NDPERS BOARD MEETING
Agenda

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

November 17, 2011 Time: 8:30 AM

I. MINUTES
   A. October 20, 2011

II. RETIREMENT
   A. Asset Liability Study - Callan
   B. Investment Policies – Sparb (Board Action)
   C. Actuarial Valuation – Sparb (Information)

III. GROUP INSURANCE
   A. Wellness Program Update – BCBS (Information)
   B. Quarterly Executive Summary – BCBS (Information)
   C. Memorandums of Understanding with BCBS – Sparb (Board Action)
   D. HDHP Update – Sparb (Information)

IV. DEFERRED COMPENSATION/DEFINED CONTRIBUTION
   A. Transition Update – Sparb (Information)

V. MISCELLANEOUS
   A. PERSLink Update – Sparb (Information)
   B. December 28 Board Meeting – Sparb (Information)
   C. Financial Hardship #41 – Kathy (Board Action)
   D. SIB Agenda

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.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: Asset/Liability Study

Attachment #1 is a PowerPoint report from Callan with the results of our recent Asset-Liability Study. Jay Koepfer from Callan will be at the Board meeting to discuss the results.

During the last several months the PERS Investment Subcommittee has reviewed this report with Jay and John Geissinger. Based upon these discussions, the Investment Subcommittee recommended to you in September to transition to our new asset categories (see Attachment #2). The Board approved this change and it was forwarded to the SIB and accepted at their September meeting. This transition resulted in adopting the "PERS Effective Exposures" as shown on slide 13 of Attachment #1.

In October and November the Investment Subcommittee met several times to discuss the report in detail. As a result of this review, the committee is recommending adopting Mix 3b for our updated asset allocation as shown on slide 13. You will note the proposed change reduces the expected risk while maintaining the 8% return assumption (with an underlying inflation assumption of 3%).

Board Action Requested

Approve Mix 3b

North Dakota
Public Employees' Retirement System
Asset-Liability Study: Preliminary Results

November 17, 2011

Paul Erlendson
Senior Vice President
Denver Consulting Office

Jay Kloepfer
Executive Vice President
Director of Capital Markets Research

Overview of the Process

- **Review PERS' current investment program**
  - Strategic allocation to broad asset classes
  - Important to distinguish between "strategy" (i.e.—the target asset class/benchmark) and "implementation" (i.e.—the way the manager constructs the portfolio).
- **Evaluate potential new asset classes/strategies**
  - Consideration of new asset classes/strategies.
- **Construct a preliminary asset-liability evaluation**
  - Review preliminary asset-liability results
  - Confirm model assumptions and decision variables
  - Ascertain risk tolerance and effective investment time horizon
- **Develop the final asset-liability study**
  - Callan conducts an internal peer review of the study's results
  - Present finalized asset-liability results to PERS Board of Trustees
  - PERS Board selects an appropriate asset allocation

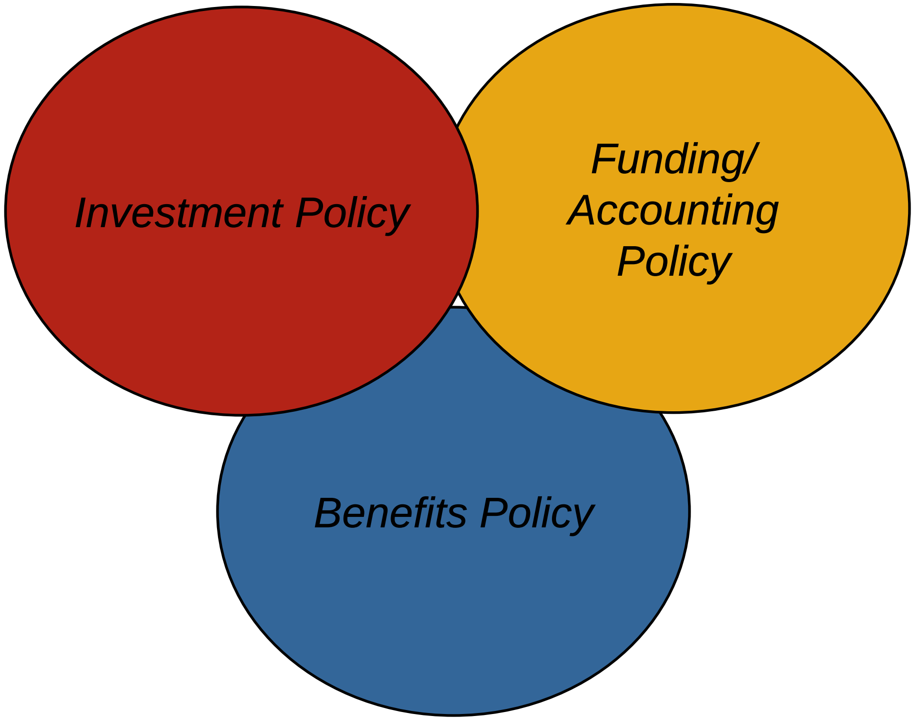
What is Asset Allocation?

- **Asset Allocation - The process of determining the <u>optimal allocation of a portfolio among broad asset classes</u> based upon, among other factors:**
  - Capital market expectations
  - Cash flow considerations
  - Recent performance
  - Investment goals and objectives
  - Risk tolerance
  - Time horizon
- **Appropriate target asset allocation:**
  - Asset classes for inclusion
  - Special considerations – liquidity needs, asset class limitations, implementation challenges, administrative/legal burdens, size or capacity constraints
  - Rebalancing discipline

What is an Asset-Liability Study?

Evaluating the interaction of the three (3) key policies that govern a benefit plan with the goal of establishing the best investment policy

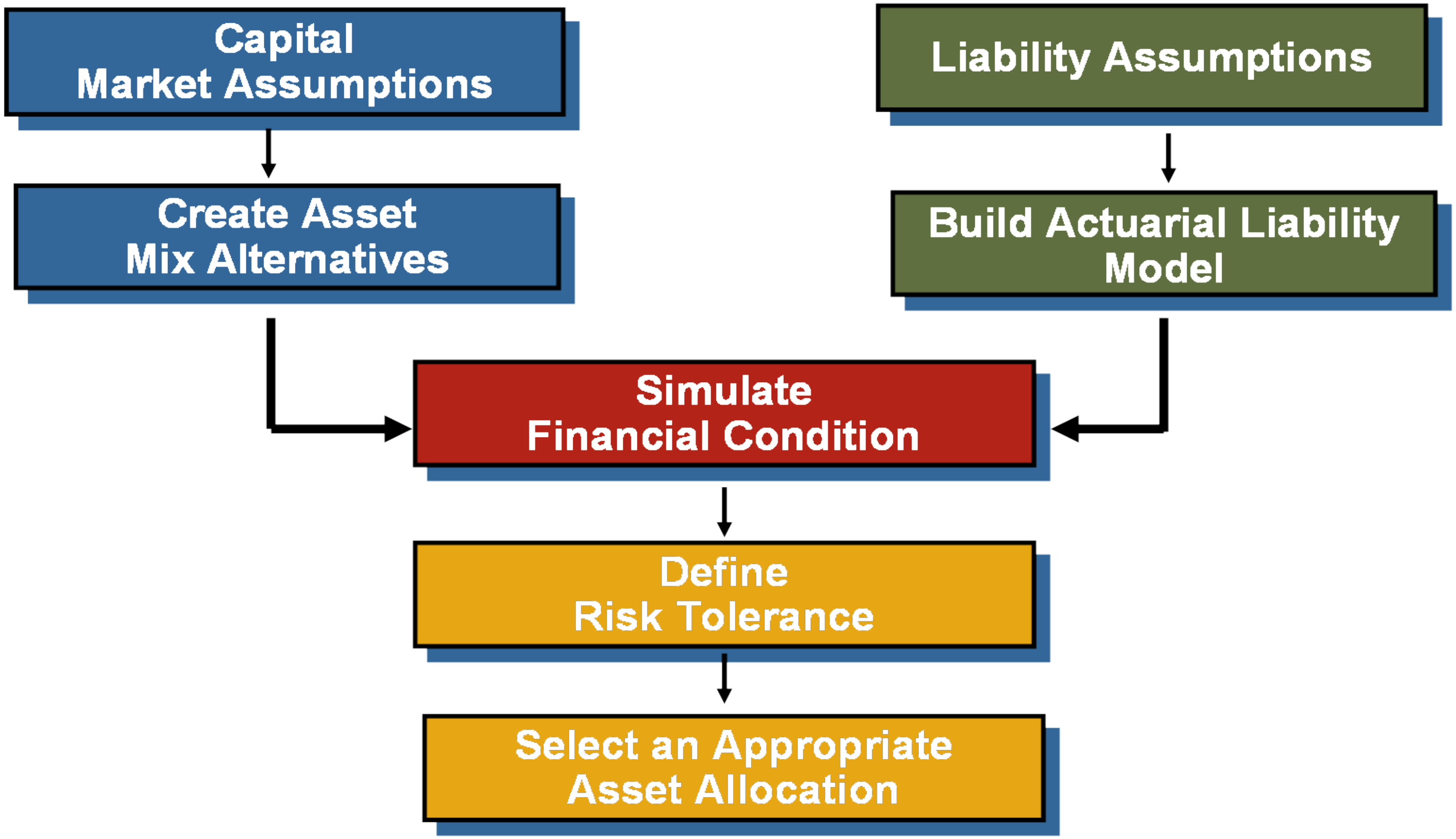
- How will the assets supporting the benefits be invested?
- What risk/return objectives?
- How to manage cash flows?



- How will the benefits be paid for (funded)?
- What actuarial discount rate?
- How will deficits be paid for?
- How will costs be recognized?

- What type/kind of benefits?
- What level of benefit?
- When and to whom are they payable?

Callan Asset-Liability Process



Capital Market Assumptions

I - 2011 Capital Market Assumptions
Return and Risk

Asset Class	Index	Single-Period Arithmetic	Expected Return *	Real	Standard Deviation
Equities					
Broad Domestic Equity	Russell 3000	9.35%	8.00%	5.50%	18.10
Large Cap	S&P 500	9.05%	7.85%	5.35%	17.25
Small/Mid Cap	Russell 2500	10.55%	8.25%	5.75%	23.00
International Equity	MSCI EAFE	9.50%	7.85%	5.35%	19.75
Emerging Markets Equity	MSCI EMF	11.75%	8.35%	5.85%	27.50
Global ex-US Equity	MSCI ACWI ex-US	10.05%	8.20%	5.70%	20.90
Fixed Income					
Defensive	BC Govt 1-3 Year	3.25%	3.25%	0.75%	2.50
Domestic Fixed	BC Aggregate	3.80%	3.75%	1.25%	4.50
Long Duration	BC Long Govt/Credit	4.55%	4.00%	1.50%	11.15
TIPS	BC TIPS	3.60%	3.50%	1.00%	5.90
High Yield	CSFB High Yield	6.15%	5.60%	3.10%	11.55
Non-US$ Fixed	Citi Non-US Govt	3.75%	3.35%	0.85%	9.70
Other					
Real Estate	Callan Real Estate	7.85%	6.75%	4.25%	16.35
Private Equity	VE Post Venture Cap	13.10%	9.00%	6.50%	30.00
Absolute Return	Callan Hedge FoF	6.25%	5.90%	3.40%	10.00
Commodities	GSCI	6.50%	3.75%	1.25%	24.00
Timber	NCREIF Timber	8.12%	6.90%	4.40%	17.10
Cash Equivalents	90-Day T-Bill	3.00%	3.00%	0.50%	0.90
Inflation	CPI-U	2.50%	2.50%		1.40

** 10-year annualized geometric returns.*

- Most capital market expectations represent passive exposure to the capital markets (beta only).
- Return expectations for hedge funds and private equity reflect active management premium.
- Return expectations are net of fees.

I - 2011 Capital Market Assumptions
Correlation Matrix

	Broad	Int'l	Emerge	Dom Fix	TIPS	High Yield	NUS Fix	Real Est	Pvt Eq	Abs Ret	Comm	Cash
Broad Dom Equity	1.00											
International Equity	0.72	1.00										
Emerging Markets Equ	0.83	0.74	1.00									
Domestic Fixed	0.13	0.14	0.07	1.00								
TIPS	0.03	-0.01	-0.05	0.60	1.00							
High Yield	0.60	0.47	0.51	0.25	0.15	1.00						
Non US Fixed	-0.03	0.15	-0.07	0.38	0.30	0.09	1.00					
Real Estate	0.60	0.54	0.52	0.15	0.05	0.50	0.01	1.00				
Private Equity	0.90	0.84	0.84	0.04	-0.05	0.52	-0.01	0.60	1.00			
Absolute Return	0.63	0.53	0.52	0.33	0.20	0.44	0.11	0.43	0.55	1.00		
Commodities	0.18	0.23	0.20	0.04	0.25	0.10	0.10	0.15	0.15	0.20	1.00	
Cash Equivalents	-0.12	-0.20	-0.15	0.30	0.20	0.07	0.10	-0.06	-0.10	0.15	0.15	1.00

- Relationships between asset class assumptions are as important, or more important, than the individual asset class level of assumptions.
- These relationships will have a strong effect on the generation of efficient asset mixes under mean-variance optimization.
- The asset/liability model uses a static set of correlation inputs as the “normal” relationship between asset classes. In the real world, asset class correlations vary through time.

II - Asset Mix Alternatives for Modeling

Asset Class	Current Target	PERS Effective	*Minimum Allocation*	*Maximum Allocation*	*Alternative Asset Mixes* Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
Broad US Equity	40%	38%	0%	100%	18%	22%	27%	32%	36%
International Equity	10%	9%	0%	100%	10%	13%	15%	17%	20%
Emerging Markets Equity	5%	5%	0%	100%	3%	5%	6%	6%	8%
Broad US Fixed	24%	11%	0%	100%	38%	29%	20%	14%	8%
TIPS	0%	0%	0%	100%	7%	5%	3%	0%	0%
High Yield	5%	7%	0%	100%	5%	5%	5%	5%	3%
Non US Fixed	5%	5%	0%	100%	4%	4%	4%	3%	0%
Private Equity	5%	6%	0%	100%	4%	5%	6%	7%	8%
Real Estate	5%	9%	0%	100%	6%	6%	7%	8%	9%
Timber	0%	8%	0%	100%	4%	5%	6%	7%	7%
Cash Equivalents	1%	2%	1%	1%	1%	1%	1%	1%	1%
Total	100%	100%			100%	100%	100%	100%	100%

	Current Target	PERS Effective	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
Expected Return	7.2%	7.5%	6.3%	6.8%	7.3%	7.6%	8.0%
Standard Deviation	12.6%	14.1%	8.7%	10.7%	12.7%	14.4%	16.4%
Expected Real Return	4.7%	5.0%	3.8%	4.3%	4.8%	5.1%	5.5%
Total Equity	60%	58%	35%	45%	54%	62%	72%
Total Fixed	34%	23%	54%	43%	32%	22%	11%
Non-US Eq / Public Equity	27%	27%	42%	45%	44%	42%	44%
Illiquid Investments	10%	23%	14%	16%	19%	22%	24%

- The alternative asset mixes, optimized using Callan's 2011 capital market assumptions, suggest a greater proportion of total equity be allocated to some of the illiquid investments such as private equity and timber. The mixes above represent judgment applied to the optimization results.
- Neither the current target nor any of the alternative Mixes except Mix 5 are expected to meet or exceed the actuarially assumed return of 8.0%.

2011 Capital Market Expectations versus 8% Actuarial Target

- **Expected return for the current Policy Target, and most mixes along the efficient frontier under Callan's 2011 capital market expectations is below the 8% return assumed in the actuarial valuation.**
- **Three important points to consider:**
  - Callan's return expectations are for a 5-10 year outlook; the actuary sets expectations for a 30-year (plus) time horizon. Over the very long run, it is reasonable to expect returns may revert toward the long term average, which is higher than Callan's 5-10 year outlook.
  - Callan uses a 2.5% inflation assumption, implying a real return just above 4.5% for the current target. The actuary uses a 3.5% inflation assumption, which also implies a real return of 5%; the two sets of expectations are therefore consistent with regard to real return. Real return matters because wage inflation feeds into the benefit formula, and ultimately the liabilities. If the plan achieves a 7.5% return with 2.5% inflation, it will make the same progress toward funding as if it achieved 8.0% return with 3.0% inflation.
  - Callan's expectations reflect passive exposure to the broad, liquid markets, with no accommodation for potential active management value-added. To the extent the Fund can expect active management to add value, the PERS Fund can expect this incremental return on top of the expectation displayed on the previous slide.

Alternative Approach to Setting Capital Market Expectations

- **Callan considered an alternative approach to expressing nominal capital market expectations:**
  - Since real return is key, we tested the impact of retaining the real return assumption embedded in our capital market expectations but moving the inflation assumption closer to that used by the plan actuary – 3.0% rather than 2.5%.
  - Our capital market assumptions are "tuned" to using the lower inflation assumption, but we believe the relationships between asset classes should hold with this modest 0.5% adjustment across the board. Assuming the same real rates of return, it is reasonable to make the broad assumption that using a 3% inflation rate will add approximately 50 bps (0.5%) to the expected return for each asset mix in the preceding table.
  - We did not make adjustments to expected risk for each asset class.
- **At PERS request, we used these capital market assumptions with the higher 3% inflation to conduct the asset/liability simulation in this study.**

II - Asset Mix Alternatives – 3% Inflation Assumption

Asset Class	Current Target	PERS Effective	*Minimum Allocation*	*Maximum Allocation*	Mix 1	Mix 2	Mix 3	Mix 3b	Mix 4	Mix 5
Broad US Equity	40%	38%	0%	100%	18%	22%	27%	31%	32%	36%
International Equity	10%	9%	0%	100%	10%	13%	15%	16%	17%	20%
Emerging Markets Equity	5%	5%	0%	100%	3%	5%	6%	5%	6%	8%
Broad US Fixed	24%	11%	0%	100%	38%	29%	20%	12%	14%	8%
TIPS	0%	0%	5%	100%	7%	5%	3%	0%	0%	0%
High Yield	5%	7%	0%	100%	5%	5%	5%	5%	5%	3%
Non US Fixed	5%	5%	0%	100%	4%	4%	4%	5%	3%	0%
Private Equity	5%	6%	0%	100%	4%	5%	6%	5%	7%	8%
Real Estate	5%	9%	0%	100%	6%	6%	7%	15%	8%	9%
Timber	0%	8%	0%	100%	4%	5%	6%	5%	7%	7%
Cash Equivalents	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Total	100%	100%			100%	100%	100%	100%	100%	100%

	Current Target	PERS Effective	Mix 1	Mix 2	Mix 3	Mix 3b	Mix 4	Mix 5
Expected Return	7.7%	8.0%	6.8%	7.3%	7.8%	8.0%	8.1%	8.5%
Standard Deviation	12.6%	14.1%	8.7%	10.7%	12.7%	13.9%	14.4%	16.4%
Expected Real Return	4.7%	5.0%	3.8%	4.3%	4.8%	5.0%	5.1%	5.5%
Total Equity	60%	58%	35%	45%	54%	57%	62%	72%
Total Fixed	34%	23%	54%	43%	32%	22%	22%	11%
Non-US Eq / Public Equity	27%	27%	42%	45%	44%	40%	42%	44%
Illiquid Investments	10%	23%	14%	16%	19%	25%	22%	24%

- The higher underlying inflation assumption combined with the real return expectations embedded in Callan's 2011 capital market assumptions yield expected returns depicted in the table above.
- Even with the higher expected nominal return, generating the 8% actuarially assumed rate requires a mix with greater exposure to risk assets than the current target.
- Note: Infrastructure investments in the current effective exposure are assigned return/risk assumptions for real estate.

New Lens - Asset Allocation Framework
Refine Asset Class Definitions and Strategies

- Implementation framework flows from asset allocation: broad asset classes with clearly defined components.
  - **Global Equity**
    - Domestic – Large, mid, small cap
    - International – developed - large, mid, small cap; emerging, frontier markets
    - Private equity
  - **Global Fixed Income**
    - Domestic investment grade
    - International developed markets
    - Emerging markets
    - High Yield
    - Private Debt
  - **Global Real Assets**
    - Global Real Estate
      - Domestic – core, value added
      - International
      - Publicly traded (REITs)
    - Infrastructure
    - Timber
    - Commodities
    - Inflation-Linked Bonds – domestic, international
  - **Global Alternatives**
    - Hedge funds
    - Opportunistic – to be determined as opportunities arise
  - **Cash Equivalents**

- Framework allows for flexibility in the implementation of the investment program.
- Definition of asset classes specific enough to enable clear accounting of market exposures, yet open to the inclusion of new strategies as they arise.
- Exposure to particular factors can also influence the shaping of the framework
  - **Inflation, deflation, growth, stagnation.**

New Lens – Asset Allocation Framework

	PERS Target	PERS Effective Exposures	Mix 1	Mix 2	Mix 3	Mix 3b	Mix 4	Mix 5
Global Equity	60%	59.0%	35.0%	45.0%	54.0%	57.0%	62.0%	72.0%
Domestic - broad	40%	38.3%	18.0%	22.0%	27.0%	31.0%	32.0%	36.0%
International - broad	15%	14.7%	13.0%	18.0%	21.0%	21.0%	23.0%	28.0%
Developed	10%	9.3%	10.0%	13.0%	15.0%	16.0%	17.0%	20.0%
Emerging	5%	5.4%	3.0%	5.0%	6.0%	5.0%	6.0%	8.0%
Frontier								
Private equity	5%	6.0%	4.0%	5.0%	6.0%	5.0%	7.0%	8.0%
Global Fixed Income	34%	21.0%	47.0%	38.0%	29.0%	22.0%	22.0%	11.0%
Domestic Fixed Income	29%	15.8%	43.0%	34.0%	25.0%	17.0%	19.0%	11.0%
Investment Grade	24%	8.7%	38.0%	29.0%	20.0%	12.0%	14.0%	8.0%
Below Investment Grade	5%	7.1%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
International Fixed Income	5%	5.2%	4.0%	4.0%	4.0%	5.0%	3.0%	0.0%
Developed market investment grade	5%	5.2%	4.0%	4.0%	4.0%	5.0%	3.0%	
Emerging markets - local currency								
Global Real Assets	5%	16.8%	17.0%	16.0%	16.0%	20.0%	15.0%	16.0%
Global Real Estate	5%	5.0%	6.0%	6.0%	7.0%	10.0%	8.0%	9.0%
Infrastructure		3.5%				5.0%		
Timber		8.3%	4.0%	5.0%	6.0%	5.0%	7.0%	7.0%
Commodities								
Inflation-linked bonds			7.0%	5.0%	3.0%	0.0%		
Other inflation sensitive strategies (tbd)								
Global Alternatives	0%	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash Equivalents	1%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total	100%	100.0%	100%	100%	100%	100%	100%	100%
% Illiquid Strategies	**10%**	**22.8%**	**14%**	**16%**	**19%**	**25%**	**22%**	**24%**
2011 Capital Market Expectations*								
Expected Return	**7.7%**	**8.0%**	**6.8%**	**7.3%**	**7.8%**	**8.0%**	**8.1%**	**8.5%**
Expected Risk	**12.6%**	**14.1%**	**8.7%**	**10.7%**	**12.7%**	**13.6%**	**14.4%**	**16.4%**
Expected Real Return	**4.7%**	**5.0%**	**3.8%**	**4.3%**	**4.8%**	**4.9%**	**5.1%**	**5.5%**

*** Capital market expectations reflect Callan's 2011 real return expectations combined with an underlying inflation assumption of 3.0%**

New Lens - Asset Allocation Framework
Expanded Global Alternatives

- **Current portfolio exposures rearranged to match underlying market exposures.**
- **New framework allow for investments to be housed under more appropriate market categories:**
  - Timber
  - Infrastructure
  - Private equity
  - Distressed debt/opportunistic fixed income
- **Exposures to market categories more clearly articulated.**
- **Global Real Asset category includes real estate, infrastructure, timber, commodities and inflation-linked bonds.**
- **Global Alternatives includes hedge funds and a slot for opportunistic strategies to be considered as they arise.**
- **Slots for opportunistic strategies can also be included within equity, fixed income and real estate. The target is zero until an opportunity is identified, and can be a range up to a limit of 5%, as an example. The allocation is funded from the asset class with the closest expected similarity in market characteristics.**

Potential Asset Classes/Strategies

- **Hedge Funds**
- **Additional Real Assets**
  - Existing allocations to real estate, timber, small amount of infrastructure
  - Commodities
  - TIPS
  - Agriculture
  - Energy
- **Confirm commitments to existing illiquid strategies:**
  - Real estate
  - Timber
  - Private equity
  - Infrastructure

Consideration of New Asset Classes

Exposure to economic growth and inflation scenarios

- **The PERS target is diversified among asset classes. The PERS investment program contains economic diversification to a range of scenarios such as inflation, deflation, stagflation and growth. Are the allocations sufficient?**

Economic Growth

Inflation

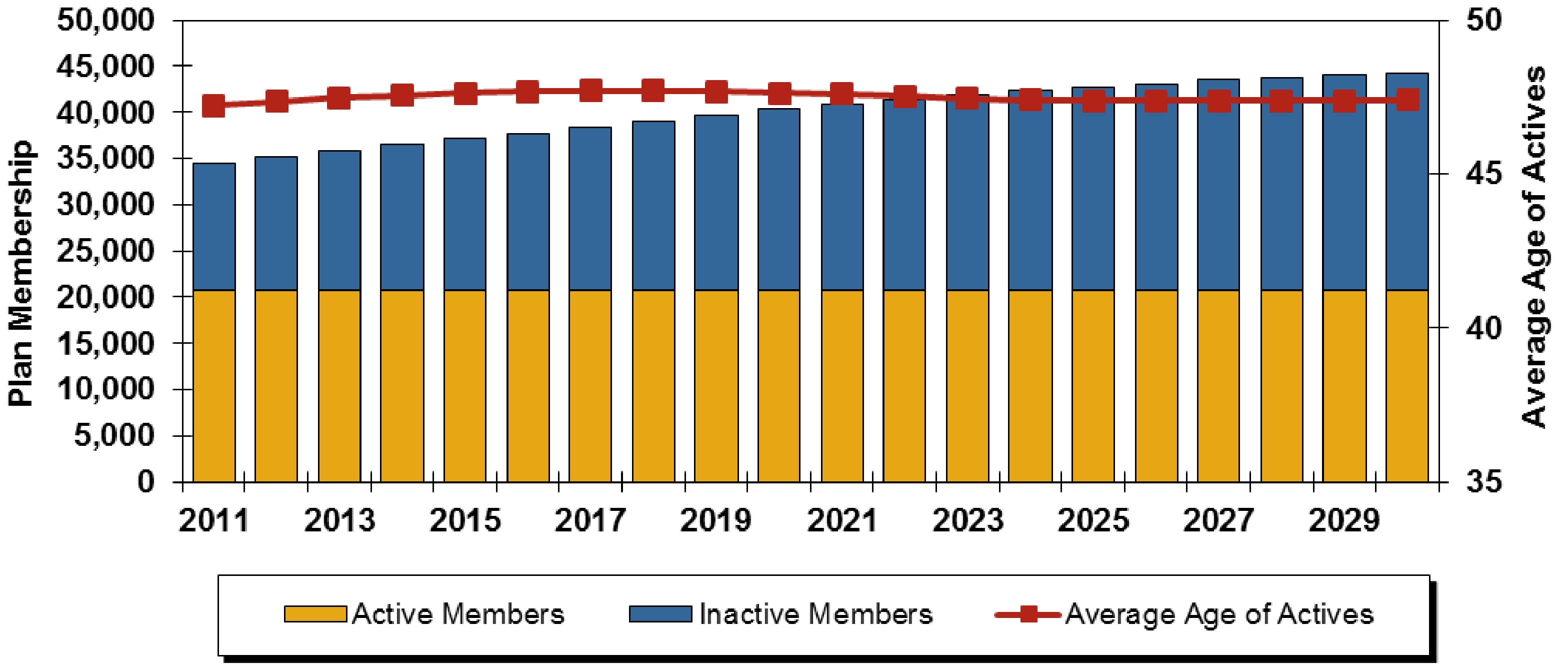
Low (Falling) Growth, High (Rising) Inflation Inflation Linked Bonds (TIPS) Commodities Infrastructure	**High Growth, High Inflation** Real Assets (e.g. Real Estate, Timberland, Farmland, Energy)
Low Growth, Low Inflation (Deflation) Cash Government Bonds	**High Growth, Low Inflation** Corporate Debt Equity

Deterministic Forecast

III - Liability Assumptions

- Liability model based on the 7/1/2010 North Dakota PERS actuarial valuation report. Modeled the PERS plan only ~ 90% of assets and obligations across all plans.
- No future change in benefit policy (plan amendments).
- New funding policy passed by ND Legislature incorporated in this study.
  - The employer and employee contribution rates increase by 1% each at 1/1/2012 and another 1% each at 1/1/2013. Blended rate for PERS therefore moves from 4.26% at 1/1/2010 to 5.26% at 1/1/2012 and 6.26% at 1/1/2013, and remains at 6.26% for the following years.
  - New funding improves the outlook for the Fund substantially – funded status expected to maintain at just under 80% over the next 20 years, assuming 8% return. Net outflows (benefit payments minus contributions) are expected to remain below 5% of assets, relieving pressure on liquidity.
- Demographic projections:
  - Assumed 0% workforce growth. Reasonable?
  - Future new hires replace future plan exits (via retirement, death, disability and withdrawal).
    - New entrant demographic profile based on hires over the last 2 years (6/30/2008 to 7/1/2010).
- Key actuarial assumptions:
  - Investment return assumption = 8.0%
  - Salary increase assumption = 4.86% - 8.25% depending on age and service.
  - Price inflation = 3% - a building block for the investment return, salary increase and payroll growth rate assumptions.
  - Improved 2010 post-retirement mortality rates based on recent actuarial experience study.
  - Investment return for current plan year (through 6/30/2011) assumed to be 20%.

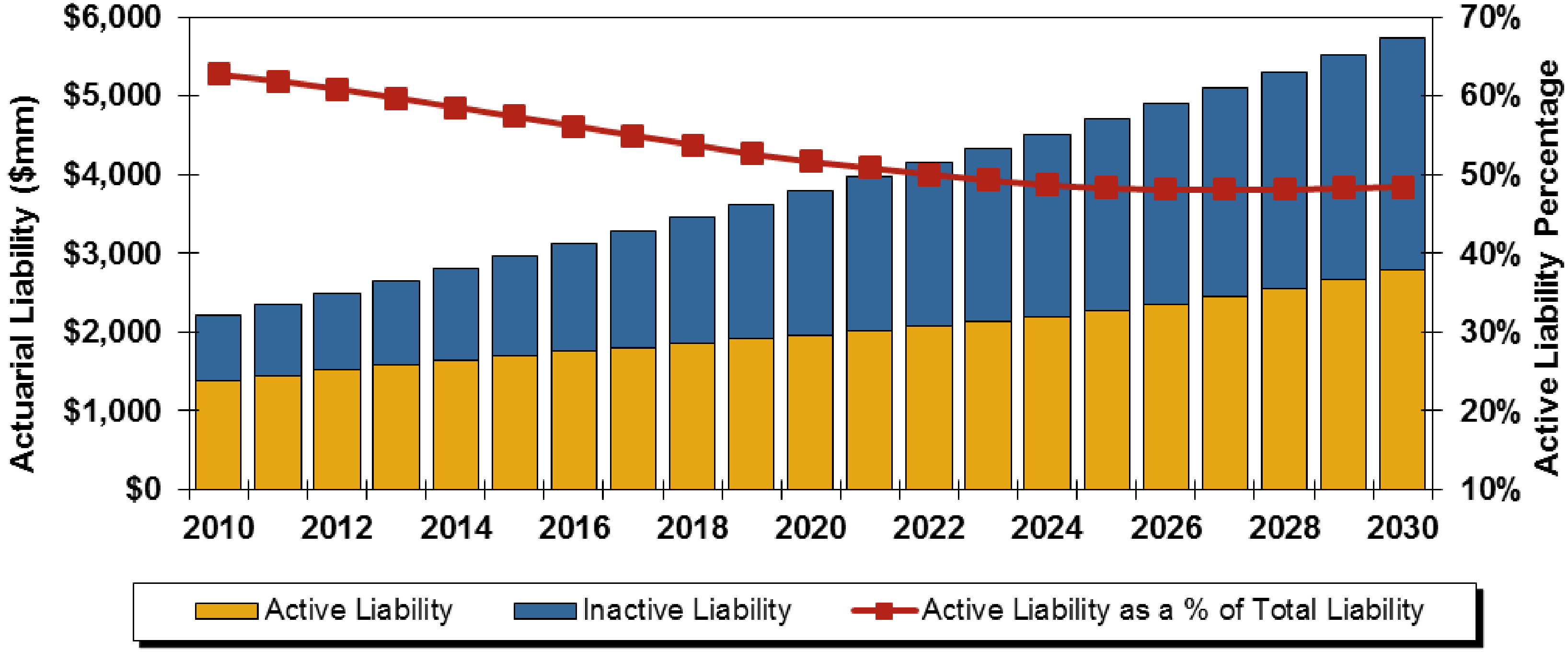
IV - Build Actuarial Liability Model
Demographic Projection



- Active population held constant with an assumption of 0% workforce growth.
- Total population (actives plus inactives) is projected to increase at 1.3% per year.
- Active average age holds steady near 47.2 years over the projection period as newer younger members replace retiring older members.

