NDPERS BOARD MEETING
Agenda

Bismarck Location:
ND Association of Counties
1661 Capitol Way
Fargo Location:
Sanford Health Plan
1749 38th Street South

September 22, 2016 **Time: 8:30 AM**

I. MINUTES
- A. August 25, 2016
- B. September 8, 2016

II. GROUP INSURANCE
- A. Health Plan Renewal – Sparb * Executive Session
- B. Telehealth – Sparb (Information)
- C. Life Insurance Plan RFP Options – Sparb/Bryan (Board Action)
- D. Group Insurance Premium Issues – Kathy (Board Action)
- E. Group Insurance Data Request – Bryan (Board Action)
- F. Dental/vision open enrollment – Rebecca (Information)
- G. Taxability of Wellness Benefit – Sparb/Rebecca (Board Action)

III. RETIREMENT
- A. Highway Patrol Validation Results – Sharon (Board Action)
- B. 2nd Quarter Investment Report – Bryan (Board Action)
- C. De minimis Policy – Sharon (Board Action)
- D. 401(a) & 457 Work Effort – Sparb/Bryan (Informational)

IV. FLEX COMP
- A. Voluntary Insurance Products – Kathy (Board Action)

V. MEMBER ** Executive Session
- A. Member Retirement Appeal – Kathy (Board Action)
- B. Infertility Benefits Case 368 – Kathy (Board Action)
- C. Hardship Case #363 - Kathy (Board Action)
- D. Member Release of Information – Rebecca (Board Action)

VI. MISCELLANEOUS
- A. Committee Meetings – Sparb (Information)
  1. Legislative Employee Benefits Programs Committee
  2. Health Care Reform Committee
  3. State Employee Compensation Committee
- B. PERS Events – Rebecca (Informational)
- C. Audit Committee Minutes – (Information)
- D. Staff Update & Review - Sparb

***** Executive Session pursuant to NDCC §44-04-19.1(9) and §44-04-19.2 to discuss negotiating strategy or provide negotiating instructions to its attorney or other negotiator.
**Executive Session pursuant to NDCC §44-04-19.2(1), §54-52-26 and/or §54-52.1-11 to discuss confidential records or confidential member information.
Any individual requiring an auxiliary aid or service must contact the NDPERS ADA Coordinator at 328-3900, at lease 5 business days before the scheduled meeting.

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

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

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

Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 15, 2016

SUBJECT: Sanford Renewal

At the last board meeting you had several questions and requests of Sanford relating to the renewal. Staff meet with Sanford after the board meeting and shared that information with them. At this meeting they will be providing there responses for your review and consideration.

At this meeting we will need to decide how to proceed with the plan placement for the 2017-19 biennium.

2017-19 RENEWAL

Contract Provision

- The term of this Agreement shall be for a two year period from July 1, 2015 through June 30, 2017; provided, however, that, upon satisfactory completion of the initial Agreement term and final approval of the NDPERS Board, this Agreement may be renewed for up to two additional two-year terms, beginning July 1, 2017 to June 30, 2019, and July 1, 2019 to June 30, 2021. NDPERS and SHP will renegotiate the contract terms during the initial, and any subsequent two-year term, for any subsequent two-year term. During the initial contract term, renegotiations will begin in August, 2016 and end in September 2016 and NDPERS will not initiate a formal bidding process during these renegotiations. If the Agreement is renewed, renegotiations for a subsequent two year term will begin in August, 2018 and end in September 2018. If NDPERS and SHP are unable to reach an agreement during renegotiations, a formal bidding process may be initiated by NDPERS.

Renewal Steps

- **Renewal Steps:**

1. **Use the services of a consultant to concurrently and independently prepare a renewal estimate the board shall consider in determining the reasonableness of the proposed premium renewal amount.**
2. **Solicit a renewal from the existing vendor .**
3. **Review the carrier's performance measures, including payment accuracy, claim processing time, member service center metrics, wellness or other special program participation levels, and any other measures the board determines relevant to making the determination and shall consider these measures in determining the board's satisfaction with the carrier's performance.**
4. **If the board determines the carrier's performance under the existing contract does not meet the board's expectations or the proposed premium renewal amount exceeds the board's expectations and the board determines to solicit a bid under section 54-52.1-04, the board shall specify its reasons for the determination to solicit a bid.**

	Review Areas	Staff Observation
1	*Review Economic/ Policy Environment*	Concern
2	*Review PERS Funded position and expected funded position*	Concern
3	*Review of Contract Performance Measures*	Satisfactory
4	*Review the carrier's payment accuracy, claims processing time,*	Satisfactory
5	*Review the carrier's member service center metrics*	Improvement
6	*Review the carrier's wellness participation measures*	Satisfactory
7	*Review the carrier's special program participation levels*	Satisfactory
8	*Review member survey results*	Improvement
9	*a) Use the services of a consultant to concurrently and independently prepare renewal estimate the board shall consider in determining the reasonableness of the proposed premium renewal amount.*	Concern
	b) Administrative Costs	Concern
10	*Other areas reviewed by the Board*	
	a) Pharmacy	Improvement
	b) Network	Satisfactory
	c) Discounts	Concern
	d) Member out of pocket	Satisfactory
	e) Funding for other programs	Concern
	f) Medical Home	Improvement
	g) EOB	Improvement
	h) Cost effect of ACA on fully insured plans	Concern
	i) Employer & member participation	Satisfactory
	j) Member Rebate Account	Concern
11	General Evaluation Criteria	
	a) The economy to be affected	Satisfactory
	b) The ease of administration.	Satisfactory
	c) The adequacy of coverages (see other items the board may want to consider)	(See above #10)
	d) The financial position of the carrier, with special emphasis as to its solvency	Concern
	e) The reputation of the carrier and any other information that is available tending to show past experience with the carrier in matters of claim settlement, underwriting, and services.	Satisfactory

- 1 & 2 above are not related to Sanford

Requested follow-up

- Requested a best and final offer
  - Reviewed the projection information
  - Highlighted the boards concern with administrative cost increase
- Reviewed our discussion on Sanford’s financial position
- Gain sharing provision

Sanford Response

Rate Renewal/ Risk Corridor

Sanford Health Plan
NDPERS Renewal
Best and Final

Rate Renewal:

We propose no change to our rate.

NDPERS	17.4%
Medicare	6.5%
• Blended Rate increase	16.7%

Risk Corridor:

We propose the following changes to our contract for risk corridor.

Losses

SHP will assume 100% of all losses.

Eliminate the 50%/50% share of first $6 million of losses.

Gain

50%/50% share for the first $3 million gain with NDPERS.

NDPERS 100% above $3 million.

Financial

SANFORD
HEALTH PLAN

Dear Sparb:

In follow up to our discussion at the NDPERS board meeting on September 8, this letter is being sent to demonstrate the support for the financial strength of Sanford Health Plan and to re-emphasize Sanford's commitment to NDPERS.

Sanford Health Plan is wholly owned by Sanford Health, and as such, has the full support and credit rating of Sanford Health.

Sanford Health is a $4 billion integrated delivery system that is dedicated to the work of health and healing and delivering the highest quality care to its patients throughout its geographic footprint.

Over the past several months, Sanford Health Plan has implemented multiple strategies and technologies to achieve and maintain future operating success. As required by regulators, Sanford Health Plan has established appropriate reserves for the projected current biennium losses incurred by the NDPERS line of business.

Sanford Health Plan maintains the statutory required risk based capital levels of 200%, as established by the Division of Insurance. Additionally, Sanford Health has internally designated $35 million in additional cash reserves to increase the Health Plan's risk based capital to 300%, which is the gold standard of cash reserves. This designated cash will be used for any future losses, should they occur during the next biennium contract.

Sanford Health CEO, Kelby Krabbenhoft, continues to reinforce both verbally and in the renewal proposal Sanford Health's commitment to Sanford Health Plan, the State of North Dakota and the NDPERS Board and members. Again, thank you for the partnership and your trust in this relationship.

Sincerely,

Kirk J. Zimmer

Kirk Zimmer
Executive Vice President
Sanford Health Plan

Cc: Kelby Krabbenhoft, President and CEO, Sanford Health
Dave Beito, Chairman, Sanford Health Board of Trustees

	Review Areas	Staff Observation Sept 8	Staff Observation Sept 22
2	PERS Funded Position	Concern	Improvement
3	Review of Contract Performance Measures	Satisfactory	Satisfactory
4	Review the carrier's payment accuracy, claims processing time,	Satisfactory	Satisfactory
5	Review the carrier's member service center metrics	Improvement	Improvement
6	Review the carrier's wellness participation measures	Satisfactory	Satisfactory
7	Review the carrier's special program participation levels	Satisfactory	Satisfactory
8	Review member survey results	Improvement	Improvement
9	a) Use the services of a consultant to concurrently and independently prepare renewal estimate the board shall consider in determining the reasonableness of the proposed premium renewal amount.	Concern	Concern
	b) Administrative Costs	Concern	Concern
	Other areas reviewed by the Board		
	a) Pharmacy	Improvement	Improvement
	b) Network	Satisfactory	Satisfactory
	c) Discounts	Concern	Concern
	d) Member out of pocket	Satisfactory	Satisfactory
	e) EOB	Improvement	Improvement
	f) Cost effect of ACA on fully insured plans	Concern	Concern
	g) Employer & member participation	Satisfactory	Satisfactory
11	General Review Criteria		
	a) The economy to be affected	Satisfactory	
	b) The ease of administration.	Satisfactory	
	c) The adequacy of coverages (see other items the board may want to consider)	(See above #10)	
	d) The financial position of the carrier, with special emphasis as to its solvency	Concern	Improvement
	e) The reputation of the carrier and any other information that is available tending to show past experience with the carrier in matters of claim settlement, underwriting, and services.	Satisfactory	Satisfactory

Legislative Guidance

- **If the board determines the carrier's performance under the existing contract does not meet the board's expectations or the *proposed premium renewal amount exceeds the board's expectations***

Legislative Guidance

- **If the board determines the carrier's performance under the existing contract does not meet the board's expectations or the *proposed premium renewal amount exceeds the board's expectations***
- ***Use the services of a consultant* to concurrently and independently prepare a renewal estimate the board shall consider *in determining the reasonableness of the proposed premium renewal amount***

Renewal/Projections

Sanford Renewal	Deloitte Projections

• **16.7%**	• *Historical data*
	  • **14.4%-16%**
	  • **11.9-13.5 Self insured**
	• *Sanford Historical Exp*
	  • **29%**
	  • **27.5 Self Insured**
	• *Sanford History with Sanford changes*
	  • **18.2%**
	  • **16.8 Self insured**

2016 Renewal

Sanford Renewal

- **16.7%**

Deloitte Projections

- *Historical data*
  - **14.4%-16%**
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- *Sanford History with Sanford changes*
  - **18.2%**
  - **15.8% Self insured**

2015 bid

Sanford	Other bids or arrangements
• 15%	• BCBS • 19%-20% • Self insurance • 14.9%

- **The lowest cost fully insured proposal was Sanford (20% to 15%)**
- **The self insurance was riskier for the price (15% vs 14.9%)**

Going forward

- Governor has 17.4% increase and options
- Dec – Governor will release budget

What could happen:

Decide to maintain Grandfathered Status

Decide to take benefit reduction options

Use reserves

	17.4% Increase
2015-2017 State rate	$1130.22
2017-2019 % Annual Trend	8.35%
Projected 2017-2019 rate	$1326.39
2017-2019 $ Increase	$196.17
2017-2019 % Increase	17.40%
Total State additional funds*	$55,658,922
Total additional general funds**	$30,612,407
Total Current Premium	$320,675,060
Total Projected Premium	$376,333,982

Premium

Summary of Cost Savings

Options	Estimated PPO Change Percentage
Annual Premium Reduction for Pharmaceutical Changes	**1.1%**
*From \$5 to \$10 change in generic copay *From \$20 to \$25 change in formulary brand copay *From \$25 to \$30 copay in non-formulary copay *From \$1,000 coinsurance to \$1,200 coinsurance	
Increase in Office Visit/Emergency Room Copays	**0.9%**
*From \$25 to \$30 copay in office visit *From \$50 to \$60 copay in emergency room copay	
Annual Premium Reduction to Deductible	**0.6%**
*From \$400 single/\$1,200 family to \$500 single/\$1,500 family	
Annual Premium Reduction to Change in Coinsurance Maximum	**1.8%**
*Change from \$750/\$1,500 to \$1,000/\$2,000	
SUB-TOTAL Grandfathered Savings	**4.4%**

- Sanford increase

  17.4%
- Benefit reductions

  4.4
- Funded Increase 13%

  employer & employee contributions

	17.4% Increase	13.0% Increase
2015-2017 State rate	$1130.22	$1130.22
2017-2019 % Annual Trend	8.35%	6.30%
Projected 2017-2019 rate	$1326.39	$1276.78
2017-2019 $ Increase	$196.17	$146.56
2017-2019 % Increase	17.40%	13.00%
Total State additional funds*	$55,658,922	$41,583,176
Total additional general funds**	$30,612,407	$22,870,747
Total Current Premium	$320,675,060	$320,675,060
Total Projected Premium	$376,333,982	$362,258,236

Reserves

III. Reserve Options

Reserve Use Option	Approximate savings	Effect on Grandfathered status
Plan remains fully insured – use reserves to buy down the premium for one biennium (would need 3 million to maintain contract leaving about 29.5 million in health (after estimated expenses except ACA fees) and 2.5 million in Life which would require legislation)	.57% for each 5M in buydown	None

Premium

Summary of Cost Savings

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Annual Premium Reduction for Pharmaceutical Changes	**1.1%**
*From $5 to $10 change in generic copay *From $20 to $25 change in formulary brand copay *From $25 to $30 copay in non-formulary copay *From $1,000 coinsurance to $1,200 coinsurance	
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*Change from $750/$1,500 to $1,000/$2,000	
SUB-TOTAL Grandfathered Savings	**4.4%**

- Sanford increase 17.4%
- Benefit reductions 4.4
- Reserves (20 million) 2.8
- Funded increase 10.2%

employer & employee contributions

	17.4% Increase	13.0% Increase	10.0% Increase
2015-2017 State rate	$1130.22	$1130.22	$1130.22
2017-2019 % Annual Trend	8.35%	6.30%	4.88%
Projected 2017-2019 rate	$1326.39	$1276.78	$1243.24
2017-2019 $ Increase	$196.17	$146.56	$113.02
2017-2019 % Increase	17.40%	13.00%	10.00%
Total State additional funds*	$55,658,922	$41,583,176	$32,066,939
Total additional general funds**	$30,612,407	$22,870,747	$17,636,682
Total Current Premium	$320,675,060	$320,675,060	$320,675,060
Total Projected Premium	$376,333,982	$362,258,236	$352,741,999

	17.4% Increase	13.0% Increase	10.0% Increase	9.0% Increase
2015-2017 State rate	$1130.22	$1130.22	$1130.22	$1130.22
2017-2019 % Annual Trend	8.35%	6.30%	4.88%	4.40%
Projected 2017-2019 rate	$1326.39	$1276.78	$1243.24	$1231.94
2017-2019 $ Increase	$196.17	$146.56	$113.02	$101.72
2017-2019 % Increase	17.40%	13.00%	10.00%	9.00%
Total State additional funds*	$55,658,922	$41,583,176	$32,066,939	$28,860,812
Total additional general funds**	$30,612,407	$22,870,747	$17,636,682	$15,873,447
Total Current Premium	$320,675,060	$320,675,060	$320,675,060	$320,675,060
Total Projected Premium	$376,333,982	$362,258,236	$352,741,999	$349,535,872

Renew

- Board will need to do the reductions
- Board will need to give up reserves
  - Unlikely Sanford will have a gain for the 17-19 biennium which means all reserves lost

Bid

- Will get funded at 10%-12% in Executive Budget (my guess)
- Will be built into every agency appropriation bill at that level and submitted to the legislature
- Bid will come to board in late Jan or Feb
- If bids are lower and recommended level stays in the budget PERS would not need to make the benefit reductions or allocate the same level of reserves.

Examples

- Funded at 10 – 11%

- Bid comes in at 11% (self funding)
  - Do not need to do benefit reduction
  - Only need to use about 8 million of reserves leaving 22 million (?)

- Bid come in at 14.5% (fully insured)
  - Would need all reserves (3.5%)
  - Would only need one benefit reduction not 4 (?)

Summary of Cost Savings

Options	Estimated PPO Change Percentage
Annual Premium Reduction for Pharmaceutical Changes	1.1%
*From \$5 to \$10 change in generic copay *From \$20 to \$25 change in formulary brand copay *From \$25 to \$30 copay in non-formulary copay *From \$1,000 coinsurance to \$1,200 coinsurance	
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SUB-TOTAL Grandfathered Savings	4.4%

- *Historical data*
  - **14.4%-16%**
  - **11.9%-13.5% Self insured**
- *Sanford Historical Exp*
  - **29%**
  - **27.5% Self Insured**
- *Sanford History with Sanford changes*
  - **18.2%**
  - **15.8% Self insured**

Staff Recommendation – Go to bid

To determine if we can maintain existing benefits & reserves for future

- Gov Recommendation will be less than 17.4%
- Plan will likely be funded at around 10 - 11% or less (with employer or employer/employee premiums)
- Bidding Fully Insured/Self funding could reduce required premium thereby not requiring:
  - Use of as much reserve
  - Maintaining employee benefit level

Consulting Cost

Cost of the consulting services used to determine an acceptable health plan renewal rate	PERS completed an RFP process for this effort in January of this year. <u>Fixed fee effort:</u> We bid three fixed fee efforts: 1. Update the Group Insurance RFP (fully insured bundled & unbundled and self insured bundled & unbundled). 2. Develop a Part D (EGWP) RFP 3. Estimate the 2017-2019 premiums We received 5 bids. Deloitte was selected with a fixed fee price of $25,000. <u>Fee for service cost:</u> This is for all analysis work for the bid. Deloitte fee for service hourly rate was $306.	For the 2015-2017 bid we did an RFP process as well. <u>Fixed fee effort:</u> We bid two fixed fee efforts: 1. Develop the Group Insurance RFP including Part D (fully insured bundled & unbundled) and sured bundled & unbundled).g Part D (2. Develop the Group Insurance RFP including Part D (self insured bundled & unbundled) We received 4 bids. Deloitte was selected with a fixed fee price of $10,000. <u>Fee for service cost:</u> This was for all analysis work for the bid and to estimate the 2015-17 premiums. Deloitte fee for service hourly rate was $292. Last time overall fee for service costs were: 1. Estimate for 2015-17 premiums: $7,500 2. Analysis of the fully insured bundled & unbundled and self insured bundled & unbundled including the analysis of the Part D bid (in addition the board rejected the first set of fully insured proposals, prepared a new RFP and rebid the health plan, this effort is also included in this amount): $203,000 3. Special Legislative Work: $11,000

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

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

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

Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 15, 2016

SUBJECT: Telehealth

At the last meeting we discussed the Telehealth bill and the legislative requirements for actions by the PERS Board. Attachment #1 is that memo. We decided at that meeting to provide our recommendation on Telehealth based upon the experience of the PERS Plan. We will need to develop and approve that recommendation at the October meeting so we can share it with the Legislative Employee Benefits Committee and the Legislature pursuant to the direction in the NDCC.

In preparation for that discussion in October we will review the attached bill review from Deloitte. I will ask them and Sanford to review that with you at the meeting. If you have any questions or desire further information please let us know at this meeting so we can move toward a final recommendation at the October meeting.

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
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Memorandum

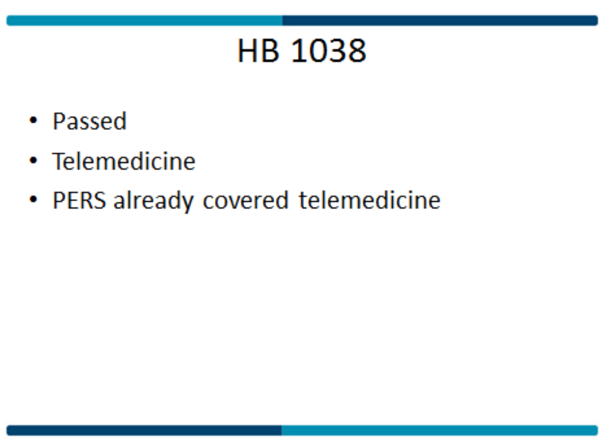
TO: PERS Board

FROM: Sparb

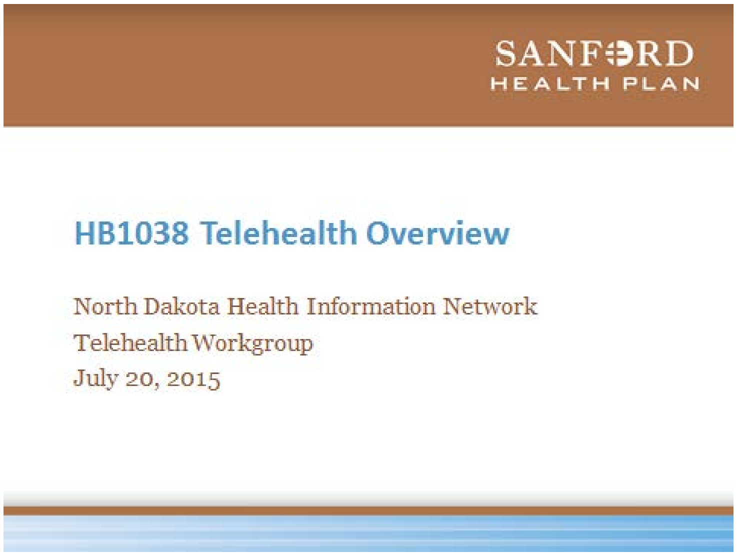
DATE: September 7, 2016

SUBJECT: Telehealth Bill

At the May 2015 Board meeting we reviewed that the following bill which was passed this last session:



At the August 2015 meeting we reviewed a presentation from Sanford on the bill (Attachment 1)


SANFORD
HEALTH PLAN

HB1038 Telehealth Overview

North Dakota Health Information Network
Telehealth Workgroup
July 20, 2015

Section 54-03-28 (2) (c) states:

> That for the next legislative assembly, the public employees retirement system shall prepare and request introduction of a bill to repeal the expiration date and to extend the mandated coverage or payment to apply to accident and health insurance policies. The public employees retirement system shall append to the bill a report regarding the effect of the mandated coverage or payment on the system's health insurance programs. The report must include information on the utilization and costs relating to the mandated coverage or payment and a recommendation on whether the coverage or payment should continue. For purposes of this section, the bill is not a legislative measure mandating health insurance coverage of services or payment for specified providers of services, unless the bill is amended following introduction so as to change the bill's mandate.

This section requires PERS to:

1. Prepare and request introduction of a bill to repeal the expiration date and to extend the mandated coverage or payment to apply to accident and health insurance policies.

2. The public employees retirement system shall append to the bill a report regarding the effect of the mandated coverage or payment on the system's health insurance programs.

3. The report must include a recommendation on whether the coverage or payment should continue

In compliance with this section, to date PERS Board has:

1. Approved the introduction of Proposed Bill #17.01 (Attachment 2)
2. Had Deloitte prepare a review (Attachment 3)

Yet to be done is for the Board to prepare its recommendations on the bill. In doing so the Board could:

1. Base its recommendation on the Deloitte review
2. Invite interested parties to comment on the Deloitte review at the regular September meeting or in writing by the meeting and consider those comments in preparing the final recommendations.
3. Share those recommendations with the Employee Benefits Programs Committee.

Staff is seeking your direction on how to proceed now that the bill has been introduced and the Deloitte review is completed.

Board Action Requested

Determine how to proceed with the last phase of the Telehealth Bill

HB1038 Telehealth Overview

North Dakota Health Information Network
Telehealth Workgroup
July 20, 2015

Our discussion today…

- Overview of HB1038
- Legislative process and timeline
- Eligibility
- Covered Services
- Coding & Reimbursement
- Q&As

SANFORD HEALTH PLAN

HB1038

- Require the coverage of telemedicine for NDPERS
- Amendments adopted include:
  - adding definitions for “distant site” and “originating site”
  - reimbursements may be established through negotiations
  - In addition, a provision was struck that would prohibit special cost-sharing for services provided through telemedicine.

SANFORD HEALTH PLAN

HB1038

- Services still subject to medical necessity
- Services subject to normal deductible, coinsurance and copayment amounts
- The bill will expire June 30, 2017 unless the expiration is reversed as a result of recommendations of a study.

SANFORD HEALTH PLAN

Legislative Process and Timeline

- Oct. 2015 – PERS develops study outline
- March 2016 – PERS submits bill draft to the Employee Benefits Committee
- Aug/Sept 2016 – Report is submitted to Employee Benefits Committee

SANFORD HEALTH PLAN

Facility Eligibility

We follow CMS eligibility standards for facilities:

- Practitioner Office
- Hospital (inpatient or outpatient)
- Critical Access Hospital (CAH)
- Rural Health Clinic (RHC)
- Federally Qualified Health Center (FQHC)
- Dialysis Centers (hospital or CAH-based)
- Skilled Nursing Facility
- Community Mental Health Center

Practitioner Eligibility

We follow CMS eligibility standards for practitioners:

- Physician
- Nurse practitioner
- Physician assistant
- Nurse-midwife
- Clinical nurse specialist
- Clinical psychologist
- Clinical social worker
- Registered dietician or nutrition professional

SANFORD HEALTH PLAN

Covered Services

- Services must be medically necessary and appropriate
- Evaluation, management and consultation services
  - Synchronous – interactive audio/video visit
  - Asynchronous - store-and-forward evaluation
- Telemonitoring – monitoring patients at a distance who are at risk for an acute episode
  - Cardiac conditions, COPD, diabetes, mental health/substance abuse

SANFORD HEALTH PLAN

Examples of Covered Services

- Office or outpatient visits
- Consultations (office, Internet-based, outpatient, emergency room)
- Follow-up inpatient consultations
- Pharmacologic management
- Neurobehavioral status exam
- Individual and group medical nutrition therapy
- Individual and group health and behavior assessment and intervention

SANFORD HEALTH PLAN

Minimum Requirements

- Services must be medically necessary and appropriate
- A permanent record of telemedicine communication must be maintained as part of patient medical record
- Provider must receive appropriate informed patient consent for telemedicine
- Services must be under control of consulting practitioner

SANFORD HEALTH PLAN

Non-Covered Services

- Non-HIPAA compliance communication
- Transmission fees, per-minute – reported by HCPCS procedure code T1014.
- Services for diagnoses excluded by a Member's Benefit Policy
- Services not medically appropriate or necessary.
- Installation or maintenance of any telecommunication devices or systems
- Provider-initiated e-mail

SANFORD HEALTH PLAN

Non-Covered Services

- Appointment scheduling
- A service that would similarly not be charged for in a regular office visit
- Reminders of scheduled office visits
- Requests for a referral
- Consultative message exchanges with an individual who is seen in the provider's office immediately afterward
- Clarification of simple instructions

SANFORD HEALTH PLAN

Coding & Reimbursement

Coding

- Billable CPT codes will be provided on website and within Provider Manual
- Must use modifiers:
  - GT – live video encounters
  - GQ – store-and-forward encounters
- Reimbursement is according to your current negotiated professional agreement rates

SANFORD HEALTH PLAN

Questions?

Thank you for your time.

Sixty-fifth
Legislative Assembly
of North Dakota

BILL NO.

Introduced by

(At the request of the Public Employees Retirement System)

A BILL for an Act to create and enact section 26.1-36-09.15 of the North Dakota Century Code, relating to individual and group health insurance coverage of telehealth services; and to amend and reenact section 54-52.1-04.13 of the North Dakota Century Code, relating to public employees retirement system uniform group insurance coverage of telehealth services.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. Section 26.1-36-09.15 of the North Dakota Century Code is created and enacted as follows:

26.1-36-09.15. Coverage of telehealth services.

1. As used in this section:
    a. "Distant site" means a site at which a health care provider or health care facility is located while providing medical services by means of telehealth.
    b. "Health care facility" means any office or institution at which health services are provided. The term includes hospitals; clinics; ambulatory surgery centers; outpatient care facilities; nursing homes; nursing, basic, long-term, or assisted living facilities; laboratories; and offices of any health care provider.
    c. "Health care provider" includes an individual licensed under chapter 43-05, 43-06, 43-12.1 as a registered nurse or as an advanced practice registered nurse, 43-13, 43-15, 43-17, 43-26.1, 43-28, 43-32, 43-37, 43-40, 43-41, 43-42, 43-44, 43-45, 43-47, 43-58, or 43-60.
    d. "Originating site" means a site at which a patient is located at the time health services are provided to the patient by means of telehealth.
    e. "Policy" means an accident and health insurance policy, contract, or evidence of coverage on a group, individual, blanket, franchise, or association basis.

f. "Store-and-forward technology" means electronic information, imaging, and communication that is transferred, recorded, or otherwise stored in order to be reviewed at a distant site at a later date by a health care provider or health care facility without the patient present in real time. The term includes telehome monitoring and interactive audio, video, and data communication.

g. "Telehealth":

(1) Means the use of interactive audio, video, or other telecommunications technology that is used by a health care provider or health care facility at a distant site to deliver health services at an originating site and that is delivered over a secure connection that complies with the requirements of state and federal laws.

