

NDPERS BOARD MEETING

Agenda

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

October 16, 2008

Time: 8:30 AM

I. MINUTES

- A. September 18, 2008
- B. October 2, 2008

II. RETIREMENT & RETIREE HEALTH

- A. Investment Update – Steve Cochrane (Informational)
- B. Annual Actuarial Valuations – Segal (Information)
- C. Job Service COLA – Kathy (Board Action)
- D. Retiree Health Fund – Steve Cochrane (Informational)

III. GROUP INSURANCE

- A. BCBS Renewal – Sparb (Information)
- B. HB 1433 Update - Jamie Steig (Information)
- C. Surplus/Affordability Update – Bryan (Information)
- D. Health Promotion – Rebecca (Information)

IV. MISCELLANEOUS

- A. Legislation – Sparb (Board Action)
- B. Quarterly Consultant Fees – Jim (Information)
- C. SIB Agenda

V. DEFERRED COMPENSATION

- A. 2nd Quarter 2008 Investment Report – Bryan (Information)
- B. Hardship Appeal – Kathy (Board Action)

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



**North Dakota
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Memorandum

TO: PERS Board
FROM: Sparb
DATE: October 9
SUBJECT: Investment Update

Steve Cochrane, state investment officer, will be at the meeting to give you an update on the investments.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: October 9, 2008
SUBJECT: Annual Actuarial Valuations

Brad Ramirez from the Segal Company will be at the next Board meeting to go over the annual actuarial valuations for each of the retirement plans and the retiree health credit program. Included with the Board materials are the valuations for your review and information. As noted in the summary, the following is the results for the PERS retirement plans:

The employer actuarial contribution requirements for 2008-2009 are as follows:

	Amount	Percentage of Payroll	Statutory/ Approved Rate
Main System	\$39,016,701	6.23%	4.12%
Judges	470,992	8.99	14.52
National Guard	67,538	3.44	6.50
Law Enforcement with prior Main service	457,034	9.04	8.31
Law Enforcement without prior Main service	58,951	7.15	6.43

A comparison of this year's actuarial contribution rates to last year's rates as a percent of payroll are as follows:

	2008-2009	2007-2008
Main System	6.23%	6.08%
Judges	8.99	9.31
National Guard	3.44	3.53
Law Enforcement with prior Main service	9.04	12.39
Law Enforcement without prior Main service	7.15	8.50

The following is the results for the Highway Patrol Plan:

The employer actuarial contribution requirement for 2008-2009 is \$1,025,737, or 15.76% of payroll. The statutory rate of 16.70% of payroll is greater than the actuarially determined rate by 0.94% of payroll. Last year, the actuarially determined rate of 15.08% exceeded the statutory rate of payroll by 1.62% of payroll.

The following is the results for the retiree health credit program:

The actuarial contribution requirement for 2008-2009 is \$5.8 million, or 0.88% of payroll. The statutory rate of 1.00% of payroll is greater than the actuarially determined rate by 0.12% of payroll. Last year, the statutory rate exceeded the actuarially determined rate of 0.95% by 0.05% of payroll.

The following is the results for the Job Service Retirement Plan:

<u>Valuation Results</u>	<u>July 1, 2008</u>	<u>July 1, 2007</u>
Scheduled contribution at end of year	\$0	\$0
Contribution as a percentage of payroll	0.00%	0.00%
Total projected payroll of employees included in cost calculations	\$1,612,533	\$1,843,140
Outstanding balance of frozen initial liability	\$0	\$0
Amortization of frozen initial liability	\$0	\$0
Normal cost	\$0	\$0
Actuarial present value of projected benefits	\$71,828,872	\$71,724,859
Actuarial value of assets	77,020,934	\$75,749,846
Market value of assets	89,913,883	\$94,687,307

While the results for all the plans this year are okay, overall all the plans had a significant loss due to negative returns and the financial position of each deteriorated. Market returns for this year and next will have a significant affect on each plan's funded status.

Brad will give a presentation reviewing the above. Also he will present projections relating to the PERS plans performance in future years a various rates of return and he will be available to answer any question you may have.



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Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: October 7, 2008

SUBJECT: Job Service COLA

According to Article VII(3) of the plan document for the Retirement Plan for Employees of Job Service North Dakota, “effective each December 1 of any year, the monthly amount of each retirement annuity, death benefit, or disability benefit then payable shall be increased by the percent increase, if any, in the Consumer Price Index.” It further states...”no increase in retirement allowance granted under the Plan, or the date for commencement of such increase, will become effective unless the same increase has been authorized for the Civil Service Retirement System, and unless the increase has been authorized by the NDPERS Board.” This provision for a COLA increase was authorized by the United States Department of Labor as part of a larger agreement reached with the USDOL in the late 1970’s. Since that time the Plan practice has been to provide COLA’s consistent with the Federal Civil Service Plan. The plan assumes a post-retirement COLA of 5%.

The annual COLA percentage adjustment for the Federal Civil Service Plan is not available until October 15th. Therefore, the increase and its effect on the system will be provided at the meeting.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: October 9, 2008
SUBJECT: Retiree Health Fund

Steve Cochrane will be at the Board meeting and will discuss a proposal from State Street concerning an issue relating to the management of the funds in the Retiree Health Benefits Program.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: October 9, 2008
SUBJECT: Health Renewal

Since our last meeting on October 3 we have:

- Relayed to BCBS the Board's decision
- Reviewed and finalized all schedules
- Set up meetings with OMB and Legislative Council to review the Board's decision and the schedules

Attached for your reference are the final schedules. Attachment # 1 is the final rating sheet with the 1% contingency adjustment. Attachment # 2 is the final plan design and alternatives spreadsheet that was forwarded to OMB and Legislative Council. Attachment # 3 is the final PDP rates.

Please note that in the previous sheet, BCBS showed the base rate without the adjustment for the ideal formulary. Since PERS did approve the ideal formulary last year the base rate has been adjusted to reflect that decision. The increase remains 13% but off the smaller base rate.

North Dakota Public Employees Retirement System

7-09/6-11 Renewal Results based on Current Plan Design

		<u>April 2008 Contracts</u>	<u>7-07/6-09 Rates</u>	<u>Biennium Income</u>	<u>7-09/6-11 Rates *</u>	<u>Biennium Income</u>	<u>Rate Increase</u>
Actives	Single	3,307	\$658.08	\$52,230,493	\$838.20	\$66,526,258	27.4%
	Family	11,031	\$658.08	\$174,222,732	\$838.20	\$221,908,421	27.4%
Actives LOA, COBRA, Temp.	Single	293	\$318.30	\$2,238,286	\$404.16	\$2,842,053	27.0%
	Family	138	\$764.02	\$2,530,434	\$978.08	\$3,239,401	28.0%
Non-Medicare Retirees	Single	548	\$475.32	\$6,251,409	\$606.22	\$7,973,005	27.5%
	Family	226	\$946.40	\$5,133,274	\$1,212.46	\$6,576,383	28.1%
	Family 3+	6	\$1,181.95	\$170,201	\$1,515.58	\$218,244	28.2%
Political Subs.	Single	1,625	\$339.56	\$13,242,840	\$429.58	\$16,753,620	26.5%
	Family	1,881	\$817.58	\$36,908,832	\$1,043.14	\$47,091,512	27.6%
Pol. Subs. All in EPO	Single	378	\$316.30	\$2,869,474	\$399.72	\$3,626,260	26.4%
	Family	516	\$760.86	\$9,422,490	\$970.32	\$12,016,443	27.5%
Medicare Retirees	1 Medicare only	2,965	\$210.46	\$14,976,334	\$189.68	\$13,497,629	-9.9%
	2 Medicare only	1,424	\$410.98	\$14,045,652	\$370.74	\$12,670,410	-9.8%
	3 Medicare only	5	\$486.22	\$58,346	\$449.78	\$53,974	-7.5%
	Part A 1 Medicare	1	\$480.72	\$11,537	\$409.76	\$9,834	-14.8%
	1 Medicare + others	328	\$618.14	\$4,865,998	\$521.68	\$4,106,665	-15.6%
	2 Medicare + others	7	\$552.18	\$92,766	\$485.74	\$81,604	-12.0%
	3 Medicare + others	1	\$486.22	\$11,669	\$449.80	\$10,795	-7.5%
		<u>24,680</u>		<u>\$339,282,767</u>		<u>\$419,202,511</u>	<u>23.6%</u>

* - Medicare rates include the Jan 1, 2009 Part-D increase rate of \$63.70 and rates will change each Jan 1.

Current Rate: \$658.08

	Existing Plan	Existing Plan	Existing Plan	Existing - EPO	Option A	Alt 1	Alt 1 - A	Alt 2	Alt 2 - A	Alt 3 HDHP
BCBS bid	\$846.64	\$846.64	\$846.64	\$829.76	\$839.00	\$837.88	\$830.64	\$810.56	\$803.70	\$751.90
Deductions										
Remove 1% Contingency	(\$8.44)	(\$8.44)	(\$8.44)	(\$8.27)	(\$8.36)	(\$8.36)	(\$8.28)	(\$8.08)	(\$8.02)	(\$7.50)
Sub total	\$838.20	\$838.20	\$838.20	\$821.49	\$830.64	\$829.52	\$822.36	\$802.48	\$795.68	\$744.40
	27.37%	27.37%	27.37%	24.83%	26.22%	26.05%	24.96%	21.94%	20.91%	13.12%

Biennium

Cost

Increase: FTE's

State 8,900	\$38,473,632	\$38,473,632	\$38,473,632	\$34,904,376	\$36,858,816	\$36,619,584	\$35,090,208	\$30,843,840	\$29,391,360	\$18,437,952
General Fund 60%	\$23,084,179	\$23,084,179	\$23,084,179	\$20,942,626	\$22,115,290	\$21,971,750	\$21,054,125	\$18,506,304	\$17,634,816	\$11,062,771
Other Funds 40%	\$15,389,453	\$15,389,453	\$15,389,453	\$13,961,750	\$14,743,526	\$14,647,834	\$14,036,083	\$12,337,536	\$11,756,544	\$7,375,181

	With EPO + Ben	W/O EPO +/-Ben	W/O EPO -Ben	W/O EPO +/-Ben						
Wellness Package										
EPO	\$0.00	(\$16.71)	Inc. above	(\$16.56)	(\$16.53)	(\$16.39)	(\$15.99)	(\$15.85)		
Benefit Standard	\$0.00	(\$3.40)	(\$3.40)	(\$3.40)	(\$3.40)	(\$3.40)	(\$3.40)	(\$3.40)		
Wellness Benefits	\$7.88	\$7.88	\$0.00	\$7.88	\$7.88	\$7.88	\$7.88	\$7.88		
Subtotal	\$7.88	(\$12.23)	(\$3.40)	(\$12.08)	(\$12.05)	(\$11.91)	(\$11.51)	(\$11.37)		
Sub Total	\$846.08	\$825.97	\$838.20	\$818.09	\$818.56	\$817.47	\$810.45	\$790.97	\$784.31	\$744.40
Increase \$'s	\$188.00	\$167.89	\$180.12	\$160.01	\$160.48	\$159.39	\$152.37	\$132.89	\$126.23	\$86.32
Increase %	28.57%	25.51%	27.37%	24.31%	24.39%	24.22%	23.15%	20.19%	19.18%	13.12%

PERS Benefits Committee Priority:	1	3	2	7	4	5	6	8	9	10
NDPERS Priority:	1	2	3	4	5	6	7	8	9	10

Biennium

Cost

Increase: FTE's

State 8,900	\$40,156,800	\$35,861,304	\$38,473,632	\$34,178,136	\$34,278,528	\$34,045,704	\$32,546,232	\$28,385,304	\$26,962,728	\$18,437,952
General Fund 60%	\$24,094,080	\$21,516,782	\$23,084,179	\$20,506,882	\$20,567,117	\$20,427,422	\$19,527,739	\$17,031,182	\$16,177,637	\$11,062,771
Other Funds 40%	\$16,062,720	\$14,344,522	\$15,389,453	\$13,671,254	\$13,711,411	\$13,618,282	\$13,018,493	\$11,354,122	\$10,785,091	\$7,375,181

* - No longer funding Health Dialog at \$4.18 because Disease Management is included in BCBS Administration.

Option A	Increase individual coinsurance by \$250 and family by \$500
Alternative 1	Increase individual deductibles by \$50 on EPO and \$100 on PPO and Basic plans. Increase family deductible by \$150 on EPO and \$300 on PPO and Basic Plans
Alternative 1.A	Both Alternative 1 and Option A
Alternative 2	Increase individual deductibles by \$300 on EPO and \$350 on PPO and Basic plans. Increase family deductible by \$900 on EPO and \$1050 on PPO and Basic Plans
Alternative 2.a	Both Alternative 2 and Option A
Alternative 3	HDHP with \$1250 individual deductible and \$2,500 family deductible

NDPERS Health Plan 2009-2011 Wellness Additions:

\$200 Screening Benefit	\$5.84
HPV Vaccine	\$0.36
Zoster Vaccine	\$0.30
Tetanus Vaccine	\$0.20
Influenza Vaccine	\$0.10
Chiropractic Copay Standardization	\$0.24
LRD Obesity Visit	\$0.72
7 Well Child Care Visits	\$0.12
Subtotal	\$7.88
* Circumcisions	\$0.18
* My Health Center	\$0.72
Total	\$8.78

* Last two are included in BCBS Adm fee

NDPERS Health Plan 2009-2011 Benefit Reductions:

Well Child Care Copays	\$1.02
PT/OT/ST Copays	\$1.06
Maintenance Drug Copays	\$1.32
Total	\$3.40

North Dakota Public Employees Retirement System

2009 Renewal for Group Prescription Drug Plan
Based on Current Plan Design

Enrollment on 6/30/2008	2008		2009		Rate Increase
	Monthly Premium	Annual Income	Monthly Premium	Annual Income	
6,201	56.40	\$4,196,837	63.70	\$4,740,044	12.9%

Notes for 2009 Renewal:

- The Centers for Medicare and Medicaid Services (CMS) reported on August 14, 2008 the national average monthly bid amount for standard Part D individual coverage of \$84.33 and the Part D base beneficiary premium for 2008 (average individual premium) of \$30.36. These amounts are increases from those used in 2008, which were \$80.52 and \$27.93 respectively.

Further information on this topic can be found at the CMS website:

<http://www.cms.hhs.gov/medicareadvtspeccratestats/Downloads/PartDandMAbenchmarks2009.pdf>

- Direct CMS subsidy payments, which account for more than half of expected claim costs for the NDPERS GPDP, are derived from bidding averages discussed above. For the 2009 NDPERS GPDP rating estimated total CMS payments are expected to **decrease by 12.4%** from that assumed in the 2008 GPDP rating.
- The NDPERS Group Prescription Drug Plan (GPDP) has been rated for 2009 based on prior claim experience from 2007 and the first half of 2008.

North Dakota Public Employees Retirement System
 2009 Renewal Rate Calculation for Group Prescription Drug Plan
 Based on 2008 Plan Design

1A. Allowed Claims Amounts (Incurred 1-1-07 thru 12-31-07, paid thru 7-25-08)	12,140,460
1B. Benefit Adjustment to Current Period [(1) x 0.900]	10,926,414
2A. Allowed Claims Amounts (Incurred 1-1-08 thru 6-30-08, paid thru 7-25-08)	6,156,709
2B. Benefit Adjustment to Current Period [(2) x 0.990]	6,095,142
3. Incurred Allowed Claims [(1B) + (2B)]	17,021,556
4. Member Months Exposed (1-1-07 thru 6-30-08)	109,661
5. Adjusted Experience Period Allowed Claims PMPM [(3) / (4)]	155.22
6. Trend [21 months @ 7.5% annual]	1.13125
7. Rating Period Allowed Claims PMPM [(5) x (6)]	175.59
8. Rating Period Plan Paid PMPM [(7) x 0.661]	116.07
9. Rating Period Member Cost Share PMPM [(7) - (8)]	59.53
10. Estimated 2009 Rx Drug Rebate PMPM	18.00
11. 2009 Plan Payments PMPM [(8) - (10)]	98.07
12. 2009 Anticipated Loss Ratio	85%
13. 2009 Gross Premium to BCBSND [(11) / (12)]	115.38
14. CMS Payments to BCBSND	51.72
15. Calculated Member Premium [(13) - (14)]	63.66
16. Rounded to Nearest \$0.10	63.70

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



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: October 8, 2008
SUBJECT: HB 1433 Update

Jamie Steig, the project manager for implementation of HB 1433 for the Pharmacy Association, will be at the Board meeting to give you an update. Attached is his presentation.

About the Patient Diabetes DSM Program



Program Update

Jayne Steig, PharmD, RPh
Frontier Pharmacy Services, Inc
Clinical Coordinator Provider

1-877-364-3932

jsteig@frontierpharmacyservices.com

Program Overview

- Diabetes care services are provided by a network of pharmacists and other providers who have completed an accredited diabetes certification program
- Providers will “coach” eligible participants on how to self-manage their diabetes
- Modeled after successful “Asheville Project”
 - Program delivery and patient incentives

Program Overview Continued...

- Providers will provide an assessment, develop a care plan and provide follow-up services and referrals
- Clinical, humanistic, and economic measures will be recorded for analysis
- Foster Collaboration with health care providers

Pharmacist - Provider Network

- Over 80 provider sites in North Dakota
- Over 200 hundred individual providers
- Urban & Rural Providers
- Creation of NDPSC Provider Data Base
- Clinical Coordinator – network oversight
- Provider Network Agreements – roles & responsibilities
- Medication Management Systems (MMS)
- Communication Hub - website



Patient Enrollment

- Patients can enroll:
 - Via Internet website
 - Via providers at their practice location
 - Via Clinical Coordinator by telephone or direct mail
- Enrollment thus far
 - 50% - web
 - 40% - phone
 - 10% - other

Current Enrollment Status

- Current Enrollment
 - 320 patients
- Patients cover the entire state
 - From Forman to Hettinger; Williston to Cavalier
- Majority of patients are type II diabetics age 50+
 - We do have all ages and both type I and type II patients enrolled
- Run the full spectrum as far as time diagnosed
 - From newly diagnosed to having been a diagnosed with diabetes for 30+ years

Current Enrollment Status

- Majority of patients live near Bismarck, Grand Forks, Dickinson, Jamestown, Fargo, Devils Lake
 - Carrington, Cavalier, Grafton, and Rugby are “secondary” hubs
- There are 7 patients requesting “traveling” services
 - No provider geographically close providers
 - We have trained pharmacists traveling to those locations and pharmacies in those areas wanting to join the network

Current Enrollment Status

- 72 of 82 provider sites being utilized
 - 17 different provider sites have 7 or more patients assigned to them
 - Two largest sites have 19 and 14 patients assigned
 - Most locations have 2-3 patients assigned

www.aboutthepatient.net

- Hub of the program
- Contains patient and provider areas
 - Listserv and eventual e-newsletter
- Patient area
 - Program enrollment
 - Educational materials
 - Patient blog
- Thousands of hits since launching in July
 - Visits have come from the United States (19 different states), Philippines, Nigeria, Germany, Canada, and India



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M E M O R A N D U M

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

FROM: *BTR*
BRYAN T. REINHARDT

DATE: September 22, 2008

SUBJECT: GROUP MEDICAL PLAN - SURPLUS/AFFORDABILITY UPDATE

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

Net premium sent to BCBS in July 2007 was \$13,406,858. In July 2005 it was \$10,853,370. There are now 24,683 contracts on the NDPERS Health Plan. The NDPERS health plan ended up with 23,580 contracts in June, 2005. There were 22,947 contracts in June, 2003, and 21,792 in July 2001.

The 2003 - 2005 biennium settlement is on account at BCBS with a balance of over \$2,051,000. The remaining \$14.3 million was used to buy down premiums for the 05-07 biennium. This amount is at BCBS and receiving interest.

The first settlement for the 2005 - 2007 biennium transferred \$3,672,932 to the NDPERS account. In addition refunds came in greater than IBNR claims, so this biennium has a cash balance of \$194,355. The final settlement for this biennium is June 2009.

The projection for the 2007 - 2009 biennium shows total surplus at -\$3.57 million. If there is a surplus, we share 50/50 in the first \$3.0 million surplus with BCBS. This will make future growth in the gain for NDPERS difficult. The plan is fully insured by BCBS, so the June 30, 2009 NDPERS estimated gain is \$0.

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

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- | | | |
|------------------------------------|----------------------------------|-----------------------------------|
| • FlexComp Program | • Retirement Programs | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees | - Judges |
| • Dental | - Highway Patrol | - Prior Service |
| • Vision | - National Guard/Law Enforcement | - Job Service |
| | | • Deferred Compensation Program |
| | | • Long Term Care Program |

NDPERS - ESTIMATED SURPLUS PROJECTION: 2007-2009 BIENNIUM

August, 2008

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

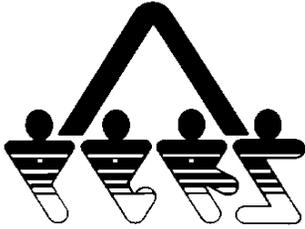
1) Preliminary Underwriting Gain/Loss for the 2007-2009 Biennium		(\$4,973,900)
2) Wellness Program Expenses		\$0
3) Estimated Underwriting Gain/Loss for the 2007-2009 Biennium		(\$4,973,900)
4) Projected Interest Accumulation (adjusted for usage as premium)		\$0
5) Refunds and Settlements		
11/30/07 Perform Rebate	(Included as claim rebates)	\$340,034
02/29/08 Perform Rebate	(Included as claim rebates)	\$385,151
05/31/08 Perform Rebate	(Included as claim rebates)	\$328,973
08/31/08 Perform Rebate	(Included as claim rebates)	\$354,915
10/31/08 Perform Rebate		\$350,000
01/31/09 Perform Rebate		\$350,000
04/30/09 Perform Rebate		\$350,000
06/30/09 Perform Rebate		\$350,000
EPO Settlement Payments 7/07 - 6/08	(No target settlements)	\$0
6) Total Estimated Surplus Held by BCBS		(\$3,573,900)
7) BCBS Portion of Surplus (Half upto \$1,500,000)		\$0
8) PERS Portion of Surplus Held by BCBS		(\$3,573,900)
9) Cash Reserve Account Balance		\$0
Future Contributions:		\$0
Future Interest:		\$0
Total		\$0
10) NDPERS Wellness Accounts		
My Health Connection		\$218,416
Employer Based Wellness		(\$17,925)
Wellness Benefit Program		\$16,535
SubTotal		\$217,026
Total Adjusted for Usage		\$0
11) Total Estimated Funds Available to PERS on June 30, 2009		\$0

NDPERS - Projected Underwritten Experience for the 2007-2009 Biennium

August, 2008

MONTH	PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE \$29.90/Con	NET PREMIUM	INTEREST ON CASH	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS(1)	ESTIMATED GAIN / LOSS
Jul-07	\$13,406,857	\$0	\$13,406,857	\$725,404	\$12,681,453	\$0	\$11,166,538	\$0	\$11,166,538	\$1,514,915
Aug-07	\$13,465,027	\$308	\$13,465,336	\$728,334	\$12,737,002	\$8,720	\$12,150,870	\$0	\$12,150,870	\$594,852
Sep-07	\$13,608,834	\$6,878	\$13,615,713	\$736,018	\$12,879,695	\$32,149	\$10,920,979	\$0	\$10,920,979	\$1,990,865
Oct-07	\$13,577,219	\$7,321	\$13,584,540	\$734,822	\$12,849,718	\$44,159	\$12,994,039	\$0	\$12,994,039	(\$100,162)
Nov-07	\$13,584,631	(\$6,547)	\$13,578,084	\$735,480	\$12,842,604	\$38,392	\$13,174,422	\$0	\$13,174,422	(\$293,426)
Dec-07	\$13,568,728	\$5,601	\$13,574,329	\$734,553	\$12,839,776	\$40,841	\$12,523,247	\$30,000	\$12,553,247	\$327,370
Jan-08	\$13,582,515	\$3,071	\$13,585,586	\$735,121	\$12,850,465	\$39,733	\$13,655,018	\$280,000	\$13,935,018	(\$1,044,820)
Feb-08	\$13,622,093	\$1,733	\$13,623,826	\$737,155	\$12,886,671	\$33,024	\$11,956,685	\$290,000	\$12,246,685	\$673,010
Mar-08	\$13,620,486	(\$2,685)	\$13,617,801	\$737,125	\$12,880,676	\$25,258	\$13,084,448	\$400,000	\$13,484,448	(\$578,514)
Apr-08	\$13,626,826	\$1,915	\$13,628,741	\$738,171	\$12,890,570	\$21,216	\$12,957,922	\$550,000	\$13,507,922	(\$596,136)
May-08	\$13,623,071	\$1,798	\$13,624,869	\$737,992	\$12,886,877	\$17,341	\$11,767,919	\$1,000,000	\$12,767,919	\$136,299
Jun-08	\$13,644,570	(\$2,237)	\$13,642,333	\$739,128	\$12,903,205	\$27,130	\$11,981,790	\$1,700,000	\$13,681,790	(\$751,455)
Jul-08	\$13,611,228	(\$4,554)	\$13,606,675	\$737,693	\$12,868,982	\$33,409	\$10,769,888	\$3,600,000	\$14,369,888	(\$1,467,498)
Aug-08	\$13,622,766	\$25,091	\$13,647,857	\$738,052	\$12,909,805	\$29,181	\$3,186,312	\$9,150,000	\$12,336,312	\$602,674
Sep-08	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$29,890	\$0	\$0	\$13,234,539	(\$319,904)
Oct-08	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$35,566	\$0	\$0	\$13,296,876	(\$376,566)
Nov-08	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$35,051	\$0	\$0	\$13,359,213	(\$439,418)
Dec-08	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$34,422	\$0	\$0	\$13,421,550	(\$502,383)
Jan-09	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$33,668	\$0	\$0	\$13,483,887	(\$565,475)
Feb-09	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$32,788	\$0	\$0	\$13,546,224	(\$628,692)
Mar-09	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$31,782	\$0	\$0	\$13,608,561	(\$692,035)
Apr-09	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$30,649	\$0	\$0	\$13,670,898	(\$755,505)
May-09	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$29,389	\$0	\$0	\$13,733,235	(\$819,101)
Jun-09	\$13,622,766	\$0	\$13,622,766	\$738,022	\$12,884,744	\$28,003	\$0	\$0	\$13,795,572	(\$882,824)
BIENNIAL										
TOTAL	\$326,392,513	\$37,694	\$326,430,206	\$17,675,264	\$308,754,942	\$711,759	\$162,290,077	\$17,000,000	\$314,440,632	(\$4,973,930)

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



**North Dakota
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Memorandum

TO: PERS Board
FROM: Rebecca
DATE: October 2, 2008
SUBJECT: iPod Give-away

During the month of June, PERS conducted a promotion through the wellness program in order to encourage employees and their eligible dependents age 18 or over to complete the health risk assessment survey available on the Health Dialog website. The average number of individuals that complete the survey in a non-promotional month is 47. The incentive to participate was an opportunity to win an iPod. The iPod was donated by Blue Cross Blue Shield for this purpose. You may recall that we did a similar promotion in March 2007 and there were 1,216 individuals that participated in this promotion.