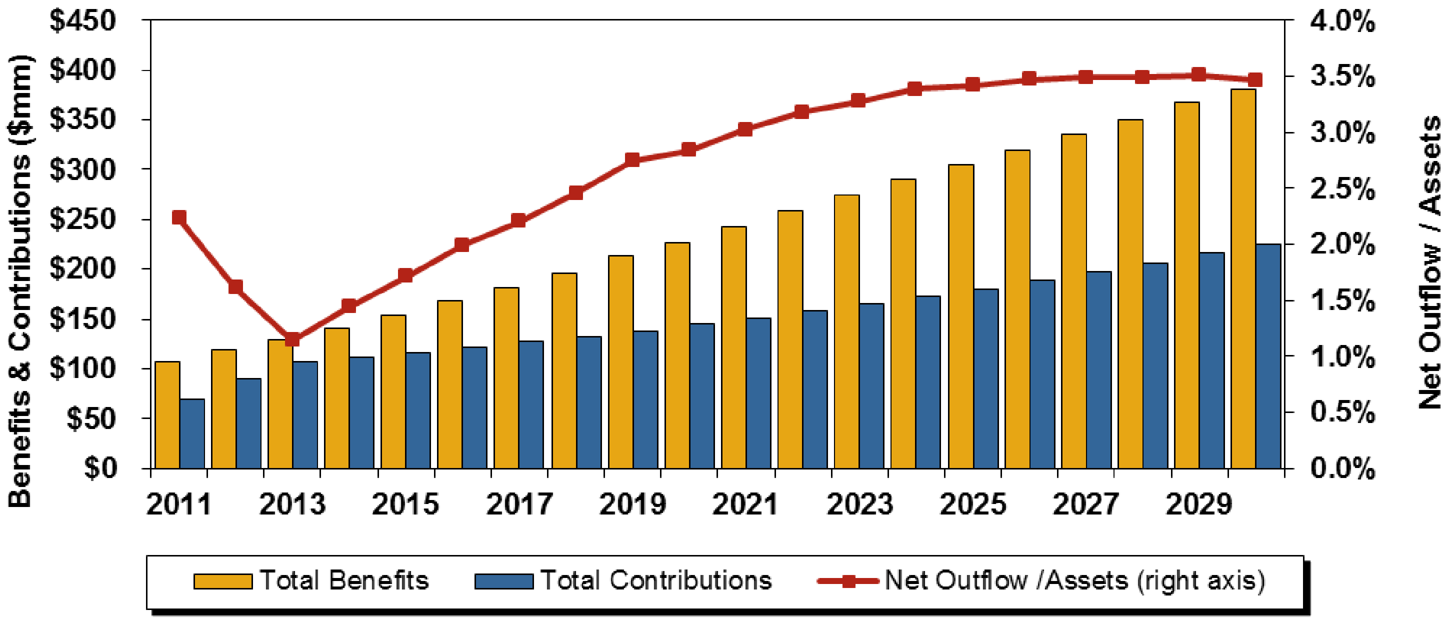
IV – Build Actuarial Liability Model

Liability Projection



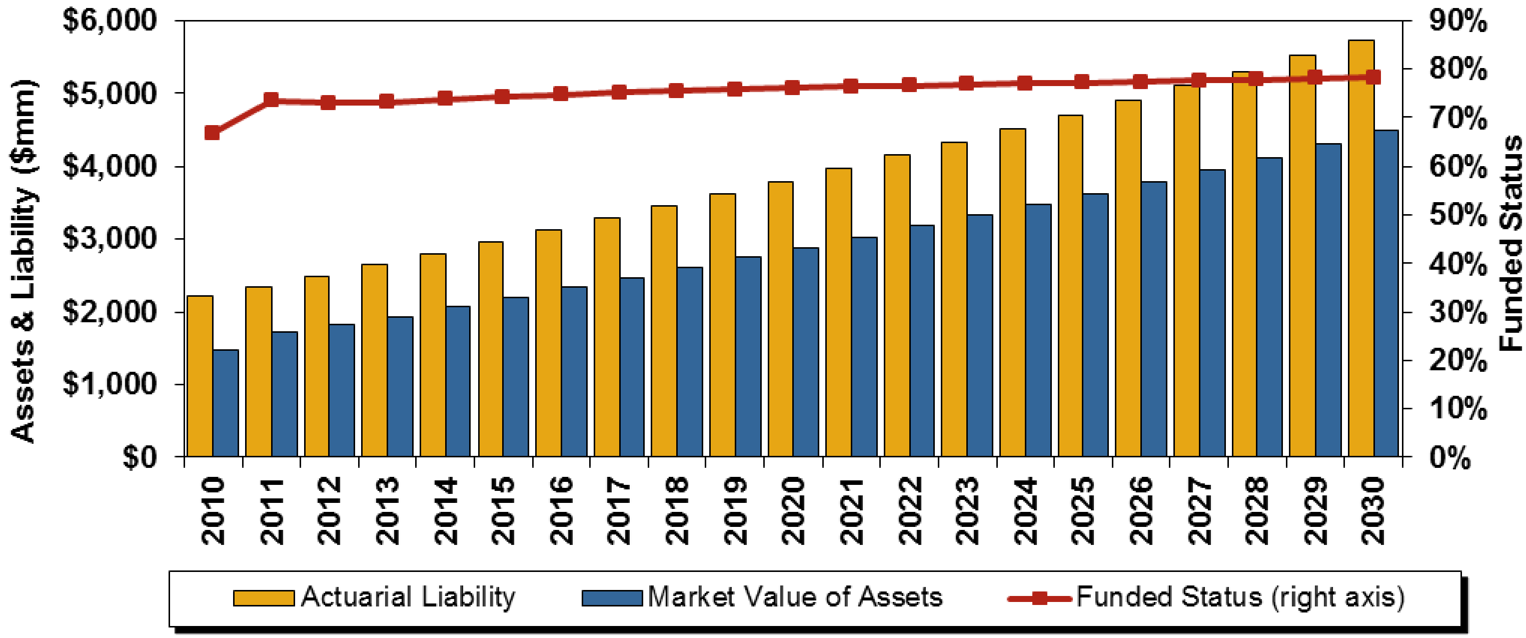
- Over 20 years, the total liability increases 5.6% per year. This projection is based on an assumed discount rate that remains fixed at 8.0% and price inflation of 3.0%.
- PERS' *active* liability as a percentage of the *total* liability decreases from 63% to 48%.

IV - Build Actuarial Liability Model
Cash Flow Projection – New Statutory Rates



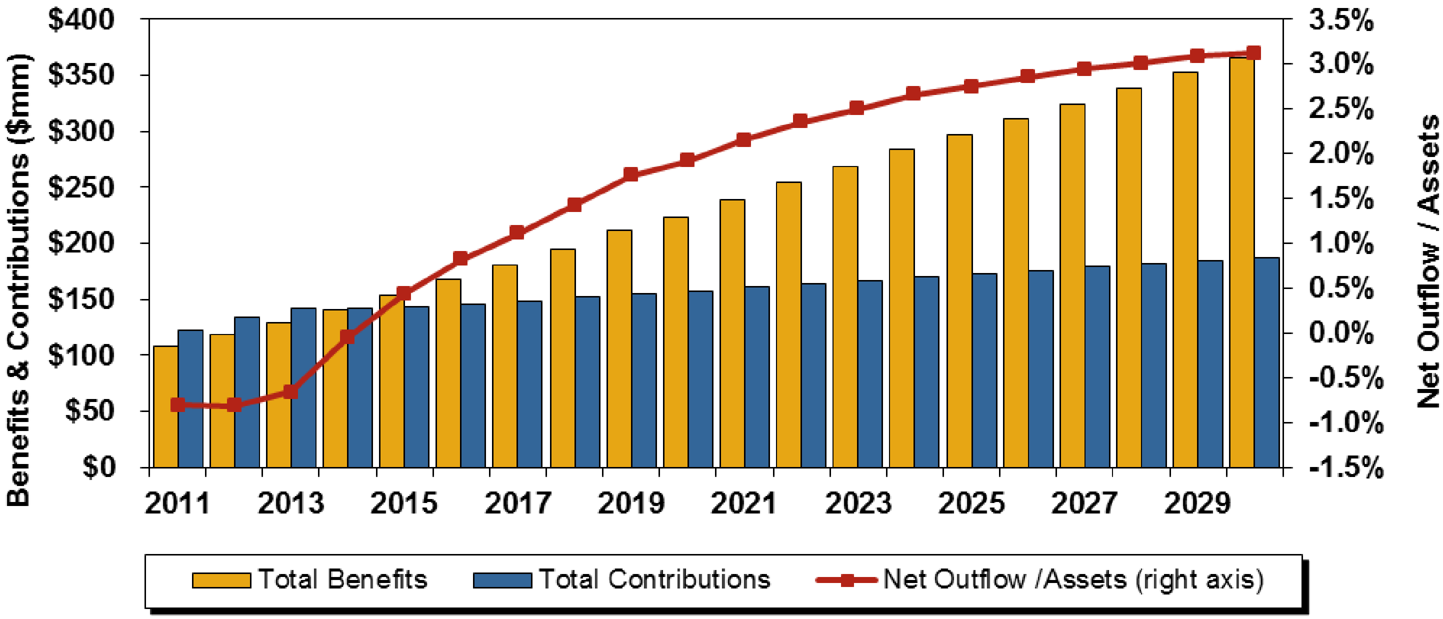
- Net Outflow / Assets = (Benefits – Contributions) / Assets
- General observation: liquidity needs are considered manageable if net outflow as a percentage of assets is less than 5%. When net cash flows fall between 5% and 10% of the Total Fund market value, the size of the allocation to illiquid investments becomes a material consideration.
- With the new changes to contribution rates, the liquidity needs for the PERS plan are expected to be manageable and should not impact asset allocation over the next 20 years.
- **By 2020, the Net Outflow / Assets should reach 3% and is projected to rise to 3.5% by 2030.**

IV - Build Actuarial Liability Model
Cash Flow Projection – New Statutory Rates



- Funded status improves due to strong performance in last two fiscal years and increased contribution rates.
- Funded status is defined as actuarial liability/market value of assets.
- Deterministic projection assumes the Fund achieves 8% return.
- **Without improved funding passed by ND Legislature in 2011, funded status was expected to decline toward 50%, and the Net Outflow / Assets would reach toward 10%.**

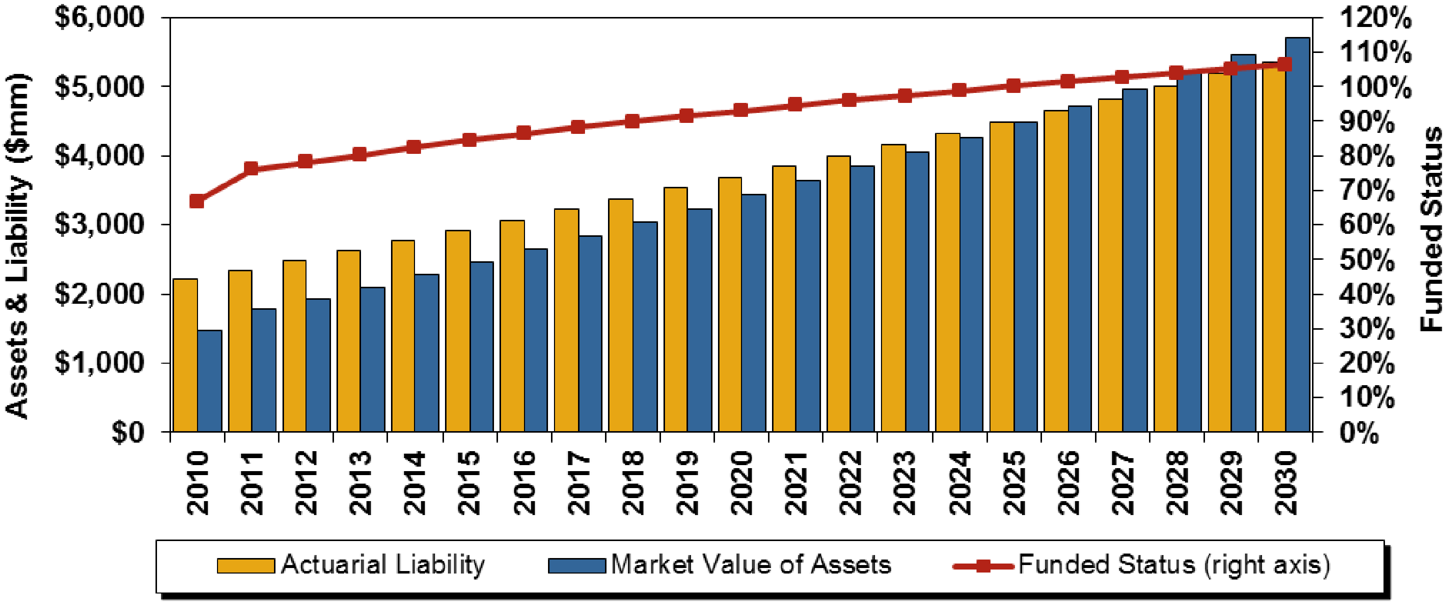
IV - Build Actuarial Liability Model
Cash Flow Projection – Actuarial Required Contribution Rates



- Net Outflow / Assets = (Benefits – Contributions) / Assets
- General observation: liquidity needs are considered manageable if net outflow as a percentage of assets is less than 5%. When net cash flows fall between 5% and 10% of the Total Fund market value, the size of the allocation to illiquid investments becomes a material consideration.
- Under actuarial required contribution rates, the liquidity needs for the PERS plan are low, given the substantially higher inflows required to bring the plan to 100% funded.

IV - Build Actuarial Liability Model

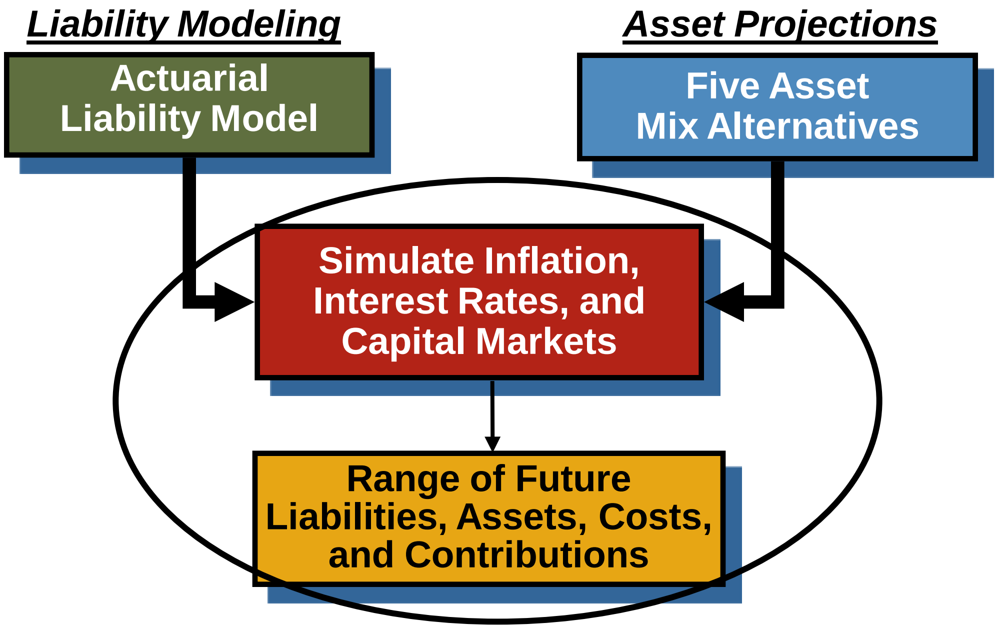
Cash Flow Projection – Actuarial Required Contribution Rates



- Funded status is defined as actuarial liability/market value of assets.
- Deterministic projection assumes the Fund achieves 8% return.
- **Actuarial required contributions, by definition, will move the plan toward 100% funding by 2030.**

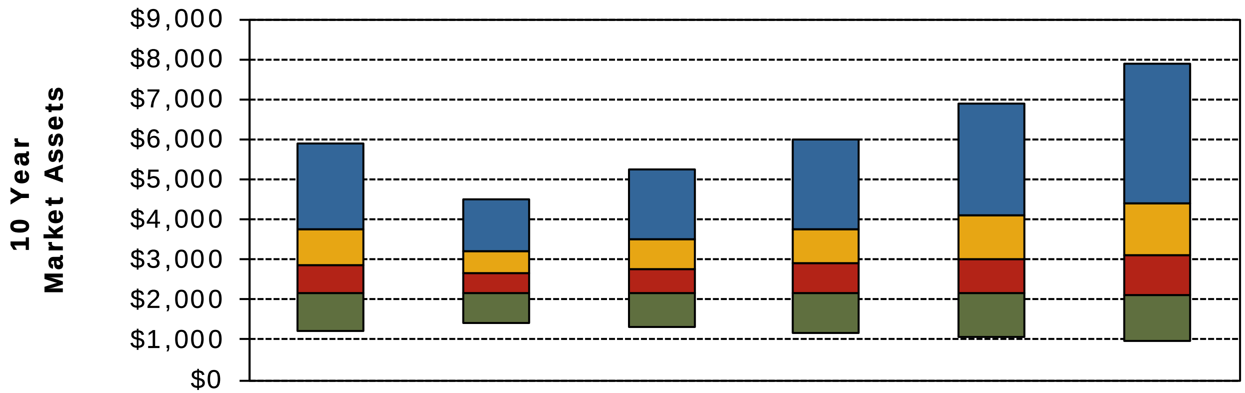
Stochastic Forecast

V - Simulate Financial Condition



- “Stochastic” modeling generates ranges of outcomes to capture future uncertainty.
- Generate 2,000 simulations per year, per asset mix to capture possible future economic scenarios and their effect on the portfolio. The simulation results were then ranked from highest to lowest to develop probability distributions.
- Focus on 10-year planning horizon (7/1/2011 – 7/1/2021).
- **Simulation analysis focuses on the Current Target and Mixes 1-5 (current asset classes), using Callan’s expected real return expectations and a 3% assumed inflation.**

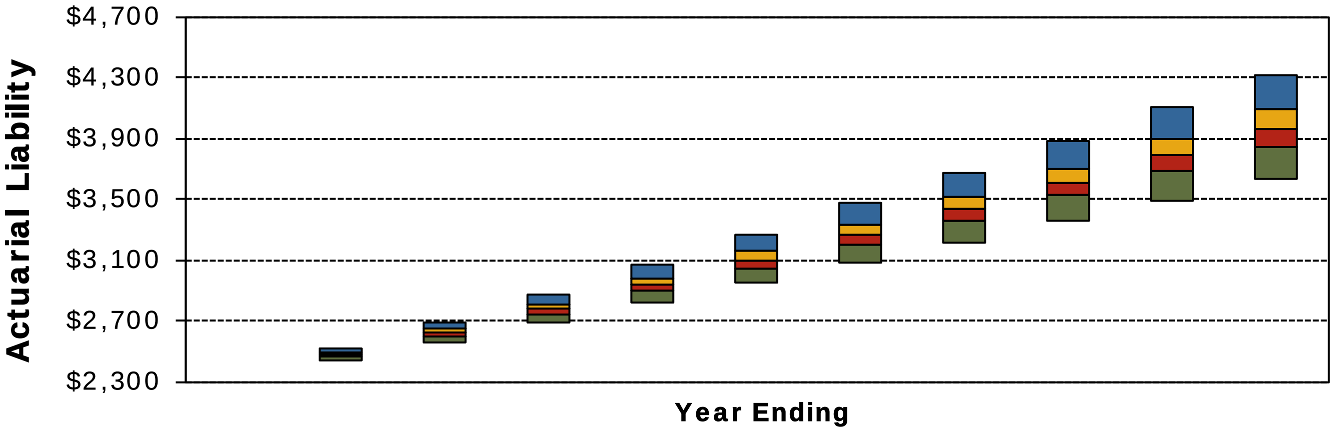
V – Simulate Financial Condition
Market Value of Assets at 7/1/2021



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
2.5th	$5,897	$4,506	$5,239	$6,007	$6,900	$7,879
25th	3,747	3,191	3,483	3,772	4,096	4,386
50th	**2,875**	**2,645**	**2,775**	**2,897**	**3,030**	**3,130**
75th	2,149	2,140	2,142	2,155	2,143	2,128
97.5th	1,201	1,405	1,297	1,188	1,065	946
Range (97.5-2.5)	4,696	3,101	3,942	4,819	5,835	6,933

- More aggressive mixes have larger expected values (50th percentile) but lower worse-case (97.5th percentile) outcomes.
  – The 50th percentile is the expected case – half of the outcomes are higher and half lower.
  – The 97.5th percentile is a worse case scenario – a 2.5% probability that assets will be the value shown or lower. This represents a two standard deviation event.

V – Simulate Financial Condition
Actuarial Liability

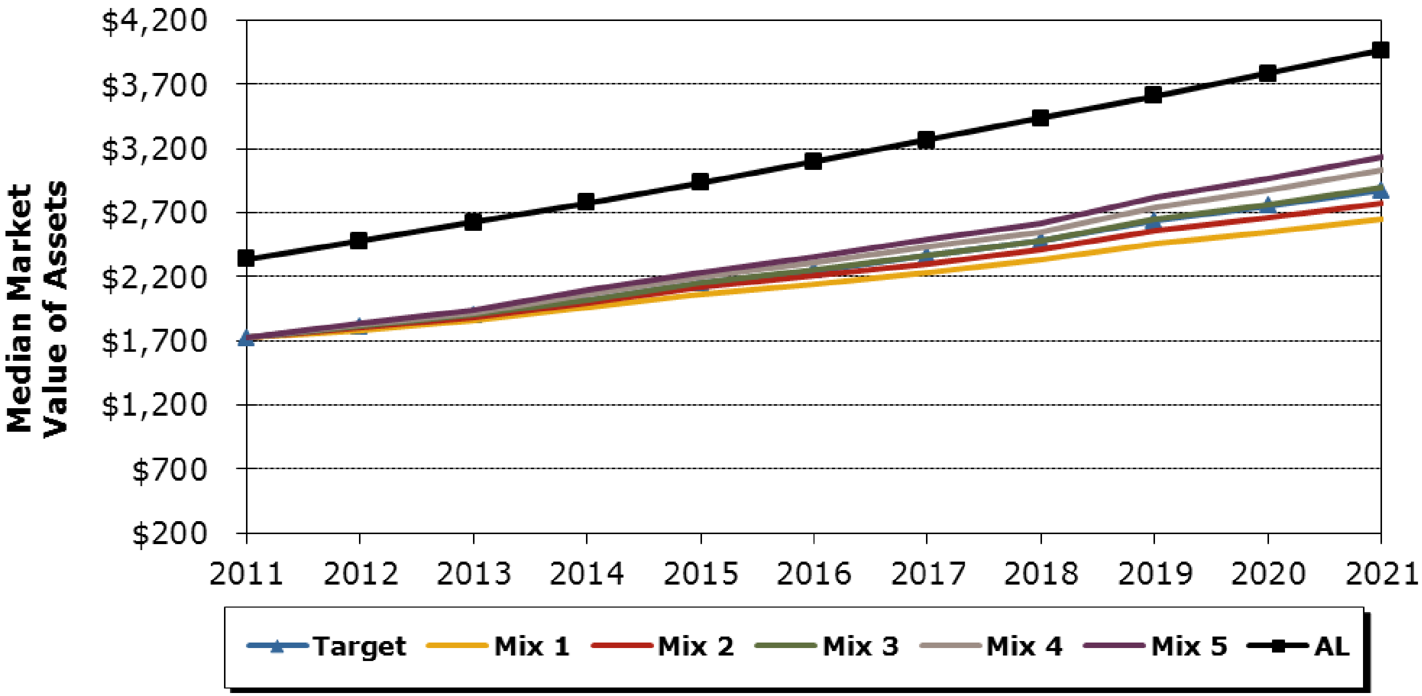


Percentile	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Growth 5-year	Growth 10-year
97.5th	$2,338	$2,510	$2,687	$2,873	$3,061	$3,264	$3,467	$3,669	$3,877	$4,098	$4,314	6.9%	6.3%
75th	2,338	2,487	2,645	2,810	2,981	3,154	3,332	3,514	3,700	3,889	4,085	6.2%	5.7%
50th	**2,338**	**2,476**	**2,622**	**2,776**	**2,937**	**3,098**	**3,265**	**3,436**	**3,610**	**3,786**	**3,965**	5.8%	5.4%
25th	2,338	2,465	2,602	2,745	2,894	3,046	3,201	3,362	3,523	3,681	3,845	5.4%	5.1%
2.5th	2,338	2,443	2,560	2,686	2,812	2,947	3,078	3,217	3,353	3,488	3,630	4.7%	4.5%
97.5th-2.5th	0	67	126	187	249	318	389	452	523	610	684	2.2%	1.8%

- The actuarial liability increases 4.2% - 6.0% per year from 7/1/2011 to 7/1/2021.
- The Plan’s liabilities are sensitive to changes in inflation and the resulting impact on salaries.

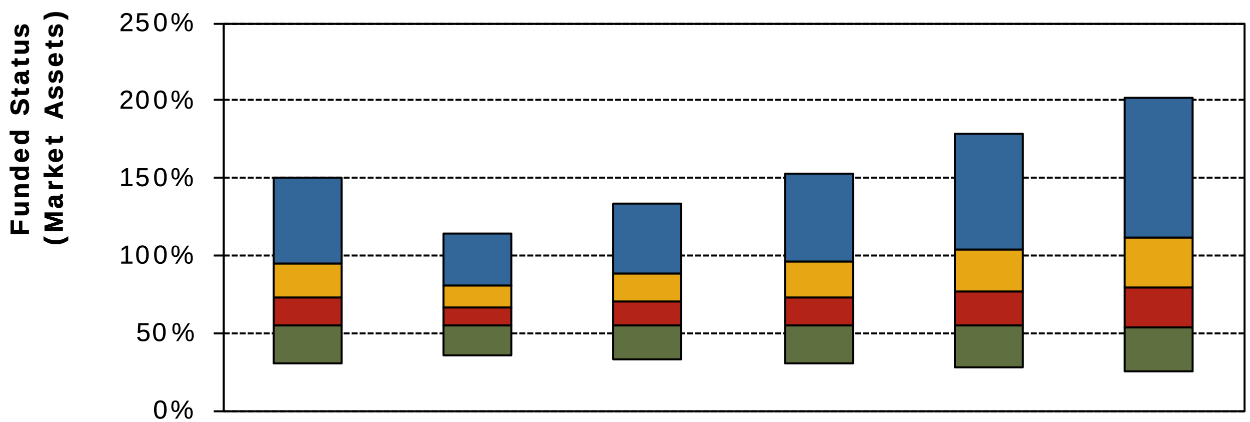
V – Simulate Financial Condition

Market Assets and Actuarial Liability



- The chart above compares the median ***market value of assets*** to the median ***actuarial liability (AL)*** over the next 10 years.
- **Assuming no further changes to funding or benefit levels, PERS's deficit in dollar terms is expected to grow.**

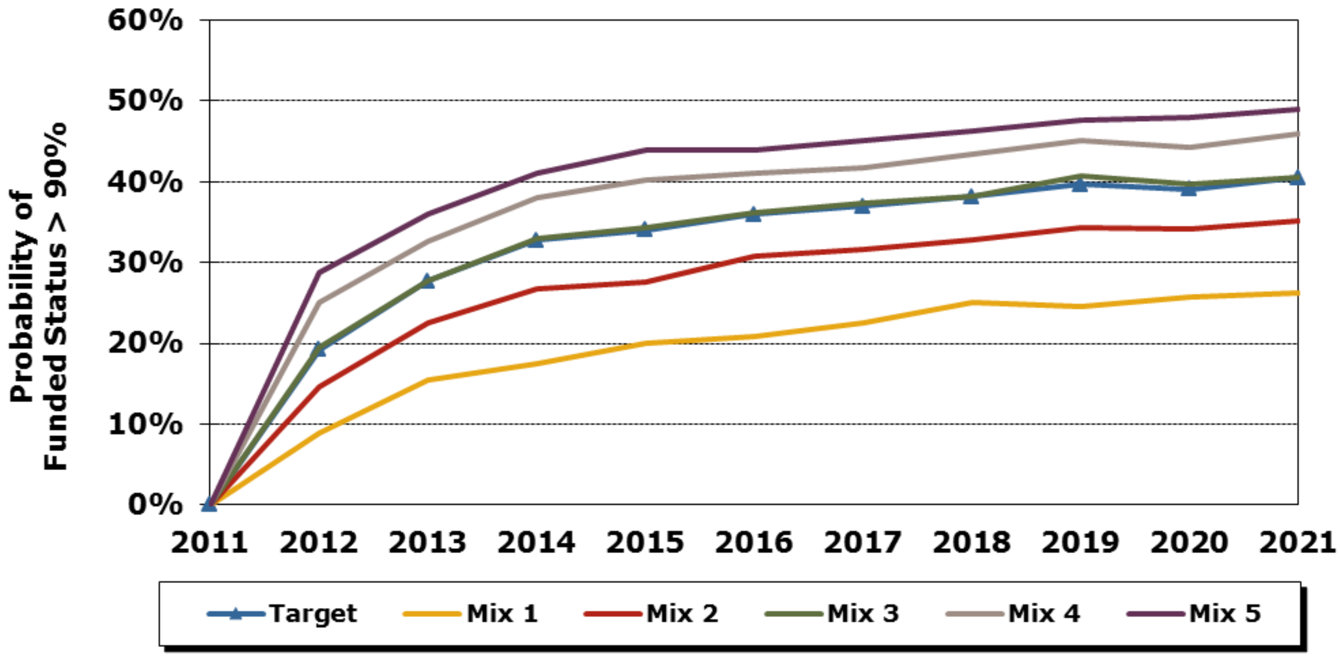
V – Simulate Financial Condition
Range of 7/1/2021 Funded Status



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
2.5th	150%	114%	134%	153%	178%	202%
25th	94%	81%	88%	96%	103%	111%
50th	**73%**	**67%**	**70%**	**73%**	**76%**	**79%**
75th	54%	54%	54%	55%	55%	54%
97.5th	30%	36%	33%	30%	28%	25%
Range (97.5-2.5)	120%	78%	101%	122%	150%	177%

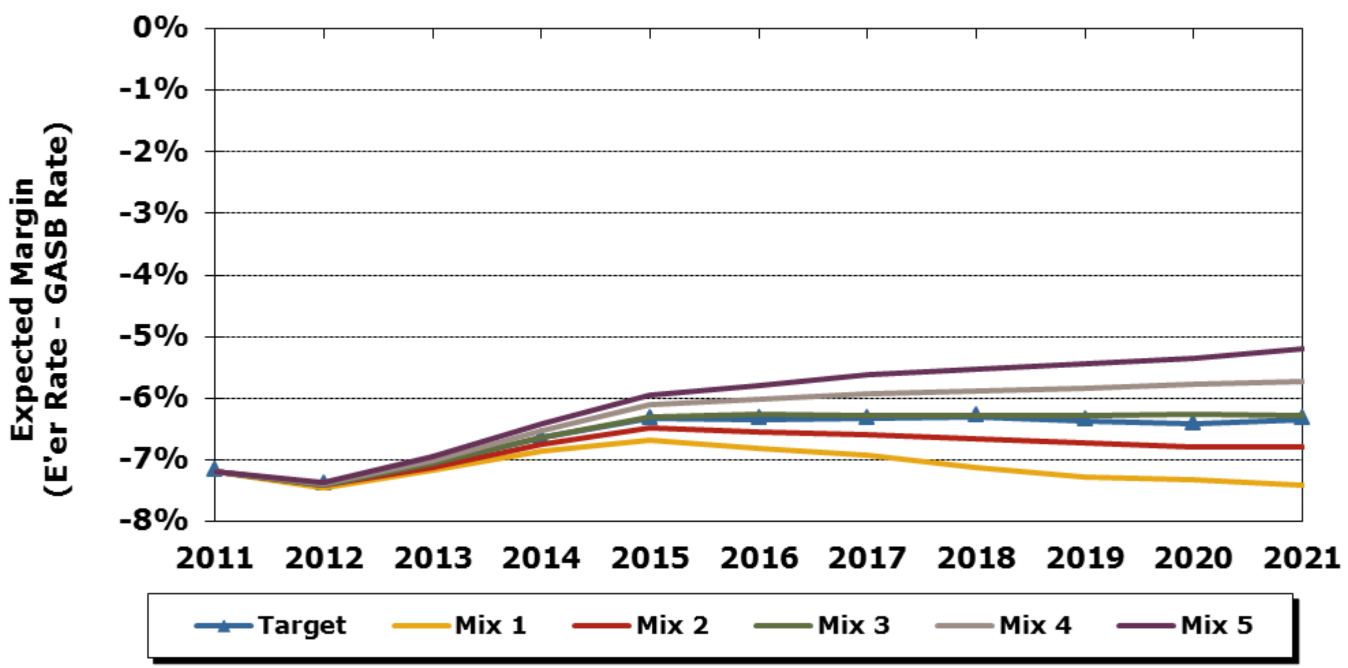
- Funded Status = Market Value of Assets / Actuarial Liability
  - Examining the funding ratio using the actuarial value of assets results in similar median-case results but slightly narrower ranges due to the smoothing of assets.
- Under the current funding and benefit policy, none of the mixes are expected (50th percentile) to be fully funded in ten years.
- Mixes more aggressive than the current target (Mix 4 and Mix 5) are required to keep funded status moving toward 80%.

