NDPERS BOARD MEETING
Agenda

Bismarck Location:
WSI Boardroom
1600 East Century Avenue
Fargo Location:
WSI Meeting Room
2601 12th Ave SW

July 17, 2008 **Time: 8:30 AM**

Revised Agenda

I. MINUTES

A. June 19, 2008

II. GROUP INSURANCE

A. Medica Presentation – (Information)
B. Renewal – Sparb (Information)
C. BCBS Member Satisfaction Survey – BCBS (Information)
D. HB1433 Update – Sparb (Information)
E. Medicare Part D – Sparb (Board Action)
F. Formulary Changes – Sparb (Information)
G. Surplus/Affordability Update – Bryan (Information)

III. RETIREMENT

A. Disability – Sparb (Board Action)
B. Asset Allocation Studies – Sparb (Board Action)
C. New Employer Update – Kathy (Information)
D. Member Education Update – Kathy (Information)

IV. MISCELLANEOUS

A. Legislative Technical Reviews – Sparb (Board Action)
B. Board Committee Assignment – Sparb (Board Action)
C. Internal Audit Policies – Jamie (Board Action)
D. Quarterly Consultant Fees – Jim (Information)
E. SIB Agenda
F. Executive Director Review – Jon (Board Action)

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: July 9, 2008

SUBJECT: Medica Presentation

At the Board planning meeting in December we decided to invite various groups in to discuss health care in North Dakota. In May we had the Insurance Department. This month Medica will give us a presentation. Medica is an insurance company that is expanding its coverage into North Dakota and is the second largest health insurance carrier in our state. The following information is from their website:

Medica Fact Sheet

Medica is a non-profit corporation that includes a family of businesses: Medica Health Plans, Medica Health Plans of Wisconsin, Medica Insurance Company, Medica Self-Insured, Medica Health Management, LLC, and the Medica Foundation. Medica has the highest accreditation status, Excellent, from the National Committee for Quality Assurance (NCQA©) for its Minnesota Medicaid HMO plans and commercial health plans in Minnesota and North Dakota. Medica also has achieved Quality Plus Distinction for Physician and Hospital Quality from the NCQA.

History
Medica was founded by physicians in 1975 as Physicians Health Plan. It was the first open-access health plan in the state. In 1991, PHP merged with Share to become Medica. And in 1994, Medica merged with HealthSpan to form Allina Health System, an integrated organization offering both health care coverage and medical services. Medica became an independent health plan in 2001.

Membership
Medica provides health coverage to 1.3 million members. Its coverage is available to individuals, employers, third-party administrators and government programs in Minnesota and select counties in Wisconsin, North Dakota and South Dakota.

Provider Network
Medica's broadest regional provider network includes 27,000 providers at more than 4,000 offices, clinics and hospitals in Minnesota, Wisconsin, North Dakota and South Dakota. More than 96% of Minnesota providers participate in this network. Medica also offers a health plan with coverage that features access to a large national network of nearly 500,000 providers and 5,000 hospitals. In addition, Medica offers several plans that feature smaller, cost-efficient networks.

Financials
In 2006, Medica generated $2.4 billion in revenue. Nearly 91 percent of fully insured premium revenue was used to pay health care expenses.

Community Involvement
In 2007, Medica employees raised a grand total of $277,345 to support local charities, social services and various health initiatives in the community. The Medica Foundation provides funding to community-based initiatives and programs that support the needs of Medica's customers and the greater community by improving their health and removing barriers to health care services. In 2006, the Medica Foundation provided $1.5 million in grants to community-based and statewide projects that address behavioral health issues, disparities in health care, healthy living and health care literacy, prevention and preventive services and support for seniors. Medica Foundation Annual Reports are available online.

Medica also partners with several community projects designed to improve the health of all Minnesotans. These include:

> *Minnesota Community Measurement* -– organization offering quality comparisons among provider groups and clinics Institute for Clinical Systems Improvement –- collaboration of health care organizations provides evidence-graded practical guidelines and technology assessment reports *Minnesota Health Information Exchange* – technology partnership that connects doctors, hospitals and clinics across health care systems so they can quickly access medical records needed for patient treatment during a medical emergency or for delivering routine care

Health Improvement
Medica offers an integrated approach for employers and members to improve health and manage the costs of care. Health improvement programs provide personalized solutions that focus on the whole person, and include a comprehensive set of preventive, fitness, employee assistance, disease management and care coordination programs.

Number of Medica Employees
1,150

Company Locations

Headquarters:
401 Carlson Parkway
Minnetonka, MN 55305

Fulfillment Center:
141 Cheshire Lane
Plymouth, MN 55441

Regional Offices:

Duluth:
130 W. Superior St.
Duluth, MN 55802

Fargo:
1711 Gold Drive South, Suite 210
Fargo, ND 58103

Sioux Falls:
110 South Phillips Ave., Suite 200
Sioux Falls, SD, 57104

St. Cloud / Waite Park:
878 2nd Street South, Suite 160
Waite Park, MN 56387

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: July 10, 2008

SUBJECT: BCBS Renewal

Based upon the action of the PERS Board at the last meeting Attachment #1 is the renewal letter sent to BCBS. At the August meeting we will review the information from BCBS and GBS.

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • Box 1657
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Attachment 1

Sparb Collins
Executive Director
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June 25, 2008

Larry Brooks
Blue Cross Blue Shield
4510 13th Ave SW
Fargo ND 58121-0001

Larry:

I am writing to start the renewal process for the 2009-2011 biennium between BCBS and PERS. With this letter I am forwarding our requests for the renewal and a proposed schedule. You will note we are requesting information on not only the cost of the existing plan but also on several alternative plan designs for both the active and retiree groups. In addition, we are also requesting narrative information discussing the underlying assumptions as outlined herein. The last request relates to proposed legislation that has been submitted to the Legislative Employee Benefits Committee by Representative Potter and Senator O'Connell. As we start this process, I would also ask you to reference the renewal letter for this biennium.

Schedule

The following schedule is proposed for the renewal:

June 25 -	PERS sends renewal letter to BCBS
July 7	PERS, BCBS & GBS have a conference call to answer any questions about the request
July 15	Comments and additional premium cost for Rep Potter & Senator O'Connell's proposed legislation is sent to PERS
July 21	PERS, BCBS & GBS have a conference call to answer any questions about the request
July 31	Proposed renewal is forwarded to PERS by BCBS. GBS completes its estimated renewal cost for the existing plan
August 8	PERS, BCBS and GBS meet in Fargo to go over the BCBS proposal, discuss questions and other topics related to the renewal
Aug 11- 21	Development and review of any additional information relating to the renewal by PERS, BCBS and GBS
Week of Aug 25	PERS Board meets. Reviews information from BCBS, GBS and PERS Staff
Sept 1- 12	Follow-up and development of information requested by PERS Board
Sept 18	PERS Board meeting – renewal accepted or rejected
Sept 22	PERS Board forwards information to the OMB

Plan Design

PERS is requesting renewal premiums on the existing plan design and several alternative plan designs as described in Attachment #1 and #2. Attachment #1 sets forth the existing plan and 3 alternative plan designs. In addition, for the existing plan and alternative 1 and 2 we are requesting additional premium information for each if the co-insurance and out-of-pocket maximums is increased which is identified as "A" and as outlined below:

- The existing plan design
- The existing plan with option "A"
- Alternative 1
- Alternative 1 with option "A
- Alternative 2
- Alternative 2 with options "A
- Alternative 3
- Alternative 3 – the effect on premiums if this is offered as an option alongside any of the above plans

PERS is also requesting for the above the cost of adding the CDC approved immunizations as a benefit. Concerning the rates for political subdivisions and retirees at this point only provide them for the existing plan design. If we do move to one of the alternatives we will request this information at a latter time. Also for the political subdivisions please provide an optional rate structure that would have three tiers (single, SPD and family) and discuss any implications if this change was made.

In addition, we are requesting premium information for ~~a~~ several new plan designs. First would be a new wellness related plan design for active members (including the pre-Medicare retiree). The plan design is described in Attachment #2 which is from the Board memo from the June meeting.

Secondly, we are requesting information on the Medicare retiree plan. As it relates to this plan, we are asking for information on two options:

1. The premium cost of offering a plan design to this group that would be a similar to the Medicare F plan. This would not be a Medicare Supplement plan but rather would be a look alike. We are requesting this not be age rated but rather have a single and family rate for this group. We would also still need a one over one under rate. Also, please identify any considerations PERS should be aware of in reviewing this option.

2. PERS is considering allowing its Medicare retirees the option of selecting the medical coverage or the Rx coverage independently. As you know, existing practice requires them to take the coverage as a package. Please discuss the implications of this change on the plan and the effect on premiums, if any, should this be offered.

Also, when preparing the premium schedules, please be advised of the following:

- All active (state and political subdivision), pre-Medicare, retiree and COBRA rates must be evenly divisible by 2 to accommodate employers who have semi-monthly payrolls.

- The rate quotes must not exceed 2 decimal places.

Narrative Information

1) What is the rating period?
   - If more than 12 months of data is used, how much weighting is placed on the prior experience period versus the current period?
2) What is the IBNR adjustment?
   - How many days, on average, does it take BCBS to pay claims?
   - Is the IBNR adjustment based on BCBS book of business or NDPERS case specific data?
   - Are there any trend assumptions built into the IBNR adjustment?
   - Are there any interest assumptions built in to offset any implied trend?
3) What is the pooling level/point?
   - What was the basis for determining this point?
4) What is the pooling charge?
5) Where, if any, is capitation built into the rating model?
   - Is it based on actual or forecasted capitation?
6) Was any demographic adjustment made?
   - How was it determined?
   - What was the basis of the adjustment?
7) What are the trend assumptions for medical and Rx separately?
   - Prospectively, what are your assumptions regarding contractual changes with providers?
   - How much of the trend adjustment is due to contractual changes?
   - Prospectively, what are you assumptions regarding changes in frequency of procedures?
   - How much of the trend adjustment is due to technology changes?

- How has BCBS adjusted trend for the drugs coming off brand and going generic?
- What is the current NDPERS generic utilization rate?
- What is your forecasted NDPERS generic utilization rate (during the rating period)?

8) What are your retention assumptions, please break out between the following:
   - Administration
   - Profit/Risk
   - Wellness/DM
9) Are any other adjustments made to the rating model?

10) Will BCBS agree to re-review the proposed premium in February of 2009 and if the new projection is lower offer that rate for the 2009-2011 bienniums? If the February reprojection is higher, agree to use the original estimate for 2009-2011? Please review and note the progress on those issues identified in the renewal letter for this biennium.

Legislation

Attachment #3 is two proposed pieces of legislation relating to the PERS Plan. The first relates to colorectal cancer screening coverage and the second relates to coverage of prosthetics. We are requesting by July 15th the additional premium that would be required to add this benefit to the plan. Please assume this would be added to the existing plan design. Also, please identify any assumptions that were used in developing this estimate and identify any considerations that should be taken into account in reviewing this bill.

Sincerely,

Sparb Collins
Executive Director

Attachment #1

PLAN FEATURES	05-07 Plan			07-09 Plan			Alt #1			Alt #2			Alt #3 - HDHP	
	Basic	PPO	EPO	Basic	PPO	EPO	Basic	PPO	EPO	Basic	PPO	EPO	Single	Family
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All $250 $750 services	All $250 $750 services	All $100 $300 services	All $400 $1200 services	All $400 $1200 services	All $200 $600 services	$500 $1500	$500 $1500	$250 $750	$750 $2250	$750 $2250	$500 $1500	$1250	$2500
Copayment for Physician Office Visits Copayment for Emergency Room Visits	$25 $50	$20 $50	$15 $50	$30 $50	$25 $50	$20 $50	$30 $50	$25 $50	$20 $50	$30 $50	$25 $50	$20 $50		
Co-Insurance on covered services **EXCEPT** Physician Office Visits	75/25	80/20	85/15	75/25	80/20	85/15	75/25	80/20	85/15	75/25	80/20	85/15	80/20	80/20
Prescription Formulary Generic Drug - Copayment - Co-Insurance	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%	$5 15%		
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	$15 25%	$15 25%	$15 25%	$20 25%	$20 25%	$20 25%	$20 25%	$20 25%	$20 25%	$20 25%	$20 25%	$20 25%		
Prescription Non-Formulary Drug - Copayment - Co-Insurance	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%	$25 50%		
Co-Insurance Maximum - Individual - Family	$1250 $2500	$750 $1500	$500 $1000	$1250 $2500	$750 $1500	$500 $1000	$1250 $2500	$750 $1500	$500 $1000	$1250 $2500	$750 $1500	$500 $1000	$1250	$2500
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	$1500 $3250	$1000 $2250	$600 $1300	$1650 $3700	$1150 $2700	$700 $1600	$1750 $4000	$1250 $3000	$750 $1750	$2000 $4750	$1500 $3750	$1000 $2500	$2500	$5000
Prescription Drug Coinsurance Maximum (Formulary Only)	$1000	$1000	$1000	$1000	$1000	$1000	$1000	$1000	$1000	$1000	$1000	$1000		
Option A														
Co-Insurance Maximum - Individual - Family				$1500 $3000	$1000 $2000	$750 $1500	$1500 $3000	$1000 $2000	$750 $1500	$1500 $3000	$1000 $2000	$750 $1500		
Out of Pocket Maximums (Deductible & Coinsurance)*														
-Single				$1900	$1400	$950	$2000	$1500	$1000	$2250	$1750	$1250		
-Family				$4200	$3200	$2100	$4500	$3500	$2250	$5250	$4250	$3000		
* - Copayments and Prescription Drugs are Additional														

Attachment #2 - Wellness Plan Design

The following background information is provided relating to the optional wellness plan design. This information sets forth the Board's considerations relating to objectives for the plan, specific changes to the existing plan, new benefits and other considerations.

Area	Objective
Scope of Coverage	PERS should update the plan to invest more in preventive care and wellness
Provider programs	PERS should maintain provider programs that help the plan
Employer Based Wellness	PERS needs to take the wellness efforts to the next step which means more support for the employer effort and more encouragement for plan members
Disease Management	Disease management should continue in the plan but duplication should be minimized/eliminated
Special Programs	Special programs should be encouraged and members should be rewarded for participating
BCBS programs	New BCBS programs provide an opportunity to get members involved

In responding to these objectives, the following constraints were identified:

- To seek only enough premium increase to pay for plan inflation.
- Based upon the existing funding level, modify the plan to accomplish the objectives.
- Wellness incentives should be provided but not directly to the member in terms of direct payments, time off, gift cards, etc.

In other words, the new wellness plan should not cost more than the existing plan design would cost with inflation. In order to achieve the objectives, the wellness plan design would need to be budget neutral which further means that each addition will need to be offset with a change in the existing plan.

With the above in mind, six suggestions emerged relating to a wellness plan design for PERS that considered both the plan design and scope of benefits.

#1 Wellness concept - Providers

- EPO should be eliminated.
  - Providers are no longer willing to participate based upon original terms or modified terms.
  - EPO has been criticized since it is only available in certain areas
  - Loss will affect 40% of members
  - Savings will be 2% but should be reinvested in member benefits that benefit both the member and the plan

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Eliminating the EPO benefit level will save the plan about $13 per contract per month.

#2 Wellness Concept – Disease management

- Health Dialog should be eliminated
  - Legislative NDPhA program will provide disease management for members with Diabetes. If successful can be extended
  - BCBS will be starting their program in Jan 2009
- Savings will be $3.88 per active member contract
- Will lose HRA, general health coaching and web site
- Encourage BCBS to use proven methods in their program that relate to wellness as well as disease management.

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Given the new disease management efforts coming on line, these resources could be used for wellness efforts.

#3 Wellness Concept – Scope of Benefits

- Wellness coverage that should be added:

CDC immunizations	.78
Preventive Care	5.30
\$200 dollar @ 100% then ded & co-insurance	
Influenza @100%	.09
7 Well Child care visits	.11
LRD visit	.65
	6.93

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#3 Wellness concept – Scope of Benefits

- Other benefits:

Circumcision	.16
Chiro (1 copay per day)	.22
	.38

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PERS needs to update its plan design to put an emphasis on coverage that is wellness related. Slide 19 represents those coverage items. Also, the preventive care change means that each member would get $200 to cover preventive care services, something our plan does not generally cover today. With this change not only would a member have first dollar coverage but services beyond the $200 would be covered subject to deductible and co-insurance. As you may recall, many of the complaints we see in our customer service surveys relate to non coverage for these services. The circumcision and chiropractic coverage are general updates to conform with the BCBS standard lines of business.

#4 Wellness Concept– Scope of Benefit

- Standardize plan to BCBS in the following areas:

<u>The following items would be a benefit decrease and produce a rate savings:</u>

1.) change office visits for well child care from coinsurance to copay then 100% = $0.93 per contract per month reduction (this assumes the Medicare benefits would remain at current benefits)

2.) change PT, OT, ST services from deductible then coinsurance to copay then coinsurance = $0.97 per contract per month reduction (this assumes the Medicare benefits would remain at current benefits) (copays assumed are $20 PPO in-area, $25 PPO basic plan, $15 EPO in-network, $25 EPO self-referral)

3.) Maintenance Drugs apply two copays per prescription order or refill for a 35-100 day supply = $1.20 per contract per month reduction

Savings - $3.10

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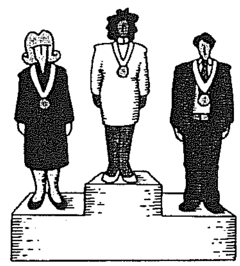
The only reason to standardize these benefits to BCBS other lines of business is for the savings.

#5 Wellness Concept – Plan design

Gold	*EPO level benefits*	*Did you take the assessment and complete your individual action plan by June 30*
Silver	*PPO level benefits*	*Did you take the wellness assessment*
Bronze	*Basic Plan level benefits*	*No to the above*

Gold	*$100 Deductible*	*HRA and certain number of points i.e. 6%*
Silver	*$200 Deductible*	*HRA and certain number of points i.e. 15%*
Bronze	*$300 Deductible*	*HRA and certain number of points i.e. 30%*

Those not getting Gold, Silver or Bronze status get basic or PPO benefits



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#5 cont. Wellness Concept - BCBS

- BCBS has started a new wellness program with Healthways called MyHealth Center. They offer a website, HRA, points systems, health resources, etc
- Cost to add is 72 cents per contract.

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#5 cont. Wellness concept - Points would be the reward

- For exercise
- For participation in agency wellness program
- For taking the HRA
- For taking a nutrition program
- For going to the gym
- For using the web site
- For participating in disease management program
- For taking smoking cessation program
- For whatever can be recorded and encourages wellness

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This relates to our discussion item at the planning meeting (slide number 22); however, it defines the coverage levels more directly. Essentially it sets up a reward mechanism for a member based upon benefits if they earn a certain number of points. The points would be tracked by Healthways a national company under contract with BCBS. This company also provides HRA's and other wellness related material on their website. Please note the member continues to get the Basic/PPO benefit that they get today; however, if they do other wellness related efforts they can further reduce their deductible. At this point this is the concept; the details will need further definition.

With the above change, the new plan design would be as follows

NDPERS
Plan Designs to consider for 7-09/6-11

	Participating Providers		Non-Participating Providers	
	Single	Family	Single	Family
Gold plan (earned enough wellness points to achieve level 1)				
Deductible	$100	$300	$100	$300
Coinsurance %	80/20		75/25	
Coins.Max.	$750	$1,500	$1,250	$2,500
OOPM	$850	$1,800	$1,350	$2,800
Office Visit copay	$25		$30	
ER Facility copay	$50		$50	
Silver plan (earned enough wellness points to achieve level 2)				
Deductible	$200	$600	$200	$600
Coinsurance %	80/20		75/25	
Coins.Max.	$750	$1,500	$1,250	$2,500
OOPM	$950	$2,100	$1,450	$3,100
Office Visit copay	$25		$30	
ER Facility copay	$50		$50	
Bronze plan (earned enough wellness points to achieve level 3)				
Deductible	$300	$900	$300	$900
Coinsurance %	80/20		75/25	
Coins.Max.	$750	$1,500	$1,250	$2,500
OOPM	$1,050	$2,400	$1,550	$3,400
Office Visit copay	$25		$30	
ER Facility copay	$50		$50	
PPO/Basic plan (didn't earn enough points or didn't even take wellness assessment)				
Product determined by Place of Treatment (PPO provider or non-PPO)				
Deductible	$400	$1,200	$400	$1,200
Coinsurance %	80/20		75/25	
Coins.Max.	$750	$1,500	$1,250	$2,500
OOPM	$1,150	$2,700	$1,650	$3,700
Office Visit copay	$25		$30	
ER Facility copay	$50		$50	

Except for the deductible level, the benefits would be identical between all 4 plans.

The effect of all of the above changes on the plan's premiums would be neutral. The following table shows how this balances out.

How does this add up?

- Savings
  - EPO $13.16
  - UND .25
  - Health Dialog 3.88
  - Benefit Stand. 3.10
  - WB .12
  - $20.51
- Costs
  - My health ctr $ .72
  - Benefits 7.31
    - CDC Imm.
    - $200 bev.
    - Influenza
    - Well child
    - LRD
    - Cir.
    - Chiro
  - Plan Design $12.48
    - Gold, Silver, Bronze
  - $20.51

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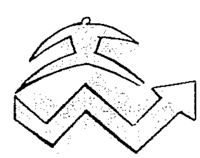
The above combination of savings and costs maintains the wellness plan design option as budget neutral excluding inflation.

#6 Other considerations

- Fund through gains
  - The NDPhA program for the next biennium
  - Fund wellness program benefit from 1% employer wellness premiums



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We would also suggest that the new legislatively mandated disease management program continue to be funded out of gains as the Legislature directed last session and that the wellness benefit program no longer be funded from premium but rather from the difference in premium collected from those employers who do not participate in the Wellness Discount Plan.

#6 Other considerations

- From gains:

Other Initiatives	Biennial Cost
Fund health consultants for comprehensive programs	$400,000
Fund program to screen all members in 4 years.	$800,00

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The final item we are proposing is to set aside up to $400,000 to pay for wellness consultants to assist our employers in developing comprehensive wellness programs at their worksites. As noted in the UND pilot and other literature, comprehensive programs provide the greatest return on investment.

We would also propose a 4 year program of onsite health screenings at all our worksites. We estimate the cost for the first biennium would be $800,000. These efforts would also be funded from gains and not from premium.

These six suggestions accomplish our objectives as outlined at the beginning of this section (noted behind each is the suggestion that responds to the objective).

Does it meet the objectives

Area	Objective	
Scope of Coverage	PERS should update the plan to invest more in preventive care and wellness	#3 & 4
Provider programs	PERS should maintain provider programs that help the plan.	#1
Employer Based Wellness	PERS needs to take the wellness efforts to the next step which means more support for the employer effort and more encouragement for plan members	#5 & 6
Disease Management	Disease management should continue in the plan but duplication should be minimized/eliminated	#2
Special Programs	Special programs should be encouraged and members should be rewarded by participating	#5
BCBS programs	New BCBS programs provide an opportunity to get members involved	#5

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The Benefits Committee suggests and staff agrees that the above plan design and scope of benefits should also be submitted to BCBS for consideration in the renewal.

90124.0100

Attachment #3

Sixty-first
Legislative Assembly
of North Dakota

HOUSE BILL NO.

Introduced by

Representative Potter

A BILL for an Act to create and enact a new section to chapter 54-52.1 of the North Dakota Century Code, relating to public employees retirement system health insurance coverage of colorectal cancer screening; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 54-52.1 is created:

<u>**Insurance to cover colorectal cancer screening.**</u> <u>For all contracts or plans for health insurance which become effective after June 30, 2009, and which do not extend past June 30, 2011, the board shall provide medical benefits coverage under a contract for insurance pursuant to section 54-52.1-04 or under a self-insurance plan pursuant to section 54-52.1-04.2 of the same type offered under the policy or contract for illnesses for colorectal cancer screening examinations and laboratory tests of asymptomatic individuals in accordance with generally accepted standards of medical practice for colorectal cancer screening, such as the guidelines established by the American cancer society or the American college of gastroenterology. For purposes of this section, the determination of an individual's screening risk factors upon which the individual's screening strategy is based must be made by the individual's physician.</u>

SECTION 2. PUBLIC EMPLOYEES RETIREMENT SYSTEM - COLORECTAL CANCER SCREENING HEALTH MANDATE DIRECTIVE. Pursuant to section 54-03-28, the public employees retirement system shall prepare and request introduction of a bill to the sixty-second legislative assembly to repeal the expiration date of section 1 of this Act and to extend the colorectal cancer screening coverage to apply to all group and individual accident and health insurance policies. The public employees retirement system shall append to the bill a report regarding the effect of the colorectal cancer screening coverage requirement on the

system's health insurance programs, information on the utilization and costs relating to the coverage, and a recommendation on whether the coverage should continue.

SECTION 3. EXPIRATION DATE. Section 1 of this Act is effective through July 31, 2011, and after that date is ineffective.

Sixty-first
Legislative Assembly
of North Dakota

SENATE BILL NO.

Introduced by

Senator O'Connell

A BILL for an Act to create and enact a new section to chapter 26.1-36 and a new section to chapter 54-52.1 of the North Dakota Century Code, relating to parity for health insurance coverage of prosthetics.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 26.1-36 of the North Dakota Century Code is created and enacted as follows:

Health insurance policy and health service contract - Prosthetics coverage.