(2) Includes the use of electronic media for consultation relating to the health care diagnosis or treatment of a patient in real time or through the use of store-and-forward technology.

(3) Does not include the use of audio-only telephone, electronic mail, or facsimile transmissions.

2. An insurer may not deliver, issue, execute, or renew a policy that provides health benefits coverage unless that policy provides coverage for health services delivered by means of telehealth which is the same as the coverage for health services delivered by in-person means.

3. Payment or reimbursement of expenses for covered health services delivered by means of telehealth under this section may be established through negotiations conducted by the insurer with the health services providers in the same manner as the insurer with the health services providers in the same manner as the insurer establishes payment or reimbursement of expenses for covered health services that are delivered by in-person means.

4. Coverage under this section may be subject to deductible, coinsurance, and copayment provisions.

5. This section does not require:

a. A policy to provide coverage for health services that are not medically necessary, subject to the terms and conditions of the policy;

b. A policy to provide coverage for health services delivered by means of telehealth if the policy would not provide coverage for the health services if delivered by in-person means;

c. A policy to reimburse a health care provider or health care facility for expenses for health services delivered by means of telehealth if the policy would not reimburse that health care provider or health care facility if the health services had been delivered by in-person means; or

d. A health care provider to be physically present with a patient at the originating site unless the health care provider who is delivering health services by means of telehealth determines the presence of a health care provider is necessary.

SECTION 2. AMENDMENT. Section 54-52.1-04.13 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-04.13. ~~(Effective through July 31, 2017) Insurance coverage~~Coverage of telehealth services.

~~1.~~ ~~As used in this section:~~

~~a.~~ ~~"Distant site" means a site at which a health care provider or health care facility is located while providing medical services by means of telehealth.~~

~~b.~~ ~~"Health care facility" means any office or institution at which health services are provided. The term includes hospitals; clinics; ambulatory surgery centers; outpatient care facilities; nursing homes; nursing, basic, long-term, or assisted living facilities; laboratories; and offices of any health care provider.~~

~~c.~~ ~~"Health care provider" includes an individual licensed under chapter 43-05, 43-06, 43-12.1 as a registered nurse or as an advanced practice registered nurse, 43-13, 43-15, 43-17, 43-26.1, 43-28, 43-32, 43-37, 43-40, 43-41, 43-42, 43-44, 43-45, 43-47, 43-58, or 43-60.~~

~~d.~~ ~~"Originating site" means a site at which a patient is located at the time health services are provided to the patient by means of telehealth.~~

~~e.~~ ~~"Policy" means health benefits coverage under a contract for insurance pursuant to section 54-52.1-04 or under a self-insurance plan pursuant to section 54-52.1-04.2.~~

~~f.~~ ~~"Store-and-forward technology" means electronic information, imaging, and communication that is transferred, recorded, or otherwise stored in order to be reviewed at a distant site at a later date by a health care provider or health care facility without the patient present in real time. The term includes telehome monitoring and interactive audio, video, and data communication.~~

~~g.~~ ~~"Telehealth":~~

~~(1)~~ ~~Means the use of interactive audio, video, or other telecommunications technology that is used by a health care provider or health care facility at a distant site to deliver health services at an originating site; and that is delivered over a secure connection that complies with the requirements of state and federal laws.~~

~~(2)~~ ~~Includes the use of electronic media for consultation relating to the health care diagnosis or treatment of a patient in real time or through the use of store-and-forward technology.~~

~~(3)~~ ~~Does not include the use of audio-only telephone, electronic mail, or facsimile transmissions.~~

~~2.~~ ~~For all policies that become effective after June 30, 2015, and which do not extend past June 30, 2017, the board shall provide health benefits coverage under a policy that provides coverage for health services delivered by means of telehealth which is the same as the coverage for health services delivered by in-person means.~~

~~3.~~ ~~Payment or reimbursement of expenses for covered health services delivered by means of telehealth under this section may be established through negotiations conducted by the board or the board's contractor with the health services providers in the same manner as the board establishes payment or reimbursement of expenses for covered health services that are delivered by in-person means.~~

~~4.~~ ~~Coverage under this section may be subject to deductible, coinsurance, and copayment provisions.~~

~~5.~~ ~~This section does not require:~~

~~a.~~ ~~A policy to provide coverage for health services that are not medically necessary, subject to the terms and conditions of the policy;~~

~~b. A policy to provide coverage for health services delivered by means of telehealth if the policy would not provide coverage for the health services if delivered by in-person means;~~

~~c. A policy to reimburse a health care provider or health care facility for expenses for health services delivered by means of telehealth if the policy would not reimburse that health care provider or health care facility if the health services had been delivered by in-person means; or~~

~~d. A health care provider to be physically present with a patient at the originating site unless the health care provider who is delivering health services by means of telehealth determines the presence of a health care provider is necessary.~~

The board shall provide health benefits coverage under a contract for insurance pursuant to section 54-52.1-04 or under a self-insurance plan pursuant to section 54-52.1-04.2 which provides coverage of health services delivered by means of telehealth in the same manner as provided under section 26.1-36-09.15.

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Memo

Date: August 30, 2016

To: Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee

From: Josh Johnson and Pat Pechacek, Deloitte Consulting LLP

Subject: REVIEW OF PROPOSED BILL 17.0120.01000 RELATING TO INSURANCE COVARAGE OF TELEHEALTH SERVICES

The following summarizes our review of the proposed bill.

OVERVIEW OF PROPOSED BILL

As proposed, this bill would require the medical benefits coverage of services provided by a health care provider by means of telehealth which are the same as medical benefits coverage for the same services provided by a health care provider in-person. There is widespread support for health plan coverage and incentivizing expanded use for telehealth services.

Telehealth – Deloitte Health Policy Brief

Attached is a copy of a recent health policy brief from Deloitte titled: Realizing the potential of telehealth". The executive summary of that report states:

> *Improving digital connectivity between patients and providers is critical to achieving value-based, patient-centered care.*
>
> *Many health care organizations are exploring strategies to leverage technology, including telehealth, to increase consumer engagement and focus on prevention and chronic care management outside the traditional physician office visit. Findings from Deloitte's 2016 Survey of US Health Care Consumers shows that interest in and use of telehealth is rising. The policy landscape—including payment policy and care provisions across state lines—is evolving to keep up with consumer demand and technology innovations.*
>
> *An aging population, increasing chronic illness, the importance of self-care, accelerating health costs, regulatory reform, and new payment models are driving interest and growth in telehealth.*[1] *Some recent studies show that*

telehealth visits are associated with lower costs than traditional in-office visits and could result in Medicare savings,[2] while others are concerned about its potential to increase costs in a fee-for-service environment.[3] Under new value-based payment models that reward outcomes (including lower total cost of care) rather than utilization, telehealth may be a cost-effective solution to provide access to care and, ideally, reduce unnecessary hospital care. Given these trends, providers and health plans should continue to monitor the complex and ever-evolving policy landscape around telehealth, and consider adopting targeted strategies for telehealth that encourage self-care and increase medication adherence to realize the clinical and economic benefits.[4]

New telehealth policies will likely need to balance potential increased access to services with potential cost increases, as well as payment and licensing changes and what they may mean for provider business models.[5] This policy brief provides an overview of trends in telehealth and consumer interest; the regulatory landscape; and the potential barriers, opportunities, and enablers for telehealth in the coming years. Top-of-mind policies for providers and health plans include:

- *Current Medicare payment policy and proposed legislation to change it*
- *The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) and its impact on telehealth*
- *Centers for Medicare and Medicaid Services (CMS) initiatives that are encouraging telehealth*
- *Recent Medicaid legislation that encourages telehealth[6] in states and Medicaid managed care*
- *State policy trends, including licensing reciprocity and reimbursement, and examples of state telehealth regulations*

CURRENT SCOPE OF COVERAGE IN NDPERS

Currently, NDPERS covers health services that are delivered by telehealth in the same manner as health services provided in-person. The payment/reimbursement of telehealth services is established through negotiations with health care providers conducted by Sanford Health Plan as NDPERS' contractor. The NDPERS bill, as it stands today, does not cover telehealth services that are not medically necessary or if the policy would not provide coverage if the health services or expenses for health services were provided by in-person means. The NDPERS telehealth bill also does not require a health care provider (like a nurse or doctor) to be physically present with a patient at the originating site unless the health care provider who is delivering health services via telehealth determines that the presence of a health care provider is necessary.
NDPERS Telehealth Summary Experience.

Female infertility, behavioral health and sleep apnea were the top three diagnoses for the first year of this program. Telehealth has enabled patients in the rural and outlying areas of the state to continue to see their specialist residing in one of the state's four major cities without having to travel hundreds of miles. Additionally, telehealth has been a means to address the shortage of behavioral health providers in rural areas and has enabled rural members access to behavioral health services.

TECHNOLOGY

There are many different ways in which telehealth can be provided:

- Online, two-way video using a personal computer
- Smart phone
- Other online monitoring systems such as remote cardiac monitoring

The types of telehealth technologies will likely increase over the coming years as telehealth vendors increase. Between 2014 and 2015, the number of vendors selling telehealth technologies increased 23%.

NDPERS EXPERIENCE

Attached is summary of the NDPERS Telehealth Experience prepared by Sanford. You will note in the attached:

- From July 1, 2015 to June 30, 2016 there were 1022 total telehealth claims. telehealth visit and the originating site charge.
- 551 of these claims refer to the professional service, totaling $63,040.
- 387 of these claims refer to the originating site charge.
- The originating site charge includes being checked in by a nurse and the use of a secure
  video connection between the member and Physician.
- 74.4% of telehealth claims were between a provider and member/resident who were both in the state of North Dakota
- 8.4% of the telehealth claims were between an ND resident and a MN provider
- 85% of total claims came from 10 types of specialists
- Top 10 Provider Specialties:
    - 1. Reproductive Endocrinology (OB/GYN)- 341 claims
    - 2. Psychiatry- 211 claims
    - 3. Child & Adolescent Psychiatry- 71 claims
    - 4. Psychology- 75 claims
    - 5. Nurse Practitioner (OB/GYN)- 32 claims
    - 6. Sleep Medicine- 26 claims
    - 7. Family Medicine- 19 claims
    - 8. Internal Medicine- 46 claims
    - 9. Clinical Nurse Specialist (Psychiatric/Mental Health)- 27 claims
    - 10. Nurse Practitioner- 26 claims

Savings

As noted in a recent memo from Sanford Health Plan there is the possibility of savings not only for NDPERS members, but also NDPERS as a payor:

- In a 3 year study of high-risk dialysis patients, the patient group that was monitored via remote technology had a significantly lower amount of hospitalizations and hospital days, along with significantly lower hospital and emergency room charges[1].
- A study of Medicare members who were monitored after discharge from the hospital found a 44% reduction in 30-day readmissions amongst members who were monitored versus the control group[2].
- Heart failure patients participating in a telemonitoring study had 12% lower total costs[3].
- A study of a 15-hospital, rural, multi-state ICU telemedicine program found a 37.5% reduction in the number of patients requiring transfer via ambulance or helicopter services. In total, there were 6825 fewer days spent in the ICU by patients, along with 821 fewer hospital days. The reduction in ICU days saved approximately $8 million, and an additional $1.25 million saved due to reductions in length of stay[4].
- A peer-reviewed study in Critical Care Medicine found that continuous, contact-free patient monitoring has the potential to save the US healthcare system up to $15 billion annually[5].

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[1] Dayna E. Minatodani & Steven J. Berman, *Home Telehealth in High-Risk Dialysis Patients: A 3-Year Study*, 19 TELEMEDICINE AND E-HEALTH 520–522, 520-522 (2013).
[2] Jove Graham et al., *Post discharge Monitoring Using Interactive Voice Response System Reduces 30-Day Readmission Rates in a Case-managed Medicare Population*, 50 MEDICAL CARE 50–57, 50-57 (2012), http://journals.lww.com/lww-medicalcare/abstract/2012/01000/postdischarge_monitoring_using_interactive_voice.7.aspx.
[3] Christopher Tompkins & John Orwat, *A Randomized Trial of Telemonitoring Heart Failure Patients*, 55 JOURNAL OF HEALTHCARE MANAGEMENT 312–322, 312-322 (2010), http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=af518a72-40b4-425a-95d2-4cb652ac97d4@sessionmgr4009&vid=0&hid=4107 (last visited Aug 16, 2016).
[4] Edward Zawada, Patricia Herr & Deanna Larson, *Impact of an Intensive Care Unit Telemedicine Program on a Rural Health Care System*, 121 HEALTH ECONOMICS 159–170, 159-170 (2009), https://www.researchgate.net/profile/edward_zawada/publication/26262120_impact_of_an_intensive_care_unit_telemedicine_program_on_a_rural_health_care_system/links/54b98c080cf2d11571a4b58c.pdf.
[5] Fred Pennic, STUDY: CONTINUOUS PATIENT MONITORING COULD SAVE HEALTHCARE $15B (2016), http://hitconsultant.net/2016/08/08/study-continuous-patient-monitoring-healthcare/ (last visited Aug 16, 2016).

OBSERVATIONS AND RECOMMENDATION

A recent health policy brief released by the Deloitte Center for Health Solutions titled *Realizing the potential of telehealth: Federal and state policy is evolving support telehealth in value-based care models*, supports the position that telehealth has the potential to reduce treatment costs and improve patient access to care. As stated in the policy brief:

"Telehealth aims to make health care services more accessible to patients so that they can avoid going to the physician's office. Instead, patients can access care any time, via different devices—a web browser, a mobile phone or tablet, or a standalone kiosk in a retail clinic. Telehealth has the potential to improve remote monitoring and self-care strategies and, ultimately, reduce treatment costs by keeping people out of the hospital and emergency room, and reducing physician office visits."

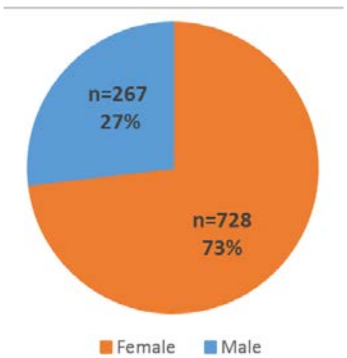
From reduced restrictions on telehealth through Accountable Care Organizations (ACO's) by the Centers for Medicare and Medicaid Services (CMS) to studies conducted by organizations such as the Agency for Healthcare Research and Quality (AHRQ), the support for expansion of and removal of traditional barriers for coverage of telehealth are prevalent. A recent technical brief from the AHRQ notes that there is sufficient evidence to support the effectiveness of telehealth, including remote monitoring, communication, and counseling for patients with chronic conditions, and psychotherapy as part of behavioral health. The authors conclude that the research focus should shift to how to promote broader implementation and address barriers.

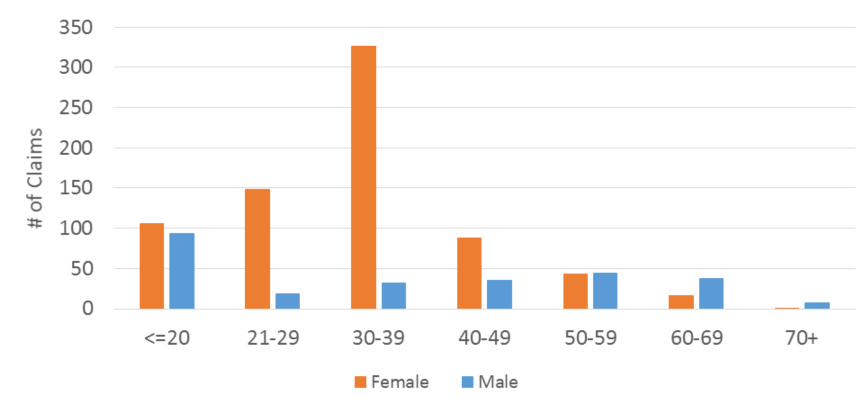
Due to positive results of research and analysis into the effectiveness and potential for cost savings, Deloitte recommends that NDPERS continue coverage of appropriate telehealth services.

NDPERS Telehealth Summary

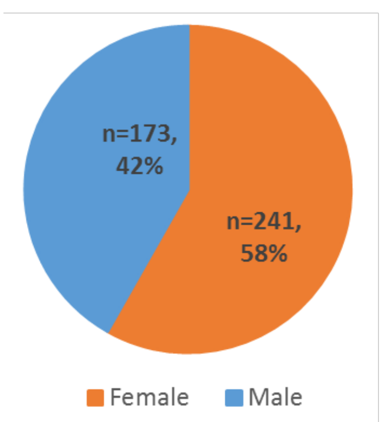
Claims incurred between 7/1/15 and 6/30/16, paid through 8/9/16

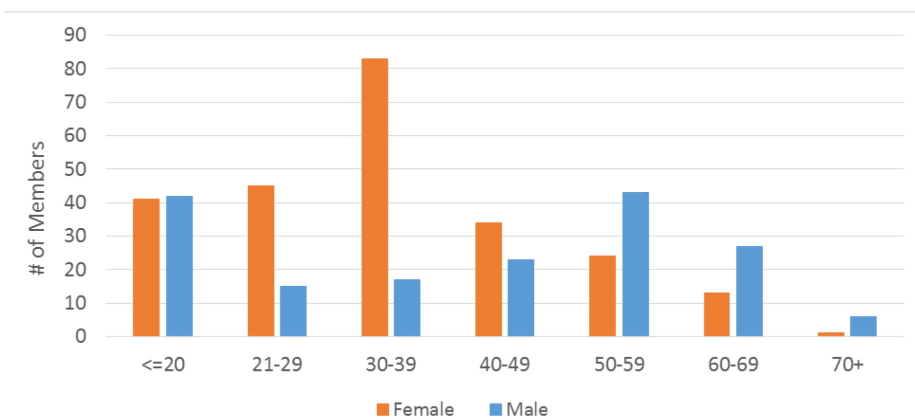
Total Telehealth Claims by Gender and Age Bands





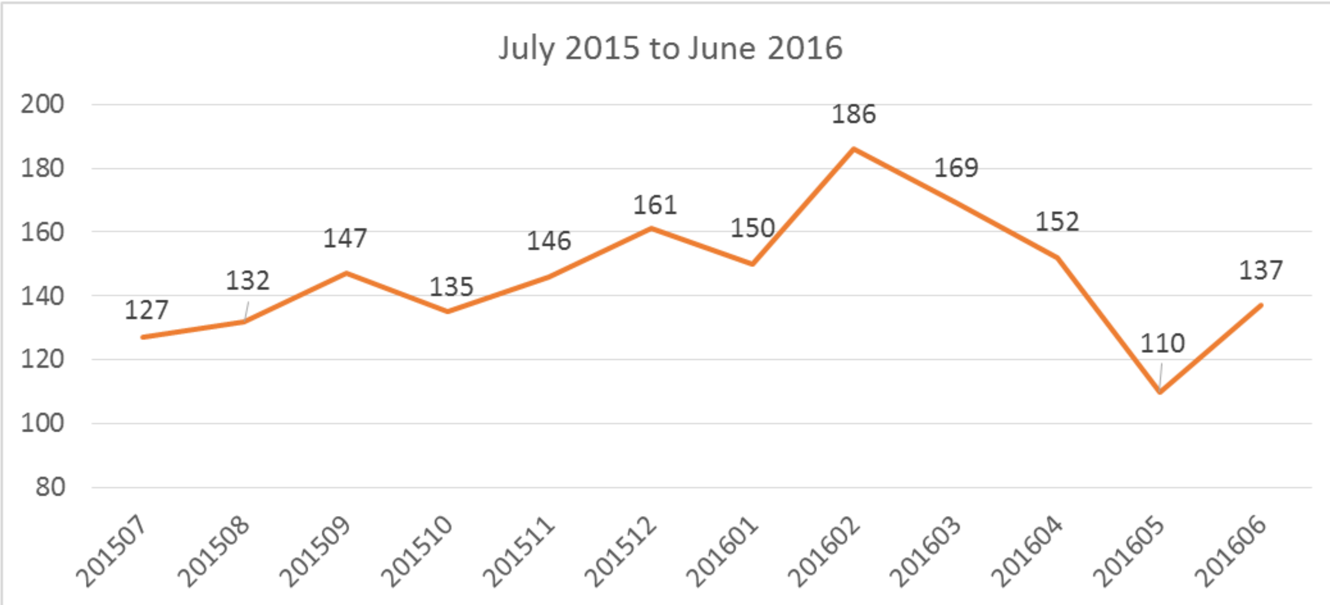
Total Telehealth Members by Gender and Age Bands





Claims over Time

Claims incurred between 7/1/15 and 6/30/16, paid through 8/9/16



Note that May and June claims may not reflect actual volume due to limited runout period

Member State v Provider State

	Member State			
Provider State	**MN**	**ND**	**SD**	**Grand Total**
ND	10	801	0	**811**
MN	12	86	0	**98**
NULL	0	28	0	**28**
IL	2	23	0	**25**
MT	0	25	0	**25**
SD	3	15	3	**21**
NE	0	8	0	**8**
WA	0	1	0	1
IA	0	4	0	4
ID	1	0	0	1
Grand Total	**28**	**991**	**3**	**1022**

Excludes CPT code 'Q3014'

- 78.4% of the telehealth claims were between a provider and a member (resident) both in the state of North Dakota. 8.4% of the telehealth claims were between a ND resident and a MN provider.

Member State/City v Provider State/City

Count of Claim#	Member City										
	⊟ND								⊞MN	⊞SD	Grand Total
Provider City	GRAND FORKS	BISMARCK	WILLISTON	JAMESTOWN	MINOT	DEVILS LAKE	DICKINSON	Other ND			
⊟ND											
BISMARCK		11	19		14		2	11			57
DEVILS LAKE								2			2
DICKINSON							8	7			15
FARGO	143	59	21	46	12	1	25	145	4		456
GRAND FORKS	12	38				30		97	6		183
JAMESTOWN				4				3			7
MINOT			19	9	29			14			71
VALLEY CITY				1				2			3
WILLISTON			1				10	5			16
WEST FARGO								1			1
⊞MN	2	2	1	10		5	4	62	12		98
⊞IL	12							11	2		25
⊞MT			22		1			2			25
⊞SD		5		2				8	3	3	21
⊞NE					8						8
⊞WA								4			4
⊞FL		1									1
⊞IA									1		1
⊞ID		1									1
⊞NULL						18		10			28
Grand Total	169	117	83	72	64	54	49	384	28	3	1023

Excludes CPT code 'Q3014'

Claims by Provider Specialty

Top 10 Provider Specialties by Total Charged. These top 10 specialties represent 85% of total claims.

Provider Specialty	Claims	Total Charged
REPRODUCTIVE ENDOCRINOLOGY (OBSTETRICS AND GYNECOLOGY)	341	$57,429
PSYCHIATRY (PSYCHIATRY AND NEUROLOGY)	211	$55,883
CHILD AND ADOLESCENT PSYCHIATRY (PSYCHIATRY AND NEUROLOGY)	71	$29,068
PSYCHOLOGIST	75	$14,824
INTERNAL MEDICINE	46	$6,102
CLINICAL NURSE SPECIALIST (PSYCHIATRIC OR MENTAL HEALTH)	27	$5,167
NURSE PRACTITIONER	26	$5,065
FAMILY MEDICINE	19	$4,745
NP - OBSTETRICS AND GYNECOLOGY	32	$4,664
SLEEP MEDICINE (FAMILY MEDICINE)	26	$4,530
Grand Total	**874**	**$187,477**

Excludes CPT code 'Q3014'

Claims by Provider Group

Top 15 Provider Groups by Total Charged. There top 15 providers represent 87% of total claims.

Provider Group	Claims	Total Charged
SANFORD MEDICAL CENTER FARGO PROF	427	$74,544
ALTRU HEALTH SYSTEM PROFESSIONAL	241	$35,345
NORTH CENTRAL HUMAN SERVICE CENTER	48	$20,217
NORTHWEST HUMAN SERVICE CENTER	36	$17,095
SANFORD CLINIC FARGO REGION	252	$14,794
CENTER FOR PSYCHIATRIC CARE	104	$11,761
BADLANDS HUMAN SERVICE CENTER	17	$7,839
VA MEDICAL CENTER	41	$7,564
SANFORD BISMARCK	190	$7,180
NORTHLAND CHRISTIAN COUNSELING CENTER	38	$6,415
PSYCHIATRY NETWORKS	36	$4,260
ESSENTIA HEALTH	16	$3,931
WHITNEY SLEEP DIAGNOSTICS AND CONSULTANTS	42	$3,906
SANFORD THIEF RIVER FALLS	14	$3,385
BILLINGS CLINIC	24	$3,288
Grand Total	**1,526**	**$221,524**

Claims by Diagnosis

Top 15 Diagnoses by Total Charged. These top 15 diagnoses represent 42% of total claims.

Diag 1	Diagnosis Description	Claims	Total Charged
N97.9	Female infertility, unspecified	69	$12,050
F33.1	Major depressive disorder, recurrent, moderate	35	$10,704
F41.1	Generalized anxiety disorder	49	$10,507
N97.0	Female infertility associated with anovulation	52	$8,512
F90.2	Attention-deficit hyperactivity disorder, combined type	27	$7,811
F33.9	Major depressive disorder, recurrent, unspecified	24	$6,571
F84.0	Autistic disorder	14	$5,533
628	Female infertility associated with anovulation	38	$5,323
F32.1	Major depressive disorder, single episode, moderate	11	$5,053
G47.33	Obstructive sleep apnea (adult)(pediatric)	30	$4,764
F32.9	Major depressive disorder, single episode, unspecified	18	$4,743
296.32	Major depressive affective disorder, recurrent episode, moderate	11	$3,648
628.9	Infertility, female, of unspecified origin	22	$3,307
F90.9	Attention-deficit hyperactivity disorder, unspecified type	13	$3,187
Z34.01	Encounter for supervision of normal first pregnancy, first trimester	18	$2,917
	Grand Total	**431**	**$94,627**

Summary Category	Claims	Total Charged
Female Infertility & Birthing	199	$32,109
Behavioral Health	202	$57,755
Sleep Apnea	30	$4,764
Grand Total	**431**	**$94,627**

Excludes CPT code 'Q3014'

Deloitte.

Health Policy Brief

Realizing the potential of telehealth: Federal and state policy is evolving to support telehealth in value-based care models

Produced by the Deloitte Center for Health Solutions and the Deloitte Center for Regulatory Strategy

Executive summary

Improving digital connectivity between patients and providers is critical to achieving value-based, patient-centered care.

Many health care organizations are exploring strategies to leverage technology, including telehealth, to increase consumer engagement and focus on prevention and chronic care management outside the traditional physician office visit. Findings from Deloitte's *2016 Survey of US Health Care Consumers* show that interest in and use of telehealth is rising. The policy landscape—including payment policy and care provisions across state lines—is evolving to keep up with consumer demand and technology innovations.

An aging population, increasing chronic illness, the importance of self-care, accelerating health costs, regulatory reform, and new payment models are driving interest and growth in telehealth.[1] Some recent studies show that telehealth visits are associated with lower costs than traditional in-office visits and could result in Medicare savings,[2] while others are concerned about its potential to increase costs in a fee-for-service (FFS) environment.[3] Under new value-based payment models that reward outcomes (including lower total cost of care) rather than utilization, telehealth may be a cost-effective solution to provide access to care and, ideally, reduce unnecessary hospital care. Given these trends, providers and health plans should continue to monitor the complex and ever-evolving policy landscape around telehealth, and consider adopting targeted strategies for telehealth that encourage self-care and increase medication adherence to realize the clinical and economic benefits.[4]

New telehealth policies will likely need to balance potential increased access to services with potential cost increases, as well as payment and licensing changes and what they may mean for provider business models.[5] This policy brief provides an overview of trends in telehealth and consumer interest; the regulatory landscape; and the potential barriers, opportunities, and enablers for telehealth in the coming years. Top-of-mind policies for providers and health plans include:

- Current Medicare payment policy and proposed legislation to change it
- The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) and its impact on telehealth
- Centers for Medicare and Medicaid Services (CMS) initiatives that are encouraging telehealth
- Recent Medicaid legislation that encourages telehealth[6] in states and Medicaid managed care
- State policy trends, including licensing reciprocity and reimbursement, and examples of state telehealth regulations

Telehealth has the potential to reduce treatment costs

Telehealth aims to make health care services more accessible to patients so that they can avoid going to the physician's office. Instead, patients can access care any time, via different devices—a web browser, a mobile phone or tablet, or a standalone kiosk in a retail clinic. Telehealth has the potential to improve remote monitoring and self-care strategies and, ultimately, reduce treatment costs by keeping people out of the hospital and emergency room, and reducing physician office visits.

Chronic disease rates are rising, and mental health issues, including depression, are also affecting millions of Americans. The Department of Health and Human Services (HHS) reports that nearly 80 million Americans live in a mental health professional shortage area. Even in urban environments, transportation, time constraints, and the stigma of mental illness often prevent people from seeking mental health services.[7] Telehealth may help address these situations.

