

# NDPERS BOARD MEETING

## Agenda

**Bismarck Location:**  
ND Association of Counties  
1661 Capitol Way  
**Fargo Location:**  
BCBS, 4510 13<sup>th</sup> Ave SW

**September 14, 2006**

**Time: 8:30 AM**

### **I. MINUTES**

- A. August 17, 2006
- B. August 24, 2006
- C. August 29, 2006

### **II. GROUP INSURANCE**

- A. ING – Sparb (Board Action Requested)
- B. Group Insurance Renewal – Sparb (Information)
- C. Medicare Part D Renewal – Sparb (Information)
- D. Surplus/Affordability Update – Bryan (Information)

### **III. RETIREMENT**

- A. Defined Contribution Program – Rebecca (Board Action Requested)
- B. Federal Pension Legislation Update – Sparb (Information)
- C. 2<sup>nd</sup> Quarter 2006 Investment Report – Bryan (Information)
- D. New Fidelity Funds for 401(a) and 457 Plans – Bryan (Board Action)

### **IV. LASR UPDATE (Information)**

### **V. MISCELLANEOUS**

- A. Audit Committee Update – Jamie (Information)
- B. SIB Agenda – (Information)

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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.

# MINUTES

## North Dakota Public Employees Retirement System

Thursday, August 17, 2006  
Workforce Safety & Insurance, Bismarck  
BCBS, 4510 13<sup>th</sup> Ave SW, Fargo  
8:30 A.M.

Members Present: Ms. Joan Ehrhardt  
Mr. Ron Leingang  
Mr. Howard Sage  
Ms. Arvy Smith  
Ms. Sandi Tabor

Via Video Conference: Ms. Rosey Sand  
Chairman Jon Strinden

Others Present: Mr. Sparb Collins, Executive Director, NDPERS  
Ms. Cheryl Stockert, NDPERS  
Ms. Kathy Allen, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Ms. Cheryle Masset-Martz, NDPERS  
Mr. Bill Robinson, Gallagher Benefit Services  
Mr. Larry Brooks, BCBSND  
Ms. Onalee Sellheim, BCBSND  
Ms. Julie Krenz, Attorney General's Office  
Mr. David Peske, ND Medical Association  
Mr. Bill Kalanek, AFPE  
Mr. Weldee Baetsch

Via Video Conference: Mr. Kevin Schoenborn, BCBSND

Chairman Jon Strinden called the meeting to order at 8:40 a.m.

### **MINUTES**

Chairman Strinden called for any comments or corrections to the July 20, 2006 Board meeting minutes.

**THERE BEING NONE, MS. TABOR MOVED APPROVAL OF THE JULY 20, 2006 BOARD MEETING MINUTES. MR. LEINGANG SECONDED THE MOTION. THE MINUTES WERE APPROVED.**

### **GROUP INSURANCE**

### **Review of Dental Insurance Proposals**

Mr. Collins stated Mr. Bill Robinson of Gallagher Benefit Services was present at the Board meeting to review the results of the request for proposal for voluntary dental insurance. Gallagher Benefit Services (GBS) prepared the analysis for both self insured and fully insured. GBS recommended, based on their review, there is no advantage to self-fund the dental plan. GBS presented information relating to the fully insured proposals including distinguishing features, potential concerns, provider networks, the review criteria, economy to be effected, ease of administration, adequacy of coverage, estimated annual out of pocket costs, the financial position of carriers, and the reputation of the carriers. GBS recommendation to NDPERS was to consider and interview Delta Dental of Minnesota and Cigna as candidates for PERS voluntary dental insurance. Mr. Collins indicated to the Board that two actions were necessary; one is whether or not to consider the self-insured plan or fully insured plan and the second is to select the vendors to interview for the meeting on August 29. Prior to the vendor interviews, staff will contact reference checks and present that information at the next meeting. After the vendor interviews and Board recommendation, staff will review with the vendor the details of the administrative requirements and details to determine if the vendor will fully meet all of our requirements. Mr. Collins stated that generally contracts are awarded for a six year period, subject to either an annual or biannual renewal.

**MS. TABOR MOVED TO PURSUE NDPERS VOLUNTARY GROUP DENTAL INSURANCE AS A FULLY INSURED PLAN NOT A SELF INSURED PLAN. MS. SMITH SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

**MOTION PASSED**

**AFTER FURTHER DISCUSSION, MS. EHRHARDT MOVED TO CONSIDER AND INTERVIEW DELTA DENTAL OF MN AND CIGNA. THE MOTION WAS SECONDED BY MS. TABOR.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

**MOTION PASSED**

After the motion passed, the Board decided to establish guidelines for the interviews, allowing 15 minutes for the vendor's formal presentation; 30 minutes for general questions; then 15 minutes wrap up (with no more than one hour total).

### **BCBS Member Satisfaction Survey**

Ms. Onalee Sellheim, BCBSND, presented information regarding the NDPERS Member Satisfaction Survey (February 2006). There was a 40% response rate. Overall satisfaction was 90.2%. Some of the areas showed a decrease which was attributed to the new programs such as Medicare Part D, Smoking Cessation program, and Health Dialog. After Board discussion and questions relating to these survey results, Ms. Sellheim indicated there will be follow-up on the survey areas to determine what the problems were (member comments) and to re-evaluate these processes.

### **Wellness Benefit Program**

Ms. Allen reported that the Board had reviewed the proposed reimbursement policy at the June meeting at which time additional clarification was requested. The policy has been restated to clarify as follows: "100% of the first \$500 or \$1 times the number of health contracts, plus 75% of the next \$500 or \$1 times the number of health contracts. If program expenses are under \$500 or \$1 times the number of contracted based on these calculations, only actual program expenses will be reimbursed." Actual costs will always be the first amount to be reimbursed. Employers are eligible for reimbursement one time per year (invoices will be necessary). After discussion and the need for clarification, the Board requested to hold this agenda item over until the next Board meeting in September at which time staff would provide specific reimbursement examples for a large and a small employer group.

### **Segal Update**

Mr. Collins reported that changes are being undertaken at Segal. They are discontinuing operations in their Denver office. Leslie Thompson will remain at that office as our lead actuary but the supporting actuarial work will be done in the San Francisco office. Segal's plan is to conduct this year's actuarial work in the Denver office and starting in January it will be conducted in SF. PERS' primary concern is the continuation of service provided by Segal not because their location changed from Denver to San Francisco. Staff will set expanded performance criteria and after the next legislative session will review Segal's performance in more detail, and if warranted, consider going out for bid.

### **Group Medical Plan Surplus/Affordability Update**

Mr. Reinhardt reported that in order to buy down premiums, \$14.3 million has been transferred; the balance was actually \$15.6 million of which \$1.3 million is in account at BCBS.

## **RETIREMENT**

### **Final Average Salary Indexing for Highway Patrol**

Ms. Allen reported that the North Dakota Highway Patrol is recommending that their members in the deferred vested retirement benefit have their final average salary indexed by four percent (which was the annual salary increased authorized by the legislature).

**MS. SAND MOVED THAT THE FINAL AVERAGE SALARY BE INDEXED BY FOUR PERCENT FOR MEMBERS OF THE NORTH DAKOTA HIGHWAY PATROL RETIREMENT SYSTEM WHO PARTICIPATED IN THE DEFERRED VESTED BENEFIT PROVISION. THE MOTION WAS SECONDED BY MS. TABOR.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

### **MOTION PASSED**

### **Law Enforcement Retirement Plan**

Ms. Dschaak reported to the Board that the policy for the time in which correctional officers, once certified, can join or waive participation in the Law Enforcement Plan is 30 days. If no election is made, the correctional officer will remain a member of the Defined Benefit or employer sponsored retirement plan. Recently PERS was contacted by an agency attempting to adhere to this policy but their correctional officers had missed the enrollment period because of the certification processing time. Staff recommends a change to the policy increasing the enrollment period from 30 days to 180 days to allow for ample time to obtain the necessary certification documentation. Staff also recommends that an agency be allowed to back pay retirement contributions to the law enforcement plan from the date a correctional officer became certified.

**MS. TABOR MOVED TO ALLOW THE 180 DAYS AND TO BACK PAY RETIREMENT CONTRIBUTIONS FROM THE DATE A CORRECTIONAL OFFICER BECAME CERTIFIED. THE MOTION WAS SECONDED BY MS. SAND.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

### **MOTION PASSED**

## **BUSINESS SYSTEM REPLACEMENT PROJECT (LASR) UPDATE**

Mr. Collins indicated that a report updating the Board on this project is included listing activities to date. This project will be reviewed by SITAC in October. A LASR update report will be presented at subsequent Board meetings.

## **MISCELLANEOUS**

### **Updated Personnel Policies**

Ms. Allen reported to the Board that a revision has been made to the NDPERS Personnel Policy Manual under the travel policies (Section 20.1) relating to personal telephone expenses for both in state and out of state travel. Staff recommendation is to reimburse employees up to \$10 per day if an overnight stay was incurred and the expense appears on a receipt.

**MS. TABOR MOVED TO APPROVE THE UPDATE TO THE NDPERS PERSONNEL POLICY MANUAL. THE MOTION WAS SECONDED BY MR. LEINGANG.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

## **MOTION PASSED**

### **State Employee Compensation Commission**

Mr. Collins provided information to the Board relating to the June 5, 2006 meeting of this committee and indicated he will be attending their next meeting to provide an update on the health plan renewal.

### **IFEBP and Other Outside Activities**

Mr. Collins gave the Board an update on his involvement with the International Foundation of Employee Benefit Professionals along with other outside activities that he is involved with for the upcoming year.

### **Disability Appeal 2006 002D**

Ms. Dschaak indicated that the appeal is on behalf of a member relating to their eligibility for disability. Based on a review of our records, it was determined that the member had terminated employment on August 17, 2004 with a last pay date of September 21, 2004. The first request for consideration of a disability retirement was made on July 11, 2006. The North Dakota Century Code states that in order to be eligible for disability the member must apply within twelve (12) months of termination. Staff determined the

member was not eligible because more than twelve months had elapsed from termination of employment. Staff is seeking the Board's direction to approve or deny this appeal. The Board discussed issues with staff relating to this case and has requested staff to make certain to clarify the physician statement issue with individuals applying for disability, and the individual should contact PERS if they have problems receiving a physician statement.

**MR. LEINGANG MOVED TO DENY APPEAL 2006 002D BECAUSE THE APPLICATION WAS NOT FILED IN ACCORDANCE WITH STATE LAW. MR. SAGE SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

**MOTION PASSED**

**Executive Director Review**

Chairman Jon Strinden presented a report from the compensation committee which was comprised of three trustees (himself, Mr. Leingang, and Ms. Ehrhardt). Mr. Strinden indicated that the review of the Executive Director (Mr. Collins) were all very good to excellent with a few constructive comments from the Board members which has been shared with Mr. Collins. The committee recommended an additional 6% salary increase over the approved 4% effective August 1, 2006. Mr. Leingang indicated this is an external market/equity/performance salary increase.

**MS. TABOR MOVED TO INCREASE THE SALARY OF THE EXECUTIVE DIRECTOR TO \$120,011 PER YEAR EFFECTIVE AUGUST 1, 2006. THE MOTION WAS SECONDED BY MS. SAND.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

**MOTION PASSED**

The Board reviewed information relating to the compensation for 70 statewide retirement plans. It was noted that the average compensation updated to this year was \$146,839. It was further noted that only a few of those systems have responsibility for non retirement programs. In addition, the Board acknowledged a study RIO had completed that showed the average salary for Investment Officers was more on par with market salaries.

**IN RECOGNITION OF THE ABOVE DISCUSSION, MS. SAND MOVED TO INCREASE THE SALARY OF THE EXECUTIVE DIRECTOR TO \$146,839 EFFECTIVE JULY 1, 2007 SUBJECT TO LEGISLATIVE AUTHORIZATION AND FINAL REVIEW BY THE BOARD. THE ADDITIONAL FUNDING WOULD BE INCLUDED IN THE OPTIONAL SALARY PACKAGE FOR ALL NDPERS STAFF AND SUBMITTED TO THE 2007 LEGISLATURE. THE MOTION WAS SECONDED BY MR. SAGE.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Smith, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

**MOTION PASSED**

The meeting adjourned at 11:10 a.m.

