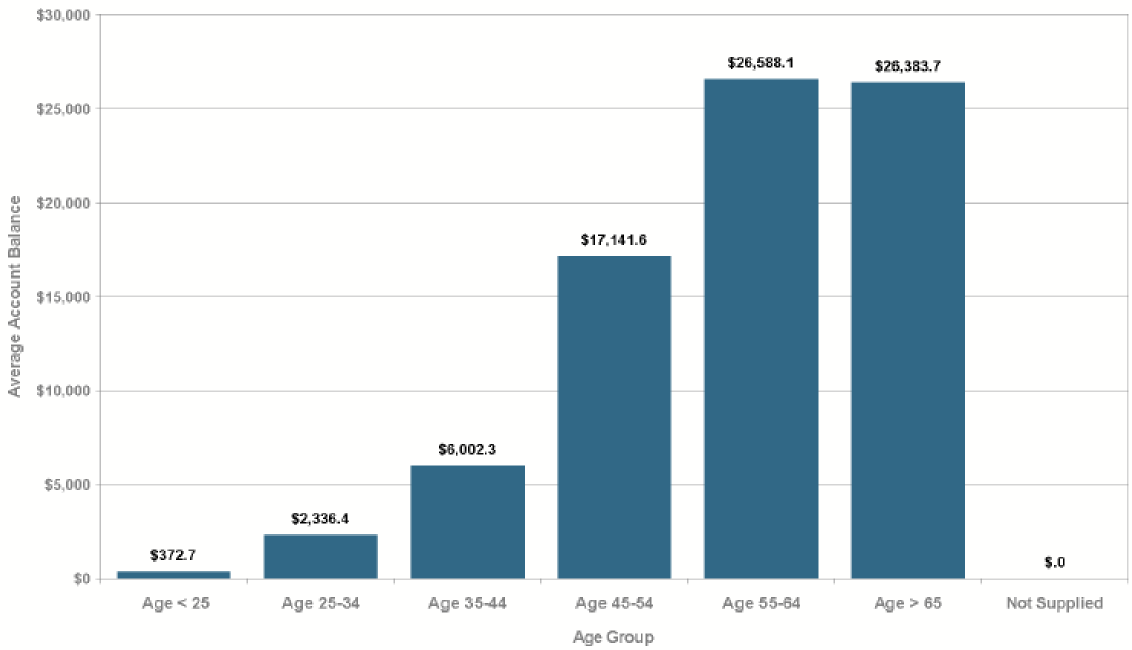
PLAN ASSETS
BY INVESTMENT OPTION

FUND/ACCOUNT	ASSETS	PERCENTAGE of TOTAL
Equities (cont'd)		
COHEN & STEERS REALTY SHARES	$449,075	.77%
COLUMBIA MID CAP INDEX FUND A	$868,567	1.49%
FRANKLIN GROWTH FUND ADVISOR	$679,830	1.17%
FRANKLIN MUTUAL GLOB DISCOV Z	$248,921	.43%
HARTFORD DIVIDEND & GROWTH R5	$419,603	.72%
OPPENHEIMER DEVELOP MARKETS Y	$460,664	.79%
PARNASSUS SMALL CAP FUND	$119,361	.20%
PRUDENTIAL JENNISON MC GRW Z	$247,248	.42%
RIDGEWORTH MID CP VAL EQ FD I	$240,933	.41%
T ROWE PRICE EQUITY INCOME	$737,251	1.26%
T. ROWE PRICE CAP APPREC ADV	$575,671	.99%
VANGUARD 500 INDEX FUND SIGNAL	$1,444,735	2.48%
VANGUARD DIVIDEND GROWTH INV	$326,442	.56%
VANGUARD TOTAL INT STKINDX SIG	$1,331,694	2.28%
WELLS FARGO ADV GROWTH ADMIN	$938,312	1.61%
Equities Total	**$10,970,789**	**18.80%**
Other		
SELF DIRECTED ACCOUNT	$307,948	.53%
WELLS FARGO STABLE RETURN J	$1,379,755	2.36%
Other Total	**$1,687,703**	**2.89%**
Total	**$58,346,611**	**100%**

Default Investment: AGE-BASED LIFECYCLE FUNDS Retirement

PLAN ASSETS
BY AGE - AVERAGE ACCOUNT BALANCE

Average Account Balance:	$11,973



North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 13, 2014

SUBJECT: Participation by Non-Grandfathered Political Subdivisions

The Affordable Care Act specifies that starting with January 2014 anniversaries, Non-Grandfathered products offered to small groups, must be filed and approved as Qualified Health Plans with the Center for Consumer Information & Insurance Oversight and the North Dakota Department of Insurance. In addition, Non-Grandfathered, small group products must be rated based on a unique rating pool that is separate from Non Grandfathered large groups and Grandfathered large and small groups. As a result of the changes, BCBSND was required to discontinue existing Non-Grandfathered small group plans starting with January 2014 anniversaries and offer the newly approved ACA-Compliant Qualified Health Plans. These new requirements will affect the NDPERS Non-Grandfathered small political sub groups at the beginning of their next plan year as discussed below.

