NDPERS BOARD MEETING
Agenda

Bismarck Location:
Bank of North Dakota
1200 Memorial Highway
Bismarck, ND 58505
Fargo Location:
Sanford Health Plan
1749 38th Street South

August 27, 2015 **Time: 8:30 AM**

I. MINUTES
- A. July 16, 2015

II. RETIREMENT
- A. Investment Update – David Hunter (Information)
- B. Experience Study – Segal (Information)
- C. Highway Patrol Indexing – Kathy (Board Action)
- D. IRS Cycle E Filing – Kathy (Board Action)
- E. RHIC Implementation Update – Bryan (Information)
- F. RHIC Repeal of Rules – MaryJo (Board Action)
- G. Asset Transfers – Sharon (Information)

III. GROUP INSURANCE
- A. Medicare Part D Premiums & Options – Kathy/Rebecca (Information)
- B. Member Rebate Accounts – Kathy/Rebecca (Board Action)
- C. Health Plan Notices – Kathy (Information)
- D. Health Plan Implementation Update – Sharon, Rebecca and Sanford (Information)
- E. Prescription Drug Coverage – Sanford (Information)
- F. 2014 Health Report – Bryan (Information)
- G. 2016 Annual Enrollment – Rebecca (Information)
- H. Medicare Part D Contract *Executive Session (Sparb)

IV. MISCELLANEOUS
- A. Flex Comp Plan Document – Kathy (Information)
- B. Board Committee Assignments – Sparb (Board Action)
- C. Telemedicine Study, HB 1038 – Sparb (Information)
- D. Administrative Rules – Sparb (Board Action)
- E. PERS Operations – Sparb (Information)
- F. Sagitec Agreement – Sharon (Board Action)
- G. Quarterly Consultant Fees – Derrick (Information)
- H. May 20, 2015 Audit Committee Minutes (Information)

V. APPEALS ** (possible Executive Session)
- A. Appeal #275 – MaryJo (Board Action)
- B. Member Issue – MaryJo (Board Action)

*Executive Session to discuss negotiating strategy or provide negotiating instructions to its attorney or other negotiator pursuant to NDCC 44-04-19.1(9) and 44-04-19.2.

**Possible Executive Session to discuss confidential member information pursuant to NDCC 44-04-19.2(1), 54-52-26 or 54-52.1-11 (group insurance).

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

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

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

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

Memorandum

TO: PERS Board

FROM: Sparb

DATE: August 18, 2015

SUBJECT: Investment Return

Mr. Hunter will be at the next Board meeting to give an update on the PERS investments and to discuss our investment return assumption of 8%. At the last meeting Segal indicated in their Experience Study Review that we should consider changing the return assumption from 8% to 7.75%

Attached is copy of the presentation Dave will be going over at the meeting.

PERS Interim Investment Report

RIO Update

August 20, 2015

Note: RIO intends to distribute unaudited fiscal year end results to the PERS board prior to our meeting on August 27, 2015.

Dave Hunter - Executive Director/CIO
Darren Schulz - Deputy Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Executive Summary for periods ended March 31, 2015

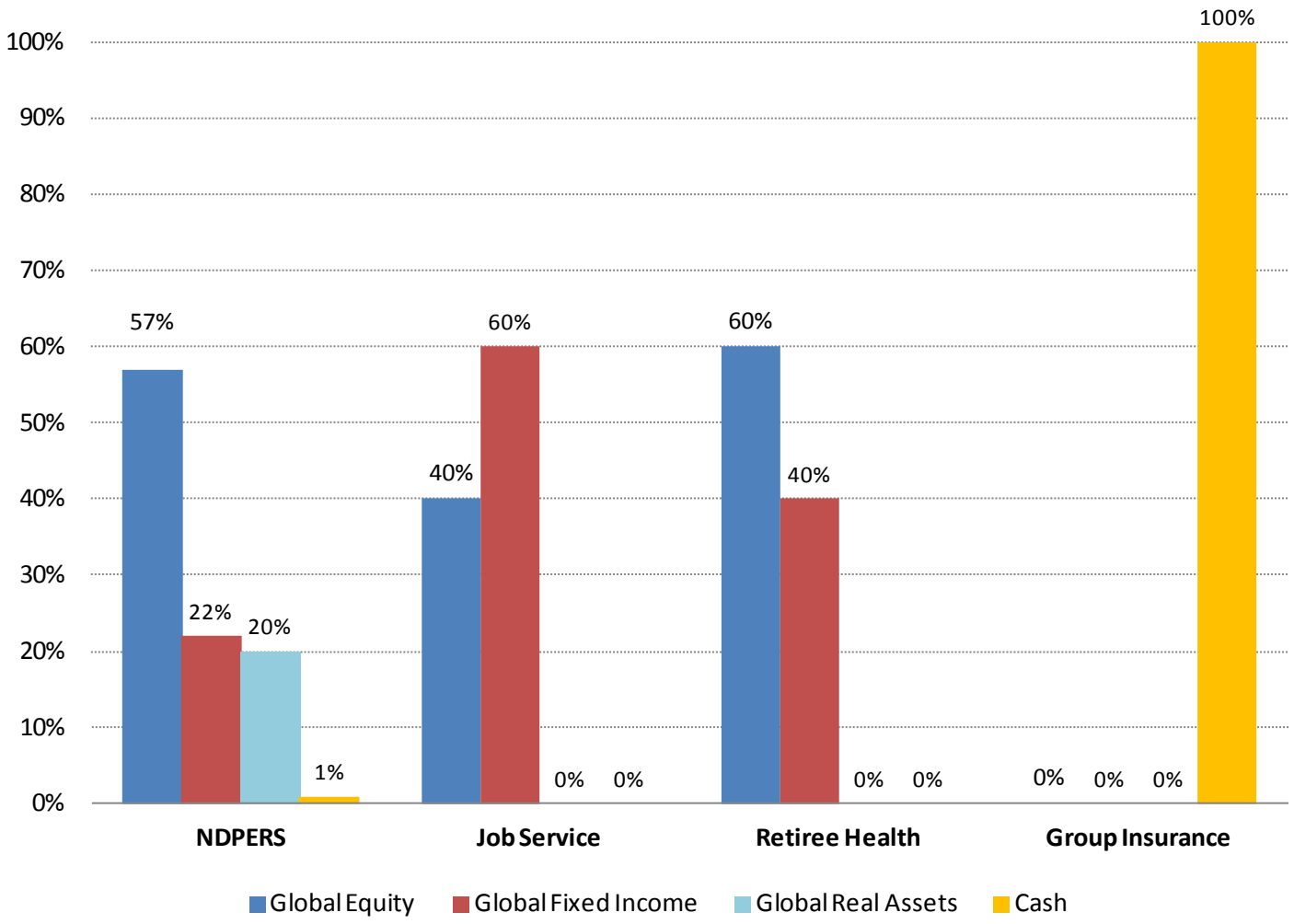
Investment Performance –

- Asset allocation is the primary driver of investment returns. PERS Main Plan generated a net return of 6.5% for the 1-year ended March 31, 2015, which exceeded the policy benchmark by 1.2%. During the past year, asset allocation and active management generated approximately $122 million (82%) and $28 million (18%) of PERS overall investment income, respectively.
- For the current fiscal year to date ended March 31, 2015, the PERS Main Plan generated a net investment return of 2.8% versus a policy benchmark of 1.9%. Strong returns in U.S. Large Cap Equity (+9.1% actual versus +7.2% index) and U.S. Fixed Income (+3.6% actual versus +2.4% index) were partially offset by negative results in our International Equity (-4.8% actual versus -5.0% index) and International Debt mandates (-7.4% actual versus -12.5% index). Global Real Assets were the only major asset class to underperform its relative benchmark (+5.9% actual versus +6.7% index) in the past year largely due to Timber (+3.5% actual versus +9.5% index).
- PERS investment returns have consistently ranked in the second quartile of the Callan Public Fund Sponsor Database over the last 1-, 3-, and 5-year periods. On an asset allocation adjusted basis, PERS returns ranked in the 28th percentile for the one-year period ended March 31, 2015.

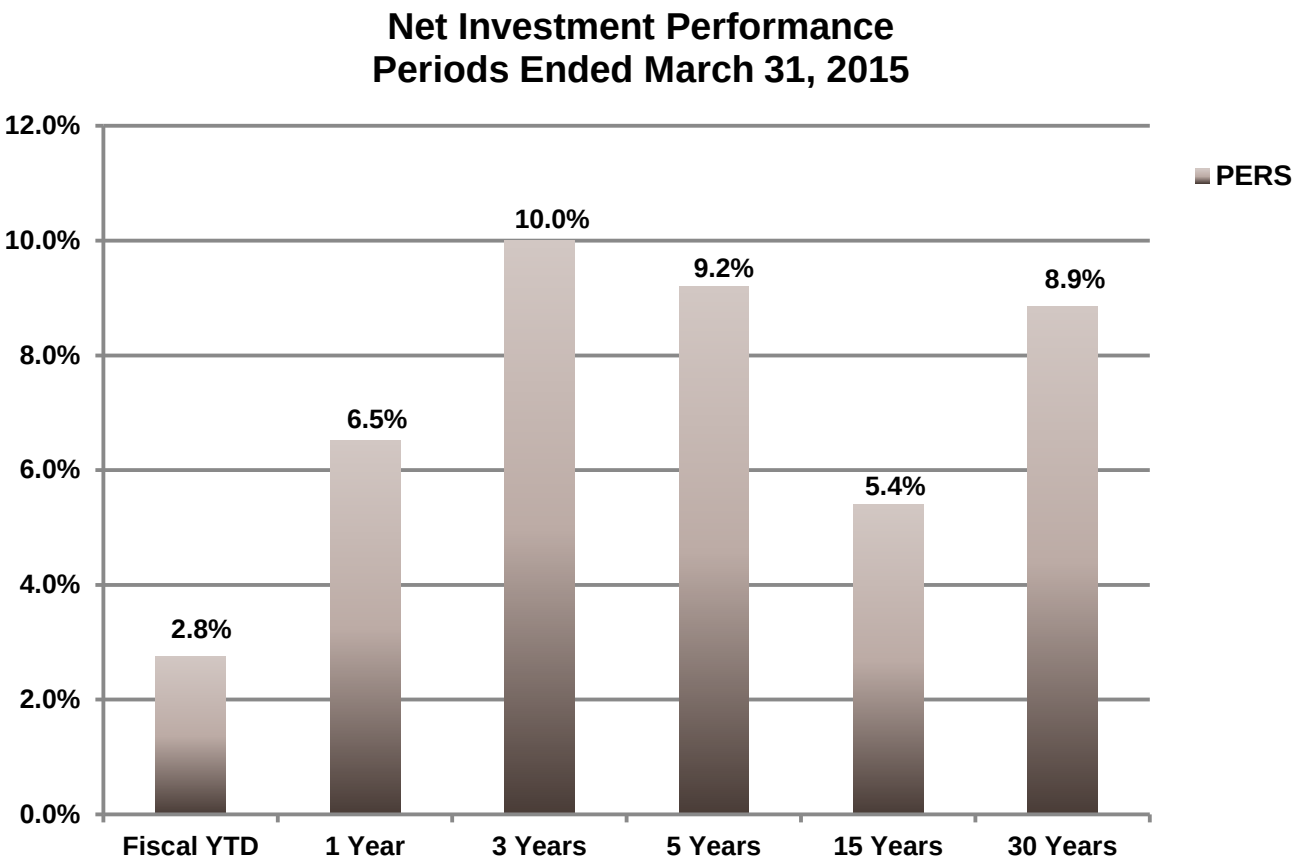
Risk Update –

- During the "Last 5 Years", PERS risk (as measured by actual standard deviation of the PERS portfolio divided by the policy benchmark) has steadily declined from over 120% to less than 105% on a rolling 3- and 5-years basis.

PERS Funds Target Allocations -
Asset Allocation is the # 1 Driver of Investment Returns



PERS Investment Ends – March 31, 2015



Preliminary Update for June 30, 2015:

Based on preliminary results, PERS (main plan) generated a net return of over 3% for the fiscal year ended June 30, 2015, with an excess return of over 50 bps (versus return benchmarks). RIO's CIO believes PERS returns will compare favorably to other US public pension plans with > $1 billion in plan assets.

Returns: PERS returns for the 3-, 5- and 30-year periods ended March 31, 2015, have approximated 10%, 9.2% and 8.9%, respectively, net of investment fees.

PERS and Job Service Returns and Risk Levels – March 31, 2015

	Current FYTD 3/31/2015	1 Yr Ended 3/31/2015	3 Yrs Ended 3/31/2015	5 Yrs Ended 3/31/2015	Risk 5 Yrs Ended 3/31/2015	Risk Adj Excess Return 5 Yrs Ended 3/31/2015
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)						
$ 2,345,979,927						
Total Fund Return - Net	2.8%	6.5%	10.0%	9.2%	8.7%	**0.1%**
Policy Benchmark Return	1.9%	5.3%	9.1%	8.8%	8.3%	
EXCESS RETURN	0.9%	**1.2%**	0.9%	**0.4%**	**104.3%**	
JOB SERVICE PENSION PLAN						
$ 96,920,165						
Total Fund Return - Net	3.9%	7.2%	9.5%	8.9%	6.4%	**0.5%**
Policy Benchmark Return	2.4%	5.7%	7.5%	7.8%	6.0%	
EXCESS RETURN	1.5%	**1.5%**	2.0%	**1.0%**	**106.6%**	

Net Investment Returns: Current fiscal year to date returns of approximately 2.8% (to March 31, 2015) are below long-term expectations, but exceed the policy benchmark by 0.9%. During the past year, net returns approximated **6.5%** for PERS and **7.2%** for Job Service, while active management was responsible for generating nearly $30 million of Excess Return. Over the past 5-years, net returns approximated **9.2%** for PERS and **8.9%** for Job Service both of which exceeded their long-term rate of return expectations of **8%** and **7%**, respectively.

Risk: Investment performance has been achieved while adhering to prescribed risk management guidelines which limit portfolio risk (as measured by standard deviation) to 115% of policy. PERS actual risk level approximated **104.3%** while Job Service approximated **106.6%** of policy for the 5-years ended March 31, 2015.

PERS Asset Allocation – Actual vs. Target at March 31, 2015

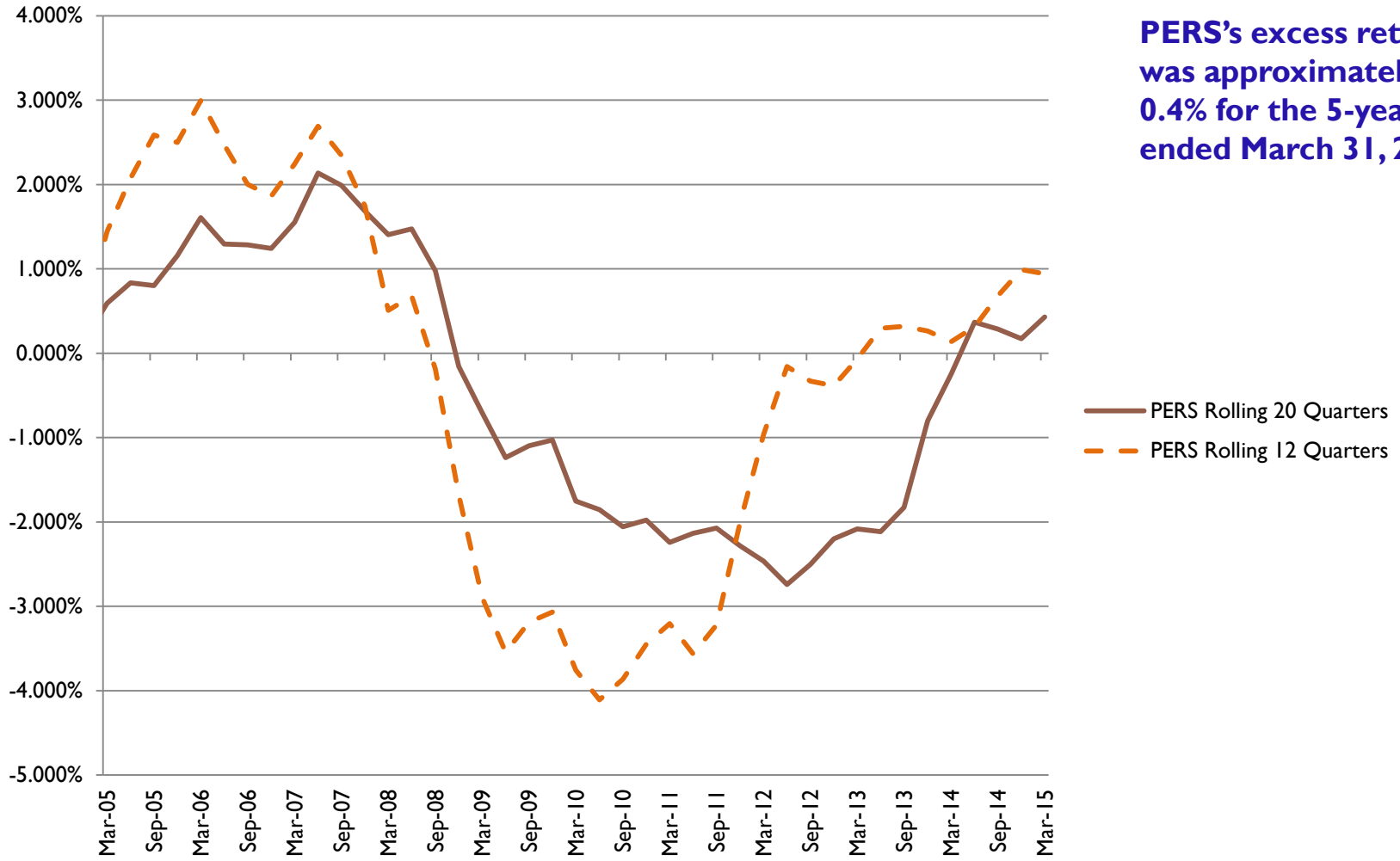
Total Fund Exceed Policy Benchmark by 0.87% - Current Fiscal YTD

	March-15			Current Fiscal YTD		Prior Year FY14	
		Allocation					
	Market Value	Actual	Policy	Gross (7)	Net	Gross (7)	Net
TOTAL FUND	**2,401,309,136**	**100.0%**	**100.0%**	**3.0%**	**2.8%**	**16.8%**	**16.4%**
POLICY TARGET BENCHMARK				*1.9%*	*1.9%*	*15.7%*	*15.7%*
EXCESS RETURN				1.1%	**0.87%**	1.1%	**0.71%**
GLOBAL EQUITIES	***1,375,790,749***	***57.3%***	***57.0%***	***2.8%***	***2.5%***	***22.3%***	***21.9%***
Benchmark			*52.0%*	***1.4%***	***1.4%***	***21.9%***	***21.9%***
GLOBAL FIXED INCOME	***561,536,563***	***23.4%***	***22.0%***	***1.5%***	***1.3%***	***8.0%***	***7.8%***
Benchmark				***-1.1%***	***-1.1%***	***7.2%***	***7.2%***
GLOBAL REAL ASSETS	***419,350,121***	***17.5%***	***20.0%***	***6.2%***	***5.9%***	***11.4%***	***11.0%***
Benchmark				***6.7%***	***6.7%***	***8.5%***	***8.5%***
Total Cash Equivalents	**44,631,702**	**1.9%**	**1.0%**	**0.04%**	**0.04%**	**0.04%**	**0.04%**
90 Day T-Bill				***0.02%***	***0.02%***	***0.06%***	***0.06%***

NOTE: Monthly returns and market values are preliminary and subject to change.

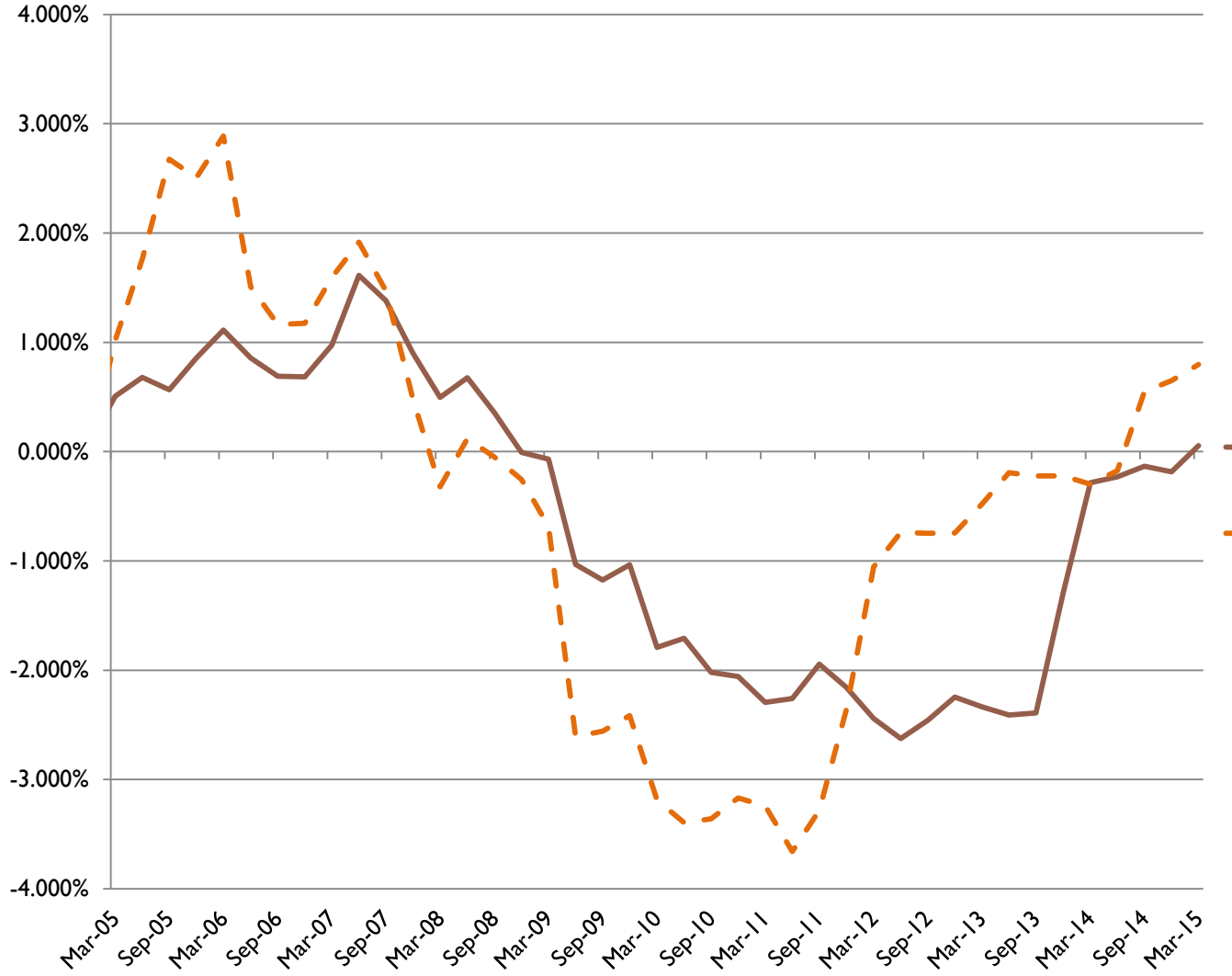
- Based on the broad asset allocation framework adopted in 2011, the PERS Total Fund was slightly **overweight to Global Equities (0.3%), Global Fixed Income (1.4%) and Cash (0.9%) while underweight to Global Real Assets (-2.5%)** as compared to its target asset allocation on March 31, 2015.

PERS Main Plan - Excess Return Relative to Policy Benchmark
10 Years Ended 3/31/2015



PERS's excess return was approximately 0.4% for the 5-years ended March 31, 2015

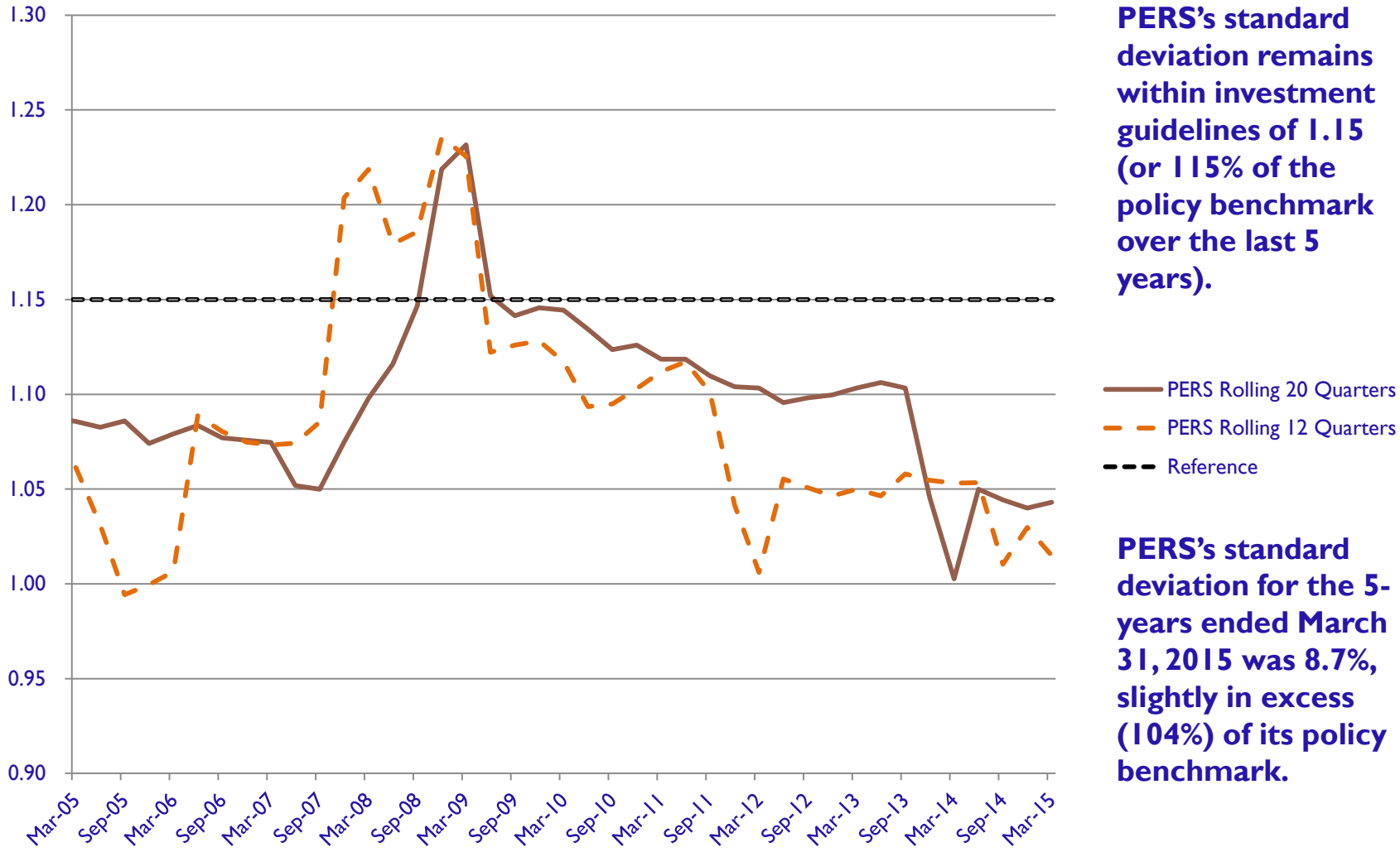
PERS Main Plan - Risk Adjusted Excess Return
10 Years Ended 3/30/2015



PERS's Risk Adjusted Excess Return turned slightly positive for the 5-year period ended March 31, 2015, while the 3-year rolling average continued to trend upwards.

Risk Adjusted Excess Return measures a portfolio's excess return adjusted by its risk relative to a benchmark portfolio. This metric is positive if returns are due to "smart" investment decisions or negative if driven by excess risk.

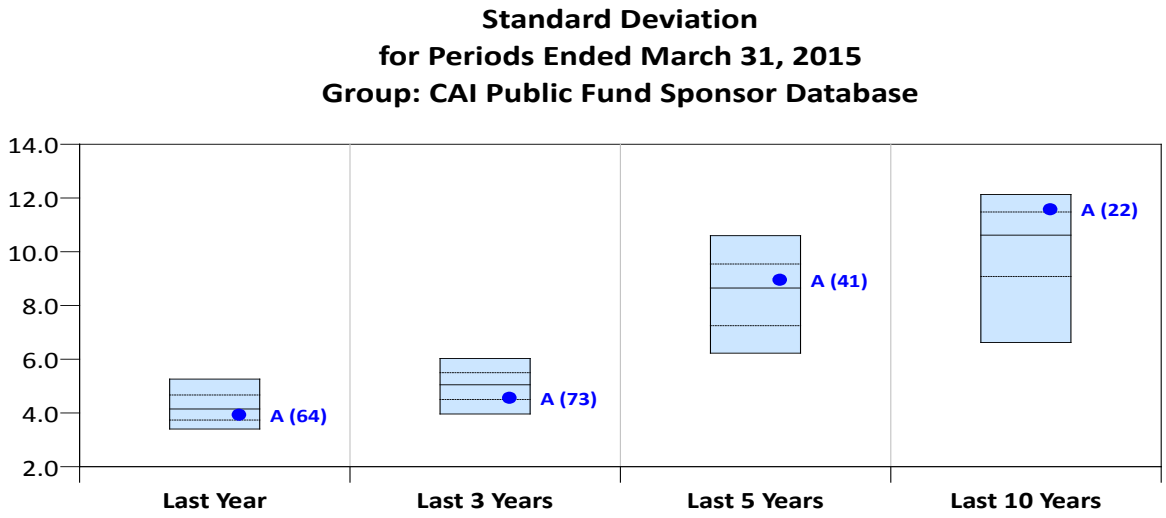
PERS Main Plan - Relative Std. Deviation to Policy Benchmark
10 Years Ended 3/31/2015



PERS's standard deviation remains within investment guidelines of 1.15 (or 115% of the policy benchmark over the last 5 years).

PERS's standard deviation for the 5-years ended March 31, 2015 was 8.7%, slightly in excess (104%) of its policy benchmark.

Pension "Risk" has declined as measured by Standard Deviation



		Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile		5.3	6.0	10.6	12.1
25th Percentile		4.7	5.5	9.5	11.5
Median		4.1	5.0	8.7	10.6
75th Percentile		3.7	4.5	7.2	9.1
90th Percentile		3.4	4.0	6.2	6.6
Member Count		259	245	225	196
ND Pen-Total Fund	● A	**3.9**	**4.6**	**9.0**	**11.6**

Portfolio volatility, as measured by Standard Deviation, has declined significantly and currently resides in the 3rd quartile for 3-year period ended 3/31/15 versus the upper two quartiles for the 5- and 10-year periods ended 3/31/15.

Job Service Allocation – Actual vs. Target at March 31, 2015

Total Fund Exceed Policy Benchmark by 1.45% - Current Fiscal YTD

	March-15			Current Fiscal YTD		Prior Year FY14	
		Allocation					
	Market Value	Actual	Policy	Gross[5]	Net	Gross[5]	Net
TOTAL FUND	**98,026,580**	**100%**	**100%**	**4.1%**	**3.9%**	**13.8%**	**13.5%**
POLICY TARGET BENCHMARK				*2.4%*	*2.4%*	*13.0%*	*13.0%*
EXCESS RETURN				1.7%	**1.45%**	0.8%	**0.5%**
GLOBAL EQUITIES	***38,879,540***	***39.7%***	***40%***	***4.8%***	***4.4%***	***24.7%***	***24.2%***
Benchmark				***3.2%***	***3.2%***	***24.5%***	***24.5%***
GLOBAL FIXED INCOME	***58,678,953***	***59.9%***	***60%***	***3.6%***	***3.4%***	***6.9%***	***6.7%***
Benchmark				***1.8%***	***1.8%***	***5.8%***	***5.8%***
Total Cash Equivalents	**468,087**	**0.5%**	**0.0%**	**0.04%**	**0.04%**	**0.04%**	**0.04%**
90 Day T-Bill				***0.02%***	***0.02%***	***0.06%***	***0.06%***

NOTE: Monthly returns and market values are preliminary and subject to change.

- Based on the recently adopted asset allocation, the Job Service Fund was **underweight to Global Equities (0.3%) and Global Fixed Income (0.1%) while slightly overweight to Cash (0.5%)** as compared to its target asset allocation on March 31, 2015.
- The PERS Board approved a de-risking strategy for this closed plan on January 5, 2015, which resulted in the long-term expected return being reduced from 8% to 7%. **RIO implemented this de-risking strategy in the first calendar quarter of 2015 using existing managers and intends to further de-risk this plan using an SEI investment platform in the future.**

Retiree Health & Group Insurance Returns & Risk - March 31, 2015

	Current FYTD 3/31/2015	1 Yr Ended 3/31/2015	3 Yrs Ended 3/31/2015	5 Yrs Ended 3/31/2015	Risk 5 Yrs Ended 3/31/2015	Risk Adj Excess Return 5 Yrs Ended 3/31/2015
PERS RETIREE HEALTH						
$ 89,889,545						
Total Fund Return - Net	3.6%	**7.4%**	10.8%	**10.3%**	**9.3%**	0.1%
Policy Benchmark Return	4.1%	7.7%	10.1%	9.6%	**8.7%**	
EXCESS RETURN	-0.5%	**-0.3%**	0.7%	**0.67%**	**106.4%**	
PERS GROUP INSURANCE						
$ 45,003,806						
Total Fund Return - Net	0.01%	**0.01%**	0.13%	**0.20%**	**0.07%**	0.01%
Policy Benchmark Return	0.02%	0.03%	0.07%	0.09%	**0.03%**	
EXCESS RETURN	-0.01%	**-0.02%**	0.06%	**0.11%**		

Net Investment Returns: Returns have been below expectations in the current fiscal year. During the past year, net returns approximated **7.4%** for PERS Retiree Health and **0.01%** for Group Insurance. Over the past five years, net investment returns approximated **10.3%** for PERS Retiree Health and **0.2%** for Group Insurance. Active management has been responsible for generating approximately **0.67%** of Excess Return for Retiree Health and **0.11%** of Excess Return of Group Insurance for the five year period ended March 31, 2015.

Risk: Investment performance has been achieved while remaining generally consistent with policy expectations (as measured by standard deviation). PERS Retiree Health actual risk level approximated **106.4%** while Group Insurance was within **0.04%** (i.e. 0.07% versus 0.04%) of policy for the 5-years ended March 31, 2015.

Economic Update

As of March 31, 2015

Historical Asset Class Market Returns and Key Economic Indicators

		Period Ended March 31, 2015			
Asset Class	**Benchmark**	**1-Year**	**3-Years**	**5-Years**	**10-Years**
Large Cap US Stocks	Russell 1000	12.73%	16.45%	14.73%	8.34%
Small Cap US Stocks	Russell 2000	8.21%	16.27%	14.57%	8.82%
Non-US Stocks (Developed)	MSCI EAFE	-0.92%	9.02%	6.16%	4.95%
Non-US Stocks (Emerging)	MSCI Emerging Markets	0.79%	0.66%	2.08%	8.82%
US Bonds	Barclays Aggregate	5.72%	3.10%	4.41%	4.93%
High Yield Bonds	Barclays Corporate High Yield	2.00%	7.46%	8.59%	8.18%
Non-US Debt	Citi Non-US World Govt	-9.82%	-3.32%	0.38%	2.51%
Inflation Protected	Barclays Global Inflation Linked	-0.93%	1.23%	4.24%	4.32%
Real Estate	NCREIF	12.72%	11.47%	12.75%	8.39%

Recent Quarterly Indicators	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13
GDP Growth	0.2%	2.2%	5.0%	4.6%	-2.1%	3.5%	4.5%	1.8%
Unemployment Rate	5.6%	5.7%	6.1%	6.2%	6.6%	7.0%	7.3%	7.5%
CPI	-0.1%	0.8%	1.7%	2.1%	1.5%	1.5%	1.2%	1.8%
Consumer Sentiment	93.0	93.6	84.6	82.5	80.0	82.5	77.5	84.1

Non-U.S. Stocks and Debt: International equity and debt markets have performed poorly in the last year as evidenced by a -0.9% and -9.8% return, respectively, for the year ended March 31, 2015.

U.S Economy – GDP Growth Rates

Annual GDP Growth Rates in the U.S. have averaged 3.24% since 1948

- Quarterly GDP Growth Rates (top chart) are volatile as evidenced by sharply lower growth rates in the 1st quarter of the last two years largely attributed to poor weather conditions.
- Annual GDP Growth Rates (bottom chart) minimize the impact of seasonal weather conditions and display a more consistent and moderate growth rate of about 2.3% over the past year.

Global GDP Growth Rates

	ACTUAL 2010-2013	ACTUAL 2014	FORECAST 2015	PROJECTED 2015-2019	TREND 2020-2025
United States	2.2	2.4	2.9	2.4	1.9
Europe*	0.9	1.4	1.8	2.1	1.5
of which: Euro Area	*0.6*	*0.8*	*1.4*	*1.9*	*1.2*
Japan	1.8	0.2	0.6	1.4	1.1
Other mature**	3.5	3.1	3.0	2.9	2.5
Mature Economies	**1.8**	**1.9**	**2.3**	**2.3**	**1.8**
China	8.8	7.4	6.5	5.5	3.9
India	6.6	5.7	5.9	5.5	5.0
Other developing Asia	5.2	3.9	4.6	4.3	3.9
Latin America	3.6	1.0	1.6	2.8	2.9
of which: Brazil	*3.4*	*0.2*	*0.5*	*3.1*	*3.1*
of which: Mexico	*3.5*	*2.3*	*3.5*	*2.8*	*2.8*
Middle East & North Africa	3.4	2.9	3.4	3.4	3.2
Sub-Saharan Africa	4.6	3.7	4.4	5.0	5.3
Russia, Central Asia and Southeast Europe***	4.1	0.9	-1.5	2.1	1.7
Emerging Market and Developing Economies	**6.2**	**4.7**	**4.4**	**4.5**	**3.7**
World Total	**3.7**	**3.2**	**3.3**	**3.3**	**2.7**

- Global GDP Growth Rates have declined from:
  - 3.7% in 2010-to-2013 to
  - 3.2% in 2014 and are expected to reach
  - 3.3% in 2015 through 2019.
- Global GDP Growth in the Emerging Market and Developing Economies is expected to trend downward over the next decade largely due to China's growth rate slowing from:
  - 8.8% in 2010-to-2013 down to
  - 3.9% in 2020-to-2025.

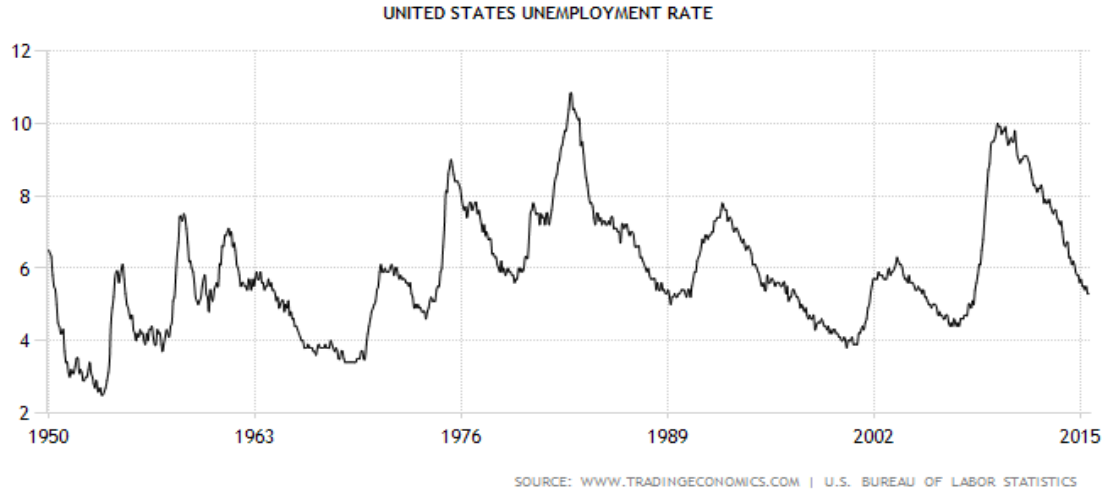
Key Take-Away: World GDP growth rates continue to show meaningfully positive trends albeit at slower rates than in the recent past.

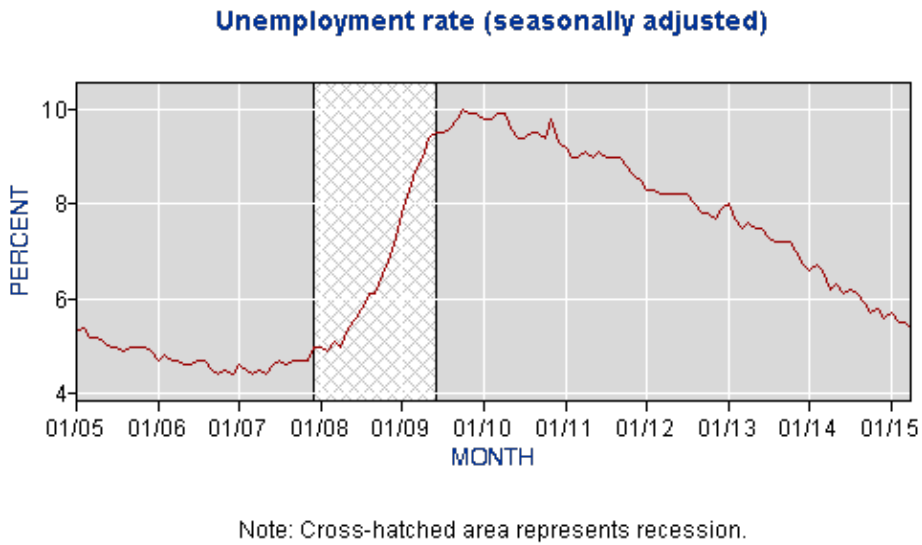
Source: The Conference Board is a global, independent business membership and research association based in NYC.

U.S Labor Market Conditions

The U.S. Unemployment Rate has consistently trended downward in the last 5 years.

Long-Term Unemployment Rates: In the last 65-years, the U.S. unemployment rate peaked at 10.8% in November of 1982, but has rarely been below 4% since the late-1960's. The lowest rate was 2.5% in May of 1953.

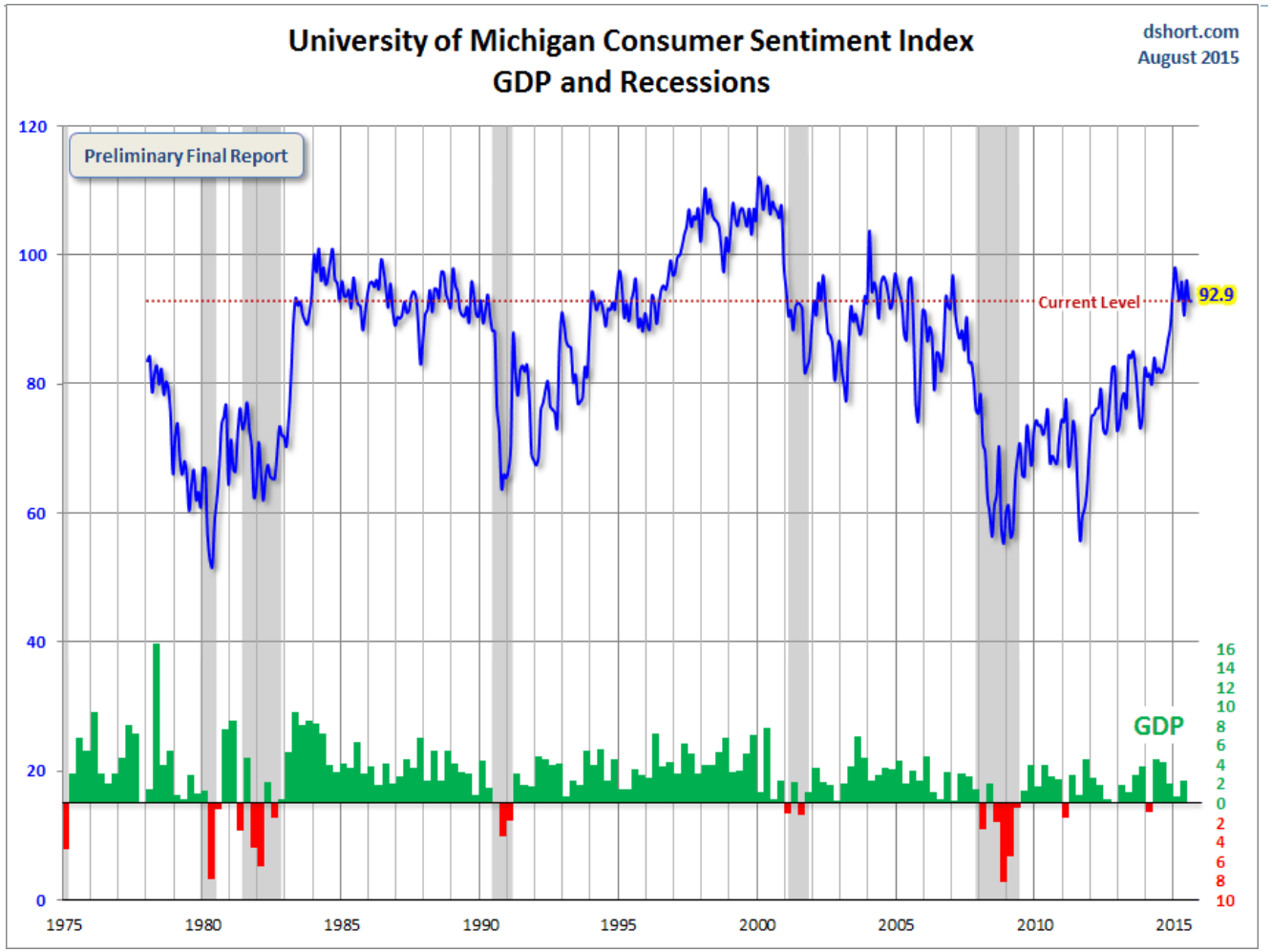




Unemployment from 2005 to 2015: The U.S. Unemployment Rate has declined from a peak of 10.0% in October of 2009 to **5.3% in June and July of 2015.**

Source: U.S. Department of Labor: Bureau of Labor Statistics

U.S Consumer Sentiment



Summary:

The University of Michigan Consumer Sentiment for August came in at 92.9 and reached its highest 9-month average since 2004. Despite growing uncertainty in global markets including China, most U.S. consumers reported a renewed strength in personal finances. The current level of 92.9 is over 5 points higher than the non-recessionary average (of 87.5) and at the 69th percentile since inception in 1975.

The **University of Michigan Consumer Sentiment Index** is a consumer confidence index published monthly by the University of Michigan and Thompson Reuters. The index is normalized to have a value of 100 in December 1964. Each month at least 500 telephone interviews involving fifty core questions are conducted within the U.S. These interviews are used to develop an index of consumer expectations, a subset of which are included in the Leading Indicator Composite Index published by the US Dept. of Commerce and Bureau of Economic Analysis.

Long-Term Return Expectations

As of August 19, 2015

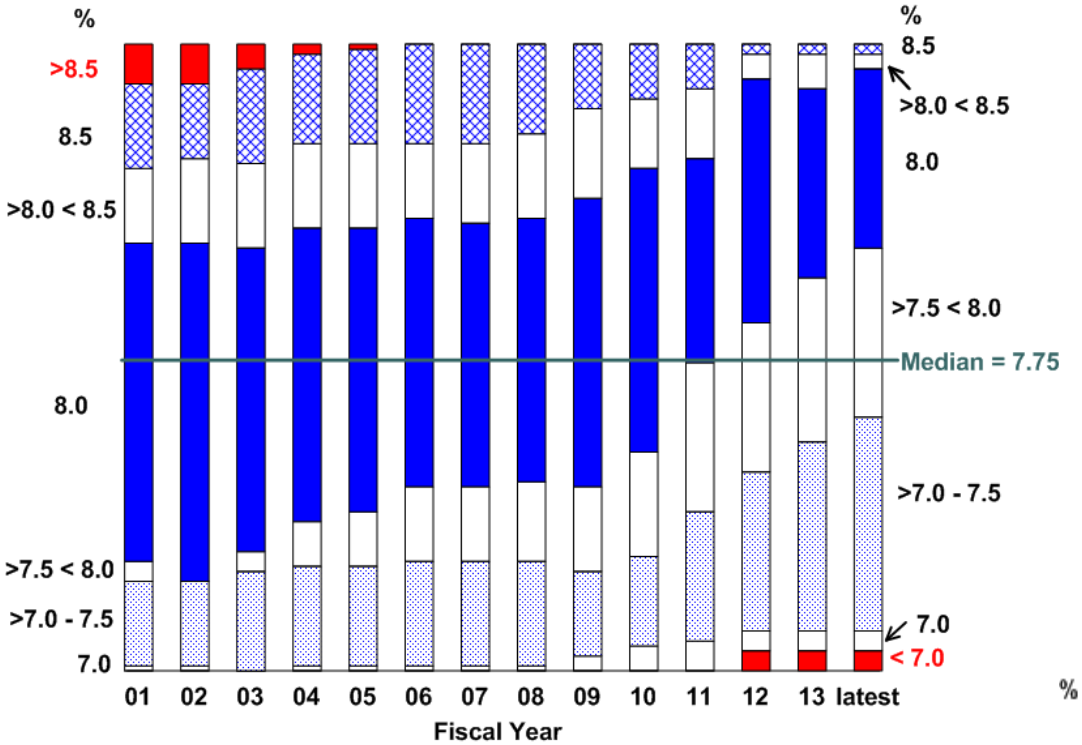
RIO's Overview on Long-Term Return Expectations

1) **During the past year, the median long-term expected investment return for U.S. public pension plans has declined to 7.75%;**
2) Segal has preliminarily proposed a 7.75% rate versus the current 8% assumption in connection with its experience study (selected excerpts follow);
3) **RIO can reasonably support a long-term return expectation ranging from 7.75% to 8.00% noting that Segal provided a target estimated rate of 7.88%** (see second to last page of this presentation);
4) In the past, many plan sponsors have accepted return expectations which have a 50% probability along with a variance ranging from +/- 2% to 4% (i.e. 48% to 52%);
5) The vast majority of plan sponsors set long-term return expectations in one-quarter percent increments (i.e. 7.75% or 8.00%);
6) It is interesting to note that the TFFR target estimate was 7.86% and they elected to round down to 7.75% (the nearest quarter percentage point);
7) **Actuaries do not provide any credit or benefit with regards to a manager's ability to generate excess return versus an underlying benchmark; and**
8) **Segal's return estimate includes a 5.0% real rate of return plus a 2.75% inflation expectation which has changed from 4.5% and 3.5%, respectively, in the prior year.**

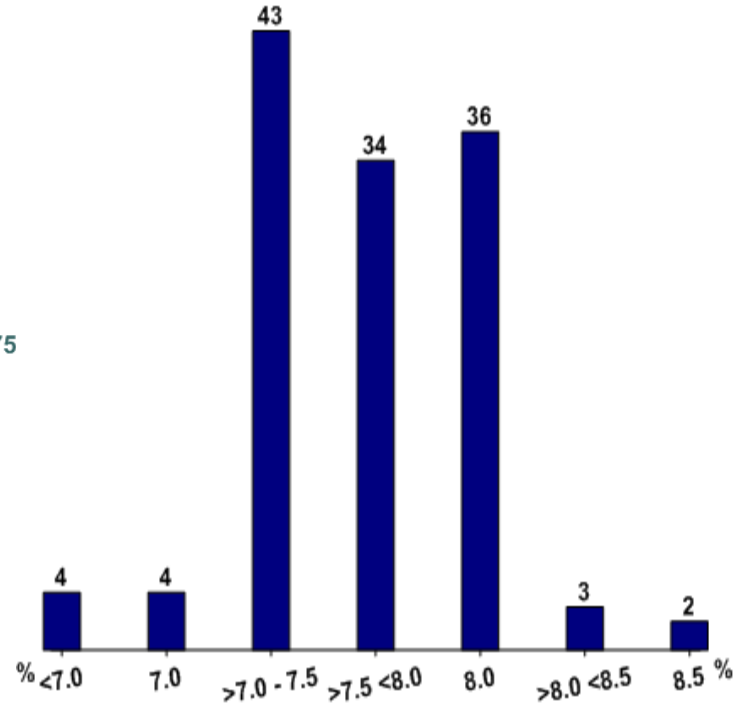
NASRA Issue Brief: Public Pension Plan Return Assumptions

National Association of State Retirement Administrators - May 2015 Update

Change in distribution of public pension investment return assumptions from 2001 to May 2015:



Distribution of investment return assumptions:



Source: http://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf

Assumed Rate of Investment Return

- The current investment return assumption of 8.00% consists of two components:
  - Inflation: 3.50%
  - Real rate of return: 4.50%, net of investment expenses
    - Real return represents the excess of what the assets earn over inflation
    - Our approach is to analyze inflation and real return separately
- Currently, the assumed real rate of return is 4.50%, net of expected investment expenses, for all systems except Job Service. For Job Service, the assumed real rate of return is 4.50%, net of expected investment and administrative expenses.
  - For Job Service, we recommend removing the administrative expense from the investment return assumption and adding an explicit load to the normal cost. This approach is required by the Governmental Accounting Standards Board (GASB) for the purpose of producing liabilities used in financial statements.

DRAFT

Assumed Rate of Investment Return *(continued)*

- We have based our analysis of the expected real rate of return on the "Survey of Capital Market Assumptions"*.
  - This survey compiles and averages the capital market assumptions of 23 investment consultants (including Callan and Segal Rogerscasey).
- The calculation of the expected real rate of return based on the survey assumptions are shown on the following slides.
- Note that expected arithmetic returns are used to determine the expected returns by asset class. The portfolio's expected geometric return is estimated by reducing the arithmetic return by half of the portfolio's expected variance.

DRAFT

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Assumed Rate of Investment Return *(continued)*

Asset Class	20-Year Annual Arithmetic Real Return	Target Allocation	Weighted Real Return
US Equities Large Cap	7.05%	24%	1.69%
US Equities Small/Mid Cap	8.10%	7%	0.57%
Intl Equities Developed	7.71%	16%	1.23%
Emerging Markets Equities	10.24%	5%	0.51%
US Bonds Core	[illegible]	12%	0.30%
US Bonds High Yield	4.[illegible]1%	5%	0.24%
Intl Debt Developed	2.05%	5%	0.10%
Cash Equivalents	1.11%	1%	0.01%
Real Estate	4.95%	15%	0.74%
Infrastructure	6.16%	5%	0.31%
Private Equities	10.97%	5%	0.55%
Total		**100%**	**6.25%**
Adjustment to Geometric			(0.62)%
Geometric Real Rate of Return			**5.63%**

DRAFT

Assumed Rate of Investment Return *(continued)*

- Using the Fund's target asset allocation and the capital market assumptions from the survey, the expected real rate of return is 5.63%.
  - The expected real rate of return is reduced to account for investment expenses. We do not have specific data on the investment expenses, but for a plan this size assuming 0.50% to account for investment expenses would be reasonable.
- The expected real rate of return is 5.13%, net of expected investment expenses of 0.50%.

Gross Real Rate of Return	5.63%
Less Investment Expenses	(0.50)%
Net Real Rate of Return	5.13%

DRAFT

Assumed Rate of Investment Return *(continued)*

- Over a 20-year period, the Fund is expected to earn an annual real rate of return of at least 5.11% half of the time.
- Changing the expected real rate of return to 5.00% will increase the likelihood of meeting the expectation over a 20-year period to 52%.
- The following table shows the components of the current and recommended investment return assumption.

Component	Current	Recommended	50/50	8.00%	7.50%
Inflation	3.50%	2.75%	2.75%	2.75%	2.75%
Real Rate of Return, net of expenses	4.50%	5.13%	5.13%	5.13%	5.13%
Risk Adjustment	(0.00)%	(0.13)%	(0.00)%	0.12%	(0.38)%
Total	8.00%	7.75%	7.88%	8.00%	7.50%
Confidence Level	N/A	52%	50%	48%	56%

DRAFT

Project Review

- **Asset Liability Study**
  - Callan Associates was used in 2010 although TFFR has also requested a proposal from Segal.
- **PERS Job Service De-Risking Plan**
  - The PERS Board previously approved a de-risking strategy which lowered the long-term expected return assumption to 7% from 8%. This recent change will be communicated to Callan and Segal.
- **Group Insurance Investment Policy Statement Review**
  - The liquidity requirements for the Group Insurance plan may be eliminated for the next two years which would allow this plan to invest in slightly longer-term, high quality debt instruments which could significantly improve the plans return expectations through June 30, 2017.
- **Other Questions or Comments for RIO**

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: August 19, 2015

SUBJECT: Experience Study

At the May meeting Segal presented the results of their Experience Study review (Attachment #1). North Dakota state law requires:

> "…once every five years make a general investigation of the actuarial experience under the system including mortality, retirement, employment turnover, and other items required by the board, and recommend actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation; "

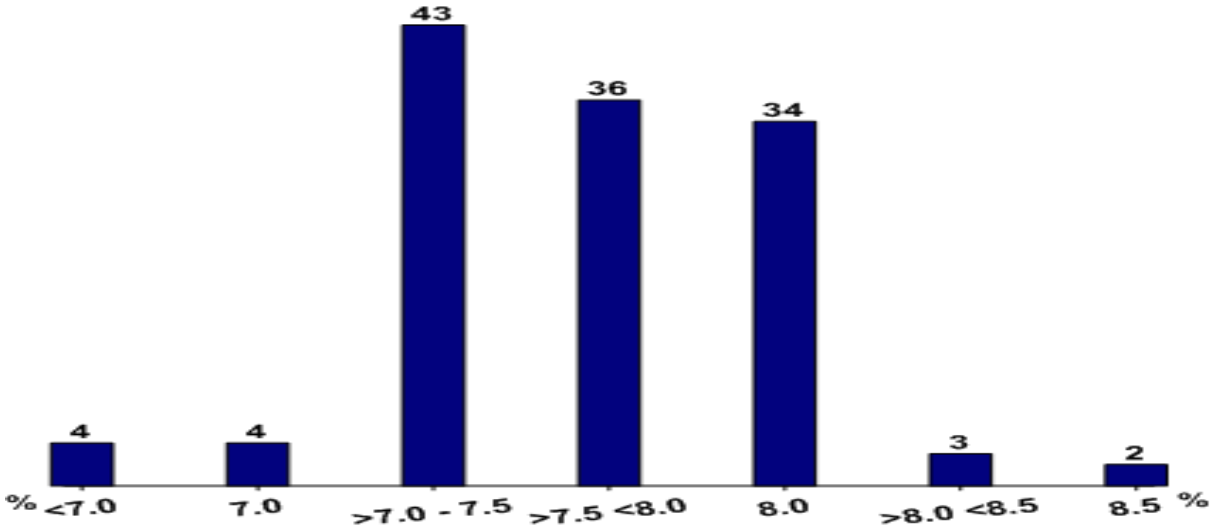
At the May meeting we asked Brad to follow-up on some points and he will be with us to go over those items at this meeting (Attachment #2). Specifically the Board asked Segal to:

1. Summarize for each plan the existing assumptions and the proposed assumptions. That information is on pages 10-16 of Attachment #2.
2. Determine if the proposed recommendations would have an effect on the Governmental Accounting Standards Boards assumed rate of return for the plan.
3. Determine the long term cost impact if (page 7):
    a. The assumptions change as proposed by Segal where accepted (the blue line is the long term funded status of the plan based upon the current assumptions and the green line is the long term funded status if the Segal assumptions are accepted).
    b. The red line is if all the assumptions of Segal are accepted except the reducing the return assumption from 8% to 7.75%

c. The green dotted line is if all the Segal assumption changes are accepted except the payroll growth assumption.
d. The green dash line is if all the Segal assumption changes are accepted and if $30 Million is deposited into the retirement account.

Concerning item “c” above the payroll growth assumption, staff is recommending we stay with our existing assumption. You note that making this change maintains our funding status on an upward slope going forward. While this is positive, the reason for this recommendation is based upon the data on page 12 of Attachment #1. You will also note that the payroll growth for PERS has been over 6% and over 4% for most periods for the judges. On page 13 is the Segal recommendation to reduce the assumption for PERS/HPRS from 4.5% to 4% and for Judges from 4% to 3.5%. Given the history on page 12, staff is recommending maintaining the existing assumption.

Concerning item “b” changing the return assumption, Mr. David Hunter will be at the meeting and will be giving an overview of our plans’ investment performance for the past year and the implications of changing the return assumption from an investment perspective. The most recent survey done by the National Association of Retirement Administrators shows the following return assumptions for other statewide plans (Attachment #3 is the full Issue Brief):



The Teachers Fund for Retirement recently completed its Experience Study and decided to change its return assumption to 7.75% (please note they are in a better position to do this since they had all 4 years of their recovery plan funded whereas we did not). Staff recommendation would be to include this in proposed legislation next session to determine if the state would like to reduce the return assumption and pay the additional contributions required to support such a change. Please note this cost would be in addition to considerations relating to the need for the 4th year of the recovery plan.

With the exception of the above, staff would recommend adopting the assumption changes recommended by Segal.

At this meeting our goal is to review the information from Segal and staff recommendations. We will also identify any additional information you would like and we will get that by the special meeting in early September. At that time we will have this on the agenda for your final consideration. If you are able to make that determination at that meeting, Segal will do the next valuation based upon the new assumptions. If not, they will not be able to include the new assumptions until the 2016 valuation.

North Dakota Public Employees Retirement System

Experience Review: July 2009 – June 2014

May 21, 2015

Presented By:

Brad Ramirez, FSA, MAAA, FCA, EA

Laura L. Mitchell, MAAA, EA

This document has been prepared by Segal Consulting for the benefit of the Board of the North Dakota Public Employees Retirement System and is not complete without the presentation provided at the May 21, 2015 meeting of the Board. This document should not be shared, copied or quoted, in whole or in part, without the consent of Segal Consulting, except to the extent otherwise required by law. Except where otherwise specifically noted, the actuarial calculations and projections were completed under the supervision of Tammy F. Dixon, FSA, MAAA, Enrolled Actuary.

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Agenda

- Overview
- Economic Assumptions
  - Inflation
  - Payroll Growth
  - Salary Increase
  - Investment Return
  - Miscellaneous Assumptions
- Demographic Assumptions
  - Termination
  - Disability
  - Retirement
  - Mortality
  - Spouse Information
  - Miscellaneous Assumptions
- Funding Policy
- Summary of Economic Assumptions
- Summary of Demographic Assumptions
- Cost Impact
- Actuarial Certification
- Appendix

Overview: Purpose of an Experience Study

- An experience study provides the basis for developing recommended assumptions to be used in the annual actuarial valuation
  - Performed on a periodic basis, typically every five years
  - Last experience study for PERS and HPRS was conducted in 2009 for the 5-year period ending June 30, 2009
  - Current study is based on the period July 1, 2009 through June 30, 2014
- Actuarial Standards of Practice #27 and #35 provide guidance on best practices for performing assumption-setting analysis
  - Each assumption should be reasonable and the actuary's best estimate
- Segal's role is to make appropriate "best estimate" recommendations to the Board for each assumption
  - The assumptions are ultimately the Board's responsibility and the Board can adopt all, none, or some of the recommendations of the actuary

Overview: How Assumptions Are Set

- Review past experience
- Compare past experience (“actual”) with assumptions (“expected”)
- Determine trends – make judgments about future
- Develop component parts of each assumption
  - Maintain linkage with investments
  - Maintain internal consistency
- Keep in mind
  - No “right” answer – each assumption is a best estimate
  - Assumptions are long-term

Overview: Actuarial Assumptions

Economic

- Inflation
- Salary increase
- Payroll growth
- Investment return
- Miscellaneous

Demographic

- Termination
- Disability
- Retirement
- Death after retirement
- Death in active service
- Spouse information
- Miscellaneous

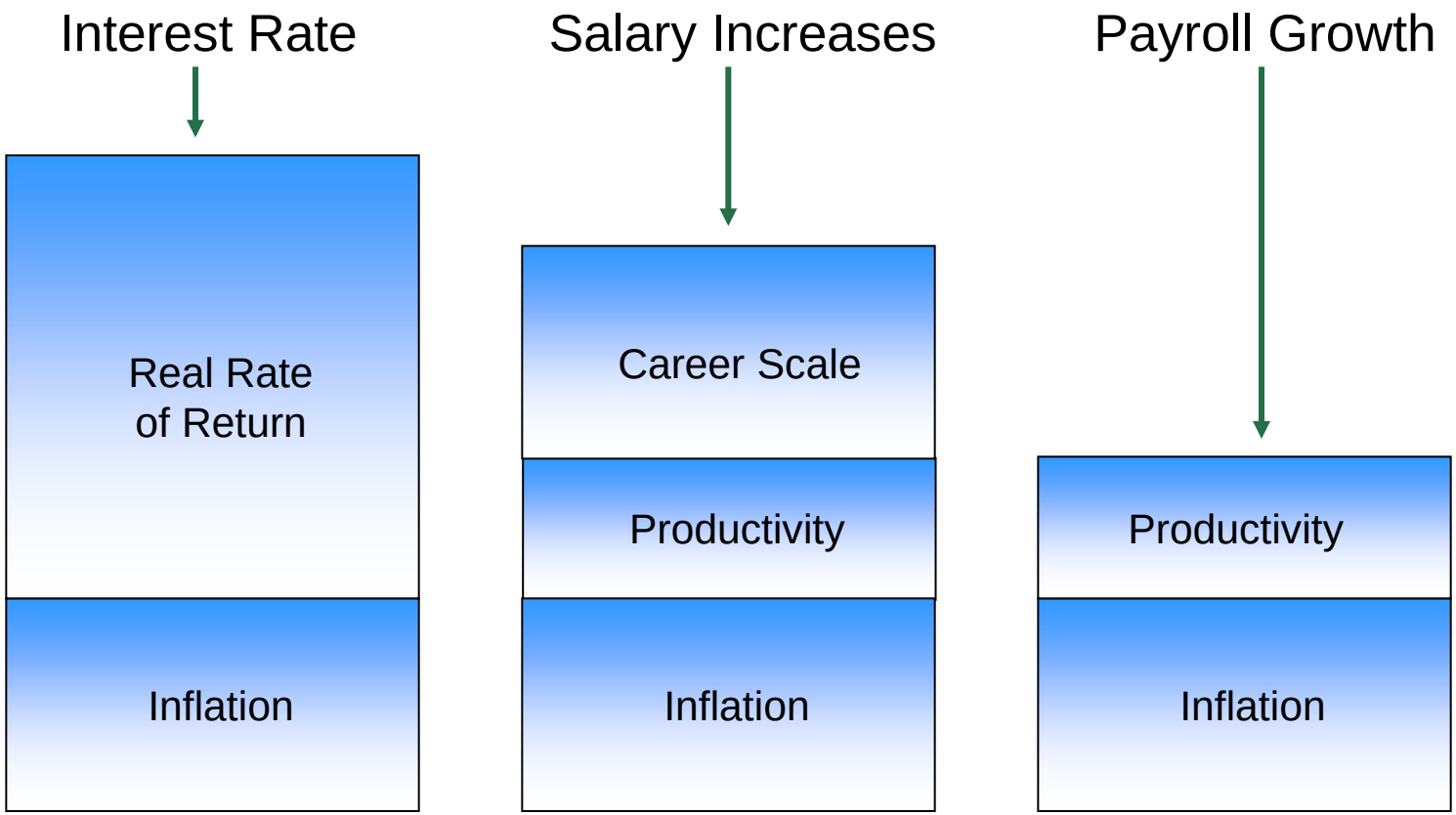
Funding Policy

- Funding method
- Asset valuation method
- Amortization of Unfunded Actuarial Accrued Liability

Actuaries make assumptions as to when and why a member will leave active service and estimate the amount and duration of the pension benefits due.