V – Simulate Financial Condition
Probability of Funded Status > 90%



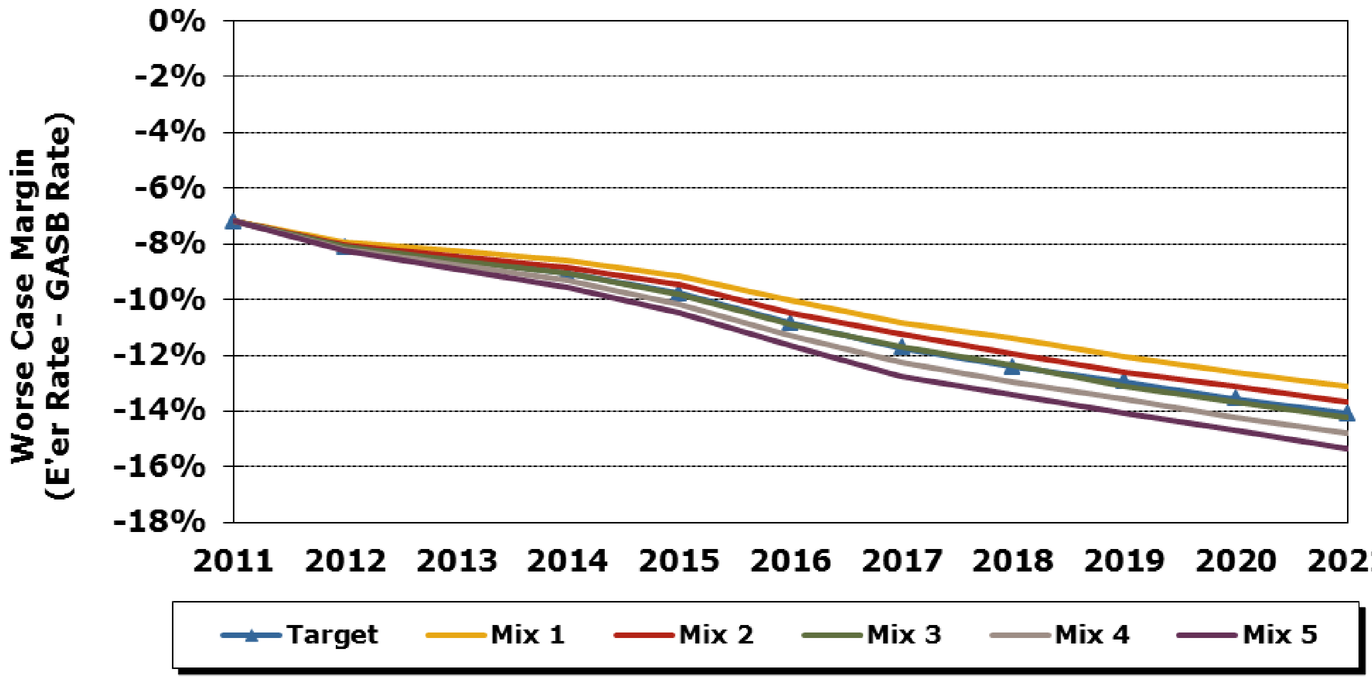
- Although a more aggressive asset allocation increases the likelihood of achieving 90% funded status, the risk of depleting assets due to adverse investment outcomes is also higher.

V – Simulate Financial Condition
Median Margin Rate (% of pay)



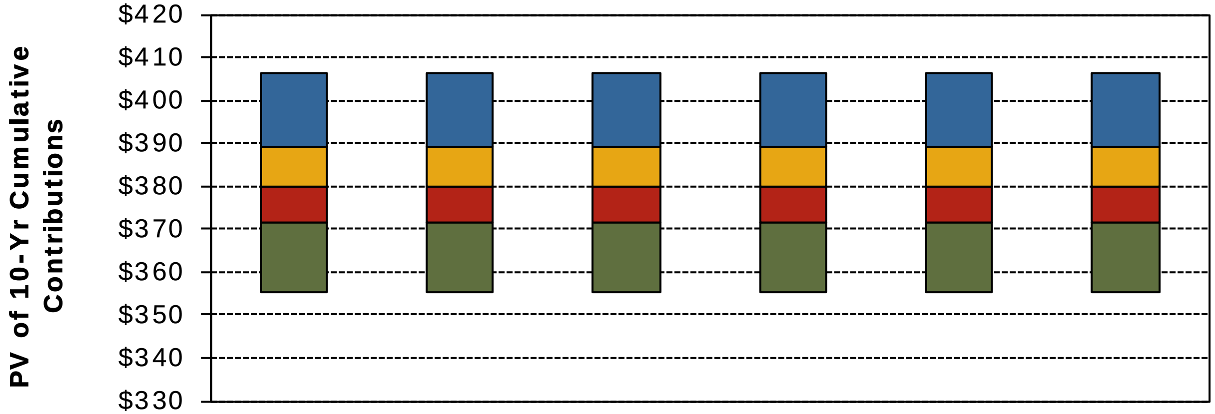
- The "Margin rate" = the PERS employer rate (static 6.26%) – GASB rate.
- The GASB rate is expected to remain higher than the PERS contribution rate over the next 10 years as prior investment losses are realized and amortized over 30 years. The 6.26% employer rate is projected to be insufficient to cover the ongoing costs of the PERS Plan.
- Over time, a more aggressive asset allocation is <u>expected</u> to lower the cost of the Plan if higher returns are achieved. However, such an approach also increases the risk of poor outcomes.

V – Simulate Financial Condition
Worse Case Margin Rate (% of pay)



- In a worse case scenario (97.5th percentile), the margin rate would be much higher.
- In a worse case scenario, a more aggressive asset allocation leads to larger losses and a correspondingly higher margin requirement.

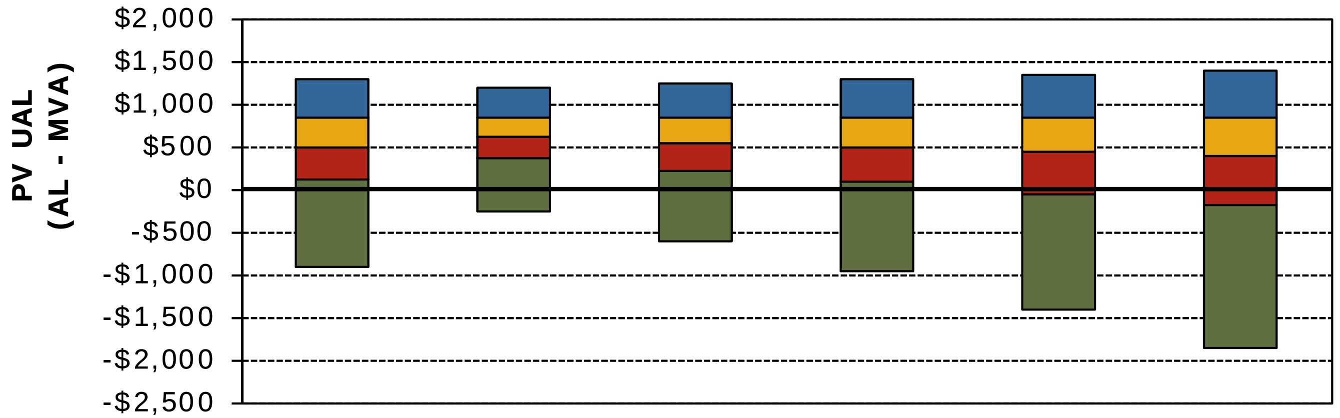
V – Simulate Financial Condition
Present Value of 10-Year Cumulative Contributions



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
97.5th	$406	$406	$406	$406	$406	$406
75th	389	389	389	389	389	389
50th	**380**	**380**	**380**	**380**	**380**	**380**
25th	371	371	371	371	371	371
2.5th	355	355	355	355	355	355
Downside	26	26	26	26	26	26

- No contribution variability exists across asset mixes as contributions are modeled as a fixed percentage of pay. Investment gains/losses are fully absorbed into the unfunded liability (funded status).
- Contribution volatility in every mix stems from simulated salary variability (inflation).
- Contributions are discounted at 8.0%.

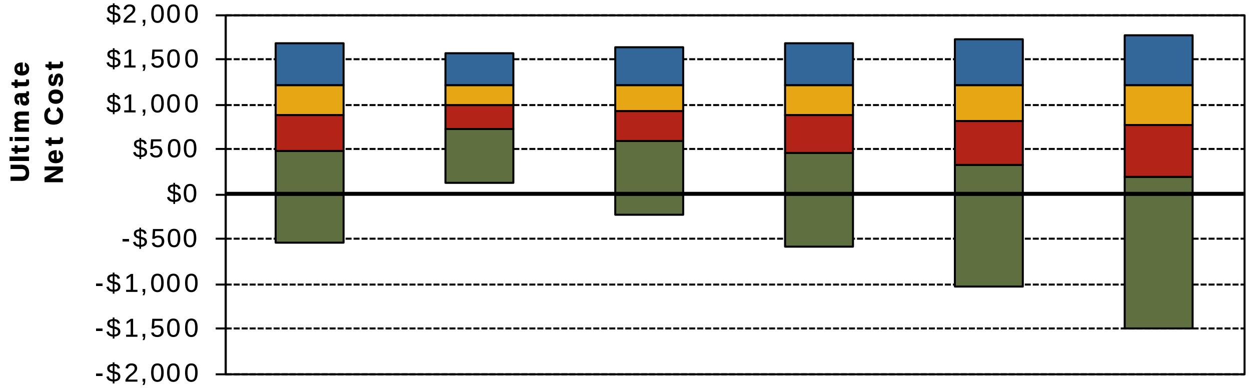
V – Simulate Financial Condition
Present Value of 7/1/2021 Unfunded Liability



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
97.5th	1,291	1,178	1,237	1,290	1,343	1,392
75th	842	841	839	827	829	840
50th	**497**	**613**	**549**	**495**	**437**	**387**
25th	103	353	218	84	(58)	(198)
2.5th	(919)	(261)	(612)	(971)	(1,404)	(1,853)
Downside	794	565	688	795	906	1,005

- "Unfunded Liability" = Actuarial Liability - Market Value of Assets
- The 7/1/2011 unfunded liability is expected to be $622 million but is expected to increase over the next 10 years.
- The 12/31/2021 unfunded liability is discounted 10 years at 8.0% to establish its Present Value.

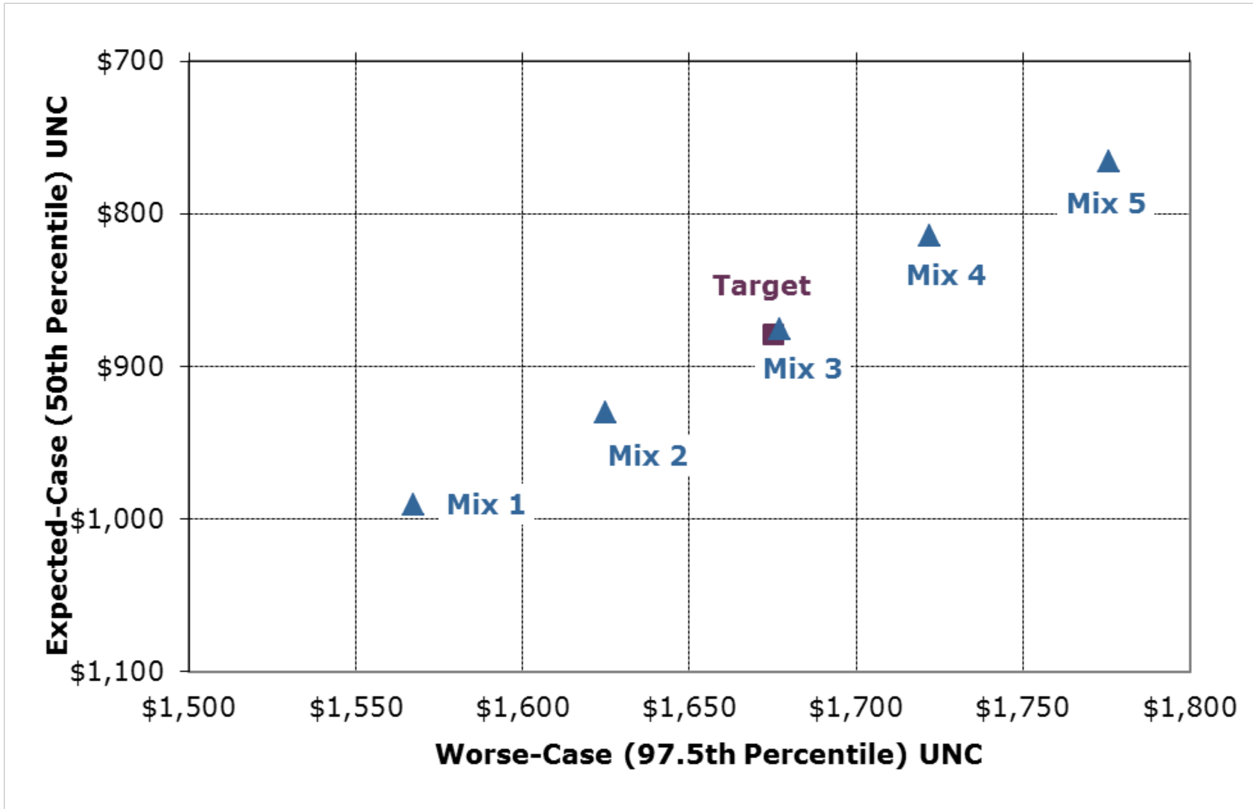
V – Simulate Financial Condition
Range of Ultimate Net Cost



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
97.5th	1,675	1,567	1,625	1,677	1,722	1,776
75th	1,219	1,220	1,215	1,210	1,208	1,220
50th	879	990	930	876	814	765
25th	483	731	598	467	320	179
2.5th	(540)	118	(235)	(591)	(1,034)	(1,502)
Downside	796	577	695	801	908	1,011

- Ultimate Net Cost (UNC)= Present Value of 10-Year Cumulative Contributions + Present Value of 12/31/2021 Unfunded Liability
- UNC is a more complete measure of the cost to the Plan since it captures what is expected to be paid over 10 years plus what is owed at the end of the 10-year period.
- Negative numbers indicate that the Plan is in a surplus position at 12/31/2021.

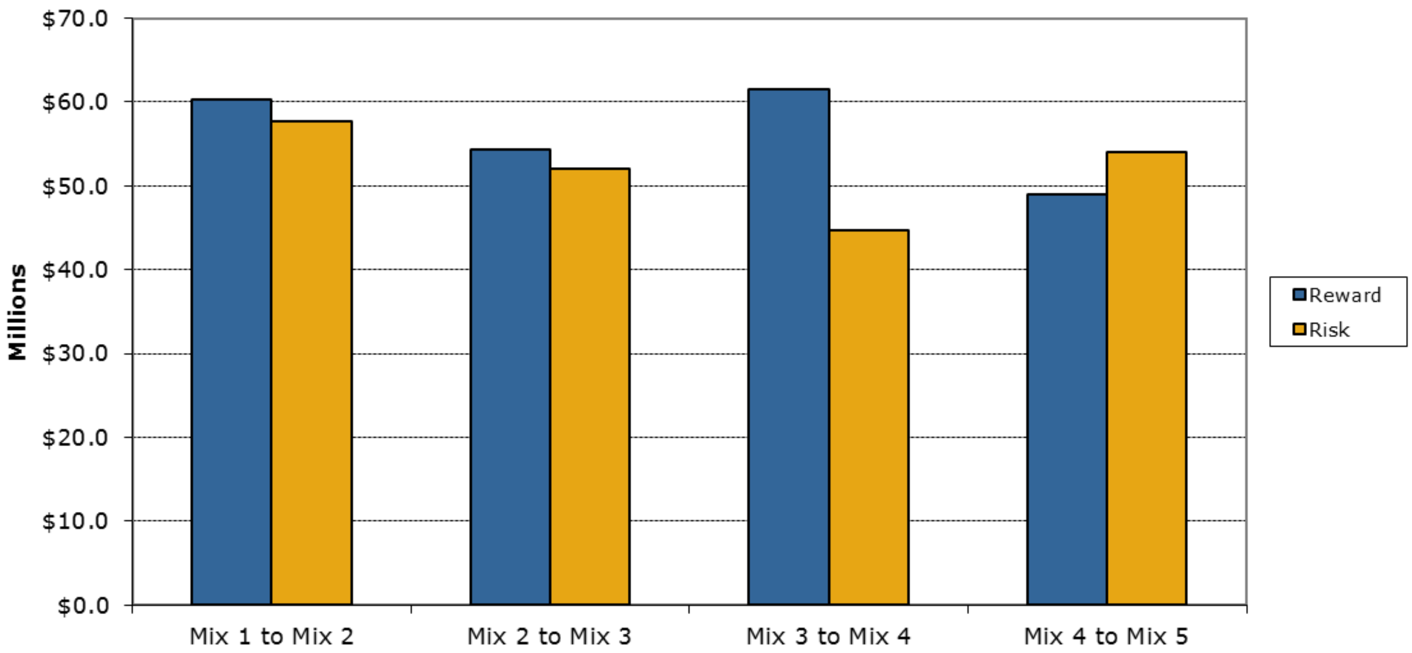
VI – Define Risk Tolerance
Risk/Reward Graph of Ultimate Net Cost



- Moving to Mix 2 is expected to result in a modest increase in cost while providing greater downside protection (a lower ultimate net cost in the worse-case scenario).
- Moving to Mix 4 is expected to result in a modest reduction in cost. However, Mix 4 requires a greater risk tolerance as the worse-case ultimate net cost is higher.

VI – Define Risk Tolerance

Risk/Reward Trade-Off in Ultimate Net Cost



- Moving toward Mix 4, the expected reward (improvement Ultimate Net Cost in the expected case) outweighs the risk (worsening of Ultimate Net Cost in the “worse case”, or 97.5 percentile).
- Moving beyond Mix 4, the risk-reward trade-off becomes increasingly less favorable.

VI – Define Risk Tolerance
Summary

- Open Plans are typically considered to have indefinite time horizons for assuming investment risk. However, the PERS fund is substantially underfunded and without funding improvement, was expected to see funded status erode to 50% over the next 20 years. Funding improvement passed by ND Legislature is expected to sustain funded status close to 80% through 2030.
  - **Funding improvement confirms that the time horizon for taking risk is in the PERS investment program is long-term.**
- With the changes to contribution rates, the PERS Fund is expected to face manageable liquidity needs over the next 20 years.
  - Net Outflow / Assets < 5% through 2030.
- Liability growth is linked to the actuarial discount rate (8.0%) and implies a return target for the Plan.
  - Capital markets will be challenged to generate a long-term return $\geq$ 8.0%.
  - Pursuing a higher expected return is tempting in order to assist with closing the Plan deficit and offsetting future benefit accruals.
    - Ongoing benefit accrual (normal cost), as a percentage of liability, is 2.5% - 3.0% over the next 20 years.
  - However, simply meeting the 8% discount rate would require taking on greater risk than the current investment policy, given current expectations for the capital markets. Lowering the discount rate to match expectations will likely worsen expected funded status.
  - **Investment policy alone is insufficient to close the deficit in a meaningful way; new contribution rates are the key to maintaining funded status through 2030.**

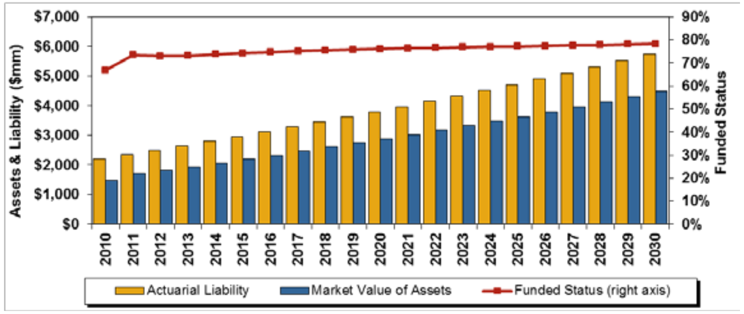
Appendix I
Impact of Lower Assumed Returns

IV – Build Actuarial Liability Model
Impact of Lower Assumed Return

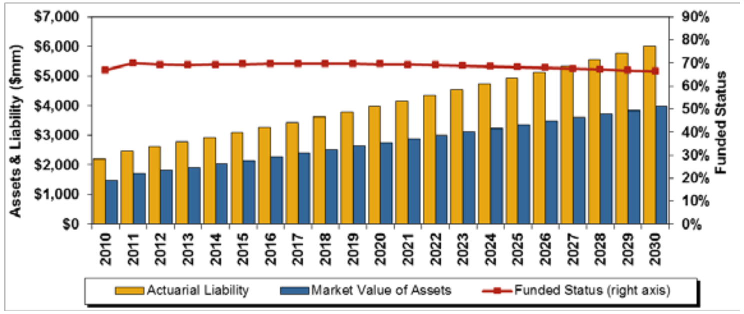
- **Expected return for the current Policy Target Mix under Callan's 2011 capital market expectations is 7.2%, and 7.7% using the higher assumed inflation rate combined with Callan's real return expectations.**
- **Both assumptions are below the 8% return assumed in the actuarial valuation.**
  - Achieving an 8% expected return would require the PERS fund to take on greater investment risk.
  - Alternatively, the plan could consider lowering discount rate and the assumed rate of return.
- **Question 1: What would be the impact on the fund of lowering the expected return?**
  - Asset growth would be lower,
  - Future liabilities would be higher (discounted by a lower interest rate),
  - Funded status would be lower, assuming expected future contributions remain at the new statutory rates.
- **Question 2: What contribution rates would be required to maintain the funded status implied by the 8% return assumption shown on slide 22?**
- **Analysis assumes return assumption and liability discount rate are lowered in tandem.**

IV - Build Actuarial Liability Model
Impact of Lower Assumed Return – Funded Status

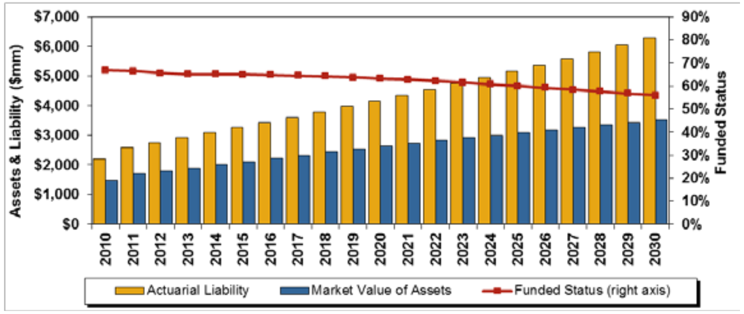
8% Return



7.5% Return



7.0% Return



- Without changes to contribution rates, funded status erodes as discount rate is lowered relative to the assumed 8%. Funded status is projected to fall below 60% in 20 years under a 7.0% return assumption.

IV - Build Actuarial Liability Model

Contribution Rates Required Under Lower Return

Return	8.0%	7.5%	7.0%
Discount Rate	8.0%	7.5%	7.0%
Employer Contribution Rate			
2011	4.26%	4.26%	4.26%
2012	5.26%	5.26%	8.26%
2013+	6.26%	8.75%	11.00%
Funded status 2021	76%	75%	76%

- Projection assuming new contribution rates, 20% return for current plan year, and 8% return thereafter yields expected funded status of 76% by 2021.
- Using this 76% funding in 10 years as a target, we evaluated the required increase in contributions under a 7.5% and 7.0% return assumption. Employer contribution rate is used as a proxy for the increase in the total contribution.
  - 7.5% return assumption would need an increase of 2.5% per year starting in 2013 to keep pace with the 8% return; 7.0% would require an increase of 4.75%.

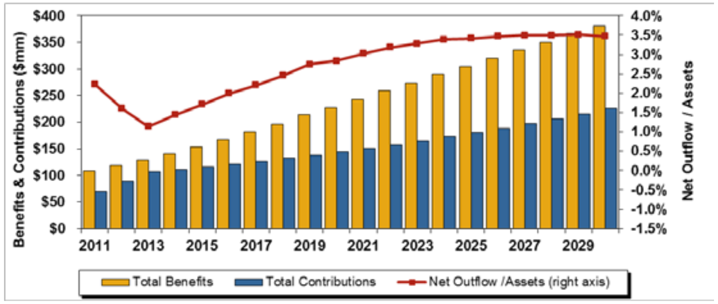
Appendix II
Increase Contribution Rates in 2014-2015

IV – Build Actuarial Liability Model
Impact of Additional Contributions Starting in 2014

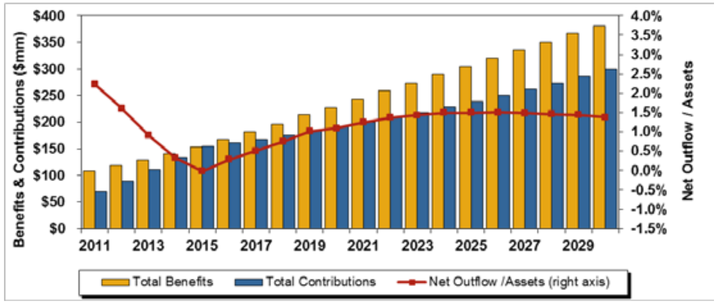
- **New funding policy passed by ND Legislature incorporated in this study.**
  - The employer and employee contribution rates increase by 1% each at 1/1/2012 and another 1% each at 1/1/2013. Blended rate for PERS therefore moves from 4.26% at 1/1/2010 to 5.26% at 1/1/2012 and 6.26% at 1/1/2013, and remains at 6.26% for the following years. Employee rate moves from 4% to 5% to 6%.
- **ND Legislature adopted half the funding request submitted by PERS, suggested that PERS apply for additional funding starting in 2014.**
- **New funding passed in 2011 improves the outlook for the Fund – funded status expected to maintain at just under 80% over the next 20 years, assuming 8% return.**
  - Net outflows (benefit payments minus contributions) are expected to remain below 5% of assets, relieving pressure on liquidity.
- **Following analysis examines impact of Legislature passing future funding improvements similar to those passed in 2011, effective 2014 and 2015.**
  - The employer and employee contribution rates increase by 1% each at 1/1/2014 and another 1% each at 1/1/2015. Blended employer rate for PERS therefore moves from 6.26% at 1/1/2013 to 7.26% at 1/1/2014 and 8.26% at 1/1/2015, and remains at 8.26% for the following years. Employee rate moves from 6% to 7% to 8%.

IV - Build Actuarial Liability Model
Impact of Additional Contributions – Cash Flow

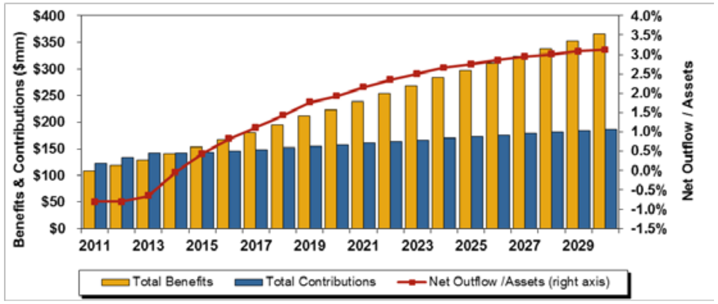
2011 Statutory



2014- 2015 Additional Contributions



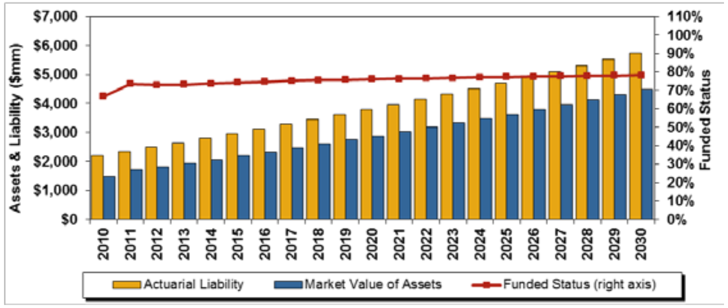
Actuarially Required Contributions



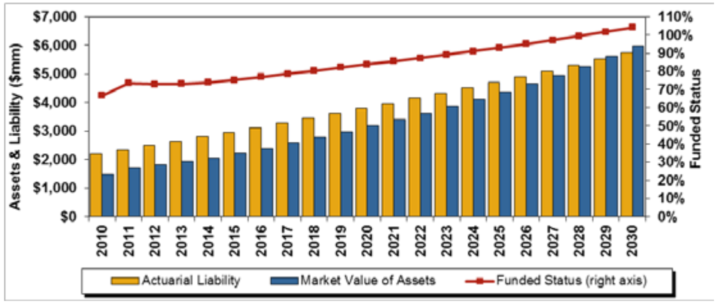
- Contributions under 2014-15 rate increases hold net outflow/assets down below 1.5% through forecast horizon. Contributions in later years under 2014-15 increases are higher than those under ARC, in effect paying for lower contributions in the first years of the forecast horizon.