The question for PERS is when is the “anniversary date or plan year” for these political subdivisions in PERS. Specifically for PERS is it 12 months on July 1, 2014 or 24 months which would July 1, 2015. We asked BCBS to review this and they offered the following:

> *BCBSND Legal staff reviewed plan documents and the related information reasonably point to a twenty-four month plan year with an ACA market reform effective date of July 1, 2015. This is supported by the NDPERS Request for Proposal and the Administrative Service Agreement between NDPERS and BCBSND which identifies an effective date of July 1, 2013, through June 30, 2015.*
>
> *The most conservative approach is the earliest implementation date while the most aggressive approach is the latest implementation date. Reasonable arguments exist for both the earlier and later dates, but the later dates necessarily carry more risk.*
>
> *Please note this is not intended to be legal advice, so you’ll want to verify with Deloitte and/or your legal counsel.*

We also asked Deloitte to review this and they offered the following:

> *I've looked at the BCBS e-mail and the relevant plan documents. I could not find anything in the plan documents specifically defining a plan year as 12 months. Furthermore, I am not aware of anything in Federal law that requires a group health plan to have a plan year of 12-months (or any other specific period). As a result, I believe you can make an argument for a 24-month plan year*
>
> *However, 12-month plan years are common in part because that time period aligns with other related legal requirements – such as the requirement that an IRC § 125 cafeteria plan be no more than 12-months, and the requirement that COBRA premiums be set in 12-month intervals, etc. If a participant or regulator were to challenge the 24-month plan year, they likely would cite these requirements. They might also use the plan's definition of "Benefit Period" and the "Annual Enrollment" opportunity – which are driven by these requirements – as a basis for this challenge, and also to support the notion of a calendar year plan year. If they were to prevail the non-grandfathered plan could be treated as not in compliance beginning on January 1, 2014.*
>
> *On balance I think the 24-month plan year argument definitely carries risk. Ultimately I would have to defer to legal counsel's judgment, as I cannot offer legal advice. However, I would be happy to discuss these issues with you and counsel in more detail, if you think that would be helpful*

Jan has also reviewed this issue and will be available to discuss it with you at the Board meeting as well.

The following is the list of political subs that would be affected:

Barnes County Soil Conservation
Roughrider Education District
North Central Career & Tech Center
City of Mohall
Great Northwest Education
Grand Forks Airport Authority
Tri-Cities Joint Job Development Authority
North McHenry County Soil Conservation District*

Staff would offer the recommendation:

While an argument can be made to allow the political subdivisions to stay on the plan though June 2015 it seems the approach with the least risk to the plan would be to say the plan year ends June 30, 2014 and advise the effected political subdivisions they will need to find alternative coverage due to the requirements of the ACA.

Please note that we anticipated this issue during the last legislative session and modified NDCC 54-52.1 to allow political subdivisions to leave the PERS health plan without penalty if it was required by the ACA.

Board Action Requested

Determine if affected political subdivisions will need to leave the PERS plan on July 1, 2014 or July 1, 2015.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 13, 2014

SUBJECT: Health Consultant

At the last meeting we discussed if we should continue with Deloitte as our group insurance consultant for the next two years. It was decided that we should get an offer from them. Attached is a letter from Pat with Deloitte. Unlike our retirement consultant which has certain specific projects during the course of the contract, our health consultant is an advisor based upon specific questions that arise during the course of the contract. The only exception to this is the health bid. You will note that Pat included the estimated cost of that effort in the Health Plan placement memo. Consequently, for the other efforts their costs are billed on an hourly basis. Reflected on the attached memo is the hourly rates for Deloitte.

Areas that we need general consulting help include:

1. Implementation of the shared responsibility rules
2. Implementation of other parts of the ACA
3. HIPPA
4. COBRA
5. Part D Renewals
6. Other group insurance areas such as dental, vision and life

Staff would recommend continuing with Deloitte for the next two years to maintain the continuity for implementation of the ACA.

Deloitte Consulting LLP
50 South Sixth Street
Suite 2800
Minneapolis, MN 55402
USA

Tel: 612-397-4000
Fax: 612-692-4094
www.deloitte.com

February 10, 2014

Mr. Sparb Collins
North Dakota Public Employees Retirement System (NDPERS)
400 East Broadway, Suite 505
Box 1214
Bismarck, ND 58502

**Subject: North Dakota Public Employees Retirement System (NDPERS)
2014 – 2015 Consulting Services**

Dear Sparb:

Deloitte Consulting was asked to provide our hourly billing rates for providing our consulting services over the next two years. The billing rates were not increased for 2013, so the proposed rates do reflect a small increase from 2012.

Consulting Title	2014 Hourly Billing Rate	2015 Hourly Billing Rate
Director	$480	$495
Senior Manager/Specialist Leader	$430	$450
Manager	$400	$420
Analyst/Consultant	$235	$250

Our billing rates include expenses for overhead, but exclude travel expenses, which are subject to approval in advance by you.