A literature review by Rashid Bashshur looked at the evidence related to three conditions prominent in the Medicare population—congestive heart failure (CHF), stroke, and chronic obstructive pulmonary disease.[8] He found that among CHF patients, telemonitoring (transmitting certain physiologic parameters and symptoms from patients at home to their health care provider) was significantly associated with reductions in mortality, ranging from 15 percent to 56 percent relative to traditional care.[9] Studies have also shown that telestroke services—involving a neurologist and an attending nurse communicating via videoconferencing to evaluate the patient's motor skills, view a computed tomography scan, make a diagnosis, and prescribe treatment—can help stroke patients without readily available access to stroke specialists. Telestroke services could also reduce mortality roughly 25 percent during the first year after the event.[10]

A recent technical brief from the Agency for Healthcare Research and Quality (AHRQ) found that the evidence on telehealth varies across different clinical conditions and health care functions. The report notes that there is sufficient evidence to support the effectiveness of telehealth in some circumstances, including remote monitoring, communication, and counseling for patients with chronic conditions, and psychotherapy as part of behavioral health. The authors conclude that the research focus should shift to how to promote broader implementation and address barriers; and that future research should focus on the use and impact of telehealth in new health care organizational and payment models.[11]

Finally, though data is limited, there is evidence to suggest economic benefits to telemonitoring compared with usual care. One study using data from five telehealth service vendors found:

- In the commercial market, the average estimated cost of a telehealth visit is $40 to $50, compared to the average estimated cost of $136 to $176 for in-person acute care.
- Patient issues are resolved during the initial telehealth visit an average of 83 percent of the time.

The study concluded that replacing in-person acute care services with telehealth visits reimbursed at the same rate as a doctor's office visit could save the Medicare program an estimated $45 per visit.[12]

What is telehealth?

Telehealth is the use of electronic information and telecommunications technologies to support long-distance clinical health care and patient and professional health-related education. Telehealth enables health care providers to connect with patients and consulting practitioners across vast distances. A patient with a chronic disease who uses telehealth may have multiple phone or video sessions with the care team, where health care professionals guide treatment, provide behavioral health support, and monitor progress. See the appendix for definitions of terminology used in this brief.

Telehealth payment policies are evolving as value-based models grow

Medicare: Medicare currently pays for telehealth services when the patient being treated is in a health professional shortage area or in a county that is outside any metropolitan statistical area, as defined by the Health Resources and Services Agency and the US Census Bureau, respectively. The telehealth site must be a medical facility, such as a physician's office, hospital, or rural health clinic, and not the patient's home. Medicare will only pay for "face-to-face" interactive video consultation services in which the patient is present, and does not generally cover store-and-forward applications (the transmission of digital images) as they do not typically involve direct interactions with patients (Medicare does have limited coverage of store-and-forward applications in certain regions). Traditionally, Medicare policy restricts coverage to certain reimbursable codes.[13]

As accountable care organizations (ACOs) and other value-based care (VBC) models increase, CMS is experimenting with expanding telehealth—some newer CMS initiatives give providers more flexibility to use telehealth. In traditional Medicare, coverage is designed around rural populations with little access to other care. However, proposed legislation and experimental programs through CMS are aiming to ease geographic restrictions, which would allow the originating site to be in a person's home and could encourage remote monitoring for patients with chronic conditions.

Since Medicare often sets the standard for coverage in other public and private programs, some stakeholders are advocating for Medicare to update its policy. In May 2016, a group of individual providers and health systems wrote a letter asking the Congressional Budget Office to examine broader sets of telehealth data—from the commercial population, the US Department of Veterans Affairs (VA), and Medicaid—when generating future cost estimates and analyses of telehealth in Medicare.

Telehealth is a critical component of VA's journey toward patient-centered care

VA is on a journey to become more patient-centric and focused on improving veterans' health and quality. VA's progress in telehealth is virtually unparalleled in other health systems.[14] Early investments and a commitment to increasing access to specialists, incorporating mental health care into primary care, and an integrated provider-payer system that allows for more fluid data flow all support the department's telehealth program.

VA served over 150,000 beneficiaries with telehealth services in 2012.[15] Telehealth was associated with a 25 percent reduction in number of bed days of care and a 19 percent reduction in hospital admissions across all VA patients using telehealth. Overall, VA estimates average annual savings of $6,500 for each patient that participated in the telehealth program in 2012, which equates to nearly $1 billion in system-wide savings. VA has conducted studies that show videoconferencing can be successful in treating post-traumatic stress disorder, and that treating mental health issues via telehealth can be effective when compared to face-to-face visits.[16]

Having access to real-time, synchronous expert care through telehealth may help improve access to care, the patient experience, care delivery, and ultimately, health outcomes.

No new federal telehealth policy but experimentation is happening

Congress has been slow to move on telehealth: Many bills are in the works, but none have passed. Congress did, however, pass MACRA, which included policies that may encourage greater use of telehealth.[17] The Administration has also been focused on telehealth, implementing demonstrations through CMS and making modifications to Medicare Advantage and Medicaid policies at the federal level. Congressional lawmakers have introduced legislation in both the Senate and the House to change Medicare's policies. Some stakeholders say that these bills (described below) have a low chance of passing in their current form,[18] but that certain parts of the bills' provisions may be incorporated into other policy vehicles, including the Senate Finance Committee's expected legislation to address chronic care.[19]

MACRA: MACRA may increase telehealth adoption by both clinicians in Alternative Payment Models (APMs) and those remaining in traditional FFS. In April 2016, CMS released the first major regulation under MACRA.[20] According to the proposed rule on the Merit-Based Incentive Payment System (MIPS), Medicare will reward providers' use of telehealth. MIPS will measure performance in four areas: quality; resource utilization; investment in clinical improvement activities; and electronic health records usage. MIPS identifies telehealth and remote patient monitoring (RPM) as a supporting technology for the care coordination subcategory of the clinical practice improvement area.

Telehealth will likely be a useful tool under MACRA because providers will be required to extend their reach beyond the office setting as they aim for more holistic, quality care that avoids costly and unnecessary services. Additionally, MACRA encourages organizations to enter into new payment and delivery models, which should promote collaboration between health plans and hospitals around telehealth and other technology-based patient services.

MACRA directs the Government Accountability Office to study the potential impact of telehealth and remote monitoring on Medicare, with reports due in spring 2017. Though the law holds many encouraging implications for telehealth, some advocates believe that CMS is still showing hesitancy through asking for more evidence around its use.[21]

Senate activity: In early 2016, a bipartisan group introduced legislation to remove barriers to Medicare coverage of telehealth through the Creating Opportunities Now for Necessary and Effective Care Technologies (CONNECT) for Health Act.[22] The CONNECT Act, endorsed by several medical specialty societies, academic institutions, patient advocacy groups, and technology companies, aims to expand the use of telehealth and RPM services in Medicare. Proponents of the legislation believe it will improve quality of care and save costs by making the delivery of health care, information, and education more accessible. The Act includes video conferencing, RPM services to monitor high-risk patients at home, and store-and-forward technologies.

The CONNECT Act strives to help providers transition to MACRA, MIPS, and APMs by eliminating current telehealth and RPM restrictions around geography and lack of reimbursement for face-to-face visits. The Act would also allow RPM use for certain patients with chronic conditions and include telehealth and RPM as basic benefits in Medicare Advantage, without most of the noted restrictions. In a summary sheet for the media, the senators behind the CONNECT Act state that elements of the Act could save $1.8 billion over 10 years.[23]

House activity: The House of Representatives introduced the Medicare Telehealth Parity Act of 2015, bipartisan legislation designed to expand telehealth services under Medicare. This legislation proposes to remove the geographic barriers under current Medicare law and expand the list of providers and related covered services to categories including occupational, physical, respiratory, speech, and audiology therapy.[24] Access to telestroke and RPM for patients with chronic conditions is also part of the legislation, as is access to home health care for dialysis, hospice, and eligible outpatient mental health and home health services. The changes would be phased in to achieve parity between in-person and telehealth coverage.

CMS demonstrations: Several CMS initiatives, including the Comprehensive Primary Care Plus (CPC+) Model, the ACO Next Generation model, the Comprehensive Care for Joint Replacement Model (CCJR), and the Bundled Payment for Care Improvement initiative (BPCI), waive certain restrictions around telehealth services (see Table 1 on the following page). Many telehealth advocates and analysts hope these models will demonstrate the value of telehealth services and thereby lay the groundwork for expanding coverage in Medicare.

Medicare Advantage: While most of Medicare's 57 million enrollees are covered by FFS Medicare, 31 percent (around 17 million) are enrolled in a Medicare Advantage (MA) plan.[26] MA plans can choose to pay for and provide telehealth services more broadly—as extra benefits—than Medicare FFS.[27] MA plans finance these benefits through their rebate dollars or by charging beneficiaries a supplemental premium.[28] Despite these flexibilities, most MA plans follow the standard Medicare originating site rule.

Anthem and the University of Pittsburgh Medical Center Health Plan offer telehealth benefits beyond traditional FFS benefits to their Medicare Advantage beneficiaries. Part of their motivation is to enhance the consumer experience and make care more accessible.[29] Humana announced in early 2016 that it would offer some telehealth services to its MA beneficiaries, as well.[30] Finally, the Senate Finance Committee is examining telehealth in MA through its work on chronic care management legislation.[31]

Medicare Payment Advisory Committee (MedPAC) report: More evidence needed on telehealth's value

MedPAC is an independent, congressionally-appointed body of stakeholders with expertise in health care services financing and delivery. MedPAC makes recommendations to CMS and Congress on payment policy for private health plans participating in Medicare and health care providers serving Medicare beneficiaries. MedPAC published one paper on telehealth, in November 2015, and wrote a chapter on telehealth in its June 2016 report to CMS.[25] In its most recent report, MedPAC again cited the lack of evidence around quality or overall cost-savings for telehealth services. The report said that telestroke may have the strongest evidence. However, MedPAC acknowledged the difficulty in finding sufficient Medicare data on telehealth, given its low use in Medicare as well as inconsistent academic literature, and stated that more evidence is needed around targeted telehealth interventions for specific populations.

"Many telehealth advocates and analysts hope CMS initiatives and models will demonstrate the value of telehealth services and thereby lay the groundwork for expanding coverage in Medicare."

Table 1. CMS demonstrations involving telehealth

Initiative	Description	Telehealth implications
CPC+	The risk-based primary care initiative aims to accelerate the shift toward value-based reimbursement and emphasizes health IT and chronic care management. The model builds on the Pioneer ACO Model and the Medicare Shared Savings Program. It sets financial targets, enables greater opportunities to coordinate care, and aims to incentivize high quality care.[32]	Participating practices will be responsible for giving patients 24-hour access to care and their information, delivering preventive care, engaging with patients and their families, and coordinating care with hospitals and other clinicians, such as specialists. Telehealth might help meet these requirements. Providers may decide to use the incentive payments to invest in telehealth.[33]
ACO Next Generation	The model's goal is to test whether strong financial incentives for ACOs, combined with tools to support better patient engagement and care management, can improve health outcomes and lower expenditures for original Medicare FFS beneficiaries.[34]	CMS waives certain telehealth restrictions for ACOs in this model. Originating telehealth sites do not have to be in rural areas or originate from a medical facility (they can originate from the patient's home). ACOs might use telehealth to reduce avoidable hospital readmission rates and triage patients to urgent care or the physician office instead of using the emergency room (ER).[35]
CCJR	This model began April 1, 2016. It tests bundled payment and quality measurement for knee and hip replacement episodes of care. Participating hospitals are financially responsible for the cost and quality of these episodes of care.[36]	Under bundled payments, providers have the incentive to use any service they believe can reduce the cost of care and improve quality. This model waives the requirements that the originating site for telehealth services must be in a rural area and be a specified medical facility (they can originate from the patient's home).
BPCI	This voluntary program began in 2013 to test bundled payments in Medicare and their ability to reduce Medicare spend while maintaining or improving quality. Participating organizations assume financial and performance responsilbity for episodes of care triggered by a hospital admission.[37]	Participating organizations can choose among several waivers, including a telehealth waiver similar to the above programs that eases geographic restrictions, though the originating site cannot be the patient's home.

Federal policies are expanding telehealth in Medicaid

Two recent federal policies provide opportunities for Medicaid providers to expand their telehealth services.

Federal Medicaid managed care regulations: In April 2016, CMS released its largest overhaul of Medicaid managed care requirements in more than a decade.[38] The updated regulations aim to modernize Medicaid managed care, align coverage and quality requirements with other sources of health care coverage, strengthen states' delivery system reform, enhance network adequacy standards, and improve the consumer experience. During the public comment period, several commenters recommended that the final rule include coverage for telehealth. CMS noted these comments and agreed that solutions and services related to telehealth could help improve network adequacy in certain areas.

Under the rule, states are required to develop and make publicly available time and distance network adequacy standards for primary care and several specialties, behavioral health and dental care, as well as hospital care. The rule includes factors states should consider in setting standards, including the use of telemedicine, e-visits, and/or other evolving and innovative technological solutions.

Federal policy on use of telehealth in home care: Also in early 2016, CMS released a final rule updating and clarifying policy around how providers can document Medicaid patients' needs for home health services. These updates have implications for telehealth.[39] CMS' rule allows providers to use face-to-face encounters via telehealth to meet the requirement that a provider sees a patient before ordering home health services. It encourages states to work with the home health provider community to incorporate face-to-face visits in creative and flexible ways, while clarifying that phone calls or emails do not qualify as replacements to the face-to-face encounter.

The rule leaves the states flexibility to define telehealth coverage, including what types to cover, where in the state it can be provided, and how it is to be provided. Several organizations used the public comment period to show their support for telehealth, and, in the final rule, the agency noted its willingness to offer technical assistance to state Medicaid agencies to use telehealth. CMS also noted the need to update Medicaid telehealth guidance, which the agency says is forthcoming.

Policy stakeholders tracking telehealth in Medicaid are largely lauding these recent clarifications and updates. Providers can now examine and appropriately prescribe home health while the patient is remote, which can help streamline processes and maximize resources.

States telehealth policies are a mix of barriers and incentives

Considerable telehealth oversight takes place at the state level and, in general, states have taken diverse approaches to regulating the services and addressing licensing issues. States regulate telehealth coverage through three major channels, as described in Table 2 on the following page.

Providers seeking to adopt VBC initiatives will likely demand policy changes around telehealth. For example, telehealth could assist physicians operating under payment models that emphasize keeping people out of the hospital. The fact that 16 states have adopted an expedited physician licensure process (the Interstate Medical Licensure Compact) indicates that the shift to VBC is helping to align incentives so that physicians may have an easier time obtaining licenses in multiple states.[40]

"As care delivery models evolve, state policies are progressing to meet consumer and provider demand."

Table 2. State policy areas around telehealth

	Description of state policy issue	Examples
Medicaid reimbursement	Medicaid programs in the District of Columbia (DC) and 47 states provide some level of reimbursement for live video, the most traditional telehealth service. Five states offer a full range of services reimbursing for live video, store-and-forward and remote patient monitoring, though the restrictions and limitations vary.	California passed the Telehealth Advancement Act in 2011 to prohibit health plans from requiring a face-to-face visit if a service could be provided via telehealth. This law has led to Medicaid managed care plans reimbursing for a variety of telehealth services including e-consults – electronic communications between a primary care provider and a specialty provider, particularly for patients in medical care homes.
Private insurance parity	Twenty eight states and DC have laws requiring private insurers to reimburse telehealth services at the same rate as in-person services. As payment models evolve toward value-based models, payment parity laws may become less relevant if shared risk and shared savings increase the incentives for plans to encourage the use of telehealth services.	Most states self-insure their state employee health plans, meaning that they would be exempt under traditional private insurer parity requirements. Oregon, however, has amended its parity law to apply to self-insured state plans. Arizona's parity law requires coverage and reimbursement of telehealth services but limits the requirement to rural areas and seven specific services.[41]
Licensing and reciprocity	States and licensing boards govern how and where providers can practice. Most states require physicians to be licensed to practice where they are located and some states require providers using telehealth technology across state lines to have a valid state license in the state where the patient is located.[42] Medical provider licensing can limit telehealth programs.[43]	In 2015, the Texas Medical Board restricted when physicians can use telephones and video services to provide medical care. Physicians must have a pre-existing relationship established in-person to provide services remotely. While the restrictions do not ban telehealth outright they sharply limit its use. Representatives from telehealth groups and the Texas Medical board have been meeting to see if compromise language can be established. Talks are ongoing.[44]

Source: Deloitte analysis of state policies around telehealth; and The Center for Connected Health Policy, "State Laws and Reimbursement Policies," http://cchpca.org.

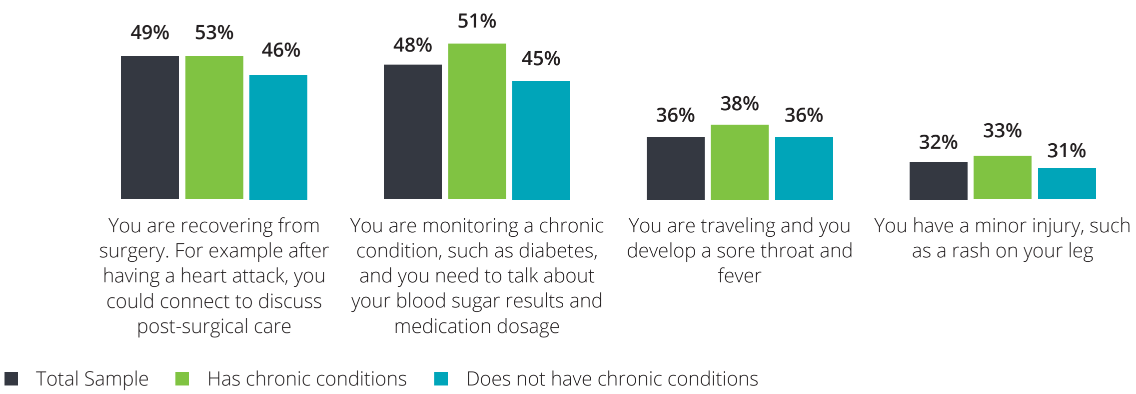
Consumer attitudes about telehealth

Deloitte's *2016 Survey of US Health Care Consumers*[45] shows that consumers are open to telehealth. About half of surveyed consumers, whether they have a chronic condition or not, say they would use telemedicine for post-acute care or chronic condition monitoring. Consumers seem less interested in using telemedicine for acute conditions such as sore throats, rashes, or other minor injuries (Figure 1).

Around one third of surveyed consumers say they have no concerns about using telemedicine. However, 43 percent are concerned about quality of care being lower than if they saw a provider in person, while 35 percent have privacy and security concerns. Fewer consumers (33 percent) had concerns about the impersonality of telemedicine, while only 15 percent thought the technology would be difficult to learn (Figure 2).

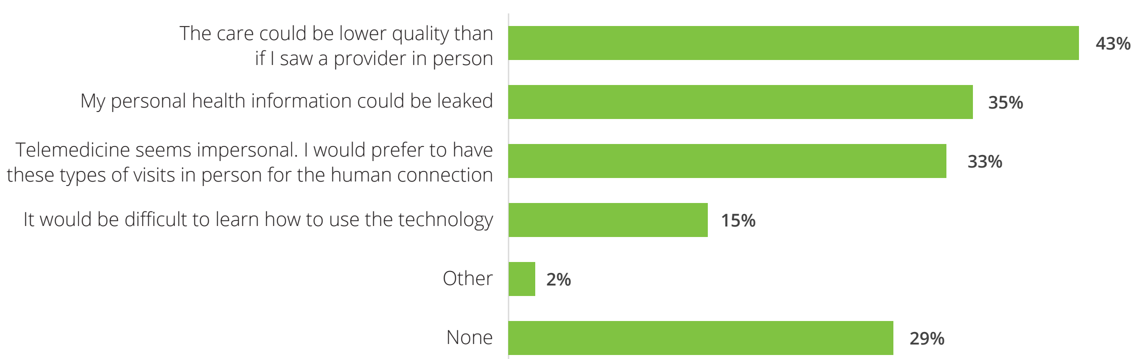
These trends indicate that, similar to banking and retail, health care is not exempt from consumer demand for technology to makes services and information easier to access.

Figure 1. Likelihood of using telemedicine



Source: Deloitte Center for Health Solutions 2016 Survey of US Health Care Consumers.

Figure 2. Barriers to telemedicine use



Source: Deloitte Center for Health Solutions 2016 Survey of US Health Care Consumers.

Implications of evolving polices for health care stakeholders

Health care providers

The American Hospital Association reports that 52 percent of US hospitals were using telehealth in 2013 and another 10 percent were moving toward adopting the platform. A recent policy recommendation from the group includes asking the Senate Finance Committee's Chronic Care Management workgroup to make telehealth the standard of care for people with chronic conditions, rather than a separate path of care alongside traditional in-person visits.[46]

As consumer interest in telehealth continues to grow, and as the federal and state policy landscape evolves to reduce barriers to telehealth, providers may consider investing in telehealth capabilities. In particular, providers may consider strategies for targeted populations who are affected by value-based care models.

Finally, given the complex and ever-evolving policy landscape around telehealth, it would be wise for providers to monitor ongoing federal and state efforts.

Payers: Health plans and employers

With many health plans developing and investing in capabilities that make health care more convenient and accessible to consumers, it is not surprising that health plan adoption of telehealth is growing. The past year has seen a flurry of activity, with some commercial health plans partnering with telehealth vendors to pilot or expand telehealth services. In addition, more health plans and large employers are interested in incorporating telehealth into their benefit structure.[47] UnitedHealth Group predicts 20 million of its members could access and receive coverage by telehealth providers in the next year; Anthem is expanding its LiveHealth Online program to most individual and employer-based plans, including exchange members in 11 states, and also predicts 20 million members will have telehealth benefits in 2016.[48]

For employers, telehealth may be as much of a human resources topic, used for recruitment and retention, as it is a health care topic. According to a 2015 survey by American Well, one-third of employers offered telehealth in 2015, up from 22 percent in 2014, with 49 percent saying they planned to offer a telehealth benefit in 2016. Reducing medical costs and improving access to care are some of the reasons employers are investing in telehealth; others include employee satisfaction, improving productivity, and attracting new talent.[49]

Will innovative companies and services beat traditional players to market?

While evidence continues to evolve and accumulate around the ability of telehealth services to meet the health care system's need for cost-effective, quality preventive care and chronic care management, some providers and health plans are interested in meeting consumers where they are.

In the past few years, there has been a proliferation of vendors that offer direct-to-consumer telehealth services. While some consumers may prefer services provided by their physician or health plan, some health care organizations may worry about losing business to these industry disruptors. Meeting consumer demand and innovating their business strategy may be a motivator, beyond cost and quality alone, for broadening telehealth adoption.

Source: Darius Tahir, "Telehealth services surging despite questions of value," Modern Healthcare, February 21, 2015.

The Affordable Care Act (ACA) requires that health plans serving health insurance exchanges meet standards for network adequacy. As health plans move toward narrower provider networks for exchange plans in order to reduce premiums, telehealth is one important strategy that could help health plans meet network adequacy standards more cost-effectively—and help providers deliver care to underserved areas more efficiently.[50]

Like providers, health plans may want to pay attention to the evolving policy landscape to confirm that their efforts mirror those of CMS and that they are not burdening providers with different requirements. There is an opportunity for health plans to play a leading role in pioneering telehealth strategies, as the federal government will likely continue to look to the commercial market for additional telehealth quality and cost-effectiveness data.

Appendix

Telehealth terminology:

- **Telehealth vs. telemedicine:** According to the Office of the National Coordinator for Health Information Technology, telehealth refers to a broader scope of remote healthcare services than telemedicine, which refers specifically to remote clinical services. Telehealth can refer to remote nonclinical services, such as provider training and continuing medical education, in addition to clinical services.
- **Synchronous telehealth** requires presence of both parties (may be a patient and a nurse practitioner consulting with a specialist via a live audio/video link, or a clinician and a patient communicating via videoconference) to be communicating in real time.
- **Asynchronous or store-and-forward telehealth** refers to the transmission of digital images, as in radiology or dermatology, for a diagnosis.

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Memorandum

TO: PERS Board

FROM: Sparb & Bryan

DATE: September 22, 2016

SUBJECT: **NDPERS Life Plan Bid**

NDPERS selected Buck Consultants to work on the upcoming Dental, Vision, and Life bids. The first of these efforts will be the NDPERS Life Insurance plan. The project timeline has the Life RFP coming to the NDPERS Board at the October meeting. Before this meeting we have the opportunity to discuss any plan design changes you might want to consider putting in the RFP.

Exhibit 3 from Buck Consultants details some life plan product feature options to consider. Exhibit 1looks at the basic life benefit being offered by other employers. The NDPERS $3,500 basic coverage appears to be low. Exhibit 2 shows the basic and supplemental amount for some other state plans.

Do we want to consider an increase to the basic life coverage or the coverage maximum for employee supplemental coverage (currently $196,500 when added to the basic coverage makes $200,000)? The maximum for spouse supplemental is 50% of the employee supplemental coverage ($100,000 maximum). Dependent coverage is set at $2,000 or $5,000.

In response to NDPERS' request for plan design and product feature options to consider in the upcoming life insurance RFP, we thought it would be helpful to put the question in the context of what other employers are offering for life insurance. In that regard, we have developed two exhibits that present benchmark data.

Exhibit 1, entitled *Life Insurance Benchmark*, looks at normative data with respect to the basic life insurance being offered by public sector and private sector/multi-employer employers. These data are taken from the International Foundation of Employee Benefits Plan, 2016 Employee Benefit Survey.

Exhibit 2 entitled *Life Plans Comparison* presents more specific plan design information for seven public sector employer comparators. Four of the comparators are in the general geographic region of North Dakota. In addition, we have included three "coastal" states to include a national view as well.

Exhibit 1, Life Insurance Benchmark

Table 1 looks at the question of whether or not basic life insurance is offered to employees. Public sector employers are consistent with the overall survey population in the availability of this benefit.

Table 2 looks at the basis for calculating the benefit for salaried employees. In this area, public sector employers are less inclined to use a multiple of earnings than the overall survey respondents. Nevertheless, public sector employers use a multiple of earnings (64.0%) basis more frequently than a flat dollar approach (36.0%) for salaried employees.

Table 3 indicates that public sector employers are less likely to use a multiple of earnings methodology than a flat dollar amount but are consistent with the survey population in both categories.

Table 4 highlights that a large percentage public employers (43.7%) offer an amount of coverage equal to one time base earnings for salaried.

Table 5 illustrates that a nearly equally large percentage of public employers (44.4%) offer an amount of coverage equal to one time annual base income for hourly employees.

Table 6 indicates that whether a public sector employer or private sector employer, neither group in this survey offers a basic life benefit of less than $10,000.

Table 7 shows that none of the public sector respondents offer less than a $10,000 benefit to hourly employees. 13.0% of the overall survey respondents offer less than a $10,000 benefit to salaried employees.

Exhibit 2, Life Plan Comparison

The contents of Exhibit 2 are taken from the publicly available information on the websites of the comparators named in the exhibit.

Basic Life Insurance:

Among the seven comparator entities, only the State of Texas offers a basic life benefit less than $10,000. Montana offers a $14,000 basic life insurance benefit.

Recommendation

With respect to the basic life plan, we appreciate that budget considerations present a challenge to modifying the current basic life insurance plan using employer funds. However, through the RFP document, Buck Consultants will explore the availability of value added product features such as less costly coverage conversion options (i.e., term life vs. whole life policies), “single sign on” capability to the E of I system, legal support (will preparation and probate assistance), emotional support services, insurance needs calculators, travel assistance, funeral assistance and repatriation of remains services.

Supplemental Life Comparison:

Among the seven comparators, the maximum benefit ranges from $200,000 to $1 million. Five of the seven comparators use a multiple of salary approach to calculate the supplemental life benefit The State of Minnesota utilizes a $5,000 increment benefit option.

Recommendations

Request a bid option from the vendors for a higher coverage maximum of supplemental life insurance such as $350,000 or $400,000.

It is our opinion that the current NDPERS practice of allowing the selection of supplemental life benefits in $5,000 increments is within the market range for this benefit. We recommend leaving that design in place.