IV - Build Actuarial Liability Model
Impact of Additional Contributions – Funded Status

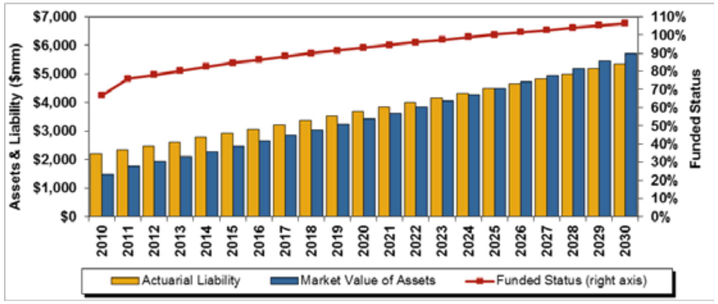
2011 Statutory



2014- 2015 Additional Contributions



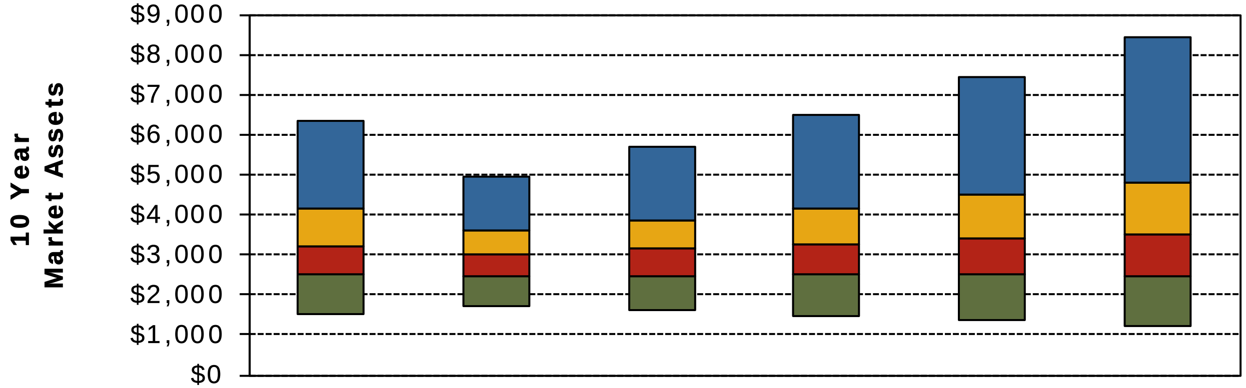
Actuarially Required Contributions



- Contributions under the 2014-15 rate increase scenario achieve full funding for PERS within the next 20 years, and result in asset values and funded status similar to those generated under the ARC.

V – Simulate Financial Condition
Market Value of Assets at 7/1/2021

Increase contribution rates in 2014 & 2015

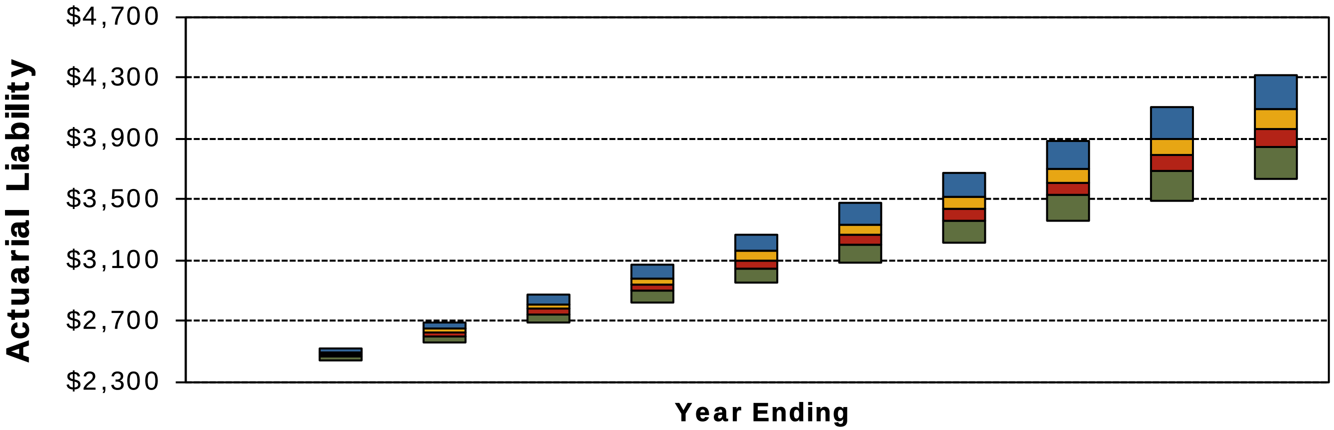


Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
2.5th	$6,363	$4,947	$5,688	$6,467	$7,455	$8,405
25th	4,142	3,580	3,871	4,155	4,517	4,816
50th	**3,232**	**2,999**	**3,134**	**3,261**	**3,387**	**3,517**
75th	2,488	2,473	2,486	2,501	2,491	2,483
97.5th	1,496	1,701	1,605	1,486	1,353	1,213
Range (97.5-2.5)	4,867	3,246	4,083	4,981	6,102	7,193

- Fund market values are higher by approximately $350 million in the expected case.

V – Simulate Financial Condition
Actuarial Liability

Increase contribution rates in 2014 & 2015



Percentile	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Growth 5-year	Growth 10-year
97.5th	$2,338	$2,510	$2,687	$2,873	$3,061	$3,264	$3,467	$3,669	$3,877	$4,098	$4,314	6.9%	6.3%
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50th	**2,338**	**2,476**	**2,622**	**2,776**	**2,937**	**3,098**	**3,265**	**3,436**	**3,610**	**3,786**	**3,965**	5.8%	5.4%
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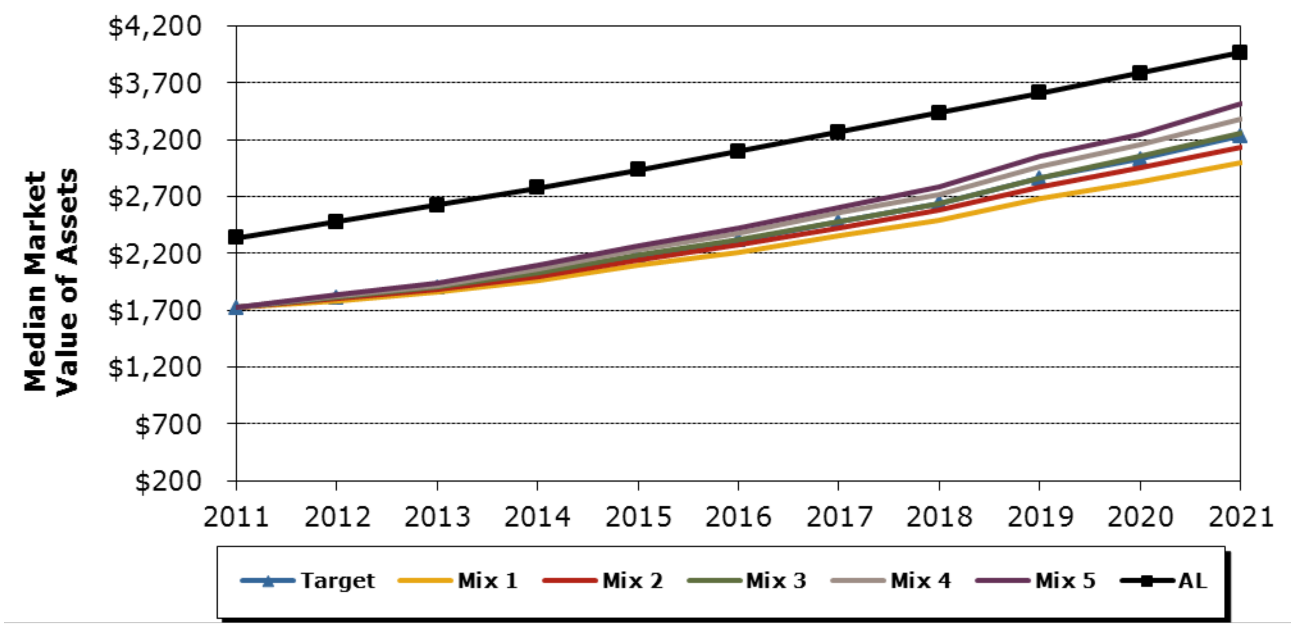
- The actuarial liability increases 4.2% - 6.0% per year from 7/1/2011 to 7/1/2021.
- The Plan’s liabilities are sensitive to changes in inflation and the resulting impact on salaries; liabilities are not affected by funding (contributions) or investment results.

V – Simulate Financial Condition

Market Assets and Actuarial Liability

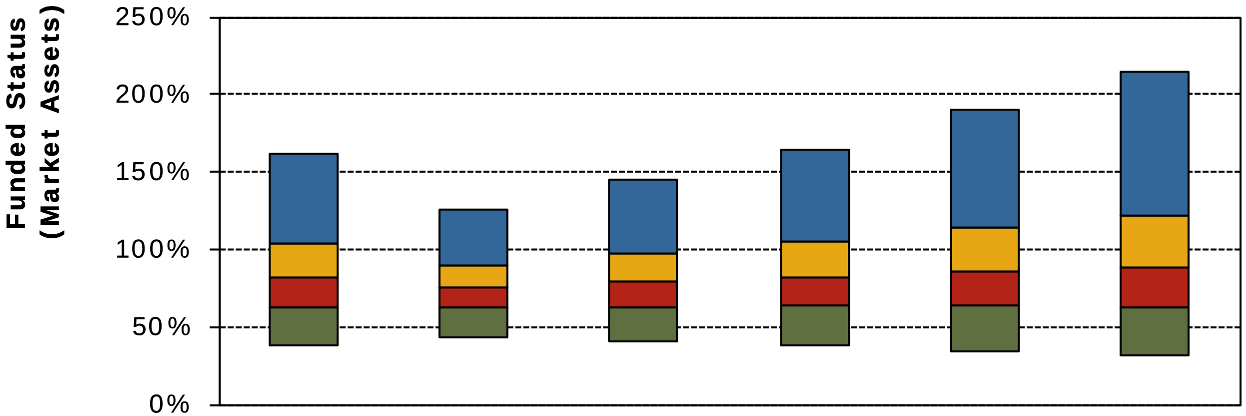
Increase contribution rates in 2014 & 2015



- The chart above compares the median ***market value of assets*** to the median ***actuarial liability (AL)*** over the next 10 years.
- **With increased funding in 2014 and 2015, PERS's deficit in dollar terms is expected to shrink in the more aggressive mixes, and improve in percentage terms across all mixes.**

V – Simulate Financial Condition
Range of 7/1/2021 Funded Status

Increase contribution rates in 2014 & 2015



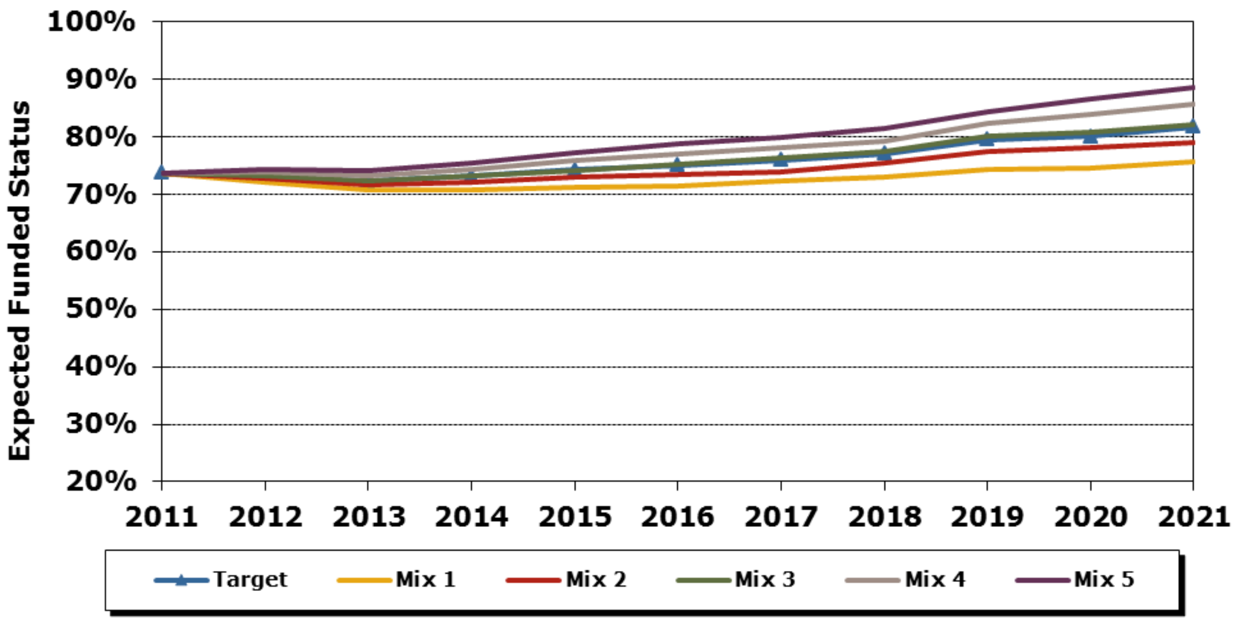
Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
2.5th	162%	126%	145%	165%	190%	215%
25th	104%	90%	98%	105%	114%	122%
50th	**82%**	**76%**	**79%**	**82%**	**86%**	**88%**
75th	63%	63%	63%	64%	63%	63%
97.5th	38%	44%	41%	37%	34%	31%
Range (97.5-2.5)	125%	82%	104%	127%	156%	184%

- Under the additional funding in 2014 and 2015 and current benefit policy, none of the mixes are expected (50th percentile) to be fully funded in ten years. However, funded status for all mixes improves by almost 10 percentage points in the expected case.

V – Simulate Financial Condition

Expected Case Funded Status

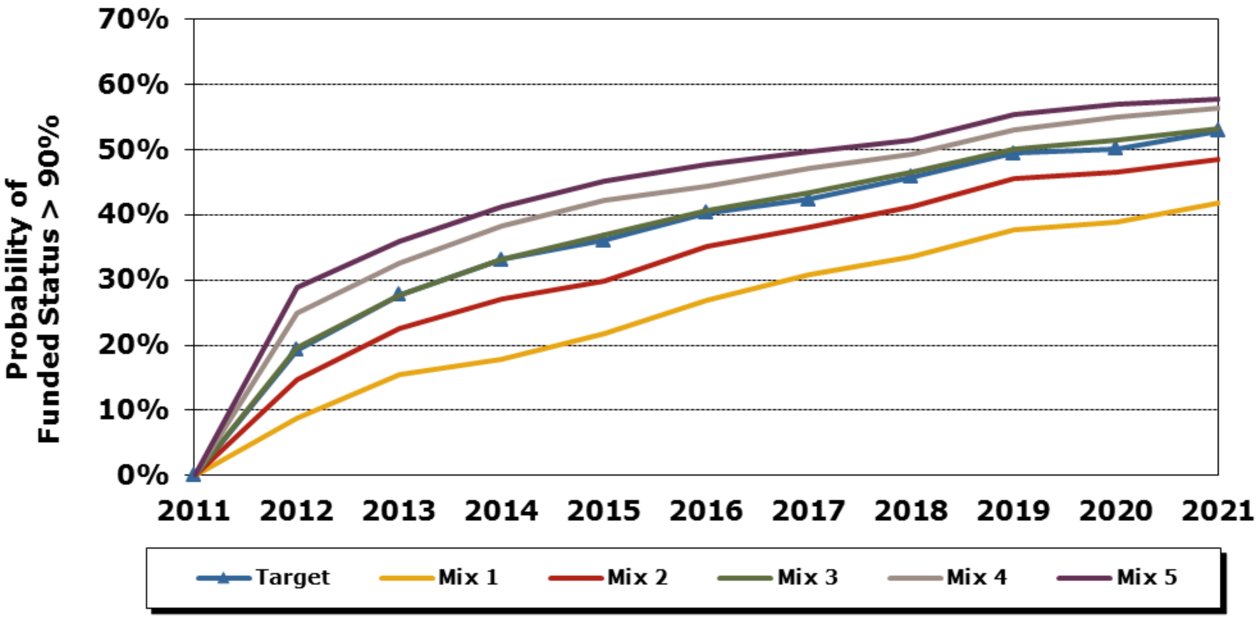
Increase contribution rates in 2014 & 2015



- Funded status in the median (expected case) in 10 years increases across all mixes with additional contributions.

V – Simulate Financial Condition
Probability of Funded Status > 90%

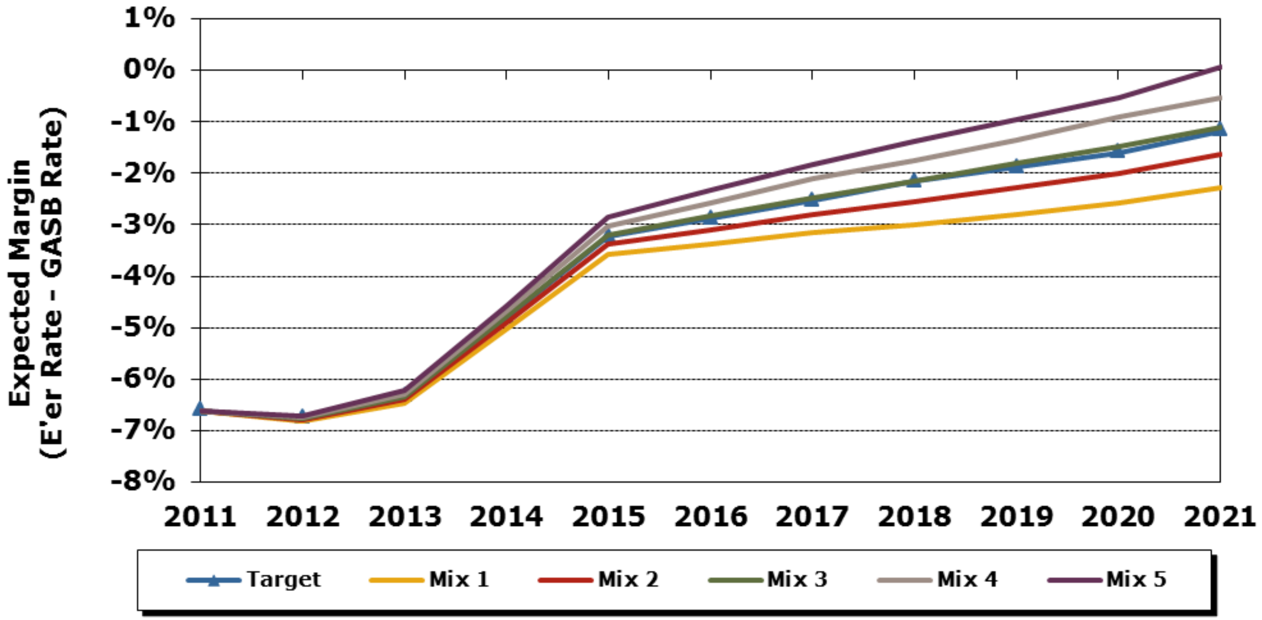
Increase contribution rates in 2014 & 2015



- Probability of achieving 90% funded status in 10 years increases across all mixes with additional contributions.

V – Simulate Financial Condition
Median Margin Rate (% of pay)

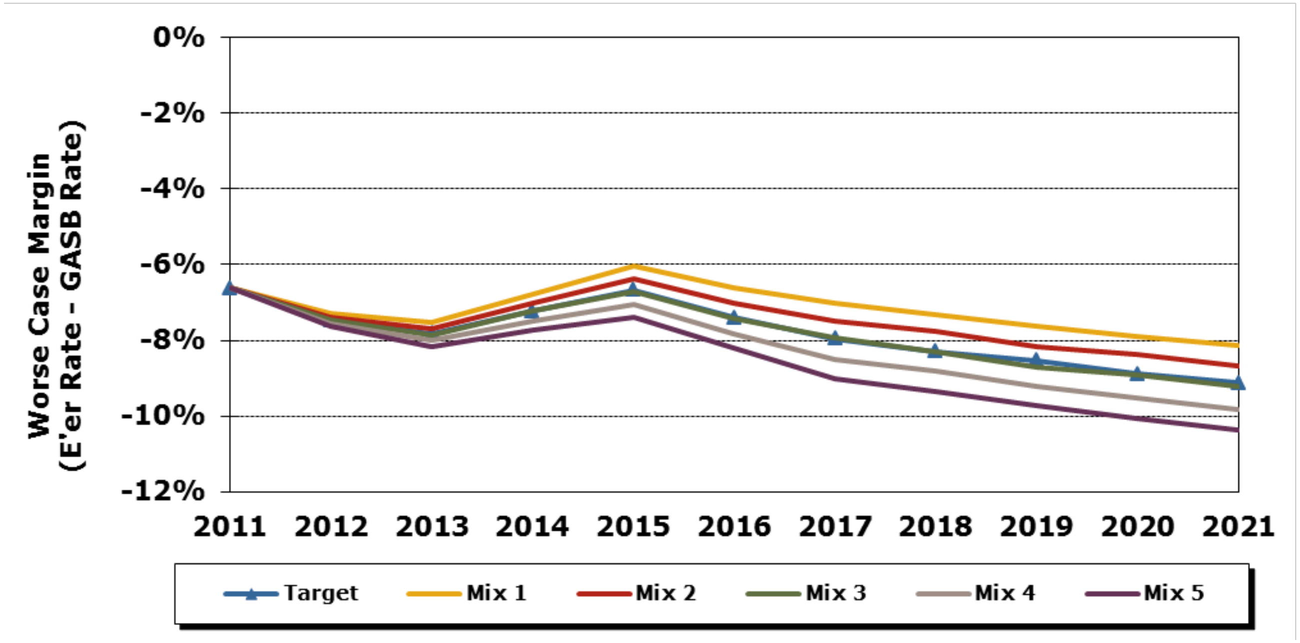
Increase contribution rates in 2014 & 2015



- The "Margin rate" = the PERS employer rate (rising from 4.26% to 8.26%) – GASB rate.
- The GASB rate is expected to remain higher than the PERS contribution rate over the next 10 years as prior investment losses are realized and amortized over 30 years. The 8.26% employer rate is projected to ultimately be sufficient to cover the ongoing costs of the PERS Plan.
- Over time, a more aggressive asset allocation is expected to lower the cost of the Plan if higher returns are achieved. However, such an approach also increases the risk of poor outcomes.

V – Simulate Financial Condition
Worse Case Margin Rate (% of pay)

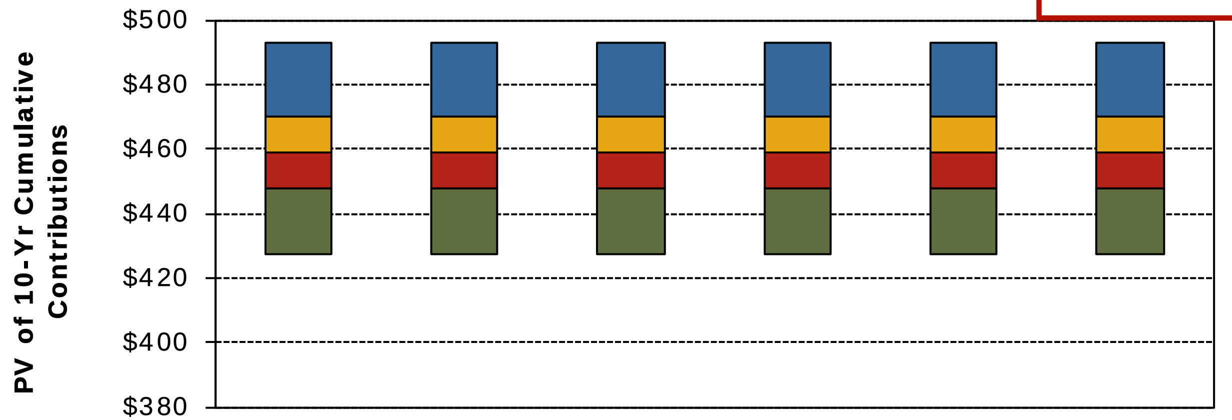
Increase contribution rates in 2014 & 2015



- In a worse case scenario (97.5th percentile), the margin rate would be much higher, although nowhere near as high as without the additional contributions.
- In a worse case scenario, a more aggressive asset allocation leads to larger losses and a correspondingly higher margin requirement.

V – Simulate Financial Condition
Present Value of 10-Year Cumulative Contributions

Increase contribution rates in 2014 & 2015

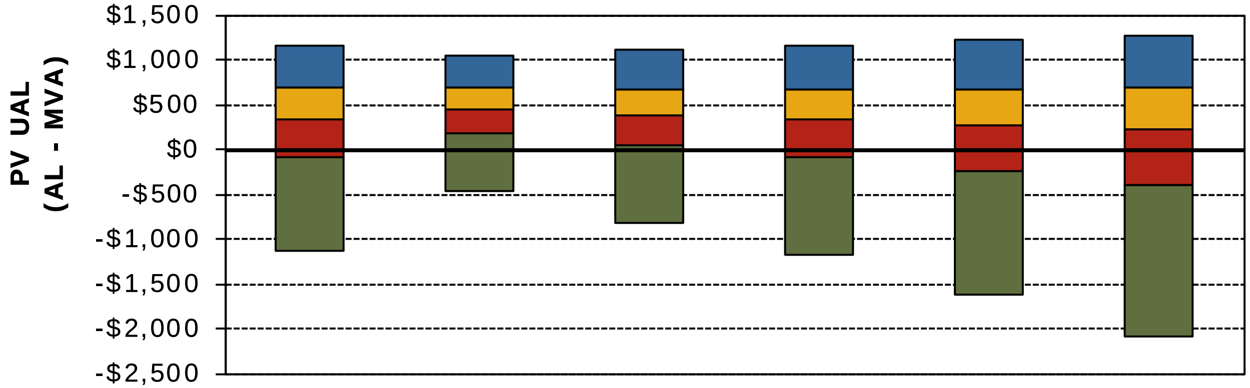


Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
97.5th	$493	$493	$493	$493	$493	$493
75th	470	470	470	470	470	470
50th	**459**	**459**	**459**	**459**	**459**	**459**
25th	448	448	448	448	448	448
2.5th	427	427	427	427	427	427
Downside	34	34	34	34	34	34

- PV of cumulative contributions substantially higher with increased rates in 2014 and 2015.
- No contribution variability exists across asset mixes as contributions are modeled as a fixed percentage of pay. Investment gains/losses are fully absorbed into the unfunded liability (funded status).
- Contribution volatility in every mix stems from simulated salary variability (inflation).
- Contributions are discounted at 8.0%.

V – Simulate Financial Condition
Present Value of 7/1/2021 Unfunded Liability

Increase contribution rates in 2014 & 2015



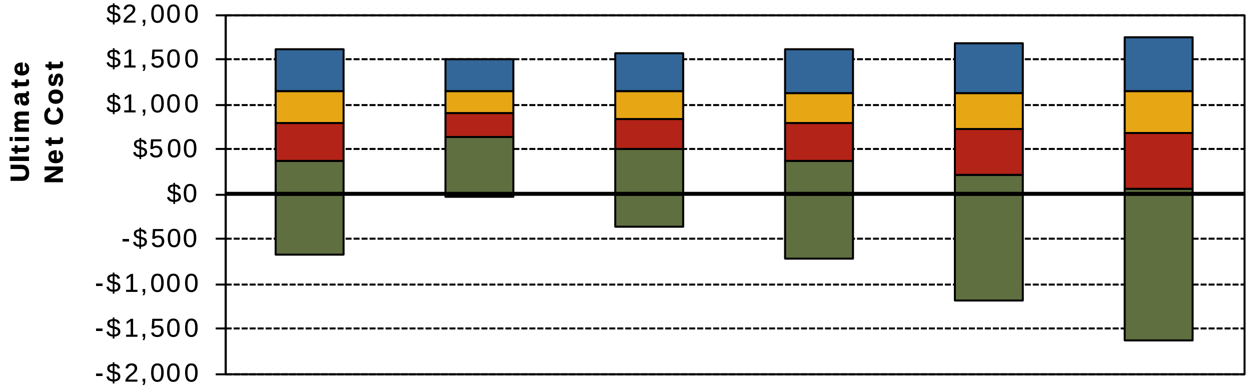
Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
97.5th	1,163	1,044	1,104	1,156	1,216	1,275
75th	688	683	677	672	671	679
50th	**334**	**447**	**381**	**324**	**264**	**211**
25th	(79)	181	39	(98)	(249)	(392)
2.5th	(1,132)	(469)	(817)	(1,178)	(1,624)	(2,095)
Downside	829	596	723	832	952	1,064

- Unfunded Liability falls by 40-50% with increased contribution rates in 2014 and 2015.

V – Simulate Financial Condition

Range of Ultimate Net Cost

Increase contribution rates in 2014 & 2015

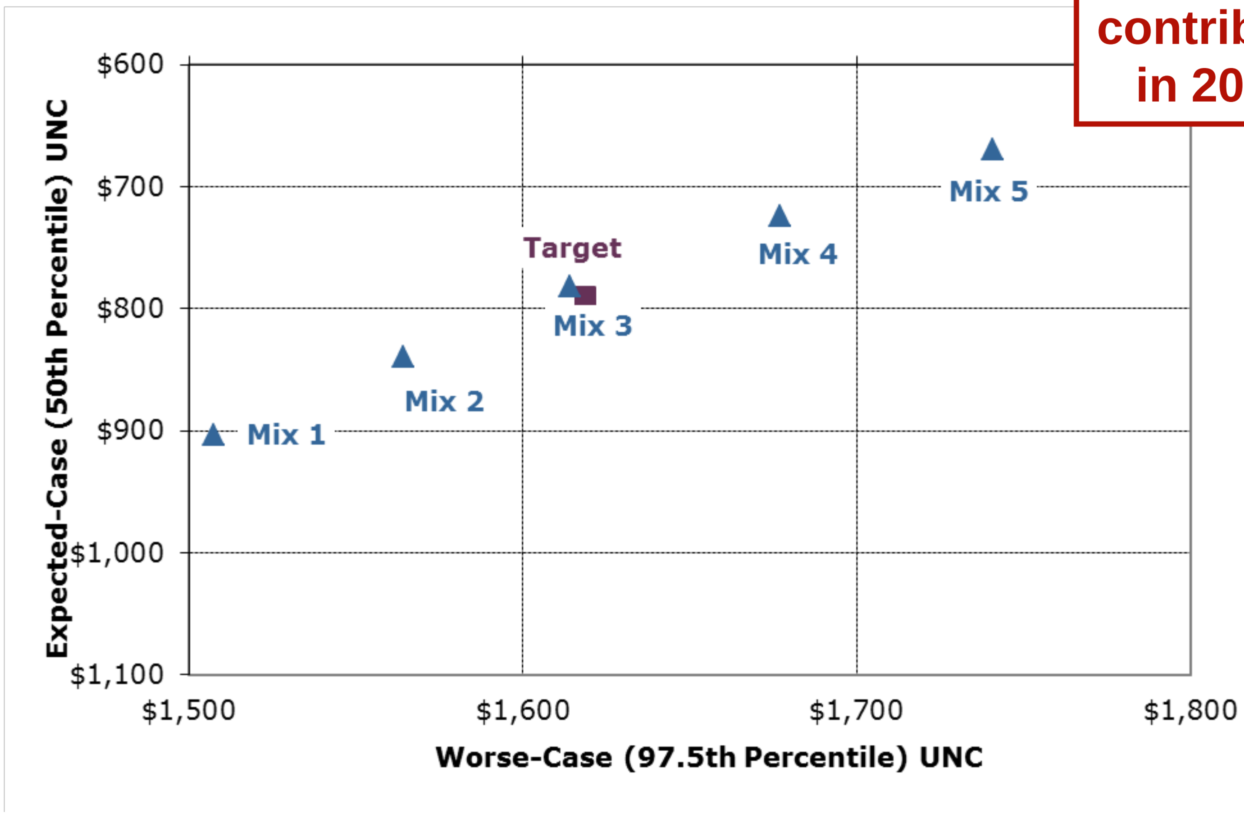


Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
97.5th	1,619	1,507	1,564	1,614	1,677	1,741
75th	1,143	1,145	1,136	1,127	1,127	1,139
50th	**790**	**903**	**840**	**782**	**724**	**669**
25th	377	634	496	362	208	59
2.5th	(678)	(12)	(358)	(727)	(1,181)	(1,642)
Downside	828	604	725	832	953	1,071

- Increased contribution rates lower expected and worse case UNC.
- Ultimate Net Cost (UNC)= Present Value of 10-Year Cumulative Contributions + Present Value of 12/31/2021 Unfunded Liability
- UNC is a more complete measure of the cost to the Plan since it captures what is expected to be paid over 10 years plus what is owed at the end of the 10-year period.