Building Block Method – Basis for Setting Economic Assumptions

Each economic assumption has 2 or 3 components (or building blocks)



Building blocks should be consistent across all economic assumptions, but may be adjusted for conservatism.

Assumed Rate of Inflation

- Inflation represents the annual increase in the cost of living.
- The inflation assumption, currently 3.50%, indirectly affects the valuation.
  - Inflation is a component of the following economic assumptions:
    - Investment return
    - Payroll growth
    - Individual salary increases
- Segal's recommendation is to lower the long term assumption from 3.50% to 2.75%. This recommendation is based on:
  - Current market expectations indicate that low inflation is expected to continue; and
  - Both Callan and Segal Rogerscasey expect inflation to be less than 2.50% over the next 10-20 years.

Assumed Rate of Inflation *(continued)*

- As of June 30, 2014, the historical national inflation (CPI-U) averages are:
  - 5-year average - 2.02%.
  - 10-year average - 2.31%.
  - 20-year average - 2.41%.
  - 30-year average - 2.81%.
  - 50-year average - 4.16%.
- In addition to historical inflation, other metrics to consider are current market expectations and inflation assumptions used for similar pension plans.

Assumed Rate of Inflation *(continued)*

- By observing the difference between the yields on US Treasury bonds with and without inflation indexing, we can directly calculate the rate of inflation that investors may expect.
- As of June 2014, the yields on 30-year Treasury bonds were as follows:
  - Inflation indexed: 1.03%
  - Non-inflation indexed: 3.39%
  - The difference between these figures is 2.36%.
    - This difference of 2.36% represents one measure of the financial market's current expectations of inflation over the next 30 years.
- Social Security uses three inflation assumptions to project its future financial status:
  - Low inflation of 2.0%;
  - Moderate inflation of 2.7%; and
  - High inflation of 3.4%.

Assumed Rate of Inflation *(continued)*

- The National Association of State Retirement Administrators (NASRA) Public Fund Survey collects general information on 126 public pension systems.
- The median inflation assumption of these 126 systems is 3.00%.
- We recommend that the Board adopt an assumption that falls between:
  - The rate indicated by financial market data; and
  - The median rate used by peer retirement systems.

We recommend that the Board lower the inflation assumption from 3.50% to 2.75%.

Assumed Rate of Payroll Growth

- The amortization of the unfunded actuarial accrued liability (UAAL) is calculated as a level percentage of payroll over a closed period of time.
  - The amortization amount in dollars is expected to increase each year as payroll increases (i.e., amortization payments are back loaded.)
  - The payroll growth assumption is used to estimate the annual increase in total payroll.
- A lower payroll growth assumption is more conservative.
  - A lower payroll growth assumption results in larger amortization payments.
  - For example, a 0% payroll growth assumption uses level amortization payments, similar to a mortgage.
- The current payroll growth assumption is 4% for Judges and 4.50% for all other Systems except Job Service, which does not have a payroll growth assumption. The payroll growth assumption consists of the following components:
  - Inflation: 3.50%
  - Productivity: 1.00% (0.50% for Judges)

Assumed Rate of Payroll Growth *(continued)*

- As the recommended inflation component is 2.75%, we need to examine the productivity component.
- Productivity can be measured as the excess of the increase in the National Average Wage over inflation.
  - The 20-year average of the National Average Wage is 3.4%.
  - The 20-year average inflation is 2.4%.
  - Therefore, productivity has averaged about 1.0% over the last 20 years.
  - We expect productivity in North Dakota to be greater than the national average due to its overall strong economy.
- We recommend increasing the productivity component of the payroll growth assumption to 0.75% for Judges and 1.25% for all other Systems (except Job Service).

Assumed Rate of Payroll Growth *(continued)*

- The following table summarizes the Fund's historical payroll and active population growth:

Year Ended June 30	PERS (excluding Judges)		Judges	
	Covered Payroll ($ in Millions)	Active Members	Covered Payroll ($ in Millions)	Active Members
1995*	$300.3	15,026	$3.1	52
1999	393.8	16,287	3.9	47
2004	496.6	17,590	4.4	46
2009	692.3	19,896	5.4	47
2014	966.5	22,212	7.0	50
Average Change (5-Year)	6.9%	2.2%	5.1%	1.2%
Average Change (10-Year)	6.9%	2.4%	4.7%	0.8%
Average Change (15-Year)	6.2%	2.1%	4.0%	0.4%
Average Change (19-Year)	6.3%	2.1%	4.3%	(0.2)%

** Earliest date available*

Assumed Rate of Payroll Growth *(continued)*

- The following table summarizes the components of the current and recommended payroll growth assumption:

Component	PERS (without Judges) and HPRS		Judges	
	Current	Recommended	Current	Recommended
Inflation	3.50%	2.75%	3.50%	2.75%
Productivity	1.00%	1.25%	0.50%	0.75%
Total	4.50%	4.00%	4.00%	3.50%

- We recommend changing the 4.50% payroll growth assumption for PERS and HPRS to 4.00%.
- We recommend changing the 4.00% payroll growth assumption for Judges to 3.50%.
- The Job Service Plan does not currently use a payroll growth assumption because there is no unfunded actuarial accrued liability. We recommend no change.

Assumed Rate of Individual Salary Increases

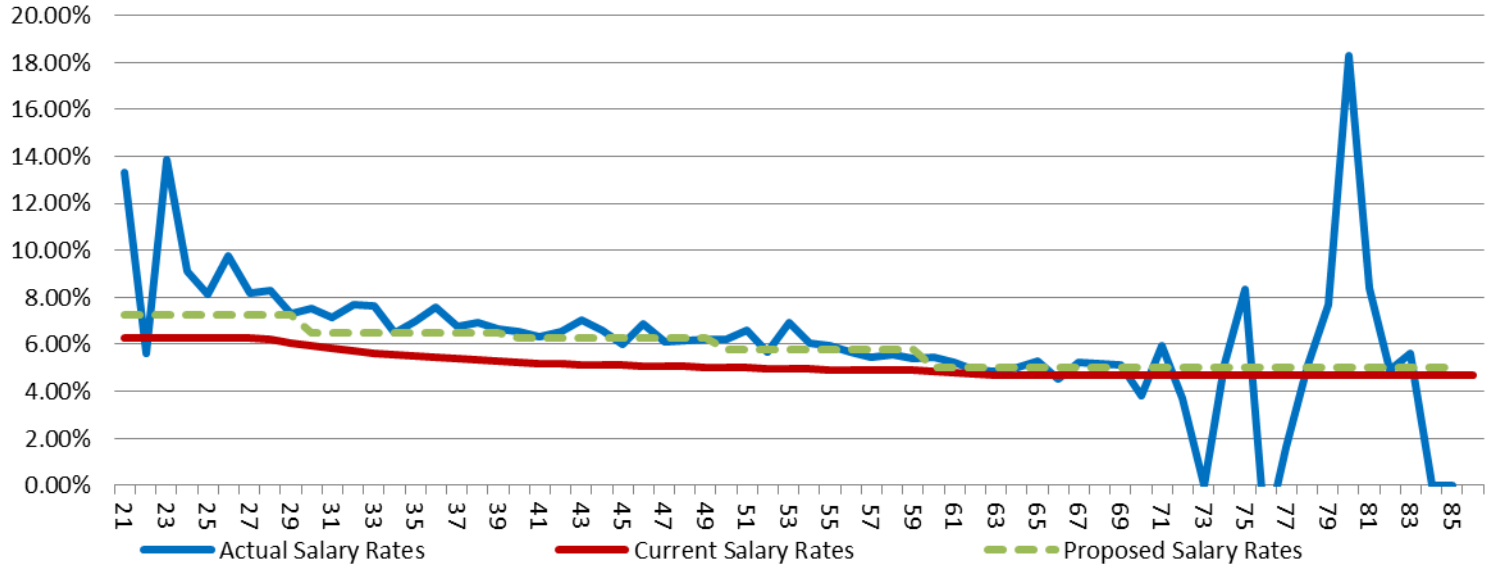
- Individual member salary increases components:
  - Inflation
  - Productivity
  - Promotional and merit increases
- Since promotional and merit increases are unique to each retirement system, as well as State vs. Non-State participants in the Main System, it is appropriate to base this assumption on recent experience.
  - We study the promotional and merit increases (plus productivity) separately from inflation.
  - Between 2009 and 2014, inflation averaged 2.0%.

Assumed Rate of Individual Salary Increases *(continued)*

- The following tables compare the actual and expected individual salary increases over the past 5 years.
- Based on this experience and the fact that service and salary increases have been sources of losses for the past five years, we recommend changing the promotional and merit (and productivity) portion of individual salary increases.
- In the following pages, tables and graphs reviewing the total actual rates of increase, current assumptions and proposed assumptions for individual salary increase assumption by age or years of service, as appropriate, are summarized.

Assumed Rate of Individual Salary Increases – Main System – State Employees

For participants with 3 or more years of service:

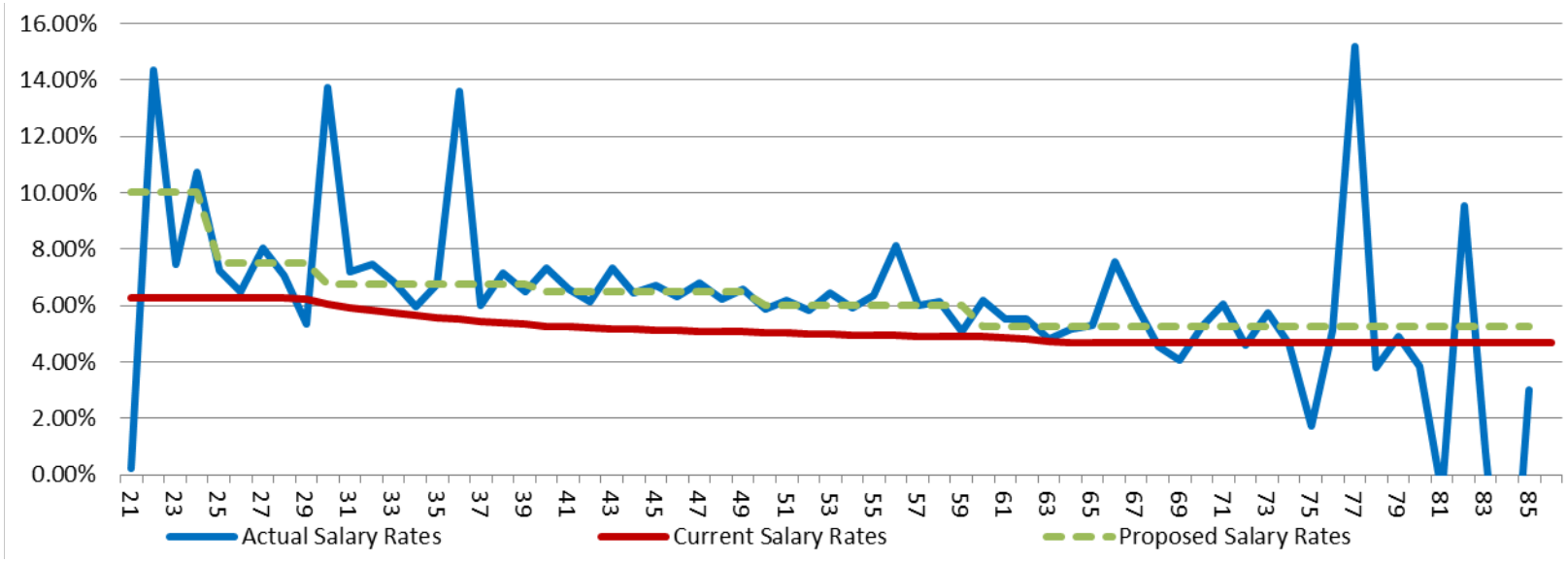


For participants with less than 5 years of service:

Service Range	Actual Salary Increase Rate	Current Salary Increase Rate	Proposed Salary Increase Rate
Less than 1	32.62%	8.25%	12.00%
1	13.20%	7.25%	9.50%
2	7.88%	6.75%	7.25%
3	7.19%	6.50%	N/A
4	7.02%	6.25%	N/A
Weighted Average	14.46%	7.08%	9.69%

Assumed Rate of Individual Salary Increases – Main System – Non-State Employees

For participants with 3 or more years of service:

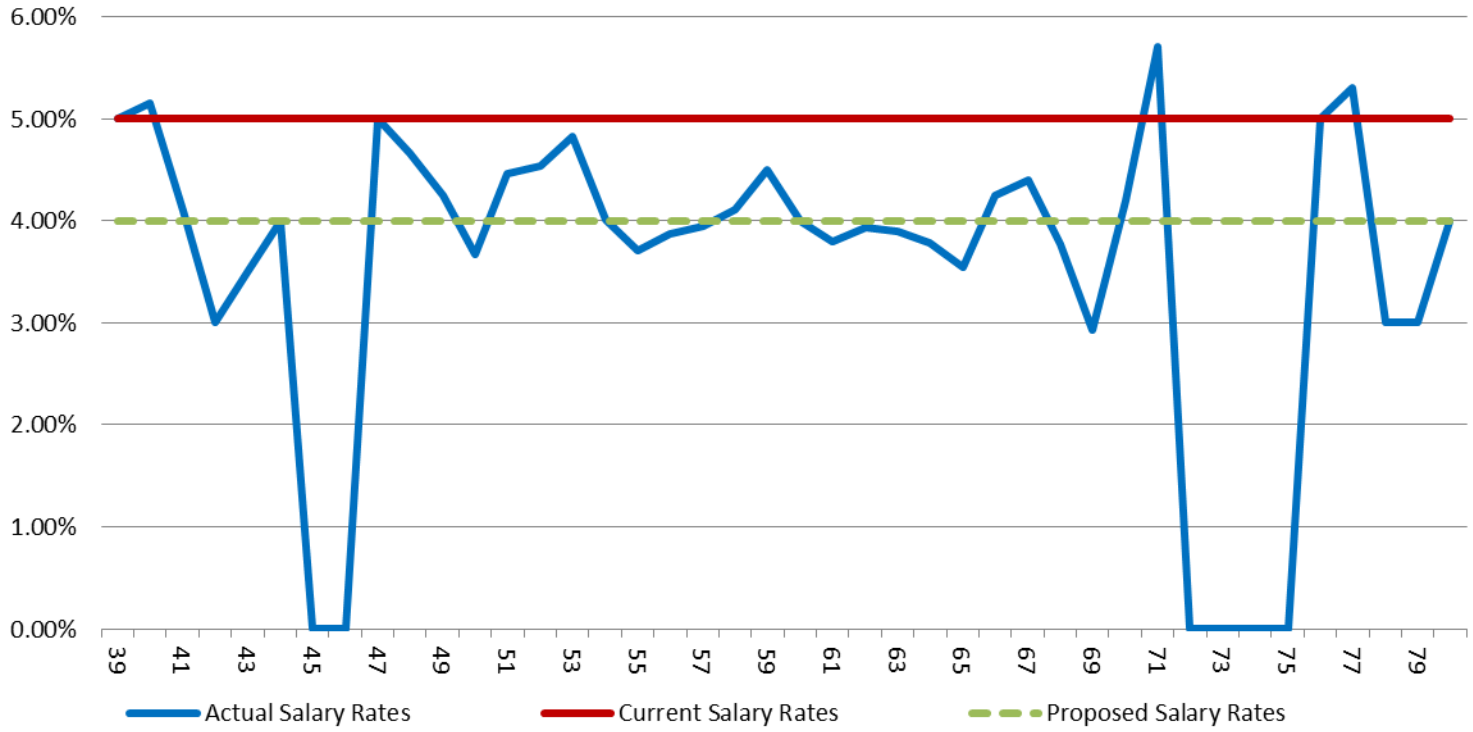


For participants with less than 5 years of service:

Service Range	Actual Salary Increase Rate	Current Salary Increase Rate	Proposed Salary Increase Rate
Less than 1	54.90%	8.25%	15.00%
1	11.18%	7.25%	10.00%
2	9.32%	6.75%	8.00%
3	7.51%	6.50%	N/A
4	7.38%	6.25%	N/A
Weighted Average	20.66%	7.13%	11.27%

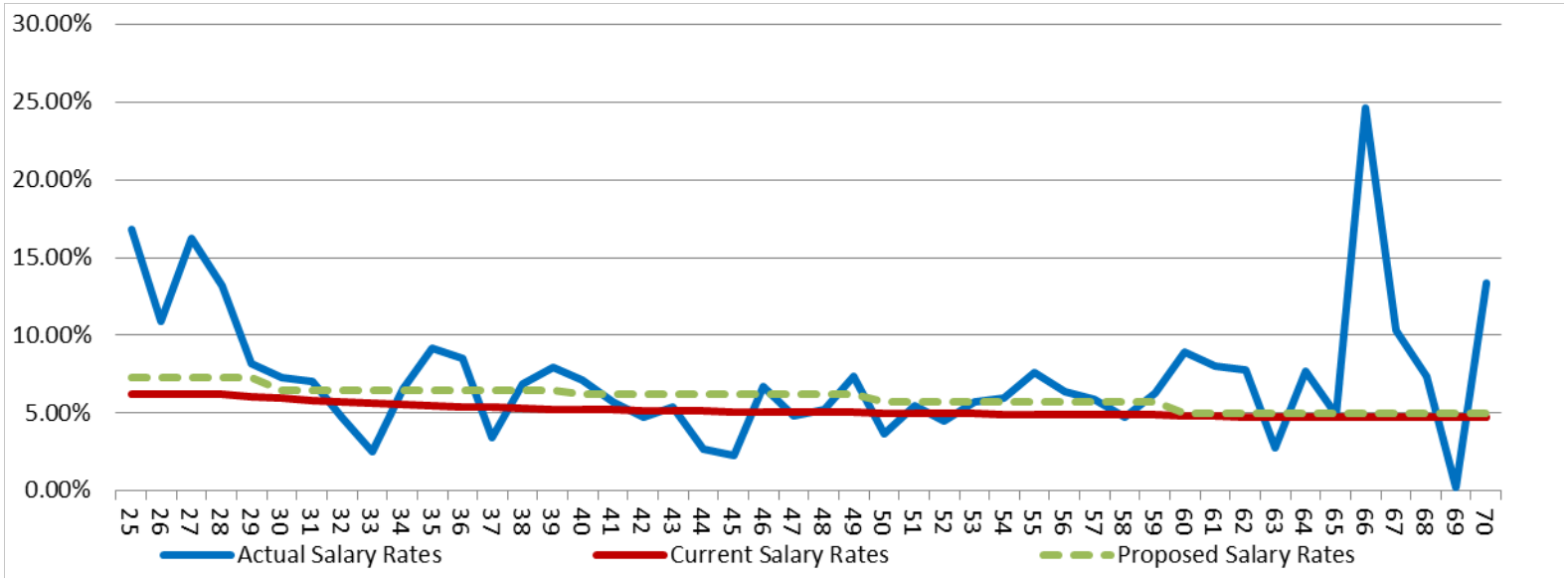
Assumed Rate of Individual Salary Increases – Judges

For participants with 3 or more years of service:



Assumed Rate of Individual Salary Increases – National Guard and Law Enforcement (with and without Prior Service)

For participants with 5 or more years of service:

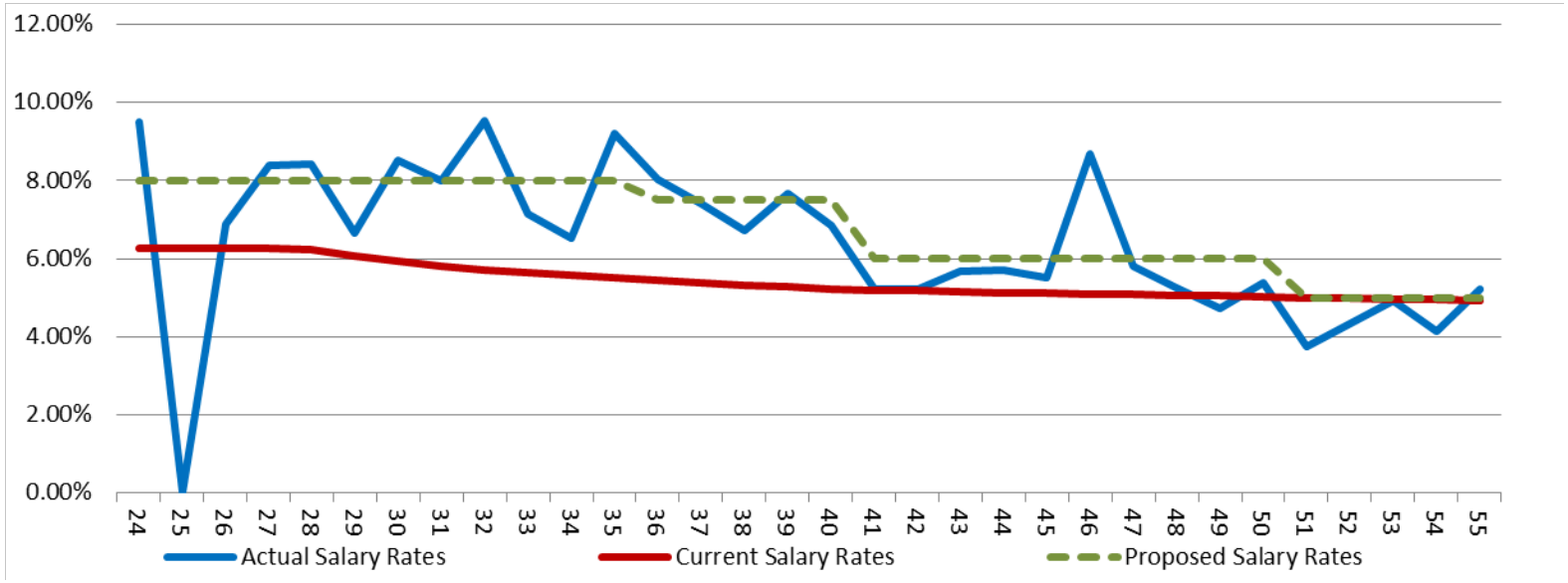


For participants with less than 5 years of service:

Service Range	Actual Salary Increase Rate	Current Salary Increase Rate	Proposed Salary Increase Rate
Less than 1	32.97%	8.25%	20.00%
1	19.08%	7.25%	20.00%
2	24.53%	6.75%	20.00%
3	7.95%	6.50%	10.00%
4	10.88%	6.25%	10.00%
Weighted Average	22.08%	7.25%	17.70%

Assumed Rate of Individual Salary Increases – Highway Patrolmen

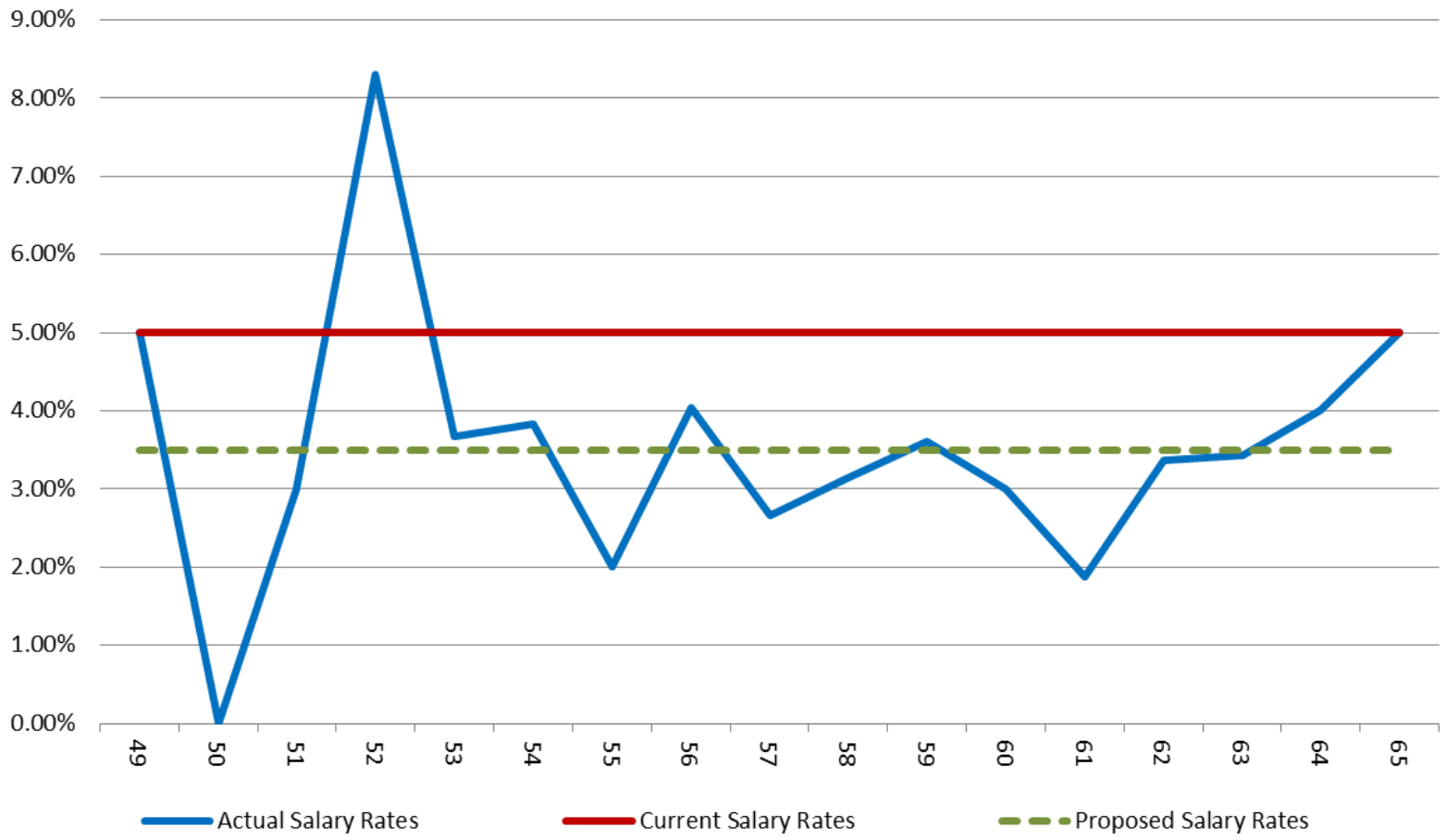
For participants with 3 or more years of service:



For participants with less than 5 years of service:

Service Range	Actual Salary Increase Rate	Current Salary Increase Rate	Proposed Salary Increase Rate
Less than 1	21.30%	8.25%	15.00%
1	10.57%	7.25%	10.00%
2	7.90%	6.75%	8.00%
3	7.81%	6.50%	N/A
4	8.15%	6.25%	N/A
Weighted Average	10.72%	6.96%	10.63%

Assumed Rate of Individual Salary Increases – Job Service



Assumed Rate of Investment Return

- The current investment return assumption of 8.00% consists of two components:
  - Inflation: 3.50%
  - Real rate of return: 4.50%, net of investment expenses
    - Real return represents the excess of what the assets earn over inflation
    - Our approach is to analyze inflation and real return separately
- Currently, the assumed real rate of return is 4.50%, net of expected investment expenses, for all systems except Job Service. For Job Service, the assumed real rate of return is 4.50%, net of expected investment and administrative expenses.
  - For Job Service, we recommend removing the administrative expense from the investment return assumption and adding an explicit load to the normal cost. This approach is required by the Governmental Accounting Standards Board (GASB) for the purpose of producing liabilities used in financial statements.

Assumed Rate of Investment Return *(continued)*

- The following table shows **administrative expenses** from the draft Statements of changes in Plan Net Position over the last 5 years:

Year Ended June 30	Main System	Judges	National Guard	Law Enforcement with Prior Service	Law Enforcement without Prior Service	Highway Patrolmen	Job Service
2014	$2,096,756	$10,677	$3,779	$21,358	$6,151	$27,983	$31,455
2013	2,021,249	10,911	4,041	14,499	8,614	29,237	30,014
2012	1,811,417	16,027	4,416	16,831	8,043	26,674	25,980
2011	1,763,346	9,393	3,966	14,766	5,816	22,734	26,368
2010	1,182,840	10,683	2,894	5,685	12,631	18,154	24,318
Total	$8,875,608	$57,691	$19,096	$73,112	$41,255	$124,782	$138,135
Average	$1,775,122	$11,538	$3,819	$14,622	$8,251	$24,956	$27,627
Assumed	$1,100,000	$7,500	$3,000	$2,500	$7,500	$18,000	$0

- We recommend changing the administrative expense assumption to be equal to the prior year's administrative expenses plus inflation, which will be converted to a percentage of payroll in the actuarially determined contribution rate.
- This assumption will be updated each year.

Assumed Rate of Investment Return *(continued)*

- We have based our analysis of the expected real rate of return on the "Survey of Capital Market Assumptions"*.
  - This survey compiles and averages the capital market assumptions of 23 investment consultants (including Callan and Segal Rogerscasey).
- The calculation of the expected real rate of return based on the survey assumptions are shown on the following slides.
- Note that expected arithmetic returns are used to determine the expected returns by asset class. The portfolio's expected geometric return is estimated by reducing the arithmetic return by half of the portfolio's expected variance.

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Assumed Rate of Investment Return *(continued)*

Asset Class	20-Year Annual Arithmetic Real Return	Target Allocation	Weighted Real Return
US Equities Large Cap	7.05%	24%	1.69%
US Equities Small/Mid Cap	8.10%	7%	0.57%
Intl Equities Developed	7.71%	16%	1.23%
Emerging Markets Equities	10.24%	5%	0.51%
US Bonds Core	2.48%	12%	0.30%
US Bonds High Yield	4.71%	5%	0.24%
Intl Debt Developed	2.05%	5%	0.10%
Cash Equivalents	1.11%	1%	0.01%
Real Estate	4.95%	15%	0.74%
Infrastructure	6.16%	5%	0.31%
Private Equities	10.97%	5%	0.55%
Total		**100%**	**6.25%**
Adjustment to Geometric			(0.62)%
Geometric Real Rate of Return			**5.63%**

Assumed Rate of Investment Return *(continued)*

- Using the Fund's target asset allocation and the capital market assumptions from the survey, the expected real rate of return is 5.63%.
  - The expected real rate of return is reduced to account for investment expenses. We do not have specific data on the investment expenses, but for a plan this size, assuming 0.50% to account for investment expenses would be reasonable.
- The expected real rate of return is 5.13%, net of expected investment expenses of 0.50%.

Gross Real Rate of Return	5.63%
Less Investment Expenses	(0.50)%
Net Real Rate of Return	5.13%

Assumed Rate of Investment Return *(continued)*

- Over a 20-year period, the Fund is expected to earn an annual real rate of return of at least 5.11% half of the time.
- Changing the expected real rate of return to 5.00% will increase the likelihood of meeting the expectation over a 20-year period to 52%.
- The following table shows the components of the current and recommended investment return assumption.

Component	Current	Recommended	50/50	8.00%	7.50%
Inflation	3.50%	2.75%	2.75%	2.75%	2.75%
Real Rate of Return, net of expenses	4.50%	5.13%	5.13%	5.13%	5.13%
Risk Adjustment	(0.00)%	(0.13)%	(0.00)%	0.12%	(0.38)%
Total	8.00%	7.75%	7.88%	8.00%	7.50%
Confidence Level	N/A	52%	50%	48%	56%

Miscellaneous Economic Assumptions

- Interest Crediting Rate – Currently this rate is 7.5% for PERS and HPRS, 0.5% lower than the assumed investment return. The rate is 4.00% for Job Service. These rates are set by the Board. If the assumed investment return is changed, the Board may want to review whether these rates should be changed.

- Judges Disability Offset – Currently 50% of those who retire on a disability pension are assumed eligible for Social Security disability with a 3.5% per annum CPI, 5% per annum wage base increase and no Workers' Compensation offset. There have been no disability retirements from the Judges System in the past 5 years. However, since some of the components are economic, we recommend changing the CPI to 2.75% and the wage base increase to 4.25%.

Miscellaneous Economic Assumptions *(continued)*

- Indexing Benefits of Inactive Vested Highway Patrolmen – Vested benefits are indexed at a rate set by the Retirement Board based on the increase in final average salary from date of termination to benefit commencement date, as shown below for the past 10 years:

Year Beginning	Average Annual Increase	Three-Year Average Increase
07/01/2005	4.00%	1.33%
07/01/2006	4.00%	2.67%
07/01/2007	4.00%	4.00%
07/01/2008	4.00%	4.00%
07/01/2009	5.00%	4.33%
07/01/2010	5.00%	4.67%
07/01/2011	2.00%	4.00%
07/01/2012	2.00%	3.00%
07/01/2013	3.00%	2.33%
07/01/2014	3.00%	2.67%
Ten-year average	3.10%	

We recommend reducing the assumption from the current 4.50% to 4.00%.

Miscellaneous Economic Assumptions *(continued)*

- Job Service COLA – The COLA increases for the past 10 years are as follows:

Year Beginning	COLA
07/01/2005	1.30%
07/01/2006	4.60%
07/01/2007	3.30%
07/01/2008	2.24%
07/01/2009	5.80%
07/01/2010	0.00%
07/01/2011	0.00%
07/01/2012	3.30%
07/01/2013	1.70%
07/01/2014	1.50%
Ten-year average	2.37%

We recommend reducing the assumption from the current 5.00% to 3.00%.

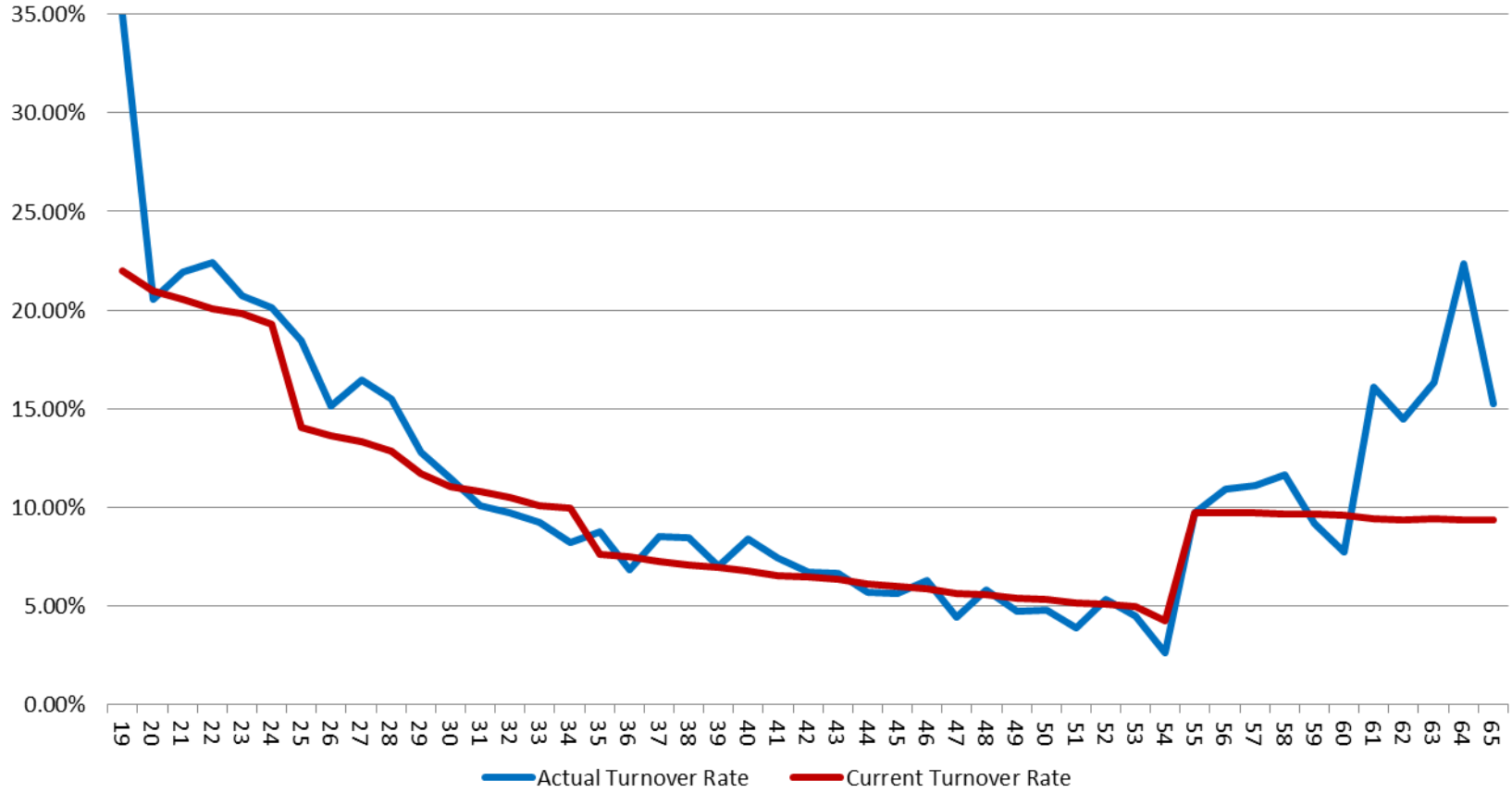
Demographic Assumptions

- Termination
- Disability
- Retirement
- Death after retirement
- Death in active service
- Spouse information
- Miscellaneous

Termination – All Systems

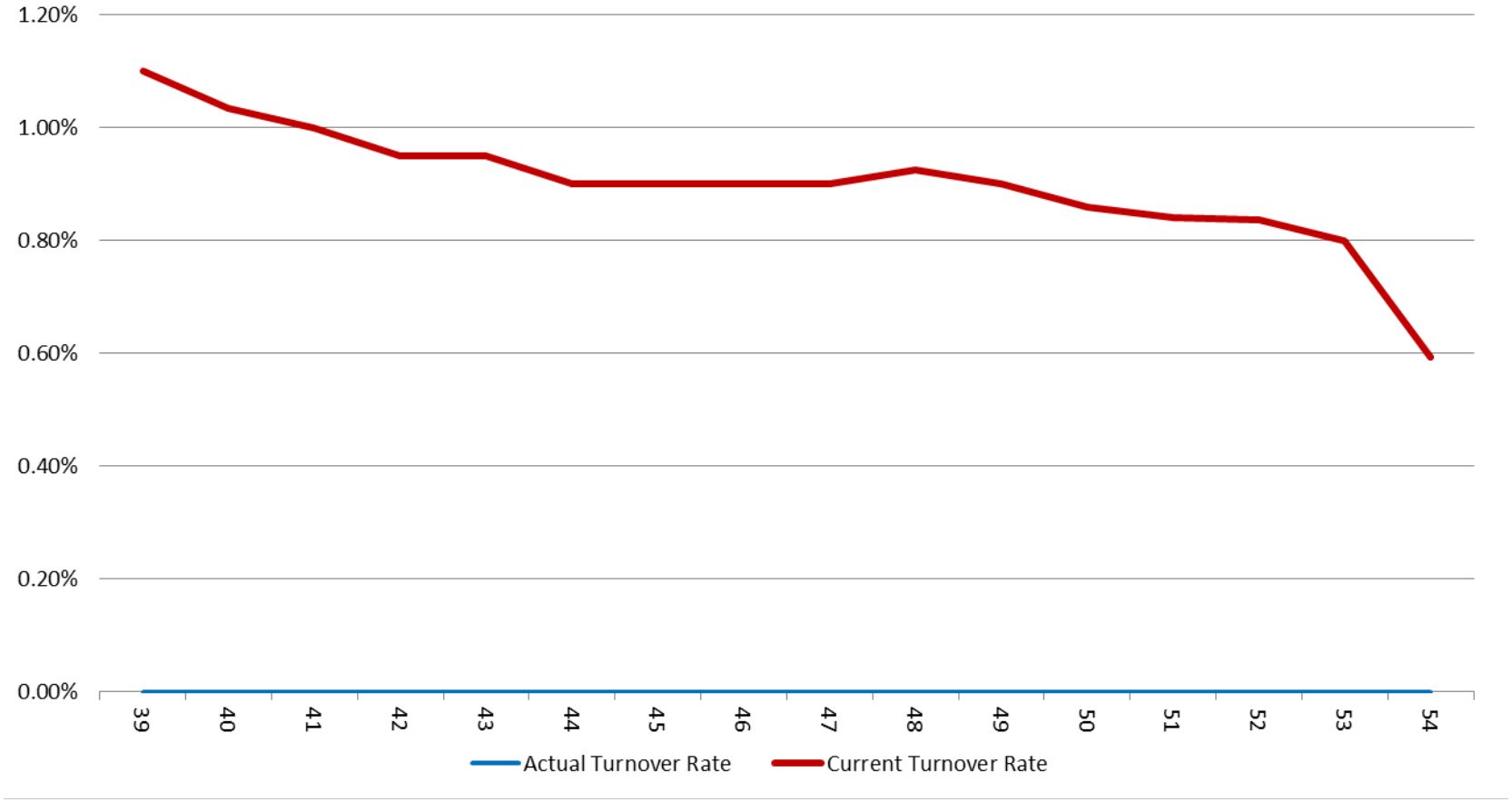
- Current rates are based on age, years of service and System.
- Experience is consistent with the expected rates for all systems except for Judges and National Guard.
- We recommend maintaining the current turnover rates for the Main System.
- No judges have terminated in the past ten years. We recommend eliminating the turnover rates for Judges.
- While the National Guard System has experienced higher than expected turnover in recent years, we suspect that this is a short-term trend and recommend maintaining the current turnover rates that are used for Law Enforcement and National Guard.
- The graphs on the following pages show the actual, expected, and proposed termination rates based on years of service.
- As of July 1, 2014, all active participants in the Job Service plan had met eligibility for retirement. Since the Plan is closed to new entrants, this decrement is no longer applicable in the Job Service plan.

Termination – Main System



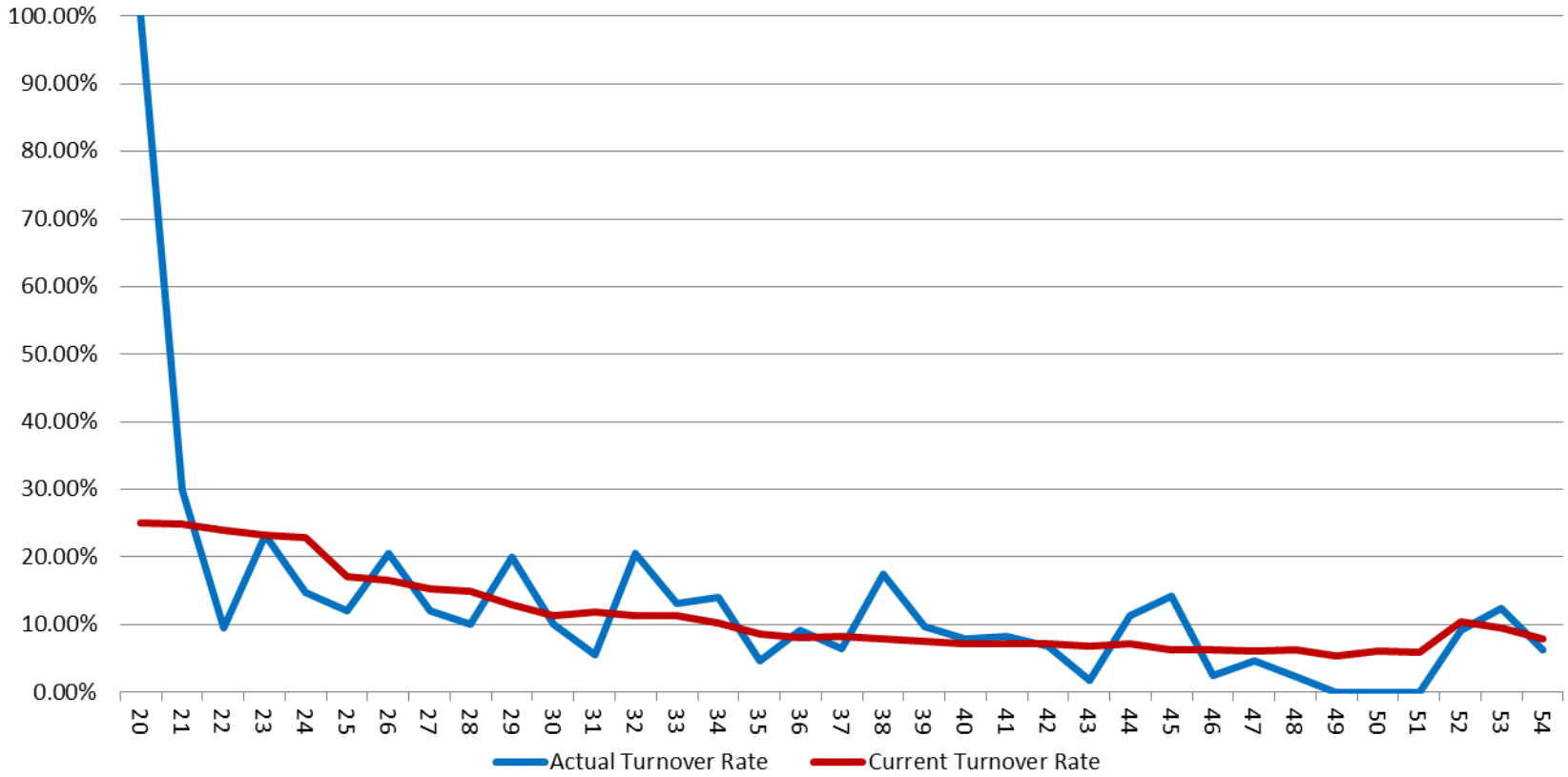
Exposures	Actual Terminations	Expected Terminations	Actual to Expected	Proposed Terminations	Actual to Proposed
76,375	6,271	5,999	105%	No change	No change

Termination – Judges



Exposures	Actual Terminations	Expected Terminations	Actual to Expected	Proposed Terminations	Actual to Proposed
93	0	1	N/A	0	N/A

Termination – Law Enforcement*



Exposures	Actual Terminations	Expected Terminations	Actual to Expected	Proposed Terminations	Actual to Proposed
1,893	198	206	96%	No Change	No Change

** Includes National Guard, Law Enforcement with Prior Service, Law Enforcement without Prior Service and Highway Patrol*

Disability Retirement – All Systems

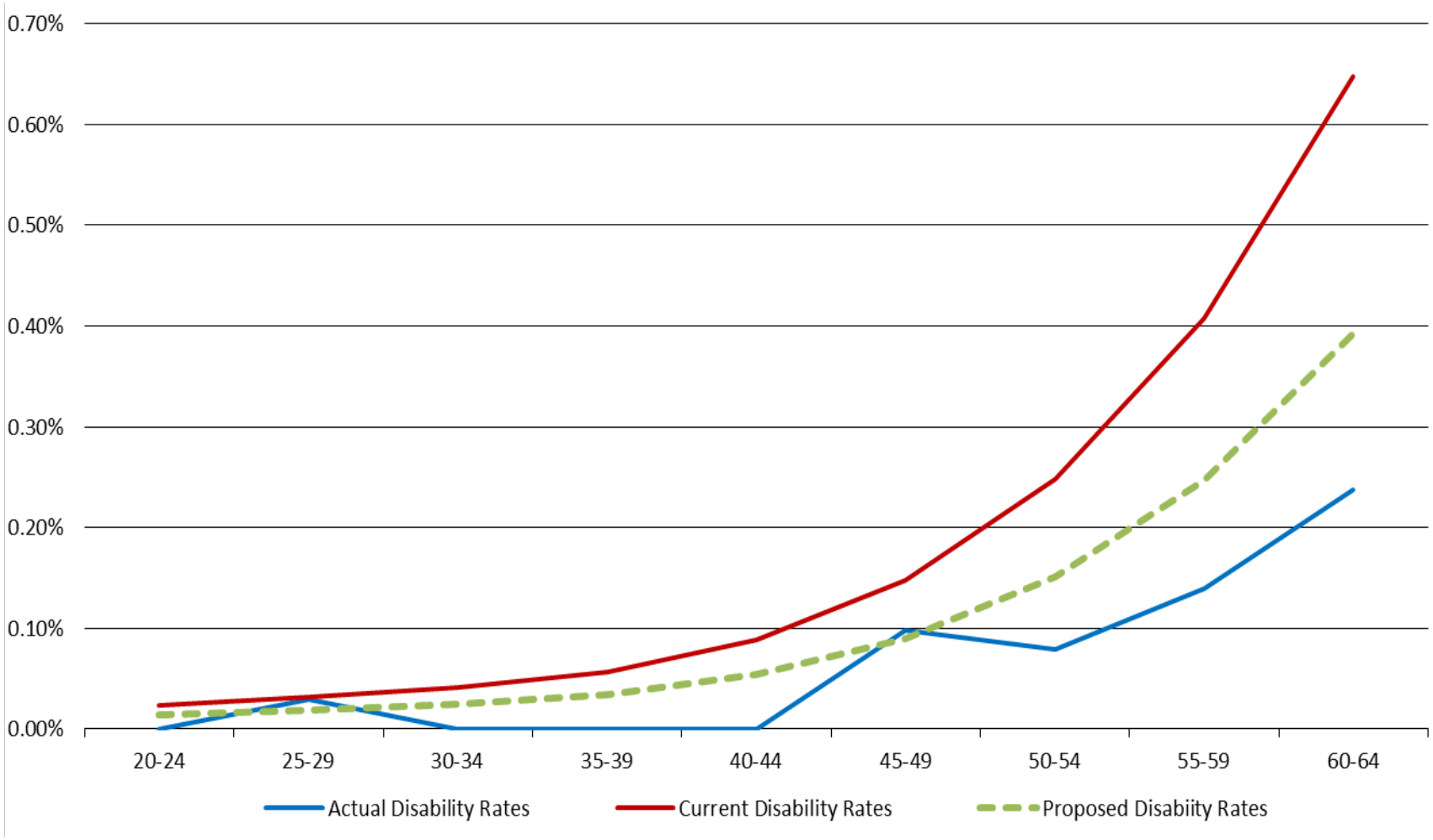
- Rates vary based on member's age.
- From 2009 to 2014:
  - 176 members were expected to start receiving a disability pension; and
  - 58 members actually started receiving a disability pension.
- The experience has been significantly lower than expected.
- From 2004 to 2009, there were 94 new disability pensions awarded.

Disability Retirement – All Systems *(continued)*

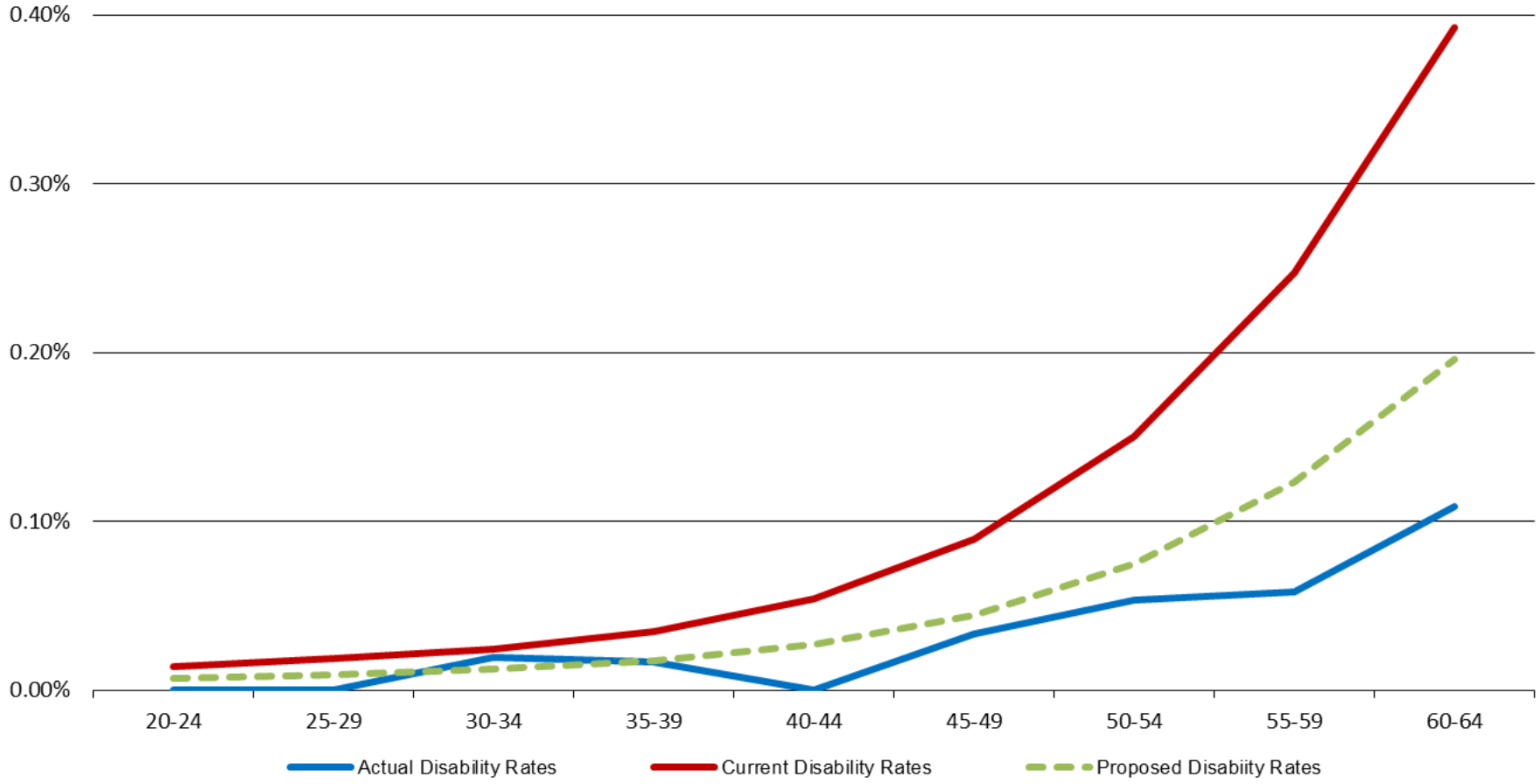
- We recommend lowering the disability rates for all PERS systems as shown below:

Age	Males			Females		
	Current Rate	Observed Rate	Proposed Rate	Current Rate	Observed Rate	Proposed Rate
20 – 24	0.02%	0.00%	0.01%	0.01%	0.00%	0.01%
25 – 29	0.03%	0.03%	0.02%	0.02%	0.00%	0.01%
30 – 34	0.04%	0.00%	0.02%	0.02%	0.02%	0.01%
35 – 39	0.06%	0.00%	0.03%	0.03%	0.02%	0.02%
40 – 44	0.09%	0.00%	0.05%	0.05%	0.00%	0.03%
45 – 49	0.15%	0.10%	0.09%	0.09%	0.03%	0.04%
50 – 54	0.25%	0.08%	0.15%	0.15%	0.05%	0.08%
55 – 59	0.41%	0.14%	0.25%	0.25%	0.06%	0.12%
60 – 64	0.65%	0.24%	0.39%	0.39%	0.11%	0.20%

Disability Retirement - Male



Disability Retirement - Female



Retirement Eligibility

- Eligibility for reduced benefits
  - Main System – Age 55 with three years of service
  - Judges – Age 55 with five years of service
  - National Guard and Law Enforcement – Age 50 with three years of service
  - Highway Patrolmen – Age 50 with ten years of service
  - Job Service
    - Age 52 with five years of service
    - Age 50 with 20 years of service
    - Age 45 with 30 years of service

Retirement Eligibility *(continued)*

- Eligibility for unreduced benefits
  - Main System and Judges - Age 65 or Rule of 85 (age plus service is greater than or equal to 85)
  - National Guard - Age 55 with three years of service
  - Law Enforcement - Age 55 with three years of service or Rule of 85
  - Highway Patrolmen - Age 55 with ten years of service or Rule of 80
  - Job Service
    - Age 62 with five years of service
    - Age 60 with 20 years of service
    - Age 55 with 30 years of service

Active Member Retirements

- Current rates:
  - Vary based on member's age and system.
  - Vary depending on whether the member is eligible for a reduced or unreduced benefit in the Main System.
- We have analyzed retirement experience for the following groups:
  - Eligible for a reduced benefit.
  - Eligible for an unreduced benefit (in Main System).
- The retirement rates take into account each individual's eligibility requirements.

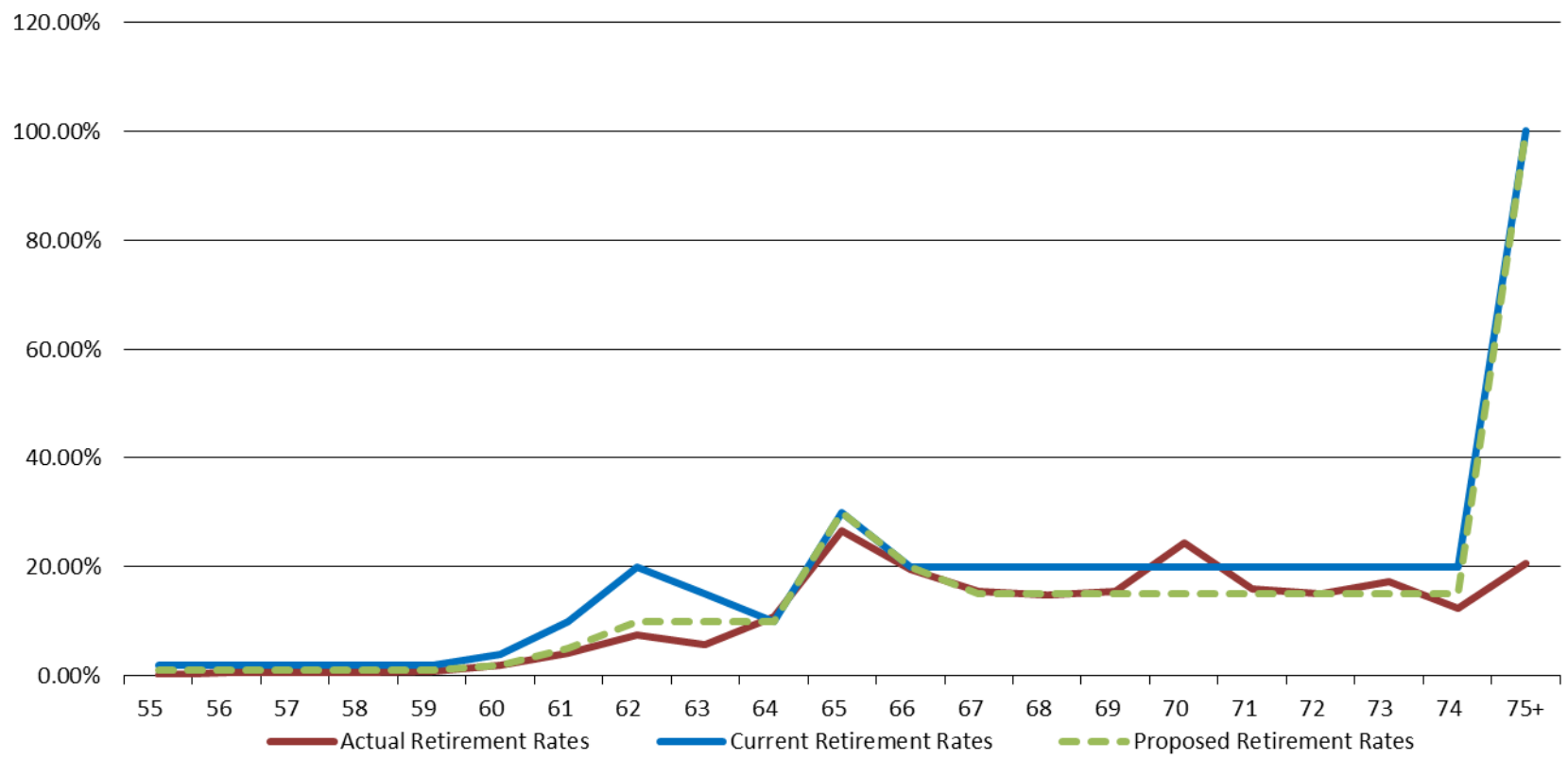
Active Member Retirements – Summary of Experience

- Main System
  - While there were fewer retirements than expected for those eligible for unreduced retirements, the general pattern of retirements was similar to expected. We recommend minor changes to the rates.
  - There were fewer retirements than expected among those eligible for reduced retirement, so we recommend lower rates at most ages.
- Judges
  - There were fewer retirements than expected at older ages, so we recommend lower rates, primarily at older ages.
- National Guard and Law Enforcement
  - There has not been significant retirement experience, however, there have been more retirements than expected before age 55 and fewer retirements than expected after age 55. We recommend raising rates before age 55 and lowering the rates after age 55.

Active Member Retirements – Summary of Experience *(continued)*

- Highway Patrolmen
  - There has not been significant retirement experience; however, there have been fewer retirements than expected and there are currently no active participants over age 55. We recommend lowering the rates before age 55.
- Job Service
  - There has not been significant retirement experience, and eligibility for unreduced benefits has not appeared to affect the retirement rates. There is only one active participant who had not reached eligibility for unreduced retirement as of July 1, 2014 valuation. We recommend consolidating to one table of retirement rates as shown on page 50.

Active Member Retirements – Reduced Benefits for Main System



Exposures	Actual Retirements	Expected Retirements	Actual to Expected	Proposed Retirements	Actual to Proposed
21,975	1,143	2,033	56%	1,512	76%

Active Member Retirements – Unreduced Benefits for Main System

Due to the low number of participants eligible for Rule of 85 for ages less than 53, the difference between the actual and proposed rates is not statistically significant.