Benchmarking of Group Basic Life Insurance Plan Constructs[1]

Life Insurance Benefits Offered

Table 1		Public Employers[2]	Overall[3]
	Yes	82.4%	82.6%
	No	17.6%	17.4%

Method of Calculating Life Benefits (Salaried Employees)

Table 2		Public Employers	Overall
	Multiple of Earnings	64.0%	76.4%
	Flat Dollar Amount	36.0%	23.6%
	Other	0.0%	0.0%

Method of Calculating Life Benefits (Hourly Employees)

Table 3		Public Employers	Overall
	Multiple of Earnings	45.0%	45.0%
	Flat Dollar Amount	55.0%	54.7%
	Other	0.0%	0.3%

Life Insurance Formulas Using Multiple of Earnings (Salaried Employee)

Table 4		Public Employers	Overall
	<1.0 earnings	6.3%	2.0%
	1.0 X earnings	43.7%	39.6%
	1.0 - 1.5 X earnings	0.0%	3.6%
	1.5 X earnings	6.3%	6.6%
	1.5 - 2.0 X earnings	0.0%	1.5%
	2.0 X earnings	12.5%	33.0%
	2.0 X >	12.5%	7.6%
	Amount varies	18.7%	6.1%

Life Insurance Formulas Using Multiple of Earnings (Hourly Employee)

Table 5		Public Employers	Overall
	<1.0 earnings	11.1%	4.6%
	1.0 X earnings	44.4%	40.1%
	1.0 - 1.5 X earnings	0.0%	2.6%
	1.5 X earnings	0.0%	7.9%
	1.5 - 2.0 X earnings	0.0%	2.6%
	2.0 X earnings	11.1%	30.9%
	2.0 X >	22.2%	6.6%
	Amount varies	11.1%	4.6%

Flat Dollar Amounts for Life Insurance (Salaried Employees)

Table 6		Public Employers	Overall
	< $10,000	0.0%	0.0%
	$10,000 - $14,999	33.3%	21.3%
	$15,000 - $19,999	0.0%	1.6%
	$20,000 - $24,999	11.1%	9.8%
	$25,000 - $29,999	11.1%	6.6%
	$30,000 - $49,999	0.0%	1.6%
	$50,000 - $59,999	33.3%	39.3%
	$60,000 - $74,999	0.0%	0.0%
	$75,000>	0.0%	6.6%
	Amount varies	11.1%	13.1%

Flat Dollar Amounts for Life Insurance (Hourly Employees)

Table 7		Public Employers	Overall
	< $10,000	0.0%	13.0%
	$10,000 - $14,999	27.3%	20.5%
	$15,000 - $19,999	0.0%	5.4%
	$20,000 - $24,999	18.2%	9.7%
	$25,000 - $29,999	9.1%	10.3%
	$30,000 - $49,999	9.1%	8.6%
	$50,000 - $59,999	27.3%	18.4%
	$60,000 - $74,999	0.0%	0.5%
	$75,000>	0.0%	2.2%
	Amount varies	9.1%	11.4%

[1] International Foundation of Employee Benefits Plans, *2016 Employee Benefit Survey*

[2] N = 18 average

[3] N = 239 average

Group Life Insurance Plan Design Comparisons

	Comparator	Basic Life Insurance	Basic Life Employer Paid	Supplemental Life Insurance
1.	State of South Dakota	$25,000 Flat	Yes	Up to 5 X base salary to $400,000 maximum
2.	State of California	$25,000 Flat / $50,000 Flat[1]	Yes	Lesser of $200,000 or 4 X base salary
3.	State of Texas	$5,000	Yes	Up to 4 X base salary to a $400,000 maximum
4.	State of Montana	$14,000	No	Multiple of base salary to $500,000 maximum
5.	State of Wyoming	$50,000	No	None identified
6.	State of Minnesota	1 X base salary to $95,000 maximum	Yes	$5,000 increments to $500,000 maximum
7.	State of Florida	$25,000	Yes	Up to 7 X to $1 million maximum
8.	State of North Dakota	$3,500	Yes	Up to $200,000 maximum

[1] Based on position.

buckconsultants

xerox

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Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **September 21, 2016**

SUBJECT: **Group Health Underpayment of Premium**

At the November 2015 meeting, the Board took action with regard to premium underpayments as a result of individuals being inadvertently enrolled in the wrong level of coverage. The coverage was set up with a premium code for a family of two when it should have been for a family of three or more. The affected records were identified through a system query. A copy of that memo is included for your information. The Board released the individuals from liability based on the following motion:

> *Move to release the three members from the liability because the underpayment was not the fault of the members.*

The application in question was keyed on November 10, 2015, which after we ran the report which was the subject of the Board's motion at the November meeting. For the Board's information, since that meeting, we modified the application form to more clearly identify the three levels of coverage. In addition, we modified PERSLink to generate a monthly report to identify any keying errors so they are addressed in a timely manner. This report was implemented the end of June 2016, at which time this participant was identified as being enrolled in the wrong level of coverage.

Following is an accounting of the underpayment:

Incorrect Premium		
From	**To**	**Amount of Underpayment**
11/1/2015	8/1/2016	$5,306.64

The record was adjusted to the correct premium effective August 1, 2016 and the participant was sent a letter outlining the reason for the increase in premium, an explanation regarding the erroneous coding error and that the underpayment would be reviewed with the Board. We have not initiated repayment of the underpaid premium pending review and action by the Board.

Board Action Requested

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Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **November 10, 2015**

SUBJECT: **Group Health Appeals Update**

At the October meeting the Board reviewed an appeal for repayment of a health premium underpayment that resulted when the individual was inadvertently enrolled in the wrong level of coverage. The coverage was set up with a premium code for a family of two when it should have been for a family of three or more. This was the second case of this nature in the last few months; therefore, staff conducted a system query to review all member records with the premium code for family of two in order to determine if there were any other records that were incorrectly coded based on the number of family members reported on the application. It was reported at the meeting that we had found three more records that were incorrectly coded. The Board requested that staff provide an accounting of these records for review at a future meeting. Following is the detail for the three members identified as having an underpayment of premium based on the wrong premium code:

	Incorrect Premium		
	From	**To**	**Amount of Underpayment**
Member 1	5/12/12	11/1/15	$15,033.04
Member 2	9/1/2012	11/1/15	$13,752.16
Member 3	4/1/13	11/1/15	$11,510.62

Business protocol is to adjust the premium prospectively and send the member a letter outlining the reason for the increase in premium and an accounting of, and request that the underpayment be repaid. A memorandum of understanding is included to provide the member with options for repayment. A copy of the correspondence template is included for your information. It does contain information regarding the member's right to appeal.

At this time, we have not followed up with the above members to initiate repayment of the underpaid premium.

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Memorandum

TO: PERS Board

FROM: Sparb & Bryan

DATE: **September 15, 2016**

SUBJECT: **Health Pharmacy Data Request**

We received the attached email request from Mr. Gary Boehler. It appears they would like to investigate the difference between what NDPERS pays for a pharmacy drug and what is actually paid to the pharmacy. This is often referred to as the "Spread Pricing", where the PBM usually keeps the difference.

We forwarded this to Jan to review as there may be issues with non-disclosure, confidentiality and information considered proprietary. We would also need to have agreements in place. Even though I foresee us only supplying a dollar amount for each claim in their sample query, it is still health information and subject to HIPAA rules.

Attachment 1

From: Gary Boehler [mailto:gboehler@dakdrug.com]
Sent: Wednesday, August 31, 2016 12:57 PM
To: Reinhardt, Bryan T.
Subject: Introduction

Hello Bryan,

Thank you for calling me back, and I apologize for missing your call. I had just stepped out of my office for a few minutes to copy some documents.

Let me share with you my background. I grew up in Hazen, graduated from NDSU in 1970 as a pharmacist; I worked in Dubuque, IA for 2 ½ years then back to New Rockford where I worked for an independent pharmacy owner for five years. I then went to work for Thrifty White Drug and spent 34 years there, retiring in June 2011 as EVP of Pharmacy where I also did third party contracting with PBMs for our 100 or so stores. I then spent three years as a Plymouth Police Reserve Officer to fill some time, as well as a desire to know more about what law enforcement does.

Earlier this year, Ted Scherr, CEO/owner of Dakota Drug Distributing who services many community pharmacies in ND, MN, SD, IA, WI, and a few other states asked me to come to work for him and assist pharmacies with their third party contracting issues as well as pharmacy operations. I told Ted I would work on a part time basis while my wife is still employed and retires, hopefully in the next four years. I am very familiar with pharmacy in North Dakota, have many contacts who are friends, some who are in the state legislature, as well as the State Board of Pharmacy and the ND Pharmacists Association (it is Mike Schwab who gave me your name when I asked him who to contact).

In the past I have been active in the legislative process in North Dakota that had pharmacy applications since ND is my home, it is the only state in the union that has its unique pharmacy ownership law, and pharmacy in North Dakota is just operated at a higher level of professionalism than what I have seen in other states, so it makes me proud to say ND is my home.

In the five years since I have retired and started consulting for Dakota Drug, pharmacy has become an even more difficult business environment because of the PBM industry. They seem to take the professionalism out of the profession and focus only on profitability for themselves at the expense of our patients, plan sponsors, and pharmacies who provide those services. Contracts today make me wonder how any pharmacy today can make it, and I see how the value of good will has declined. Owners now are being offered inventory and minimal, if any, good will when an acquisition occurs.

One of my endeavors before I retired the first time was to show large employers the concept of spread pricing that occurs when a PBM charges as employer a significantly higher price for a prescription than what is paid to the pharmacy for that same script, i.e., the spread, which is then kept by the PBM. I have also seen contracts or heard contract talks about how 100% of the rebates go back to the payer on any drugs that have rebates attached to them. But, then out of those rebates come transaction fees, formulary fees, management fees, etc. which reduce the amount of those rebates significantly. There are multiple MAC lists that PBMs use. A more aggressive MAC list is used to pay the pharmacy and a less aggressive MAC list is used to bill the payer. Pharmacies may be paid on a MAC list for generic drugs; the employer might be charged by using a discounted AWP on that same drug, resulting in a huge spread.

The bottom line is that health care costs for employers keep rising, reimbursements to pharmacy providers in the PBM networks keep dropping, yet when one studies the stock market and sees returns for the PBM community, the opposite is true. I think we all need to follow the money a little closer. Some ten years ago I was flown by Express Scripts (largest PBM in the country) to their St. Louis, MO headquarters over some "philosophical" differences we had in contracting. I flew first class, had a black stretch limo pick me up at the airport and take me to their offices – a Taj Mahal. It was then I really began understanding how they live. Their office complexes here in the Twin Cities is beautiful – walk in and a fireplace extends up a couple of stories.

Bryan, my goal is to unearth some of these travesties that are occurring on a daily basis and I suspect it is happening to NDPERS as well as other employers. Through completely de-identified information both from the NDPERS side as well as from pharmacy providers who fill prescriptions for NDPERS employees, I want to match those prescriptions up and compare the amount of spread pricing that is occurring. I have seen examples ranging from a dollar or two all the way up to hundreds of dollars on more expensive therapies or specialty drugs. Nobody is immune.

Here is how I would see this working: once NDPERS had signed on, I would then contact pharmacies who fill prescriptions for NDPERS employees, provide dates, NDC numbers, description of the drugs, quantities, and what they were paid. From you I would get what NDPERS was charged for that same prescription. My goal would be to survey 1000 prescriptions, whether brand, generic, or specialty to get an overall cross section.

Hopefully I have explained myself clearly enough to not confuse you; it's a long email. All of my contact information is shown below, so at your convenience please feel free to contact me. I am in the office Tuesday, Wednesday, and Thursday from 8AM to 4PM.

Thank you for your time and consideration.

Sincerely,

Gary

P.S. I did make contact yesterday with Linda Cahn whom I believe has been doing consulting work for NDPERS. We will be conversing as well in the near future, hopefully yet this week.

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Memorandum

TO: **NDPERS Board**

FROM: **Rebecca**

DATE: **September 15, 2016**

SUBJECT: **Dental/Vision Plans – Retiree Open Enrollment**

With the portability of the RHIC benefit, staff has heard from a limited number of retirees that they are not able to benefit from this portability as they do not have out-of-pocket health or prescription drug premiums from other sources. This has typically been a result of coverage being provided through Tri-Care or if coverage on a spouse's plan that is being paid by the spouse's employer.

You may recall that the RHIC benefit can now be used for other health or prescription drug coverage, but only for the NDPERS dental or vision plans. For those retirees that have contacted us, they elected not to enroll in the NDPERS dental and vision plans upon retirement and in most instances, had elected not to enroll during the other qualifying events available to them as that at the time of these events, the RHIC was still not portable and therefore, could not be applied to the dental or vision plans.

Therefore, staff has begun exploring the option of holding a one time open enrollment window to retirees to allow them to apply for coverage or increase the level of coverage that they have if already enrolled. Currently Jan is reviewing the law and administrative rules to determine if this type of window can occur without modification to law or rules. Staff has also discussed this with the current carriers for each plan. They have requested that if the board wishes to explore this option further that additional details are provided to them so that their underwriting departments can determine if a change in premium would be necessary to accommodate the special window opportunity.

At this time, staff is seeking direction from the board regarding if this is an item they would like staff to pursue further. Based upon Jan's feedback on the law and rules, if so desired by the board, staff would determine when the window can occur and bring back an action plan for the board's review and approval at a future meeting.

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Memorandum

TO: PERS Board

FROM: Rebecca

DATE: September 14, 2016

SUBJECT: Taxability of Wellness Benefit

At the August meeting, staff reviewed an IRS Advice that clarified the taxability of wellness benefits. Since the meeting, NDPERS staff and legal counsel have discussed the Advice with Ice Miller, a national law firm that deals specifically with employer and benefit issues. Ice Miller concurred with Deloitte's assessment that the NDPERS $250 wellness benefit would not be considered de minimis by the IRS and therefore, should be included as taxable income on an employee's W2 and subject to payroll taxes. Ice Miller also agreed that the reporting should reflect the amount of benefit paid in the calendar year. Therefore, fitness center reimbursements for December 2016 that are paid in 2017 should be included as taxable income for the 2017 calendar year, rather than 2016. The firm did confirm that for retirees, the amount of the benefit falls below the 1099 reporting requirements. However, they did recommend that notice be provided to the retirees that the benefit is taxable. NDPERS plans to provide this insert with upcoming mailings already scheduled to be sent to the retirees.

Staff also met with OMB to discuss the IRS Advice and the implications for payroll and tax reporting purposes for the employer. The burden for compliance with this provision will fall on our participating employers since they must do the tax collection and reporting.

OMB discussed with us the difficulty in administering this as a taxable benefit. Specifically discussed were:

- Obtaining the data and integrating it into the payroll system would be cumbersome as it is not a benefit paid through OMB. In order for the benefit to be reported as taxable income and to have payroll taxes withheld, the information would need to either be manually entered into the payroll system by each agency, or the payroll system would need to be enhanced to accept a file feed of this information.

- Timely reporting of the benefit would be required to ensure that payroll taxes can be withheld from the employee's pay in the appropriate tax year. This can not occur within the current redemption timeframe, which allows redemption up until midnight on December 31, as there would no longer be a pay period in the current tax year to withhold the required payroll taxes.

- The amount of tax that may be withheld if the reporting is done at the end of the year could be significant. Since the benefit does not fall under the category of regular pay, the federal tax withholding rate is 25%. An additional 7.65% in FICA taxes would be withheld along with state tax withholding. If the full benefit amount is reported on a single paycheck, this could result in a significant reduction in the employee's net paycheck as a result of the additional tax withholding. This would likely result in concerns from employees.

Some other employee specific issues and questions on reporting requirements that were considered include:

- How reporting should be done if both the subscriber and the spouse are state employees and both on the payroll system. Guidance from Deloitte is that the employee who is the subscriber should be the responsible party for the spouse's benefit and it should be reported as the subscriber's taxable income. This may not be perceived as equitable by the subscriber.

- How reporting should be done if an employee transfers employment during the year. For example, if an employee received fitness center reimbursements for 10 months based upon employment with a county and then transferred to the state for the final 2 months of the year, who is responsible for reporting the benefit and the applicable taxes? If reporting is only done at year-end, the employer at the end of the year has a liability for months that the employee was not employed by them.

- How reporting should be done for retirees who were active employees for part of the year and then retired for the remainder of the year. Should the employer report the amount of benefits that were received by the employee during the months employed, and if so, how would tax withholdings be done when there are no further paychecks.

As noted, the implications for employers and payroll are significant and staff wanted to provide an update since the last meeting regarding the discussions held with Ice Miller and OMB, as well as, the concerns expressed by OMB. Staff will also be meeting with Higher Education before the next meeting to solicit their thoughts. However given the above, it appears there would be a significant effort required on the part of our employers and the implications for our members are troublesome as well.

<u>Staff recommendation:</u>

In recognition of the above staff is recommending:

1. That staff develop options for the board's consideration to be discussed at a special meeting in early October. Given the need to address this before the beginning of the tax year we should have a plan in place to communicate to our employees and employers no later than the end of October.

2. The options to be considered will include:
    a. Redirecting the incentive so it is not taxable
    b. Reducing the incentive so it is not taxable
    c. Effects if the incentive is eliminated
    d. Effects if the incentive is maintained

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Memorandum

TO: NDPERS Board

FROM: Sharon Schiermeister

DATE: September 13, 2016

SUBJECT: Highway Patrol Validation Results

At the August 2016 meeting, we provided an update on the transition process to our new actuary, GRS. The first step in the transition is replicating the results of the 2015 valuations prepared by Segal. Last month, GRS reviewed their results for all the plans except Highway Patrol.

Attachment 1 is a letter from GRS regarding the status of the replication for the Highway Patrol plan. The initial results were not as close as would have been expected. After further review, GRS determined that the difference was the result of how the IRC Section 415 benefit limits were being applied when calculating projected future benefits. The approach recommended by GRS increases the actuarial employer contribution rate by about 6 percent of pay. An option to mitigate the increase in employer contributions is reviewed by GRS in the memowhich is to change amortization period. This will be discussed more at our meeting.

We also asked GRS to prepare funded status projections based on this updated information, which is Attachment 2.

A representative from GRS will be available at the Board meeting, via conference call, to review their results.

Board Action Requested: Determine if amortization period should be changed

Staff Recommendation: Defer action on the amortization period for this valuation and study this during the upcoming year for consideration before the next valuation.

Attachments

GRS

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September 14, 2016

ATTACHMENT 1

Board Members
North Dakota Public Employees Retirement System
Bismarck, North Dakota

Re: Results of Replication of July 1, 2015, Actuarial Valuation Results – Highway Patrolmen's Retirement System

Members of the Board:

In accordance with your request, we have replicated the actuarial valuation results from the actuarial valuation of the Highway Patrolmen's Retirement System as of July 1, 2015, performed by Segal Consulting.

This letter contains the following exhibit which compares the actuarial valuation results from the July 1, 2015, actuarial valuation of the of the Highway Patrolmen's Retirement System performed by Segal with the comparable July 1, 2015, actuarial valuation performed by GRS using the same census data, methods and assumption as used in the 2015 actuarial valuations (based on information provided to us by Segal).

- Exhibit I Detailed Comparison of Actuarial Valuation Results – Highway Patrol

<u>Summary of Results</u>

As shown in Exhibit I in the column "GRS", the active member actuarial accrued liability (active member AAL) and active member present value of future benefits (active member PVFB) that GRS calculated were significantly higher than the amounts calculated by Segal in the actuarial valuation as of July 1, 2015. (The present value of future benefits is defined as the current discounted value of all future monthly benefits payable to a pensioner. The actuarial accrued liability is the portion of the present value of future benefits allocated to past service.) PVFB results within 5% generally indicate that calculations of projected benefits to be paid from the Systems were performed consistently between the two firms.

Because the results were not as close as we would have expected, we requested and Segal provided additional information regarding the valuation of the active member PVFB and AAL. Based on our analysis of the additional information provided by Segal, we discovered that the projected benefits used to calculate the PVFB and the AAL were being limited by the Internal Revenue Code (IRC) Section 415 limits applicable to the year 2015. These benefit limit amounts are shown in Exhibit II.

Applying this same methodology (i.e., limiting projected future benefits to the 2015 IRC Section 415 limits), GRS was able to replicate the Segal results. The results using this method are shown in Exhibit I in the column "GRS – frozen 415 limits". Although GRS was able to replicate the Segal results very closely, we do not recommend limiting future benefits that could be payable

20-30 years from the current valuation date by the Section 415 limit that is applicable to the current year.

Our recommendation is to limit projected future benefits of active members by projected Section 415 limits (instead of by the Section 415 limit that is applicable to the current year.) We believe this is a more reasonable approach and is the typical approach that is used by most public sector pension plans. We projected the 2015 limits into future years using the price inflation assumption of 3.50 percent per year.

The active member actuarial valuation results based on using a projected IRC 415 limit are shown in Exhibit I in the column "GRS – projected 415 limits". These results are slightly lower than those shown in the column "GRS". We recommend that beginning with the 2016 actuarial valuation, the method consistent with the results in the column "GRS – projected 415 limits" be incorporated into the annual actuarial valuation. This is expected to increase the actuarial employer contribution rate by about 6 percent of pay. This method anticipates future year increases in the 415 limit and is not expected to result in unanticipated actuarial increases in the AAL in future years as the 415 limit increases in the future.

Employer Actuarial Contribution Rate Under Alternative Amortization Periods

The current employer statutory contribution rate (19.70%) is less than the actuarial employer rate using a 20-year level percentage of payroll amortization method (27.48%). In the table below, we have illustrated the actuarial employer contribution rate based on the actuarial valuation results that reflect projected 415 limits using alternative amortization periods. For illustrative purposes, we have shown amortization periods longer than 30 years. However, we recommend a funding policy that uses an amortization period of no longer than 30 years. As the table indicates, using an amortization period of 30 years, instead of 20 years, reduces the statutory employer rate deficit from 7.78% to 3.99%.

	Alternative Number of Years for Amortization Period			
	20	**30**	**40**	**50**
Unfunded Actuarial Accrued Liability	$25,182,487	$25,182,487	$25,182,487	$25,182,487
Estimated Annual Salaries of Covered Members	10,725,877	10,725,877	10,725,877	10,725,877
Employer Normal Cost	1,157,658	1,157,658	1,157,658	1,157,658
Administrative Expenses	32,007	32,007	32,007	32,007
Amortization of the UAAL as a Level % of Payroll	1,757,493	1,350,931	1,158,204	1,050,410
Total Employer Cost for Ensuing Year	2,947,158	2,540,597	2,347,870	2,240,076
Total Employer Cost as % of Pay	27.48%	23.69%	21.89%	20.88%
Statutory Employer Contribution Rate	19.70%	19.70%	19.70%	19.70%
Statutory Employer Rate Deficiency	-7.78%	-3.99%	-2.19%	-1.18%

Disclosures and Additional Information

The actuarial assumptions used by GRS were the same assumptions used in the actuarial valuation as of July 1, 2015, as disclosed in the Segal report, including an assumed rate of investment return of 8.00 percent, with the exception of the approach to projecting Section 415 limits.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss, EA, MAAA, FCA
Senior Consultant and Team Leader

Amy Williams, ASA, MAAA, FCA
Consultant

AW:rl

cc: Mr. Sparb Collins, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Sharon Schiermeister, NDPERS
Mr. Alex Rivera, Gabriel, Roeder, Smith & Company
Ms. Kristen Brundirks, Gabriel, Roeder, Smith & Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith & Company

Exhibit I

North Dakota Public Employees Retirement System
July 1, 2015 Valuation
Summary - Highway Patrol

	Comparison of Replication Results - No IRC Section 415 Limits Applied				Comparison of Replication Results with Segal Results - IRC Section 415 Limits Applied					
	Segal	**GRS**	**Delta $**	**Delta %**	**GRS - frozen 415 limits**	**Delta $**	**Delta %**	**GRS - projected 415 limits**	**Delta $**	**Delta %**
Number of Active Members	161	161	-	0.00%	161	-	0.00%	161	-	0.00%
Average Age	35.3	35.3	-	0.00%	35.3	-	0.00%	35.3	-	0.00%
Average Years of Benefit Service	8.6	8.6	-	0.00%	8.6	-	0.00%	8.6	-	0.00%
Average Years of Vesting Service		9.2	NA		8.6	NA		8.8	NA	
Total Payroll	$ 9,967,249	$ 9,967,249	$ -	0.00%	$ 9,967,249	$ -	0.00%	$ 9,967,249	$ -	0.00%
Projected Annual Compensation	10,774,341	10,725,877	(48,464)	-0.45%	10,725,877	(48,464)	-0.45%	10,725,877	(48,464)	-0.45%
Average Compensation	61,908	61,908	-	0.00%	61,908	-	0.00%	61,908	-	0.00%
Average Projected Annual Compensation	66,921	66,620	(301)	-0.45%	66,620	(301)	-0.45%	66,620	(301)	-0.45%
Contribution Account Balance	12,312,314	12,312,358	44	0.00%	12,312,358	44	0.00%	12,312,358	44	0.00%
1. Present Value of Benefits										
Active Members	$ 50,242,223	$ 65,315,619	$ 15,073,396	30.00%	$ 50,123,417	$ (118,806)	-0.24%	$ 64,025,537	$ 13,783,314	27.43%
Retired Members and Beneficiaries	50,308,102	50,174,079	(134,023)	-0.27%	50,174,079	(134,023)	-0.27%	50,174,079	(134,023)	-0.27%
Inactive Non-Retired Members	3,816,342	3,650,680	(165,662)	-4.34%	3,650,680	(165,662)	-4.34%	3,650,680	(165,662)	-4.34%
Total	$ 104,366,667	$ 119,140,378	$ 14,773,711	14.16%	$ 103,948,176	$ (418,491)	-0.40%	$ 117,850,296	$ 13,483,629	12.92%
2. Actuarial Accrued Liability										
Active Members	$ 25,987,773	$ 30,642,960	$ 4,655,187	17.91%	$ 25,762,839	$ (224,934)	-0.87%	$ 30,233,259	$ 4,245,486	16.34%
Retired Members and Beneficiaries	50,308,102	50,174,079	(134,023)	-0.27%	50,174,079	(134,023)	-0.27%	50,174,079	(134,023)	-0.27%
Inactive Non-Retired Members	3,816,342	3,650,680	(165,662)	-4.34%	3,650,680	(165,662)	-4.34%	3,650,680	(165,662)	-4.34%
Total	$ 80,112,217	$ 84,467,719	$ 4,355,502	5.44%	$ 79,587,598	$ (524,619)	-0.65%	$ 84,058,018	$ 3,945,801	4.93%
3. Actuarial Value of Assets	$ 58,875,531	$ 58,875,531	$ -	0.00%	$ 58,875,531	$ -	0.00%	$ 58,875,531	$ -	0.00%
4. Funded Ratio (3./2.)	73.5%	69.7%		-3.8%	74.0%		0.5%	70.0%		-3.4%
5. Unfunded Actuarial Accrued Liability (2.-3.)	$ 21,236,686	$ 25,592,188	$ 4,355,502	20.51%	$ 20,712,067	$ (524,619)	-2.47%	$ 25,182,487	$ 3,945,801	18.58%
6. Total Normal Cost for Ensuing Year	$ 2,226,286	$ 2,633,932	$ 407,646	18.31%	$ 2,029,467	$ (196,819)	-8.84%	$ 2,584,200	$ 357,914	16.08%
7. Estimated Annual Salaries of Covered Members	$ 10,774,341	$ 10,725,877	$ (48,464)	-0.45%	$ 10,725,877	$ (48,464)	-0.45%	$ 10,725,877	$ (48,464)	-0.45%
8. Member Normal Cost	$ 1,432,987	$ 1,426,542	$ (6,445)	-0.45%	$ 1,426,542	$ (6,445)	-0.45%	$ 1,426,542	$ (6,445)	-0.45%
9. Employer Normal Cost (6.-8.)	$ 793,299	$ 1,207,390	$ 414,091	52.20%	$ 602,925	$ (190,374)	-24.00%	$ 1,157,658	$ 364,359	45.93%
10. Employer Normal Cost as % of Pay	7.36%	11.26%		3.89%	5.62%		-1.74%	10.79%		3.43%
11. Amortization Payment - Equals 20-Year Amortization of the UAAL as a Level % of Payroll	$ 1,482,114	$ 1,786,086	$ 303,972	20.51%	$ 1,445,501	$ (36,613)	-2.47%	$ 1,757,493	$ 275,379	18.58%
12. Administrative Expenses	$ 32,007	$ 32,007	$ -	0.00%	$ 32,007	$ -	0.00%	$ 32,007	$ -	0.00%
13. Total Employer Cost for Ensuing Year (9.+11.+12.)	$ 2,307,420	$ 3,025,483	$ 718,063	31.12%	$ 2,080,433	$ (226,987)	-9.84%	$ 2,947,158	$ 639,738	27.73%
14. Total Employer Cost as % of Pay (13./7.)	21.42%	28.21%		6.79%	19.40%		-2.02%	27.48%		6.06%
15. Statutory Employer Contribution Rate	19.70%	19.70%		0.00%	19.70%		0.00%	19.70%		0.00%
16. Employer Statutory Rate - Actuarial Rate (15.-14.)	-1.72%	-8.51%			0.30%			-7.78%		

IRC SECTION 415(b)(1)(A) DOLLAR LIMITS – 2015
APPLICABLE TO BENEFITS PAID AS STRAIGHT LIFE OR QUALIFIED JOINT & SURVIVOR ANNUITIES

For Members with at least 10 Years Participation in a Public Employee Retirement Plan
and Who Do Not Have at Least 15 Years of Police, Fire and/or Armed Forces Service as Defined in the Final Regulations Issued on April 5, 2007

Retirement	Completed Months											
Age	0	1	2	3	4	5	6	7	8	9	10	11
65	210,000											
64	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
63	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
62	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
61	194,636	195,916	197,197	198,477	199,757	201,038	202,318	203,598	204,879	206,159	207,439	208,720
60	180,688	181,850	183,013	184,175	185,337	186,500	187,662	188,824	189,987	191,149	192,311	193,474
59	167,995	169,053	170,111	171,168	172,226	173,284	174,342	175,399	176,457	177,515	178,573	179,630
58	156,414	157,379	158,344	159,309	160,274	161,239	162,205	163,170	164,135	165,100	166,065	167,030
57	145,825	146,707	147,590	148,472	149,355	150,237	151,120	152,002	152,884	153,767	154,649	155,532
56	136,122	136,931	137,739	138,548	139,356	140,165	140,974	141,782	142,591	143,399	144,208	145,016
55	127,213	127,955	128,698	129,440	130,183	130,925	131,668	132,410	133,152	133,895	134,637	135,380
54	119,017	119,700	120,383	121,066	121,749	122,432	123,115	123,798	124,481	125,164	125,847	126,530
53	111,465	112,094	112,724	113,353	113,982	114,612	115,241	115,870	116,500	117,129	117,758	118,388
52	104,492	105,073	105,654	106,235	106,816	107,397	107,979	108,560	109,141	109,722	110,303	110,884
51	98,043	98,580	99,118	99,655	100,193	100,730	101,268	101,805	102,342	102,880	103,417	103,955
50	92,070	92,568	93,066	93,563	94,061	94,559	95,057	95,554	96,052	96,550	97,048	97,545
49	86,528	86,990	87,452	87,914	88,375	88,837	89,299	89,761	90,223	90,685	91,146	91,608
48	81,380	81,809	82,238	82,667	83,096	83,525	83,954	84,383	84,812	85,241	85,670	86,099
47	76,590	76,989	77,388	77,788	78,187	78,586	78,985	79,384	79,783	80,183	80,582	80,981
46	72,128	72,500	72,872	73,244	73,615	73,987	74,359	74,731	75,103	75,475	75,846	76,218
45	67,967	68,314	68,661	69,007	69,354	69,701	70,048	70,394	70,741	71,088	71,435	71,781
44	64,082	64,406	64,730	65,053	65,377	65,701	66,025	66,348	66,672	66,996	67,320	67,643
43	60,451	60,754	61,056	61,359	61,661	61,964	62,267	62,569	62,872	63,174	63,477	63,779
42	57,054	57,337	57,620	57,903	58,186	58,469	58,753	59,036	59,319	59,602	59,885	60,168
41	53,873	54,138	54,403	54,668	54,933	55,198	55,464	55,729	55,994	56,259	56,524	56,789
40	50,892	51,140	51,389	51,637	51,886	52,134	52,383	52,631	52,879	53,128	53,376	53,625
39	48,096	48,329	48,562	48,795	49,028	49,261	49,494	49,727	49,960	50,193	50,426	50,659
38	45,471	45,690	45,909	46,127	46,346	46,565	46,784	47,002	47,221	47,440	47,659	47,877
37	43,005	43,211	43,416	43,622	43,827	44,033	44,238	44,444	44,649	44,855	45,060	45,266
36	40,687	40,880	41,073	41,267	41,460	41,653	41,846	42,039	42,232	42,426	42,619	42,812
35	38,506	38,688	38,870	39,051	39,233	39,415	39,597	39,778	39,960	40,142	40,324	40,505

Before Age 62: The limit at age 62 is reduced for early commencement using 5.0% interest, beginning of month payments, the 2015 Applicable Mortality Table (as published in IRS Notice 2013-49), and assumes forfeitable accrued benefits upon death prior to retirement.