We look forward to continuing to work with you and the PERS Board.

If you have any questions, please contact me at 612.397.4033 or at ppechacek@deloitte.com.

Sincerely,

Deloitte Consulting LLP

By: Patrick L. Pechacek

Patrick L. Pechacek
Director

cc: Josh Johnson

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
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Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 13, 2014

SUBJECT: Health Plan Placement

Attached is a memo from Deloitte concerning the upcoming bid for the group health plan.

The primary question we need to address is how to move forward with the plan. A final decision does not need to be made at this meeting, but should be made by the March meeting especially if we elect to do a 6 year bid for both a fully insured and self insured plan.

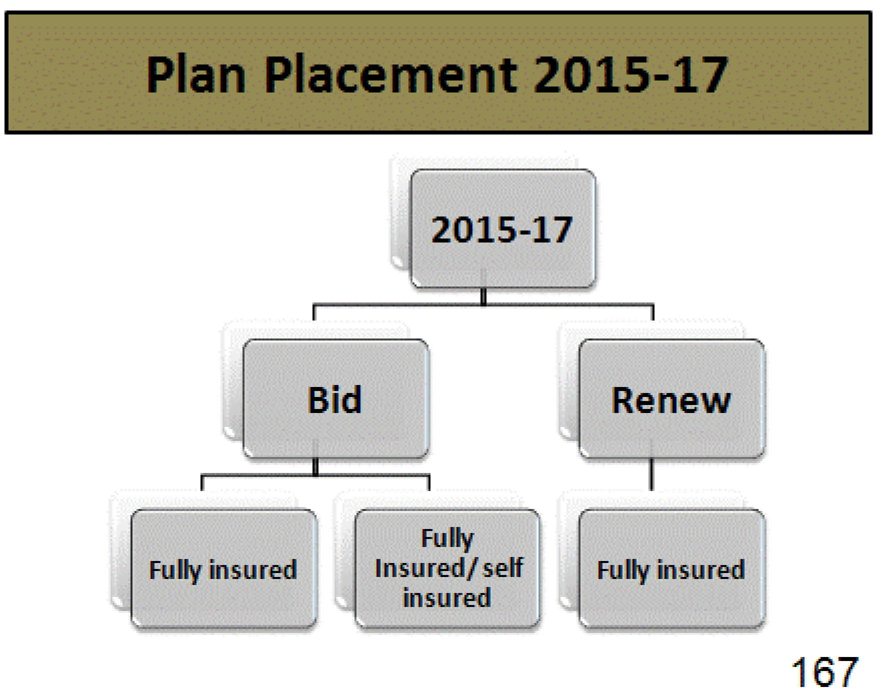
The existing contract with BCBS expires June 2015. It has been our past practice to issue RFP's for both fully insured and self insured bids for a six year period. In 2011 and 2013 we elected to issue the bid for two years and for fully insured for the following reasons:

1. At that time it was understood that changing carriers would have resulted in the plan losing its "Grandfathered" status under the health reform bill.
2. Due to the evolving nature of the health care marketplace because of health care reform, it was felt it would be difficult for PERS to fully consider a self insured product since we would not be able to clearly understand the extent of the financial and actuarial risks to the plan. More specifically, health care reform and its implications could cause a plan to face new risks that could not be fully understood or quantified

that would limit our ability to fully understand the implications of self insurance. In addition, given the time, effort and resources required to submit and review a bid, it was felt it would not be fair to vendors to ask for a bid that we could not fully consider given the above.

3. We also noted some NDCC statutory provisions that limited our ability to fully consider self insurance. Legislation was submitted and approved relating to these concerns

We are now in 2014 and have the same set of decisions before us and some of the same uncertainties.



The first set of decisions is do we bid for a fully insured plan only or fully insured and self insured. The following are some considerations:

Plan Placement 2015-17

Fully insured only

- The demographics of our group could change in the next 2 years
  - the continued implitation of the employer requirements may motivate some employer to stop offer coverage
  - Small employers are required to leave the PERS plan
  - The state is studying changing its premiums policy
- The full scope of ACA on the marketplace is not yet certain
- Under statute if we select self insured it must be a 4 year commitment (54-52.1-04.1) which may be difficult in today' environment.
- If we are not able to fully consider self insured we are putting a lot of firms through a lot of work which could effect their willingness to submit latter when we can give it full consideration

Fully insured/self insured

- The consultant cost is higher
- Even if we are not able to accept self insured we could get a picture of what the market has to offer