Information was posted on the PERS website and also sent to the wellness coordinators weekly throughout the month of June. The coordinators were to forward these emails to their eligible employees. The notices provided details regarding the promotion and assured employees that the actual results of their survey questionnaire were confidential.

During the month of June, a total of 681 eligible employees and dependents completed the health risk assessment survey. On September 16, PERS staff performed the random drawing of the iPod winner. The winner has been contacted and announced through the wellness coordinators. We will also be publishing the winner in the next active *PERSpectives* Newsletter.

This item is informational. Staff will be available at the Board meeting to answer any questions that you may have.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: October 9, 2008
SUBJECT: Legislation

Attached is a summary of the proposed legislation and the column on the right is the final recommendation of staff concerning amendments. Also attached is the most recent technical and actuarial comments on the proposed bills from GBS and Segal (please note the new review for bill #LC 118, this has been changed substantially since being originally submitted by Senator Lyson, also note that the reviews have not been updated as yet for the last amendments but the actuarial information has been updated). After the Board's review of the proposed bills at this meeting, the information will be presented to the Legislative Employee Benefits Committee on October 21st. At that time, we will request any final changes on the proposed bills and the committee will then add their recommendation (favorable, unfavorable or no recommendation). At the November meeting the Board will again review the final bill drafts and the recommendations of the Legislative Employee Benefits Committee. At that time you will determine if we should file all or some of the bills with the Legislative Council for consideration by the Legislature next session.

Board Action Requested

To approve the proposed amendments to the bills suggested by staff.

**2009 Legislative Session
North Dakota Public Employees Retirement System**

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
90033.0300	Senator Mathern	A BILL for an Act to provide for establishment of the healthy North Dakota health insurance plan; to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to subgroups under the uniform group health insurance plan; to provide an effective date; and to provide a continuing appropriation.	PERS remain neutral on the bill at this time subject to final Board considerations in October	Staff Recommendation: PERS remain neutral.
90084.0100	Senator O'Connell	A BILL for an Act to create and enact a new section to chapter 26.1-36 and a new section to chapter 54-52.1 of the North Dakota Century Code, relating to parity for health insurance coverage of prosthetics.	PERS remain neutral on the bill at this time subject to final Board considerations in October	Staff Recommendation: PERS remain neutral.
90111.0100	PERS	A BILL for an Act to create and enact a new subsection to section 39-03.1-09 and a new subsection to section 54-52-05 of the North Dakota Century Code, relating to payment of employee contributions under the highway patrolmen's	Several item have been highlighted in the review: 1. ITD has estimated the cost of programming the enhancements as follows: a. Enhanced purchase	Issues and actuarial costs: 1. The actuarial report indicates that allowing members to designate nonspouse beneficiaries has an actuarial effect on the judges and the HP plans. On the HP plan it would increase employer contributions

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
		<p>retirement plan and public employees retirement system; and to amend and reenact sections 21-10-01(1), 39-03.1-08.2, 39-03.1-11(8) and (9), 39-03.1-11.2, 54-52-17(6), (8), and (9), 54-52-17.4(6), 54-52-28, 54-52.1-03(7), and 54-52.1-03.4 of the North Dakota Century Code, relating to membership on state investment board, purchase of service credit, member benefit options, Internal Revenue Code compliance, and board elections under the highway patrolmen's retirement plan and public employees retirement system, and participation and employer payments under uniform group insurance program.</p>	<p>for the HP system \$22,500</p> <p>b. Enhanced purchase for PERS - \$22,500</p> <p>c. Graduated Benefit Option HP - \$27,500</p> <p>d. Graduated Benefit Option PERS - \$27,500</p> <p>Since PERS is replacing its existing business system and the new system is schedule to be operational by January 2011 the above amount could be saved if the effective date of these provision was effective on the same date. This would save adding this functionality to the old system for a short period of time. Staff would recommend modifying the bill to have the effective date of these provisions be January 2011.</p> <p>2. The provision of the bill that</p>	<p>by .3% and the judges plan by .54%</p> <p>2. The bill also allows the designation of subsequent beneficiaries</p> <p>Staff Recommendation: Withdraw this provision for HP and judges due to the actuarial cost. Also withdraw it for the PERS system at this time. In addition withdraw the subsequent beneficiary provision since that was originally proposed as a companion to the nonspouse beneficiary provision</p>

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
			<p>provides a graduated increase of 1% or 2% in monthly retirement benefits may need to be clarified to indicate the frequency of the increase (e.g., each year, every two years).</p> <p>Staff would recommend modifying the bill to indicate the change would be each year in January.</p> <p>3. Pursuant to previous action of the board, propose a change to the automatic distribution provision</p>	
90112.0100	PERS	<p>A BILL for an Act to create and enact a new subsection to section 54-52-17.4 of the North Dakota Century Code, relating to purchase of service credit under the public employees retirement system; to amend and reenact sections 39-03.1-10, 39-03.1-11(9), 39-03.1-11.3, 54-52-06, 54-52-17.5, 54-52-17.11, 54-52-17.13, and 54-52.6-09(2) of the North Dakota Century Code, relating to</p>	<p>The following issues were discussed in the review:</p> <ol style="list-style-type: none"> 1. The timeframe for political subdivision elections is short 2. Limiting the time eligible for the subsidized purchase to what can be electronically determined (from 2000 forward). 3. The cost of the PEP enhancement is about \$24,000. Changing the 	<p>Issues and Actuarial Costs: The actuarial report identifies the following actuarial costs:</p> <ol style="list-style-type: none"> 1. The PEP enhancement would have an actuarial cost of .3%. 2. The retiree 2% increase would have an actuarial cost effect of 1.3% on the main, .49% on the National Guard plan, .8% on the Law Enf with prior service, .03 on the Law Enf. Without prior service and 5.34% on the HP plan.

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
		<p>employer contributions, cost of living adjustments and supplemental retiree payments under the highway patrolmen's retirement system and public employees retirement system.</p>	<p>effective date to after implementation of the new business system would mean the expense of this change would not have to be made to the existing system.</p> <p>Staff would recommend modifying the bill to have the effective date for the PEP enhancement to be January of 2011 and limiting the retroactivity of the provision to 2000.</p> <p>Based upon action at a previous board meeting we will be requesting the addition to this bill of an increase for OASIS retirees</p>	<ol style="list-style-type: none"> 3. The increase in the normal form of benefit for the HP from an automatic 50% J&S benefit to a 100% benefit would increase contributions by 3.02%. 4. The election timeframe for political subdivisions is short 5. The provision for those retiree that would be eligible is limited to those that immediately retire from an employer that elects to participate. This could result in an inequitable situation if a long term employee of an employer that elects to participate actually works for their last year of employment with one that does not would result in them not being able to get the increase. 6. It is not clear if an employers election applies to all PERS plans of it the election applies individually. <p>Staff recommendation:</p> <ol style="list-style-type: none"> 1. Drop the PEP enhancement provision due to the actuarial cost. 2. Drop the increase in the normal form of benefit for the HP plan from 50% to J&S to 100%.

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
				<p>3. Amend the bill to add an appropriation for the increased employer contribution to support the 2% increase in retiree contributions. Also consider reducing the return assumption in calculating the actuarial effect from 8% to 3%. We previously discussed this and decided not to make the change but in light of the markets performance since then we may want to consider this again since it would the risk to the system of a shortfall. Staff is working with the consultant to prepare some additional information for your consideration at the board meeting. We will also meet with the retiree committee to discuss this as well a couple of days before the board meeting to solicit their thoughts for your consideration as well.</p> <p>4. Amend the bill to provide that retirees who would be eligible to receive the increase would be those that had 3 years of employment with an employer that elects to pay the increased</p>

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
				<p>benefits instead of having retired from an employer that elects to participate.</p> <p>5. Amend the bill to add a late election opportunity for participating employers who do not elect by July 1, 2009. Allow them to participate if they agree to pay with interest at 8% contributions on payroll from July 1, 2008 to the date of election and then agree to the increased rate for the remainder of the period. The late election should only be available to July 2010.</p> <p>6. Amend the bill to clarify that employer elections to participate are by plan. For example a county that participated in both PERS and the Law Enforcement Plan would have to make two elections.</p>
90113.0100	PERS	A BILL for an Act to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to non-Medicare retiree insurance rates.	No issues	Issues and actuarial costs: The board has previously indicated its preference to fund this bill from reserves and requested that up to \$2 million be used. As written the bill would require about 2.5 million.

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
				The bill proposed to drop the ratio of preMedicare premiums to active from 150% to 125%. To get into the range of available funds the minimum would be 130% which would result in an increase of about a 13% increase and a ratio of 135% would be a about a 17% increase. The existing 150% ratio would be about a 30% increase Staff recommendation: Propose a ratio of 135%.
90114.0100	PERS	A BILL for an Act to amend and reenact sections 54-52.1-03.2(1) and 54-52.1-03.3(2) of the North Dakota Century Code, relating to the retiree health benefits fund.	No issues	Issues and actuarial costs: The actuarial report shows a cost of .15% of employer contributions to pay for the benefit. Since we have requested that this be funded in the Executive Budget, we do not need to request an appropriation on the bill. If it is not included in the Executive Budget, we will need to request the appropriation during the session.
90118.0100	Senator Lyson	A BILL for an Act to create and enact a new section to chapter 54-52 of the North Dakota Century Code, relating to participation by peace officers and correctional officers in the defined benefit retirement plan;	PERS remain neutral on the bill at this time subject to final Board considerations in October.	Staff Recommendation: PERS remain neutral.

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
		and to amend and reenact sections 54-52-01(3) and (11), 54-52-05(3), and 54-52-17(3) of the North Dakota Century Code, relating to participation by peace officers and correctional officers in the defined benefit retirement plan.		
90124.0100	Rep. Potter	A BILL for an Act to create and enact a new section to chapter 54-52.1 of the North Dakota Century Code, relating to public employees retirement system health insurance coverage of colorectal cancer screening; and to provide an expiration date.	PERS remain neutral on the bill at this time subject to final Board considerations in October.	Staff Recommendation: PERS remain neutral.
90125.0100	Senator Mathern	A BILL for an Act to create and enact a new subsection to section 54-52-04, a new subsection to section 54-52.1-01, and five new sections to chapter 54-52.1 of the North Dakota Century Code, relating to the expansion of the uniform group insurance program to allow participation by permanent and temporary employees of private sector employers and by any other individual who is otherwise without health	PERS remain neutral on the bill at this time subject to final Board considerations in October with the exception of requesting that the Executive Director's assignment to chair the board of the new agency be withdrawn. This request would be made to the bill sponsor. If this bill was approved this would be a full time effort.	Staff Recommendation: PERS remain neutral.

LC Bill Number	Sponsor	Bill Summary	Technical Review Issues and Recommendations as Approved at 07/08 PERS Board meeting (These recommendations were forwarded and accepted at the last Employee Benefits Committee meeting)	Hearing Issues, Technical Review Issues, Implementation Issues and Recommendations
		insurance coverage; to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to subgroups under the uniform group insurance program; to provide an appropriation; to provide a continuing appropriation; and to provide an effective date.		
90206.0100	Rep. Klemin	A BILL relating to the creation and enactment of a new subsection to section 54-52-04 of the North Dakota Century Code to provide the public employees retirement system the authority to create a trust health care savings plan for all supreme and district court judges participating in the public employees' retirement system.	PERS remain neutral on the bill at this time subject to final Board considerations in October.	Staff Recommendation: PERS remain neutral.

DRAFT

Revised July 9, 2008

Re: North Dakota Senate Bill 90033.03

Introduction

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

Bill Summary

As drafted, the Bill includes the following key provisions.

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

Financial Impact

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

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

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

Technical Compliance and Administrative Impact

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

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

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

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

Summary and Conclusions

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

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

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

A large unknown to NDPERS if the Bill passes is the financial impacts on its benefit operations if its responsibilities are scaled back to only include ancillary and Medicare

retiree coverages. Organizational changes would likely occur. Administrative costs for Medicare retirees and ancillary plan participants probably would increase as fixed expenses are spread over a smaller participant population.

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

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

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

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

**BlueCross BlueShield
of North Dakota**

An Independent Licensee of the
Blue Cross & Blue Shield Association



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

(701) 282-1444

July 25, 2008

Mr. Sparb Collins, Executive Director
NDPERS
400 East Broadway, Suite 505
PO Box 1657
Bismarck, ND 58501

Dear Sparb

The following is our analysis of the bill drafts providing mandated insurance coverage for prosthetics.

Summary

LC # 90084.0100 relating to parity for health insurance coverage of prosthetics

Comments

In reviewing this bill we interpret the provisions to require that all health insurance policies, including PERS, include prosthetic coverage, as defined by the bill, which is at least equal to the coverage provided by Medicare. The bill also mandates that the reimbursement fee schedule for prosthetics may not be less than the Medicare reimbursement schedule. No lifetime or annual dollar maximum would be permitted for prosthetics. Determination on the decision to repair or replace a prosthetic and the prosthetic model would be limited to the treating physician.

Actuarial Cost

Based upon the above and interpretation of the bill draft, it is estimated that an additional cost to NDPERS of \$.90 per contract per month (spread over all contracts) for the 07/01/09-06/30/11 biennium. The estimate assumes that the services would be subject to current cost-sharing amounts. It also assumes that all of the current limits for these services would no longer apply.

If you have any questions, please feel free to call me at 701.282.1259.

Sincerely,

A handwritten signature in cursive script that reads "Larry Brooks".

Larry Brooks, Manager
Blue Cross Blue Shield of ND

Cc: Rod St. Aubyn, BCBSND
Dan Ulmer, BCBSND

Prosthetics

State of North Dakota Authorized FTE's

Department	07-09 FTE	Monthly Change	07-09 Funding Adj Sources		07-09 Funding Adjustments	
			General	Other	General	Other
101 Office of the Governor	18	\$0.90	100.00%	0.00%	\$388.80	\$0.00
108 Office of the Secretary of State	27	\$0.90	95.88%	4.12%	\$559.16	\$24.04
110 Office of Management and Budget	132.5	\$0.90	80.48%	19.52%	\$2,303.35	\$558.65
112 Information Technology Department	312.2	\$0.90	6.28%	93.72%	\$423.43	\$6,320.09
117 Office of the State Auditor	54.8	\$0.90	69.40%	30.60%	\$821.52	\$362.16
120 Office of the State Treasurer	6	\$0.90	100.00%	0.00%	\$129.60	\$0.00
125 Office of the Attorney General	181.3	\$0.90	83.11%	16.89%	\$3,254.51	\$661.57
127 Office of the Sate Tax Commissioner	133	\$0.90	100.00%	0.00%	\$2,872.80	\$0.00
140 Office of Administrative Hearings	8	\$0.90	0.00%	100.00%	\$0.00	\$172.80
150 Legislative Assembly	125	\$0.90	100.00%	0.00%	\$2,700.00	\$0.00
160 Legislative Council	33	\$0.90	100.00%	0.00%	\$712.80	\$0.00
180 Judicial Branch	343	\$0.90	97.42%	2.58%	\$7,217.71	\$191.09
188 Legal Counsel of Indigents	29	\$0.90	100.00%	0.00%	\$626.40	\$0.00
190 Retirement and Investment Office	17	\$0.90	0.00%	100.00%	\$0.00	\$367.20
192 Public Employees Retirement System	33	\$0.90	0.00%	100.00%	\$0.00	\$712.80
201 Department of Public Instruction	98.25	\$0.90	29.95%	70.05%	\$635.68	\$1,486.52
226 State Land Department	18.75	\$0.90	0.00%	100.00%	\$0.00	\$405.00
250 State Library	29.75	\$0.90	86.36%	13.64%	\$554.92	\$87.68
252 School for the Deaf	48.44	\$0.90	95.13%	4.87%	\$995.40	\$50.91
253 N.D. Vision Services	27	\$0.90	76.89%	23.11%	\$448.42	\$134.78
270 Dept of Career and Technical Ed	27.5	\$0.90	92.70%	7.30%	\$550.66	\$43.34
301 North Dakota Department of Health	331.5	\$0.90	30.77%	69.23%	\$2,203.04	\$4,957.36
313 Veterans Home	90.97	\$0.90	29.87%	70.13%	\$586.91	\$1,378.04
316 Indian Affairs Commission	4	\$0.90	100.00%	0.00%	\$86.40	\$0.00
321 Department of Veterans Affairs	6	\$0.90	100.00%	0.00%	\$129.60	\$0.00
325 Department of Human Services	2085.68	\$0.90	63.11%	36.89%	\$28,431.62	\$16,619.07
360 Protection and Advocacy Project	27.5	\$0.90	19.64%	80.36%	\$116.67	\$477.33
380 Job Service North Dakota	308	\$0.90	0.45%	99.55%	\$29.71	\$6,623.09
401 Office of the Insurance Commissioner	46.5	\$0.90	0.00%	100.00%	\$0.00	\$1,004.40
405 Industrial Commission	55.37	\$0.90	89.61%	10.39%	\$1,071.77	\$124.22
406 Office of the Labor Commissioner	11	\$0.90	71.47%	28.53%	\$169.81	\$67.79
408 Public Service Commission	42	\$0.90	65.77%	34.23%	\$596.62	\$310.58
412 Aeronautics Commission	6	\$0.90	0.00%	100.00%	\$0.00	\$129.60
413 Department of Financial Institutions	27	\$0.90	0.00%	100.00%	\$0.00	\$583.20
414 Office of the Securities Commissioner	9	\$0.90	100.00%	0.00%	\$194.40	\$0.00
471 Bank of North Dakota	176.5	\$0.90	0.00%	100.00%	\$0.00	\$3,812.40
473 North Dakota Housing Finance Agency	43	\$0.90	0.00%	100.00%	\$0.00	\$928.80
475 North Dakota Mill & Elevator Association	131	\$0.90	0.00%	100.00%	\$0.00	\$2,829.60
485 Workforce Safety & Insurance	223.14	\$0.90	0.00%	100.00%	\$0.00	\$4,819.82
504 Highway Patrol	197	\$0.90	66.00%	34.00%	\$2,808.59	\$1,446.61
530 Department of Corrections and Rehabilitation	706.79	\$0.90	94.47%	5.53%	\$14,422.88	\$843.78
540 Adjutant General	232	\$0.90	35.00%	65.00%	\$1,753.84	\$3,257.36
601 Department of Commerce	73	\$0.90	73.19%	26.81%	\$1,153.99	\$422.81
602 Department of Agriculture	67	\$0.90	53.11%	46.89%	\$768.66	\$678.54
616 State Seed Department	30	\$0.90	0.00%	100.00%	\$0.00	\$648.00
627 Upper Great Plains Transportation Institute	43.4	\$0.90	10.75%	89.25%	\$100.75	\$836.69
628 Branch Research Centers	95.26	\$0.90	73.68%	26.32%	\$1,516.09	\$541.53
630 NDSU Extension Service	257.86	\$0.90	56.98%	43.02%	\$3,173.45	\$2,396.33
638 Northern Crops Institute	11.2	\$0.90	56.12%	43.88%	\$135.77	\$106.15
640 NDSU Main Research Center	348.08	\$0.90	68.32%	31.68%	\$5,136.58	\$2,381.94
649 Agronomy Seed Farm	3	\$0.90	0.00%	100.00%	\$0.00	\$64.80
670 Racing Commission	2	\$0.90	17.34%	82.66%	\$7.49	\$35.71
701 State Historical Society	60	\$0.90	88.90%	11.10%	\$1,152.20	\$143.80
709 Council on the Arts	5	\$0.90	100.00%	0.00%	\$108.00	\$0.00
720 Game & Fish Department	155	\$0.90	0.00%	100.00%	\$0.00	\$3,348.00
750 Department of Parks & Recreation	50.5	\$0.90	94.96%	5.04%	\$1,035.81	\$54.99
770 State Water Commission	84	\$0.90	90.85%	9.15%	\$1,648.37	\$166.03
801 Department Of Transportation	1052.5	\$0.90	0.00%	100.00%	\$0.00	\$22,734.00
Subtotal	8800.24	\$0.90	48.31%	51.69%	\$93,734.20	\$96,350.99
Higher Education	5970	\$0.90	0.00%	100.00%	\$0.00	\$128,952.00
State Total	14770.24	\$0.90			\$93,734.20	\$225,302.99
Political Sub Divisions						
Counties	1832	\$0.90	0.00%	100.00%	\$0.00	\$39,571.20
School Districts	1185	\$0.90	0.00%	100.00%	\$0.00	\$25,596.00
Cities	1023	\$0.90	0.00%	100.00%	\$0.00	\$22,096.80
Others	448	\$0.90	0.00%	100.00%	\$0.00	\$9,676.80
	0					

SUGGESTED AMENDMENT

SECTION 2. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, and from other funds derived from federal funds and other income, to the following departments for the purpose of defraying the cost of additional health insurance premiums necessary to pay the cost of the provisions of this bill, for the biennium beginning July 1, 2009 and ending June 30, 2011 as follows:

Department	General	Other
101 Office of the Governor	\$388.80	\$0.00
108 Office of the Secretary of State	\$559.16	\$24.04
110 Office of Management and Budget	\$2,303.35	\$558.65
112 Information Technology Department	\$423.43	\$6,320.09
117 Office of the State Auditor	\$821.52	\$362.16
120 Office of the State Treasurer	\$129.60	\$0.00
125 Office of the Attorney General	\$3,254.51	\$661.57
127 Office of the Sate Tax Commissioner	\$2,872.80	\$0.00
140 Office of Administrative Hearings	\$0.00	\$172.80
150 Legislative Assembly	\$2,700.00	\$0.00
160 Legislative Council	\$712.80	\$0.00
180 Judicial Branch	\$7,217.71	\$191.09
188 Legal Counsel of Indigents	\$626.40	\$0.00
190 Retirement and Investment Office	\$0.00	\$367.20
192 Public Employees Retirement System	\$0.00	\$712.80
201 Department of Public Instruction	\$635.68	\$1,486.52
226 State Land Department	\$0.00	\$405.00
250 State Library	\$554.92	\$87.68
252 School for the Deaf	\$995.40	\$50.91
253 N.D. Vision Services	\$448.42	\$134.78
270 Dept of Career and Technical Ed	\$550.66	\$43.34
301 North Dakota Department of Health	\$2,203.04	\$4,957.36
313 Veterans Home	\$586.91	\$1,378.04
316 Indian Affairs Commission	\$86.40	\$0.00
321 Department of Veterans Affairs	\$129.60	\$0.00
325 Department of Human Services	\$28,431.62	\$16,619.07
360 Protection and Advocacy Project	\$116.67	\$477.33
380 Job Service North Dakota	\$29.71	\$6,623.09
401 Office of the Insurance Commissioner	\$0.00	\$1,004.40
405 Industrial Commission	\$1,071.77	\$124.22
406 Office of the Labor Commissioner	\$169.81	\$67.79
408 Public Service Commission	\$596.62	\$310.58
412 Aeronautics Commission	\$0.00	\$129.60
413 Department of Financial Institutions	\$0.00	\$583.20
414 Office of the Securities Commissioner	\$194.40	\$0.00
471 Bank of North Dakota	\$0.00	\$3,812.40
473 North Dakota Housing Finance Agency	\$0.00	\$928.80
475 North Dakota Mill & Elevator Association	\$0.00	\$2,829.60
485 Workforce Safety & Insurance	\$0.00	\$4,819.82
504 Highway Patrol	\$2,808.59	\$1,446.61
530 Department of Corrections and Rehabilitation	\$14,422.88	\$843.78
540 Adjutant General	\$1,753.84	\$3,257.36
601 Department of Commerce	\$1,153.99	\$422.81
602 Department of Agriculture	\$768.66	\$678.54
616 State Seed Department	\$0.00	\$648.00
627 Upper Great Plains Transportation Institute	\$100.75	\$836.69
628 Branch Research Centers	\$1,516.09	\$541.53
630 NDSU Extension Service	\$3,173.45	\$2,396.33
638 Northern Crops Institute	\$135.77	\$106.15
640 NDSU Main Research Center	\$5,136.58	\$2,381.94
649 Agronomy Seed Farm	\$0.00	\$64.80
670 Racing Commission	\$7.49	\$35.71
701 State Historical Society	\$1,152.20	\$143.80
709 Council on the Arts	\$108.00	\$0.00
720 Game & Fish Department	\$0.00	\$3,348.00
750 Department of Parks & Recreation	\$1,035.81	\$54.99
770 State Water Commission	\$1,648.37	\$166.03
801 Department Of Transportation	\$0.00	\$22,734.00
Total	\$93,734.20	\$96,350.99

Renumber accordingly



THE SEGAL COMPANY
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October 8, 2008

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

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

Dear Sparb:

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

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

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

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

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

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

Benefits, Compensation and HR Consulting ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, DC



Multinational Group of Actuaries and Consultants BARCELONA BRUSSELS DUBLIN GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE
MEXICO CITY OSLO PARIS

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

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

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

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

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

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

Actuarial Cost Analysis: This bill would have an actuarial impact on the Hybrid Plan and the Highway Patrol Retirement System. Since the Normal Form for the Highway Patrol and the Judges is a 50% Joint and Survivor annuity, this bill will allow non-married members to receive an unreduced Joint and Survivor benefit. Alternately, members of these plans electing a non-spouse beneficiary could have their benefit reduced as it is in the Main plan, however, the bill does not currently provide for this.