After Age 65: The table is designed for plans that do not provide for actuarial increases in benefits for delayed retirement; consequently, the values do not increase after age 65.

Caution: *This table is intended to illustrate the age-reduced IRC §415(b) limits, but should not be used to test an individual member's benefit. Testing an individual's benefit involves many factors, some of which may be adjusting for the form of benefit or for post-tax member contributions, or testing coverage under multiple plans sponsored by a single employer. An individual member's benefits should never be adjusted directly from this table before consulting with qualified actuarial consultants and legal counsel.*

This exhibit shall not be construed to provide tax advice, legal advice or investment advice.

GRS

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September 14, 2016

ATTACHMENT 2

Board Members
North Dakota Public Employees Retirement System
Bismarck, North Dakota

Re: North Dakota Highway Patrolmen's Retirement System Projections Based on Measurement Date of July 1, 2015

Dear Board Members:

In accordance with your request, we have performed a projection of the North Dakota Highway Patrolmen's Retirement System based on a measurement date as of July 1, 2015, using the methodology that GRS is recommending to implement in the actuarial valuation as of July 1, 2016.

Our recommendation is to limit projected future benefits of active members by projected Section 415 limits (instead of by the Section 415 limit that is applicable to the current year, which is the method that was used by Segal in the July 1, 2015 valuation) We believe this is a more reasonable approach and is the typical approach that is used by most public sector pension plans. We projected the 2015 limits into future years using the price inflation assumption of 3.50 percent per year. Additional information about the recommended methodology can be found in our letter dated September 14, 2016 and titled *Results of Replication of July 1, 2015, Actuarial Valuation Results – Highway Patrolmen's Retirement System.*

Below is a summary of the projected funded ratio and employer contribution rates on an actuarial value of assets basis and a market value of assets:

Year	Highway Patrolmen's Retirement System				
	Funded Ratio		Employer Actuarial Contribution Rate Based on 20-Year Amortization Period		Employer Statutory Rate
	AVA	MVA	AVA	MVA	
2015	70.0%	79.3%	27.48%	22.40%	19.70%
2016	69.9%	79.5%	27.18%	22.03%	19.70%
2017	71.2%	80.0%	26.33%	21.64%	19.70%
2018	72.1%	80.6%	25.75%	21.24%	19.70%
2019	72.1%	81.2%	25.68%	20.87%	19.70%
2020	72.8%	81.9%	25.37%	20.53%	19.70%
2025	75.9%	85.4%	24.08%	18.84%	19.70%
2030	79.1%	89.0%	22.75%	17.00%	19.70%
2035	82.3%	92.7%	21.34%	14.98%	19.70%
2040	85.6%	96.6%	19.57%	12.66%	19.70%
2045	89.4%	100.8%	17.27%	9.96%	19.70%

Summary of Projection Results

The following exhibits provide additional information on the projection of the North Dakota Highway Patrolmen's Retirement System

- Exhibit I: Summary of Actuarial Valuation Results as of July 1, 2015
- Graph I: Projected Funded Ratio and Contribution Rate for the Highway Patrol
- Exhibit II: Projected Actuarial Valuation Results for the Highway Patrol

The statutory employer contribution rate is lower than the actuarial employer contribution rate until 2040 based on the actuarial value of assets and until 2023 based on the market value of assets. Based on the market value of assets and assuming all assumptions are realized, including earning an annual rate of investment return of 8.0 percent, the System is projected to be 100% funded by 2045.

Under the current asset valuation method, if the investment return assumption of 8.0 percent is realized in future periods, the actuarial value of assets will consistently be lower than the market value of assets. **We recommend reviewing the asset smoothing method along with the economic assumptions (rate of inflation, investment return, payroll growth assumption) before the next actuarial valuation as of July 1, 2017.**

We recommend evaluating whether a change is needed in the statutory employer contribution rate after fully reviewing the asset smoothing method and economic assumptions used in the actuarial valuation.

Projection Assumptions

Following is a summary of the assumptions made for new hires used in the projections. The average new hire information is based on the average of members with at least one year and less than five years of service. The average assumed new hire salary is based on projecting the valuation salary from the 2015 valuation back to hire age using the assumed salary increase assumption and then projecting forward to the 2015 valuation using the assumed wage inflation assumption of 4.5 percent per year. The projections assume that the number of active members remains the same in each future year as the number as of the most recent valuation of July 1, 2015.

	Highway Patrol	
	Current Members	Assumed New Hires
Average Age	35.3	26.1
Average Benefit Service	8.6	0.0
Average Salary	$66,620	$53,529
Normal Cost Rate (Benefits)	24.09%	23.71%

Disclosures and Additional Information

GRS has prepared this analysis exclusively for the Trustees of the North Dakota Highway Patrolmen's Retirement System; GRS is not responsible for reliance upon this report by any other party. This report may be provided to parties other than the North Dakota Highway Patrolmen's Retirement System only in its entirety and only with the permission of the Board.

The actuarial assumptions used in this analysis were the same assumptions used in the actuarial valuation as of July 1, 2015 prepared by Segal, including an assumed rate of investment return of 8.00 percent on the market value of assets in each future year, with the exception of the approach to projecting Section 415 limits. A summary of the actuarial assumptions can be found in Appendix I of this letter.

A summary of the current benefit provisions can be found in Appendix II of this letter.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss   Amy Williams

Lance J. Weiss, EA, MAAA, FCA
Senior Consultant and Team Leader

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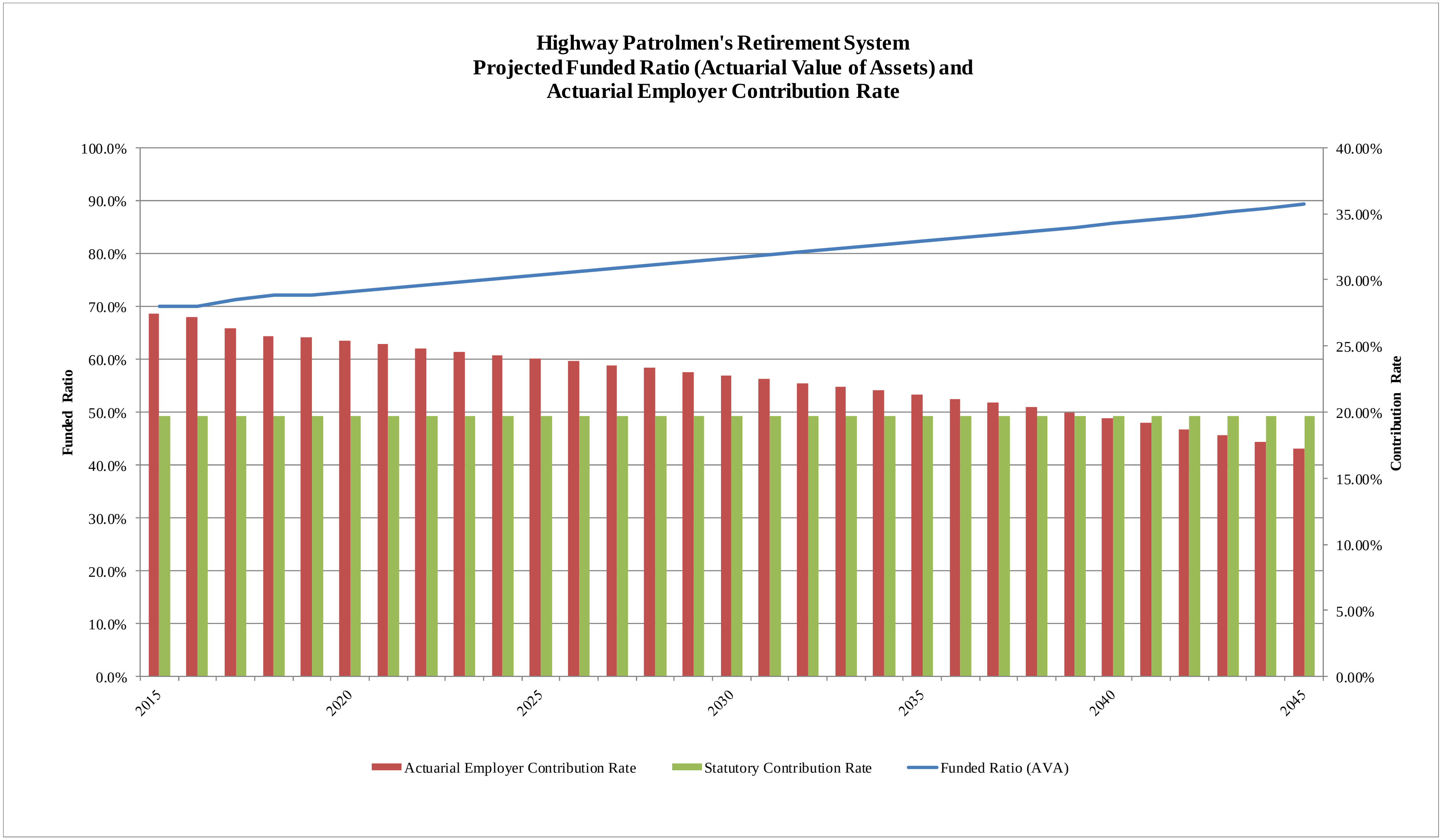
Ms. Kristen Brundirks, Gabriel, Roeder, Smith & Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith & Company

Highway Patrol	Total Normal Cost*	Employee Rate	Net Employer Normal Cost	Actuarial Value of Assets Basis: Unfunded Liability Rate	Actuarial Value of Assets Basis: Total Employer Actuarial Rate	Actuarial Value of Assets Basis: Employer Statutory Rate	Actuarial Value of Assets Basis: Statutory Rate Deficiency	Market Value of Assets Basis: Unfunded Liability Rate	Market Value of Assets Basis: Total Employer Actuarial Rate	Market Value of Assets Basis: Employer Statutory Rate	Market Value of Assets Basis: Statutory Rate Deficiency
2015 Valuation Results	20.96%	13.30%	7.66%	13.76%	21.42%	19.70%	1.72%	8.70%	16.36%	19.70%	-3.34%
GRS 2015 Replication Results	24.39%	13.30%	11.09%	16.39%	27.48%	19.70%	7.78%	11.31%	22.40%	19.70%	2.70%

**Includes assumed administrative expenses.*

Unfunded liability rate is based on 20-year open level percentage of payroll amortization of the unfunded liability.


Highway Patrolmen's Retirement System
Projected Funded Ratio (Actuarial Value of Assets) and
Actuarial Employer Contribution Rate
Funded Ratio
Contribution Rate
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
2015
2020
2025
2030
2035
2040
2045
Actuarial Employer Contribution Rate
Statutory Contribution Rate
Funded Ratio (AVA)

North Dakota Highway Patrolmen's Retirement System
Projection Results Based on the Actuarial Valuation as of July 1, 2015
($ in thousands)

			Results Based on Actuarial Value of Assets				Employer Actuarial Rate (%)			Statutory Contribution Amount ($)				Results Based on Market Value of Assets			Member Counts	
Year	Present Value Future Benefits	Actuarial Accrued Liability	Assets	Unfunded Accrued Liability	Funded Ratio	Projected Payroll	Normal Cost	Amortization of UAL	Total	Employer (19.70%)	Employee (13.30%)	Total	Benefit Payments and Expenses	Assets	Funded Ratio	Employer Actuarial Rate	Active	Ben Recip.
2015	$ 117,850	$ 84,058	$ 58,876	$ 25,182	70.0%	$ 10,726	11.09%	16.39%	27.48%	$ 2,002	$ 1,448	$ 3,451	$ 4,776	$ 66,676	79.3%	22.40%	161	128
2016	122,904	87,568	61,231	26,337	69.9%	11,400	11.06%	16.12%	27.18%	2,113	1,427	3,540	5,811	69,649	79.5%	22.03%	161	130
2017	129,060	92,400	65,803	26,598	71.2%	12,135	11.03%	15.30%	26.33%	2,246	1,516	3,762	4,976	73,960	80.0%	21.64%	161	131
2018	135,714	97,707	70,432	27,275	72.1%	12,895	10.99%	14.76%	25.75%	2,391	1,614	4,004	5,073	78,766	80.6%	21.24%	161	132
2019	142,914	103,498	74,663	28,835	72.1%	13,671	10.96%	14.72%	25.68%	2,540	1,715	4,255	5,203	84,082	81.2%	20.87%	161	133
2020	150,588	109,775	79,877	29,898	72.8%	14,460	10.94%	14.43%	25.37%	2,693	1,818	4,512	5,373	89,913	81.9%	20.53%	161	136
2021	158,887	116,489	85,493	30,996	73.4%	15,252	10.93%	14.18%	25.11%	2,849	1,923	4,772	5,632	96,212	82.6%	20.21%	161	139
2022	167,753	123,622	91,503	32,120	74.0%	16,083	10.90%	13.94%	24.84%	3,005	2,029	5,033	5,941	102,966	83.3%	19.86%	161	144
2023	177,078	131,234	97,973	33,262	74.7%	16,942	10.87%	13.70%	24.57%	3,168	2,139	5,307	6,236	110,238	84.0%	19.52%	161	147
2024	186,997	139,347	104,930	34,417	75.3%	17,844	10.84%	13.46%	24.30%	3,337	2,253	5,591	6,550	118,060	84.7%	19.17%	161	150
2025	197,629	147,867	112,289	35,578	75.9%	18,715	10.81%	13.27%	24.08%	3,515	2,373	5,889	7,004	126,346	85.4%	18.84%	161	154
2026	208,970	156,722	119,983	36,738	76.6%	19,604	10.78%	13.08%	23.86%	3,687	2,489	6,176	7,551	135,025	86.2%	18.50%	161	160
2027	220,584	166,087	128,196	37,891	77.2%	20,604	10.74%	12.83%	23.57%	3,862	2,607	6,469	7,956	144,282	86.9%	18.13%	161	163
2028	232,828	175,901	136,878	39,023	77.8%	21,589	10.71%	12.62%	23.33%	4,059	2,740	6,799	8,488	154,070	87.6%	17.77%	161	167
2029	245,575	186,231	146,098	40,133	78.4%	22,650	10.68%	12.37%	23.05%	4,253	2,871	7,124	8,985	164,462	88.3%	17.39%	161	170
2030	258,812	197,174	155,959	41,215	79.1%	23,783	10.66%	12.09%	22.75%	4,462	3,013	7,475	9,449	175,567	89.0%	17.00%	161	172
2031	272,895	208,667	166,404	42,262	79.7%	24,903	10.63%	11.84%	22.47%	4,685	3,163	7,848	10,039	187,336	89.8%	16.61%	161	175
2032	287,514	220,784	177,515	43,269	80.4%	26,103	10.61%	11.57%	22.18%	4,906	3,312	8,218	10,594	199,853	90.5%	16.21%	161	178
2033	303,286	233,286	189,066	44,219	81.0%	27,193	10.60%	11.35%	21.95%	5,142	3,472	8,614	11,451	212,894	91.3%	15.83%	161	182
2034	319,533	246,196	201,090	45,106	81.7%	28,381	10.57%	11.09%	21.66%	5,357	3,617	8,974	12,287	226,482	92.0%	15.42%	161	185
2035	336,337	259,695	213,790	45,906	82.3%	29,701	10.55%	10.79%	21.34%	5,591	3,775	9,366	13,001	240,822	92.7%	14.98%	161	188
2036	353,928	273,803	227,201	46,602	83.0%	31,046	10.53%	10.48%	21.01%	5,851	3,950	9,801	13,777	255,957	93.5%	14.54%	161	191
2037	372,653	288,315	241,134	47,181	83.6%	32,349	10.52%	10.18%	20.70%	6,116	4,129	10,245	14,800	271,700	94.2%	14.10%	161	195
2038	391,913	303,183	255,556	47,626	84.3%	33,702	10.51%	9.86%	20.37%	6,373	4,302	10,675	15,893	288,013	95.0%	13.65%	161	199
2039	411,627	318,656	270,737	47,920	85.0%	35,295	10.49%	9.48%	19.97%	6,639	4,482	11,122	16,786	305,168	95.8%	13.16%	161	202
2040	432,661	334,579	286,555	48,024	85.6%	36,875	10.48%	9.09%	19.57%	6,953	4,694	11,647	17,934	323,048	96.6%	12.66%	161	206
2041	454,360	350,915	302,997	47,917	86.3%	38,486	10.47%	8.69%	19.16%	7,264	4,904	12,169	19,146	341,641	97.4%	12.15%	161	210
2042	476,401	367,931	320,346	47,585	87.1%	40,294	10.47%	8.24%	18.71%	7,582	5,119	12,700	20,143	361,237	98.2%	11.63%	161	212
2043	499,587	385,611	338,613	46,998	87.8%	42,148	10.46%	7.78%	18.24%	7,938	5,359	13,297	21,261	381,860	99.0%	11.08%	161	215
2044	524,010	403,874	357,743	46,131	88.6%	44,092	10.46%	7.30%	17.76%	8,303	5,606	13,909	22,517	403,463	99.9%	10.53%	161	218
2045	549,155	422,809	377,859	44,951	89.4%	46,131	10.47%	6.80%	17.27%	8,686	5,864	14,550	23,754	426,175	100.8%	9.96%	161	221

ACTUARIAL ASSUMPTIONS

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using ***the Individual Entry Age Normal*** *actuarial cost method* having the following characteristics:

- The normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and
- Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Financing of Unfunded Actuarial Accrued Liabilities. The unfunded actuarial accrued liability is amortized using 20-year open level-percentage of pay amortization of the unfunded liability as of the valuation date.

Actuarial Value of Pension Plan Assets. The asset value is the actuarial value of assets which is calculated by recognizing 100 percent of the current year's interest and dividends and 20 percent of the current year and previous four years' total appreciation/(depreciation). The total appreciation/(depreciation) for a given year is fully recognized after a five year period.

Valuation Assumptions

The contribution and benefit values of the System are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost method described above.

The principal areas of financial risk which require assumptions about future experiences are:

- Long-term rates of investment return to be generated by the assets of the Plan;
- Patterns of pay increases to members;
- Rates of mortality among members, retirees and beneficiaries;
- Rates of withdrawal of active members;
- Rates of disability among members; and
- The age patterns of actual retirement.

In a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives; a period of time which can be as long as a century.

Actual experience of the Plan will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). Thus, an experience review of the North Dakota Highway Patrolmen's Retirement System for the period July 1, 2009, to July 1, 2014, was performed to compare the demographic and economic experience against the actuarial assumptions used in the valuations. The actuarial assumptions described in this section were adopted by the Board for use beginning with the July 1, 2015, valuation. Additional information regarding the rationale for the assumptions may be found in the 2015 experience review report. **The experience review was performed by the prior actuary.** All actuarial assumptions are expectations of future experience, not current market measures.

ACTUARIAL ASSUMPTIONS

The assumed rate of investment return used was 8.00%, net of expenses, annually.

The assumed rate of price inflation is 3.50 percent.

No Cost of Living Adjustments (COLA) are provided to benefits recipients. Therefore, there is no assumption for this valuation.

The rates of annual salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

Service At Beginning of Year	Increase Rate
0	15.00%
1	10.00%
2	8.00%
Age	
Under 36	8.00%
36 - 40	7.50%
41 - 49	6.00%
50+	5.00%

The assumed rate of total payroll growth used in amortizing the unfunded liability as a level percentage of pay is 4.50 percent

The assumed rate of benefit indexing for inactive vested benefits is 4.00 percent.

Application of Internal Revenue Code Section 415 Limits
Benefits for future retirees are assumed to be limited by the IRC Section 415 limits.

The limit for retirement ages of 62 and older is $210,000 in 2015. The limits for retirement ages before age 62 are reduced from age 62 for early commencement using 5.0% interest, beginning of month payments, the 2015 Applicable Mortality Table (as published in IRS Notice 2013-49), and assumes forfeitable accrued benefits upon death prior to retirement.

The projected limits are assumed to increase by 3.50 annually.

ACTUARIAL ASSUMPTIONS

The mortality assumptions are as follows:

	Male Setback	Female Setback
RP-2000 Combined Healthy Mortality Table (healthy mortality)	2 years	3 years
RP-2000 Disabled Retiree Mortality Table (disabled post retirement)*	1 year	0 years

*Rates multiplied by 125 percent.

To provide a margin for future mortality improvements, generational mortality improvements from the year 2014 using the Social Security Administration (SSA) 2014 Intermediate Cost scale were assumed.

Following is a table with the life expectancies by age as of the valuation date.

	Healthy Mortality		Disabled Mortality	
	Post-Retirement Future Life Expectancy (years) in 2015		Future Life Expectancy (years) in 2015	
Age	Men	Women	Men	Women
20	67.55	71.96	32.00	49.54
25	62.15	66.55	30.13	45.71
30	56.76	61.13	28.14	41.80
35	51.39	55.72	26.03	37.81
40	46.08	50.35	23.67	33.67
45	40.81	45.01	20.99	29.37
50	35.60	39.74	18.12	25.13
55	30.48	34.54	15.64	21.39
60	25.54	29.47	13.47	18.11
65	20.89	24.62	11.45	15.12
70	16.65	20.14	9.49	12.35
75	12.83	16.03	7.64	9.85
80	9.52	12.38	6.04	7.71
85	6.79	9.21	4.74	5.90
90	4.72	6.63	3.58	4.44
95	3.36	4.84	2.52	3.36
100	2.56	3.82	1.90	2.73
105	2.13	3.11	1.59	2.13

ACTUARIAL ASSUMPTIONS

Rates of separation from active membership are represented by the following table (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members terminating employment.

Service Beginning of Year	Service and Age-Based Rates For First Five Years of Service Rates
0	10.00%
1	5.00%
2	5.00%
3	5.00%
4	5.00%

Age	Rates
Under 35	2.50%
35+	1.00%

Vested participants that terminate are assumed to elect the option with the greater present value:

1) *A refund of their accumulated contributions with interest or*
2) *A deferred benefit.*

Withdrawal rates end upon eligibility for early retirement.

Early retirement eligibility is as follows:
Age 50 and 10 years of service.

ACTUARIAL ASSUMPTIONS

Rates of disability:

Before age 65: Males: 20% of OASDI disability incidence rates.
Females: 10% of OASDI disability incidence rates.
Age 65 and later: 0.25% per year.

Rates of disability were as follows:

	All Plans	
Age	**Male**	**Female**
20	0.0120%	0.0060%
25	0.0171%	0.0085%
30	0.0220%	0.0110%
35	0.0295%	0.0147%
40	0.0440%	0.0220%
45	0.0719%	0.0360%
50	0.1212%	0.0606%
55	0.2018%	0.1009%
60	0.3254%	0.1627%
65	0.2500%	0.2500%

Rates of retirement for members eligible to retire during the next year were as follows:

Age	Rates
50	20.00%
51	20.00%
52	20.00%
53	20.00%
54	20.00%
55+	100.00%

Assumed Service Credit: All active members (full time and part time) are assumed to earn one full year of service for each assumed future year of service.

Transferred Members with Service in PERS: For members that have transferred to or from PERS, there are liabilities held in each System based on the service in each System. The actuarial assumptions that are used are based on the System in which the member is active.

Marital Status: It is assumed that 100 percent of participants have an eligible spouse at the time of retirement or pre-retirement death. The male spouse is assumed to be three years older than the female spouse.

ACTUARIAL ASSUMPTIONS

Form of Payment Election Assumption:

Form of Payment	**Election Percentage**
50% Joint and Survivor	100%

Benefit Service: Exact fractional years of service are used to determine the amount of benefit payable.

Decrement Timing: All decrements are assumed to occur at the middle of the year.

Decrement Operation: Turnover decrements do not operate after the member reaches retirement eligibility (early or normal).

Eligibility Testing: Eligibility for benefits is determined based upon the age nearest birthday and service on the date the decrement is assumed to occur.

Pay Increase Timing: End of (fiscal) year.

Expenses: Assumed administrative expenses were added to the Normal Cost and are based on the prior year's expenses, adjusted for inflation. The assumed amount added to the Normal Cost is:

Expenses	
Assumed FY 2015	$ 18,630
Actual FY 2015	30,925
Assumed FY 2016	32,007

Assumptions for Missing or Incomplete Data:

Changes in Valuation Assumptions and Methods Since the Previous Valuation

There have been no changes in valuation assumptions or methods since the previous valuation as of July 1, 2014.

BENEFIT PROVISIONS

This exhibit summarizes the major benefit provisions of the North Dakota Highway Patrolmen's Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions.

1. **Normal Service Retirement:**

Eligibility:

Attainment of age 55 with at least 10 years of eligible employment, or at any age with age plus service equal to at least 80 (Rule of 80).

Benefit:

3.60% of final average salary for each of the first 25 years of service plus 1.75% of final average salary for service in excess of 25 years.

2. **Early Retirement:**

Eligibility:

Attainment of age 50 with 10 years of eligible employment.

Benefit:

The Normal Service Retirement benefit as determined above, reduced by one-half of one percent for each month before age 55.

3. **Disability Benefit:**

Eligibility:

Accumulation of six months of service and inability to engage in substantial gainful activity.

Benefit:

70% of the member's final average salary at disability minus workers' compensation, with a minimum of $100 per month

4. **Deferred Vested Retirement:**

Eligibility:

Ten years of eligible employment.

Benefit:

The Normal Service Retirement benefit payable at age 55 or the Rule of 80, if earlier.

BENEFIT PROVISIONS

Vested benefits are indexed at a rate set by the Retirement Board based on the increase in final average salary from date of termination to benefit commencement date, as follows:

Year Beginning	Average Annual Increase	Three-Year Average Increase	Cumulative Salary Increase
7/1/1994	3.00%	3.01%	3.01%
7/1/1995	2.00	2.86	5.95
7/1/1996	2.00	2.33	8.42
7/1/1997	3.00	2.33	10.95
7/1/1998	1.80	2.27	13.47
7/1/1999	1.26	2.02	15.76
7/1/2000	2.00	1.69	17.71
7/1/2001	1.81	1.69	19.70
7/1/2002	1.73	1.85	21.91
7/1/2003	0.00	1.18	23.35
7/1/2004	0.00	0.58	24.06
7/1/2005	4.00	1.33	25.72
7/1/2006	4.00	2.67	29.07
7/1/2007	4.00	4.00	34.23
7/1/2008	4.00	4.00	39.60
7/1/2009	5.00	4.33	45.65
7/1/2010	5.00	4.67	52.45
7/1/2011	2.00	4.00	58.55
7/1/2012	2.00	3.00	63.30
7/1/2013	3.00	2.33	67.11
7/1/2014	3.00	2.67	70.11
7/1/2015	3.00	3.00	73.11

Reduced early retirement benefits can be elected upon attainment of age 50.