VI – Define Risk Tolerance
Risk/Reward Graph of Ultimate Net Cost

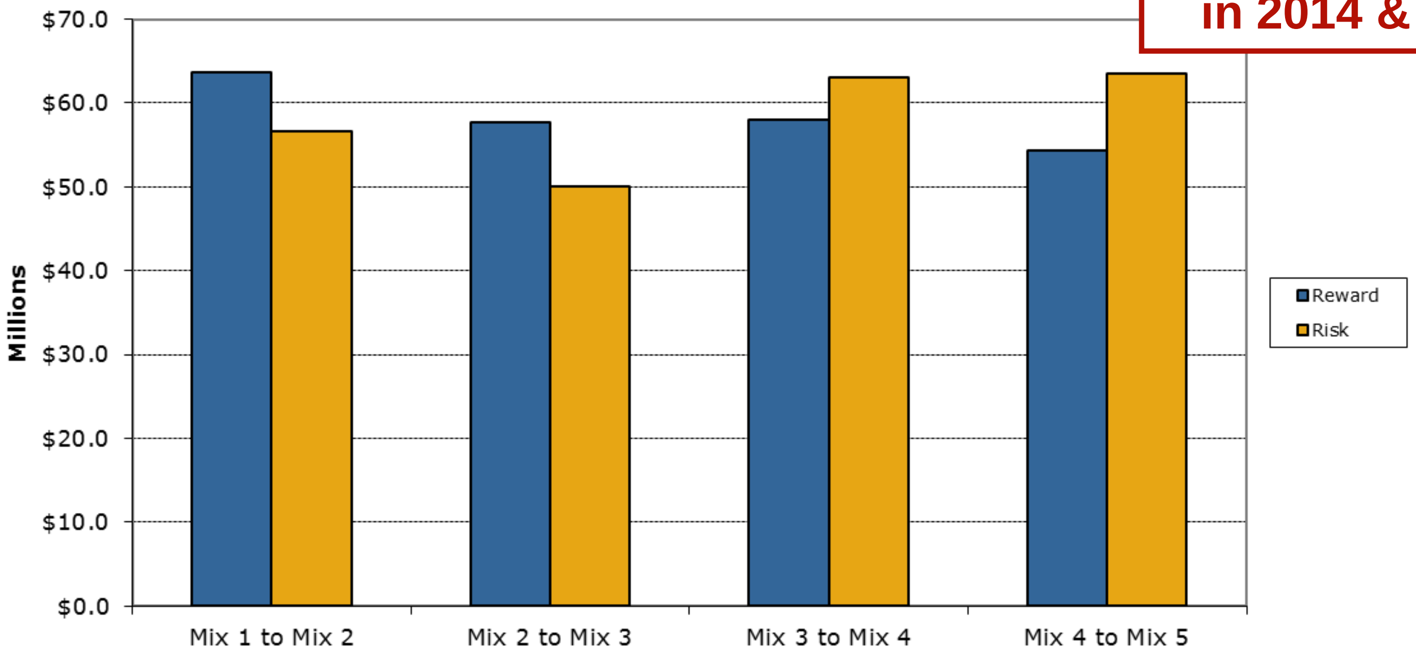
Increase contribution rates in 2014 & 2015



- Moving to Mix 2 is <u>expected</u> to result in a modest <u>increase in cost</u> while providing greater downside protection (a lower ultimate net cost in the worse-case scenario).
- Moving to Mix 4 is <u>expected</u> to result in a modest <u>reduction in cost</u>. However, Mix 4 requires a greater risk tolerance as the worse-case ultimate net cost is higher.

VI – Define Risk Tolerance
Risk/Reward Trade-Off in Ultimate Net Cost

Increase contribution rates in 2014 & 2015



- With the increase in the contribution rate in 2014 and 2015, the analysis suggests the PERS plan may not need to move as far toward a more aggressive asset mix. Moving toward Mix 4, the expected reward (improvement Ultimate Net Cost in the expected case) no longer outweighs the risk (worsening of Ultimate Net Cost in the "worse case", or 97.5 percentile).
- Moving beyond Mix 4, the risk-reward trade-off becomes increasingly less favorable.

VI – Define Risk Tolerance
Summary – Increase Contribution Rates in 2014-15

- Funding improvement passed by ND Legislature is expected to sustain funded status close to 80% through 2030.
  - **Funding improvement confirms that the time horizon for taking risk is in the PERS investment program is long-term.**
- With the changes to contribution rates, the PERS Fund is expected to face manageable liquidity needs over the next 20 years.
  - Net Outflow / Assets < 5% through 2030.
- Increasing contribution rates by 1% each to employers and employees, in both 2014 and 2015 (total = 4% increase) will push the funded status of the plan closer to 90% by 2021 and approaching 100% by 2030.
- Model of the sensitivity of the plan assets and liabilities suggests with higher funding starting in 2014, the PERS plan may not need to reach for as much return to sustain funded status.
- Contributions under this potential policy will push the plan toward asset levels and funded status consistent with the ARC developed by the actuary in the most recent valuation report.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 16, 2011

SUBJECT: Asset Allocation

The PERS Investment Committee met on August 31 to work on the Asset Liability Study. The Committee will be continuing its work in the weeks to come. However, one of the first steps in the process is for us to transition to our new asset categories. Last December the Board reviewed the categories (see Attachment 1) and the following is the minutes from that meeting and the action taken:

> **Asset/Liability Study**
> Mr. Collins reported that Callan Associates will be conducting an asset allocation and liability study for the Public Employees Retirement System. Representatives from Callan reviewed with the Board a proposed asset allocation framework. The current asset class categorization for TFFR and PERS includes several broad asset classes: domestic equity, international equity, domestic fixed income, international fixed income, real estate, alternatives, and cash equivalents. Callan recommends changing the framework into five broad groups: global equity, global fixed income, global real assets, global alternatives, and cash equivalents. This broad approach is used by large public funds around the country, and allows for flexibility in the implementation of the investment program. The Board had questions and comments relating to these asset classes.
>
> **MR. SANDAL MOVED TO APPROVE THE PROPOSED ASSET ALLOCATION FRAMEWORK FOR CALLAN TO CONDUCT THE ASSET ALLOCATION AND LIABILITY STUDY FOR EACH NDPERS PLAN. THE MOTION WAS APPROVED BY MR. SAGE.**
>
> **Ayes:** Mr. Sage, Mr. Erdmann, Ms. Smith, Mr. Sandal, Mr. Trenbeath, and Chairman Strinden
> **Nays:** None
> **Absent:** Ms. Ehrhardt

Based upon the above considerations, the Investment Committee is recommending that we formally transition our existing asset allocation to the new categories at this time and inform the state investment board. Based upon the information presented at the last Investment Committee meeting this transition would be as follows:

	PERS Target		PERS Effective Exposures
Global Equity	60%		59%
Domestic - broad	40%		38%
International - broad	15%		15%
Developed	10%		9%
Emerging	5%		5%
Frontier			
Private equity	5%		6%
Global Fixed Income	34%		21%
Domestic Fixed Income	29%		16%
Investment Grade	24%		9%
Below Investment Grade	5%		7%
International Fixed Income	5%		5%
Developed market investment grade	5%		5%
Emerging markets - local currency			
Global Real Assets	5%		17%
Global Real Estate	5%		5%
Infrastructure			4%
Timber			8%
Commodities			
Inflation-linked bonds			
Other inflation sensitive strategies (tbd)			
Global Alternatives	0%		2%
Cash Equivalents	1%		2%
Total	100%		100%

Note: the proposal is to transition to the above major categories/allocation at this time which are Global Equity, Global Fixed Income, Global Real Assets, Global Alternatives and Cash Equivalents

Once the existing effective allocation is adopted the Investment Committee will continue its work to determine if the allocation should be adjusted.

<u>Board Action Requested</u>

Approve transitioning our existing asset allocation the effective categories/allocation listed above (Global Equity, Global Fixed Income, Global Real Assets, Global Alternatives and Cash Equivalents)

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: Investment Policy

As part of the process of conducting the asset liability study the Investment Subcommittee also reviewed our Investment Policy for the retirement plan (Main, judges, HP, Law Enforcement, and National Guard). Attached for your review and approval is the product of that review. You will note that the left hand column is the existing Investment Policy and the right hand side is the proposed changes. Included in those changes is the recommended revised asset allocation as discussed in agenda item III.A.

Board Action Requested

Approve the recommended changes to the Investment Policy as proposed by the Investment Committee.

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy	Proposed Policy Change
1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS The North Dakota Public Employees Retirement System (NDPERS) and the Highway Patrol Retirement System (HPRS) are pension benefit plans established to provide retirement income to state employees and employees of participating political subdivisions. The plans are administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee. The NDPERS plan is a multi-employer hybrid benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). Monthly retirement benefits for the Main, National Guard and Law Enforcement Plans are based on the formula: number of Years of Service times 2.0% times the final average salary. For the NDPERS Judges Plan the retirement formula is: for the first ten years of service of the formula is final average salary times 3.5%, for the second ten years of service the formula is final average salary times 2.80% and for all remaining years of service the formula is final average salary times 1.25%. The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based upon on the formula: first 25 years of credit service times 3.25% and all remaining years of service times 1.75%. Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 4% and the employer contribution is 4.12%, for the Judges Plan the employee contribution is 5% and employer contribution is 14.52%, for the National Guard Plan the employee contribution is 4% and employer contribution is 6.5%, for the Law Enforcement Plan with prior service the employee contribution	

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy	Proposed Policy Change
is 4% and the employer contribution is 8.31% and for the Law Enforcement Plan without prior service the employee contribution rate is 4% and the employer rate is 6.43%. Funding for the Highway Patrol plan is provided by a monthly employee contribution of 10.3% and an employer contribution of 16.7% Each year the Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for all plans is 8%.	
2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB) Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides: *Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)*	

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy	Proposed Policy Change
The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manger has been retained, the SIB's role in determining investment strategy is supervisory not advisory. The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools. The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.	
3. DELEGATION OF AUTHORITY Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy. Such procedures must provide for: 1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a). 2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:	

PERS Investment Policy	Proposed Policy Change
a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation. b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers. c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB. 3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d). 4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers. All participants in the investment process must seek to act responsibly as custodians of the public trust.	
4. INVESTMENT GOALS The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term. Goal #1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund. Goal #2 To obtain an investment return in	

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy	Proposed Policy Change
excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit.	After goal #2 insert: The Board acknowledges the material impact that funding the pension plan has on the State's financial performance. To enable the State to continue offering secure pension benefits to plan participants, the Board believes that the Fund should pursue the following **secondary goals:** 1. Stabilize the employee and employer contributions needed to fund the Plan over the long term. 2. Avoid both substantial volatility in contributions and sizable fluctuations in the funding status of the Plan. These two secondary goals affect the Fund's investment strategies and often represent conflicting goals. That is, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places greater emphasis on the strategy of stabilizing the employee and employer contribution needed to fund the plan over the long term as it assists our participating employers by having a predictable contribution for budgeting. .
5. INVESTMENT PERFORMANCE OBJECTIVE The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law. It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and	*Replace this section with the following:* The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB. 1. The fund's rate of return, net of fees and expenses, should

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy	Proposed Policy Change
have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies. a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB. b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio. c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation.	at least match that of the policy benchmark over a minimum evaluation period of five years. 2. The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years. 3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
6. ASSET ALLOCATION In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation: Date of Last Asset Allocation Study: NDPERS Board Approved December 2005 – SEI Corporation ~~Domestic Equities - Large Cap~~ ~~30%~~ ~~Domestic Equities – Small Cap~~ ~~10%~~ ~~International Equities~~ ~~10%~~ ~~Emerging Markets Equities~~ ~~5%~~ ~~Domestic Fixed Income~~ ~~24%~~ ~~High Yield Fixed Income~~ ~~5%~~	*Replace the allocation with the following (3b mix))s*

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy

~~International Fixed Income~~	~~5%~~
~~Real Estate~~	~~5%~~
~~Private Equity~~	~~5%~~
~~Cash~~	~~1%~~
~~**Expected Return**~~	~~9.3%~~
~~**Standard Deviation of Returns**~~	~~10.5%~~

Allocation	PERS Effective Exposures
Global Equity	**59.0%**
Domestic – broad	38.3%
International – broad	14.7%
Developed	9.3%
Emerging	5.4%
Frontier	
Private equity	6%
Global Fixed Income	**21.0%**
Domestic Fixed Income	15.8%
Investment Grade	8.7%
Below Investment Grade	7.1%
International Fixed Income	5.2%
Developed market investment grade	5.2%
Emerging markets – local currency	
Global Real Assets	**16.8%**
Global Real Estate	5.0%
Infrastructure	3.8%
Timber	8.0%
Commodities	
Inflation-linked bonds	
Other inflation sensitive strategies	

Proposed Policy Change

Asset Class	Policy Target(%)	Rebalancing Range(%)
Global Equity	57	46-65
Domestic Equity	31	26-36
International Equity	21	16-26
Developed	16	
Emerging	5	
Private Equity	5	4-8
Global Fixed Income	22	16-28
Domestic Fixed	17	13-21
Investment Grade	12	10-18
Non-Investment Grade	5	3-7
International Fixed	5	3-7
Developed	5	3-7
Emerging		0-3
Global Real Assets	20	12-28
Global Real Estate	10	5-15
Other	10	0-15
Infrastructure	5	0-10
Timber	5	0-7
Commodities		
Inflation Linked-Bonds		
Other Inflation Sensitive Strategies		
Global Opportunistic		0-10
Cash	1	0-2

Insert the following after the above:
The Board does not endorse tactical asset allocation, therfore, it is anticipated the portfolio be managed as close to the policy target as is prudent and practicable. Any allocation to Global Alternatives shall not increase the expected volatility of the portfolio as measured in Section #5, and all other targets will be adjusted pro-rata.

Comment [s1]: •Change "Global Opportunistic" to "Global Alternative"
•The Investment Committee recommends adding rebalancing ranges (please note wording following that clarifies the pupose and use.

PERS Investment Policy	Proposed Policy Change
Global Alternatives 1.7% **Cash Equivalents** 1.5% **Total** 100.0%	
7. RESTRICTIONS A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation. B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers C. No transaction may be made which threatens the tax exempt status of the Fund. D. No unhedged short sales or speculative margin purchases may be made. Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."* E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk. *Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.* F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.	

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy	Proposed Policy Change
The Exclusive Benefit Rule is met if the following four conditions are satisfied: (1) The cost does not exceed the fair market value at the time of investment. (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk. (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan. (4) The safeguards and diversity that a prudent investor would adhere to are present.	Add after Number (4): "Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.
G. Publicly Traded REITs may not be used in the Real Estate asset allocation.	
H.. Where timberland is used as part of the domestic fixed income portfolio, it may not make up more than 30% of the total asset class at the time of initial purchase. If timberland becomes 50% or more of the domestic fixed income portfolio through market appreciation, the SIB must review the situation and, with the goal of bringing the timberland portion of the domestic fixed income portfolio into line with this restriction and considering market conditions at the time take any action deemed prudent. . Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.	Delete "H"
8. INTERNAL CONTROLS The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for	

PERS Investment Policy	Proposed Policy Change
investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.	
9. EVALUATION Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including: - Changes in asset class portfolio structures, tactical approaches and market values; - All pertinent legal or legislative proceedings affecting the SIB. - Compliance with these investment goals, objectives and policies. - A general market overview and market expectations. - A Review of fund progress and its asset allocation strategy. - A report on investment fees and the SIB's effort relating to Section 6. To measure investment cost PERS requires as part of the annual review information from CEM or other acceptable source showing the value added versus the cost.	Add the following bullet point: -Changes/additions to benchmarks utilized to monitor the funds

NDPERS EXISTING INVESTMENT POLICY AND PROPOSED CHANGES FOR DISCUSSION

PERS Investment Policy	Proposed Policy Change
In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.	

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: 2011 Actuarial Valuation

Brad Ramirez from the Segal Company will be at the next Board meeting to review the results of the 2011 actuarial valuation. He will be going over a PowerPoint presentation highlighting the valuation. The final actuarial valuation report will be delivered on November 25 and we will forward that to you when we receive it (we can give you an electronic or paper copy).

I have also asked Brad to provide a follow-up discussion for you on some of the items we talked about at the last meeting in our “PERS Update”.

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

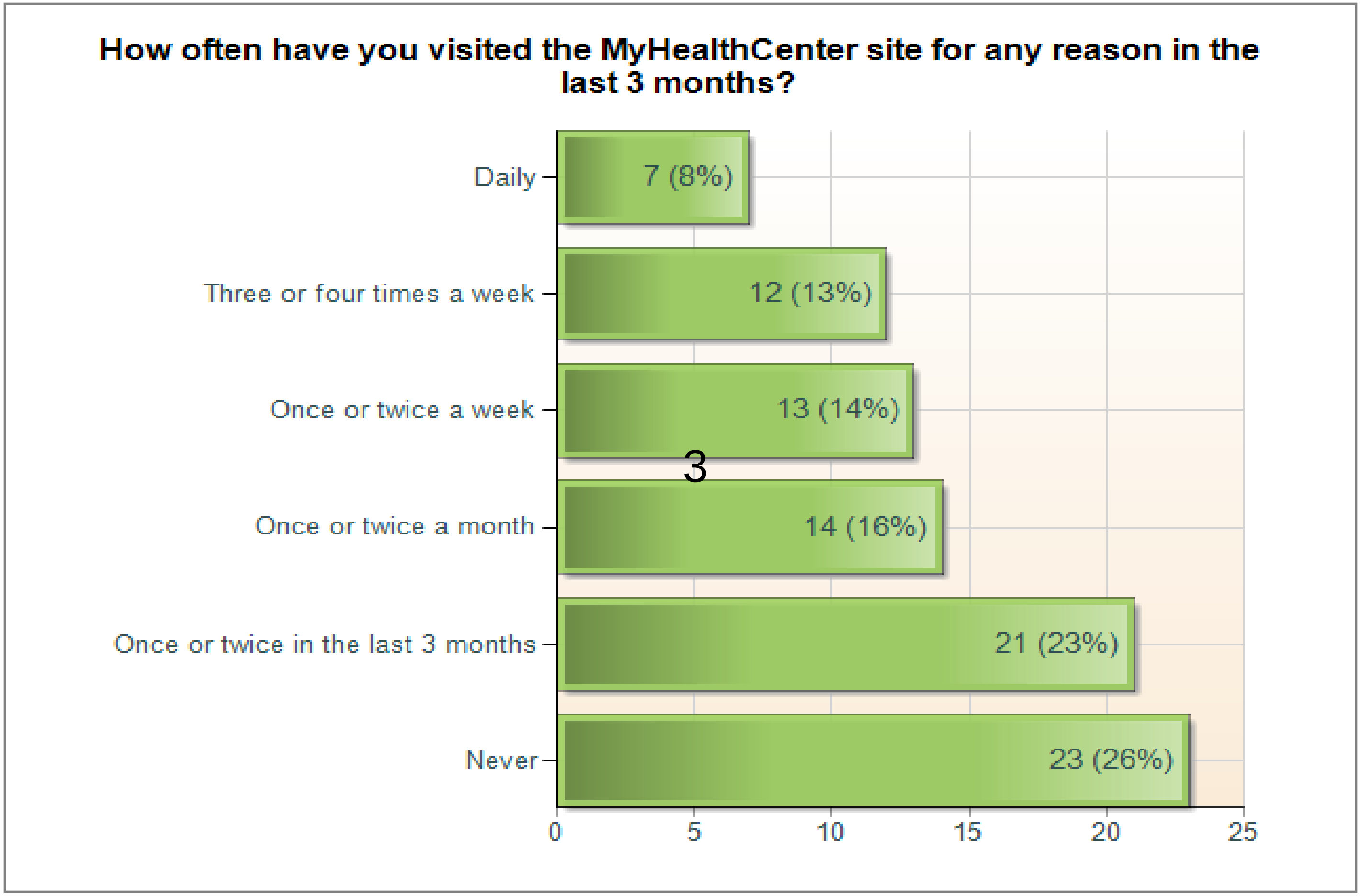
DATE: November 9, 2011

SUBJECT: Wellness Program

As you know, since we migrated from the original MyHealthCenter(MHC) platform this last spring to the new platform, we have had numerous issues. BCBS has worked extensively with them to get the service levels to an acceptable level. While improvement has occurred it has not been to the levels desired. We recently surveyed our wellness coordinators to get their impression of this situation (refer to attachment #1 Respondent Usage report). You will note they are not fully satisfied. Consequently, BCBS is considering changing vendors. The company being considered is Pure Wellness (PW). BCBS provided a demo of their program to our wellness coordinators on November 9 to get their impression of this vendor. A Survey was conducted after the presentation. Attachment #2 is the responses. Generally it appears the wellness coordinators are not satisfied with MHC and they would prefer the new vendor (about 72% would select PW over MHC)

MyHealthCenter Survey Results by Respondent Usage

MyHealthCenterSatisfaction Survey: How often have you visited the MyHealthCenter site for any reason in the last 3 months?



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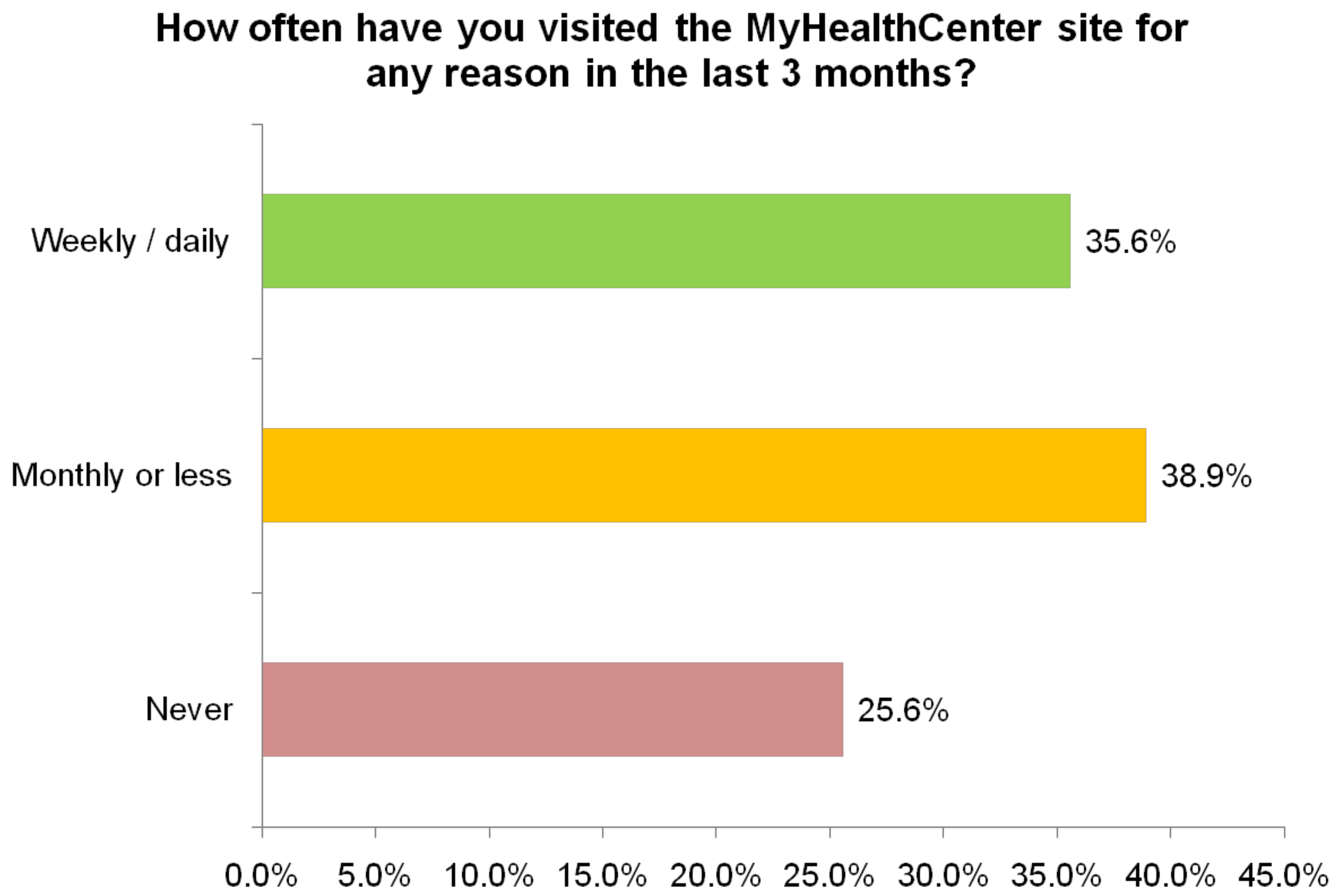
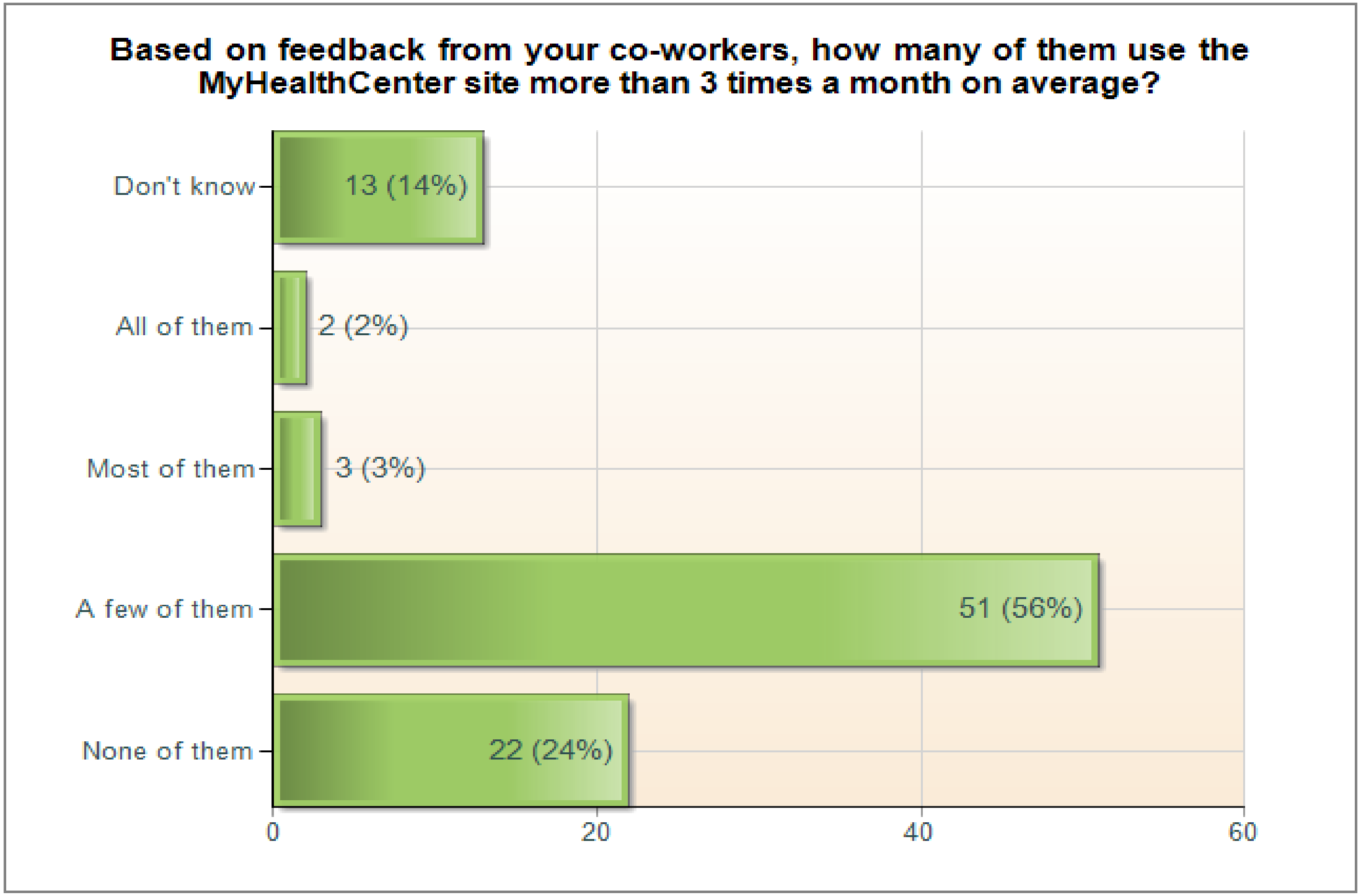


MyHealthCenterSatisfaction Survey: Based on feedback from your co-workers, how many of them use the MyHealthCenter site more than 3 times a month on average?



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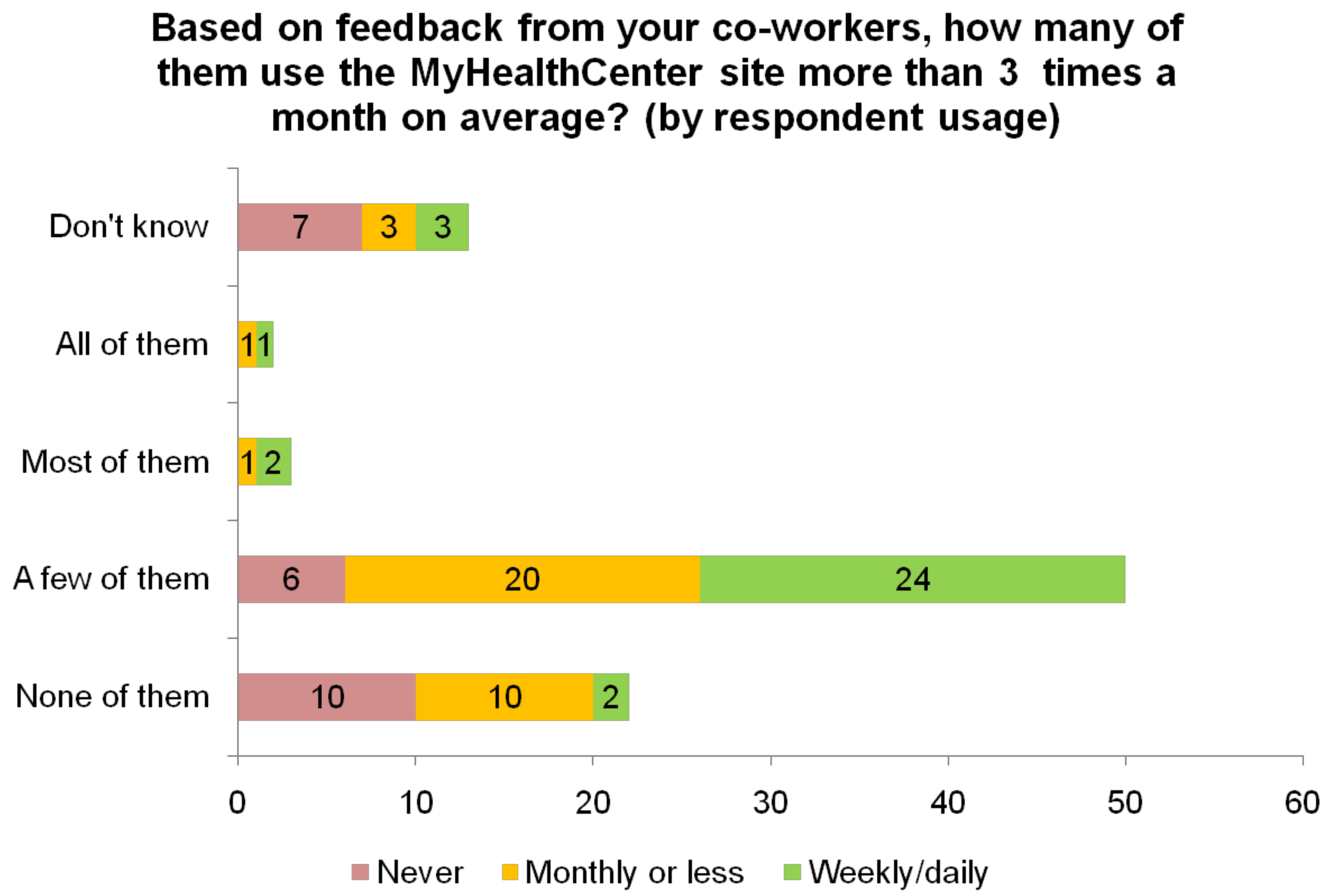
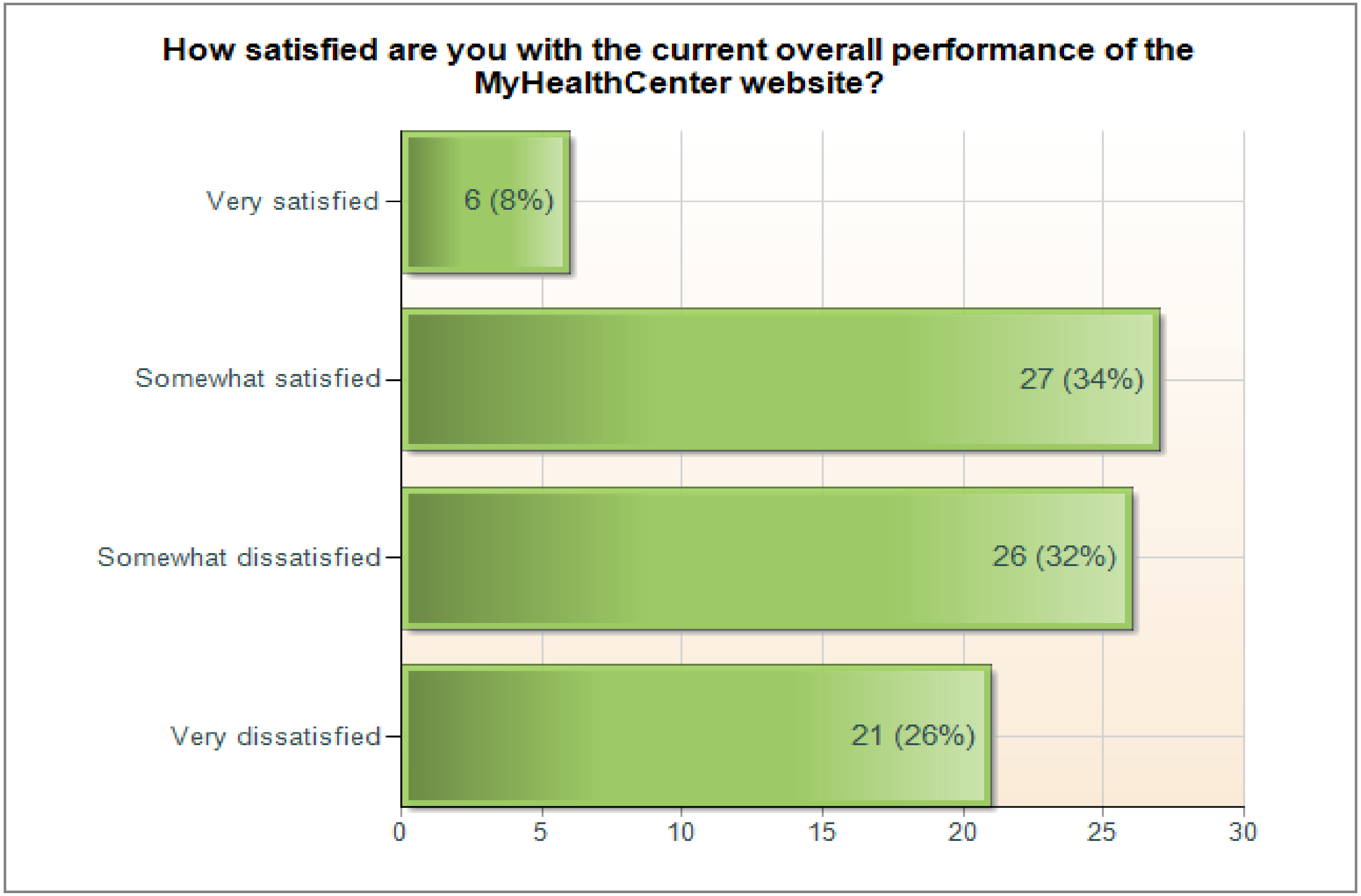


MyHealthCenterSatisfaction Survey: How satisfied are you with the current overall performance of the MyHealthCenter website?