Exposures	Actual Retirements	Expected Retirements	Actual to Expected	Proposed Retirements	Actual to Proposed
6,239	869	1,102	79%	883	98%

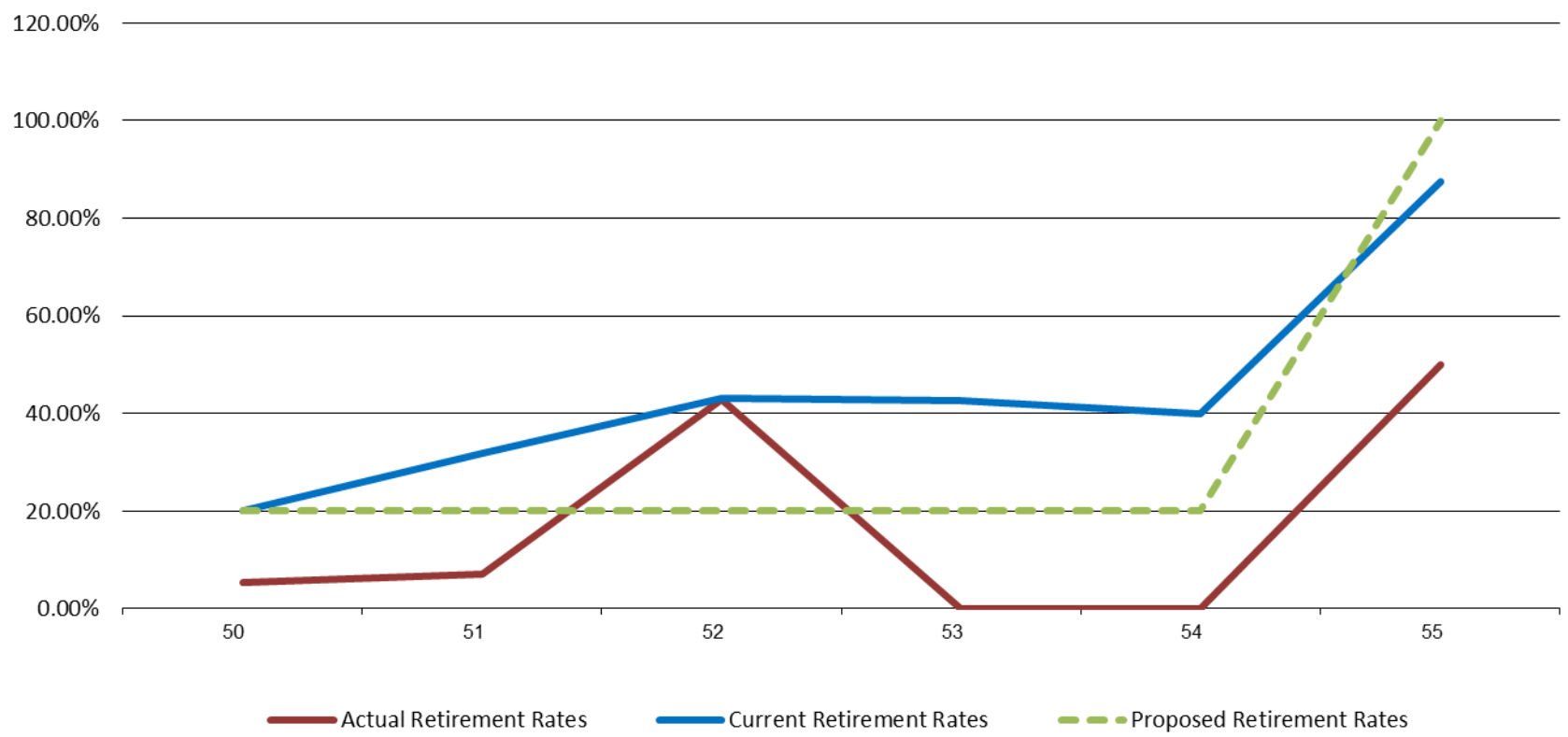
Active Member Retirements – Judges

Exposures	Actual Retirements	Expected Retirements	Actual to Expected	Proposed Retirements	Actual to Proposed
142	9	29	31%	21	43%

Active Member Retirements – National Guard and Law Enforcement

Exposures	Actual Retirements	Expected Retirements	Actual to Expected	Proposed Retirements	Actual to Proposed
159	27	45	60%	29	93%

Active Member Retirements – Highway Patrolmen



Exposures	Actual Retirements	Expected Retirements	Actual to Expected	Proposed Retirements	Actual to Proposed
59	9	20	45%	14	64%

Active Member Retirements – Job Service

Exposures	Actual Retirements	Expected Retirements	Actual to Expected	Proposed Retirements	Actual to Proposed
139	18	14	129%	23	78%

Current retirement rate age bands are shown as zero for groups with no exposures.

Inactive Vested Retirements

- The current assumption is that all inactive vested members will retire as follows:
  - Main System and Judges - Earlier of Age 64 and Unreduced Retirement Age
  - National Guard and Highway Patrol - Age 55
  - Law Enforcement - Earlier of Age 55 and Unreduced Retirement Age
  - Job Service – at first optional retirement age
- Main System:
  - From 2009 to 2014, of the 7,513 inactive vested members eligible to commence benefits, 945 elected to retire. Of these, 411 retired with reduced benefits.
  - We recommend a change to retirement rates consistent with those used for active participants.
  - There is a small subsidy in the early retirement benefit, so this approach is more conservative.
  - This approach should better reconcile the cash flow projections with actual benefit payments.

Exposures	Actual Retirements	Expected Retirements	Actual to Expected
7,513	945	1,560	61%

Inactive Vested Retirements *(continued)*

- Systems other than Main
  - There were very few inactive vested participants in the other systems who were eligible to retire and even fewer that actually retired.
  - We recommend a change to the retirement rates consistent with those used for active participants.

Death After Retirement (Non-Disabled) - All Systems

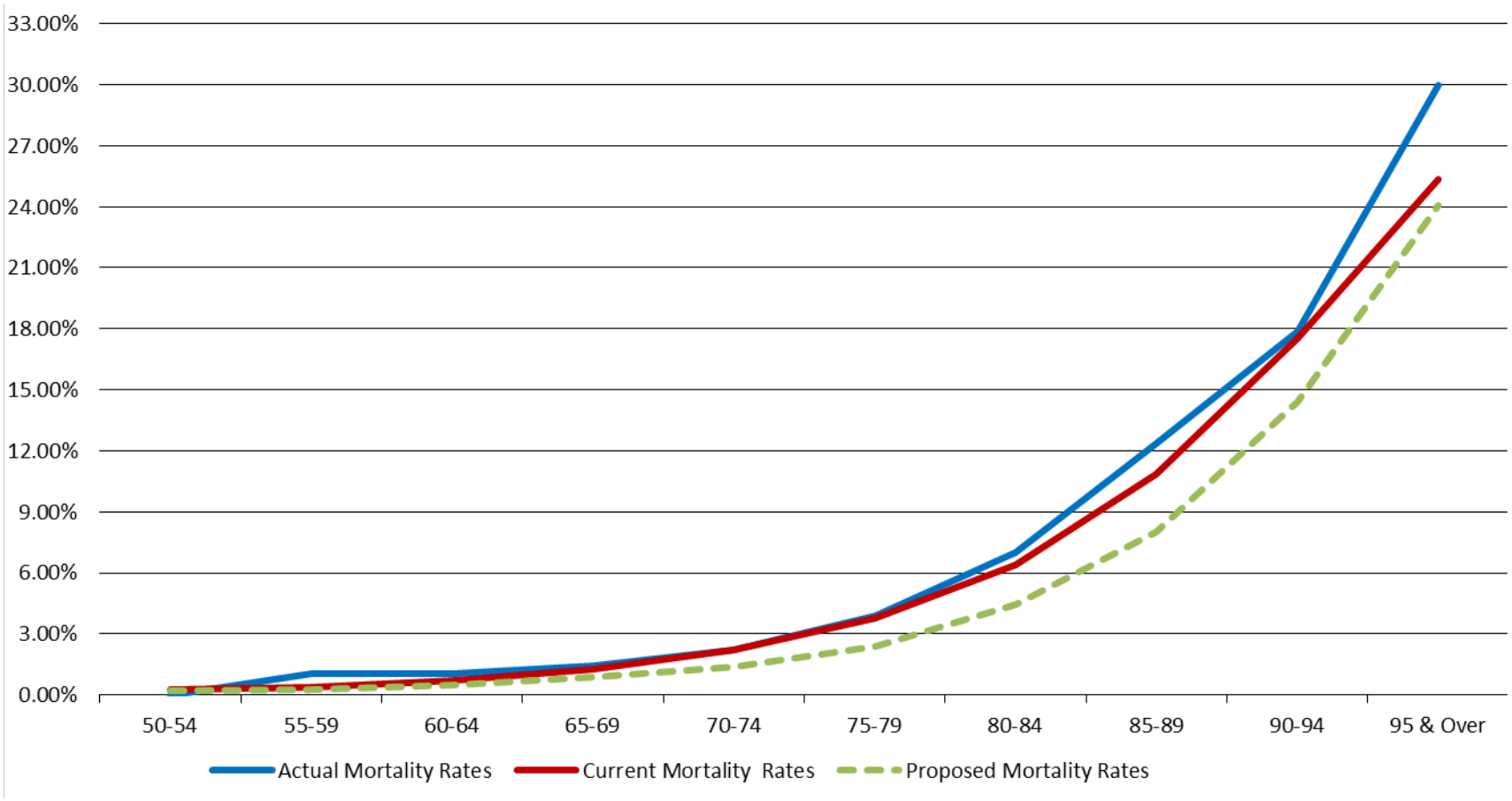
- Rates vary based on gender and age of the annuitant.
- Experience for non-disabled annuitants has been fairly consistent with the current assumption.
- The current male mortality assumption has more than sufficient margin for future mortality improvement. The ratio of actual to expected deaths is 121%. However, the margin in the female mortality assumption has deteriorated to 0%.
- To account for future mortality improvement, we recommend applying the generational mortality improvement scale (SSA 2014 Intermediate Cost) from 2014, for both males and females, and revising the non-disabled mortality assumption for males by changing the setback of the RP-2000 Mortality Table from 3 years to 2 years to reduce the current margin.

Life Expectancies

- The following table shows the future life expectancy (and expected age at death) at various ages using the current and recommended mortality tables, based on age in 2014.

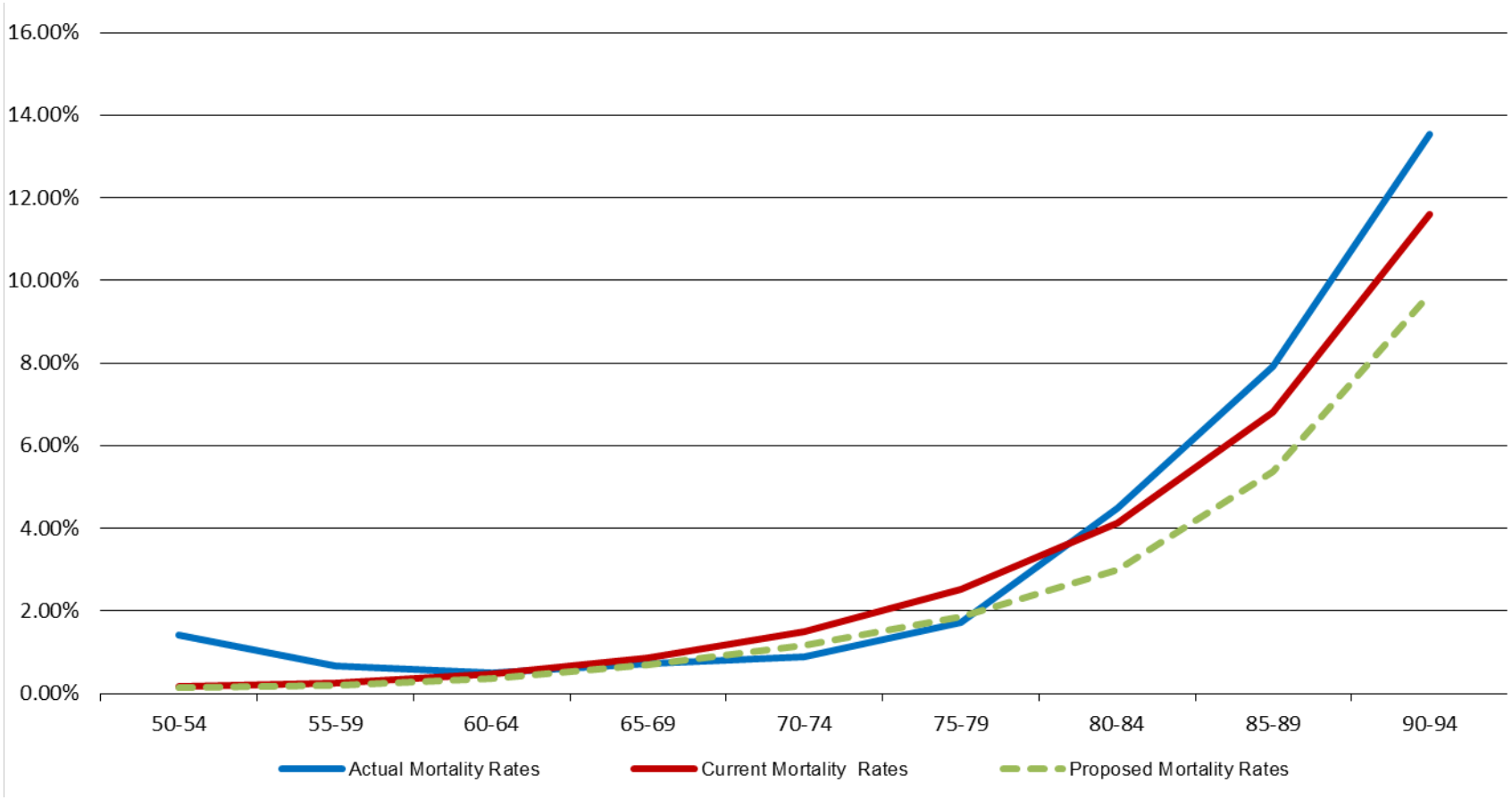
	Male		Female	
Age	Current	Proposed	Current	Proposed
50	33.7 (83.7)	34.8 (84.8)	36.5 (86.5)	38.6 (88.6)
55	29.0 (84.0)	29.8 (84.8)	31.8 (86.8)	33.5 (88.5)
60	24.4 (84.4)	25.0 (85.0)	27.1 (87.1)	28.6 (88.6)
65	20.1 (85.1)	20.4 (85.4)	22.7 (87.7)	23.8 (88.8)
70	16.1 (86.1)	16.2 (86.2)	18.6 (88.6)	19.4 (89.4)
75	12.5 (87.5)	12.4 (87.4)	14.8 (89.8)	15.4 (90.4)
80	9.4 (89.4)	9.2 (89.2)	11.5 (91.5)	11.9 (91.9)

Death After Retirement (Non-Disabled) – Male



Exposures	Actual Deaths	Expected Deaths	Actual to Expected
14,484	546	452	83%

Death After Retirement (Non-Disabled) – Female

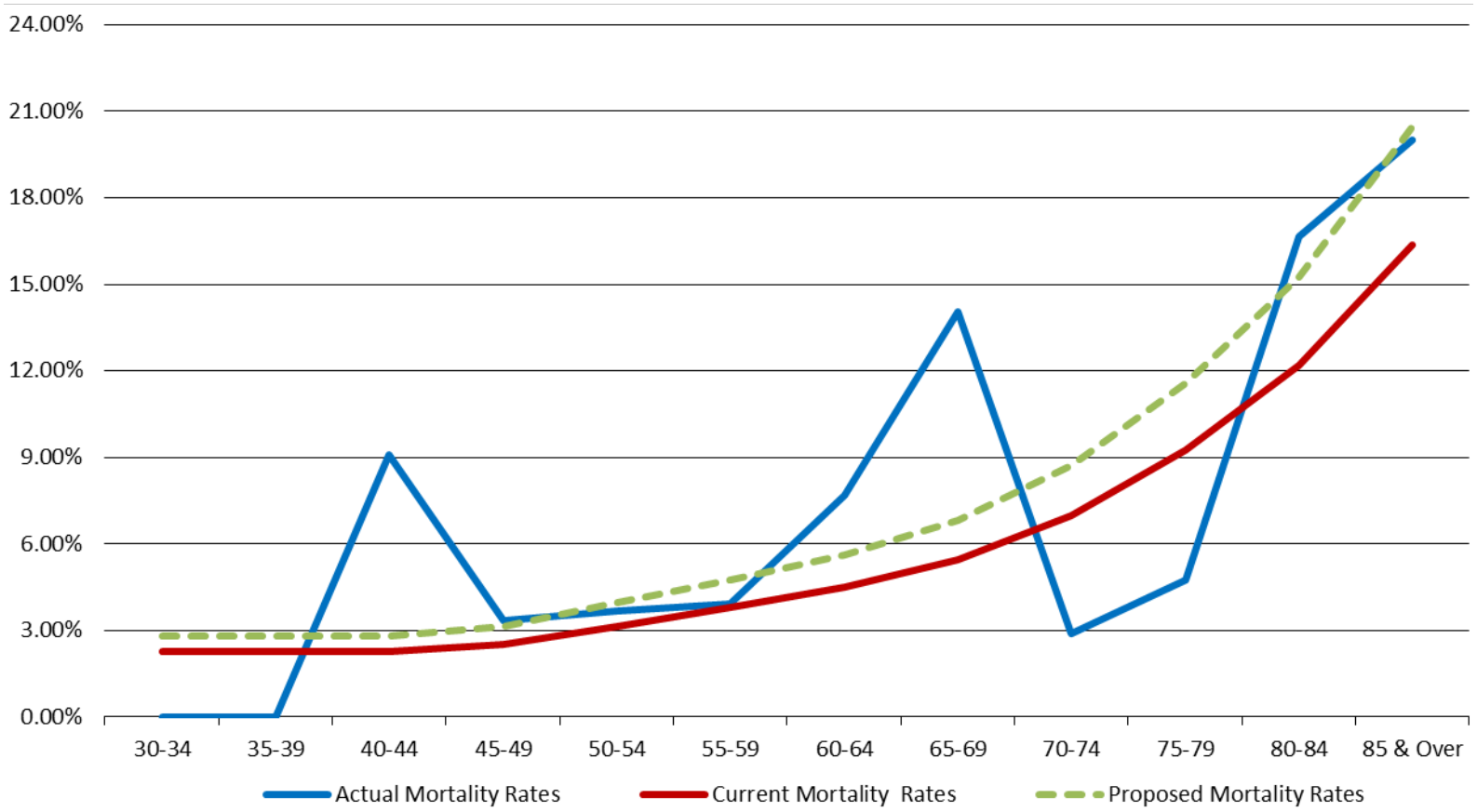


Exposures	Actual Deaths	Expected Deaths	Actual to Expected
19,622	483	485	100%

Death After Retirement (Disabled)

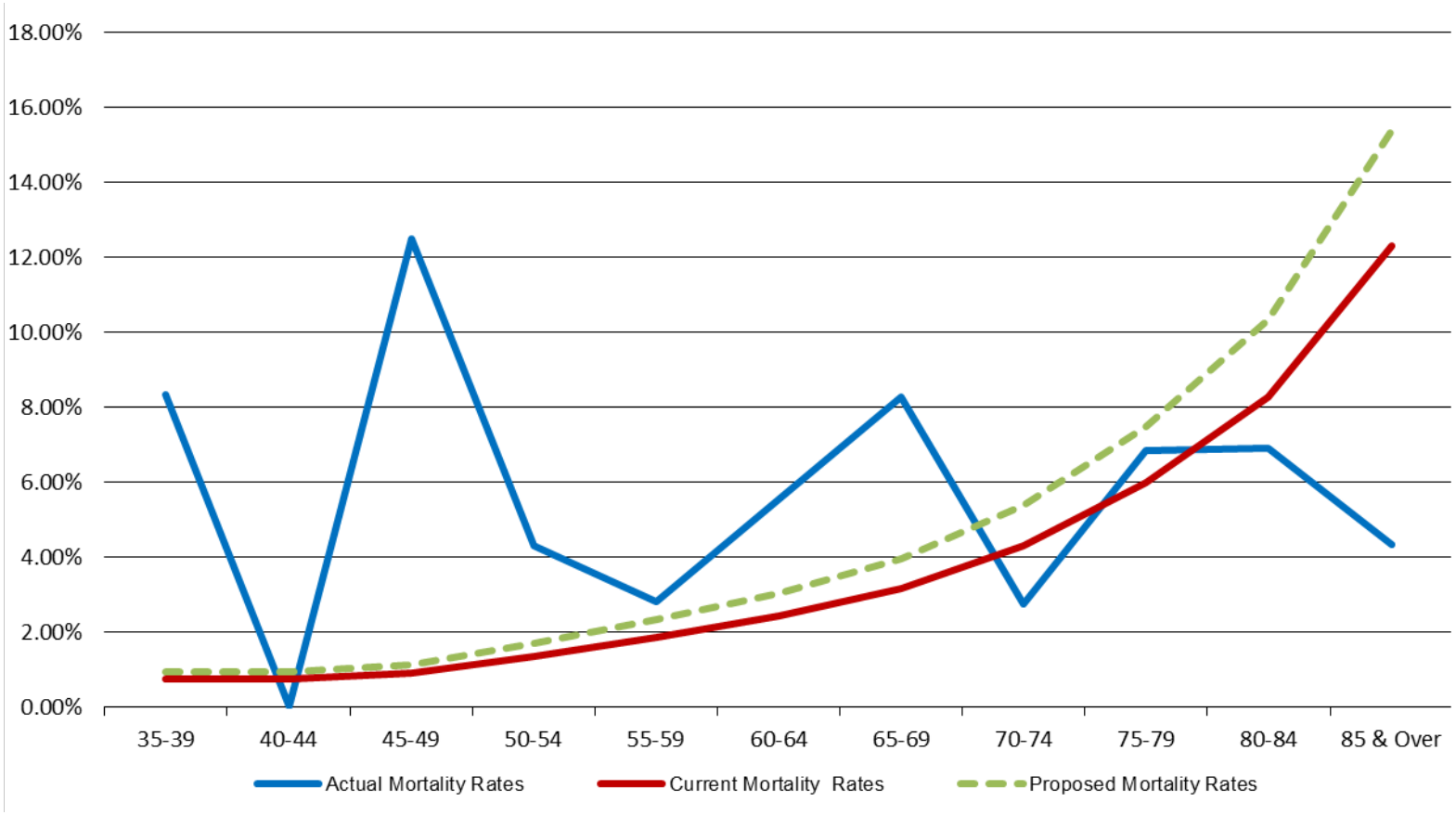
- Rates vary based on gender and age of the annuitant.
- Experience for disabled annuitants has been higher than expected using the current assumption. The ratio of actual to expected deaths is 145%, so there is more than sufficient margin for future mortality improvement.
- We recommend adjusting the current disability mortality table, RP-2000 Disabled Mortality Table, by increasing the mortality rates 25% to match the Fund's experience and build in sufficient margin for future mortality improvement.

Death After Retirement (Disabled) – Male



Exposures	Actual Deaths	Expected Deaths	Actual to Expected	Proposed Deaths	Actual to Proposed
800	59	45	131%	56	105%

Death After Retirement (Disabled) – Female



Exposures	Actual Deaths	Expected Deaths	Actual to Expected	Proposed Deaths	Actual to Proposed
949	50	30	167%	38	132%

Death In Active Service

- Mortality rates apply to active members
- Very few members die in active service.
  - Liability associated with active death is a small percentage of the total liability
  - Plan experience is insufficient to set an assumption
- Since we are adjusting the current RP-2000 Mortality Table for retired lives, we recommend using the same adjusted table for active members.

Spouse Information - PERS

- Current assumptions:
  - 100% of Judges, 80% of non-Judge male and 65% of non-Judge female members are married.
  - Male spouses are three years older than female spouses.
  - 100% of spouses are of opposite gender.
- We have limited data on spouse information. The above assumptions are reasonable and similar to those used by other retirement systems.
- We recommend changing the percent married to 75%, for all members except Judges, to be consistent with similar plans. We recommend no change to the assumption for Judges.
- In addition, all optional forms of payment are actuarially equivalent, so these assumptions are not materially relevant in the calculation of liabilities. However, the assumptions do have a significant effect on the projections of future cash flow.
- If the Benefit Election assumption we are recommending (see page 64) is adopted, the spousal assumptions will only be used for death benefits.

Spouse Information – Highway Patrol

- Current assumptions:
  - 90% of members are married.
  - Male spouses are three years older than female spouses.
  - 100% of spouses are of opposite gender.
- We have limited data on spouse information. The above assumptions are reasonable and similar to those used by other retirement systems. However, 95% of the retirees are taking joint and survivor annuities.
- We recommend changing the percent married to 100% for all participants.
- All optional forms of payment are actuarially equivalent, so these assumptions are not materially relevant in the calculation of liabilities. However, the assumptions do have a significant effect on the projections of future cash flow.
- If the Benefit Election assumption we are recommending (see page 64) is adopted, the spousal assumptions will only be used for death benefits.

Spouse Information – Job Service

- Current assumptions:
  - 85% of members are married.
  - Male spouses are four years older than female spouses.
  - 100% of spouses are of opposite gender.
- We have limited data on spouse information. The above assumptions are reasonable and similar to those used by other retirement systems.
- We recommend no change to the assumption for Job Service.
- All optional forms of payment are actuarially equivalent, so these assumptions are not materially relevant in the calculation of liabilities. However, the assumptions do have a significant effect on the projections of future cash flow.
- If the Benefit Election assumption we are recommending (see page 65) is adopted, the spousal assumptions will only be used for death benefits.

Miscellaneous Assumptions

- Benefit Election – Currently 100% of married participants are assumed to elect the 50% joint & survivor annuity and 100% of the unmarried participants are assumed to elect the life annuity in the PERS and HPRS Systems. PERS experience, except Judges, shows that of those eligible for retirement, 50% of the population elect the life annuity, 42% elect a joint and survivor option, 6% elect a refund of employee contributions and 2% elect other options. We recommend changing this assumption for all PERS systems except Judges, as follows:

50%	elect life annuities
45%	elect 50% joint and survivor annuities
5%	elect refund of employee contributions

Judges System experience shows that all retirees have elected a joint and survivor annuity. We recommend changing the assumption for Judges to all members elect 50% joint and survivor annuities.

HPRS experience shows that 95% of all retirees have elected a joint and survivor annuity. We recommend changing the assumption for HPRS to all members elect 50% joint and survivor annuities.

Miscellaneous Assumptions *(continued)*

- Benefit Election *(continued)* – Currently in the Job Service plan, all participants are assumed to elect the 10-year certain and life annuity. Experience shows that 55% of participants elect the 10-year certain and life annuity and 45% of participants elect the 55% joint and survivor annuity. We recommend changing the assumption to 55% elect the 10-year certain and life annuity and 45% elect the 55% joint and survivor annuity.

- Refund of Employee Contributions (PERS and HPRS) – The current assumption is that vested members terminating from employment will elect a refund of contributions only when the member account balance has a higher value than the annuity they will forfeit by taking a refund. This assumption is consistent with the experience. Of the 559 PERS members who took a refund of employee contributions in fiscal year ending June 30, 2014, only 121 members were vested and only 19 members had 10 or more years of service. We do not recommend changing the assumption regarding which members elect the refund for the PERS systems and HPRS.

Miscellaneous Assumptions *(continued)*

- Refund of Employee Contributions (PERS and HPRS) *(continued)* - Of the participants who do not take the refund of the employee contributions in PERS, 100% of married participants are assumed to elect the 50% joint and survivor annuity and 100% of unmarried participants are assumed to elect the life annuity. However, we recommend changing the election assumption in the PERS systems for those who do not take the refund of employee contributions to 50% elect life annuities and 50% elect joint and survivor annuities. We recommend no change in this assumption for HPRS.
- Account Balance due to Vested Employer Contributions (PEP) (PERS only) – The current assumption is 100% of those who have contributed to a deferred compensation program will continue to do so, but those who have not contributed will not contribute in the future. Experience shows 37% of the July 1, 2014 active population was contributing to a deferred compensation plan, and only 2% of the continuing actives began contributing during the 2013-2014 plan year. Therefore, we do not recommend changing this assumption.

Funding Policy

- Funding Method - The current method used for all plans except Job Service is the Entry Age Cost Method determined as if the current benefit accrual rate had always been in effect. We recommend changing the cost method to the Entry Age Cost Method determined based on the same benefit terms reflected in each employee's actuarial present value of projected benefit payments. Our recommendation brings the cost method in line with the cost method required by GASB.

- Asset Valuation Method – The current Asset Method recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After 5 years the appreciation (depreciation) is fully recognized. There is no corridor test that limits how far the actuarial value of assets can deviate from the market value of assets. We are not recommending any changes in the asset valuation method at this time.

Funding Policy *(continued)*

- Amortization of Unfunded Actuarial Accrued Liability (UAAL) - For PERS and HPRS, the Board policy is to amortize the UAAL over an open period of 20 years. **Frequently under this method the UAAL is never paid off, and may increase before it declines. While this is an acceptable method of making payments toward the UAAL, the Board should verify that the method fits with its funding policy goals.**

  The annual payments are determined as a level percent of payroll with payroll expected to increase. The increase, prior to our new recommendations on page 13, was 4.5% per year (4.0% for Judges). Our recommendation is to change the payroll increase to 4.0% per year (3.5% for Judges).

  We recommend that a detailed funding policy review be conducted in the near future to ensure that the funding policy elements meet the Board's objectives.

Summary of Economic Assumptions – Main System

Assumption	Current	Proposed
Inflation	3.50%	2.75%
Productivity	1.00%	1.25%
Payroll Growth	4.50%	4.00%
Salary Scale	Merit rates based on age and years of service plus inflation and productivity.	Less than 3 years of employment: State / Non-State First: 12.00% / 15.00% Second: 9.50% / 10.00% Third: 7.25% / 8.00% Remaining years based on age: State / Non-State Ages 18-24: 7.25% / 10.00% Ages 25-29: 7.25% / 7.50% Ages 30-39: 6.50% / 6.75% Ages 40-49: 6.25% / 6.50% Ages 50-59: 5.75% / 6.00% 60 & Over: 5.00% / 5.25%
Investment Return	8.00%	7.75%
Administrative Expense	$1,100,000	Explicit load to normal cost equal to prior year administrative expenses plus inflation.

Summary of Economic Assumptions - Judges

Assumption	Current	Proposed
Inflation	3.50%	2.75%
Productivity	0.50%	0.75%
Payroll Growth	4.00%	3.50%
Salary Scale	5% for all years	4% for all years
Investment Return	8.00%	7.75%
Administrative Expense	$7,500	Explicit load to normal cost equal to prior year administrative expenses plus inflation.

Summary of Economic Assumptions – National Guard

Assumption	Current	Proposed
Inflation	3.50%	2.75%
Productivity	1.00%	1.25%
Payroll Growth	4.50%	4.00%
Salary Scale	Merit rates based on age and years of service plus inflation and productivity.	Less than 3 years: 20% 4 to 5 years: 10% Remaining years based on age: Ages 18 - 29: 7.25% Ages 30 - 39: 6.50% Ages 40 - 49: 6.25% Ages 50 - 59: 5.75% 60 & Over: 5.00%
Investment Return	8.00%	7.75%
Administrative Expense	$3,000	Explicit load to normal cost equal to prior year administrative expenses plus inflation.

Summary of Economic Assumptions – Law Enforcement with Prior Service

Assumption	Current	Proposed
Inflation	3.50%	2.75%
Productivity	1.00%	1.25%
Payroll Growth	4.50%	4.00%
Salary Scale	Merit rates based on age and years of service plus inflation and productivity.	Less than 3 years: 20% 4 to 5 years: 10% Remaining years based on age: Ages 18 - 29: 7.25% Ages 30 - 39: 6.50% Ages 40 - 49: 6.25% Ages 50 - 59: 5.75% 60 & Over: 5.00%
Investment Return	8.00%	7.75%
Administrative Expense	$2,500	Explicit load to normal cost equal to prior year administrative expenses plus inflation.

Summary of Economic Assumptions – Law Enforcement without Prior Service

Assumption	Current	Proposed
Inflation	3.50%	2.75%
Productivity	1.00%	1.25%
Payroll Growth	4.50%	4.00%
Salary Scale	Merit rates based on age and years of service plus inflation and productivity.	Less than 3 years: 20% 4 to 5 years: 10% Remaining years based on age: Ages 18 - 29: 7.25% Ages 30 - 39: 6.50% Ages 40 - 49: 6.25% Ages 50 - 59: 5.75% 60 & Over: 5.00%
Investment Return	8.00%	7.75%
Administrative Expense	$7,500	Explicit load to normal cost equal to prior year administrative expenses plus inflation.

Summary of Economic Assumptions – Highway Patrolmen

Assumption	Current	Proposed
Inflation	3.50%	2.75%
Productivity	1.00%	1.25%
Payroll Growth	4.50%	4.00%
Salary Scale	Merit rates based on age and years of service plus inflation and productivity.	Less than 3 years of employment: First: 15.00% Second: 10.00% Third: 8.00% Remaining years based on age: Ages 18 - 35: 8.00% Ages 36 - 40: 7.50% Ages 41 - 50: 6.00% Ages 51 & Over: 5.00%
Investment Return	8.00%	7.75%
Administrative Expense	$18,000	Explicit load to normal cost equal to prior year administrative expenses plus inflation.

Summary of Economic Assumptions – Job Service

Assumption	Current	Proposed
Inflation	3.50%	2.75%
Productivity	1.00%	1.25%
Payroll Growth	N/A	N/A
Salary Scale	5.00%	3.50%
Investment Return	8.00%	7.75%
Administrative Expense	Implicitly included in the investment return assumption	Explicit load to normal cost equal to prior year administrative expenses plus inflation.
COLA	5.00%	3.00%

Summary of Demographic Assumptions – Main System

Assumption	Current	Proposed
Termination	Rates based on age and years of service	No change
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age and eligibility for unreduced benefits	Adjusted rates based on age and eligibility for unreduced benefits
Inactive Retirements	Earlier of age 64 and unreduced retirement date	Same as new active rates
Healthy Mortality	RP-2000 Combined Healthy Mortality, set back 3 years	RP-2000 Combined Healthy Mortality, set back 2 years for males and 3 years for females, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Active Mortality	Healthy Post-Retirement Mortality	Healthy Post-Retirement Mortality
Spouse Information	80% of males and 65% of females are married, male spouses are three years older than female spouses, and 100% of spouses are opposite gender.	75% are married. No other changes.
Benefit election	100% of married elect 50% joint & survivor 100% of non-married elect life annuity	50% elect life annuity 45% elect 50% joint & survivor 5% elect refund of contributions
Refund of Contributions	Only if account balance is higher than value of annuity	No Change
Account balance due to vested Employer Contributions (PEP)	100% of those contributing continue to contribute. Those who haven't contributed will not contribute in the future.	No Change

Summary of Demographic Assumptions – Judges

Assumption	Current	Proposed
Termination	Rates based on age	Eliminate rates
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age	Adjusted rates based on age
Inactive Retirements	Earlier of age 64 and unreduced retirement date	Same as new active rates
Healthy Mortality	RP-2000 Combined Healthy Mortality, set back 3 years	RP-2000 Combined Healthy Mortality, set back 2 years for males and 3 years for females, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Active Mortality	Healthy Post-Retirement Mortality	Healthy Post-Retirement Mortality
Spouse Information	100% of all participants are married, male spouses are three years older than female spouses, and 100% of spouses are opposite gender.	No changes
Benefit Election	100% of married elect 50% joint & survivor 100% of non-married elect life annuity	100% elect 50% joint & survivor
Refund of Contributions	Only if account balance is higher than value of annuity	No Change

Summary of Demographic Assumptions – National Guard

Assumption	Current	Proposed
Termination	Rates based on age and years of service	No change
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age	Adjusted rates based on age
Inactive Retirements	Age 55	Same as new active rates
Healthy Mortality	RP-2000 Combined Healthy Mortality, set back 3 years	RP-2000 Combined Healthy Mortality, set back 2 years for males and 3 years for females, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Active Mortality	Healthy Post-Retirement Mortality	Healthy Post-Retirement Mortality
Spouse Information	80% of males and 65% of females are married, male spouses are three years older than female spouses, and 100% of spouses are opposite gender.	75% are married. No other changes.
Benefit Election	100% of married elect 50% joint & survivor 100% of non-married elect life annuity	50% elect life annuity 45% elect 50% joint & survivor 5% elect refund of contributions
Refund of Contributions	Only if account balance is higher than value of annuity	No Change
Account balance due to vested Employer Contributions (PEP)	100% of those contributing continue to contribute. Those who haven't contributed will not contribute in the future.	No Change

Summary of Demographic Assumptions – Law Enforcement with & without Prior Service

Assumption	Current	Proposed
Termination	Rates based on age and years of service	No change
Disability	Gender distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age	Adjusted rates based on age
Inactive Retirements	Earlier of age 55 and unreduced retirement date	Same as new active rates
Healthy Mortality	RP-2000 Combined Healthy Mortality, set back 3 years	RP-2000 Combined Healthy Mortality, set back 2 years for males and 3 years for females, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Active Mortality	Healthy Post-Retirement Mortality	Healthy Post-Retirement Mortality
Spouse Information	80% of males and 65% of females are married, male spouses are three years older than female spouses, and 100% of spouses are opposite gender.	75% are married. No other changes.
Benefit Election	100% of married elect 50% joint & survivor 100% of non-married elect life annuity	50% elect life annuity 45% elect 50% joint & survivor 5% elect refund of contributions
Refund of Contributions	Only if account balance is higher than value of annuity	No Change
Account balance due to vested Employer Contributions (PEP)	100% of those contributing continue to contribute. Those who haven't contributed will not contribute in the future.	No Change

Summary of Demographic Assumptions – Highway Patrolmen

Assumption	Current	Proposed
Termination	Rates based on age and years of service	No change
Disability	Rates based on age	Lower rates at all ages
Active Retirements	Rates based on age and eligibility for unreduced benefits	Adjusted rates based on age
Inactive Retirements	Age 55	Same as new active rates
Healthy Mortality	RP-2000 Combined Healthy Mortality, set back one year	RP-2000 Combined Healthy Mortality, set back 2 years for males and 3 years for females, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Active Mortality	Healthy Post-Retirement Mortality	Healthy Post-Retirement Mortality
Spouse Information	90% of non-retired members are married, male spouses are three years older than female spouses, and 100% of spouses are opposite gender.	100% are married. No other changes.
Benefit Election	100% of married elect 50% joint & survivor 100% of non-married elect life annuity	100% elect 50% joint & survivor
Indexing for benefits of inactive members	4.5% per annum	4.0% per annum
Refund of Contributions	Only if account balance is higher than value of annuity.	No change

Summary of Demographic Assumptions – Job Service

Assumption	Current	Proposed
Termination	Rates based on age	Not applicable
Disability	Rates based on age	Lower rates at all ages
Active Retirements	75% retire when first eligible. The rest retire at Normal Retirement Age	Adjusted rates based on age
Inactive Retirements	100% at first optional retirement age	Same as new active rates
Healthy Mortality	1994 Group Annuity Mortality Table	RP-2000 Combined Healthy Mortality, set back 2 years for males and 3 years for females, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	1983 Railroad Retirement Board Disabled Life Mortality Table	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Active Mortality	Healthy Post-Retirement Mortality	Healthy Post-Retirement Mortality
Spouse Information	85% of all non-retired are married, male spouses are four years older than female spouses, and 100% of spouses are opposite gender.	No change
Benefit Election	All participants are assumed to elect the 10-year certain and life annuity	55% elect 10-year certain and life 45% elect 55% joint and survivor

Cost Impact on Main System
Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions
Actuarial Accrued Liability	$2,866.5M	$2,769.4M	$2,848.8M
Actuarial Value of Assets	$1,837.9M	$1,837.9M	$1,837.9M
Unfunded Actuarial Accrued Liability	$1,028.6M	$931.5M	$1,010.9M
Funded Percentage	64.1%	66.4%	64.5%
Total Normal Cost including Expenses	$99.1M	$119.4M	$123.9M
Actuarially Determined Employer Contribution Rate	11.06%	12.51%	13.43%
Employer Statutory Rate	7.12%	7.12%	7.12%
Margin / (Deficit)	(3.94)%	(5.39)%	(6.31)%
Effective Amortization Period	Infinite	Infinite	Infinite

Cost Impact on Judges
Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions
Actuarial Accrued Liability	$39.0M	$36.7M	$37.6M
Actuarial Value of Assets	$35.5M	$35.5M	$35.5M
Unfunded Actuarial Accrued Liability	$3.5M	$1.2M	$2.1M
Funded Percentage	91.0%	96.7%	94.4%
Total Normal Cost including Expenses	$1.3M	$1.3M	$1.3M
Actuarially Determined Employer Contribution Rate	14.80%	11.68%	13.31%
Employer Statutory Rate	17.52%	17.52%	17.52%
Margin / (Deficit)	2.72%	5.84%	4.21%
Effective Amortization Period	9.7 years	2.7 years	5.3 years

Cost Impact on National Guard Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions
Actuarial Accrued Liability	$2,944K	$2,782K	$2,859K
Actuarial Value of Assets	$2,586K	$2,586K	$2,586K
Unfunded Actuarial Accrued Liability	$358K	$196K	$273K
Funded Percentage	87.8%	93.0%	90.5%
Total Normal Cost including Expenses	$126K	$152K	$159K
Actuarially Determined Employer Contribution Rate	8.14%	8.74%	9.70%
Employer Statutory Rate	7.00%	7.00%	7.00%
Margin / (Deficit)	(1.14)%	(1.74)%	(2.70)%
Effective Amortization Period	Infinite	Infinite	Infinite

Cost Impact on Law Enforcement with Prior Service Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions
Actuarial Accrued Liability	$28.0M	$26.7M	$27.5M
Actuarial Value of Assets	$18.0M	$18.0M	$18.0M
Unfunded Actuarial Accrued Liability	$10.0M	$8.7M	$9.5M
Funded Percentage	64.4%	67.4%	65.5%
Total Normal Cost including Expenses	$1.7M	$2.0M	$2.1M
Actuarially Determined Employer Contribution Rate	9.52%	10.59%	11.39%
Employer Statutory Rate	9.81%/10.31%*	9.81%/10.31%*	9.81%/10.31%*
Margin / (Deficit)	0.38%	(0.69)%	(1.49)%
Effective Amortization Period	17.9 years	27.6 years	44.9 years

** 10.31% for BCI*

Cost Impact on Law Enforcement without Prior Service Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions
Actuarial Accrued Liability	$2,264K	$2,040K	$2,101K
Actuarial Value of Assets	$1,832K	$1,832K	$1,832K
Unfunded Actuarial Accrued Liability	$432K	$208K	$269K
Funded Percentage	80.9%	89.8%	87.2%
Total Normal Cost including Expenses	$440K	$528K	$549K
Actuarially Determined Employer Contribution Rate	7.42%	8.38%	9.01%
Employer Statutory Rate	7.93%	7.93%	7.93%
Margin / (Deficit)	0.51%	(0.45)%	(1.08)%
Effective Amortization Period	10.7 years	Infinite	Infinite

Cost Impact on Highway Patrolmen Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions
Actuarial Accrued Liability	$75.5M	$75.5M	$77.6M
Actuarial Value of Assets	$54.6M	$54.6M	$54.6M
Unfunded Actuarial Accrued Liability	$20.9M	$20.9M	$23.0M
Funded Percentage	72.3%	72.3%	70.3%
Total Normal Cost including Expenses	$2.1M	$2.3M	$2.4M
Actuarially Determined Employer Contribution Rate	21.70%	23.66%	25.96%
Employer Statutory Rate	19.70%	19.70%	19.70%
Margin / (Deficit)	(2.00)%	(3.95)%	(6.26)%
Effective Amortization Period	25.0 years	34.2 years	51.4 years

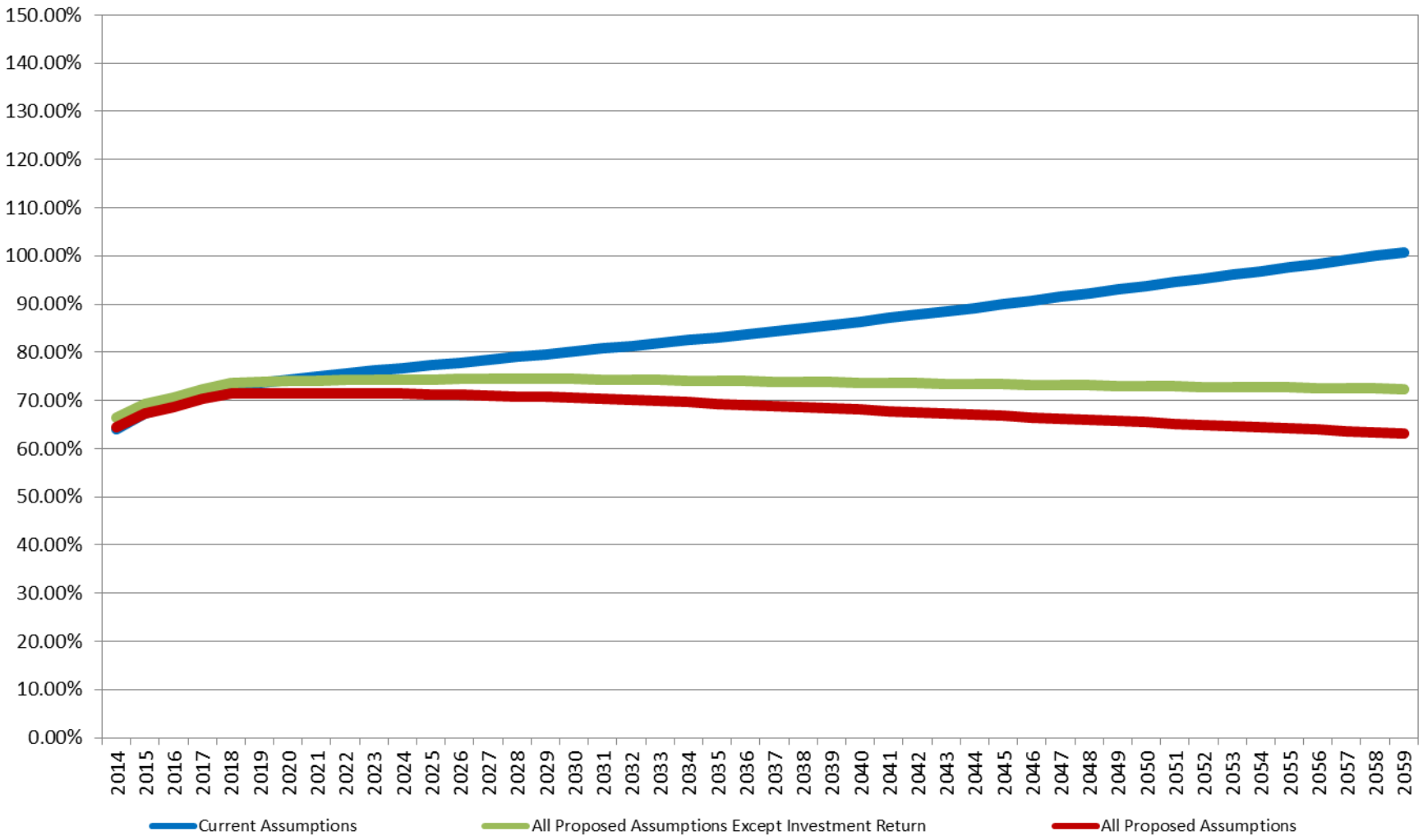
Cost Impact on Job Service
Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions
Present Value of Benefits	$65.5M	$61.9M	$63.3M
Actuarial Value of Assets	$78.2M	$78.2M	$78.2M
Unfunded Actuarial Accrued Liability	$(12.7)M	$(16.3)M	$(14.9)M
Funded Percentage	119.4%	126.3%	123.4%
Total Normal Cost including Expenses	$0.00M	$0.03M	$0.03M
Actuarially Determined Contribution Rate	0%	0%	0%
Statutory Rate	0%	0%	0%
Margin / (Deficit)	N/A	N/A	N/A
Effective Amortization Period	N/A	N/A	N/A

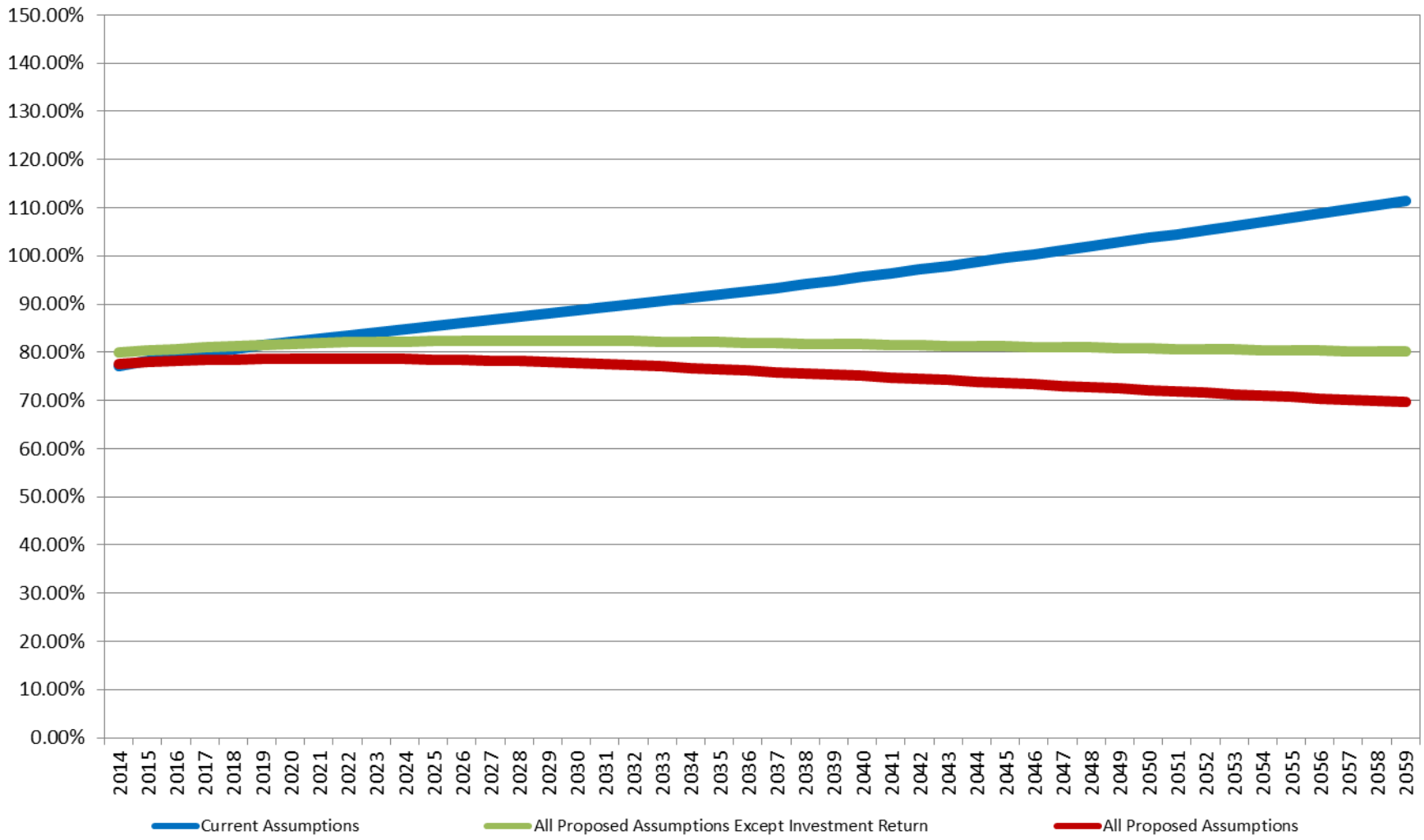
Cost Impact Projections – Main System

- Projections of estimated funded ratios for 45 years
  - Baseline based on July 1, 2014, actuarial valuation using current assumptions
- Includes contribution rates as follows:
  - Member rate is 7.00% for fiscal year ending June 30, 2015 and thereafter
  - Employer rate is 7.12% for fiscal year ending June 30, 2015 and thereafter

Projected Funded Ratios (AVA Basis) – Main System



Projected Funded Ratios (MVA Basis) – Main System



Questions?

SEGAL

5990 Greenwood Plaza Blvd., Suite 118
Greenwood Village, CO 80111
T 303.714.9952

Brad Ramirez
bramirez@segalco.com

SEGAL

330 North Brand Blvd., Suite 1100
Glendale, CA 91203
T 818.956.6731

Laura L. Mitchell
lmitchell@segalco.com

www.segalco.com

Actuarial Certification

May 21, 2015

We are pleased to submit this presentation on the actuarial experience of the North Dakota Public Employees Retirement System for the period July 1, 2009, through June 30, 2014. This investigation is the basis for our recommendation of the assumptions and methods to be used for the July 1, 2015, actuarial valuation.

All current actuarial assumptions and methods were reviewed as part of this study. Some of our recommendations reflect changes to the assumptions and methods used in the July 1, 2014, actuarial valuation while other current assumptions and methods remain appropriate.

Our analysis was conducted in accordance with generally accepted actuarial principles as prescribed by the Actuarial Standards Board (ASB) and the American Academy of Actuaries. Additionally, the development of all assumptions contained herein is in accordance with ASB Actuarial Standard of Practice (ASOP) No. 27 (*Selection of Economic Assumptions for Measuring Pension Obligations*) and ASOP No. 35 (*Selection of Demographic and Other Non-Economic Assumptions for Measuring Pension Obligations*).

The undersigned actuaries are experienced with performing experience studies for large public-sector pension plans and are qualified to render the opinions contained in this report.

Sincerely,

Brad Ramirez, FSA, MAAA, FCA, EA Vice President & Consulting Actuary	Laura L. Mitchell, MAAA, EA Vice President & Consulting Actuary	Tammy F. Dixon, FSA, MAAA, EA Vice President and Actuary

APPENDIX

- Full schedule of proposed new assumption tables
  - Salary Increase
  - Disability rates
  - Unreduced retirement
  - Reduced retirement
  - Healthy mortality
  - Disabled mortality

APPENDIX
Proposed Salary Increase (Service-Based Rates)

Years of Service	Current Total Salary Increase Rate	State Proposed Total Salary Increase Rate	Non-State Proposed Total Salary Increase Rate	National Guard and Law Enforcement Proposed Total Salary Increase Rate
0	8.25%	12.00%	15.00%	20.00%
1	7.25%	9.50%	10.00%	20.00%
2	6.75%	7.25%	8.00%	20.00%
3	6.50%	N/A	N/A	10.00%
4	6.25%	N/A	N/A	10.00%

For Judges and Job Service, the current salary increase rate is 5.00% regardless of service. The proposed rates are 4.00% for Judges and 3.50% for Job Service regardless of service.

APPENDIX – Proposed Salary Increase (Age-Based Rates) - Main*, National Guard and Law Enforcement

Age	Current Total Salary Increase	Proposed Total Salary Increase	Age	Current Total Salary Increase	Proposed Total Salary Increase
18	6.25%	7.25%	30	5.93%	6.50%
19	6.25%	7.25%	31	5.82%	6.50%
20	6.25%	7.25%	32	5.72%	6.50%
21	6.25%	7.25%	33	5.64%	6.50%
22	6.25%	7.25%	34	5.57%	6.50%
23	6.25%	7.25%	35	5.50%	6.50%
24	6.25%	7.25%	36	5.44%	6.50%
25	6.25%	7.25%	37	5.38%	6.50%
26	6.25%	7.25%	38	5.32%	6.50%
27	6.25%	7.25%	39	5.27%	6.50%
28	6.22%	7.25%	40	5.23%	6.25%
29	6.07%	7.25%	41	5.20%	6.25%

*State Only

APPENDIX – Proposed Salary Increase (Age-Based Rates) - Main*, National Guard and Law Enforcement *(continued)*

Age	Current Total Salary Increase	Proposed Total Salary Increase	Age	Current Total Salary Increase	Proposed Total Salary Increase
42	5.17%	6.25%	54	4.94%	5.75%
43	5.14%	6.25%	55	4.93%	5.75%
44	5.12%	6.25%	56	4.92%	5.75%
45	5.11%	6.25%	57	4.91%	5.75%
46	5.09%	6.25%	58	4.90%	5.75%
47	5.07%	6.25%	59	4.88%	5.75%
48	5.05%	6.25%	60	4.86%	5.00%
49	5.04%	6.25%	61	4.81%	5.00%
50	5.02%	5.75%	62	4.74%	5.00%
51	5.00%	5.75%	63	4.70%	5.00%
52	4.98%	5.75%	64	4.70%	5.00%
53	4.96%	5.75%	65+	4.70%	5.00%

*State Only

APPENDIX – Proposed Salary Increase (Age-Based Rates) - Main Non-State

Age	Current Total Salary Increase	Proposed Total Salary Increase	Age	Current Total Salary Increase	Proposed Total Salary Increase
18	6.25%	7.25%	30	5.93%	6.50%
19	6.25%	7.25%	31	5.82%	6.50%
20	6.25%	7.25%	32	5.72%	6.50%
21	6.25%	7.25%	33	5.64%	6.50%
22	6.25%	7.25%	34	5.57%	6.50%
23	6.25%	7.25%	35	5.50%	6.50%
24	6.25%	7.25%	36	5.44%	6.50%
25	6.25%	7.25%	37	5.38%	6.50%
26	6.25%	7.25%	38	5.32%	6.50%
27	6.25%	7.25%	39	5.27%	6.50%
28	6.22%	7.25%	40	5.23%	6.25%
29	6.07%	7.25%	41	5.20%	6.25%

APPENDIX – Proposed Salary Increase (Age-Based Rates) - Main Non-State *(continued)*

Age	Current Total Salary Increase	Proposed Total Salary Increase	Age	Current Total Salary Increase	Proposed Total Salary Increase
42	5.17%	6.25%	54	4.94%	5.75%
43	5.14%	6.50%	55	4.93%	5.75%
44	5.12%	6.50%	56	4.92%	5.75%
45	5.11%	6.50%	57	4.91%	5.75%
46	5.09%	6.50%	58	4.90%	5.75%
47	5.07%	6.50%	59	4.88%	5.75%
48	5.05%	6.50%	60	4.86%	5.00%
49	5.04%	6.50%	61	4.81%	5.00%
50	5.02%	5.75%	62	4.74%	5.00%
51	5.00%	5.75%	63	4.70%	5.00%
52	4.98%	5.75%	64	4.70%	5.00%
53	4.96%	5.75%	65+	4.70%	5.00%

APPENDIX
Disability Retirement - PERS

Age	Males		Females	
	Current Rate	Proposed Rate	Current Rate	Proposed Rate
20 – 24	0.02%	0.01%	0.01%	0.01%
25 – 29	0.03%	0.02%	0.02%	0.01%
30 – 34	0.04%	0.02%	0.02%	0.01%
35 – 39	0.06%	0.03%	0.03%	0.02%
40 – 44	0.09%	0.05%	0.05%	0.03%
45 – 49	0.15%	0.09%	0.09%	0.04%
50 – 54	0.25%	0.15%	0.15%	0.08%
55 – 59	0.41%	0.25%	0.25%	0.12%
60 – 64	0.65%	0.39%	0.39%	0.20%

APPENDIX
Proposed Unreduced Retirement – Main System

Age	Current Retirement Rate	Proposed Retirement Rate	Age	Current Retirement Rate	Proposed Retirement Rate
50	0.00%	30.00%	63	25.00%	30.00%
51	8.00%	10.00%	64	30.00%	20.00%
52	8.00%	10.00%	65	30.00%	20.00%
53	8.00%	10.00%	66	20.00%	15.00%
54	8.00%	10.00%	67	20.00%	15.00%
55	8.00%	10.00%	68	20.00%	15.00%
56	10.00%	8.00%	69	20.00%	15.00%
57	10.00%	8.00%	70	20.00%	15.00%
58	10.00%	8.00%	71	20.00%	15.00%
59	10.00%	8.00%	72	20.00%	15.00%
60	10.00%	8.00%	73	20.00%	15.00%
61	10.00%	15.00%	74	20.00%	15.00%
62	35.00%	30.00%	75	100.00%	100.00%

APPENDIX
Proposed Reduced Retirement – Main System

Age	Current Retirement Rate	Proposed Retirement Rate
55	2.00%	1.00%
56	2.00%	1.00%
57	2.00%	1.00%
58	2.00%	1.00%
59	2.00%	1.00%
60	40.00%	2.00%
61	10.00%	5.00%
62	20.00%	10.00%
63	15.00%	10.00%
64	10.00%	10.00%
65	30.00%	30.00%

Age	Current Retirement Rate	Proposed Retirement Rate
66	20.00%	20.00%
67	20.00%	15.00%
68	20.00%	15.00%
69	20.00%	15.00%
70	20.00%	15.00%
71	20.00%	15.00%
72	20.00%	15.00%
73	20.00%	15.00%
74	20.00%	15.00%
75	100.00%	100.00%

APPENDIX
Proposed Retirement - Judges

Age	Current Retirement Rate	Proposed Retirement Rate
55	0.00%	10.00%
56	0.00%	10.00%
57	0.00%	10.00%
58	0.00%	10.00%
59	0.00%	10.00%
60	10.00%	10.00%
61	10.00%	10.00%
62	20.00%	10.00%
63	20.00%	10.00%
64	20.00%	10.00%
65	50.00%	20.00%

Age	Current Retirement Rate	Proposed Retirement Rate
66	50.00%	20.00%
67	50.00%	20.00%
68	50.00%	20.00%
69	50.00%	20.00%
70	100.00%	20.00%
71	100.00%	20.00%
72	100.00%	20.00%
73	100.00%	20.00%
74	100.00%	20.00%
75	100.00%	100.00%

APPENDIX – Proposed Retirement - National Guard and Law Enforcement

Age	Current Retirement Rate	Proposed Retirement Rate	Age	Current Retirement Rate	Proposed Retirement Rate
50	0.00%	25.00%	63	20.00%	50.00%
51	0.00%	25.00%	64	50.00%	50.00%
52	0.00%	25.00%	65	100.00%	50.00%
53	0.00%	25.00%	66	100.00%	20.00%
54	0.00%	25.00%	67	100.00%	20.00%
55	20.00%	10.00%	68	100.00%	20.00%
56	20.00%	10.00%	69	100.00%	20.00%
57	20.00%	10.00%	70	100.00%	20.00%
58	20.00%	10.00%	71	100.00%	20.00%
59	20.00%	10.00%	72	100.00%	20.00%
60	20.00%	10.00%	73	100.00%	20.00%
61	20.00%	10.00%	74	100.00%	20.00%
62	20.00%	50.00%	75	100.00%	100.00%

APPENDIX
Proposed Retirement – Job Service

Age	Current Retirement Rate	Proposed Retirement Rate
55	*	15.00%
56	*	15.00%
57	*	15.00%
58	*	15.00%
59	*	15.00%
60	*	15.00%
61	*	15.00%
62	*	15.00%
63	*	15.00%
64	*	15.00%
65	100.00%	100.00%

*75% if first time eligible for optional retirement, otherwise 100% at Normal Retirement Age

APPENDIX
Proposed Healthy Mortality – All Systems

Males			Females		
Age	Current Mortality Rate	Proposed Mortality Rate	Age	Current Mortality Rate	Proposed Mortality Rate
50	0.17%	0.19%	50	0.13%	0.13%
55	0.27%	0.29%	55	0.20%	0.20%
60	0.47%	0.53%	60	0.35%	0.35%
65	0.88%	1.00%	65	0.67%	0.66%
70	1.61%	1.79%	70	1.22%	1.22%
75	2.73%	3.04%	75	2.07%	2.07%
80	4.69%	5.21%	80	3.41%	3.41%
85	8.05%	8.97%	85	5.63%	5.63%
90	13.60%	15.06%	90	9.63%	9.63%
95	21.66%	23.37%	95	15.76%	15.76%
100	29.99%	31.53%	100	21.52%	21.52%

Proposed mortality rates above are sample rates for 2014. For actuarial valuation purposes, mortality rates will be projected from 2014 on a generational basis using the SSA 2014 Intermediate Cost Improvement Scale.

APPENDIX
Proposed Disabled Mortality – All Systems

Males			Females		
Age	Current Mortality Rate	Proposed Mortality Rate	Age	Current Mortality Rate	Proposed Mortality Rate
40	2.26%	2.82%	40	0.75%	0.93%
45	2.26%	2.82%	45	0.75%	0.93%
50	2.77%	3.46%	50	1.15%	1.44%
55	3.42%	4.27%	55	1.65%	2.07%
60	4.07%	5.08%	60	2.18%	2.73%
65	4.83%	6.04%	65	2.80%	3.50%
70	5.96%	7.45%	70	3.70%	4.70%
75	7.75%	9.69%	75	5.22%	6.53%
80	10.34%	12.92%	80	7.23%	9.04%
85	13.49%	16.87%	85	10.02%	12.53%
90	16.92%	21.15%	90	14.00%	17.51%
95	25.07%	31.34%	95	19.45%	23.41%
100	33.02%	41.28%	100	23.75%	29.68%

North Dakota Public Employees Retirement System

Experience Review: Follow-Up Information

Presented By:

Brad Ramirez, FSA, MAAA, FCA, EA

June 18, 2015

This document has been prepared by Segal Consulting for the benefit of the Board of the North Dakota Public Employees Retirement System and is not complete without the presentation provided at the June 18, 2015 meeting of the Board. This document should not be shared, copied or quoted, in whole or in part, without the consent of Segal Consulting, except to the extent otherwise required by law. Except where otherwise specifically noted, the actuarial calculations and projections were completed under the supervision of Tammy F. Dixon, FSA, MAAA, Enrolled Actuary.

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Overview: Impact of Recent Bills on Experience Study Results

This report summarizes our proposed assumptions based on the experience study and plan costs reflecting the new legislative bills.

Legislative bills SB2015 and HB1062 were passed changing the retirement eligibility requirements for Main System employees. For employees enrolled after December 31, 2015,

- Attainment of age 65, or age plus service equal to at least 90 (Rule of 90) with for ages 60 or later is required to meet Normal Service Retirement Eligibility.
- The early retirement benefit is equal to the Normal Service Retirement benefit reduced by 8% per year before the earliest of 65 or the age at which Rule of 90 is met.
- DC participants may elect to transfer back into the DB plan within a 3-month period upon payment of the entire account balance back into the DB plan.

Changes to final average compensation definitions, service requirements for retirement from the National Guard System, and USERRA changes were also made.

5376034_1

Cost Impact on Main System Based on the July 1, 2014 Actuarial Valuation

Description	Current Assumptions	All Proposed Assumptions	All Proposed Assumptions Except Investment Return	All Proposed Assumptions Except for Payroll Growth
Actuarial Accrued Liability	$2,866.5M	$2,848.8M	$2,769.4M	$2,848.8M
Actuarial Value of Assets	$1,837.9M	$1,837.9M	$1,837.9M	$1,837.9M
Unfunded Actuarial Accrued Liability	$1,028.6M	$1,010.9M	$931.5M	$1,010.9M
Funded Percentage	64.1%	64.5%	66.4%	64.5%
Total Normal Cost including Expenses	$99.1M	$123.9M	$119.4M	$119.4M
Actuarially Determined Employer Contribution Rate	11.06%	13.43%	12.51%	13.13%
Employer Statutory Rate	7.12%	7.12%	7.12%	7.12%
Margin / (Deficit)	(3.94)%	(6.31)%	(5.39)%	(6.01)%
Effective Amortization Period	Infinite	Infinite	Infinite	Infinite

Governmental Accounting Standards Board (GASB) Statement No. 67 - Main System

Basis for Main System	Current Plan and Assumptions	All Proposed Assumptions	All Proposed Assumptions Except for Investment Return
1. Total pension liability	$2,846,579,777	$2,848,771,678	$2,769,388,164
2. Plan fiduciary net position	2,211,858,402	2,211,858,402	2,211,858,402
3. Net pension liability/(asset)	634,721,375	636,913,276	557,477,682
4. Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.64%	79.87%
5. Discount Rate	8.00%	7.75%	8.00%

- Based upon calculations required by Statement 67 paragraphs 40-45, the Plan's Fiduciary Net Position is projected to be sufficient to make projected benefit payments. Therefore, the discount rate used to determine the TPL and NPL was determined to be the same as the Plan's long-term expected rate of return on investments, 8.00% or 7.75%, as applicable.