1. As used in this section, "prosthetics" means artificial legs, arms, or eyes. The term includes prosthetic replacements if required because of a change in the covered individual's physical condition, as set forth under title 42, United States Code, section 1395x(s)(9).
2. An insurance company, nonprofit health service corporation, or health maintenance organization may not deliver, issue, execute, or renew any health insurance policy, health service contract, or evidence of coverage on an individual, group, blanket, franchise, or association basis unless the policy, contract, or evidence of coverage provides coverage for prosthetics which at a minimum equals the coverage provided for under the federal medicare program under title 42, United States Code, sections 1395k, 1395l, and 1395m, and title 42, Code of Federal Regulations, sections 414.202, 414.210, 414.228, and 410.100, as applicable to this section.
3. The coverage required under this section:
   a. May require prior authorization for prosthetics in the same manner that prior authorization is required for any other covered benefit.

b. May impose copayment and coinsurance amounts on prosthetics, not to exceed the copayment and coinsurance amounts imposed under part B of the federal medicare fee-for-service program, under title 42, United States Code, chapter 7, subchapter XVIII, part B.

c. Must reimburse for covered prosthetics at a rate that is no less than the fee schedule amount for such prosthetics under the federal medicare reimbursement schedule, under title 42, United States Code, chapter 7, subchapter XVIII.

d. May not impose any annual or lifetime dollar maximum on coverage for prosthetics other than an annual or lifetime dollar maximum that applies in the aggregate to all terms and services covered under the policy, contract, or evidence of coverage.

e. Must provide for repair or replacement of prosthetics if repair or replacement is determined appropriate by the covered individual's treating physician.

f. Must provide for the most appropriate prosthetic model that adequately meets the medical needs of the covered individual as determined by the covered individual's treating physician.

SECTION 2. A new section to chapter 54-52.1 of the North Dakota Century Code is created and enacted as follows:

Insurance to cover prosthetics. The board shall provide medical benefits coverage under a contract for insurance pursuant to section 54-52.1-04 or under a self-insurance plan pursuant to section 54-52.1-04.2 for prosthetics in the same manner as provided for under section 1 of this Act.

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

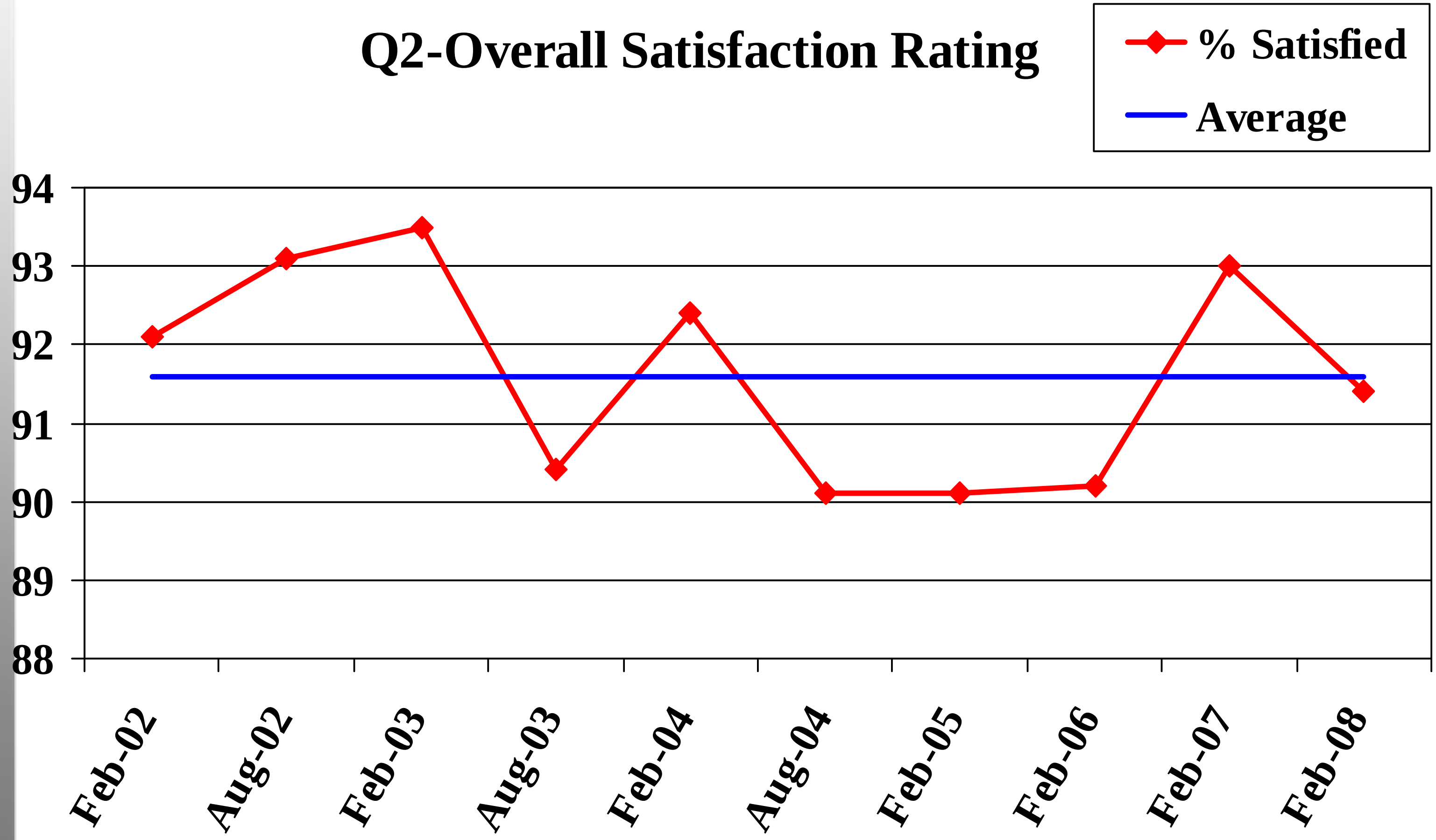
FROM: Sparb

DATE: July 9, 2008

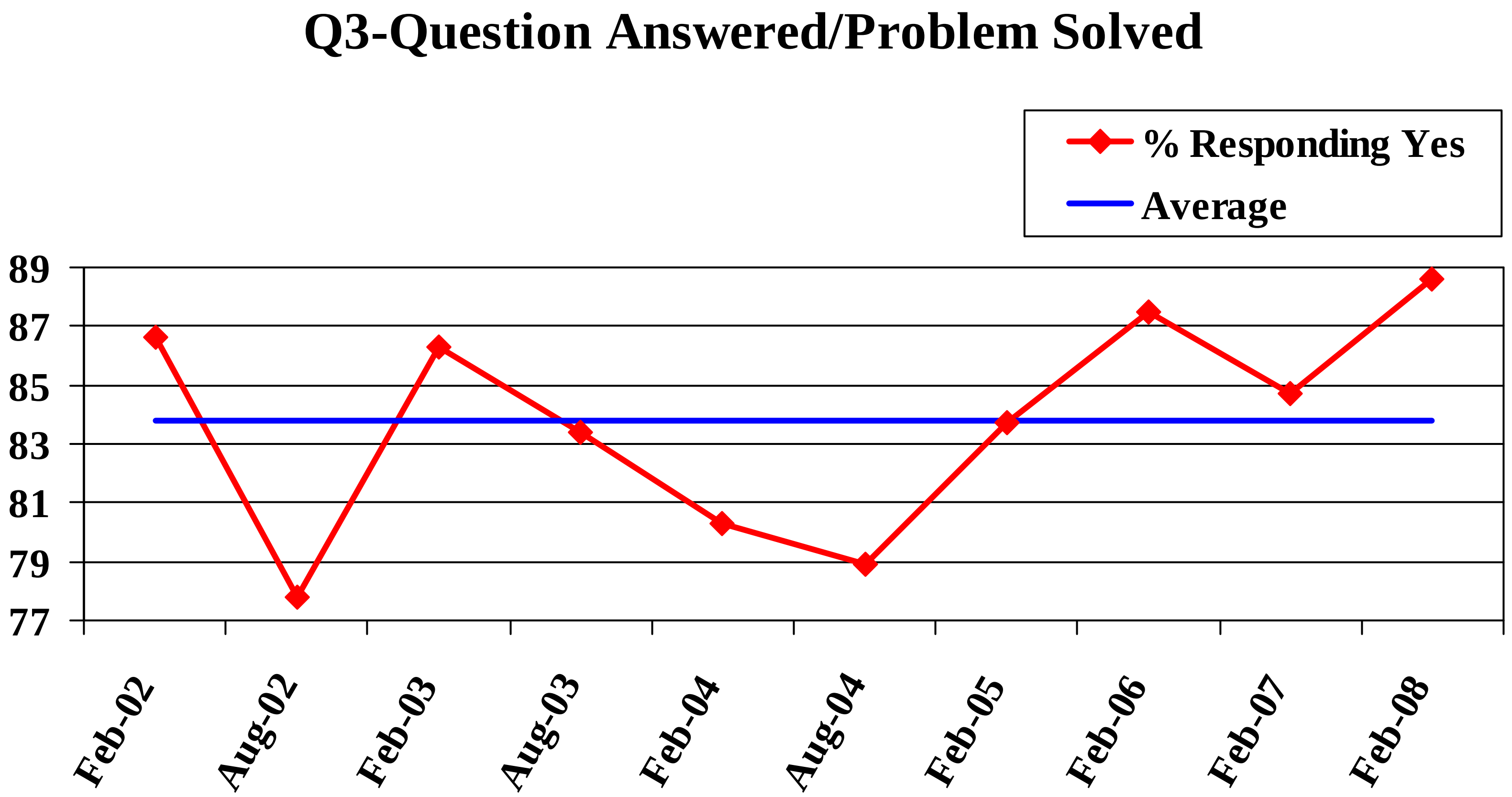
SUBJECT: BCBS Member Satisfaction Survey

Representatives from BCBS will be present at the Board meeting to review the survey information.

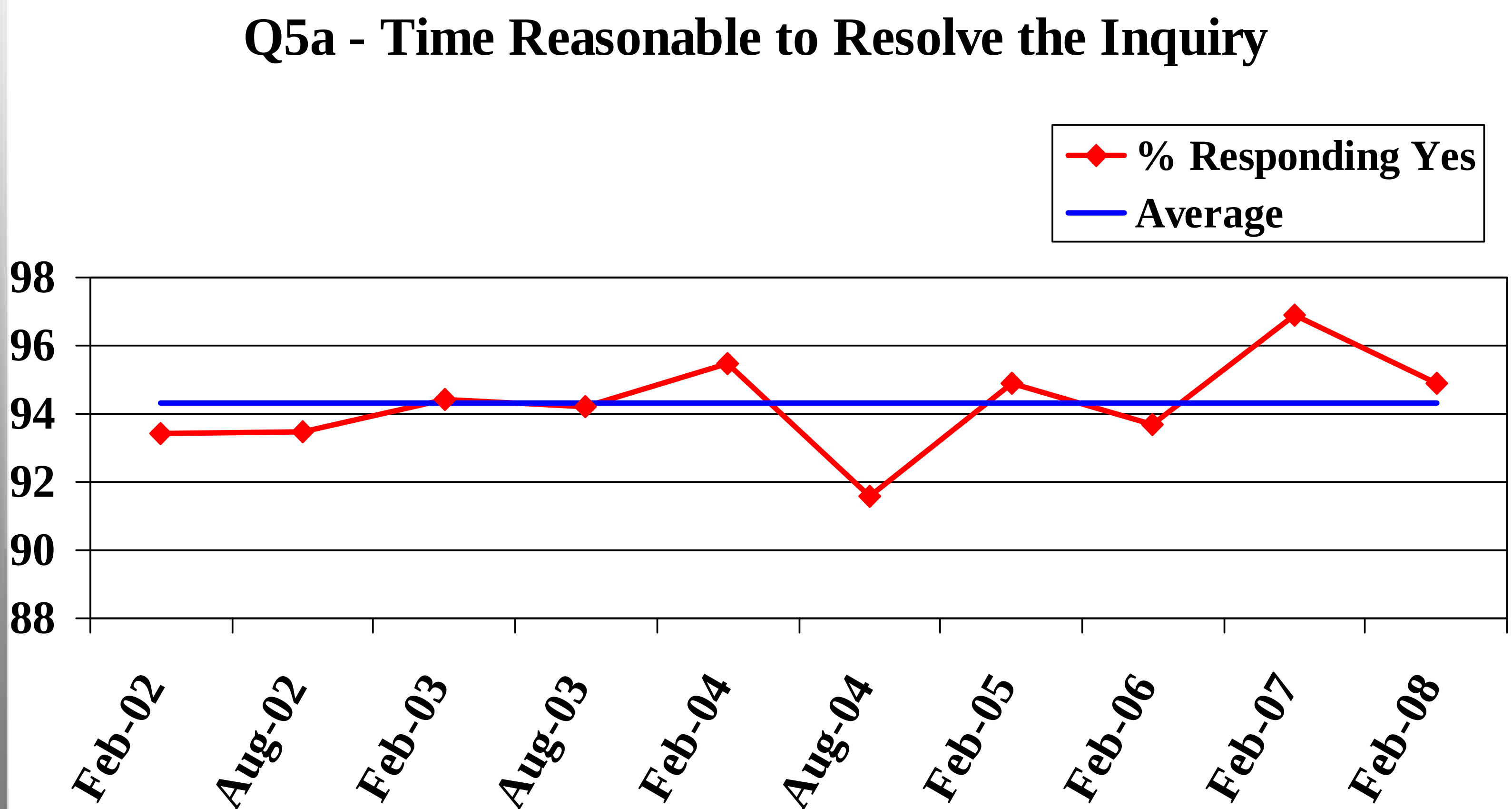
NDPERS
Member Satisfaction Survey



NDPERS
Member Satisfaction Survey



NDPERS
Member Satisfaction Survey



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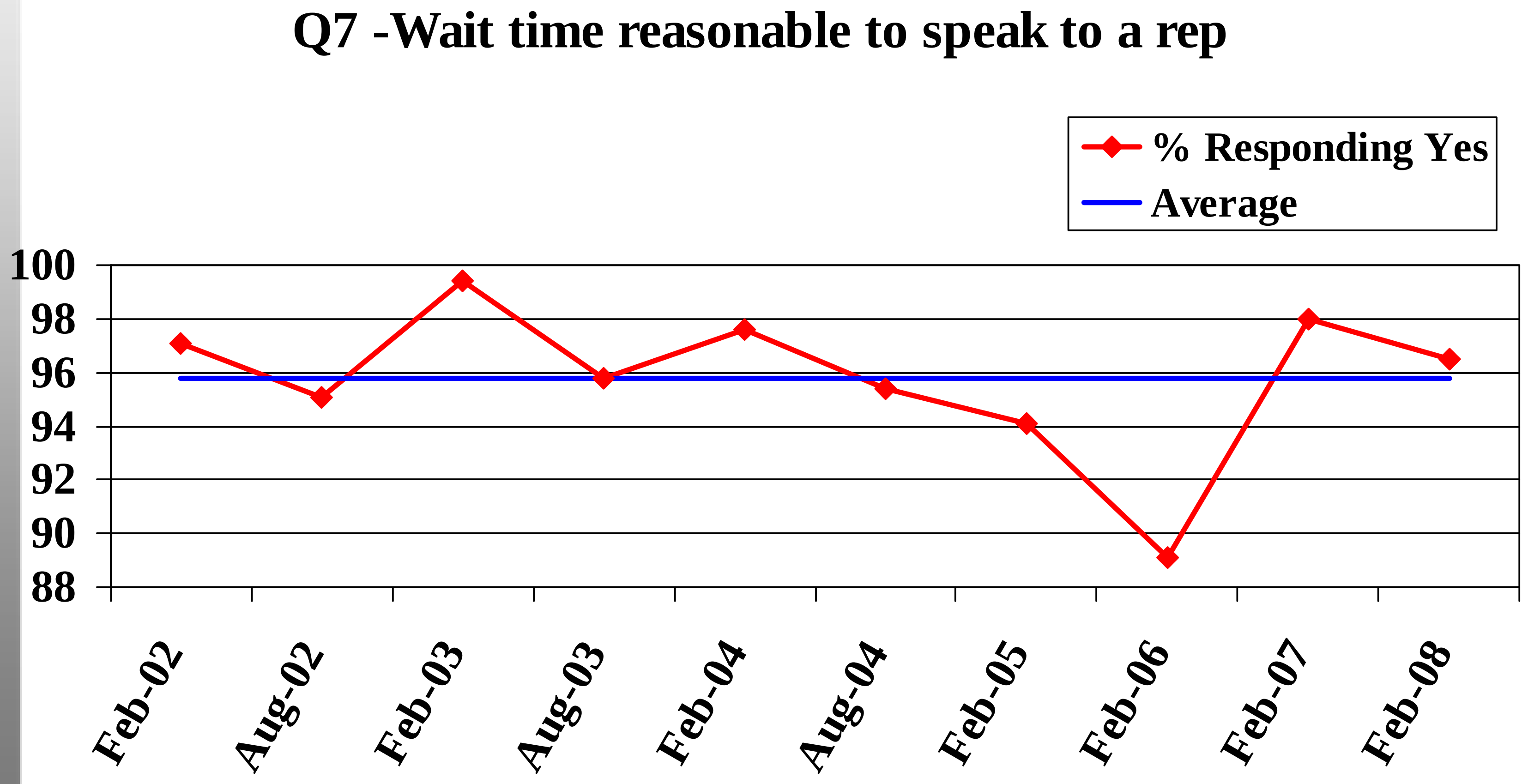
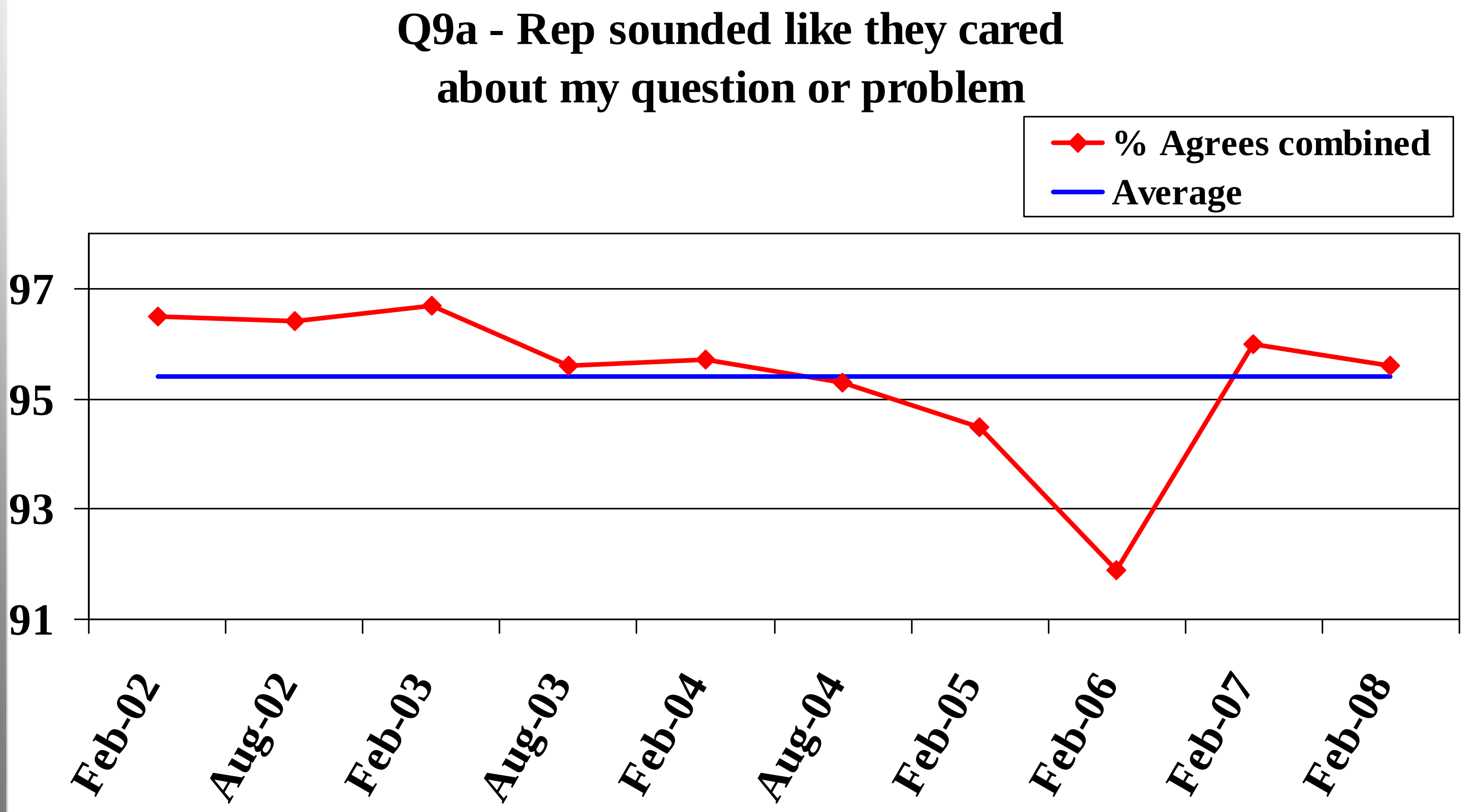


NDPERS
Member Satisfaction Survey



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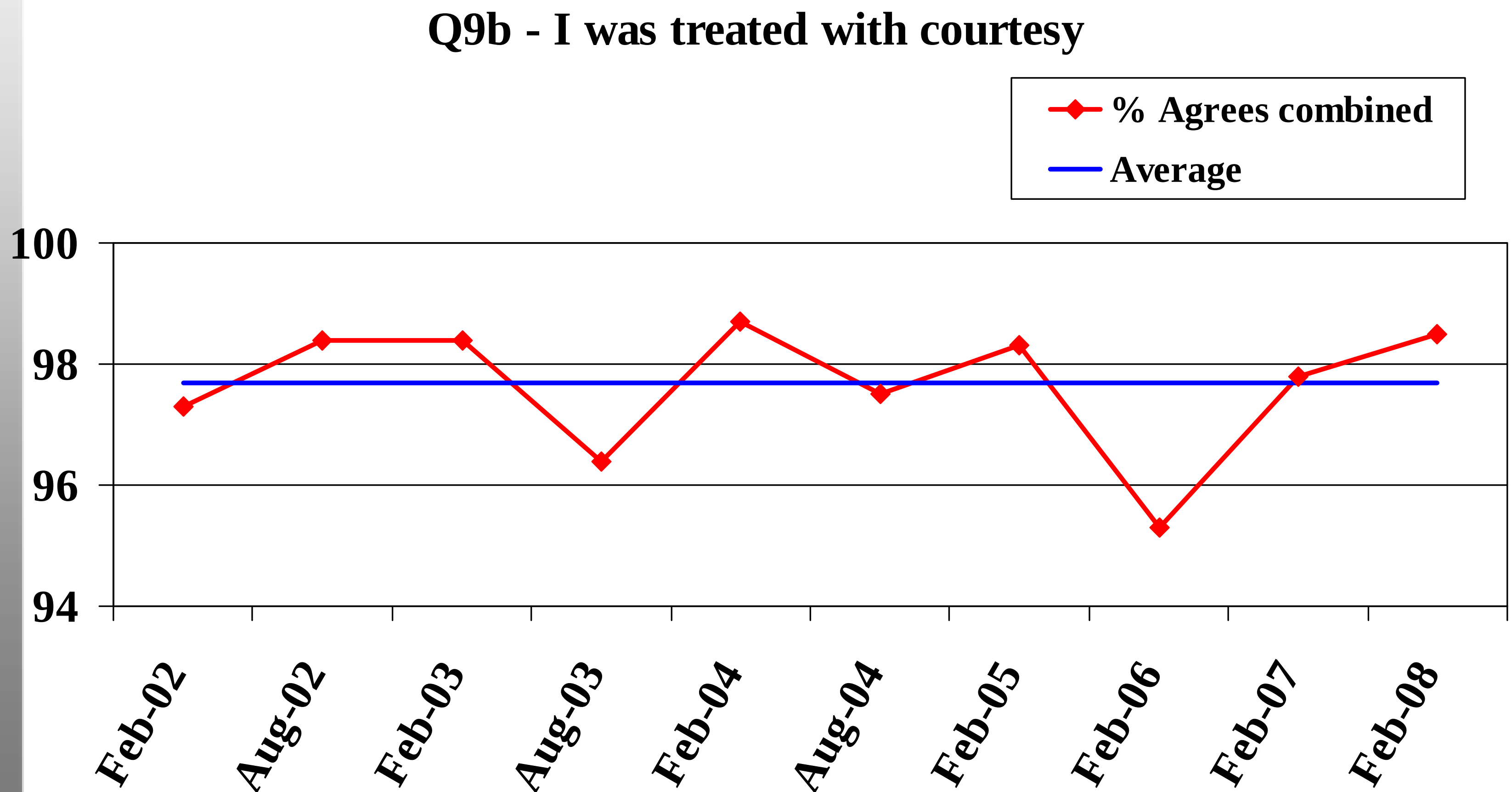
Member Satisfaction Survey