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

Benefits Policy Issues

> Adequacy of Retirement Benefits

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

Retiree Age	Monthly Single Life Benefit	Monthly Graduated Benefit with 1% Annual Increases	Monthly Graduated Benefit with 2% Annual Increases
65	\$1,000.00	\$925.67	\$853.93
66	\$1,000.00	\$934.93	\$871.00
67	\$1,000.00	\$944.28	\$888.42
68	\$1,000.00	\$953.72	\$906.19
69	\$1,000.00	\$963.26	\$924.32
70	\$1,000.00	\$972.89	\$942.80
71	\$1,000.00	\$982.62	\$961.66
72	\$1,000.00	\$992.45	\$980.89
73	\$1,000.00	\$1,002.37	\$1,000.51
74	\$1,000.00	\$1,012.39	\$1,020.52
75	\$1,000.00	\$1,022.52	\$1,040.93
76	\$1,000.00	\$1,032.74	\$1,061.75
77	\$1,000.00	\$1,043.07	\$1,082.98
78	\$1,000.00	\$1,053.50	\$1,104.64
79	\$1,000.00	\$1,064.04	\$1,126.74
80	\$1,000.00	\$1,074.68	\$1,149.27
81	\$1,000.00	\$1,085.42	\$1,172.26
82	\$1,000.00	\$1,096.28	\$1,195.70
83	\$1,000.00	\$1,107.24	\$1,219.62
84	\$1,000.00	\$1,118.31	\$1,244.01
85	\$1,000.00	\$1,129.50	\$1,268.89

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

Example	Cost
Age: 29 years Service on File - 5 years Current FAS - \$29,000 Purchase - 1 year	\$4,116.79 (\$4,030.52 for retirement portion; \$86.27 for retiree health credit portion)
Age: 44 years 11 months Service on File - 21.95 years Current FAS - \$53,927 Purchase - 1 year	\$10,717.95 (\$10,395.34 for retirement portion; \$322.61 for retiree health credit portion)
Age: 54 years Service on File - 32 years Current FAS - \$44,626 Purchase - 1 year	\$10,487.31 (\$9,896.55 for retirement portion; \$590.76 for retiree health credit portion)

➤ Benefits Equity and Group Integrity

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

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

Highway Patrol									
Contributions Post-tax (Current)									
Monthly Salary	Taxable Salary	Federal Tax (8.48%)	State Tax (1.39%)	Social Security (0.00%)	Medicare Tax (1.45%)	Retirement Contribution (6.30%*)	Total Paycheck	Paycheck Increase	Paycheck Increase Percent
2,000.00	2,000.00	169.60	27.80	0.00	29.00	126.00	1,647.60		
3,000.00	3,000.00	254.40	41.70	0.00	43.50	189.00	2,471.40		
4,000.00	4,000.00	339.20	55.60	0.00	58.00	252.00	3,295.20		
5,000.00	5,000.00	424.00	69.50	0.00	72.50	315.00	4,119.00		
Contributions Pre-tax (Proposed)									
2,000.00	1,874.00	158.92	26.05	0.00	29.00	126.00	1,660.03	12.43	0.75%
3,000.00	2,811.00	238.37	39.07	0.00	43.50	189.00	2,490.06	18.66	0.76%
4,000.00	3,748.00	317.83	52.10	0.00	58.00	252.00	3,320.07	24.87	0.75%
5,000.00	4,685.00	397.29	65.12	0.00	72.50	315.00	4,150.09	31.09	0.75%

* The employee contribution rate is 10.30% of pay, but 4.00% is picked up by the employer.

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

➤ Competitiveness

No impact.

➤ Purchasing Power Retention

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

➤ Preservation of Benefits

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

1. The ability of members to designate a subsequent beneficiary due to the death of the original beneficiary preserves the benefits of affected members whose monthly retirement benefits are actuarially reduced to provide a survivor benefit to an individual who has died.
2. The ability of member to select a non-spouse beneficiary enhances the preservation of benefits, since a member can pass along their accrued retirement benefit to another individual such as a sibling or other family member.

➤ Portability

No impact.

➤ Ancillary Benefits

No impact.

Funding Policy Issues

➤ **Actuarial Impacts**

1. **Non-spouse beneficiaries:** Currently, the normal form for the Highway Patrol and the Judges is a 50% joint and survivor annuity. Thus, married members receive a 50% joint and survivor benefit, and unmarried members receive a straight life annuity of the same amount. If unmarried retirees were allowed to name a non-spouse beneficiary without any reduction to their benefit, the plans' costs would increase by 0.30% of pay for the Highway Patrol and 0.54% of pay for the Judges as illustrated in the following tables.

These cost estimates are based on the July 1, 2008 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based, with the additional assumption that members who do not have a spouse to name as a beneficiary will name a non-spouse. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

	Highway Patrol	
	<u>Current Plan</u> <u>July 1, 2008</u>	<u>With Non-spouse</u> <u>Beneficiaries</u>
1. Actuarial accrued liability on July 1, 2008:	\$54,558,943	\$54,698,196
2. Assets at actuarial value (\$55,587,776 at market value):	\$50,808,884	\$50,808,884
3. Unfunded actuarial accrued liability - equals (1) minus (2):	\$3,750,059	\$3,889,312
4. Normal cost for ensuing year*:	\$1,418,409	\$1,428,377
5. Amortization payment - equals 20-year amortization of item (3) as a level percent of total payroll*:	\$261,718	\$271,436
6. Administrative expenses:	\$16,000	\$16,000
7. Total cost for ensuing year - equals (4) plus (5) plus (6):	\$1,696,127	\$1,715,813
8. Total payroll of covered members:	\$6,508,644	\$6,508,644
9. Total cost as percentage of payroll - equals (7) divided by (8):	26.06%	26.36%
10. Employee cost as percentage of payroll	10.30%	10.30%
11. Employer cost as percentage of payroll - equals (9) minus (10)	15.76%	16.06%

* Adjusted for interest to recognize payments throughout the year.

	Judges	
	<u>Current Plan July 1, 2008</u>	<u>With Non-spouse Beneficiaries</u>
1. Actuarial accrued liability on July 1, 2008:	\$24,732,254	\$24,879,122
2. Assets at actuarial value (\$31,545,700 at market value):	\$28,833,710	\$28,833,710
3. Unfunded/(Surplus) actuarial accrued liability - equals (1) minus (2):	(\$4,101,456)	(\$3,954,588)
4. Normal cost for ensuing year*:	\$1,025,761	\$1,043,122
5. Amortization payment - equals 20-year amortization of item (3) as a level percent of total payroll*:	(\$297,916)	(\$287,248)
6. Administrative expenses:	\$5,000	\$5,000
7. Total cost for ensuing year - equals (4) plus (5) plus (6):	\$732,845	\$760,874
8. Total payroll of covered members:	\$5,237,074	\$5,237,074
9. Total cost as percentage of payroll - equals (7) divided by (8):	13.99%	14.53%
10. Employee cost as percentage of payroll	5.00%	5.00%
11. Employer cost as percentage of payroll - equals (9) minus (10)	8.99%	9.53%

* Adjusted for interest to recognize payments throughout the year.

2. Subsequent beneficiaries: Since the bill stipulates that the benefit is to be actuarially equivalent, the benefit should be reduced for a second time when the subsequent beneficiary is designated. If an actuarial reduction is made to the member's benefit upon designation of a subsequent beneficiary on a joint and survivor benefit, there will not be an actuarial cost for this provision.
3. Graduated benefit option: Since the monthly retirement benefit would be actuarially adjusted to provide for the post-retirement increases, there will not be an actuarial cost for this provision.
4. Eliminate 60-month certain optional form: For a certain group of surviving spouses, the 60-month certain form would be the death benefit with the highest actuarial present value. This is because the 60-month certain is subsidized for some surviving spouses based on their life expectancy. Therefore, if this form is eliminated, it may result in actuarial gains to the Hybrid Plan.
5. Additional service purchase amounts: Since the purchased service is not related to any eligible service, anyone can purchase up to ten years of service credit, rather than the current five-year limit. This means there is an increased risk of adverse selection compared to the existing service purchase provisions, because even though the purchase cost will be determined by actuarially equivalent factors, the individuals who decide to

purchase credit may know how their own expected future service, salary, and lifespan compared to the average participant. The risk has been mitigated, to some degree, by using appropriate assumptions in calculating the cost of the service purchase. It may be advisable for PERS to periodically review the appropriateness and accuracy of the assumptions used to calculate the cost of service purchases (e.g., every 5 years). Also, since the additional five years of service credit do not count towards Rule of 80 or Rule of 85 eligibility, the potential risk of adverse selection is less than it otherwise would have been.

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

➤ Investment Impacts

- ◆ Asset Allocation: The bill does not create new investment asset allocation issues.
- ◆ Cash Flow Impacts: No impact.
- ◆ State Investment Board (SIB) Membership: The Board is proposing a change in the statute to allow one of its non-elected members to serve on the State Investment Board. This change is to allow the Board more opportunity to select from its membership those most interested in serving on the SIB while still maintaining the elected member representation.

Administration Issues

➤ Implementation Issues

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

➤ Administrative Costs

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

In order to implement the provision of the bill allowing an additional five years of service credit to be purchased, PERS would need to develop systems and processes for tracking

service purchased for benefits purposes only and service towards retirement eligibility separately.

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

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

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

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

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

➤ Needed Authority

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

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

➤ Cross Impact on Other Plans

No impact.

➤ Employee Communications

Mr. Sparb Collins
October 8, 2008
Page 10

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

Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



Melanie Walker, JD
Vice President



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October 8, 2008

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

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

Dear Sparb:

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

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan, including the Main, Judges, Law Enforcement and National Guard retirement plans, and Defined Contribution Plan) and Highway Patrol Retirement System

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

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

Allows the Board to provide for a post-retirement increase of 2% of monthly benefits for members and their beneficiaries in both the Hybrid Plan (except the Judges retirement plan) and the Highway Patrol Retirement System beginning January 2011. The proposed legislation would also increase the employer contribution rate from 16.70% to 22.04% of salary for the Highway Patrol Retirement System and from 4.12% to 5.42% of salary for the Hybrid Plan and Defined Contribution Plan from July 1, 2009 through June 30, 2011. The employer contribution rate increase and 2% monthly post-retirement benefit increase is optional for political subdivision

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employers in the Hybrid Plan, who must elect to participate in this benefit before July 1, 2009 or be presumed not to participate.

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

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

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

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

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

Benefits Policy Issues

➤ **Adequacy of Retirement Benefits**

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

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

➤ **Benefits Equity and Group Integrity**

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

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

increases paid from the Defined Contribution Plan. However, to the extent the Defined Contribution Plan members' investment earnings are sound, they can fund their own post-retirement increase.

> Competitiveness

No impact.

> Purchasing Power Retention

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

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

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

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

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

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

➤ Preservation of Benefits

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

➤ Portability

No impact.

➤ Ancillary Benefits

A 13th check at 100% of monthly benefits to retirees and beneficiaries would equal approximately \$7.4 million in one-time payments in 2010. A 2% increase in monthly benefits for members of the Hybrid Plan (including Judges) and the Highway Patrol Retirement System would equal approximately \$2.0 million in additional retirement benefits per year beginning January 1, 2011. Therefore, the post-retirement increases will likely generate additional economic activity, as well as tax revenue, to the State of North Dakota.

Funding Policy Issues

> Actuarial Impacts

The bill would have an actuarial impact on the Hybrid Plan and Highway Patrol Retirement System. The provision allowing for a one-time post-retirement payment equal to 50%, 75% or 100% of the member's or beneficiary's current monthly benefit payment amount would increase the plan's unfunded liability if the necessary conditions are met. For example, if the return on investments is at least 10% and the market value funded ratio is at least 115% for the fiscal year ending June of 2009, then the unfunded liability is expected to increase by \$7.4 million. While it is true that this additional liability will be fully offset or offset to some degree by the necessary investment gain, the Plan's surplus will still be \$7.4 million lower than it would have been if this provision were not adopted. Nevertheless, the surplus that is required for the 13th check to be paid will ensure that the plans still have a surplus on a market value basis even after the check is paid.

The 100% joint and survivor benefit as the normal form (Highway Patrol Retirement System) would increase the actuarially determined contribution rate by 3.02% of payroll, as illustrated in the table below.

	Normal Form <u>50% J&S</u>	Normal Form <u>100% J&S</u>
1. Actuarial accrued liability on July 1, 2008:	\$54,558,943	\$55,941,168
2. Assets at actuarial value (\$55,587,776 at market value):	\$50,808,884	\$50,808,884
3. Unfunded actuarial accrued liability - equals (1) minus (2):	\$3,750,059	\$5,132,284
4. Normal cost for ensuing year*:	\$1,418,409	\$1,518,745
5. Amortization payment - equals 20-year amortization of item (3) as a level percent of total payroll*:	\$261,718	\$358,183
6. Administrative expenses:	\$16,000	\$16,000
7. Total cost for ensuing year - equals (4) plus (5) plus (6):	\$1,696,127	\$1,892,928
8. Total payroll of covered members:	\$6,508,644	\$6,508,644
9. Total cost as percentage of payroll - equals (7) divided by (8):	26.06%	29.08%
10. Employee cost as percentage of payroll	10.30%	10.30%
11. Employer cost as percentage of payroll - equals (9) minus (10)	15.76%	18.78%

* Adjusted for interest to recognize payments throughout the year.

The extent to which the purchase of service credit incentive for participants in the Deferred Compensation Program (Hybrid Plan) has a cost impact depends upon the size of the affected groups, their demographic makeup (average age, marital status, etc.) and utilization rate of

the incentive. It is our understanding that this provision is designed to encourage participation in the Deferred Compensation Program, and it would likely have that effect, but to what degree it is difficult to say. Currently, about a third of those eligible actually participate. If that were to increase to 50%, and if everyone eligible to purchase service were to purchase one year on average, then the actuarially determined contribution rate for the main retirement plan would increase by about 0.30% of payroll. The following table summarizes the results.

	Statutory Rate	Actuarially Determined Rate at 7/1/2008	Rate with Service Purchase at 7/1/2008	Increase
Main Retirement Plan	4.12%	6.23%	6.53%	0.30%
National Guard	6.50%	3.44%	3.61%	0.17%
Law Enforcement with prior Main service	8.31%	9.04%	9.36%	0.32%
Law Enforcement without prior Main service	6.43%	7.15%	7.40%	0.25%
Retiree Health Plan	1.00%	0.88%	0.88%	0.00%

The estimated actuarial cost of a one time 2% benefit increase for retirees and beneficiaries in pay status as of January 1, 2011 for members of the Hybrid Plan (except the Judges retirement plan) and Highway Patrol Retirement System is described below. The benefit increase will be funded with a two-year increase in the employer contribution rate.

Since political subdivisions may elect whether or not to pay the increased contribution rate and grant the 2% benefit increase to their retirees, we have taken into account that some political subdivisions have few (or no) retirees and are unlikely to elect the increase. The rate below for the Main Plan was determined using only state employees, which represent roughly half the members, and is slightly higher than what the rate would have been using all members. The lower rate would have implicitly assumed that all subdivisions would elect the increase and thereby subsidize the state. No matter what rate is used, if that same rate applies to all political subdivisions, this provision subjects the Plan to the risk of adverse selection. However, we believe the rate we have calculated reasonably approximates the rate that should be charged if it were determined based on which political subdivisions actually elected to participate.

We have estimated the cost of this proposed plan change as the increase in unfunded liability as of January 1, 2011, assuming that all political subdivisions elect to participate, as well as the percentage of pay from July 1, 2009 through June 30, 2011 that would be required to fund that liability.

The following table summarizes our results:

Plan Provision	Additional Liability	Cost	Statutory/ Approved Rate	Total
Main System	\$15,998,120	1.30%*	4.12%	5.42%
National Guard	\$21,419	0.49%	6.50%	6.99%
Law Enforcement with prior Main service	\$90,027	0.80%	8.31%	9.11%
Law Enforcement without prior Main service	\$593	0.03%	6.43%	6.46%
Highway Patrol	\$772,124	5.34%	16.70%	22.04%

* Based on state employees only.

The current plan provisions are summarized in Exhibit V of the Actuarial Valuation reports as of July 1, 2008, for the North Dakota Highway Patrolmen's Retirement System and the North Dakota Public Employees Retirement System.

The bill also allows the Board to provide for an increase of 2% of monthly retirement benefits for supreme court and district judges who are retirees and their beneficiaries beginning January 1, 2011, if the Board determines that there is sufficient actuarial margin to pay the increase. The Judges retirement system has an actuarial margin of 5.53% based on the July 1, 2008 actuarial valuation. A 2% monthly retirement benefit increase for retired judges would increase the plan's actuarial accrued liability by approximately \$330,000 and would increase the actuarially determined contribution rate by 0.41% of active payroll.

These cost estimates are based on the July 1, 2008 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

➤ Investment Impacts

- ◆ **Asset Allocation:** The bill does not create new investment asset allocation issues.
- ◆ **Cash Flow Impacts:** Additional employer contributions under the bill would have an immediate, positive impact on cash flow to the Systems that would be offset to some extent by higher benefit payouts in the future.

Administration Issues

> Implementation Issues

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

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

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

> Administrative Costs

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

1. Employer contribution rate change - \$5,000
2. Highway Patrol Retirement System 100% joint and survivor annuity - \$2,100
3. Deferred Compensation Program incentive - \$24,000

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

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

1.30% Main System and 5.34% Highway Patrol 2-Year Contribution Increase

Group	Employees	Monthly Payroll	Biennial Payroll*	4.12% Employer Contribution	5.42% Employer Contribution	Increase
State	7,252	\$23,051,516	\$553,236,384	\$22,793,339	\$29,985,412	\$7,192,073
Higher Ed	2,724	6,269,504	150,468,096	6,199,286	8,155,371	1,956,085
County	3,306	8,590,082	206,161,968	8,493,873	11,173,979	2,680,106
Schools	4,565	8,469,903	203,277,672	8,375,040	11,017,650	2,642,610
Cities	564	1,485,867	35,660,808	1,469,225	1,932,816	463,591
Others	461	1,182,874	28,388,976	1,169,626	1,538,682	369,056
Totals	18,872	\$49,049,746	\$1,177,193,904	\$48,500,389	\$63,803,910	\$15,303,521

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

Group	Employees	Monthly Payroll	Biennial Payroll*	16.70% Employer Contribution	22.04% Employer Contribution	Increase
Highway Patrol	125	\$459,258	\$11,022,192	\$1,840,706	\$2,429,291	\$588,585

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

State Total (State plus Highway Patrol) \$7,780,658

> Needed Authority

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

> Cross Impact on Other Plans

No impact.

> Employee Communications

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

Mr. Sparb Collins
October 8, 2008
Page 10

Please call if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brad Ramirez', with a long horizontal flourish extending to the right.

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

A handwritten signature in black ink, appearing to read 'Melanie Walker', written in a cursive style.

Melanie Walker, JD
Vice President

4048387v5/01640.004



September 23, 2008

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

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

Dear Bill:

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

Legislative Bill #90113.0100

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

NDPERS Fiscal Year 2009 GASB 45 ARC

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

The table below provides an estimate of the fiscal year 2009 GASB 45 Annual Required Contribution (ARC), July 1, 2008 accrued liability and June 30, 2009 Net OPEB Obligation under two scenarios. To provide a basis of comparison, the baseline represents the status quo or the

situation where there is no change. Scenario 1 assumes that the bill passes and once the Act expires, the non Medicare rate returns to 150% of the active rate. Scenario 2 assumes that the bill passes and the non Medicare rate is 125% of the active rate even after the Act's expiration date.

	Baseline	Scenario 1	Scenario 2
Estimated July 1, 2008 Accrued Liability	\$33,479,000	\$49,108,000	\$63,578,000
Estimated FY 2009 GASB 45 ARC			
Normal Cost	\$2,788,000	\$2,788,000	\$5,293,000
Interest on Normal Cost	\$139,000	\$139,000	\$265,000
Amortization of Unfunded Accrued Liability	\$1,278,000	\$1,874,000	\$2,426,000
Interest on Amortization	\$64,000	\$94,000	\$121,000
Total	\$4,269,000	\$4,895,000	\$8,105,000
Change in GASB 45 ARC	\$0	\$626,000	\$3,836,000
Change in June 30, 2009 Net OPEB Obligation	\$0	\$626,000	\$3,836,000

The estimated impact of the bill under Scenario 1 and Scenario 2 is to increase the July 1, 2009 accrued liability from \$33.5 million to \$49.1 million and \$63.6 million under Scenarios 1 and 2, respectively. The fiscal year 2009 GASB 45 ARC and June 30, 2009 Net OPEB Obligation will change by \$626,000 and \$3,836,000 under Scenarios 1 and 2, respectively.

The reason for the difference in the magnitude is that under Scenario 1, the change in the non Medicare retiree rate from 150% to 125% of active rate is temporary in that it only affects current retirees and *those actives expected to retiree prior to the expiration date of the Act*. Under Scenario 2, the change is permanent and will affect current retirees as well as *all NDPERS future retirees*. Note that the relative small decrease in the non Medicare retiree rate (17%) can have a potentially large impact on the GASB 45 ARC under Scenario 2 where the change in the GASB 45 ARC is \$3.8 million, almost a 90% increase.

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



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

Assumptions and Methodology

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

2009-2011 Biennium Medical Plan Funding Impact

In addition to the GASB 45 impact noted above, the proposed bill would also affect the funding of the medical plan for the next biennium. The table below shows the estimated total premium for the for non Medicare retirees for the period July 1, 2009 to June 30, 2011 for five single plan rate caps, 120%, 125%, 130%, 135% and 140%. The assumed active renewal monthly premium for July 1, 2009 to June 30, 2011 is \$408.22.

Non-Medicare – Single Plan Rate Cap	150%	140%	135%	130%	125%	120%
Non-Medicare Retiree Renewal Biennium Premium ⁽¹⁾	\$14,916,356	\$13,921,932	\$13,424,720	\$12,927,508	\$12,430,297	\$11,933,085
Premium Impact ⁽¹⁾	N/A	\$994,424	\$1,491,636	\$1,988,847	\$2,486,059	\$2,983,271

⁽¹⁾ Total costs are estimated using all three Non-Medicare rate tiers and BCBSND renewal enrollment

The impact of the proposed legislation is to lower non Medicare retiree premiums for the two year period from \$14.9 million to \$12.4 million (125% plan rate cap).



Mr. William F. Robinson
September 23, 2008
Page 4

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

Sincerely,

A handwritten signature in black ink, appearing to read "Don Henson", with a long horizontal flourish extending to the right.

Don Henson, FSA, MAAA
Consulting Actuary

cc: Mark Rosenberg
Mike Miele





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July 10, 2008

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

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

Dear Sparb:

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

Systems Affected: Retiree Health Benefit Fund

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

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

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

General

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



Benefits Policy Issues

➤ Adequacy of Retirement Benefits

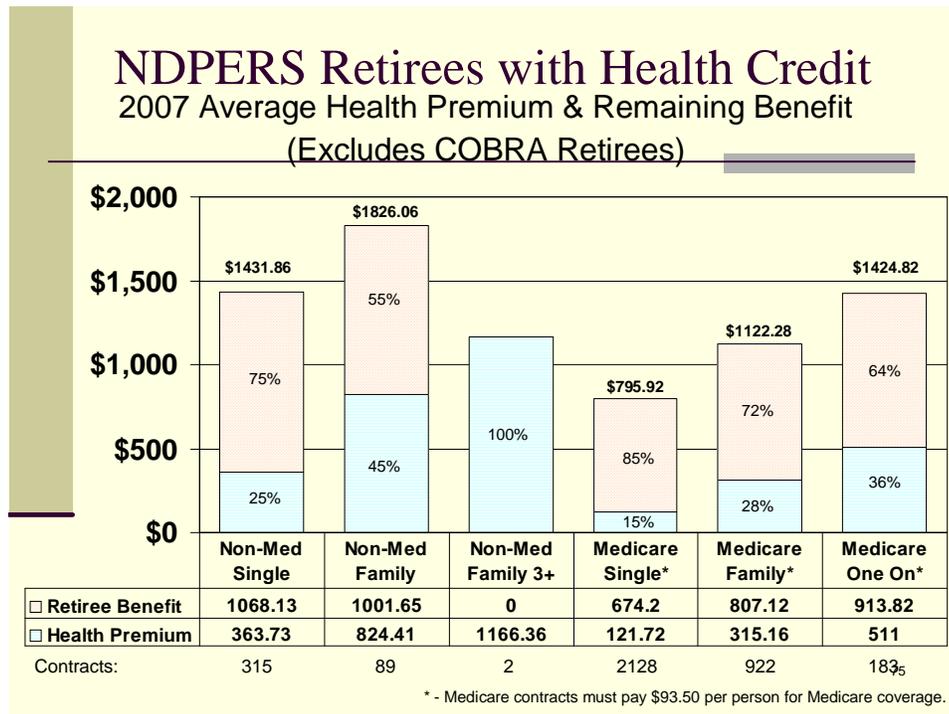
The bill has no direct impact on retirement benefits. However, the bill indirectly enhances retirement benefits by reducing the need for retirees to use their retirement benefits to pay for retiree health benefits.

➤ Benefits Equity and Group Integrity

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

➤ Purchasing Power Retention

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



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

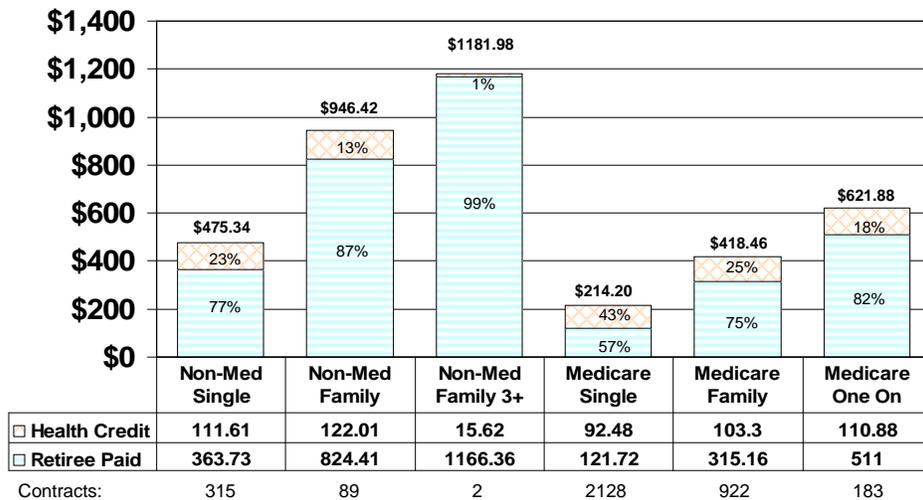
Example for 20-year employee

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

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

NDPERS Retiree Health Credit

2007 Average Premiums & Health Credit
 (Excludes COBRA Retirees)



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

➤ Preservation of Benefits

No impact.