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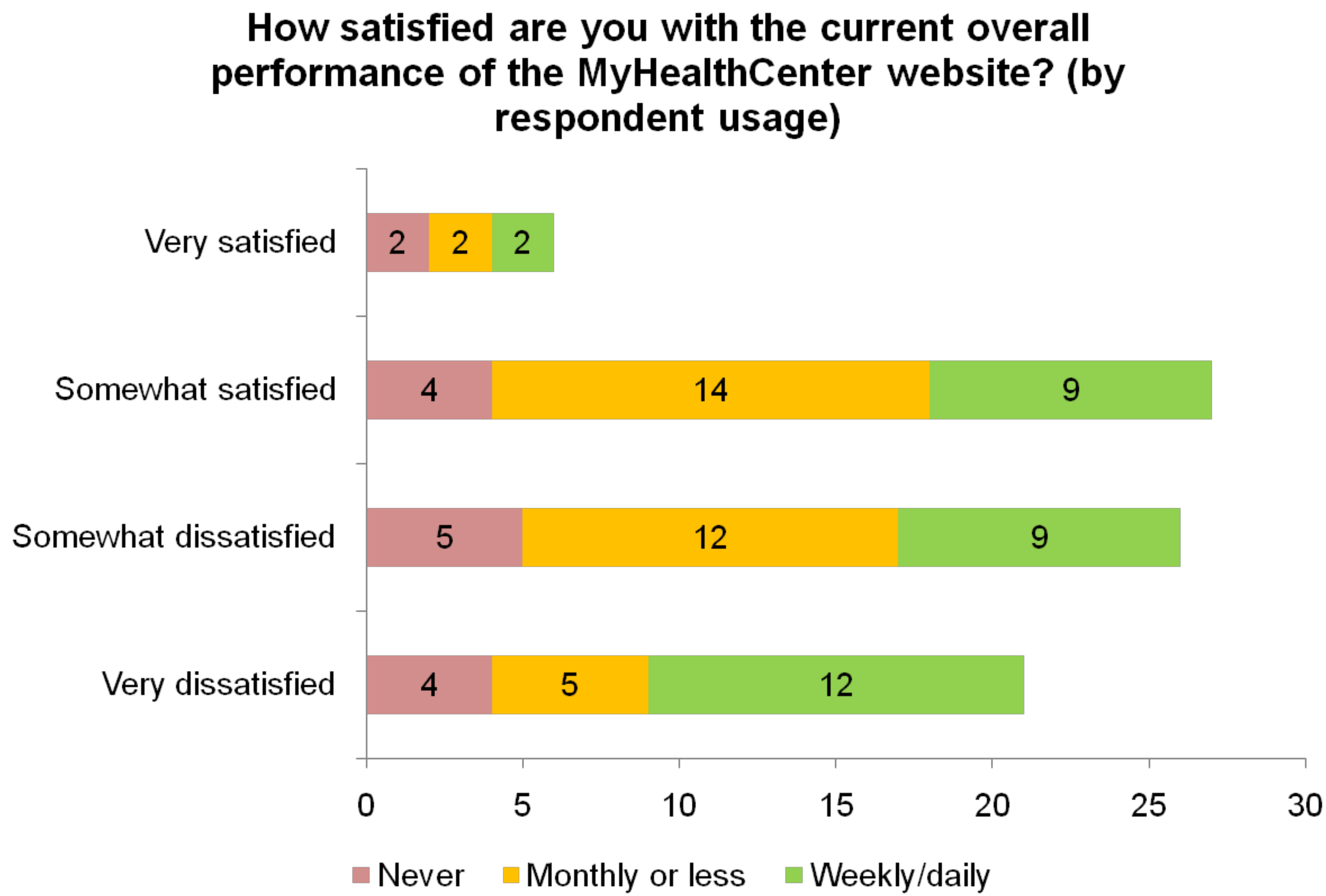

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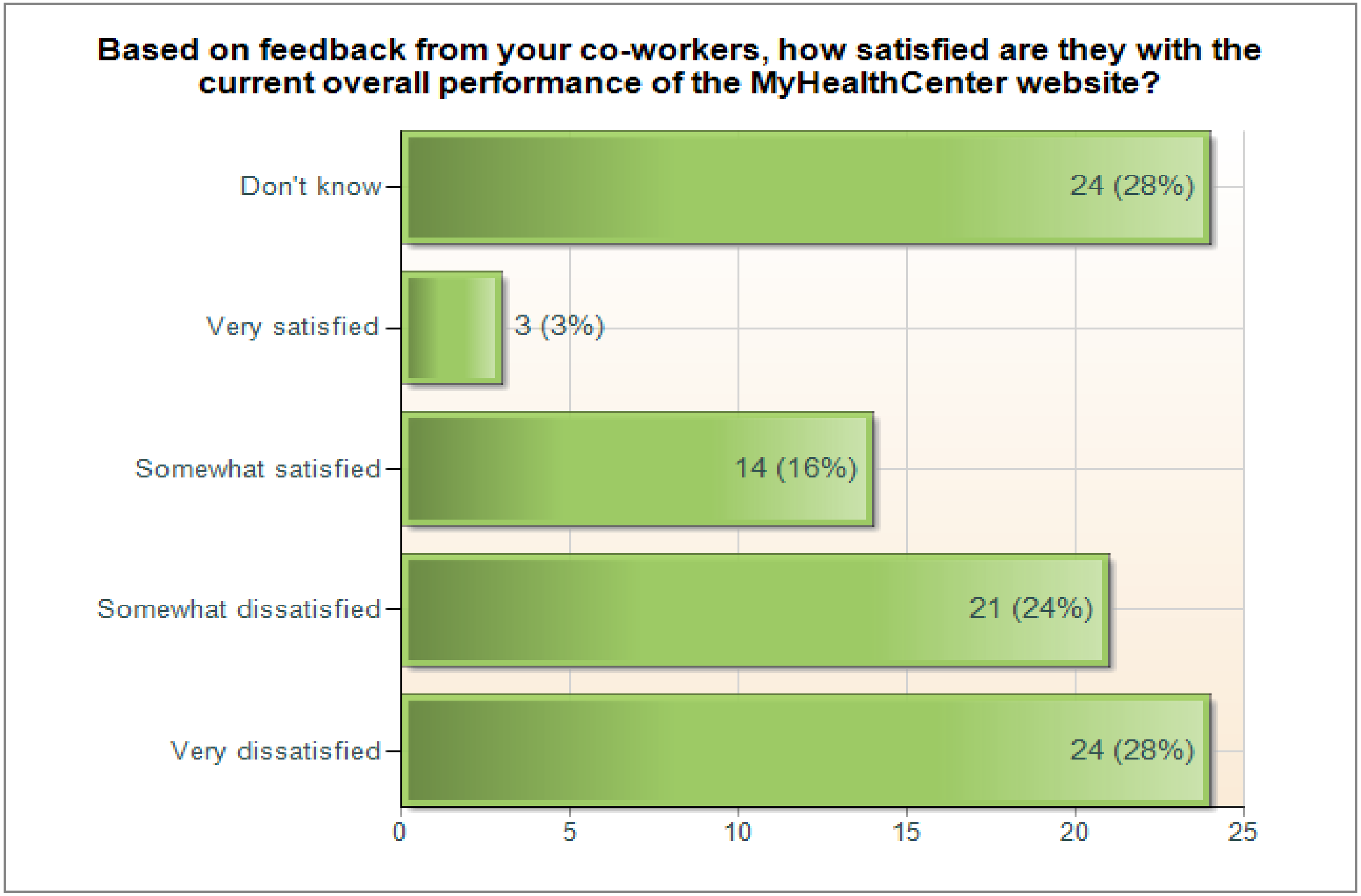

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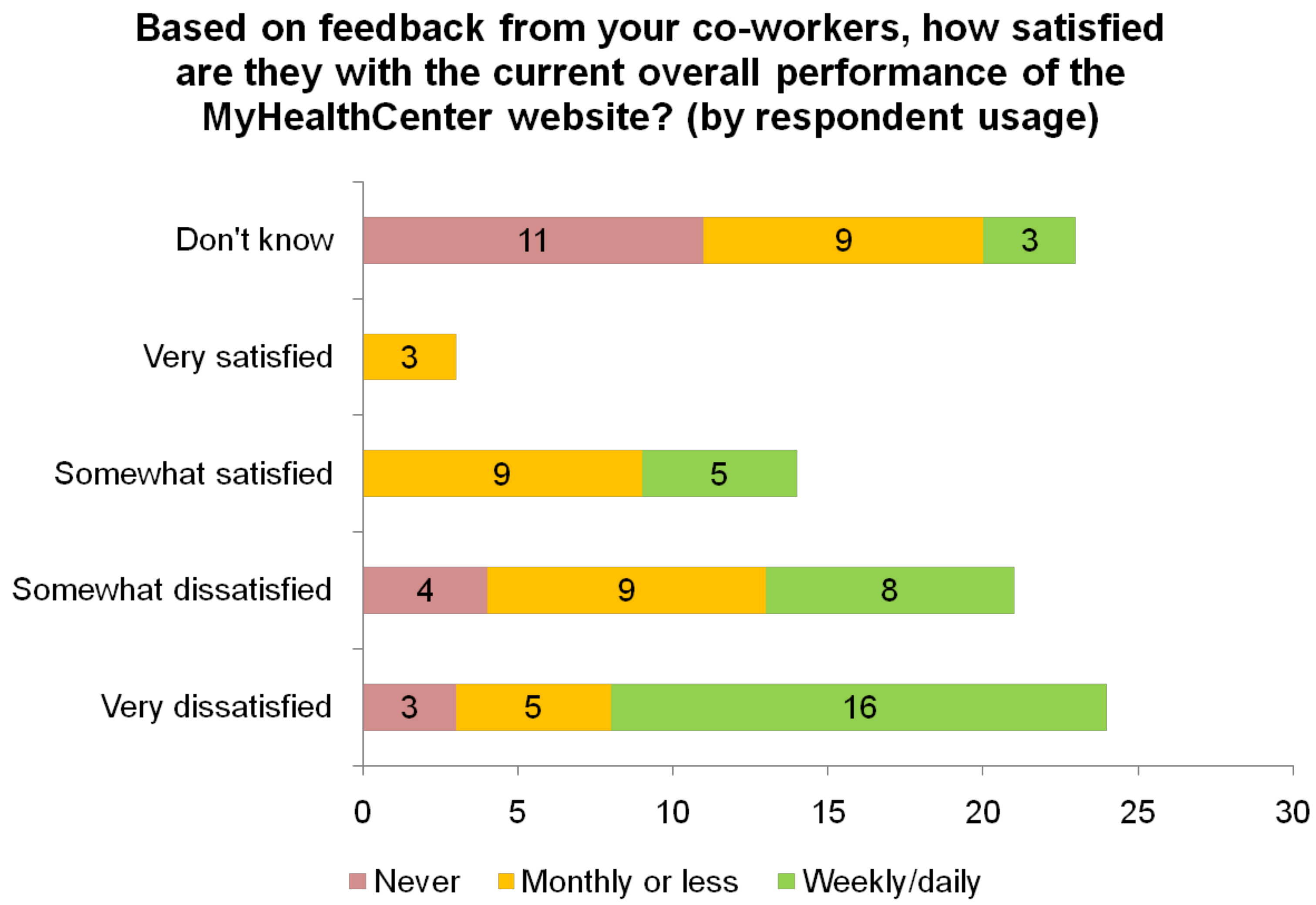
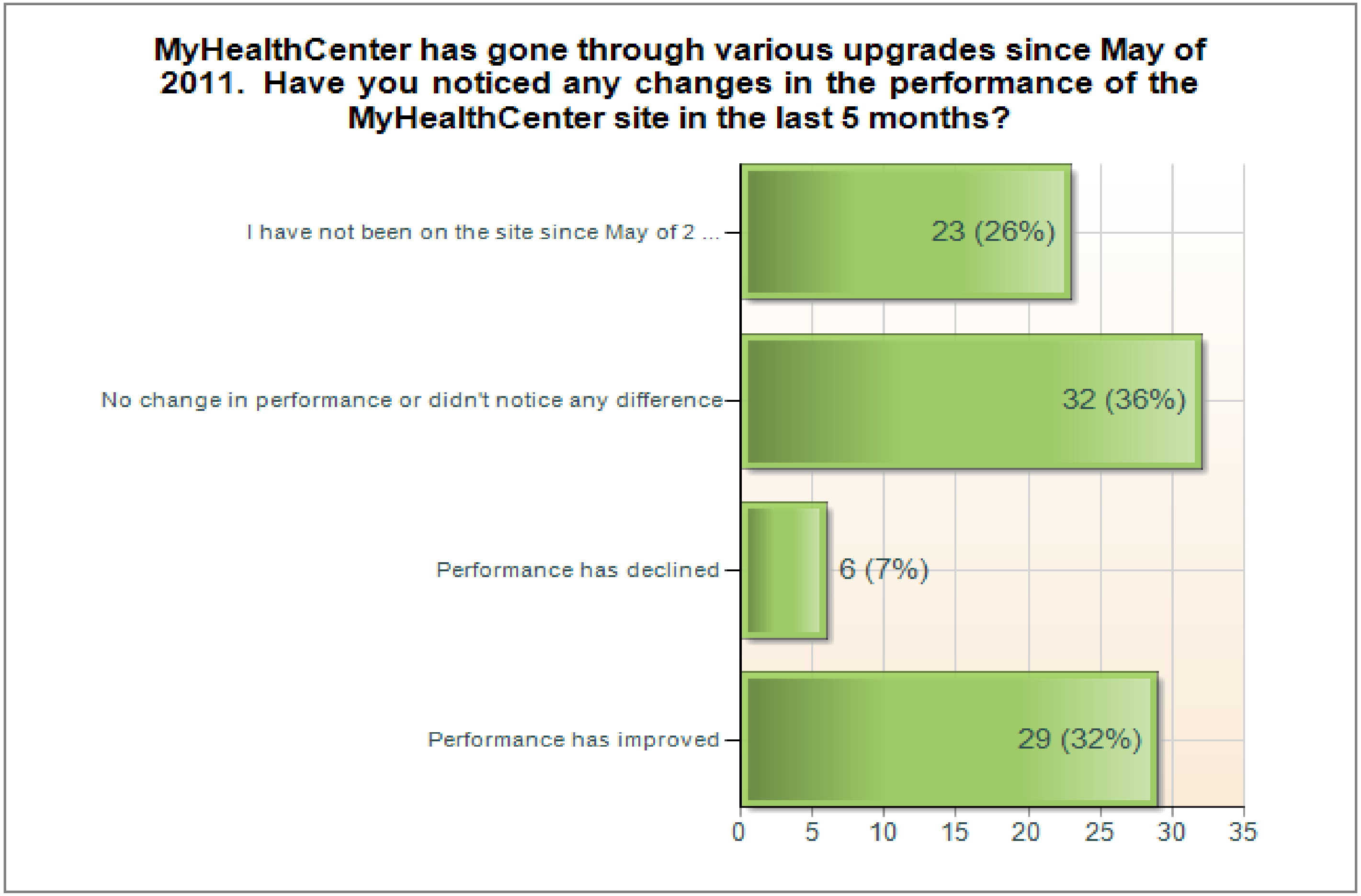


MyHealthCenterSatisfaction Survey: MyHealthCenter has gone through various upgrades since May of 2011. Have you noticed any changes in the performance of the MyHealthCenter site in the last 5 months?



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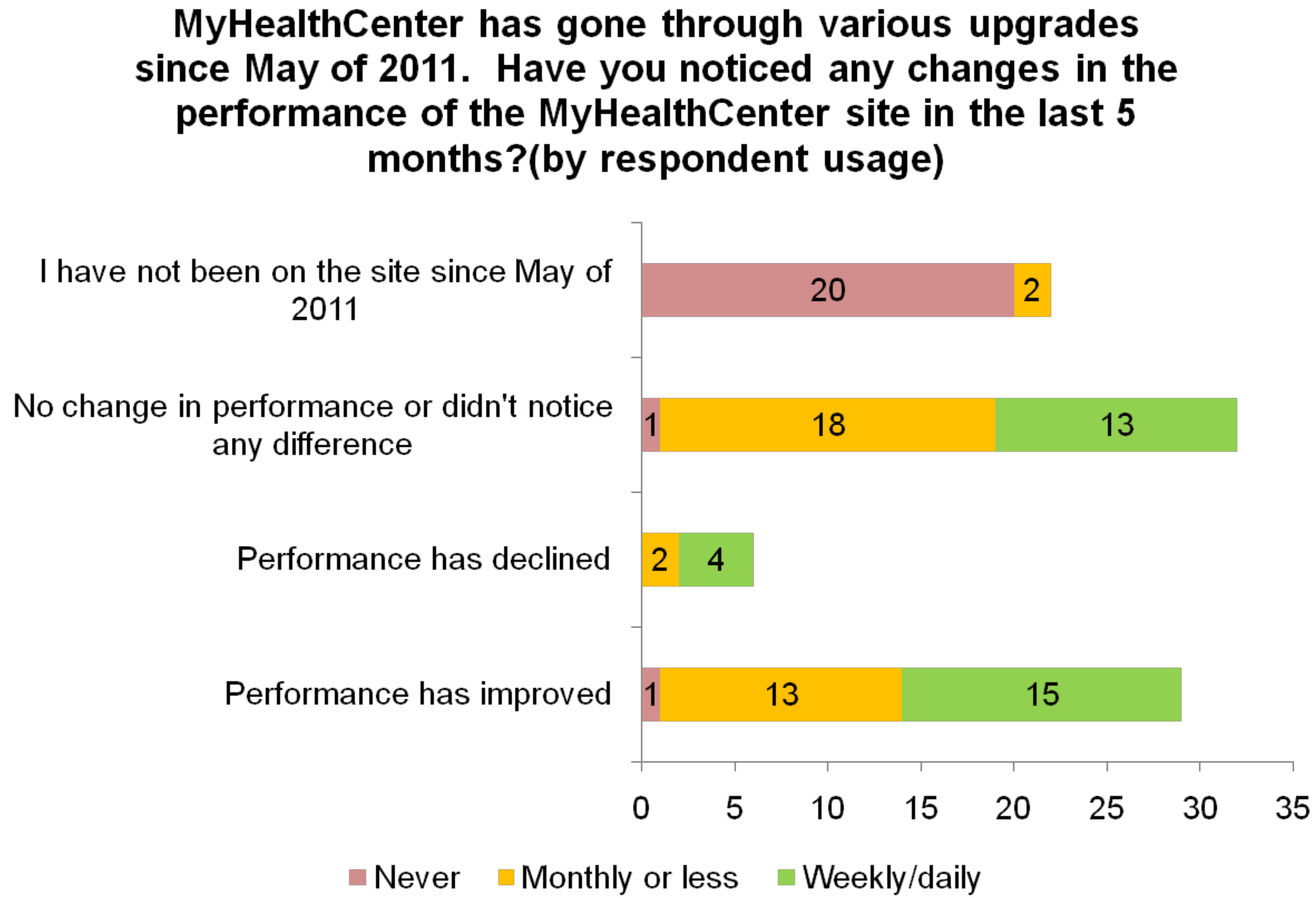
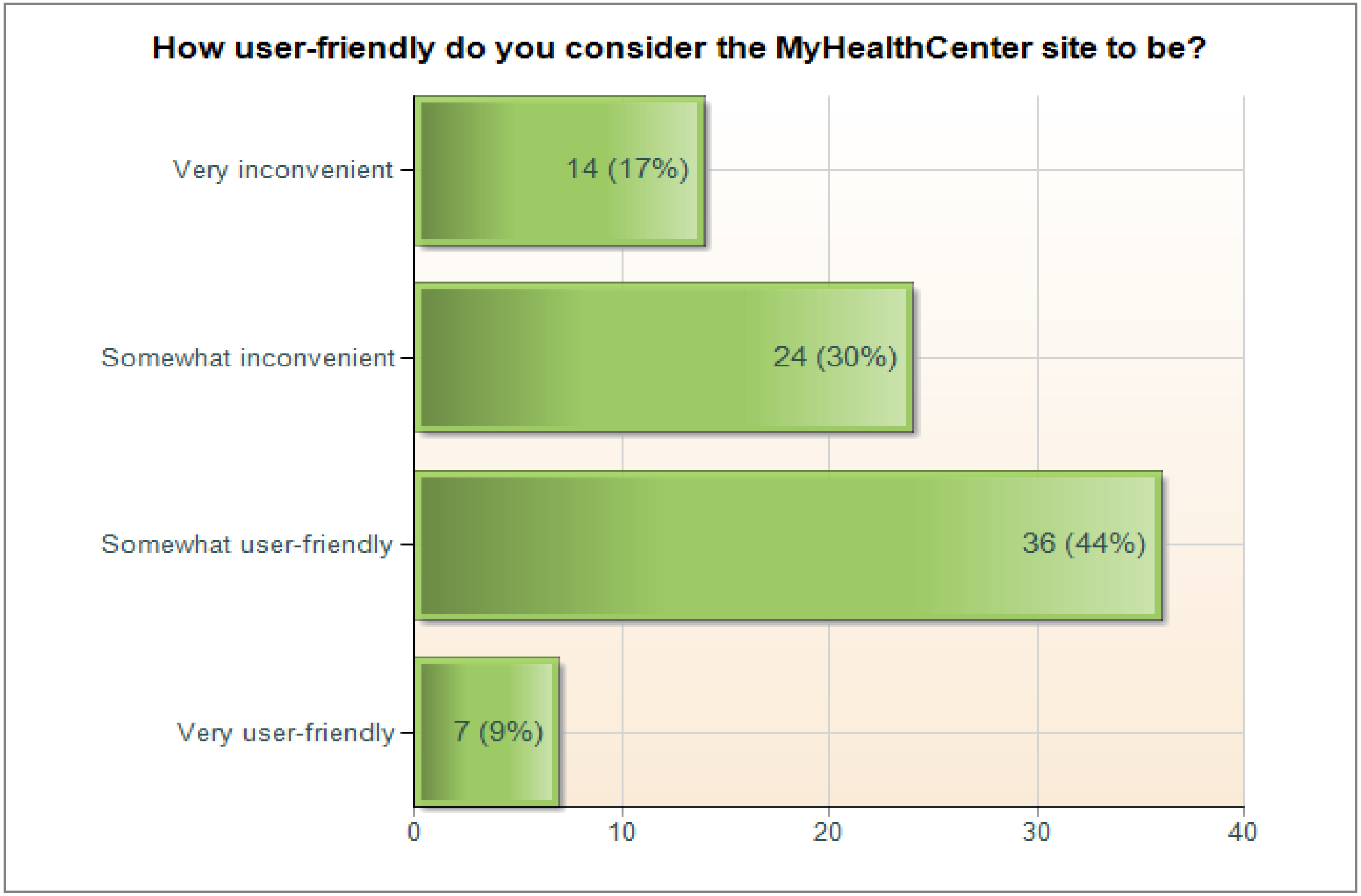


MyHealthCenterSatisfaction Survey: How user-friendly do you consider the MyHealthCenter site to be?



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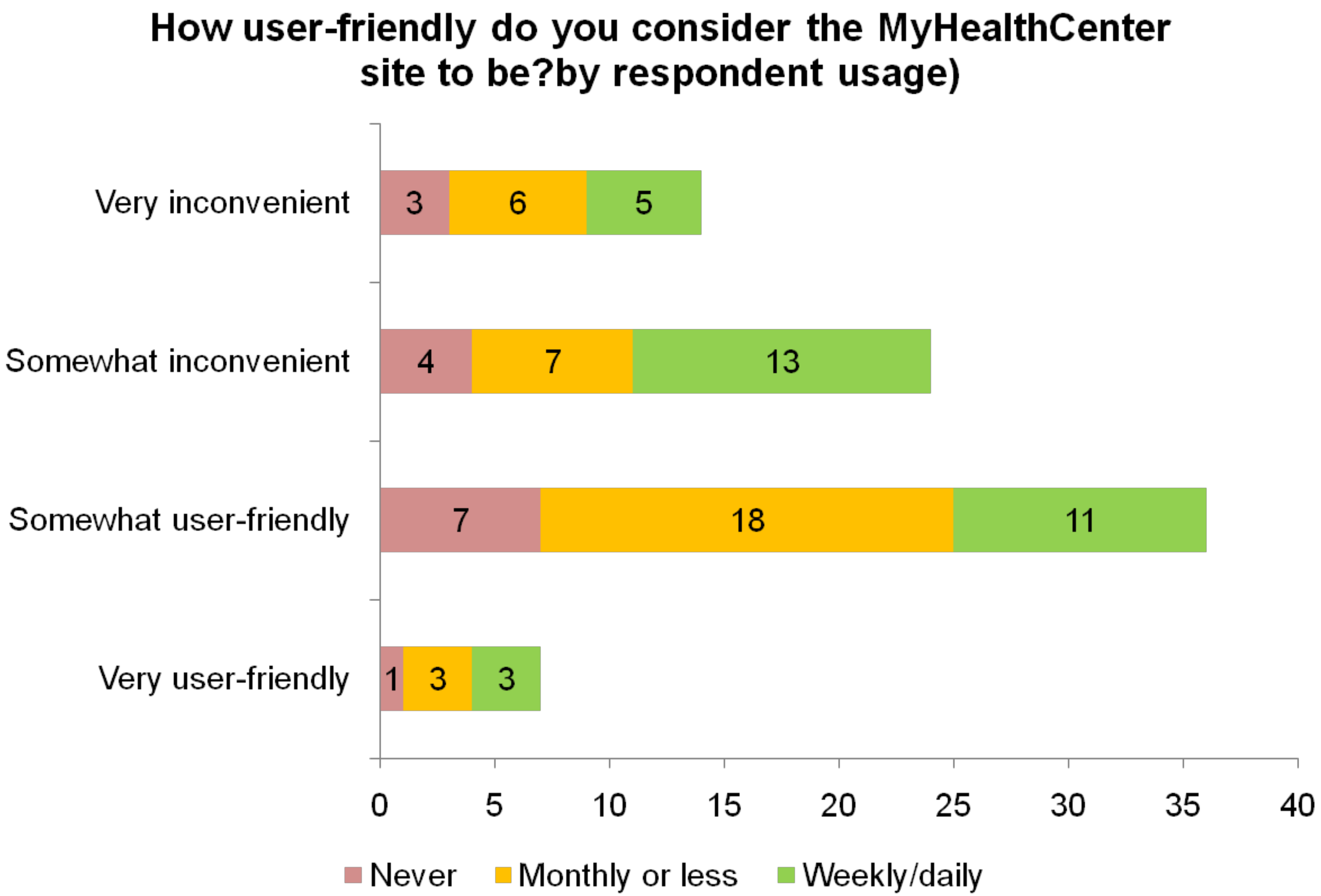