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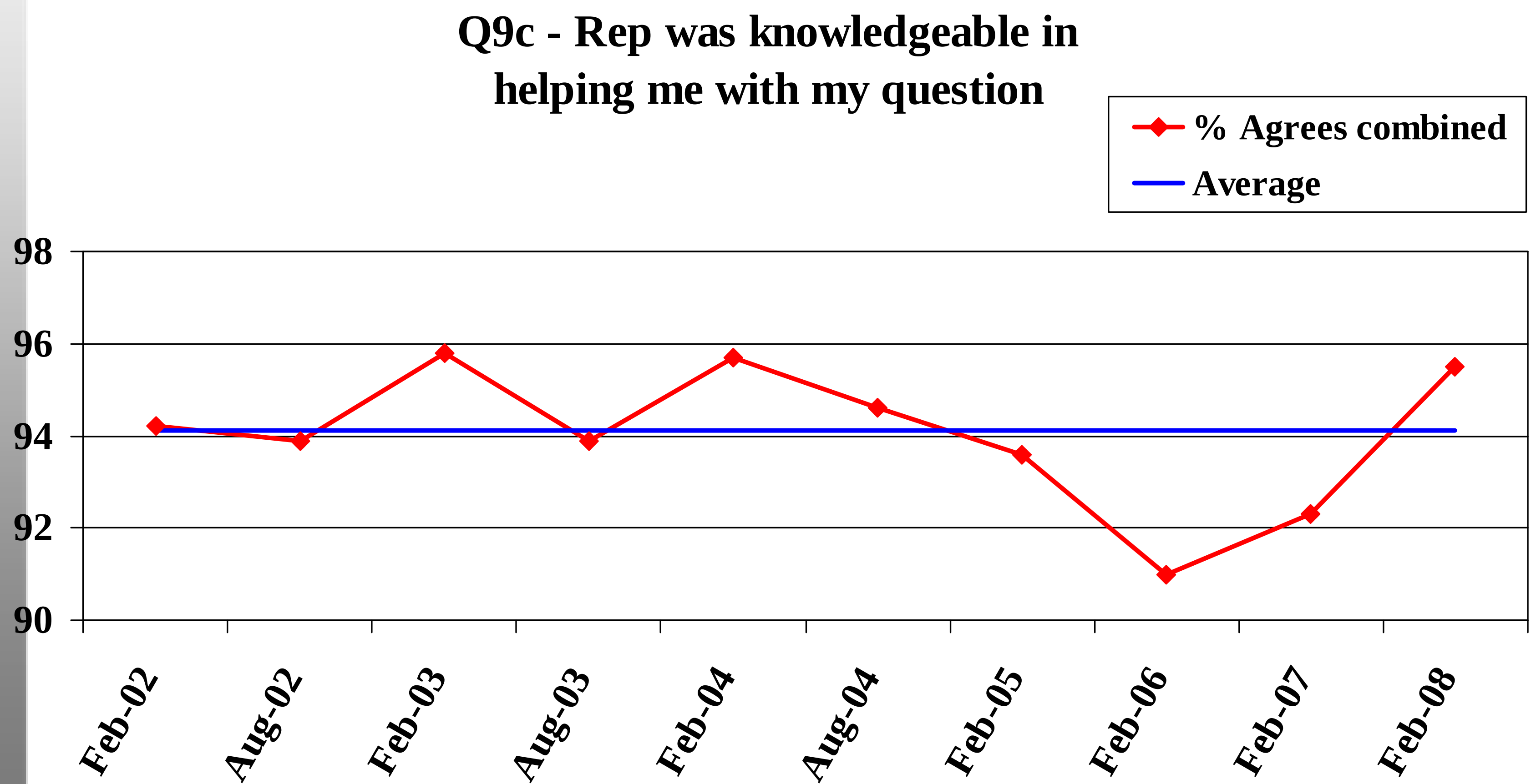
Member Satisfaction Survey



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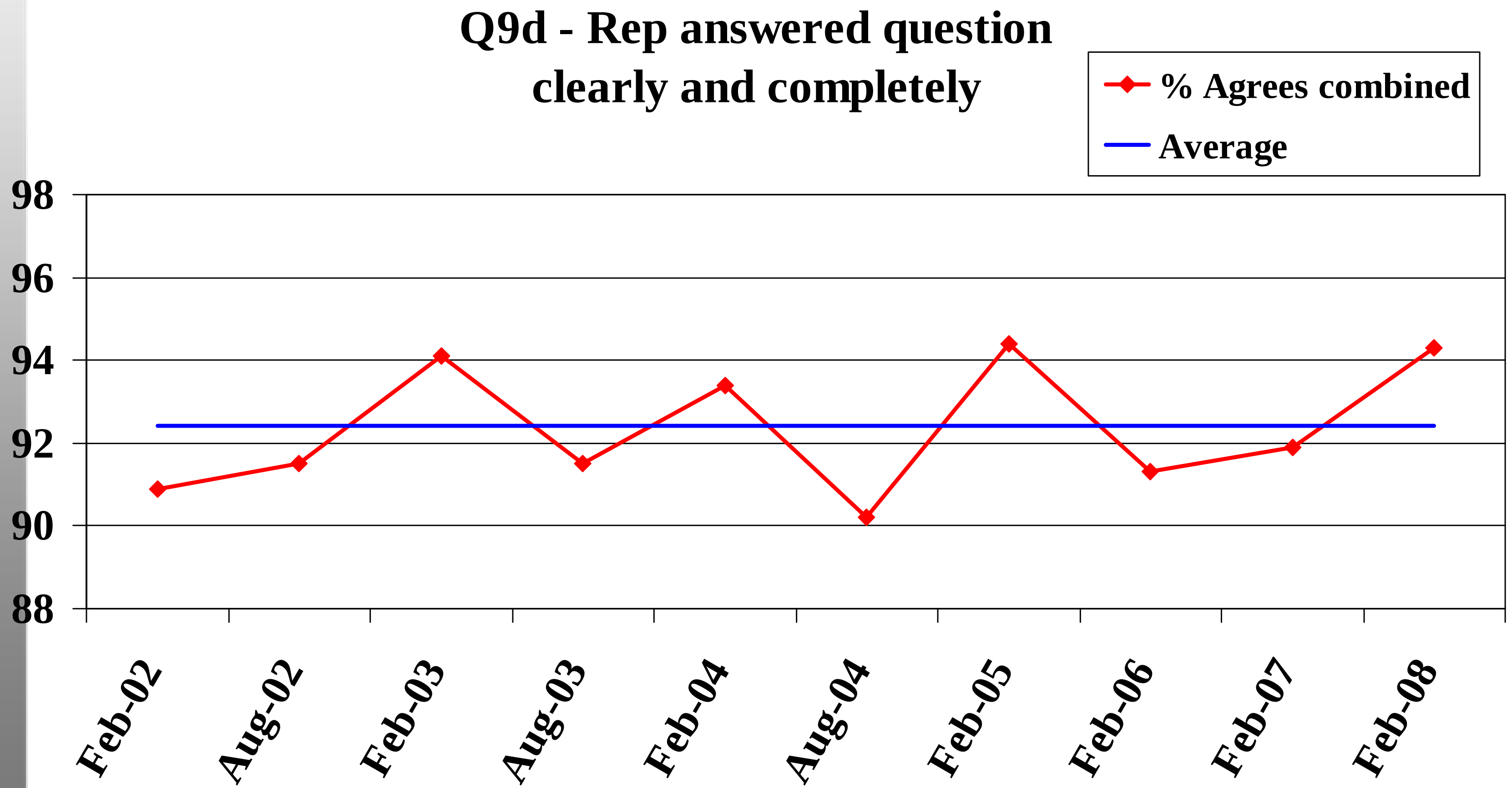

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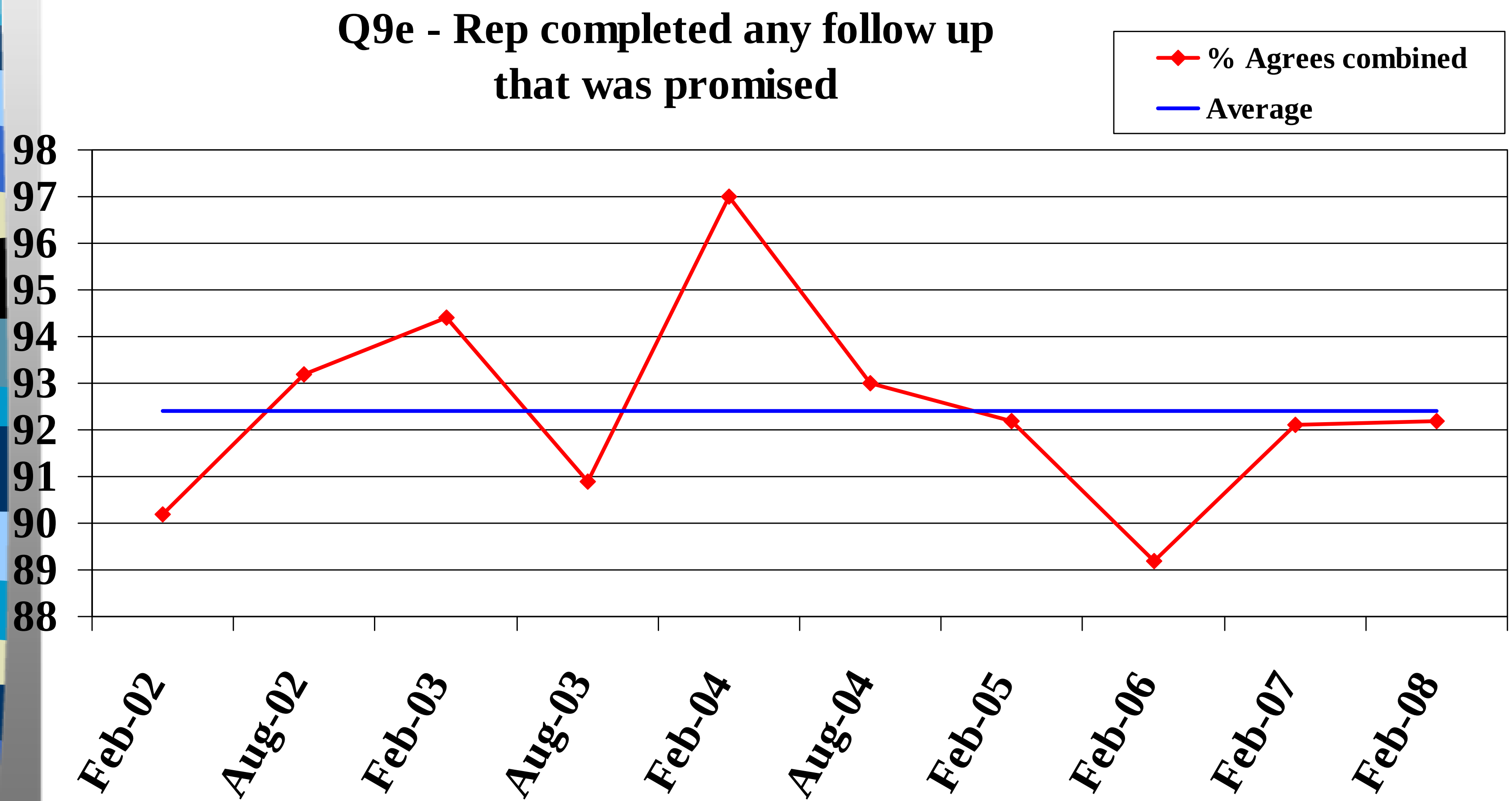

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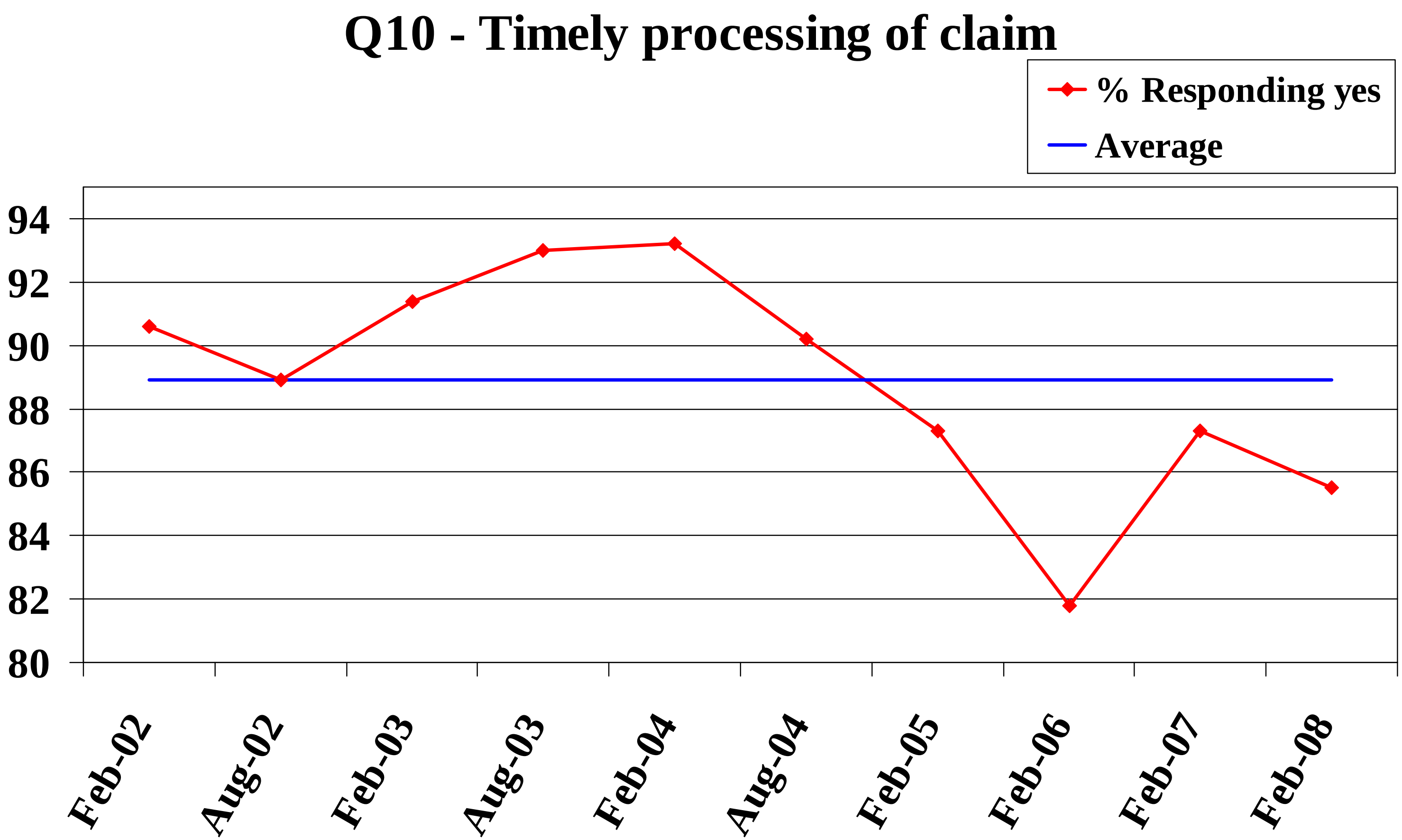

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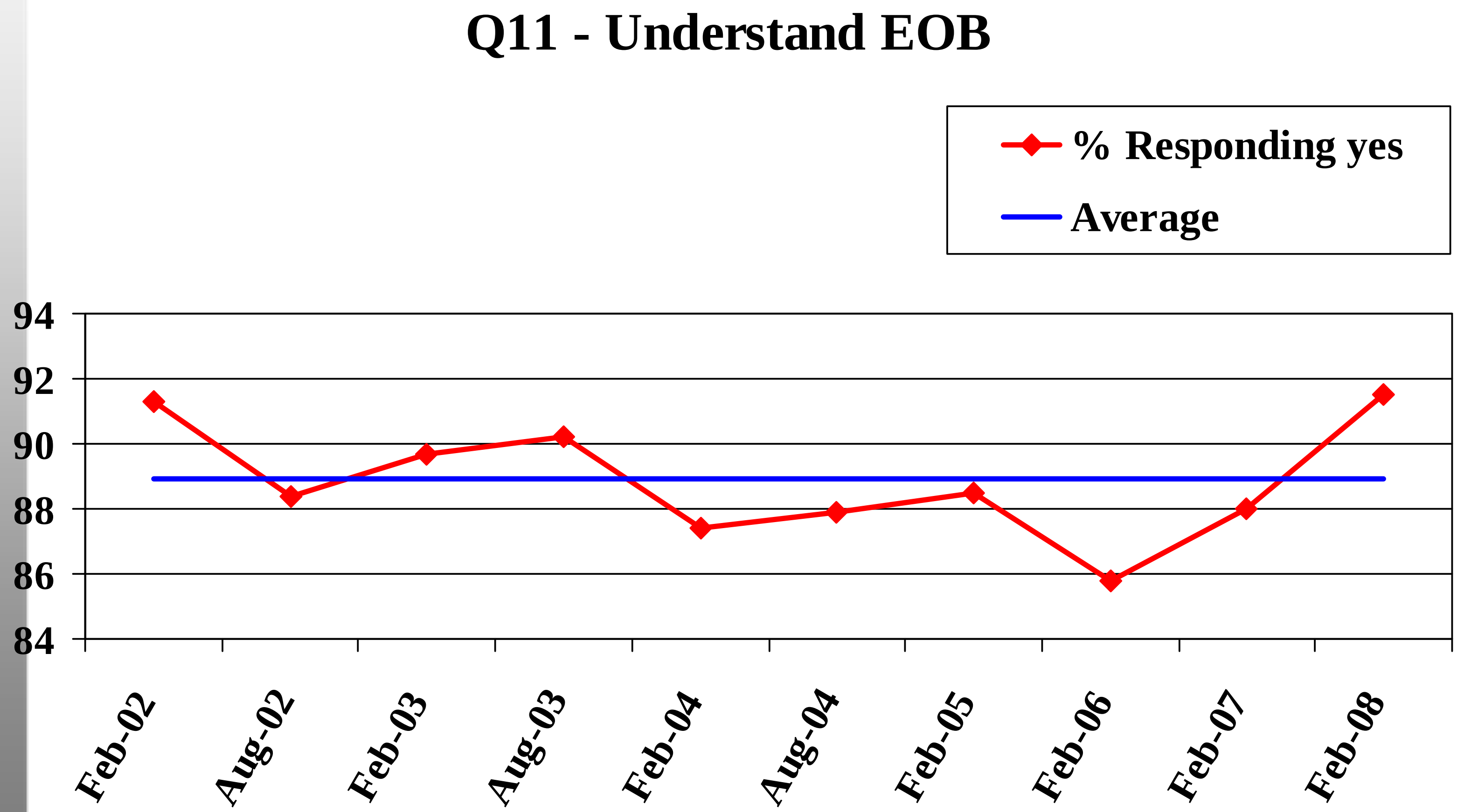

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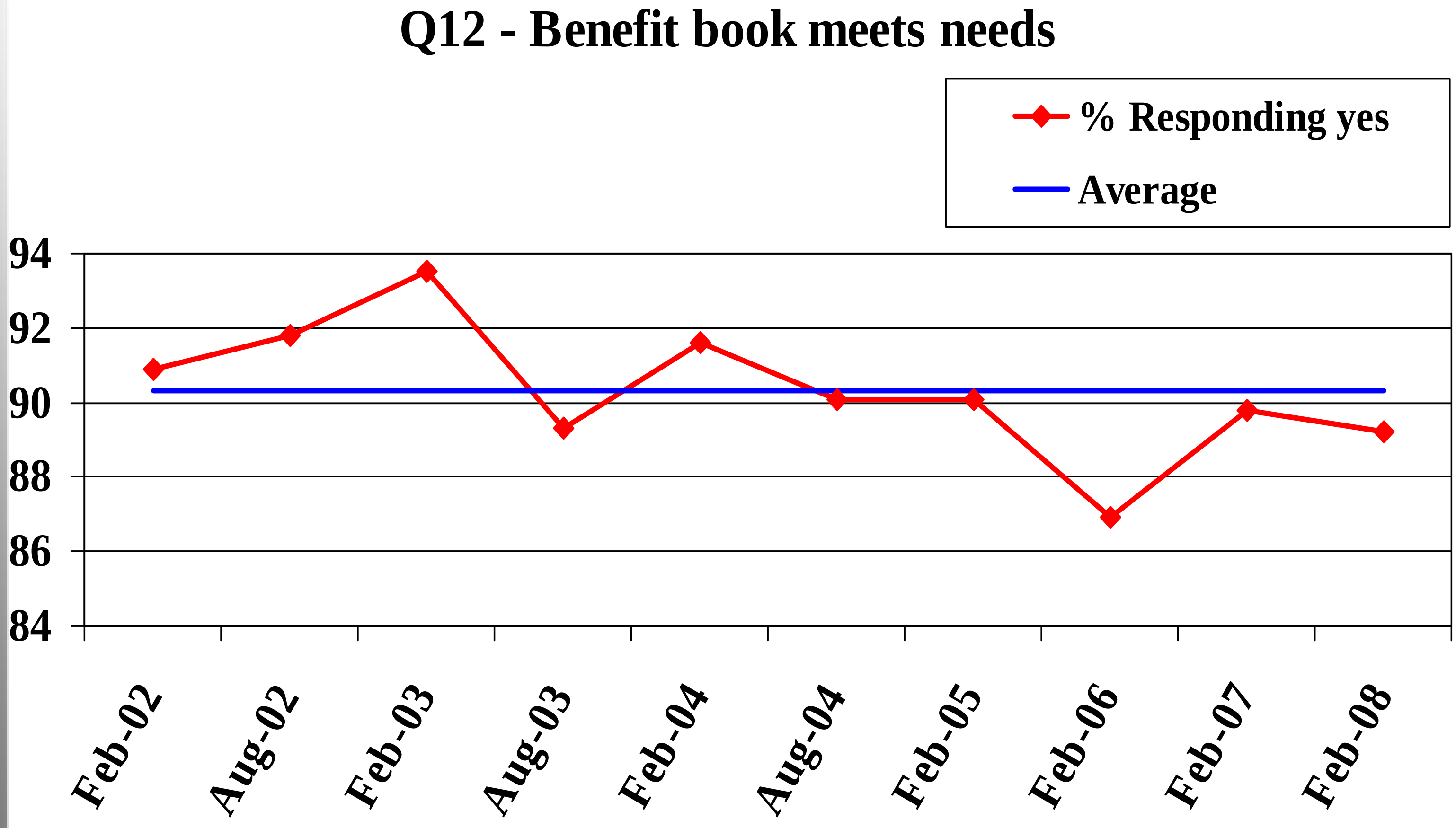

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: July 10, 2008

SUBJECT: HB 1433

As reported at the last meeting, we began the enrollment for the new diabetes program the first part of July. At this time we have about 150 people signed up for the program. Additional mailings will be going out in July and August.

Concerning the RFP for the technical evaluation that you reviewed at the last meeting, we received questions from three potential bidders. Proposals are due July 11th and we will let you know how many are received and from whom at the meeting.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: July 10, 2008

SUBJECT: Medicare Part D

In the past we have discussed the many challenges that have been encountered with the implementation of Medicare Part D Rx. One in particular is that our plan is a traditional plan in that the member signs up for both the medical and Rx coverage. We do not offer these coverages separately. However, in the marketplace many companies offer stand alone Rx Medicare coverage to members and market that coverage. Also please note that under Medicare rules a retiree can only participate in one plan. If they elect one plan initially and then another plan subsequently, the first coverage will be dropped by Medicare when it goes through the national system. Applying this to us it means that some of our retirees have mistakenly signed up for subsequent coverage with another Medicare Rx plan when they were in ours. When this information goes through the national system they are dropped from our coverage. Many months later we find out. This means they are no longer eligible for our coverage and not only lose our Rx but also our medical coverage. When contacted, many of the retirees do not want this, did not intend it and of course are very concerned with the loss of the medical coverage and its potential financial consequences.

Together with BCBS and development of the national system we are now in a position to identify this situation within a couple of months and contact members. However, we have not been in this position until recently. Consequently, we have a number of members who have signed up for subsequent Rx coverage with another carrier for awhile and have been in this situation for awhile. We have now moved them all back to our plan based upon their initial election. However, we have the issue that for some period of time they were paying us for Rx coverage and another carrier. To rectify this situation the member can go back to the federal government (CMS) and ask that the previous carrier be dropped retroactively, all claims be reprocessed and that the previous carrier reimburse them for the dual coverage period. For our members this is an extremely time consuming and confusing process. A second option is for the member to just absorb the loss. The logic for this is that it was not fault of PERS that they enrolled in other coverage and therefore it should be up to them to straighten out the situation. A third option is for us to make a special exception and reimburse them for the cost of the Rx coverage with us when they had the alternate coverage with the other carrier. This last method is the cleanest since it is convenient for the member, does not involve reprocessing claims, does mean the member has to sit on the phone for along time trying to get in touch with CMS and does not mean they have to absorb the cost of two coverages. PERS staff is seeking your approval to reimburse these members the cost of the Rx coverage they paid to us when they had alternate coverage.

Board Action Requested
To approve reimbursing retiree for the cost of the Rx coverage with PERS when they had alternate coverage.

Staff Recommendation
To approve reimbursing retiree the cost of the Rx coverage.

BlueCross BlueShield of North Dakota
An independent licensee of the Blue Cross & Blue Shield Association

Consulting Services Unit
4510 13th Avenue South
Fargo, North Dakota 58121-0001

(701) 282-1444

Memorandum

TO: Sparb Collins, NDPERS

FROM: Larry Brooks, BCBSND

DATE: July 8, 2008

SUBJECT: Formulary Changes

Effective 8/15/08 there will be changes to both the formulary listing and the Non-payable list.

Formulary Changes:
Formulary changes do occur quarterly and those changes are normally enforced across our entire book of business (fully insured, self funded and NDPERS). The non formulary appeal is available for these drugs for members who are unable to take the alternative formulary options.

The following drugs will go from Formulary to Non Formulary:

- Actonel (osteoporosis)
- Vytorin (cholesterol)
- Zetia (cholesterol)
- Zomig (migraines)

Non-Payable Changes:
The Non-payable drug changes are more in-frequent. These changes will be effective 8/15/08.

The following drugs will be become Non-payable:

- Aciphex (ulcers, acid reflux)
- Nexium (ulcers, acid reflux)
- Protonix (ulcers, acid reflux)
- Prevacid (ulcer, acid reflux)
- Prilosec (ulcer, acid reflux)
- Ambien CR (sleep medication)

Ulcer/acid reflux drugs:
The ulcer/acid reflux drugs were already being considered to move them to non-payable. The reason for moving them to non-payable is due to the fact there is OTC (over the counter) ulcer/acid reflux drugs available and there are still some generics available that are payable. One generic available is omeprazole.

Ambien CR:
It is just this brand name of Ambien CR that is non payable. The generic, zolipdem, Ambien (without the CR) and other prescription sleep medications are still payable.

Appeal Rights:
Any member has the right to appeal any of these changes because of their individual situation. Medical Management will review the request, but there is no guarantee on the outcome. It will really dependent on the member's specific situation.

Member Notifications:
BCBSND is currently working with Prime Therapeutics to identify all the members that have taken these drugs in the last six months. Letters will be sent to those members. The mail date of that letter is yet to be determined. Copies of those member letters will be provided for your reference when they are finalized.

In addition to identifying members receiving scripts for the above drugs, we will also determine the benefit payments as well.

If you have any questions, please let me know. Tom and I will be attending the August 16 Board meeting.

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M E M O R A N D U M

TO: NDPERS BOARD
SPARB COLLINS, NDPERS
KATHY ALLEN, NDPERS

BTR

FROM: BRYAN T. REINHARDT

DATE: June 19, 2008

SUBJECT: GROUP MEDICAL PLAN - SURPLUS/AFFORDABILITY UPDATE

Here is the May surplus projection and affordability analysis for the NDPERS group medical plan. The plan made it through the 2005-2007 biennium and is almost halfway into the 2007-2009 biennium.