Prepared by,

Cheryl Stockert  
Secretary to the NDPERS Board

# MINUTES

## North Dakota Public Employees Retirement System

Thursday, August 24, 2006  
ND Association of Counties, Bismarck  
BCBS, 4510 13<sup>th</sup> Ave SW, Fargo  
1:30 P.M.

Members Present: Ms. Joan Ehrhardt  
Mr. Ron Leingang  
Mr. Howard Sage  
Ms. Arvy Smith  
Ms. Sandi Tabor

Via Video Conference: Ms. Rosey Sand  
Chairman Jon Strinden

Others Present: Mr. Sparb Collins, Executive Director, NDPERS  
Ms. Cheryl Stockert, NDPERS  
Ms. Kathy Allen, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Ms. Cheryle Masset-Martz, NDPERS  
Mr. Dave Zentner  
Mr. Weldee Baetsch

Via Video Conference Or Conference Call: Mr. Bill Robinson, Gallagher Benefit Services  
Mr. Shawn Atkins, Gallagher Benefit Services  
Mr. Larry Brooks, BCBSND  
Mr. Kevin Schoenborn, BCBSND  
Mr. Chad Niles, BCBSND  
Ms. Janine Weideman, BCBSND  
Mr. Brad Bartle, BCBSND  
Ms. Onalee Sellhaim, BCBSND

Chairman Jon Strinden called the meeting to order at 1:40 p.m.

### HEALTH PLAN RENEWAL

Mr. Collins indicated that at today's meeting we will be reviewing the Blue Cross Blue Shield North Dakota health plan renewal for the existing plan design as well as estimated premiums for alternate plan designs. Final consideration of the health plan renewal will be conducted at the September 14 Board meeting. The PERS Board began its preparation for the renewal several months ago with presentations from BCBS and others. At the June meeting the Board heard the report from the PERS Benefits Committee that suggested the PERS Board seek renewal on the existing plan design along with alternate designs. The renewal for next biennium relating to the existing plan design assumed the same services and programs as this biennium. The proposed BCBS rate increase for

active employees is \$127.06 per month and for retirees is \$69.44 per month (medical only). The Rx portion for retirees will be renewed separately. The amount of \$24.52 of the \$127.06 or 19% is due to one time funds used last biennium to offset the premium increase then that will not be available this time. In order to pay for and maintain the existing current plan design it will cost approximately \$25 million in additional funds of which \$13 million will be general funds (does not include Higher Education). Information on the cost of the optional plan designs is available at the PERS office.

Mr. Collins stated that prior to the September 14 Board meeting, we will need to do the following: review this information with the Insurance Department; for the retiree group we should investigate the possibility of having them be part of a larger pool such as Medicare Supplement; obtain additional information and justification from BCBS for the retention increase; obtain information from BCBS to clarify the interest rate on our cash balance; clarify the reprojected rates for February 2007; and share the renewal information with OMB and other appropriate agencies/groups. Two additional items are: (1) modify the optional plan design for the high deductible health plan alternative so it would be compliant with HSA rules, and (2) continue to work with BCBS regarding auditing of the pharmacy benefits manager (PBM).

Mr. Robinson from Gallagher Benefit Services presented information to the Board regarding their review of the BCBS medical and prescription drug plan. Mr. Robinson stated there are some variances between their renewal projections and BCBS which can be explained through differences in trend factors, methodology and retention assumptions. Their review produced a similar rate as BCBS and therefore they are comfortable with the state of North Dakota renewing with BCBS. One concern of GBS related to BCBS's proposed increase in the retention charges of 10.8% and they suggest the Board request that BCBS thoroughly justify the reasons for this proposed increase.

Representatives from BCBS explained the breakdown of what was included in the rate increases for the actives and retirees and also the rationale for the increases. For the active group they noted that 19% of the increase was the result of one time funds from last biennium that are not available this biennium and therefore must be made up in premiums, 16% was associated with Rx, 39% was the result of medical inflation, 7% was utilization, 10% was technology, 7% was leverage, and 2% was retention. Mr. Brooks from BCBS reported that they are projecting a break even for the end of the biennium. Mr. Collins stated that staff will follow-up with Gallagher Benefit Services and BCBS on the questions that have been identified and staff will present this information on September 14 for final consideration.

A copy of the complete report to the Board is available at the NDPERS office.

The meeting adjourned at 3:00 p.m.

Prepared by,

Cheryl Stockert  
Secretary to the NDPERS Board

# MINUTES

## North Dakota Public Employees Retirement System

Tuesday, August 29, 2006  
ND Association of Counties, Bismarck  
BCBS, 4510 13<sup>th</sup> Ave SW, Fargo  
1:30 P.M.

Members Present: Ms. Joan Ehrhardt  
Mr. Ron Leingang  
Mr. Howard Sage  
Ms. Sandi Tabor

Via Video Conference: Ms. Rosey Sand  
Chairman Jon Strinden

Member Absent: Ms. Arvy Smith

Others Present: Mr. Sparb Collins, Executive Director, NDPERS  
Ms. Cheryl Stockert, NDPERS  
Ms. Kathy Allen, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Ms. Cheryle Masset-Martz, NDPERS  
Mr. Bill Robinson, Gallagher Benefit Services  
Cigna Representatives  
Delta Dental Representatives

Via Video Conference Mr. Larry Brooks, BCBSND

Chairman Jon Strinden called the meeting to order at 8:35 a.m.

### **Segal Update**

Mr. Collins reported that since the last Board meeting Ms. Leslie Thompson, our assigned actuary from Segal, has resigned and has taken a position with Gabriel Roeder Smith in Denver. Segal has assigned Mr. Michael Moehle, the lead principal consulting actuary, to PERS. Mr. Moehle will assume all the duties Leslie did and therefore he will be presenting the valuation information to the legislative Employee Benefits Committee this fall.

### **Interview of Two Group Dental Insurance Providers**

Mr. Collins reported that Cigna and Delta Dental were the two dental insurance providers selected to present to the Board. Representatives from Cigna and Delta Dental presented information relating to their respective dental plan coverage's, benefits, service model, and communication strategy. Copies of the presentations are available at the PERS office. In addition to presenting their proposal, Cigna provided the following clarifications:

- Their proposed rates would be 1% lower than quoted in the bid.
- The rates are guaranteed for two years (1/1/2007 – 12/31/2008).
- Rate cap on year 3 of 9%.
- R&C can be moved to 90<sup>th</sup> percentile with no rate impact.
- The quoted plan design does not include \$10 copay.
- The quoted plan design does not include initial waiting periods that are in the current plan mainly Type II of 6 months, Type III Major Treatment of 1 year, and Type IV Orthodontics Treatment of 2 years.
- Missing tooth limitation waived for all initial enrollees.
- Orthodontic treatment extended for adult and children.
- Waived enrollment caveat of +/- 10%.
- \$5,000 communication fund (these are dollars that can be used at the client's discretion to off-set any additional costs). This does not include CIGNA Dental's communication that we proposed directly to the dentists of North Dakota. These and other expenses would be CIGNA's responsibility.
- Performance guarantees of \$32,000 at risk. These dollars may be allocated at NDPERS discretion for implementation and ongoing service.

The Board asked questions of both providers, with a wrap up session immediately following.

Mr. Bill Robinson, Gallagher Benefit Services, provided an analysis and comparison regarding the strengths and weaknesses of Cigna and Delta Dental.

Board discussion followed the presentations from Cigna and Delta Dental and the analysis by Gallagher Benefit Services. The discussion focused on the issue of network providers versus not having a network, the plan design, premiums, administrative issues, rate guarantees and enrollment. The Board felt the lower rates and broader benefits offered by Cigna represented a better value to employees.

**MR. SAGE MOVED TO AWARD THE VOLUNTARY DENTAL INSURANCE PLAN TO CIGNA. THE MOTION WAS SECONDED BY MS. TABOR.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

**ABSENT:** Ms. Smith

**MOTION PASSED**

**MS. SAND MOVED THAT DELTA DENTAL BE CONSIDERED AS THE SECOND CHOICE IF CIGNA DOES NOT COMPLY WITH NDPERS ADMINISTRATIVE REQUIREMENTS. THE MOTION WAS SECONDED BY MS. TABOR.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, and Chairman Strinden.

**Nays:** None

**ABSENT:** Ms. Smith

**MOTION PASSED**

Mr. Collins indicated that staff will meet with Cigna to go over the details of the administrative requirements and that the goal is to offer a new dental insurance package during open enrollment.

The meeting adjourned at 11:20 a.m.

Prepared by,

Cheryl Stockert  
Secretary to the NDPERS Board



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Public Employees Retirement System**  
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**Sparb Collins**  
Executive Director  
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# Memorandum

**TO:** PERS Board

**FROM:** Sparb

**DATE:** September 11, 2006

**SUBJECT:** ING

We have begun the final closeout with ING on the Life Plan. As we reported to you in the past, we have a surplus with them of about \$1,442,853 plus interest for this past year (see Attachment #1 item Exhibit B c). They have agreed to forward this amount to us.

The second item is the Claim reserve of 10% (Exhibit A. b). This amount has remained with ING over the last 15 years of our relationship and has been used by them to pay late claims that have come in after closing out any particular biennium. As we approached the end of this contract they indicated to us that they would forward to PERS the entire amount of the claims reserve if we would assume responsibility for any late claims. This would require us to sign an agreement that would provide them a "hold harmless" provision against any future liability (Attachment #2). We referred this to the AG's office. Scott Miller reviewed it and suggested a modification that would allow us to provide such a guarantee subject to our available appropriations (please note we have a continuing appropriation for these expenses). The ING legal staff reviewed this and noted that if we would not have the necessary appropriation then the liability would revert to them as proposed and stated that they could then not return the entire claims reserve since they would be maintaining some liability into the future. As an alternative they have indicated that if we did not want to assume full responsibility for any future claims and we wanted that to remain with ING, they would be willing to return half of the claims reserve to us now and retain the other half permanently. Please note that in June 2005, the last month with ING we had \$907,000,000 in coverage written.

I have asked the Insurance Department if there is any time limitation on someone filing a claim. They have indicated there is not one in statute.

I had Scott review this before he left and he indicated there were no limitations on this in the agreement and that the agreement was silent about how this was to be resolved at termination. Please note that ING was originally contracted in the late 1980's.

I have asked GBS to review this and be prepared to report to the Board on any observations or conclusions they may have. Also, Julie Krenz from the AG's office will be at the meeting to answer any questions you may have concerning the "hold harmless".

**Board Action Requested**

To determine if we should hold harmless ING from any future claims or if we should have them maintain the responsibility and retain half of the claims reserve permanently.

**North Dakota Public Employees Retirement System**  
**Group Policy No. GL-20980-5**  
**Life Summary of Experience**  
**For the Period Beginning July 1, 2004**  
**And Ending June 30, 2005**

2005

	<u>Amount</u>	<u>Percent</u>
1. Paid Premium	\$ 2,608,268.73	
2. Return to Policyholder		
a. Incurred Claims (See Exhibit A)	1,689,087.35	64.76 %
b. Current Year Surplus	878,630.88	33.69
c. Reduction of Deficit (See Exhibit B)	0.00	0.00
d. Total	2,567,718.23	98.45
3. Amount to be Retained by Insurance Company		
a. Taxes	0.00	0.00
b. Commissions	0.00	0.00
c. Interest Credits/Charges (See Exhibit C)	(82,387.36)	(3.16)
d. All Others	122,937.86	4.71
e. Total	40,550.50	1.55

Exhibit A - Incurred Claims

a. Paid Claims	\$ 1,720,569.08
b. Claim Reserve - End.	260,826.87
c. Claim Reserve - Beg.	242,243.93
d. Waiver Reserve - End.	1,858,422.81
e. Waiver Reserve - Beg.	1,947,637.48
f. Life Pool Charge	0.00
g. Life Pooled Claims	0.00
h. Conversion Charge	39,150.00
i. Incurred Claims	\$ 1,689,087.35
(a+b-c+d-e+f-g+h)	

Exhibit B - Analysis of Balance

a. Beginning Balance Carried Forward *	\$ 564,222.40
b. Current Year Surplus	878,630.88
c. Carry Forward for Final Accounting	\$ 1,442,853.28
* Due to Rate Guarantee	

Exhibit C - Interest Credits/Charges

a. Claim Reserve	\$ (6,439.31)
b. Waiver Reserve	(48,717.57)
c. Deficit/Surplus	(27,230.48)
d. Total	\$ (82,387.36)
(a+b+c)	





07/18/06

### HOLD HARMLESS AGREEMENT

This Agreement is between ING Employee Benefits, formerly ReliaStar Life Insurance Company, ("ING) and North Dakota Public Employees Retirement System ("Policyholder").