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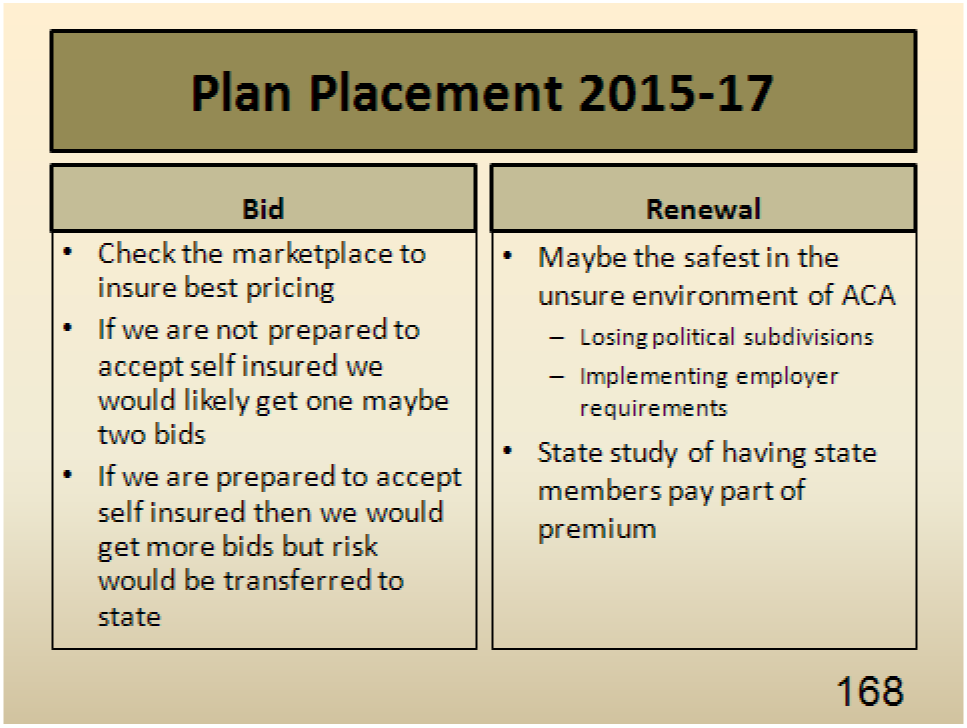
Due to ACA, our changing demographics and longer contractual commitment required to self insure, **staff is recommending fully insuring for the 2015-17 period.**

The second set of decisions is to bid or renew with BCBS. The following are some considerations:



In addition to the above, please note that in our last RFP we stated:

Term of Contract

The North Dakota Public Employees Retirement System is governed by North Dakota State statues, which includes a requirement to solicit bids for medical benefits coverage for a specified term for a fully-insured arrangement and every other biennium for an Administrative Services arrangement. NDPERS has determined that the specified term for providing such hospital and medical benefits under a fully-insured arrangement shall be two years however NDPERS reserves the right to extend the agreement subject to negotiation with the successful vendor for another two years if the Board deems it necessary. (underlining added)

Staff would suggest that we invite BCBS and Deloitte to the next meeting to discuss the possibility of renewing the contract for two years. After that discussion we can decide how to proceed.

Also, note in the Deloitte memo their estimated cost for the different efforts. **Staff is recommending that we continue with them for the effort selected.**

Deloitte.

Deloitte Consulting LLP
50 South Sixth Street
Suite 2800
Minneapolis, MN 55402
USA

Tel: 612-397-4000
Fax: 612-692-4094
www.deloitte.com

February 7, 2014

CONFIDENTIAL

Mr. Sparb Collins
400 East Broadway, Suite 505
Box 1214
Bismarck, ND 58502

Subject: Upcoming Biennial Health Plan Strategy

Dear Sparb:

Deloitte Consulting was asked to provide recommendations regarding the upcoming two-year health plan rating cycle. Essentially, there are two avenues open to PERS at this time. The first is to seek competitive proposals through a procurement process for either fully or self-insured arrangements. The other option is to request a renewal proposal from BCBS. We were also asked to provide a fee estimate to assist PERS with either of these activities.

Fully Insured vs. Self-Insured

Several environmental factors need to be considered as part of this consideration:

- There continues to be some uncertainty around the Affordable Care Act and how it will continue to be implemented and modified. However, it is less of an issue than when PERS was faced with the same set of decisions two years ago.
- Due to changes in North Dakota legislation, the size of the PERS pool may begin to shrink in size due to the loss of smaller non-grandfathered plan groups. Again, on its own, this should not present a significant issue.
- It is our understanding that the legislature is giving serious consideration to requiring employee contributions. If that were to occur, some employees would likely opt out of the program. Those opting out would likely be less costly than those that remain in the program.

Taking several of the environmental factors into consideration would seem to argue that PERS should take less risk. Given that to be the case, it would be prudent to continue the existing funding arrangement for the plan.

Competitive Bids vs. Renewal

Assuming that there is a competitive marketplace, PERS could expect to receive the most aggressive proposals by bidding the health plan. In the last bid process that was the case when Sanford provided a competing proposal.

However, Sanford appeared to have underestimated the financial pricing as well as the operational challenges in providing PERS with the required services. At this point, we don't have any reason to believe that Sanford would be any better prepared than during the last bid. We would suspect that the cost proposal would be less aggressive as well. Neither we, nor PERS staff, have had any discussions with Sanford since the last bid process.