Net premium sent to BCBS in July 2007 was $13,406,858. In July 2005 it was $10,853,370. There are now 24,681 contracts on the NDPERS Health Plan. The NDPERS health plan ended up with 23,580 contracts in June, 2005. There were 22,947 contracts in June, 2003, and 21,792 in July 2001.

The 2003 - 2005 biennium settlement is on account at BCBS with a balance of over $2,048,000. The remaining $14.3 million was used to buy down premiums for the 05-07 biennium. This amount is at BCBS and receiving interest.

The projection for the 2005 - 2007 biennium shows total surplus at $5.125 million. We share 50/50 in the first $3.0 million surplus with BCBS, so the June 30, 2007 NDPERS estimated gain is $3.625 million. BCBS has the IBNR estimate for this projection at $0.

The projection for the 2007 - 2009 biennium shows total surplus at -$4.8 million. If there is a surplus, we share 50/50 in the first $3.0 million surplus with BCBS. This will make future growth in the gain for NDPERS difficult. The plan is fully insured by BCBS, so the June 30, 2009 NDPERS estimated gain is $0. BCBS has the IBNR estimate for this projection at $18.5 million, which is conservative with a $1.0 million margin built in.

If you have any questions or you should need anymore information, please contact me.

NDPERS - ESTIMATED SURPLUS PROJECTION: 2005-2007 BIENNIUM

May, 2008

The following exhibit summarizes the estimated surplus for the NDPERS group medical plan at the end of the 2005-2007 biennium. The estimate has been updated to include account activity through May, 2008.

1) Preliminary Underwriting Gain for the 2005-2007 Biennium		($10,519,600)
2) Cash Balance Interest Accumulation		$1,417,328
3) Estimated Underwriting Gain for the 2005-2007 Biennium		($9,102,272)
5) Refunds and Settlements		
07/01/05 - 6/30/07 Perform Rebates	(Included as claim rebates)	$3,310,733
EPO Settlement Payments 7/05 - 6/06	(Included as rebates & paid)	$1,277,000
EPO Settlement Payments 7/06 - 6/07	(Included as rebates & paid)	$1,412,085
6) Cash Reserve Account Balance		$15,666,912
2003-2005 Settlement Cash Out:		($1,439,151)
Future Interest:		$0
Total		$14,227,761
7) Total Estimated Surplus Held by BCBS		$5,125,489
8) BCBS Portion of Surplus (50% upto $1,500,000)		$1,500,000
9) PERS Portion of Surplus Held by BCBS		$3,625,489
10) NDPERS Wellness Accounts		
My Health Connection		$0
Employer Based Wellness		$0
Wellness Benefit Program		$0
SubTotal		$0
Total Adjusted for Usage		$0
11) Total Estimated Funds Available to PERS on June 30, 2007		$3,625,489

NDPERS - Projected Underwritten Experience for the 2005-2007 Biennium
May, 2008

MONTH	NET PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE $26.98/CON	NET PREMIUM	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS (1)	ESTIMATED GAIN / LOSS
Jul-05	$11,491,070	($2,387)	$11,488,683	$637,699	$10,850,984	$10,936,517	$0	$10,936,517	($85,533)
Aug-05	$11,486,984	$0	$11,486,984	$635,676	$10,851,308	$10,786,748	$0	$10,786,748	$64,560
Sep-05	$11,592,130	$0	$11,592,130	$641,396	$10,950,735	$9,697,696	$0	$9,697,696	$1,253,039
Oct-05	$11,564,639	($995)	$11,563,644	$640,748	$10,922,896	$10,047,510	$0	$10,047,510	$875,386
Nov-05	$11,565,139	$1,417	$11,566,556	$640,478	$10,926,078	$11,384,515	$0	$11,384,515	($458,437)
Dec-05	$11,575,731	$7,675	$11,583,406	$640,829	$10,942,577	$11,753,271	$0	$11,753,271	($810,694)
Jan-06	$11,053,969	$332	$11,054,300	$644,606	$10,409,694	$10,007,432	$0	$10,007,432	$402,262
Feb-06	$11,053,628	$0	$11,053,628	$645,308	$10,408,320	$9,713,261	$0	$9,713,261	$695,059
Mar-06	$11,049,994	($26,775)	$11,023,218	$645,146	$10,378,073	$12,096,472	$0	$12,096,472	($1,718,399)
Apr-06	$11,066,004	($36,321)	$11,029,683	$645,820	$10,383,862	$10,977,185	$0	$10,977,185	($593,323)
May-06	$11,064,390	$3,501	$11,067,891	$646,198	$10,421,693	$11,086,212	$0	$11,086,212	($664,519)
Jun-06	$11,076,821	$0	$11,076,821	$647,385	$10,429,436	$11,682,121	$0	$11,682,121	($1,252,685)
Jul-06	$11,056,557	$0	$11,056,557	$646,495	$10,410,063	$10,370,190	$0	$10,370,190	$39,873
Aug-06	$11,052,995	$0	$11,052,995	$646,414	$10,406,581	$11,485,675	$0	$11,485,675	($1,079,094)
Sep-06	$11,153,014	$0	$11,153,014	$650,785	$10,502,229	$10,124,891	$0	$10,124,891	$377,338
Oct-06	$11,116,487	$6,351	$11,122,838	$650,515	$10,472,323	$11,319,476	$0	$11,319,476	($847,153)
Nov-06	$11,146,017	($8,222)	$11,137,795	$652,916	$10,484,879	$11,274,335	$0	$11,274,335	($789,456)
Dec-06	$11,130,343	($12,813)	$11,117,530	$651,972	$10,465,558	$11,556,495	$0	$11,556,495	($1,090,937)
Jan-07	$11,173,395	($5,016)	$11,168,379	$654,643	$10,513,737	$11,653,486	$0	$11,653,486	($1,139,749)
Feb-07	$11,192,661	$1,098	$11,193,759	$658,177	$10,535,582	$9,934,183	$0	$9,934,183	$601,399
Mar-07	$11,192,066	$4,290	$11,196,356	$656,154	$10,540,202	$12,130,601	$0	$12,130,601	($1,590,399)
Apr-07	$11,212,566	$6,117	$11,218,683	$657,017	$10,561,666	$11,247,680	$0	$11,247,680	($686,014)
May-07	$11,213,832	$6,568	$11,220,400	$656,909	$10,563,491	$12,245,640	$0	$12,245,640	($1,682,149)
Jun-07	$11,210,872	$4,950	$11,215,822	$657,125	$10,558,697	$10,898,687	$0	$10,898,687	($339,990)
BIENNIAL TOTAL	$269,491,302	($50,231)	$269,441,072	$15,550,409	$253,890,663	$264,410,279	$0	$264,410,279	($10,519,616)

(1) Future Months are Estimated based on Projection from NDPERS.

NDPERS - ESTIMATED SURPLUS PROJECTION: 2007-2009 BIENNIUM

May, 2008

The following exhibit summarizes the estimated surplus for the NDPERS group medical plan at the end of the 2007-2009 biennium. The estimate has been updated to include account activity through May, 2008.

1) Preliminary Underwriting Gain/Loss for the 2007-2009 Biennium		($6,892,000)
2) Wellness Program Expenses		$0
3) Estimated Underwriting Gain/Loss for the 2007-2009 Biennium		($6,892,000)
4) Projected Interest Accumulation (adjusted for usage as premiun)		$0
5) Refunds and Settlements		
11/30/07 Perform Rebate	(Included as claim rebates)	$340,034
02/29/08 Perform Rebate	(Included as claim rebates)	$385,151
05/31/08 Perform Rebate	(Included as claim rebates)	$328,973
08/31/08 Perform Rebate		$350,000
10/31/08 Perform Rebate		$350,000
01/31/09 Perform Rebate		$350,000
04/30/09 Perform Rebate		$350,000
06/30/09 Perform Rebate		$350,000
EPO Settlement Payments 7/07 - 6/08	(No target settlements)	$0
6) Total Estimated Surplus Held by BCBS		($4,813,027)
7) BCBS Portion of Surplus (Half upto $1,500,000)		$0
8) PERS Portion of Surplus Held by BCBS		($4,813,027)
9) Cash Reserve Account Balance		$0
Future Contributions:		$0
Future Interest:		$0
Total		$0
10) NDPERS Wellness Accounts		
My Health Connection		$290,462
Employer Based Wellness		($8,805)
Wellness Benefit Program		$66,812
SubTotal		$348,469
Total Adjusted for Usage		$0
11) Total Estimated Funds Available to PERS on June 30, 2009		$0

NDPERS - Projected Underwritten Experience for the 2007-2009 Biennium
May, 2008

MONTH	PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE $29.90/Con	NET PREMIUM	INTEREST ON CASH	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS(1)	ESTIMATED GAIN / LOSS
Jul-07	$13,406,857	$0	$13,406,857	$725,404	$12,681,453	$0	$11,151,889	$0	$11,151,889	$1,529,564
Aug-07	$13,465,027	$308	$13,465,336	$728,334	$12,737,002	$8,720	$12,201,183	$0	$12,201,183	$544,539
Sep-07	$13,608,834	$6,878	$13,615,713	$736,018	$12,879,695	$32,149	$10,883,592	$30,000	$10,913,592	$1,998,252
Oct-07	$13,577,219	$7,321	$13,584,540	$734,822	$12,849,718	$44,159	$12,981,497	$280,000	$13,261,497	($367,620)
Nov-07	$13,584,631	($6,547)	$13,578,084	$735,480	$12,842,604	$38,392	$12,975,441	$290,000	$13,265,441	($384,445)
Dec-07	$13,568,728	$5,601	$13,574,329	$734,553	$12,839,776	$40,841	$12,473,273	$400,000	$12,873,273	$7,344
Jan-08	$13,582,515	$3,071	$13,585,586	$735,121	$12,850,465	$39,733	$13,077,802	$550,000	$13,627,802	($737,604)
Feb-08	$13,622,093	$1,733	$13,623,826	$737,155	$12,886,671	$33,024	$11,612,428	$1,000,000	$12,612,428	$307,267
Mar-08	$13,620,486	($2,685)	$13,617,801	$737,125	$12,880,676	$25,258	$12,314,114	$1,700,000	$14,014,114	($1,108,180)
Apr-08	$13,626,826	$1,915	$13,628,741	$738,171	$12,890,570	$21,216	$10,425,435	$4,100,000	$14,525,435	($1,613,649)
May-08	$13,623,071	$1,798	$13,624,869	$737,992	$12,886,877	$17,341	$3,183,806	$10,150,000	$13,333,806	($429,588)
Jun-08	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$34,634	$0	$0	$13,053,261	($133,518)
Jul-08	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$34,585	$0	$0	$13,115,651	($195,958)
Aug-08	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$34,450	$0	$0	$13,178,041	($258,483)
Sep-08	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$34,196	$0	$0	$13,240,431	($321,126)
Oct-08	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$33,823	$0	$0	$13,302,821	($383,889)
Nov-08	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$33,332	$0	$0	$13,365,211	($446,770)
Dec-08	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$32,721	$0	$0	$13,427,600	($509,771)
Jan-09	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$31,990	$0	$0	$13,489,990	($572,891)
Feb-09	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$31,140	$0	$0	$13,552,380	($636,131)
Mar-09	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$30,171	$0	$0	$13,614,770	($699,491)
Apr-09	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$29,080	$0	$0	$13,677,160	($762,971)
May-09	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$27,870	$0	$0	$13,739,550	($826,571)
Jun-09	$13,623,071	$0	$13,623,071	$737,962	$12,885,109	$26,539	$0	$0	$13,801,940	($890,292)
BIENNIAL TOTAL	$326,386,206	$19,393	$326,405,599	$17,673,679	$308,731,920	$715,364	$123,280,460	$18,500,000	$316,339,266	($6,891,983)

(1) Future Months are Estimated based on Projection from NDPERS.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: July 10, 2008

SUBJECT: Disability

A benefit issue has arisen that staff needs your guidance on in making a determination.

Background

A PERS member met with the PERS staff to explore applying for a disability benefit on March 28, 2008. On April 30, 2008 they terminated employment. The member applied for disability benefits and selected the J&S option on May 27th. As part of the application they filed their letter from Social Security indicating they were approved by them for disability (pursuant to our statute this means they are eligible for PERS disability). PERS processed the application on May 27th. The member was sent the completion notice on May 28th. The member passed away on June 6th before they received their first payment. The issue is should the spouse get the J&S disability benefit or should they get the lower benefit under section 54-52-17(6) NDCC?

North Dakota Century Code and Administrative Rules

NDCC 54-52-01(16) defines "retirement" as the "acceptance of retirement benefits...upon...termination of employment". Thus, there needs to be (1) an acceptance of benefits and (2) a termination of employment in order for someone to have retired. The attached letters are from our former attorney concerning these sections and their applicability to benefits. Therefore if a member does not meet these conditions they have not retired. If the member has not retired and passes away the spouses benefit options are defined in NDCC 54-52-17 (6) which states:

> *6. If before retiring a member dies after completing three years of eligible employment, except for supreme and district court judges, who must have completed five years of eligible employment, the board shall pay the member's account balance to the member's designated beneficiary as provided in this subsection. If the member has designated an alternate beneficiary with the surviving spouse's written consent, the board shall pay the member's account balance to the named beneficiary. If the member has named more than one primary beneficiary, the board shall pay the*

member's account balance to the named primary beneficiaries in the percentages designated by the member or, if the member has not designated a percentage for the beneficiaries, in equal percentages. If one or more of the primary beneficiaries has predeceased the member, the board shall pay the predeceased beneficiary's share to the remaining primary beneficiaries. If there are no remaining primary beneficiaries, the board shall pay the member's account balance to the contingent beneficiaries in the same manner. If there are no remaining designated beneficiaries, the board shall pay the member's account balance to the member's estate. If the member has not designated an alternate beneficiary or the surviving spouse is the beneficiary, the surviving spouse of the member may select a form of payment as follows:

a. If the member was a supreme or district court judge, the surviving spouse may select one of the following optional forms of payment:

(1) A lump sum payment of the member's retirement account as of the date of death.

(2) Payments as calculated for the deceased member as if the member was of normal retirement age at the date of death, payable until the spouse dies.

b. The surviving spouse of all other members may select one of the following options:

(1) A lump sum payment of the member's retirement account as of the date of death.

(2) Payments for sixty months as calculated for the deceased member as if the member was of normal retirement age at the date of death.

(3) Payment of a monthly retirement benefit equal to fifty percent of the deceased member's accrued single life retirement benefits until the spouse dies.

(4) If the member dies on or after the member's normal retirement date, the payment of a monthly retirement benefit equal to an amount that would have been paid to the surviving spouse if the member had retired on the day of the member's death and had selected a one hundred percent joint and survivor annuity, payable until the spouse dies. A surviving spouse who received a benefit under this subsection as of July 31, 1995, is entitled to the higher of that person's existing benefit or the equivalent of the accrued benefit available under the one hundred percent joint and survivor provision as if the deceased member were of normal retirement age, with the increase payable beginning August 1, 1995.

Appling the above to the situation identified above would mean the member had not retired and the spouses options would those defined in 54-52-17.6. In this case the above benefits are smaller then the J&S disability benefit.

However in the administrative rules for the disability benefit it states

5. **Payment of annuity.** If awarded, the disability annuity is payable on, or retroactive to, the first day of the month following the member's termination from covered employment minus any early retirement benefits that have been paid.

Our internal documents state the disability benefit was awarded however the member passed away before a letter of award was issued.

Legal Review

Aaron has reviewed the above and concludes that the PERS board has the right to make policy relating to the interpretation of the above provisions.

Aaron indicates that NDCC 54-52-17(6) provides that a member who dies prior to retiring under the chapter will only be entitled to elections available under subsection 6. In order to be considered retired, a member must accept a retirement allowance upon terminating employment (NDCC 54-52-01(16)). This process has been established because many members will make various benefit elections as they move toward retirement, and this process allows them to change and modify those elections as they move toward retirement. Under the current circumstances, the member terminated employment, but did not actually accept or receive any retirement allowance.

Aaron further indicates that upon reviewing the PERS rules, it appears that the board may have wanted to treat disability retirement differently than other retirement options. NDAC 71-02-05-06(5) provides "If awarded, the disability annuity is payable on, or retroactive to, the first day of the month following the member's termination from covered employment minus any early retirement benefits that have been paid." The Board may want to distinguish this classification based on the fact that, unlike all other retirement benefits, a disability benefit is subject to a fact finding determination leading to a final decision (or award). Therefore, the PERS board should make a policy decision, or interpretation of its laws, determining whether to interpret the members disability retirement payment as accepted at the award stage under NDAC 71-02-05-06(5), or to classify disability retirement together with all other retirement payments, subject to NDCC 54-52-17(6), and accepted upon receipt of the first retirement payment.

Staff Recommendation

To establish the PERS policy for disabilities to be that the election is valid at the time of the award under NDAC 71-02-05-06(5)

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Wayne Stenehjem
ATTORNEY GENERAL

COPY

July 7, 2005

RECEIVED
JUL 11 '05
ND PERS

Mr. Sparb Collins
Executive Director
North Dakota Public Employees
Retirement System
PO Box 1657
Bismarck, ND 58502-1214

RE: Deceased Member

Dear Mr. Collins:

Thank you for your request that I review a situation involving a member whose last day of employment was June 30, 2005, but who passed away on July 2, 2005. The member had applied for retirement benefits, a single life annuity, but had not received a retirement check yet, and had only been off the employer's payroll for two days. You question whether the retirement benefit election remains valid, or whether the member's death prior to receipt of retirement benefits voids that election.

Section 54-52-01(16), N.D.C.C., defines "retirement" as the "acceptance of retirement benefits . . . upon . . . termination of employment." Section 54-52-17(6), N.D.C.C., gives options in the event a member dies "before retiring." Since "retirement" is defined as the "acceptance of retirement benefits" and the member in this case never received any retirement benefits, I believe your conclusion that the member never retired is accurate. As such, the benefit selection is inapplicable, and the provisions of N.D.C.C. § 54-52-17(6) apply.

Further support for this conclusion is found in the administrative rules. Section 71-02-01-01(22), N.D.A.C., defines "retiree" as an "individual receiving a monthly retirement allowance." Again, since the member never received a benefit, the member was never a "retiree." Section 71-02-01-01(25), N.D.A.C., defines "termination of employment" as "a severance of employment by not being on the payroll of a covered employer for a minimum of one month." Since the member was only off the payroll for two days prior to passing away, the member had not terminated employment as defined by administrative rule, and could not be retired pursuant to applicable law.

Please do not hesitate to call if you have any further questions or concerns.

Sincerely,

Scott A. Miller
Assistant Attorney General

vkk

RECEIVED
JUL 11 '05
ND PERS

OFFICE OF ATTORNEY GENERAL
STATE OF NORTH DAKOTA

Wayne Stenehjem
ATTORNEY GENERAL

RECEIVED
APR 11 '01
ND PERS

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FAX 701-328-2226

Consumer Protection and Antitrust Division
701-328-3404
800-472-2600
Toll Free in North Dakota
FAX 701-328-3535

Gaming Division
701-328-4848
FAX 701-328-3535

Licensing Section
701-328-2329
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CAPITOL COMPLEX
State Office Building
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Civil Litigation
701-328-3640

Natural Resources
701-328-3640

Racing Commission
701-328-4290

Bureau of Criminal Investigation
P.O. Box 1054
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Toll Free in North Dakota
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Fire Marshal
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Bismarck, ND 58502-1054
701-328-5555
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April 9, 2001

Ms. Sharmain Dschaak
North Dakota Public Employees
Retirement System
400 East Broadway, Suite 505
P.O. Box 1214
Bismarck, ND 58502-1214

RE: Disability Retirement Availability

Dear Ms. Dschaak:

Thank you for your request that I determine whether a deceased member's application for disability benefits may be approved when the member passed away prior to the date disability payments could have begun. I have completed my review, and conclude that the deceased member's application may not be approved.

A member who is receiving disability benefits is doing so under the disability retirement statutes. N.D.C.C. § 54-52-01(14) defines "retirement" to mean "the acceptance of a retirement allowance under this chapter upon termination of employment." Further, N.D.A.C. § 71-02-05-06(5) states that a disability annuity is "payable on, or retroactive to, the first day of the month following the member's termination from covered employment." The member in this case passed away while still on the employer's payroll. Since the member passed away prior to the date to which payments could have been made retroactive, there is no period for which the member or the member's beneficiaries could be compensated for the member's disability. Thus, disability benefits are not available.

You also asked me whether the employer could retroactively change the date of termination in order to move the termination date to a time which would allow the deceased member's beneficiary to receive the disability benefits. On both documents the employer would need to change, the deceased member signed the documents verifying and affirming the benefits she wished as well as the dates of termination, last regular paycheck, and when benefits would begin. The employer may not unilaterally change the documents as verified and affirmed by the deceased member.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: July 10, 2008

SUBJECT: Asset Allocation Studies

At the last meeting the Board approved moving forward with asset/liability studies for the Job Service retirement plan and the retiree health plan. Since the last meeting, RIO has contacted SEI who did our last studies and they have agreed to do it again at no cost. We had a conference call with them on July 7th and decided to start the studies when the actuarial evaluations for this year are complete in October so the most current information can be included. Based upon this schedule the studies should be available for your review late this year.

<u>Board Action Requested</u>
To approve the time line and SEI for the asset liability studies.

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Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: July 9, 2008

SUBJECT: New Employer Group Update

For your information the following is an accounting of the new employer groups that have joined the NDPERS Main System from July 1, 2007 to June 30, 2008.

Department Name	Date of Participation	No. Enrolled
Velva Schools	August 2007	14
Sheyenne Valley Special Ed	September 2007	33
Center-Stanton School	October 2007	10
Oliver County	October 2007	30
Burleigh County Special Ed	November 2007	2
City of Fargo	January 2008	320
City of Jamestown	January 2008	84
Jamestown Regional Airport	January 2008	5
New Rockford-Sheyenne School	January 2008	10
Williams County SCD	January 2008	1
Pierce County	February 2008	1
Fargo Parks & Recreation	April 2008	30
City of Beach	April 2008	4
Total		**544**

Also please note the city of Grand Forks and Grand Forks Public Library is coming on the plan July 1, 2008 which will add an additional 200-300 members.

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Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **July 9, 2008**

SUBJECT: **Member Education Services**

For your information the following is an accounting of the number of members reached through education services provided by PERS staff from July 1, 2007 to June 30, 2008.

Service	**No. of Attendees**
New Employee Orientation (State)	230
PEP	90
On Site Benefit Counseling (OBCS)	337
Preretirement Education Program (PREP) – Employer Request	96
TFFR PREP presentations	150
PREP – PERS sponsored	438
Fidelity Education Sessions	312
Retiree Forum	147
Total	**1,800**

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: July 10, 2008

SUBJECT: Proposed Legislation and Staff Recommendations

Attachment #2 is the draft technical reviews from Segal and GBS on the proposed legislation. BCBS is doing the review for Bill #90084.01 and #90124.01 and that information will be brought to the PERS meeting.

Attachment #1 is a matrix from PERS staff containing recommended actions on the bills based upon the technical valuations completed thusfar. In October the final technical and actuarial reviews will be presented to the Board. At that time you will have your final review of the bills and an opportunity to make any final recommendations. **Please note staff recommendations are bolded here and in the attached for your consideration.**

In addition to the attached bills, Representative Klemin will be submitting an additional bill on behalf of the Judges. During our benefits planning process which started this last October we met several times with the Judges to review with them the status of their plan and seek their recommendations for your consideration relating to any benefit enhancements. One topic was offering to North Dakota Judges a Health Care Savings Plan similar to that offered to Minnesota Judges. Attachment #3 is information from Minnesota on that plan. While the Judges were interested in pursuing this program, they wanted to review with all the Judges before making a decision and that meeting was this June after the date for us to submit a bill. In June they did discuss it with all the Judges and decided to move forward. Representative Klemin is submitting it on their behalf. The proposed bill would place the responsibility for this employee benefit program with the PERS Board as it is in Minnesota. **Since this would be a product that would be bid out, staff does not believe that it would affect our workload significantly and would recommend that at this point in time PERS take a neutral position on the bill.**

2009 Legislative Session
North Dakota Public Employees Retirement System

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations
90033.0300	Senator Mathern	A BILL for an Act to provide for establishment of the healthy North Dakota health insurance plan; to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to subgroups under the uniform group health insurance plan; to provide an effective date; and to provide a continuing appropriation.	**PERS remain neutral on the bill at this time subject to final Board considerations in October**
90084.0100	Senator O'Connell	A BILL for an Act to create and enact a new section to chapter 26.1-36 and a new section to chapter 54-52.1 of the North Dakota Century Code, relating to parity for health insurance coverage of prosthetics.	**PERS remain neutral on the bill at this time subject to final Board considerations in October**
90111.0100	PERS	A BILL for an Act to create and enact a new subsection to section 39-03.1-09 and a new subsection to section 54-52-05 of the North Dakota Century Code, relating to payment of employee contributions under the highway patrolmen's retirement plan and public employees retirement system; and to amend and reenact sections 21-10-01(1), 39-03.1-08.2, 39-03.1-11(8) and (9), 39-03.1-11.2, 54-52-17(6), (8), and (9), 54-52-17.4(6), 54-52-28, 54-52.1-03(7), and 54-52.1-03.4 of the North Dakota Century Code, relating to membership on state investment board, purchase of service credit, member benefit options, Internal Revenue Code compliance, and board elections under the highway patrolmen's retirement plan and public employees retirement system, and participation and employer payments under uniform group insurance program.	Several item have been highlighted in the review: 1. ITD has estimated the cost of programming the enchancements as follows: a. Enhanced purchase for the HP system $22.500 b. Enhanced.puchase for PERS $22,500 c. Graduated Benefit Option HP $27,500 d. Graduated Benefit Option PERS $27,500 Since PERS is replacing its existing business system

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations
			and the new system is schedule to be operational by January 2011 the above amount could be saved if the effective date of these provision was effective on the same date. This would save adding this functionality to the old system for a shout period of time. **Staff would recommend modifying the bill to have the effective date of these provisions be March 2011** **2.** The provision of the bill that provides a graduated increase of 1% or 2% in monthly retirement benefits may need to be clarified to indicate the frequency of the increase (e.g., each year, every two years**). Staff would recommend modifying the bill to indicate the change would be each year in January** 3. Pursuant to previous action of the board propose a change to the automatic distribution provision
90112.0100	PERS	A BILL for an Act to create and enact a new subsection to section 54-52-17.4 of the North Dakota Century Code, relating to purchase of service credit under the public employees retirement system; to amend and reenact sections 39-03.1-10, 39-03.1-11(9), 39-03.1-11.3, 54-52-06, 54-52-17.5, 54-52-17.11, 54-52-17.13, and 54-52.6-09(2) of the North Dakota Century Code, relating to employer contributions, cost of living adjustments and supplemental retiree payments under the highway patrolmen's retirement system and public employees retirement system.	The following issues were discussed in the review: 1. The timeframe for political subdivision elections is short 2. Limiting the time eligible for the subsidized purchase to what can be electronically determined (from 2000 forward). 3. The cost of the PEP enhancement is about $24,000. Changing the effective date to after implementation of the new business system would mean the expense of this change would not have to made to the existing system. **Staff would recommend modifying the bill to have the effective date for the PEP enhancement to be March of 2011 and limiting the retroactivity of the provision to 2000**.