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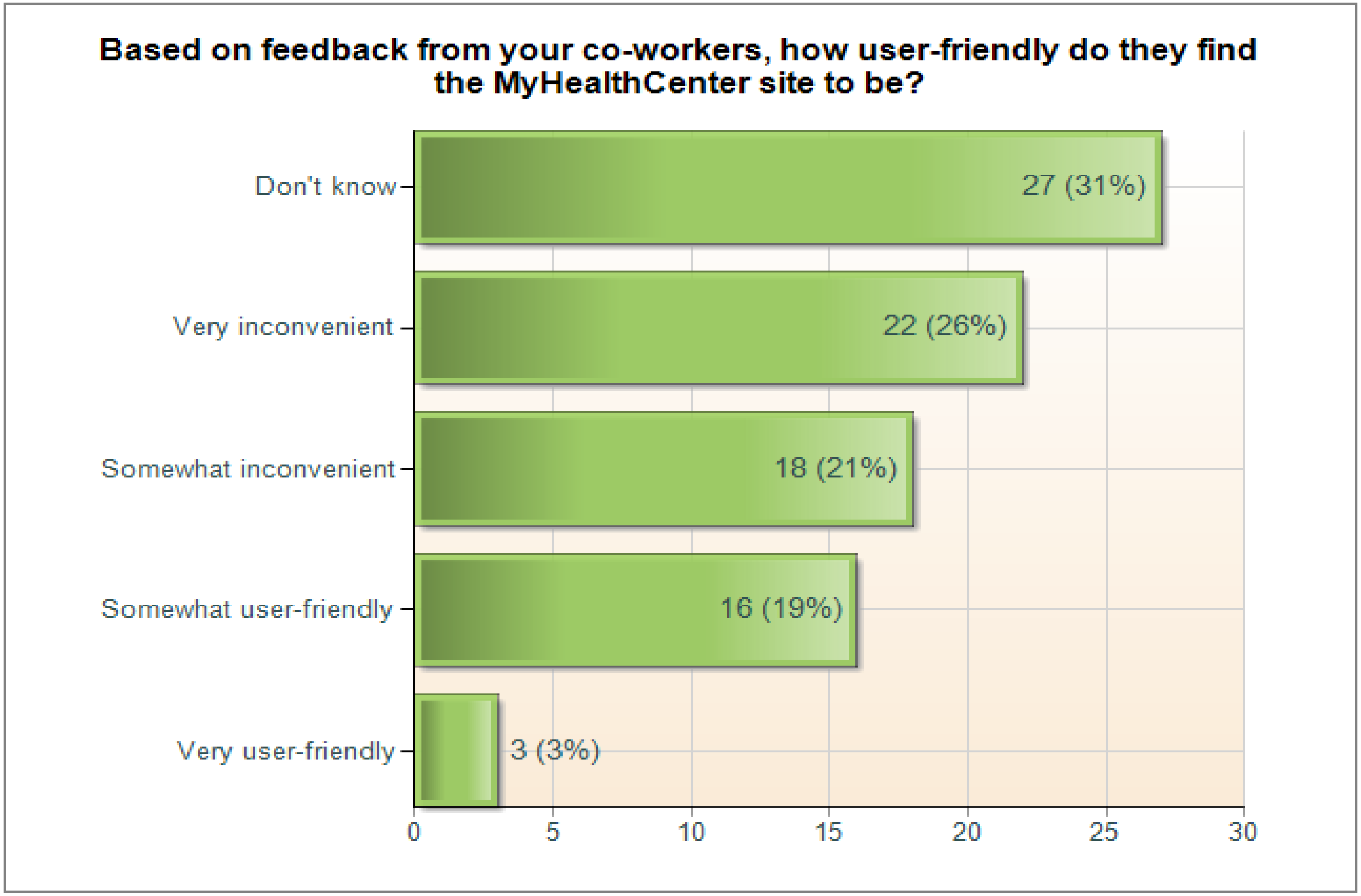

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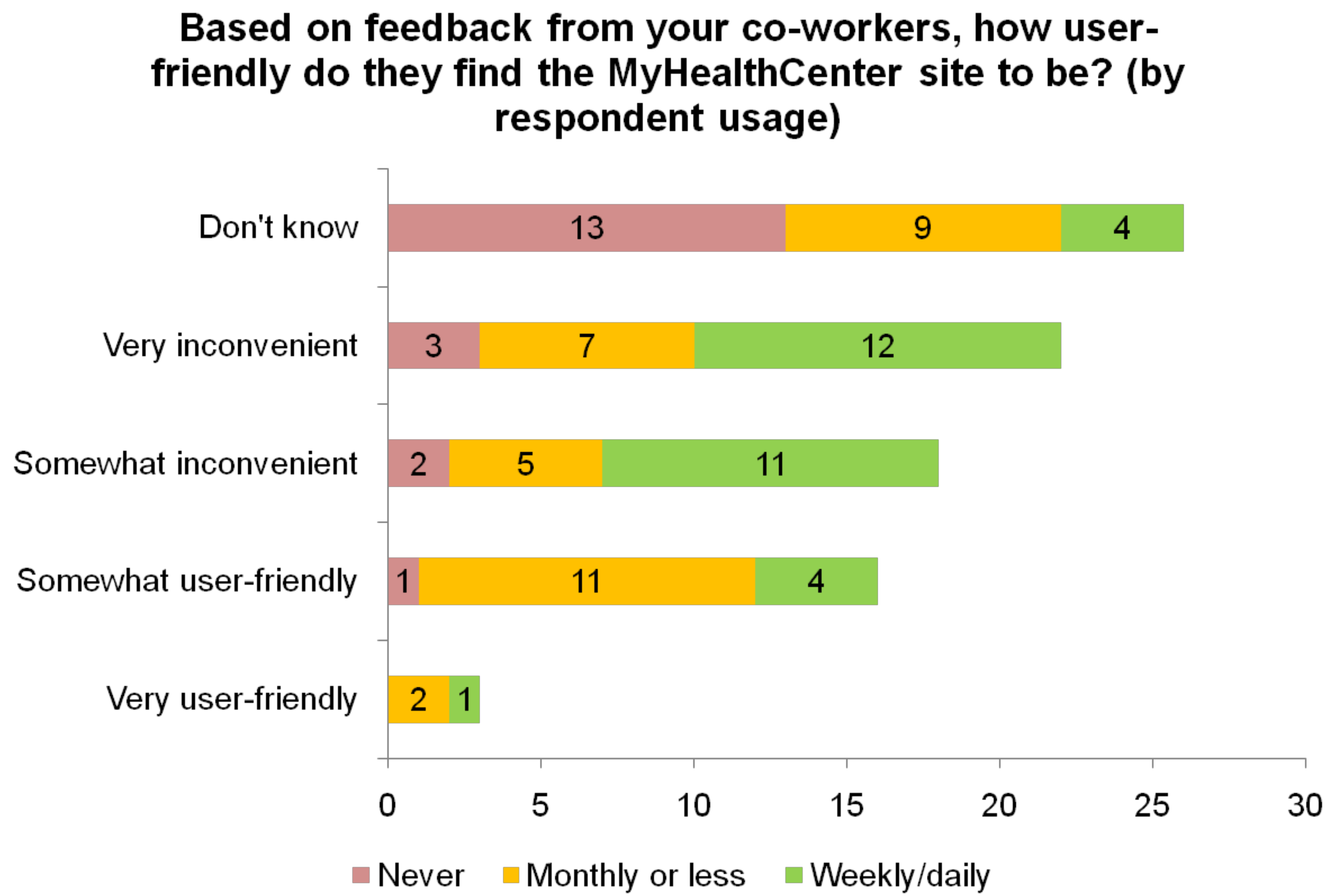
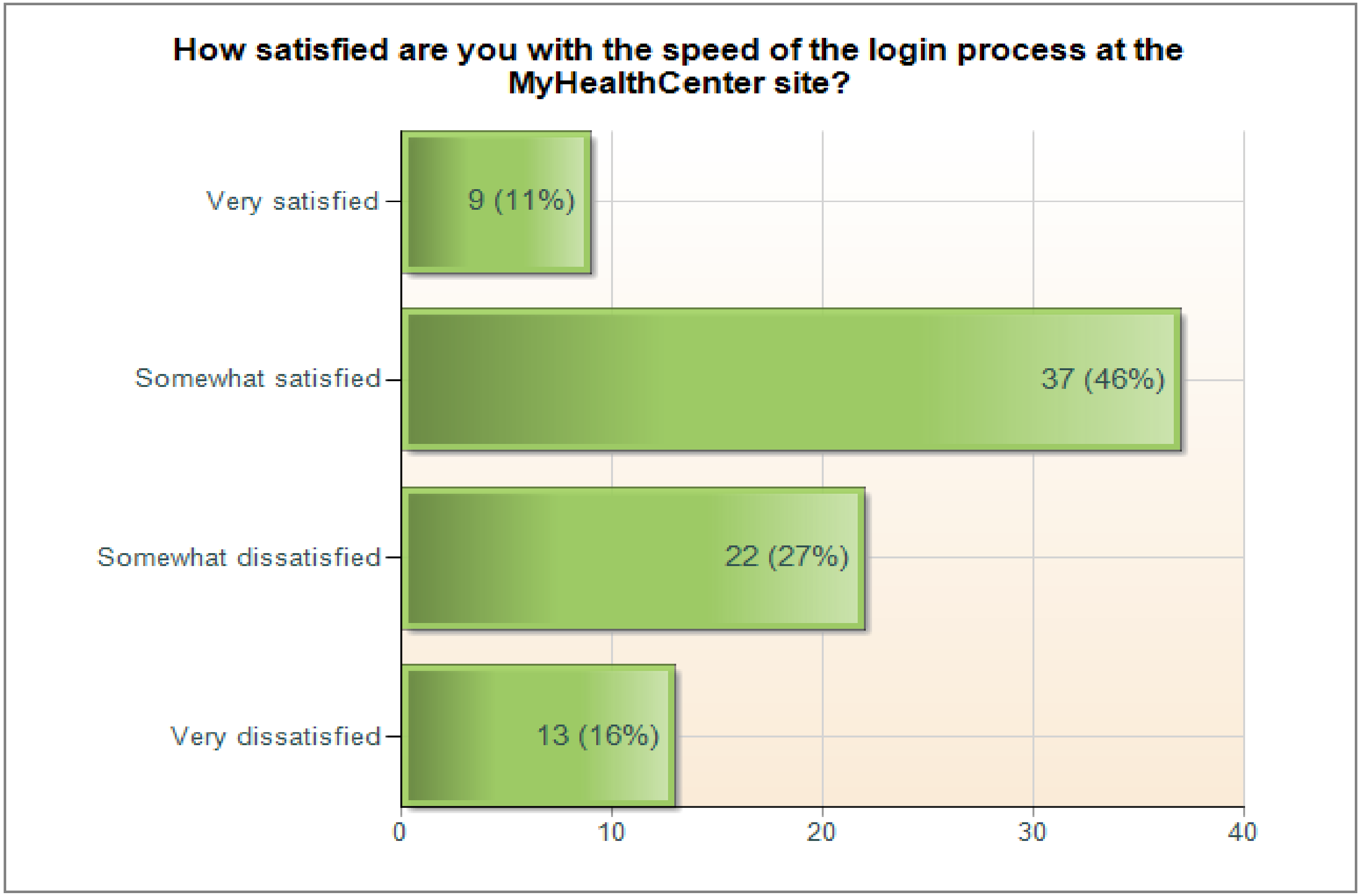


MyHealthCenterSatisfaction Survey: How satisfied are you with the speed of the login process at the MyHealthCenter site?



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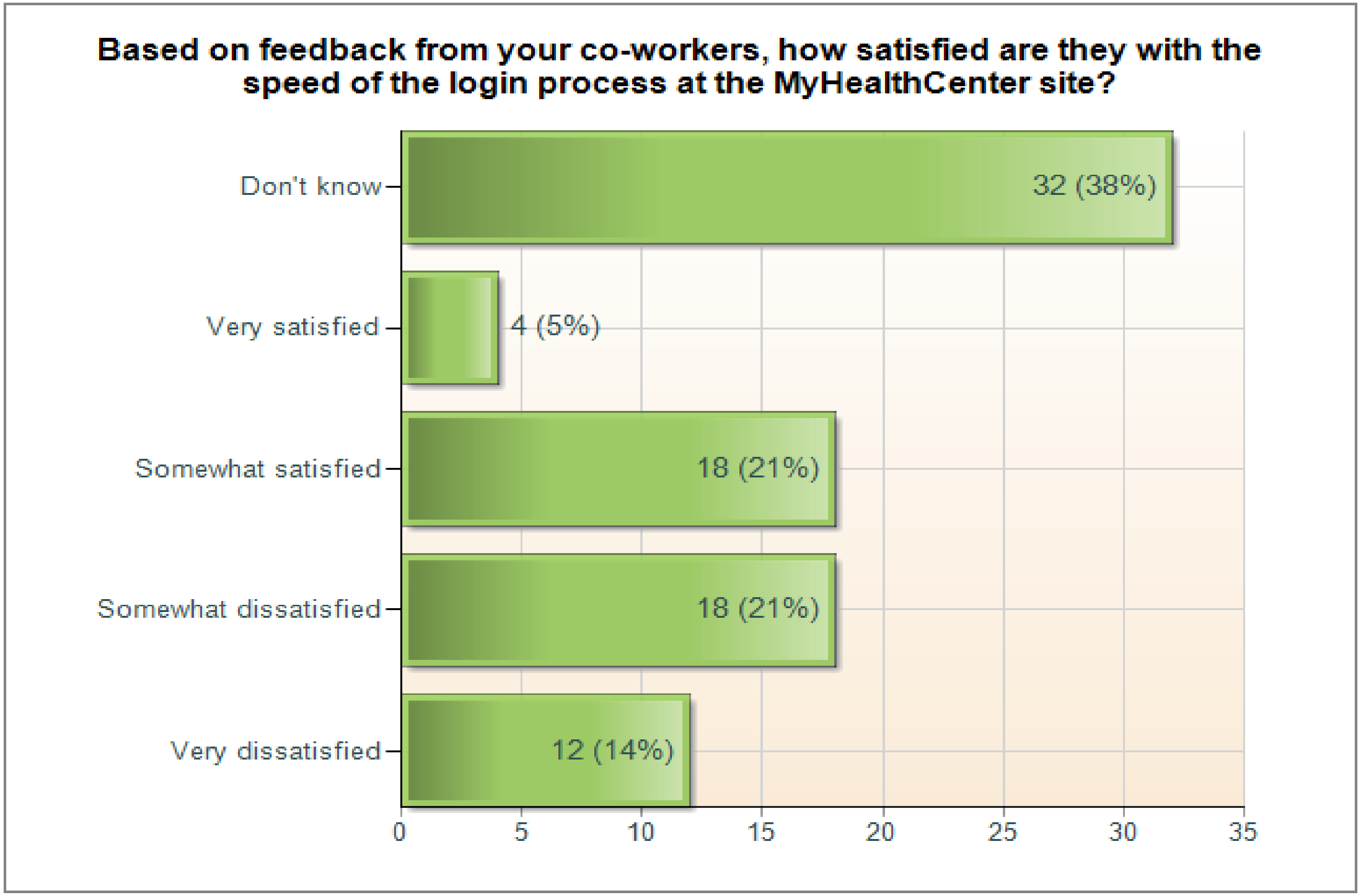

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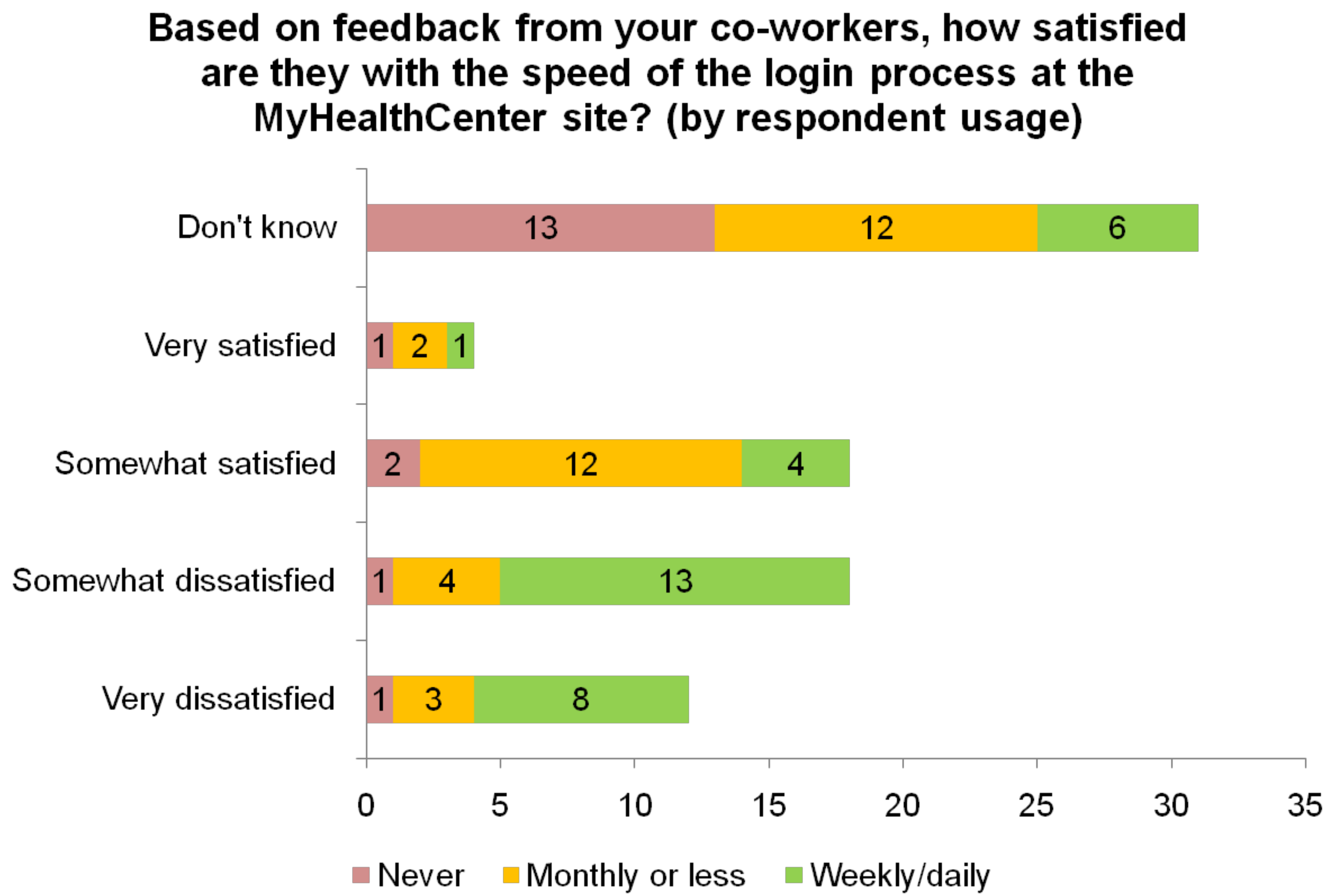
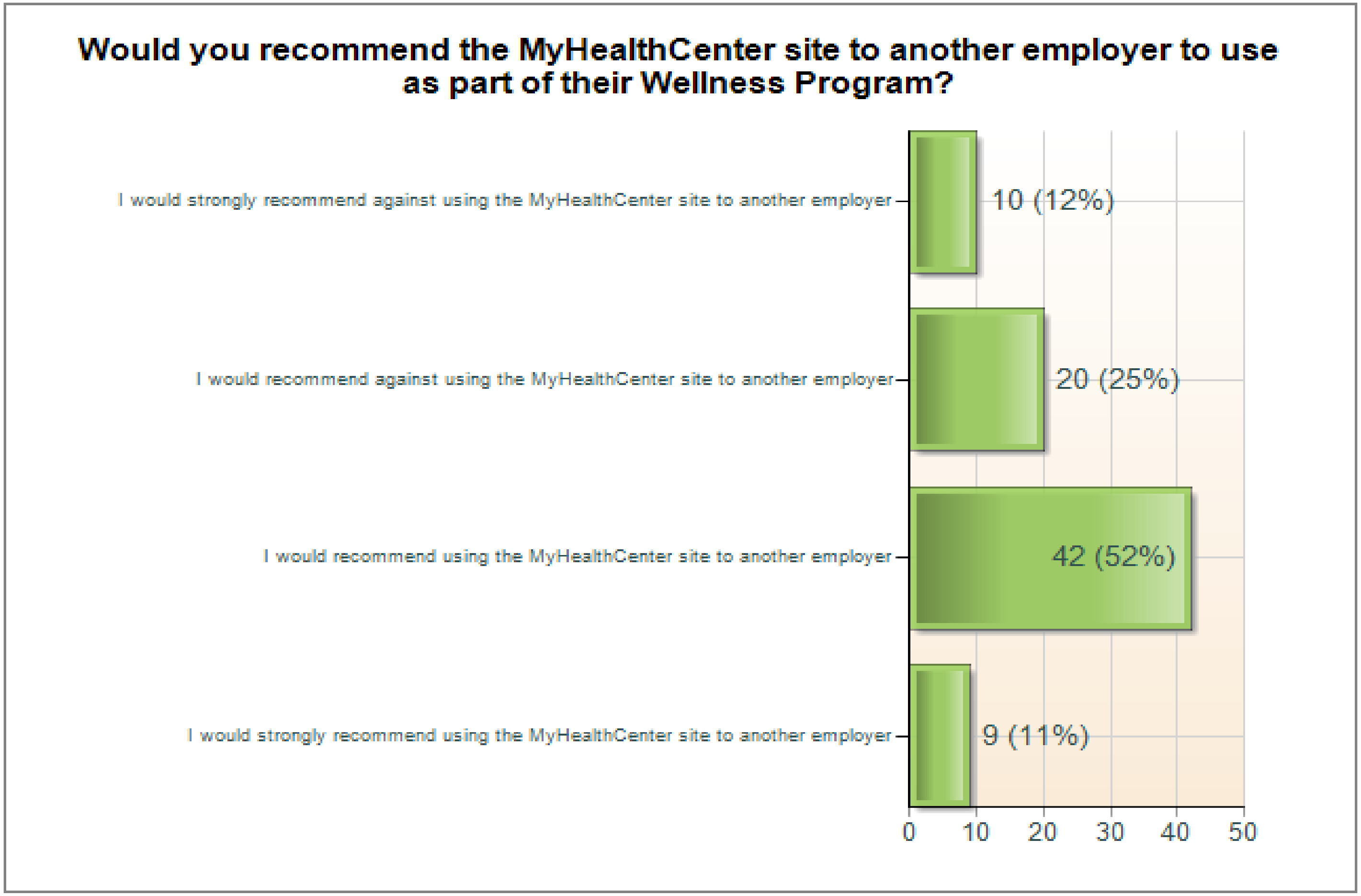


MyHealthCenterSatisfaction Survey: Would you recommend the MyHealthCenter site to another employer to use as part of their Wellness Program?



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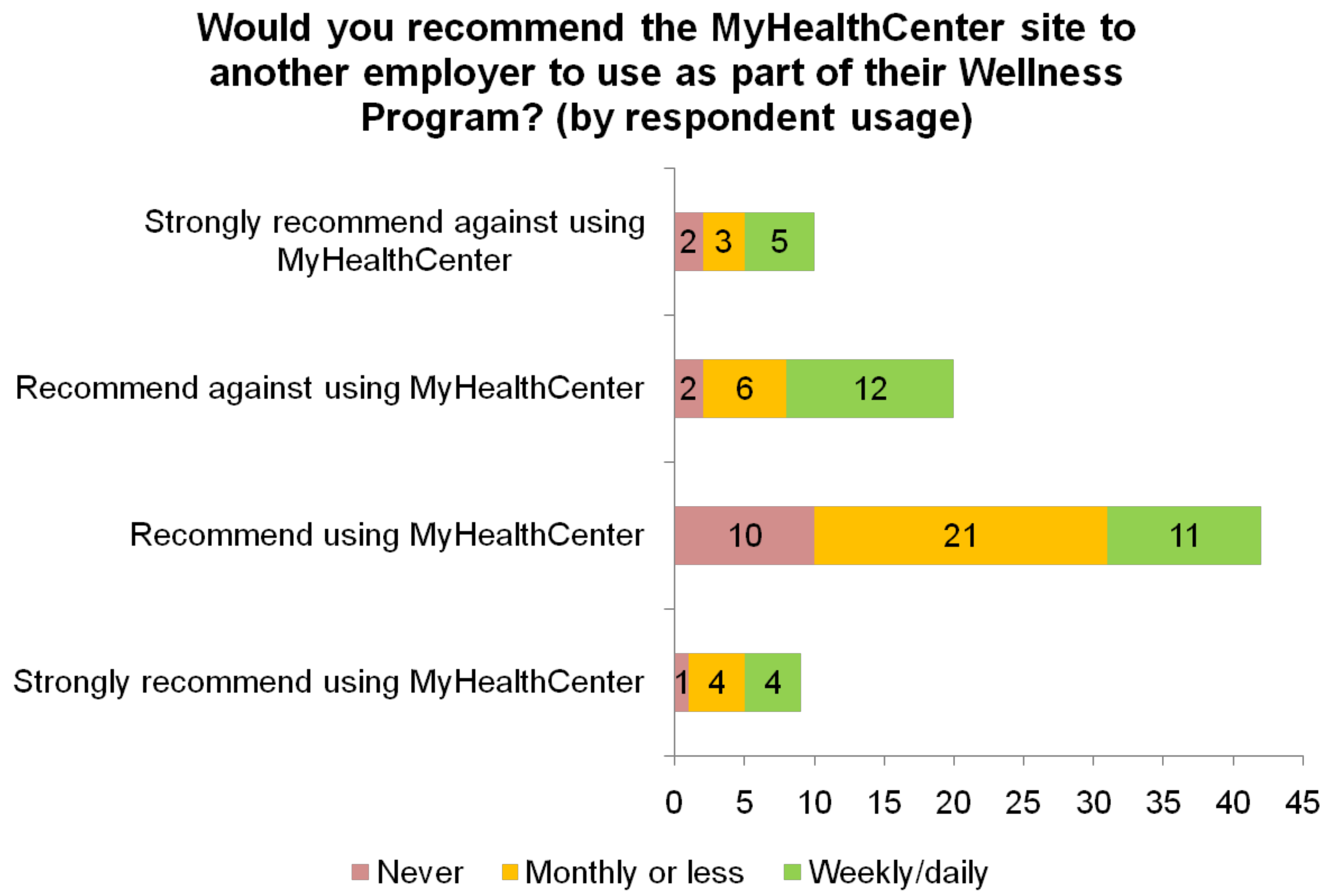

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: Quarterly Executive Summary

Attached is the Quarterly Executive Summary from BCBS. Representatives of BCBS will be at the next meeting to review the report and answer questions.

North Dakota
Public Employees Retirement System
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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: Memorandums of Understanding

Attached are three Memorandums of Understanding (MOU's). These MOU's are intended to document three additional tasks we have asked BCBS to assist us with as part of the health plan. These three tasks are:

1. The Wellness Program
2. The Tobacco Cessation Program
3. The Rx Disease Management Program

During the last biennium we approved similar MOU's. At the last meeting we reviewed these and suggested changes were offered to the RX and Wellness MOU's. These changes are underlined.

<u>Board Action Requested</u>

To approve the MOU's as amended.

PHARMACY DISEASE MANAGEMENT PROGRAM AGREEMENT

THIS PHARMACY DISEASE MANAGEMENT PROGRAM AGREEMENT (PDM Agreement), is entered into this 1st day of July, 2011, by and between the North Dakota Public Employees Retirement System (NDPERS), a public agency created under North Dakota state law, and Blue Cross Blue Shield of North Dakota (BCBSND), a North Dakota nonprofit mutual insurance company, located at 4510 13^{th} Avenue South, Fargo, North Dakota.

RECITATIONS:

WHEREAS, during the 2007 North Dakota legislative session, House Bill 1433 was passed and enacted into law. House Bill 1433 allows pharmacists and other qualified North Dakota health care providers to provide “disease state management” (DSM) to North Dakota public employees that suffer from chronic diseases and specifically have diabetes; and

WHEREAS, The North Dakota Pharmacy Service Corporation wants to offer a disease state management program of diabetes through delivery of services and support to individual North Dakota public employees (NDPERS Members) that have a chronic disease identified as diabetes (Type 1 or Type 2). To this end, the North Dakota Pharmacy Service Corporation desires to implement a program to increase access to health care, redefine how services are delivered, increase the participants’ knowledgebase regarding their disease, increase the quality of life for participants, improve overall health status and medication adherence for their participants, and reduce health care costs on multiple levels for numerous interest groups; and

WHEREAS, the North Dakota Pharmacy Service Corporation in collaboration with the North Dakota Pharmacists Association, the North Dakota Society of Health-System Pharmacists, and North Dakota State University College of Pharmacy, Nursing and Allied Sciences, proposed an acting model to extend such disease management program to NDPERS Members; and

WHEREAS, NDPERS is interested in offering the services proposed by the acting model to NDPERS Members and reimbursing the North Dakota Pharmacy Service Corporation for the costs of administering this program out of the NDPERS reserve fund currently held in trust by BCBSND; and

WHEREAS, as it relates to this acting model diabetes disease management program, NDPERS is desirous of entering into this PDM Agreement to sponsor and extend the disease management program with BCBSND to administer certain facets of the program on behalf of NDPERS, including certain reporting requirements, program promotion, and cost reconciliation for the administration of the program based on the responsibilities of BCBSND in relation to its management of the NDPERS group health plan and the program objectives for monitoring and containing health care; and

WHEREAS, because BCBSND is contracted with NDPERS to provide health care benefits to NDPERS Members (as defined by the Administrative Services Agreement between NDPERS and BCBSND) (ASA Agreement), NDPERS has determined that BCBSND is best positioned to act as its agent in the administration of the diabetes disease management program.

NOW, WHEREFORE, in recognition of the mutual promises herein contained and for other good and valuable consideration hereby acknowledged by the parties hereto, NDPERS and BCBSND agree to the following.

I. RECOGNIZING THE PHARMACY DISEASE MANAGEMENT PROGRAM.

BCBSND acknowledges and agrees that it has reviewed the diabetes disease management program established through the enactment of House Bill 1433 and that the program as outlined provides services consistent with the wellness initiative reflected in the Administrative Services Agreement between BCBSND and NDPERS. BCBSND agrees that this program was extended through the 2011 legislative session and should remain in force through the next biennium.

II. TERM.

This PDM Agreement shall begin on July 1, 2011, and shall extend to June 30, 2013.

III. SCOPE OF PROGRAM.

The duties and responsibilities of BCBSND in furtherance of the diabetes disease management program as outlined in this PDM Agreement shall be limited in nature as specifically set forth herein.

IV. FEES.

As a result of the responsibilities assigned to BCBSND under the terms of this PDM Agreement, BCBSND shall be paid a program promotion fee equal to its actual costs for its development and implementation of a plan to promote the diabetes disease management program contemplated through this PDM Agreement.

V. REPORTING. BCBSND agrees to provide the following reports:

A. Covered Drug List. A covered drug list with established criteria related to drugs by class.

B. NDPERS Member Eligibility List. A database to identify those NDPERS Members who appear to be eligible for the diabetes disease management program based on criteria developed and provided by NDPERS and/or its vendor, and on a monthly basis track those NDPERS Members eligible for the diabetes disease management program during the term of this PDM Agreement.

C. Co-Pay Report. A quarterly co-pay report that NDPERS and/or its vendor can use to reconcile appropriate co-pays incurred by eligible NDPERS Members to facilitate incentive payments under the diabetes disease management program, including coinsurance for diabetic testing supplies. BCBSND agrees to work with NDPERS to develop a reporting format that can be used by NDPERS and/or its vendor in administering the diabetes disease management program.

VI. PROMOTION.

<u>Upon request and subject to approval by the NDPERS Board of Directors</u>, BCBSND will provide promotional support for the diabetes disease management program services which may include but not be limited to agency notes, paycheck stuffers, e-mail notices, posters, and notices to home addresses to be distributed at periodic intervals throughout the term of this PDM Agreement. BCBSND shall be reimbursed its costs for these promotional activities and materials.

VII. PAYMENT RECONCILIATION.

Program costs such as provider payments, copay/coinsurance reimbursements and promotional charges are funded through the NDPERS cash reserve account maintained by BCBSND after authorization from NDPERS.

VIII. OTHER TERMS AND CONDITIONS.

The parties to this PDM Agreement acknowledge, understand and agree that the terms of the Administrative Services Agreement in place between NDPERS and BCBSND, including but not limited to terms that specifically relate to the administration, cancellation, termination and payment terms, are hereby incorporated into this PDM Agreement and applicable to this PDM Agreement related to the diabetes disease management program as if fully incorporated herein.

IX. GENERAL PROVISIONS.

The following general conditions, covenants and obligations apply equally to both NDPERS and BCBSND under the terms of this PDM Agreement.

Time is of the Essence. Time is of the essence of each provision of this entire PDM Agreement and all of its terms and conditions.

Notice. Any notice required or permitted under the terms of this PDM Agreement shall, in all cases, be construed under the notice provision in the ASA Agreement.

Assignment. No party may assign this PDM Agreement, or any of the obligations or duties mandated under the terms of this PDM Agreement, without the prior written consent of the other parties hereto.

Waiver. No delay or omission by any party to exercise any right or power under the terms of this PDM Agreement shall preclude the exercise of such right or power in subsequent instances or be construed to be a waiver thereof. A waiver by any party hereto of any of the covenants to be performed by any other party shall not be construed to be a waiver of any covenant herein contained, and the waiver of any breach of covenant shall not be construed to be a waiver of any succeeding breach thereof.

Modification. Any modification of this PDM Agreement or additional obligations assumed by any party in connection with this PDM Agreement shall be binding only if evidenced in writing and signed by each party or an authorized representative of each party hereto.