Note: The payroll growth assumption does not affect the calculation of the TPL and NPL for the Main System.

Governmental Accounting Standards Board (GASB) Statement No. 67 - Main Systems

Basis for Main Systems	Current Plan and Assumptions	All Proposed Assumptions Except for Investment Return	All Proposed Assumptions
1. Total pension liability	$2,846,579,777	$2,769,388,164	$2,848,771,678
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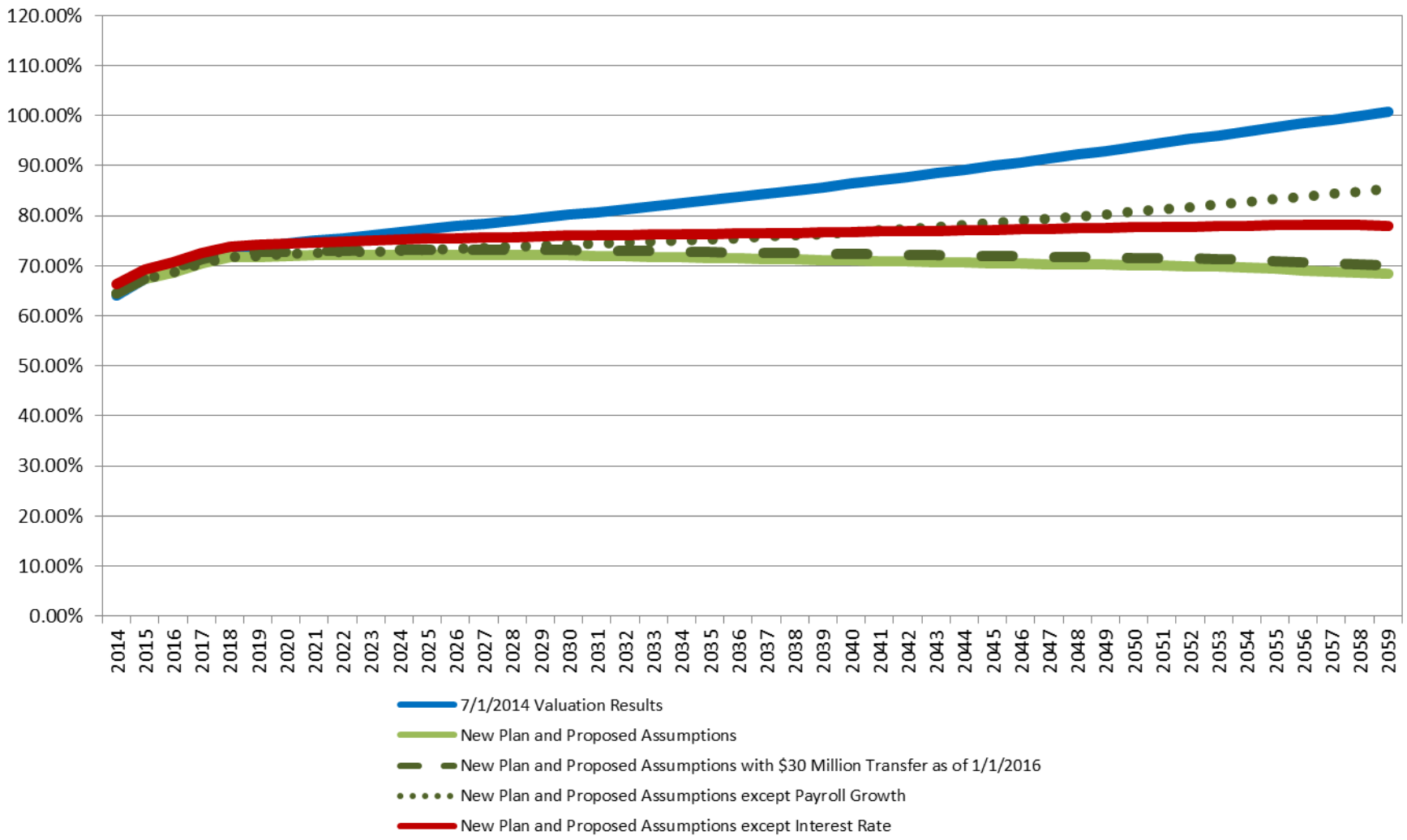
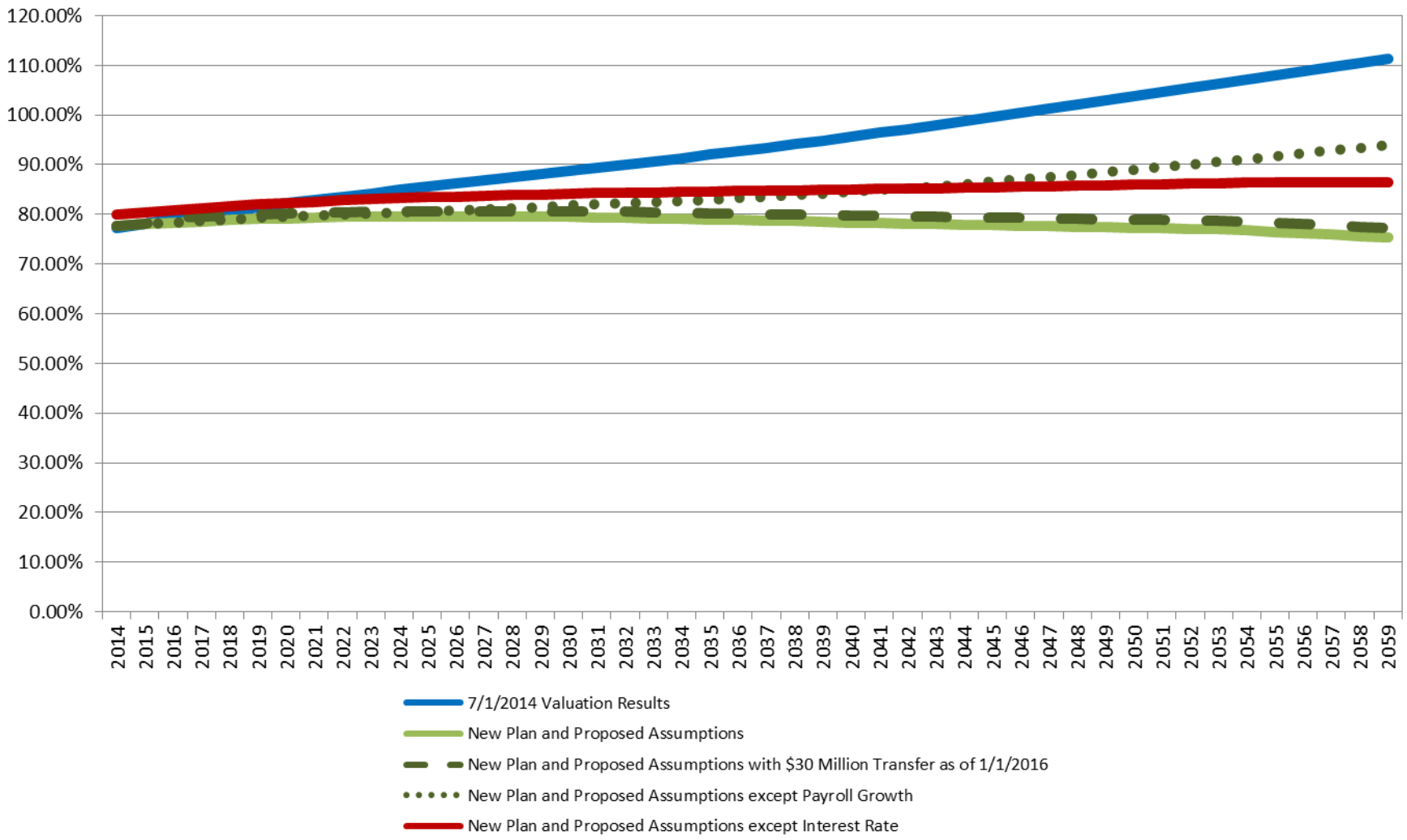
Cost Impact Projections – Main System

- Projections of estimated funded ratios for 45 years
  - Baseline based on July 1, 2014 actuarial valuation results using current assumptions
- Includes the current contribution rates as follows:
  - Member rate is 7.00% for fiscal years ending June 30, 2015 and thereafter
  - Employer rate is 7.12% for fiscal years ending June 30, 2015 and thereafter
- Includes the legislative plan changes adopted in legislative bills SB2015 and HB1062 as “New Plan”.
- Both the funded ratios under the actuarial value of assets (AVA) and market value of assets (MVA) are shown for:
  - New Plan and Proposed Assumptions
  - New Plan and Proposed Assumptions except Payroll Growth
  - New Plan and Proposed Assumptions with $30 Million Transfer as of 1/1/2016
  - New Plan and Proposed Assumptions except Interest Rate

Projected Funded Ratios (AVA Basis) – Main System



Projected Funded Ratios (MVA Basis) – Main System



Summary of Assumptions

- The following exhibits summarize the economic and demographic assumptions for each system. The descriptions have been shortened for ease of reference. Full details of the assumptions are available in the Experience Review: July 2009 – June 2014 Presentation dated May 21, 2015.

- Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

The projections were made using generally accepted actuarial practices and are based on the July 1, 2014 Actuarial Valuation. Calculations were completed under the supervision of Tammy F. Dixon, FSA, MAAA, Enrolled Actuary.

Summary of Assumptions – Main System

Assumption	Current	Proposed
Inflation/Productivity	3.50%/1.00% (4.50% Payroll Growth)	2.75%/1.25% (4.00% Payroll Growth)
Salary Scale	Based on age/service	Based on age/service, split by State/Non-State
Investment Return	8.00%	7.75%
Administrative Expenses	$1,100,000	Load based on prior year
Termination	Based on age/service	No change
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Based on age/eligibility for unreduced benefits	Adjusted rates at some ages
Inactive Retirements	Earlier of age 64 and unreduced retirement	Same as active rates
Active/Inactive Healthy Mortality Table	RP-2000 Combined Healthy, with setback	RP-2000 Combined Healthy, with setback, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Spouse Information	80% of males and 65% of females married, male spouses are three years older	75% are married. No other changes.
Benefit election	Married elect 50% joint & survivor, non-married elect life annuity	50% elect life annuity, 45% elect 50% joint & survivor, 5% elect refund of contributions
Refund of Contributions	Only if account balance is higher than value of annuity	No Change
Account balance due to vested Employer Contributions (PEP)	Those contributing continue to contribute. Those who haven't contributed will not contribute in the future.	No Change

Summary of Assumptions – Judges

Assumption	Current	Proposed
Inflation/Productivity	3.50%/0.50% (4.00% Payroll Growth)	2.75%/0.75% (3.50% Payroll Growth)
Salary Scale	5% for all years	4% for all years
Investment Return	8.00%	7.75%
Administrative Expenses	$7,500	Load based on prior year
Termination	Rates based on age	Eliminate rates
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age	Adjusted rates based on age
Inactive Retirements	Earlier of age 64 and unreduced retirement	Same as active rates
Active/Inactive Healthy Mortality Table	RP-2000 Combined Healthy, with setback	RP-2000 Combined Healthy, with setback, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Spouse Information	100% of all participants are married, male spouses are three years older than female spouses	No changes
Benefit election	Married elect 50% joint & survivor, non-married elect life annuity	All elect 50% joint & survivor
Refund of Contributions	Only if account balance is higher than value of annuity	No Change

Summary of Assumptions – National Guard

Assumption	Current	Proposed
Inflation/Productivity	3.50%/1.00% (4.50% Payroll Growth)	2.75%/1.25% (4.00% Payroll Growth)
Salary Scale	Based on age/service	Based on age/service, adjusted for recent experience
Investment Return	8.00%	7.75%
Administrative Expenses	$3,000	Load based on prior year
Termination	Based on age/service	No change
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age	Adjusted rates based on age
Inactive Retirements	Age 55	Same as active rates
Active/Inactive Healthy Mortality Table	RP-2000 Combined Healthy, with setback	RP-2000 Combined Healthy, with setback, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Spouse Information	80% of males and 65% of females married, male spouses are three years older	75% are married. No other changes.
Benefit election	Married elect 50% joint & survivor, non-married elect life annuity	50% elect life annuity, 45% elect 50% joint & survivor, 5% elect refund of contributions
Refund of Contributions	Only if account balance is higher than value of annuity	No Change
Account balance due to vested Employer Contributions (PEP)	Those contributing continue to contribute. Those who haven't contributed will not contribute in the future.	No Change

Summary of Assumptions – Law Enforcement with Prior Service

Assumption	Current	Proposed
Inflation/Productivity	3.50%/1.00% (4.50% Payroll Growth)	2.75%/1.25% (4.00% Payroll Growth)
Salary Scale	Based on age/service	Based on age/service, adjusted for recent experience
Investment Return	8.00%	7.75%
Administrative Expenses	$2,500	Load based on prior year
Termination	Based on age/service	No change
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age	Adjusted rates based on age
Inactive Retirements	Earlier of age 55 and unreduced retirement	Same as active rates
Active/Inactive Healthy Mortality Table	RP-2000 Combined Healthy, with setback	RP-2000 Combined Healthy, with setback, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Spouse Information	80% of males and 65% of females married, male spouses are three years older	75% are married. No other changes.
Benefit election	Married elect 50% joint & survivor, non-married elect life annuity	50% elect life annuity, 45% elect 50% joint & survivor, 5% elect refund of contributions
Refund of Contributions	Only if account balance is higher than value of annuity	No Change
Account balance due to vested Employer Contributions (PEP)	Those contributing continue to contribute. Those who haven't contributed will not contribute in the future.	No Change

Summary of Assumptions – Law Enforcement without Prior Service

Assumption	Current	Proposed
Inflation/Productivity	3.50%/1.00% (4.50% Payroll Growth)	2.75%/1.25% (4.00% Payroll Growth)
Salary Scale	Based on age/service	Based on age/service, adjusted for recent experience
Investment Return	8.00%	7.75%
Administrative Expenses	$7,500	Load based on prior year
Termination	Rates based on age/service	No change
Disability	Gender-distinct rates based on age	Lower rates at all ages
Active Retirements	Rates based on age	Adjusted rates based on age
Inactive Retirements	Earlier of age 55 and unreduced retirement	Same as active rates
Active/Inactive Healthy Mortality Table	RP-2000 Combined Healthy, with setback	RP-2000 Combined Healthy, with setback, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Spouse Information	80% of males and 65% of females married, male spouses are three years older	75% are married. No other changes.
Benefit election	Married elect 50% joint & survivor, non-married elect life annuity	50% elect life annuity, 45% elect 50% joint & survivor, 5% elect refund of contributions
Refund of Contributions	Only if account balance is higher than value of annuity	No Change
Account balance due to vested Employer Contributions (PEP)	Those contributing continue to contribute. Those who haven't contributed will not contribute in the future.	No Change

Summary of Assumptions – Highway Patrolmen

Assumption	Current	Proposed
Inflation/Productivity	3.50%/1.00% (4.50% Payroll Growth)	2.75%/1.25% (4.00% Payroll Growth)
Salary Scale	Based on age/service	Based on age/service, adjusted for recent experience
Investment Return	8.00%	7.75%
Administrative Expenses	$18,000	Load based on prior year
Termination	Based on age/service	No change
Disability	Rates based on age	Lower rates at all ages
Active Retirements	Based on age/eligibility for unreduced benefits	Adjusted rates at some ages
Inactive Retirements	Age 55	Same as active rates
Active/Inactive Healthy Mortality Table	RP-2000 Combined Healthy, with setback	RP-2000 Combined Healthy, with setback, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	RP-2000 Disabled Mortality Table set back one year for males (no setback for females)	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Spouse Information	90% of non-retired members are married, male spouses are three years older than female spouses	100% are married. No other changes.
Benefit election	Married elect 50% joint & survivor, non-married elect life annuity	100% elect 50% joint & survivor
Indexing for benefits of inactive members	4.5% per annum	4.0% per annum
Refund of Contributions	Only if account balance is higher than value of annuity	No Change

Summary of Assumptions – Job Service

Assumption	Current	Proposed
Inflation/Productivity	3.50%/1.00%	2.75%/1.25%
Salary Scale	5.00%	3.50%
Investment Return	8.00%	7.75%
Administrative Expenses	Implicitly included in the investment return assumption	Load based on prior year
COLA	5.00%	3.00%
Termination	Rates based on age	Not applicable
Disability	Rates based on age	Lower rates at all ages
Active Retirements	75% retire when first eligible. The rest retire at Normal Retirement Age	Adjusted rates based on age
Inactive Retirements	100% at first optional retirement age	Same as active rates
Active/Inactive Healthy Mortality Table	1994 Group Annuity Mortality Table	RP-2000 Combined Healthy, with setback, projected generationally using SSA 2014 Intermediate Cost scale from 2014
Disabled Mortality	1983 Railroad Retirement Board Disabled Life Mortality Table	RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%
Spouse Information	85% of all non-retired are married, male spouses are four years older than female spouses	No change
Benefit election	All participants are assumed to elect the 10-year certain and life annuity	55% elect 10-year certain and life, 45% elect 55% joint & survivor

NASRA Issue Brief:
Public Pension Plan Investment Return Assumptions

Updated May 2015

As of December 31, 2014, state and local government retirement systems held assets of $3.78 trillion.[1] These assets are held in trust and invested to pre-fund the cost of pension benefits. The investment return on these assets matters, as investment earnings account for a majority of public pension financing. A shortfall in long-term expected investment earnings must be made up by higher contributions or reduced benefits.

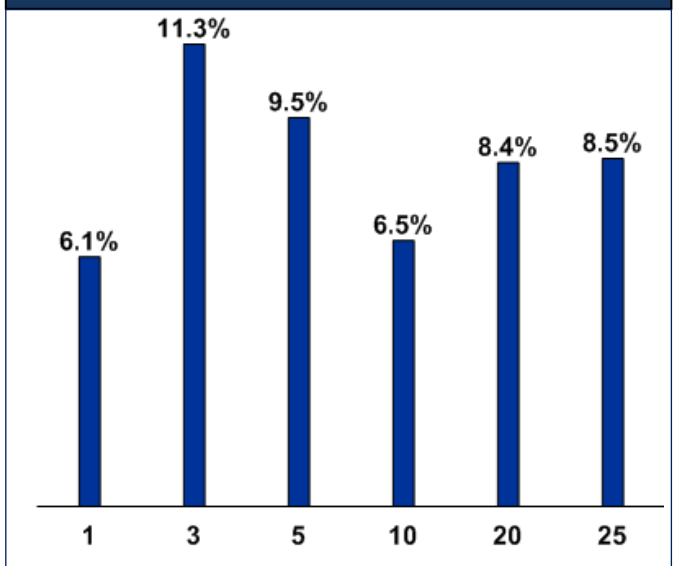
Funding a pension benefit requires the use of projections, known as actuarial assumptions, about future events. Actuarial assumptions fall into one of two broad categories: demographic and economic. Demographic assumptions are those pertaining to a pension plan's membership, such as changes in the number of working and retired plan participants; when participants will retire, and how long they'll live after they retire. Economic assumptions pertain to such factors as the rate of wage growth and the future expected investment return on the fund's assets.

As with other actuarial assumptions, projecting public pension fund investment returns requires a focus on the long-term. This brief discusses how investment return assumptions are established and evaluated, and compares these assumptions with public funds' actual investment experience.

Some critics of current public pension investment return assumption levels say that current low interest rates and volatile investment markets require public pension funds to take on excessive investment risk to achieve their assumption. Because investment earnings account for a majority of revenue for a typical public pension fund, the accuracy of the assumption has a major effect on the plan's finances and actuarial funding level.

An investment return assumption that is set too low will overstate liabilities and costs, causing current taxpayers to be overcharged and future taxpayers to be undercharged. A rate set too high will understate liabilities, undercharging current taxpayers, at the expense of future taxpayers. An assumption that is significantly wrong in either direction will cause a misallocation of resources and unfairly distribute costs among generations of taxpayers.

Figure 1: Median public pension annualized investment returns for period ended 12/31/2014



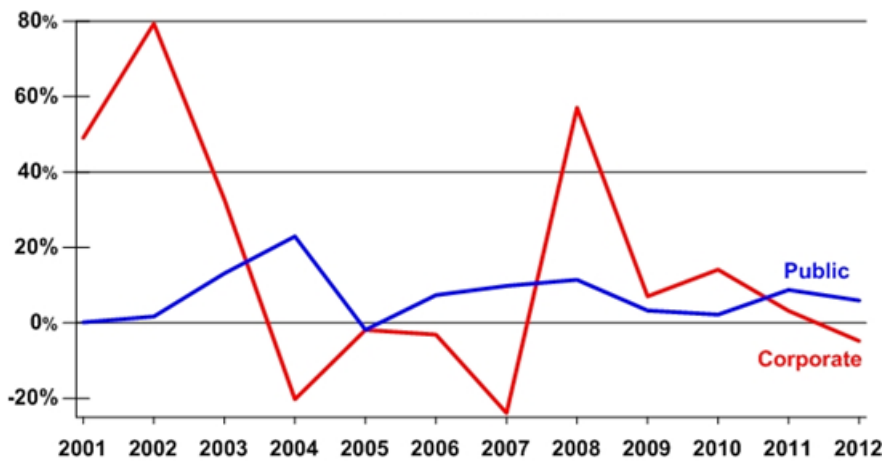
Source: Callan Associates

Although public pension funds, like other investors, experienced sub-par returns in the wake of the 2008-09decline in global equity values, median public pension fund returns over longer periods meet or exceed the assumed rates used by most plans. As shown in Figure 1, the median annualized investment return for the 3-, 5-, 20- and 25-year periods ended December 31, 2014, exceeds the average assumption of 7.68 percent (see Figure 5), while the 10-year return is below this level.

[1] Federal Reserve, *Flow of Funds Accounts of the United States: Flows and Outstandings, Fourth Quarter 2014*, Table L.118

Public retirement systems typically follow guidelines set forth by the Actuarial Standards Board to set and review their actuarial assumptions, including the expected rate of investment return. Most systems review their actuarial assumptions regularly, pursuant to state or local statute or system policy. Actuarial Standards of Practice No. 27 (Selection of Economic Assumptions for Measuring Pension Obligations) (ASOP 27) prescribes the considerations actuaries should make in setting an investment return assumption. As described in ASOP 27, the process for establishing and reviewing the investment return assumption involves consideration of various financial, economic, and market factors, and is based on a very long-term view, typically 30 to 50 years. A primary objective for using a long-term approach in setting public pensions' return assumption is to promote stability and predictability of cost to ensure intergenerational equity among taxpayers.

Figure 2: Annual change in contributions from prior year, corporate vs. public pensions

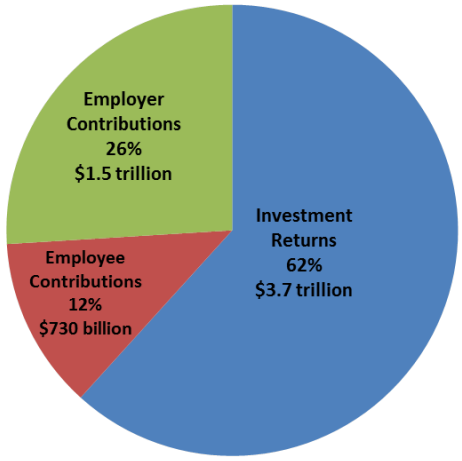


Source: Compiled by NASRA based on U.S. Department of Labor and U.S. Census Bureau data

Unlike public pension plans, corporate plans are required by federal regulations to make contributions on the basis of current interest rates. As Figure 2 shows, this method results in plan costs that are volatile and uncertain, often changing dramatically from one year to the next. This volatility is due in part to fluctuations in interest rates and has been identified as a leading factor in the decision among corporations to abandon their pension plans. By focusing on the long-term and relying on a stable investment return assumption, public plans experience less volatility of costs.

As shown in Figure 3, since 1984, public pension funds have accrued an estimated $5.9 trillion in revenue, of which $3.7 trillion, or 62 percent, is estimated to have come from investment earnings. Employer contributions account for $1.5 trillion, or 26 percent of the total, and employee contributions total $730 billion, or 12 percent.[2]

Figure 3: Public Pension Sources of Revenue, 1984-2013



Source: Compiled by NASRA based on U.S. Census Bureau data

Public retirement systems operate over long timeframes and manage assets for participants whose involvement with the plan can last more than half a century. Consider the case of a newly-hired public school teacher who is 25 years old. If this pension plan participant elects to make a career out of teaching school, he or she may work for 35 years, to age 60, and live another 25 years, to age 85. This teacher's pension plan will receive contributions for the first 35 years and then pay out benefits for another 25 years. During the entire 60-year period, the plan is investing assets on behalf of this participant. To emphasize the long-term nature of the investment return assumption, for a typical career employee, more than one-half of the investment income earned on assets accumulated to pay benefits is received *after* the employee retires.

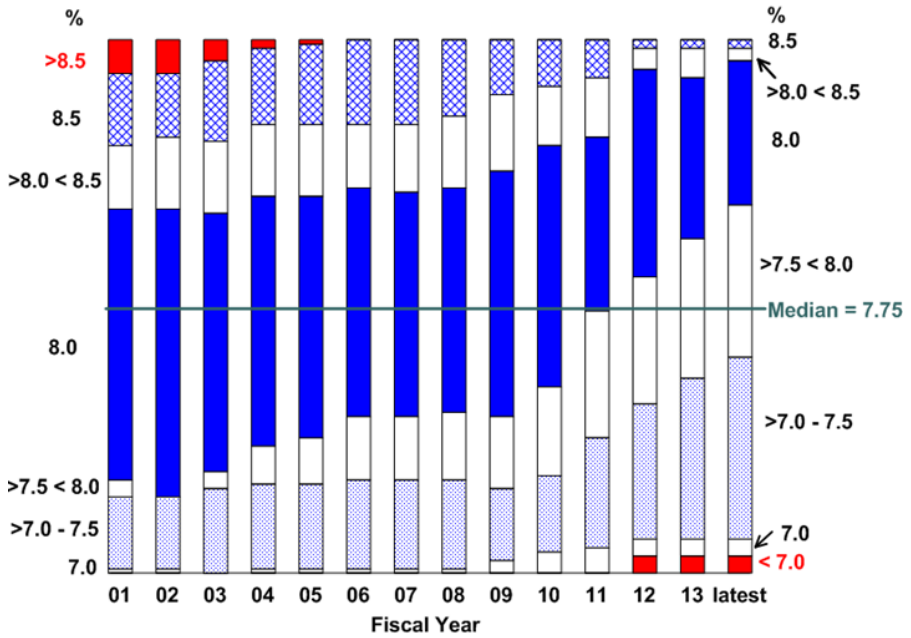
[2] US Census Bureau, Annual Survey of Public Pensions, State & Local Data

The investment return assumption is established through a process that considers factors such as economic and financial criteria; the plan's liabilities; and the plan's asset allocation, which reflects the plan's capital market assumptions, risk tolerance, and projected cash flows.

Standards for setting an investment return assumption, established and maintained by professional actuaries, recommend that actuaries consider a range of specified factors, including current and projected interest rates and rates of inflation; historic and projected returns for individual asset classes; and historic returns of the fund itself. The investment return assumption reflects a value within the projected range.

As shown in Figure 4, many public pension plans have reduced their return assumption in recent years. Among the 126 plans measured in the Public Fund Survey, more than one-half have reduced their investment return assumption since fiscal year 2008. The average return assumption is 7.68 percent. Appendix A details the assumptions in use or adopted by the 126 plans in the Public Fund Survey.

Figure 4: Change in distribution of public pension investment return assumptions, FY 01 through May 2015

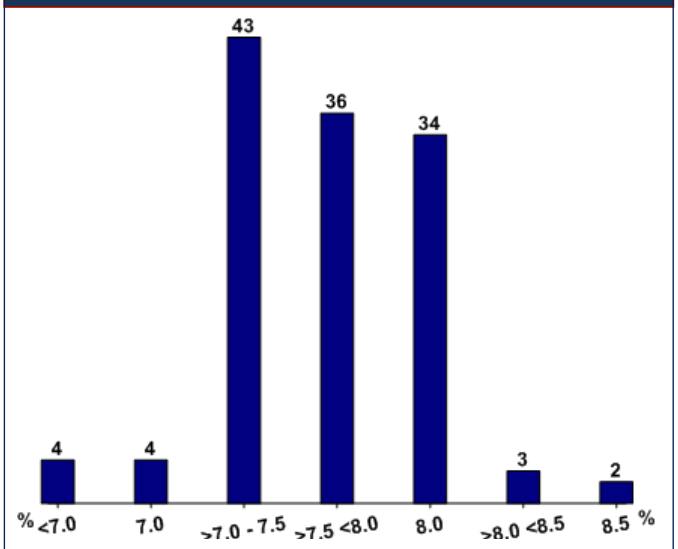


Source: Compiled by NASRA based on Public Fund Survey

Conclusion

Over the last 25 years, a period that has included three economic recessions and four years when median public pension fund investment returns were negative, public pension funds have exceeded their assumed rates of investment return. Changes in economic and financial conditions are causing many public plans to reconsider their investment return assumption. Such a consideration must include a range of financial and economic factors while remaining consistent with the long timeframe under which plans operate.

Figure 5: Distribution of investment return assumptions



Source: Compiled by NASRA based on Public Fund Survey, May 2015

See Also:

- Actuarial Standards of Practice No. 27, Actuarial Standards Board
- The Liability Side of the Equation Revisited, Missouri SERS, September 2006
- The Public Fund Survey is sponsored by the National Association of State Retirement Administrators (registration required).

Contact:

Keith Brainard, Research Director, keith@nasra.org
Alex Brown, Research Manager, alex@nasra.org
National Association of State Retirement Administrators

Appendix A: Investment Return Assumption by Plan

(Figures reflect the nominal assumption in use, or announced for use, as of May 2015)

Plan	Rate (%)
Alaska PERS	8.00
Alaska Teachers	8.00
Alabama ERS	8.00
Alabama Teachers	8.00
Arkansas PERS	7.75
Arkansas Teachers	8.00
Arizona Public Safety Personnel	7.85
Arizona SRS	8.00
Phoenix ERS	7.50
California PERF	7.50
California Teachers	7.50
Contra Costa County	7.25
LA County ERS	7.50
San Diego County	7.75
San Francisco City & County	7.50
Colorado Affiliated Local	7.50
Colorado Fire & Police Statewide	7.50
Colorado Municipal	7.50
Colorado School	7.50
Colorado State	7.50
Denver Employees	8.00
Denver Public Schools	7.50
Connecticut SERS	8.00
Connecticut Teachers	8.50
DC Police & Fire	6.50
DC Teachers	6.50
Delaware State Employees	7.20
Florida RS	7.65
Georgia ERS	7.50
Georgia Teachers	7.50
Hawaii ERS	7.75
Iowa PERS	7.50
Idaho PERS	7.00
Chicago Teachers	7.75
Illinois Municipal	7.50
Illinois SERS	7.25
Illinois Teachers	7.50
Illinois Universities	7.25
Indiana PERF	6.75
Indiana Teachers	6.75
Kansas PERS	8.00
Kentucky County	7.75
Kentucky ERS	7.75
Kentucky Teachers	7.50
Louisiana SERS	7.75
Louisiana Teachers	7.75
Massachusetts SERS	7.75
Massachusetts Teachers	7.75
Maryland PERS[1]	7.65
Maryland Teachers[1]	7.65
Maine Local	7.13
Maine State and Teacher	7.13
Michigan Municipal	8.00
Michigan Public Schools	8.00
Michigan SERS	8.00
Duluth Teachers	8.00
Minnesota PERF	8.00
Minnesota State Employees	8.00
Minnesota Teachers[2]	8.40
St. Paul Teachers	8.00
Missouri DOT and Highway Patrol	7.75
Missouri Local	7.25
Missouri PEERS	8.00
Missouri State Employees	8.00
Missouri Teachers	8.00
St. Louis School Employees	8.00
Mississippi PERS	8.00
Montana PERS	7.75
Montana Teachers	7.75
North Carolina Local Government	7.25
North Carolina Teachers and State Employees	7.25
North Dakota PERS	8.00
North Dakota Teachers	8.00
Nebraska Schools	8.00
New Hampshire Retirement System	7.75
New Jersey PERS	7.90
New Jersey Police & Fire	7.90
New Jersey Teachers	7.90
New Mexico PERF	7.75

New Mexico Teachers	7.75
Nevada Police Officer and Firefighter	8.00
Nevada Regular Employees	8.00
New York City ERS	7.00
New York City Teachers	8.00
New York State Teachers	8.00
NY State & Local ERS	7.50
NY State & Local Police & Fire	7.50
Ohio PERS	8.00
Ohio Police & Fire	8.25
Ohio School Employees	7.75
Ohio Teachers	7.75
Oklahoma PERS	7.50
Oklahoma Teachers	8.00
Oregon PERS	7.75
Pennsylvania School Employees	7.50
Pennsylvania State ERS	7.50
Rhode Island ERS	7.50
Rhode Island Municipal	7.50
South Carolina Police	7.50
South Carolina RS	7.50
South Dakota PERS[3]	7.25
TN Political Subdivisions	7.50
TN State and Teachers	7.50

City of Austin ERS	7.75
Houston Firefighters	8.50
Texas County & District	8.00
Texas ERS	8.00
Texas LECOS	8.00
Texas Municipal	7.00
Texas Teachers	8.00
Utah Noncontributory	7.50
Fairfax County Schools	7.50
Virginia Retirement System	7.00
Vermont State Employees[4]	8.10
Vermont Teachers[4]	7.90
Washington LEOFF Plan 1[5]	7.90
Washington LEOFF Plan 2	7.90
Washington PERS 1[5]	7.90
Washington PERS 2/3[5]	7.90
Washington School Employees Plan 2/3[5]	7.90
Washington Teachers Plan 1[5]	7.90
Washington Teachers Plan 2/3[5]	7.90
Wisconsin Retirement System	7.20
West Virginia PERS	7.50
West Virginia Teachers	7.50
Wyoming Public Employees	7.75

1. The Maryland State Retirement Agency Board of Trustees began, with the actuarial valuation dated June 30, 2013, a phased reduction in the assumption used for its PERS and Teachers plans from 7.75 percent, by .05% each year until reaching 7.55.

2. The Minnesota Legislature is responsible for setting the investment return assumption for plans in the state. Legislation approved in 2015 established a rate of 8.0 percent for all plans except the TRA, which is using a select and ultimate rate pending completion of an actuarial experience study. For more information on select-and-ultimate rates, please see Actuarial Standards of Practice No. 27: http://www.actuarialstandardsboard.org/pdf/asops/asop027_145.pdf.

3. The SDRS set the rate at 7.25% through FY 2017, after which the rate will rise to 7.50% unless the SDRS board takes action otherwise.

4. The Vermont retirement systems adopted select-and-ultimate rates in 2011; the rates shown reflect the single rates most closely associated with the funding results for the respective plans, based on their projected cash flows.

5. For all Washington State plans except LEOFF Plan 2, the assumed rate of return will be reduced to 7.8% on July 1, 2015, and to 7.7% on July 1, 2017.

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@state.nd.us ● discovernd.com/NDPERS

Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **August 17, 2015**

SUBJECT: **Final Average Salary Indexing for Highway Patrol**

North Dakota Century Code 39-03.1-11(5) provides:

"...The final average salary used for calculating a deferred vested retirement benefit must be increased annually from the later of the date of termination of employment or July 1, 1991, until the date the contributor begins to receive retirement benefits from the fund, at a rate as determined by the board not to exceed a rate that would be approximately equal to annual salary increases provided state employees pursuant to action by the legislative assembly."

As provided in statute, it is necessary for the NDPERS Board to set a rate to be used in establishing the index factor for deferred members of the highway patrol. It has been PERS policy to solicit input and a recommendation from the Highway Patrol leadership.

The last legislative assembly increased each agencies budget by an average of 3% for the first year of the 2015-17 biennium. The North Dakota Highway Patrol leadership is recommending that deferred members in its system have their final average salary indexed by 3%. Currently there are 22 members in the system in a deferred status.

The current assumption for indexing of deferred members is 5%. Therefore, an increase of 3% will result in a small actuarial gain to the plan as confirmed by our consultant, The Segal Company.

For your information, listed below are the legislative increases granted, as well as the increase percentages set for indexing purposes by the Board since 1993 when the factor was first established.

	Legislative Increase %	**Board Approved Index %**
1993	3.00	3.57
1994	2.00	3.00
1995	2.00	2.00
1996	2.00+ 1.00 discretionary	2.00
1997	Average 3.00	3.00
1998	Average 3.00	1.80
1999	2.00 (min $35)	1.26
2000	2.00 (min $35)	2.00
2001	3.00 (min $35)	1.81
2002	3.00 (min $35)	1.73
2003	None authorized	-0-
2004	None authorized	-0-
2005	4.00	4.00
2006	4.00	4.00
2007	4.00	4.00
2008	4.00	4.00
2009	5.00	5.00
2010	5.00	5.00
2011	3.00	2.00
2012	3.00	2.00
2013	3.00	3.00
2014	3.00	3.00

As illustrated above, the Board has generally approved an indexing percentage, as recommended by the Highway Patrol leadership, that is the same or slightly lower than the salary increases granted to state employees.

Board Action Requested:

Accept or reject the Highway Patrol's recommendation**.**

North Dakota Highway Patrol

Colonel Michael T. Gerhart, Jr., Superintendent
State Capitol, 600 E Boulevard Ave. Dept. 504
Bismarck, ND 58505-0240
Telephone: 701-328-2455

Jack Dalrymple
Governor
State of North Dakota

August 17, 2015

Ms. Kathy Allen
North Dakota Public Employees Retirement System
P.O. Box 1657
Bismarck, ND 58502-1657

Dear Kathy:

We recommend that the members of the North Dakota Highway Patrol Retirement System who participate in the Deferred Vested Benefit provision have their final average salary indexed by 3 percent July 1, 2015.

Sincerely,

MICHAEL T. GERHART, JR.
Colonel, NDHP
Superintendent

mtg/blc

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: **NDPERS Board**

FROM: **Kathy**

DATE: **August 19, 2015**

SUBJECT: **IRS Cycle E Filing – Main & HP Systems**

At the August 2014 meeting, you were informed that we had the option to submit a Cycle E filling using the IRS Voluntary Compliance Program (VCP). This filing was necessary in order to amend our plans in order to address a deficiency referenced by the IRS related to the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act). In order to correct this deficiency, we could amend our plans through legislation in the 2015 session. The Board directed staff to prepare the required legislative amendments to our statute. House Bill 1062 addressed the Heart Act provisions and passed. Therefore, we can now proceed with the Cycle E filing and determination letter application. The time line for filling is February 1, 2015 to January 31, 2016.

Segal provided the following cost summary for a determination letter and VCP application:

IRS fees
Determination letter application = $2,500 per plan ($5,000 both plans)
VCP application = $375 per plan ($750 both plans)

Total IRS fees = $5,750

Segal fees
Determination letter application and VCP application = Time charges *not to exceed* $8,000 per plan ($16,000 for both plans)

Total IRS & Segal Fees: $21,750

Staff is requesting the Board's authority to use Segal's services to complete the required paperwork and provide the documentation required to prepare a filing to the IRS for the above plans.

Board Action Requested

To approve the Segal fees for the filing.

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Public Employees Retirement System
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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: NDPERS Board

FROM: Bryan & Sharon

DATE: August 19, 2015

SUBJECT: Retiree Health Insurance Credit Implementation

The team from NDPERS and ASIFlex feel we've successfully implemented the new Retiree Health Insurance Credit Program and have now moved into normal operations.

The contract, implementation document, plan design, informational mailings/meetings, initial enrollment, file processing, and reimbursements have all taken place. ASIFlex continues to set up the direct deposits. Direct deposits are increasing with 5,435 retirees signed up to date. Plan information is available on the NDPERS and ASIFlex web sites. ASIFlex has paid claims out to 6,213 retirees. As of August 19th, $1,331,277 has been paid to NDPERS retirees and $43,875 to Job Service retirees.

The implementation team continues to work on establishing and documenting new administrative processes for handling deaths, suspension of benefits, benefit recalculations, and recovery of benefit overpayments, as it relates to RHIC reimbursements. In addition, staff is working with ASIFlex to customize the quarterly statements that retirees will be receiving.

Our call volume has returned to a more normal level after the first week of August. Since then, we have not found it necessary to bring in temporary staff to assist with incoming calls. Most of the calls now are from retirees with questions on what they need to provide to ASIFlex to get reimbursement for premiums paid for plans that are not sponsored by NDPERS.

If you have any questions, we will be available at the NDPERS Board meeting.

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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: NDPERS Board

FROM: MaryJo

DATE: August 12, 2015

SUBJECT: RHIC Repeal of Rules

In December 2014, the NDPERS Board approved policy regarding under/over payment of RHIC benefits, since RHIC reimbursement would be directly from a third party administrator. In the case of underpayment of RHIC benefits, any additional reimbursement due to the member would be paid in a lump sum. In the case of an overpayment of RHIC benefits, any amount owed to NDPERS by the member would be offset against future monthly benefits until recovered or NDPERS would establish repayment options (lump sum or installments).

With implementation of House Bill 1058 regarding RHIC portability, there are inconsistencies with references in North Dakota Administrative Code and Board policy, as sections of NDAC are no longer applicable to the RHIC program. Each of the sections outlined below apply to Chapter 71-06-01 regarding the Retiree Health Insurance Credit.

> 71-06-01-01. Eligibility for retiree health insurance credit <u>applied to premiums</u> for annuitants and surviving spouses under the North Dakota public employees retirement system, the North Dakota highway patrolmen's retirement system, the retired judges under North Dakota Century Code chapter 27-17, annuitants of the job service retirement program, and former participating members of the defined contribution retirement plan receiving periodic distributions. All receiving members of the public employees retirement system, highway patrolmen's retirement system, judges retirement system, retired judges under North Dakota Century Code chapter 27-17, and annuitants of the job service retirement program will be eligible for retiree health credit <u>applied to premiums</u> that satisfy the enrollment requirements of section 71-03-03-05, with the exception of those receiving members who are receiving their benefit based on prior service credits rather than the defined benefits program. Vested members deferring benefits will not be eligible until payment of benefits commences. A former participating member of the defined contribution retirement plan is similarly eligible for retiree health credit <u>applied to premiums</u> that satisfy the

enrollment requirements of section 71-03-03-05, if the former participating member would qualify for one of the retirement dates set forth in subsection 3 of North Dakota Century Code section 54-52-17 if that former participating member was a member of the defined benefit retirement plan.

This section of NDAC is no longer applicable because RHIC is no longer "applied" to NDPERS premiums but directly reimbursed for eligible premiums, whether NDPERS sponsored or non-NDPERS sponsored.

71-06-01-06. Erroneous crediting of the retiree health insurance credit. If an error occurs in granting retiree health insurance credit, the error shall be corrected the first of the month following discovery of the error in accordance with sections 71-02-04-10 and 71-02-04-11, except any underpayment of the retiree health insurance credit under this chapter must be <u>returned to the uniform group insurance program where it will be treated as an overpayment of premium</u> and paid in a lump sum within sixty days of the discovery of the error.

71-06-01-06.1. Retroactive payment of the retiree health insurance credit. Retroactive payments will be as reflected in chapters 71-02-04 and 71-02-05. Retroactive payments will be made to the date the member was eligible for the disability benefits, <u>in coordination with the first month the member was responsible for payment of the public employees retirement system group health insurance</u>. The date of eligibility for the retiree health insurance credit will be determined:
1. For a deceased, active member's surviving spouse, when the application for retirement benefits is received.
2. For a deceased retiree's surviving spouse, eligibility for the retiree health insurance credit is <u>applied</u> the first of the month following the member's date of death.

These sections of NDAC are no longer applicable because RHIC overpayments are no longer considered underpayment of premiums to NDPERS but an overpayment of retirement benefits. The implementation of HB 1058 makes these sections inapplicable and Board policy has established NDPERS guidance on how to allow for over/under payments with the third party administrator.

NDPERS staff would like to repeal the indicated sections of NDAC and follow the proposed policy the Board established at the December 2014 meeting regarding under/over payment of RHIC benefits. We propose that the portion of each of these sections of NDAC that are still applicable be applied to administer member RHIC benefits until NDAC can be revised and approved.

Board Action Requested: Repeal indicated sections of NDAC relating to RHIC that are now obsolete and can be presented for immediate repeal under NDCC 28-32-18.1.

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Public Employees Retirement System
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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: Sharon Schiermeister

DATE: August 19, 2015

SUBJECT: Asset Transfer for Law Enforcement Plan

The retirement assets of NDPERS are currently subdivided for five groups; the Main System, Judges, National Guard, Law Enforcement without Prior Main Service, and Law Enforcement With Prior Main Service (LEW). Whenever an employer who is in the Main plan elects to participate in the LEW plan, there is a transfer of liability for the prior Main service which requires a corresponding transfer of assets. The last time assets were transferred was in 2008.

Since 2008, six employers have elected to participate in the LEW plan; 1 in 2011, 1 in 2012, 1 in 2013, 2 in 2014 and 1 in 2015. We have become aware that the liability for prior Main service was not transferred to the LEW plan consistently for all participants and the asset transfer did not occur. Staff is currently working on correcting the participant accounts in our business system to accurately reflect their service credit in the LEW plan. The corrected information will be provided to Segal for them to use in the 2015 actuarial valuation. Segal is also determining the amount of the transfer so that the corresponding assets will be considered in the 2015 valuation as well. More information on the transfer amount will be available at the Board meeting.

We will be working with staff and Segal to develop and implement a consistent process for accurately transferring the assets and liability from the Main plan when employers elect to participate in the LEW plan.

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: August 20, 2015

SUBJECT: Medicare Part D – Prescription Drug Plan (PDP)

At todays meeting we will begin discussion of the Medicare Part D – Prescription Drug Plan (PDP) for 2016. Our goal today will be to go over the material, options and other considerations. We will look to you to determine what other information you need to make a determination at our special meeting on September 16. As many of you know this task is always one that is compressed into a short time frame since the final information from the federal government is not available until late summer and the open enrollment starts in October for this program if a change was to occur.

First let me start by giving you some background on this program:

- Historically, PERS has offered a Medicare Supplement Plan that includes drug coverage. This was the case before Part D was created by the federal government. Our coverage is bundled, which means it includes medical and Rx and in electing this coverage, the member has to take both.
- When Part D was enacted, BCBS developed a product for us that captured the Part D Subsidy, retained our existing plan of benefits for Rx, and had no doughnut hole. We continued to offer our plan as bundled only.
- The Part D plan premiums run on a calendar year basis instead of a biennial basis like the other parts of the medical health plan.

The following table provides a history of our Medicare Part D premiums:

	Part -D
2005	$0.00
2006	$49.00
2007	$60.14
2008	$56.40
2009	$63.70
2010	$63.70
2011	$69.50
2012	$74.90
2013	$57.20
2014	$57.40
2015	$77.90

- You will note that the rate for 2014 to 2015 went up by about 30%. This was due to:
  - Rates for 2014 were inadequate due to higher than expected claim trends.
  - Specialty drugs are very costly and the main driver of increased claim trends. For the NDPERS PDP members, the average cost of a specialty drug claim increased by $918 per script to $4,500 from July of 2013 to July of 2014.
  - In 2015, more specialty drug therapies are expected to become available, which translates into higher utilization and costs.
  - Required Affordable Care Act fees also contributed to increased premium costs.

With the change to Sanford from BCBS our proposal anticipated the need to change the Medicare Part D – prescription drug plan. In the rebid Sanford proposed using ESI for the PDP plan and a preliminary premium estimate was approximately $120. However, we note that only estimates can be given that far in advance and are based on assumed rebates, trends, administrative costs, and CMS subsidy payments. Actual rates are calculated in August of each year with updated information. Our present premium is about $79. The proposed contract we received from ESI this month was for the same amount as presented in the rebid with no reduction in premium, however, they had not recalculated the rate.

Given the above, what are our options at this point:

1. Accept the proposed increase from ESI and implement.
2. Consider issuing a quick RFP for an insured EGWP.

3. Unbundle our retiree medical and Rx coverage and allow our retirees to enroll in either one or both or neither.
4. Drop our Medicare Part D Coverage completely.

Accept the proposed increase from ESI and implement.
The dilemma is this is a significant increase for our retirees and our present bundled plan design does not allow them to drop this coverage without losing their medical insurance coverage. That is, you must take both or none.

I have asked ESI for a breakdown of their proposed pricing for Deloitte to review. That information was received on August 18 and Deloitte is now reviewing it. We have asked for the most recent 12 months of data for the Part D plan from BCBS and are asking ESI to re-project the rates.

Consider issuing a quick RFP for an insured EGWP (Employer Group Waiver Plan).
Jan is reviewing this idea to determine if it is an option for us given the RFP and other considerations. Time would be very limited to pursue this option. I have asked Deloitte to look into the feasibility and timelines to complete this task if it is selected by the Board and they will have more information at the Board meeting.

Unbundle our retiree medical and Rx coverage and allow our retirees to enroll in either one or both or neither.
If we took this approach our retirees would no longer be required to take our Part D product in order to stay on the medical plan and could decide to enroll in another product during the Medicare Part D open enrollment if they believe the price is too high. Recently our retiree group heard a presentation from David Zimmerman the Director of the Consumer Assistance Division of the North Dakota Insurance Department (Attachment #1) discussing the Part D process. Slides 5-14 discuss the Medicare Part D open enrollment. After discussing this option and others, our Retiree Committee felt we should unbundle the Rx coverage from the medical (see Attachment #2 – Retiree Meeting Minutes). We need to confirm with ESI that this is an option for them without changing the pricing, but initial conversations between ESI and Sanford seem to indicate it is.

Drop our Medicare Part D Coverage completely.
The Retiree Committee discussed this option, but was not in favor of it at this time (however, they were not aware of the proposed rate increase at that time).

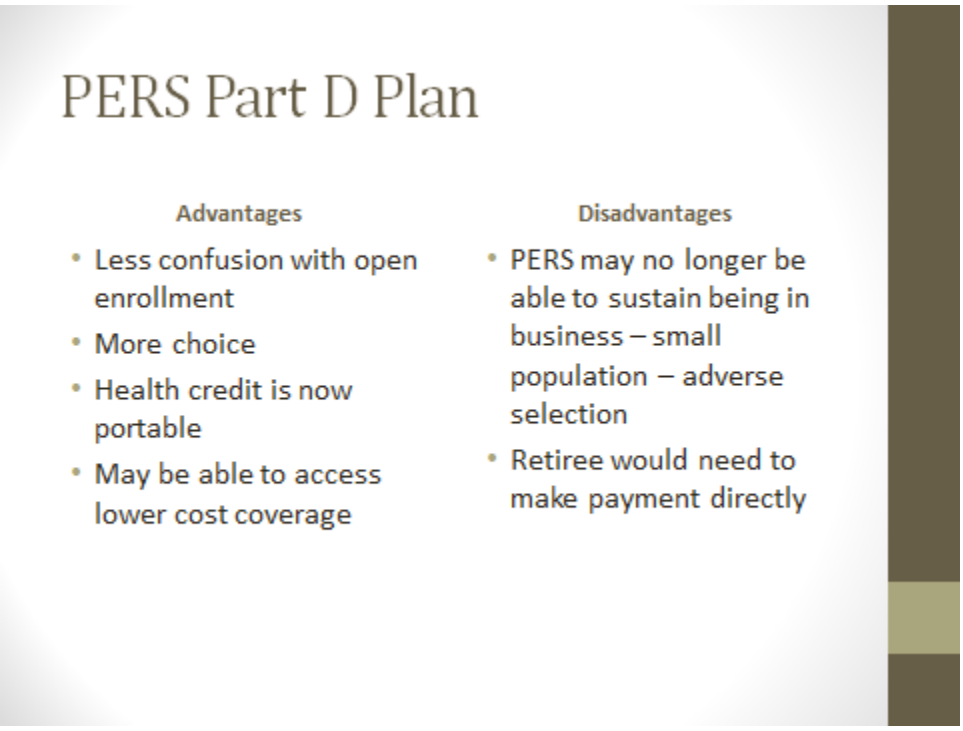
At the PERS Board meeting in March we also discussed this option with the Board due to the administrative issues with this program (see attachment #3). Those issues included the following:

- When Part D was implemented, Medicare retirees were offered an annual open enrollment wherein they are provided the opportunity to select Rx coverage from numerous Rx products in the market place with varying plan designs, formularies, and pricing.
- This open enrollment has resulted in confusion because our members receive information on the federal open enrollment and think this is something they can do and will enroll for other Part D coverage. Because a member cannot be enrolled in

two Part D products, CMS notifies BCBS that they have cancelled the member's Part D coverage with PERS. The unintended outcome of this action is that the member's eligibility for continued medical coverage has been jeopardized because we cannot cancel Rx coverage without also cancelling the medical coverage because the product is bundled. This results in PERS contacting the member to inform them of this policy and providing them the opportunity to reconsider their action.

- Since Part D was enacted, we have found the federal government to be very difficult to deal with concerning enrollments and disenrollments.

The Board directed us at that time to begin a dialogue with the Retiree Committee. We reviewed the above with the committee and following advantages and disadvantages of getting out of Part D:



As noted earlier, the Retiree Committee felt it would be too early to do this option and was in favor of unbundling. However, they were not aware of the rate increase.

PERSLink Considerations

- <u>Accept the proposed increase from ESI and implement.</u> This option would be the same as what we previously had in place with BCBS. We know that our system is not currently able to handle the billing issues when the enrollment/disenrollment date for Part D is different than the medical coverage and we are unable to bill for the Late Enrollment Penalty (LEP). We are currently having discussions with Sanford to see how we would handle these discrepancies going forward and what system modifications may be required. We also know that ESI needs enrollment information for our retiree's by October 21, 2015 in order to send out required mailings regarding

the transition. Therefore, if system modifications are necessary, they will need to be in place within the next 60 days.

- Consider issuing a quick RFP for an insured EGWP. If this option resulted in awarding the plan to a different vendor, we anticipate this would require system modifications in order to provide enrollment and premium payment information with the new vendor's specifications. Assuming that the October 21, 2015 date would be the same for any vendor, implementing system changes within this short of a timeframe would be difficult.

- Unbundle our retiree medical and Rx coverage and allow our retirees to enroll in either one or both or neither. This option would require significant modifications to separate the enrollment and billing functions for the medical and Rx plans. By separating the plans, we would also be able to address the enrollment/disenrollment date discrepancies as well as build in functionality to bill for the LEP. Our vendor has estimated the effort for this enhancement to be approximately 750 hours. We are currently having discussions with Sanford to see if their system would be able to accommodate this option. The October 21, 2015 timeframe for providing enrollment information would apply here as well.

- Drop our Medicare Part D Coverage completely. This option would not require any system changes. This would be handled by updating our rate tables to remove the Part D premium so that the retiree is only billed for the medical premium.

Given the above information, staff is seeking your direction on what other information you need to make a decision on this issue at the special PERS Board meeting in September.

Medicare Part D & Open Enrollment

North Dakota Insurance Department's
Consumer Assistance Division

David R. Zimmerman, Director

Program Dedicated to Medicare

- North Dakota Insurance Department's **S**tate **H**ealth **I**nsurance **C**ounseling (SHIC) program
  - A federally funded program under the oversight of the **A**dministration for **C**ommunity **L**iving
  - Primary tenet: To provide free & unbiased counseling to Medicare beneficiaries of all ages
  - Program's focus is to help beneficiaries of all ages to navigate through the confusing information regarding Medicare

North Dakota
INSURANCE
DEPARTMENT
PROTECTING THE PUBLIC GOOD
ADAM HAMM, COMMISSIONER

What SHIC Does for Beneficiaries

- Provides educational materials & brochures
- Helps people understand Medicare, organize their records, file claims and appeal decisions
- Encourages people to assess their individual needs so they can make **informed decisions** about health insurance policies
- Informs people as to their rights & benefits as a beneficiary or health insurance policyholder
- Shows them how to evaluate Medicare Part D, Supplements & other Medicare health plans if available
- Holds statewide open enrollment events for Part D
- Trains **volunteers** that counsel people across the state

North Dakota
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PROTECTING THE PUBLIC GOOD
ADAM HAMM, COMMISSIONER

SHIC – Part of Consumer Assistance & ND Insurance Department

- To contact us:
  - 888-575-6611 toll-free long distance, or
  - 701-328-2440, or
  - Email us at ndshic@nd.gov
- Location – Consumer Assistance Center
  - 1701 S. 12th Street

North Dakota
INSURANCE
DEPARTMENT
PROTECTING THE PUBLIC GOOD
ADAM HAMM, COMMISSIONER

2016 Overview

- Part D Deductible goes up to **$360** (was $320 in 2015)
- Initial Coverage Level – The amount you & the plan spend on Medications before going into the "donut hole" is **$3,310**
- Out-of pocket threshold; when you get out of the "donut hole" is **$4,850**
  - Donut hole scheduled to be phased out by 2020

Medicare Open Enrollment – *(not to be confused with ACA)*

- From **October 15 to December 7** you can
  - Join or switch a Medicare Prescription Drug Plan
  - Join or switch a Medicare Advantage Plan
- Take time to review health and drug plan choices
  - Choose the plan that fits your needs
- Coverage begins on January 1, 2016
  - You'll receive the membership card; billing information; and the Plan's Drug Formulary
  - *Unfortunately not many people take advantage of this*

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Comparing Plans

- Each year Medicare Plans can change costs and coverage
  - Premium amounts may change
  - Deductible amounts may change
  - Formularies may change
  - If you do nothing
    - You may have unanticipated increases in costs
    - You may have medications that are no longer covered
- Some plans may choose to leave Medicare
  - Plans mail notice of non-renewal
  - Members may have a Special Enrollment Period

Things to Consider

- **Coverage**
  - Are the services or drugs you need covered?
  - Do you have or are you eligible for other health and drug coverage?
- **Costs**
  - Premiums, coinsurance, copays, and deductibles
  - What is the out-of-pocket limit for medical care?
- Are your **doctors/hospitals** part of the plan?
- Are your **prescription drugs** covered?
- What are the **plan's quality ratings**?
- Are the offices/pharmacies/hospitals convenient?
- Do you **travel** for long periods during the year?

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Where to Get Plan Information

1. Medicare Plan Finder on Medicare.gov
2. The plan's website
3. *Medicare & You* handbook
4. 1-800-MEDICARE (1-800-633-4227)
5. State Health Insurance Assistance Program (SHIP) – North Dakota's program is called "SHIC" – State Health Insurance Counseling and is managed by the North Dakota Insurance Department

Medicare Plan Finder (*MPF*)

- More detailed comparison using Medicare Plan Finder
  - **Medicare.gov**, select "Find Health and Drug Plans"
  - Check the plan's quality summary rating
    - 5-Star and low-performing plan icons
  - See which drugs are on the plan's formulary
  - Compare the cost ranges for plans in your area

Low-Performing Medicare Plans

- Plans that receive a summary rating of less than 3-Stars for at least 3 years in a row
  - Ratings are on Medicare Plan Finder
  - *Medicare & You* doesn't have full, updated ratings
- Low-performing plans
  - No online enrollment for low-performing plans
  - No enrollment through 1-800-MEDICARE
  - Must contact plan directly to enroll
- Enrolled beneficiaries can call 1-800-MEDICARE and ask to move to a higher quality plan

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Medicare & You Handbook

- Has basic plan information
  - Mailed mid-October to beneficiary households
  - Good for quick comparison
  - Plan information not comprehensive
    - Only one quality rating
- Mailed by mid-September
- CMS Product No. 10050

Note: The star rating in the handbook is the percent of people who rated their plan as the best. Does not reflect the true rating.

General Medicare Assistance

How can I get help paying for my Medicare costs?

- If you need help with your Part A and B costs, you can apply for a **M**edicare **S**avings **P**rogram (**MSP**). This is done through an application with your County Social Services office (Medicaid).
  - If you qualify at a minimum your Part B premium will be paid for
  - At most qualifying could also cover all premiums, deductibles and co-pays

- If you need "**Extra Help**" to pay for Medicare prescription drug costs, call your local Social Security Office; or apply online at www.ssa.gov; or call Social Security at 1-800-772-1213.

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Low Income Subsidy; "*Extra Help*" – 150% FPL

Single (Individual)	Income	**$ 17,655**	$1,471.25/mo.
	Assets	***$ 13,640***	
Couple	Income	**$ 23,895**	$1,991.25/mo.
	Assets	***$ 27,250***	

Medicare Savings Program (MSP) – 100–135% FPL

Qualified Level	IND Income (Mo.)	IND Income *(Year)*	Couple Income (Mo.)	Couple Income *(Year)*	Asset Limits	Helps Pay Your …
QMB (100% FPL)	$1,001	*$12,012*	$1,348	*$16,176*	IND $7,280	Part A & B Premiums + Cost sharing
SLMB (120% FPL)	$1,197	*$14,364*	$1,613	*$19,356*	Couple $10,930	Part B Premium only
QI (135% FPL)	$1,345	*$16,140*	$1,813	*$21,756*		Part B Premium only

Based on 2015 FPL

Deciding on Medicare: *Traditional*

- Part A – Hospital Insurance; generally free (worked at least 10 years) otherwise premium could be **$407**/month ($224 if worked 30-39 credits)
  - Part A deductible **$1,260** for each "benefit period"

- Part B – Medical Insurance (all out-patient related care) monthly premium deducted from SSA benefits

  - 2015 Amount **$104.90** – *same as 2013 & 2014*
  - Can delay Part B if other employer group coverage is available
  - Part B annual deductible **$147** – *same as 2013 & 2014*
- Part D – Drug Coverage; avg. premium/mo. = **$33** (deductible up to $360; plus copays)

- Medigap or Supplement-lowest initial monthly premium 65 y/o ♂, non-smoker **$120**/month ("F")

Avg. combined premium cost ~$258*

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Supplement Benefits / type of Plan

Medigap benefits per Type of Plan	A	B	C	D	F*	G	K	L	M	N
Basic benefits	✓	✓	✓	✓	✓	✓	✓****	✓****	✓	✓
Part A: Inpatient hospital deductible		✓	✓	✓	✓	✓	50%	75%	50%	✓
Part A: Skilled-nursing facility co-insurance			✓	✓	✓	✓	50%	75%	✓	✓
Part B: Deductible			✓		✓					
Foreign travel emergency**			80%	80%	80%	80%			80%	80%
Part B: Excess charges					100%	100%				
2015 out-of-pocket limit							$4,940 ***	$2,470 ***		

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Deciding on Medicare: *Non-Traditional*

- **Part C** – Health insurance provided by private insurance companies rather than by the federal government
  - **Medicare Advantage Plans** – Provides Medicare Part A & B coverage; plus MAY cover benefits not provided by Medicare (*such as Dental, Vision & Hearing*)
    - May include Part D as part of the insurance coverage; if NOT then you can get a standalone plan
    - Premiums for 2015 range from $0 to $87 (subsidized)
    - Generally have out-of-pocket costs with Part C; Maximum OOP range is from $3,000 to $6,700
  - **Medicare Cost Plans** – provides coverage for Part B &/or Part A
    - Premiums range from $65 to $129 depending on benefits
    - May include Part D for additional premiums

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Step 1: Decide how you want to get your coverage

ORIGINAL MEDICARE

Part A
Hospital Insurance
usually Free

Part B
Medical Insurance
Premium= $104.90

MEDICARE ADVANTAGE PLAN
(like an HMO or PPO)

Part C

Provides Part **A**, Part **B** and **usually** Part D (lower premiums) 2015 range **$0 - $87**

Step 2: Decide if you need to add drug coverage

Part D
Prescription **D**rug
Coverage (Avg. = **$33**)

Part D
Prescription Drug
Coverage if not
already included

Step 3: Decide if you need to add supplemental coverage

Medigap
(Medicare Supplement Insurance) **Policy**
(Premium at 65= **$120**)

If you join a Medicare Advantage Plan, you do not need and cannot be sold a Medigap policy.

Other Options
Cost Plans –Covers B & maybe **A**; optional Part D 2015 Range **$65 - $129**)

Questions?

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NDPERS RETIREE BENEFITS COMMITTEE

July 20, 2015

MINUTES

* - Present

BOARD MEMBERS: *Yvonne Smith

STAFF: *Sparb Collins, *Bryan Reinhardt, *Kathy Allen, *Rebecca Fricke, *MaryJo Steffes, *Sharon Schiermeister

Guests: *David Zimmerman – Insurance Department

Interest Groups: Bill Kalanek - AFPE/NASW, Stuart Savelkohl - NDPEA

Membership Representatives:

*Dave Zentner, *Weldee Baetsch, *David Gunkel, *Bill Lardy,

Ron Leingang Howard Sage, Denae Kautzman

Minutes

1:10 – Sparb thanked everyone for coming. The purpose of the meeting was to look at the Medicare Part-D coverage in the NDPERS Retiree Health Plan. Sparb covered the PowerPoint presentation. The NDPERS Retiree Health Plan is bundled in that a member must take the medical and the Part-D prescription drug coverage. Could NDPERS do both? Would it attract a broader cross-section of people or lead to adverse selection? There are really three options:

1. Continue to offer coverage as we do now.
2. Allow members to take the NDPERS Part-D coverage or not (medical portion only).
3. Drop Part-D coverage and only offer the medical portion.