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations
			Based upon action at a previous board meeting we will be requesting the addition to this bill of an increase for OASIS retirees
90113.0100	PERS	A BILL for an Act to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to non-Medicare retiree insurance rates.	No issues
90114.0100	PERS	A BILL for an Act to amend and reenact sections 54-52.1-03.2(1) and 54-52.1-03.3(2) of the North Dakota Century Code, relating to the retiree health benefits fund.	No issues
90118.0100	Senator Lyson	A BILL for an Act to create and enact a new section to chapter 54-52 of the North Dakota Century Code, relating to participation by peace officers and correctional officers in the defined benefit retirement plan; and to amend and reenact sections 54-52-01(3) and (11), 54-52-05(3), and 54-52-17(3) of the North Dakota Century Code, relating to participation by peace officers and correctional officers in the defined benefit retirement plan.	**PERS remain neutral on the bill at this time subject to final Board considerations in October**
90124.0100	Rep. Potter	A BILL for an Act to create and enact a new section to chapter 54-52.1 of the North Dakota Century Code, relating to public employees retirement system health insurance coverage of colorectal cancer screening; and to provide an expiration date.	**PERS remain neutral on the bill at this time subject to final Board considerations in October**
90125.0100	Senator Mathern	A BILL for an Act to create and enact a new subsection to section 54-52-04, a new subsection to section 54-52.1-01, and five new sections to chapter 54-52.1 of the North Dakota Century Code, relating to the expansion of the uniform group insurance program to allow participation by permanent and temporary employees of private sector employers and by any other individual who is otherwise without	**PERS remain neutral on the bill at this time subject to final Board considerations in October with the exception of requesting that the Executive Director's assignment to chair the board of the new agency be withdrawn.** This request would be made to the bill sponsor. If this bill was approved this would be a full time effort.

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations
		health insurance coverage; to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to subgroups under the uniform group insurance program; to provide an appropriation; to provide a continuing appropriation; and to provide an effective date.	

Attachment 2

Bill 90033.0300

DRAFT

Revised July 9, 2008

Re: North Dakota Senate Bill 90033.03

Introduction

The North Dakota Public Employees Retirement System (NDPERS) has directed Gallagher Benefit Services (GBS) to review and analyze Senate Bill 90033.03 (the Bill). Our analysis is to be limited in scope to only the potential financial, administrative and technical compliance impacts to NDPERS. We are not to assess the impact of the Bill on the State of North Dakota, private insurers, employers, individuals or medical providers. Evaluating the potential impact to those constituencies is beyond the scope of our engagement and would require extensive additional consulting, financial, legal and actuarial resources.

Bill Summary

As drafted, the Bill includes the following key provisions.

- It would add a new subgroup under the Uniform Group Insurance Plan for "Healthy North Dakota insurance coverage." (Section 1)
- It would establish a Healthy North Dakota Authority, Board and Executive Director. (Section 2)
- The Healthy North Dakota Authority would offer coverage to every eligible individual in North Dakota under the age of 65 with some very limited exceptions. (Section 4)
- It would establish a funding mechanism from employers, employees, the self employed and all other eligible individuals. (Section 11)
- It would establish a standard Healthy North Dakota health benefit plan design (including prescription drugs) for all covered plan participants. (Sections 6 and 7)
- It would establish mandated individual health care provider and network selection and reimbursement methodologies. (Section 8)
- It would establish an Office of Outreach, Enrollment and Advocacy under the Authority. (Section 5)

Financial Impact

Projecting the overall monetary impact to NDPERS and its plan participants cannot accurately be done without additional detailed analysis. However, we do point out the following areas where the Bill is likely to affect NDPERS and its plan participants from a direct or indirect financial perspective.

- The Bill does not exempt the State or local governments from required funding of the Authority. As written, it appears that the State would need to continue its required funding of the existing NDPERS health plan while providing the required employer funding to the Healthy ND plan. Consequently, the State would be required to make double health plan payments for its employees.
- State employees currently do not contribute towards the cost of their medical/Rx benefit plan. The Bill does not appear to exempt State employees from the Authority's funding requirements. If required to participate in the Healthy ND plan, State employees would then be required to contribute towards the cost of coverage, which would be a dramatic change from the current state.
- Local governments can currently voluntarily elect to participate in the NDPERS health plan. Their premiums help support the administrative overhead costs of NDPERS. Also, their added participant volume assists NDPERS by adding leverage for its carrier's negotiations with medical providers The Bill appears not to exempt governmental employers from the Authority's funding requirements. If the Bill was enacted, local governmental plans would likely withdraw from NDPERS to avoid double premium payments. This would result in a reduction in premium income for NDPERS with a potential negative impact in financial support for administrative functions and reduced leverage with providers.
- Eligible State retirees receive a health care credit to subsidize their health care premiums. The Bill would require pre-Medicare retirees to fund the Healthy ND plan in addition to having to pay premiums to NDPERS. To avoid double payments, these retirees would likely drop the NDPERS plan and therefore forfeit their earned health care credit. Under current NDPERS rules, they could re-enroll in that plan when they reach age 65 and no longer eligible for Healthy ND.
- To the extent pre-Medicare retirees drop NDPERS coverage, its GASB 45 implicit subsidy liability would decrease. However, the liability would likely transfer to the Healthy ND plan if, as it appears, the retirees would pay the same blended premium rates as active employees and individuals.

- Benefits contained in the Bill are much richer than those currently offered under the NDPERS health plan. If the State is required to offer the Health ND plan rather than NDPERS, its costs (less required employee contributions) may increase. Further actuarial study would be required to confirm this possibility. Total mental health parity, the mandated no-cost benefits and an enhanced prescription drug plan all could cause the Healthy ND plan to cost more than NDPERS. If the Bill allowed State and local governments the option to remain in the NDPERS plan without having to fund Healthy ND, this potential cost differential would provide an incentive for more local governments to join NDPERS due to its relative lower costs.

Technical Compliance and Administrative Impact

In Section 1.12, the Bill addresses any concerns that the Health North Dakota plan would jeopardize NDPERS governmental status under the federal ERISA law, by stating "the [NDPERS] board shall apply to the federal government to receive exempt status under that Act [ERISA] or other applicable federal law." Therefore the Bill would not be enacted without federal confirmation that the Healthy North Dakota subgroup would not change the current governmental status of the NDPERS health plans.

The ERISA issue above aside, the Bill would create administrative and technical compliance challenges for NDPERS, including:

- If State and local governmental employers did have to fund Healthy ND, they would have little financial choice but to withdraw from the current NDPERS health plans (to the extent allowed by law). NDPERS would still have a role in administering existing ancillary coverages such as life insurance, voluntary dental, voluntary vision and voluntary long term care insurance. It would also continue to have the responsibility to oversee health benefits for over age 65 retirees. NDPERS's reduced scope of responsibility would likely require a reassessment of staffing and other resources needed to administer a diminished operation.
- Under the Bill, State and local governmental employers and employees would be required to interact with two separate governmental agencies administering employee benefits, NDPERS and the Authority. The Authority would oversee medical/Rx benefits and NDPERS all other coverages. Not only would this increase the administrative complexity for public employees and employers, it could increase administrative expenses as dual eligibility, customer service and payroll functions could be necessary.

- The proposed implementation schedule in the Bill is extremely aggressive. If approved, the Bill would become effective January 1, 2009. NDPERS and the Authority would have until January 1, 2010 to fully implement the Healthy ND plan, select the insurance carrier(s), negotiate with and establish provider networks. It is questionable to us whether this timeline is realistic.
- Because the Bill creates the Healthy ND plan as a sub-group of the existing Uniform Group Insurance Plan operated by NDPERS, it is our assumption that the plan would need to be insured rather than self-funded. If this assumption is correct, then the offering of the plan is contingent upon one or more insurance companies willing to underwrite the plan. As designed, finding an insurer willing to underwrite the plan, especially considering its relative richness and its universal availability, may prove very problematic.

Summary and Conclusions

From a strictly NDPERS perspective, the Bill would create a number of financial and administrative challenges. By far the most critical financial issue would be the impact on PERS from the Bill's apparent requirement that State and local governments must participate in the funding of the new Healthy North Dakota plan. If so, the State would have to make dual payments for employee health care, one to NDPERS as currently required by statute and another to the new Authority. Clearly, this would untenable for the State. Local governments would be forced to withdraw from the NDPERS uniform group health plan to avoid dual payments for their employees. The loss of these non-State health plan participants could have a financial impact on the overall operations of NDPERS.

For State employees, the Bill would also have a profound financial impact. It would introduce mandatory employee funding contributions for employees that currently do not pay any of their medical/Rx plan premiums. This could create employee morale, not to mention recruitment and retention, challenges for the State.

Pre-Medicare retirees, under the Bill, would be faced a similar financial dilemma. Either they participate in the Healthy ND plan, which they are required to fund, and lose their earned retiree credit. Or, they stay in the NDPERS plan and use their earned retiree credit while continuing to contribute to Healthy ND.

A large unknown to NDPERS if the Bill passes is the financial impacts on its benefit operations if its responsibilities are scaled back to only include ancillary and Medicare retiree coverages. Organizational changes would likely occur. Administrative costs for Medicare retirees and ancillary plan participants probably would increase as fixed expenses are spread over a smaller participant population.

Financial concerns aside, the Bill's implementation schedule is extremely aggressive. A January 2009 effective date would give NDPERS little time to plan and prepare for the many complex organizational and administrative changes that it would need to make to accommodate the Bill's requirements. Further, having the new Healthy ND plan and networks in place and fully operational for January 2010 would be challenging, to say the least and subject existing NDPERS plan participants to any transitional difficulties that may occur with such an aggressive timeline.

Although, as stated, the scope of our Bill analysis is limited to direct and indirect impacts on NDPERS, it would have a profound effect on the State's private sector insurance market and medical providers as well. Because this Bill touches so many different constituencies in North Dakota, a January 2009 effective date may not be at all practical. Much more time is needed to thoroughly assess the financial, social and administrative consequences of the Bill.

GBS is not licensed to practice law. Nothing in this memo should be construed as legal advice. As with all matters regarding complex legislation, qualified legal counsel should be consulted.

Thank you for the opportunity to review this Bill. Please let us know if we can provide any additional information or assistance.

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Bill 90111.0100

July 9, 2008

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

Re: **Technical Comments – Bill Draft No. 90111.0100**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 90111.0100:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan) and Highway Patrol Retirement System

Summary: The proposed legislation would make the following important changes:

The PERS Board is presently authorized to appoint 3 of its 4 elected members to the State Investment Board (SIB). This change would allow the Board to appoint as one of its 3 members a non-elected PERS Board member such as the Board Chair who is appointed by the Governor, the Attorney General's appointment, or the Health Officer or designee.

Authorizes payment of employee contributions on a pre-tax basis, instead of on an after-tax basis, in the Highway Patrol Retirement System and the judges retirement plan via employer pick-up under Internal Revenue Code rules, for compensation earned after August 1, 2009.

Allows members of the Hybrid Plan and Highway Patrol Retirement System to select a non-spouse beneficiary as a joint annuitant for the joint and survivor benefit options (50% or 100% survivor benefit). Any non-spouse beneficiary selected for the joint and survivor benefit options must not be more than ten years younger or older than the member. If the member is married, his or her spouse must consent to any non-spouse beneficiary designation.

Allows members of the Hybrid Plan and Highway Patrol Retirement System to designate a subsequent beneficiary, either after the death of the original beneficiary or upon divorce of the member, for retirees who elected a joint and survivor benefit option.

Allows members of the Hybrid Plan and Highway Patrol Retirement System to elect a new optional form of monthly retirement benefit that provides a graduated increase of 1% or 2%. The monthly retirement benefit would be actuarially adjusted to provide for the post-retirement increases.

Eliminates the 60-month certain option as a form of payment for surviving spouses in the Hybrid Plan.

Allows members of the Hybrid Plan and Highway Patrol Retirement System to purchase up to ten years of service credit, instead of five years, unrelated to other eligible service. A maximum of five years of service credit purchased under this provision would count towards retirement eligibility for Rule of 80 (Highway Patrol) or Rule of 85 (Hybrid Plan).

Updates federal compliance provisions of the Hybrid Plan and Highway Patrol Retirement System, including additional language to comply with Internal Revenue Code section 415(b) and related regulations.

Present law provides that any member of the PERS retirement plan can run for election to the PERS Board. The Board is proposing to broaden the election to include members of the Highway Patrol Retirement System, Job Service Plan and Defined Contribution Plan. These plans are also administered by the Board.

Actuarial Cost Analysis: This bill would not have a material actuarial impact on the Hybrid Plan or the Highway Patrol Retirement System.

Technical Comments: Our comments on the bill are as follows:

Benefits Policy Issues

➢ Adequacy of Retirement Benefits

While the graduated increase option provisions of this bill would not enhance the adequacy of the retirement benefits, such provisions allow a member to better distribute their benefit payments during retirement with the graduated 1% or 2% option. This option would not apply to the level social security benefit. An example of the payments under this option for a member with a normal retirement monthly benefit of $1,000 retiring at age 65 is as follows:

Retiree Age	Monthly Single Life Benefit	Monthly Graduated Benefit with 1% Annual Increases	Monthly Graduated Benefit with 2% Annual Increases
65	$1,000.00	$925.67	$853.93
66	$1,000.00	$934.93	$871.00

67	$1,000.00	$944.28	$888.42
68	$1,000.00	$953.72	$906.19
69	$1,000.00	$963.26	$924.32
70	$1,000.00	$972.89	$942.80
71	$1,000.00	$982.62	$961.66
72	$1,000.00	$992.45	$980.89
73	$1,000.00	$1,002.37	$1,000.51
74	$1,000.00	$1,012.39	$1,020.52
75	$1,000.00	$1,022.52	$1,040.93
76	$1,000.00	$1,032.74	$1,061.75
77	$1,000.00	$1,043.07	$1,082.98
78	$1,000.00	$1,053.50	$1,104.64
79	$1,000.00	$1,064.04	$1,126.74
80	$1,000.00	$1,074.68	$1,149.27
81	$1,000.00	$1,085.42	$1,172.26
82	$1,000.00	$1,096.28	$1,195.70
83	$1,000.00	$1,107.24	$1,219.62
84	$1,000.00	$1,118.31	$1,244.01
85	$1,000.00	$1,129.50	$1,268.89

This bill would also allow a member to increase the adequacy of their retirement benefit by purchasing an additional 5 years of service credit. This purchase would be limited in scope however, since it would only increase a member's years of service under the benefit formula but would not count towards Rule of 85 retirement eligibility. The following illustrates the service purchase methodology:

Example	Cost
Age: 29 years Service on File - 5 years Current FAS - $29,000 Purchase - 1 year	$4,116.79 ($4,030.52 for retirement portion; $86.27 for retiree health credit portion)
Age: 44 years 11 months Service on File - 21.95 years Current FAS - $53,927 Purchase - 1 year	$10,717.95 ($10,395.34 for retirement portion; $322.61 for retiree health credit portion)

Age: 54 years Service on File - 32 years Current FAS - $44,626 Purchase - 1 year	$10,487.31 ($9,896.55 for retirement portion; $590.76 for retiree health credit portion)

➢ <u>Benefits Equity and Group Integrity</u>

The PERS Board is proposing to expand the eligibility for Board membership to members of retirement systems administered by the Board other than PERS. This includes the Job Service Plan, the Highway Patrol Retirement System and the Defined Contribution Plan. This change is reflective of the scope of the Board's responsibility and enhances the equity and integrity of PERS by allowing all members the opportunity to serve on the Board.

Authorizing employee contributions on a pre-tax basis for members of the Highway Patrol Retirement System and judges retirement plan provides for employee contributions in a manner similar to those of their peers in other State retirement systems under the Board's authority. This will also enhance the take home pay for members of these systems. The following examples illustrate this:

Highway Patrol									
Contributions Post-tax (Current)									
Monthly Salary	Taxable Salary	Federal Tax (8.48%)	State Tax (1.39%)	Social Security (0.00%)	Medicare Tax (1.45%)	Retirement Contribution (10.30%)	Total Paycheck	Paycheck Increase	Paycheck Increase Percent
2,000.00	2,000.00	169.60	27.80	0.00	29.00	206.00	1,567.60		
3,000.00	3,000.00	254.40	41.70	0.00	43.50	309.00	2,351.40		
4,000.00	4,000.00	339.20	55.60	0.00	58.00	412.00	3,135.20		
5,000.00	5,000.00	424.00	69.50	0.00	72.50	515.00	3,919.00		
Contributions Pre-tax (Proposed)									
2,000.00	1,794.00	152.13	24.94	0.00	29.00	206.00	1,587.93	20.33	1.30%
3,000.00	2,691.00	228.20	37.40	0.00	43.50	309.00	2,381.90	30.50	1.30%
4,000.00	3,588.00	304.26	49.87	0.00	58.00	412.00	3,175.87	40.67	1.30%
5,000.00	4,485.00	380.33	62.34	0.00	72.50	515.00	3,969.83	50.83	1.30%

Judges									
Contributions Post-tax (Current)									
Monthly Salary	Taxable Salary	Federal Tax (8.48%)	State Tax (1.39%)	Social Security (6.20%)	Medicare Tax (1.45%)	Retirement Contribution (1.00%)	Total Paycheck	Paycheck Increase	Paycheck Increase Percent
6,000.00	6,000.00	508.80	83.40	372.00	87.00	60.00	4,888.80		
7,000.00	7,000.00	593.60	97.30	434.00	101.50	70.00	5,703.60		
8,000.00	8,000.00	678.40	111.20	496.00	116.00	80.00	6,518.40		
9,000.00	9,000.00	763.20	125.10	558.00	130.50	90.00	7,333.20		
Contributions Pre-tax (Proposed)									
6,000.00	5,940.00	503.71	82.57	368.28	87.00	60.00	4,898.44	9.64	0.20%
7,000.00	6,930.00	587.66	96.33	429.66	101.50	70.00	5,714.85	11.25	0.20%
8,000.00	7,920.00	671.62	110.09	491.04	116.00	80.00	6,531.25	12.85	0.20%
9,000.00	8,910.00	755.57	123.85	552.42	130.50	90.00	7,347.66	14.46	0.20%

➢ Competitiveness

No impact.

➢ Purchasing Power Retention

Since the optional form of a graduated increase of 1% or 2% in monthly benefits is paid for by the member's own retirement accruals, it is not anticipated to maintain the purchasing power of retirement benefits. However, it will allow participants to budget for increases in inflation by shifting payments from the present to the future.

➢ Preservation of Benefits

This bill enhances the preservation of retirement benefits in two ways:

1. The ability of members to designate a subsequent beneficiary due to the death of the original beneficiary preserves the benefits of affected members whose monthly retirement benefits are actuarially reduced to provide a survivor benefit to an individual who has died.

2. The ability of member to select a non-spouse beneficiary enhances the preservation of benefits, since a member can pass along their accrued retirement benefit to another individual such as a sibling or other family member.

➢ Portability

No impact.

➢ Ancillary Benefits

No impact.

Funding Policy Issues

➢ Actuarial Impacts

1. Non-spouse beneficiaries: Currently, the normal form for the Highway Patrol and the judges is a 50% joint and survivor annuity. Thus, married members receive a 50% joint and survivor benefit, and unmarried members receive a straight life annuity of the same amount. If unmarried retirees were allowed to name a non-spouse beneficiary without any reduction to their benefit, there would be a cost to the plans. In order for this provision of the bill to be cost neutral, members electing a joint and survivor benefit with a non-spouse beneficiary should have their monthly benefit reduced using different factors than those currently used for the Highway Patrol and judges.

2. Subsequent beneficiaries: Since the bill stipulates that the benefit is to be actuarially equivalent, the benefit should be reduced for a second time when the subsequent beneficiary is designated. If an actuarial reduction is made to the member's benefit upon

designation of a subsequent beneficiary on a joint and survivor benefit, there will not be an actuarial cost for this provision.

3. Graduated benefit option: Since the monthly retirement benefit would be actuarially adjusted to provide for the post-retirement increases, there will not be an actuarial cost for this provision.

4. Eliminate 60-month certain optional form: For a certain group of surviving spouses, the 60-month certain form would be the death benefit with the highest actuarial present value. If this form is eliminated, it may result in actuarial gains to the Hybrid Plan.

5. Additional service purchase amounts: Since the purchased service is not related to any eligible service, anyone can purchase up to ten years of service credit. This means there is a risk of adverse selection compared to the existing service purchase provisions because even though the purchase cost will be determined by actuarially equivalent factors, the individuals who decide to purchase credit may know how their own expected future service, salary, and lifespan compare to the average participant. The risk can be mitigated, to some degree, by using appropriate assumptions in calculating the cost of the service purchase.

   By not counting purchased service credit unrelated to other eligible service in excess of five years towards Rule of 80 or Rule of 85 eligibility, the actuarial cost to the Hybrid Plan and Highway Patrol Retirement System of providing the credit can be calculated with more accuracy.

6. The other provisions of the bill, including the make up of the State Investment Board and PERS Board, pre-tax employee contributions for the Highway Patrol Retirement System, and update to federal compliance statutory language, do not have an actuarial impact on the affected plans.

➢ Investment Impacts

- Asset Allocation: The bill does not create new investment asset allocation issues.

- Cash Flow Impacts: No impact.

- State Investment Board (SIB) Membership: The Board is proposing a change in the statute to allow one of its non-elected members to serve on the State Investment Board. This change is to allow the Board more opportunity to select from its membership those most interested in serving on the SIB while still maintaining the elected member representation.

Administration Issues

➢ Implementation Issues

To the extent any purchase of five years of additional service credit in the Hybrid Plan or Highway Patrol Retirement System is made with funds other than via trustee-to-trustee transfer from a defined contribution plan, the System must track the purchased service for limits on qualified and nonqualified service under Internal Revenue Code section 415(n).

- Administrative Costs

There may be administrative costs associated with setting up records for new beneficiaries in order to implement the proposed change to allow members to designate subsequent beneficiaries after the death of the original beneficiary or the divorce of the member. Trustee payment records would also have to be updated to reflect new beneficiaries. In addition, PERS may need to establish policies and procedures and develop forms in order to implement this proposed change (e.g, acceptable proof of death or divorce, restrictions on who may be designated as a beneficiary).

In order to implement the provision of the bill allowing an additional five years of service credit to be purchased, PERS would need to develop systems and processes for tracking service purchased for benefits purposes only and service towards retirement eligibility separately.

In order to implement the provision of the bill that provides a graduated increase in monthly retirement benefits of 1% or 2%, PERS would have to develop actuarial adjustment factors that take into account the age of the member at retirement and any other optional form elected. We provided details on how such adjustment factors should be developed in a separate letter.

If the 60-month certain option for surviving spouses is eliminated, PERS will no longer be required to offer a direct rollover for each of the 60 payments made under this form.

PERS' IT department has estimated the cost of programming the enhancements as follows:

Enhanced Purchase for Highway Patrol	$22,500
Enhanced Purchase for PERS	$22,500
Graduated Benefit Option Highway Patrol	$27,500
Graduated Benefit Option PERS	$27,500

Since PERS is replacing its existing business system, with the new system scheduled to be operational by January 2011, the above amount could be saved if the effective date of these provisions was on the same date. This would save adding functionality for the service purchase and graduated benefit option provisions to the old system for a short period of time.

- Needed Authority

In general, the bill appears to provide sufficient levels of administrative and governance authority to the PERS Board to implement the changes made by the bill. However, the provision of the bill that provides a graduated increase of 1% or 2% in monthly retirement benefits may need to be clarified to indicate the frequency of the increase (e.g., each year, every two years).

In addition, the provision of the bill that provides additional language to comply with Internal Revenue Code section 415(b) and related regulations, indicates that the dollar limitation will only be indexed effective the January 1st of each year following a regular legislative session, which occurs every two years. Therefore, the indexed dollar limitation for a non-legislative year will not apply until the following January, and consequently increases in monthly retirement benefits (e.g., the graduated benefit option or any ad-hoc cost-of-living increase) may not be able to be fully applied to the monthly benefits of certain members for a full year after permitted under the Internal Revenue Code rules.

➢ Cross Impact on Other Plans

No impact.

➢ Employee Communications

Employee communications will be necessary to explain the new beneficiary rules (both selection of a non-spouse annuitant for joint and survivor benefits and a subsequent beneficiary after death or divorce); the graduated benefit option of 1% or 2% increase in monthly retirement benefits; the elimination of the 60-month certain option for surviving spouses in the Hybrid Plan; the rules regarding purchase of an additional five years of service credit unrelated to other eligible service; and the change from after-tax to pre-tax contributions for members of the Highway Patrol Retirement System and judges retirement plan.

Please call if you have any questions or comments.