WHEREAS, ING had issued to the Policyholder Group Policy No. GL-20980-5 which terminated on July 1, 2005, ("Group Policy"); and

WHEREAS, under the policy ING may remain liable for certain claims submitted to it after the termination of the Group Policy; and payments of such claims are a matter properly applicable to the determination of the amount, if any, of a final rate refund payable to the Policyholder; and

WHEREAS, the parties wish a distribution of a final rate refund under the policy to be made.

NOW, THEREFORE, in consideration of the premises, the parties agree to the following:

1. The Policyholder represents to ING that it has made all reasonable efforts to have all claims which arose under the terms and conditions of the policy prior to its termination submitted to ING for payment.
2. The Policyholder agrees to save and hold ING harmless against ING's payment of any claims submitted under the Group Policy after the effective date of this agreement and against any expense ING may incur arising from such a claim, but in no event will the liability of the Policyholder exceed the amount of the final rate refund paid by ING to the Policyholder. ING's decision as to the payment of any claim or any other action pertaining thereto shall be final. This agreement to save and hold ING harmless is subject to the appropriation limits to which the Policyholder is subject. *SL*
3. ING will determine and pay to the Policyholder within a reasonable time after the date of execution of this Agreement any final rate refund payable under the Group Policy.

This Agreement is signed and will be effective on this 28<sup>th</sup> day of July, 2006 at Minneapolis, Minnesota.

ING EMPLOYEE BENEFITS	(Policyholder) North Dakota Public Employees Retirement System
By	By <i>Spaul Collins</i>
Its	Its <i>Executive Director</i>
By	By
Its	Its



**North Dakota  
Public Employees Retirement System**  
400 East Broadway, Suite 505 • Box 1657  
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**Sparb Collins**  
Executive Director  
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# Memorandum

**TO:** PERS Board

**FROM:** Sparb, Kathy and Bryan

**DATE:** September 12, 2006

**SUBJECT:** Group Insurance Renewal

## Background

Attached for your information is the Board memo from the August 24 meeting outlining the renewal (Attachment #1). At the last meeting we identified the following questions and actions for follow-up:

1. Provide additional information on the categories used in breaking out the renewal increase (medical inflation, technology, leverage and utilization.)
2. Review the information with the Insurance Department.
3. For the retiree group, investigate the possibility of having them be a part of a larger pool. This may mean designating a Medicare Supplement Plan as our preferred plan or some other approach.
4. Ask BCBS for more information and justification for the retention increase (administration increase, conversion & risk charge).
5. Clarify with BCBS the interest rate issue before final approval of the renewal.
6. Clarify the reprojection in Feb of 2007.
7. Update the HDHP information so the plan would be qualified.
8. Determine if PERS can audit the PBM.

Also at our planning meeting last October we talked about incorporating a quality improvement component in our plan design. I have asked BCBS to work with us during the next biennium to develop a plan design based upon quality improvement and include that as part of our renewal.

*Provide additional information on the categories used in breaking out the renewal increase (medical inflation, technology, leverage and utilization)*

In developing the total renewal amount please note that the actuary determines the medical trend based upon the claims history and other factors. Once the trend is determined, it is applied to the claims and they are projected forward. Based upon this procedure the projected claims and future premium for the upcoming period are determined. After this is completed the actuary then breaks down the trend into its components such as medical inflation, technology, etc. The following is an explanation of trend factors that I was able to get from a Segal publication:

***Medical Price Inflation***

Medical price inflation represents the increase in the price of medical services, treatments and supplies. It is similar to the consumer price index (CPI) compiled by the Bureau of Labor Statistics.

***Leveraging***

Leveraging accounts for the eroding impact that fixed deductibles and co-payments have on increasing plan cost. To illustrate the impact that leveraging has on trend; assume that a claim of \$1,000 is submitted to a plan with a \$400 deductible. For simplicity, assume that if plan coinsurance were 100 percent, the plan would pay \$600 (\$1,000 less \$400). If in the next year, the cost for the same service increased 10 percent to \$1,100, and the plan deductible remained the same, the plan would pay \$700 (\$1,100 less \$400). The claim increased 10 percent; however, the cost to the plan sponsor increased 17 percent (\$700 less \$600, divided by \$600) as a result of the leveraged effect.

***Utilization***

Utilization represents the frequency of claims incurred by a medical plan. Factors that contribute to growing utilization include increased availability of benefits (e.g., incentives to utilize managed care programs), improved access to providers, increased medical need for services with an aging population, improved detection and diagnostic methods, and increased health awareness for preventive services. For example, an aging workforce generally results in increased utilization of medical services because they require more medical attention, more expensive forms of treatment and a greater need for costly prescription medication and drug therapy programs.

***Technology Changes and their Effect on the Intensity of Care***

Technological changes include the introduction of new medical equipment, medical procedures, treatment therapies and medications. Increases in the intensity of care are often the direct result of enhancements in technology.

Concerning the above, the board heard a presentation in March relating to several examples of technology/medical inflation changes; these included the expansion in gastric bypass surgeries in the last several years and the growth in the number of sleep studies. Relating to sleep studies it was noted in the pharmacy update presentation we heard in July that one of the fastest growing categories of medications prescribed is sleeping pills.

### Review the information with Insurance Department

On September 5, 2006 we had a meeting with the Insurance Department and reviewed the BCBS renewal with them.

### Investigate the possibility of transitioning the retiree group to a Medicare Supplement Plan

BCBS provided the following information on this item.

*There are currently 5,922 Medicare eligible retirees and spouses in the PERS program. In the current carve-out program, these members pay approximately \$125 per month for their medical coverage in the 2005-2007 biennium. (The actual amount a member pays depends on the contract tier; e.g. 1 Medicare, 2 Medicare, etc. The above amount is estimated across all contract types for Medicare members only.)*

*BCBNSD's Medicare Supplement products are rated by attained age. If all 5,922 members purchased Plan F in 2006 according to their age at 7/1/06, the average monthly premium would be \$139. (This is an illustrative rate for comparison, and not an offer of coverage.)*

Based upon the above it does not appear that this would mitigate the increase. However, it may be a good idea to get the retiree group we worked with on the Medicare Part D plan together to review this possibility, the proposed rate increase and any other ideas they may have. The goal would be to have this group report its conclusions and recommendations to the board in December.

### Information on the retention increase

At the last meeting we reviewed the retention proposal of BCBS. It was requested that we provide a history. Attachment 2 is that history. In addition we requested that BCBS provide additional information relative to the proposed increase. The following is the information from BCBS relating to their retention increase:

*The NDPERS 2007-2009 biennium renewal rating included the following increases for per contract per month retention charges:*

<i>Retention Item</i>	<i>Current</i>	<i>Renewal</i>	<i>Increase</i>
<i>General Administration:</i>	<i>\$20.81</i>	<i>\$23.00</i>	<i>\$ 2.19</i>
<i>Conversion Feature:</i>	<i>\$ 1.03</i>	<i>\$ 1.14</i>	<i>\$ 0.11</i>
<i>Risk Charge:</i>	<i>\$ 5.14</i>	<i>\$ 5.76</i>	<i>\$ 0.62</i>
<i>Total Retention:</i>	<i>\$26.98</i>	<i>\$29.90</i>	<i>\$ 2.92</i>

*In total, the retention charge per contract per month will increase by \$2.92, or 10.82%. As both current and renewal rates are quoted for 24-month bienniums, this is the equivalent of two annual 5.27% increases.*

*The General Administration component increases by \$2.19 or 10.52%. This equates to 5.13% when annualized. The renewal rate of \$23.00 represents 4.00% of the total renewal premium. In our experience, administrative expenses for health insurance products typically increase at a greater pace than other general inflation indexes such as the CPI. This is true for the entire industry, and reflects the increasing complexities of health insurance products.*

*We are confident that both in terms of absolute dollars (\$23.00 pcpm) and as percent of premium (4.00%), our quoted rate will compare favorably to the rates being charged for similar benefit programs. We also note that this rate is all inclusive, with no additional "a la carte" fees for miscellaneous items. Information from BCBSND's year-end financial statements: during the five-year period from 2001 to 2005 BCBSND's gross income per member increased by 10.2% annually.*

*Although administrative expenses per member as a percentage of gross income decreased from 8.1% to 7.1% in the same period of time, the dollar amount of administrative expenses pmpm increased by 6.6% annually. This 6.6% increase was a slower rate than the increase in claims costs and premium, but nonetheless greater than general inflation during the period.*

*For comparison, BCBSND's administrative expenses for other fully insured group business have ranged from 9.9% to 8.7% in the most recent three years.*

*The remaining two retention items, the conversion feature charge and the risk charge, are set at 0.20% and 1.00% of premium respectively. These percents of premium are consistent with recent bienniums and our bid in 2004.*

### **Attachment 3 is the information from GBS**

### **Concerning the conversion charge BCBS indicated the following:**

*The conversion feature is required by North Dakota statute for all insured group medical coverage sold in the state. This feature allows members of group insurance programs to convert, without being required to qualify through underwriting, to individual health insurance coverage in certain situations. BCBSND has two conversion products that are age rated, with monthly premiums currently ranging from \$269.20 to \$491.10 for single coverage and \$726.60 to \$1,135.70 for family coverage. These premium rates cover approximately 60% of the underlying costs for this coverage, the remainder being subsidized through fees charged to insured group business.*

*The NDPERS premium for the 2007-2009 biennium contains a conversion feature charge of 0.2% of premium (\$1.14 per contract per month.) BCBSND's commercial group fully insured products are charged 1.0% of premium.*

Clarify with BCBS the interest rate issue before final approval of the renewal

Staff has proposed to BCBS that we get the same rate they do. BCBS is continuing to review this issue

Clarify the reprojection in Feb of 2007

BCBS has agreed to do this again in the same manner as it has in the previous bienniums.

Update the HDHP information so the plan would be qualified

The following is the information from BCBS relating to a qualified HDHP option.

*The HDHP product previously illustrated at \$589.54 per contract per month featured \$1,500/single deductible and \$4,500/family embedded deductible. When converted to a comprehensive \$4,500 family deductible this illustrative rate would reduce to \$588.36 per contract per month.*

*For comparison, an HDHP product with \$1,200/single deductible and \$2,400/family comprehensive deductible, and 80% coinsurance up to maximums of \$1,000/single and \$2,000/family would be rated for illustration at \$620.60 per contract per month.*

Determine if PERS can audit the PBM

BCBS is continuing to review this issue

Quality Initiative

We discussed pursuing this at our planning meeting last October. As noted earlier I used that and several other topics in my presentation to the BCBS board in August. You may have also noted that several of the articles I sent for the week of August 28 indicated that Aetna and BCBS of Massachusetts are developing such programs. Another article for that same week discussed a study from Watson Wyatt that stated that "Companies doing the best job at restraining health care costs focus on quality care for their employees, not on simply finding the lowest-cost providers". In light of the board's consideration

of this, I requested that BCBS, as part of this renewal, commit to assisting the board in considering the development of such an initiative for PERS like we did for the EPO and PPO. BCBS is continuing to review this issue.