Dave Zimmerman from the insurance department covered handouts of an overview of the Part-D process in North Dakota. The “Donut Hole” is being phased out by 2020. Medicare plans do change in both coverage and cost. A person can make a change to a 5-star plan once a year (best plans). Some people with special conditions can enroll more often. Mr. Gunkel asked about the late enrollment penalty. It was noted that the credible coverage rule applies and NDPERS does fit this. It was noted that there are currently no plans w/o the donut hole. There was discussion about the NDPERS plan. The BCBS Medicare Blue RX plan is a 5-star plan, and the NDPERS plan might also be. The plan now through Sanford might be different. It might be the same plan design, but the formulary is different. There is no ESI plan in ND to compare to. The group discussed varying premiums for Part-D plans. After guaranteed issue, there are underwriting options for plans.

2:00 – There has been a reduction in plans offered in the last 5 years (42 to about 32). Sanford Health Plan is an unknown. The group discussed if there is sufficient time to educate the members. Enrollment is October 15 to December 7 for coverage effective January 1st. It was noted that the timing to unbundle is good if the NDPERS Board decides to go that direction. The group felt unbundling would be the first step to get out of the Part-D business due to likely adverse selection.

The group felt there was not sufficient time to completely drop the Part-D coverage. Some discussion continued and some of the group felt there was sufficient time, but overall the group thought it would be best to phase in any change.

The group felt there was time to offer an unbundled option. This would require NDPERS system changes, but staff felt this could be done. The group felt this should be explored with the provider. Could this be done w/o a change to the rates? This would be a first step and give time to study if NDPERS should stop offering this coverage.

Staff will go to the NDPERS Board with the three options and the recommendations from the committee. Sparb noted that the retiree committee will likely meet again sometime around October to discuss other issues.

2:35 – Adjourn

To: Cathy Carlson

From: Bryan Reinhardt

Subject: NDPERS Retiree Benefits Subcommittee Meeting

In accordance with the policy effective August 26, 1993 for compensating Board members for attendance at sub-committee meetings, the date of the Retiree Benefits sub-committee meeting and member attendance is as follows:

Date: July 20th 2015

Meeting Time: 1:00pm – 2:55pm

Attendees	Meeting Length
Yvonne Smith	2.00 hours

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: Rebecca

DATE: March 12, 2015

SUBJECT: Medicare Part D

At its February 19th meeting, the Board reviewed billing issues related to the MedicareBlue Rx Prescription Drug Plan (PDP). The issues involved discrepancies with the Low Income Subsidy (LIS) as well as discrepancies with enrollment and disenrollment effective dates. The board approved NDPERS reimbursing BCBS for the underpayments in premium that resulted from these issues in lieu of requesting repayment from the affected plan members.

At this time, staff would like to discuss with the Board the following information related to the PDP:

1) Late Enrollment Penalties (LEP) and additional discrepancies related to LIS and enrollment.
2) The administration of the product from July 1, 2015 through December 31, 2015 as it will remain with MedicareBlue Rx during this time.
3) The future administration of the product after January 1, 2016.

Regarding the LEP, these are penalties that the Center for Medicare and Medicaid Services (CMS) determines a participant is assessed if they did not enroll in a PDP when first eligible. CMS determines the amount of the penalty and when it should be applied. The amounts vary from member to member and do not appear to be based on any type of schedule or table. As far as we are aware, these are monthly penalties that are ongoing unless the member successfully appeals to CMS to have the penalty removed.

CMS provides details to MedicareBlue Rx identifying these participants and requires that the penalty be paid by MedicareBlue Rx. MedicareBlue Rx has been paying these penalties through BCBS who has recently provided the details to NDPERS. . At this time, there is a total of $7,162.92 in outstanding penalties. Of this amount, $2,393.32 is being reviewed by

BCBS to determine if the penalty is still required. The remaining $4,769.60 are penalties that members have been assessed due to LEPs that should be reimbursed to BCBS.

NDPERS can attempt to recover the underpayments according to the administrative rules that we discussed at the February meeting; however, the same business system issues that we discussed previously apply. We don't currently have functionality built into PERSLink to bill the members for these additional amounts and track the subsequent repayment of the underpayment. .

Regarding Item # 2, the product will continue to be through MedicareBlue Rx through December 31, 2015 even after the medical plan transitions to Sanford Health Plan on July 1st. Therefore, staff has been exploring options for the billing of the PDP because our current policy is to bill the medical and PDP premiums as a bundled product. This will no longer be an option as of July 1st since the administration of the products will be between two different carriers. At this time, it appears we have the following options related to the billing:

1) Split the products on PERSLink and bill each premium separately. If this option is selected, programming will be required for our business system and also may be necessary on BCBS's system. In addition, programming will also be included to allow a billing process for the LEP, LIS and enrollment/disenrollment issues. Staff will research the potential cost to modify our system and will also obtain more information from BCBS on the interface prior to the meeting so it can be shared with the Board.
2) As of July 1st, the RHIC will be paid through a 3rd party vendor rather than deducted from premium by NDPERS. It appears there is an option to have MedicareBlue Rx bill the member directly. If this option is selected, members would be billed for their medical insurance through NDPERS and would receive a separate billing from MedicareBlue Rx for the PDP. A benefit of this option is that it does not appear to require programming on PERSLink. It would also address the ongoing collection of LEP from members as MedicareBlue Rx would include any LEPs in the monthly billing to impacted members. Staff will be obtaining additional information on this option from BCBS prior to the meeting so it can be shared with the Board.

Regarding the future administration of the PDP after 12/31/15, staff has asked Sanford Health Plan for information regarding options for the billing of the PDP once Express Scripts begins administration of the product on January 1, 2016. These options will be shared with the Board at the meeting as they were not available at the time of memo preparation.

In addition, staff has previously visited with the board regarding the future of the PDP as a product offered and administered by NDPERS. Specifically, the issues previously discussed which involve the billing and penalties, as well as the difficulty in administering the program within CMS compliance. Therefore, another option the Board may want to consider is whether NDPERS should continue to offer the PDP. With this option members could have medical insurance through NDPERS and PDP coverage would be purchased in the insurance marketplace. Open enrollment for PDP products occurs each October through early December with coverage effective January 1. Therefore, if the Board opted to

discontinue the product, members could shop for a product that best meets their needs during open enrollment and would not face any lapse of coverage issues.

At this time, staff is seeking Board direction regarding:

1) The ongoing underpayments due to LIS, LEPs, enrollment and disenrollment effective date issues and whether staff should attempt to recover these amounts from the member or waive the collection and direct staff to pay the amounts due to BCBS.

   Staff recommendation: Waive the collection of these underpayments, based on previous precedent, until either the current PERSLink business system can be modified to properly bill and account for the payments or until the PDP billing is moved to MedicareBlue Rx.

2) Since the medical & PDP product must be unbundled for billing purposes, direct staff regarding which billing option staff should pursue.

   Staff recommendation: If MedicareBlue Rx can bill the member directly, we recommend that the billing be administered by the carrier. It would also be necessary that Express Scripts confirm they can administer the billing if the Board determines we will continue to offer the PDP as of January 1, 2016.

3) Determine if the PDP will continue to be offered through NDPERS as of January 1, 2016.

   Staff recommendation: Begin a process to review this issue further. Specifically, staff recommends that we convene the Retiree Advisory Committee to discuss this issue further and report back to the board their observations.

Board Action Requested:

Determine how staff should proceed with the above items.

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: **NDPERS Board**

FROM: **Kathy**

DATE: **August 17, 2015**

SUBJECT: **Member Rebate Accounts**

At the April meeting, it was acknowledged that BCBS had discontinued the Member Rebate Program as of January 2015. As we did not have prior knowledge of this action, we included this program in our RFP. It was the Board's determination to retain this program and reinstate it effective July 1, 2015.

Since that time, we have worked with BCBS to make arrangements for the transfer of the rebate funds so we can continue the program. BCBS has provided us with a file that shows the participants and their associated account balances. The worksheet total is $321,116. BCBS will provide us a check for the lump sum value of the accounts and it is our intent to have the members' accounts re-established at Sanford. However, it was noted that the grand total is a net value as it also includes accounts with negative balances. Negative balances occur due to the timing of when a rebate is allocated and the months beyond that date in which adjustments are made to the account. Excluding the negative balances, the sum of the positive balances is $692,641 which is a $371,525 funding shortfall. In addition, the file also included inactive members. These items have presented an administrative issue as to how to allocate the lump sum payment to re-establish member accounts with Sanford Health Plan. Options for consideration include the following:

1. Transfer all accounts, whether positive or negative and set up accordingly.
    a. This will require funding from another source to offset the $371,525 difference between the net sum value that will be refunded by BCBS and the total sum value required to re-establish all accounts with a positive balance.
    b. This assumes that accounts with negative balances will correct over time.

2. Do not set up accounts for negative balances.
    a. This will negate any opportunity to allow these accounts to correct over time as rebates are accrued.
    b. This will require funding from another source to offset the $371,525 difference between the net sum value that will be refunded by BCBS and the total sum value required to re-establish all accounts with a positive balance.

3. Do not set up accounts for inactive accounts (participants that have dropped coverage).
    a. If accounts have a positive balance, this may provide an additional funding source to offset the difference between the net funds available and the total of accounts with positive balances.
    b. May increase the net sum by eliminating negative balances.

4. Calculate account balances based on participants' percent of $321,116 net balance.
    a. Positive account balances will be adversely affected as a result of the negative balances.
    b. Future adjustments to a lower positive balance may result in an account going to a negative balance sooner; therefore, the participant will not realize the full value of their rebate.

5. Forfeit the $321,116 to the plan and restart the program accumulators for members' accounts on July 1, 2015.
    a. Participants rebate balances will be forfeited.
    b. No funding from another source will be required.

Staff Observations:

1. If the Board would like to maintain the consistency of the program, option 1 would be the best but it will have an associated cost to re-establish the full value of all accounts with a positive balance.
2. Since BCBS dropped the program in January, if the Board would like to re-establish the program, option 5 would be the best and would have no additional cost. However, participants with a positive balance would lose their accumulated rebate amount.
3. Inactive accounts should not be set up which will result in the positive balances being forfeited to the plan.

Board Action Requested:

Determine what approach to use in implementing the member rebate program.

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: **NDPERS Board**

FROM: **Kathy**

DATE: **August 20, 2015**

SUBJECT: **Group Insurance Plan Notices**

To comply with the provisions of the U.S. Supreme Court ruling on same-gender marriage in Obergefell v.Hodges, included for your information are the notices that were sent for distribution to our members that address the eligibility requirements, open enrollment period, and procedures to add eligible dependents to the group insurance plans.

- Notice 1 is the initial notice sent to state agency, University System and political subdivision contacts. It addresses the eligibility of same-gender spouses and dependents to participate in the group health plan.
- Notice 2 is an update to the first notice and was sent to state agency and University System contacts. It addresses the eligibility of same-gender spouses and dependents to participate in the health, dental, vision, life and flexcomp plans.
- Notice 3 is an update to the first notice and was sent to political subdivision contacts. It addresses the eligibility of same-gender spouses and dependents to participate in the health and life insurance plans.

We are available to answer any questions.

Notice 1

North Dakota Public Employees Retirement System

NDPERS has made the following determination with regard to complying with the provisions of the U.S. Supreme Court ruling on same-sex marriage as it relates to the NDPERS Group Health Insurance Plans.

Same-sex marriages that occurred prior to June 26, 2015: NDPERS will have a special enrollment period from July 1, 2015 through September 30, 2015. Coverage will be effective retroactive to July 1, 2015. If the subscriber does not enroll during this eligibility period, the late enrollee can only enroll during the next scheduled Annual Enrollment Period with coverage effective January 1, 2016. This special enrollment period is available only to those members impacted by the Supreme Court ruling.

At this time, in order to facilitate the enrollment process for this group, eligible subscribers must complete and submit a paper application to the NDPERS office. The application form is available on our web site at http://www.nd.gov/ndpers/forms-and-publications/forms/sfn-60036-health-insurance-application-or-change.pdf

Same-sex marriages that occur on or after June 26, 2015: The subscriber must enroll for coverage within the first 31 days of the event. If the subscriber does not enroll when initially eligible, the late enrollee can only enroll during the next scheduled Annual Enrollment Period with coverage effective January 1, 2016.

North Dakota Public Employees Retirement System

Please forward the following notice to your employees. If you are not the person who should receive this e-mail for your employer, please forward to the appropriate person.

This is the second notice we have distributed with regard to complying with the provisions of the U.S. Supreme Court ruling on same-gender marriage in Obergefell v.Hodges, and is an update to include the vision, dental, and life insurance plans, as well as the NDPERS administered FlexComp plan. This policy does not apply to participants in the FlexComp plan administered by the University System.

Regarding:

Same-gender marriages that occurred prior to June 26, 2015: NDPERS will have a special enrollment period from July 1, 2015 through September 30, 2015. Coverage will be effective retroactive to July 1, 2015 provided premiums, as applicable, are paid for the coverage period. A prospective date may be selected so long as it coincides with the first day of the month and is no later that October 1, 2015. If the subscriber does not enroll an eligible spouse and/or dependent(s) during this eligibility period, the late enrollee can only enroll during a scheduled Annual Enrollment Period with coverage effective the following January 1st. This special enrollment period is available only to eligible members married to same-gender spouses prior to June 26, 2015.

In order to facilitate the enrollment process, eligible subscribers must complete and submit a paper application to the NDPERS office. The application forms are available on our web site as follows:

Group Health: http://www.nd.gov/ndpers/forms-and-publications/forms/sfn-60036-health-insurance-application-or-change.pdf

Group Dental & Vision: http://www.nd.gov/ndpers/forms-and-publications/forms/sfn-58792-dental-vision-application.pdf

Group Life Insurance: http://www.nd.gov/ndpers/forms-and-publications/forms/sfn-53803-group-life-enrollment.pdf

NDPERS FlexComp Plan: http://www.nd.gov/ndpers/forms-and-publications/forms/sfn-53511-flexcomp-change-in-status.pdf

Medical expenses incurred by an eligible family member on or after June 26, 2015 will be eligible for reimbursement from the FlexComp medical spending account.

Same-gender marriages that occur on or after June 26, 2015: The subscriber must enroll an eligible spouse and dependents for coverage within the first 31 days of the event. If the subscriber does not enroll when initially eligible, the late enrollee can only enroll during a scheduled Annual Enrollment Period with coverage effective the following January 1s.

If you have any questions, please contact the NDPERS office at 701-328-3900 or 800-803-7377.

North Dakota Public Employees Retirement System

Please forward the following notice to your employees. If you are not the person who should receive this e-mail for your employer, please forward to the appropriate person.

This is the second notice we have distributed with regard to complying with the provisions of the U.S. Supreme Court ruling on same-gender marriage in Obergefell v.Hodges, and is an update to include the life insurance plan.

Regarding:

Same-gender marriages that occurred prior to June 26, 2015: NDPERS will have a special enrollment period from July 1, 2015 through September 30, 2015. Coverage will be effective retroactive to July 1, 2015 provided premiums, as applicable, are paid for the coverage period. A prospective date may be selected so long as it coincides with the first day of the month and is no later that October 1, 2015. If the subscriber does not enroll an eligible spouse and/or dependent(s) during this eligibility period, the late enrollee can only enroll during a scheduled Annual Enrollment Period with coverage effective the following January 1st. This special enrollment period is available only to eligible members married to same-gender spouses prior to June 26, 2015.

In order to facilitate the enrollment process, eligible subscribers must complete and submit a paper application to the NDPERS office. The application forms are available on our web site as follows:

> **Group Health:** http://www.nd.gov/ndpers/forms-and-publications/forms/sfn-60036-health-insurance-application-or-change.pdf
>
> **Group Life Insurance:** http://www.nd.gov/ndpers/forms-and-publications/forms/sfn-53803-group-life-enrollment.pdf

Same-gender marriages that occur on or after June 26, 2015: The subscriber must enroll an eligible spouse and dependents for coverage within the first 31 days of the event. If the subscriber does not enroll when initially eligible, the late enrollee can only enroll during a scheduled Annual Enrollment Period with coverage effective the following January 1s.

If you have any questions, please contact the NDPERS office at 701-328-3900 or 800-803-7377.

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

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

Memorandum

TO: PERS Board

FROM: Sharon & Rebecca

DATE: August 18, 2015

SUBJECT: Health Plan Implementation Update

Staff continues to work with the Sanford Health Plan (SHP) team. Below is an update in each of the areas we have teams working.

a. **Operations**
   i. Operational items continue to be reviewed and addressed as they arise. Issues deal mostly with enrollment and member services through the call center. No significant issues have surfaced.
   ii. NDPERS made its first premium payment to SHP in July and the billing reconciliation process has been completed by NDPERS and SHP accounting staff.
   iii. NDPERS and SHP staff met to review the health plan executive summary reports which will be prepared by SHP each quarter.
   iv. NDPERS and SHP staff continue to work on the files for membership and claims data.
   v. A team of NDPERS and SHP staff continue to meet weekly to discuss business processes and operational issues.

b. Marketing/Communication –
   i. NDPERS and Sanford staff are working on the communication pieces for the Sanford online portal (mySHP) incentive. This will be a 4 week campaign to encourage participants to set-up their online account, select paperless Explanation of Benefits and take their Health Risk Assessment. Individuals that complete the process will be entered into a drawing with a weekly prize being awarded.
   ii. Staff continue to work with SHP and the Department of Health on the Tobacco Cessation Program. A new logo and communication materials have been developed for the program. Eligible employees will receive

a flyer at their home address notifying them of the program and the new debit card that is available to use for the purchase of their prescriptions.

c. **Certificate of Insurance (COI) Finalization** – Sanford has mailed an amendment to participants of the Dakota Plan COI related to the recent Supreme Court ruling on Same Gender Marriage.

d. **Wellness –** Sanford held the August Wellness Coordinator call. There were some technical difficulties, which Sanford is working on resolving for future calls. In addition, the Redemption Center became "live" on August 1. There was an issue related to the redemption of gift cards and administrative fees being built into the redemption amounts. However, upon notification, Sanford quickly remedied this issue with the center's vendor.

e. **Pharmacy and Care Management –** Sanford has been tracking member issues related to prescriptions and there will be a separate board memo provided to further discuss this information.

f. **Medicare Part D –** The NDPERS implementation team has started meeting weekly with SHP and Express Scripts to discuss the transition of the Medicare Part D product. In addition, a separate team of SHP and NDPERS staff will be meeting weekly on the Medicare Part D implementation.

Staff continues to meet with the BCBS transition team to facilitate the exit of the BCBS system.

- The final employer contribution to the HSA provided by Discovery Benefits was made in July. A contract with Discovery Benefits has been finalized, which extends services through August 31, 2015.
- BCBS continues to provide data files requested by SHP
- Final member rebate account listing and payment to NDPERS will occur in September
- Final performance guarantees will be determined by October
- Final close out for premium billings and invoices paid from program reserve account will occur by end of October

Weekly meetings are held with the internal NDPERS transition team to address issues that are specific to NDPERS and do not require involvement from BCBS or SHP. Internal transition issues for NDPERS continue to be identified and tracked and addressed by this team.

In addition, staff continues to hold weekly status meetings with the Sanford implementation team. Representatives from Sanford will be at the meeting to provide an operational update and answer any questions you may have.

We will also be at the Board meeting if you have any further questions or concerns.

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: August 19, 2015

SUBJECT: Prescription Drug Coverage

Sanford will be at the next Board meeting to discuss with you two issues relating to our Rx coverage. The first will be to provide us some insight into the issue raised by some of our members relating to having to pay higher out of pocket payments for their prescriptions under the new plan than they had to in our old plan.

The second item Sanford will discuss is their plan of action for responding to some of the rural pharmacist concerns relating to reimbursement.

You will note that in our FAQ's we have attempted to provide our members some insight into the higher out of pocket payments for their prescriptions, thus addressing this issue in the following:

9) Will I see any changes to my copays, deductible or coinsurance when NDPERS changes to Sanford Health Plan?
Maybe. Because hospital and clinic contracts are unique to Health Plans and custom for each provider, you may see differences in your cost sharing amount, such as the amount that goes towards your co-insurance. Sometimes your co-insurance amount may be less for services than in prior years, and sometime you may pay a little more. However, your plan of benefits or coverage (deductible, copayments, and coinsurance) did not change with the move to Sanford Health Plan. For example, your prescription copay, coinsurance %, and $1,000 coinsurance maximum will still be the same. Since a Health Plan's contracts with its providers are confidential and proprietary, it is not possible for Sanford Health Plan to duplicate the prior insurance company reimbursements for each specific service.

12) I filled my regular monthly prescription using my new Sanford Health Plan ID card. Why did I pay a different amount than my last fill?

Because pharmacies have unique and custom contracts, you may experience a different cost sharing amount for your pharmacy coinsurance amount. Some members may have lower costs and others may experience higher costs. However, your benefits and coverage did not change, for example, your prescriptions copay, coinsurance %, and $1,000 coinsurance maximum will remain the same. If you have a question about your medication, please contact our Pharmacy Department at (888) 315-0885.

In the calls and emails we have received from our members, we note that some are experiencing small changes in their out of pocket expenses, while others have experienced larger changes. A few members report lower pricing as well. Sanford Health Plan has provided an aggregate difference the average member is paying for all scripts between June and July:

Sanford Health Plan's observations of the increased out of pocket expense include:

1. Small number of calls compared to the more than 50,000 prescriptions filled in the first month.
2. There is a price difference between Prime and ESI based on contracts and industry standard calculations.
3. Some of the issues had to do with grandfathering which was delayed due to file exchanges. These have been typically fixed in one phone call.

The number of voiced concerns that has been reported to us by members is small percent of the total filled, however, from other contacts with payroll and personal personnel we do know that this has received attention from some of our members.

Members of the Sanford Health Plan Leadership Team will now address their plan of action for responding to rural pharmacists concerns relating to low reimbursement:

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Sparb Collins
Executive Director
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1-800-803-7377

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

Memorandum

TO: PERS Board

FROM: Bryan Reinhardt

DATE: August 19, 2015

SUBJECT: 2014 Active Health Care Report

Attached is the 2014 NDPERS Active health care report. Costs and trends are increasing slightly. 2014 active charges increased 9.6% over 2013 and 2014 active plain paid increased 6.6% over 2013. A similar agency-specific report is developed for all large groups on the health plan (over 100 employees).

If you have any questions, I will be available at the NDPERS Board Meeting.

2014

NDPERS Health Care Analysis

North Dakota Public Employees Retirement System

For January - December 2014, there were 21,084 active NDPERS employees. This is about 73% of the NDPERS contracts. The average age of these employees was 46 years. There were 34,108 dependents of NDPERS employees on the NDPERS health plan.

HOSPITAL

NDPERS health plan members had 74,303 hospital claims from January to December 2014. These claims had $198,392,737.08 in total charges. The NDPERS health plan paid $99,184,386.88 toward these charges.

HOSPITAL UTILIZATION
ADMISSION: 01/2014 – 12/2014

	CLAIMS	%	DAYS	CHARGES	PAID
CLAIM TYPE: IP=Inpatient OP=Outpatient					
IP NEWBORN	767	1	2657	$7,924,241	$5,492,502
IP MEDICAL	1026	1	3868	$18,992,193	$12,414,657
IP MATERNITY	904	1	2069	$6,553,357	$3,401,414
IP SURGICAL	1276	2	4013	$47,505,997	$29,234,225
IP PSYCH	234	0	1039	$1,933,147	$1,064,212
IP CHEM DEP	32	0	92	$146,707	$76,243
OP MATERNITY	2941	4	0	$1,690,524	$740,945
OP SURGICAL	9999	13	0	$49,592,262	$20,728,020
OP PSYCH	970	1	0	$1,440,569	$650,258
OP CHEM DEP	565	1	0	$950,214	$570,150
OP MEDICAL	55250	74	0	$59,270,020	$23,816,247
SNF & SWING BED	106	0	1108	$856,783	$510,390
HOME HEALTH AG	104	0	0	$96,220	$69,218
HOSPICE	129	0	0	$1,440,503	$415,902
TOTAL	74303	100	14846	$198,392,737	$99,184,387

PHYSICIAN/CLINIC

NDPERS health plan members had 1,044,584 physician/clinic services from January to December 2014. These services had 181,983,318.67 in total charges. The NDPERS health plan paid $88,227,433.46 toward these charges.

PHYSICIAN/CLINIC UTILIZATION
SERVICE DATE: 01/2014 - 12/2014

	SERVICES	%	CHARGES	PAID
TYPE OF SERVICE				
SURGERY-IP	3368	0	$6,524,229	$3,426,894
SURGERY-OP	9909	1	$11,093,835	$4,380,125
SURGERY-OFFICE	21774	2	$9,747,699	$3,354,455
ANESTHESIA	12702	1	$9,134,739	$3,901,027
MATERNITY	9692	1	$5,906,809	$2,728,375
ANCILLARY ROOMS	2537	0	$5,133,969	$2,443,723
IP VISITS	14326	1	$3,912,173	$2,554,040
OP / ER VISITS	15935	2	$3,613,137	$1,774,721
OFFICE CALLS	175824	17	$30,964,921	$19,351,287
OPTICAL	13815	1	$1,675,711	$773,328
CHEM/PSYCH	38964	4	$6,859,825	$3,945,500
THERAPIES	177993	17	$21,666,418	$11,080,248
EKG/EEG	22092	2	$3,911,740	$1,415,650
DIAGNOSTIC LAB	206539	20	$17,572,344	$6,086,330
DIAGNOSTIC X-RAY	88937	8	$13,738,443	$5,866,358
RX/INJECTIBLES	134152	13	$15,075,862	$6,874,994
SPECIAL SERVICES	69655	7	$10,366,444	$5,604,138
SUPPLIES	6292	1	$900,994	$463,503
HME	20078	2	$4,184,029	$2,202,738
TOTAL	1044584	100	$181,983,319	$88,227,433

PRESCRIPTION DRUGS

NDPERS health plan members had 508,817 pharmacy claims from January to December 2014. These claims had $103,373,899.44 in total charges. The NDPERS health plan paid $37,705,418.45 toward these charges.

PRESCRIPTION DRUG UTILIZATION
FILL DATE: 01/2014 - 12/2014

	CLAIMS	%	CHARGES	PAID
PRESCRIPTION DRUGS				
NON-GENERIC	96085	19	$61,438,905	$28,869,291
GENERIC	412732	81	$41,934,994	$8,836,128
TOTAL	508817	100	$103,373,899	$37,705,418

Generic drug use is at 81%, higher than the 80% reported in 2013, 77% reported in 2012, 74% reported in 2011, 71% reported in 2010, 68% reported in 2009, 65% reported in 2008, 60% reported in 2007, 56% reported in 2006, 52% reported in 2005, 48% reported in 2004, 44% reported in 2003, 41% reported in 2002, 40% in 2001 and 2000, 41% reported in 1999, 43% reported in 1998 and 44% 1997.

PERCENTAGES

EMPLOYEES, SPOUSES, & CHILDREN
BY MEMBERSHIP & CLAIM TYPE
01/2014 - 12/2014

	MEMBERSHIP		HOSPITAL CLAIMS		PHYSICIAN SERVICES		PHARMACY CLAIMS	
	Sum	%	Sum	%	Sum	%	Sum	%
CHILDREN	21750	39	18620	25	290853	28	102205	20
EMPLOYEE	21084	38	33935	46	460395	44	261173	51
SPOUSE	12358	22	21748	29	293336	28	145439	29
TOTAL	55192	100	74303	100	1.04E6	100	508817	100

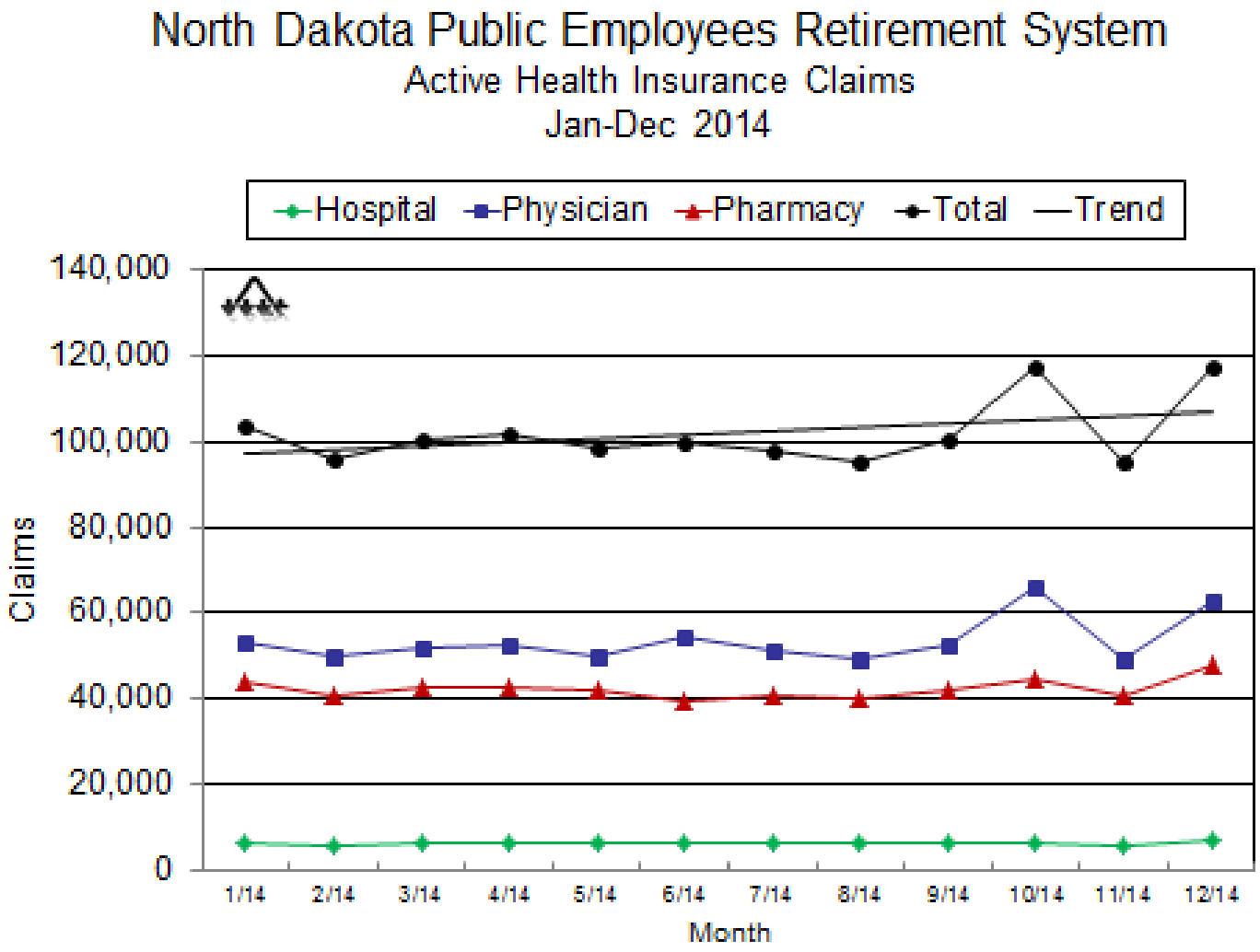
SUMMARY

Diagnostic x-ray and lab services make up 28% of the professional services for 1/2014 - 12/2014 (27% in 2013, 29% in 2012, 30% in 2011, 29% in 2010, 32% in 2009, 31% in 2008 & 2007, 32% in 2006 & 2005, 33% in 2004, 32% in 2003 & 2002, 31% in 2001 & 2000). Employees made up 38% of the active membership, but were responsible for 44 - 51 percent of the claims / services in 2014. This is similar to the 2007-2013 percentages.

The following graph shows that the number of active claims per month was fairly even throughout 2014 with a slight increase in the last three months.

The second graph shows that per capita charges increased 9.61% and per capita costs increased about 6.58% from 2013 to 2014. The average charge per active member per month was $124 in 1994, $134 in 1995, $143 in 1996, $155 in 1997, $171 in 1998, $189 in 1999, $207 in 2000, $224 in 2001, $256 in 2002, $300 in 2003, $318 in 2004, $363 in 2005, $396 in 2006, $437 in 2007, $484 in 2008, $503 in 2009, $531 in 2010, $579 in 2011, $603 in 2012, $666 in 2013, and $730 In 2014. The average amount paid by the NDPERS health plan per capita was $84 in 1994, $92 in 1995, $96 in 1996, $100 in 1997, $110 in 1998, $114 in 1999, $117 in 2000, $122 in 2001, $134 in 2002, $153 in 2003, $163 in 2004, $185 in 2005, $206 in 2006, $226 in 2007, $249 in 2008, $253 in 2009, $267 in 2010, $290 in 2011, $299 in 2012, $319 in 2013, and $340 In 2014.

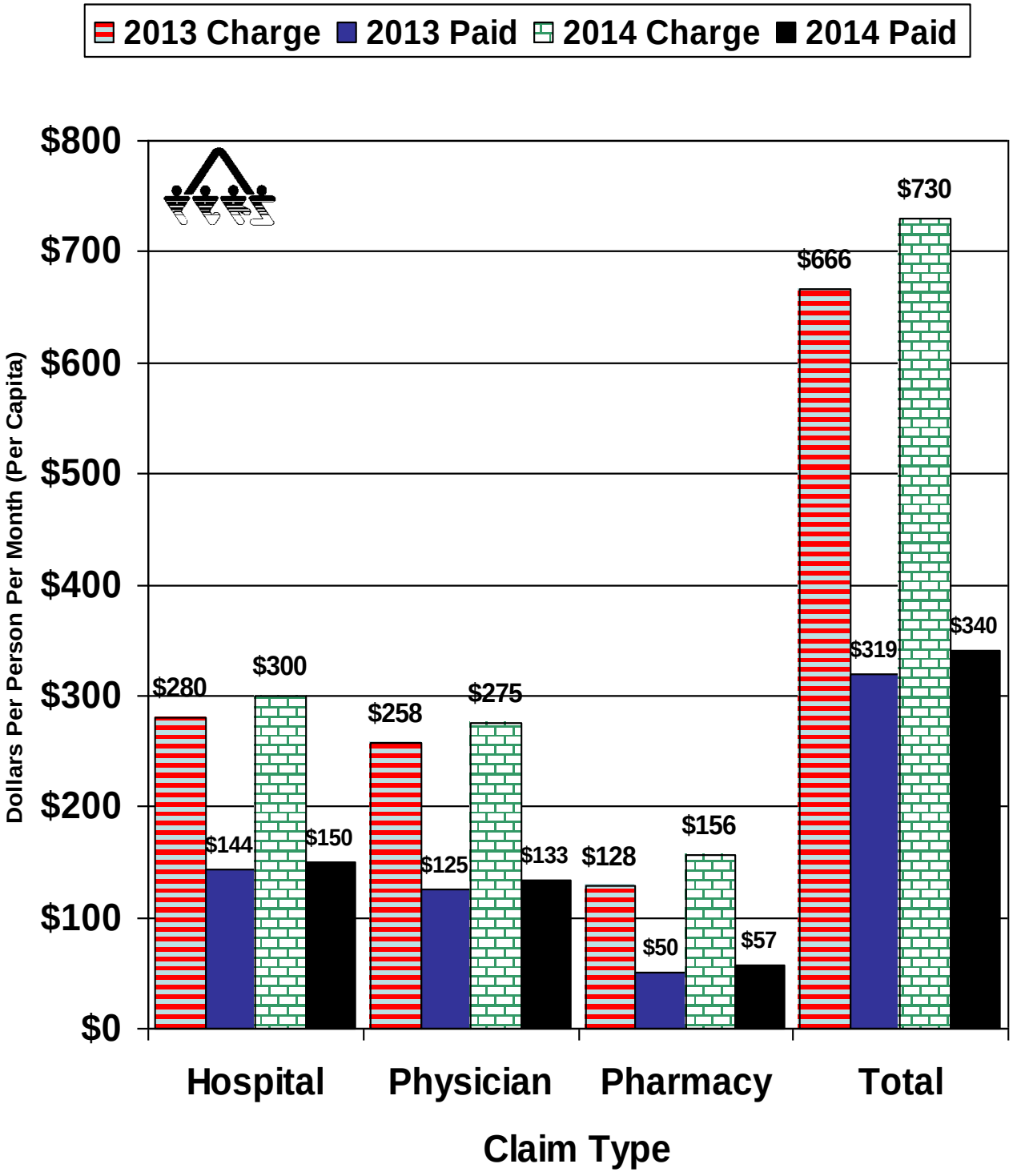
The last page shows that 2013-2014 overall per capita costs increased for the NDPERS health plan.



NDPERS Health Plan

Active Contracts

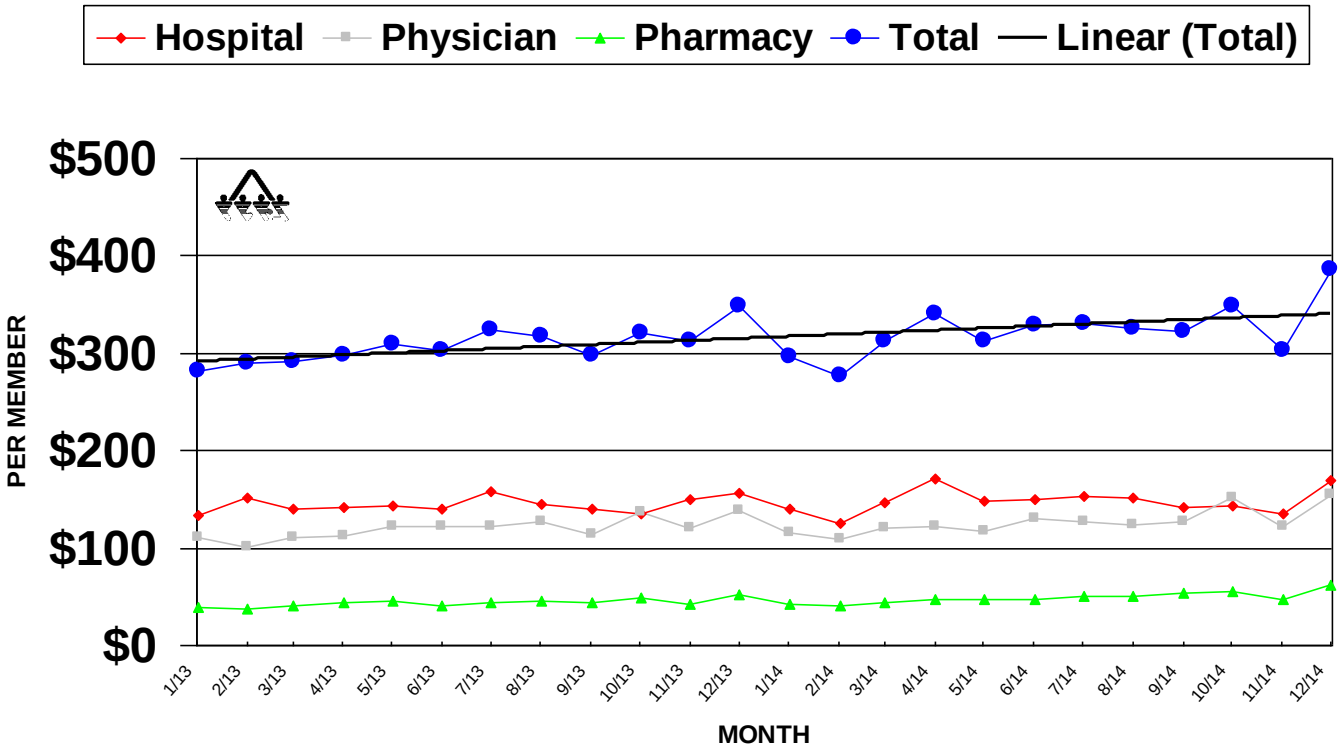
2013-2014



TOTAL NDPERS HEALTH PLAN

The graph below is for the total NDPERS health plan. It shows the average amount the NDPERS health plan paid per member per month (per capita). The graph depicts the latest two years of NDPERS data.

The active employees are at the $450 per capita level. Their dependents cost the plan around $310 per person per month. The retired membership's per capita costs are around $230 per former employee and $160 per dependent. As the graph below shows, overall, the NDPERS health plan is at $350 per person per month in medical claims. This is slightly higher than the 2013 report when costs were at $325 and the 2012 report when costs were about $300. Costs were $299 in 2011, $275 in the 2010 report, $250 in the 2009 report, $245 in the 2008 report, $225 in the 2007 report, $205 in the 2006 report, $200 in the 2005 report, $175 in the 2004 report, $160 in the 2003 report and $140 in the 2002 report. In addition to this, the NDPERS health plan paid $39.82 per month per active contract in administration costs.



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: Rebecca

DATE: August 19, 2015

SUBJECT: 2016 Plan Year Annual Enrollment

Staff has begun preparations for the 2016 Plan Year Annual Enrollment Season. Annual enrollment will occur October 19 through November 6, 2015 and is the opportunity for eligible employees to enroll, cancel and/or make changes in their participation levels for the NDPERS health, life, dental, vision and FlexComp Plans.

Staff plans to administer Annual Enrollment as we have done in recent years, with promotion of Member Self Service (MSS) as the main tool to perform enrollments. There will be a special newsletter sent to employee's home addresses. In addition, weekly email blasts will be sent to the employers to forward to employees throughout the enrollment window. Staff will also provide employer newsletter articles and emails regarding the enrollment for payroll. A special Annual Enrollment Employer Guide will also be available online for payroll's reference.

Please find the attached tentative schedule of items that are being worked on throughout the end of the year as part of annual enrollment. Staff will be available to answer any questions that you have.

There is one area related to annual enrollment that we are seeking Board approval. It is regarding the NDPERS administered FlexComp Plan. You may recall that last year, the IRS approved an increase in the medical spending account annual limit from $2,500 to $2,550. This increase was subject to Board approval and was discussed at the November 2014 meeting and based upon when the announcement of the increase occurred, it was determined to be too late for us to adequately implement as part of the 2015 Plan Year. The following are the minutes of that meeting:

<u>Flex Comp Annual Limit</u>
Ms. Allen reported that on October 30, 2014 the Internal Revenue Service announced annual inflation adjustments for 2015. Included in this announcement was notice that the annual limit for the health care medical spending account increased from $2,500 to $2,550 for 2015.

Segal indicated that the IRS limit changes are not released until the end of October or early November, which means the information will never be available to coincide with the release of PERS annual enrollment processing. The Board does have the discretion to increase plan limits. The Board discussed this information.

MR. SANDAL MOVED TO MAINTAIN THE CURRENT MEDICAL SPENDING MAXIMUM AMOUNT AT $2,500, AND CONSIDER ANY OPPORTUNITY TO INCREASE THE MAXIMUM AMOUNT FOR FUTURE ANNUAL ENROLLMENTS. THE MOTION WAS SECONDED BY MS. WASSIM.

Staff is bringing this to your attention as we would like your approval to increase the annual limit for the medical spending account to $2,550 for the 2016 Plan Year. If approved, staff will include notice of the increase in the various employee and employer communications discussed earlier.

<u>Board Action:</u>
Approve or deny the increase in the annual limit for the FlexComp Plan medical spending account from $2,500 to $2,550 for the 2016 Plan Year.

2016 ANNUAL ENROLLMENT KICK-OFF MEETING

August 10, 2015

Attendees: Rebecca, Sparb, Kathy, Cheryl, Laurie, MaryJo, Sharon, Sharmain & Ron

AGENDA:

- Discuss dates of annual enrollment: October 19-November 6, 2015
    - Hold special enrollment for temporary employees eligible for health plan due to ACA – No MSS enrollments/paper only – tentative dates November 23 – December 11
- Discuss timeline
    - Discuss Process Schedule
- Discuss promotion of MSS for completing enrollments
    - Announcements – reminder to register for MSS prior to annual enrollment
    - Information on website
    - Employer Guide
- Discuss Communication
    - Announcements
        - PERSonnel Updates
            - Article provided for July 15 edition announcing dates - DONE
            - Article will be provided for September 15 edition
        - Need committee for email development & review:
            - Committee will be Cathy, Sharmain, Kathy & Rebecca
            - Emails to employer (week prior to and also weekly during enrollment)
            - Emails to employers to forward to employees (weekly during enrollment)
        - Newsletter
            - Kathy will check with Deb Jaegar on deadline for articles
            - Topics:
                - Announce annual enrollment
                - Outline temp definition & special enrollment period not part of AE
                - Summary of Benefits & Coverage Notice
                - MSS – how to use
                - HDHP article
                - LTC Insurance
                - 457 Promotion – include how to do through MSS
                - Same gender article
                - Flex Medical Spending Limit change

- Information on Website
    - Landing page development
    - Plan information links
        - Include 457 promotion & how to do through MSS
        - Flex limit change for medical spending
    - MSS Employee Guide - Sharmain
    - Form revisions
        - Flex limit change for medical spending
    - Employer Guide
        - Review by Sharmain, Cathy, Sharon, Kathy & Rebecca
- Discuss Lessons Learned from last year
- Distribution of Summary of Benefits & Coverage to COBRA participants and non-Medicare retirees

2016 Annual Enrollment: October 19th – November 6th

August 10th:	Kick-off Planning Meeting
TBD:	Process Schedule – Meeting to review
September 1:	Updated plan information needs to be back to Rebecca
September 1:	Updated people soft information needs to be back to Rebecca
September 1:	Ron to ensure server load balance in place.
September 4th:	Meeting with Ron to discuss labels/address file for sending out newsletter & emails
September 8th:	Discuss newsletter with Kathy & Laurie
September 14th:	Website Information for Test site sent to IT
September 14th:	Sharmain to have updated MSS Employee Guide to IT for website
September 15th:	Kathy to take list of flex pre-tax premium deduction vendors to Board meeting in September for approval.
September 21st:	Test site will be sent out to staff to review
October 2nd:	Changes to website to be provided to Rebecca to forward to Ron
October 5th:	Email request to IT, final web pages will be sent to IT
October 12th:	Email notice will be sent to all employers. – IT
October 12th:	Newsletter will be sent to employees home – Laurie & Kathy
October 19th:	Web pages up - IT
Oct 19th – Nov 6th:	**Annual enrollment**
October 19th:	Email for employees sent to employers to forward & email for employers reminding them to send forms weekly
October 26th:	Email for employees sent to employers to forward & email for employers reminding them to send forms weekly
November 2nd:	Email for employees sent to employers to forward & email for employers reminding them to send forms weekly
November 6th:	Web pages removed at midnight – EOB (employee pages removed, employer pages moved to Program Administration page)
November 13th:	Late filing deadline

December 3th:	All FlexComp enrollments (file sent to ADP on 12/4?)
	All BND enrollments must be keyed due to first payroll (upload to Peoplesoft on 12/4?)
December 7th:	Date that all data must be keyed in PERSLink for Peoplsoft file run
Dec/Jan:	Coordination of HDHP enrollees with HSA accounts and 2015 flex medical spending - Rebecca
January 11th:	Have Ron remove the annual enrollment information from the employer page after supplemental payroll run.

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Public Employees Retirement System
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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: **NDPERS Board**

FROM: **Kathy Allen**

DATE: **August 19, 2015**

SUBJECT: **FlexComp Plan Document**

Included is the draft restated FlexComp Plan Document. The Segal Company used its model plan provisions for cafeteria plans as approved by the Board at its November 20, 2014 meeting. The plan was updated to include all required language under Internal Revenue Code section 125 as well as other relevant laws and regulations. Changes incorporated as a result of law and regulation changes are highlighted in gray.

The plan documents are being provided at this time for your review. After review and input from the Board, staff, and legal counsel, the plan document will be presented at a future meeting for your approval.

STATE OF NORTH DAKOTA

FLEXCOMP PROGRAM

PLAN DOCUMENT

Effective January 1, 2015

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ARTICLE I. PURPOSE OF PLAN

The purpose of the State of North Dakota FlexComp Program Plan ("Plan") is to allow eligible Employees to pay medical, dental, vision, group term life, disability and cancer insurance premiums and other medical and dependent care expenses using pre-tax dollars. This Plan also permits a Health Savings Account (HSA) to be funded by an Employee's pre-tax salary reduction. Further, the Employer (the State of North Dakota) reserves the right to make Employer contributions to an Employee's Health Savings Account.

The Board (pursuant to North Dakota Century Code Section 54-52-04) has, therefore, adopted the Plan as set forth herein and as amended from time to time, effective January 1, 2015 for the exclusive benefit of those Employees who are eligible to participate.

The Plan is intended to qualify as a cafeteria plan within the meaning of section 125 of the Internal Revenue Code of 1986, as amended and shall be construed in a manner consistent with that Section. The tax implications of this Plan, however, are subject to rulings, regulations and the application of the tax laws of the state and federal government. Although it may anticipate certain tax consequences as being likely, the Board does not represent or warrant to any Participant that any particular tax consequence will result from participation in this Plan. By participating in the Plan, each Participant understands and agrees that in the event the Internal Revenue Service or any state or political subdivision thereof should ever assess or impose any taxes, charges and/or penalties upon any benefits received under the Plan, the recipient of the benefit will be responsible for those amounts, without contribution from the Board.

This Plan is intended not to discriminate as to eligibility or benefits in favor of the prohibited group under sections 105, 125, and 129 of the Internal Revenue Code.

ARTICLE II. DEFINITIONS

The following words and phrases have the following meaning, unless a different meaning is plainly required by the text:

2.01 **Board.** "Board" means the North Dakota Public Employees Retirement System (PERS) board.

2.02 **Benefit Package Option.** "Benefit Package Option" means a qualified benefit under Code section 125(f) that is offered under a cafeteria plan or an option for coverage under an underlying accident or health plan.

2.03 **Benefit Plan.** "Benefit Plan" means the life insurance, medical, dental, vision, cancer insurance and in some cases disability plans and any alternate medical coverage under a health maintenance organization approved by the Board.

2.04 **Code.** "Code" means the Internal Revenue Code of 1986, as amended.

2.05 **Dependent Care Center.** "Dependent Care Center" means any facility which:

a. complies with all applicable laws and regulations of the State of North Dakota and unit of local government in which it is located;

b. provides care for more than six (6) individuals (other than individuals who reside at the center); and

c. receives a fee, payment or grant for providing services for any such individuals (regardless of whether such facility is operated for profit).

2.06 **Dependent Child.** Except as otherwise stated herein, "Dependent Child" means a child who is the Participant's "qualifying child" or "qualifying relative" as those terms are defined in Code section 152 (determined without regard to subsections (b)(1), (b)(2) and (d)(1)(B) thereof) and subject to the special rule in Code section 152(e) for divorced or separated parents. For purposes of payment of the Pre-Tax Premiums to a Benefit Plan, a Dependent Child must also satisfy the criteria for dependent status under the terms of the applicable Benefit Plan.

The following definition of Dependent Child shall apply to the Qualified Health Care Expense account, notwithstanding a child's eligibility status under a Benefit Plan.

a. With respect to the Participant's Qualified Health Care Expense account, a Dependent Child includes an Employee's child (within the meaning of Code section 152(f)(1)) who has not attained age twenty-seven (27) as of the end of the calendar year.

b. Under Code section 152(f)(1), a child is the son, daughter, stepson, or stepdaughter of the Employee, and a child includes both a legally adopted individual of the Employee and an individual who is lawfully placed with the Employee for legal adoption by the Employee.

c. A child also includes an "eligible foster child," defined as an individual who is placed with the Employee by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Other than the foregoing conditions, a Dependent Child need not satisfy any other age limit, student status, residency, support or other test in order to be eligible for coverage and reimbursement of Qualified Health Care Expenses.

Notwithstanding the foregoing, a child named in a qualified medical child support order (QMCSO) as defined in section 609 of the Employee Retirement Security Income Act (ERISA) shall be a Dependent Child to the extent specified in the QMCSO. The preceding sentence applies only to the Pre-Tax Premiums for a Benefit Plan and the Qualified Health Care Expense accounts under this Plan.

2.07 **Earned Income.** "Earned Income" means earned income as set forth in Code section 32(c)(2), but excluding such amounts paid or incurred by the Employer for dependent care assistance to the Participant.

2.08 **Employee.** "Employee" means employees of the State of North Dakota and district health units that are eligible to participate in the Plan. In addition, members of the Legislative Assembly are considered employees and eligible to participate in the Plan. Employees of higher education and political subdivisions are excluded from participation in the Plan.

Eligible employees who are eighteen (18) years of age, whose services are not limited in duration, who are filling an approved and regularly funded position, and who are employed at least seventeen and one-half (17 ½) per week and at least five (5) months each year, or those first employed after August 1, 2003 who are employed at least twenty (20) hours per week and at least twenty (20) weeks each year, are eligible to participate in the Plan.

2.09 **Employer.** "Employer" means the State of North Dakota, excluding higher education, and any participating district health units as defined in Section 54-52.3-01 of the North Dakota Century Code.

2.10 **Executive Director.** "Executive Director" means the Executive Director of the North Dakota Public Employees Retirement System (PERS) Flexcomp Program.

2.11 **Grace Period.** "Grace Period" shall mean the period that begins immediately following the close of a Plan Year and ends on the day that is two (2) months plus fifteen (15) days following the close of that Plan Year.

2.12 **Health Care Expense.** "Health Care Expense" means expenses incurred by a Participant, payment of which is reimbursable under Code section 105. For over-the-counter (OTC) drugs and medicines (other than insulin) which are for medical care as defined in Code section 213(d) will not be reimbursable as a Health Care Expense unless the Participant, Spouse or Dependent Child has a prescription for such drug or medicine. However, OTC products that are not considered drugs or medicines continue to be reimbursable if the product is for medical care as defined in Code section 213(d) and is not merely for good health or for cosmetic purposes.

2.13 **Health Savings Account (HSA).** "Health Savings Account" or "HSA" means a health savings account established under Code section 223 as an individual trust or custodial account, each separately established and maintained by an Employee with a qualified trustee or custodian.

2.14 **Participant.** "Participant" means an eligible Employee who is participating in the Plan.

2.15 **Plan.** "Plan" means the State of North Dakota FlexComp Program Plan, as set forth herein.

2.16 **Plan Year.** "Plan Year" means a twelve (12) consecutive month period beginning January 1 and ending December 31.

2.17 **Pre-tax Premium(s).** "Pre-tax Premium(s)" means the cost of life, disability, medical, dental, vision and cancer insurance under the Benefit Plan which a Participant is required, as a condition for coverage, to defray. The amount of the Pre-tax Premium(s) under the Benefit Plan shall be determined by the Board in accordance with the Board's policies that are applied to all Employees in a consistent manner.

2.18 **Qualified Beneficiary.** "Qualified Beneficiary" means an individual who, on the day before a Qualifying Event defined in Section 2.21, is a Spouse or Dependent Child of a Participant. A person who becomes a new Spouse of an existing Qualified Beneficiary during a period of continuation coverage is not a Qualified Beneficiary.

In the case of a Qualifying Event described in section 2.21, subsection b., (termination of coverage due to termination of employment or reduction in hours), Qualified Beneficiary means an individual, who on the day before such Qualifying Event, is a Participant.

A newborn child, adopted child of a Qualified Beneficiary or a child placed for adoption with a Qualified Beneficiary who was not a covered Employee will be entitled to the same continuation coverage period available to the Qualified Beneficiary, however, such child shall not become a Qualified Beneficiary. A newborn child of a Qualified Beneficiary or child placed for adoption with a Qualified Beneficiary who was a covered Employee shall become a Qualified Beneficiary in his/her own right and shall be entitled to benefits as a Qualified Beneficiary. A child of a covered Employee who is receiving benefits under the Plan because of a qualified medical child support order (QMCSO), as defined in ERISA section 609, during the Employee's period of employment, is entitled to the same continuation rights under Section 3.07 as an eligible child.

A Qualified Beneficiary must notify the Board within sixty (60) days of the child's birth, adoption or placement for adoption in order to add the child to the continuation coverage.

2.19 **Qualified Dependent Care Expense.** "Qualified Dependent Care Expense" means any employment-related dependent care expense eligible for reimbursement under the Plan as determined under Code sections 129(e)(1) and 21(b)(2). Such expense includes amounts paid for household services and for the care of Qualifying Individuals enabling the Employee to be gainfully employed.

2.20 **Qualified Health Care Expense.** "Qualified Health Care Expense" means any Health Care Expense which is not otherwise reimbursable under the Benefit Plan or other plan or entity, but not including any Pre-tax Premium or the premiums paid for any other health insurance coverage.

2.21 **Qualifying Event.** "Qualifying Event" means any of the following with respect to continued participation in the Qualified Health Care Expense accounts or Benefit Plan under Section 3.07:

a. termination of coverage due to the death of a Participant.

b. termination of coverage due to the voluntary or involuntary termination of employment (other than by reason of gross misconduct) or reduction in hours of a Participant.

c. the divorce or legal separation of a Participant from his/her Spouse.

d. a Participant's commencement of entitlement to Medicare coverage during an eighteen (18) month continuation period.

e. a Dependent Child ceasing to be a Dependent Child.

2.22 **Qualifying Individual.** "Qualifying Individual" means, for purposes of a Qualified Dependent Care Expense account, any individual who is:

a. the Participant's "qualifying child" as defined in Code section 152(c) and who has not attained age thirteen (13); or

b. the Participant's "qualifying child" or "qualifying relative" as defined in Code section 152 (determined without regard to subsections (b)(1), (b)(2) and (d)(1)(B) thereof), who (i) is physically or mentally incapable of caring for himself or herself; and (ii) has the same principal place of abode as the Participant for more than one-half of the Plan Year; or

c. the Participant's Spouse if the Spouse is physically or mentally incapable of caring for himself or herself and has the same principal place of abode as the Participant for more than one-half of the Plan Year.

Notwithstanding the foregoing, in the case of divorced or separated parents (within the meaning of Code section 152(e), a Qualifying Individual who is a child shall, as provided in Code section 21(e)(5), be treated as a Qualifying Individual of the custodial parent (within the meaning of Code section 152(e)) and shall not be treated as a Qualifying Individual with respect to the non-custodial parent.

2.23 **Salary Reduction Agreement.** "Salary Reduction Agreement" means a written agreement by a Participant to reduce his/her salary or wage to pay for applicable Pre-tax Premiums or to fund a Qualified Health Care Expense account or Qualified Dependent Care Expense account or Health Savings Account.

2.24 **Spouse.** "Spouse" means the legal spouse of a Participant but shall not include an individual legally separated from a Participant under a decree of divorce or of separate maintenance. No later than June 26, 2013, for all purposes under this Plan, the term "Spouse" shall include an individual married to a person of the same sex if the individual was lawfully married to a Participant under applicable laws, and the term "marriage" shall include such a marriage between individuals of the same sex that was validly entered into in a state whose laws authorize the marriage of two individuals of the same sex regardless of where such individuals are domiciled.

2.25 **Student.** "Student" means an individual who, during each of five (5) calendar months during a taxable year is a full-time student at an educational institution which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where its educational activities are regularly carried on.

ARTICLE III. ELIGIBILITY AND PARTICIPATION

3.01 **Eligibility.** All Employees eligible to participate in the Benefit Plan are eligible to participate in the Plan for purposes of payment of Pre-tax Premiums under section 4.01. All Employees are eligible to participate in the FlexComp Plan for purposes of payment of eligible Qualified Health Care Expenses under Section 4.02, except that an Employee who is making contributions to a Health Savings Account in any Plan Year cannot participate in the Qualified Health Care Expense Account portion of the FlexComp Plan for such Plan Year. All Employees are eligible to participate in the FlexComp Plan for purposes of payment of work-related Qualified Dependent Care Expenses under Section 4.03. Any Employee eligible to contribute to an HSA under Code section 223 and who has elected qualifying coverage in a High Deductible Health Plan (as defined in Code section 223(c)(2)) but is not covered by any disqualifying non-High Deductible Health Plan is eligible to participate in the Health Savings Account portion of the FlexComp Plan.

An Employee must be eligible on the first day of the Plan Year to be a Participant in the Plan on that day. Employees who become eligible during the Plan Year shall be allowed to participate the first day of the month following their permanent full-time employment. However, the election period will be extended sixty (60) days from a new Employee's date of hire. An election during the extended sixty (60) day period will not be effective until the first contribution is received.

3.02 **Participation.** Participation is established on a Plan Year to Plan Year basis. Each eligible Employee shall be a Participant in the Plan for a Plan Year as follows:

a. For purposes of receiving Pre-tax Premium benefits under Section 4.01, participation will become effective when the appropriate Salary Reduction Agreement has been filed as outlined in Article VI.

For the purpose of receiving employee supplemental life insurance Pre-Tax Premium benefits, participation will be automatic unless an employee elects not to participate under this Plan for the Plan Year for the purpose of Pre-Tax Premium. An Employee who is eligible to participate may elect not to participate by completing and filing an appropriate declination form with the Employer within the election period established by the Board. An Employee who elects not to participate with regard to payment of Pre-tax Premiums for life insurance shall pay for such Pre-tax Premiums for life insurance under the Benefit Plan on an after–tax basis.

b. For purposes of receiving reimbursement for Qualified Health Care Expenses and/or Qualified Dependent Care Expenses or for contributing to a Health Savings Account when the appropriate Salary Reduction Agreement(s) have been filed and become effective under Article VI.

A Participant's Salary Reduction Agreement shall terminate at the end of the Plan Year. A Participant must make an affirmative election for salary reduction for each Plan Year.

3.03 **Changes in Participation Status.** With respect to the Benefit Plan, Qualified Health Care Expense accounts, and Qualified Dependent Care Expense accounts, a Participant may revoke or amend participation in the Plan during a Plan Year only on account of and consistent with a change in status or other circumstances allowed under applicable law or regulation. Health Savings Accounts under the Plan are not subject to the rules regarding changes in participation status.

Unless otherwise specified, a revocation or amendment of participation must be made within sixty (60) days after the change in status occurs and will be effective for the balance of the Plan Year in which the election is made, beginning with the first appropriate pay period after the election is received.

A Participant reducing his/her election, based on a change in status, cannot reduce his/her Salary Reduction Agreement election to the point where his/her contributions to a Qualified Health Care Expense account or a Qualified Dependent Care Expense account for the Plan Year are less than the amount already reimbursed for that Plan Year.

a. Change in Status Events. *(Applies to the Benefit Plan, Qualified Health Care Expense accounts and Qualified Dependent Care Expense accounts.)*

1. Change in the Participant's legal marital status, including marriage, divorce, death of Spouse, legal separation, or annulment.

2. Change in number of the Participant's dependents under Code section 152, including birth, adoption, placement for adoption, or death.

3. Change in the employment status of the Participant, Spouse, or Dependent Child, including the following:

(a) Termination or commencement of employment.

(b) A reduction or increase in hours of employment by the Employee, the Employee's Spouse or the Employee's Dependent Child, including a switch between part-time and full-time status or commencement of or return from an unpaid leave of absence.

(c) A change in employment status that results in the Participant, Spouse, or Dependent Child becoming or ceasing to be eligible for benefits under the individual's plan (such as switching from part-time to full-time or from full-time to part-time employment status).

(d) Any situation where the Employee, the Employee's Spouse or the Employee's Dependent Child has special enrollment rights under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) as described in Section 3.04.

4. Dependent Child satisfies (or ceases to satisfy) dependent eligibility requirements, e.g., attainment of age, Student status or any similar circumstances as provided under the Benefit Plan.

b. Change in Residence. *(Applies to the Benefit Plan only.)* A change in residence of the Employee, Spouse, or Dependent Child is considered a status change event. An election change is permissible if the change in residence affects the Participant's eligibility for coverage.

c. Change in Cost. *(Applies to the Benefit Plan and the Dependent Care Expense accounts.)* A Participant may make election changes as a result of changes in cost under the following circumstances:

1. If the cost of a qualified benefits plan increases (or decreases), the Plan may automatically make a prospective increase (or decrease) in Employee contributions for the Plan.

2. If the cost of a Benefit Package Option significantly increases or significantly decreases, a Participant may make a prospective increase or decrease in payments or revoke his/her election and, in lieu thereof, choose another Benefit Package Option providing similar coverage, prospectively. This paragraph only applies in the case of a dependent care assistance plan if the cost change is imposed by a dependent care provider who is not a relative of the Employee.

   For purposes of a dependent care assistance program, a change in provider is a significant change in coverage similar to a Benefit Package Option becoming available, and may permit an election change under this Section 3.03.

d. Change in Coverage. *(Applies to the Benefit Plan.)* A Participant may make election changes as a result of changes in coverage under the following circumstances:

1. If the coverage under the Benefit Plan is significantly curtailed without a loss of coverage, a Participant may revoke his/her election for that coverage. The Participant may make a new prospective election of coverage under another Benefit Package Option providing similar coverage. Coverage is significantly curtailed only if there is an overall reduction in coverage provided to Participants under the Benefit Plan so as to constitute reduced coverage to Participants generally.

   If the coverage under the Benefit Plan is significantly curtailed and a loss of coverage occurs, a Participant may revoke his/her election. The Participant may make a new prospective election of coverage under another Benefit Package Option providing similar coverage or to drop coverage if no similar Benefit Package Option is available. A loss of coverage means a complete loss of coverage under the Benefit Package Option, or other coverage option, or the individual losing all coverage under the option by reason of an overall lifetime or annual limitation.