➤ Portability

No impact.

➤ Ancillary Benefits

No impact.

Funding Policy Issues

➤ Actuarial Impacts

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

* Adjusted for interest to recognize payments throughout the year.

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

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

➤ Investment Impacts

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

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

Administration Issues

➤ Implementation Issues

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

➤ Administrative Costs

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

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

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

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

➤ Needed Authority

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

➤ Cross Impact on Other Plans

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

Mr. Sparb Collins
July 10, 2008
Page 6

➤ Employee Communications

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

Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



Melanie Walker, JD
Vice President



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bramirez@segalco.com

October 8, 2008

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

RE: Bill Draft No. 90118.0300

Dear Sparb:

In a previous letter dated July 25, 2008, Segal presented an analysis of the proposed changes in Bill Draft No. 90118.0100. We further analyzed the revised Bill Draft No. 90118.0300 in a letter dated August 13, 2008. This letter focuses on the implications of the bill on the benefits received by plan participants, and the effects that this may have on participant behavior.

Summary

The bill would establish a new, supplemental defined contribution plan for peace officers and correctional officers employed by the State of North Dakota. The decision to enter the plan is made on an individual employee basis and is irrevocable. Participating members will contribute 2% of covered salary and the employer would make a matching contribution at 3% of covered salary. Employee contributions would be immediately vested. Employer contributions would be 50% vested at two years of service; 75% vested at three years of service; and 100% vested at four years of service, or attainment of age plus service equal to 85.

Employer contributions would cease when the member reaches age 60 or attains age plus service equal to 85. Members who continue employment in an eligible position beyond that date will forfeit all employer contributions. These forfeitures would revert to the State's general fund.

Forfeitures

As pointed out in our previous letter, the bill's forfeiture provision in its current form may not be allowed by Federal law, in particular, the Age Discrimination in Employment Act (ADEA). Also, the bill does not require the employer contributions be forfeited until after the bill

Benefits, Compensation and HR Consulting ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
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stipulates they are 100% vested, after which point contributions cannot, by definition, be forfeited. Even if the vesting provision is removed, and the forfeiture provision is not found to be discriminatory on the basis of age, the provision is also problematic from a practical standpoint. A participant who does not leave eligible service upon reaching age 60 or attainment of age plus service equal to 85 will immediately forfeit all employer contributions. This would have the effect of a participant's accumulated balance being reduced by 60% in a single day.

A participant facing this forfeiture must make the decision between continuing work or losing a substantial portion of his or her retirement savings. This would likely affect employee behavior, causing more retirements at or before age 60. It would also likely affect the initial elections of employees of whether or not to participate in the plan.

Integration

For employees who participate in a defined benefit plan, adding a defined contribution plan can be an effective addition to retirement benefits. Because the defined benefit amount is calculated and known before retirement, it provides a "backstop" for retirement income. The defined contribution benefit, which fluctuates with market returns, adds to this income. In order to achieve this cooperation between the plans, care must be taken in the design.

The defined contribution plan proposed in this bill has shortcomings in this regard. Since the provisions for payment in the proposed plan do not match the provisions for payment in the current plan, participants are not always able to receive benefits from both plans. In fact, in many cases, the participant must make a decision between receiving benefits from the defined contribution plan or a reduced benefit from the defined benefit plan.

The current Main system defined benefit plan provides for unreduced benefits at age 65 or attainment of age plus service equal to 85. The proposed defined contribution plan provides for forfeiture of benefits at age 60 or attainment of age plus service equal to 85.

Based upon data provided by the System, we analyzed employee data for eligibilities under both the current defined benefit plan and the proposed defined contribution plan. The gap between the two provisions causes integration problems as shown below.

Current Age	Age at Rule of 85 Eligibility		
	51-55	56-59	>=60
<=25	31	0	0
25-29	55	8	0
30-34	56	34	0
35-39	33	54	13
40-44	17	29	26
45-49	29	24	30
50-54	21	3	22
55-59		8	9
>=60		1	10
			26

Eligible for DC until DB NRA	422
Ineligible for DC at DB NRA	120
Ineligible Immediately	<u>52</u>
Total	594

From the data above, 422 participants will be eligible for defined contribution benefits until reaching normal retirement under the defined benefit plan. For these employees, the plans will integrate without the problems mentioned above.

However, 120 participants (highlighted in yellow above) will be required to forfeit the employer contribution portion of their defined contribution balances before being able to receive unreduced benefits from the defined benefit plan. These participants will be faced with choosing between the plans as they approach retirement.

Furthermore, 52 participants (highlighted in blue above) will not qualify for the defined contribution benefits at all based upon their current age and service. These participants would receive no benefit in the proposed plan, and would not be motivated to elect to participate.

Goals

Retirement plans are mainly put into place to provide retirement income for participants. The way that they are structured can also serve to achieve certain employer goals. For example, subsidies paid at earlier ages can help to encourage earlier retirement.

It is unclear what the goals of the proposed plan are. If the goal is to encourage early retirement from active service, it is unclear if that goal will be accomplished. While the proposed defined contribution plan will serve to encourage retirements before age 60, the existing defined benefit plan will still reduce benefits until age 65 (barring eligibility for rule of 85). To the extent that participants choose to receive an unreduced defined benefit payment, the defined contribution plan will not affect behavior. This will especially be true of participants with small accumulated balances.

The previous version of the Draft Bill (No. 90118.0100) provided for full retirement benefits at age 55 as the affected participants were transferred to the PERS Hybrid Plan. The current version of the Draft Bill would likely provide less encouragement for these participants to retire at age 55 since the corresponding Hybrid Plan benefit would be reduced from age 65.

If the goal is simply to provide supplemental savings to current defined benefit participants, the goal will be achieved for a portion of employees. However, as shown above, a substantial portion of current employees will not be able to receive unreduced benefits from both plans. It is also likely that some time would have to pass before the benefits earned from the defined contribution plan would be meaningful enough to provide significant savings for a large number of participants.

Mr. Sparb Collins, Executive Director
October 8, 2008
Page 4

Conclusions

We feel that the proposed defined contribution plan, while not without merit as a supplemental source of retirement income, may not meet the needs of the System as currently proposed. It may be useful to consider changes to the proposed plan, including removing the forfeiture provision, or extending the age at which contributions are forfeited to age 65.

Please let me know if you have any questions.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

/cz

cc: Kurt Schneider

5009438v2/01640.001

DRAFT

BlueCross BlueShield of North Dakota

*An Independent Licensee of the
Blue Cross & Blue Shield Association*



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

(701) 282-1444

July 25, 2008

Mr. Sparb Collins, Executive Director
NDPERS
400 East Broadway, Suite 505
PO Box 1657
Bismarck, ND 58501

Dear Sparb,

The following is our analysis of the bill draft providing mandated insurance coverage for colorectal cancer screenings.

Summary

LC # 90124.0100 relating to colorectal cancer screening mandate

Comments

In reviewing this bill we interpret the provisions to require PERS policies include colorectal cancer screening examinations and laboratory tests of asymptomatic individuals in accordance with guidelines established by the American cancer society or the American college of gastroenterology. The determination of an individual's screening risk factors would be based on the individual's physician

Actuarial Cost

Based upon the above and interpretation of the bill draft, it is estimated that an additional cost to NDPERS of \$4.04 per contract per month (spread over all contracts) for the 07/01/09-06/30/11 biennium. The estimate is based on the AMA guidelines of colonoscopy once every 10 years beginning at age 50, flexible sigmoidoscopy every 5 years beginning at age 50, double-contrast barium enema every 5 years beginning at age 50, fecal occult blood testing every year beginning at age 50. The estimate assumes that the services would be subject to current cost-sharing amounts.

If you have any questions, please feel free to call me at 701.282.1259.

Sincerely

A handwritten signature in cursive script that reads "Larry Brooks".

Larry Brooks, Manager

Blue Cross Blue Shield of ND
Cc: Rod St. Aubyn, BCBSND
Dan Ulmer, BCBSND

DRAFT

Colorectal Cancer Screenings
State of North Dakota Authorized FTE's

Department	07-09 FTE	Monthly Change	07-09 Funding Adj Sources		07-09 Funding Adjustments	
			General	Other	General	Other
101 Office of the Governor	18	\$4.04	100.00%	0.00%	\$1,745.28	\$0.00
108 Office of the Secretary of State	27	\$4.04	95.88%	4.12%	\$2,510.03	\$107.89
110 Office of Management and Budget	132.5	\$4.04	80.48%	19.52%	\$10,339.48	\$2,507.72
112 Information Technology Department	312.2	\$4.04	6.28%	93.72%	\$1,900.73	\$28,370.18
117 Office of the State Auditor	54.8	\$4.04	69.40%	30.60%	\$3,687.73	\$1,625.68
120 Office of the State Treasurer	6	\$4.04	100.00%	0.00%	\$581.76	\$0.00
125 Office of the Attorney General	181.3	\$4.04	83.11%	16.89%	\$14,609.12	\$2,969.72
127 Office of the Sate Tax Commissioner	133	\$4.04	100.00%	0.00%	\$12,895.68	\$0.00
140 Office of Administrative Hearings	8	\$4.04	0.00%	100.00%	\$0.00	\$775.68
150 Legislative Assembly	125	\$4.04	100.00%	0.00%	\$12,120.00	\$0.00
160 Legislative Council	33	\$4.04	100.00%	0.00%	\$3,199.68	\$0.00
180 Judicial Branch	343	\$4.04	97.42%	2.58%	\$32,399.50	\$857.78
188 Legal Counsel of Indigents	29	\$4.04	100.00%	0.00%	\$2,811.84	\$0.00
190 Retirement and Investment Office	17	\$4.04	0.00%	100.00%	\$0.00	\$1,648.32
192 Public Employees Retirement System	33	\$4.04	0.00%	100.00%	\$0.00	\$3,199.68
201 Department of Public Instruction	98.25	\$4.04	29.95%	70.05%	\$2,853.50	\$6,672.82
226 State Land Department	18.75	\$4.04	0.00%	100.00%	\$0.00	\$1,818.00
250 State Library	29.75	\$4.04	86.36%	13.64%	\$2,490.99	\$393.57
252 School for the Deaf	48.44	\$4.04	95.13%	4.87%	\$4,468.23	\$228.51
253 N.D. Vision Services	27	\$4.04	76.89%	23.11%	\$2,012.91	\$605.01
270 Dept of Career and Technical Ed	27.5	\$4.04	92.70%	7.30%	\$2,471.86	\$194.54
301 North Dakota Department of Health	331.5	\$4.04	30.77%	69.23%	\$9,889.19	\$22,253.05
313 Veterans Home	90.97	\$4.04	29.87%	70.13%	\$2,634.59	\$6,185.86
316 Indian Affairs Commission	4	\$4.04	100.00%	0.00%	\$387.84	\$0.00
321 Department of Veterans Affairs	6	\$4.04	100.00%	0.00%	\$581.76	\$0.00
325 Department of Human Services	2085.68	\$4.04	63.11%	36.89%	\$127,626.38	\$74,601.16
360 Protection and Advocacy Project	27.5	\$4.04	19.64%	80.36%	\$523.73	\$2,142.67
380 Job Service North Dakota	308	\$4.04	0.45%	99.55%	\$133.35	\$29,730.33
401 Office of the Insurance Commissioner	46.5	\$4.04	0.00%	100.00%	\$0.00	\$4,508.64
405 Industrial Commission	55.37	\$4.04	89.61%	10.39%	\$4,811.04	\$557.63
406 Office of the Labor Commissioner	11	\$4.04	71.47%	28.53%	\$762.24	\$304.32
408 Public Service Commission	42	\$4.04	65.77%	34.23%	\$2,678.18	\$1,394.14
412 Aeronautics Commission	6	\$4.04	0.00%	100.00%	\$0.00	\$581.76
413 Department of Financial Institutions	27	\$4.04	0.00%	100.00%	\$0.00	\$2,617.92
414 Office of the Securities Commissioner	9	\$4.04	100.00%	0.00%	\$872.64	\$0.00
471 Bank of North Dakota	176.5	\$4.04	0.00%	100.00%	\$0.00	\$17,113.44
473 North Dakota Housing Finance Agency	43	\$4.04	0.00%	100.00%	\$0.00	\$4,169.28
475 North Dakota Mill & Elevator Association	131	\$4.04	0.00%	100.00%	\$0.00	\$12,701.76
485 Workforce Safety & Insurance	223.14	\$4.04	0.00%	100.00%	\$0.00	\$21,635.65
504 Highway Patrol	197	\$4.04	66.00%	34.00%	\$12,607.43	\$6,493.69
530 Department of Corrections and Rehabilitation	706.79	\$4.04	94.47%	5.53%	\$64,742.71	\$3,787.65
540 Adjutant General	232	\$4.04	35.00%	65.00%	\$7,872.79	\$14,621.93
601 Department of Commerce	73	\$4.04	73.19%	26.81%	\$5,180.15	\$1,897.93
602 Department of Agriculture	67	\$4.04	53.11%	46.89%	\$3,450.45	\$3,045.87
616 State Seed Department	30	\$4.04	0.00%	100.00%	\$0.00	\$2,908.80
627 Upper Great Plains Transportation Institute	43.4	\$4.04	10.75%	89.25%	\$452.26	\$3,755.80
628 Branch Research Centers	95.26	\$4.04	73.68%	26.32%	\$6,805.56	\$2,430.85
630 NDSU Extension Service	257.86	\$4.04	56.98%	43.02%	\$14,245.26	\$10,756.85
638 Northern Crops Institute	11.2	\$4.04	56.12%	43.88%	\$609.46	\$476.49
640 NDSU Main Research Center	348.08	\$4.04	68.32%	31.68%	\$23,057.56	\$10,692.28
649 Agronomy Seed Farm	3	\$4.04	0.00%	100.00%	\$0.00	\$290.88
670 Racing Commission	2	\$4.04	17.34%	82.66%	\$33.63	\$160.29
701 State Historical Society	60	\$4.04	88.90%	11.10%	\$5,172.10	\$645.50
709 Council on the Arts	5	\$4.04	100.00%	0.00%	\$484.80	\$0.00
720 Game & Fish Department	155	\$4.04	0.00%	100.00%	\$0.00	\$15,028.80
750 Department of Parks & Recreation	50.5	\$4.04	94.96%	5.04%	\$4,649.62	\$246.86
770 State Water Commission	84	\$4.04	90.85%	9.15%	\$7,399.36	\$745.28
801 Department Of Transportation	1052.5	\$4.04	0.00%	100.00%	\$0.00	\$102,050.40
Subtotal	8800.24	\$4.04	48.31%	51.69%	\$420,762.39	\$432,508.88
Higher Education	5970	\$4.04	0.00%	100.00%	\$0.00	\$578,851.20
State Total	14770.24	\$4.04			\$420,762.39	\$1,011,360.08
Political Sub Divisions						
Counties	1832	\$4.04	0.00%	100.00%	\$0.00	\$177,630.72
School Districts	1185	\$4.04	0.00%	100.00%	\$0.00	\$114,897.60
Cities	1023	\$4.04	0.00%	100.00%	\$0.00	\$99,190.08
Others	448	\$4.04	0.00%	100.00%	\$0.00	\$43,438.08
	0					
P.S. Total	4488	\$4.04			\$0.00	\$435,156.48
Retirees/COBRA	5931	\$4.04	0.00%	100.00%	\$0.00	\$575,069.76
Grand Total	25189.24				\$420,762.39	\$1,446,516.56

DRAFT

SUGGESTED AMENDMENT TO

SECTION 2. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, and from other funds derived from federal funds and other income, to the following departments for the purpose of defraying the cost of additional health insurance premiums necessary to pay the cost of the provisions of this bill, for the biennium beginning July 1, 2009 and ending June 30, 2011 as follows:

Department	General	Other
101 Office of the Governor	\$1,745.28	\$0.00
108 Office of the Secretary of State	\$2,510.03	\$107.89
110 Office of Management and Budget	\$10,339.48	\$2,507.72
112 Information Technology Department	\$1,900.73	\$28,370.18
117 Office of the State Auditor	\$3,687.73	\$1,625.68
120 Office of the State Treasurer	\$581.76	\$0.00
125 Office of the Attorney General	\$14,609.12	\$2,969.72
127 Office of the Sate Tax Commissioner	\$12,895.68	\$0.00
140 Office of Administrative Hearings	\$0.00	\$775.68
150 Legislative Assembly	\$12,120.00	\$0.00
160 Legislative Council	\$3,199.68	\$0.00
180 Judicial Branch	\$32,399.50	\$857.78
188 Legal Counsel of Indigents	\$2,811.84	\$0.00
190 Retirement and Investment Office	\$0.00	\$1,648.32
192 Public Employees Retirement System	\$0.00	\$3,199.68
201 Department of Public Instruction	\$2,853.50	\$6,672.82
226 State Land Department	\$0.00	\$1,818.00
250 State Library	\$2,490.99	\$393.57
252 School for the Deaf	\$4,468.23	\$228.51
253 N.D. Vision Services	\$2,012.91	\$605.01
270 Dept of Career and Technical Ed	\$2,471.86	\$194.54
301 North Dakota Department of Health	\$9,889.19	\$22,253.05
313 Veterans Home	\$2,634.59	\$6,185.86
316 Indian Affairs Commission	\$387.84	\$0.00
321 Department of Veterans Affairs	\$581.76	\$0.00
325 Department of Human Services	\$127,626.38	\$74,601.16
360 Protection and Advocacy Project	\$523.73	\$2,142.67
380 Job Service North Dakota	\$133.35	\$29,730.33
401 Office of the Insurance Commissioner	\$0.00	\$4,508.64
405 Industrial Commission	\$4,811.04	\$557.63
406 Office of the Labor Commissioner	\$762.24	\$304.32
408 Public Service Commission	\$2,678.18	\$1,394.14
412 Aeronautics Commission	\$0.00	\$581.76
413 Department of Financial Institutions	\$0.00	\$2,617.92
414 Office of the Securities Commissioner	\$872.64	\$0.00
471 Bank of North Dakota	\$0.00	\$17,113.44
473 North Dakota Housing Finance Agency	\$0.00	\$4,169.28
475 North Dakota Mill & Elevator Association	\$0.00	\$12,701.76
485 Workforce Safety & Insurance	\$0.00	\$21,635.65
504 Highway Patrol	\$12,607.43	\$6,493.69
530 Department of Corrections and Rehabilitation	\$64,742.71	\$3,787.65
540 Adjutant General	\$7,872.79	\$14,621.93
601 Department of Commerce	\$5,180.15	\$1,897.93
602 Department of Agriculture	\$3,450.45	\$3,045.87
616 State Seed Department	\$0.00	\$2,908.80
627 Upper Great Plains Transportation Institute	\$452.26	\$3,755.80
628 Branch Research Centers	\$6,805.56	\$2,430.85
630 NDSU Extension Service	\$14,245.26	\$10,756.85
638 Northern Crops Institute	\$609.46	\$476.49
640 NDSU Main Research Center	\$23,057.56	\$10,692.28
649 Agronomy Seed Farm	\$0.00	\$290.88
670 Racing Commission	\$33.63	\$160.29
701 State Historical Society	\$5,172.10	\$645.50
709 Council on the Arts	\$484.80	\$0.00
720 Game & Fish Department	\$0.00	\$15,028.80
750 Department of Parks & Recreation	\$4,649.62	\$246.86
770 State Water Commission	\$7,399.36	\$745.28
801 Department Of Transportation	\$0.00	\$102,050.40
Total	\$420,762.39	\$432,508.88

Renumber accordingly

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

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

Dear _____,

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

Overview of the Proposed Bill

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

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

Expected Financial Impact

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

Permanent Employees of Private Sector Employers

Section 4 of the bill would allow private sector employers with one or more employees to join the Program. The bill allows the formation of an additional “subgroup” consisting of “private sector employee and private citizen group medical and hospital coverage”. Interestingly, there is no mention of adding prescription drugs, dental or vision coverages

for this new subgroup. We presume that the bill's intent is to at least include prescription drugs along with medical and hospital coverages. This should be clarified with the bill's sponsor.

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

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

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

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

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

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

Temporary Employees of Private Sector Employers

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

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

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

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

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

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

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

Participation by Private Citizens

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

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

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

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

Technical Comments

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

- “The Board shall apply to the federal government to receive exempt status under the Employee Retirement Income Security Act (ERISA) to allow for the

expansion of the uniform group insurance program [as contained in the proposed bill].” (Section 1). Further, the bill would not become effective until the Board receives notification that the proposed changes to the Program will not revoke its governmental exemption from ERISA (Section 10).

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

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

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

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

Other Issues

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

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

In recent months, there has been considerable national activity involving legislation to allow private sector access to public sector plans. Most of the activity has been with state

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

Conclusions

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

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

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

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

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

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

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

Sincerely,



DRAFT

Date

Representative Bette Grande, Chair
Employee Benefits Programs Committee
State of North Dakota
Bismarck, North Dakota

Dear Representative Grande,

Re: Review of Proposed House Bill 90206.0100 – A bill relating to the creation and enactment of a new subsection to section 54-52-04 of the North Dakota Century Code to provide the public employees retirement system the authority to create a trust health care savings plan for all supreme and district court judges participating in the public employees' retirement system.

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

Overview of the Proposed Bill

As proposed, this bill would modify the State Century Code as follows:

- It allows the NDPERS Board to create and implement an IRC Section 115 (integral part governmental) Trust for retiree healthcare expenses for all state supreme and district court judges that participate in NDPERS if at least 75% of the active participating supreme and district court judges vote to approve the program.
- If at least 75% approve the program, the contribution level specified in the vote applies to all current and future participating supreme and district court judges according to the plan document developed by the NDPERS Board.
- The approved contribution level can only be changed by a vote of at least 75% of the total active participating supreme and district court judges at that time.

Technical Discussion

The state supreme and district court judges want a supplemental financial vehicle to allow pre-funding of eligible retiree healthcare expenses in a tax efficient manner. An IRC Section 115 Trust is one of several permissible funding vehicles that can be used by public sector employers and their employees to pre-fund retiree healthcare expenses.

Employee contributions can be made pre-tax to a Section 115 Trust. In order to obtain this tax-favored treatment, all employees in the defined group must participate in the retiree healthcare pre-funding plan. Participation cannot be elective. Contributions to a Section 115 Trust and interest earnings accumulate without taxation. Employees can direct their contributions to different investment options, if the plan is designed to allow this. As long as the accumulated funds are used for qualified medical expenses, they are not taxed upon distribution.

The Minnesota State Retirement System (MSRS) currently offers a Health Care Savings Plan (HCSP), which uses a Section 115 Trust as its funding vehicle. For employees subject to collective bargaining, all employees in the bargaining group must participate. For non-bargaining employees, all employees in a defined group must participate.

What constitutes a “group” for Section 115 purposes is subject to some debate. However, one common definition is:

“...individuals who become entitled to participate by reason of their being employees and whose membership is defined by objective standards that constitute an employment related common bond. This can include....members of a bargaining unit....nonunion administrative staff. Further membership can be restricted. Restrictions can be based on any objective criteria related to employment such as...job classification.”⁽¹⁾

Section 115 Trusts are subject to the non-discrimination rules for health reimbursement arrangements under IRC Section 105(h). Violation of the non-discrimination rules by any participating employer has no effect on the tax exemption of the Trust. However, violation of the non-discrimination rules will cause the health reimbursement arrangement payments to be taxable for highly compensated employees of the violating employer. As long as the established Trust contribution arrangement is uniformly applicable (such as flat dollar amount or percentage of salary) to all members of the group, meeting the non-discrimination rules should not be problematic.

IRS approval of a Section 115 Trust is not required. However, NDPERS may wish to consider requesting an IRS private letter ruling (PLR), especially if it intends to develop a proto-type plan document to be used by other employee groups that may request a health care savings plan in the future. The PLR will give assurance to any future employee groups and NDPERS that the judges’ program meets IRS guidelines for compliance. MSRS obtained a private letter ruling from the IRS confirming the tax exempt benefit status of its HCSP in July 2002, although it started offering its HCSP a

(1) International Foundation for Employee Benefits, “VEBA, Who May Be Eligible?”

full year earlier. It is our understanding that IRS rulings on Section 115 Trusts take a minimum of six months after submission. Because the ruling is not required, NDPERS could implement its plan before receiving the IRS opinion. This appears to be the approach that MSRS used.

As drafted, HB 90206.01 will not reduce NDPERS' GASB 45 OPEB liability. In order to affect its OPEB liability, the retiree healthcare funds must come from the employer, GASB's irrevocable trust requirements must be satisfied and the funds would need to legitimately offset expenses otherwise incurred by NDPERS.

Analysis

There are two key questions to be answered regarding this proposed legislation. First, do the supreme and district court judges constitute a "group" for the purposes of achieving tax favored status of employee contributions? Second, does the bill meet the IRC requirements that all members of the group participate in the Trust with no opportunity for individual election?

Regarding the first question posed above, it does appear that the state supreme and district court judges do constitute a distinct group. They are already a distinct group within retirement system. Presumably, they are not subject to collective bargaining. Therefore, using the definition cited above, supreme and district court judges constitute a group whose membership is "defined by objective standards that related an employment related common bond." The group is exclusive and limited to a finite number of active employees who are active participants in NDPERS.

We have confirmed that the Minnesota State Retirement System (MSRS) does offer its Health Care Savings Plan (HCSP) to state judges. MSRS is comfortable that the judges qualify as a group for the purposes of allowing pre-tax employee contributions. This should be reassuring to NDPERS in its consideration of HB 90206.01.

The answer to the second question is relatively straightforward. The bill requires 100% of the supreme and district court judges to participate in the health care savings plan if ratified by vote of the entire group. Consequently, this IRC requirement for tax favored treatment of contributions would be met.