### **Conclusions and Recommendations**

As noted above several items continue to be under review by BCBS. Staff would suggest deferring the decision on the renewal until October when the additional information can be provided and reviewed. In the interim we should forward the proposed renewal amount to OMB as required by the end of September.



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# Memorandum

**TO:** PERS Board

**FROM:** Sparb, Kathy and Bryan

**DATE:** August 23, 2006

**SUBJECT:** Health Plan Renewal

This memo will provide you information on the following:

- Background on the renewal process
- The BCBS renewal for the existing plan design
- The BCBS estimated premiums for the alternate plan designs
- Recommendations on the next steps

The goal of the August 24<sup>th</sup> meeting will be to review the proposed renewal and identify follow-up items. We will have our final consideration of the renewal at the September 14<sup>th</sup> Board meeting

## **Background on the Renewal Process**

The PERS Board began its preparation for the renewal several months ago when it arranged a series of background presentations from BCBS and others that included:

- Pharmacy Network Update – January 2006
- Employer Based Wellness Program Update – April 2006
- Worksite Wellness Pilot Program – April 2006
- Medical Management Update – May 2006

- Actuarial Update – May 2006
- Health Dialog Update – June 2006
- Clinical Pharmacy Update – July 2006

At the June meeting the Board heard the report from the PERS Benefits Committee that had met on May 16 and 30 to discuss the PERS plan design and scope of benefits. The committee had suggested the PERS Board seek renewal on the existing plan design and the following alternate designs:

**Alt #1** – Deductible = EPO-250, PPO-500, BASIC-750, BRAND DRUGS COPAY-\$20

- a. COPAYMENTS = EPO-\$20, PPO-\$25, BASIC-\$30
- b. COPAYMENTS = EPO-\$25, PPO-\$30, BASIC-\$35

**Alt #1A** - same as the above except have basic at 500 instead of 750

**Alt #2** – Deductible = EPO-500, PPO-1000, BASIC-1500, BRAND DRUGS COPAY-\$20

- c. COPAYMENTS = EPO-\$20, PPO-\$25, BASIC-\$30
- d. COPAYMENTS = EPO-\$25, PPO-\$30, BASIC-\$35

**Alt #2A** – same as the above except have basic at 1000 instead of 1500

**Alt #3** – Traditional Plan Design with a HDHP option with an employer contribution to an HSA/HRA with \$1500 deductible with 80/20 coinsurance with \$2500 max for a total OOP of \$4000. A Contract holder elects the plan they want to participate in every two years.

**Alt #4** – A HDHP with an employer contribution of 50% of the deductible to an HSA/HRA with a \$1500 deductible with 80/20 coinsurance with \$2500 max for a total OOP of \$4000.

The Board accepted this recommendation and directed staff to forward it on to BCBS to begin the renewal process (Attachment #1 is the plan designs for Alt #1 and #2 in table form).

## The BCBS renewal for the existing plan design

### Rate renewal

As we discuss the renewal the following exhibits will assume that the rates for next biennium will include the same services and programs as this biennium. This means that costs for the following will be included:

- Health Dialog (except it will be spread only to active contract)
- Pilot Wellness program (same as the above)
- Wellness Benefit program (same as the above)
- PERS Administration costs (with no change)
- No buydown amount will be applied (what is available is allocated to the IT project)

During the last year staff supplied the Board and other groups with the following information relating to the 2007- 2009 renewal:

### Active State Renewal Rate

NDPERS 2005-2007 Allocation and 2007-2009 Projection	NDPERS 2007-2009 Planning Projections			
	5% Trend	7.5% Trend	10% Trend	13% Trend
2001-2003 reserve option rate	\$409.09	\$409.09	\$409.09	\$409.09
2003-2005 reserve option rate	\$499.70	\$499.70	\$499.70	\$499.70
2005-2007 BCBS full rate	\$578.46	\$578.46	\$578.46	\$578.46
2005-2007 reserve option rate	\$653.94	\$653.94	\$653.94	\$653.94
2005-2007 % increase	13.2%	13.3%	13.3%	13.3%
Expected 2007-2009 BCBS rate	\$637.75	\$688.40	\$899.84	\$738.64
Expected available surplus in 2007-2009 \$0 million	\$0	\$0	\$0	\$0
Expected 2007-2009 buy down rate	\$637.75	\$688.40	\$899.84	\$738.64
2007-2009 \$ increase	\$83.81	\$114.51	\$148.80	\$184.70
2007-2009 % increase	15.1%	20.7%	28.4%	33.3%
Total additional funds*	\$15,833,000	\$21,843,800	\$27,587,000	\$34,899,000
Total additional general funds**	\$7,282,000	\$9,958,000	\$12,690,000	\$16,054,000

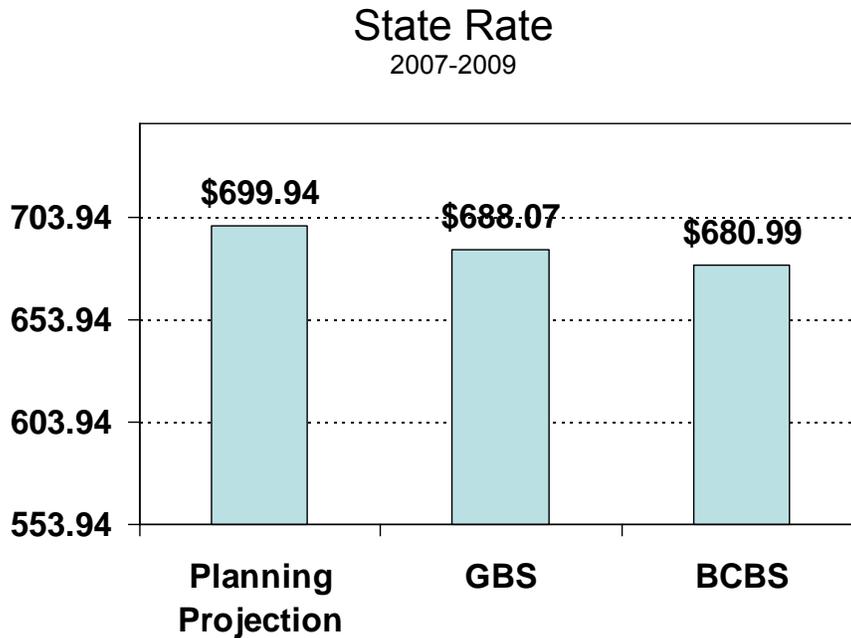
\* - For biennium assuming 7.8% FTE's (includes HE.)

\*\* - Assumed to be 43% of total funds

Staff has noted that the trend line was approximately 10%.

As part of the renewal we also ask our consultant to review the renewal amount. Attachment #2 is their review and comments.

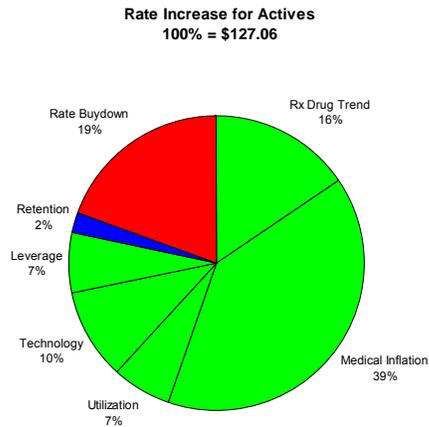
The following table shows the BCBS renewal amount and the estimated renewal by GBS with both compared to the planning projections:



The above shows that the BCBS proposed rate is:

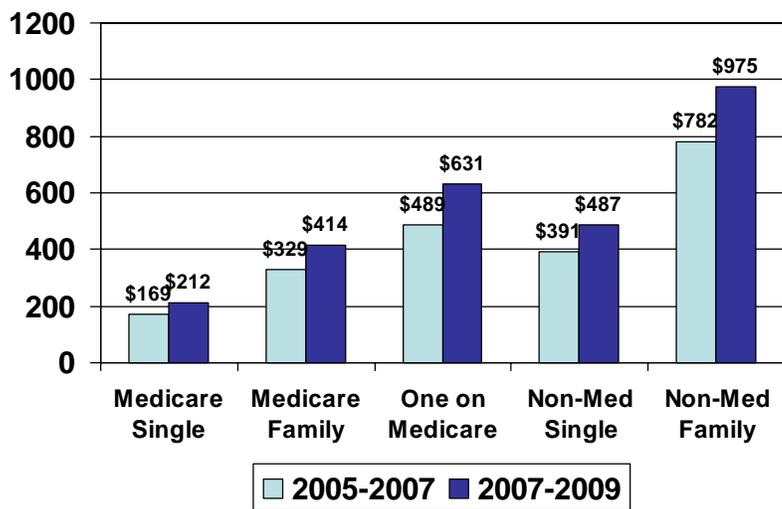
- Less than the planning projection
- Less than the GBS estimate

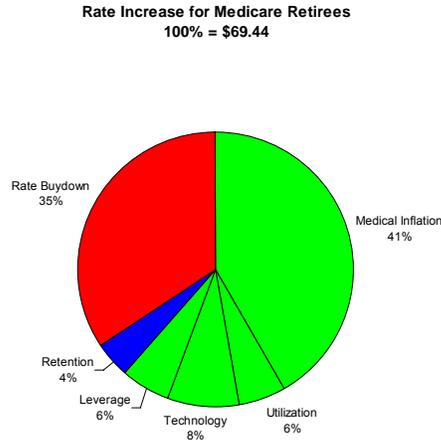
The following pie chart breaks down the estimated increase into its component costs:



The following table shows the proposed increases in the retiree rates.

## NDPERS Retiree Rates





Please note the above retiree rates are for the medical only portion of the premium. The Rx portion of the coverage will be reviewed separately in September and will take effect on January 1<sup>st</sup>.

### Other renewal consideration

The following are additional considerations relating the renewal:

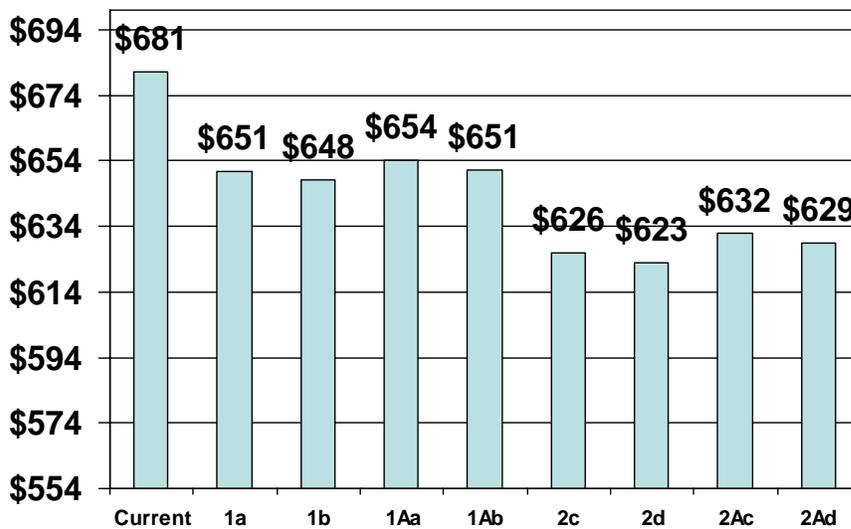
1. Continuation of the Health Dialog Program – the cost of continuing this program will rise from \$2.98 per contract to \$3.30 per contract. Also as noted above we have included this in the above renewal amounts and changed the prorating amount to active contracts only instead of all contracts.
2. Retention levels will increase
  - a. • From \$20.81 to \$23.00 per contract per month administrative expense
  - b. • From \$1.03 to \$1.14 per contract per month conversion privilege fee (0.20% of premium)
  - c. • From \$5.14 to \$5.76 per contract per month risk charge (1.00% of premium)
3. Continuation of the Worksite Wellness Program for its third year as originally proposed and approved.
4. Selection of Rate used for Interest Credit
  - a. • Currently using average US Treasury yields as quoted in Wall Street Journal for 5 year notes maturing 62 months from valuation.
  - b. • Propose using average US Treasury yields for notes maturing 12 months from valuation, or other mutually acceptable yield index/rate.