The underlying question then is whether BCBS would view Sanford as a viable threat to winning the bid at this time. If they do, then they may be much more aggressive in making their proposal. If not, then the proposal would not be any different than what PERS would expect to see through the renewal process. We suspect that BCBS would not likely view Sanford as a viable threat at this time. However, that might easily change two years out, when this decision is being visited again.

PERS also needs to consider the cost and staff time to be expended in conducting a competitive bidding process rather than negotiating a renewal. Unless Sanford is well positioned to compete, we believe PERS should pursue a renewal strategy.

Estimated Fees

Our estimate for fees (not including travel expenses) for assisting PERS are as follows:

Project Assistance	Estimated Fees
Competitive Bidding including Self-Insurance Options	\$100,000 - \$150,000
Competitive Bidding Fully Insured Only (two proposals received)	\$75,000 - \$100,000
Competitive Bidding Fully Insured Only (one proposal received)	\$40,000 - \$60,000
Two-year Renewal with BCBS	\$20,000 - \$40,000

If you have any questions, please contact me at 612.397.4033 or at ppechacek@deloitte.com.

Sincerely,

Patrick L. Pechacek
Director

cc: Josh Johnson

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Memorandum

TO: **NDPERS Board**

FROM: **Kathy & Sparb**

DATE: **February 12, 2014**

SUBJECT: **Technical Legislation**

In March we must finalize our proposed legislation. Attachments 1 & 2 are suggestions by PERS staff relating to various administrative changes for the Main and Highway Patrol Systems and the Uniform Group Insurance Program. Staff is requesting your direction on the attached so we can prepare legislative bill drafts for your consideration and approval at the March meeting.

Board Action Requested

Determine what items should be included in proposed legislation for next session.

Retirement – Main System

Attachment 1

	NDCC Section Changed	Proposed Change	Reason for Proposed Change
1	**54-52-17.2 (1b 1 & 2)**	Update the final average salary from 120 to 180 months. b(1)*The final average* ~~*of the highest*~~ *salary* ~~*received by the member for any thirty-six months employed during the last one hundred twenty months of employment in the public employees retirement system salary*~~ *as calculated in 54-52-17. b(2) The final average* ~~*of the highest*~~ *salary* ~~*received by the member for any thirty-six consecutive months during the last one hundred twenty months*~~ *as calculated in 54-52-17* ~~*of*~~ *for employment with any of the three eligible employers under this subdivision, with service credit not to exceed one month in any month when combined with the service credit earned in the alternate retirement system.*	This is a technical correction as this was previously overlooked when this change was originally implemented.
2	**54-52-02.9 & 54-52.6-02(3)**	Eliminate eligibility of temporary employees to participate in the Main and Defined Contribution plans, prospectively.	Participation by these individuals is a liability to the Retiree Health Insurance Credit fund.
3	**54-52-17.2**	Clarify that dual membership does not apply to temporary employees.	Participation by these individuals is a liability to the Retiree Health Insurance Credit fund.
4	**54-52-05 & 06**	Allow the NDPERS board general authority to establish rules with regard to options available to members to make payment for missed retirement contributions. *The board may establish rules to specify a payment option for missed retirement contributions*	Currently members are only allowed to make up missed retirement contributions with a lump sum payment.
5	**54-52-02**	Allow NDPERS to 'auto' enroll eligible members for participation in the respective defined benefit plan when we have all information necessary required from the employer to determine eligibility and the employer is reporting wages and paying contributions for a member that was not enrolled by the employer.	If the employer does not enroll an eligible member for participation, NDPERS cannot accept the contributions. See comments provided by Segal in attachment 2.
6	**54-52-17.14**	Incorporate the provisions of the Heroes Earnings Assistance and Relief Tax Act (HEART). *If a participating member dies on or after January 1, 2007 while performing qualified military service (as defined in section 414(u)(5) of the Internal Revenue Code), the deceased member's beneficiaries shall be entitled to any death benefits (other than credit for years of service for purposes of benefits) that would have been provided under the Plan if such participating*	Compliance with federal requirements. (Language was provided by Segal.)

	NDCC Section Changed	Proposed Change	Reason for Proposed Change
		member had resumed employment and then terminated employment on account of death. In addition, the period of such member's qualified military service shall be treated as vesting service under the Plan."	
7	**54-52-28**	The board shall administer the plan in compliance with the following sections of the Internal Revenue Code in effect on August 1, ~~2013~~2015, as it applies for governmental plans.	Each session we submit this to update the reference to the IRS code.