2. If the Benefit Plan adds a new Benefit Package Option or improves a Benefit Package Option, or other coverage option (or eliminates an existing option) a Participant may elect the newly added option (or elect another option if an option has been eliminated) prospectively and may make corresponding election changes with respect to other Benefit Package Options providing similar coverage. The Plan may permit eligible

Employees who have not previously made an election to make an election on a prospective basis for coverage under a new or improved Benefit Package Option.

e. With the exception of Qualified Health Care Expense accounts, a Participant may make a prospective election change under subsection c. or d. of this Section 3.03 that is on account of and corresponds with a change made under another employer plan, including a plan of the same employer or of another employer, if:

1. the other plan permits the Participant to make an election change that would be permitted under federal regulations; or

2. the plan permits Participants to make an election for a period of coverage that is different from the period of coverage under this Plan.

f. A Participant may make an election change on a prospective basis to add coverage under a Benefit Plan for the Employee, Spouse or Dependent Child if the Employee, Spouse or Dependent Child loses coverage under any group health coverage sponsored by a governmental or educational institution, including the following:

1. a state's children's health insurance program (SCHIP) under Title XXI of the Social Security Act;

2. a medical care program of an Indian Tribal government (as defined in Code section 7701(a)(40)), the Indian Health Service, or a tribal organization;

3. a state health benefits risk pool; or

4. a foreign government group health plan.

g. Judgement, Decrees and Orders. *(Applies to the Benefit Plan and Qualified Health Care Expense accounts.)* In the case of a Benefit Plan that provides health or accident coverage, and for Qualified Health Care Expense accounts, a Participant's revocation or amendment of participation during the Plan Year, and new election for the remainder of the Plan Year, is allowable:

1. if a judgment, decree, or order (collectively, "Order") results from a divorce, legal separation, annulment, or change in legal custody (including a Qualified Medical Child Support Order (QMCSO) defined in ERISA section 609) that requires accident or health coverage for an Employee's Dependent Child or for a foster child who is a dependent of the Employee; and

2. the Employee changes his/her election to provide coverage for the Dependent Child or foster child if the Order requires coverage under the Employee's plan; or

3. the Employee changes his/her election to revoke coverage for the Dependent Child or foster child if the Order requires the former spouse to provide coverage.

h. Entitlement to Medicare and Medicaid. *(Applies to the Benefit Plan and Qualified Health Care Expense accounts.)* In the case of a Benefit Plan that provides health or accident coverage, and for Qualified Health Care Expense accounts, a Participant's revocation or amendment of participation during the Plan Year, and new election for the remainder of the Plan Year, is allowable:

1. if the Employee, Spouse, or Dependent Child becomes entitled to coverage under Part A or Part B of Title XVIII of the Social Security Act (Medicare) or Title XIX of the Social Security Act (Medicaid), other than coverage consisting solely of benefits under Section 1928 of the Social Security Act (the program for distribution of pediatric vaccines); and

2. the Employee changes his/her election to revoke coverage for that Employee, Spouse or Dependent Child under the Benefit Plan or Qualified Health Care Expense account.

i. Consistency Rules Applicable to Change in Status Events. A Participant's mid-year election change under this Section 3.03 satisfies the requirements of the consistency rule if the election change is on account of and corresponds with a change in status event that affects the Participant's, Spouse's or Dependent Child's eligibility or loss of eligibility for coverage under an employer's plan.

If the change in status event is the Participant's divorce, annulment or legal separation from a Spouse, the death of a Spouse or Dependent Child, or a Dependent Child ceasing to satisfy the eligibility requirements for coverage, a Participant may only elect to cancel insurance coverage for the Spouse involved in the divorce, annulment, or legal separation, the deceased Spouse or Dependent Child, or the Dependent Child that ceased to satisfy the eligibility requirements. Canceling coverage for any other individual under these circumstances fails to correspond with the change in status event.

If a Participant, Spouse or Dependent Child gains eligibility for coverage under a cafeteria plan or qualified benefits plan of the employer of the Spouse or Dependent Child as a result of a change in marital status or a change in employment status, a Participant may elect to cease or decrease coverage for that individual only if coverage for that individual becomes effective or is increased under the other plan. The Plan may rely on the Participant's certification that such individual has obtained or will obtain coverage under the other plan unless the Plan has reason to believe that the Participant's certification is incorrect.

Notwithstanding the foregoing, for purposes of the Qualified Dependent Care Expense account, a Participant's mid-year election change under Section 3.03 satisfies the requirements of the consistency rule if the election change is on account of and corresponds with a change in status event that affects:

1. The Participant's, Spouse's or Dependent Child's eligibility for coverage under an employer's plan; or

2. Expenses described in Code section 129 (including employment-related expenses as defined in Code section 21(b)(1) with respect to dependent care assistance.

The Executive Director, in his/her sole discretion, shall determine, based on the surrounding facts and circumstances and prevailing Internal Revenue Service

guidance, whether a requested change is on account of and corresponds with a change in status event.

3.04 **HIPAA Special Enrollment Rights.** *(Applies to Benefit Plan only.)* A Participant may make a change to an annual election in the middle of a Plan Year if the change corresponds to a special enrollment event under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and Code section 9801(f), whether or not the change is permitted under any other section of this Plan as follows:

a. Acquisition of a new Spouse or Dependent Child as a result of marriage, birth, adoption or placement for adoption; or

b. Loss of eligibility under another group health plan or other health insurance by anyone who would otherwise be eligible under this Plan, including for (but not limited to) the following reasons:

1. Voluntary or involuntary termination of employment or reduction in hours of employment, or death, divorce or legal separation, cessation of dependent status or

2. Loss of coverage through an HMO that does not provide benefits to individuals who do not reside, live or work in the service area, or

3. Termination of employer contributions toward that other coverage, or

4. Loss of coverage due to reaching a lifetime maximum on all benefits, or

5. If the other coverage was COBRA continuation coverage and the coverage was exhausted.

c. Loss of eligibility for coverage under Title XIX of the Social Security Act (Medicaid) or under Title XXI of the Social Security Act that is coverage under a state children's health insurance program (SCHIP) or becoming eligible for a premium assistance subsidy from Medicaid or SCHIP.

d. For individuals losing other coverage, an Employee may revoke participation in a Benefit Plan and make a new election if the Employee is eligible, but not enrolled, for coverage under the terms of the Benefit Plan (or a Spouse or Dependent Child of such an Employee if the Spouse or Dependent Child is eligible, but not enrolled, for coverage); and

1. The Employee, Spouse or Dependent Child was covered under a group health plan or had health insurance coverage at the time coverage was previously offered to the Employee.

2. The Employee stated in writing at such time that coverage under a group health plan or health insurance coverage was the reason for declining enrollment.

3. The Employee's, Spouse's or Dependent Child's coverage under a group health plan or health insurance was under a COBRA continuation provision and the coverage under such provision was exhausted, or not under a COBRA continuation provision and either the coverage was terminated as a result of loss of eligibility for the coverage (including as a result of legal separation, divorce, death, termination of employment, or reduction in the number of hours of employment) or the Employer contributions towards such coverage were terminated.

Under this subsection d., a revocation or amendment of participation must be made within thirty (30) days after the date of exhaustion of coverage described in paragraph 1. or the termination of coverage or Employer contribution described in paragraph 3. and will be effective for the balance of the Plan Year in which the election is made, beginning on the first day of the month following the month in which the election is made.

e. For acquisition of a Spouse or Dependent Child, a Participant may revoke participation in a Benefit Plan and make a new election if the individual is a Participant under the Benefit Plan (or has met any waiting period applicable to becoming a Participant under the Plan and is eligible to be enrolled under the Plan but for a failure to enroll during a previous enrollment period); and

1. A person becomes a Spouse or a Dependent Child of the Participant through marriage, birth, or adoption or placement for adoption, and

2. The Participant elects to enroll himself/herself, the Spouse, and/or the Participant's Dependent Child or Children in the Plan, to the extent that the Spouse or Dependent Children are otherwise eligible for coverage.

Under this subsection e., a revocation or amendment of participation must be made within thirty (30) days after the date dependent coverage is made available or the date of the marriage, birth, or adoption or placement for adoption and will be effective for the balance of the Plan Year in which the election is made, and in the case of marriage, beginning with the first appropriate pay period after the election is received; or in the case of a Dependent Child's birth, as of the date of such birth; or in the case of a Dependent Child's adoption or placement for adoption, the date of such adoption or placement for adoption.

f. An election change on account of birth, adoption or placement for adoption will be effective retroactive to the date of birth, adoption or placement for adoption, provided the request to change the annual election is made within thirty (30) days of the birth, adoption or placement for adoption. Except as otherwise provided for herein, election changes for other special enrollment events (e.g., marriage or loss of other health coverage) will be effective as soon as practicable once a request for such election changes has been received, provided the request to change the annual election is made within sixty (60) days of the event.

g. Retroactive coverage of a newly acquired Dependent Child on account of birth, adoption or placement for adoption applies to the premium payment of Benefit Costs under section 4.01 and Qualified Health Care Expense accounts, but not to the Qualified Dependent Care Expense accounts. The effective date of coverage of a new Spouse or Dependent Child under the Qualified Dependent Care Expense account in accordance with Section 3.03 will be prospective for the balance of the Plan Year beginning as soon as practicable after the date the new benefit election form and Salary Reduction Agreement are received by the Executive Director.

h. Payroll changes made in accordance with special enrollment under this Section 3.04 will be effective with the first pay period following approval of a request to change a salary reduction election amount even if the effective date of a Dependent Child's coverage is retroactive.

3.05 Additional Election Changes Pursuant to IRS Notice 2014-55.

a. Reduction of Hours. An Employee who was reasonably expected to average at least thirty (30) hours of service per week may drop Benefit Plan coverage midyear if the employee's status changes so that the Employee is expected to average less than thirty (30) hours of service, even if the reduction of hours does not result in loss of eligibility for the Benefit Plan. However, the mid-year change must correspond to the Employee's intended enrollment (and the intended enrollment of any related individuals whose coverage is being dropped) in other minimum essential coverage (MEC). The new MEC coverage must be effective no later than the first day of the second month following the month in which the original coverage is dropped.

b. Exchange Coverage. An Employee who is eligible to enroll in a government sponsored exchange (marketplace coverage) during a marketplace special enrollment or open enrollment period) may drop Benefit Plan coverage midyear, but only if the change corresponds to the Employee's intended enrollment (and the intended enrollment of any related individuals whose coverage is being dropped) in marketplace coverage that is effective no later than the day after the last day of the original coverage. This means that Benefit Plan coverage is not to be terminated until marketplace coverage takes effect.

3.06 Termination of Participation.

a. Pre-tax Premium(s). Participation with regard to Pre-tax Premium(s) provided under this Plan during a Plan Year terminates on the first to occur of the following:

1. the end of the month following the month of termination of employment;

2. the date the applicable Salary Reduction Agreement is revoked:

3. or the date the Plan is terminated.

b. Qualified Health Care Expenses. Participation with regard to Qualified Health Care Expenses provided under this Plan during a Plan Year terminates on the first to occur of the following:

1. the last day of month in which a Participant ceases to be an Employee;

2. the date the applicable Salary Reduction Agreement is revoked;

3. or the date the Plan is terminated.

c. Qualified Dependent Care Expenses. Participation with regard to Qualified Dependent Care Expenses provided under this Plan during a Plan Year terminates on the first to occur of the following:

1. upon exhaustion of the account balance during the Plan Year in which the Employee ceases employment;

2. the date the applicable Salary Reduction Agreement is revoked;

3. or the date the Plan is terminated.

Notwithstanding any provision of the Plan to the contrary, a former Participant shall be entitled to submit a request for reimbursement of Qualified Health Care Expenses, in accordance with Article VII, as if he/she were a Participant, provided such Qualified Health Care Expenses were incurred while the former Participant participated in the Plan.

If participation terminates because the Participant ceases to be an Employee and the individual returns to eligible employment with the Employer in the same Plan Year within thirty (30) days of return to work, and without any other intervening event that would permit a Participant to revoke or amend participation, then the Employee will be required to take the same benefit election for the remaining portion of the Plan Year as he/she had before he/she terminated. Participation shall be effective the first of the month following such election.

If the individual returns to employment, with the Employer, after more than thirty (30) days he/she will not be eligible to participate in the Pre-tax Premium benefit, the Qualified Health Care Expense account or the Qualified Dependent Care Expense account for the remainder of the Plan Year.

Notwithstanding any provisions of the Plan to the contrary, a former Participant who is a Qualified Beneficiary may elect to continue coverage for Qualified Health Care Expenses by submitting the required self-payment premiums as set forth in Section 3.07.

3.07 Continuation Coverage.

a. Eligibility. A Qualified Beneficiary may continue coverage under this Section 3.07 by making election to do so with the Employer and submitting the applicable self-payment contribution, subject to all conditions and limitations under the

Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The amount of the monthly self-payment contribution will be established by the Executive Director and will be paid on an after-tax basis on a uniform and consistent basis. However, Employees who elect COBRA are permitted to pre-tax the COBRA premiums and pre-pay such premiums through the end of the current Plan Year from their final paychecks.

b. Maximum Self-Payment Period. A Qualified Beneficiary may elect continuation coverage because of a Qualifying Event described in Section 2.21 only for the remainder of the Plan Year in which the Qualifying Event occurs.

c. Procedures to Elect Self-Payment for Continuation Coverage.

1. In the case of a Qualifying Event described in Section 2.21, a., b., or d., (death, termination of employment or reduction in hours, or the Employee's entitlement to Medicare) a Qualified Beneficiary will receive information concerning continuation coverage, including the self-payment rates, within forty-four (44) days of loss of coverage.

2. In the case of a Qualifying Event as described in Section 2.21, c. or e., (legal separation or divorce, or a child no longer qualifies as a Dependent Child) a Qualified Beneficiary must notify the Executive Director within sixty (60) days of the Qualifying Event. If notice is not received within sixty (60) days of the Qualifying Event, the Qualified Beneficiary will not be eligible for continuation coverage.

   Following receipt of timely notice of a Qualifying Event and within fourteen (14) days of receipt of such notice, the Executive Director will provide the Qualified Beneficiary with information concerning continuation coverage and rates.

3. After notification of continuation coverage, the Qualified Beneficiary will have sixty (60) days to elect continuation coverage, after the **later** of:

   (a) the date that the Qualified Beneficiary would lose coverage on account of the Qualifying Event; or

   (b) the date that the Qualified Beneficiary is sent such notice.

   If a Qualified Beneficiary chooses to waive coverage, a waiver of continuation coverage will be effective on the date that the waiver is sent to the Executive Director.

   A Qualified Beneficiary who, during the election period, waives continuation coverage can revoke the waiver at any time before the end of the election period. However, if a Qualified Beneficiary who waives continuation coverage later revokes the waiver, coverage will be effective on the date that the revocation of the waiver and election to continue is sent to the Executive Director.

4. The first monthly payment (which will include premiums for all months since coverage terminated) must be received by the Executive Director within forty-five (45) days of the date the Qualified Beneficiary elects to continue coverage. Each subsequent payment is due by the first day of the

month for which coverage is elected, and shall be considered timely if received within thirty (30) days of the date due.

5. If premiums are not received in a timely manner, coverage will terminate. No claims will be paid until premium payment is received by the Executive Director in accordance with paragraph 4. above.

6. The election must specify which Qualified Beneficiaries are electing COBRA continuation coverage. If it does not specify the Qualified Beneficiaries, the election shall be deemed to be an election on behalf of all Qualified Beneficiaries.

d. Termination of Continuation Coverage. Continuation coverage as provided under this section will terminate on the **earliest** of the following dates, as applicable:

1. the date after election of continuation coverage that the Qualified Beneficiary first becomes covered under any other group medical coverage as an employee or dependent. In the event such other group medical coverage has a pre-existing condition clause or limitation, continuation coverage will not terminate until exhaustion of the maximum period continuation coverage is allowed unless the pre-existing condition clause or limitation does not apply to the Qualified Beneficiary or is satisfied by the Qualified Beneficiary by reason of the provisions of Code section 9801.

2. the end of the period for which the last payment was made for coverage in a timely manner.

3. the end of the Plan Year in which the Qualifying Event occurs.

3. the date the Qualified Beneficiary becomes entitled to Medicare.

4. under any circumstance where a non-COBRA beneficiary would have benefits terminated for cause (e.g., fraud).

5. the date the Board ceases to provide any group health plan.

3.08 **Death of a Participant.** With respect to Qualified Dependent Care Expenses, if a Participant dies, his/her participation in the Plan shall cease. However, such Participant's beneficiaries, or the representative of his/her estate, may submit claims for expenses or benefits for the remainder of the Plan Year or until the account balance is exhausted.

With respect to Qualified Health Care Expenses, if a Participant dies, his/her participation in the Plan shall cease on the last day of such month. However, there are two ways for a deceased Employee's family members to access the money in the Employee's Qualified Health Care Expense account. If they are beneficiaries of the Employee's estate, they would benefit from reimbursement obtained by the estate for their and the Employee's expenses incurred prior to the Employee's death. In certain circumstances they may also elect COBRA and obtain reimbursement as COBRA beneficiaries for their own health care expenses incurred after the Employee's death through the end of the Plan Year.

ARTICLE IV. BENEFITS

4.01 **Pre-tax Premium(s).** The Pre-tax Premium(s) of a Participant for the Benefit Plan shall be paid by the Employer subject to the provisions of Section 5.01.

4.02 **Qualified Health Care Expenses.** The Executive Director shall reimburse a Participant for Qualified Health Care Expenses incurred by the Participant or the Participant's Spouse or Dependent Child in accordance with the provisions of Section 5.02. Reimbursement for Qualified Health Care Expenses during a Plan Year is limited to the annualized amount directed by the Participant to the Qualified Health Care Expense account under a valid Salary Reduction Agreement. The annual amount elected by the Participant for a Qualified Health Care Expense account under a valid Salary Reduction Agreement shall be available at all times during the applicable period of coverage regardless of the actual amount credited to the Participant's Qualified Health Care Expense account. An Employee who is enrolled in a High Deductible Health Plan and making contributions to a Health Savings Account cannot participate in the Qualified Health Care Expense account portion of this Plan.

4.03 **Qualified Dependent Care Expenses.** The Executive Director shall reimburse a Participant for Qualified Dependent Care Expenses in accordance with the provisions of Section 5.03. Reimbursement for Qualified Dependent Care Expenses during a Plan Year is limited to the amount of expenses incurred, not to exceed the amount in the Participant's account at the time a claim is made.

4.04 **Determination of Noncompliance.** It is the intent of this Plan to provide a benefits plan that is nondiscriminatory and which provides benefits to a classification of Employees while not discriminating in favor of any group, as set forth in Code section 125. In the event that a determination is made that all or any part of the contributions to the Plan do not qualify as non-taxable contributions to a "cafeteria plan" or a "dependent care assistance program" under Code sections 125 and 129, the affected contributions made by any Participant shall be treated as salary and, to the extent not yet expended, returned to such Participant. The Participant shall pay:

a. any state or federal income taxes due with respect to such amount, together with any interest or penalties imposed thereon;

b. the Participant's share (as determined in good faith) of any applicable FICA or FUTA contributions which would have been withheld from such amounts, had such amounts been treated as salary and not as Qualifying Dependent Care Expenses or Qualified Health Care Expenses; and

c. an amount (as determined in good faith) equal to the portion of any applicable penalties and interest payable as the result of the failure to withhold and pay such amounts to the appropriate payee allocable to the Participant.

ARTICLE V. FUNDING

5.01 **Funding of Pre-tax Premium(s).** In return for the Employer payment of a Participant's Pre-tax Premium(s) under Section 4.01, the Participant agrees to reduce the Participant's salary or wage each month by the amount of the Pre-tax Premium(s) under the Benefit Plan under a Salary Reduction Agreement. The premium amounts paid under the Salary Reduction Agreement will be adjusted during a Plan Year to reflect changes in the Pre-tax Premium(s).

5.02 **Funding of Qualified Health Care Expense Account.**

a. Qualified Health Care Expenses shall be reimbursed to a Participant to the extent the Participant has elected to reduce the Participant's salary or wage for the Plan Year under a valid Salary Reduction Agreement.

b. A Participant's salary or wage may be reduced under this Section 5.02 in an amount not to exceed $2,500, as adjusted in accordance with Code section 125(i) to the extent such adjustment is approved by the Board.

1. The salary reduction amount so elected shall be funded prorata over the number of consecutive pay periods in the Plan Year. The salary reduction amount for any single pay period may not exceed the amount of the Participant's salary or wage for that period. Salary reduction amounts for a pay period shall be reduced by the amount it exceeds the Participant's salary or wage for that period.

2. For members of the Legislative Assembly, the salary reduction amount may vary per pay period however, the total amount of salary reduction must equal the annual election amount.

c. The Executive Director or his/her designated agent shall establish individual Qualified Health Care Expense accounts for each Participant and shall credit to each Participant's account salary reduction amounts elected under this Section 5.02. The Executive Director or his/her designated agent shall reimburse Participants for Qualified Health Care Expenses in accordance with Article VII.

5.03 **Funding of Qualified Dependent Care Expense Account.**

a. Qualified Dependent Care Expenses may be reimbursed to a Participant to the extent the Participant has elected to reduce the Participant's salary or wage for the Plan Year under a valid Salary Reduction Agreement, not to exceed the amount in the Participant's account at the time reimbursement is required.

b. A Participant's salary or wage may be reduced under this Section 5.03 in an amount not to exceed $5,000 for each Plan Year.

1. The salary reduction amount so elected shall be funded prorata over the number of consecutive pay periods in the Plan Year. The salary reduction amount for any single pay period may not exceed the amount of the

Participant's salary or wage for the pay period. Salary reduction amounts for a pay period shall be reduced by the amount it exceeds the Participant's salary or wage for that period.

2. For members of the Legislative Assembly, the salary reduction amount may vary per pay period however, the total amount of salary reduction must equal the annual election amount.

c. The Executive Director or his/her designated agent shall establish individual Qualified Dependent Care Expense accounts for each Participant and shall credit to each Participant's account salary reduction amounts elected under this Section 5.03. The Executive Director or his/her designated agent shall reimburse Participants for Qualified Dependent Care Expenses in accordance with Article VII.

5.04 **Funding of Health Savings Accounts.** An Employee can elect to participate in the Health Savings Account portion of the Plan by electing to make pre-tax contributions to an HSA via a valid Salary Reduction Agreement. Such amounts will be contributed to a Health Savings Account established and maintained outside this Plan by a trustee or custodian. The benefits under the HSA portion of the Plan consist solely of an Employee's ability to make pre-tax contributions to a Health Savings Account. The terms and conditions of each applicable Participant's HSA is governed by the Health Savings Account trust and/or custodial agreement.

An Employee's election under a Salary Reduction Agreement to contribute to a Health Savings Account can be increased, decreased or revoked prospectively at any time during the Plan Year. Contributions to an HSA cannot be elected with benefits under a Qualified Health Care Expense account. In addition, a Participant who has an election for Qualified Health Care Expenses that is in effect on the last day of a Plan Year cannot elect HSA contributions for any of the first three months following the close of that Plan Year, unless the Participant's Qualified Health Care Expense account balance is $0 as of the last day of that Plan Year.

In no event shall the amount contributed to a Participant's Health Savings Account, including pre-tax contributions under this Plan, after-tax employee contributions and any employer contributions made on a Participant's behalf, exceed the maximum amount applicable to the Participant's High Deductible Health Plan coverage option for the calendar year in which such contributions are made, as prorated for the number of months the Participant is eligible to contribute to an HSA, in accordance with Code section 223(b).

5.05 **Accounting.** The Executive Director or his/her designated agent shall maintain complete records of all amounts to be credited as a contribution or debited as a reimbursement of Qualified Health Care Expenses or Qualified Dependent Care Expenses on behalf of any Participant for six (6) years as required under ERISA and federal tax law.

ARTICLE VI. SALARY REDUCTION ELECTIONS

6.01 Election Period for Salary Reduction.

a. In order to fund a Qualified Health Care Expense account or a Qualified Dependent Care Expense account for a Plan Year, a Participant must complete and file with the Executive Director an appropriate Salary Reduction Agreement election form within the applicable election period.

b. An Employee who is eligible to participate in the salary reduction for Pre-tax Premium(s) must complete and file with the Executive Director an appropriate Salary Reduction Agreement form within the applicable election period.

c. For the purpose of employee supplemental life insurance Pre-tax benefits, an employee may elect not to participate by completing an appropriate Salary Reduction Agreement declination form within the applicable election period.

d. In order to begin making pre-tax contributions to a Health Savings Account, a Participant must complete and file with the Executive Director an appropriate Salary Reduction Agreement election form any time during a Plan Year in which the Participant is eligible to contribute to an HSA in accordance with Code section 223.

6.02 Termination, Revocation, or Amendment of Salary Reduction Elections.

a. A Participant's Salary Reduction Agreement election for a Plan Year shall terminate at the end of the Plan Year. A Participant must make an affirmative election for salary reduction for each Plan Year. Failure to make such an election will result in waiving participation for a Qualified Health Care Expense account or a Qualified Dependent Care Expense account and any applicable Pre-tax Premium paid to the Employer on an after-tax basis.

b. The employee supplemental life insurance Pre-tax benefits will be automatic unless an Employee declines this action.

c. Termination, revocation or amendment of salary reduction elections may only be made by a Participant in accordance with Article III, or for a Health Savings Account in accordance with Section 5.04.

6.03 Limitations on Exclusion from Gross Income for Dependent Care Expense Account.

a. Reimbursements under the Plan for Qualified Dependent Care Expenses shall be excluded from the gross income of a Participant during a Plan Year in accordance with Code section 129. An Employee's exclusion from gross income under the Plan in a calendar year shall not exceed:

1. $5,000 if the Employee is married and filing a joint return or if the Employee is a single parent ($2,500 if the employee is married, but filing separately); or

2. in the case of an Employee who is not married at the close of such Plan Year, the Earned Income of such Employee for such Plan Year; or

3. in the case of an Employee who is married at the close of such Plan Year, the lesser of the Earned Income of such Employee or the Earned Income of the Spouse of such Employee for such Plan Year.

To the extent reimbursements exceed the maximum amount excludable from a Participant's gross income, the reimbursements shall be treated as taxable income to the Participant.

b. The amount excluded from the income of an Employee under the Plan for any Plan Year shall not include:

1. payments made or incurred to an individual who can be claimed as a Dependent Child of the Employee or the Spouse of such Employee; or

2. payments made or incurred to an individual who is a child, under the age of nineteen (19), of such Employee or the Spouse of such Employee.

6.04 <u>Forfeiture of Salary Reduction Amounts</u>.

a. If a Participant fails to claim any amounts in the Qualified Health Care Expense account or Qualified Dependent Care Expense account by the time allowed in Section 7.04, d., and Section 7.05, d., such amounts shall not be carried over to reimburse the Participant for expenses incurred during a subsequent Plan Year and rights to such amounts shall be forfeited by the Participant.

b. All forfeitures under this Plan shall be used first to offset any losses experienced by the Board during the Plan Year as a result of making reimbursements with respect to any Participant in excess of the premiums paid by such Participant via salary reductions. Second, forfeitures shall be used to reduce the Board's cost of administering this Plan during the Plan Year.

6.05 <u>Amendment of Salary Reduction Elections Due To Leave of Absence, Family and Medical Leave Act (FMLA) or Military Leave</u>.

a. <u>Benefit Plan and Qualified Health Care Expense Account</u>.

1. *Leave with taxable compensation.* Pre-tax contributions during a leave may be made if taxable compensation is due to the Participant while on leave of absence, FMLA leave, or military leave.

2. *Leave without taxable compensation.* An unpaid leave of absence will be considered a change in status, and the Participant may amend salary reduction elections to be consistent with the change in status.

3. *FMLA.* A Participant commencing a qualifying leave under FMLA may, to the extent required by the FMLA, continue to maintain coverage under the Benefit Plan and Qualified Health Care Expense Account under the terms and conditions set forth hereafter. For leaves of absence and leaves under FMLA, if no coverage during leave is elected and the Participant returns to active work during the same Plan Year, and the salary reduction election has not been amended, as provided in 6.05, a., 2., then the same election the Participant had before the leave must be maintained for the remainder of the Plan Year upon return from the leave.

   (a) *"Pre-pay option":* A Participant may make pre-tax contributions by increasing his/her salary reduction contributions before taking the leave, but only for the portion of the leave that occurs during the Plan Year.

   (b) *"Catch-up option":* Employer will continue coverage during the leave. A Participant must make after-tax contributions by salary reduction after the leave to make up missed contributions.

4. A Participant may elect not to continue coverage during the leave. If the Participant does not make the salary reduction on a pre-tax basis or by after tax contributions described in paragraph 3. above, his/her participation will cease the last day of the month in which a contribution is received. The Participant may submit claims for eligible expenses incurred before participation ended, and will be reimbursed for Qualified Health Care Expenses as described in section 4.02 herein.

5. *USERRA.* If a Participant returns from a qualified military leave under the Uniformed Services Employment and Reemployment Rights Act (USERRA) and commences employment again, he/she may choose to become a Participant and salary reduction contributions will be increased to reflect any contributions for the Plan Year not yet paid or to amend the salary reduction election, as provided in paragraph 2. above, or to elect not to participate for the remainder of the Plan Year.

6. For the Qualified Health Care Expense account, if a Participant revokes coverage upon commencement of the leave and elects to be reinstated upon return from the leave, the Participant has a choice between two options:

   (a) *Full Coverage:* The Participant may maintain the same election the Participant had before the leave and reinstate the level of coverage in effect when the leave began, provided that the Participant makes contributions to reduce his/her salary or wage to fund the Qualified Health Care Expense account for the contributions that were missed during the leave.

   (b) *Prorated Coverage:* The Participant may reinstate a level of coverage that is reduced by the amount of contributions to reduce his/her salary

or wage to fund the Qualified Health Care Expense account that were missed during the leave.

b. Qualified Dependent Care Expense Account.

1. *Leave with taxable compensation.* Pre-tax contributions during a leave may be made if taxable compensation is due to the Participant while on leave of absence, FMLA leave, or military leave.

2. *Leave without taxable compensation.* An unpaid leave of absence will be considered a change in status, and the Participant may amend salary reduction elections to be consistent with the change in status.

3. *FMLA.* A Participant commencing a qualifying leave under FMLA may, to the extent required by FMLA, continue to maintain coverage under the Qualified Dependent Care Expense Account under the terms and conditions set forth hereafter. For leaves of absence and leaves under FMLA, if no coverage during leave is elected and the Participant returns to active work during the same Plan Year, and the salary reduction election has not been amended, as provided in paragraph 2. above, then the same election the Participant had before the leave must be maintained for the remainder of the calendar year upon return from the leave.

   (a) *"Pre-pay option":* A Participant may make pre-tax contributions by increasing his/her salary reduction contributions before taking the leave, but only for the portion of the leave that occurs during the Plan Year.

   (b) *"Catch-up option":* Employer will continue coverage during the leave. A Participant must make after-tax contributions by salary reduction after the leave to make up missed contributions.

4. A Participant may elect not to continue coverage during the leave. If the Participant does not make the salary reduction on a pre-tax basis or by after tax contributions described in paragraph 3. above, his/her participation will cease the last day of the month in which a contribution is received. The Participant may submit claims for eligible expenses incurred before participation ended, and will be reimbursed as described in section 4.03 herein. Eligible expenses are only those expenses that enable the Employee or the Employee and the Employee's Spouse to be gainfully employed. Any other expenses would not be reimbursable during the leave of absence period.

5. *USERRA.* If a Participant returns from a qualified military leave under USERRA and commences employment again, he/she may choose to become a Participant and salary reduction contributions will be increased to reflect any contributions for the Plan Year not yet paid or to amend the salary reduction election, as provided in paragraph 2. above, or to elect not to participate for the remainder of the Plan Year.

ARTICLE VII. PAYMENT OF CLAIMS

7.01 **Determination of Status of Eligible Expenses**. After receiving an appropriately submitted claim and the information required under Section 7.04 or Section 7.05, the Executive Director or designated agent shall determine whether such expenses are Qualified Health Care Expenses or Qualified Dependent Care Expenses. The Executive Director may delegate the authority to administer claims under the Plan to a designated agent.

7.02 **Payment of Claims**. The Executive Director will authorize payment of properly submitted claims for reimbursement at such intervals, as it may consider appropriate.

7.03 **Expenses**. All administrative expenses incurred prior to the termination of the Plan that arise in connection with the administration of the Plan shall be paid as authorized by the Executive Director.

7.04 **Claims Reimbursement for Qualified Health Care Expenses**.

a. The Participant must submit a properly completed claim form to the Executive Director or the designated agent along with written evidence from an independent third party describing the Health Care Expense that has been incurred, the person on whose behalf such Health Care Expense has been incurred, the date such expense was incurred, the amount of such expense, and such other information as the Executive Director may find necessary.

b. The Participant must submit with other required documents a signed statement in such form as determined by the Executive Director certifying that the expenses for which reimbursement is sought are expenses that the Participant believes in good faith are Qualified Health Care Expenses.

c. The Executive Director reserves the right to verify to his/her satisfaction all claimed expenses prior to reimbursement and to refuse to reimburse any amounts which are not Qualified Health Care Expenses.

d. All claims for reimbursement must be submitted no later than April 30 following the end of the Plan Year in which the expense was incurred.

e. Claims reimbursement for Qualified Health Care Expenses using a debit card shall be made in accordance with the terms of the debit card agreement and Proposed Treasury Regulations section 1.125-6 and other applicable IRS rulings.

7.05 **Claims Reimbursement for Qualified Dependent Care Expenses.**

a. To make a claim for reimbursement of Qualified Dependent Care Expenses, the Participant shall submit a statement to the Executive Director or the designated agent on an appropriate form adopted by the Executive Director which may contain the following information:

1. the Qualifying Individual(s) for whom the Qualified Dependent Care Expenses were incurred;

2. a statement to substantiate that the dependent or dependents are Qualifying Individuals, such as the age of the dependent or a statement as to the physical or mental capacity of the dependent;

3. the nature of the services which will generate the Qualified Dependent Care Expenses;

4. written evidence from an independent third party stating the expenses have been incurred, the amount of such expense, the date of such expense, and such other information as the Executive Director or the designated agent in its sole discretion may request;

5. the name of the person, organization or entity to who the expense was paid, including the taxpayer identification number, and the relationship, if any, of the person performing the services to the Participant;

6. a statement as to where the services were performed;

7. if the services are to be performed in a Dependent Care Center, a statement verifying that each of the requirements for a Dependent Care Center specified in Section 2.05 of the Plan are met;

8. a statement indicating whether the services are necessary to enable the Participant to be gainfully employed;

9. if the Participant is married, a statement:

   (a) that the Spouse is employed; or

   (b) if the Spouse is not employed, a statement that he/she is incapacitated or that he/she is a Student within the meaning of Section 2.25 of the Plan.

   If an Employee's Spouse is not employed, not incapacitated, nor a Student as defined in Section 2.25, such Employee is not eligible to participate in this Plan; and

10. a statement that the Qualified Dependent Care Expenses have not been reimbursed and are not reimbursable under any other plan or by any other entity.

b. The Participant must submit with other required documents a signed statement in such form as determined by the Executive Director certifying that the expenses for which reimbursement is sought are expenses that the Participant believes in good faith are Qualified Dependent Care Expenses.

c. The Executive Director reserves the right to verify to his/her satisfaction all claimed expenses prior to reimbursement and to refuse to reimburse any amounts which are not Qualified Dependent Care Expenses.

d. All claims for reimbursement must be submitted not later than April 30 following the end of the Plan Year in which the expense was incurred.

e. Claims reimbursement for Qualified Dependent Care Expenses using a debit card shall be made in accordance with the terms of the debit card agreement and Proposed Treasury Regulations section 1.125-6 and other applicable IRS rulings.

7.06 **Grace Period for Qualified Health Care Expenses.** Amounts remaining in a Participant's Qualified Health Care Expense account at the end of a Plan Year can be used to reimburse the Participant for Qualified Health Care Expenses that are incurred during the period that begins immediately following the close of that Plan Year and ends on the day that is two (2) months plus fifteen (15) days following the close of that Plan Year (the "Grace Period") under the following conditions:

a. Applicability. In order for an individual to be reimbursed for Qualified Health Care Expenses incurred during a Grace Period from amounts remaining in his or her Qualified Health Care Expense account at the end of the Plan Year to which that Grace Period relates, he or she must be either (1) a Participant with Health Care Expense account coverage that is in effect on the last day of that Plan Year; or (2) a Qualified Beneficiary (as defined under COBRA) who has COBRA coverage under the Health Care Expense account component on the last day of that Plan Year.

b. No Cash-Out or Conversion. Prior Plan Year Qualified Health Care Expense accounts may not be cashed out or converted to any other taxable or nontaxable benefit. For example, a prior Plan Year Health Care Expense account may not be used to reimburse Qualified Dependent Care Expenses.

c. Reimbursement of Grace Period Expenses. Qualified Health Care Expenses incurred during a Grace Period and approved for reimbursement in accordance with the Plan's claims procedure for the Qualified Health Care Expense account component will be reimbursed and charged against any current Plan Year Qualified Health Care Expense account amounts, unless the Participant instructs that claims be reimbursed from any available prior Plan Year Qualified Health Care Expense account. All claims for reimbursement under the Qualified Health Care Expense account component will be paid in the order in which they are approved. Once paid, a claim will not be reprocessed so as to pay it (or treat it as paid) from amounts attributable to a different Plan Year or period of coverage.

d. Run-Out Period and Forfeitures. Claims for reimbursement of Qualified Health Care Expenses incurred during a Plan Year or its related Grace Period must be submitted no later than the April 30 following the close of the Plan Year in order to be reimbursed from prior Plan Year Qualified Health Care Expense account amounts. Any prior Plan Year Qualified Health Care Expense account amounts that remain after all reimbursement have been made for the Plan Year and its

related Grace Period shall not be carried over to reimburse the Participant for expenses incurred after the Grace Period ends.

The Participant will forfeit all rights with respect to such balance, which will be subject to the Plan's provisions regarding forfeitures in section 6.04 of the Plan.

e. Qualified Health Care Expense Account Balance, Grace Period and Health Savings Accounts. This Plan's Qualified Health Care Expense account operates with a Grace Period. Under IRS rules regarding a Qualified Health Care Expense Account's Grace Period, if a Participant's Qualified Health Care Expense Account is in effect with any balance in that account on the last day of a Plan Year, the Participant (and their Spouse, if married), nor an Employer on behalf of the Participant, can contribute to a Health Savings Account during the first three (3) months following the close of the Plan Year.

f. Employee Participation in a Qualified Health Care Expenses Account Prevents Spouse or Dependent Child from Contributing to an HSA. Since this Plan's Qualified Health Care Expenses account is a general purpose account that permits reimbursement of qualifying medical expenses of Employees, Spouses and Dependent Children, under IRS rules, if the Spouse (or Dependent Child) of the Employee is enrolled in a High Deductible Health Plan with Health Savings Account, the Spouse (and Dependent Child) cannot contribute to an HSA while the Employee is enrolled in a general purpose Qualified Health Care Expenses account.

7.07 **Grace Period for Qualified Dependent Care Expenses**. Amounts remaining in a Participant's Qualified Dependent Care Expense account at the end of a Plan Year can be used to reimburse the Participant for Qualified Dependent Care Expenses that are incurred during the period that begins immediately following the close of that Plan Year and ends on the day that is two (2) months plus fifteen (15) days following the close of that Plan Year (the "Grace Period") under the following conditions:

a. Applicability. In order for an individual to be reimbursed for Qualified Dependent Care Expenses incurred during a Grace Period from amounts remaining in his or her Qualified Dependent Care Expense Account at the end of the Plan Year to which that Grace Period relates, he or she must be a Participant with Qualified Dependent Care Expense account coverage that is in effect on the last day of that Plan Year.

b. No Cash-Out or Conversion. Prior Plan Year Qualified Dependent Care Expense accounts may not be cashed out or converted to any other taxable or nontaxable benefit. For example, a Prior Plan Year Qualified Dependent Care Expense account may not be used to reimburse Qualified Health Care Expenses.

c. Reimbursement of Grace Period Expenses. Qualified Dependent Care Expenses incurred during a Grace Period and approved for reimbursement in accordance with the Plan's claims procedure for the Qualified Dependent Care Expense account will be reimbursed and charged against any current Plan Year Qualified Dependent Care Expense account balance unless the Participant instructs that claims be reimbursed from any available prior Plan Year Qualified Dependent Care Expense account. All claims for reimbursement under the Qualified

Dependent Care Expense account will be paid in the order in which they are approved. Once paid, a claim will not be reprocessed so as to pay it (or treat it as paid) from amounts attributable to a different Plan Year or period of coverage.

d. Run-Out Period and Forfeitures. Claims for reimbursement of Qualified Dependent Care Expenses incurred during a Plan Year or its related Grace Period must be submitted no later than the April 30 following the close of the Plan Year in order to be reimbursed from a prior Plan Year Qualified Dependent Care Expense account balance. Any prior Plan Year Qualified Dependent Care Expense account balance that remain after all reimbursements have been made for the Plan Year and its related Grace Period shall not be carried over to reimburse the Participant for expenses incurred after the Grace Period ends.

   The Participant will forfeit all rights with respect to such balance, which will be subject to the Plan's provisions regarding forfeitures in Section 6.04 of the Plan.

e. Grace Period Effect on Dependent Care Expense Account Exclusions. Grace Periods may have an adverse effect on the exclusions that individuals report on their personal income taxes. There may be taxable income to an individual if the Qualified Dependent Care Expense account reimbursements exceed IRS permitted Qualified Dependent Care Expense Account exclusion amounts as a result of the Grace Period. For example, if as a result of the Grace Period, a participant receives Qualified Dependent Care Expense account reimbursements for services incurred in a year that exceed his or her maximum Qualified Dependent Care Expense account exclusion, the excess will be included in the Participant’s taxable income period. Individuals should be guided by the advice of their tax professional(s).

ARTICLE VIII. ADMINISTRATION

8.01 **Board Powers and Duties.** The Board shall interpret the Plan and decide all matters arising thereunder, including the right to remedy possible ambiguities, inconsistencies, or omissions. All determinations of the Board with respect to any matter under the Plan shall be conclusive and binding on all persons. The Board shall:

a.. Make and enforce administrative rules or policies.

b. Decide questions concerning the Plan.

c. Provide a review to any Participant whose claim for benefits has been denied in whole or in part.

8.02 **Executive Director Duties.** The Executive Director shall manage and administer the Plan. The Executive Director shall:

a. Require any person to furnish such information as it may request for the purpose of the proper administration of the Plan and as a condition to receiving any benefits under the Plan.

b. Prescribe the use of administrative forms as he/she considers necessary for the efficient administration of the Plan.

c. Determine the eligibility of any Employee to participate in the Plan, in accordance with the provisions of the Plan.

d. Determine the amount of benefits which are payable to any person in accordance with the provisions of the Plan.

8.03 **Additional Operating Rules.** A Participant's salary reduction amount will not be subject to federal income tax withholding or to applicable Social Security (FICA or FUTA) tax withholding. Salary reduction amounts will not be subject to any state income tax withholding unless otherwise prohibited by applicable state law.

Salary reduction amounts under this Plan shall not reduce salary or wage amounts for purposes of any other Employee benefit programs unless the provisions of those programs otherwise provide.

8.04 **Use and Disclosure of Protected Health Information.** The Plan will use protected health information (PHI) only to the extent of and in accordance with the uses and disclosures permitted by the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended by the Health Information Technology for Economic and Clinical Health Act (HITECH). Specifically, the Plan will use and disclose PHI for purposes related to health care treatment, payment for health care and health care operations. The Plan rarely, if ever, uses or discloses PHI for treatment purposes. In addition, the Plan does not use or disclose PHI that is genetic information (as defined in 45 CFR 160.103) for underwriting purposes, as set forth in 45 CFR 164.502(a)(5)(1)).

With an authorization, the Plan will disclose PHI to a Benefit Plan for purposes related to administration of these plans.

The Plan will disclose PHI to the Employer only upon receipt of a certification from the Employer that the Employer, as Plan sponsor agrees to:

a. not use or further disclose PHI other than as permitted or required by the Plan document or as required by law;

b. ensure that any agents to whom the Plan sponsor provides PHI received from the Plan agree to the same restrictions and conditions that apply to the Plan sponsor with respect to such PHI;

c. not use or disclose PHI for employment-related actions and decisions unless authorized by an individual;

d. not use or discloses PHI in connection with any other benefit or employee benefit plan of the Plan Sponsor unless authorized by an individual;

e. report to the Plan any PHI use or disclosure that is inconsistent with the uses or disclosure provided for of which it becomes aware;

f. make PHI available to an individual in accordance with HIPAA's access requirements;

g. make PHI available for amendment and incorporate any amendments to PHI in accordance with HIPAA;

h. make available the information required to provide an accounting of disclosures;

i. make internal practices, books and records relating to the use and disclosure of PHI received from the Plan available to the HHS Secretary for the purposes of determining the Plan's compliance with HIPAA;

j. if feasible, return or destroy all PHI received from the Plan that the Plan Sponsor still maintains in any form, and retain no copies of such PHI when no longer needed for the purpose for which disclosure was made (or if return or destruction is not feasible, limit further uses and disclosures to those purposes that make the return or destruction infeasible); and

k. if a breach of unsecured protected health information (PHI) occurs, the Plan will notify affected individuals in accordance with applicable federal law and regulations.

In accordance with HIPAA, only the Executive Director and staff designated by the Executive Director may be given access to PHI. Such persons may only have access to and use and disclose PHI for Plan administration functions that the Plan sponsor performs for the Plan. If such persons do not comply with this Section 8.04, the Plan sponsor shall provide a mechanism for resolving issues of noncompliance, including disciplinary sanctions.

ARTICLE IX. APPEALS PROCEDURE

9.01 **Notice to Employee.** Any person who claims he/she has been denied a benefit under the Plan shall be entitled, upon written request to the Executive Director to receive, within sixty (60) days of receipt of such request, a written notice of such action, together with a full and clear statement of the specific reasons therefore, citing pertinent provisions of the Plan and a statement of the procedure to be followed in requesting a review of his/her claim.

9.02 **Late Claim Appeal.** Claims for the reimbursement of Qualified Health Care Expenses incurred in a Plan Year shall be paid as soon after a claim has been filed as is administratively practicable. If a Participant fails to submit a claim within the three (3) month period immediately following end of the Plan Year, those Health Care Expense claims shall not be considered for reimbursement by the Executive Director; provided however, after three (3) months from the close of the Plan Year and before the end of three hundred sixty (360) days following the close of the Plan Year, a Participant may request the Board to authorize reimbursement of a Qualifying Health Care Expense incurred during the Plan Year by the Participant. The Participant must submit a written request to the Board specifying the request and the reason(s) why the Qualifying Health Care Expense was not submitted on or before the end of the 3rd month following the close of the Plan Year. The Board may authorize payment for any reason constituting good cause not involving fault on the part of the Participant if such payment would be permitted under the Plan. Upon authorization of the Board, the Executive Director shall reimburse the Participant for the amount not to exceed the Qualified Health Care Expense account balance for that Plan Year. The decision of the Board shall be final.

9.03 **Appeal of Denial of Benefit.** If the claimant wishes further consideration of his/her claim, he/she may request a review. The Executive Director shall schedule a review by the Board on the issue within sixty (60) days following receipt of the claimant's request for such review. The decision following such review shall be communicated in writing to the claimant and, if the claim is denied, shall set forth the specific reasons for such denial, citing the pertinent provisions of the Plan. The decision of the Board as to all claims shall be final.

ARTICLE X. AMENDMENT OR TERMINATION OF THE PLAN

The Board reserves the power at any time and from time to time (and retroactively if necessary or appropriate to meet the requirements of the Code) to modify or amend, in whole or in part, any or all of the provisions of the Plan provided, however, that no such modifications or amendment shall divest a Participant of a right to a benefit to which he becomes entitled in accordance with the Plan. The Board reserves the power to discontinue or terminate the Plan at any time. Any such amendment, discontinuance or termination shall be effective as of such date as the Board shall determine.

ARTICLE XI. GENERAL PROVISIONS

11.01 **No Right to be Retained in Employment.** Nothing contained in the Plan shall give any Employee the right to be retained in the employment of any Employer or affect the right of the Employer to dismiss any Employee.

11.02 **Alienation of Benefits.** No benefit under the Plan is subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so is void.

11.03 **Use of Form Required.** All communications in connection with the Plan made by a Participant are effective only when duly executed on forms provided by and filed with the Executive Director.

11.04 **Applicable Law.** The provisions of the Plan shall be construed, administered and enforced according to applicable federal law and the laws of the State of North Dakota.

11.05 **Statement of Benefits.** On or before January 31 of each year, the Board or its designated agent will furnish each Participant who received benefits under the Plan a written statement on appropriate forms required by the federal Internal Revenue Service, showing the amounts paid or incurred by the Plan in providing reimbursement under the Plan for Qualified Dependent Care Expenses with respect to the Participant for the prior Plan Year.

11.06 **Effect of Mistake.** In the event of a mistake as to the eligibility or participation of an Employee, the allocations made to the account of a Participant, or the amount of benefits paid or to be paid to a Participant or other person, the Plan shall, to the extent it deems administratively possible and otherwise permissible under Code section 125 or the regulations issued thereunder, cause to be allocated or cause to be withheld or accelerated, or otherwise make adjustment of, such amounts as it will in its judgment accord to such Participant or other person the credits to the account or distributions to which he/she is properly entitled under the Plan. Such actions by the Plan may include withholding any amounts due to the Plan or the Employer from compensation paid by the Employer.

Dated: _____

By: _____

Title: _____

5388143v1/01640.010

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: August 19, 2015

SUBJECT: Board Member Committee Assignments

We need to consider which Board subcommittees everyone will be appointed to (Investment, Benefits, Audit & Election). Current assignments are:

- Investment Committee: Mr. Sandal, Mr. Trenbeath, Ms. Y. Smith and Ms. Wassim (alternate)
- Audit Committee: Chairman Strinden and Ms. A. Smith
- Benefits Committee: Ms. A. Smith, Ms. Goodhouse, and Ms. Wassim
- Election Committee: Ms. A. Smith, Mr. Sandal

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: August 19, 2015

SUBJECT: HB 1038 Telemedicine Study

Attached for your information is a presentation Lisa Carlson and I gave to a group recently concerning a study we will be required to do this biennium relating to Telemedicine. This will be a topic at future Board meetings and I am providing this to you to give you some background for future reference.

SANFORD HEALTH PLAN

HB1038 Telehealth Overview

North Dakota Health Information Network

Telehealth Workgroup

July 20, 2015

Our discussion today…

- Overview of HB1038
- Legislative process and timeline
- Eligibility
- Covered Services
- Coding & Reimbursement
- Q&As

SANFORD HEALTH PLAN

HB1038

- Require the coverage of telemedicine for NDPERS
- Amendments adopted include:
  - adding definitions for “distant site” and “originating site”
  - reimbursements may be established through negotiations
  - In addition, a provision was struck that would prohibit special cost-sharing for services provided through telemedicine.

SANFORD HEALTH PLAN

HB1038

- Services still subject to medical necessity
- Services subject to normal deductible, coinsurance and copayment amounts
- The bill will expire June 30, 2017 unless the expiration is reversed as a result of recommendations of a study.

SANFORD HEALTH PLAN

Legislative Process and Timeline

- Oct. 2015 – PERS develops study outline
- March 2016 – PERS submits bill draft to the Employee Benefits Committee
- Aug/Sept 2016 – Report is submitted to Employee Benefits Committee

SANFORD HEALTH PLAN

Facility Eligibility

We follow CMS eligibility standards for facilities:

- Practitioner Office
- Hospital (inpatient or outpatient)
- Critical Access Hospital (CAH)
- Rural Health Clinic (RHC)
- Federally Qualified Health Center (FQHC)
- Dialysis Centers (hospital or CAH-based)
- Skilled Nursing Facility
- Community Mental Health Center

SANFORD HEALTH PLAN

Practitioner Eligibility

We follow CMS eligibility standards for practitioners:

- Physician
- Nurse practitioner
- Physician assistant
- Nurse-midwife
- Clinical nurse specialist
- Clinical psychologist
- Clinical social worker
- Registered dietician or nutrition professional

SANFORD HEALTH PLAN

Covered Services

- Services must be medically necessary and appropriate
- Evaluation, management and consultation services
  - Synchronous – interactive audio/video visit
  - Asynchronous - store-and-forward evaluation
- Telemonitoring – monitoring patients at a distance who are at risk for an acute episode
  - Cardiac conditions, COPD, diabetes, mental health/substance abuse

SANFORD HEALTH PLAN

Examples of Covered Services

- Office or outpatient visits
- Consultations (office, Internet-based, outpatient, emergency room)
- Follow-up inpatient consultations
- Pharmacologic management
- Neurobehavioral status exam
- Individual and group medical nutrition therapy
- Individual and group health and behavior assessment and intervention

SANFORD HEALTH PLAN

Minimum Requirements

- Services must be medically necessary and appropriate
- A permanent record of telemedicine communication must be maintained as part of patient medical record
- Provider must receive appropriate informed patient consent for telemedicine
- Services must be under control of consulting practitioner

SANFORD
HEALTH PLAN

Non-Covered Services

- Non-HIPAA compliance communication
- Transmission fees, per-minute – reported by HCPCS procedure code T1014.
- Services for diagnoses excluded by a Member's Benefit Policy
- Services not medically appropriate or necessary.
- Installation or maintenance of any telecommunication devices or systems
- Provider-initiated e-mail

SANFORD HEALTH PLAN

Non-Covered Services

- Appointment scheduling
- A service that would similarly not be charged for in a regular office visit
- Reminders of scheduled office visits
- Requests for a referral
- Consultative message exchanges with an individual who is seen in the provider's office immediately afterward
- Clarification of simple instructions

SANFORD HEALTH PLAN

Coding & Reimbursement

Coding

- Billable CPT codes will be provided on website and within Provider Manual
- Must use modifiers:
  - GT – live video encounters
  - GQ – store-and-forward encounters
- Reimbursement is according to your current negotiated professional agreement rates

SANFORD HEALTH PLAN

Questions?

Thank you for your time.

SANFORD
HEALTH PLAN

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Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
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1-800-803-7377

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

Memorandum

TO: PERS Board

FROM: Sparb

DATE: August 19, 2015

SUBJECT: Administrative Rules

PERS has begun the process of drafting our administrative rules. The first effort is to identify areas of proposed rulemaking. Attached is that matrix. We are asking you to review and identify any additional areas we should be considering. Once this is complete Jan will draft the proposed rules for your consideration at the regular September meeting. At that time we will be seeking your approval to distribute the rules for comment. The following is the schedule:

2015 Proposed Administrative Rule Revision/Addition/Deletion Schedule

August 11	Draft of all revisions, deletions, additions to rules to allow for regulatory analysis if needed.
August 27	Initial review at August Board Meeting
September 24	Final Board approval of proposed rules
October 5 (week of)	Post copy of proposed rules on NDPERS website, notify all employer groups that rules are on website, send formal notice and materials to legislative council,
October 15	Notify NDNA of upcoming notice and verify timing of printed notice.
End of October	Notice has been printed in all required newspapers and notice sent to any pertinent legislator with proposed rule changes.

November 18	Hearing held and comment period opened.
December 4	Comment period closed.
December 17 or January 2016	Final Board review of comments no later than January Board meeting.
January 2016	Send up to Attorney General's office for review.
February 2016	Send up to Legislative Council with AG's review.
April 1 2016	New rules take effect, provided there are no holds placed on them by the committee.

Summary of Proposed Rule Changes (updated August 3)

Section	Suggested Rule Change	Reason for Change
71-01-01-01(2) 2. **Board membership.** The board consists of seven members. One member, the chairman, is appointed by the governor; one member is appointed by the attorney general from the attorney general's staff; one member is the state health officer; three members are elected by the active membership of the system; and one member is elected by the retired public employees.	Update Board membership based on legislation	Statutory: SB 2022
71-01-03-04. Treatment, payment, or operations. The board of the public employees retirement system has determined that: 1. Information related to enrollment, participation, benefits, or contributions may be shared with participating employers or public employees retirement system contractors for purposes of maintaining a member's participation and benefits in the public employees retirement system programs. Such sharing of information is limited to that information that is necessary to assure that a member's participation and benefits are properly handled. All such information remains confidential whether in the possession of the public employees retirement system, its participating employers, or its contractors. 2. Information relating to eligibility for retirement benefits may be shared with the social security administration and such other organizations to ensure that the member is still alive and continues to be eligible. 3. Information necessary for the administration	Update confidentiality provisions Do similar to TFFR SB 2022, Section 7, review to see if it needs modification.	Statutory: SB 2022

Section	Suggested Rule Change	Reason for Change
and operation of the program may be shared with the public employees retirement system attorney and consultants. To the extent such information is shared it remains confidential. All other requests for information under this section must first be submitted to the executive director and then reviewed by the public employees retirement system board. **History:** Effective May 1, 2004. **General Authority:** NDCC 54-52-04 **Law Implemented:** NDCC 54-52-26		
71-02-02-01. Membership - General rule. Each eligible employee shall become a member of the public employees retirement system upon filing a membership form with the office, and the beginning of contributions to the fund. In addition, the following requirements apply: 1. A temporary employee must submit a completed participation agreement within six months of the date of hire as a temporary employee or within six months of a change in status from a permanent to temporary position. If no application is made and filed with the office, an irrevocable waiver of participation will occur for as long as the employee is in temporary status. 2. Contributions for temporary employees must be submitted no later than the sixth working day of the month for the previous month's salary. 3. Delinquent payments of over thirty days, for reasons other than leave of absence or seasonal employment, will result in termination of eligibility to participate as a temporary member. 4. Upon taking a refund, future participation as a	Strike out "upon filing a membership form with the office,". Insert the word "begin" and strike out the word "the". Each eligible employee shall become a member of the public employees retirement system ~~upon filing a membership form with the office,~~ and ~~the~~ beginning of contributions to the fund.	Administrative: Provides NDPERS the option to automatically enroll an eligible employee when retirement contributions are received and employee has not filed the membership application.

Section	Suggested Rule Change	Reason for Change
temporary member is waived. 5. A member may not participate as both a permanent and a temporary member. Permanent employment has precedence. 6. Elected officials of participating counties and elected state officials, at their individual option, must enroll or waive participation in writing within six months of taking office or beginning a new term. If no application is made and filed with the office, an irrevocable waiver of participation will occur until the official makes application within six months from the start of a new term. **History:** Amended effective September 1, 1982; November 1, 1990; September 1, 1992; June 1, 1996; July 1, 1998; May 1, 2004; July 1, 2006. **General Authority:** NDCC 54-52-04 **Law Implemented:** NDCC 54-52-01(3), 54-52-02.9, 54-52-05		
71-02-04-07. Amount of early retirement benefit. 1. Except for members of the national guard, the early retirement benefit shall be an amount actuarially reduced from the single life retirement benefit by one-half of one percent for each month (six percent per year) that the member is younger than the age at which the member would be at the member's normal retirement date on the date of the member's early retirement benefit effective date. 2. For members of the national guard, the early retirement benefit must be an amount actuarially reduced from the single life retirement benefit by one-half of one percent for each month (six	1. Replace National Guard with Law Enforcement. May need to modify the definition. 2. Update for January 1 legislative change for early retirement reduction	1. Statutory: SB 2102 2. Statutory: SB 2015 National Guard members are being merged with the State Law Enforcement Plan.

Section	Suggested Rule Change	Reason for Change
percent per year) that the member is younger than age fifty-five on the date of the member's early retirement benefit effective date. **History:** Amended effective September 1, 1982; June 1, 1996; April 1, 2002; May 1, 2004; July 1, 2006; July 1, 2010. **General Authority:** NDCC 54-52-04, 54-52-17 **Law Implemented:** NDCC 54-52-17		
71-02-04-09.1(3). Dual membership limitations. The following limitations apply when a member elects an option under subsection 1 of section 71-02-04-09. 3. If a dual member elects to receive retirement benefits as provided in subsection 1 of section 71-02-04-09, the final average salary, service credit, and member's age used to calculate the benefit that is applicable at the time retirement benefits begin may not be adjusted after the benefit effective date. 4. The salary used in calculating the retirement benefit must be certified in writing by the alternate retirement system. Months not employed are excluded for the purpose of computing the final average salary. If a dual member works less than thirty-six months at retirement, the final average salary is the average salary for total months of employment.	Change word "certified" to "provided"	Administrative: NDPERS & TFFR uses account copies of each plan. No certified documents are required

Section	Suggested Rule Change	Reason for Change
71-02-04-10. Erroneous payment of benefits - Overpayments. 1. An "overpayment" means a payment of money by the public employees retirement system that results in a person receiving a higher payment than the person is entitled to under the provision of the retirement plan of membership. 2. A person who receives an overpayment is liable to refund those payments upon receiving a written explanation and request for the amount to be refunded. All overpayments must be collected using the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like gains. If the cost of recovering the amount of the overpayment is estimated to exceed the overpayment, the repayment is considered to be unrecoverable. 3. If the overpayment of benefits was not the result of any wrongdoing, negligence, misrepresentation, or omission by the recipient, the recipient may make repayment arrangements subject to the executive director's approval within sixty days of the written notice of overpayment with the minimum repayment amount no less than fifty dollars per month. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the benefit payment period.	Change is due to RHIC portability where credit is reimbursed instead of being offset against NDPERS health premium. RHIC cross references back to this Section.	Statutory: HB 1058 from 2013 session.

Section	Suggested Rule Change	Reason for Change
4. If the overpayment of benefits was the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the recipient, the recipient is liable to pay interest charges at the rate of six percent on the outstanding balance to compensate the fund for lost earnings, from the time the erroneous benefit was paid through the time it has been refunded in full. Recovered funds are first applied to interest and, if any amount is left over, that amount is applied to principal. The recipient may make repayment arrangements, subject to the executive director's approval, within sixty days of the written request for refund with the minimum repayment amount no less than fifty dollars per month. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the benefit payment period. 5. If an individual dies prior to fully refunding an erroneous overpayment of benefits, the public employees retirement system must make application to the estate of the deceased to recover the remaining balance. **History:** Effective June 1, 1996; amended effective April 1, 2002; July 1, 2006; April 1, 2008; July 1, 2010. **General Authority:** NDCC 54-52-04, 54-52-17 **Law Implemented:** NDCC 39-03.1-25, 54-52-17		

Section	Suggested Rule Change	Reason for Change
71-02-04-11. Erroneous payment of benefits - Underpayments. 1. An "underpayment" means a payment of money by the public employees retirement system that results in a person receiving a lower payment than the person is entitled to under the provisions of the retirement plan of membership. 2. If an underpayment occurs, the amount of the lump sum payment must be paid within sixty days of the discovery of the error. 3. If the underpayment of benefits was not the result of any wrongdoing, negligence, misrepresentation, or omission by the employer or recipient, the underpayment of benefits is to include interest at the rate of six percent from the time the underpayment occurred. 4. If the underpayment of benefits was the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the employer or recipient, the underpayment of benefits will not include interest. 5. If an individual dies prior to receiving the underpayment of benefits, the public employees retirement system must pay the designated beneficiary on record or, in the absence of a designation of beneficiary, to the estate. **History:** Effective June 1, 1996; amended effective May 1, 2004; April 1, 2008. **General Authority:** NDCC 54-52-04, 54-52-17 **Law Implemented**: NDCC 39-03.1-25, 54-52-17	Change is due to RHIC portability where credit is reimbursed instead of being offset against NDPERS health premium.	Statutory: HB 1058 from 2013 session.

Section	Suggested Rule Change	Reason for Change
71-02-05-06. Determination of disability - Procedures. 1. Application. a. If the member is unable or unwilling to file a public employees retirement system application for disability retirement, the member's legal representative may file the member's disability application. b. For the main system and the national guard and law enforcement system, the application must explain the cause of the disability, the limitations caused by the disability, the treatment being followed, and the effect of the disability on the individual's ability to be engaged in any gainful occupation for which the person is, or could become, reasonably fitted by education, training, or experience. For the judges' retirement plan, the application must explain the cause of the disability, the limitations caused by the disability, the treatment being followed, and the effect of the disability on the individual's ability to mentally or physically fulfill the duties and responsibilities of being a judge. A judge who is determined to be disabled pursuant to subdivision a of subsection 3 of North Dakota Century Code section 27-23-03 shall file an application documenting this determination and the effective date of the disability. c. The application must be filed with the public employees retirement system and may not be filed earlier than one hundred twenty days before the expected termination date.		
2. Medical consultant. a. The board may retain a medical consultant to evaluate and make recommendations on disability	Subsection 2 c, subdivision e reference should be subdivision "h".	Administrative: Correction to reference to NDCC 54-52-17

Section	Suggested Rule Change	Reason for Change
retirement applications. b. The medical consultant shall review all medical information provided by the applicant. c. The medical consultant is responsible to determine eligibility for disability benefits for applicants not approved for social security disability benefits or for judges not approved pursuant to subsection 3 of North Dakota Century Code section 27-23-03 and shall advise the executive director of the decision in writing. Applicants who become eligible for disability benefits under the Social Security Act and who meet the requirements of subdivision e of subsection 3 of North Dakota Century Code section 54-52-17 are eligible for benefits under subdivision e of subsection 4 of North Dakota Century Code section 54-52-17 without submitting further medical information to the medical adviser, but are subject to recertification requirements specified in this chapter. The social security disability award must provide proof that the member's disability was determined during the member's period of eligible employment. In determining eligibility for judges not approved pursuant to the above, the medical director shall work with a review committee composed of one supreme court judge and a district court judge to review the proposed application. In order for the application to be approved, it must have the concurrence of the medical director and at least one judge. The executive director shall appoint two judges to serve on the review committee.		
3. Medical examination. a. The applicant for disability retirement shall provide the medical examination reports as	Subsection 3: Amend last paragraph. Add "c." and strike out the words "up to four hundred dollars".	Administrative: Allow flexibility for reimbursement.