Financial Discussion

Although the bill is not specific about the sources of funding, we have assumed that there will be no direct employer contributions to the proposed health care savings plan. Consequently, contributions would be made by employees either through redirection of salary or transfer of future sick or vacation leave accruals.

If the above assumptions are correct, then the financial impact to the State from the passage of this bill would be twofold. First, there would be implementation and start-up costs. These would include development of the plan document, communications materials/website development, external administrator selection (if applicable) and any indirect costs associated with NDPERS staff time to roll out the new plan. These would be essentially one-time costs and would not normally recur. We do not have enough information to accurately estimate total implementation costs, but they should not be significant.

There would also be ongoing costs for the administration of the program. If plan participants are given different investment choices for their accumulated contributions, there may be financial management costs associated with these functions also. NDPERS would need to determine if it will absorb the administrative and financial costs or whether these costs will be assumed by the plan participants. MSRS, for example, presently assesses participants in its HCSP .65% of their account balances annually to cover administrative costs. We are unable to determine if this assessment level would be adequate to sustain a similar NDPERS program whether claims processing is done internally (as MSRS does) or externally by a third party vendor, but it could serve as a reasonable starting point should the program be established.

Conclusions

From our understanding of the proposed bill, it does appear to meet the two critical IRS requirements for a retiree healthcare pre-funding vehicle to allow pre-tax contributions, tax free accumulations and tax-exempt distributions for qualified expenses. The supreme and district court judges appear to qualify as a distinct group to which the health care savings plan will be offered. Further, the bill requires that 100% of the group participate in the plan, with no ability to opt-out. The fact that the MSRS offers a similar health care savings plan to its judges is reassuring that the proposed bill meets the IRS requirements.

To confirm presumed tax favored status of the health care savings account (particularly if PERS expects other groups to request a similar plan in the future), we suggest that it consider obtaining an IRS private letter ruling, similar to the one obtained by MSRS. As a PLR is not required for Section 115 Trusts, NDPERS could implement the program prior to receiving the formal ruling from the IRS.

Financially, the start-up costs for the health care savings plan should be nominal, but further discussion is needed to determine whether NDPERS or the plan participants will pay the one-time expenses. On an ongoing basis, there will be recurring administration and financial management expenses. The amount of these expenses will depend greatly on the plan design selected and features offered. A decision will need to be made whether these recurring costs will be paid by the State or NDPERS, the plan participants or both in some shared arrangement.

Representative Bette Grande, Chair

Date

Page 5

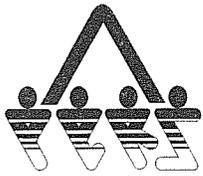
GBS is not qualified to render legal advice. As with all matters involving the interpretation of complex laws and regulations, we suggest that NDPERS obtained qualified legal counsel input before any final decision on this bill is made.

We appreciate the opportunity to review and analyze this proposed legislation. Please let us know if we can provide any further assistance.

Sincerely,

A handwritten signature in cursive script that reads "William F. Robinson, Jr." with a stylized flourish at the end.

William F. Robinson, Jr.
Area Senior Vice President



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: Jim Smrcka
DATE: October 7, 2008
SUBJECT: Consultant Fees

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

Attachment

-
- | | | |
|------------------------------------|----------------------------------|-----------------------------------|
| • FlexComp Program | • Retirement Programs | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees | - Judges |
| • Dental | - Highway Patrol | - Prior Service |
| • Vision | - National Guard/Law Enforcement | - Job Service |
| | | • Deferred Compensation Program |
| | | • Long Term Care Program |

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

Program/Project	Fee Type	Jul-08	Aug-08	Sep-08	Fees Paid During The Quarter	Fees Paid Year-To-Date
Actuary/Consulting Fees:						
Gallagher Benefit Services, Inc	Insurance	Fixed Fee			-	-
Gallagher Benefit Services, Inc	Ongoing consulting	Time charges	-	16,593	-	16,593
Gallagher Benefit Services, Inc	Travel Expenses	Actual	-	-	-	-
LR Wechsler, LTD	IT Project	Fixed Fee	36,044	12,915	13,282	62,241
LR Wechsler, LTD	Travel Expenses	Actual	5,202	4,446	3,872	13,519
Sagitec Solutions LLC	PERSLINK Project		836,990	-	-	836,990
Gabriel Roeder Smith & Company			-	-	-	380
Mid Dakota Clinic	Retirement Disability	Time charges	960	700	950	2,610
The Segal Company	Retirement (DB)	Fixed Fee	12,825	-	-	12,825
The Segal Company	Ret Health Credit	Fixed Fee	2,475	-	-	2,475
The Segal Company	FlexComp	Fixed Fee	2,700	-	-	2,700
The Segal Company	Job Service	Fixed Fee	3,600	-	-	3,600
The Segal Company	QDRO/Compliance	Time charges	975	2,031	-	3,006
The Segal Company	Legislation	Time charges	13,406	31,556	34,589	79,551
The Segal Company	Retirement (DC)	Time charges	-	-	-	-
The Segal Company	Deferred Comp	Time charges	413	275	-	688
The Segal Company	Travel Expenses	Actual	-	-	-	-
			\$ 915,590	\$ 68,516	\$ 52,693	\$ 1,036,798
						\$ 3,008,130
Audit Fees:						
Brady Martz	Annual audit	Fixed Fee	9,500	4,500	14,000	28,000
Brady Martz	GSAB 43 and 45 research					33,475
Legal Fees:						
ICEMILLER llp	IT Project	Time charges	-	-	-	-
ND Attorney General	Administrative	Time charges				70
Calhoun Law Group	Administrative	Time charges				1,265
Investment Fees:						
SIB - Investment Fees	Retirement (DB)	% Allocation	277,788	1,015,766	875,392	2,168,946
SIB - Investment Fees	Ret Health Credit	% Allocation	10,747	456	25,409	36,612
SIB - Investment Fees	Insurance	% Allocation	186	32	32	250
SIB - Administrative Fees	Retirement (DB)	% Allocation	23,017	14,196	14,002	51,215
					\$ 2,257,023	\$ 8,712,205
Administrative Fee:						
Blue Cross Blue Shield	Health Plan	Fixed fee	739,128	737,693	738,052	2,214,872

Legal Fees:
- ICEMILLER llp
70 ND Attorney General
1,265 Calhoun Law Group

Investment Fees:
SIB - Investment Fees 8,467,801
SIB - Investment Fees 98,795
SIB - Investment Fees 754
SIB - Administrative Fees 144,855

Administrative Fee:
Blue Cross Blue Shield 6,634,989



Memo

To: NDPERS Board
From: ^{BTR} Bryan T. Reinhardt
Date: 9/11/2008
Re: 457 Companion Plan & 401(a) plan 2nd Quarter 2008 Reports

Here is the 2nd quarter 2008 investment report for the 401(a) & 457 Companion Plan. The reports are available separately on the NDPERS web site. The NDPERS Investment Sub-committee reviewed the 2nd quarter report and has no Board action.

Assets in the 401(a) plan increased to \$17.0 million as of June 30, 2008. The number of participants is at 291, about the same as when the plan started. The largest funds are Fidelity Growth Company (15%) and the Managed Income Portfolio with 13% of the assets.

Assets in the 457 Companion Plan increased to \$23.4 million as of June 30, 2008. The number of participants dropped from 1,319 after the transition to Fidelity, but is increasing and is now at 2,222. The largest funds are the Fidelity Freedom 2020 Fund and the Fidelity Diversified International Fund each with 12% of the assets.

Benchmarks:

Fund returns for the quarter were mixed. **Fidelity US Equity Index, Fidelity Dividend Growth, and Dreyfus Mid Cap Index** were the funds that performed lower than their benchmarks for all periods (QTR, Y-T-D, 1-year, 3-year, and 5-year). Note that index funds are expected to slightly underperform their benchmarks because of fund administration fees.

Fund / Investment News:

Representatives from Fidelity attended the Investment Sub-Committee meeting and presented an annual plan review and a 2nd Quarter market perspective. Fidelity presented alternative international and large blend funds. The committee will review this again next quarter. The committee will continue to work on the plan goals and fees at the next meeting. The Investment Sub-Committee marked **Dividend Growth (FDGFX), Blue Chip Growth (FBGRX), Fidelity Freedom Income (FFFAX)** and the **Fidelity Freedom 2000 Fund (FFFBX)** as underperforming for the quarter.

NDPERS
Quarterly Investment Report
2nd Quarter
4/1/2008 – 6/30/2008



North Dakota Public Employees Retirement System
400 E Bdwy, Suite 505
Box 1657
Bismarck, ND 58502

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

INITIAL OFFERING:

Fidelity Equity-Income Mutual Shares A	Fidelity Spartan US Equity Index Fidelity Dividend Growth	Fidelity Growth Company Fidelity Blue Chip Growth	LARGE	
Goldman Sachs Mid Cap Value	Dreyfus Mid Cap Index Fidelity Spartan Ext Mkt Index	Fidelity Mid Cap Stock		MEDIUM
Allianz NFJ Small Cap Value	Dreyfus Small Cap Index	MSIF Small Co Growth B		SMALL
	VALUE	BLEND	GROWTH	

BALANCED FUND: Fidelity Puritan Fund
 INCOME FUNDS: Fidelity Managed Income Portfolio
 BOND FUNDS: PIMCO Total Return Bond Fund
 INTERNATIONAL FUNDS: Fidelity Diversified International (Blend Bias)

LIFESTYLE FUNDS: Fidelity Freedom Income
 Fidelity Freedom 2000
 Fidelity Freedom 2005
 Fidelity Freedom 2010
 Fidelity Freedom 2015
 Fidelity Freedom 2020
 Fidelity Freedom 2025
 Fidelity Freedom 2030
 Fidelity Freedom 2035
 Fidelity Freedom 2040, 2045 & 2050

FUND STYLE CHANGES:

			LARGE
	Goldman Sachs Mid Cap Value	Fidelity Spartan Ext Mkt Index	MEDIUM
			SMALL
	VALUE	BLEND	GROWTH

INCOME FUNDS:
 BOND FUNDS:
 INTERNATIONAL FUNDS: Fidelity Diversified International (Growth Bias)
 BALANCED FUNDS:
 LIFESTYLE FUNDS:

CURRENT LINEUP:

Fidelity Equity-Income Mutual Shares A	Fidelity Spartan US Equity Index Fidelity Dividend Growth	Fidelity Growth Company Fidelity Blue Chip Growth	LARGE	
	Dreyfus Mid Cap Index Goldman Sachs Mid Cap Value	Fidelity Mid Cap Stock Fidelity Spartan Ext Mkt Index		MEDIUM
Allianz NFJ Small Cap Value	Dreyfus Small Cap Index	MSIF Small Co Growth B		SMALL
	VALUE	BLEND	GROWTH	

BALANCED FUND: Fidelity Puritan Fund
 INCOME FUNDS: Fidelity Managed Income Portfolio
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LIFESTYLE FUNDS: Fidelity Freedom Income
 Fidelity Freedom 2000
 Fidelity Freedom 2005
 Fidelity Freedom 2010
 Fidelity Freedom 2015
 Fidelity Freedom 2020
 Fidelity Freedom 2025
 Fidelity Freedom 2030
 Fidelity Freedom 2035
 Fidelity Freedom 2040, 2045 & 2050

NDPERS Investment Benchmarks - 2nd Quarter 2008

	<u>Quarter</u>	<u>Y-T-D</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
<u>Stable Value Fund</u>					
Fidelity Managed Income Portfolio	0.94%	2.14%	4.39%	4.17%	4.12%
GIC 5 Year	1.07%	2.13%	4.26%	4.76%	5.07%
<u>Fixed Income Fund</u>					
PIMCO Total Return Bond Fund - PTRAX	-1.37%	1.84%	10.55%	4.71%	4.45%
Lehman Aggregate Bond Index	-1.02%	1.13%	7.12%	4.09%	3.86%
Taxable Bond Fund Universe	-0.81%	-1.21%	2.49%	2.07%	3.48%
<u>Balanced Fund</u>					
Fidelity Puritan - FPURX	-0.30%	-7.79%	-7.54%	5.61%	7.63%
60% Large Cap Value Univ & 40% Taxable Bond Universe	-4.64%	-8.21%	-9.65%	2.63%	5.99%
60% Russell 3000 Value & 40% Lehman Agg Bond Index	#VALUE!	#VALUE!	-8.56%	3.64%	6.94%
<u>Large Cap Equities - Value</u>					
Fidelity Equity-Income - FEQIX	-5.29%	-14.48%	-20.04%	3.64%	7.54%
Franklin Mutual Shares A - TESIX	-5.78%	-14.51%	-19.47%	3.70%	8.21%
Russell 1000 Value Index	-5.31%	-13.57%	-18.78%	3.53%	8.92%
Large Cap Value Fund Universe	-7.19%	-12.87%	-17.74%	3.00%	7.66%
<u>Large Cap Equities - Blend</u>					
Fidelity Spartan US Equity Index - FUSEX	-2.74%	-11.94%	-13.16%	4.34%	7.49%
Fidelity Dividend Growth - FDGFX < Under Review 3/2007 >	-3.21%	-12.82%	-17.80%	2.24%	4.10%
S&P 500 Index	-2.73%	-11.91%	-13.12%	4.41%	7.58%
Large Cap Blend Fund Universe	-4.53%	-11.02%	-12.08%	4.52%	7.59%
<u>Large Cap Equities - Growth</u>					
Fidelity Growth Company - FDGRX	7.00%	-5.48%	3.93%	12.26%	13.43%
Russell 3000 Growth Index	N/A	N/A	-6.38%	5.93%	7.56%
Fidelity Blue Chip Growth - FBGRX < Under Review 3/2007 >	0.51%	-10.12%	-6.10%	4.07%	5.66%
Russell 1000 Growth Index	1.25%	-9.06%	-5.96%	5.91%	7.32%
Large Cap Growth Fund Universe	-1.35%	-10.07%	-5.63%	5.91%	7.73%
<u>Mid Cap Equities - Value</u>					
Goldman Sachs Mid Cap Value - GCMAX	4.55%	-3.71%	-9.59%	6.73%	13.79%
Russell Mid Cap Value	0.07%	-8.58%	-17.09%	4.97%	13.00%
Mid Cap Value Fund Universe	-3.41%	-8.81%	-16.85%	3.77%	10.67%
<u>Mid Cap Equities - Blend</u>					
Dreyfus Mid Cap Index - PESPX	5.34%	N/A	-7.60%	7.04%	12.13%
S&P Mid Cap 400	5.43%	-3.90%	-7.34%	7.45%	12.61%
Fidelity Spartan Extended Mkt Index - FSEMXX	2.18%	-7.74%	-11.27%	6.61%	12.19%
Wilshire 4500 Index	1.83%	-8.48%	-11.52%	6.63%	12.45%
Mid Cap Blend Fund Universe	-1.18%	-7.83%	-13.16%	5.25%	10.67%
<u>Mid Cap Equities - Growth</u>					
Fidelity Mid Cap Stock - FMCSX	11.57%	-3.12%	-8.66%	11.32%	12.50%
Russell Mid Cap Growth	4.65%	-6.81%	-6.42%	8.19%	12.32%
Mid Cap Growth Fund Universe	1.07%	-8.84%	-6.58%	7.69%	10.97%

Fund Returns in RED do not meet both benchmarks.

Fund Returns in BLACK meet both benchmarks.

NDPERS Investment Benchmarks - 2nd Quarter 2008

	<u>Quarter</u>	<u>Y-T-D</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
Small Cap Equities - Value					
Allianz NFJ Small Cap Value - PVADX	1.40%	-2.33%	-6.83%	9.06%	14.55%
Russell 2000 Value Index	-3.55%	-9.84%	-21.63%	1.39%	10.02%
Small Value Fund Universe	-4.50%	-8.26%	-19.69%	1.56%	9.70%
Small Cap Equities - Blend					
Dreyfus Small Cap Index - DISSX	0.25%	N/A	-15.00%	3.69%	11.13%
Russell 2000 Index	0.58%	-9.37%	-16.19%	3.79%	10.29%
S & P 600 Index	N/A	N/A	N/A	N/A	N/A
Small Blend Fund Universe	-1.98%	-8.87%	-16.94%	3.53%	10.57%
Small Cap Equities - Growth					
MSI Small Co Growth B - MSSMX	-1.65%	-13.32%	-15.75%	2.33%	10.32%
Russell 2000 Growth Index	4.47%	-8.93%	-10.83%	6.08%	10.37%
Small Growth Fund Universe	0.56%	-11.37%	-13.65%	4.16%	9.32%
International Equity Funds					
Fidelity Diversified International - FDIVX	-0.06%	-9.67%	-5.66%	14.39%	17.85%
MSCI EAFE	-2.12%	-10.83%	-10.47%	13.02%	16.91%
International Stock Fund Universe	-5.13%	-11.68%	-9.97%	13.02%	15.68%
Asset Allocation Funds:					
Fidelity Freedom Income - FFFAX	0.33%	-1.42%	0.03%	4.06%	4.11%
Income Benchmark	-0.45%	-2.20%	0.73%	5.61%	5.35%
Fidelity Freedom 2000 - FFFBX	0.29%	-2.06%	-0.75%	4.19%	4.52%
2000 Benchmark	-0.55%	-3.20%	-0.81%	5.64%	5.84%
Fidelity Freedom 2005 - FFFVX	0.23%	-4.87%	-3.45%	5.28%	N/A
2005 Benchmark	-1.03%	-5.23%	-3.49%	5.76%	7.40%
Fidelity Freedom 2010 - FFFCX	0.18%	-4.89%	-3.45%	5.49%	6.57%
2010 Benchmark	-1.06%	-5.43%	-3.78%	5.72%	7.48%
Fidelity Freedom 2015 - FFFVX	0.29%	-5.66%	-4.40%	6.07%	N/A
2015 Benchmark	-1.13%	-6.10%	-4.80%	5.81%	7.93%
Fidelity Freedom 2020 - FFFDX	0.22%	-7.07%	-6.04%	6.53%	8.40%
2020 Benchmark	-1.23%	-7.47%	-6.95%	5.94%	8.68%
Fidelity Freedom 2025 - FFTWX	0.31%	-7.53%	-6.71%	6.63%	N/A
2025 Benchmark	-1.25%	-7.71%	-7.33%	6.03%	8.86%
Fidelity Freedom 2030 - FFFEX	0.26%	-8.85%	-8.21%	6.92%	9.19%
2030 Benchmark	-1.31%	-9.04%	-9.46%	6.22%	9.48%
Fidelity Freedom 2035 - FFTHX	0.25%	-9.05%	-8.54%	6.93%	N/A
2035 Benchmark	-1.28%	-9.06%	-9.53%	6.31%	9.60%
Fidelity Freedom 2040 - FFFFX	0.35%	-9.35%	-8.54%	6.93%	N/A
2040 Benchmark	-1.24%	-9.34%	-10.11%	6.34%	9.76%
Fidelity Freedom 2045 - FFFGX	0.09%	-9.70%	-9.24%	N/A	N/A
2040 Benchmark	-1.26%	-9.70%	-10.66%	6.53%	10.07%
Fidelity Freedom 2050 - FFFHX	0.12%	-9.68%	-10.13%	N/A	N/A
2040 Benchmark	-1.28%	-9.95%	-11.03%	6.63%	10.25%

Income Benchmark is comprised of 20% Wilshire 5000, 35% LB Agg, 5% ML HY Bond, 40% 3 Month T-Bill

2000 Benchmark is comprised of 28% Wilshire 5000, 1% MSCI EAFE, 30% LB Agg, 5% ML HY Bond, 36% 3 Month T-Bill

2005 Benchmark is comprised of 40% Wilshire 5000, 10% MSCI EAFE, 34% LB Agg, 5% ML HY Bond, 11% 3 Month T-Bill

2010 Benchmark is comprised of 42% Wilshire 5000, 10% MSCI EAFE, 34% LB Agg, 5% ML HY Bond, 9% 3 Month T-Bill

2015 Benchmark is comprised of 46% Wilshire 5000, 12% MSCI EAFE, 31% LB Agg, 6% ML HY Bond, 5% 3 Month T-Bill

2020 Benchmark is comprised of 56% Wilshire 5000, 14% MSCI EAFE, 23% LB Agg, 7% ML HY Bond

2025 Benchmark is comprised of 57% Wilshire 5000, 15% MSCI EAFE, 21% LB Agg, 7% ML HY Bond

2030 Benchmark is comprised of 67% Wilshire 5000, 16% MSCI EAFE, 10% LB Agg, 7% ML HY Bond

2035 Benchmark is comprised of 66% Wilshire 5000, 17% MSCI EAFE, 9% LB Agg, 8% ML HY Bond

2040 Benchmark is comprised of 68% Wilshire 5000, 17% MSCI EAFE, 5% LB Agg, 10% ML HY Bond

2045 Benchmark is comprised of 69% Wilshire 5000, 19% MSCI EAFE, 2% LB Agg, 10% ML HY Bond

2050 Benchmark is comprised of 70% Wilshire 5000, 20% MSCI EAFE, 0% LB Agg, 10% ML HY Bond

Wilshire 5000 Index	-1.48%	-10.95%	-12.46%	5.06%	8.78%
MSCI EAFE	-2.12%	-10.83%	-10.47%	13.02%	16.91%
Lehman Aggregate Bond Index	-1.02%	1.13%	7.12%	4.09%	3.86%
ML High Yield Bond Fund Index	1.81%	-1.14%	-2.12%	4.84%	7.23%
3 Month T-Bill Index	0.29%	-0.86%	2.10%	7.30%	4.71%
Russell 3000 Value Index	N/A	N/A	-19.02%	3.34%	8.99%

Fund Returns in RED do not meet both benchmarks.

Fund Returns in BLACK meet both benchmarks.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN INVESTMENT OPTIONS

PERFORMANCE UPDATE

AS OF JUNE 30, 2008

UNDERSTANDING INVESTMENT PERFORMANCE

As you review this update, please remember that the performance data stated represents past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance stated. To learn more or to obtain the most recent month-end performance, call Fidelity at 1-800-343-0860 or visit <https://www.mysavingsatwork.com> (log in, choose plan, select "Investment Choices & Research," and then pick investment option).

Fund ID	Fund Name	Cumulative Total Returns % Period Ending June 30, 2008		Average Annual Total Returns % Period Ending June 30, 2008				Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↕
		3 Month	YTD	1 Year	5 Year	10 Year	Life of Fund			
LIFE-CYCLE FUNDS ➡										
FFFBX	Fidelity Freedom 2000	0.29	-2.06	-0.75	4.52	4.71	6.25	10/17/96	n/a	0.51
FFVFX	Fidelity Freedom 2005	0.23	-4.87	-3.45	n/a	n/a	5.76	11/06/03	n/a	0.64
FFFCX	Fidelity Freedom 2010	0.18	-4.89	-3.45	6.57	5.42	7.49	10/17/96	n/a	0.65
FFVFX	Fidelity Freedom 2015	0.29	-5.66	-4.40	n/a	n/a	6.69	11/06/03	n/a	0.67
FFFDX	Fidelity Freedom 2020	0.22	-7.07	-6.04	8.40	5.42	7.81	10/17/96	n/a	0.72
FFTWX	Fidelity Freedom 2025	0.31	-7.53	-6.71	n/a	n/a	7.42	11/06/03	n/a	0.73
FFFEX	Fidelity Freedom 2030	0.26	-8.85	-8.21	9.19	5.16	7.64	10/17/96	n/a	0.76
FFTHX	Fidelity Freedom 2035	0.25	-9.05	-8.54	n/a	n/a	7.87	11/06/03	n/a	0.77
FFFFX	Fidelity Freedom 2040	0.35	-9.35	-9.00	9.71	n/a	1.18	9/06/00	n/a	0.78
FFFGX	Fidelity Freedom 2045	0.09	-9.70	-9.24	n/a	n/a	3.66	6/01/06	n/a	0.78
FFFFX	Fidelity Freedom 2050	0.12	-10.13	-9.68	n/a	n/a	3.55	6/01/06	n/a	0.80
FFFAX	Fidelity Freedom Income	0.33	-1.42	0.03	4.11	4.50	5.41	10/17/96	n/a	0.49
MANAGED INCOME / ANNUITIES / STABLE VALUE										
00632	Managed Income Portfolio ➡	0.94	2.14	4.39	4.12	4.84	5.62	9/07/89	n/a	n/a
BOND FUNDS >										
PTRAX	PIMCO Total Return - Administrative Class	-1.37	1.84	10.55	4.45	6.23	7.11	9/08/94	n/a	0.68
BALANCED/HYBRID FUNDS										
FPURX	Fidelity Puritan*	-0.30	-7.79	-7.54	7.63	5.25	11.40	4/16/47	n/a	0.60
DOMESTIC EQUITY FUNDS - LARGE-CAP VALUE										
FEQIX	Fidelity Equity-Income	-5.29	-14.48	-20.04	7.54	3.93	12.28	5/16/66	n/a	0.66
TESIX	Mutual Shares - A Class	-5.78	-14.51	-19.47	8.21	6.51	8.86	11/01/96	2.00/7	1.07

For explanations of symbols and important disclosures, please see last page(s) of this report.

continued

AS OF JUNE 30, 2008

Fund ID	Name	Cumulative Total Returns % Period Ending June 30, 2008		Average Annual Total Returns % Period Ending June 30, 2008			Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↔	
		3 Month	YTD	1 Year	5 Year	10 Year				Life of Fund
DOMESTIC EQUITY FUNDS - LARGE-CAP BLEND										
FDGFX	Fidelity Dividend Growth	-3.21	-12.82	-17.80	4.10	3.66	11.24	4/27/93	n/a	0.61
FUSEX	Spartan® U.S. Equity Index - Investor Class	-2.74	-11.94	-13.16	7.49	2.76	10.38	2/17/88	n/a	0.10
DOMESTIC EQUITY FUNDS - LARGE-CAP GROWTH										
FBGRX	Fidelity Blue Chip Growth	0.51	-10.12	-6.10	5.66	1.41	11.08	12/31/87	n/a	0.60
FDGRX	Fidelity Growth Company	7.00	-5.48	3.93	13.43	7.56	13.89	1/17/83	n/a	0.94
DOMESTIC EQUITY FUNDS - MID-CAP VALUEⓈ										
GCMAX	Goldman Sachs Mid Cap Value - Class A	4.55	-3.71	-9.59	13.79	9.65	9.81	8/15/97	n/a	1.16
DOMESTIC EQUITY FUNDS - MID-CAP BLENDⓈ										
PESPX	Dreyfus Mid Cap Index	5.34	-4.06	-7.60	12.13	9.29	12.75	6/19/91	n/a	0.51
FSEMX	Spartan® Extended Market Index - Investor Class	2.18	-7.74	-11.27	12.19	5.68	6.31	11/05/97	0.75/90	0.10
DOMESTIC EQUITY FUNDS - MID-CAP GROWTHⓈ										
FMCSX	Fidelity Mid-Cap Stock	11.57	-3.12	-8.66	12.50	9.27	13.31	3/29/94	0.75/30	0.95
DOMESTIC EQUITY FUNDS - SMALL-CAP VALUE♦										
PVADX	Allianz NFJ Small Cap Value - Administrative Class	1.40	-2.33	-6.83	14.55	10.51	13.30	11/01/95	n/a	1.07
DOMESTIC EQUITY FUNDS - SMALL-CAP BLEND♦										
DISSX	Dreyfus Small Cap Stock Index	0.25	-7.30	-15.00	11.13	7.15	8.20	6/30/97	n/a	0.51
DOMESTIC EQUITY FUNDS - SMALL-CAP GROWTH♦										
MSSMX	MSIF Small Company Growth - P Class	-1.65	-13.32	-15.75	10.32	9.81	10.66	1/02/96	2.00/30	1.26
INTERNATIONAL/GLOBAL FUNDS††										
FDIVX	Fidelity Diversified International	-0.06	-9.67	-5.66	17.85	10.58	11.59	12/27/91	1.00/30	0.93
MARKET INDICATORS^^										
For comparison purposes only. It is not possible to invest directly in these indicators.										
	Dow Jones Industrial Average	-6.85	-13.38	-13.27	7.20	4.50				
	Lehman Brothers Intermediate U.S. Government/ Credit Index	-1.53	1.43	7.37	3.49	5.55				
	MSCI EAFE® Index	-2.12	-10.83	-10.47	16.91	6.08				
	Standard & Poor's 500® Index	-2.73	-11.91	-13.12	7.58	2.88				

Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated. Life of fund figures are reported as of the inception date to the period indicated. These figures do not include the effects of sales charges, if any, as these charges are waived for contributions made through your company's employee benefit plan. If sales charges were included, returns would have been lower.