Retirement – Highway Patrol

	NDCC Section Changed	Proposed Change	Reason for Proposed Change
1	**39-03.1-14.1(3a&b)**	Update final average salary from 120 to 180 months. 3(a) *By using the final average salary ~~of the highest salary received by the member for any thirty-six months employed during the last one hundred twenty months of employment in the highway patrolmen's retirement system.~~ as calculated in 39-03.1-11.* *3(b) Using the final average ~~of the highest~~ salary ~~received by the member for any thirty-six months during the last one hundred twenty months~~ as calculated in 39-03.1-11 ~~of~~ for employment, with service credit not to exceed one month in any month when combined with the service credit earned in the alternate retirement system.*	This is a technical correction as this was previously overlooked when this change was originally implemented.
2	**39-03.1-11.2**	The board shall administer the plan in compliance with the following sections of the Internal Revenue Code in effect on August 1, ~~2013~~2015, as it applies for governmental plans.	Each session we submit this to update the reference to the IRS code.
3	**39-03.1-01(06)**	*"Salary" means the actual dollar compensation, excluding any bonus, overtime or expense allowance, paid to or for a contributor for the contributor's services.*	Clarify the definition of Salary.

Group Health

	NDCC Section Changed	Proposed Change	Reason for Proposed Change
1	**54.52.1-03.4**	*A temporary employee employed before August 1, 2007, may elect to participate in the uniform group insurance program by completing the necessary enrollment forms and qualifying under the medical underwriting requirements of the program <u>if such election is made prior to and they are participating in the uniform group insurance program as of January 1, 2015.</u> A temporary employee employed on or after August 1, 2007, is only eligible to participate in the uniform group insurance program if the employee is employed at least twenty hours per week and at least twenty weeks each year of employment <u>and elected to participate prior to, and is participating in the uniform group insurance program as of January 1, 2015.</u> A temporary employee first employed <u>on or</u> after ~~December 31, 2013~~ <u>January 1, 2015</u>, <u>or any temporary employee not participating in the uniform group insurance program as of January 1, 2015,</u> is eligible to participate in the uniform group insurance program only if the employee meets the definition of a full-time employee under section 4980H(c)(4) of the Internal Revenue Code [26 U.S.C. 4980H(c)(4)].*	To comply with the new definition of temporary employees contained in the ACA. Language was provided by legal counsel.
2	**54-52.1-18**	Propose language to clarify that participation by political subdivisions would be as a group and not as an option to the PPO/Basic plan on an individual employee basis. *<u>A political subdivision electing this option agrees to only offer the high deductible health plan to employees and will not offer the plan under section 54-52.1-06.</u> ~~Each new employee of a participating employer under this section must be provided the opportunity to elect the high-deductible health plan alternative.~~*	Based on current language, it appears that coverage can be made available to political subdivisions on an individual basis as an option to the PPO/Basic plan. The intent was to make the HDHP available on a group basis.

3	**54-52.1-18**	Clarify conditions under which an employee may maintain coverage in the HDHP if the employer is unable to establish an HSA. *Subject to the limits of section 223(b) of the Internal Revenue Code [26 U.S.C. 233(b)], the difference between the cost of the single and family premium for eligible state employees under section 54-52.1-06 and the premium for those employees electing to participate under the high-deductible health plan under this section must be deposited in a health savings account for the benefit of each participating employee <u>unless the public employees retirement system is unable to establish a health savings account due to the employee's ineligibility under federal or state law or due to the failure of the employee to provide necessary information in order to establish the account, then the system shall not be responsible for depositing the health savings account contribution. The member will remain a participant in the high deductible health plan.</u> Each new <u>state</u> employee ~~of a participating employer under this section~~ must be provided the opportunity to elect the high-deductible health plan alternative. At least once each biennium, the board shall have an open enrollment period allowing existing <u>state</u> employees ~~of a participating employer under this section~~ to change their coverage.*	Federal law requires confirmation of certain demographic data in order for an HSA to be established and accept contributions for a participant. Provides staff with direction as to options should a participant not respond to our request for information or is not eligible to have an HSA.

Attachment 2

1) Since participation in the Plan is mandatory and you already receive the information necessary to enroll new members, I think PERS has the authority to adopt a policy on establishing membership in Plan for new employees while you are waiting for the member to complete the required enrollment form. This should be an interim solution until you can amend the Admin Code and/or Century Code to establish enrollment without the member completing a form, since a statutory rule on enrollment would be preferable to an internal policy. It is fairly common among contributory governmental plans to require an enrollment form from new members, even though membership is mandatory, so other public systems have such internal policies on what to do if the member does not complete the form.

2) In order to ensure that such a policy is consistent with the current Admin Code rules, you may wish to include language that describes why and how you are “auto enrolling” new members until an enrollment form is received. That is, you could state that: a) membership is mandatory; b) PERS receives sufficient information from the employer to enroll new members; c) PERS has determined that it is prudent to allocate the contributions made on behalf of new members as soon as possible, even where an enrollment form has not yet been submitted; d) once an enrollment form is submitted by the new member, enrollment and participation are retroactive to the date of hire (or other participation entry date). I would also recommend that the policy clearly indicate that this policy governs permanent employees and does not affect the current rules for temporary employees to voluntary enroll in the PERS.