Section	Suggested Rule Change	Reason for Change
requested by the medical consultant. b. The member is liable for any costs incurred by the member in undergoing medical examinations and completing and submitting the necessary medical examination reports, medical reports, and hospital reports necessary for initial determination of eligibility for benefits. If determined to be eligible for disability benefits, the member must be reimbursed up to four hundred dollars for the cost of medical examinations specifically requested by the medical adviser and the executive director. 4. Appeal. a. If the applicant has terminated employment, the public employees retirement system shall notify the applicant in writing of the decision. If the applicant is determined not to be eligible for disability benefits, the public employees retirement system shall advise the applicant of the appeal procedure. If the applicant is determined eligible for disability benefits, benefits must be paid pursuant to subsection 5. b. If the applicant has not terminated employment, the applicant must be provided with a preliminary notification of the decision in writing. The preliminary notification remains in effect for a period not to exceed two hundred seventy days. If an applicant does not terminate employment within two hundred seventy days of the date of termination provided on the disability application, the application must be considered to be vacated but the applicant may reapply as provided in subsection 1. c. The applicant may appeal an adverse determination to the board by providing a written notice of appeal within thirty days of the date that	Purpose is to remove the dollar limit and make it discretionary.	

Section	Suggested Rule Change	Reason for Change
the public employees retirement system mailed the decision. d. The board shall consider all appeals at regularly scheduled board meetings. The applicant must be notified of the time and date of the meeting and may attend and be represented by legal counsel. The executive director shall provide to the board for its consideration a case history brief that includes membership history, medical examination summary, and the plan administrator's conclusions and recommendations. The board shall make the determination for eligibility at the meeting unless additional evidence or information is needed. The discussion concerning disability applications must be confidential and closed to the general public. e. If the initial board decision is adverse to the applicant after exhausting the administrative procedure under subdivisions a and b, the applicant may file a request for a formal hearing to be conducted under North Dakota Century Code chapter 28-32. The request for a formal hearing must be filed within thirty days after notice of the initial decision has been mailed or delivered. If an appeal is not filed within the thirty-day period, the initial decision of the board is final. If a request for a formal hearing is timely filed, notice of the hearing must be served at least thirty days prior to the date set for the hearing. The board shall request appointment of an administrative law judge from the office of administrative hearings to conduct the hearing and make recommended findings of fact, conclusions of law, and order. The board shall either accept the administrative law judge's recommended findings of fact, conclusions		

Section	Suggested Rule Change	Reason for Change
of law, and order or adopt its own findings of fact, conclusions of law, and order. The applicant may under North Dakota Century Code section 28-32-15 appeal the final decision resulting from this procedure to the district court. 5. Payment of annuity. If awarded, the disability annuity is payable on, or retroactive to, the first day of the month following the member's termination from covered employment minus any early retirement benefits that have been paid. 6. Redetermination and recertification. a. A disabled annuitant's eligibility must be recertified eighteen months after the date the first check is issued and thereafter as specified by the medical consultant. The executive director may waive the necessity for a recertification, based on the recommendation of the medical consultant. b. The public employees retirement system will send a recertification form and request for a statement of annual earnings by certified mail with return receipt to the disabled annuitant to be completed and sent back to the office. If completed recertification has not been received by the recertification date set in the recertification request, benefits will be suspended effective the first of the month following recertification by the medical consultant. The regular accrued disability benefits will commence with a lump sum equal to the amount of missed payments, without interest, retroactive to the first day of the month benefits were suspended, unless otherwise approved by the North Dakota public employees retirement system board. c. The medical consultant may require the disabled annuitant to be reexamined by a doctor.		

Section	Suggested Rule Change	Reason for Change
The submission of medical reports by the annuitant, and the review of those reports by the board's medical consultant, may satisfy the reexamination requirement. Upon recertification, the disabled annuitant must be reimbursed up to four hundred dollars for the cost of the required reexamination if deemed necessary by the medical consultant and the executive director. d. The medical consultant will make the recertification decision. The executive director may require additional recertifications, if the facts warrant this action. The decision may be appealed to the board within ninety days of receiving the written recertification decision. e. Benefit payments must be suspended immediately upon notice received from the medical consultant that the annuitant does not meet recertification requirements. The executive director shall notify the annuitant of the suspension of benefits by certified mail and shall reinstate benefits back to date of suspension if the annuitant is subsequently found to meet recertification requirements. f. If it is determined that the disability annuitant was not eligible for benefits during any time period when benefits were provided, the executive director may do all things necessary to recover the erroneously paid benefits. **History:** Effective January 1, 1992; amended effective July 1, 1994; June 1, 1996; April 1, 2002; May 1, 2004; July 1, 2006. **General Authority:** NDCC 54-52-17 **Law Implemented**: NDCC 54-52-17, 54-52-26		

Section	Suggested Rule Change	Reason for Change
71-02-06-07. Employer contribution - National guard/law enforcement. As part of its annual actuarial evaluation, the board shall determine the amount required to support the level of benefits for national guard/law enforcement specified in North Dakota Century Code section 54-52-17. The board shall set the employer's contribution rate on a biennial basis, but may adjust that rate if it is actuarially necessary to maintain appropriate funding levels. **History:** Effective July 1, 1994; amended effective May 1, 2004. **General Authority:** NDCC 54-52-04 **Law Implemented:** NDCC 54-52-06.2	Strike out words "National Guard". May just need to update the definition. National Guard plan July Board memo may be in error because employer contribution rates must be the same as BCI.	Statutory: SB 2102. National Guard members are being merged with the state Law Enforcement Plan.
71-02-06-12 (New)	Add new section to require missed employee retirement contributions or other payment options as approved by the executive director.	Administrative: To establish payment options for missed employee retirement contributions
71-03-03-01. Enrollment. An eligible employee is entitled to coverage the first of the month following the month of employment, if the employee submits an application for coverage within the first thirty-one days of employment or eligibility for one of the following special enrollment periods: 1. Loss of coverage under any other health, dental, vision, or prescription drug insurance plan. 2. Marriage. An employee who previously waived coverage must enroll for coverage at the time the employee's spouse is enrolled. 3. Addition of a dependent as a result of birth, adoption, placement for adoption, receiving legal guardianship, or receiving a court order to provide	Need to add that coverage is first of the month after eligibility. Add words "or meeting eligibility criteria" after .	Administrative: Clarify existing policy

Section	Suggested Rule Change	Reason for Change
health coverage. An employee who previously waived coverage must enroll for coverage at the same time that the employee's eligible dependent is enrolled. **History:** Effective October 1, 1986; amended effective July 1, 1994; June 1, 1996; July 1, 1998; July 1, 2010; April 1, 2012. **General Authority:** NDCC 54-52.1-08 **Law Implemented:** NDCC 54-52.1-02, 54-52.1-03		
71-03-03-02. Late enrollment. An eligible employee failing to submit an application for coverage within the first thirty-one days of employment or eligibility for a special enrollment period may enroll during the annual open enrollment and may be subject to a six-month waiting period for preexisting conditions. Upon a showing of good cause, the executive director may waive the thirty-one day application requirement. **History:** Effective October 1, 1986; amended effective June 1, 1996; July 1, 1998; May 1, 2004. **General Authority:** NDCC 54-52.1-08 **Law Implemented**: NDCC 54-52.1-03	Strike out "and may be subject to a six-month waiting period for preexisting conditions"	Statutory: ACA compliance (federal law)
71-03-03-05. Special enrollment for certain qualifying events. An eligible employee, retiree, or surviving spouse who elects to take a periodic distribution from the defined contribution retirement plan or a monthly retirement benefit from the North Dakota public employees retirement system, North Dakota highway patrolmen's retirement system, the retirement system established by job	Closing of the pre-Medicare plan changes qualifying events for retirees after 7/1/2015.	Statutory: HB 1058 from 2013 session

Section	Suggested Rule Change	Reason for Change
service North Dakota, the teachers' fund for retirement, or teachers' insurance and annuity association of America - college retirement equities fund, or retirees who have accepted a retirement allowance from a participating political subdivision's retirement plan and provide verification of distribution are eligible for coverage with the health, dental, vision, or prescription drug insurance program. 1. The employee, retiree, or surviving spouse must submit application for coverage within thirty-one days from one of the following qualifying events: a. The month in which the eligible employee or retiree turns age sixty-five or becomes eligible for medicare. b. The month in which the eligible employee's or retiree's spouse turns age sixty-five or becomes eligible for medicare. c. The month in which the eligible employee terminates employment. d. The month in which the eligible retiree or surviving spouse receives the first monthly retirement benefit from one of the eligible retirement systems outlined above. e. The month in which an eligible employee or retiree who is covered through a spouse's plan becomes ineligible for the spouse's plan due to divorce, death, loss of employment, reduction in hours or other events which may cause loss of coverage as determined by the board. f. The month in which the eligible employee or retiree is no longer eligible for employer-sponsored insurance, including coverage		

Section	Suggested Rule Change	Reason for Change
provided under the Consolidated Omnibus Budget Reconciliation Act. 2. Coverage will become effective on the first day of the month following the month in which the qualifying event occurred. If an application is not submitted within thirty-one days of a qualifying event, the eligible individual must be considered to have waived coverage and may not be enrolled unless the individual meets the criteria of another qualifying event. Upon a showing of good cause, the executive director may waive the thirty-one day application requirement. 3. Other individuals eligible for the health, dental, vision, or prescription drug insurance plan include a surviving spouse who is not receiving a qualified monthly retirement benefit from one of the eligible retirement systems outlined above, but who was a covered dependent on the eligible retiree's health, dental, vision, or prescription drug insurance plan at the time of the eligible retiree's death, if there is no lapse in coverage. 4. Individuals not eligible for the health, dental, vision, or prescription drug insurance plan include: a. A former employee who received a refund of the employee's retirement account, including individuals in the defined contribution plan who take a cash withdrawal of the employee's account, roll their account into another qualified plan, or use the moneys in their account to purchase an annuity. b. A nonspouse beneficiary (eligible for Consolidated Omnibus Budget Reconciliation Act). c. A deferred retiree or surviving spouse between the time in which the retiree or surviving spouse's		

Section	Suggested Rule Change	Reason for Change
eligibility for the Consolidated Omnibus Budget Reconciliation Act (if eligible) ends and the month in which the eligible retiree or surviving spouse receives the first monthly retirement benefit from one of the eligible retirement systems. d. A formerly deferred retiree who received a refund of the retiree's retirement account. e. A surviving spouse of a nonvested employee eligible for the Consolidated Omnibus Budget Reconciliation Act. f. A surviving spouse of a former employee who received a refund of the employee's retirement account. g. A former participating member of the defined contribution retirement program who would not qualify for one of the retirement dates set forth in subsection 3 of North Dakota Century Code section 54-52-17 if that employee was a member of the defined benefit retirement plan, unless eligible under the Consolidated Omnibus Budget Reconciliation Act, and then only for the required duration of eligibility under the Act. **History**: Effective October 1, 1986; amended effective November 1, 1990; July 1, 1994; June 1, 1996; July 1, 1998; July 1, 2000; May 1, 2004; April 1, 2012. **General Authority:** NDCC 54-52.1-08 **Law Implemented**: NDCC 54-52.1-02, 54-52.1-03, 54-52.1-03.1; Pub. L. 99-272; 100 Stat. 222; 26 USC 162 et seq.		
71-03-03-11 (New) **May change the law in this area.**	To add new language that NDPERS is not responsible for depositing HSA contributions into an account closed by the employee.	Administrative: Clarify policy

Section	Suggested Rule Change	Reason for Change
	Need to verify if this can be done. Rebecca will speak with Sharon relating to IRS provisions.	
71-03-05-07. Erroneous payment of premiums - Overpayments. 1. An "overpayment" means a payment of money to the public employees retirement system for group insurance premiums that exceeds the premiums due for the level of coverage that should have been in effect. 2. If an overpayment occurs, the amount of the overpayment must be paid to the insured in a lump sum within thirty days of the discovery of the error. **History:** Effective April 1, 2002. **General Authority**: NDCC 54-52.1-08 **Law Implemented**: NDCC 54-52.1-08	Clarify that insured includes the member and any dependent on the policy in the case of member death.	Administrative: Suggested change by legal counsel.
71-03-05-08. Erroneous payment of premiums - Underpayments. 7. If the individual refuses to repay the underpayment, or the underpayment is not paid in full, coverage will be canceled retroactive to the first day of the month following the month for which full premium payment was received. The public employees retirement system will provide written notice advising the individual that payment in full must be received within thirty days of the written notification to reinstate coverage retroactively to the date that coverage was canceled. **History:** Effective April 1, 2002; amended effective April 1, 2008; July 1, 2010.	NDPERS cannot retroactively cancel due to non-payment of premium unless member requests in writing.	Statutory: ACA compliance. federal law restricts retroactive cancellation due to non-payment.

Section	Suggested Rule Change	Reason for Change
General Authority: NDCC 54-52.1-08 **Law Implemented:** NDCC 54-52.1-08		
71-04-03-01. Enrollment. Public employees may enroll in the deferred compensation plan by completing a participant agreement and submitting the agreement to the retirement board.	Reference “a participant agreement” I think this is ok as Member Self Service can be considered a participant agreement as the online version has the same components of the Paper Application.	Administrative: Enrollments are now completed on line using Member Self Service
71-04-03-03. Change in monthly deferral. A participant may change the amount of deferral at any time, as long as a participant agreement is completed and filed with the retirement board as set forth in section 71-04-03-02.	Reference “a participant agreement” I think this is ok as Member Self Service can be considered a participant agreement as the online version has the same components of the Paper Application	Administrative: Enrollments are now completed on line using Member Self Service
71-04-04-01. Enrollment. The board shall design and provide employees with a participant agreement to facilitate the enrollment in the plan. The participant agreement must provide for the collection of all information regarding identification of the employee, starting date of the deduction, the payroll period affected, name of the provider company, and the provider representative.	Reference “a participant agreement” I think this is ok as Member Self Service can be considered a participant agreement as the online version has the same components of the Paper Application	Administrative: Enrollments are now completed on line using Member Self Service
71-04-04-05. Payroll deduction authorization. The board shall deliver to the payroll division of each employer a copy of the signed participant agreement as the payroll division’s authorization to begin deductions.	The Board shall deliver to the employer a copy of the signed participant agrees. With the launch of Employer Self Service, we do not send the forms to the employer but the enrollment is on a Benefit Enrollment Report through ESS.	Administrative: Enrollments are now completed on line using Member Self Service and employer receives information on line through Employer Self Service
71-04-04-07. Separation from service. The board shall notify the participant, provider company, and provider representative of the employee’s separation from service and eligibility for payment of benefits.	With the launch of our new business system NDPERS know longer notifies the provider company/representative unless requested by the Provider. However, we have it on a system enhancement list but no target date.	Administrative: Enrollments are now completed on line using Member Self Service and employer receives information on line through Employer Self

Section	Suggested Rule Change	Reason for Change
		Service
71-04-04-08. Authorization. The executive director or the executive director's designee is authorized to sign all provider agreements, employer agreements, payroll deduction authorizations, or benefit applications that meet the requirements under article 71-04 and under North Dakota Century Code chapter 54-52.2.	Signature on the "payroll deduction authorizations" ---this signature requirement is no longer required.	Administrative: Enrollments are now completed on line using Member Self Service and employer receives information on line through Employer Self Service
71-04-05-02. Payroll deductions. The employer shall authorize employee payroll deductions only after receiving notification from the public employees retirement system. The participant agreement must indicate the date the payroll deduction is to start, the provider, and the contribution amount. Payroll deductions must be remitted to the retirement board within ten days after each payroll period. Along with each payment, the employer must provide the retirement board with a listing of deferred compensation deductions for all employees participating in the deferred compensation plan using the deferred compensation transmittal of deduction form or the approved electronic format.	Again "participant agreement". This wording should be ok Correct? The on-line agreement matches the paper forms. Last Sentence "approved electronic format" >>is this wording ok yet with the employer reporting through Employer Self Service.	Administrative: Enrollments are now completed on line using Member Self Service and employer receives information on line through Employer Self Service
71-04-05-06. Separation from service notice. The employer shall notify the retirement board within thirty days of an employee's separation from service. The retirement board shall then notify the former employee's provider of the employee separation from service and eligibility for payment options under the plan.	With the launch of our new business system, NDPERS know longer notifies the provider company/representative unless requested by the Provider. However, we have it on a system enhancement list but no target date.	Administrative: Enrollments are now completed on line using Member Self Service and employer receives information on line through Employer Self Service
CHAPTER 71-06-01	Amend rules to reflect RHIC portability provisions.	Statutory: HB 1058 from 2013

Section	Suggested Rule Change	Reason for Change
RETIREE HEALTH INSURANCE CREDIT 71-06-01-01 Eligibility for Retiree Health Insurance Credit Applied to Premiums for Annuitants and Surviving Spouses Under the North Dakota Public Employees Retirement System, the North Dakota Highway Patrolmen's Retirement System, the Retired Judges Under North Dakota Century Code Chapter 27-17, Annuitants of the Job Service Retirement Program, and Former Participating Members of the Defined Contribution Retirement Plan Receiving Periodic Distributions 71-06-01-02 Calculation of Retiree Health Insurance Credit 71-06-01-03 For Retirees Receiving More Than One Benefit Entitled to Retiree Health Insurance Credit 71-06-01-04 Employer Paid Health Premiums [Repealed] 71-06-01-05 Member Contributions 71-06-01-06 Erroneous Crediting of the Retiree Health Insurance Credit 71-06-01-06.1 Retroactive Payment of the Retiree Health Insurance Credit 71-06-01-07 Optional Benefits 71-06-01-08 Vesting in Retiree Health Credit for Members of the Defined Contribution Retirement Plan **71-06-01-01.** Eligibility for retiree health insurance credit applied to premiums for annuitants and surviving spouses under the North Dakota public	Repeal the RHIC rules using expedited process.	session

Section	Suggested Rule Change	Reason for Change
employees retirement system, the North Dakota highway patrolmen's retirement system, the retired judges under North Dakota Century Code chapter 27-17, annuitants of the job service retirement program, and former participating members of the defined contribution retirement plan receiving periodic distributions. All receiving members of the public employees retirement system, highway patrolmen's retirement system, judges retirement system, retired judges under North Dakota Century Code chapter 27-17, and annuitants of the job service retirement program will be eligible for retiree health credit applied to premiums that satisfy the enrollment requirements of section 71-03-03-05, with the exception of those receiving members who are receiving their benefit based on prior service credits rather than the defined benefits program. Vested members deferring benefits will not be eligible until payment of benefits commences. A former participating member of the defined contribution retirement plan is similarly eligible for retiree health credit applied to premiums that satisfy the enrollment requirements of section 71-03-03-05, if the former participating member would qualify for one of the retirement dates set forth in subsection 3 of North Dakota Century Code section 54-52-17 if that former participating member was a member of the defined benefit retirement plan. **History:** Effective April 1, 1992; amended effective June 1, 1996; July 1, 2000. **General Authority:** NDCC 54-52.1-03.2(b) **Law Implemented**: NDCC 54-52.1-03.		

Section	Suggested Rule Change	Reason for Change
71-06-01-02. Calculation of retiree health insurance credit. Retiree health insurance credit will be calculated on actual years and months of service, identical to retirement benefits under North Dakota Century Code chapter 54-52. 1. Retiree health insurance credit will be subject to reduction factors in the event of early retirement. For annuitants of the public employees retirement system defined benefit plan and North Dakota public employees retirement system judges, and for members of the defined contribution retirement plan, excluding national guard retirees, who take a periodic distribution: Table Here For annuitants of the job service retirement program: This includes those who retired under a discontinued service annuity but does not include those who retired at a normal or optional date. Table Here For annuitants of the highway patrol fund and national guard security police and firefighters and national guard security police and firefighters who transferred to the defined contribution retirement plan: Table Here 2. Disabled annuitants receiving benefits under subdivision g of subsection 3 of North Dakota Century Code section 54-52-17, subdivision d of subsection 3 of North Dakota Century Code	Amend rules to reflect RHIC portability provisions	Statutory: HB 1058 from 2013 session

Section	Suggested Rule Change	Reason for Change
section 39-03.1-11, North Dakota Century Code section 52-11-01, or section 71-02-05-05 will be eligible for full retiree health insurance credit benefits. No age reduction factor will be applied. 3. A surviving spouse eligible to receive benefits under paragraph 2 of subdivision a and paragraphs 2 and 3 of subdivision b of subsection 6 of North Dakota Century Code section 54-52-17, subdivisions b and c of subsection 6 of North Dakota Century Code section 39-03.1-11, or North Dakota Century Code section 52-11-01 will receive retiree health insurance credit based on the deceased member's years of service without any age reduction applied. 4. A surviving spouse receiving benefits under the provisions of subdivision b or d of subsection 9 of North Dakota Century Code section 54-52-17; subdivisions a, b, and c of subsection 5 of North Dakota Century Code section 27-17-01; subsection 9 of North Dakota Century Code section 39-03.1-11; or North Dakota Century Code section 52-11-01 will receive retiree health insurance credit for the duration benefits are paid, based upon the original annuitant's retirement age. **History:** Effective April 1, 1992; amended effective June 1, 1996; July 1, 2000; July 1, 2010. **General Authority**: NDCC 54-52.1-03.2(b) **Law Implemented:** NDCC 54-52.1-03.3		
71-06-01-03. For retirees receiving more than one benefit entitled to retiree health insurance credit.	Amend rules to reflect RHIC portability provisions	Statutory: HB 1058 from 2013 session

Section	Suggested Rule Change	Reason for Change
1. If a retiree is receiving more than one benefit from the public employees retirement system, or other participating system; one as a surviving spouse, and the other based upon the retiree's own service credit, the retiree health insurance credit for each benefit will be combined with an effective date based on eligibility in accordance with North Dakota Century Code section 54-52.1-03.3. 2. If a retiree is receiving a public employees retirement system retirement benefit as a surviving spouse and is also an active contributor to either the public employees retirement system, the highway patrol retirement system, the judges retirement system, or the job service retirement program, the individual will not be eligible for retiree health insurance credit until one of the following events occurs: a. The active contributor terminates employment, at which time the active contributor may receive the retiree health insurance credit as any other surviving spouse. b. The active contributor retires and begins receiving a benefit through an eligible retirement system. 3. If the retiree was employed by a political subdivision which does not participate in the public employees retirement system health plan, and is drawing a retirement benefit or a surviving spouse benefit, the individual may receive the retiree health insurance credit as any other retiree based upon a retiree premium. 4. If a husband and wife are both receiving a benefit from a retirement system that provides the retiree health insurance credit, the retiree health		

Section	Suggested Rule Change	Reason for Change
insurance credit will be applied as follows: a. If each retiree takes a single health insurance plan under the uniform group health insurance program, each will have their respective retiree health insurance credit applied to their respective premiums. b. If only one retiree takes a family health plan under the uniform group health insurance program, they may make application with the public employees retirement system to combine retiree health insurance credits. Retirees are responsible for making application with the public employees retirement system to combine and discontinue combining retiree health insurance credits. 5. Retirees with service credit in more than one of the participating retirement systems will have their respective retiree health insurance credit for each benefit combined with an effective date based on eligibility in accordance with North Dakota Century Code section 54-52.1-03.1. Surviving spouses receiving multiple benefits from retirement systems that provide the retiree health insurance credit will have their respective retiree health insurance credit for each benefit combined with an effective date based on eligibility in accordance with North Dakota Century Code section 54-52.1-03.3. **History**: Effective April 1, 1992; amended effective June 1, 1996; July 1, 1998; April 1, 2008; April 1, 2012. **General Authority**: NDCC 54-52.1-03.2(b) **Law Implemented**: NDCC 54-52.1-03.3		

Section	Suggested Rule Change	Reason for Change
71-06-01-04. Employer paid health premiums. Repealed effective July 1, 1998		
71-06-01-05. Member contributions. Any member contribution received for purposes of retiree health insurance credit must be refunded without interest to any member who terminates employment and who receives a refund of retirement contributions. **History:** Effective April 1, 1992; amended effective June 1, 1996. **General Authority:** NDCC 54-52.1-03.2(b) **Law Implemented**: NDCC 54-52.1-01(1)(c)	Amend rules to reflect RHIC portability provisions	Statutory: HB 1058 from 2013 session
71-06-01-06. Erroneous crediting of the retiree health insurance credit. If an error occurs in granting retiree health insurance credit, the error shall be corrected the first of the month following discovery of the error in accordance with sections 71-02-04-10 and 71-02-04-11, except any underpayment of the retiree health insurance credit under this chapter must be returned to the uniform group insurance program where it will be treated as an overpayment of premium and paid in a lump sum within sixty days of the discovery of the error. **History:** Effective June 1, 1996; amended effective April 1, 2002. **General Authority**: NDCC 54-52.1-03.2, 54-52.1-03.3 **Law Implemented**: NDCC 54-52.1-03.2, 54-52.1-	Amend rules to reflect RHIC portability provisions	Statutory: HB 1058 from 2013 session

Section	Suggested Rule Change	Reason for Change
03.3		
71-06-01-06.1. Retroactive payment of the retiree health insurance credit. Retroactive payments will be as reflected in chapters 71-02-04 and 71-02-05. Retroactive payments will be made to the date the member was eligible for the disability benefits, in coordination with the first month the member was responsible for payment of the public employees retirement system group health insurance. The date of eligibility for the retiree health insurance credit will be determined: 1. For a deceased, active member's surviving spouse, when the application for retirement benefits is received. 2. For a deceased retiree's surviving spouse, eligibility for the retiree health insurance credit is applied the first of the month following the member's date of death. **History**: Effective May 1, 2004. **General Authority**: NDCC 54-52-04 **Law Implemented**: NDCC 54-52.1-03.3	Amend rules to reflect RHIC portability provisions	Statutory: HB 1058 from 2013 session
71-06-01-07. Optional benefits. A married member may elect to receive one of the following optional retiree health credit benefits in lieu of the retiree health insurance credit option provided in section 71-06-01-01: 1. **Fifty percent joint and survivor benefit**. A member shall receive an actuarially reduced retiree health insurance credit during the member's lifetime and after the member's death one-half the rate of the reduced benefit will be	Amend rules to reflect RHIC portability provisions	Statutory: HB 1058 from 2013 session

Section	Suggested Rule Change	Reason for Change
continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. Benefits shall terminate in the month in which the death of the beneficiary occurs. If the member's spouse predeceases the member or, in the event of divorce, the member's benefit must be returned to the standard option amount. The standard option amount must commence on the first day of the month following the spouse's death if a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree. 2. **One hundred percent joint and survivor benefit.** A member shall receive an actuarially reduced retiree health insurance credit during the member's lifetime and after the member's death the same amount will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. Benefits shall terminate in the month in which the death of the beneficiary occurs. If the member's spouse predeceases the member or, in the event of divorce, the member's benefit must be returned to the standard option amount. The standard option amount shall commence on the first day of the month following the spouse's death providing written notification of the death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree. **History:** Effective July 1, 1998; amended effective April 1, 2008. **General Authority**: NDCC 54-52.1-03.2(b) **Law Implemented**: NDCC 54-52.1-03.3		

Section	Suggested Rule Change	Reason for Change
71-06-01-08. Vesting in retiree health credit for members of the defined contribution retirement plan. Notwithstanding section 71-02-03-01.1, members of the defined contribution retirement plan vest in their retiree health credit in the same manner as members of the retirement program to which they would belong if they had not elected to participate in the defined contribution retirement plan, including the earning of service credit, the reduction for early retirement, and credit granted pursuant to section 71-02-03-01. **History:** Effective July 1, 2000. **General Authority:** NDCC 54-52.1-03.2(1)(b) **Law Implemented**: NDCC 54-52.1-03.3, 54-52.6-02	Amend rules to reflect RHIC portability provisions. Repeal these rules using expedited process.	Statutory: HB 1058 from 2013 session

Following are questions that came up on how to implement the DC to DB transfer into PERSLink. This may be an area where we need to add some administrative rules?????

1. If member transfers from DC to DB, then terminates employment and defers account, then becomes re-employed as a state employee, do they have the option as a “new hire” to make a new election to transfer from DB to DC within the first 6 months of employment?
2. If member was in the National Guard plan and elected to transfer to DC, and now under the new law they elect to transfer back to DB, what plan do they transfer back to – Main or NG/LE?
3. If member transfers from DC to DB, then terminates employment and defers account, then becomes re-employed by either state or participating political sub, do they continue to pay the higher employee contribution rate?

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

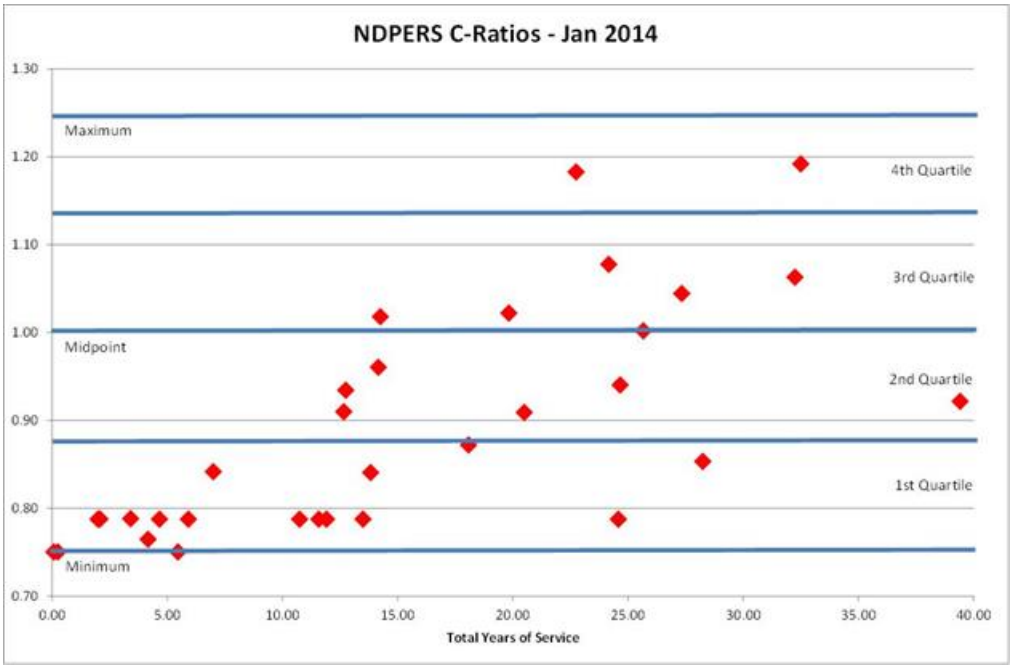
FROM: Sparb

DATE: August 19, 2015

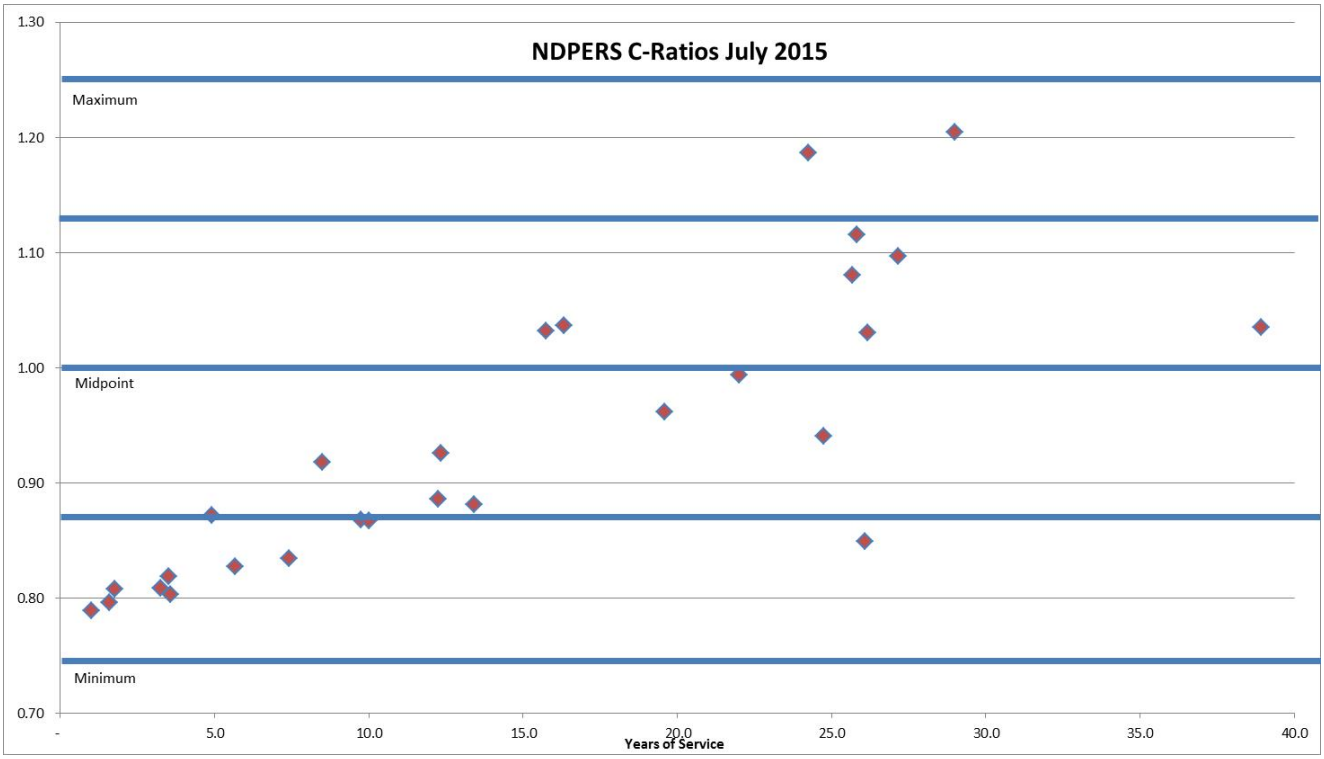
SUBJECT: PERS Operations

I wanted to update you on two items relating to the PERS office. The first relates to the elevator in our office building. As you know our office is on the 5th floor of the building. We have been serviced by two elevators which are original to the building. Starting late last year those elevators started to experience periodic problems which continued into this year with the result being that one was closed permanently. With one remaining, the problems continued. Compounding the problem is that our office visitor volumes increased as a result of HB 1058 (closing of the pre-Medicare plan and making the retiree health insurance credit portable) and the transition to Sanford. With only one elevator which periodically breaks down, we have had instances where our staff and members (including retirees) have had to climb the five flights to our office or to leave our office. I had a meeting with the building manager to indicate that we had to have a plan for dealing with the outages until a permanent fix could be put into place. The attached letter (Attachment #1) is a product of that meeting. I wanted to make you aware of this situation and the plan for dealing with it.

Second, last year you approved a request to the Governor and the Legislature of a salary equity package for PERS (Attachment #2 pages 16 & 17 for the Legislative testimony). We implemented this equity package with the July salary increases. The following table is from page 17 of our testimony which shows the challenge we faced (that many of employees were at the bottom of pay scale for their years of service):



The following table updates the table on page 17 in the testimony after implementing the equity package:



As you will note this package has:

1. Moved many of our staff off the bottom of the pay scale.
2. Pay is now more tightly correlated with experience based upon years of experience.
3. Our overall C ratio has improved from .90 to .94.
4. Our goal was to get our employees to about the same overall C ratio as employees of the state so that our salary levels would be similar to other state agencies. The following table from HRMS shows that as of December 2014 the overall state average C ratio was .94 with 13 years of service. We are now at .94 with 15 years of service.

Average Classified State Employee

	Years of Age	Years of Service	Annual Salary	Actual Increase	Appropriated	Compa Ratio	Notes
Aug 2001	44.8	12.5	31,467	4.9%	3.0%	0.96	(1)
Dec 2002	45.4	12.6	32,262	2.5%	2.0%	0.96	
Dec 2003	45.7	13.2	32,627	1.1%	0.0%	0.96	
Dec 2004	45.9	13.2	32,604	0.0%	0.0%	0.96	
Dec 2005	46.1	13.6	34,158	4.8%	4.0%	0.96	(2)
Dec 2006	46.2	13.4	35,640	4.3%	4.0%	0.96	
Dec 2007	46.2	13.2	37,834	6.2%	4.0%	0.95	(3)
Dec 2008	46.4	13.2	39,622	4.7%	4.0%	0.96	
Dec 2009	46.6	13.4	42,382	6.9%	5.0%	0.96	(4)
Dec 2010	46.6	13.2	44,698	5.5%	5.0%	0.96	
Dec 2011	46.5	13.2	46,057	3.0%	3.0%	0.96	
Dec 2012	46.4	13.1	48,554	5.4%	3.0%	0.92	(5)
Dec 2013	46.3	13.0	50,942	4.9%	(6)	0.93	
Dec 2014	46.3	12.9	53,297	4.6%	(7)	0.94	

1) Included 1999 & 2001 Market/Equity Funds ($5.4 & $5.0 mill respectively)
2) Leg approp included $1.5 mill for DOCR & $413,000 for Hwy Patrol
3) Included Market/Equity Fund ($10 mill)
4) Included Market/Equity Fund ($23 mill)
5) July 1, 2012 implementation of employee compensation study; agencies ensured all employees met the new salary range minimums
6) July 1, 2013 performance based increases of 3-5% plus Mkt Pol increases of 2% 1st Qtl, 1% 2nd Qtl. Total appropriation approx 5%
7) July 1, 2014 performance based increases of 2-4% plus Mkt Pol increases of 2% 1st Qtl, 1% 2nd Qtl. Total appropriation approx 4%

723 Memorial Hwy
PO Box 1774
Bismarck ND 58502-1774
701-223-8568

Rocky Gordon & Company, LLC

Memo

To: Sparb Collins, Executive Director of the North Dakota Public Employee Retirement System

From: Rocky Gordon & Company

Re: Building Elevator Modernization Project

Thank You for your inquiry and our subsequent discussions about the building elevator modernization project. As we have discussed, the building owners have entered into a contract with ThyssenKrupp Elevator Corporation to do a modernization of the elevator system. This is a major upgrade and is considered to be a 30 year improvement.

The project will consist of 2 phases, fabrication of equipment (10 weeks) and the installation phase in each of the cars (9 weeks per car). During the fabrication and first car installation the vendor has assured us they can keep one car operational a minimum of 90% of the time. They have further assured us they will take steps to keep the downtimes to a minimum. During the 2nd car installation there will be the first newly modernized car available. The fabrication phase has begun.

During phase 1 and the first car installation, we plan to have signage and a phone available by the elevator, so the visitor can contact the tenant to arrange alternate meeting arrangements if the elevator is down In the event of a service outage and the client is not able to walk the stairs, we will have a main floor meeting room available. In the event the room is not available, our office will coordinate use of a space for meeting with one of a couple of main floor tenants who have offered to help. In addition for clients who may be able to walk 1 flight of stairs, we would have the basement lunchroom and the 3rd floor conference room available as well.

We will do our best to mitigate this situation and will work with you to the best of our reasonable abilities.

While we apologize for the inconvenience this project may cause; we do feel that with 90% operation time and alternate meeting space, we will have a manageable situation while still doing our best to accommodate out tenants and their clients.

Thank You for your cooperation and I know we all look forward to having faster, reliable and efficient elevator service for many years to come.

Rocky Gordon

TESTIMONY OF NDPERS

SENATE BILL 2022

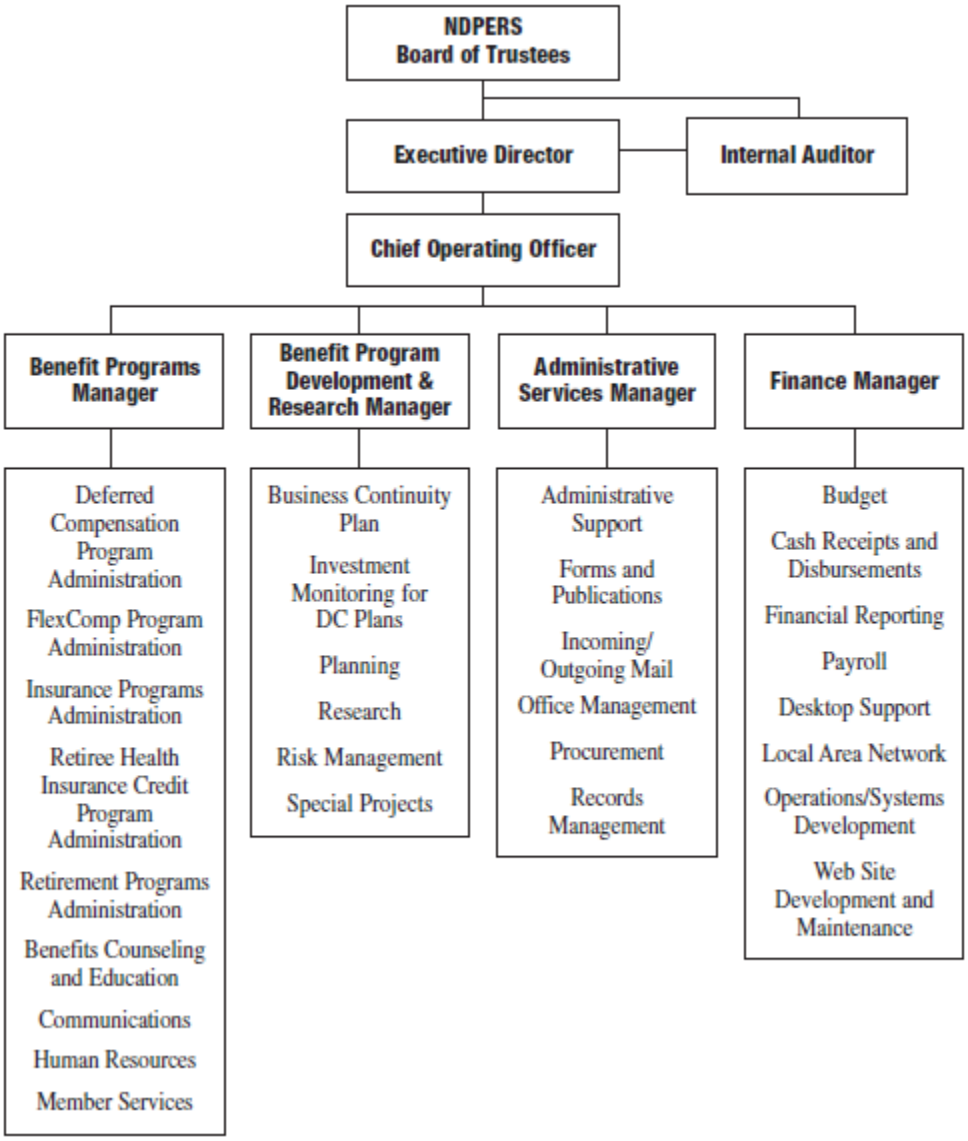
Mr. Chairman, members of the committee, good morning my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS. With me is Sharon Schiermeister, our Chief Operating Officer & Chief Financial Officer. Today we appear before you to give you an overview of our agency, our work efforts and our budget request.

Agency Overview

First let me start by providing an overview of our agency. PERS is directed by a Board composed of the following members:

Chair (appointed by Governor)	Jon Strinden
Appointed by Attorney General	Tom Trenbeath
State Health Officer or Deputy	Arvy Smith
Elected	Kim Wassim
Elected	Casey Goodhouse
Elected	Mike Sandal
Elected Retiree	Yvonne Smith

Administratively PERS is organized as illustrated:



As you will note just before the last session we added a COO (chief operating officer). Our Chief Financial Officer (CFO) fills both roles within our organization; we hope to segregate those positions with the proposed budget before you today.

The PERS program responsibilities fall under two broad categories – retirement and group insurance. Section 54-52-02 states the overall mission for the retirement program as: "…to provide for the payment of benefits to state and political subdivision employees or to their beneficiaries thereby enabling the employees to care for

themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high grade men and women". Similarly, state statute establishes the overall mission for the group insurance plan as: "In order to promote the economy and efficiency of employment in the states service, reduce personnel turnover, and offer an incentive to high grade men and women to enter and remain in state service, there is hereby created a uniform group insurance program".

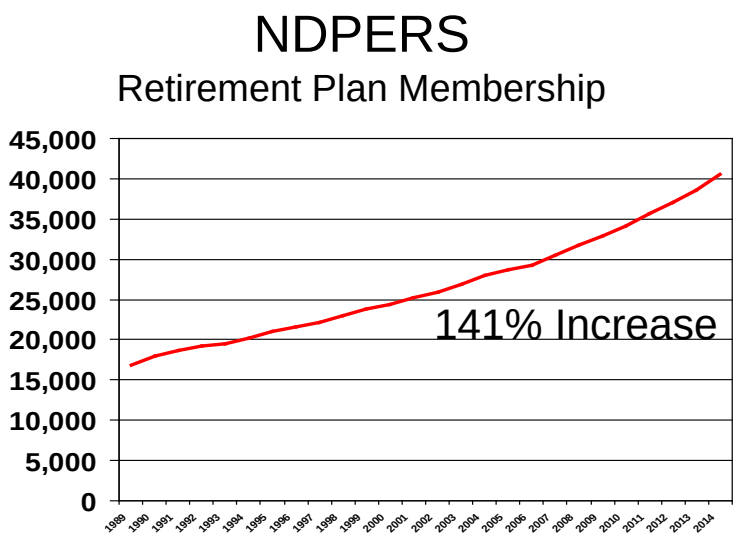
Concerning the retirement programs, the following table gives you an overview of the programs and some statistical information:

January 2014		RETIREMENT PROGRAMS								
		MANAGED AND ADMINISTERED BY NDPERS								
	TOTAL RETIREMENT	*Main System*	*Judges*	*Guard*	*Law Enforcement*	*Highway Patrol*	*Job Service*	*D.C. 401(a)*	*DEFERRED COMP*	*HEALTH CREDIT*
PARTICIPATION										
AGENCY										
State	94	94	1	1	1	1	1	94	90	94
Counties	49	48			11				34	49
School Dist	116	116							19	116
Cities	82	82			6				35	82
Others	74	74							31	74
	415								***209***	***415***
EMPLOYEES										
State	10,725	10437	49	39	37	145	18	215	4,899	10,725
Counties	3,854	3627			227				681	3,854
School Dist	5,682	5682							69	5,682
Cities	1,663	1612			51				237	1,663
Others	590	590							189	590
Retirees	8,249	7907	36	8	45	116	137	67		4,635
	30,763	***29,855***	***85***	***47***	***360***	***261***	***155***	***282***	***6,075***	***27,149***

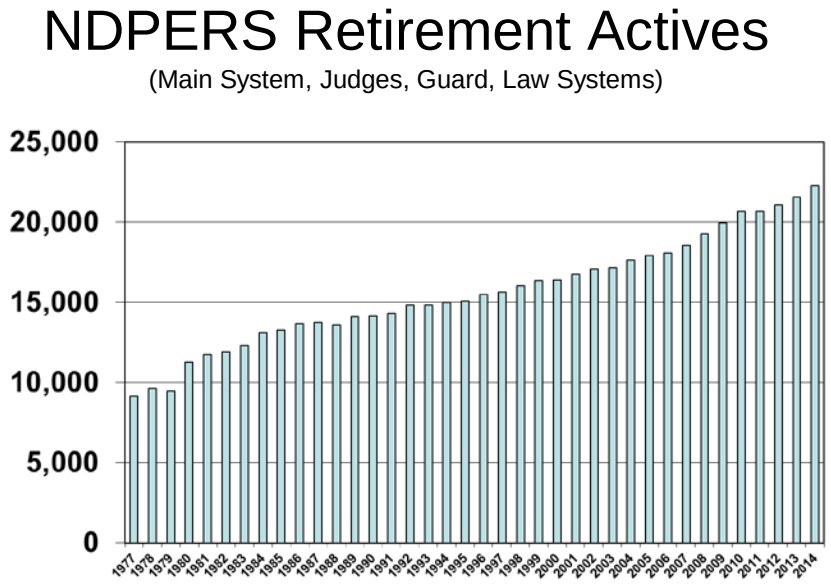
As you will note, our agency is responsible for the administration of approximately 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Several of the above plans were assigned to our agency by the 2001 and 2003 legislative session. Those were the Job Service Retirement Plan and the Law Enforcement Plans for political subdivisions. The Law Enforcement Plan has since been expanded to certain State employees. The 401(a) plan or optional defined contribution plan for non-classified state employees was assigned to our agency in 1999 and expanded in 2013 as an option to new State employees. The other retirement programs have been a part of PERS since the 1980's.

You will note the largest retirement plan we administer is the Main/Hybrid retirement system which provides services to not only the State, but also to political subdivisions. In this plan about 50% of the active members are State employees and 50% are political subdivision employees. School districts are our second largest group followed by counties and cities.

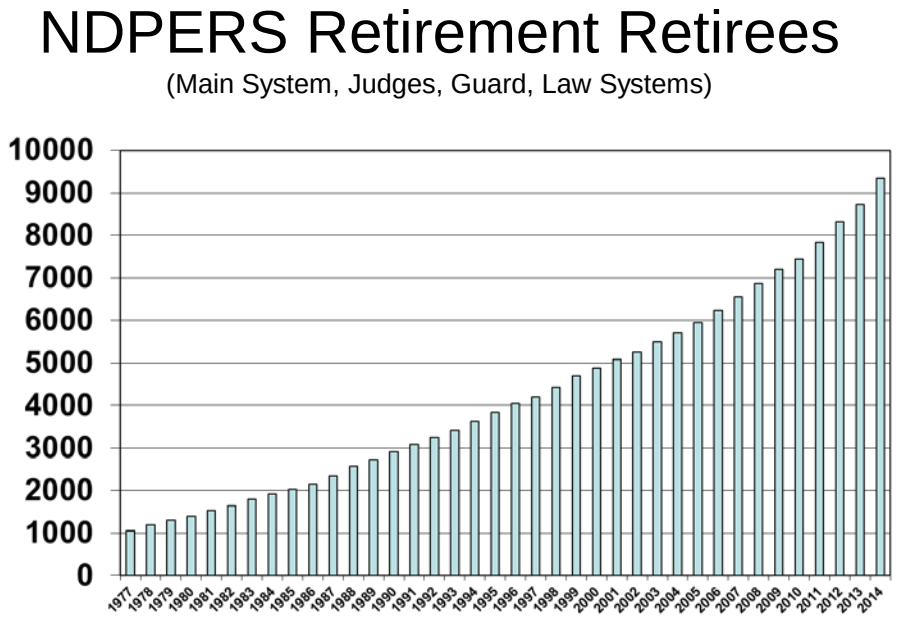
Some historical statistics about the retirement plan include membership:



Of this, the number of active members has grown:



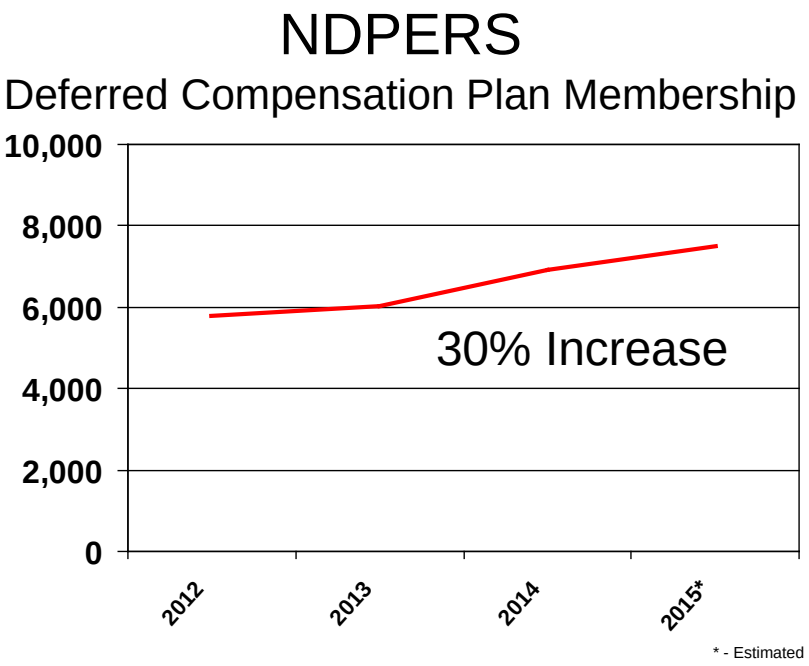
The number of retired members has grown as well and at an even greater rate than our active members:



Another interesting statistic about the retirement plan is since 1977 the PERS plan has received approximately $1.35 billion in contributions and as of the last fiscal year (July 2014) we had $2.28 billion in assets. During that same period we paid out about $1.36 billion in benefits.

As we look to the future, we see the retired membership continuing to grow and the number of active members remaining about the same. Servicing the present and future needs of the retired membership is a growing challenge for NDPERS.

In addition to the administration of the traditional retirement plans, PERS administers the state's supplemental savings program as well. The membership in that program has also grown over the years (this shows both active and inactive accounts):



We are pleased by this growth since it is important that our members save for retirement. In 1999 the legislature started the PEP provision in our retirement plan, thereby turning the Main plan into a hybrid plan to encourage employees to do supplemental savings. As of June 30, 2014, assets in this plan totaled approximately $207 million.

Deferred Compensation offers our members the following 8 providers to choose from in addition to the PERS Companion Plan (presently with TIAA-CREF):

American Trust Center	Jackson National
AXA Equitable	Nationwide Life
Bank of North Dakota	VALIC
Mass Mutual	Waddell & Reed

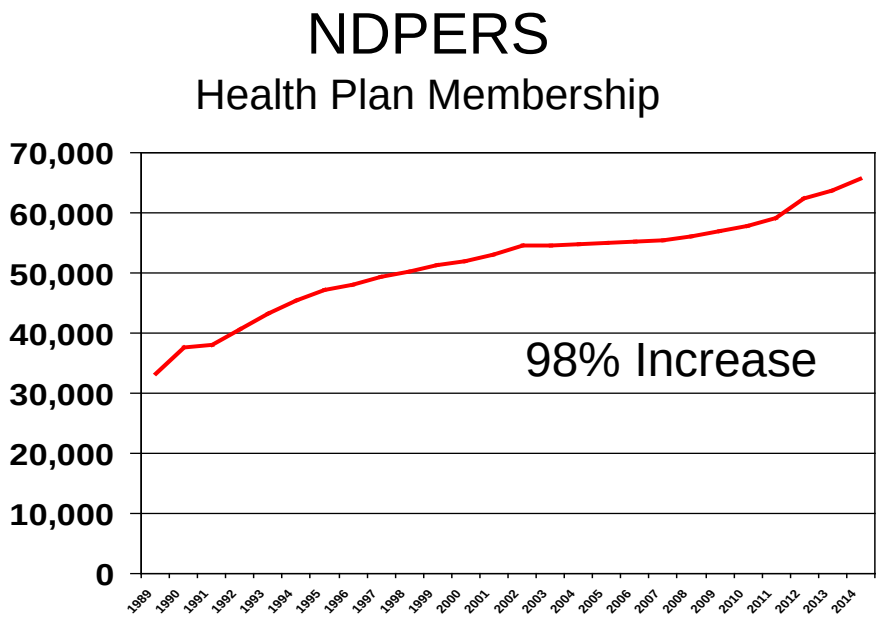
Concerning the group insurance programs, the following gives you an overview of the programs and some statistical information:

January 2014	GROUP INSURANCE PROGRAMS						
	MANAGED AND ADMINISTERED BY NDPERS						
	HEALTH	*LIFE*	*DENTAL*	*VISION*	*EAP*	*FLEXCOMP*	*LT Care*
PARTICIPATION							
AGENCY							
State	95	95	95	95	95	90	95
Counties	44	30					
School Dist	27	9					
Cities	52	25					
Others	69	30	20	20	20	20	20
	287	***189***	***115***	***115***	***115***	***110***	***115***
EMPLOYEES							
State	14,984	15,950	6,219	7,388	15,950	2,810	55
Counties	2,165	2,354					
School Dist	1,196	221					
Cities	1,746	79					
Others	601	346			201		
Legislators	131						
Retirees	6,684	3,154	1,693	1371			
COBRA	404		44	54			
	27,911	***22,104***	***7,956***	***8,813***	***16,151***	***2,810***	***55***

As you will note, the largest responsibility in this area is the health plan. In this program about 54% of members are state employees and 46% are political subdivisions or other groups such as retirees. This biennium one of the challenges we faced with the health program was the enactment of federal health care reform and legislation passed last session. In response, we took the following actions:

1. Maintained the plan as a grandfathered plan under the law which means we do not have to comply with all the provisions.
2. Assisted our participating employers with compliance
3. Developed and started work on a transition plan to get out of the Pre-Medicare retiree business by July 1, 2015 and make the retiree health credit portable.

The following table shows the history of the membership in the health plan:



In 2014 we went out for bid on the Health plan. The following is the schedule on that effort:

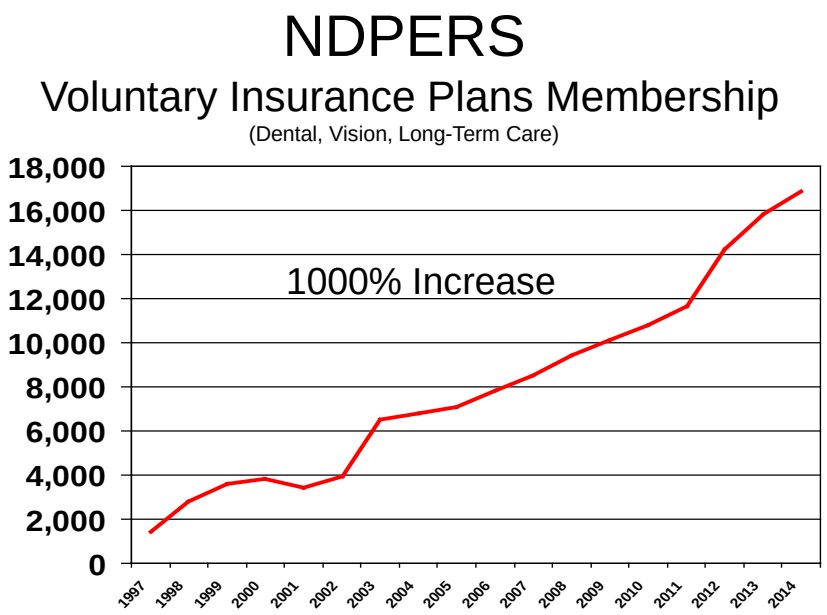
- Released fully-insured RFP (7/9/14)
- Released self-insured RFP (8/13/14)
- Deloitte independently developed claims projections
- Evaluated proposals
- Hosted fully-insured vendor interviews (10/21/14)
    - Medical & Rx: BCBS / Sanford
- Released fully-insured RFP re-bid (10/30/14)
- Hosted vendor interviews for fully-insured re-bid and self-insured bid
    - Medical & Rx: BCBS / Sanford (11/24/14)
    - Carve-out Rx: Express Scripts / Navitus (11/25/14)
- Released proposed pharmacy contract to vendors requesting redline feedback (12/11/14)

Next Steps:

- Evaluate results of PBM contract negotiations
- Board interviews of medical/Rx vendors (1/5/15)

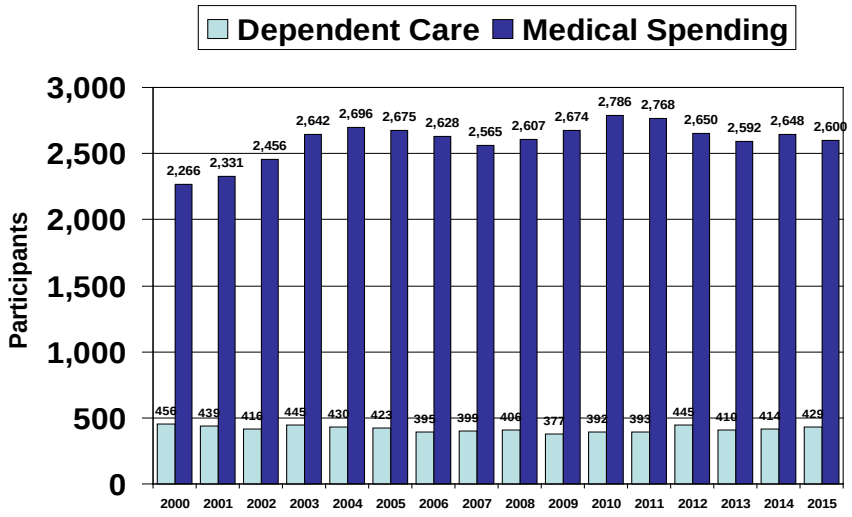
- Board interviews of PBM's (1/15/15)
- Final Board Decision (February 2015)

In the late 1990's the Employee Assistance Program, Long Term Care Plan, Dental Plan & Vision Plan were added to PERS. The other group insurance programs have been a part of the agency since before 1990. The following table is the history of those programs (not including the EAP):

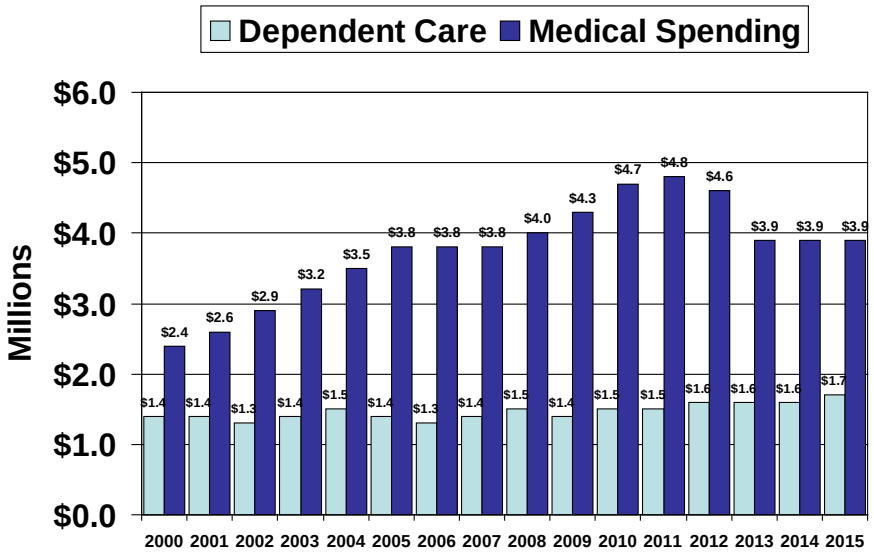


The Flex Comp Program which has been a part of the agency since 1989 allows members to pretax certain insurance premiums, dependent care expenses and medical expenses. The following tables show the history of the number of members and deferrals:

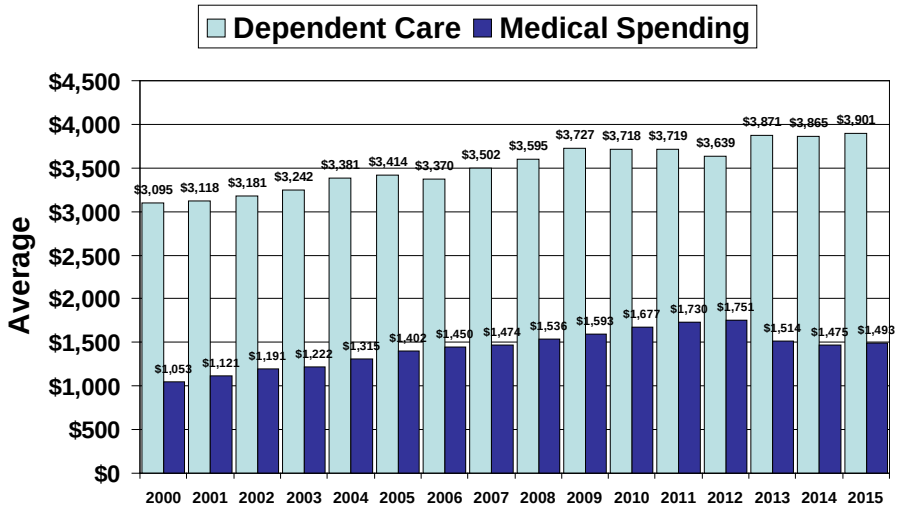
NDPERS Flexcomp Participation



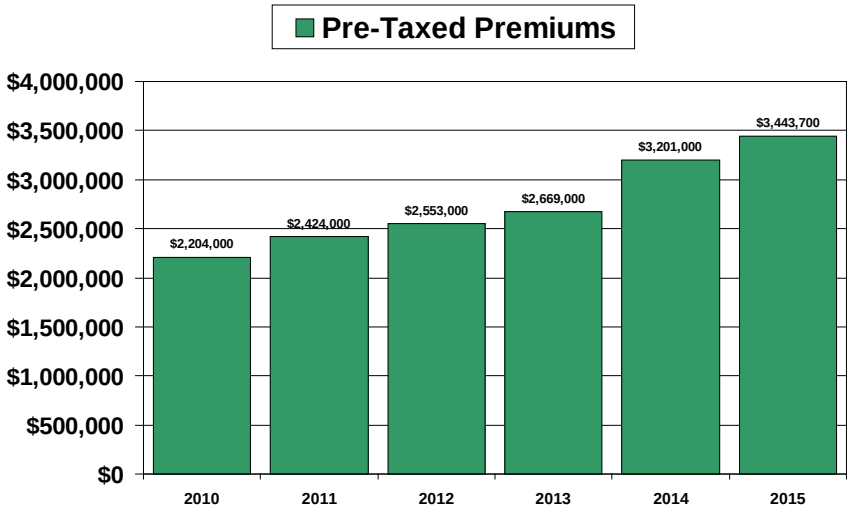
NDPERS Flexcomp Participation



NDPERS Flexcomp Participation



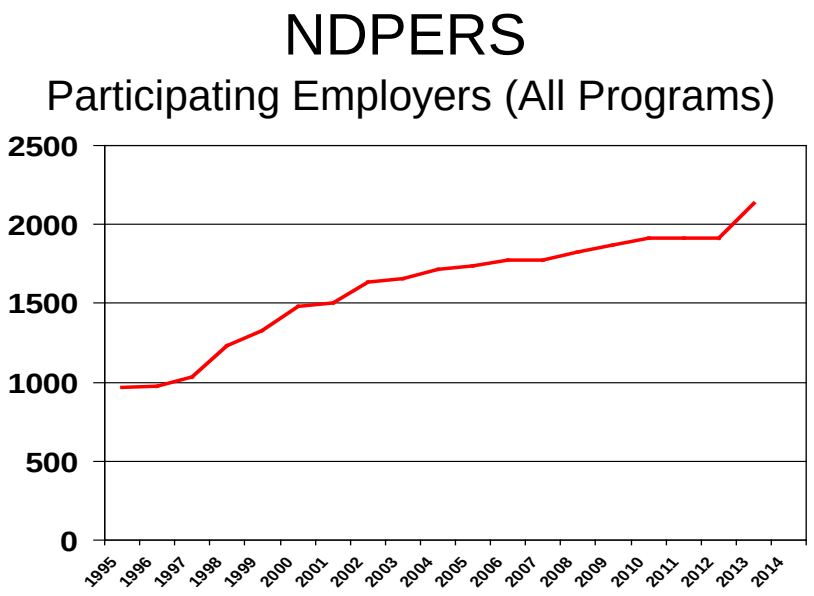
NDPERS Flexcomp Participation



As the above shows, the number of members participating in the program has decreased slightly as well as the average and total deferrals. One of the reasons for this decline is the Affordable Care Act (ACA) which limited the total deferrals to the medical account to $2,500 - the old limit was $6,000. As we looked to the future with

the limitation in place, we believed that we needed to make it easier for members with smaller accounts to join the plan. The primary reason they do not is the paper work. In recognition of this, we have changed the claims processing this biennium from using PeopleSoft to hiring a new claims payment firm - ADP. This new format added additional options for claims payment processing beyond the traditional paper process. The new options are a debit card, auto adjudication and mobile applications.