With the exception of domestic equity mutual funds, investment options have been assigned to investment categories based on Fidelity's analysis. Fidelity has verified the accuracy of the placement of certain third party non-mutual funds with either the plan sponsor or the plan sponsor's consultant. Within Domestic Equities, mutual funds are listed according to their actual Morningstar categories as of the date indicated. Morningstar categories are based on a fund's style as measured by its underlying portfolio holdings over the past 3 years and may change at any time. These style calculations do not represent the funds' objectives and do not predict the funds' future styles.

SPECIFIC FUNDS

Morningstar, Inc., provided data on the non-Fidelity mutual funds. Although the data is gathered from reliable sources, accuracy and completeness cannot be guaranteed by Morningstar.

↔ For a mutual fund, the expense ratio is the total annual fund or class operating expenses (before waivers or reimbursements) paid by the fund and stated as a percent of the fund's total net assets. Where the investment option is not a mutual fund, the figure displayed in the expense ratio field is intended to reflect similar information. However, it may have been calculated using methodologies that differ from those used for mutual funds. Mutual fund data has been drawn from the most recent prospectus. For non-mutual fund investment options, the information has been provided by the trustee or plan sponsor. When no ratio is shown for these options it is due to the fact that none was available. Nevertheless, there may be fees and expenses associated with the investment option.

⇒ Managed Income Portfolio is not a mutual fund but is a commingled pool of the Fidelity Group Trust for Employee Benefit plans. It is managed by Fidelity Management Trust Company.

AS OF JUNE 30, 2008

MARKET INDICATORS

^^ Indices are unmanaged and you cannot invest directly in an index.

Dow Jones Industrial Average (DJIA), published by Dow Jones and Company, is an unmanaged average of 30 actively traded stocks (primarily industrial) and assumes reinvestment of dividends. It is not offered as a comparison for any investment option but rather as a general stock market indicator.

Lehman Brothers Intermediate U.S. Government/Credit Index is an unmanaged, market-value weighted index of government and investment-grade corporate fixed-rate debt issues with maturities between one and ten years.

Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE®) Index is a market capitalization-weighted index of equity securities of companies domiciled in various countries. The Index is designed to represent the performance of developed stock markets outside the United States and Canada and excludes certain market segments unavailable to U.S. based investors. Index returns for periods after January 1, 1997 are adjusted for tax withholding rates applicable to U.S. based mutual funds organized as Massachusetts business trusts.

The Standard & Poor's 500SM Index (S&P 500®) is a registered service mark of the McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is an unmanaged index of the common stock prices of 500 widely held U.S. stocks.

INVESTMENT RISK

- ➔ These funds are subject to the volatility of the financial markets in the U.S. and abroad and may be subject to the additional risks associated with investing in high yield, small cap and foreign securities.
- Y In general, bond prices rise when interest rates fall, and vice versa. This effect is usually more pronounced for longer-term securities.
- ⚡ Investments in mid-sized companies may involve greater risks than those of larger, more well-known companies, but may be less volatile than investments in smaller companies.
- ◆ Investments in smaller companies may involve greater risks than those of larger, more well-known companies.
- †† Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.

Before investing in any investment option, please carefully consider the investment objectives, risks, charges and expenses. For this and other information, call Fidelity at 1-800-343-0860 or visit www.fidelity.com for a free mutual fund prospectus or variable annuity prospectus. For information on fixed annuities, contact Fidelity to request a fact sheet. Read them carefully before you invest.

NOTES:

NDPERS Mutual Fund Research - 6/30/2008

Large Value

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Fidelity Puritan	FPURX	22.1 Billion	4/16/1947	3 Years	0.59%	3010	70%	15.4	38.0 Bil	4-Stars	27	28	-0.30	-7.54	5.61	7.63	5.25	96	0.68	1.10	7.17	0.22
Fidelity Equity-Income	FEQIX	26.0 Billion	5/16/1966	14 Years	0.66%	278	23%	13.5	46.8 Bil	3-Stars	43	54	-5.29	-20.04	3.64	7.54	3.93	95	1.07	-0.67	11.20	0.00
Franklin Mutual Shares A	TESIX	20.9 Billion	11/11/1996	Team	1.06%	301	41%	12.6	30.8 Bil	3-Stars	55	32	-5.78	-19.47	3.70	8.21	6.51	84	0.91	-0.62	10.12	0.00

Large Blend

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Fidelity Spartan US Equity Index	FUSEX	25.8 Billion	3/6/1990	Team	0.09%	503	7%	14.6	51.3 Bil	3-Stars	45	45	-2.74	-13.16	4.34	7.49	2.76	100	1.00	-0.06	10.23	0.06
Fidelity Dividend Growth <Under Review>	FDGFX	9.9 Billion	4/27/1993	11 Years	0.60%	96	36%	13.3	47.9 Bil	3-Stars	84	94	-3.21	-17.80	2.24	4.10	3.66	93	0.94	-2.09	9.98	-0.15
Fidelity Diversified International	FDIVX	50.3 Billion	12/27/1991	7 Years	0.91%	396	51%	11.9	32.7 Bil	4-Stars	46	21	-0.06	-5.66	14.39	17.85	10.58				13.22	0.78

Large Growth

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Fidelity Growth Company	FDGRX	36.3 Billion	1/17/1983	11 Years	0.93%	325	49%	18.3	24.0 Bil	5-Stars	3	5	7.00	3.93	12.26	13.43	7.56	73	1.11	7.56	13.22	0.63
Fidelity Blue Chip Growth <Under Review>	FBGRX	13.6 Billion	12/31/1987	1 Years	0.59%	134	87%	18.2	38.3 Bil	3-Stars	68	78	0.51	-6.10	4.07	5.66	1.41	88	1.00	-0.26	10.89	0.04

Medium Value

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Goldman Sachs Mid Cap Value	GCMAX	6.9 Billion	8/15/1997	Team	1.16%	117	74%	13.1	7.5 Bil	4-Stars	15	9	4.55	-9.59	6.73	13.79	9.65	82	1.00	2.31	11.24	0.27

Medium Blend

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Dreyfus Mid Cap Index	PESPX	2.2 Billion	6/19/1991	8 Years	0.50%	403	23%	17.1	3.3 Bil	4-Stars	29	27	5.34	-7.60	7.04	12.13	9.29	80	1.07	2.66	12.23	0.28
Fidelity Spartan Extended Mkt Index	FSEMX	3.2 Billion	11/5/1997	Team	0.09%	3489	17%	15.3	3.3 Bil	3-Stars	41	29	2.18	-11.27	6.61	12.19	5.68	81	1.09	2.26	12.32	0.24

Medium Growth

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Fidelity Mid-Cap Stock	FMCSX	13.3 Billion	3/29/1994	3 Years	0.82%	155	52%	18.7	7.9 Bil	4-Stars	25	39	11.57	-8.66	11.32	12.50	9.27	65	1.14	6.83	14.29	0.53

Small Value

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Allianz NFJ Small Cap Value Admin	PVADX	4.3 Billion	11/1/1995	Team	1.07%	123	27%	13.6	1.9 Bil	5-Stars	2	3	1.40	-6.83	9.06	14.55	10.51	72	0.95	4.54	11.34	0.46

Small Blend

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Dreyfus Small Cap Index	DISSX	890 Million	6/30/1997	8 Years	0.50%	602	25%	16.0	1.3 Bil	3-Stars	41	31	0.25	-15.00	3.69	11.13	7.15	74	1.08	-0.46	12.78	0.02

Small Growth

<u>Fund</u>	<u>Symbol</u>	<u>Assets</u>	<u>Inception</u>	<u>Manager Tenure</u>	<u>Expense Ratio</u>	<u>Stocks</u>	<u>Turnover</u>	<u>P/E</u>	<u>Median Mkt Cap</u>	<u>Morn-Star Rating</u>	<u>Category Rank</u>			<u>Average Return</u>				<u>Standard=S&P 500 Index</u>			<u>Standard Deviation</u>	<u>Sharpe Ratio</u>
											<u>3 - Year</u>	<u>5 - Year</u>	<u>3-month</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>R-Squared</u>	<u>Beta</u>	<u>Alpha</u>		
Morgan Stanley Small Cap Growth B	MSSMX	1.5 Billion	1/2/1996	Team	1.26%	66	76%	22.6	1.3 Bil	4-Stars	69	44	-1.65	-15.75	2.33	10.32	9.81	75	1.22	-1.67	14.36	-0.06

Lifestyle / Others

Fund	Symbol	Assets	Inception	Manager Expense		Holdings	Turnover	P/E	Median Mkt Cap	Morn-Star Rating	Category Rank		Average Return				Standard=S&P 500 Index			Standard Deviation	Sharpe Ratio	
				Tenure	Ratio						3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta			Alpha
Fidelity Managed Income Portfolio		8.1 Billion	9/7/1989	15 Years	0.55%								0.94	4.39	4.17	4.12	4.84	N/A	N/A	N/A		
PIMCO Total Return Bond Fund	PTRAX	128.8 Billion	9/8/1994	20 Years	0.68%	15208	257%		42.7 Bil	5-Stars	3	6	-1.37	10.55	4.71	4.45	6.23	N/A	N/A	N/A	3.70	0.14
Fidelity Freedom Income	FFFAX	2.6 Billion	10/17/1996	3 Years	0.49%	21	33%	16.2	37.7 Bil	3-Stars	45	91	0.33	0.03	4.06	4.11	4.50	N/A	N/A	N/A	2.62	-0.06
Fidelity Freedom 2000	FFFBX	1.8 Billion	10/17/1996	3 Years	0.51%	26	36%	16.2	35.1 Bil	4-Stars	42	78	0.29	-0.75	4.19	4.52	4.71	N/A	N/A	N/A	3.14	0.00
Fidelity Freedom 2005	FFFVX	1.1 Billion	11/6/2003	3 Years	0.64%	26	31%	16.6	35.1 Bil	4-Stars	11	N/A	0.23	-3.45	5.28	N/A	N/A	N/A	N/A	N/A	5.72	0.20
Fidelity Freedom 2010	FFFCX	14.1 Billion	10/17/1996	3 Years	0.65%	26	34%	16.5	35.1 Bil	5-Stars	5	5	0.18	-3.45	5.49	6.57	5.42	N/A	N/A	N/A	5.92	0.24
Fidelity Freedom 2015	FFVFX	7.7 Billion	11/6/2003	3 Years	0.67%	26	24%	16.6	35.1 Bil	4-Stars	16	N/A	0.29	-4.40	6.07	N/A	N/A	N/A	N/A	N/A	6.71	0.30
Fidelity Freedom 2020	FFFDX	20.8 Billion	10/17/1996	3 Years	0.72%	26	35%	16.6	25.4 Bil	4-Stars	6	4	0.22	-6.04	6.53	8.40	5.42	N/A	N/A	N/A	8.12	0.31
Fidelity Freedom 2025	FFTWX	7.3 Billion	11/6/2003	3 Years	0.73%	23	24%	16.5	35.1 Bil	5-Stars	5	N/A	0.31	-6.71	6.63	N/A	N/A	N/A	N/A	N/A	8.54	0.31
Fidelity Freedom 2030	FFFEX	14.1 Billion	10/17/1996	3 Years	0.76%	23	36%	16.6	25.2 Bil	4-Stars	7	17	0.26	-8.21	6.92	9.19	5.16	N/A	N/A	N/A	9.71	0.31
Fidelity Freedom 2035	FFTHX	4.3 Billion	11/6/2003	3 Years	0.77%	23	28%	16.5	35.1 Bil	4-Stars	8	N/A	0.25	-8.54	6.93	N/A	N/A	N/A	N/A	N/A	9.87	0.31
Fidelity Freedom 2040	FFFFX	7.4 Billion	9/6/2000	3 Years	0.78%	23	37%	16.6	26.8 Bil	4-Stars	6	7	0.35	-9.00	7.06	9.71	N/A	N/A	N/A	N/A	10.21	0.32
Fidelity Freedom 2045	FFFGX	0.8 Billion	9/6/2006	3 Years	0.78%	23	17%	16.3	26.8 Bil	N/A	N/A	N/A	0.09	-9.24	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2050	FFFHX	0.7 Billion	9/6/2006	3 Years	0.80%	23	16%	16.4	26.8 Bil	N/A	N/A	N/A	0.12	-9.68	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

R-squared - This compares a fund's performance to a given index. If R-squared is 100, the fund moves in lockstep with the index to which it is being compared. Generally, a higher R-squared will indicate a more useful beta figure. If the R-squared is lower, then the beta is less relevant to the fund's performance.

Beta - This compares a fund's volatility to a given index. If beta is greater than 1, the fund is more volatile than the index to which it is being compared. If beta is lower than 1, the fund is less volatile than the index. If a fund's R-squared is low, beta is less reliable as a predictor of volatility.

Alpha - This is a measure of risk-adjusted performance. The higher a fund's alpha, the better it has done. A fund's alpha is only reliable when its R-squared is relatively high.

Standard Deviation - The higher this number is, the more volatile the fund's returns have been. It indicates how much the fund has deviated from its mean total return over the past three years.

Sharpe Ratio - This measure combines standard deviation and mean total return to show a risk-adjusted measure of the fund's performance. The higher this number is, the better. As a rule of thumb, a Sharpe ratio of more than 1.00 is very good.

FIDELITY INVESTMENTS® MUTUAL FUNDS PERFORMANCE REPORT

PERFORMANCE UPDATE

AS OF JUNE 30, 2008

UNDERSTANDING INVESTMENT PERFORMANCE

As you review this update, please remember that the performance data stated represents past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance stated. To learn more or to obtain the most recent month-end performance, call Fidelity at 1-800-343-0860 or visit <https://www.mysavingsatwork.com> (log in, choose plan, select "Investment Choices & Research," and then pick investment option).

Fund ID	Fund Name	Cumulative Total Returns % Period Ending June 30, 2008			Average Annual Total Returns % Period Ending June 30, 2008				Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↕	
		7-Day Yield▲	3 Month	YTD	1 Year	5 Year	10 Year	Life of Fund				
LIFE-CYCLE FUNDS ▶▶▶▶▶												
FFFBX	Fidelity Freedom 2000		0.29	-2.06	-0.75	4.52	4.71	6.25	10/17/96	n/a	0.51	
FFVFX	Fidelity Freedom 2005		0.23	-4.87	-3.45	n/a	n/a	5.76	11/06/03	n/a	0.64	
FFFCX	Fidelity Freedom 2010		0.18	-4.89	-3.45	6.57	5.42	7.49	10/17/96	n/a	0.65	
FFVFX	Fidelity Freedom 2015		0.29	-5.66	-4.40	n/a	n/a	6.69	11/06/03	n/a	0.67	
FFFDX	Fidelity Freedom 2020		0.22	-7.07	-6.04	8.40	5.42	7.81	10/17/96	n/a	0.72	
FFTWX	Fidelity Freedom 2025		0.31	-7.53	-6.71	n/a	n/a	7.42	11/06/03	n/a	0.73	
FFFEX	Fidelity Freedom 2030		0.26	-8.85	-8.21	9.19	5.16	7.64	10/17/96	n/a	0.76	
FFTHX	Fidelity Freedom 2035		0.25	-9.05	-8.54	n/a	n/a	7.87	11/06/03	n/a	0.77	
FFFFX	Fidelity Freedom 2040		0.35	-9.35	-9.00	9.71	n/a	1.18	9/06/00	n/a	0.78	
FFFGX	Fidelity Freedom 2045		0.09	-9.70	-9.24	n/a	n/a	3.66	6/01/06	n/a	0.78	
FFFFX	Fidelity Freedom 2050		0.12	-10.13	-9.68	n/a	n/a	3.55	6/01/06	n/a	0.80	
FFFAX	Fidelity Freedom Income		0.33	-1.42	0.03	4.11	4.50	5.41	10/17/96	n/a	0.49	
ASSET ALLOCATION FUNDS												
FASIX	Fidelity Asset Manager® 20%		-0.11	-2.59	-0.95	5.50	5.04	6.85	10/01/92	n/a	0.57	
FTANX	Fidelity Asset Manager® 30%○		-0.36	-3.99	n/a	n/a	n/a	-5.33	10/09/07	n/a	0.96	
FFANX	Fidelity Asset Manager® 40%○		-0.44	-5.26	n/a	n/a	n/a	-7.28	10/09/07	n/a	1.36	
FASMIX	Fidelity Asset Manager® 50%		-0.50	-6.78	-6.01	4.84	4.37	8.90	12/28/88	n/a	0.71	
FSANX	Fidelity Asset Manager® 60%○		-0.67	-8.02	n/a	n/a	n/a	-11.29	10/09/07	n/a	1.65	
FASGX	Fidelity Asset Manager® 70%		-0.52	-9.06	-9.07	5.23	3.03	8.32	12/30/91	n/a	0.80	
FAMRX	Fidelity Asset Manager® 85%		-0.78	-10.46	-11.02	9.59	n/a	4.43	9/24/99	n/a	0.90	
MONEY MARKET (SHORT-TERM) FUNDS*												
FDRXX	Fidelity Cash Reserves		2.43	0.65	1.63	4.18	3.16	3.57	6.31	5/10/79	n/a	0.43
SPAXX	Fidelity Government Money Market		2.05	0.52	1.40	3.81	3.04	3.47	4.21	2/05/90	n/a	0.42

▲ The current yield reflects the current earnings of the fund, while the total return refers to a specific past holding period.

For explanations of symbols and important disclosures, please see last page(s) of this report.

continued

AS OF JUNE 30, 2008

Cumulative Total Returns %
Period Ending
June 30, 2008

Average Annual
Total Returns %
Period Ending June 30, 2008

Fund ID	Name	7-Day Yield▲	Cumulative Total Returns %			Average Annual Total Returns %				Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↔
			3 Month	YTD	1 Year	5 Year	10 Year	Life of Fund				
MONEY MARKET (SHORT-TERM) FUNDS*(CONTINUED)												
SPRXX	Fidelity Money Market	2.50	0.64	1.60	4.16	3.17	3.57	4.60	1/23/89	n/a	0.42	
FGMXX	Fidelity Retirement Government Money Market	2.00	0.54	1.43	3.86	3.06	3.50	4.48	12/16/88	n/a	0.42	
FRTXX	Fidelity Retirement Money Market	2.49	0.64	1.60	4.18	3.18	3.59	4.57	12/02/88	n/a	0.42	
FSLXX	Fidelity Select Money Market	2.52	0.67	1.66	4.25	3.20	3.57	4.76	8/30/85	n/a	0.36	
FGRXX	Fidelity U.S. Government Reserves	2.18	0.57	1.47	3.92	3.12	3.53	5.41	11/03/81	n/a	0.37	
FDLXX	Fidelity U.S. Treasury Money Market	1.44	0.37	1.02	3.05	2.73	3.19	4.33	1/05/88	n/a	0.45	

BOND FUNDS>

FGMNX	Fidelity Ginnie Mae	-0.24	2.00	8.00	4.12	5.28	7.09	11/08/85	n/a	0.45
FGOVX	Fidelity Government Income	-1.61	2.20	9.19	3.73	5.36	8.22	4/04/79	n/a	0.45
FINPX	Fidelity Inflation-Protected Bond	-0.45	4.29	12.31	5.08	n/a	6.57	6/26/02	n/a	0.45
FFXSX	Fidelity Institutional Short-Intermediate Government	-0.86	2.22	7.56	3.11	4.84	6.08	11/10/86	n/a	0.45
FTHRXX	Fidelity Intermediate Bond	-1.04	-0.34	2.43	2.61	4.98	8.10	5/23/75	n/a	0.45
FSTGX	Fidelity Intermediate Government Income	-1.38	2.38	8.91	3.39	5.23	6.28	5/02/88	n/a	0.45
FBNDX	Fidelity Investment Grade Bond	-0.44	-0.96	0.97	2.78	4.94	7.52	8/06/71	n/a	0.45
FMSFX	Fidelity Mortgage Securities	-0.04	-0.65	-0.67	2.42	4.60	7.27	12/31/84	n/a	0.45
FSHBX	Fidelity Short-Term Bond	0.04	-0.97	-0.72	1.99	4.11	5.41	9/15/86	n/a	0.45
FSICX	Fidelity Strategic Income	-0.23	0.69	4.32	6.58	7.20	6.97	5/01/98	n/a	0.73
FTBFX	Fidelity Total Bond	-0.45	0.47	3.85	3.59	n/a	4.72	10/15/02	n/a	0.45
FBIDX	Fidelity U.S. Bond Index○	-0.91	0.88	5.28	3.53	5.52	7.12	3/08/90	n/a	0.50
FUSFX	Fidelity Ultra-Short Bond	0.19	-6.76	-13.11	-0.47	n/a	-0.07	8/29/02	0.25/60	0.45
FIBIX	Spartan® Intermediate Treasury Bond Index - Investor Class	-3.18	2.73	12.44	n/a	n/a	6.28	12/20/05	n/a	0.20
FLBIX	Spartan® Long-Term Treasury Bond Index - Investor Class	-2.39	1.52	12.43	n/a	n/a	5.48	12/20/05	n/a	0.20
FSBIX	Spartan® Short-Term Treasury Bond Index - Investor Class	-1.57	2.15	8.25	n/a	n/a	5.44	12/20/05	n/a	0.20

BOND FUNDS - HIGH YIELD>✿

FAGIX	Fidelity Capital & Income	3.66	-0.88	-2.48	8.47	6.09	10.20	11/01/77	1.00/90	0.75
FFRHXX	Fidelity Floating Rate High Income●	3.71	0.76	0.49	4.17	n/a	4.23	9/19/02	1.00/60	0.71
FHIFX	Fidelity Focused High Income○	0.38	-1.33	0.05	n/a	n/a	4.42	9/08/04	1.00/90	0.97
SPHIX	Fidelity High Income	2.62	0.60	0.39	7.13	3.71	9.35	8/29/90	1.00/90	0.75

BOND FUNDS - INTERNATIONAL/GLOBAL††>

FNMIX	Fidelity New Markets Income	0.09	0.12	4.51	9.98	11.15	12.39	5/04/93	1.00/90	0.89
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BALANCED/HYBRID FUNDS

FBALX	Fidelity Balanced	0.81	-6.54	-6.09	9.69	7.55	10.02	11/06/86	n/a	0.61
FDYSX	Fidelity Dynamic Strategies	3.85	-1.23	n/a	n/a	n/a	-4.01	10/31/07	n/a	1.12
FPURX	Fidelity Puritan®	-0.30	-7.79	-7.54	7.63	5.25	11.40	4/16/47	n/a	0.60
FSDIX	Fidelity Strategic Dividend & Income⁴	-1.92	-8.64	-12.28	n/a	n/a	7.14	12/23/03	n/a	0.79
FSRRX	Fidelity Strategic Real Return	4.50	6.90	8.84	n/a	n/a	6.01	9/07/05	0.75/60	0.74

BALANCED/HYBRID FUNDS - CONVERTIBLE SECURITIES

FCVSX	Fidelity Convertible Securities	10.60	3.61	4.15	12.49	10.74	12.85	1/05/87	n/a	0.79
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▲ The current yield reflects the current earnings of the fund, while the total return refers to a specific past holding period.