3) The only concern that you may want to address is whether the State’s wage withholding laws require a member’s permission before employee contributions can be deducted from wages, which may explain why an enrollment form is necessary.

Regards.

Melanie Walker, JD
Vice President
The Segal Group
5990 Greenwood Plaza Blvd., Suite 118 | Greenwood Village, CO 80111-4708
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FAX: (701) 328-3920 ● EMAIL: NDPERS@state.nd.us ● discovernd.com/NDPERS

Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **February 12, 2014**

SUBJECT: **Board Election**

The terms of Board members Joan Ehrhardt and Howard Sage will expire on June 30, 2014. Pursuant to Section 71-01-02-01 of the election rules, the Retirement Board must appoint a committee of three from its membership, one of whom must be designated as chair, to oversee the election process.

BOARD ACTION REQUESTED:

Appoint a committee of three from the Board and designate one as chairman.

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Memorandum

TO: PERS Board

FROM: Deb Knudsen

DATE: February 12, 2014

SUBJECT: Administrative Rules Update

Staff submitted the administrative rules for submission to the Attorney General's office for final review after the board approved them at the November meeting. They were deemed to be in compliance with the legal requirements of the century code and have been submitted to the Legislative Council. The next step will be a review by the Legislative Rules Committee, which is scheduled for March 11. Generally the rules will take affect after this body of legislators has reviewed it. Provided they are passed through committee, they would become effective April 1, 2014.

Wayne Stenehjem
ATTORNEY GENERAL

STATE OF NORTH DAKOTA
OFFICE OF ATTORNEY GENERAL
STATE CAPITOL
600 E BOULEVARD AVE DEPT 125
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www.ag.nd.gov

RECEIVED
JAN 10 2014
ND PERS

OPINION

January 9, 2014

Mr. Sparb Collins
Executor Director
Public Employees Retirement System
PO Box 1657
Bismarck, ND 58502-1657

Dear Mr. Collins:

The Office of Attorney General has examined the proposed amendments to N.D.A.C. title 71 concerning the Public Employees Retirement System, along with the notice of the proposed rules, the publication of that notice, and the filing of that notice with the Legislative Council. This office has also determined that 1) a written record of the agency's consideration of any comments to the proposed rules was not made because there were no comments, 2) a regulatory analysis was not issued nor was one requested, 3) a takings assessment was not prepared, 4) a small entity regulatory analysis and an economic impact statement were not prepared because the proposed rules have no adverse impact upon small entities, and 5) the proposed rules are within the agency's statutory authority.

These administrative rules are in compliance with N.D.C.C. ch. 28-32 and are hereby approved as to their legality. Upon final adoption, these rules may be filed with the Legislative Council.

Sincerely,

Wayne Stenehjem

Wayne Stenehjem
Attorney General

eee/vkk
cc: John Walstad, Legislative Council

MEMORANDUM

TO: NDPERS Board

FROM: Jim Smrcka

DATE: January 21, 2014

SUBJECT: **Consultant Fees**

Attached is a report showing the consulting, investment and administrative fees paid during the quarter ended December 2013.

Attachment

North Dakota Public Employees Retirement System
Consulting/Investment/Administrative Fees
For the Quarter ended December 31, 2013

	Program/Project	Fee Type	Oct-13	Nov-13	Dec-13	Fees Paid During The Quarter	Fees Paid Fiscal Year-To-Date	
Actuary/Consulting Fees:								
Deloitte Consulting	Health RFP				8,889	8,889	13,712	
Mid Dakota Clinic	Retirement Disability	Time charges	550	1,600	300	2,450	4,450	
The Segal Company	Retirement (DB)	Fixed Fee	17,750			17,750	34,800	
The Segal Company	Ret Health Credit	Fixed Fee	3,275			3,275	6,425	
The Segal Company	Job Service	Fixed Fee	4,750			4,750	9,325	
The Segal Company	QDRO/Compliance	Time charges	2,310	5,600		7,910	15,481	
The Segal Company	Legislation	Time charges	17,990	7,280		25,270	52,273	
The Segal Company	Def comp	time charges		3,360		3,360	3,360	
			$ 46,625	$ 17,840	$ 9,189	$ 73,654	$ 139,825	
Audit Fees:								
Brady Martz	Annual audit	Fixed Fee			$ 15,000	15,000	45,000	Audit Fees:
Legal Fees:								
ND Attorney General	Administrative	Time charges	$ -	$ -	$ -	-	-	ND Attorney General
Calhoun Law Group	Administrative	Time charges	-	-	-	-	-	
Investment Fees:								
SIB - Investment Fees	Retirement (DB)	% Allocation	93,940	193,150	$ 978,152	1,265,242	3,830,405	SIB - Investment Fees
SIB - Investment Fees	Ret Health Credit	% Allocation	450	508	$ 53,116	54,074	122,535	SIB - Investment Fees
SIB - Investment Fees	Insurance	% Allocation	261	271	$ 378	910	2,516	SIB - Investment Fees
SIB - Administrative Fees	Retirement (DB)	% Allocation	13,682	24,501	$ 24,536	62,719	154,136	SIB - Administrative Fees
Administrative Fee:								
Blue Cross Blue Shield	Health Plan	Fixed fee	$ 1,717,722	$ 1,719,632	*	3,437,354	8,558,962	Blue Cross Blue Shield

*** fees not yet available**

SIB Investment Fees is investment expenses from the previous months Rio financial statement for instance Jun 30 statement expenses will show on July 31 consultant fees.