Sincerely,

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

Melanie Walker, JD
Vice President

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Bill 90112.0100

July 14, 2008

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

Re: **Technical Comments – Bill Draft No. 90112.0100**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 90112.0100:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan, including the main, judges, law enforcement and national guard retirement plans, and Defined Contribution Plan) and Highway Patrol Retirement System

Summary: The proposed legislation would make the following important changes:

Allows the Board to provide for a one-time post-retirement payment equal to 50%, 75% or 100% of the member's or beneficiary's current monthly benefit payment amount payable in January of 2010, if the trust fund's total annualized return on investments is greater than 8%, 9% or 10%, respectively, and the funding ratio based on the market value of assets is greater than 105%, 110% or 115%, respectively, for the fiscal year ending June of 2009. If none of these financial thresholds are met, no additional payment will be made. This is a potential one-time payment in the biennium applicable to both the Hybrid Plan and the Highway Patrol Retirement System.

Allows the Board to provide for a post-retirement increase of 2% of monthly benefits for members and their beneficiaries in both the Hybrid Plan (except the judges retirement plan) and the Highway Patrol Retirement System beginning January 2011. The proposed legislation would also increase the employer contribution rate from 16.70% to 22% of salary for the Highway Patrol Retirement System and from 4.12% to 5.25% of salary for the Hybrid Plan and Defined Contribution Plan from July 1, 2009 through June 30, 2011. The employer contribution rate increase and 2% monthly post-retirement benefit increase is optional for political subdivision employers in the Hybrid Plan, who must elect to participate in this benefit before July 1, 2009 or be presumed not to participate.

Also allows the Board to provide for an increase of 2% of monthly retirement benefits for supreme court and district judges who are retirees and their beneficiaries beginning January 1, 2011, if the Board determines that there is sufficient actuarial margin to pay the increase.

Changes the normal form of benefits in the Highway Patrol Retirement System from a 50% joint and survivor benefit to a 100% joint and survivor benefit for surviving spouses.

Allows participants in the North Dakota Deferred Compensation Program who have vested employer contributions in the Hybrid Plan to purchase up to two years of service credit by paying only the employer plus employee contribution rate (9.12% of salary) for each month purchased, rather than the full actuarial cost of the service. The purchased service credit will not count towards retirement date eligibility.

Actuarial Cost Analysis: It appears that this bill would have an actuarial impact on the Hybrid Plan and the Highway Patrol Retirement System.

Technical Comments: Our comments on the bill are as follows:

<u>Benefits Policy Issues</u>

➢ <u>Adequacy of Retirement Benefits</u>

The bill would enhance the adequacy of retirement benefits in two ways. First, it would increase benefits under the normal form for married members of the Highway Patrol Retirement System by changing the normal form from a 50% joint and survivor benefit to a 100% joint and survivor benefit. This change would enhance benefits payable to a surviving spouse who lives longer than the member.

Second, the provision of the bill that permits participants in the Deferred Compensation Plan to purchase service in the Hybrid Plan at a subsidized cost provides an incentive for members to engage in supplemental retirement savings. Such supplemental retirement savings enhances the overall adequacy of retirement benefits for members.

➢ <u>Benefits Equity and Group Integrity</u>

This bill allows political subdivisions to independently elect whether to contribute additional amounts for two years to fund a 2% monthly post-retirement benefit increase for their retirees. Therefore, it is likely that some employers will elect not to contribute the additional amounts, and their retirees will not receive a monthly post-retirement increase, which will result in some level of benefits inequity among retirees of the various political subdivisions.

Post-retirement increases to the monthly benefits from the Hybrid Plan could create some level of benefits inequity between the Hybrid Plan and the Defined Contribution Plan because, although contributions to both Plans remain the same, there are no post-retirement increases paid from the Defined Contribution Plan. However, to the extent the Defined

Contribution Plan members' investment earnings are sound, they can fund their own post-retirement increase.

- Competitiveness

No impact.

- Purchasing Power Retention

The proposed post-retirement increases continue the Board's policy of maintaining purchasing power of retirement benefits through ad hoc increases when such are affordable. Historically, PERS has used a combination of benefit formula percentage increases, which apply to current retirees, and 13th checks to provide adjustments for retirees. Following is a history of the benefit formula percentage increases:

Date	Multiplier	Retiree Adjustment
7/77	1.04%	1.04%
7/83	1.20%	15.38%
7/85	1.30%	8.33%
7/87	1.50%	15.38%
7/89	1.65%	15.76%
7/91	1.69%	2.42%
8/93	1.725%	2.00%
1/94	1.74%	1.00%
8/97	1.77%	5.00%
8/99	1.89%	8.00%
8/01	2.00%	6.00%

Since 2001, PERS has paid one-time post-retirement payments (13th checks) equal to a percentage of the monthly benefit instead of benefit formula percentage increases. In 2006, PERS paid a 13th check equal to 50% of the monthly benefit to retirees, and in 2008, PERS paid a 13th check equal to 75% of the monthly benefit to retirees.

This bill would provide both a 13th check and a 2% post-retirement monthly benefit increase. However, a one-time payment equal up to 100% of current monthly benefits and a 2% increase in monthly benefits is not anticipated to fully maintain the purchasing power of retirement benefits whenever price inflation exceeds the amount of the post-retirement payment.

Using the historical data provided by PERS with respect to ad-hoc post-retirement increases, the table below summarizes the impact of post-retirement increases as compared to changes in the national cost-of-living index (CPI-U):

Date	CPI-U	1980 Retiree with a $500 benefit	Purchasing Power
7/80	82.7	$500.00	100.0%
7/83	99.9	576.90	95.5%
7/85	107.8	624.96	95.9%
7/87	113.8	721.07	104.8%
7/89	124.4	834.72	111.0%
7/91	136.2	854.92	103.8%
8/93	144.8	872.01	99.6%
1/94	146.2	880.73	99.6%
8/97	160.8	924.77	95.1%
8/99	167.1	998.75	98.9%
8/01	177.5	1,058.68	98.7%
1/06	198.3	1,102.79	92.0%
7/07	208.3	1,102.79	87.6%

- Preservation of Benefits

  It is clear that without some post-retirement adjustment, the benefits of the Hybrid Plan and Highway Patrol Retirement System would be eroded by inflation during the period of retirement.

- Portability

  No impact.

- Ancillary Benefits

  A 13th check at 100% of monthly benefits to retirees and beneficiaries would equal approximately $6.9 million in one-time payments in 2010. A 2% increase in monthly benefits for members of the Hybrid Plan (including judges) and the Highway Patrol Retirement System would equal approximately $1.8 million in additional retirement benefits per year beginning January 1, 2011. Therefore, the post-retirement increases will likely generate additional economic activity, as well as tax revenue, to the State of North Dakota.

Funding Policy Issues

➢ Actuarial Impacts

The bill would have an actuarial impact on the Hybrid Plan and Highway Patrol Retirement System. The provision allowing for a one-time post-retirement payment equal to 50%, 75% or 100% of the member's or beneficiary's current monthly benefit payment amount would increase the plan's unfunded liability if the necessary conditions are met. For example, if the return on investments is at least 10% and the market value funded ratio is at least 115% for the fiscal year ending June of 2009, then the unfunded liability is expected to increase by $6.9 million. While it is true that this additional liability will be fully offset or offset to some degree by the necessary investment gain, the unfunded liability will still be $6.9 million higher than it would have been if this provision were not adopted.

The 100% joint and survivor benefit as the normal form (Highway Patrol Retirement System) would increase the actuarially determined contribution rate by 3.15% of payroll, as illustrated in the table below.

		Normal Form 50% J&S	Normal Form 100% J&S
1.	Actuarial accrued liability on July 1, 2007:	$51,536,518	$52,918,610
2.	Assets at actuarial value ($60,209,892 at market value):	$48,167,914	$48,167,914
3.	Unfunded actuarial accrued liability - equals (1) minus (2):	$3,368,604	$4,750,696
4.	Normal cost for ensuing year*:	$1,304,356	$1,400,847
5.	Amortization payment - equals 20-year amortization of item (3) as a level percent of total payroll*:	$235,096	$331,552
6.	Administrative expenses:	$16,000	$16,000
7.	Total cost for ensuing year - equals (4) plus (5) plus (6):	$1,555,452	$1,748,399
8.	Total payroll of covered members:	$6,128,867	$6,128,867
9.	Total cost as percentage of payroll - equals (7) divided by (8):	25.38%	28.53%
10.	Employee cost as percentage of payroll	10.30%	10.30%
11.	Employer cost as percentage of payroll - equals (9) minus (10)	15.08%	18.23%

* Adjusted for interest to recognize payments throughout the year.

The extent to which the purchase of service credit incentive for participants in the Deferred Compensation Program (Hybrid Plan) has a cost impact depends upon the size of the affected groups, their demographic makeup (average age, marital status, etc.) and utilization rate of the incentive. It is our understanding that this provision is designed to encourage participation in the Deferred Compensation Program, and it would likely have that effect, but to what degree it is difficult to say. Currently, about a third of those eligible actually participate. If that were to increase to 50%, and if everyone eligible to purchase service were to purchase one year on average, then the actuarially determined contribution rate for the main retirement plan would increase by about 0.30% of payroll. The following table summarizes the results.

	Statutory Rate	Actuarially Determined Rate at 7/1/2007	Rate with Service Purchase at 7/1/2007
Main Retirement Plan	4.12%	6.08%	6.38%
National Guard	6.50%	3.53%	3.73%
Law Enforcement with prior Main service	8.31%	12.39%	12.71%
Law Enforcement without prior Main service	6.43%	8.50%	8.77%
Retiree Health Plan	1.00%	0.95%	0.95%

The estimated actuarial cost of a one time 2% benefit increase for retirees and beneficiaries in pay status as of January 1, 2011 for members of the Hybrid Plan (except the judges retirement plan) and Highway Patrol Retirement System is described below. The cost is calculated under three sets of assumptions.

1. The increase will be pre-funded, and the assets will earn 8.00% per year, which is the assumed rate of return used for the funding valuation.

2. The increase will be pre-funded, and this amount will be used to purchase cash flow matched bonds. The Citigroup Pension Discount Curve of May 31, 2008 was used to discount the projected benefit payments. This is equivalent to discounting these payments at 6.52% per year. No transaction costs have been assumed in purchasing these bonds.

3. The increase will be pre-funded, and this amount will be used to purchase risk-free cash flow matched bonds. The U.S. Treasury Yield Curve of June 10, 2008 was used to discount the projected benefit payments. This is equivalent to discounting these payments at 4.25% per year. No transaction costs have been assumed in purchasing these bonds.

We have estimated the cost of each proposed plan change as the increase in unfunded liability as of January 1, 2011, as well as the percentage of pay from July 1, 2008 through June 30, 2010 that would be required to fund that liability.

The following table summarizes our results:

Plan Provision	Valuation Interest Rate (8.00%)		Citigroup Pension Discount Curve (6.52%)		Treasury Yield Curve (4.25%)	
	Additional Liability	**Cost**	**Additional Liability**	**Cost**	**Additional Liability**	**Cost**
Main System	$15,800,686	1.15%	$17,577,264	1.31%	$21,094,601	1.62%
National Guard	$23,497	0.66%	$26,149	0.75%	$31,467	0.94%
Law Enforcement with prior Main service	$78,662	0.67%	$87,923	0.77%	$108,076	0.98%
Law Enforcement without prior Main service	$563	0.03%	$629	0.04%	$771	0.05%
Highway Patrol	$763,029	5.19%	$857,031	5.95%	$1,080,414	7.75%

The current plan provisions are summarized in Exhibit V of the Actuarial Valuation reports as of July 1, 2007, for the North Dakota Highway Patrolmen's Retirement System and the North Dakota Public Employees Retirement System. The current statutory contribution rates are as follows:

	Statutory/ Approved Rate
Main System	4.12%
National Guard	6.50%
Law Enforcement with prior Main service	8.31%
Law Enforcement without prior Main service	6.43%
Highway Patrol	16.70%

The bill also allows the Board to provide for an increase of 2% of monthly retirement benefits for supreme court and district judges who are retirees and their beneficiaries beginning January 1, 2011, if the Board determines that there is sufficient actuarial margin to pay the increase. The judges retirement system has an actuarial margin of 5.21% based on the July 1, 2007 actuarial valuation. A 2% monthly retirement benefit increase for retired judges would increase the plan's actuarial accrued liability by approximately $320,000 and would increase the actuarially determined contribution rate by 0.41% of active payroll.

These cost estimates are based on the July 1, 2007 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

➢ Investment Impacts

- Asset Allocation: The bill does not create new investment asset allocation issues.

- Cash Flow Impacts: Additional employer contributions under the bill would have an immediate, positive impact on cash flow to the Systems that would be offset to some extent by higher benefit payouts in the future.

Administration Issues

➢ Implementation Issues

The provision of the bill changing the normal form from a 50% joint and survivor benefit to a 100% joint and survivor benefit for the Highway Patrol Retirement System is drafted in a manner that eliminates the 50% joint and survivor benefit as the normal form, but does not add a 50% joint and survivor benefit as an optional form. Therefore, the only joint and survivor benefit available is a 100% joint and survivor benefit, which has a higher actuarial reduction than a 50% joint and survivor benefit.

The bill would have an effect on participating employers since their required contributions would increase substantially. In addition, an election procedure for political subdivisions to indicate whether they will make additional contributions to fund a 2% monthly benefit post-retirement increase must be implemented very soon to allow elections before July 1, 2009.

In order to implement the incentive that permits participants in the Deferred Compensation Program to purchase service in the Hybrid Plan at a subsidized cost, PERS must track all service in the Deferred Compensation Program to determine the amount of service that may be purchased in the Hybrid Plan. PERS has indicated that they can track service in the Deferred Compensation Program electronically only from 2000 forward; service prior to 2000 must be determined by an individual paper search, which would be costly.

➢ Administrative Costs

The administrative costs of the bill relating to changes in the business system are estimated to be as follows:

1. Employer contribution rate change - $5,000

2. Highway Patrol Retirement System 100% joint and survivor annuity - $2,100

3. Deferred Compensation Program incentive - $24,000

Please note that PERS is replacing its electronic business system prior to 2011. Delaying implementation of the Deferred Compensation Program incentive until January 2011 would eliminate the cost of implementing the incentive within the existing system.

Assuming that all political subdivisions elect to make additional contributions to fund the 2% monthly benefit post-retirement increase, the cost for employers is estimated to be as follows:

1.13% Main System and 5.30% Highway Patrol Contribution Increase
Health Credit and Retiree Increase

Group	Employees	Monthly Payroll	Biennial Payroll*	4.12% Employer Contribution	5.25% Employer Contribution	Increase
State	7,252	$23,051,516	$553,236,384	$22,793,339	$29,044,910	$6,251,571
Higher Ed	2,724	6,269,504	150,468,096	6,199,286	7,899,575	1,700,289
County	3,306	8,590,082	206,161,968	8,493,873	10,823,503	2,329,630
Schools	4,565	8,469,903	203,277,672	8,375,040	10,672,078	2,297,038
Cities	564	1,485,867	35,660,808	1,469,225	1,872,192	402,967
Others	461	1,182,874	28,388,976	1,169,626	1,490,421	320,795
Totals	18,872	$49,049,746	$1,177,193,904	$48,500,389	$61,802,679	$13,302,290

* Assumes no increase in salaries over the 24-month period.

Group	Employees	Monthly Payroll	Biennial Payroll*	6.70% Employer Contribution	22.00% Employer Contribution	Increase
Highway Patrol	125	$459,258	$11,022,192	$1,840,706	$2,424,882	$584,176

* Assumes no increase in salaries over the 24-month period.

State Total (State plus Highway Patrol) $6,835,747

- <u>Needed Authority</u>

The bill appears to provide sufficient levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

- <u>Cross Impact on Other Plans</u>

No impact.

- <u>Employee Communications</u>

Employee communications will be necessary to explain the one-time post-retirement payment and increase to monthly retirement benefits, the 100% joint and survivor benefit to members and retirees of the Highway Patrol Retirement System, and the purchase of service credit incentive for participants in the Deferred Compensation Program.

Please call if you have any questions or comments.

Sincerely,

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

Melanie Walker, JD
Vice President

4048387v3/01640.004

Gallagher Benefit Services, Inc.

A DIVISION OF ARTHUR J. GALLAGHER & CO.

June 4, 2008

Mr. William F. Robinson, RHU, FLMI
Area Vice President
Gallagher Benefit Services, INC.
6399 South Fiddler's Green Circle
Greenwood Village, Co 80111

RE: North Dakota Public Employees Retirement System FY 2009 GASB 45 ARC – Impact of Legislative Bill #90113.0100

Dear Bill:

North Dakota Public Employees Retirement System ("NDPERS") has requested APEX Management Group ("APEX"), a division of Gallagher Benefit Services, Inc., to estimate the impact of Legislative Bill #90113.0100 on NDPERS' fiscal year 2009 GASB 45 Annual Required Contribution (ARC). The intent of this letter is to document and present the results of the study.

Legislative Bill #90113.0100

Legislative Bill #90113.0100 is a bill intended to amend and enact section 54-52.1-02 of the North Dakota Century Code (Act) relating to non Medicare retiree insurance rates under the uniform group insurance program. Under the Act, the insurance rate for a non Medicare retiree choosing single coverage is to be 125% of the active member single plan rate. Currently, non Medicare retiree rates are 150% of the active member single plan rate. Furthermore, the Act states that the rates for a non Medicare retiree family of two and a non Medicare retiree family of three or more are twice and two and a half times the non Medicare retiree single plan rate, respectively. It should be noted that the bill does not change the relationship between the non Medicare two party and family rate and the non Medicare retiree rate. Rather, the bill changes the relationship between the non Medicare retiree single coverage rate and the active member single plan rate. The bill also provides an expiration date of June 30, 2011 for the Act.

NDPERS Fiscal Year 2009 GASB 45 ARC

Based on the July 2007 health insurance rates, a NDPERS non Medicare retiree would pay a monthly premium for single coverage of $471.09. The $471.09 represents the full monthly rate since NDPERS does not provide an explicit subsidy and requires retirees to pay the full rate. If the above Act were in effect in July 2007, the premium would be $392.57, a decrease of approximately 17%. The decrease in the premium also represents an increase in the implicit subsidy provided by NDPERS to its non Medicare retiree population under GASB 45.

The table below provides an estimate of the fiscal year 2009 GASB 45 Annual Required Contribution (ARC) under two scenarios. To provide a basis of comparison, the baseline represents the status quo or the situation where there is no change. Scenario 1 assumes that the bill passes and once the Act expires, the non Medicare rate returns to 150% of the active rate. Scenario 2 assumes that the bill passes and the non Medicare rate is 125% of the active rate even after the Act's expiration date.

Estimated FY 2009 GASB 45 ARC	Baseline	Scenario 1	Scenario 2
Normal Cost	$2,788,000	$2,788,000	$5,293,000
Interest on Normal Cost	$139,000	$139,000	$265,000
Amortization of Unfunded Accrued Liability	$1,278,000	$1,874,000	$2,426,000
Interest on Amortization	$64,000	$94,000	$121,000
Total	$4,269,000	$4,895,000	$8,105,000
Change	$0	$626,000	$3,836,000

Based on the above table, the impact of the bill under Scenario 1 and Scenario 2 is an increase in the fiscal year 2009 GASB 45 ARC of $626,000 and $3,836,000, respectively, relative to the baseline fiscal year 2009 GASB 45 ARC of $4.3 million. The reason for the difference in the magnitude is that under Scenario 1, the change in the non Medicare retiree rate from 150% to 125% of active rate is temporary. Under Scenario 2, the change is permanent and will affect a larger group of NDPERS future retirees. Note that the relative small decrease in the non Medicare retiree rate (17%) can have a potentially large impact on the GASB 45 ARC under Scenario 2 where the change in the GASB 45 ARC is $3.8 million, almost a 90% increase.

As was noted above, the impact of the bill is to decrease the non Medicare retiree rate and increase the GASB 45 implicit employer subsidy. In this case, the implicit subsidy is the difference between the retirees' age adjusted health costs and the amount that the retirees pay for health coverage. The table below provides the projected implicit subsidy under the baseline and two scenarios for fiscal years 2009 to 2017.

		Implicit Subsidy	
Fiscal Year	**Baseline**	**Scenario 1**	**Scenario 2**
2009	$3,137,000	$7,852,000	$7,852,000
2010	$2,257,000	$7,915,000	$7,915,000
2011	$2,686,000	$9,204,000	$9,204,000
2012	$3,129,000	$3,129,000	$10,606,000
2013	$3,431,000	$3,431,000	$11,841,000
2014	$3,700,000	$3,700,000	$13,063,000
2015	$3,973,000	$3,973,000	$14,324,000
2016	$4,286,000	$4,286,000	$15,638,000
2017	$4,629,000	$4,629,000	$17,032,000

Assumptions and Methodology

The fiscal year 2009 GASB 45 ARC estimates are developed using the July 1, 2007 valuation results as well as the methods and assumptions from that valuation and an investment return assumption of 5%. The methods and assumptions are outlined in the report dated October 1, 2007.

If you have any questions, please call me at 609-452-2488 x212.

Sincerely,

Don Henson

Don Henson, FSA, MAAA
Consulting Actuary

cc: Shawn Adkins
Mark Rosenberg

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Bill 90114.0100

July 10, 2008

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

Re: **Technical Comments – Bill Draft No. 90114.0100**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 90114.0100:

Systems Affected: Retiree Health Benefit Fund

Summary: The proposed legislation would increase the required monthly contribution to the Retiree Health Benefit Fund from 1.00% of monthly salary to 1.15% of monthly salary and increase the monthly retiree health credit from $4.50 per year of credited service to $5.00 per year of credited service. There are also corresponding contribution rate increases for both nonteaching employees of the superintendent of public instruction and employees of the state board for career and technical education, with higher contribution rates for these two groups for a specified period that are intended to fund past service.

Actuarial Cost Analysis: We have calculated that the additional contribution of 0.15% of salary would be sufficient to offset the cost of the additional monthly benefit of $0.50 per year of credited service.

Technical Comments: Our comments on the bill are as follows:

General

The purpose of the provision of the bill that increases the required contribution to the Retiree Health Benefit Fund is to provide adequate funding for an increased monthly retiree health credit in order to help members keep up with the rising cost of health care.

Benefits Policy Issues

➢ Adequacy of Retirement Benefits

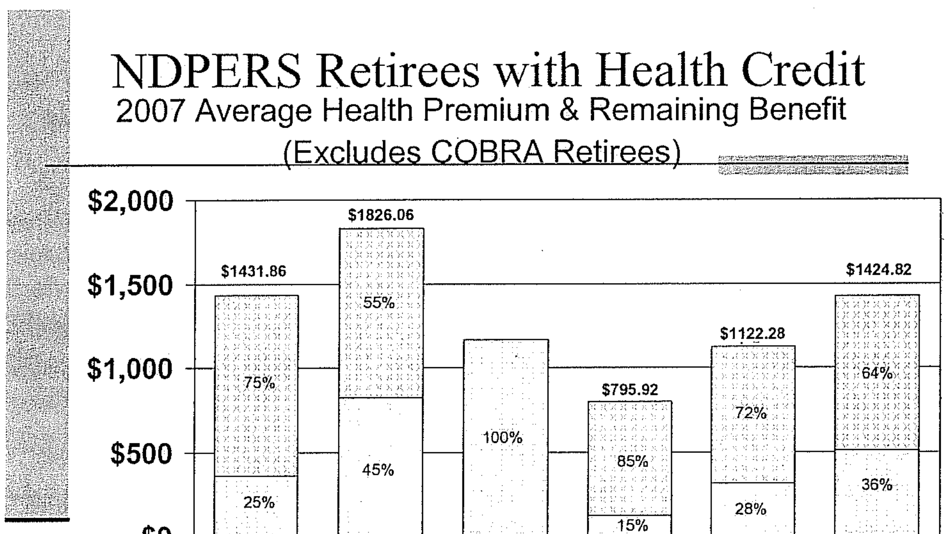
The bill has no direct impact on retirement benefits. However, the bill indirectly enhances retirement benefits by reducing the need for retirees to use their retirement benefits to pay for retiree health benefits.

➢ Benefits Equity and Group Integrity

The increase in contributions to and benefits payable from the Retiree Health Benefit Fund impact the Hybrid Plan, Highway Patrolmen's Retirement System and Defined Contribution Plan equally.

➢ Purchasing Power Retention

The retiree health credit has diminished in value over the years in terms of offsetting the cost of health insurance. Since the credit has remained fairly constant over time but the cost of insurance has continued to escalate, the percentage offset by the credit has been getting smaller. The following table+ shows the effect on retirement benefits of paying for health insurance:



	Non-Med Single	Non-Med Family	Non-Med Family 3+	Medicare Single*	Medicare Family*	Medicare One On*
☐ Retiree Benefit	1068.13	1001.65	0	674.2	807.12	913.82
☐ Health Premium	363.73	824.41	1166.36	121.72	315.16	511
Contracts:	315	89	2	2128	922	1835

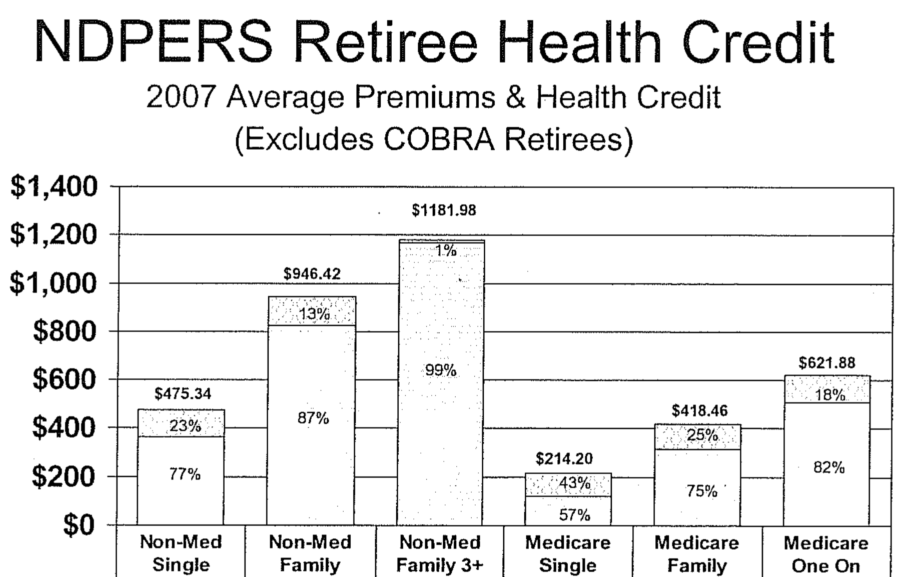
* - Medicare contracts must pay $93.50 per person for Medicare coverage.