AS OF JUNE 30, 2008

Cumulative Total Returns %
Period Ending
June 30, 2008

Average Annual
Total Returns %
Period Ending June 30, 2008

Fund ID	Name	Cumulative Total Returns % Period Ending June 30, 2008		Average Annual Total Returns % Period Ending June 30, 2008					Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↕
		3 Month	YTD	1 Year	5 Year	10 Year	Life of Fund				

BALANCED/HYBRID FUNDS - INTERNATIONAL/GLOBAL††

FGBLX	Fidelity Global Balanced	0.92	-2.71	3.86	13.26	7.79	9.25	2/01/93	1.00/30	1.14
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DOMESTIC EQUITY FUNDS - LARGE-CAP VALUE

FBCVX	Fidelity Blue Chip Value	-6.42	-15.21	-19.05	8.28	n/a	7.47	6/17/03	n/a	0.87
FEQIX	Fidelity Equity-Income	-5.29	-14.48	-20.04	7.54	3.93	12.28	5/16/66	n/a	0.66
FEQTX	Fidelity Equity-Income II	-5.97	-15.09	-17.58	6.23	3.69	11.60	8/21/90	n/a	0.65
FSLVX	Fidelity Large Cap Value	-2.65	-13.86	-17.00	9.64	n/a	5.98	11/15/01	n/a	0.86
FLVEX	Fidelity Large Cap Value Enhanced Index	-4.11	-13.24	-18.52	n/a	n/a	-14.28	4/19/07	n/a	0.45

DOMESTIC EQUITY FUNDS - LARGE-CAP BLEND

FFIDX	Fidelity	1.27	-10.17	-3.73	9.80	4.02	10.31	4/30/30	n/a	0.57
FOTTX	Fidelity 130/30 Large Cap	2.90	n/a	n/a	n/a	n/a	2.90	3/31/08	n/a	1.89
FDEQX	Fidelity Disciplined Equity	1.24	-11.38	-10.25	9.65	4.38	11.72	12/28/88	n/a	0.91
FDGFX	Fidelity Dividend Growth	-3.21	-12.82	-17.80	4.10	3.66	11.24	4/27/93	n/a	0.61
FTQGX	Fidelity Focused StockⓄ	9.12	-1.88	3.71	13.51	3.98	5.85	11/12/96	n/a	1.20
FFNOX	Fidelity Four-in-One IndexⓄ	-1.65	-9.19	-9.89	8.97	n/a	3.23	6/29/99	n/a	0.23
FGRIX	Fidelity Growth & Income	-10.10	-19.43	-24.08	2.26	0.70	11.14	12/30/85	n/a	0.68
FLCEX	Fidelity Large Cap Core Enhanced Index	-1.21	-11.31	-11.87	n/a	n/a	-7.90	4/19/07	n/a	0.45
FGRTX	Fidelity Mega Cap Stock	-4.25	-15.08	-12.73	5.84	n/a	1.73	12/28/98	n/a	0.81
FVDFX	Fidelity Value Discovery	-4.14	-14.83	-15.98	11.48	n/a	12.03	12/10/02	n/a	0.87
FSMKX	Spartan® 500 Index - Investor Class	-2.74	-11.94	-13.17	7.49	2.77	9.64	3/06/90	n/a	0.10
FSTMX	Spartan® Total Market Index - Investor Class	-1.59	-10.95	-12.58	8.61	3.53	5.03	11/05/97	0.50/90	0.10
FUSEX	Spartan® U.S. Equity Index - Investor Class	-2.74	-11.94	-13.16	7.49	2.76	10.38	2/17/88	n/a	0.10

DOMESTIC EQUITY FUNDS - LARGE-CAP GROWTH

FBGRX	Fidelity Blue Chip Growth	0.51	-10.12	-6.10	5.66	1.41	11.08	12/31/87	n/a	0.60
FDCAX	Fidelity Capital Appreciation	3.24	-9.57	-12.11	9.82	6.02	11.31	11/26/86	n/a	0.83
FCNTX	Fidelity <i>Contrafund</i> ®	3.44	-8.16	0.91	13.92	8.04	13.07	5/17/67	n/a	0.89
FEXPX	Fidelity Export and Multinational	4.99	-9.99	-5.48	11.49	9.33	14.65	10/04/94	0.75/30	0.82
FFTYX	Fidelity Fifty®	6.57	-8.53	-8.55	8.05	7.44	11.22	9/17/93	n/a	0.84
FDGRX	Fidelity Growth Company	7.00	-5.48	3.93	13.43	7.56	13.89	1/17/83	n/a	0.94
FDSVX	Fidelity Growth Discovery	3.84	-10.15	1.98	10.16	6.51	6.71	3/31/98	n/a	0.81
FDFFX	Fidelity Independence	17.02	6.41	21.52	16.41	9.08	13.77	3/25/83	n/a	0.90
FSLGX	Fidelity Large Cap Growth	2.40	-12.32	-13.01	6.54	n/a	1.40	11/15/01	n/a	1.03
FLGEX	Fidelity Large Cap Growth Enhanced Index	2.08	-9.52	-9.26	n/a	n/a	-5.40	4/19/07	n/a	0.46
FLCSX	Fidelity Large Cap Stock	-5.05	-17.53	-15.85	6.62	1.97	7.06	6/22/95	n/a	0.98
FMAGX	Fidelity <i>Magellan</i> ®	0.57	-11.87	-5.47	7.64	3.25	17.87	5/02/63	n/a	0.73
FNCMX	Fidelity® <i>NASDAQ Composite Index</i> ® FundⓄ	0.76	-13.24	-11.36	n/a	n/a	5.41	9/25/03	0.75/90	0.60
FOCPX	Fidelity OTC	5.80	-12.61	-1.02	11.43	5.31	13.53	12/31/84	n/a	0.96
FDSSX	Fidelity Stock Selector	-1.44	-11.83	-8.87	8.70	3.08	11.46	9/28/90	n/a	0.87
FTRNX	Fidelity Trend	2.90	-12.29	-2.98	9.74	3.73	11.91	6/16/58	n/a	0.83

DOMESTIC EQUITY FUNDS - MID-CAP VALUEⓄ

FSMVX	Fidelity Mid Cap Value	1.73	-9.89	-16.82	11.87	n/a	9.24	11/15/01	0.75/30	0.83
FDVLX	Fidelity Value	-2.29	-11.27	-18.61	11.63	7.86	13.30	12/01/78	n/a	0.70

AS OF JUNE 30, 2008

Cumulative Total Returns %
Period Ending
June 30, 2008

Average Annual
Total Returns %
Period Ending June 30, 2008

Fund ID	Name	Cumulative Total Returns % Period Ending June 30, 2008		Average Annual Total Returns % Period Ending June 30, 2008			Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↔	
		3 Month	YTD	1 Year	5 Year	10 Year				Life of Fund
DOMESTIC EQUITY FUNDS - MID-CAP BLEND Ⓢ										
FLVCX	Fidelity Leveraged Company Stock	17.50	7.15	5.07	23.17	n/a	21.56	12/19/00	1.50/90	0.83
FLPSX	Fidelity Low-Priced Stock†	-0.74	-8.32	-13.30	12.82	11.16	15.60	12/27/89	1.50/90	0.97
FSLSX	Fidelity Value Strategies	-3.46	-14.59	-21.97	10.07	7.99	12.55	12/31/83	n/a	0.89
FSEMX	Spartan® Extended Market Index - Investor Class	2.18	-7.74	-11.27	12.19	5.68	6.31	11/05/97	0.75/90	0.10
DOMESTIC EQUITY FUNDS - MID-CAP GROWTH Ⓢ										
FDEGX	Fidelity Aggressive Growth	6.97	-14.64	-10.92	8.96	-0.71	9.28	12/28/90	1.50/90	0.79
FSMGX	Fidelity Mid Cap Growth	4.35	-9.54	-11.93	9.59	n/a	4.78	11/15/01	0.75/30	0.83
FMCSX	Fidelity Mid-Cap Stock	11.57	-3.12	-8.66	12.50	9.27	13.31	3/29/94	0.75/30	0.95
FMILX	Fidelity <i>New Millennium Fund</i> ®	-0.35	-13.95	-9.23	9.43	10.07	14.98	12/28/92	n/a	0.94
DOMESTIC EQUITY FUNDS - SMALL-CAP BLEND ◆										
FSCRX	Fidelity Small Cap Retirement	-5.13	-7.63	-19.79	8.19	n/a	7.50	9/26/00	1.50/90	1.04
FSLCX	Fidelity Small Cap Stock	-0.78	-10.97	-14.48	11.53	9.51	9.18	3/12/98	2.00/90	1.08
FCPVX	Fidelity Small Cap Value	-4.84	-16.10	-23.24	n/a	n/a	7.16	11/03/04	1.50/90	1.11
DOMESTIC EQUITY FUNDS - SMALL-CAP GROWTH ◆										
FCPGX	Fidelity Small Cap Growth	5.09	-11.03	-10.72	n/a	n/a	12.41	11/03/04	1.50/90	1.10
FDSCX	Fidelity Small Cap Independence	1.96	-13.76	-19.45	10.23	4.79	8.29	6/28/93	1.50/90	1.01
INTERNATIONAL/GLOBAL FUNDS ††										
FIVFX	Fidelity Aggressive International	0.89	-10.18	-15.19	11.09	5.29	7.12	11/01/94	1.00/30	0.85
FICDX	Fidelity Canada	12.08	3.70	15.61	26.06	15.80	13.20	11/17/87	1.50/90	0.96
FHKCX	Fidelity China Region	-2.55	-15.50	8.20	22.40	14.60	10.82	11/01/95	1.50/90	1.08
FDIVX	Fidelity Diversified International	-0.06	-9.67	-5.66	17.85	10.58	11.59	12/27/91	1.00/30	0.93
FEMEX	Fidelity Emerging Europe, Middle East, Africa	n/a	n/a	n/a	n/a	n/a	-7.00	5/08/08	1.50/90	1.42
FIEUX	Fidelity Europe	0.66	-8.97	-3.44	20.90	6.90	11.22	10/01/86	1.00/30	1.06
FECAX	Fidelity Europe Capital Appreciation	-2.21	-11.80	-7.77	18.04	7.55	11.93	12/21/93	1.00/30	1.05
FIGRX	Fidelity International Discovery	-0.29	-11.72	-6.13	18.99	9.58	9.74	12/31/86	1.00/30	1.04
FIGFX	Fidelity International Growth\textcircled{O}	0.58	-8.79	n/a	n/a	n/a	-12.75	11/01/07	1.00/30	1.17
FISMX	Fidelity International Small Cap	1.55	-6.45	-10.62	23.77	n/a	26.30	9/18/02	2.00/90	1.19
FSCOX	Fidelity International Small Cap Opportunities	-2.61	-11.93	-20.06	n/a	n/a	13.13	8/02/05	2.00/90	1.30
FIVLX	Fidelity International Value	-2.50	-11.29	-12.09	n/a	n/a	4.12	5/18/06	1.00/30	1.03
FJPNX	Fidelity Japan	2.22	-6.76	-13.80	12.20	7.37	5.10	9/15/92	1.50/90	1.08
FJSCX	Fidelity Japan Smaller Companies	-4.60	-11.70	-20.81	9.34	10.96	4.12	11/01/95	1.50/90	1.02
FLATX	Fidelity Latin America	12.29	7.72	25.02	46.30	19.31	15.19	4/19/93	1.50/90	1.00
FNORX	Fidelity Nordic	-4.04	-10.98	-6.65	24.64	10.65	14.74	11/01/95	1.50/90	1.06
FOSFX	Fidelity Overseas	-3.11	-14.32	-7.81	17.27	6.02	12.74	12/04/84	1.00/30	0.95
FPBFX	Fidelity Pacific Basin	-4.84	-20.53	-15.39	17.65	11.10	6.96	10/01/86	1.50/90	1.19
FSEAX	Fidelity Southeast Asia	-6.70	-23.85	-8.10	27.40	17.81	9.40	4/19/93	1.50/90	1.09
FTIEX	Fidelity Total International Equity\textcircled{O}	-1.05	-10.48	n/a	n/a	n/a	-15.36	11/01/07	1.00/30	1.12
FVWFX	Fidelity Worldwide	3.83	-7.49	-1.81	14.90	6.71	8.74	5/30/90	1.00/30	1.04
FSIIX	Spartan® International Index - Investor Class\textcircled{O}	-2.32	-10.72	-10.73	16.41	5.84	6.96	11/05/97	1.00/90	0.20

AS OF JUNE 30, 2008

Cumulative Total Returns %
Period Ending
June 30, 2008

Average Annual
Total Returns %
Period Ending June 30, 2008

Fund ID	Name	Cumulative Total Returns % Period Ending June 30, 2008		Average Annual Total Returns % Period Ending June 30, 2008			Life of Fund	Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↕
		3 Month	YTD	1 Year	5 Year	10 Year				
FEMKX	Fidelity Emerging Markets	1.23	-12.26	6.23	32.01	15.06	7.62	11/01/90	1.50/90	1.05

SPECIALTY / SELECT FUNDS ▶

FIREX	Fidelity International Real Estate	-11.35	-18.96	-24.27	n/a	n/a	10.21	9/08/04	1.50/90	1.07
FRIFX	Fidelity Real Estate Income	-0.04	-5.67	-12.24	4.51	n/a	5.91	2/04/03	0.75/90	0.88
FRESX	Fidelity Real Estate Investment	-6.04	-1.58	-16.04	13.70	10.73	11.01	11/17/86	0.75/90	0.83
FSAIX	Fidelity Select Air Transportation	-17.06	-32.08	-37.38	4.62	4.59	9.02	12/16/85	0.75/30	1.01
FSAVX	Fidelity Select Automotive	-16.80	-24.36	-36.51	2.97	1.09	7.87	6/30/86	0.75/30	1.19
FSRBX	Fidelity Select Banking	-20.84	-28.99	-42.69	-3.66	-0.89	10.26	6/30/86	0.75/30	0.91
FBIOX	Fidelity Select Biotechnology	6.45	-2.20	0.99	6.82	8.42	12.15	12/16/85	0.75/30	0.89
FSLBX	Fidelity Select Brokerage and Investment Management	-10.43	-22.68	-25.40	9.85	7.38	12.33	7/29/85	0.75/30	0.88
FSCHX	Fidelity Select Chemicals	10.86	6.81	16.76	22.77	12.18	15.09	7/29/85	0.75/30	0.93
FSDCX	Fidelity Select Communications Equipment	4.16	-10.82	-13.51	9.77	4.06	11.10	6/29/90	0.75/30	0.93
FDCPX	Fidelity Select Computers	2.77	-15.74	-6.92	7.69	4.06	11.89	7/29/85	0.75/30	0.92
FSHOX	Fidelity Select Construction and Housing	-8.30	-8.76	-23.83	8.40	6.43	11.17	9/29/86	0.75/30	0.98
FSCPX	Fidelity Select Consumer Discretionary	-7.61	-15.04	-26.29	2.18	0.56	8.48	6/29/90	0.75/30	1.12
FDFAV	Fidelity Select Consumer Staples	-7.50	-9.79	1.42	12.35	6.62	13.89	7/29/85	0.75/30	0.91
FSDAX	Fidelity Select Defense and Aerospace	-9.58	-21.53	-16.84	14.95	9.63	11.38	5/08/84	0.75/30	0.87
FSELX	Fidelity Select Electronics	2.67	-15.70	-21.85	4.65	5.39	10.69	7/29/85	0.75/30	0.87
FSENX	Fidelity Select Energy	23.96	16.28	37.82	34.34	18.57	12.19	7/14/81	0.75/30	0.84
FSESX	Fidelity Select Energy Service	31.35	20.41	43.24	33.76	18.20	13.50	12/16/85	0.75/30	0.83
FSLEX	Fidelity Select Environmental	1.10	-9.50	-3.02	9.62	0.82	3.73	6/29/89	0.75/30	1.08
FIDSX	Fidelity Select Financial Services	-17.41	-28.81	-39.00	0.11	1.23	13.15	12/10/81	0.75/30	0.90
FSAGX	Fidelity Select Gold	4.46	9.57	40.36	24.45	18.68	9.55	12/16/85	0.75/30	0.86
FSPHX	Fidelity Select Health Care	1.81	-13.89	-9.80	6.09	4.64	15.80	7/14/81	0.75/30	0.85
FSVLX	Fidelity Select Home Finance	-23.19	-32.73	-56.52	-9.54	-3.71	10.68	12/16/85	0.75/30	0.93
FSCGX	Fidelity Select Industrial Equipment	-4.29	-12.70	-6.47	15.33	6.20	10.29	9/29/86	0.75/30	0.88
FCYIX	Fidelity Select Industrials	-2.90	-9.66	-6.36	16.58	8.34	10.02	3/03/97	0.75/30	1.00
FSPCX	Fidelity Select Insurance	-15.55	-30.02	-35.58	2.02	4.97	11.41	12/16/85	0.75/30	0.93
FBSOX	Fidelity Select IT Services	10.67	-2.51	-6.59	12.05	8.15	9.89	2/04/98	0.75/30	1.06
FDLSX	Fidelity Select Leisure	-9.69	-19.73	-20.56	6.76	4.43	13.58	5/08/84	0.75/30	0.91
FSDPX	Fidelity Select Materials	9.65	5.32	13.71	24.43	12.65	11.45	9/29/86	0.75/30	0.91
FSHCX	Fidelity Select Medical Delivery	-0.29	-26.16	-21.42	15.32	5.84	11.23	6/30/86	0.75/30	0.92
FSMEX	Fidelity Select Medical Equipment and Systems	3.50	-0.16	9.16	11.55	14.01	14.46	4/28/98	0.75/30	0.88
FBMPX	Fidelity Select Multimedia	-3.41	-12.68	-24.68	3.22	4.38	11.76	6/30/86	0.75/30	0.99
FSNGX	Fidelity Select Natural Gas	19.20	20.65	36.34	32.71	19.97	15.44	4/21/93	0.75/30	0.85
FNARX	Fidelity Select Natural Resources	24.01	15.74	38.49	34.72	19.20	17.26	3/03/97	0.75/30	0.85
FNINX	Fidelity Select Networking & Infrastructure	10.47	-14.92	-20.08	2.01	n/a	-18.13	9/21/00	0.75/30	1.02
FSPFX	Fidelity Select Paper and Forest Products	-10.69	-21.32	-29.33	1.70	2.52	7.12	6/30/86	0.75/30	1.11
FPHAX	Fidelity Select Pharmaceuticals	1.10	-13.76	-11.58	5.40	n/a	1.27	6/18/01	0.75/30	0.95
FSRPX	Fidelity Select Retailing	-1.99	-12.12	-24.56	5.78	2.56	11.74	12/16/85	0.75/30	1.02
FSCSX	Fidelity Select Software and Computer Services	6.16	-13.00	0.11	11.19	9.47	15.79	7/29/85	0.75/30	0.86
FSPTX	Fidelity Select Technology	4.04	-15.80	-11.26	7.45	5.58	12.25	7/14/81	0.75/30	0.89
FSTCX	Fidelity Select Telecommunications	-1.80	-21.62	-28.27	7.93	-0.21	10.90	7/29/85	0.75/30	0.91

AS OF JUNE 30, 2008

Fund ID	Name	Cumulative Total Returns % Period Ending June 30, 2008		Average Annual Total Returns % Period Ending June 30, 2008					Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↔
		3 Month	YTD	1 Year	5 Year	10 Year	Life of Fund				
SPECIALTY / SELECT FUNDS▶ (CONTINUED)											
FSRFX	Fidelity Select Transportation	-4.00	-6.71	-16.03	10.90	9.14	12.48	9/29/86	0.75/30	0.99	
FSUTX	Fidelity Select Utilities Growth▶	8.55	-3.17	3.48	16.77	6.70	12.88	12/10/81	0.75/30	0.88	
FWRLX	Fidelity Select Wireless	0.43	-19.21	-15.50	19.66	n/a	-3.36	9/21/00	0.75/30	0.91	
FUIX	Fidelity Utilities	2.09	-9.59	-11.28	12.88	4.26	9.97	11/27/87	n/a	0.82	

MARKET INDICATORS^^

For comparison purposes only. It is not possible to invest directly in these indicators.

Dow Jones Industrial Average	-6.85	-13.38	-13.27	7.20	4.50
Lehman Brothers Intermediate U.S. Government/ Credit Index	-1.53	1.43	7.37	3.49	5.55
MSCI EAFE® Index	-2.12	-10.83	-10.47	16.91	6.08
Standard & Poor's 500 SM Index	-2.73	-11.91	-13.12	7.58	2.88

Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated. Life of fund figures are reported as of the inception date to the period indicated. These figures do not include the effects of sales charges, if any, as these charges are waived for contributions made through your company's employee benefit plan. If sales charges were included, returns would have been lower.

With the exception of domestic equity mutual funds, investment options have been assigned to investment categories based on Fidelity's analysis. Fidelity has verified the accuracy of the placement of certain third party non-mutual funds with either the plan sponsor or the plan sponsor's consultant. Within Domestic Equities, mutual funds are listed according to their actual Morningstar categories as of the date indicated. Morningstar categories are based on a fund's style as measured by its underlying portfolio holdings over the past 3 years and may change at any time. These style calculations do not represent the funds' objectives and do not predict the funds' future styles.

SPECIFIC FUNDS

- ↔ For a mutual fund, the expense ratio is the total annual fund or class operating expenses (before waivers or reimbursements) paid by the fund and stated as a percent of the fund's total net assets. Where the investment option is not a mutual fund, the figure displayed in the expense ratio field is intended to reflect similar information. However, it may have been calculated using methodologies that differ from those used for mutual funds. Mutual fund data has been drawn from the most recent prospectus. For non-mutual fund investment options, the information has been provided by the trustee or plan sponsor. When no ratio is shown for these options it is due to the fact that none was available. Nevertheless, there may be fees and expenses associated with the investment option.
- Fidelity is temporarily reimbursing a portion of the fund's expenses. Absent such reimbursement, returns would have been lower.
- ▶ Total returns shown prior to September 19, 2002, are Fidelity Advisor Floating Rate High Income Fund Institutional Class, which commenced operations on August 12, 2000.
- † Effective May 13, 2008, the Fidelity Low-Priced Stock Fund became available to all participants in retirement plans that currently offer the Fidelity Low-Priced Stock Fund.
- ▶ Prior to 10/1/2006 these Fidelity® Select Portfolios® operated under certain different investment policies, and compared their performance to different benchmarks. The fund's historical performance might not represent its current investment policies.

MARKET INDICATORS

- ^^ Indices are unmanaged and you cannot invest directly in an index.
Dow Jones Industrial Average (DJIA), published by Dow Jones and Company, is an unmanaged average of 30 actively traded stocks (primarily industrial) and assumes reinvestment of dividends. It is not offered as a comparison for any investment option but rather as a general stock market indicator.
Lehman Brothers Intermediate U.S. Government/Credit Index is an unmanaged, market-value weighted index of government and investment-grade corporate fixed-rate debt issues with maturities between one and ten years.
Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE®) Index is a market capitalization-weighted index of equity securities of companies domiciled in various countries. The Index is designed to represent the performance of developed stock markets outside the United States and Canada and excludes certain market segments unavailable to U.S. based investors. Index returns for periods after January 1, 1997 are adjusted for tax withholding rates applicable to U.S. based mutual funds organized as Massachusetts business trusts.
The Standard & Poor's 500SM Index (S&P 500®) is a registered service mark of the McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is an unmanaged index of the common stock prices of 500 widely held U.S. stocks.

INVESTMENT RISK

- ➔ These funds are subject to the volatility of the financial markets in the U.S. and abroad and may be subject to the additional risks associated with investing in high yield, small cap and foreign securities.
- * An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in these funds.
- In general, bond prices rise when interest rates fall, and vice versa. This effect is usually more pronounced for longer-term securities.
- ⊕ Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.
- †† Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.
- ⊕ Investments in mid-sized companies may involve greater risks than those of larger, more well-known companies, but may be less volatile than investments in smaller companies.
- ◆ Investments in smaller companies may involve greater risks than those of larger, more well-known companies.
- Because of their narrow focus, sector funds may be more volatile than funds that diversify across many sectors.

AS OF JUNE 30, 2008

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges and expenses. For this and other information, call Fidelity at 1-800-343-0860 or visit www.fidelity.com for a free mutual fund prospectus. Read it carefully before you invest.

NOTES:

Understanding investment performance: As you review this update, please remember that the performance data stated represents past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance stated. To learn more or to obtain the most recent month-end performance, call Fidelity or visit www.401k.com. (log in, choose plan, select "Investment Choices & Research", and then pick investment option.)