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MEMORANDUM

TO: NDPERS Board

FROM: Jamie Kinsella Jamie

DATE: December 19, 2013

SUBJECT: **August 21, 2013 PERS Audit Committee Minutes**

Attached are the approved minutes from the August 21, 2013 meeting. Those who attended the meeting are available to answer any questions you may have.

The minutes may also be viewed on the NDPERS web site at www.nd.gov/ndpers.

The next audit committee meeting is tentatively scheduled for February 19, 2014 10:00 a.m., in the NDPERS Conference Room.

Attachment

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MEMORANDUM

TO: Audit Committee
Jon Strinden
Arvy Smith
Rebecca Dorwart

FROM: Jamie Kinsella, Internal Auditor Jamie

DATE: October 2, 2013

SUBJECT: **August ~~14~~ 21, 2013 Audit Committee Meeting**

In Attendance:
Jon Strinden
Arvy Smith
Jamie Kinsella
Sparb Collins
Julie McCabe

The meeting was called to order at 10:00 a.m.

I. May 15, 2012 Audit Committee Minutes

The audit committee minutes were examined and approved by the Audit Committee.

II. Internal Audit Reports

A. Quarterly Audit Plan Status Report – A summary of the internal audit staff time spent for the past quarter was included with the audit committee materials.

B. Audit Recommendation Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit recommendations of the external auditors, as well as any found by the internal auditor. A copy of the report was included with the audit committee materials with updates as of July 31, 2013.

C. Benefit/Premium Adjustments Report – The quarterly benefit adjustment report was provided to the audit committee. The report is in two sections, Retirement and Insurance. This report has 7 retirement and 6 health adjustments. There was discussion that followed.

III. Administrative

A. Audit Committee Meeting Date & Time – The next audit committee meeting is scheduled for December 5, 2013 at 10:00 a.m.

B. Risk Assessment – Prior to PERSLink Internal Audit had set a goal to conduct an enterprise risk assessment every four years. This assessment was due to be completed the first quarter of fiscal year 2014, but due to shortage of resources this goal was unable to be accomplished. Internal Audit's current goal is to evaluate best practices and determine how we can apply them to our existing risk management framework.

Internal Audit is planning to evaluate their risk assessment methodology and refine their current process early in the second quarter of 2014.

This project has not been started due to the time it has taken to wrap up the fiscal year end 2013 Retirement Benefits and Refund Audit, start the FY 2014 Retirement Benefits and Refund Audit, and conduct the audit work for Brady Martz. The auditors are hoping to be able to do some work on this project in September. There was discussion that followed regarding the format of the risk assessment.

IV. Miscellaneous

A. External Auditors – Brady Martz and staff conducted their preliminary audit work the week of June 24th through June 28th. They will return again August 26th through September 6th, 2013 to complete their field work. The auditors are finishing up the testing for Brady Martz the week of August 14th and should be ready for them the week of August 19th.

Sharon Schiermeister and Jim Smrcka have been hard at work getting financial information up to date for the auditors. All but retirement will be ready for the auditors. Discussion followed regarding future GASB changes. It was suggested to have Brady Martz do a presentation on GASB 67 and 68 at the December meeting.

B. Travel Expenditures Update – There were no travel expenditures incurred by the Board and/or Executive Director for out-of-state travel submitted from May 1, 2013 through July 31, 2013.

C. Risk Management Report – The Loss Control Committee will provide quarterly to the Audit Committee a copy of the Loss Control Committee's agenda from their last meeting as well as the approved minutes. Copies of the March 13, 2013 meeting and the agenda for the June 6, 2013 meeting were provided to the audit committee.

D. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should "Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." Attached was a copy of the report showing the actuary/consulting audit, legal, investment and administrative fees paid during the quarter ended June 30, 2013. This report was changed to fiscal year to date as requested.

E. Publications – The June 2013 publications of the Tone at the Top were provided to the Audit Committee for their perusal.

F. Webinars and CPE's – Ms. Kinsella and Ms. McCabe have been participating in the free Webinars that the Institute of Internal Auditors provide for their members. Each 1 hour webinar provides 1 hour of continuing professional education credits. The internal auditors have attended four webinars from March 1, 2013 through July 30, 2013. These webinars are held during the lunch hour so the internal auditors remain available to staff during normal business hours.

In addition, the internal auditors attended a two day Excel seminar in Bismarck to enhance their skills using Excel.

Meeting adjourned at 10:45 a.m.