While we have been serving more members in more programs over time, we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):



As shown above, PERS has faced two challenges over the years. First, is the growth of program responsibilities. Second, is the growing membership needs for assistance.

We are also concerned with maintaining the quality of what we do. To that extent, we have sought national review of our systems and other reviews as noted in the following:

- We have received the Public Pension Achievement Award and the Recognition Award for Administration.
- We have received the Certificate of Achievement for Excellence in Financial Reporting for the past 18 years (1996-2013).
- We have had unqualified audit opinions for over 24 years.

At this time, I will turn the presentation over to Sharon Schiermeister to review our work efforts and budget request.

Following are some of the major work efforts since we last reported to you in the 2013 session:

- Health Plan
  - Worked with the OMB to assist state government and our participating subdivisions to comply with the Employer Shared Responsibility provision of the Affordable Care Act. In partnership with OMB we hosted several conferences on this issue at the Bismarck Civic Center.
  - Prepared and distributed an RFP for the OPEB valuation; reviewed bids and selected a new vendor who completed the valuation in June 2014
  - Prepared and distributed RFPs for fully insured and self insured health plans as noted above.
  - Developed additional reserves
  - Worked with the Department of Health, Department of Human Services and Indian Affairs Department to prepare a report for the legislature on the status of diabetes efforts in North Dakota
  - Reduced the state OPEB Actuarial Accrued Liability from $65 Million to $29 million.
- Dental Plan
  - Integrated a new vendor into the plan in 2013.

- Retirement
  - Prepared legislation for the last year of contribution increases as part of the PERS 4 year recovery plan.
  - Received legislative authority to implement the third year of contribution increases which was implemented 1/1/2014. This is putting the plan on track to be100% funded by 2059
  - Implemented legislation to offer all state employees hired on or after 10/1/2013 the opportunity to elect to join the Defined Contribution Plan.
  - Started de-risking the asset allocation for the Job Service Retirement plan by dropping the assumed rate of return from 8% to 7%. The Board plans further reductions to this closed plan.
  - Reviewed and adopted updated investment policies for the Defined Contribution Retirement Plan and Deferred Compensation Companion Plan.
  - Worked with TFFR, the State Auditor's office, plan actuary and plan auditor to develop an implementation plan for GASB Statement No. 67 – Financial Reporting for Pension Plans, and GASB Statement No. 68 – Accounting and Financial Reporting for Pension.
    - Training for pilot group held June 2014
    - Training for all employers held December 2014
- Administrative Accomplishments
  - PERSLink Member Self Service(MSS) was rolled out to all employees during 2013
    - Over 80% of all benefit elections made during annual enrollment were entered through MSS
  - Continued working on updating the NDPERS business continuity plan
    - Established a secondary data center for disaster recovery of the PERSLink system, and successfully tested restoration of the system
    - Established a Service Level Agreement with ITD for disaster recovery services, which is reviewed quarterly

PERS Budget

The proposed budget before you today is all special funds.

The following is a summary comparing the current budget to the Governor's Executive Recommendation, which is a 29% increase:

	2013- 2015 Appropriation	2015-2017 Recommendation	Change
Total	$7,650,450	$9,856,218	$2,205,768
FTE	33.0	36.5	3.5

The above increase can be broken down as follows:

Executive Compensation Adjustment	$ 576,190	8%
PERS proposed Base Budget Adjustment	$ 542,085	7%
PERS Optional Budget Request	$1,087,493	14%
	$2,205,768	29%

Base Budget Request

Our proposed base budget request includes the following changes:

Remove one-time expenditures	($ 22,000)
General operating expense	$134,470
Salary and Wages	$429,615
	$542,085

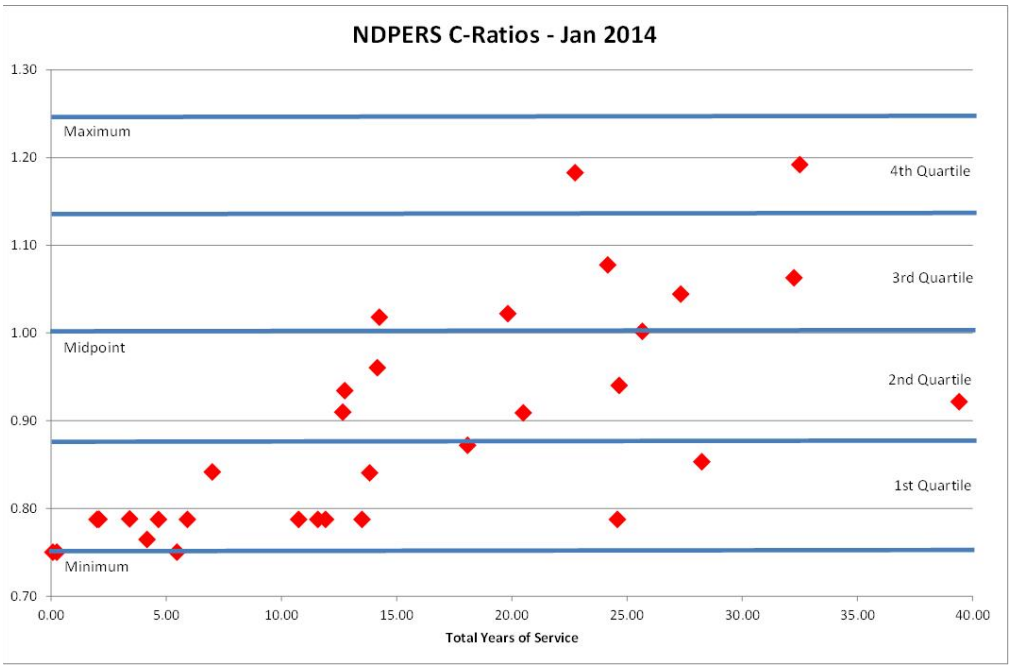
Remove One-time Expenditures. The agency received an appropriation of $22,000 for the implementation of HB 1452 passed last legislative session which expanded eligibility for the Defined Contribution plan to all State employees through June 2017. This was implemented October 1, 2013. Ongoing costs for this program are included in general operating expenses.

General Operating Expense. Operating expenses were increased by $179,070 for inflation. The increases were primarily for office rent, software licensing fees and support costs for the PERSLink system, data processing fees paid to ITD and central

service cost allocation. Operating fees and services were also increased by $5,000 to reflect the filing fee for IRS determination letters for the retirement plans, which is needed every 5 years. These increases were offset by a decrease of $49,600 to remove funding related to computer hardware and software that was replaced in the current biennium, following the agency's 4 year replacement cycle.

Salary and Wages. In addition to the cost to continue the FY 2015 salary increase, the base budget request includes additional funding of approximately $275,000 to start addressing serious salary equity issues faced by the agency. Approximately 73% of the agency's positions are in either the first or second quartile of the pay grades, with about 47% just in the first quartile. There are also several positions with similar C-ratios, but with a wide range of years of service. The Board has identified the goal of establishing a salary equity package to move staff up in the pay grades, so their C-Ratio is comparable to the average C-Ratio for all state employees in the same pay grade with similar years of service. This proposal is not attempting to match market salaries, but only comparable state salaries. We feel this is important for employee retention, recruitment and maintaining current work efforts. While our employees are behind the private sector, according to other surveys, they are also behind comparable state employees and as a result they can make more just by moving within state government. This biennium, we have lost 3 PERS employees to other state agencies.

The following table shows the challenge we face:



Optional Budget Request

Following are the optional budget requests:

Initiative	FTE	Cost	% Increase Over Hold-Even Budget
PERSLink Refinements		$147,000	1.91%
Accounting Position	1.0	$216,069	2.80%
Benefits Position	0.5	$ 51,346	0.67%
Temporary Position		$122,352	1.59%
Retiree Health Insurance Portability		$ 43,052	0.56%
Website Redesign		$73,880	0.96%
Secure Reception Area		$27,500	0.36%
Self-Funding Health Insurance	2.0	$406,294	5.27%
TOTAL	3.5	$1,087,493	14.09%

You will note that almost 6% of the 14% increase above is the “Retiree Health Insurance Portability” and the “Self Funding Health Insurance”. The Retiree Health

Insurance Portability is associated with the bill mentioned above that has reduced our OPEB liability by $29 million. The Self-funding Health Insurance would only be requested if we are able to reduce the budgeted health premium to offset this expense and more.

Priority 1 - PERSLink Refinements - $147,000

(Summary: Additional investment to complete system refinements that have not been able to get completed after go-live, this request is a one-time cost)

Several bienniums ago, you approved funding for the replacement of our business system. As we reported to you last session we went live as projected in October of 2010 after three years of development. We were pleased to be able to report in our close out report that the project came in $432,435 or 4.1% under budget.

However, since implementing the PERSLink system in 2010, several system refinements have not been able to get completed. This is the result of a high volume of enhancements (member self service, benefit plan changes, vendor changes, Affordable Care Act) having to be implemented in a short timeframe and the support team size being inadequate to manage the workload. The agency is making an additional investment in the system to complete this backlog. Efforts on this project began this biennium, but will not be completed by the end of the biennium. Funding is being requested to pay for additional developers to complete the work on the backlog of system refinements. The PERSLink system is integral to the efficient administration of our benefit programs, therefore, this is our first priority.

Priority 2 – Chief Financial Officer (1.0 FTE) - $216,069

(Summary: Split the Chief Operating Officer and Chief Financial Officer into two positions)

In 2012, the organizational structure was modified to add a Chief Operating Officer (COO). However, in order to accomplish this without additional staffing, the Chief Financial Officer (CFO) was moved into the COO role but required to also maintain the existing role as CFO. Funding is being requested to add an FTE so that the COO and

CFO positions can be split. PERS is continuing to become more complex with the number of programs we now administer. This includes seven defined benefit plans, the defined contribution plan, the deferred compensation plan (Companion Plan and 8 additional provider companies), the retiree health insurance credit plan, the group insurance plans (health, life, dental, vision, long-term care), the flex program and EAP. The health plan is further broken down into the High Deductible Health Plan and Health Savings Account, HMO, Medicare Part D and low income subsidies. Over the years, coordination requirements with the federal government have become more complex as a result of Medicare Part D and the Affordable Care Act requirements. We also know that things are going to continue to become more complex with the changes coming in the retirement plan financial reporting, health plan administration, the retiree health plan portability and the recent changes in offering the DC plan to more members. The agency's internal auditors have also noted that with the number of federal and state statutes and rules we must now follow, having a central compliance specialist would be beneficial for the agency. This would potentially reduce the risk to the agency of non-compliance, reduce errors and improve consistency in our processes. In addition to our program areas, our business system requirements for PERSLink require oversight in order to be successful. The agency is also responsible for maintaining the Benefits Module on the State PeopleSoft system. PERS was given this responsibility at the time the system went live, however, no new staff was added. The work effort within our office has been divided between three staff, which has not allowed us to support the system effectively. As these and other complexities arise, agency operations require more attention, guidance, planning and coordination. We need a full time chief operating officer to provide that level of detailed guidance.

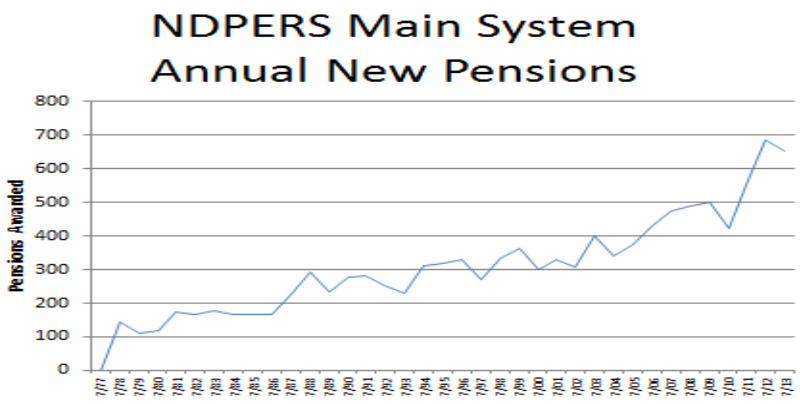
We also know that our financial processes continue to be complicated and demanding. We pay out approximately $12 million in retirement benefits to about 10,000 retirees each month; maintain accounts for over 22,000 active members in the retirement plan; collect over $13 million in retirement and RHIC contributions from participating employers each month; coordinate cash flows for DC members and 457 plan members that are in the range of $1.6 million per month. For the group insurance plans we bill

our participating employers and members each month and collect approximately $24 million in premium. The recent changes for the Governmental Accounting Standards Board are going to require more work from the agency and coordination with our many employers. Our analysis of this situation is the only way to provide adequate resources to these efforts is to split the COO/CFO position into two positions. This is the Board's #2 priority since it is so important to the agency.

Priority 3 - Benefits Position (.5 FTE) - $51,346

(Summary: Increase existing position from .5 to 1.0 FTE - Support increase in number of retirements)

The number of retirements processed by our agency continues to increase and we expect this to increase even more into the future. The following table shows the change:

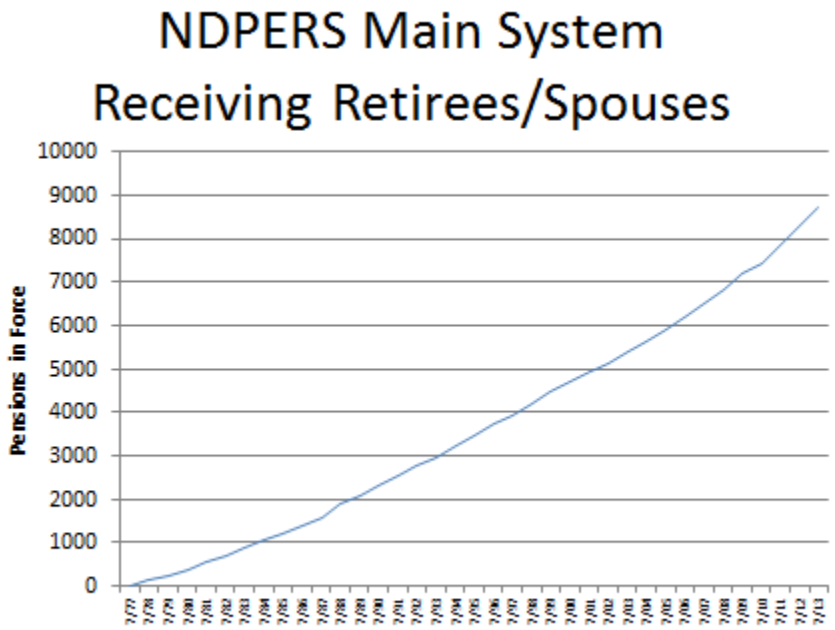


The number of members eligible to retire is significant as well:

NDPERS Main System Active Members (Does not include deferred vested)
13-May-14

870	Age 65+
1,413	Rule of 85
523	Age 64 or Rule in 1 year
4,091	Age 55-63 Early Eligible
9,543	Vested
5,967	Non-Vested
22,407	Actives
2,806	Eligible in the next year

In addition, the number of retirees continues to increase:



As we look to the future, we would expect the number of member retirements to increase even more due to a combination of factors: a) able to find better paying jobs in the private sector, and when combined with a retirement benefit, allows a member to substantially enhance their lifestyle and savings, b) with the implementation of HB 1058, members who are retired before July 1, 2015 will be able to maintain their eligibility for the Pre-Medicare Retiree plan, and c) if the PERS Hybrid/DB plan is closed and its continued viability becomes questionable, we know from our legal analysis (see following chart) that the only way a member who has met their normal retirement age can guarantee their accrued retirement is to be retired, which may also motivate more members to leave.

Legal Considerations?

MEMBER BENEFIT CHANGES

Red (clearly illegal) ⟷ Green (clearly legal)

RETIREES	ACTIVE AND INACTIVE EMPLOYEES					NEW EMPLOYEES
No Benefit Changes	Vested Retirement Eligible (Normal)	Vested Retirement Eligible (Early)	Vested Accrued Benefits	Vested Future Benefits	Nonvested Any Benefits	Any Benefits
6,466	1,056	1,068	7,667		1,698	700 per yr (est.)

The solution to handling the existing increase and future increases is to add more effort in this area. While we considered adding a full time position, at this time we are proposing an increase in an existing position from .5 FTE to 1.0 FTE and we will continue to monitor this situation.

Priority 4 - Temporary Position - $122,352

(Summary: Temporary support for several activities that are expected to be of limited duration)

The following efforts require different types of expertise and are hard to estimate the level of effort. Therefore, PERS is proposing to add funding for a temporary employee to allow us to bring in the expertise, as needed, while not adding full time staff.

1. Assist with the implementation of HB1058 that becomes effective 7/1/2015. PERS will be transitioning from providing pre-Medicare retiree health insurance to not providing such services, as well as making the retiree health credit portable.
2. PERS is reviewing the possibility of not offering a Part D product as part of the health insurance plan. If the agency was to discontinue this product in the 2015-17 biennium, there may be some short term implementation actions that would be required.
3. Proposed legislation to close the Defined Benefit/Hybrid retirement plan may require additional assistance in our member service call center and benefits area to deal with the spike in requests for information from our members.

4. Provide support during the website upgrade and with implementation of other social communication channels.
5. Provide short-term assistance with the last of the PERSLink refinements.

Priority 5 - RHIC Portability - $43,052

(Summary: Funding for workload adjustments for the staff impacted by this.)

Beginning July 2015, the retiree health credit becomes portable as approved in the 2013-15 legislative session. This provides for retirees to apply for direct reimbursement of their credit; presently, the credit is limited to PERS health insurance. Managing this new provision will increase the workload for this program. We feel we are gaining efficiency within some of our positions as a result of PERSLink, so we will attempt to add this new effort to those positions going forward. Since this would be a new responsibility, funding is being included for workload adjustments for the staff impacted by this.

At this time, we are reviewing responses to a Request for Proposal to provide administrative services for the RHIC reimbursements. We will know in the next few weeks how this new provision will be implemented and whether or not funding for these workload adjustments will be necessary.

Priority 6 - RHIC Website Redesign – $73,800

(Summary: Development costs to modernize and enhance the site - one-time cost.)

Funding is being requested to redesign the PERS website. We feel this needs to be done for the following reasons:

- Modernizing and enhancing the site's look, feel and organization to ensure that our stakeholders find the information they seek and can easily conduct business with PERS.
- Our members, both active and retired, are already using social media, so we should consider leveraging these channels to broaden our reach.
- Our members, both active and retired, are also rapidly adopting mobile devices. So as we redesign our website, we have the opportunity to build it for easy access regardless of the user's device of choice (computer, tablet, mobile phone) and operating system.
- As access is improved for mobile devices, we anticipate that there will be higher demand for electronic content and less reliance on print media over time, hopefully reducing print and postage costs.

Please note we have not updated our website in many years and we are receiving comments from members and others that it is out of date and difficult to use. Our proposed budget is based upon the following development cycle

Timeline for This Approach

8-MONTH DEVELOPMENT TIMELINE—POST BUDGET APPROVAL

Steps	1	2	3	4	5	6	7	8
Project initiation and planning								
Develop site user experience (content review/inventory, site map, brand, visual design)								
Content development and migration								
Implement social channels (policy development, HIPAA assessment, NDPERS staff training, channel set-up)								
Site build								
User testing and acceptance								
Site administrative training								
Site launch								
Ongoing support and maintenance								

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The budget was developed around the following:

Possible Budget Requirements – Outside Development Resources

Steps	Development
Develop site functional requirements	$5,040
Project initiation and planning, with project management for work streams below	$6,885
Develop site user experience (content review/inventory, site map, brand, visual design)	$8,415
Content development and migration	$0
Site build	$32,400
User testing and acceptance/site launch	$6,750
Site administrative training	$3,600
Total Site Development Costs	***$63,090***
Optional: Ongoing support and maintenance post site launch (12 months)	$11,340
	$0
	$0

We ultimately reduced the above by $630 for ongoing support. To test this estimate we sent out an RFP in December with the detailed specifications. Last Friday we received the proposals. The cost estimates in the proposals range from $65,000 to $281,000, with the average cost being $134,000 and the median cost of $116,000. These estimates will be reviewed with the PERS Board in February to seek their direction on this effort.

Priority 7 - Secure PERS Reception Area - $27,500

(Summary: Funding to redesign reception area at NDPERS office to better protect member confidentiality and increase office security - one-time cost)

The number of walk in's to the office continues to be high (as reflected in the number of retirements in discussed above) and our call volume remains high.

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
2010	2010	1761	2063	1571	1326	1596	1560	2328	1826	3093	2630	2303	24,064
2011	2590	2638	2321	2056	2167	2120	1841	2274	2210	2503	2134	1943	26,797
2012	2779	2134	2033	1864	1658	1776	1848	2310	1735	2400	2349	1801	24,687
2013	2461	1873	1682	1921	1883	1759	1876	2161	1837	2573	2166	1738	23,930

- Summary does not include calls received by staff other than member services that have covered the front desk.
- Calls connected to various service units are included in calls assisted tally.
- Totals based upon contact tickets entered into PERSLink by 3 member service representatives.

Presently one of our call center employees greets walk in members and handles calls. We have two other call service employees in the call center in private offices away from the waiting area. The dilemma is that we now have more members sitting in the waiting area when our call center rep is on the phone. We have had to become more sensitive to what is discussed so confidential information is not inadvertently disclosed (this would be a felony violation under state law and a violation under federal HIPPA). One solution to this situation would be to hire a receptionist and move our call center rep into an office. Another solution would be to redesign the area so confidential information is protected and to provide better security for the office and confidential information contained therein. We are proposing to redesign the area instead of adding a receptionist, therefore one-time funding is being requested to redesign our entry area to better insure any conversations are not overheard. The second purpose would be to increase our office security. We could add doors to the two hallways leading from our entry way to secure the rest of the office. Visitors would only be able to access our office area while being escorted by a staff member.

Priority 8 - Self Funded Insurance (2.0 FTEs) - $406,294 *(Summary: Contingent on outcome of health plan bid process to be completed in February 2015. If health plan were to become self-funded, PERS would have additional administrative efforts and increased accountability for the plan)*

The health insurance environment continues to change and evolve. With the Affordable Care Act, insurers now must pay a Health Insurance Tax. This is for fully insured plans only and for this upcoming biennium could account for 2.5% of premiums and in the future could rise as high as 5% of premiums. Since 1989 PERS has been fully insured

and we are now carefully reviewing this in our most recent bids. If we are self insured our premiums would not reflect this cost.

Prescription Drug coverage is a growing area as well. Several sessions ago the legislature authorized PERS to carve out this benefit and self insure it. In this bid we are also carefully reviewing this option. In fact, the PERS Board will be interviewing several Pharmacy Benefit Managers (PBM) tomorrow.

Just last week the Board interviewed the medical providers. In the next several weeks the Board will be receiving additional information and will be making a decision whether we should continue as a fully insured plan or self insure. The Board will also be deciding who the medical provider should be and if we should carve out the PBM services.

If the decision is to go self insured we know that it will have an effect on PERS agency operations. The following are some of those effects:

- ACA compliance – reporting requirements
- Additional audit requirements to ascertain whether PBM has complied with the term of its agreement with regard to:
    - Pricing
    - Obligations to satisfy annual guarantees
    - Financial benefit guarantees related to subsidies, claims processor fees, manufacturer discounts, rebates, service fees
    - Medicare Part D obligations related to LIS, LIC, and TrOOP
    - Accuracy related to the management of NDPERS data
    - Satisfaction of average annual guarantees

- Monitoring activities to include:
    - Pricing of newly available generic drugs to ensure we are receiving the lowest cost from PBM
    - Attendance at quarterly meetings to negotiate drug additions or deletions, modify any previously agreed guarantees to capitalize on any improvements
    - Changes in formulary
    - Financial benefit and DIR guarantees (at least annually)
    - Implementation of new programs to improve drug coverage, improve health of plan participants, reduce costs;

    - Develop programs to decrease purchase of specialty drugs and review responsibility for quarterly prescription drug reports.
    - Assess to feasibility of negotiating independent contracts with pharmaceutical manufacturers to obtain better financial benefits.
    - General responsibilities in connection with Medicare Part D Plan to include CMS compliance.

- Liaison responsibilities between member and 3rd party vendors:
    - Increased member communications (calls, correspondence, e-mails)
    - Assistance with member inquiries (coverage, denials, appeals, complaints)
    - Documenting procedures and policies developed in response to various issues to ensure consistent operating protocols.
    - Mandate requirements
    - Plan Design maintenance

Consequently, this optional request proposes two FTE. One would be to oversee the self insured contracts. Specifically, the Rx contract would require a more active role by the agency. We would anticipate this would be an individual with a medical background and a particular expertise in Rx. The second position would be for a member service specialist in the health insurance area. This individual would be responsible for working with our members and employers in explaining and resolving issues with the group medical plan and Rx plan. Here again we would be looking for someone with a medical background. The cost of these positions should be offset by the savings in the premiums.

Mr. Chairman, members of the committee, I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided our members valuable benefits that have truly made a significant difference in people's lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you, and this concludes our testimony.

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: Sharon Schiermeister

DATE: August 18, 2015

SUBJECT: Software Maintenance and Support Agreement

Attached is the agreement with Sagitec Solutions, LLC for software maintenance and support for the 2015-17 biennium. Jan has reviewed the agreement and all recommended changes have been incorporated into this draft. She also confirmed that the Limitation of Liability provisions in Section 8 are what was previously approved by the AG's office and OMB Risk Management and are in compliance with NDCC 32-12.2-15.

The agreement is for licensing fees and application development services. The table below shows a comparison of the fees for the 2013-15 biennium and the 2015-17 biennium. The fees for the new biennium are consistent with what was approved by the Board last June to include in our budget request.

	July 2013-June 2015	**July 2015-June 2017**	**Amount Increase**	**Percent Increase**
Licensing	$412,080	$447,892	$35,812	8.7%
Application Development	$660,399	$787,042	$126,643	19.2%
Total	$1,072,479	$1,234,934	$162,455	15.1%

Board Action Requested:

Approve maintenance and support agreement with Sagitec Solutions LLC.

MAINTENANCE AND SUPPORT AGREEMENT

This Agreement is made as of July 1, 2015 (the "Effective Date"), by and between Sagitec Solutions LLC, with its principal place of business at 422 County Rd D East, Little Canada, MN 55117 ("Sagitec") and the State of North Dakota, acting through its Public Employees Retirement System (NDPERS), 400 East Broadway Avenue, Suite 505, Bismarck, ND 58502 ("Customer").

RECITALS

Customer has licensed certain software products from Sagitec, Customer desires that Sagitec provide certain maintenance and support services with respect to those software products, and Sagitec desires to provide such services to Customer under the terms and conditions of this Agreement.

NOW THEREFORE, in consideration of the covenants set forth herein, it is agreed as follows:

1. DEFINITIONS. The following words, terms and phrases, where written with an initial capital letter will have the meanings assigned to them below:

1.1 "Documentation" will mean the documentation provided by Sagitec with respect to the Products.

1.2 "Product" or "Products" will mean the Sagitec Neospin™ Framework.

1.2.1 "Product Extensions" will mean Sagitec developed tools and accelerators that are made available to clients to support or enhance the Products or derivative products. This includes, but is not limited to, tools and accelerators code named Sagitec Studio, NeoFlow, and NeoCertify.

1.3 "Major Release" will mean a release of Products that contains substantial changes (e.g., an overhaul of the interface, change in compatibility). Major Releases are numbered as X.0

1.4 "Sagitec Point of Contact" will mean the Sagitec point of contact for support services that is identified in Exhibit D to this Agreement.

1.5 "System Requirements" will mean a Sagitec published list of minimum and recommended computer software and/or hardware components necessary for optimal performance of the Products.

1.6 "Statement of Work" means the description of services to be provided by Sagitec under this Agreement, a form of which is attached as Exhibit E to this Agreement.

2. MAINTENANCE AND SERVICES.

2.1 Sagitec will deliver to Customer all updates, modifications and enhancements to the Products and Product Extensions that Sagitec provides to Sagitec customers that receive similar maintenance services for the Products during the term of this Agreement. Upon delivery to Customer, all such updates, modifications and enhancements to the Products and Products Extensions will be deemed part of the Products and subject to the terms and conditions of the Customer's license agreement that is applicable to the Products.

2.2 Title to and ownership of all rights in and to the Products and Documentation, including copyright and all other intellectual property rights, will at all times remain with Sagitec. The Customer will acquire no right whatsoever to all or any part of the Products or Documentation except the rights granted to the Products and Documentation in accordance with terms and conditions of the licenses granted by Sagitec in its other agreements with Customer.

2.3 Products and Documentation may not be sold, leased, assigned, sublicensed or otherwise transferred, in whole or in part, directly or indirectly. Customer will not modify the Products, attempt to decompile, cross compile, disassemble, reverse engineer, or use any other means to decode the Products, or permit affiliates, contractors, users

or other third parties to do so. No license is granted to use any Products component in source code form. All proprietary and copyright notices must be retained in any copies made of the Products and Documentation.

2.5 As the parties develop projects to be governed by this Agreement, they shall enter into Statements of Work, a form of which is attached hereto as Exhibit E, which shall contain the detailed terms of each project. In the event of a conflict between the terms of this Agreement and any Statement of Work, the terms of this Agreement shall control unless the Statement of Work explicitly states that such conflicting terms in this Agreement shall not apply, but be superseded by the relevant provisions of that Statement of Work for purposes of that Statement of Work.

2.6 Subject to the terms and conditions of this Agreement, Sagitec will provide the services described in the applicable Statement of Work, at the times, in the manner, and at the prices described in the applicable Statement of Work.

2.7 Customer reserves the right to make changes in the Statement of Work at any time during the term of this Agreement. Within five (5) business days following written notice of such proposed changes, Sagitec will provide Customer with reasonable price and schedule changes, if any, resulting from Customer changes to the Statement of Work. Customer may accept or reject Sagitec's proposal to amend the Statement of Work or present a counter-proposal in Customer's sole discretion. Changes to a Statement of Work will be effective only when an authorized representative of each party executes a written amendment to the Statement of Work that sets forth the changes to the services and any related changes to the schedule and charges.

2.8 Sagitec will not subcontract any portion of the work to be performed without the prior written consent of Customer. Sagitec will be an independent contractor in the performance of this Agreement and will not be deemed an employee or agent of Customer for any purpose whatsoever.

2.7 At any time at Customer's request, Sagitec will, at no additional cost, promptly deliver to Customer work in progress and all related information and documentation with respect to the services provided by Sagitec under this Agreement then in Sagitec's possession or control.

2.8 Customer will have the right to interview and approve all Sagitec staff assigned or replaced to the applicable Statement of Work, and to require a criminal background check or proof of a previous criminal background check performed by Sagitec for any of Sagitec's staff members. Sagitec employees, temporary employees and contractors shall sign and be bound by Customer's Confidentiality Agreement.

2.10 Insurance Coverage: Sagitec shall secure and keep in force during the term of this agreement, and Sagitec shall require all subcontractors, prior to commencement of an agreement between Sagitec and the subcontractor, to secure and keep in force during the term of this agreement, from insurance companies authorized to do business in North Dakota, the following insurance coverages:

1) Commercial general liability, including contractual coverage, and products or completed operations coverage (if applicable), with minimum liability limits of $250,000 per person and $1,000,000 per occurrence.
2) Professional errors and omissions, with minimum liability limits of $1,000,000 per occurrence and in the aggregate. Sagitec will ensure that this professional errors and omissions coverage remains in effect for a year after the expiration of this Agreement.
3) Automobile liability, with minimum liability limits of $250,000 per person and $1,000,000 per occurrence.
4) Workers compensation coverage meeting all statutory requirements. The policy shall provide coverage for all states of operation that apply to the performance of this contract.

2.10.1 General Insurance Requirements. The insurance coverages listed above must meet the following additional requirements:

1) Any deductible or self-insured retention amount or other similar obligation under the policies will be the sole responsibility of Sagitec. The amount of any deductible or self-retention is subject to approval by NDPERS.
2. This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A" or better by A.M. Best Company, Inc., provided any excess policy follows form for coverage. Less than and "A" rating must be approved by NDPERS. The policies shall be in form and terms approved by NDPERS .

3. The State will be defended, indemnified, and held harmless to the full extent of any coverage actually secured by Sagitec in excess of the minimum requirements set forth above. The duty to indemnify the State under this agreement shall not be limited by the insurance required in this agreement.
4. The State of North Dakota and its agencies, officers, and employees (State) shall be endorsed on the commercial general liability policy, including any excess policies (to the extent applicable), as additional insured. State must have the same rights and coverages as Sagitec under said policies. The State shall have all the rights and coverages as Sagitec under said policies.
5. The insurance required in this agreement, through a policy or endorsement, shall include:
   a) a "Waiver of Subrogation" waiving any right of recovery the insurance company may have against State;
   b) a provision that the policy and endorsements may not be canceled or modified without thirty (30) days' prior written notice to the undersigned NDPERS representative;
   c) a provision that any attorney who represents NDPERS under this policy must first qualify as and be appointed by the North Dakota Attorney General as a Special Assistant Attorney General as required under N.D.C.C. § 54-12-08;
   d) a provision that Sagitec's insurance coverage shall be primary (i.e., pay first) as respects any insurance, self-insurance or self-retention maintained by State and that any insurance, self-insurance or self-retention maintained by State shall be excess of Sagitec's insurance and will not contribute with it;
   e) cross liability/severability of interest coverage for all policies and endorsements.

6. The legal defense provided to NDPERS under the policy and any endorsements must be free of any conflicts of interest, even if retention of separate legal counsel for NDPERS is necessary.
7. Sagitec shall furnish a certificate of insurance to the undersigned NDPERS representative prior to commencement of this contract. All endorsements shall be provided as soon as practicable. If at any time it is determined necessary by NDPERS's representative/contract administrator, Sagitec shall deliver to NDPERS's representative upon demand a certified copy of any policy required hereunder for review.
8. Sagitec shall disclose to NDPERS insurance coverages of its subcontractors under this Agreement.
9. New insurance shall be promptly furnished in the event of insolvency, bankruptcy, or failure of any insurance company. Sagitec shall notify NDPERS thirty (30) days in advance of any cancellation, termination, or alteration of insurance policies required hereunder. A renewal policy or certificate shall be delivered to NDPERS at least thirty (30) days prior to the expiration date of each expiring policy.
10. If, at any time, any of the policies shall be or become unsatisfactory to NDPERS as to form or substance, or any of the carriers issuing such policies shall be or become unsatisfactory to NDPERS, Sagitec shall promptly obtain a new satisfactory policy in replacement.
11. Failure to provide insurance as required in this agreement is a material breach of contract entitling NDPERS to terminate this agreement immediately.

3. <u>Product Support Service Level Agreement</u>.

3.1 Sagitec will provide Customer with the Sagitec support services for the Products that are made generally available by Sagitec to its customers that receive support services.

3.2 Sagitec's support staff will be available to assist Customer with general information regarding the configuration, installation and use of the Products during Sagitec's normal hours of technical assistance operation: Sagitec support hours are as described in Exhibit D.

3.3 Sagitec will provide a first level of response to reported Product defects with written acknowledgment of the report that is delivered to Customer by E-mail. Sagitec will provide a second level of response to Product defect reports with a patch, workaround or other temporary resolution to reported Product defects. Sagitec's final response to reported Product defects will be the provision of an update release or version release, an operations process revision, or another official problem resolution. Sagitec will provide Customer with a copy of their support services procedures.

The timing of Sagitec's responses will be based upon the classification of the reported error. Product errors will be classified as follows:

Classification	
P1	Fatal: Errors preventing critical, time-certain work from being done, or site outage.
P2	Severe Impact: Errors that disable major non-critical, non time-certain functions from being performed, or that have a severe site performance impact.
P3	Degraded Operations: Errors disabling or impacting performance only in certain non-essential functions.

Sagitec's responses to such errors will be provided within the following time periods:

Classification	**Sagitec Response**		
	First Level	**Second Level**	**Third Level**
P1	Within 1 hour when reported during Sagitec support hours. Within 2 hours when reported after Sagitec support hours.	Constant effort until relief provided ; resolution must be provided within 48 hours after reported	Within 15 days after reported
P2	Within 2 hours when reported during Sagitec support hours. Within 4 hours when reported after Sagitec support hours.	Within 7 days after reported	Within 30 days after reported
P3	Within 24 hours after reported	Within 14 days after reported	Within 180 days after reported or as agreed to by parties

3.4 Customer acknowledges and agrees that (i) Sagitec and Customer will jointly determine the appropriate level of severity for all reported errors, (ii) Sagitec has no obligation to correct any error that is caused by Customer fault or error, (iii) except as provided above, Sagitec will make reasonable efforts to correct errors that only minimally reduce efficiency or ease of use, and (iv) Sagitec will make reasonable efforts to assist customer to correct errors that result from changes in the operating environment in which the Products are installed.

3.5 Customer product support requests must be submitted to the Sagitec Point of Contact by Customer's individual support contacts.

4. CUSTOMER OBLIGATIONS.

Sagitec's obligations to provide Product support and remedial services under this Agreement are conditioned upon:

(a) the installation and operation by Customer of the most current Major Release(s) of the Products within twelve (12) months of the date the Major Release is made available to Sagitec's Neospin™ client base, unless an alternative date is mutually accepted;

(b) the Customer will provide information that Sagitec requests as deemed necessary to implement the Products and Product Extensions;

(c) the maintenance of an operating environment for the Products that is consistent with the System Requirements associated with each Major Release of the Product as provided by Sagitec; and

(d) Customer providing Sagitec with the access to the Products that is adequate for Sagitec to perform its obligations under this Agreement.

5. ADDITIONAL SERVICES. In addition to the services described in Sections 2 and 3 of this Agreement, Sagitec will provide the Customer selected services described in Exhibit B to this Agreement..

6. SERVICE LIMITATIONS. Maintenance and support services under this Agreement are limited to (i) those described in Exhibit A, and (ii) those described in Exhibit B. Sagitec has no obligation to address issues arising with respect to other products, or errors in the Products that are caused by other products.

7. FEES. Customer will pay the fees described in Exhibit A to this Agreement, at the times provided in that Exhibit A. The fees described in Exhibit A may be adjusted as described by the Credits in Exhibit C to this Agreement. The Credits will be included in the invoice process described in Exhibit A. Sagitec will not be obligated to perform services hereunder should an undisputed payment be more than thirty (30) days overdue. The foregoing will be in addition to, and not exclusive of Sagitec's right to terminate this Agreement in the event of any payment from Customer is overdue.

8. WARRANTY INDEMNIFICATION AND LIMITATION OF LIABILITY.

Limitation of Liability: EXCEPT FOR THE EXPRESS WARRANTIES AND UNDERTAKINGS SET FORTH IN THIS AGREEMENT OR REFERENCED HEREIN, EACH PARTY DISCLAIMS ALL WARRANTIES RESPECTING THE SYSTEM, ALL SERVICES PROVIDED UNDER THIS AGREEMENT, AND THE PARTY'S OBLIGATIONS, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. Except for direct loss that cannot be limited under NDCC 32-12.2-15, in no event shall Sagitec's liability hereunder exceed the amount paid to Sagitec in preceding twelve (12) months under this Agreement at the time of the claim.

SAGITEC HEREBY DISCLAIMS ALL EXPRESS OR IMPLIED WARRANTIES WITH RESPECT TO THE PRODUCTS AND SERVICES PROVIDED UNDER THIS AGREEMENT, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHTS OF A THIRD PARTY, OR ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE.

Indemnification: Contractor agrees to defend, indemnify, and hold harmless the state of North Dakota, its agencies, officers and employees (State), from and against claims based on the vicarious liability of the State or its agents, but not against claims based on the State's contributory negligence, comparative and/or contributory negligence or fault, sole negligence, or intentional misconduct. This obligation to defend, indemnify, and hold harmless does not extend to professional liability claims arising from professional errors and omissions. The legal defense provided by Contractor to the State under this provision must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary. Contractor also agrees to defend, indemnify, and hold the State harmless for all costs, expenses and attorneys' fees incurred if the State prevails in an action against Contractor in establishing and litigating the indemnification coverage provided herein. This obligation shall continue after the termination of this agreement.

PRODUCT CONFORMITY: NDPERS has twelve (12) months following final acceptance of the Product(s) delivered by Sagitec pursuant to this Agreement to verify that the Product(s) conform to the requirements of this Agreement and perform according to Sagitec system design specifications. Upon recognition of an error, deficiency, or defect, by NDPERS, Sagitec shall be notified by NDPERS citing any specific deficiency (deficiency being defined as Sagitec having performed incorrectly with the information provided by NDPERS, not Sagitec having to modify a previous action due to additional and/or corrected information from NDPERS). Sagitec, at no additional charge to NDPERS, shall provide a correction or provide a mutually acceptable plan for correction within thirty-days following the receipt of NDPERS's notice to Sagitec. If Sagitec's correction is inadequate to correct the deficiency, or defect, or the error recurs, NDPERS may, at its option, act to correct the problem. Sagitec shall be required to reimburse NDPERS for any such costs incurred (not exceeding the cost paid to Sagitec) or NDPERS may consider this to be cause for breach of Agreement.

LIQUIDATED DAMAGES: The parties agree that NDPERS may suffer damages due to a failure by Sagitec to provide deliverables or services according to the Agreement. Since it is difficult to fix the actual damages sustained

in the event of such failure, NDPERS and Sagitec agree that the amount of damages will be determined as per this section. In the event of any non-performance Sagitec shall pay that amount as liquidated damages and not as a penalty. Amounts due to NDPERS as liquidated damages may be deducted by NDPERS from any fees payable to Sagitec and any amount outstanding over and above the amounts deducted from the invoice will be promptly tendered by check from Sagitec to NDPERS.

1. If Sagitec fails to complete a Deliverable identified in the Statement of Work or in this Agreement, Sagitec shall pay liquidated damages to the NDPERS in the amount of $250 per calendar day for each day the Deliverable is delayed or services fail to perform as per the Agreement. Notwithstanding the foregoing, the amount of liquidated damages charged against the Sagitec for a specific Deliverable shall in no event exceed the total price for such Deliverable. Liquidated damages actually paid by Sagitec to NDPERS are offset against any damages awarded to NDPERS for claims arising from the Deliverable. Notwithstanding the forgoing, liquidated damages will be limited to the delays caused solely by the actions/inactions of Sagitec.
2. Sagitec shall not be charged with liquidated damages when the delay in delivery or performance is beyond the control and without the fault or gross negligence of Sagitec.
3. NDPERS shall notify Sagitec, in writing, of any claim for liquidated damages no later than 15 days prior to the date NDPERS deducts such sums from money payable to Sagitec and, in any case, within 15 days after Sagitec's failure to perform in accordance with the terms of the Agreement.
4. Amounts due to NDPERS as liquidated damage may be deducted by NDPERS from any fees payable to Sagitec and any amount outstanding over and above the amounts deducted from the invoice will be promptly tendered by check from Sagitec to NDPERS.
5. The liquidated damages called for in this section are based upon the inherent uncertainty in determining loss arising from performance of Sagitec and therefore reflect an estimated foreseeable loss to NDPERS arising from Sagitec's performance under this agreement.

9. CONFIDENTIALITY.

Sagitec shall not use or disclose any information it receives from NDPERS under this Agreement that NDPERS has previously identified as confidential or exempt from mandatory public disclosure except as necessary to carry out the purposes of this contract or as authorized in advance by NDPERS. NDPERS shall not disclose any information it receives from Sagitec that Sagitec has previously identified as confidential and that NDPERS determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, N.D.C.C. ch. 44-04. The duty of NDPERS and Sagitec to maintain confidentiality of information under this section continues beyond the term of this contract.

9.1 Compliance with Public Records Law.

Sagitec understands that, except for information that is confidential or otherwise exempt from the North Dakota open records law, NDPERS must disclose to the public upon request any records it receives from Sagitec. Sagitec further understands that any records that are obtained or generated by Sagitec under this contract, except for records that are confidential or exempt may, under certain circumstances, be open to the public upon request under the North Dakota open records law. Sagitec agrees to contact NDPERS immediately upon receiving a request for information under the open records law and to comply with NDPERS instructions on how to respond to the request.

10. TERM AND TERMINATION.

10.1 This Agreement will take effect on the date first written above and will remain in effect for an initial term provided in Exhibit A to this Agreement or until terminated as provided in this Section 10.

10.2 Sagitec may terminate this Agreement, without cause, at any time upon ninety (90) days notice to Customer. Customer may terminate this Agreement, without cause, at any time upon thirty (30) days notice to Sagitec. If Customer terminates this agreement after a Major Release has been successfully implemented, Customer will pay Sagitec the balance of the annual amount (see Exhibit A) minus any credits, within 30 days after

termination becomes effective.

10.3 Either party hereto may terminate this Agreement at any time by giving notice in writing to the other party, which notice will be effective upon dispatch, should the other party file a petition of any type as to its bankruptcy, be declared bankrupt, become insolvent, make an assignment for the benefit of creditors, go into liquidation or receivership, or otherwise lose legal control of its business, or should the other party or a substantial part of its business come under the control of a third party.

10.4 Either party may terminate this Agreement by giving notice in writing to the other party in the event the other party is in material breach of this Agreement and fails to cure such breach within thirty (30) days of receipt of written notice thereof from the first. Termination will be in addition to, and not exclusive of other remedies available with respect to the breach.

10.5 Upon the expiration or termination of this Agreement for any reason, (i) subject to any surviving right to use such Confidential Information, and subject to the requirements of the North Dakota open records laws, each party will promptly return all copies of any Confidential Information of the other party then in its possession, or destroy that Confidential Information as mutually discussed and agreed and certify the destruction to the other party, and (ii) the provisions of Sections 1, 2.2, 2.3, 7, 8, 9 and 11of this Agreement will remain in effect in accordance with their terms. In addition, upon the termination of this Agreement by Customer as provided in Section 10.2 above, within thirty days after the effective date of termination Customer will pay Sagitec all of the fees due for services performed prior to the date of termination, that would be payable under this Agreement if this Agreement was not terminated. Nothing in this paragraph shall prohibit Customer from complying with its obligations under any applicable open records law(s).

10.6 Termination for lack of funding or authority. NDPERS may terminate this contract effective upon delivery of written notice to Sagitec, or on any later date stated in the notice, under any of the following conditions:

1) If funding from federal, state, or other sources is not obtained and continued at levels sufficient to allow for purchase of the services or supplies in the indicated quantities or term. The contract may be modified by agreement of the parties in writing to accommodate a reduction in funds.
2) If federal or state laws or rules are modified or interpreted in a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract.
3) 1f any license, permit or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended or not renewed.
4) Termination of this contract under this subsection is without prejudice to any obligations or liabilities of either party already accrued prior to termination.

11. GENERAL.

11.1 This Agreement does not make either party the employee, agent or legal representative of the other for any purpose whatsoever, including the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workforce Safety and Insurance Act. Neither party is granted any right or authority to assume or to create any obligation or responsibility, express or implied, on behalf of or in the name of the other party. In fulfilling its obligations under this Agreement, each party will be acting as an independent contractor and retains sole and absolute discretion in the manner and means of carrying out the respective activities and responsibilities under this contract, except to the extent specified in this contract.

11.2 Neither party may assign or transfer its rights and obligations under this Agreement except with the prior written consent of the other party. Sagitec may assign or otherwise transfer its rights and obligations under this Agreement to another entity under direct control of Sagitec without prior notice to or the consent of Customer. Any prohibited assignment will be null and void. Sagitec may subcontract all, or any portion of the services provided under this Agreement, but will remain responsible for the Services subcontracted.

11.3 Notices permitted or required to be given hereunder will be deemed sufficient if given by (i) registered or certified mail, postage prepaid, return receipt requested, addressed to the respective addresses of the parties that are set forth below, (ii) fax to the respective fax numbers of the parties that are set forth below, or (iii) email to the respective addresses of the parties that are set forth below. Notices given by mail will be effective upon the earlier to occur of receipt by the party to which notice is given, or on the fifth (5th) business day following the date such notice was posted. Notices by fax will be effective on the day a confirming communication is received from the recipient of the notice. Notices by email will be effective on the second (2d) business day after dispatch.

Notices to Sagitec will be sent to:

Sagitec Solutions LLC
422 County Rd D East
Little Canada, MN 55117

Attn: Rick Deshler

Fax Number: _____
Email Address: rick.deshler@sagitec.com

Notices to Customer will be sent to:

_____
_____
_____

Attn: _____

Fax Number:_____
Email Address: _____

With a copy to:

Timothy Keller
Lindquist & Vennum PLLP
4200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402

Attn: Timothy Keller

Fax Number: 612-371-3207
Email Address: tkeller@lindquist.com

With a copy to:

_____
_____
_____

Attn: _____

Fax Number: _____
Email Address: _____

11.4 This Agreement together with Exhibits attached to this Agreement, (i) constitutes the entire agreement between the parties with respect to the subject matter hereof, (ii) supersedes any and all other agreements between the parties related thereto, as well as all proposals, oral or written, and all negotiations, conversations or discussions between the parties related to this Agreement, except the agreements noted in Section 2.2 and 2.3 above,, (iii) may not be altered, amended or otherwise modified without the written agreement signed by the parties hereto, and (iv) may be executed in two or more counterparts, each of which will be deemed an original hereof. No product or service specifications, or terms and conditions that are additional or contrary to the terms of this Agreement, whether contained in any purchase order or other communication from Customer or any third party, will be construed as, or constitute a waiver of these terms and conditions, or acceptance of any such additional terms, conditions or specifications. Sagitec hereby rejects and objects to such additional or contrary terms, conditions or specifications.

11.5 No failure by either party to take any action or assert any right hereunder will be deemed to be a waiver of such right.

11.6 If any of the terms of this Agreement are in conflict with any rule of law or statutory provision or otherwise unenforceable under the laws or regulations of any government or subdivision thereof, such terms will be deemed stricken from this Agreement, but such invalidity or unenforceability will not invalidate any of the other terms of this Agreement and this Agreement will continue in force, unless the invalid or unenforceable provisions comprise an integral part of, or are otherwise inseparable from, the remainder of this Agreement.

11.7 This Agreement will be governed by, and interpreted and construed in accordance with, the laws of the State of North Dakota, excluding its conflicts of law provisions. Any action to enforce this contract must be adjudicated exclusively in the State District Court of Burleigh County, North Dakota.

11.8 ALTERNATIVE DISPUTE RESOLUTION – JURY TRIAL: NDPERS does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolution. The parties have the right to enforce their rights and remedies in judicial proceedings. NDPERS does not waive any right to a jury trial

11.9 FORCE MAJEURE – Neither party shall be held responsible for delay or default caused by fire, flood, riot, acts of God or war if the event is beyond the party's reasonable control and affected party gives notice to the other party immediately upon occurrence of the event causing the delay or default or that is reasonably expected to cause a delay or default.

11.10 NONDISCRIMINATION AND COMPLIANCE WITH LAWS - Sagitec agrees to comply with all laws, rules, and policies, including those relating to nondiscrimination, accessibility and civil rights. Sagitec agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including sales and use taxes and unemployment compensation and workers' compensation premiums. Sagitec shall have and keep current at all times during the term of this contract all licenses and permits required by law.

11.11 NDPERS AUDIT - All records, regardless of physical form, and the accounting practices and procedures of Sagitec relevant to this contract are subject to examination by the North Dakota State Auditor, the Auditor's designee, or Federal auditors. Sagitec shall maintain all such records for at least three years following completion of this contract and be able to provide them at any reasonable time. NDPERS, State Auditor, or Auditor's designee shall provide reasonable notice.

11.12 TAXPAYER ID - CONTRACTOR'S federal employer ID number is: 20-0970684

11.13 EFFECTIVENESS OF CONTRACT – This Agreement is not effective until fully executed by both parties.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed.

	SAGITEC SOLUTIONS, LLC	CUSTOMER
By	Piyush Jain	By _____
Name	Piyush Jain	Name _____
Title	CEO	Title _____
Date	July 31, 2015	Date _____

NDPERS EXHIBIT A

FEES AND PAYMENT

PRODUCT SERVICES FEE
Customer will pay Sagitec $447,892 for "NDPERS License" as described in Exhibit B. Services fees will be due and payable within thirty (30) days after the date of Sagitec's invoice.

The license fee shall be divided into 24 equal monthly installments of $18,662.17. Services fees will be due and payable within thirty (30) days after the date of Sagitec's invoice.

This fee is effective starting on July 1, 2015 and shall continue through June 30, 2017, unless terminated earlier. If Customer terminates this agreement during mid-year, Customer will pay Sagitec the balance of the annual amount (see above) minus any credits, within 30 days after termination becomes effective. Sagitec may increase the fee upon the annual renewal process with the Customer. Sagitec shall notify Customer of any proposed annual increase no later than 90 days prior to the renewal of this agreement for the following year.

FEE FOR APPLICATION DEVELOPMENT OUTSOURCING
Customer will pay Sagitec the fixed amount of $787,042 for Application Development Services for the period July 1, 2015 through June 30, 2017. Sagitec shall provide one (1) onsite resource for up to 1,800 hours, and three (3) offsite full-time equivalent (FTE/1800 hours) for corrective, adaptive, preventative and perfective support activities to be directed by NDPERS. Sagitec will invoice NDPERS $32,793.42 per month for the period above.

FEE FOR APPLICATION DEVELOPMENT OUTSOURCING

Should Customer decide to purchase additional ADO services on a cost-plus basis, the following hourly rates shall apply:

	2015	2016	2017
On Site Resources	$240	$250	$260
Off Site Resources	$140	$150	$160

Hourly rates do not include travel and expenses and are subject to change depending on prevailing market conditions. Sagitec will provide discounted rates for blocks of hours over 1,000.

NDPERS EXHIBIT B – PRODUCT SERVICES

For this agreement, NDPERS shall receive services as follows:

- All major and minor Product releases
- Product installation and configuration services
- Enrollment as Beneficiary to Standard Escrow Agreement
- A technical and business overview of the new features of the Product and Product Extensions and implementation pre-requisites prior to the implementation of the Product.
- Enterprise licenses to Product Extensions
- Product Service Desk (e.g. Help Desk) –Non-dispatched service assistance or resolution delivered via phone, e-mail and/or on-line communication.
- Dedicated service desk and account manager

NDPERS EXHIBIT C

CREDITS

1. Failure to meet P1 level response times - credit equal to one hundred percent (100%) of the fees due for the calendar month in which the failure occurs.

2. Failure to meet P2 level response times - credit equal to twenty-five percent (25%) of the fees due for the calendar month in which the failure occurs.

3. Failure to meet P3 level response times -a credit equal to ten percent (10%) of the fees due for the calendar month in which the failure occurs.

4. Failure to fulfill Sagitec's agreed upon implementation responsibilities within the Product implementation timeline as stated within the Statement of Work for that project – credit equal to one hundred percent (100%) of the fees due for the calendar month in which the failure occurs. This credit will continue to be applied on a monthly basis until the Product is successfully implemented.

5. Failure to provide complete Documentation to the Customer within 1 month after completion of the Product implementation, or an alternate date as mutually agreed upon – credit equal to one hundred percent (100%) of the fees due for the calendar month in which the failure occurs. This credit will continue to be applied on a monthly basis until the complete Documentation is provided to the Customer.

6. The maximum credit with respect to each calendar month will be the fees due with respect to that calendar month.

7. Customer will receive a credit only once with respect to any reported error, without regard to additional response time failures with respect to that error.

NDPERS SLA EXHIBIT D

POINT OF CONTACT

Vasudevan Sridharan is assigned as the Sagitec Point of Contact to the Customer. All costs for work performed by this person are included in this Agreement.

Support Hours: 8:00a to 5:00p Central Time, Monday through Friday, exclusive of United States Federal holidays as published by the U.S. Office of Personnel Management

NDPERS SLA EXHIBIT E

FORM OF STATEMENT OF WORK

[This form to be completed and executed for each services engagement.]

Introduction

This Statement of Work No. _____ ("SOW") is delivered in accordance with that certain Service Level Agreement (the "Agreement") dated _____, by and between Sagitec and Customer. This SOW is subject to all the terms and conditions of the Agreement.

Objectives

[Describe the project objectives]

Staffing

[Describe who will be involved in the project]

Statement of Tasks

[Describe the services to be performed including Start Criteria, Deliverable Descriptions, Acceptance Criteria, Work Scheduling and Tracking, Post Implementation, Roles and Responsibilities, Confidentiality, Project Plan and implementation timeline, etc.)

System Requirements

[Describe the system requirements for the project]

Assumptions and Dependencies

[List any applicable assumptions and dependencies for this project]

Statement of Cost

[Specify the project cost, payment schedule, and/or fees, if applicable]

Additional Terms and Conditions

[List any additional terms and conditions that are applicable for this project]

Acceptance and Authorization

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: Derrick Hohbein, CPA

DATE: August 11, 2015

SUBJECT: Consultant Fees for the Quarter Ended June 2015

Attached is a quarterly report showing the consulting, investment, and administrative fees paid during the quarter ended June 2015.

Attachment

North Dakota Public Employees Retirement System
Consulting/Investment/Administrative Fees
For the Quarter ended June 30, 2015

	Program/Project	Fee Type	Apr-15	May-15	Jun-15	Fees Paid During The Quarter	Fees Paid Fiscal Year-To-Date
Actuary/Consulting Fees:							
Callan and Associates						$0	$5,000
Deloitte Consulting	Fully insured RFP				$44,277	$44,277	$49,277
Deloitte Consulting	Travel expenses				$22,479	$22,479	$22,779
Deloitte Consulting	Self Insured RFP		$5,000		$20,659	$25,659	$25,959
Deloitte Consulting	Hourly billings regular rates				$866	$866	$13,161
Deloitte Consulting	Hourly billings Composite rates		$172,183			$172,183	$173,351
Mid Dakota Clinic	Retirement Disability	Time charges	$1,800		$2,400	$4,200	$9,550
Eide Bailly	GASB 68/67	Time charges				$0	$5,450
Eide Bailly	Hourly Consulting	Time Charges				$0	$175
Eide Bailly	Travel expenses					$0	$868
Gallagher Benefit Services Inc	fixed fee					$0	$3,000
Ice Miller	Legal fees ACA				$175	$175	$24,996
Ice Miller	Legal fees Employee benefit matters				$2,161	$2,161	$25,112
Linda Cahn	Project # 1					$0	$4,088
Linda Cahn	Project # 2					$0	$10,000
Linda Cahn	Project # 3					$0	$29,358
Linda Cahn	Project # 4					$0	$8,190
Linda Cahn	Project # 5					$0	$9,338
The Segal Company	Retirement (DB)	Fixed Fee	$18,025		$18,025	$36,050	$89,850
The Segal Company	Ret Health Credit	Fixed Fee	$3,325		$3,815	$7,140	$17,065
The Segal Company	FlexComp	Fixed Fee				$0	$140
The Segal Company	Experience Study Fixed Fee	Fixed Fee			$43,000	$43,000	$43,000
The Segal Company	Job Service	Fixed Fee	$4,800		$4,800	$9,600	$23,950
The Segal Company	QDRO/Compliance	Time charges	$2,380	$140	$5,250	$7,770	$17,570
The Segal Company	Legislation	Time charges	$13,090			$13,090	$147,980
The Segal Company	Gallagher Audit	Time charges	$15,000			$15,000	$15,000
The Segal Company	Group Insurance	Time charges			$910	$910	$910
The Segal Company	Def comp	time charges			$1,050	$1,050	$2,100
The Segal Company	GASB 67 disclosures	Time charges				$0	$88,340
The Segal Company	Retirement	Time charges		$700		$700	$700
The Segal Company	Health savings accounts	Time charges					
The Segal Company	115 TRUST					$0	$0
The Segal Company	Consulting on ACA	Time charges				$0	$8,470
The Segal Company	Dental RFP					$0	$0
The Segal Company	Travel Expenses	Actual				$0	$0
			$235,603	$840	$169,867	$406,310	$874,747
Audit Fees:							
Brady Martz	Annual audit	Fixed Fee				$0	$52,750
Brady Martz	GASB 68/67	Time Charges			30,000	30,000	30,000
Legal Fees:							
ND Attorney General	Administrative	Time charges				$0	$20,844
Investment Fees:							
SIB - Investment Fees	Retirement (DB)	% Allocation	$282,265	$537,015	$620,537	$1,439,817	$9,486,697
SIB - Investment Fees	Ret Health Credit	% Allocation	$799	$67,089	$5,179	$73,067	$286,640
SIB - Investment Fees	Insurance	% Allocation	$366	$386	$737	$1,489	$5,522
SIB - Administrative Fees	Retirement (DB)	% Allocation	$20,890	$23,607	$35,820	$80,317	$308,033
						$1,594,690	$10,086,892
Administrative Fee:							
Blue Cross Blue Shield	Health Plan	Fixed fee	$1,773,641	$1,772,568	$1,776,603	$5,322,813	$21,078,613

*** fees not yet available**

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • PO 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: NDPERS Board

FROM: Jamie Kinsella Jamie

DATE: August 19, 2015

SUBJECT: **May 20, 2015 PERS Audit Committee Minutes**

Attached are the approved minutes from the May 20, 2015 meeting. Those who attended the meeting are available to answer any questions you may have.

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

The next audit committee meeting is currently scheduled for November 18th at 10:00 a.m., in the NDPERS Conference Room.

Attachment

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • PO 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: Audit Committee
Jon Strinden
Arvy Smith
Rebecca Dorwart

FROM: Jamie Kinsella, Internal Auditor Jamie

DATE: June 3, 2015

SUBJECT: **May 20, 2015 Audit Committee Meeting**

In Attendance:
Jon Strinden
Arvy Smith
Rebecca Dorwart
Jamie Kinsella
Julie McCabe
Sparb Collins
Sharon Schiermeister
Thomas Rey
Jason Ostroski
Brian Kiernan
Nathan Chadsey

The meeting was called to order at 10:03 a.m.

I. February 18, 2015 Audit Committee Minutes

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

II. Internal Audit Reports

A. Quarterly Audit Plan Status Report – A summary of the internal audit staff time spent for the past quarter was included with the audit committee materials. There is a new table added to the report entitled "Retirement Benefits & Refunds Audit; overall recap of results from July to the end of prior month." This is to show the Audit Committee the potential number of errors in the total population of new retirees based on audit results to date. There was discussion on the error rate and whether we should have a benchmark to work toward. Met with Benefit Manager and she feels the high rate is unacceptable.

B. Audit Recommendations Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit recommendations of the external auditors, as well as any found by the internal auditor. The report has been updated to reflect what has been accomplished during February 1, 2015 through April 30, 2015.

C. Benefit/Premium Adjustments Report – The quarterly benefit adjustment report was provided to the audit committee. The report is in two sections, Retirement and Insurance. This report has 6 retirement and 36 insurance adjustments.

III. Administrative

A. Audit Committee Meeting Date & Time – The next audit committee meeting is scheduled for August 19, 2015 at 10:00 a.m.

B. Annual Performance Evaluation – Sparb Collins will prepare a draft review for Ms. Kinsella and send it to the audit committee for review and comment. This needs to be finished by mid-June so it can be a part of the considerations relating to the July 1 salary adjustment.

IV. Miscellaneous

A. Introduction to CliftonLarsonAllen, External Auditors – Thomas Rey, Jason Ostroski and Brian Kiernan of CliftonLarsonAllen from Timonium, Maryland were in attendance to meet and review their methodology and approach to their audit and to answer any questions the audit committee had.

B. Travel Expenditures Update – There are no travel expenditures incurred by the Board and/or Executive Director for out-of-state travel for the period February 1, 2015 through April 30, 2015.

C. Risk Management Report - The Loss Control Committee provides quarterly to the Audit Committee a copy of the Loss Control Committee's agenda from their last meeting as well as the approved minutes. Copies of the December 16, 2014 minutes and the agenda for the March 30, 2015 meeting were provided to the audit committee.

D. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should "Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." A copy of the report showing the actuary/consulting audit, legal, investment and administrative fees paid during the quarter ended December 2014 is attached. The report for the quarter ended March 31, 2015 has not been provided to the board as of May 7th.

E. Publications – The January/February 2015 and March/April 2015 publications of the Tone at the Top were provided to the audit committee for their perusal.

F. Webinars and CPE's – Ms. Kinsella and Ms. McCabe have been participating in free Webinars that the Institute of Internal Auditors provides for their members. Each 1 hour webinar provides 1 hour of continuing professional education credits. The internal auditors have attended five webinars from April 1, 2015 through April 30, 2015. These webinars are held during the lunch hour so the internal auditors remain available to staff during normal business hours.

Meeting adjourned at 10:55 a.m.