5. Agreement to reproject premiums in February of 2007 and if they merit a reduction to pass that along.
6. Premium Differential for Political Subdivisions using the EPO only option
  - a. Current rate differential of 7.0% has been in place several biennium's.
  - b. • Propose reducing to 5.0% to reflect benefit level and provider reimbursement in EPO.

**The BCBS estimated premiums for the alternate plan designs**

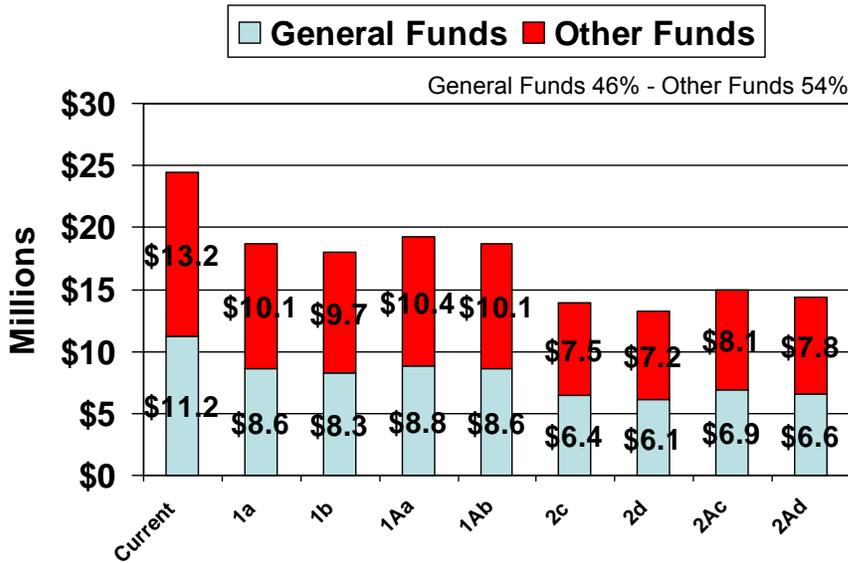
The following table shows the BCBS premium for the alternate plan designs discussed above compared to the existing plan designs:

**NDPERS State Active Rates 07-09**



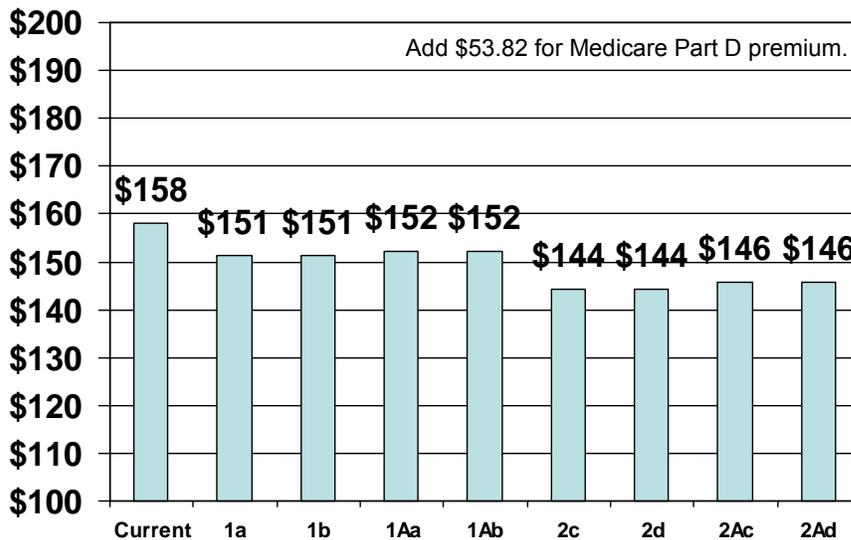
The following table shows the additional state funding required to support the current plan and the above alternates

## NDPERS State Increase 07-09



The following table shows the effect on the of premium increase on the retiree plan designs:

## NDPERS Medicare Single Rates 07-09



In addition to the above BCBS provided the following information relating to the HDHP option requested:

**Product Description:** High Deductible Health Plan with \$1,500 CYD single and \$4,500 family (embedded) deductible; 80%/20% coinsurance with \$2,500 maximum per single and \$5,000 maximum per family; deductibles and coinsurance apply to all services including Rx drugs. (Note that HDHP as described and rated above may not qualify members for HSA according to IRS regulation regarding individual and family deductible levels. Adjustments to benefit design necessary for qualification will require corresponding adjustment to rates).

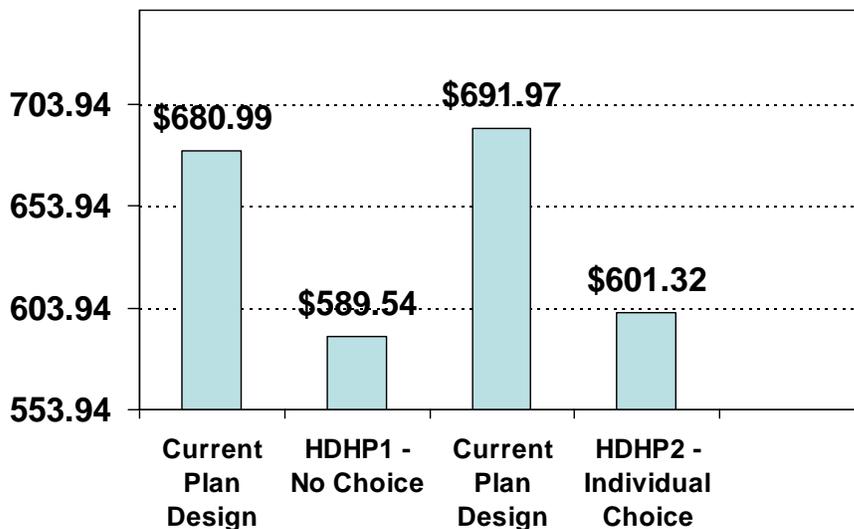
• **"No Individual Choice Scenario"**

- Election to participate in HDHP made at the group/employer level for all employees. No individual election by employees allowed. Election may not be changed for two years.
- Renewal rate for current PERS benefit design (net of \$2.80 PERS fee): \$673.76 composite pcpm (PPO/EPO, single/family). Rate for HDHP product as described above: \$589.54 composite pcpm (single/family).
- BCBSND will not offer HDHP when rated compositely with PPO/EPO.
- "Cost neutral" annual employer contribution to HSA (equal to premium differential): \$483.09 per single, \$1,175.10 per family.

• **"Individual Choice Scenario"**

- Election to participate in HDHP made by the individual. Election may not be changed for two years.
- Risk charge of 2.0% added to all premium rates (both PPO/EPO and HDHP).
- Renewal rate for current PERS benefit design (net of \$2.80 PERS fee): \$687.24 composite pcpm (PPO/EPO, single/family). Rate for HDHP product as described above: \$601.32 composite pcpm (single/family).
- BCBSND will not offer HDHP when rated compositely with PPO/EPO.
- With no employer contribution will require 15.7% participation in HDHP for employer to break even.
- With annual employer contribution of \$492.75 per single and \$1,198.60 will cost employer 2.0% additional premium relative to base scenario.

**State Rate HDHP**  
2007-2009



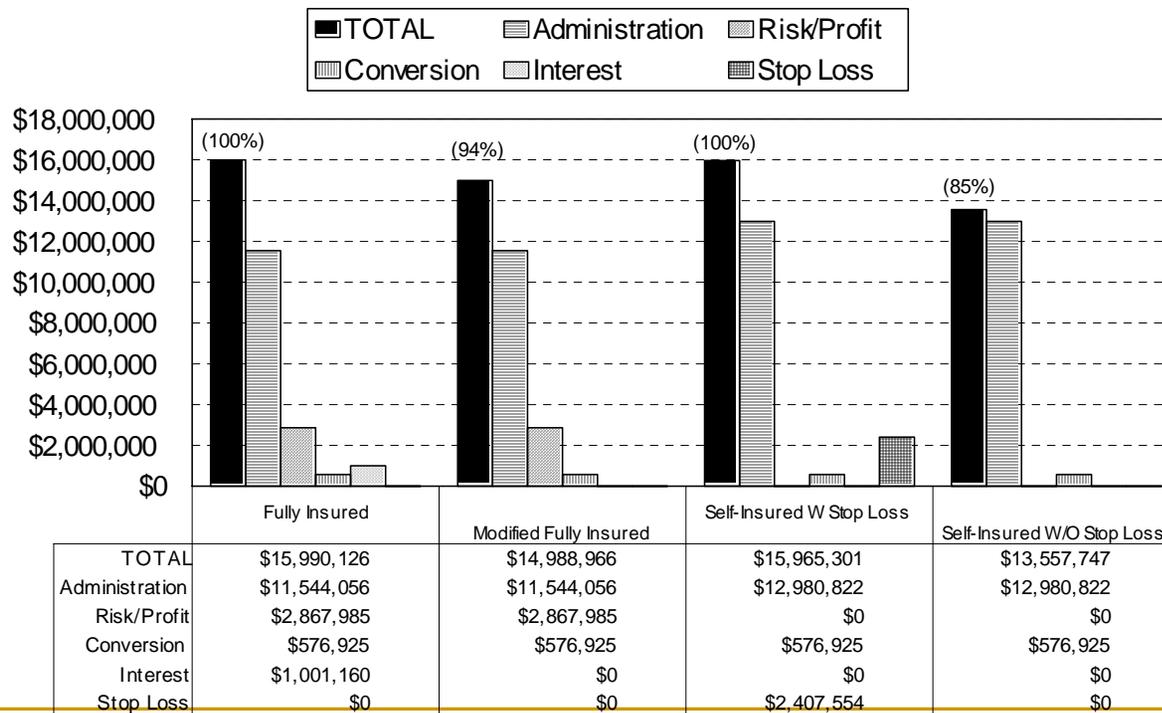
### **Suggested follow-up items**

- Review the information with Insurance Department
- For the retiree group we should investigate the possibility to having them be a part of a larger pool. This may mean designating a Medicare Supplement Plan as our preferred plan or other approach.
- Ask BCBS for more information and justification for the retention increase
- To get clarified with BCBS the interest rate issue before final approval of the renewal
- To clarify the reprojection in Feb of 2007.
- To share the renewal information with OMB and other appropriate groups.

# 2005-2007 Bid

## NDPERS Health Plan

### BCBS FEES



# ATTACHMENT #3

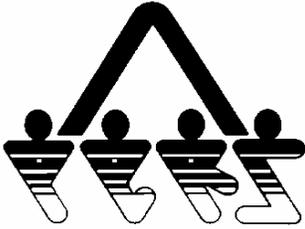
**North Dakota PERS  
Retention Survey  
September 5, 2006**

	North Dakota PERS	GBS Average	State University	Public School	Public School	State Plan	Municipality	State Plan	State Plan	State Plan	State *	State *
			Colorado	New Mexico	New Mexico	Wyoming	Idaho	New Mexico	New Mexico	New Mexico	Colorado	Colorado
Type of Coverage	Fully Insured	Mixed	ASO	ASO	ASO	ASO	ASO	ASO	ASO	ASO	Fully Insured	Fully Insured
Total Retention/Admin Fee PEPM	\$29.90	\$37.90	\$41.92	\$30.96	\$30.61	\$12.92	\$31.78	\$26.83	\$32.25	\$32.03	\$86.76	\$52.91
<b><u>Percentage of Premium</u></b>												
Administrative Fee	4.0%	8.2%	7.8%	5.2%	5.1%	2.1%	6.1%	4.1%	4.3%	5.5%	23.6%	17.7%
Medical Conversion fees	0.2%	N/A	Included	Unknown	Unknown	Per Incident	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Risk Charge	1.0%	N/A	N/A	N/A	N/A	Per Incident	N/A	N/A	N/A	N/A	Unknown	Unknown

\* Unable to split out wellness from retention.