The following table+ shows the effect that the rising cost of health insurance has had on the retiree health credit over time:

Example for 20-year employee

Year	Credit	Credit with 20 Years of Service	Non-Medicare Family Premium	%	Medicare Family Premium	%
1989	$3.00	$60.00	$360.07	17%	$190.50	31%
1991	$4.00	$80.00	$321.00	25%	$230.00	35%
1993	$4.50	$90.00	$368.00	24%	$230.00	39%
1995	$4.50	$90.00	$390.00	23%	$239.00	38%
1997	$4.50	$90.00	$438.48	21%	$264.98	34%
1999	$4.50	$90.00	$500.38	18%	$308.62	29%
2001	$4.50	$90.00	$570.00	16%	$339.30	27%
2003	$4.50	$90.00	$702.47	13%	$415.18	22%
2005	$4.50	$90.00	$781.86	12%	$427.24	21%
2006	$4.50	$90.00	$781.86	12%	$329.24	27%
2007	$4.50	$90.00	$946.42	10%	$418.46	22%
2008	$4.50	$90.00	$946.42	10%	$418.46	22%
2009	$4.50	$90.00	$1,059.99	8%	$468.68	19%
2011	$4.50	$90.00	$1,187.19	7.5%	$524.91	17%
2013	$4.50	$90.00	$1,329.65	7%	$587.91	15%

In addition, the following table[+] shows the percentage of the premium paid by the retiree health credit for each premium category:



	Non-Med Single	Non-Med Family	Non-Med Family 3+	Medicare Single	Medicare Family	Medicare One On
Health Credit	111.61	122.01	15.62	92.48	103.3	110.88
Retiree Paid	363.73	824.41	1166.36	121.72	315.16	511
Contracts:	315	89	2	2128	922	183

[+] These three tables are based on information provided by PERS' staff that has not been independently verified by Segal.

- Preservation of Benefits

  No impact.

- Portability

  No impact.

- Ancillary Benefits

  No impact.

Funding Policy Issues

- Actuarial Impacts

	$4.50 Multiplier	$5.00 Multiplier
1. Actuarial accrued liability on July 1, 2007:	$85,342,012	$94,824,458
2. Assets at actuarial value ($45,278,720 at market value):	38,882,121	38,882,121
3. Unfunded actuarial accrued liability - equals (1) minus (2):	46,460,891	55,942,337
4. Normal cost for ensuing year*:	2,698,131	2,997,923
5. Amortization payment - equals 23-year amortization of item (3) as a level percent of total payroll*:	2,945,326	3,546,390
6. Administrative expenses:	65,000	65,000
7. Total cost for ensuing year - equals (4) plus (5) plus (6):	5,708,457	6,609,313
8. Total payroll of covered members:	602,853,327	602,853,327
9. Total employer cost as percentage of payroll - equals (7) divided by (8):	0.95%	1.10%

* Adjusted for interest to recognize payments throughout the year.

Even though the additional contribution is sufficient to offset the additional cost, the bill would cause the funded ratio to decrease, since it causes an immediate increase in the actuarial accrued liability, but no corresponding immediate increase in fund assets.

These cost estimates are based on the July 1, 2007 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

- Investment Impacts

  - Asset Allocation: The bill does not create new investment asset allocation issues.

- Cash Flow Impacts: The bill would have an immediate, positive impact on cash flow to the Retiree Health Benefit Fund that would be offset to some extent by higher benefit payouts in the future.

Administration Issues

- Implementation Issues

This bill would have minimal effect on PERS' administrative costs.

- Administrative Costs

The bill would have minimal effect on PERS' administrative costs, estimated at $10,000 in technology costs. However, the contribution rate of participating employers would increase as follows:

NDPERS Main System Costs
$5.00 Health Credit/1.15% Contribution

Group	Employees	Monthly Payroll	Biennial Payroll*	1.00% Health Credit	1.15% Health Credit	Increase	General Increase (45.83%)	Other Increase
State	6,965	$21,436,119	$514,466,856	$5,144,669	$5,916,369	$771,700	$353,670	$418,030
Higher Ed	2,683	5,791,137	138,987,288	1,389,873	1,598,354	208,481	0	208,481
County	3,162	7,910,106	189,842,544	1,898,425	2,183,189	284,764	0	284,764
Schools	4,145	6,866,897	164,805,528	1,648,055	1,895,264	247,209	0	247,209
Cities	519	1,482,604	35,582,496	355,825	409,199	53,374	0	53,374
Others	434	1,047,747	25,145,928	251,459	289,178	37,719	0	37,719
Totals	17,908	$44,534,610	$1,068,830,640	$10,688,306	$12,291,553	$1,603,247	$353,670	$1,249,577

* Assumes no increase in salaries over the 24-month period.

- Needed Authority

The bill appears to provide sufficient levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

- Cross Impact on Other Plans

As noted earlier, an increase in the monthly amount of the retiree health credit will reduce the need for retirees to use benefit payments from the retirement systems for retiree health benefits.

- <u>Employee Communications</u>

  Employee communications will be necessary to describe the increase in the retiree health credit amount.

Please call if you have any questions or comments.

Sincerely,

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

Melanie Walker, JD
Vice President

4048272v3/01640.004

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Bill 90118.0100

July 10, 2008

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

Re: **Technical Comments – Bill Draft No. 90118.0100**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 90118.0100:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan) and Retiree Health Benefit Fund

Summary: The proposed legislation would transfer peace officers and correctional officers employed by the State department of corrections and rehabilitation from participation in the Public Employees Retirement System (PERS) Hybrid Plan under the rules applicable to general State employees to participation under the rules applicable to peace officers and correctional officers of political subdivisions. Based on our discussions, it appears that the prior service of these affected individuals under the rules applicable to general State employees would now be counted under the rules applicable to peace officers and correctional officers of political subdivisions. Our analysis of the bill is based on the assumption that prior service of affected individuals will be counted under such rules.

Actuarial Cost Analysis: The bill would transfer approximately 546 members of the Hybrid Plan from the main retirement plan to the law enforcement plan. Consistent with other such transfers we have assumed that assets equal to the actuarial accrued liability in the main retirement plan would be transferred to the law enforcement plan, and all service would be counted in the law enforcement plan. This will cause a cost decrease in the main retirement plan and a cost increase in the law enforcement plan.

Technical Comments: Our comments on the bill are as follows:

General

The Hybrid Plan provides very similar levels of benefits to both general State employees and peace officers and correctional officers of political subdivisions, including the benefit accrual formula (2% of final average salary times years of service), death benefits, and optional forms of retirement benefits. However, these employee groups have different normal retirement dates and early retirement dates. For general State employees, the normal retirement date is age 65 or attaining Rule of 85 eligibility, and the early retirement date is age 55 with three years of eligible employment. For peace officers and correctional officers of political subdivisions, the normal retirement date is age 55 with three consecutive years of eligible employment or attaining Rule of 85 eligibility, and the early retirement date is age 50 with three years of eligible employment. These differences may have important implications for the System, including actuarial costs.

Benefits Policy Issues

- Adequacy of Retirement Benefits

  The bill will enhance retirement benefits for peace officers and correctional officers employed by the State department of corrections and rehabilitation because they will now be able to retire (both reduced and unreduced retirement) at an earlier age.

- Benefits Equity and Group Integrity

  Under the bill, peace officers and corrections officers employed by the State department of corrections and rehabilitation would retire under normal and early retirement dates that are similar to the retirement dates of their peers (other peace officers and corrections officers in the State) who are employed by political subdivisions.

- Competitiveness

  The bill may increase the benefits competitiveness of the System only for peace officers and correctional officers employed by the State department of corrections and rehabilitation.

- Purchasing Power Retention

  No impact.

- Preservation of Benefits

  No impact.

- Portability

  No impact.

➢ Ancillary Benefits

- No impact.
- Social Security: No impact.

Funding Policy Issues

➢ Actuarial Impacts

The following table illustrates the effect on the actuarially calculated cost of both plans had the transfer of members and assets been effective July 1, 2007.

	July 1, 2007 Before Transfer*	July 1, 2007 After Transfer
Law Enforcement with Prior Main Service		
Actuarial accrued liability	$9,278,936	$47,567,007
Assets at market value	$8,074,771	$41,388,907
Assets at actuarial value	$6,459,817	$33,111,126
Unfunded liability	$2,819,119	$14,455,881
Amortization payment	$196,747	$1,008,880
Normal cost	$424,407	$2,099,878
Administrative expense	$3,270	$5,000
Total cost	$624,424	$3,113,758
Payroll	$4,870,238	$24,330,706
Total cost as percent of pay	12.82%	12.80%
Member cost as percent of pay	4.00%	4.00%
Employer cost as percent of pay	8.82%	8.80%
Main Plan		
Actuarial accrued liability	$1,575,666,628	$1,542,352,492
Assets at market value	$1,834,842,842	$1,801,528,706
Assets at actuarial value	$1,467,874,273	$1,441,222,964
Unfunded liability	$107,792,355	$101,129,528
Amortization payment	$7,522,858	$7,057,857
Normal cost	$49,460,425	$47,888,557
Administrative expense	$710,000	$710,000
Total cost	$57,693,283	$55,656,414
Payroll	$570,355,040	$550,894,572
Total cost as percent of pay	10.12%	10.10%
Member cost as percent of pay	4.00%	4.00%
Employer cost as percent of pay	6.12%	6.10%

* The "before transfer" column reflects an assets transfer of $3,116,031 from the Main Plan to the Law Enforcement Plan for members who transferred prior to July 1, 2007. This asset transfer was not reflected in the July 1, 2007 valuation.

The net effect of the transfer of members from the main retirement plan to the law enforcement plan is an increase in employer costs of $452,466.

These cost estimates are based on the July 1, 2007 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

➢ Investment Impacts

- Asset Allocation: The bill does not create new investment asset allocation issues.

- Cash Flow Impacts: The bill may create new cash flow needs, but the impact on the System is minimal.

Administration Issues

➢ Implementation Issues

The bill will require that the System reprogram the prior service of peace officers and correctional officers employed by the State department of corrections and rehabilitation to be counted under the rules applicable to peace officers and correctional officers of political subdivisions. While this bill would have minimal impact on administrative costs of the System, it would have an effect on the participating employer since the required contributions would increase.

➢ Administrative Costs

The bill will have minimal effect on administrative resources. However, employer contributions for the State will increase as follows:

There are approximately 546 correctional officer and peace officers that work for the State who would be transferred from the PERS main retirement plan to the PERS law enforcement plan. Table 1, below, gives an estimate of those who would be eligible and where they work. The immediate fiscal effect of transferring them from the main system to the law enforcement plan is on the employer contribution. The statutory rate in the main system is 4.12% of salary, while the rate in the law enforcement plan is 8.31% of salary.

TABLE 1

Department	Employees	Monthly Salary	Cost at Main Statutory Rate (4.12%)	Cost at Law Enforcement Statutory Rate (8.31%)	Monthly Increase
125 – Attorney General	36	$129,502	$5,335	$10,762	$5,427
223 – Youth Corrections	50	$134,594	$5,545	$11,185	$5,640
504 – Highway Patrol	1	$4,085	$168	$339	$171
502 – Parole	85	$271,322	$11,178	$22,547	$11,369
518 – Jamestown Penitentiary	123	$300,267	$12,371	$24,952	$12,581
519 – Bismarck Penitentiary	174	$474,216	$19,538	$39,407	$19,869
520 – Roughrider	19	$52,635	$2,169	$4,374	$2,205
720 – Game & Fish	34	$136,098	$5,607	$11,310	$5,703
Higher Education	24	$80,125	$3,301	$6,658	$3,357
TOTAL	**546**	**$1,582,844**	**$65,212**	**$131,534**	**$66,322**

Table 2 provides an estimate of the increase in expenditures by employer and funding source.

TABLE 2

Department	Biennium Increase*	Funding Source Gen, Fed, Other	General Increase	Other Increase
125 – Attorney General	$130,248	76%, 22%, 03%	$98,988	$31,260
223 – Youth Corrections	$135,360	100%, 00%, 00%	$135,360	$0
504 – Highway Patrol	$4,104	76%, 00%, 24%	$3,119	$985
502 – Parole	$272,856	98%, 02%, 00%	$267,399	$5,457
518 – Jamestown Penitentiary	$301,944	100%, 00%, 00%	$301,944	$0
519 – Bismarck Penitentiary	$476,856	98%, 02%, 00%	$467,319	$9,537
520 – Roughrider	$52,920	00%, 00%, 100%	$0	$52,920
720 – Game & Fish	$136,872	00%, 00%, 100%	$0	$136,872
Higher Education	$80,568	00%, 00%, 100%	$0	$80,568
TOTAL	**$1,591,728**	**84%, 04%, 12%**	**$1,274,129**	**$317,599**

* Assumes no increase in salaries over the 24-month period.

- Needed Authority

No impact.

- Cross Impact on Other Plans

The bill may have an impact on the Retiree Health Benefit Fund due to a specific group of employees being permitted to retire at an earlier age than under current rules, as noted earlier.

- Employee Communications

The bill will require employee communications to the peace officers and correctional officers employed by the State department of corrections and rehabilitation to describe the new retirement rules applicable to them, including the normal retirement age and early retirement age.

Please call if you have any questions or comments.

Sincerely,

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

Melanie Walker, JD
Vice President

4048289v3/01640.004

Chairman, Legislative Employees Benefits Committee
State of North Dakota
Bismarck, ND 58502

Bill 90125.0100

Re: Review of Proposed Senate Bill 90125.0100- A bill relating to the expansion of the uniform group insurance program to allow participation by permanent and temporary employees of private sector employers and other individuals as well as allowing agents to sell the group insurance program and receive commissions.

Dear_____,

The following summarizes the above referenced proposed legislation and our assessment of the financial and technical impacts of the bill.

Overview of the Proposed Bill

As proposed, this bill would modify the State Century Code relating to the expansion of the uniform group insurance program as follows:

- Allow "permanent employees" (as defined) of private employers to join the uniform group insurance program.
- Allow "temporary employees" (as defined) of private employers to join the uniform group insurance program.
- Allow "private citizens" (as defined) to join the uniform group insurance program.
- Allow licensed agents to sell the uniform group insurance program and receive commissions for sales.
- Appropriate up to $300,000 to implement the changes in the uniform group insurance program
- Authorize the NDPERS Board to add up to three full-time equivalent positions to implement the prescribed changes in the uniform group insurance program.

Expected Financial Impact

The proposed bill addresses three distinct categories of individuals that would be newly eligible to enroll in the uniform group insurance program ("Program"). We will address the expected financial impact separately for each category.

Permanent Employees of Private Sector Employers

Section 4 of the bill would allow private sector employers with one or more employees to join the Program. The bill allows the formation of an additional "subgroup" consisting of "private sector employee and private citizen group medical and hospital coverage". Interestingly, there is no mention of adding prescription drugs, dental or vision coverages for this new subgroup. We presume that the bill's intent is to at least include prescription drugs along with medical and hospital coverages. This should be clarified with the bill's sponsor.

A critical aspect of projecting the financial impact of the bill allowing permanent private sector employees is the interpretation of the word "subgroup" If the word "subgroup" is meant to imply that private sector employees would become their own category for experience and premium rating purposes, then the financial impact to the existing NDPERS plan would be limited to the additional administrative costs needed to oversee an expanded plan. Adverse selection, which would likely occur as groups that are unable to secure coverage in the existing private sector insurance markets join the NDPERS plan, would be contained in the risk pool of like entities. As the bill specifically identifies that the coverage is to offered by an "insurer", covering a distinct private sector permanent employee subgroup would be contingent upon an insurance company being willing to underwrite this group with limited adverse risk selection protections.

In discussions with the PERS Executive Director, we have been told that the board does have the authority to establish actuarially distinct subgroups under the uniform group insurance plan. If private sector employers were assigned their own subgroup, there would be no financial impact from the bill on the existing NDPERS group. However, as written, the bill would likely cause concerns for NDPERS' insurer (who would have to assume the financial risk) of any private sector groups that join the uniform group insurance plan for the following reasons:

- The prospective private employer is allowed to determine the amount of its contribution to the Program. This runs counter to traditional insurance underwriting and actuarial practices where there is a minimum required employer contribution to protect a plan against adverse risk selection. Read literally, this bill would allow the plan to be offered with no employer contribution. It is highly questionable that an insurer would underwrite such an arrangement where there is no mandated employer cost participation.
- The bill does not contain a minimum eligible employee participation requirement, which is standard in group insurance plans. Insurers generally require a minimum percentage of eligible employees to participate in the plan to achieve a reasonable mix of risks. Without that protection, the insurer could end up just covering the higher risk (and high cost) individuals.
- The bill indicates that the "board may apply medical underwriting requirements…" As discussed under the Technical Comments section below, HIPAA essentially eliminates the ability for a group health plan to use any individual medical underwriting. Group underwriting and pre-existing condition limitations are permitted, but evaluating individual prospective plan participants is prohibited. Therefore, the insurer would only be able to determine if a private sector group met minimum underwriting standards to join the Program. If it did not, then all individuals in the group would be denied coverage.
- The bill also allows the board to use "risk adjusted premiums" for new private sector groups applying for coverage under the Program. This does offer some

protection to the insurer, as risk adjusted premiums, if applied to the entire group, are not prohibited under HIPAA. However, having one or more risk adjusted premium levels would add to the administrative complexity of the Program.

The bill allows the board is to establish "minimum requirements" for private sector participation. If passed, we would recommend that the board adopt participation standards for all of the issues raised above to be consistent with insurance industry standards, not only to protect the financial integrity of the Program, but to increase the likelihood that an insurer would agree to underwrite the risk.

The bill does recognize the need for a long term financial commitment for any new private sector employers applying for coverage by requiring a minimum participation period of sixty months. Failure to meet this sixty month participation period would result in financial penalties to the employer. This is a sound underwriting requirement.

Temporary Employees of Private Sector Employers

Section 5 of the bill would allow temporary employees of private sector employers to participate in the Program. The board would be allowed to establish minimum requirements.

If, as discussions have indicated, NDPERS could require that a separate subgroup for rating and experience purposes be established for temporary employees only of private sector employers, we would have no concerns about adverse financial impact on the existing NDPERS health plan. Assuming a carrier would underwrite the group as defined in the bill (which is questionable, as noted below) premiums would be established for this distinct risk pool independent of the existing NDPERS' health plan experience.

We should point out that traditional insurance industry underwriting and actuarial practices exclude temporary employees from group coverages. The potential for adverse selection against a group insurance plan is extreme when a temporary employee can gain coverage only by working a minimal number of hours and timing insurance coverage to correspond with health care needs. Requiring an employee to be full time and to consistently work a minimum number of hours (usually 30 or more per week) helps ensure that the employee is relatively healthy and not working just to get access to insurance coverage. For these reasons, we seriously question whether any insurer would agree to underwrite coverage for temporary employees as stipulated in the bill.

Even if a separate subgroup was established for temporary employees, the likely insurance company underwriting concerns noted above for permanent employees apply to this group also. In summary, these include:

- No mandated employer contribution amount
- No mandated minimum participation requirement
- Inability to apply medical underwriting to individual applicants due to HIPAA restrictions

- Risk adjusted premiums can be used for entire groups, but application to specific individuals, such as temporaries within a group, is prohibited by HIPAA

As with permanent private sector employees, the bill allows the Board to set minimum standards. If the bill passes, the Board should consider adopting standards that would make this group reasonably palatable to insurers.

Participation by Private Citizens

Section 6 of the bill would allow an individual who is a resident of ND and does not have health insurance through a private insurer or a public plan to participate in the Program, subject to minimum standards established by the Board.

The bill includes the language "individual insurance contracts" in its summary of the coverage to be offered. As long as the actual intent is to offer true "individual" insurance, then our financial impact concerns on the existing NDPERS health plan are limited to a (significant) increase in administrative costs is inherent in any individually underwritten plan. As noted with the two subgroups addressed above, we have presumed that NDPERS is allowed to isolate individuals into a separate subgroup whose claim experience and administrative costs do not financially impact the existing Program employers and plan participants.

HIPPA portability and non-discrimination standards do not apply to individual coverages. Individual insurance carriers are free to medically underwrite all applicants, including dependents. Consequently, as long as NDPERS or its insurer conducts thorough medical underwriting of individuals and dependents, the underlying risk characteristics of the individual coverage pool should be no different than those of a comparable private sector insurer that utilizes standard industry underwriting techniques.

Administrative costs, on the other hand, are significantly greater for individual plans due to the relative labor-intensive nature of underwriting and plan operations compared to group coverages. We note that the bill appropriates up to $300,000 for the biennium beginning July 1, 2009 to expand the Program to include all new plan participants. It also authorizes three additional full time employees to implement the bill. It is beyond the scope of this analysis to determine if the additional funding and staff allocations would be adequate to cover the additional administrative services that NDPERS would be required to provide due to the expansion of the Program. We suggest additional study be done to estimate additional administrative costs to PERS.

<u>Technical Comments</u>

The bill anticipates many of our technical concerns with similar previously proposed legislative initiatives. Specifically, it includes these conditions:

- "The Board shall apply to the federal government to receive exempt status under the Employee Retirement Income Security Act (ERISA) to allow for the expansion of the uniform group insurance program [as contained in the proposed bill]." (Section 1). Further, the bill would not become effective until the Board receives notification that the proposed changes to the Program will not revoke its governmental exemption from ERISA (Section10).

- The Board must determine that "utilizing medical underwriting requirements and risk-adjusted premiums does not violate [HIPAA]." (Section 10)

Section 1 of the bill confirms that NDPERS must obtain prospective approval from the federal government that adding private sector employees and individuals would not cause the Program to lose its preferred governmental status and subsequently become subject to the regulations required of ERISA plans.

Section 2 of the bill confirms that the Board cannot institute any underwriting practices that violate HIPAA's portability provisions. As mentioned previously, adherence to HIPAA restricts the Program's ability to exclude high risk individuals under group health plans. Of particular concern, temporary employees could not be individually medically underwritten.

A nonfederal governmental employer that provides self-funded group health plan coverage may elect to exempt the plan from the portability requirements of HIPAA. However, because the proposed bill specifically calls for "an insurer to provide coverage" (Section 10), there is a question whether the self-funding option is available to NDPERS as a means to avoid HIPAA's medical underwriting restrictions. Further, because the bill would extend coverages to private sector employees, there is also a question whether the governmental self-funding exemption option would even be available. These are questions for qualified legal counsel if NDPERS wishes to explore the pursuit of a possible HIPAA exemption by self-funding.

Other Issues

As written, the bill would cause NDPERS to compete with commercial carriers for non-governmental group and individual coverages. This is likely to evoke challenges from the private sector. A less contentious alternative might be to enact small group/individual insurance reform legislation that creates better access for citizens of the State.

Another area of discussion is how this proposed bill would interact with the Comprehensive Health Association of North Dakota (CHAND) program. CHAND does provide coverage to residents of the state who have been denied coverage or have excessive premiums due to high risk conditions. CHAND is offered on a guaranteed issue basis, without medical underwriting. There appears to be some potential overlap between what the proposed bill is attempting to provide (universal access to coverage) and this existing program for some, but not all, state residents that cannot obtain insurance coverage..

In recent months, there has been considerable national activity involving legislation to allow private sector access to public sector plans. Most of the activity has been with state retirement plans, but there have also been efforts to allow private sector participation in governmental health plans. Wisconsin, Minnesota, Connecticut. Michigan and California are five states that have considered such a concept. To our knowledge nothing similar to the bill proposed in North Dakota has yet passed in any state. Other jurisdictions, such as Massachusetts, New Hampshire and the City of San Francisco have enacted universal coverage plans, but none involve a state or local retirement system as the health plan access vehicle.

Conclusions

The proposed bill has addressed most of the technical concerns mentioned in previous legislation to expand coverage in the Program to private sector and individuals. Advance federal approval that adding private employees would not jeopardize the Program's governmental status would be required. Also, the Board is required to comply with HIPAA portability and nondiscrimination provisions.

Financially, the bill has two primary areas of impact. The first, added administration costs, have not been addressed in this analysis other than to point out that they could be significant depending to what extent they are handled by NDPERS staff rather than insurers. Section 9 of the bill appropriates up to $300,000 per biennium to fund added administrative costs for NDPERS. It is beyond the scope of this analysis to determine whether this appropriation or the additional three full time employees would be sufficient.

As long as NDPERS is allowed to separate private sector groups, temporary employees and individual plan participants into their own distinct rating subgroups, there should be no direct financial impact to the existing Program. Any adverse claim experience from these non-governmental plan participants would be restricted to their own subgroup(s). The question then becomes whether the uniform group insurance private sector group and individual subgroups could effectively compete against comparable insurance company plans. The marketplace would ultimately make that determination.

If individuals are not required to be offered group coverage, the ability to medically underwrite them should make their risk pool comparable to the private sector equivalent. Administrative costs, however, for individual coverage are substantially greater than for group coverages and it would have to be determined whether a NDPERS administered individual plan could compete on overall costs.

The Bill is predicated upon the assumption that an insurance company will be willing to underwrite the new subgroups that would be offered coverage under the Program. Temporary employees have historically have not been a market segment that carriers have been willing to underwrite. Further, unless the board adopts insurance industry underwriting standards for private sector groups (which would result some being denied coverage), it is also doubtful carriers will underwrite this market segment.

Gallagher Benefit Services, Inc. is not licensed to provide legal advice. If NDPERS desires to have a qualified legal opinion concerning this proposed legislation, we suggest that it consult qualified employee benefits legal counsel.

We appreciate the opportunity to provide input on this proposed bill. Please let me know if we can provide any further assistance.

Sincerely,

HCSP
Health Care Savings Plan

What You Need to Know About the HCSP

What is the Health Care Savings Plan?