Ticker	Name	Cumulative Total Returns %			Average Annual Total Returns %					Date of Inception	Short-term Trading Fee (% / days)	Gross Expense Ratio
		Periods Ending June 30, 2008			Periods Ending June 30, 2008							
		1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	LOF			
BOND FUNDS												
CSIBX	Calvert Social Investment Fund Bond Portfolio - A	0.58	-0.04	0.43	5.63	3.99	4.71	5.82	7.30	08/24/1987	N/A	1.12
LBCNX	Lehman Brothers Core Bond Fund - Inv	-0.73	-1.13	-1.94	1.27	2.17	2.55	4.46	4.95	02/01/1997	N/A	1.31
MGFIX	Managers Bond Fund	-1.13	-0.45	-0.71	5.37	5.00	4.69	6.39	9.34	06/01/1984	N/A	1.00
MFAX	MSIF Trust Core Plus Fixed Income Portfolio - P ¹	-3.02	-3.16	-7.86	-4.58	0.53	2.23	4.34	4.85	11/07/1996	2.00/7	0.70
PLGBX	PIMCO Long-Term U.S. Government Fund - Adm	1.09	-2.07	1.37	12.63	2.89	3.98	6.55	7.26	09/23/1997	2.00/30	0.73
PLDAX	PIMCO Low Duration Fund - Adm	-0.62	-0.36	0.95	7.39	4.18	3.09	4.72	5.58	01/03/1995	N/A	0.68
PTRAX	PIMCO Total Return Fund - Adm	-0.90	-1.37	1.84	10.55	4.71	4.45	6.23	7.11	09/08/1994	N/A	0.68
WAPIX	Western Asset Core Bond Portfolio - FI	-2.21	-0.39	-2.65	-1.54	1.40	2.38	N/A	5.38	07/21/1999	N/A	0.72
WACIX	Western Asset Core Plus Bond Portfolio - FI	-2.43	-2.14	-3.88	-1.78	1.35	3.06	N/A	4.71	01/07/2002	N/A	0.69
HIGH YIELD												
CMHYX	Columbia Conservative High Yield Fund - Z	-0.11	-2.23	-2.23	-1.96	3.56	4.76	4.54	6.10	10/01/1993	N/A	0.78
LBHBX	Lehman Brothers High Income Bond Fund - Inv ²	0.18	-1.55	-1.55	-2.73	3.70	5.40	5.40	6.44	02/01/1992	N/A	0.93
MAHYX	MSIF Trust High Yield Portfolio - P ¹	-0.71	-2.78	-2.78	-1.78	4.21	7.57	1.99	3.35	01/31/1997	2.00/30	0.93
PHYAX	PIMCO High Yield Fund - Adm	-0.82	-1.79	-1.79	-0.56	5.41	7.92	5.44	7.59	01/16/1995	2.00/30	0.75
BALANCED/PROTECTED												
PARRX	PIMCO Real Return Fund - Adm	0.97	-0.89	4.54	15.20	5.16	5.81	N/A	8.20	01/29/1997	N/A	0.70
INTERNATIONAL/GLOBAL												
PADMX	PIMCO Global Bond Fund (Unhedged) - Adm	-0.53	-4.76	3.86	14.99	5.13	5.98	6.38	6.20	07/31/1996	2.00/30	0.80
TPINX	Templeton Global Bond Fund - A†	-2.62	-5.05	1.42	6.57	8.71	8.59	8.12	8.00	09/18/1986	2.00/7	0.99
BALANCED/HYBRID FUNDS												
AABPX	American Beacon Balanced Fund - PlanAhead	-6.95	-4.06	-9.53	-12.11	2.62	7.07	4.82	8.11	07/17/1987	N/A	0.84
CSIFX	Calvert Social Investment Fund Balanced Portfolio - A	-3.67	-0.45	-5.87	-5.98	3.02	5.38	2.46	8.32	10/21/1982	N/A	1.34
OAKBX	The Oakmark Equity and Income Fund - I	-2.31	1.40	2.38	6.76	10.53	11.14	11.17	13.01	11/01/1995	N/A	0.83
ACEIX	Van Kampen Equity and Income Fund - A	-6.00	-2.54	-9.42	-11.53	3.65	7.13	6.63	10.62	08/03/1960	2.00/7	0.76
DOMESTIC EQUITY FUNDS												
CONCEPT												
AAGPX	American Beacon Large Cap Value Fund - PlanAhead	-10.29	-4.88	-14.69	-18.44	3.53	10.25	4.84	9.46	07/17/1987	N/A	0.84
ALVIX	American Century Large Company Value Fund - Inv	-9.54	-6.47	-14.90	-20.50	1.76	6.93	N/A	4.55	07/30/1999	N/A	0.83
WFGIX	Credit Suisse Large Cap Value Fund - A	-8.58	-4.84	-14.86	-18.50	2.60	7.27	4.35	9.72	07/09/1992	N/A	1.07
KDHAX	DWS-Dreman High Return Equity Fund - A	-11.69	-7.84	-17.38	-22.22	0.24	6.34	5.08	12.12	02/28/2005	2.00/15	1.08
LAFX	Lord Abbett Affiliated Fund - A	-9.31	-6.07	-15.17	-16.63	3.31	7.10	5.09	10.87	05/14/1934	N/A	0.81
MGIEX	Managers Value Fund	-11.16	-6.74	-17.59	-28.06	-2.54	4.44	2.17	9.93	10/31/1984	N/A	1.19
MPVAX	MSIF Trust Value Portfolio - P ¹	-11.28	-8.11	-17.22	-23.99	-0.16	6.43	3.34	6.94	07/17/1996	2.00/7	0.88
TESIX	Mutual Shares Fund - A	-10.23	-5.78	-14.51	-19.47	3.70	8.21	6.51	8.86	11/01/1996	2.00/7	1.07
ACGIX	Van Kampen Growth and Income Fund - A	-8.24	-3.15	-12.49	-16.42	3.80	8.54	6.25	9.66	08/01/1946	2.00/7	0.77
VALUE												
GTVLX	AIM Basic Value Fund - A	-11.67	-5.55	-17.33	-22.41	0.00	5.48	6.16	9.50	10/18/1995	N/A	1.14
DSEFX	Domini Social Equity Fund - Inv	-7.95	-1.70	-10.93	-15.50	2.47	5.38	1.56	8.44	06/03/1991	2.00/30	1.24
LMVFX	Legg Mason Value Trust - FI	-14.10	-10.91	-28.37	-35.99	-8.01	0.26	N/A	-0.21	03/23/2001	N/A	1.03
NBFCX	Neuberger Berman Focus Fund - Trust	-8.89	-2.17	-10.02	-10.86	2.55	7.49	4.18	9.26	08/30/1993	N/A	1.09
NBGTX	Neuberger Berman Guardian Fund - Trust	-8.99	-0.23	-9.25	-10.94	6.46	9.94	2.76	7.48	08/03/1993	N/A	1.06
NBPTX	Neuberger Berman Partners Fund - Trust	-6.36	6.95	-4.51	-4.07	9.17	13.81	5.81	10.10	08/30/1993	N/A	1.00
NBSTX	Neuberger Berman Socially Responsive Fund - Trust	-8.79	-0.60	-9.24	-11.59	6.81	9.40	5.17	7.21	03/03/1997	N/A	1.10

Ticker	Name	Cumulative Total Returns %			Average Annual Total Returns %					Date of Inception	Short-term Trading Fee (% / days)	Gross Expense Ratio
		Periods Ending June 30, 2008			Periods Ending June 30, 2008							
		1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	LOF			
OAKMX	The Oakmark Fund - I	-9.98	-4.22	-11.27	-19.39	0.60	4.49	3.22	13.05	08/05/1991	2.00/90	1.01
OAKLX	The Oakmark Select Fund - I	-12.61	-6.93	-14.02	-29.98	-4.12	1.51	7.13	12.80	11/01/1996	2.00/90	0.97
CSTGX	AIM Constellation Fund - A	-6.17	4.00	-11.47	-9.57	5.30	7.03	2.05	13.36	04/30/1976	N/A	1.20
PICAX	Allianz CCM Capital Appreciation Fund - Adm	-6.85	0.61	-11.68	-5.30	6.04	8.95	4.27	8.97	07/31/1996	N/A	0.93
TWCUX	American Century Ultra Fund - Inv	-6.88	0.19	-13.19	-1.14	2.88	5.28	1.62	12.02	11/02/1981	N/A	1.00
CSIEX	Calvert Social Investment Fund Equity Portfolio - A	-5.28	2.55	-6.16	-1.54	5.70	7.15	6.65	8.02	08/24/1987	N/A	1.21
CUCAX	Credit Suisse Large Cap Growth Fund - Common	-6.81	-0.29	-12.61	-10.78	2.00	4.52	0.91	8.16	08/17/1987	N/A	1.00
HGWYX	Hartford Growth Fund - Y	-4.64	8.01	-7.71	-0.34	6.32	8.88	N/A	5.93	04/19/2002	N/A	0.80
SHRAX	Legg Mason Partners Aggressive Growth Fund - A ◆	-8.51	0.05	-11.26	-14.14	3.66	6.63	9.52	12.57	10/24/1993	N/A	1.14
SBLGX	Legg Mason Partners Large Cap Growth Fund - A	-9.91	-5.55	-14.47	-13.89	0.82	3.22	3.09	5.78	08/29/1997	N/A	1.11
LGRRX	Loomis Sayles Growth Fund - A	-6.10	2.77	-14.84	-3.96	3.45	8.28	1.81	4.43	05/16/1991	N/A	1.14
MGCAX	Managers AMG Essex Large Cap Growth Fund	-2.82	6.24	-6.05	-0.57	6.53	6.70	3.16	11.20	06/01/1984	N/A	1.29
MSEGX	MSIF U.S. Large Cap Growth Portfolio - P ¹	-9.32	2.49	-10.14	-0.10	9.51	9.69	3.46	8.34	01/02/1996	2.00/7	0.87
TGCNX	TCW Select Equities Fund - N	-6.71	3.35	-11.07	-6.88	1.87	5.85	N/A	2.49	03/01/1999	N/A	1.19
PTSGX	Touchstone Sands Capital Select Growth Fund - Z ³	-6.63	4.61	-11.29	-1.57	3.31	8.16	N/A	-2.53	08/11/2000	N/A	1.35
ABASX	AllianceBernstein Small/Mid-Cap Value Fund - A	-10.46	-3.16	-7.35	-16.79	4.31	11.72	N/A	11.23	03/29/2001	N/A	1.27
ARTQX	Artisan Mid Cap Value Fund - Inv	-7.40	3.36	0.28	-9.39	6.63	15.23	N/A	12.73	03/28/2001	N/A	1.20
LAVLX	Lord Abbett Mid-Cap Value Fund - A ⊙	-9.44	0.13	-13.21	-21.62	1.28	9.11	8.91	11.85	06/28/1983	N/A	1.10
FMIVX	Phoenix Mid-Cap Value Fund - A	-11.31	-2.51	-7.38	-17.04	5.35	13.57	8.92	8.90	12/20/1997	N/A	1.42
SMCDX	Wells Fargo Advantage Mid Cap Disciplined Fund - Inv	-9.13	0.32	-4.81	-13.13	4.60	11.43	N/A	13.19	12/31/1998	N/A	1.54
GTAGX	AIM Mid Cap Core Equity Fund - A	-5.93	-0.27	-5.37	-5.73	6.88	10.04	8.33	12.00	06/09/1987	N/A	1.24
CAAPX	Ariel Appreciation Fund	-8.70	-3.04	-11.98	-21.05	-0.26	5.33	6.51	10.64	12/01/1989	N/A	1.12
ARGFX	Ariel Fund	-11.87	-9.15	-19.34	-29.29	-4.49	4.41	6.27	11.35	11/06/1986	N/A	1.03
CUEGX	Credit Suisse Mid-Cap Core Fund - Common ⁴	-6.64	5.41	-6.14	-5.77	3.93	9.23	1.63	9.71	01/21/1988	N/A	1.23
CRMMX	CRM Mid Cap Value Fund - Inv ⊙	-9.06	0.19	-8.40	-10.52	7.78	14.24	N/A	12.88	09/20/2000	N/A	1.04
NBREX	Neuberger Berman Regency Fund - Trust	-7.52	4.51	-6.34	-10.63	5.96	12.81	N/A	10.83	06/10/1999	N/A	1.33
RSVAX	RS Value Fund	-5.70	9.34	-2.44	-10.05	7.79	17.71	11.50	8.06	06/30/1993	N/A	1.33
CBMDX	Wells Fargo Advantage C&B Mid Cap Value Fund - D	-13.67	-6.58	-18.06	-32.05	-1.22	5.97	9.35	9.10	02/18/1998	N/A	1.48
PMCGX	Allianz CCM Mid-Cap Fund - Adm	-5.21	8.33	-5.62	0.46	9.17	13.06	6.92	12.26	11/30/1994	N/A	0.94
TWCVX	American Century Vista Fund - Inv	-3.75	9.64	-8.25	4.32	15.07	16.10	9.78	10.98	11/25/1983	N/A	1.00
ARTMX	Artisan Mid Cap Fund - Inv ⊙	-8.01	1.56	-11.64	-6.98	8.75	11.67	12.83	15.50	06/27/1997	N/A	1.22
BARAX	Baron Asset Fund	-7.54	0.20	-11.59	-10.37	7.15	13.19	5.15	12.17	06/12/1987	N/A	1.34
CCAFX	Calvert Capital Accumulation Fund - A	-1.96	8.86	0.99	0.93	5.33	8.05	2.60	8.11	10/31/1994	N/A	1.66
ACTWX	Columbia Acorn Select Fund - Z	-5.73	9.42	-5.80	-11.89	11.05	12.69	N/A	13.10	11/22/1998	N/A	0.91
FRSGX	Franklin Small-Mid Cap Growth Fund - A	-7.38	4.98	-10.65	-12.09	5.80	9.74	5.64	11.19	02/14/1992	2.00/7	1.00
MACGX	MSIF Trust Mid Cap Growth Portfolio - P ¹	-7.82	3.40	-9.26	-1.09	11.85	15.99	7.50	11.10	01/31/1997	2.00/7	0.88
PKSFX	Phoenix Small-Mid Cap Fund - I ⁵	-8.83	-0.93	-15.46	-19.63	0.64	5.17	4.97	7.23	10/18/1996	N/A	1.41
RIMSX	Rainier Small/Mid Cap Equity Portfolio - Inv ⊙	-7.14	4.34	-10.11	-8.30	12.90	16.19	8.96	14.00	05/10/1994	N/A	1.18
PVADX	Allianz NFJ Small-Cap Value Fund - Adm	-7.67	1.40	-2.33	-6.83	9.06	14.55	10.51	13.30	11/01/1995	N/A	1.07
AVPAX	American Beacon Small Cap Value Fund - PlanAhead ⊙	-10.02	-1.83	-6.68	-20.49	1.19	10.68	N/A	11.98	03/01/1999	N/A	1.06
RYOFX	Royce Opportunity Fund - Svc ⁶ ⊙	-9.96	-2.15	-11.30	-22.94	3.63	11.96	N/A	10.42	05/22/2000	N/A	1.39
RYTFX	Royce Total Return Fund - Svc	-7.56	-0.43	-6.06	-11.73	5.33	10.26	N/A	9.09	01/03/2002	N/A	1.39
SCVIX	Wells Fargo Adv. Small Company Value Fund - Adm ⊙	-11.79	-6.44	-14.50	-30.35	-4.17	7.45	N/A	6.55	01/31/2002	N/A	1.33
ASQIX	American Century Small Company Fund - Inv ⊙	-6.84	4.30	-6.51	-19.13	-0.56	10.91	N/A	9.07	07/31/1998	N/A	0.87
FMACX	FMA Small Company Portfolio - Instl	-9.34	-1.18	-9.88	-15.58	4.79	10.74	6.61	11.26	07/31/1991	N/A	1.30
LSCRX	Loomis Sayles Small Cap Value Fund - Retail	-8.36	-0.50	-9.83	-15.46	5.15	11.11	8.22	9.52	05/13/1991	N/A	1.24

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		Periods Ending June 30, 2008			Periods Ending June 30, 2008						
		1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year			
	60/40 S&P 500/40 LB Aggregate Bond	-5.09	-1.92	-6.71	-5.25	4.43	6.22	4.32			
	MSCI EAFE® (G)	-8.16	-1.93	-10.58	-10.15	13.34	17.16	6.23			
	MSCI EAFE® (Net MA Tax)	-8.17	-2.12	-10.83	-10.47	13.02	16.91	6.08			
	MSCI EMF + EM (G)	-8.55	-1.70	-10.81	-7.54	15.56	18.98	7.37			
	MSCI World® (Net MA Tax)	-7.95	-1.53	-10.38	-10.36	9.27	12.41	N/A			
	CitiGroup Broad Investment Grade Bond	0.12	-1.19	1.40	7.76	4.28	4.02	5.76			
	CitiGroup World Government Bond	0.45	-4.23	5.02	17.00	6.24	6.39	6.54			
	CSFB High Yield	-2.41	1.81	-1.14	-2.12	4.84	7.23	5.53			
	LB Aggregate Bond	-0.08	-1.02	1.13	7.12	4.09	3.86	5.68			
	LB Government/Credit Bond	0.10	-1.51	0.98	7.24	3.84	3.58	5.69			
	LB Intermediate Government/Credit Bond	0.01	-1.53	1.43	7.37	4.27	3.49	5.55			
	LB Treasury Long Term	1.71	-2.22	1.66	12.65	3.80	4.64	6.67			
	ML 1-3 Year Treasury Bill	0.29	-0.86	2.10	7.30	4.71	3.29	4.66			
	ML High Yield Master Cash Pay	-2.66	1.80	-1.24	-2.03	4.60	6.85	5.21			
	ML High Yield U.S. Corporate- BB-B Rated	-2.48	1.48	-0.84	-0.64	4.62	6.58	4.85			

Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated. Life of Fund figures are reported as of the inception date to the period indicated. These figures do not include the effect of sales charges, if any, as these charges are waived for contributions made through your company's employee benefit plan(s). If sales charges were included, returns would have been lower.

Although the information contained in this report has been carefully verified, its accuracy cannot be guaranteed. All numbers are unaudited.

Non-Fidelity mutual funds are managed by non-Fidelity entities. Please consult the prospectus for more information. If applicable, class of shares will vary. Please consult your plan documents for the specific class of shares available through your plan. Morningstar, Inc., provided data on the non-Fidelity mutual funds. Although the data is gathered from reliable sources, accuracy and completeness cannot be guaranteed by Morningstar.

The funds are arranged according to Morningstar categories. Categories for some equity funds may change over time. For details, please consult the fund's prospectus at fidelity.com.

For a mutual fund, the Gross Expense Ratio is the total annual fund or class operating expenses (before waivers or reimbursements) paid by the fund and stated as a percent of the fund's total net assets. Mutual fund data has been drawn from the most recent prospectus.

Not all funds may be available for your plan.

Specific Funds

⊙ Closed to most new plans/accounts. Please consult the prospectus for more details.

¹ Formerly known as Class B.

² Formerly known as Neuberger Berman High Income Bond Fund – Investor Class.

³ Formerly known as Constellation Sands Capital Select Growth Fund Class II.

⁴ Formerly known as Credit Suisse Mid-Cap Growth Fund.

⁵ Formerly known as Class X.

⁶ Formerly known as Royce Opportunity FI class.

⁷ Prior to May 1, 2008, the fund was known as the AIM Global Aggressive Growth Fund.

⁸ Prior to June 30, 2007, the fund was known as the Hartford International Capital Appreciation Fund.

Investment Risk

☐ In general bond prices rise when interest rates fall, and vice versa. The effect is usually more pronounced for longer-term securities.

† Lower-quality debt securities involve greater risk of default and/or price changes due to changes in the credit quality of the issuer.

Ω The value of inflation-protected debt securities tends to change less due to changes in inflation than other types of bonds but may decrease with decreases in inflation or, as other debt securities, with increases in interest rates.

◆ Investments in smaller companies may involve greater risks than those of larger, more well-known companies.

❖ Foreign investments, especially those in emerging markets involve greater risks and may offer greater potential returns than U.S. investments. These risks include political and economic uncertainties of foreign countries, as well as the risk of currency fluctuations.

Indices are unmanaged and you cannot invest directly in an index.

For Plan Sponsor Use Only.

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges and expenses. For this and other information, call or write Fidelity for a free prospectus. Read it carefully before you invest.

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Ticker	Name	Cumulative Total Returns %			Average Annual Total Returns %					Date of Inception	Short-term Trading Fee (% / days)	Gross Expense Ratio
		Periods Ending June 30, 2008			Periods Ending June 30, 2008							
		1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	LOF			
MGSEX	Managers Special Equity Fund	-6.59	1.56	-12.89	-21.16	0.74	7.79	5.31	12.04	06/01/1984	N/A	1.51
NBGEX	Neuberger Berman Genesis Fund - Trust [Ⓞ]	-2.63	8.29	3.88	11.46	13.74	17.59	13.24	15.00	08/26/1993	N/A	1.12
RYLPX	Royce Low-Priced Stock Fund - Svc [Ⓞ]	-5.05	3.50	-1.96	-8.79	10.90	13.11	12.35	14.15	12/15/1993	N/A	1.53
RSPFX	RS Partners Fund	-6.39	5.72	-3.41	-15.63	3.61	14.53	11.73	13.55	07/12/1995	N/A	1.51
SSMVX	Wells Fargo Advantage Small Cap Value Fund - Z	-3.45	5.59	-1.05	-4.25	12.14	17.25	15.17	16.16	12/31/1997	N/A	1.61
ARTSX	Artisan Small Cap Fund - Inv [Ⓞ]	-9.87	-4.70	-18.50	-22.45	-1.50	6.98	2.86	7.17	03/28/1995	N/A	1.21
BGRFX	Baron Growth Fund	-7.64	1.34	-9.14	-9.43	4.71	11.39	9.90	15.36	01/03/1995	N/A	1.31
BSCFX	Baron Small Cap Fund	-9.55	-1.94	-15.32	-14.17	3.34	10.15	8.64	9.84	09/30/1997	N/A	1.31
CNVAX	Calvert New Vision Small Cap Fund - A	-4.26	5.32	-8.46	-14.88	-2.99	2.77	2.33	2.30	01/31/1997	N/A	1.76
HSLYX	Hartford SmallCap Growth Fund - Y	-5.01	5.91	-7.19	-16.36	1.20	9.41	N/A	6.09	04/19/2002	N/A	0.90
LSBAX	Lord Abbett Small-Cap Blend Fund - A	-4.37	6.90	-1.78	-5.63	7.35	15.00	N/A	11.82	06/26/2001	N/A	1.36
MSSMX	MSIF Small Company Growth Portfolio - P ¹ [Ⓞ]	-7.73	-1.65	-13.32	-15.75	2.33	10.32	9.81	10.66	01/02/1996	2.00/30	1.26
NBFSX	Neuberger Berman Fasciano Fund - Inv	-3.67	2.34	-5.84	-14.66	1.47	6.17	3.58	10.08	11/10/1988	N/A	1.30
RYVPX	Royce Value Plus Fund - Svc	-7.49	2.09	-7.82	-15.62	10.77	17.42	N/A	17.26	06/14/2001	N/A	1.40
RSEGX	RS Emerging Growth Fund	-6.93	4.96	-15.11	-14.16	3.87	8.50	5.81	14.06	11/30/1987	N/A	1.48
RSSGX	RS Smaller Company Growth Fund	-8.37	1.21	-18.08	-21.47	-1.15	7.79	5.90	8.85	08/15/1996	N/A	1.53
AGAAX	AIM Global Small & Mid Cap Growth Fund - A ⁷ [◆]	-8.77	-2.34	-15.54	-11.91	13.54	18.11	7.10	10.11	09/15/1994	2.00/31	1.43
AAIPX	American Beacon International Equity Fund - PlanAhead	-9.70	-3.77	-12.90	-13.08	10.75	15.81	7.09	9.22	08/01/1994	2.00/90	0.93
ARTIX	Artisan International Fund - Inv	-9.05	-1.40	-12.58	-5.30	15.93	17.07	10.05	13.22	12/28/1995	2.00/90	1.21
SGSCX	DWS Global Opportunities Fund - S [◆]	-8.01	0.13	-10.84	-10.76	10.25	16.89	9.32	11.12	09/10/1991	2.00/15	1.34
SCINX	DWS International Fund - S	-5.69	2.57	-6.87	-3.21	16.24	17.20	6.01	N/A	06/18/1953	2.00/15	0.92
HNCYX	Hartford International Growth Fund - Y ⁸	-8.37	-4.62	-18.47	-9.29	12.23	15.20	N/A	7.59	04/30/2001	N/A	1.03
MIGEX	MSIF Global Value Equity Portfolio - P ¹	-10.03	-5.25	-15.33	-18.00	5.15	9.56	3.94	7.68	01/02/1996	2.00/30	1.16
MIQBX	MSIF International Equity Portfolio - P ¹	-7.63	-1.09	-7.59	-8.06	10.14	14.22	8.63	10.89	01/02/1996	2.00/30	1.18
TEDIX	Mutual Discovery Fund - A [◆]	-6.66	-2.66	-9.97	-11.39	10.68	14.79	9.62	11.60	12/31/1992	2.00/7	1.32
NBITX	Neuberger Berman International Fund - Trust [†] [Ⓞ]	-8.40	-0.80	-8.59	-14.07	11.58	19.31	8.07	8.05	06/29/1998	N/A	1.35
TEAFX	Templeton Foreign Fund - A [◆]	-9.28	-3.01	-14.94	-9.01	10.09	13.81	7.87	12.77	10/05/1982	2.00/7	1.16
FINEX	Templeton Foreign Smaller Companies Fund - A [◆] [Ⓞ]	-8.11	-3.80	-12.77	-20.50	8.59	15.05	8.29	9.48	09/20/1991	2.00/7	1.40
TEPLX	Templeton Growth Fund, Inc. - A	-8.86	-4.00	-15.33	-19.06	4.47	9.75	7.16	13.33	11/29/1954	2.00/7	1.01
TEMWX	Templeton World Fund - A	-8.31	-1.99	-13.72	-13.19	7.71	12.26	6.73	13.16	01/17/1978	2.00/7	1.05
MMKBX	MSIF Emerging Markets Portfolio - P ¹	-11.46	-1.85	-15.78	1.58	27.73	29.92	14.98	11.23	01/02/1996	2.00/30	1.62
TEDMX	Templeton Developing Markets Trust - A	-11.01	-1.47	-16.49	-6.37	18.46	24.29	12.73	9.27	10/16/1991	2.00/7	1.83
	Dow Jones Industrial Average	-10.04	-6.85	-13.38	-13.27	5.83	7.20	4.50				
	Domini 400 Social Index	-8.99	-3.84	-12.88	-14.26	2.85	6.03	2.40				
	NASDAQ Composite [Ⓞ]	-9.06	0.79	-13.22	-11.28	4.44	N/A	N/A				
	Russell 1000 [Ⓞ]	-8.31	-1.89	-11.20	-12.36	4.81	8.22	3.38				
	Russell 1000 [Ⓞ] Growth	-7.20	1.25	-9.06	-5.96	5.91	7.32	0.96				
	Russell 1000 [Ⓞ] Value	-9.57	-5.31	-13.57	-18.78	3.53	8.92	4.91				
	Russell 2000 [Ⓞ]	-7.70	0.58	-9.37	-16.19	3.79	10.29	5.53				
	Russell 2000 [Ⓞ] Growth	-5.96	4.47	-8.93	-10.83	6.08	10.37	2.80				
	Russell 2000 [Ⓞ] Value	-9.60	-3.55	-9.84	-21.63	1.39	10.02	7.47				
	Russell 2500 [™]	-8.15	1.39	-8.11	-14.28	4.94	11.49	7.50				
	Russell 2500 [™] Growth	-7.16	3.62	-7.86	-9.20	7.40	11.61	5.17				
	Russell 2500 [™] Value	-9.34	-1.24	-8.37	-19.91	2.19	10.91	8.12				
	Russell MidCap [Ⓞ]	-7.99	2.67	-7.57	-11.19	6.84	13.07	8.10				
	Russell Midcap [Ⓞ] Growth	-7.31	4.65	-6.81	-6.42	8.19	12.32	5.64				
	Russell Midcap [Ⓞ] Value	-8.91	0.07	-8.58	-17.09	4.97	13.00	8.45				
	S&P 500 [Ⓞ]	-8.43	-2.73	-11.91	-13.12	4.41	7.58	2.88				
	S&P [Ⓞ] MidCap 400	-7.03	5.43	-3.90	-7.34	7.45	12.61	9.84				