NOTE: Five of the above surveyed are currently with a Blue Cross Blue Shield plan.

ASO – is a self insured plan. Not included in their costs would be the cost for stop loss insurance, pharmacy benefit manager (if it is separate), UR firms (if separate), etc.



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# Memorandum

**TO:** PERS Board

**FROM:** Sparb

**DATE:** September 11, 2006

**SUBJECT:** Medicare Part D Renewal

Attached for your review is the Part D renewal for the Medicare Rx program for January 1, 2006 from BCBS. Representatives of BCBS will be at the meeting to go over the renewal.



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M E M O R A N D U M

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

**FROM:** *BAR*  
BRYAN T. REINHARDT

**DATE:** August 29, 2006

**SUBJECT:** GROUP MEDICAL PLAN - SURPLUS/AFFORDABILITY UPDATE

Here is the July surplus projection and affordability analysis for the NDPERS group medical plan. The plan made it through the 2003-2005 biennium and is half ways through 2005-2007.

Net premium sent to BCBS in July 2005 was \$10,853,370. For comparison, net premium sent to BCBS in June 2005 was \$9,821,731. 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. There are now 23,951 contracts.

The projection for the 2003 - 2005 biennium shows an ending balance of \$15.6 million. The cash settlement back to NDPERS should be around \$1.3 million. The \$14.3 million deposit date for the 05-07 biennium was July 1, 2006. These amounts are at BCBS and receiving interest.

The early projection for the 2005 - 2007 biennium shows a June 30, 2007 ending balance of only \$1.0 million. Note that this is a very early estimate and likely to change. Since we share 50/50 in the first \$3.0 million surplus with BCBS, future growth will be difficult.

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

# NDPERS - ESTIMATED SURPLUS PROJECTION: 2005-2007 BIENNIUM

July, 2006

The following exhibit summarizes the estimated surplus for the NDPERS group medical plan at the end of the 2005-2007 biennium. The estimate has been updated to include account activity through July, 2006.

1) Preliminary Underwriting Gain for the 2005-2007 Biennium	(\$15,357,400)
2) Cash Balance Interest Accumulation	\$765,516
3) Estimated Underwriting Gain for the 2005-2007 Biennium	(\$14,591,884)
5) Refunds and Settlements	
07/05/05 Perform Rebate (Included as claim rebates)	\$418,453
10/04/05 Perform Rebate (Included as claim rebates)	\$425,316
12/01/05 Perform Rebate (Included as claim rebates)	\$8,716
01/01/06 Perform Rebate (Included as claim rebates)	\$350,907
03/01/06 Perform Rebate (Included as claim rebates)	\$15,236
04/01/06 Perform Rebate (Included as claim rebates)	\$384,639
07/04/06 Perform Rebate (Included as claim rebates)	\$280,399
10/01/06 Perform Rebate	\$400,000
01/01/07 Perform Rebate	\$400,000
04/01/07 Perform Rebate	\$400,000
EPO Settlement Payments 7/05 - 6/06 (Included as rebates & paid)	\$0
EPO Settlement Payments 7/06 - 6/07 (Included as rebates & paid)	\$0
6) Cash Reserve Account Balance	\$15,666,912
2003-2005 Settlement Cash Out:	(\$1,311,266)
Future Interest:	\$702,531
<b>Total</b>	<b>\$15,058,177</b>
7) Total Estimated Surplus Held by BCBS	\$1,946,692
8) BCBS Portion of Surplus (50% upto \$1,500,000)	\$973,346
9) PERS Portion of Surplus Held by BCBS	\$973,346
10) NDPERS Wellness Accounts	
My Health Connection	\$165,289
Employer Based Wellness	\$42,657
Wellness Benefit Program	\$16,644
SubTotal	\$224,591
<b>Total Adjusted for Usage</b>	<b>\$0</b>
11) Total Estimated Funds Available to PERS on June 30, 2007	\$973,346

NDPERS - Projected Underwritten Experience for the 2005-2007 Biennium  
 July, 2006

MONTH	NET PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE \$26.98/CON	NET PREMIUM	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS (1)	ESTIMATED GAIN / LOSS
Jul-05	\$11,491,070	(\$2,387)	\$11,488,683	\$637,699	\$10,850,984	\$10,905,310	\$0	\$10,905,310	(\$54,326)
Aug-05	\$11,486,984	\$0	\$11,486,984	\$635,676	\$10,851,308	\$10,760,874	\$0	\$10,760,874	\$90,434
Sep-05	\$11,592,130	\$0	\$11,592,130	\$641,396	\$10,950,735	\$9,674,642	\$0	\$9,674,642	\$1,276,093
Oct-05	\$11,564,639	(\$995)	\$11,563,644	\$640,748	\$10,922,896	\$9,810,655	\$0	\$9,810,655	\$1,112,241
Nov-05	\$11,565,139	\$1,417	\$11,566,556	\$640,478	\$10,926,078	\$11,293,194	\$0	\$11,293,194	(\$367,116)
Dec-05	\$11,575,731	\$7,675	\$11,583,406	\$640,829	\$10,942,577	\$11,775,559	\$104,000	\$11,879,559	(\$936,982)
Jan-06	\$11,053,969	\$332	\$11,054,300	\$644,606	\$10,409,694	\$9,880,402	\$159,000	\$10,039,402	\$370,292
Feb-06	\$11,053,628	\$0	\$11,053,628	\$645,308	\$10,408,320	\$9,971,772	\$258,000	\$10,229,772	\$178,548
Mar-06	\$11,049,994	(\$26,775)	\$11,023,218	\$645,146	\$10,378,073	\$11,590,632	\$564,000	\$12,154,632	(\$1,776,559)
Apr-06	\$11,066,004	(\$36,321)	\$11,029,683	\$645,820	\$10,383,862	\$9,891,986	\$785,000	\$10,676,986	(\$293,124)
May-06	\$11,064,390	\$3,501	\$11,067,891	\$646,198	\$10,421,693	\$10,439,187	\$1,399,000	\$11,838,187	(\$1,416,494)
Jun-06	\$11,076,821	\$0	\$11,076,821	\$647,385	\$10,429,436	\$7,997,831	\$3,480,000	\$11,477,831	(\$1,048,395)
Jul-06	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$1,958,436	\$9,251,000	\$11,209,436	(\$799,373)
Aug-06	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,094,896	(\$684,833)
Sep-06	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,170,522	(\$760,460)
Oct-06	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,246,149	(\$836,086)
Nov-06	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,321,776	(\$911,713)
Dec-06	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,397,403	(\$987,340)
Jan-07	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,473,029	(\$1,062,967)
Feb-07	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,548,656	(\$1,138,593)
Mar-07	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,624,283	(\$1,214,220)
Apr-07	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,699,910	(\$1,289,847)
May-07	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,775,536	(\$1,365,474)
Jun-07	\$11,056,557	\$0	\$11,056,557	\$646,495	\$10,410,063	\$0	\$0	\$11,851,163	(\$1,441,100)
BIENNIAL TOTAL	\$268,319,186	(\$53,554)	\$268,265,632	\$15,469,226	\$252,796,406	\$125,950,480	\$16,000,000	\$268,153,803	(\$15,357,397)

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



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# Memorandum

**TO:** PERS Board

**FROM:** Rebecca

**DATE:** September 11, 2006

**SUBJECT:** Defined Contribution Vesting Schedule

Recently NDPERS was contacted by Fidelity Investments to review an audit of members that participate in the Defined Contribution plan to ensure that the participants are vesting correctly in the employer contribution. Upon review of their report, it was found that Fidelity has 1 participant vesting at 100%, even though they have less than 2 years of service. Fidelity was contacted to review their system. The response from Fidelity was that they had the individual vested at this level due to the age of the participant as she is 66 years old. Their system allows individuals to become 100% vested upon achieving age 65, regardless of their years of service. Fidelity requested NDPERS staff review and notify them if they need to change this provision on their system.

Upon reviewing NDCC 54-52.6-10 and the Plan Document, it appears that vesting in this plan is only based on years of service credit and is not based on the age of the participant. This issue was sent to the Attorney General's Office for review and they have verified that the NDCC does not give the plan authority to vest in a manner other than based on years of service (Attachment 1).

At this time, staff requests that the Board provide direction on if they would like legislation submitted to allow individuals to vest in the employer contribution based on both years of service credit and age. This would allow participants to vest in the Defined Contribution plan in a similar manner to those individuals who participate in the Defined Benefit plan. Participants of the Defined Benefit plan vest upon 36 months of service credit or upon obtaining age 65 while actively employed. You may recall that when the Defined Contribution plan was implemented, the plan was to "mirror" benefits of the Defined Benefit plan.

**Board Action Requested:**

Determine if staff should prepare legislation to revise the NDCC 54-52.6-10 to include 100% vesting in the employer contribution based on obtaining age 65.

**From:** Dschaak, Sharmain L.  
**Sent:** Tuesday, September 12, 2006 7:45 AM  
**To:** Stockert, Cheryl L.  
**Subject:** FW: Defined Contribution Vesting

**Attachments:** Krenz, Julie A..vcf

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**From:** Krenz, Julie A.  
**Sent:** Wednesday, August 16, 2006 5:02 PM  
**To:** Fricke, Rebecca D.  
**Cc:** Collins, J. Sparb  
**Subject:** RE: Defined Contribution Vesting

Rebecca, I agree with your assessment. 54-52.6-10 specifies that a participating member vests in the employer contributions according to the following schedule:

1. Upon completion of two years of service, fifty percent.
2. Upon completion of three years of service, seventy-five percent.
3. Upon completion of four years of service, one hundred percent.

Vesting is not based on age, but on years of service. Which statute addresses employee vesting in employer contributions for the defined benefit plan?

Julie Krenz  
Assistant Attorney General  
State Capitol  
600 E. Blvd. Ave. Dept 125  
Bismarck, ND 58505-0040  
701 328 4943  
701 328 2226 fax  
[jkrenz@nd.gov](mailto:jkrenz@nd.gov)



Krenz, Julie A..vcf  
(4 KB)

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**From:** Fricke, Rebecca D.  
**Sent:** Friday, August 11, 2006 8:51 AM  
**To:** Krenz, Julie A.  
**Cc:** Collins, J. Sparb  
**Subject:** Defined Contribution Vesting

Hello Julie. We have had a question arise from our Trust Company for the Defined Contribution Plan (DC Plan). We need to have the vesting schedule for the Defined Contribution Plan reviewed as the Trust Company currently allows individuals who attain age 65 while actively employed to become 100% vested in the employer contribution, regardless of their service credit. Upon review of the statute, I am not certain if this should be applied (if there is the authority) and am seeking legal input. In reviewing it with Sparb, he has asked that I have it reviewed so that we can take it to the PERS board. We would like to take it to the board at their August 29<sup>th</sup>

meeting to discuss if they want to pursue adding language to the law to address this issue. Therefore, I would need to have a response by August 21.

A little background on the issue:

- 1) 54-52.6-10
- 2) The vesting schedule that appears in the Plan Document for the plan is identical to 54-52.6-10
- 3) Also, when the DC plan was implemented, the plan was to “mirror” benefits of the main system, Defined Benefit Plan. The Defined Benefit Plan does allow for immediate vesting upon attaining age 65, regardless of years of service credit.

If you have any questions, please call me at 328-3978.

Rebecca Fricke  
Employee Benefit Programs Specialist



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# Memorandum

**TO:** PERS Board

**FROM:** Sparb, Kathy, Sharmain and Rebecca

**DATE:** September 11, 2006

**SUBJECT:** Federal Pension Legislation

On August 17, 2006 President Bush signed the Pension Protection Act of 2006. While most of the legislation relates to ERISA plans, there are some significant provisions relating to public sector plans. Attached is a matrix that shows the changes affecting public sector plans as described in a recent newsletter from Segal. On the right-hand side is staff's first assessment of the implications for NDPERS and recommended actions developed to date. In October or November we will have Segal give you an update directly.