5. Pre-Retirement Death Benefits:

(a) Eligibility:

Ten years of eligible employment.

Benefit:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- 50% of the member's accrued benefit (not reduced on account of age) for the surviving spouse's lifetime.

(b) Eligibility:

Less than 10 years of service.

Benefit:

Lump sum payment of member's accumulated contributions with interest.

6. Normal and Optional Forms of Payment:

Normal form of payment:

Monthly benefit for life with 50% of the benefit continuing for the life of the surviving spouse (if any).

Optional forms of payment:

- 100% joint and survivor annuity
- Twenty-year certain and life annuity
- Ten-year certain and life annuity
- A partial lump sum payment in addition to one of the annuity options above.
- An actuarially equivalent graduated benefit option with either a one percent or two percent increase to be applied the first day of January of each year. Not available for disability or early retirements or in combination with a partial lump sum option or a deferred normal retirement option.

BENEFIT PROVISIONS

7. <u>Final Average Salary</u>:

Average of the highest salary received by the member for any 36 months employed during the last 180 months of employment.

8. <u>Contributions</u>:

Member contributions as a percent of monthly salary: 13.30%

Member contributions earn interest at an annual rate of 7.50% compounded monthly.

State contributions as a percent of monthly salary for each participating member: 19.70%

Changes in Plan Provisions Since the Previous Valuation

There have been no changes in plan provisions since the previous valuation as of July 1, 2014.

NDPERS

Memo

To: NDPERS Board

From: Bryan T. Reinhardt

Date: 9/19/2016

Re: 457 Companion Plan & 401(a) Plan 2nd Quarter 2016 Report

Here is the 2nd quarter 2016 investment report for the 401(a) & 457 Companion Plan. The reports are available separately on the NDPERS web site. The NDPERS Investment Sub-committee reviewed the 2nd quarter reports. The two plans have 6,721 participants with an account balance and over $88.5 million in assets.

Assets in the 401(a) plan increased to $10.9 million as of June 30, 2016. The number of active participants is at 95. The largest funds are the TIAA-CREF Lifecycle funds with 58% of assets.

Assets in the 457 Companion Plan increased to $77.5 million as of June 30, 2016. The number of active participants is increasing and is now at 4,401 active. The largest funds are the TIAA-CREF Lifecycle funds with 74% of assets.

Benchmarks:
Fund returns for the quarter were all positive. Core fund performance was mixed when compared to their benchmarks and peer funds. Note that index funds are expected to slightly underperform their benchmarks because of fund administration fees.

Fund / Investment News:
The NDPERS Investment Subcommittee reviewed the 2nd quarter plan review, field activity report and investment overview with TIAA. The Subcommittee marked the Templeton Global Bond fund (TGBAX), Wells Fargo Growth Admin Fund (SGRKX), ASTON/Fairpointe Mid Cap (ABMIX) and Allianz NFJ Small Cap Fund (PVADX) as underperforming for the quarter. The investment subcommittee took no action on the funds currently under formal fund review, but recommends putting the Allianz NFJ Small Cap Value fund (PVADX) on formal fund review. The Investment Subcommittee plans to review this fund and alternatives at the next quarterly meeting. The committee review fiscal year end plan returns with RIO staff and discussed the upcoming RFP timeline for the DC plans.

Board Action Requested: Place the Allianz NFJ Small Cap Value fund on formal fund review.

NDPERS
Quarterly Investment Report
2nd Quarter
4/1/2016 – 6/30/2016

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

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

INITIAL OFFERING:

	VALUE	BLEND	GROWTH	
	Hartford Dividend & Growth T.Rowe Price Equity Income	Vanguard 500 Index Signal Vanguard Dividend Growth	Franklin Growth Adv Wells Fargo Adv Growth Adm	**LARGE**
	RidgeWorth Mid Cap Value Equity I	ASTON/Fairpointe Mid Cap I Columbia Mid Cap Index A	Prudential Jennison Mid Cap Growth Z	**MEDIUM**
	Allianz NFJ Small Cap Value	DFA US Small Cap	Brown Capital Mgmt Small Co Inv	**SMALL**

BALANCED FUND:	T.Rowe Price Capital Appreciation		
INCOME FUNDS:	Wells Fargo Stable Value Fund J	Vanguard Prime Money Market	
BOND FUNDS:	PIMCO Total Return Bond Fund	Prudential High Yield Z	
	PIMCO Real Return Admin Bond Fund	Templeton Global Bond	
REAL ESTATE:	Cohen & Steers Realty Shares		
INTERNATIONAL FUNDS:	Mutual Global Discovery Z	Vanguard Total Intl Stock Index	Oppenheimer Developing Markets Y
LIFESTYLE FUNDS:	TIAA-CREF Lifecycle Ret Income	TIAA-CREF Lifecycle 2025	TIAA-CREF Lifecycle 2045
	TIAA-CREF Lifecycle 2010	TIAA-CREF Lifecycle 2030	TIAA-CREF Lifecycle 2050
	TIAA-CREF Lifecycle 2015	TIAA-CREF Lifecycle 2035	TIAA-CREF Lifecycle 2055
	TIAA-CREF Lifecycle 2020	TIAA-CREF Lifecycle 2040	TIAA-CREF Lifecycle 2060

FUND STYLE CHANGES:

	VALUE	BLEND	GROWTH	
			Vanguard Dividend Growth	**LARGE**
	ASTON/Fairpointe Mid Cap I			**MEDIUM**
				SMALL

OTHER FUNDS:

CURRENT LINEUP:

	VALUE	BLEND	GROWTH	
	Hartford Dividend & Growth T.Rowe Price Equity Income	Vanguard 500 Index Signal	Franklin Growth Adv Wells Fargo Adv Growth Adm Vanguard Dividend Growth	**LARGE**
	ASTON/Fairpointe Mid Cap I RidgeWorth Mid Cap Value Equity	Columbia Mid Cap Index A	Prudential Jennison Mid Cap Growth Z	**MEDIUM**
	Allianz NFJ Small Cap Value	DFA US Small Cap	Brown Capital Mgmt Small Co Inv	**SMALL**

BALANCED FUND:	T.Rowe Price Capital Appreciation		
INCOME FUNDS:	Wells Fargo Stable Value Fund J	Vanguard Treasury Money Market	
BOND FUNDS:	PIMCO Total Return Bond Fund	Prudential High Yield Z	
	PIMCO Real Return Admin Bond Fund	Templeton Global Bond	
REAL ESTATE:	Cohen & Steers Realty Shares		
INTERNATIONAL FUNDS:	Mutual Global Discovery Z	Vanguard Total Intl Stock Index	Oppenheimer Developing Markets Y
LIFESTYLE FUNDS:	TIAA-CREF Lifecycle Ret Income	TIAA-CREF Lifecycle 2025	TIAA-CREF Lifecycle 2045
	TIAA-CREF Lifecycle 2010	TIAA-CREF Lifecycle 2030	TIAA-CREF Lifecycle 2050
	TIAA-CREF Lifecycle 2015	TIAA-CREF Lifecycle 2035	TIAA-CREF Lifecycle 2055
	TIAA-CREF Lifecycle 2020	TIAA-CREF Lifecycle 2040	TIAA-CREF Lifecycle 2060

NDPERS Investment Benchmarks - 2nd Quarter 2016					
	Quarter	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**
Stable Value / Money Market Fund					
Vanguard Treasury Money Market - VUSXX	**0.06%**	**0.12%**	**0.13%**	**0.05%**	**0.04%**
Wells Fargo Stable Return Fund J - WFSJ#	**0.24%**	**0.46%**	**0.89%**	**0.79%**	**0.97%**
3 Month T-Bill Index	0.16%	0.31%	0.41%	0.30%	0.34%
Fixed Income Fund					
PIMCO Real Return Admin - PARRX	**1.81%**	**5.95%**	**3.05%**	**1.61%**	**2.11%**
PIMCO Total Return Bond Fund - PTRAX <ON WATCH>	**2.01%**	**3.77%**	**4.05%**	**3.22%**	**3.45%**
Barclays Aggregate Bond Index	2.21%	5.31%	6.00%	4.06%	3.76%
Taxable Bond Fund Universe	2.70%	6.31%	0.30%	2.11%	3.27%
Prudential High Yield Z - PHYZX	**4.45%**	**7.92%**	**2.42%**	**4.57%**	**5.90%**
ML High Yield Bond Fund Index	5.88%	9.32%	1.71%	4.18%	5.71%
High Yield Bond Fund Universe	4.23%	6.44%	2.92%	4.58%	5.97%
Templeton Global Bond Adv - TGBAX	**-0.37%**	**-0.28%**	**-4.26%**	**0.39%**	**1.60%**
Citi World Govt Bond Index	3.41%	10.74%	11.26%	2.65%	1.18%
World Bond Fund Universe	2.25%	6.60%	4.77%	2.08%	1.91%
Real Estate Fund					
Cohen & Steers Realty Shares - CSRSX	**5.70%**	**9.65%**	**21.31%**	**13.40%**	**11.38%**
FTSE NAREIT All Equity REITs Index	6.96%	13.38%	24.04%	13.58%	12.60%
Real Estate Fund Universe	5.51%	10.45%	19.50%	12.11%	11.17%
Balanced Fund					
T.Rowe Price Capital Appreciation - PACLX	**3.04%**	**5.04%**	**6.63%**	**11.06%**	**10.93%**
60% Large Cap Value Univ & 40% Taxable Bond Universe	2.69%	4.92%	0.07%	5.63%	6.93%
60% Russell 1000 Value & 40% Agg Bond Index	3.64%	5.90%	4.14%	7.56%	8.34%
Large Cap Equities - Value					
Hartford Dividend & Growth - HDGTX	2.71%	**3.91%**	**2.72%**	**9.74%**	**10.56%**
T.Rowe Price Equity Income - PRFDX <ON WATCH>	**3.93%**	**6.78%**	**1.28%**	**6.80%**	**9.11%**
Russell 1000 Value Index	4.60%	6.30%	2.90%	9.90%	11.40%
Large Cap Value Fund Universe	2.68%	4.00%	-0.09%	7.97%	9.37%
Large Cap Equities - Blend					
Vanguard 500 Index - VFIAX	**2.45%**	**3.82%**	**3.95%**	**11.62%**	**12.06%**
Vanguard Dividend Growth Fund - VDIGX	**2.66%**	**5.60%**	**9.13%**	**11.43%**	**12.22%**
S&P 500 Index	2.46%	3.84%	3.99%	11.66%	12.10%
Large Cap Blend Fund Universe	1.76%	2.06%	-0.02%	9.43%	10.10%
Large Cap Equities - Growth					
Wells Fargo Adv Growth Adm - SGRKX <ON WATCH>	**3.35%**	**-2.41%**	**-4.89%**	**8.39%**	**8.93%**
Russell 3000 Growth Index	0.80%	1.14%	1.88%	12.65%	12.04%
Franklin Growth Adv - FCGAX	**1.14%**	**1.42%**	**0.37%**	**12.16%**	**10.91%**
Russell 1000 Growth Index	0.60%	1.40%	3.00%	13.10%	12.30%
Large Cap Growth Fund Universe	0.54%	-1.93%	-2.33%	10.58%	9.98%
Mid Cap Equities - Value					
RidgeWorth Mid Cap Value Equity I - SMVTX	**2.11%**	**4.83%**	**-0.44%**	**8.42%**	**8.91%**
Russell Mid Cap Value	4.77%	8.87%	3.25%	11.00%	11.70%
Mid Cap Value Fund Universe	2.37%	4.87%	-2.16%	7.85%	8.77%
Mid Cap Equities - Blend					
Columbia Mid Cap Index A - NTIAX	**3.91%**	**7.66%**	**0.89%**	**10.04%**	**10.07%**
S&P Mid Cap 400	3.99%	7.93%	1.33%	10.53%	10.55%
ASTON/Fairpointe Mid Cap I - ABMIX	**-2.97%**	**0.57%**	**-9.69%**	**5.55%**	**8.66%**
Wilshire 4500 Index	4.13%	3.98%	-3.29%	9.42%	9.84%
Mid Cap Blend Fund Universe	1.49%	2.76%	-4.33%	7.55%	8.26%
Mid Cap Equities - Growth					
Prudential Jennison Mid Cap Growth Z - PEGZX	**1.32%**	**0.64%**	**-6.47%**	**7.97%**	**8.40%**
Russell Mid Cap Growth	1.56%	2.15%	-2.14%	10.52%	9.98%
Mid Cap Growth Fund Universe	1.98%	0.13%	-6.43%	8.21%	7.93%

Fund Returns in RED do not meet both benchmarks. **Fund Returns in BLACK meet both benchmarks.**

NDPERS Investment Benchmarks - 2nd Quarter 2016

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Small Cap Equities - Value					
Allianz NFJ Small Cap Value - PVADX	**2.11%**	**4.11%**	**-5.11%**	**4.43%**	**6.13%**
Russell 2000 Value Index	4.31%	6.08%	-2.58%	6.36%	8.15%
Small Value Fund Universe	2.27%	4.50%	-4.30%	5.92%	7.67%
Small Cap Equities - Blend					
DFA US Small Cap - DFSTX	**1.69%**	**3.56%**	**-4.05%**	**8.28%**	**9.71%**
Russell 2000 Index	3.79%	2.22%	-6.73%	7.09%	8.35%
Small Blend Fund Universe	2.43%	2.99%	-5.78%	6.37%	7.62%
Small Cap Equities - Growth					
Brown Capital Mgmt Small Co Inv - BCSIX	**7.36%**	**1.48%**	**3.25%**	**13.30%**	**11.85%**
Russell 2000 Growth Index	3.20%	-1.60%	-10.80%	7.70%	8.50%
Small Growth Fund Universe	3.79%	-0.69%	-9.86%	6.46%	7.26%
International Equity Funds					
Mutual Global Discovery Z - MDISX	**1.76%**	**0.31%**	**-5.73%**	**5.12%**	**6.17%**
Vanguard Total Intl Stock Index Inv - VGTSX	**0.26%**	**0.08%**	**-9.11%**	**2.02%**	**0.58%**
MSCI EAFE	-0.64%	-1.02%	-10.24%	1.16%	0.10%
International Stock Fund Universe	0.78%	-1.26%	-4.17%	5.63%	5.33%
Oppenheimer Developing Markets Y - ODVYX	**0.71%**	**3.80%**	**-10.13%**	**-1.21%**	**-1.31%**
MSCI Emerging Markets Index	0.66%	6.41%	-12.00%	-1.56%	-3.78%
Diversified Emerging Mkts Universe	2.28%	6.22%	-9.89%	-1.30%	-3.19%
Asset Allocation Funds:					
TIAA-CREF Lifecycle Ret Income - TLIRX	**1.83%**	**3.22%**	**1.23%**	**5.05%**	**5.26%**
Income Benchmark	1.91%	3.66%	2.00%	5.12%	5.06%
TIAA-CREF Lifecycle 2010 - TCLEX	**1.76%**	**3.08%**	**0.88%**	**5.44%**	**5.59%**
2010 Benchmark	1.94%	3.61%	1.72%	5.40%	5.36%
TIAA-CREF Lifecycle 2015 - TCLIX	**1.76%**	**2.84%**	**0.44%**	**5.76%**	**5.88%**
2015 Benchmark	1.96%	3.56%	1.43%	5.66%	5.64%
TIAA-CREF Lifecycle 2020 - TCLTX	**1.78%**	**2.57%**	**-0.15%**	**6.14%**	**6.25%**
2020 Benchmark	1.96%	3.42%	0.91%	6.04%	6.04%
TIAA-CREF Lifecycle 2025 - TCLFX	**1.68%**	**2.12%**	**-0.91%**	**6.43%**	**6.57%**
2025 Benchmark	2.01%	3.32%	0.36%	6.42%	6.47%
TIAA-CREF Lifecycle 2030 - TCLNX	**1.59%**	**1.76%**	**-1.67%**	**6.72%**	**6.84%**
2030 Benchmark	2.05%	3.21%	-0.21%	6.80%	6.90%
TIAA-CREF Lifecycle 2035 - TCLRX	**1.57%**	**1.40%**	**-2.42%**	**6.94%**	**7.05%**
2035 Benchmark	2.02%	2.98%	-0.83%	7.12%	7.25%
TIAA-CREF Lifecycle 2040 - TCLOX	**1.46%**	**0.89%**	**-3.29%**	**6.98%**	**7.19%**
2040 Benchmark	1.99%	2.74%	-1.45%	7.41%	7.57%
TIAA-CREF Lifecycle 2045 - TTFRX	**1.38%**	**0.89%**	**-3.29%**	**6.93%**	**7.17%**
2045 Benchmark	1.99%	2.74%	-1.45%	7.40%	7.56%
TIAA-CREF Lifecycle 2050 - TLFRX	**1.38%**	**0.89%**	**-3.24%**	**6.97%**	**7.19%**
2050 Benchmark	1.99%	2.73%	-1.46%	7.40%	7.56%
TIAA-CREF Lifecycle 2055 - TTRLX	**1.31%**	**0.87%**	**-3.28%**	**6.94%**	**7.20%**
2055 Benchmark	1.99%	2.73%	-1.46%	7.39%	7.55%
TIAA-CREF Lifecycle 2060 - TTRLX	**1.40%**	**0.97%**	**-3.18%**	**N/A**	**N/A**
2060 Benchmark	1.99%	2.73%	-1.46%	7.39%	7.55%

Income Benchmark is comprised of 27.2% Wilshire 5000, 13.1% MSCI EAFE, 46.6% Ag Bond, 3.0% HY Bond, 10.1% 3 Month T-Bill
2010 Benchmark is comprised of 30.8% Wilshire 5000, 14.6% MSCI EAFE, 43.7% Ag Bond, 3.0% HY Bond, 7.9% 3 Month T-Bill
2015 Benchmark is comprised of 34.3% Wilshire 5000, 16.1% MSCI EAFE, 40.7% Ag Bond, 3.0% HY Bond, 5.9% 3 Month T-Bill
2020 Benchmark is comprised of 39.9% Wilshire 5000, 18.5% MSCI EAFE, 34.7% Ag Bond, 3.0% HY Bond, 3.9% 3 Month T-Bill
2025 Benchmark is comprised of 45.5% Wilshire 5000, 20.8% MSCI EAFE, 27.8% Ag Bond, 4.0% HY Bond, 1.9% 3 Month T-Bill
2030 Benchmark is comprised of 51.1% Wilshire 5000, 23.2% MSCI EAFE, 20.7% Ag Bond, 5.0% HY Bond
2035 Benchmark is comprised of 56.8% Wilshire 5000, 25.5% MSCI EAFE, 12.7% Ag Bond, 5.0% HY Bond
2040 Benchmark is comprised of 62.2% Wilshire 5000, 27.9% MSCI EAFE, 4.9% Ag Bond, 5.0% HY Bond
2045 Benchmark is comprised of 62.1% Wilshire 5000, 27.9% MSCI EAFE, 5.0% Ag Bond, 5.0% HY Bond
2050 Benchmark is comprised of 62.1% Wilshire 5000, 28.0% MSCI EAFE, 4.9% Ag Bond, 5.0% HY Bond
2055&2060 Benchmark is comprised of 62.0% Wilshire 5000, 28.0% MSCI EAFE, 5.0% Ag Bond, 5.0% HY Bond

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Wilshire 5000 Index	2.84%	3.69%	1.65%	10.73%	11.37%
MSCI EAFE	-0.64%	-1.02%	-10.24%	1.16%	0.10%
Barclays Aggregate Bond Index	2.21%	5.31%	6.00%	4.06%	3.76%
ML High Yield Bond Fund Index	5.88%	9.32%	1.71%	4.18%	5.71%
3 Month T-Bill Index	0.16%	0.31%	0.41%	0.30%	0.34%

Fund Returns in RED do not meet both benchmarks. **Fund Returns in BLACK meet both benchmarks.**

457(b)	Assets	Pct
TIAA-CREF Lifecycle 2020 Fund Retirement	$12,339,736	15.9%
TIAA-CREF Lifecycle 2025 Fund Retirement	$11,916,403	15.4%
TIAA-CREF Lifecycle 2030 Fund Retirement	$8,119,607	10.5%
TIAA-CREF Lifecycle 2015 Fund Retirement	$7,670,260	9.9%
TIAA-CREF Lifecycle 2035 Fund Retirement	$5,176,322	6.7%
TIAA-CREF Lifecycle 2040 Fund Retirement	$4,029,536	5.2%
TIAA-CREF Lifecycle 2045 Fund Retirement	$3,359,876	4.3%
Vanguard 500 Index Fund Admiral	$2,820,825	3.6%
TIAA-CREF Lifecycle 2050 Fund Retirement	$2,151,035	2.8%
TIAA-CREF Lifecycle 2010 Fund Retirement	$1,689,173	2.2%
Vanguard Total International Stock Index Fund Admiral	$1,520,653	2.0%
Wells Fargo Stable Return Fund - J	$1,411,041	1.8%
Vanguard Dividend Growth Fund Investor	$1,323,067	1.7%
AllianzGI NFJ Small Cap Value Fund Administrative	$1,305,785	1.7%
PIMCO Total Return Fund Admin	$1,292,939	1.7%
Columbia Mid Cap Index Fund A	$927,221	1.2%
T. Rowe Price Capital Appreciation Fund Advisor	$895,290	1.2%
T. Rowe Price Equity Income Fund	$895,109	1.2%
Franklin Growth Fund Advisor	$801,715	1.0%
Cohen & Steers Realty Shares	$796,451	1.0%
Wells Fargo Growth Fund Administrator	$753,310	1.0%
Vanguard Admiral Treasury Money Market Fund Investor	$639,964	0.8%
Templeton Global Bond Fund Advisor	$544,378	0.7%
Self Directed Brokerage Account	$505,578	0.7%
ASTON/Fairpointe Mid Cap Fund I	$501,593	0.6%
TIAA-CREF Lifecycle Retirement Income Fund Retirement	$494,981	0.6%
Oppenheimer Developing Markets Fund Y	$481,414	0.6%
Hartford Dividend and Growth Fund R5	$452,214	0.6%
RidgeWorth Mid Cap Value Equity Fund I	$377,668	0.5%
Prudential High Yield Fund Z	$372,781	0.5%
Prudential Jennison Mid-Cap Growth Fund Z	$347,814	0.4%
TIAA-CREF Lifecycle 2055 Fund Retirement	$328,385	0.4%
PIMCO Real Return Fund Administrative	$326,581	0.4%
Brown Capital Management Small Company Fund Institutional	$321,158	0.4%
Franklin Mutual Global Discovery Fund Z	$305,898	0.4%
DFA U.S. Small Cap Portfolio Institutional	$246,947	0.3%
Vanguard Total Bond Market Index Fund Admiral	$94,586	0.1%
TIAA-CREF Lifecycle 2060 Fund Retirement	$5,366	0.0%
TIAA-CREF Money Market Fund Retirement	$0	0.0%
Total	**$77,542,661**	**100.0%**

401(a)	Assets	Pct
TIAA-CREF Lifecycle 2025 Fund Retirement	$1,313,445	12.0%
TIAA-CREF Lifecycle 2030 Fund Retirement	$1,113,660	10.2%
TIAA-CREF Lifecycle 2035 Fund Retirement	$1,029,702	9.4%
TIAA-CREF Lifecycle 2020 Fund Retirement	$980,650	9.0%
TIAA-CREF Lifecycle 2010 Fund Retirement	$775,225	7.1%
Vanguard 500 Index Fund Admiral	$465,625	4.3%
Wells Fargo Stable Return Fund - J	$463,659	4.2%
TIAA-CREF Lifecycle 2040 Fund Retirement	$393,397	3.6%
Wells Fargo Growth Fund Administrator	$350,036	3.2%
Vanguard Total International Stock Index Fund Admiral	$328,548	3.0%
PIMCO Total Return Fund Admin	$298,538	2.7%
T. Rowe Price Capital Appreciation Fund Advisor	$291,478	2.7%
Self Directed Brokerage Account	$274,082	2.5%
TIAA-CREF Lifecycle 2050 Fund Retirement	$266,615	2.4%
TIAA-CREF Lifecycle 2045 Fund Retirement	$237,621	2.2%
Cohen & Steers Realty Shares	$209,184	1.9%
AllianzGI NFJ Small Cap Value Fund Administrative	$204,929	1.9%
Prudential High Yield Fund Z	$187,536	1.7%
Franklin Mutual Global Discovery Fund Z	$173,227	1.6%
Brown Capital Management Small Company Fund Institutional	$164,582	1.5%
TIAA-CREF Lifecycle 2015 Fund Retirement	$160,112	1.5%
Franklin Growth Fund Advisor	$158,312	1.4%
Hartford Dividend and Growth Fund R5	$139,739	1.3%
T. Rowe Price Equity Income Fund	$129,125	1.2%
Templeton Global Bond Fund Advisor	$113,860	1.0%
TIAA-CREF Lifecycle 2055 Fund Retirement	$106,811	1.0%
RidgeWorth Mid Cap Value Equity Fund I	$89,175	0.8%
ASTON/Fairpointe Mid Cap Fund I	$79,240	0.7%
Prudential Jennison Mid-Cap Growth Fund Z	$70,788	0.6%
Oppenheimer Developing Markets Fund Y	$64,471	0.6%
PIMCO Real Return Fund Administrative	$60,787	0.6%
Vanguard Dividend Growth Fund Investor	$59,950	0.5%
Vanguard Admiral Treasury Money Market Fund Investor	$55,008	0.5%
Columbia Mid Cap Index Fund A	$49,858	0.5%
DFA U.S. Small Cap Portfolio Institutional	$49,515	0.5%
Vanguard Total Bond Market Index Fund Admiral	$13,708	0.1%
TIAA-CREF Lifecycle 2060 Fund Retirement	$2,147	0.0%
TIAA-CREF Lifecycle Retirement Income Fund Retirement	$0	0.0%
TIAA-CREF Money Market Fund Retirement	$0	0.0%
Total	**$10,924,345**	**100.0%**
Grand Total	**$88,467,006**	

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Memorandum

TO: **NDPERS Board**

FROM: **Sharon Schiermeister**

DATE: **September 15, 2016**

SUBJECT: **De Minimis Policy**

NDPERS has retirement account adjustments due to various reasons. These adjustments may include errors found in reported wages, service credit, or interest calculations. Adjustments to reported wages and service credit may affect a member's ongoing monthly retirement benefits. Adjustments to account balance and accumulated interest affect a member's minimum guarantee or the amount available for a lump sum refund.

Currently, NDPERS attempts to correct and process any adjustments to member accounts. However, if the adjustment is small and requires reissuing or reclaiming a check for a minimal amount, this can be costly to correct. In some instances, the member disregards cashing a reissued check or paying a balance due. In reviewing guidelines and policies by other state retirement plans, NDPERS has found that often a De Minimis policy is in place to avoid this issue.

Administrative rules provide the following guidance for benefit overpayments and underpayments:

> **<u>71-02-04-10 (2) Erroneous payment of benefits – Overpayments states:</u>**
> A person who receives an overpayment is liable to refund those payments upon receiving a written explanation and request for the amount to be refunded. All overpayments must be collected using the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like gains. If the cost of recovering the amount of the overpayment is estimated to exceed the overpayment, the repayment is considered to be unrecoverable.
>
> **<u>71-02-04-11(2) Erroneous payment of benefits – Underpayments states:</u>**
> If an underpayment occurs, the amount of the lump sum payment must be paid within sixty days of the discovery of the error.

According to NDAC 71-02-04-10, NDPERS does have the option to write off benefit overpayments as unrecoverable if the cost exceeds the amount to be recovered. However, there is no such option for benefit underpayments. Staff is requesting consideration to implement a policy that will provide guidelines for de minimis adjustments to a member's retirement account.

Proposed De Minimis adjustment policy for NDPERS:

Minimum Guarantee:
- Errors that result in either a positive or negative adjustment of $5.00 or less to a member's minimum guarantee will not be corrected

Recurring Monthly Retirement Payments:
- Errors that result in either a positive or negative adjustment that impact final average salary and/or Service Credit will always be made, regardless of amount
- Errors that impact the benefit calculation for a deceased payee will always be made, regardless of amount

One-Time Refunds/Rollovers
- Errors that result in either a positive or negative adjustment of $5.00 or less will not be corrected
- Errors that result in a positive adjustment of greater than $5.00 will be corrected and payment issued to the member according to 71-02-04-11
- Errors that result in a negative adjustment of greater than $5.00 will be corrected and pursued for collection from the member according to 71-02-04-10. If the member does not respond within 30 days after initial correspondence and the amount of the adjustment is less than $200, the receivable will be written off as uncollectible. If the adjustment is $200 or more, it will be turned over to the Attorney General's office for collection.

Board Action Requested: Adopt a De Minimis adjustment policy

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 15, 2016

SUBJECT: 401(a) and 457 Plan bid

Recently you awarded the work effort for the 401(a) and 457 Plan bid to Segal. We have completed the contracting with them and will begin the work effort. The project plan is:

Sept	Begin Work effort
Oct	First draft of RFP for PERS Board Review
Nov	Final draft of RFP for PERS Board Approval
Dec	RFP Issued
Jan	Proposals returned
Feb	Review analysis of proposals with Board
Mar	Vendor interview and award
June	Transition month if necessary
July	Start of new contract

When we did this project in the past we worked closely with the PERS Investment Committee on the details relating to the above tasks and reported to the board final draft products. In this project would the board like to use the same format?