The Health Care Savings Plan (HCSP) is an employer-sponsored program that allows employees to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses.

Employees will be able to choose among seven different investment options provided by the State Board of Investment. Assets in the account will accumulate tax-free, and since payouts are used for approved health care expenses they will remain tax-free.

What legal authority exists to offer the Health Care Savings Plan?

Laws of Minnesota 2001, Chapter 352.98, authorizes Minnesota State Retirement System (MSRS) to offer this program to state employees, as well as all other governmental subdivisions.

MSRS received its private letter ruling establishing the HCSP as a tax exempt benefit on July 29, 2002.

Who chooses how contributions will be made to the Health Care Savings Plan?

Employees covered by a bargaining unit:
Amounts to be put into the account must be negotiated or agreed to by both the bargaining unit and employer and written into the collective bargaining agreement or Memorandum of Understanding (MOU).

Employees not covered by a bargaining unit:
Amounts to be put into the account must be agreed to by the employer and included in a written personnel policy.

What type of contributions can be made to the plan to receive the favorable tax treatment?

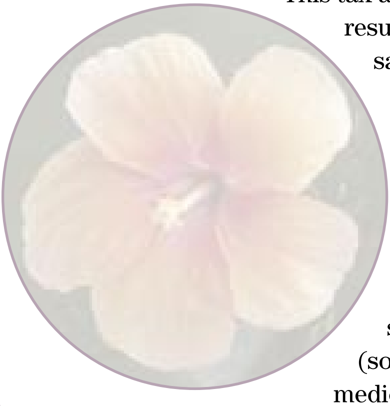
Employer Contributions:
An employer could elect to put a specific dollar amount into employees' accounts, or set aside a percentage of employees' salaries into the accounts.

Mandatory Employee Contributions:
A mandated monthly contribution could be required to be set aside in a plan.

Severance Pay:
Many public employers pay unused vacation or sick leave at the time of termination. The policy may mandate that all or a portion of this payout be put into the plan.

How would I benefit from the plan?

The Health Care Savings Plan allows employees to set aside money to cover the ever-increasing costs of health insurance and out-of-pocket expenses after termination of public service. While deferred compensation plans or retirement accounts provide a tax-deferred benefit, amounts paid out are considered taxable income. Under the Health Care Savings Plan, amounts contributed are tax-free and no taxes are paid on amounts to pay health, dental and long-term care insurance premiums, as well as, out-of-pocket medical expenses.



This tax advantage could result in significant savings to you and your family. For example, let's say you are eligible for $5,000 in severance. If paid in cash, after subtracting federal, state, and FICA (social security and medicare) taxes, the net amount of the payment would be approximately $3,000. If that same amount was transferred into your Health Care Savings Plan, the entire amount of $5,000 would be available to provide health care coverage.

What if I die before my account is exhausted?

The employee's spouse and legal dependents continue to use the account for health care reimbursements and the reimbursements remain tax-free.

If the employee has no spouse or dependents, the designated beneficiary will continue to submit receipts for healthcare expenses. However, at this point, the reimbursements become taxable income.

How does my employer benefit?

The Health Care Savings Plan allows your employer an opportunity to offer a benefit that you can use to cover the rising cost of health care. Employers are not required to pay FICA (7.65%) taxes on amounts contributed to this plan. There are no employer participation fees.

What responsibilities does my employer have regarding the administration of the Health Care Savings Plan?

The main responsibility is to determine how contributions will be made to the plan and making contributions to the plan on behalf of eligible employees. MSRS will provide your employer with an employer enrollment kit that includes instructions to help your employer get started. MSRS staff is also available to make on-site visits to explain the benefit and help get you started.

How do I get started?

Once your employer has agreed to participate, MSRS will provide you with an enrollment kit. It includes a welcome letter that explains the forms and displays your personal identification number (PIN). The enrollment forms verify your demographic information and allows you to designate your investment choices. You may request a beneficiary designation form if you have no dependents.

How will my assets be invested?

Your money will be invested in the Money Market, an interest bearing account, until you designate otherwise. You will be able to choose among seven different investment options. You may change your investment selections once per month. You can contribute to as many of the seven available investments as you wish. It is important to review your investment strategies at least once every year. You can do this and change your allocations by using your PIN to access your account online or by calling us.

INVESTMENT OPTIONS

ACCOUNT NAME	Potentially Lower Risk/Reward	ANNUAL FEE*
Money Market		.01%
Fixed Interest		.08%
Bond Market		.10%
Income Share		.01%
Common Stock Index		.02%
Growth Share		.19%
International		.28%
*Fees are subject to change.	Potentially Higher Risk/Reward	

The chart above shows the investment options, and the annual investment fee charge for each investment option.

Will I receive statements?

Yes. You will receive an account statement every six months. It will be mailed directly to your residence.

What is the cost?

The administrative fees to administer the plan are deducted from your account. You will be charged 0.15% of your account balance each quarter (0.60% per year). For example, if you have an account value of $10,000, $15 per quarter will be deducted from your account. The maximum annual fee charged on an account will be $140 or $35 per quarter. All fees are subject to change.

At what point am I eligible to begin receiving amounts to cover medical insurance or expenses?

You are eligible to draw from your account under any of the following circumstances:

- If you leave employment
- If you retire
- If you are collecting a disability benefit from one of the public pension plans
- If you are on a medical leave (six months or longer)
- If you are on a leave of absence (one year or longer)

How will reimbursements be made?

MSRS will reimburse you directly for your out-of-pocket health care expenses. Payments will be made to plan participants who submit proper claims every week. However, there is a $75 minimum reimbursement requirement. Submit a claim once you have collected $75, or more, worth of receipts.

MSRS can also set you up on a monthly payment schedule for your health insurance premium costs. Those monthly reimbursements will occur on the last business day of each month.

How are reimbursements from the Health Care Savings Plan treated for tax purposes?

Reimbursements paid from the Health Care Savings Plan to cover your health insurance and medical expenses will never be taxed. No income tax withholding or reporting is required.

However, it is important that you understand that this money can only be used to offset health care costs or the cost of health insurance, and at no time can be accessed for other purposes.

Eligible expenses

Participants in the Plan are using their funds to cover a long list of eligible health care expenses. For example, you can use the money in your account to pay for your health insurance or dental premiums, co-pays and deductibles. You can use the money to cover eye care expenses (e.g., eye exams, contact lenses or contact lense solution). You may even use the money in your account to cover over-the-counter (OTC) items that don't require a prescription.

Eligible expenses include those expenses which are deductible for federal income tax purposes. These include expenses related to the diagnosis, care, treatment or prevention of disease (see examples on pages 9-12). For more examples, see IRS Publication 502 which is available from your local IRS office.

Success of HCSP

Since July 2001, MSRS has been administering the HCSP for the benefit of public employees throughout the state. The HCSP program has been growing steadily and seems to be gaining popularity throughout the state. MSRS has about 400 employer groups in the HCSP and is holding in trust over $60 million in assets.

REIMBURSABLE HEALTH CARE EXPENSES

Your HCSP account may be used to cover the cost of health and dental insurance, long-term care insurance, and monthly Medicare B premiums. In addition, a list of costs that can be reimbursed is shown below:

A
- Acupuncture and acupressure
- Air filter prescribed for treatment of allergies
- Alcoholism or drug dependency treatment and treatment centers
- Allergy medicine
- Ambulance
- Analgesics
- Antacids
- Antibiotics, first aid
- Anti-diarrhea medicine
- Antihistamines
- Anti-inflammatory
- Artificial limbs and teeth
- Aspirin

B
- Bandaids/bandages
- Birth control devices (with prescription)
- Birth control pills
- Braille books and magazines (to the extent prices exceed prices for regular books and magazines)
- Burn treatments

C
- Car (special medical equipment within)
- Childbirth preparation classes for mother, excluding portion for mother's coach
- Cold and flu medicine
- Cold/hot packs
- Condoms (with prescription)
- Contact lenses
- Contact lens solutions/cleaners
- Contraceptives
- Corn/callus removers
- Cough drops
- Crutches

D
- Decongestants
- Dental treatment, including dentures, and orthodontia (braces and retainers)
- Diabetic supplies
- Diaper rash treatment
- Diathermy
- Digestive aids
- Drugs which require a prescription to be purchased

E
- Elastic wraps
- Expectorants
- Eye drops
- Eye examination
- Eyeglasses

F
- Fees to doctors, hospitals, etc. for:
  - Anesthesiologist
  - Chiropodists
  - Chiropractor
  - Christian science practitioners
  - Clinic
  - Dentist
  - Dermatologist
  - Gynecologist
  - Midwife
  - Neurologist
  - Obstetrician
  - Ophthalmologist
  - Optometrist
  - Osteopath, licensed
  - Pediatrician
  - Physical examination
  - Podiatrist
  - Practical nurse
  - Psychiatrist
  - Psychoanalyst (medical care only)
  - Psychologist (medical care only)
  - Sex therapist
  - Surgeon
- First aid kits

G
- Guide dog and its upkeep

H
- Hearing aids and batteries
- Hemorrhoid treatments

- Home modification to accommodate handicapped person

I
- Incontinence Supplies
- Insect bite/sting medicine
- Insurance premiums Medical Dental Long term care
- Iron lung

L
- Laboratory fees
- Laxatives
- Lip-reading lessons
- Lodging for medical care ($50 per night per person up to $100 per night)

M
- Massage therapy if accompanied by doctor's prescription indicating length of time needed and number of treatments needed
- Medical supplies
- Medications which require a prescription to be purchased
- Menstrual pain relievers
- Mental institution care (mentally ill person unsafe when left alone)
- Mentally handicapped, special home for
- Motion sickness medicine
- Muscle/joint pain relievers

N
- Nasal sinus sprays
- Nicotine patches, gum, lozenges
- Nurses' expenses and board
- Nursing care
- Nursing home (if for medical reasons)

O
- Obstetrical expenses
- Operations and related treatment
- Oral wounds (cold sores)
- Organ donation, organ transplants
- Orthopedic shoes, excess of costs over normal shoes
- Oxygen equipment

P
- Pain relievers
- Pedialyte (dehydration)
- Pregnancy test kits
- Prenatal vitamins (prescribed)

- Psoriasis treatment

R
- Radial keratotomy
- Reading glasses
- Rental of medical equipment (see IRS Pub. 502 for guidelines)

S
- Sanitarium
- Sinus medication
- Skin irritation treatment
- Sunburn treatments
- Special schooling for physically or mentally handicapped
- Speech therapy
- Spousal or personal insurance premiums
- Sterilization, legal
- Support or corrective devices (such as orthopedic shoes)
- Swimming pool, for treatment of severe emphysema, bronchitis osteoarthritis, degenerative spinal problems

T
- Telephone for the deaf
- Television closed caption decoder equipment which displays the audio part of TV programs for the deaf
- Therapy received as medical treatment
- Thermometers
- Throat lozenges
- Transplant, medical expenses of donor or prospective donor
- Transportation expenses for essential medical care mileage (plus parking)
- Tuition at special school for the handicapped

V
- Vaccinations
- Vasectomy
- Visual alert system for deaf person
- Vitamins which require a prescription to be purchased

W
- Wart remover products
- Wheelchair
- Wrist/joint supports

X
- X-rays

NON-REIMBURSABLE HEALTH CARE EXPENSES

A
- Acne treatment
- Antiperspirant
- Any charges incurred outside of plan year even if paid for during plan year
- Any illegal treatment

B
- Bleaching of teeth
- Blemish concealer
- Breast pumps

C
- Chapsticks
- Cosmetics
- Cosmetic surgery, electrolysis, and hair transplants that are not medically necessary
- Cost of illegal drugs, even if physician directed
- Cost of remedial classes for non-handicapped child
- Cotton balls

D
- Dancing or ballet, even if recommended by doctor
- Dental floss
- Denture care products
- Deodorant
- Dietary supplements

E
- Exercise equipment
- Face creams

F
- Finance charges
- Funeral expenses

H
- Hair growth/removal products
- Life insurance

M
- Marriage counseling
- Maternity clothes
- Meals
- Mouth wash

N
- Nutritional supplements

P
- Powder, baby or talcum

S
- Shampoo
- Skin lotion
- Stop smoking programs for general well-being
- Suntan lotion
- Swabs
- Swimming lessons

- Teeth whitening products
- Toothpaste/toothbrushes
- Vitamins and minerals
- Weight reduction program for general well-being

To get answers to frequently asked questions, please refer to the MSRS website at www.msrs.state.mn.us. The Q&A and other helpful information is behind the "Health Care" button.

REIMBURSABLE HEALTH CARE EXPENSES WITH YOUR PHYSICIAN'S NOTE

- Acne treatment
- Chondroitin (arthritis)
- Diaper service (except for special needs)
- Fees for exercise, athletic, or health club membership
- Feminine hygiene
- Fiber supplements
- Glucosamine (arthritis)
- Hormone therapy
- Lactose intolerant pills
- Nasal sprays/strips for snoring
- Orthopedic inserts
- Orthopedic shoes
- Shampoo medicated
- Sunscreen
- St. John's Wart (depression)
- Weight loss

Remember you can begin to draw from your account under the following circumstances:

- When you terminate your employment.
- When you retire.
- If you have been on a medical leave for more than six months.
- If you have been on a authorized leave of absence for 12 months.
- If you are collecting a disability from one of the state-wide pension plans.

If you have any additional questions about the HCSP, please feel free to call MSRS at 1-800-657-5757 or 651-296-2761.

HCSP
Health Care Savings Plan
60 Empire Drive, Suite 300
Saint Paul, MN 55103-3000

Graphic Design:
Albarella Design, Inc.
www.albarella.com

MSRS
MNDCP | HCSP

HCSP is administered by the
Minnesota State Retirement System (MSRS)

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: July 9, 2008

SUBJECT: Board Committee Assignment

The PERS Board has several standing committees comprised of the following Board members:

- Investment Committee: Mr. Sandal, Mr. Leingang, and Mr. Trenbeath (alternate)
- Audit Committee: Chairman Strinden and Mr. Leingang
- Benefits Committee: Ms. Ehrhardt, Ms. Smith, and Mr. Trenbeath
- Election Committee: Ms. Ehrhardt, Mr. Leingang, and Mr. Sandal
- Wellness Committee**:** Ms. Smith

We currently have a vacancy on the Investment Committee and the Board needs to consider its committee membership. Mr. Trenbeath has been serving as an alternate to this committee. Statute requires three members appointed by PERS must be from the elected members to the Board (refer below).

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers fund for retirement board or the board's designees who need not be members of the fund as selected by that board, and three of the elected members of the public employees retirement system board as selected by that board. The director o workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings participate, and vote when the director is unable to attend. The teachers' fund fo retirement board may appoint an alternate designee with full voting privileges t attend meetings of the state investment board when a selected member is unable t attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation sixty-two dollars and fifty cents per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.

Board Action Requested

To appoint a Board member to the Investment Committee.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Internal Audit Division
Office Memorandum

TO: NDPERS Board

FROM: Jamie Kinsella

DATE: June 20, 2008

SUBJECT: Internal Audit Policy 104

During the May Audit Committee meeting the committee reviewed revisions suggested by the Internal Auditor to Internal Audit Policy 104, Independence. Internal Audit proposed changing the policy removing reference to signing a conflict of interest statement, which was not being followed consistently. This step will now be considered a part of planning an audit, which will require a review and signature within the planning memo regarding disclosure of any potential conflict with independence or objectivity during the audit.

We request that the NDPERS Board review this policy and provide their approval of this change. I have included for your reference the original policy, as well as the revised policy.

Those who attended the meeting are available to answer any questions you may have.

Board Action Requested: Approve the attached revised Policy #104.

PUBLIC EMPLOYEES RETIREMENT SYSTEM INTERNAL AUDIT POLICY	Policy No. 104 Effective Date: 6/24/93 Revised: 5/21/08
Subject: Independence Policy	Page 1 of 2

It is the policy of North Dakota Public Employees Retirement System's Internal Audit Division that all professional personnel be familiar with and adhere to the independence rules, regulations, interpretations, and ruling of the IIA, AICPA, the North Dakota Society of CPAs, the North Dakota State Board of Accountancy, Government Auditing Standards issued by the Comptroller General of The United States and North Dakota Public Employees Retirement System. In this regard, any transaction, event, or circumstance that would impair the internal audit division on an audit is prohibited. If there are any personal, external or organizational impairments to independence, the internal auditor must inform the Executive Director and the Audit committee of the situation. In situations when the impairment(s) cannot be resolved the impairment(s) will be reported in the scope section of the audit report. Although not necessarily inclusive of all transactions or events that may impair the internal auditor's independence, the following are considered to be prohibited transactions:

1. Investments by any professional employee with auditee personal,
2. Borrowings from or loans to an auditee, or auditee's personnel,
3. Accepting cash or gifts from an auditee (with the exception of non-cash token gifts of nominal value), and/or
4. Certain family relationships between internal auditors and auditee personnel.

The procedures listed below should be followed to ensure compliance with this policy.

1. Internal auditors are required to sign a statement that acknowledges their familiarity with the Internal Audit Division's independence policies and procedures which will be made part of every planning memo
2. Internal auditors are required to notify the Executive Director and Audit Committee of any potential violation of a prohibited transaction or independence rule as soon as they become aware of such a situation. (If the internal auditor is not sure if a transaction, event or circumstance impairs the Internal Audit Division's independence, the advice of the Office of the State Auditor's office technical specialist, Executive Director, and Audit Committee will be sought.)
3. The Internal Audit Division is responsible for resolving questions relating to independence matters. In so doing, the internal auditor should, when necessary consult with the IIA, AICPA or the NDSCPA for assistance in interpreting independence rules. Documentation, if any, of the resolution of an independence matter is left to the discretion of the internal auditor; however, if written

documentation is deemed necessary by the internal auditor, such documentation should be filed in the auditee's permanent file and the Internal Audit Division's independence file.

4. In regards to organizational impairments to independence, the Internal Audit Division's professional personnel must have independence to fulfill a professional obligation, to render a free, unbiased, unrestricted opinion, and to report matters as they are. In accomplishing these activities, the internal auditor is authorized to have full, free, and unrestricted access to all agency functions, records, property, personnel, and the board. The Internal Audit Division will report administratively to the Executive Director, and functionally to the Audit Committee.

Submitted by: Jamie Kinsella

Approved by: NDPERS Audit Committee

Date: May 21, 2008

PUBLIC EMPLOYEES RETIREMENT SYSTEM INTERNAL AUDIT POLICY	Policy No. 104 Effective Date: 6/24/93 Revised: 10/19/00
Subject: Independence Policy	Page 1 of 4

It is the policy of North Dakota Public Employees Retirement System's Internal Audit Division that all professional personnel be familiar with and adhere to the independence rules, regulations, interpretations, and ruling of the IIA, AICPA, the North Dakota Society of CPAs, the North Dakota State Board of Accountancy, Government Auditing Standards issued by the Comptroller General of The United States and North Dakota Public Employees Retirement System. In this regard, any transaction, event, or circumstance that would impair the internal audit division on an audit is prohibited. If there are any personal, external or organizational impairments to independence, the internal auditor must inform the Executive Director and the Audit committee of the situation. In situations when the impairment(s) cannot be resolved the impairment(s) will be reported in the scope section of the audit report. Although not necessarily inclusive of all transactions or events that may impair the internal auditor's independence, the following are considered to be prohibited transactions:

1. Investments by any professional employee with auditee personal,

2. Borrowings from or loans to an auditee, or auditee's personnel,

3. Accepting cash or gifts from an auditee (with the exception of non-cash token gifts of nominal value), and/or

4. Certain family relationships between internal auditors and auditee personnel.

The procedures listed below should be followed to ensure compliance with this policy.

1. Internal auditors are required to sign a conflict of interest statement when hired, and annually thereafter, that acknowledges their familiarity with the Internal Audit Division's independence policies and procedures. Additionally, an independence statement will be made part of every planning memo. This statement must be signed by the internal auditor (see Exhibit I and II).

2. Internal auditors are required to notify the Executive Director and Audit Committee of any potential violation of a prohibited transaction or independence rule as soon as they become aware of such a situation. To acknowledge that responsibility, internal auditors are required when hired, and annually thereafter, to sign a conflict of interest statement and to list situations they know of that could impair the Internal Audit Division's independence. (If the internal auditor is not sure if a transaction, event or circumstance impairs the Internal Audit Division's independence, the advice of the Office of the State Auditor's office technical specialist, Executive Director, and Audit Committee will be sought.)

3. The Internal Audit Division is responsible for resolving questions relating to independence matters. In so doing, the internal auditor should, when necessary consult with the IIA, AICPA or the NDSCPA for assistance in interpreting independence rules. Documentation, if any, of the resolution of an independence matter is left to the discretion of the internal auditor; however, if written documentation is deemed necessary by the internal auditor, such documentation should be filed in the auditee's permanent file and the Internal Audit Division's independence file.

4. In regards to organizational impairments to independence, the Internal Audit Division's professional personnel must have independence to fulfill a professional obligation, to render a free, unbiased, unrestricted opinion, and to report matters as they are. In accomplishing these activities, the internal auditor is authorized to have full, free, and unrestricted access to all agency functions, records, property, personnel, and the board. The Internal Audit Division will report administratively to the Executive Director, and functionally to the Audit Committee.

Submitted by: Jamie Kinsella

Approved by: NDPERS Audit Committee

Date: October 19, 2000

EXHIBIT I

CONFLICT OF INTEREST STATEMENT

I am familiar with, and have read the policies and procedures relating to independence and conflict of interest.

While outside employment is not prohibited, I understand that any accounting or auditing related employment must be approved in writing, in advance, by the Executive Director and Audit Committee. I am also aware that such outside employment should not:

- Interfere with the performance of my assigned job duties.
- Be conducted through use of state time, equipment or facilities.
- Involve persons or situations that may give the appearance of a conflict of interest.

I have listed below any outside accounting or auditing related employment I am engaged in, and any conflicts or interest I have in relation to my position with the North Dakota Public Employee's Retirement System.

I will notify the audit managers or division directors immediately, in writing, of any changes in the future.

______ No conflicts.

____

____

____

____

Signature ____ Date _________________
Auditor

Signature ____ Date _________________
Executive Director

Signature ____ Date _________________
Audit Committee Member

Signature ____ Date _________________
Audit Committee Member

EXHIBIT II

STATEMENT OF INDEPENDENCE

I have reviewed Chapter three, paragraphs 11 through 15, of Government Auditing Standards (the "Yellow Book") issued by the Comptroller General of the United States. The second general standard for government auditing is:

> In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent and should maintain an independent attitude and appearance.

I have reviewed the General and Specific Standards for the Professional practice of Internal Auditing Chapters 100 through 120. The general standard for internal auditor's independence is:

> Internal auditors should be independent of the activities they audit.

This independence is achieved through organizational status and objectivity.

In my opinion, my participating in this audit meets these independence standards.

Name __________________________________

Date __________________

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

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Executive Director
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MEMORANDUM

TO: NDPERS Board

FROM: Jim Smrcka

DATE: July 8, 2008

SUBJECT: **Consultant Fees**

Attached is a report showing the consulting, investment and administrative fees paid during the quarter ended June 30, 2008 Please let me know if you have any questions on the report.

Attachment

North Dakota Public Employees Retirement System
Consulting/Investment/Administrative Fees
For the Quarter Ended June 30, 2008

	Program/Project	Fee Type	Apr-08	May-08	Jun-08	Fees Paid During The Quarter	Fees Paid Year-To-Date
Actuary/Consulting Fees:							
Gallagher Benefit Services, Inc	Insurance	Fixed Fee				-	-
Gallagher Benefit Services, Inc	Ongoing consulting	Time charges	-	6,996	-	6,996	17,357
Gallagher Benefit Services, Inc	Travel Expenses	Actual	-	-	-	-	-
LR Wechsler, LTD	IT Project	Fixed Fee	18,498	-	13,387	31,885	80,630
LR Wechsler, LTD	Travel Expenses	Actual	-	-	4,690	4,690	14,331
Sagitec Solutions LLC	PERSLINK Project		315,890	-	-	315,890	1,774,247
Gabriel Roeder Smith & Company			-	380	828	1,208	380
Mid Dakota Clinic	Retirement Disability	Time charges	400	2,840	-	3,240	3,680
The Segal Company	Retirement (DB)	Fixed Fee	12,825	-	-	12,825	25,650
The Segal Company	Ret Health Credit	Fixed Fee	2,475	-	-	2,475	4,950
The Segal Company	FlexComp	Fixed Fee	2,700	-	-	2,700	5,400
The Segal Company	Job Service	Fixed Fee	3,600	-	-	3,600	7,200
The Segal Company	QDRO/Compliance	Time charges		1,056	2,681	3,738	10,969
The Segal Company	Legislation	Time charges	-	2,200	1,581	3,781	25,988
The Segal Company	Retirement (DC)	Time charges	-	-	-	-	-
The Segal Company	Deferred Comp	Time charges	-		275	275	550
The Segal Company	Travel Expenses	Actual	-	-	-	-	-
			$ 356,388	$ 13,472	$ 23,443	$ 393,302	$ 1,971,331
Audit Fees:							
Brady Martz	Annual audit	Fixed Fee				$ -	$ 5,475
Legal Fees:							
ICEMILLER llp	IT Project	Time charges	-	-	-	$ -	$ -
ND Attorney General	Administrative	Time charges	-	-	-	$ -	$ 70
Calhoun Law Group	Administrative	Time charges	1,265	-	-	$ 1,265	$ 1,265
Investment Fees:							
SIB - Investment Fees	Retirement (DB)	% Allocation	969,289	949,185	1,491,418	3,409,892	6,298,855
SIB - Investment Fees	Ret Health Credit	% Allocation	27,777	280	309	28,366	62,183
SIB - Investment Fees	Insurance	% Allocation	195	30	33	258	504
SIB - Administrative Fees	Retirement (DB)	% Allocation	19,016	17,459	14,742	51,217	93,640
						$ 3,489,733	$ 6,455,182
Administrative Fee:							
Blue Cross Blue Shield	Health Plan	Fixed fee	737,125	738,171	737,992	$ 2,213,288	$ 4,420,117