At this time we note only one item that we believe could require legislative action immediately. Specifically this is item #3 on the first page. The federal change appears to have expanded the purchase opportunities to employees that are no longer active. We are suggesting that we develop wording to include in one of the bill drafts this session to address this issue so the purchase opportunities are not expanded.

## **Board Action Requested**

To develop legislative amendments to maintain the existing purchase opportunities.

<b>Pension Act of 2006 – Changes Affecting Public Sector Plans</b>	<b>Implications for NDPERS and Recommended Actions</b>
<p data-bbox="197 337 919 422"><b>Clarifications Regarding Purchase of Permissive Service Credit</b></p> <p data-bbox="197 441 1066 526">PPA '06 makes changes, effective immediately, to the IRC Section §415(n) rules for permissive service credit:</p> <ul data-bbox="197 565 1054 1315" style="list-style-type: none"> <li data-bbox="197 565 1054 649">➤ Permits purchasing enhanced benefits for a period of service already credited under the plan,</li> <li data-bbox="197 688 1054 812">➤ Allows participants to purchase credit for periods regardless of whether service is actually performed, subject to limits on nonqualified service (“air time”),</li> <li data-bbox="197 850 1054 935">➤ Amends the rules to apply to “participants” rather than “employees,”</li> <li data-bbox="197 974 1054 1149">➤ Clarifies that service purchased via trustee-to-trustee transfer from a §403(b) or §457 plan to a public sector defined benefit plan is not subject to the limits on nonqualified service,<sup>2</sup> and</li> <li data-bbox="197 1188 1054 1315">➤ Provides that such transfers to purchase service may be made between plans of different employers, including employers in different states.</li> </ul>	<p data-bbox="1104 376 1268 412"><u><i>Implications</i></u></p> <p data-bbox="1104 451 1625 487">The first bullet would require legislation.</p> <p data-bbox="1104 526 1755 561">The 2<sup>nd</sup> bullet does not change our current practice.</p> <p data-bbox="1104 600 1881 850">The 3<sup>rd</sup> bullet does impact NDPERS. Previous Federal law limits the purchasing option to active contributing members. This new provision opens the purchase provision to deferred members. This would impact the purchase factors used to ensure the correct actuarial value is being charged so there is no adverse selection to the fund. In theory, each deferred member calculation may need to be preformed by an actuary.</p> <p data-bbox="1104 889 1864 925">The 4<sup>th</sup> bullet &amp; 5<sup>th</sup> bullet clarify current NDPERS practice.</p> <p data-bbox="1104 964 1402 1000"><u><i>Recommended Actions</i></u></p> <p data-bbox="1104 1006 1860 1110">Continue to limit the purchase option to active contributing members only. NDPERS would have to modify our law to clarify the definition of “member” VS “employee”.</p>

## **New Distributions to Public Safety Employees Permitted**

PPA '06 makes two important changes regarding plan distributions to public safety employees:

- Retired public safety officers<sup>3</sup> may elect to direct up to \$3,000 of their retirement income, tax-free, to pay health or long-term care insurance premiums. The distribution must be from a §401(a), §403(b) or §457 retirement plan. Premiums must be paid directly to an insurer (and cannot be paid to retired officers as reimbursement for premiums). This provision applies only to individuals who separate from service as a public safety officer due to disability or attainment of normal retirement age and is effective for distributions made after December 31, 2006. This provision raises numerous administrative issues that must be addressed. For example, it is unclear whether or not public safety officers who retire before normal retirement age would be eligible for the income tax exclusion for insurance premium amounts.
- Public safety employees<sup>4</sup> who separate from service after age 50 (instead of the current age 55) will not be subject to a 10 percent early withdrawal penalty, effective immediately. This change is particularly beneficial for public safety employees participating in Deferred Retirement Option Plans (DROPs).

## **Implications**

NDPERS currently does not have the ability to determine which members are public safety officers (ie not all employers and/or employee enroll in the law enforcement plan). Programming changes to our current system would be required to allow correct tax reporting.

## **Recommended Actions**

Wait until administrative issues can be reviewed. Possibly consider adopting change with implementation of new business system.

### **Changes to Existing Distribution Rules**

PPA '06 changes the following distribution rules:

- The Treasury Department is directed to issue regulations treating public sector plans as complying with minimum distribution requirements under IRC §401(a)(9), effective for all years such rules apply, if plans comply with a reasonable, good-faith interpretation of statutory requirements.<sup>5</sup>
- IRC §401(a) retirement plans are permitted to make distributions to employees who have attained age 62, but have not separated from employment, effective for distributions made after December 31, 2006.
- Reservists called to active duty for at least 180 days during the period from September 11, 2001 to December 31, 2007 will be exempt from the 10 percent early withdrawal penalty on certain retirement distributions. The distribution may be repaid to the plan within two years of end of the active duty period without regard to contribution limits.
- Hardship distributions would be permitted due to hardship or unforeseeable emergency of a participant's beneficiary.

### **Implications**

First bullet – NDPERS is already complying.

Second bullet – requires statutory change.

Third bullet – does not require action from NDPERS. Reservist would be responsible for notifying IRS when reporting taxes for distribution.

Fourth bullet – Melanie from Segal will prepare additional information for the board to review in the near future.

### **Recommended Actions**

<p><b>EGTRRA Provisions Made Permanent</b></p> <p>PPA'06 makes permanent the Economic Growth and Tax Relief Reconciliation Act of 2004 (EGTRRA) provisions applicable to pensions and individual retirement accounts (IRAs), including the saver's credit.<sup>6</sup></p>	<p><b><u>Implications</u></b></p> <p>No change necessary.</p> <p><b><u>Recommended Actions</u></b></p>
<p>PPA'06 also makes the following notable changes that may affect public sector retirement plans:</p> <ul style="list-style-type: none"> <li>➤ Public sector plans with automatic enrollment may refund the contributions if the employee opts out within 90 days of the date of the first elective contribution, without penalty, beginning in 2008.<sup>7</sup></li> <li>➤ Governmental plans will now include a pension plan of an Indian tribal government for employees performing essential governmental functions, but not commercial activities.</li> <li>➤ Qualified Domestic Relations Orders (QDRO) must be honored by ERISA plans regardless of the date the order was issued. Regulations will detail these requirements, which are not directly applicable to governmental plans but may be of interest.</li> </ul>	<p><b><u>Implications</u></b></p> <p>We are currently proposing a bill to allow for automatic enrollment of employees on a prospective basis. This provision mitigates the issues regarding the ability of any employee to discontinue participation under such an arrangement and further allows them the opportunity to cash out any contributions.</p> <p><b><u>Recommended Actions</u></b></p> <p>Provide this information to interim committee for consideration in moving the proposed legislative bill forward.</p>

## **New Rollover Rules**

PPA'06 makes several changes to the IRC rollover rules:

- After-tax contributions can be rolled over from a §401(a) plan to a §403(b) plan, effective for distributions made after December 31, 2006. Under prior law, after-tax contributions could only be rolled over from a §401(a) plan to a §401(a) plan or from a §403(b) plan to another §403(b) plan.
- Eligible rollover distributions from §401(a), §403(b) and §457 plans can be rolled into Roth IRAs. These distributions will be subject to the same rules as rollovers between traditional IRAs and Roth IRAs, including inclusion of income of distribution amount at time of rollover, except the 10 percent early withdrawal penalty would not apply. Effective for distributions made after December 31, 2007.
- Non-spouse beneficiaries are permitted to rollover distributions from eligible retirement plans (as defined in IRC §402) into IRAs, effective for distributions made after December 31, 2006.

## **Implications**

NDPERS system currently can not account for after-tax rollovers. This is optional.

NDPERS would need only to change forms. Burden of accounting remains with the PLAN accepting the funds. Mandatory change for 1/1/08.

NDPERS system currently cannot rollover funds for non-spouse. Programming changes will need to be submitted but until they are made, manual processing changes will be made as this is a mandatory change effective 1/1/07.

## **Recommended Actions**

Adopt provisions 1 in conjunction with the new Business system. Staff will work towards updating materials and procedures for provision 2 & 3.



# Memo

To: NDPERS Board  
From: Bryan T. Reinhardt  
Date: 09/12/06  
Re: 457 Companion Plan & 401(a) plan 2nd Quarter 2006 Reports

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Here is the 2nd quarter 2006 investment report for the 401(a) & 457 Companion Plan. The reports are available separately on the NDPERS web site. The NDPERS Investment Sub-committee has reviewed the 2nd quarter report and has no recommended Board action.

Assets in the 401(a) plan decreased slightly to over \$14.6 million as of Jun 30, 2006. The number of participants is at 292, about the same as when the plan started. The largest fund is the Fidelity Managed Income Portfolio with 17% of the assets.

Assets in the 457 Companion Plan increased to over \$18.1 million as of Jun 30, 2006. This is up from \$12.1 million on 12/31/03 (50% increase). The number of participants dropped from 1,319 after the transition to Fidelity, but is increasing and is now at 1,293. The largest funds are the Spartan U.S. Equity Index, NFJ Small Cap, and Fidelity International all with 11% of the assets. About 8% of the assets are in the Fidelity and VALIC cash accounts.

## Benchmarks:

All of the fund returns for the quarter were negative except for the Fidelity Managed Income Portfolio. **PIMCO Bond Fund, Fidelity Spartan US Equity Index, Dividend Growth, Blue Chip Growth, Mutual Shares A, Dreyfus Mid Cap Index, Fidelity Diversified International**, and a few of the **Fidelity Freedom** funds 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 News:

**Mutual Shares A (TESIX)** continues to display a drifted style from a mid cap value fund to a large cap value fund. The **Fidelity Spartan Extended Mkt Index (FSEMIX)** drifted toward growth last quarter. The Investment Sub-Committee marked **Dividend Growth (FDGFX), Blue Chip Growth (FBGRX)** and **Mutual Shares A (TESIX)** as underperforming for the quarter. Representatives from Fidelity attended the Investment Sub-Committee meeting and reviewed a 2nd Quarter market overview and fund performance. They thought the plan performance was positive and had no recommended changes. They noted that the Blue Chip Growth and Dividend Growth funds need to be put on watch. Fidelity will present mid-cap value funds for consideration at the next quarterly meeting.



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# Memorandum

**TO:** PERS Board

**FROM:** Bryan

**DATE:** September 11, 2006

**SUBJECT:** 401(a) & 457 Companion Plan Core Funds Lineup

Fidelity proposes that the new Freedom 2045 and 2050 lifestyle funds be added to the 401(a) Defined Contribution and 457 Deferred Compensation Companion Plan core fund offerings. These funds will be more aggressive than the current lifestyle fund options. Attached is information on these new funds. The NDPERS Investment Subcommittee reviewed these funds at the last quarterly meeting and recommend that they be added to the core lineup.

## Board Action Requested

- Approve the addition of the Fidelity Freedom 2045 and Fidelity Freedom 2050 funds to the 401(a) and 457 Companion Plan core fund offerings.
- Do not approve the addition of the 2045 and 2050 funds.

# Fidelity Announces Two New Freedom Funds Available To Plan Participants

This is to inform you that two new Fidelity Freedom Funds<sup>®</sup> have been added to your retirement savings plan.

- **Fidelity Freedom 2045 Fund<sup>SM</sup>**
- **Fidelity Freedom 2050 Fund<sup>SM</sup>**

## **What are the Freedom Funds?**

The Fidelity Freedom Funds are investment options that allow the investor to select the fund that best matches his or her expected retirement year. The Fidelity Freedom Funds invest in a diversified portfolio of other Fidelity mutual funds to provide moderate asset allocation. They are designed for investors who want a simple yet diversified approach to investing for their retirement. The allocation strategy for the underlying equity, fixed-income, and short-term mutual funds is based on the number of years until the Freedom funds reach their target retirement dates. Each Freedom fund with a target retirement date will gradually adopt a more conservative asset allocation as it approaches its target retirement date. Therefore, each fund's target asset allocation percentages will change over time to become more conservative, by gradually reducing allocations to equity funds and increasing allocations to fixed-income and short-term funds. The Fidelity Freedom Income Fund<sup>®</sup>, designed for those already in retirement, emphasizes fixed-income and short-term mutual funds and seeks to maintain a stable asset allocation from year to year.