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Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **September 15, 2016**

SUBJECT: **FlexComp Vendors – Voluntary Products**

We have conducted our annual review of our vendors for the voluntary insurance products approved for pretax premiums under our Section 125 FlexComp Plan. We sent all current vendors a request to confirm the products they wished to offer, provide a brief product description, and verify whether it is eligible to be a pretax product. Following is a list of the respondents:

Total Dental Administrators (TDA)	Colonial Life
Central United	Conseco
AFLAC	USABLE

Of the above, all but one, Conseco, responded by the September 9th deadline. A reminder was sent to the Conseco representative on September 6th. Due to no response, another was sent on September 14th. Should a response be received from Conseco, that information will be reported at the meeting.

Included for your information is a grid for each vendor that responded which outlines the products available for payroll deduction, a summary description, and certification by the vendor that each is or is not eligible to be pretaxed. No new products are being proposed by any of the participating companies.

Staff recommends that the vendors and their eligible products be approved for inclusion as pretax benefits under the FlexComp program for the 2016 plan year.

Board Action Requested

Approve the inclusion of the products eligible to be pre-taxed for the FlexComp 2016 plan year.

AFLAC Product Name	Company Representative – Carrie Palczewski 4207 Boulder Ridge Rd Ste 140 ~~1100 College Drive Ste 215~~ Bismarck ND ~~58501~~ 58503 701-258-6040 E-Mail: carrie_palczewski@us.aflac.com Product Description	Pretax Eligibility
Cancer	Cancer indemnity policies providing benefits for diagnosis of skin cancer, internal cancer as well as annual screening benefits.	Yes
Hospital Confinement	Indemnity benefits whether hospitalized days or weeks.	Yes
Hospital Intensive Care	Provides coverage in the event of a sickness or injury and is admitted to the ICU unit.	Yes
Accident	Accident indemnity policies providing benefits for accident/injury.	Yes
Lump Sum Critical Illness	Pays a lump sum benefit for code red major critical illness event. (Heart attack, stroke, coma, paralysis, major organ transplant, end stage renal failure. Riders available for cancer, sudden cardiac death.)	Yes
Personal Sickness Indemnity	Indemnity policy for sickness related hospital confinement, major diagnostic exams, in & out-patient surgeries.	No
Specified Health Event	Critical care, recovery indemnity policies for major critical illness.	Yes
Disability	All disability policies that are specific replacement of income benefits.	No
Dental	Voluntary dental. No networks, no deductibles, no pre-certifications.	No
Vision Now	Vision indemnity policy providing vision insurance, vision correction benefits.	No
Life	All life policies.	No

Carrie Palczewski

Signature

8-15-16

Date

Central United Product Name	Company Representative – James M Kasper C/O Asset Management Group Inc. PO Box 9016 Fargo ND 58103--9016 701-232-6250 E-Mail: jmkasper@amg-nd.com Product Description	Pretax Eligibility
Cancer Insurance	Provides cash benefits to covered persons for treatment of cancer.	Yes

James M Kasper 8/12/2016

Signature Date

EVERYTHING IS CORRECT.

Jim Kasper

Colonial Life & Accident Product Name	Company Representative – David Ryden 2950 Bent Tree Hills Dr. New Brighton, MN 55112 651-633-7500 E-Mail: david.ryden@coloniallife.com Product Description	Pretax Eligibility
Accident	Composite rated, guaranteed renewable accident product with choice of plan levels and optional riders. It provides indemnity benefits for on and off the job accidents. – confirmed -	Yes
Cancer	Composite rated, guaranteed renewable specified disease product with choice of plan levels and optional riders. Provides benefits for expenses related to cancer. – confirmed -	Yes
Disability	Age banded, guaranteed renewable short-term disability income product. –confirmed- **(Disability insurance premium paid with pre-tax dollars – Please note: A benefit paid to an employee that becomes disabled will be subject to income taxes.)**	Yes
Medical Bridge	Age banded, guaranteed renewable hospital confinement indemnity product. Choice of plans, levels. Includes confinement, rehab unit, surgical and diagnostic procedures. –confirmed-	Yes
Critical Illness	Specified disease product with a lump sum benefit upon diagnosis of a covered specified disease with a choice of plan options for reoccurrence, cancer, face amounts, and optional riders. –confirmed-	No
Life	All life insurance policies. –confirmed-	No

[signature] Aug. 17, 2016

Signature Date

Total Dental Administrators Product Name	Company Representative – Logan Stucki 2111 E Highland Ave Ste 250 Phoenix AZ 85016 801-268-9740 Ext 306 E-Mail: lstucki@TDAdental.com Product Description	Pretax Eligibility
Elite Choice	Fully insured dental program.	Yes

8 · 12 · 2016

Signature | Date

USABLE Product Name	Company Representative – Peg Dickelman Noridian Insurance Services Inc. 4510 13 Ave S Fargo ND 58121 701-277-2319 E-Mail: peggy.dickelman@noridian.com Product Description	Pretax Eligibility
Accident Elite	Employees can get help prevent financial hardship due to medical/travel expenses caused from an accident. Payments direct to employee.	Yes
Cancer Care Elite	Payments direct to employee for new and experimental treatment, travel, lodging, out of pocket medical costs, deductibles, co-pay amounts.	Yes
Hospital Confinement Plan	Payment direct to employee for costs related to intensive care, hospitalization, birth of a child, accidents.	Yes

Peg Dickelman
Agency Manager
Signature

8/17/2016
Date

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 15, 2016

SUBJECT: Committee Meetings

The following meetings relating to PERS have been held since our August meeting.

Legislative Employee Benefits Committee (LEBC) – Sept 1

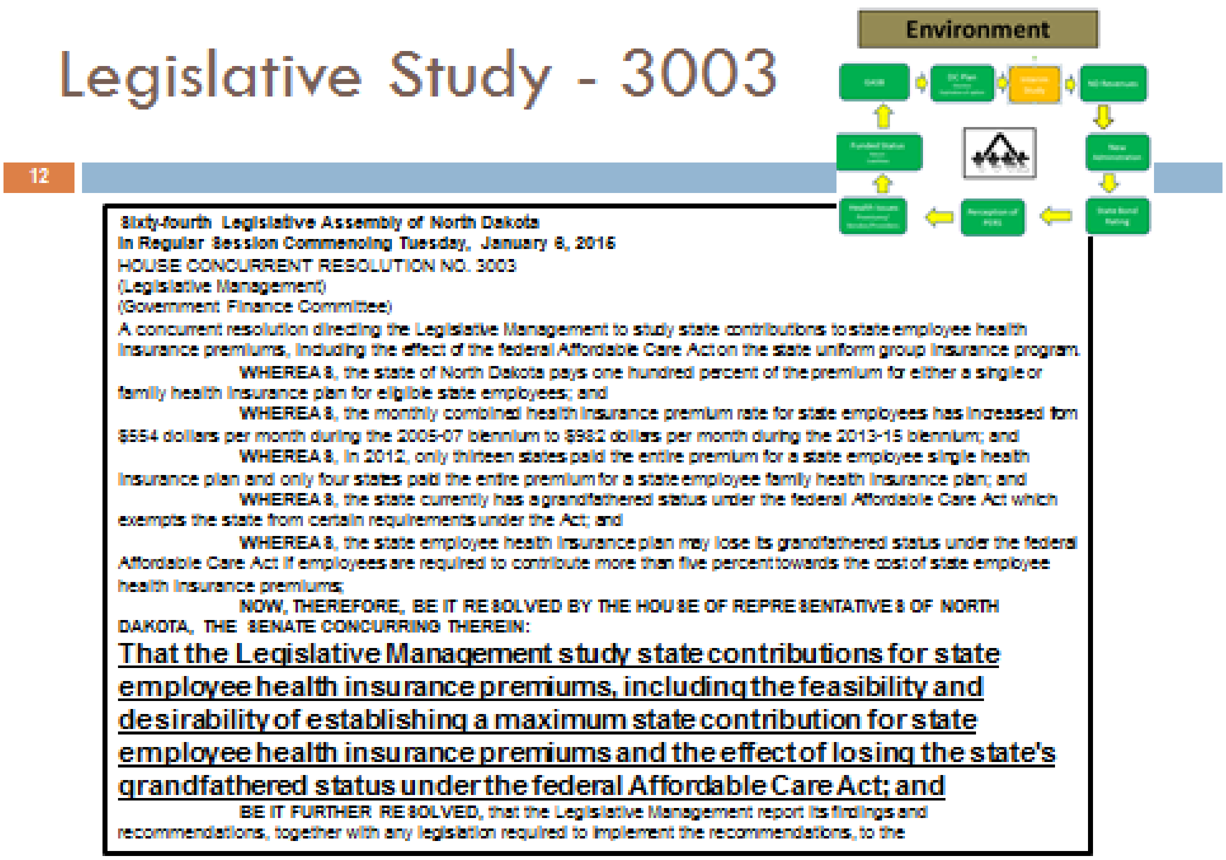
Attachment #1 is the agenda for that committee. Attachment #2 is the bill reviews for our proposed legislation (the telehealth is in a previous board agenda item). The bills submitted are listed below and the action the LEBC took on the bills.

LC number	Subject	LEBC Action
PERS Bill # 17.0119.01000	PERS Recovery Bill	Favorable Recommendation
PERS Bill # 17.0118.0100	PERS Technical Bill	Deferred Action until Technical/Actuarial Review of Amendment
PERS Bill # 17.0120.0100	PERS Telehealth Bill	Favorable Recommendation
Rep. Porter #17.0109.0100	Public employees retirement plan for firefighters	Favorable Recommendation
Supreme Court #17.0117.0100	Uniform group insurance for disabled judges	No Recommendation
Representative Carlson # 17.172	Would require PERS to go to bid every 2 years.	Committee assumed jurisdiction on the bill and referred it for a technical and actuarial review

Please note the last bill #17.172 which was introduced at this last committee meeting. Attachment #3 is copy of that bill. By the October meeting we will have a copy of the review to discuss with you

Health Care Reform Committee - Sept 7

Attachment #4 is the agenda for the Health Care Reform Committee. You will note that I gave them an update on the renewal process and Sanford gave them an overview of the renewal proposal. This meeting was a day before our special meeting. Attachment #5 is a copy of the bill that was submitted to the committee relating to the study assigned to them by the last session and that we discussed at our planning meeting in February



Sixty-fourth Legislative Assembly of North Dakota
In Regular Session Commencing Tuesday, January 6, 2015
HOUSE CONCURRENT RESOLUTION NO. 3003
(Legislative Management)
(Government Finance Committee)

A concurrent resolution directing the Legislative Management to study state contributions to state employee health insurance premiums, including the effect of the federal Affordable Care Act on the state uniform group insurance program.

WHEREAS, the state of North Dakota pays one hundred percent of the premium for either a single or family health insurance plan for eligible state employees; and

WHEREAS, the monthly combined health insurance premium rate for state employees has increased from $554 dollars per month during the 2005-07 biennium to $982 dollars per month during the 2013-15 biennium; and

WHEREAS, in 2012, only thirteen states paid the entire premium for a state employee single health insurance plan and only four states paid the entire premium for a state employee family health insurance plan; and

WHEREAS, the state currently has a grandfathered status under the federal Affordable Care Act which exempts the state from certain requirements under the Act; and

WHEREAS, the state employee health insurance plan may lose its grandfathered status under the federal Affordable Care Act if employees are required to contribute more than five percent towards the cost of state employee health insurance premiums;

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF NORTH DAKOTA, THE SENATE CONCURRING THEREIN:

That the Legislative Management study state contributions for state employee health insurance premiums, including the feasibility and desirability of establishing a maximum state contribution for state employee health insurance premiums and the effect of losing the state's grandfathered status under the federal Affordable Care Act; and

BE IT FURTHER RESOLVED, that the Legislative Management report its findings and recommendations, together with any legislation required to implement the recommendations, to the

This bill would have removed the requirement for the state to pay the full premium. The bill did not get a motion to recommend and therefore is not being reported out of committee. The committee concluded its work for the interim and will not be meeting again before the beginning of the session.

State Employee Compensation Commission

I have previously meet with that committee in early summer and gave them an update on PERS programs. They will be meeting again on Sept 21, the day before our board meeting. I will be meeting with them again at that time to bring them up to date on our efforts. The committee will be developing and providing its recommendations relating to employee compensation for the Governor consideration at that meeting. I will share them with you at the board meeting

17.5141.02000

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Tentative Agenda

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Thursday, September 1, 2016
Harvest Room, State Capitol
Bismarck, North Dakota

10:00 a.m.	Call to order Roll call Consideration of the minutes of the April 28, 2016, meeting
10:05 a.m.	Presentation by Mr. David J. Hunter, Chief Investment Officer and Executive Director, Retirement and Investment Office, regarding the investment allocations and strategies and recent investment returns for the Public Employees Retirement System (PERS) fund and the Teachers' Fund for Retirement
10:45 a.m.	Presentation by a representative of Human Resource Management Services, Office of Management and Budget, of a report on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions pursuant to North Dakota Century Code Section 54-06-31
11:00 a.m.	Presentation by Mr. Sparb Collins, Executive Director, Public Employees Retirement System, regarding: • The process to add political subdivision employees to PERS • An update on the uniform group insurance contract renewal process, including premium projections for the 2017-19 biennium
11:20 a.m.	Committee review of Bill Draft No. 172, which eliminates the renewal process for the uniform group insurance contract and limits the contract to 2 years
11:25 a.m.	Committee discussion and consideration of assuming jurisdiction of Bill Draft No. 172
11:30 a.m.	Committee consideration and receipt of technical comments, actuarial information, and public comments relating to the following bill drafts submitted to the committee which affect, actuarially or otherwise, the retirement programs of state employees or employees of any political subdivision, and health and retiree health plans of state employees or employees of any political subdivision pursuant to Section 54-35-02.4:

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Bill Draft No. 118 decreases employee contributions under PERS for peace officers employed by the Bureau of Criminal Investigation and security officers employed by the National Guard and makes other technical adjustments [17.0118.01000]

Bill Draft No. 119 increases employer and employee contributions under the PERS defined benefit and defined contribution plans [17.0119.01000]

Bill Draft No. 120 provides for individual and group health insurance coverage of telehealth services [17.0120.01000]

Bill Draft No. 109 provides for firefighters employed by political subdivisions to join PERS [17.0109.01000]

SUPREME COURT

Bill Draft No. 117 provides for judges taking disability retirement under Section 54-52-17 to elect to continue participating in the uniform group insurance program [17.0117.01000]

12:00 noon	Luncheon recess
	NOTE: The committee may work through lunch or may break late for lunch; therefore, the afternoon times on the agenda are subject to change
1:00 p.m.	Continuation of the bill drafts agenda item
2:00 p.m.	Committee discussion and staff directives
2:30 p.m.	Adjourn

Committee Members

Senators: Karen K. Krebsbach (Chairman), Dick Dever, Ralph Kilzer, Carolyn C. Nelson, Erin Oban, Nicole Poolman

Representatives: Pamela Anderson, Randy Boehning, Jason Dockter, Jessica Haak, Gary Kreidt, Vernon Laning, Kenton Onstad

Staff Contact: Alex J. Cronquist, Fiscal Analyst

GRS

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August 16, 2016

Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: Legislative Studies

Dear Senator Krebsbach:

In accordance with your request, we have analyzed the impact of Bill No. 17.0119.01000 on the North Dakota Public Employees Retirement System (NDPERS).

Systems Affected:

North Dakota Public Employees Retirement System (PERS) and Defined Contribution Plan

Summary:

Bill No. 17.0119.01000 (Affects the Main System and the Defined Contribution Plan)

- The employee contribution rate on behalf of temporary employees increases by 2.00% of salary effective with the monthly reporting period of January 2018.
  - The rate increases from 14.12% of salary to 16.12% of salary for the Main System and the Defined Contribution Plan
- The employee contribution rate on behalf of full time employees increases by 1.00% of salary effective with the monthly reporting period of January 2018.
  - The rate increases from 7.00% of salary to 8.00% of salary for the Main System and the Defined Contribution Plan
- The employer contribution rate increases by 1.00% of salary effective with the monthly reporting period of January 2018.
  - The rate increases from 7.12% of salary to 8.12% of salary for the Main System and the Defined Contribution Plan

Actuarial Impact of Bill 119 on the Main System

The table on the following page presents a summary of the projected funded ratio on an actuarial value of assets basis and a market value of assets basis under the current provisions and the proposed provisions of Bill 119.

	Main System					
	Funded Ratio (AVA)			Funded Ratio (MVA)		
Year	Current Provisions	Bill 119 Proposed Provisions	Change	Current Provisions	Bill 119 Proposed Provisions	Change
2015	65.7%	65.7%	-0.1%	74.4%	74.4%	-0.1%
2016	66.0%	65.9%	-0.1%	74.9%	74.8%	-0.1%
2017	67.4%	67.3%	-0.1%	75.6%	75.5%	-0.1%
2018	68.3%	68.7%	0.3%	76.3%	76.6%	0.3%
2019	68.4%	69.3%	0.9%	77.0%	77.9%	0.9%
2020	69.0%	70.4%	1.4%	77.6%	79.1%	1.5%
2025	71.4%	75.6%	4.1%	80.5%	85.0%	4.5%
2030	73.6%	80.7%	7.1%	83.0%	90.8%	7.8%
2035	75.9%	86.2%	10.3%	85.6%	97.1%	11.5%
2040	78.3%	92.3%	14.0%	88.3%	103.9%	15.6%
2045	81.0%	99.2%	18.2%	91.4%	111.7%	20.3%

The change in contribution rates is projected to increase the future funded ratio for the Main System. After 30 years (by the year 2045):

1. The Main System funded ratio is projected to be 18.2 percentage points higher (99.2 percent compared to 81.0 percent) on an actuarial value of assets basis
2. The Main System funded ratio is projected to be 20.3 percentage points higher (111.7 percent compared to 91.4 percent) on a market value of assets basis

We have assumed that there will be no additional future changes in the employer contribution rates.

The following exhibits provide additional information on the impact on NDPERS of the proposed changes:

- Exhibit I: Summary of Actuarial Valuation Results as of July 1, 2015
- Graph I: Comparison of Projected Valuation Results for the Main System Under the Current and Proposed Provisions
- Exhibit II(a): Projected Valuation Results for the Main System Under the Current Provisions
- Exhibit II(b): Projected Valuation Results for the Main System Under the Proposed Provisions

Actuarial Impact of Bill 119 on the Defined Contribution Plan

Under Bill 119, the employee contribution rate and the employer contribution rate to the Defined Contribution Plan would each increase by 1.00 percent of pay. By definition, a defined contribution plan is always 100 percent funded. Therefore, there is no impact to the funded status of the defined contribution plan as a result of this change.

Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

  The 1.00 percent increase in both member and employer contributions would have no impact on retirement benefits for existing members in the Main System.

  The additional 1.00 percent increase in both member and employer contributions to the Defined Contribution Plan will provide additional retirement income to members of that Plan.

  The following table presents the percentage increase in member, employer and total contributions to the Defined Contribution Plan:

	Member Contribution Rate	Employer Contribution Rate	Total Contribution
Current Provisions	7.00%	7.12%	14.12%
Bill 119 Provisions	8.00%	8.12%	16.12%
Percentage Increase	14.3%	14.0%	14.2%

  This implies that a newly hired member's defined contribution account will be 14.2 percent higher when he/she retires under the proposed provisions of Bill 119.

  The following table illustrates the fact that younger members with more working years until retirement will benefit more from the contribution rate increase than older members who are closer to retirement. This table shows the account balance at retirement at age 60 for (1) a new hire at age 30 as well as (2) an existing employee age 50 with a current defined contribution account balance of $150,000:

Employee	Current Salary	Account Balance at Age 60 (14.12%)*	Account Balance at age 60 (16.12%)*	Percentage Increase	Dollar Increase
New Hire at Age 30	$20,000	$573,690.58	$654,949.87	14.16%	$81,259.29
Current Employee Age 50	$50,000	$451,139.17	$469,170.40	4.00%	$18,031.22

** Account balances in the previous table were calculated assuming that salary increases 5.5% per year and account balances earn 8.00% per year.*

- Competitiveness

  The increase in member and employer contributions to the Main System will have no impact on retirement benefits for existing members in the Main System. It will, however, reduce the members' take-home pay. As such, this bill may diminish the total compensation package offered by participating employers in the Main System.

  Although the increase in member contributions to the Defined Contribution Plan will decrease the employees' take home pay by 1.00 percent of pay, it will increase their Defined Contribution account by 2.00 percent of pay, thereby increasing the total compensation package offered by participating employers in the Defined Contribution Plan.

- Benefits Equity and Group Integrity

  The bill may diminish the total compensation package offered by participating employers in the Main System, but may increase the total compensation package offered by participating employers in the Defined Contribution Plan.

- Purchasing Power

  No impact.

- Preservation of Benefits

  Increased funding to the Main System in the form of additional employer and member contributions will increase the funded status of the Main System at a faster rate than currently projected. By requiring additional funding, the Main System will reach 100 percent funding sooner and the members' promised benefits will be more secure than without the additional funding.

- Portability

  The additional member contributions to the Defined Contribution plan would be fully portable as are the existing member contributions.

- Ancillary Benefits

  No impact.

- Social Security:

  No impact

Funding Policy Issues

- Actuarial Impacts

  As previously noted, the additional member and employer contributions required by the Bill will have a positive actuarial impact on the funded status of the Main System.

- Investment Impacts

  - Cash Flow: The additional member and employer contributions required by the Bill would increase cash flow to both the Main System and the Defined Contribution Plan.

  - Asset Allocation: The Board will need to decide how to invest the additional member and employer contributions required by the Bill -- in the same manner as the current Investment Policy provides, or in an alternate manner.

Administration Issues

- Implementation Issues

  This bill would have an impact on the members and participating employers, since their required contributions would increase.

  In addition, pursuant to rules under Internal Revenue Code section 414(h), participating employers (including the State) would be required to take formal action to elect to "pick up" the increased member contribution amounts, in order for such contributions to be made on a pre-tax basis. (For this purpose, the employing unit must take formal action to provide that the contributions on behalf of a specific class of employees of the employing unit, although designated as employee contributions, will be paid by the employing unit in lieu of employee contributions. A person duly authorized to take such action with respect to the employing unit must take such action. The action must apply only prospectively and be evidenced by a contemporaneous written document, such as minutes of a meeting, a resolution, or an ordinance.)

- Administrative Costs

  The only administrative costs are related to the increase in member and employer contributions and any "pick up" of the member contributions.

- Needed Authority

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

- Integration

  No impact.

- Employee Communications

  Employee communications will be necessary to describe the impact of increased member contributions on employee pay.

- Miscellaneous and Drafting Issues

  Since this bill will increase member contribution rates, participating employers (including the State) will need to determine whether they will reduce members' current or future salary, or pay for the increased member contributions from their own funds as a salary supplement (while also paying an increased employer contribution rate). Any participating employer that decides to reduce members' salary to pay for the increased level of member contributions must pay and report FICA taxes on the member contribution amounts made via salary reduction.

Projection Assumptions

Following is a summary of the assumptions made for new hires used in the projections. The average new hire information is based on the average of members with at least one year and less than five years of service. The average assumed new hire salary is based on projecting the valuation salary from the 2015 valuation back to hire age using the assumed salary increase assumption and then projecting back to the 2015 valuation using the assumed wage inflation assumption of 4.5 percent per year. The projections assume that the number of active members remains the same in each future year as the number as of the most recent valuation of July 1, 2015.

	Current Members	Assumed New Hires
Average Age	46.5	38.4
Average Benefit Service	9.6	0.0
Average Salary	$44,632	$36,335
Normal Cost Rate (Benefits)	10.13%	10.19%

Although new hires in the Main System are subject to later retirement eligibility conditions (must meet the Rule of 90 instead of the Rule of 85), they are assumed to be hired at slightly older ages (on average) than the current members in NDPERS.

Disclosures and Additional Information

The actuarial assumptions used in this analysis were the same assumptions used in the actuarial valuation as of July 1, 2015, including an assumed rate of investment return of 8.00 percent on the market value of assets in each future year. A summary of the actuarial assumptions can be found in Appendix I of this letter.

A summary of the current benefit provisions can be found in Appendix II of this letter.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss　　Amy Williams

Lance J. Weiss, EA, MAAA, FCA	Amy Williams, ASA, MAAA
Senior Consultant and Team Leader	Consultant

AW:rl

cc: Mr. Bryan Reinhardt, NDPERS
Ms. Sharon Schiermeister, NDPERS
Mr. Alex Rivera, Gabriel, Roeder, Smith & Company
Ms. Kristen Brundirks, Gabriel, Roeder, Smith & Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith & Company

Main System	Total Normal Cost*	Employee Rate	Net Employer Normal Cost	**Actuarial Value of Assets Basis** Unfunded Liability Rate	Total Employer Actuarial Rate	Employer Statutory Rate	Statutory Rate Deficiency	**Market Value of Assets Basis** Unfunded Liability Rate	Total Employer Actuarial Rate	Employer Statutory Rate	Statutory Rate Deficiency
2015 Valuation Results	12.55%	7.00%	5.55%	6.66%	12.21%	7.12%	5.09%	4.78%	10.33%	7.12%	3.21%
GRS 2015 Replication Results	10.38%	7.00%	3.38%	7.38%	10.76%	7.12%	3.64%	5.51%	8.89%	7.12%	1.77%
Illustrative 2015 Results with Change in Contribution Rates	10.43%	8.00%	2.43%	7.41%	9.83%	8.12%	1.71%	5.53%	7.96%	8.12%	-0.16%

**Includes assumed administrative expenses.*

Unfunded liability rate is based on 20-year open level percentage of payroll amortization of the unfunded liability.