Counterparts. This PDM Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

Recitals and Paragraph Headings. The recitals to this PDM Agreement are deemed to be an expression of the intent of the parties hereto, and to the extent the recitals create any duties for or obligations on the parties to this PDM Agreement, such recitals are deemed to be a part of the PDM Agreement. The titles to the paragraphs of this PDM Agreement are solely for the convenience of the parties and shall not be used to explain, modify, simplify or aid in the interpretation of this PDM Agreement.

Binding Effect. This PDM Agreement is binding on the parties hereto, and to their successors and assigns, including any parent or subsidiary corporation.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this PDM Agreement as of the date first written above.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)
PO Box 1657
Bismarck, ND 55416

____
Name Date

____
Title

BLUE CROSS BLUE SHIELD OF NORTH DAKOTA (BCBSND)
4510 13th Avenue South
Fargo, ND 58121-0001

____
Paul von Ebers Date
President and CEO

NDPERS WELLNESS BENEFIT PROGRAM AGREEMENT

THIS NDPERS WELLNESS BENEFIT PROGRAM AGREEMENT (Wellness Agreement), is entered into this 1st day of July, 2011, by and between the North Dakota Public Employees Retirement System (NDPERS), a public agency created under North Dakota state law, and Blue Cross Blue Shield of North Dakota (BCBSND), a North Dakota nonprofit mutual insurance company, located at 4510 13th Avenue South, Fargo, North Dakota.

RECITATIONS:

WHEREAS, the state of North Dakota, acting through NDPERS, and BCBSND, in an effort to create healthier lifestyles for NDPERS Members (as defined by the Administrative Services Agreement between the parties) (ASA Agreement) and to help contain health care costs, desire to promote, support and sponsor health and wellness initiatives; and

WHEREAS, pursuant to this Wellness Agreement, NDPERS and BCBSND have agreed to establish a Wellness Benefit Program related to health and wellness promotion for NDPERS Members subject to this Wellness Agreement; and

WHEREAS, the Wellness Benefit Program created through this Wellness Agreement between BCBSND and NDPERS anticipates there will be costs and fees associated with supporting such health and wellness programs provided to NDPERS Members and to be administered through this agreement with BCBSND.

NOW, WHEREFORE, in recognition of the mutual promises herein contained and for other good and valuable consideration hereby acknowledged by the parties hereto, NDPERS and BCBSND agree to the following.

I. TERM.

The Wellness Benefit Program shall be effective from July 1, 2011 through June 30, 2013.

II. FUNDING.

The parties acknowledge, understand and agree that funding for the benefits and services extended through this Wellness Agreement shall be taken from the NDPERS cash reserve account maintained by BCBSND.

NDPERS agrees to pay costs associated with the benefits and services extended under this Wellness Agreement to BCBSND.

Program related activities will be reimbursed based on the following schedule:

Calculation 1: 100% of the first $500 or actual program expenses, whichever is less, plus 75% of actual expenses in excess of $500 to a maximum benefit of $1,000,

OR

Calculation 2: $2.00 multiplied by the number of health contracts.

The Wellness Committee will use the calculation that provides the best benefit to the state agency or political subdivision based on actual program expenses. The state agency or political subdivision will be responsible for expenses that exceed the maximum benefit allowed under either calculation method.

The parties acknowledge, understand and agree that the fees and charges provisions of the ASA Agreement currently existing between the parties, including fees set forth for various wellness programs as approved and funded, are subject to specific funding provisions as set forth between the parties and as available, and are not subject to the final accounting provisions contained in the Administrative Services Agreement.

III. OTHER TERMS AND CONDITIONS.

Applications for approval of benefits and services under the Wellness Benefit Program shall be submitted to the Bismarck NDPERS office to the attention of the Wellness Benefit Program Manager by each agency interested in establishing such a program.

A Wellness Committee shall be established to review any such applications submitted. The Wellness Committee shall be comprised of: two (2) NDPERS staff members, and one (1) BCBSND staff member. Upon appointment, the Wellness Committee shall establish criteria to ensure a uniform basis upon which it may grant or deny each agency application. Wellness benefits or healthy lifestyle programs, such as smoking cessation, nutrition, exercise, stress management, weight control, wellness education and the number of people affected by each program will be taken into consideration and shall be part of the criteria established by the Wellness Committee.

The applying agency will be notified by the Wellness Committee within thirty (30) days of application of the approval or denial of the proposed program.

Funds may either be distributed directly to the applying agency or, preferably, paid directly to the vendor providing said service or facilitating said Wellness Benefit Program.

All funds distributed shall be for Wellness Benefit Programs completed within the current 2011-2013 biennium budget.

Funds are available for agency group activities only and will not be available to specific individuals or to fund specific individual memberships in diet programs or health, athletic or fitness clubs.

Applying agencies that receive funds for a Wellness Benefit Program are required to submit to the Wellness Committee an evaluation of the sponsored program after its completion. The Wellness Committee will communicate an outline of the program funded and an evaluation of said program to all state agencies and encourage participation in those programs showing positive results in wellness and healthy lifestyle habits.

IV. GENERAL PROVISIONS.

The following general conditions, covenants and obligations apply equally to both NDPERS and BCBSND under the terms of this Wellness Agreement.

Time is of the Essence. Time is of the essence of each provision of this entire Wellness Agreement and all of its terms and conditions.

Notice. Any notice required or permitted under the terms of this Wellness Agreement shall, in all cases, be construed under the notice provision in the ASA Agreement.

Assignment. No party may assign this Wellness Agreement, or any of the obligations or duties mandated under the terms of this Wellness Agreement, without the prior written consent of the other parties hereto.

Waiver. No delay or omission by any party to exercise any right or power under the terms of this Wellness Agreement shall preclude the exercise of such right or power in subsequent instances or be construed to be a waiver thereof. A waiver by any party hereto of any of the covenants to be performed by any other party shall not be construed to be a waiver of any covenant herein contained, and the waiver of any breach of covenant shall not be construed to be a waiver of any succeeding breach thereof.

Modification. Any modification of this Wellness Agreement or additional obligations assumed by any party in connection with this Wellness Agreement shall be binding only if evidenced in writing and signed by each party or an authorized representative of each party hereto.

Counterparts. This Wellness Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

Recitals and Paragraph Headings. The recitals to this Wellness Agreement are deemed to be an expression of the intent of the parties hereto, and to the extent the recitals create any duties for or obligations on the parties to this Wellness Agreement, such recitals are deemed to be a part of the Wellness Agreement. The titles to the paragraphs of this Wellness Agreement are solely for the convenience of the parties and shall not be used to explain, modify, simplify or aid in the interpretation of this Wellness Agreement.

Binding Effect. This Wellness Agreement is binding on the parties hereto, and to their successors and assigns, including any parent or subsidiary corporation.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this Wellness Agreement as of the date first written above.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)
PO Box 1657
Bismarck, ND 55416

____
Name Date

____
Title

BLUE CROSS BLUE SHIELD OF NORTH DAKOTA (BCBSND)
4510 13th Avenue South
Fargo, ND 58121-0001

____
Paul von Ebers Date
President and CEO

TOBACCO CESSATION PROGRAM AGREEMENT

THIS TOBACCO CESSATION PROGRAM AGREEMENT (TCP Agreement), is entered into this 1st day of July, 2011, by and between the North Dakota Public Employees Retirement System (NDPERS), a public agency created under North Dakota state law, and Blue Cross Blue Shield of North Dakota (BCBSND), a North Dakota nonprofit mutual insurance company, located at 4510 13th Avenue South, Fargo, North Dakota.

RECITATIONS:

WHEREAS, the state of North Dakota, acting through the Department of Health, has received an appropriation from the state legislature in the amount of $100,000 for the purpose of funding employee tobacco education and cessation programs for state employees; and

WHEREAS, as it relates to this appropriation, the Department of Health has determined that NDPERS is to sponsor this tobacco cessation program based on its responsibilities related to the management of the group health plan and the program objectives for monitoring and containing health care; and

WHEREAS, because BCBSND is contracted with NDPERS to provide health care benefits to NDPERS Members (as defined by the Administrative Services Agreement between NDPERS and BCBSND) (ASA Agreement), NDPERS has determined that BCBSND is to act as the administrator of the tobacco cessation program.

NOW, WHEREFORE, in recognition of the mutual promises herein contained and for other good and valuable consideration hereby acknowledged by the parties hereto, NDPERS and BCBSND agree to the following.

I. RECOGNIZING THE TOBACCO CESSATION PROGRAM.

BCBSND acknowledges and agrees that it has reviewed the tobacco cessation program grant documents and that the program as outlined in the grant documents provides services consistent with the wellness initiative reflected in the Administrative Services Agreement between BCBSND and NDPERS.

II. TERM.

This TCP Agreement shall begin on July 1, 2011, and shall extend to June 30, 2013.

III. SCOPE OF PROGRAM.

The tobacco cessation program as outlined in this TCP Agreement shall be made available to state employees and their eligible family members that are at least 18 years of age. An estimate of the total number of eligible employees and family members and those anticipated will participate are outlined in the grant documents.

IV. BENEFITS AVAILABLE.

Tobacco Cessation Benefits pursuant to this TCP Agreement are as follows:

- $200.00 per Member/per Benefit Period for Department of Health approved counseling services if the provider charges for these services.

- $500.00 per Member/per Benefit Period for office visit, prescription drugs and over-the-counter drugs prescribed for tobacco cessation.

- $700.00 is the total amount of expenses available per Member/per Benefit Period under the program.

Each participant is eligible to participate in the tobacco cessation program for a maximum benefit of $700.00 for each 6-month period under the term of this TCP Agreement.

All funds shall be billed by and paid directly to BCBSND. NDPERS will not charge any fees to the tobacco cessation program nor will it administer any funds for the program.

BCBSND shall reimburse providers monthly based on the paper billings submitted by those providers. BCBSND will then submit the total claims received for reimbursement to the Department of Health on a monthly basis. The final invoice for services shall be submitted to the Department of Health no later than July 15, 2013. Funds shall be allocated on a first come first serve basis until all available funds are exhausted. Reimbursement shall be made to BCBSND on a monthly basis based on actual costs accrued by local providers for services provided to eligible state employees and family members plus the administrative fee paid to BCBSND up to a total maximum amount of $100,000.00.

A Member is eligible to participate in the tobacco cessation program during each of four separate benefit periods as follows:

07/01/2011 through 12/31/2011
01/01/2012 through 06/30/2012
07/01/2012 through 12/31/2012
01/01/2013 through 06/30/2013

The tobacco cessation program shall provide a combination of counseling to include initial assessment, physician office visit, nicotine replacement therapy, and prescription medication, if indicated, and follow-up support counseling as necessary by individual, group or telephone.

Re-treatment shall be made available within 6 months and will be the responsibility of the counseling program with reimbursement available on the same basis as during any initial treatment phase.

V. FEES.

As a result of the responsibilities assigned to BCBSND under the terms of the grant documents and this TCP Agreement, BCBSND shall be paid an administrative fee for administering the tobacco cessation program that shall be equal to ten percent (10%) of claims paid to providers to pay costs incurred by BCBSND as program administrator and granting entity. For example, if total claims submitted by the providers are $60,000.00, BCBSND will add a 10% administration fee for a total of $6,000.00.

VI. REPORTING.

BCBSND agrees to provide the following reports:

- Track each patient receiving therapy and level of therapy based on claims data.

- Report every six months to the NDPERS and Department of Health program results and participation rates.

- Work with an independent outside evaluator to evaluate program. Any administrative costs associated with collaborating with the outside consultant in evaluating the program would be borne by the program.

VII. OTHER TERMS AND CONDITIONS.

The parties to this TCP Agreement acknowledge, understand and agree that the terms of the grant award and grant documents in place between the Department of Health, NDPERS and BCBSND, including but not limited to terms that specifically relate to the administration, cancellation, termination and payment terms, are hereby incorporated into this TCP Agreement and applicable to this TCP Agreement related to the tobacco cessation program as if fully incorporated herein.

Moreover, the parties acknowledge, understand and agree that the fees and charges provisions of the Administrative Services Agreement currently existing between the parties, including fees set forth for various wellness programs as approved and funded, are subject to specific funding provisions as set forth between the parties and as available, and are not subject to the final accounting provisions contained in the Administrative Services Agreement.

VIII. GENERAL PROVISIONS.

The following general conditions, covenants and obligations apply equally to both NDPERS and BCBSND under the terms of this TCP Agreement.

Time is of the Essence. Time is of the essence of each provision of this entire TCP Agreement and all of its terms and conditions.

Notice. Any notice required or permitted under the terms of this TCP Agreement shall, in all cases, be construed under the notice provision in the ASA Agreement.

Assignment. No party may assign this TCP Agreement, or any of the obligations or duties mandated under the terms of this TCP Agreement, without the prior written consent of the other parties hereto.

Waiver. No delay or omission by any party to exercise any right or power under the terms of this TCP Agreement shall preclude the exercise of such right or power in subsequent instances or be construed to be a waiver thereof. A waiver by any party hereto of any of the covenants to be performed by any other party shall not be construed to be a waiver of any covenant herein contained, and the waiver of any breach of covenant shall not be construed to be a waiver of any succeeding breach thereof.

Modification. Any modification of this TCP Agreement or additional obligations assumed by any party in connection with this TCP Agreement shall be binding only if evidenced in writing and signed by each party or an authorized representative of each party hereto.

Counterparts. This TCP Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

Recitals and Paragraph Headings. The recitals to this TCP Agreement are deemed to be an expression of the intent of the parties hereto, and to the extent the recitals create any duties for or obligations on the parties to this TCP Agreement, such recitals are deemed to be a part of the TCP Agreement. The titles to the paragraphs of this TCP Agreement are solely for the convenience of the parties and shall not be used to explain, modify, simplify or aid in the interpretation of this TCP Agreement.

Binding Effect. This TCP Agreement is binding on the parties hereto, and to their successors and assigns, including any parent or subsidiary corporation.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this TCP Agreement as of the date first written above.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)
PO Box 1657
Bismarck, ND 55416

____
Name Date

____
Title

BLUE CROSS BLUE SHIELD OF NORTH DAKOTA (BCBSND)
4510 13th Avenue South
Fargo, ND 58121-0001

____
Paul von Ebers Date
President and CEO

North Dakota
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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: HDHP/HSA Update

The annual enrollment closed and we are now receiving the enrollments for the various programs. By December we should be able to report to you the number of members that selected the HDHP/HSA option.

We have established our working committee with Higher Education to review enrollments to make sure a member did not sign up for both the HDHP/HSA and the FSA. Since each campus runs their own flex program, we needed to coordinate this process with them. Higher Education has been very helpful in getting this set up. We will review the enrollments in January once all the information has been entered into the payroll system.

Since our last meeting, a question came up about temporary employees and their eligibility to participate in the HDHP/HSA. I referred the question to Jan who concluded the following:

> *You asked whether the term "state employee" also includes part-time or temporary employees for the purposes of offering the HDHP option in NDCC 54-52.1-18.*
>
> *The first sentence of NDCC 54-52.1-18 can be read to establish to whom the HDHP option must be extended. The first sentence reads:*
>
> *"The board shall develop and implement a high-deductible health plan with a health savings account as an alternative to the plan under section 54-52.1-06."*
>
> *Given the HDHP option is listed as an "alternative" to the plan under NDCC 54-52.1-06, the HDHP option appears to extend to any employees that participate in the 54-52.1-06 plan. NDCC 54-52.1-06 states, in part:*
>
> *"Each department, board, or agency shall pay to the board each month from its funds appropriated for payroll and salary amounts a state contribution in the amount as determined by the primary*

carrier of the group contract for the full single rate monthly premium for each of its eligible employees enrolled in the uniform group insurance program and the full rate monthly premium, in an amount equal to that contributed under the alternate family contract, including major medical coverage, for hospital and medical benefits coverage for spouses and dependent children of its eligible employees enrolled in the uniform group insurance program pursuant to section 54-52.1-07..."

Based upon my review of the statute and our conversation, it is my understanding that the 54-52.1-06 plan only applies to "eligible employees" . NDCC 54-52.1-01 (4) defines an eligible employee as a permanent employee as opposed to a temporary or part-time employee. Specifically, NDCC 54-52.1-01(4) states:

"Eligible employee" means every permanent employee who is employed by a governmental unit, as that term is defined in section 54-52-01. "Eligible employee" includes members of the legislative assembly, judges of the supreme court, paid members of state or political subdivision boards, commissions, or associations, full-time employees of political subdivisions, elective state officers as defined by subsection 2 of section 54-06-01, and disabled permanent employees who are receiving compensation from the North Dakota workforce safety and insurance fund. As used in this subsection, "permanent employee" means one whose services are not limited in duration, who is filling an approved and regularly funded position in a governmental unit, and who is employed at least seventeen and one-half hours per week and at least five months each year or for those first employed after August 1, 2003, is employed at least twenty hours per week and at least twenty weeks each year of employment. For purposes of sections 54-52.1-04.1, 54-52.1-04.7, 54-52.1-04.8, and 54-52.1-11, "eligible employee" includes retired and terminated employees who remain eligible to participate in the uniform group insurance program pursuant to applicable state or federal law.

Therefore, the HDHP option is intended to be available only to "eligible employees" and eligible employees are "permanent" employees for the purposes of administering NDCC 54-52.1-18.

Further, I don't believe the use of the term "state employee" in 54-52.1-18 is intended to expand the scope of persons to whom this plan may be offered. Rather, the designation of "state" in relation to "employee" is used only to distinguish that person from a "political subdivision employee". Differentiating between state and political subdivision employees in NDCC 54-52.1-18 is necessary because political subdivisions are subject to a different time table and potentially a different cost for the HDHP option. For instance, the HDHP option must be made available to state employees by January 1, 2012, while this option may only be offered to political subdivision employees at the boards discretion, after June 30, 2013. Also, the cost of the HDHP for political subdivision employees could vary from that of state employees because the primary plan premium for political subdivisions is set by the board.

Finally, you have indicated to me that this conclusion is not contradicted by the legislative history, as upon PERS review the legislative history did not comment upon extending the HDHP option to temporary or part-time employees.

Therefore, temporary employees are not eligible. This has also raised questions about the eligibility of employees on LOA and FMLA which we are currently reviewing.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: Transition Update

The transition is complete and the blackout has been lifted. The following are some specifics:

1. In my email to you last week I had indicated to you my understanding from TIAA-CREF that the funds came out of the market on Oct 31 and went back in end of the day Nov 1. Since then they have clarified that with the following explanation:

    a. 10/31/11 - Fidelity valuates the NDPERS assets and begins preparation for next day wire to TIAA-CREF.
    b. 11/1/11 - Fidelity wires the NDPERS assets to TIAA-CREF and sends the participant level data. TIAA-CREF invests the assets to the TIAA-CREF Money Market Mutual Fund Retirement Class where assets are held until the Fidelity data is reviewed, tested and confirmed to have been received in good order.
    c. 11/1/11 - Fidelity provides TIAA-CREF with a report of all NDPERS participants who incurred a short term trading fee. TIAA-CREF reimburses the plan for the short term trading fee. TIAA-CREF invests the assets to the TIAA-CREF Money Market Mutual Fund Retirement Class where assets are held until the Fidelity data is reviewed, tested and confirmed to have been received in good order.
    d. 11/3/11 - TIAA-CREF completes the review and testing of the Fidelity data which is determined to be in good order. Transactions are created to apply the accumulations per participant. TIAA-CREF releases all participant level transactions to apply the assets and data to participant accounts using our overnight production run.
    e. 11/4/11 - The blackout is lifted. Participant assets can now be viewed and can be transacted upon online or through the TIAA-CREF call center.
    f. 11/4/11 - Confirmation statements are mailed to each participant. Each participant is mailed a minimum of two confirmation statements. One confirmation statement shows the accumulations per participant that were applied to the TIAA-CREF Money Market Mutual Fund Retirement Class with an 11/1 trade date. A second confirmation statement shows the transfer on 11/3 of the TIAA-CREF Money Market Fund accumulation based on each participant's contribution asset allocation or to the appropriate age based TIAA-CREF Lifecycle Mutual Fund for participants who did not update their contribution allocation information. Participants who were made whole by TIAA-CREF's covering of the short term trading fee received a third confirmation statement.

2. During the transition about 150 members went on line and set up their asset allocation, the remainder were defaulted to the lifecycle fund
3. Attachment #1 is the list of meeting/webinars and the attendance.
4. Since transition we have had some calls from members but overall the volume has not been high.
5. A couple of issues were encountered and include;
    a. 48 members were not able to see their accounts the first day the blackout was lifted, this was corrected by the second day (we did not get any calls on this)
    b. The vesting schedule was not loaded on the DC plan initially, this has been done (we did not get any calls on this)

In the next several weeks we are going to change our orientation from transition efforts to an ongoing operations perspective.

Event Web Display Name - Individual Consultant Sessions	Start Date	End Date	Event Owner	Type	Employer	Capacity	Seats Taken	Waiting List	Openings
JOB SERVICE - DICKINSON - NOVEMBER - SCOTT ROCHE	11/3/2011 8:00	11/3/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	11	1		10
LAKE REGION HUMAN SERVICE CENTER-DEVILS LAKE - NOVEMBER - SCOTT ROCHE	11/1/2011 8:00	11/30/2011 17:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	9		4
NORTHWEST HUMAN SERVICE CENTER - WILLISTON - NOVEMBER - PAUL FULLER	11/1/2011 8:00	11/30/2011 17:00	Fuller	Campus Meeting	NORTH DAKOTA PI	8	2		6
BADLANDS HUMAN SERVICE CENTER - DICKINSON - NOVEMBER - SCOTT ROCHE	11/1/2011 8:00	11/1/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	6		7
DEPARTMENT OF TRANSPORTATION - MINOT - NOVEMBER - PAUL FULLER	11/1/2011 8:00	11/30/2011 17:00	Fuller	Campus Meeting	NORTH DAKOTA PI	12	2		10
NORTH CENTRAL HUMAN SERVICE CENTER - MINOT - NOVEMBER - PAUL FULLER	11/1/2011 8:00	11/30/2011 17:00	Fuller	Campus Meeting	NORTH DAKOTA PI	12	2		10
SOUTHEAST HUMAN SERVICE CENTER-FARGO - JIM SOHOLT	10/27/2011 9:00	10/27/2011 12:30	Soholt	Campus Meeting	NORTH DAKOTA PI	6	1		5
SOUTHEAST HUMAN SERVICE CENTER - FARGO - JUAN GUERRERO	10/27/2011 9:00	10/27/2011 15:30	Guerrero	Campus Meeting	NORTH DAKOTA PI	12	2		10
JOB SERVICE - GRAND FORKS - SCOTT ROCHE	10/27/2011 8:00	10/27/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	1		12
JOB SERVICE-FARGO - JIM SOHOLT	10/26/2011 9:00	10/26/2011 17:00	Soholt	Campus Meeting	NORTH DAKOTA PI	14	5		9
JOB SERVICE - JAMESTOWN - JUAN GUERRERO	10/26/2011 9:00	10/26/2011 16:30	Guerrero	Campus Meeting	NORTH DAKOTA PI	13	1		12
SOUTH CENTRAL HUMAN SERVICE CENTER - JAMESTOWN - JUAN GUERRERO	10/25/2011 9:00	10/25/2011 16:30	Guerrero	Campus Meeting	NORTH DAKOTA PI	13	1		12
DEPARTMENT OF TRANSPORTATION - JIM SOHOLT	10/25/2011 9:00	10/25/2011 17:00	Soholt	Campus Meeting	NORTH DAKOTA PI	14	3		11
NORTHEAST HUMAN SERVICE CENTER-GRAND FORKS - SCOTT ROCHE	10/25/2011 8:00	10/25/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	11		2
WORK FORCE SAFETY-BISMARCK - ANDREA SUCHY-SHINN	10/25/2011 8:00	10/26/2011 15:00	Suchy-Shinn	Campus Meeting	NORTH DAKOTA PI	20	16		4
JOB SERVICE - FARGO - PAUL FULLER	10/19/2011 8:00	10/20/2011 15:30	Fuller	Campus Meeting	NORTH DAKOTA PI	24	9		15
JOB SERVICE-DEVILS LAKE - SCOTT ROCHE	10/19/2011 8:00	10/19/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	3		10
STATE CAPITAL - BISMARCK - CHUCK FREEMAN	10/17/2011 9:00	10/20/2011 16:30	Freeman	Campus Meeting	NORTH DAKOTA PI	40	10		30
WORK FORCE SAFETY-BISMARCK - JIM SOHOLT	10/13/2011 9:00	10/13/2011 15:00	Soholt	Campus Meeting	NORTH DAKOTA PI	10	2		8
NORTH DAKOTA VETERANS HOME-LISBON -SCOTT ROCHE	10/13/2011 8:00	10/13/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	8		5
DEVELOPMENTAL CENTER-GRAFTON - SCOTT ROCHE	10/12/2011 8:00	10/12/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	0		13
JOB SERVICE-GRAND FORKS - SCOTT ROCHE	10/11/2011 8:00	10/11/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	1		12
STATE CAPITAL-BISMARCK - JIM SOHOLT	10/10/2011 13:00	10/11/2011 17:00	Suchy-Shinn	Campus Meeting	NORTH DAKOTA PI	22	1		21
STATE CAPITAL-BISMARCK - ANDREA SUCHY-SHINN	10/6/2011 8:00	10/7/2011 15:00	Suchy-Shinn	Campus Meeting	NORTH DAKOTA PI	18	1		17
NORTHEAST HUMAN SERVICE CENTER-GRAND FORKS - SCOTT ROCHE	10/6/2011 8:00	10/6/2011 16:00	Roche	Campus Meeting	NORTH DAKOTA PI	13	2		11
					TOTAL	**366**	**100**		**266**

Seminar & Webinar Presentation Attendance Thru 10/11/11	Date	Time	Attendees
Webinar	10/3/2011	12:00PM	7
State Capitol -Bismarck	10/4/2011	9:00AM	20
State Capitol -Bismarck	10/4/2011	12:00PM	8
State Capitol -Bismarck	10/4/2011	3:00PM	27
Northeast Human Service Center -Grand Forks	10/4/2011	10:00AM	6
Department of Transportation - Grand Forks	10/4/2011	1:00PM	5
Job Service - Grand Forks	10/4/2011	3:30PM	4
Work Force Safety - Bismarck	10/5/2011	3:00PM	55
Job Service - Devils Lake	10/5/2011	11:00AM	3
Lake Region Human Service Center - Devils Lake	10/5/2011	1:30PM	20
Developmental Center - Grafton	10/5/2011	12:00PM	4
Morton County - Mandan	10/5/2011	12:00PM	0
Webinar	10/6/2011	12:00PM	15
North Dakota Veterans Home - Lisbon	10/10/2011	3:00PM	15
Department of Transportation - Fargo	10/11/2011	9:00AM	17
Webinar	10/11/2011	12:00PM	7
Job Service - Fargo	10/11/2011	3:30PM	3
Valley City State University	10/12/2011	9;00AM	6
South Central Human Services Center	10/12/2011	1;00PM	2
Job Services - Jamestown	10/12/2011	3:00PM	4
Valley City DOT	10/13/2011	9:00AM	2
Webinar	10/13/2011	12:00PM	19
Fargo SE Human Service Center	10/13/2011	1:30PM	12
Badlands Human Service Center - Dickinson	10/17/2011	9:00AM	20
Dickinson DOT	10/17/2011	11:00AM	6
Job Service - Dickinson	10/17/2011	2:00PM	6
NW Human Service Center -Williston	10/18/2011	12:00PM	4
Webinar	10/18/2011	12:00PM	11
Minot DOT	10/19/2011	9:00AM	4
North Central Human Service Center - Minot	10/19/2011	1:30PM	16
Webinar	10/25/2011	12:00PM	12
Webinar	10/27/2011	12:00PM	7
		Total	347

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: PERSLink Update

One of the items we discussed with you during our last PERSLink update was our member self service (MSS) portal. Specifically, we talked about the effort we were undertaking to examine the usability of the developed functionality. To do this we hired a usability consultant and created several focus groups (retirees, active members, payroll/HR members and PERS staff) to do certain exercises using MSS. Based on this, we received recommendations on how the system could be modified to enhance the usability of it by the various groups. We found this to be an extremely beneficial process since we discovered various areas of improvement. Sagetec has agreed to move forward with making the changes and we have changed our rollout schedule to accommodate these changes. Specifically, we will roll out the retiree portion by February and the active portion by June. The change is that we had originally proposed rolling it all out by February. This is a rebasing of our project timeline and we will be reporting this to the oversight groups (SITAC and Legislative IT Committee).

Please note the functionality of the system as designed works, we are only talking about how the screens are displayed for use by the member. Our goal has been to not only make sure the system works correctly but also to make it as user friendly as we can. This later goal is important since our members are going to be required to use the system to access their benefits (enrollment, annual enrollment, benefit information, etc).

Attached for your information is the ITD quarterly status report for our project; the revised "End Date" will be June 2012.

The following is the cover letter entry information for Public Employees Retirement System's Legacy Application System Replacement [LASR] Phase 4 for 3rd quarter of 2011:

This project has an overall operational status of GREEN. The budget variance is reported as 6.0% UNDER and the schedule variance is reported as 0.0% when measured against their approved baselines. This project is operating under a re-plan and, if successful, will complete UNDER budget and 47.1% BEHIND schedule when measured against the original baselines. The project implemented approximately 98% of the functionality on schedule October 4, 2010. The base "member self-service" was delivered by the vendor. NDPERS delayed the release of this functionality. A Usability study of Member Self Service was completed and the results are being analyzed. The project schedule is being reviewed to determine the impact of implementing the recommended changes resulting from the usability study.

The following is the LPO summary for the project:

Project Name	Legacy Application System Replacement [LASR] Phase 4	Project Description	NDPERS intends to implement a new integrated benefits administration solution that will fill the business needs of the departments and staff of NDPERS, as well as the needs of the customers of NDPERS.
Overall Project Status	Green	**LPOA Summary**	The project implemented approximately 98% of the functionality on schedule October 4, 2010. The base "member self-service" was delivered by the vendor. NDPERS delayed the release of this functionality. A Usability study of Member Self Service was completed and the results are being analyzed. The project schedule is being reviewed to determine the impact of implementing the recommended changes resulting from the usability study. This project is operating under a re-plan and, if successful, will complete UNDER budget and 47.1% BEHIND schedule when measured against the original baselines.

Schedule Variance: 0% Budget Variance: 6% Under

Base Start	Base End	Current Revised End	Total Months		Base Budget	Current Revised Budget	Actual	EAC
12/17/2007	09/30/2010	02/13/2012	49.8 months		$10,502,214		$9,552,911	$9,873,493

Previous Quarters

Quarter	Year	Revised End	Total Months	Schedule Variance		Revised Budget	Actual	EAC	Budget Variance
2nd	2011		43.8 months	.7% Behind			$9,299,195	$9,826,665	6.9% Under
1st	2011	08/12/2011	43.8 months	0%			$9,299,195	$9,826,665	7.6% Under
4th	2010		33.4 months	6.1% Behind			$7,873,088	$9,295,651	13.4% Under
3rd	2010		33.4 months	1% Behind			$7,239,019	$9,206,648	10.4% Under
2nd	2010		33.4 months	3.6% Behind			$7,224,487	$10,152,439	12.2% Under
1st	2010		33.4 months	6.9% Behind			$6,552,578	$8,418,538	19.8% Under
4th	2009		33.4 months	8.4% Behind			$5,631,060	$8,846,513	17.3% Under
3rd	2009		33.4 months	7.2% Behind			$5,426,786	$9,503,362	4.2% Under
2nd	2009		33.4 months	7.3% Behind			$4,818,043	$9,624,279	0% Over
1st	2009		33.4 months	15% Behind			$4,904,182	$9,620,586	0% Over
4th	2008		33.4 months	10% Behind			$3,997,264	$9,330,783	3% Under
3rd	2008		33.4 months				$3,264,094	$9,437,873	2% Under
2nd	2008		33.4 months	0%			$2,465,401	$9,489,783	1% Under
1st	2008		33.4 months	0%			$2,023,128	$9,498,126	1% Under

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: November 9, 2011

SUBJECT: December Board Meeting and 2012 Schedule

The December meeting is scheduled for the 28th. This originally was our planning meeting which has been rescheduled to January 11. Several Board members have indicated they will not be able to attend the meeting on December 28. Please check your schedules to see if this meeting date works for you.

Attached is the proposed Board meeting schedule for 2012.