## **What is the Goal of the Freedom Funds?**

The Fidelity Freedom funds with target retirement dates seek to provide high total returns until the target retirement date. Thereafter, each fund's goal will be to seek high current income and, as a secondary objective, capital appreciation. The Freedom Income Fund seeks high current income and, secondarily, capital appreciation.

## **What do the Fidelity Freedom Funds invest in?**

Each Freedom fund invests in a diversified portfolio of Fidelity equity, fixed-income, and short-term mutual funds. Fidelity Freedom 2050, with the longest time horizon, invests primarily in equity mutual funds to take advantage of potentially greater growth opportunities. The asset mix of each Freedom fund with a target retirement date (Freedom 2000, 2005, 2010, 2015, 2020, 2025, 2030, 2035, 2040, 2045 and 2050) will gradually become more conservative over time so investors can stay with the same fund before and during retirement. After reaching the target retirement date, these Freedom funds continue to be managed more conservatively for 10 to 15 more years until their asset mix is approximately the same as Freedom Income Fund. Ultimately, after notifying the funds' investors, the funds will merge into the Freedom Income Fund. The Freedom Income Fund, designed for those already retired, is invested more conservatively, with a larger percentage in fixed-income and short-term funds and has a smaller percentage of equity mutual funds. The funds' manager must invest in the group of underlying funds named in the prospectus, and will aim for the projected target asset allocation percentages announced to investors in the funds' annual and semiannual reports. Freedom funds with target retirement dates may invest in domestic and foreign equity funds, high yield and investment grade fixed-income funds, and short-term funds. The Freedom Income Fund invests in domestic equity funds, investment grade fixed-income funds, high yield bond funds and short-term funds. These funds are subject to the volatility of the financial markets in the U.S. and abroad and may be subject to the additional risk associated with investing in high yield, small cap, and foreign securities. Share price and return of each Freedom fund will vary.

## **New Fund Descriptions**

### **Fidelity Freedom 2045 Fund<sup>SM</sup>**

**Fund Code: 01617**

**What it is:** An asset allocation mutual fund.

**Goal:** Seeks high total return until its target retirement date. Thereafter the fund's objective will be to seek high current income and, as a secondary objective, capital appreciation

**What it invests in:** Primarily invests approximately 69% in domestic equity funds, 19% in international equity funds, 2% in investment grade fixed income funds and 10% in high yield fixed income funds. The mix of underlying Fidelity mutual funds will gradually become more conservative over time. Share price and return will vary.

**Who may want to invest:**

- Someone who wants a simple approach for choosing retirement investment options.
- Someone who wants a long-term investment strategy that changes over time as his or her target retirement date approaches.
- Someone who wishes to take advantage of a diversified portfolio of actively managed Fidelity funds.
- Someone who feels comfortable with the risk of stock mutual funds when further from retirement and a greater concentration of bond and short-term mutual funds when closer to or in retirement.

*Strategic Advisers, Inc., a subsidiary of FMR Corp., manages the Fidelity Freedom Funds<sup>®</sup>.*

*The percentages represent anticipated target asset allocation as of inception.*

### **Fidelity Freedom 2050 Fund<sup>SM</sup>**

**Fund Code: 01618**

**What it is:** An asset allocation mutual fund.

**Goal:** Seeks high total return until its target retirement date. Thereafter the fund's objective will be to seek high current income and, as a secondary objective, capital appreciation

**What it invests in:** Primarily invests approximately 70% in domestic equity funds, 20% in international equity funds and 10% in high yield fixed income funds. The mix of underlying Fidelity mutual funds will gradually become more conservative over time. Share price and return will vary.

**Who may want to invest:**

- Someone who wants a simple approach for choosing retirement investment options.
- Someone who wants a long-term investment strategy that changes over time as his or her target retirement date approaches.
- Someone who wishes to take advantage of a diversified portfolio of actively managed Fidelity funds.
- Someone who feels comfortable with the risk of stock mutual funds when further from retirement and a greater concentration of bond and short-term mutual funds when closer to or in retirement.

*Strategic Advisers, Inc., a subsidiary of FMR Corp., manages the Fidelity Freedom Funds<sup>®</sup>.*

*The percentages represent anticipated target asset allocation as of inception.*

**If you would like more information on the Fidelity Freedom Funds<sup>®</sup> or any of the investment options available in your retirement savings Plan, please contact Fidelity at your Plan's toll-free number or visit Fidelity NetBenefits<sup>®</sup> at [www.fidelity.com/atwork](http://www.fidelity.com/atwork).**

***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.***

Fidelity Investments Institutional Services Company, Inc., 82 Devonshire St., Boston, MA 02109



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## MEMORANDUM

**TO:** NDPERS Board  
**FROM:** Jamie Kinsella, Internal Auditor *Jamie*  
**DATE:** August 23, 2005  
**SUBJECT:** **May 18, 2006 PERS Audit Committee Minutes**

Attached are the approved minutes from the May 18, 2006 and July 6, 2006 meetings. Those who attended the meeting are available to answer any questions you may have.

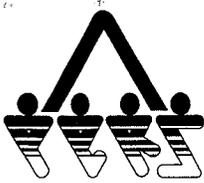
These minutes may also be viewed on the NDPERS web site at [www.state.nd.us/ndpers](http://www.state.nd.us/ndpers).

The next audit committee meeting is scheduled for November 29, 2006, 10:30 a.m., in the NDPERS Conference Room.

Attachment

U:\Internal Audit\Administration\Audit Committee\AC Agendas\FYE June 2007\200608 Memos to Audit Committee.doc

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



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## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor *Jamie*

**DATE:** May 23, 2006

**SUBJECT:** **May 18, 2006 Audit Committee Meeting**

**In Attendance:**

Jon Strinden via conference call  
Ron Leingang  
Jamie Kinsella  
Sparb Collins  
Sharon Schiermeister  
Leon Heick  
John Mongeon  
Pat Brown

The meeting was called to order at 11:35 a.m.

**I. May 18, 2006 Audit Committee Minutes**

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

**II. Internal Audit Quarterly Report**

- A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. Ms. Kinsella indicated she did not include the Goals and Objectives Report for 2006 as it has been updated but will be revised due to the staffing situation in Accounting and the Information Technology Replacement Project. Ms. Kinsella conveyed she will include the revised report in August. There continues to be a shortage of staff in Accounting, specifically in Deferred Compensation. It is unknown when the Deferred Compensation position will be filled. Mr. Heick has been doing the daily critical functions for this position. He will continue in this capacity until the position is filled. The Group Insurance area is back to normal, however, there may be additional assistance needed in the future. It was also brought to the Audit Committee's attention that the Flex Comp reconciliation is being turned over to the accounting division. Also, staff received notification from BCBS that they have recalculated the interest on the Interest Calculation Report. This resulted in an additional \$149,348.00 for the 2003-2005 period, and \$34,518.00 for the 2005-2007 period, for a total increase in interest of \$183,866.00. Mr. Collins explained that due to the inconsistency found by the internal auditors, staff questioned BCBS

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

why they changed their methodology for computing the interest. BCBS explained that the contract stated the 5 year treasury rate should be 60 days out, and not 60 months. Staff explained that the method used was what staff was told to do by BCBS from the beginning and inquired why the change now when the wording of the contract is still the same as the beginning. BCBS reviewed how it was done and agreed to follow the same method that has always been used, but indicated they disagreed with the method. Mr. Collins conveyed this will be an item that will be addressed during the 2007-2009 contract review.

- B. Quarterly Audit Finding Status Report - As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2005 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials. Ms. Kinsella indicated that progress has been made on 3 of the findings, work has been completed on 4 findings and there are 19 outstanding findings. Mr. Strinden inquired if there were any findings that should be addressed before others since there are so many of them and so little resources. Staff will review the report and determine if the findings can be prioritized so that those that are more important can be completed sooner.
- C. Annual Internal Audit Plan for 2006 – The Annual Audit Plan for 2006 was drafted for the Audit Committee's review and approval and was included in the Audit Committee materials. Once the document is approved, the final copy will need to be signed by Mr. Strinden and Ms. Kinsella. A few changes were made due to the IT project and staffing. The hours per area were not estimated and performance measures were not set forth because it is unknown how much the Internal Audit division will be needed in the coming months. By general consensus, the audit committee approved the 2006 Internal Audit Annual Audit Plan. Mr. Strinden will sign the cover and send to the NDPERS office.

### III. Administrative

- A. Performance Evaluation – Ms. Kinsella's performance evaluation will be reviewed in the next couple of weeks. Mr. Collins will mail the Performance Evaluation form to Mr. Leingang since he could not open the document. Mr. Collins will be in contact with the Audit Committee members so this can be finished by mid-June.
- B. Audit Committee Charter Review – A year ago a matrix was developed to use to evaluate the Audit committee's performance in meeting their objectives. At that time the Audit Committee decided it would like to conduct the evaluation on a calendar basis. Included with the Audit Committee materials was the matrix for the 2005 activity. Discussion followed. The Audit Committee approved the matrix and will be submitted to the NDPERS board along with a cover memo.
- C. Internal Audit Charter Review – Ms. Kinsella indicated since she developed the matrix for the Audit Committee Charter, she thought she would use the same format for reviewing the Internal Audit Charter. Included with the Audit Committee materials was the matrix for the 2005 calendar year. Discussion followed. The Audit Committee approved the matrix and will be submitted to the NDPERS board along with a cover memo.

#### IV. Miscellaneous

- A. Brady Martz – Mr. John Mongeon and Mr. Pat Brown appeared before the Audit Committee to present their planned audit scope and approach. They reviewed the staff that will be on the audit team, the type of audit they will do, the audit scope and objectives, the timing of the audit, testing of compliance and internal controls, managements responsibilities, new Statement of Auditing Standards (SAS) and new GASB Standards.
- B. Audit Committee Meeting - The next audit committee meeting will be held on Wednesday, August 16, 2006 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- C. Continuing Education - Ms. Kinsella and Mr. Heick attended a 2 day seminar on Audit Project Management in Bismarck. An overview of the seminar topics was included in the Audit mmittee materials. The seminar provided 15 continuing education credits. Staff felt it was an excellent seminar.
- D. Publications – A copy of the March 2006 issue of Tone at the Top and articles from the Government Finance Review were included in the audit committee materials. Ms. Schiermeister expressed an interest in having management learn more about internal control. The article “Understanding Internal Control” did an excellent job clarifying that controls are not just for reliable financial reporting, but also addresses effectiveness and efficiency of operations and legal and regulatory compliance.
- E. Other – Mr. Strinden proposed the idea of having a third Audit Committee member who is outside of the agency. Mr. Leingang mentioned that the State Investment Board has an Audit Committee member from MDU and when he asked her if she would be willing to serve on the NDPERS Audit Committee she was agreeable. This would require a change to the Audit Committee Charter. Ms. Kinsella will revise the wording and send to Mr. Strinden and Mr. Leingang via email for their approval. Once approved, the revised Audit Committee charter will go to the NDPERS Board for their approval in June. We would invite the new member to meet the board members in July and then she would be attending the August Audit Committee meeting.

The meeting adjourned at 12:20 p.m.



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## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor *Jamie*

**DATE:** August 15, 2006

**SUBJECT:** July 6, 2006 Audit Committee Meeting

In Attendance:

Jon Strinden via conference call  
Ron Leingang  
Sparb Collins  
Jamie Kinsella  
Sharon Schiermeister

The meeting was called to order at 1:30 p.m.

The meeting was called to discuss the upcoming staffing needs during the Business System Replacement Project. This information was needed for budget purposes. Mr. Collins indicated there were two options: 1) ask for 4 FTE's, 2 for accounting and 2 for benefits programs; or 2) ask for 3 FTE's, 1 for accounting and keeping the Internal Audit Staff that is currently assisting accounting, and 2 for benefits programs. After discussion, the Audit Committee recommended that management request 4 FTE's in the budget.

The meeting adjourned at 2:00 p.m.