Graph I

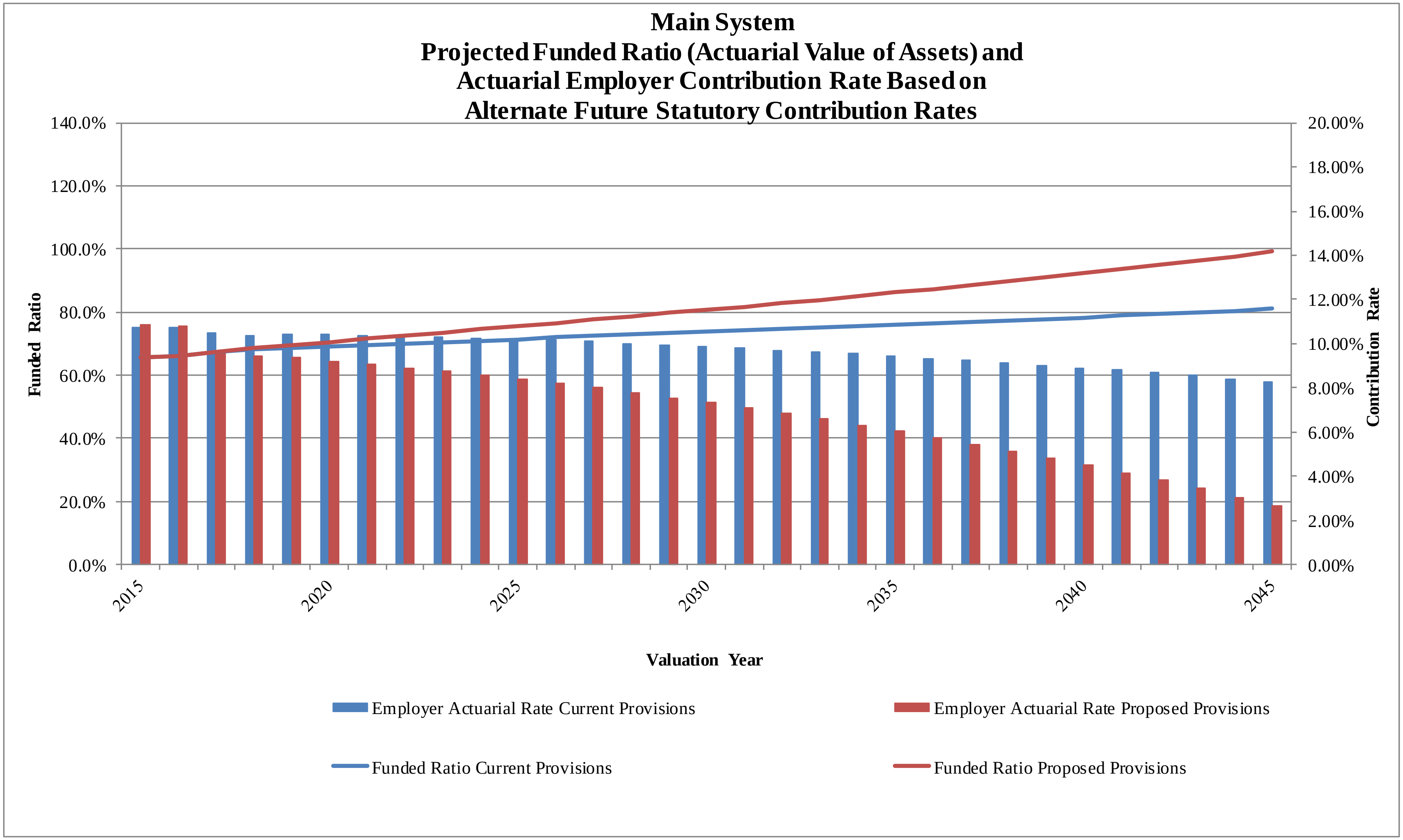
Main System
Projected Funded Ratio (Actuarial Value of Assets) and
Actuarial Employer Contribution Rate Based on
Alternate Future Statutory Contribution Rates
Funded Ratio
140.0%
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
Contribution Rate
20.00%
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2015
2020
2025
2030
2035
2040
2045
Valuation Year
Employer Actuarial Rate Current Provisions
Employer Actuarial Rate Proposed Provisions
Funded Ratio Current Provisions
Funded Ratio Proposed Provisions

Exhibit II(a)

North Dakota Public Employees Retirement System - Main System
Projection Results Based on the Actuarial Valuation as of July 1, 2015
Current Plan Provisions
($ in thousands)

			Results Based on Actuarial Value of Assets				Employer Actuarial Rate (%)			Statutory Contribution Amount ($)				Results Based on Market Value of Assets				
Year	Present Value Future Benefits	Actuarial Accrued Liability	Assets	Unfunded Accrued Liability	Funded Ratio	Projected Payroll	Normal Cost	Amortization of UAL	Total	Employer (7.12%)	Employee (7.00%)	Total	Benefit Payments and Expenses	Assets	Funded Ratio	Employer Actuarial Rate	Member Counts Active	Member Counts Ben Recip.
2015	$ 4,107,875	$ 3,084,416	$ 2,027,476	$ 1,056,940	65.7%	$ 998,913	3.38%	7.38%	10.76%	$ 65,980	$ 73,123	$ 139,102	$ 133,818	$ 2,296,089	74.4%	8.89%	22,381	9,979
2016	4,329,287	3,252,336	2,145,223	1,107,113	66.0%	1,051,701	3.37%	7.35%	10.72%	71,123	69,924	141,047	183,435	2,435,725	74.9%	8.79%	22,381	10,519
2017	4,594,449	3,464,404	2,335,411	1,128,993	67.4%	1,106,001	3.37%	7.12%	10.49%	74,881	73,619	148,500	159,545	2,619,105	75.6%	8.70%	22,381	11,066
2018	4,871,823	3,687,794	2,520,378	1,167,416	68.3%	1,162,346	3.37%	7.01%	10.38%	78,747	77,420	156,167	170,825	2,813,400	76.3%	8.62%	22,381	11,673
2019	5,161,665	3,921,970	2,683,961	1,238,009	68.4%	1,220,383	3.37%	7.08%	10.45%	82,759	81,364	164,123	183,716	3,018,111	77.0%	8.54%	22,381	12,311
2020	5,463,971	4,167,220	2,875,132	1,292,088	69.0%	1,280,730	3.37%	7.04%	10.41%	86,891	85,427	172,318	197,344	3,233,552	77.6%	8.46%	22,381	12,980
2021	5,780,667	4,423,242	3,075,292	1,347,950	69.5%	1,342,815	3.37%	7.01%	10.38%	91,188	89,651	180,839	212,343	3,459,496	78.2%	8.38%	22,381	13,687
2022	6,111,183	4,689,612	3,284,279	1,405,333	70.0%	1,406,876	3.37%	6.97%	10.34%	95,608	93,997	189,605	228,769	3,695,556	78.8%	8.30%	22,381	14,430
2023	6,455,939	4,966,652	3,502,496	1,464,156	70.5%	1,473,797	3.36%	6.93%	10.29%	100,170	98,481	198,651	245,877	3,942,122	79.4%	8.21%	22,381	15,191
2024	6,814,845	5,254,577	3,730,260	1,524,317	71.0%	1,543,446	3.36%	6.89%	10.25%	104,934	103,166	208,100	263,881	4,199,523	79.9%	8.13%	22,381	15,981
2025	7,188,798	5,553,456	3,967,726	1,585,730	71.4%	1,615,885	3.35%	6.85%	10.20%	109,893	108,041	217,935	282,934	4,467,935	80.5%	8.04%	22,381	16,780
2026	7,577,805	5,864,214	4,215,893	1,648,321	71.9%	1,691,792	3.35%	6.80%	10.15%	115,051	113,112	228,163	302,222	4,748,405	81.0%	7.95%	22,381	17,590
2027	7,982,698	6,187,268	4,475,255	1,712,013	72.3%	1,771,095	3.34%	6.75%	10.09%	120,456	118,425	238,881	322,383	5,041,499	81.5%	7.85%	22,381	18,398
2028	8,404,406	6,523,781	4,747,051	1,776,730	72.8%	1,854,219	3.33%	6.69%	10.02%	126,102	123,977	250,079	342,711	5,348,553	82.0%	7.75%	22,381	19,182
2029	8,843,799	6,875,238	5,032,809	1,842,429	73.2%	1,941,286	3.33%	6.62%	9.95%	132,020	129,795	261,816	363,056	5,671,225	82.5%	7.66%	22,381	19,952
2030	9,302,217	7,242,774	5,333,712	1,909,062	73.6%	2,032,616	3.32%	6.55%	9.87%	138,220	135,890	274,110	383,862	6,010,865	83.0%	7.55%	22,381	20,724
2031	9,781,389	7,627,413	5,650,850	1,976,562	74.1%	2,127,991	3.31%	6.48%	9.79%	144,722	142,283	287,005	405,367	6,368,729	83.5%	7.44%	22,381	21,494
2032	10,282,539	8,029,969	5,985,122	2,044,847	74.5%	2,227,261	3.30%	6.41%	9.71%	151,513	148,959	300,472	427,828	6,745,876	84.0%	7.32%	22,381	22,273
2033	10,806,478	8,451,312	6,337,530	2,113,782	75.0%	2,331,072	3.30%	6.33%	9.63%	158,581	155,908	314,489	451,216	7,143,456	84.5%	7.22%	22,381	23,054
2034	11,354,081	8,892,157	6,708,964	2,183,194	75.4%	2,439,225	3.29%	6.25%	9.54%	165,972	163,175	329,147	475,828	7,562,497	85.0%	7.09%	22,381	23,841
2035	11,926,712	9,352,965	7,100,079	2,252,887	75.9%	2,552,033	3.28%	6.16%	9.44%	173,673	170,746	344,419	501,954	8,003,781	85.6%	6.97%	22,381	24,646
2036	12,525,359	9,834,599	7,511,989	2,322,610	76.4%	2,669,899	3.27%	6.07%	9.34%	181,705	178,642	360,347	529,258	8,468,546	86.1%	6.84%	22,381	25,454
2037	13,151,269	10,338,104	7,946,015	2,392,089	76.9%	2,792,883	3.26%	5.98%	9.24%	190,097	186,893	376,990	557,681	8,958,250	86.7%	6.71%	22,381	26,225
2038	13,805,785	10,864,051	8,403,022	2,461,029	77.3%	2,920,818	3.25%	5.88%	9.13%	198,853	195,502	394,355	587,772	9,473,905	87.2%	6.57%	22,381	26,995
2039	14,489,643	11,413,992	8,884,868	2,529,125	77.8%	3,054,485	3.24%	5.78%	9.02%	207,962	204,457	412,419	618,614	10,017,534	87.8%	6.43%	22,381	27,740
2040	15,204,049	11,988,520	9,392,489	2,596,031	78.3%	3,193,883	3.24%	5.67%	8.91%	217,479	213,814	431,293	651,344	10,590,253	88.3%	6.30%	22,381	28,508
2041	15,950,225	12,589,060	9,927,685	2,661,375	78.9%	3,339,416	3.23%	5.56%	8.79%	227,404	223,572	450,976	685,212	11,194,049	88.9%	6.15%	22,381	29,234
2042	16,730,186	13,216,921	10,492,171	2,724,750	79.4%	3,491,459	3.22%	5.45%	8.67%	237,766	233,759	471,526	720,487	11,830,845	89.5%	5.99%	22,381	29,964
2043	17,545,437	13,873,719	11,088,006	2,785,712	79.9%	3,650,424	3.22%	5.33%	8.55%	248,592	244,402	492,994	757,013	12,502,936	90.1%	5.84%	22,381	30,647
2044	18,398,534	14,561,381	11,717,597	2,843,784	80.5%	3,816,591	3.21%	5.20%	8.41%	259,910	255,530	515,440	794,664	13,212,992	90.7%	5.68%	22,381	31,304
2045	19,291,492	15,281,336	12,382,901	2,898,435	81.0%	3,990,138	3.21%	5.07%	8.28%	271,741	267,161	538,903	834,094	13,963,259	91.4%	5.52%	22,381	31,949

North Dakota Public Employees Retirement System - Main System
Projection Results Based on the Actuarial Valuation as of July 1, 2015
Proposed Plan Provisions - 1.00 percent of pay increase to the employee contribution rate and the statutory employer contribution rate
($ in thousands)

	Results Based on Actuarial Value of Assets													Results Based on Market Value of Assets				
							Employer Actuarial Rate (%)			Statutory Contribution Amount ($)			Benefit			Employer		
	Present Value	Actuarial		Unfunded		Projected	Normal	Amortization		Employer	Employee		Payments			Actuarial	Member Counts	
Year	Future Benefits	Accrued Liability	Assets	Accrued Liability	Funded Ratio	Payroll	Cost	of UAL	Total	(8.12%)	(8.00%)	Total	and Expenses	Assets	Funded Ratio	Rate	Active	Ben Recip.
2015	$ 4,117,865	$ 3,087,867	$ 2,027,476	$ 1,060,390	65.7%	$ 998,913	3.44%	7.41%	10.85%	$ 65,980	$ 73,123	$ 139,102	$ 133,818	$ 2,296,089	74.4%	8.97%	22,381	9,979
2016	4,342,002	3,256,650	2,145,223	1,111,427	65.9%	1,051,701	3.44%	7.38%	10.82%	71,123	69,924	141,047	183,435	2,435,725	74.8%	8.89%	22,381	10,519
2017	4,610,076	3,469,760	2,335,411	1,134,349	67.3%	1,106,001	2.51%	7.16%	9.67%	74,881	73,619	148,500	159,545	2,619,105	75.5%	7.88%	22,381	11,066
2018	4,890,522	3,694,295	2,536,182	1,158,113	68.7%	1,162,346	2.46%	6.95%	9.41%	84,277	87,720	171,997	171,020	2,829,590	76.6%	7.65%	22,381	11,673
2019	5,183,720	3,929,829	2,723,665	1,206,164	69.3%	1,220,383	2.47%	6.90%	9.37%	94,382	92,988	187,370	183,957	3,059,504	77.9%	7.45%	22,381	12,311
2020	5,489,682	4,176,660	2,940,941	1,235,719	70.4%	1,280,730	2.47%	6.73%	9.20%	99,095	97,631	196,726	197,636	3,303,317	79.1%	7.23%	22,381	12,980
2021	5,810,402	4,434,508	3,169,872	1,264,635	71.5%	1,342,815	2.48%	6.57%	9.05%	103,995	102,458	206,454	212,694	3,561,098	80.3%	7.02%	22,381	13,687
2022	6,145,330	4,702,968	3,410,795	1,292,173	72.5%	1,406,876	2.48%	6.41%	8.89%	109,037	107,425	216,462	229,183	3,832,765	81.5%	6.80%	22,381	14,430
2023	6,494,908	4,982,385	3,664,570	1,317,814	73.6%	1,473,797	2.49%	6.24%	8.73%	114,238	112,550	226,788	246,362	4,119,045	82.7%	6.58%	22,381	15,191
2024	6,859,066	5,273,008	3,931,896	1,341,112	74.6%	1,543,446	2.49%	6.06%	8.55%	119,672	117,904	237,576	264,443	4,420,648	83.8%	6.34%	22,381	15,981
2025	7,238,746	5,574,935	4,213,287	1,361,648	75.6%	1,615,885	2.49%	5.88%	8.37%	125,328	123,476	248,804	283,584	4,738,155	85.0%	6.10%	22,381	16,780
2026	7,633,966	5,889,122	4,510,139	1,378,983	76.6%	1,691,792	2.49%	5.69%	8.18%	131,210	129,271	260,481	302,964	5,073,057	86.1%	5.86%	22,381	17,590
2027	8,045,590	6,216,013	4,823,377	1,392,636	77.6%	1,771,095	2.50%	5.49%	7.99%	137,373	135,343	272,717	323,232	5,426,405	87.3%	5.61%	22,381	18,398
2028	8,474,582	6,556,810	5,154,713	1,402,098	78.6%	1,854,219	2.50%	5.28%	7.78%	143,813	141,688	285,501	343,675	5,800,060	88.5%	5.35%	22,381	19,182
2029	8,921,833	6,913,035	5,506,185	1,406,850	79.6%	1,941,286	2.49%	5.06%	7.55%	150,563	148,338	298,900	364,144	6,196,261	89.6%	5.07%	22,381	19,952
2030	9,388,721	7,285,855	5,879,530	1,406,325	80.7%	2,032,616	2.49%	4.83%	7.32%	157,632	155,303	312,935	385,093	6,616,973	90.8%	4.79%	22,381	20,724
2031	9,877,019	7,676,329	6,276,428	1,399,901	81.8%	2,127,991	2.49%	4.59%	7.08%	165,048	162,609	327,658	406,768	7,064,117	92.0%	4.50%	22,381	21,494
2032	10,387,986	8,085,290	6,698,408	1,386,882	82.8%	2,227,261	2.49%	4.35%	6.84%	172,793	170,239	343,032	429,427	7,539,462	93.2%	4.20%	22,381	22,273
2033	10,922,467	8,513,650	7,147,160	1,366,489	83.9%	2,331,072	2.49%	4.09%	6.58%	180,854	178,181	359,035	453,036	8,044,929	94.5%	3.89%	22,381	23,054
2034	11,481,373	8,962,162	7,624,320	1,337,842	85.1%	2,439,225	2.48%	3.83%	6.31%	189,283	186,486	375,769	477,901	8,582,385	95.8%	3.57%	22,381	23,841
2035	12,066,116	9,431,309	8,131,337	1,299,972	86.2%	2,552,033	2.48%	3.56%	6.04%	198,065	195,138	393,203	504,317	9,153,504	97.1%	3.24%	22,381	24,646
2036	12,677,717	9,921,995	8,670,191	1,251,804	87.4%	2,669,899	2.47%	3.27%	5.74%	207,225	204,163	411,388	531,947	9,760,495	98.4%	2.89%	22,381	25,454
2037	13,317,463	10,435,303	9,243,148	1,192,155	88.6%	2,792,883	2.47%	2.98%	5.45%	216,796	213,592	430,388	560,731	10,405,878	99.7%	2.54%	22,381	26,225
2038	13,986,751	10,971,840	9,852,090	1,119,749	89.8%	2,920,818	2.47%	2.68%	5.15%	226,782	223,431	450,213	591,222	11,091,807	101.1%	2.18%	22,381	26,995
2039	14,686,352	11,533,220	10,499,987	1,033,233	91.0%	3,054,485	2.46%	2.36%	4.82%	237,170	233,665	470,836	622,486	11,821,552	102.5%	1.80%	22,381	27,740
2040	15,417,499	12,120,046	11,188,942	931,105	92.3%	3,193,883	2.46%	2.03%	4.49%	248,024	244,359	492,383	655,709	12,597,543	103.9%	1.42%	22,381	28,508
2041	16,181,450	12,733,787	11,922,041	811,745	93.6%	3,339,416	2.45%	1.70%	4.15%	259,343	255,511	514,854	690,115	13,423,209	105.4%	1.01%	22,381	29,234
2042	16,980,265	13,375,781	12,702,384	673,397	95.0%	3,491,459	2.45%	1.35%	3.80%	271,161	267,153	538,314	725,987	14,302,031	106.9%	0.60%	22,381	29,964
2043	17,815,486	14,047,688	13,533,538	514,150	96.3%	3,650,424	2.45%	0.98%	3.43%	283,507	279,317	562,823	763,164	15,237,992	108.5%	0.17%	22,381	30,647
2044	18,689,727	14,751,477	14,419,541	331,935	97.7%	3,816,591	2.44%	0.61%	3.05%	296,414	292,034	588,448	801,523	16,235,598	110.1%	-0.27%	22,381	31,304
2045	19,605,041	15,488,601	15,364,098	124,503	99.2%	3,990,138	2.44%	0.22%	2.66%	309,907	305,327	615,234	841,737	17,299,057	111.7%	-0.73%	22,381	31,949

ACTUARIAL ASSUMPTIONS

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using the ***Individual Entry Age Normal*** *actuarial cost method* having the following characteristics:

- The normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and
- Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Financing of Unfunded Actuarial Accrued Liabilities. The unfunded actuarial accrued liability is amortized using 20-year open level-percentage of pay amortization of the unfunded liability as of the valuation date.

Actuarial Value of Pension Plan Assets. The asset value is the actuarial value of assets which is calculated by recognizing 100 percent of the current year's interest and dividends and 20 percent of the current year and previous four years' total appreciation/(depreciation). The total appreciation/(depreciation) for a given year is fully recognized after a five-year period.

Valuation Assumptions

The contribution and benefit values of the System are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost method described above.

The principal areas of financial risk which require assumptions about future experiences are:

- Long-term rates of investment return to be generated by the assets of the Plan;
- Patterns of pay increases to members;
- Rates of mortality among members, retirees and beneficiaries;
- Rates of withdrawal of active members;
- Rates of disability among members; and
- The age patterns of actual retirement.

In a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives; a period of time which can be as long as a century.

Actual experience of the Plan will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time-to-time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). Thus, an experience review of the North Dakota Public Employees Retirement System for the period July 1, 2009, to July 1, 2014, was performed to compare the demographic and economic experience against the actuarial assumptions used in the valuations. The actuarial assumptions described in this section were adopted by the Board for use beginning with the July 1, 2015, valuation. Additional information regarding the rationale for the assumptions may be found in the 2015 experience review report. **The experience review was performed by the prior actuary.** All actuarial assumptions are expectations of future experience, not current market measures.

Current Valuation Assumptions and Methods
The assumed rate of investment return used was 8.00%, net of expenses, annually.

The assumed rate of price inflation is 3.50 percent.

No Cost of Living Adjustments (COLA) are provided to benefits recipients. Therefore, there is no assumption for this valuation.

The rates of annual salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

Service At Beginning of Year	State Employee	Non-State Employee	Law Enforcement	Judges
1	12.00%	15.00%	20.00%	
2	9.50%	10.00%	20.00%	
3	7.25%	8.00%	20.00%	
4			10.00%	
5			10.00%	
Age				
Under 30	6.75%	9.55%	6.75%	4.00%
30-39	6.00%	9.50%	6.00%	4.00%
40-49	5.75%	9.00%	5.75%	4.00%
50-59	5.25%	8.50%	5.25%	4.00%
60+	4.50%	8.25%	4.50%	4.00%

The assumed rate of total payroll growth used in amortizing the unfunded liability as a level percentage of pay is:

Main System and Law Enforcement: 4.50 percent
Judges: 4.00 percent

The assumed increase in the Social Security Taxable Wage Base is 3.25 percent.

ACTUARIAL ASSUMPTIONS

The mortality assumptions are as follows:

	Male Setback	Female Setback
RP-2000 Combined Healthy Mortality Table (healthy mortality)	2 years	3 years
RP-2000 Disabled Retiree Mortality Table (disabled post retirement)*	1 year	0 years

*Rates multiplied by 125 percent.

To provide a margin for future mortality improvements, generational mortality improvements from the year 2014 using the Social Security Administration (SSA) 2014 Intermediate Cost scale were assumed.

Following is a table with the life expectancies by age as of the valuation date.

	Healthy Mortality		Disabled Mortality	
	Post-Retirement Future Life Expectancy (years) in 2015		Future Life Expectancy (years) in 2015	
Age	Men	Women	Men	Women
20	67.55	71.96	32.00	49.54
25	62.15	66.55	30.13	45.71
30	56.76	61.13	28.14	41.80
35	51.39	55.72	26.03	37.81
40	46.08	50.35	23.67	33.67
45	40.81	45.01	20.99	29.37
50	35.60	39.74	18.12	25.13
55	30.48	34.54	15.64	21.39
60	25.54	29.47	13.47	18.11
65	20.89	24.62	11.45	15.12
70	16.65	20.14	9.49	12.35
75	12.83	16.03	7.64	9.85
80	9.52	12.38	6.04	7.71
85	6.79	9.21	4.74	5.90
90	4.72	6.63	3.58	4.44
95	3.36	4.84	2.52	3.36
100	2.56	3.82	1.90	2.73
105	2.13	3.11	1.59	2.13

ACTUARIAL ASSUMPTIONS

Rates of separation from active membership are represented by the following table (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members terminating employment.

Service Beginning of Year	Service and Age-Based Rates For First Five Years of Service					
	Main System			Law Enforcement		
	Age					
	Under 30	30-39	40+	Under 30	30-39	40+
0	22.00%	16.00%	12.00%	25.00%	20.00%	17.00%
1	18.00%	14.00%	10.00%	23.00%	17.00%	15.00%
2	16.00%	12.00%	10.00%	20.00%	15.00%	12.00%
3	14.00%	12.00%	8.00%	17.00%	13.00%	10.00%
4	14.00%	11.00%	7.00%	15.00%	11.00%	7.00%

Age	Age-Based Rates Only After First Five Years of Service	
	Main System	Law Enforcement
20-24	8.80%	8.80%
25-29	8.80%	8.80%
30-34	5.50%	5.50%
35-39	4.70%	4.70%
40-44	3.90%	3.90%
45-49	3.70%	3.70%
50-54	3.40%	3.40%
55-59	0.10%	0.10%
60+	0.20%	0.20%

No pre-retirement termination is assumed for Judges.

Vested participants that terminate are assumed to elect the option with the greater present value:

1) *A refund of their accumulated contributions with interest or*
2) *A deferred benefit.*

Withdrawal rates end upon eligibility for early retirement.

Early retirement eligibility is as follows:
Main System: Earlier of (i) age 55 and 3 years of service, and (ii) eligibility for Rule of 85.
Law Enforcement: Age 50 and 3 years of service.

Account Balance Due to Vested Employer Contribution (PEP): Participation Under Chapter 54-52.2: If not elected: None. If elected: 100% of active members of the Main System and Law Enforcement. Contribution: Maximum allowed, based on service at the beginning of the Plan year.

ACTUARIAL ASSUMPTIONS

Rates of disability:

Before age 65: Males: 20% of OASDI disability incidence rates.
Females: 10% of OASDI disability incidence rates.
Age 65 and later: 0.25% per year.

Rates of disability were as follows:

	All Plans	
Age	**Male**	**Female**
20	0.0120%	0.0060%
25	0.0171%	0.0085%
30	0.0220%	0.0110%
35	0.0295%	0.0147%
40	0.0440%	0.0220%
45	0.0719%	0.0360%
50	0.1212%	0.0606%
55	0.2018%	0.1009%
60	0.3254%	0.1627%
65	0.2500%	0.2500%

Social Security Disability (for Judges' disability benefit offset):
Eligibility: 50%
Consumer Price Index Increases: 3.5% per annum
Wage Base Increases: 5.0% per annum

Workers' Compensation (for Judges' disability benefit offset):
None assumed.

ACTUARIAL ASSUMPTIONS

Rates of retirement for members eligible to retire during the next year were as follows:

	Main System		Law Enforcement	Judges
Age	Reduced	Unreduced	Unreduced	Unreduced
50		30.00%	25.00%	
51		10.00%	25.00%	
52		10.00%	25.00%	
53		10.00%	25.00%	
54		10.00%	25.00%	
55	1.00%	10.00%	10.00%	10.00%
56	1.00%	8.00%	10.00%	10.00%
57	1.00%	8.00%	10.00%	10.00%
58	1.00%	8.00%	10.00%	10.00%
59	1.00%	8.00%	10.00%	10.00%
60	2.00%	8.00%	10.00%	10.00%
61	5.00%	15.00%	10.00%	10.00%
62	10.00%	30.00%	50.00%	10.00%
63	10.00%	30.00%	50.00%	10.00%
64	10.00%	20.00%	50.00%	10.00%
65		30.00%	50.00%	20.00%
66		20.00%	20.00%	20.00%
67		15.00%	20.00%	20.00%
68		15.00%	20.00%	20.00%
69		15.00%	20.00%	20.00%
70		15.00%	20.00%	20.00%
71		15.00%	20.00%	20.00%
72		15.00%	20.00%	20.00%
73		15.00%	20.00%	20.00%
74		15.00%	20.00%	20.00%
75+		100.00%	100.00%	100.00%

ACTUARIAL ASSUMPTIONS

Assumed Service Credit: All active members (full time and part time) are assumed to earn one full year of service for each assumed future year of service.

Marital Status: It is assumed that 75 percent of participants in the Main System and Law Enforcement and 100 percent of Judges have an eligible spouse at the time of retirement or pre-retirement death. The male spouse is assumed to be three years older than the female spouse.

Form of Payment Election Assumption:

Form of Payment	Main System and Law Enforcement	Judges
Life Annuity	50%	0%
50% Joint and Survivor	45%	100%
Refund of Member Contributions	5%	0%

Benefit Service: Exact fractional years of service are used to determine the amount of benefit payable.

Decrement Timing: All decrements are assumed to occur at the middle of the year.

Decrement Operation: Turnover decrements do not operate after the member reaches retirement eligibility (early or normal).

Eligibility Testing: Eligibility for benefits is determined based upon the age nearest birthday and service on the date the decrement is assumed to occur.

Pay Increase Timing: End of (fiscal) year.

Expenses: Assumed administrative expenses were added to the Normal Cost and are based on the prior year's expenses, adjusted for inflation. The assumed amount added to the Normal Cost is:

			Law Enforcement		
Expenses	**Main System**	**Judges**	**With Prior**	**Without Prior**	**Total**
Assumed FY 2015	$ 1,100,000	$ 7,500	$ 5,500	$ 7,500	$ 1,120,500
Actual FY 2015	2,318,204	11,168	28,834	7,151	2,365,357
Assumed FY 2016	2,399,341	11,559	29,843	7,402	2,448,145

BENEFIT PROVISIONS

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions.

1. Normal Service Retirement:

➢ Eligibility*:*

Main System and Judges:

Attainment of age 65, or at any age with age plus service equal to at least 85 (Rule of 85).

For members enrolled after December 31, 2015, into the Main System, attainment of age 65, or at age 60 with age plus service equal to at least 90 (Rule of 90).

Law Enforcement:

Attainment of age 55 and three consecutive years of service, or if not former National Guard, at any age with age plus service equal to at least 85 (Rule of 85). Former National Guard is eligible for Rule of 85 on August 1, 2015.

➢ Benefit:

Main System and Law Enforcement:

2.00% of final average salary multiplied by service.

Judges:

3.50% of final average salary for each of the first ten years of service, 2.80% for each of the next ten years of service and 1.25% for service in excess of twenty years.

2. Early Retirement:

➢ Eligibility:

Main System:

Attainment of age 55 with three years of service.

Judges:

Attainment of age 55 with five years of service.

Law Enforcement:

Attainment of age 50 with three years of service.

- Benefit:

Main System:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 is met.

For members enrolled after December 31, 2015, into the Main System, a benefit that begins before age 65 (or Rule of 90, if earlier) is reduced by 2/3% of one percent for each month before the earlier of age 65 or the age at which the Rule of 90 is met.

Judges:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65 or the age at which the Rule of 85 is met.

Law Enforcement:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 55 or the age at which the Rule of 85 is met.

3. Disability Benefit:

- Eligibility:

Six months of service and inability to engage in any substantial gainful activity.

- Benefit:

Main System and Law Enforcement:

25% of the member's final average salary at disability minus workers' compensation benefits, with a minimum of $100 per month.

Judges:

70% of the member's final average salary at disability minus Social Security and Workers' Compensation benefits paid.

4. Deferred Vested Retirement:

- Eligibility:

  Main System and Law Enforcement:

  Three years of service.

  Judges:

  Five years of service.

- Benefit:

  Main System and Judges:

  The Normal Service Retirement Benefit payable at age 65 or the Rule of 85, if earlier. Reduced early retirement benefits can be elected upon attainment of age 55.

  Law Enforcement:

  The Normal Service Retirement Benefit payable at age 55 or the Rule of 85, if earlier. Reduced early retirement benefit can be selected upon attainment of age 50.

5. Pre-Retirement Death Benefits:

(a) Vested participants with a surviving spouse

- Eligibility:

  Main System and Law Enforcement:

  Three years of service.

  Judges:

  Five years of service.

- Benefit:

  Main System and Law Enforcement:

  One of the following options:

  - Lump sum payment of member's accumulated contributions with interest.

- 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.

- Continuation portion of 100% joint and survivor annuity (only if participant was eligible for normal retirement).

- A partial lump sum payment in addition to the one of the annuity options above.

Judges:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.

- 100% of the member's accrued benefit (not reduced on account of age) payable for the spouse's lifetime.

(b) Non-vested members or vested members without a surviving spouse

➢ Eligibility:

Main System, Judges and Law Enforcement:

Non-vested or no surviving spouse.

➢ Benefit:

Main System, Judges and Law Enforcement:

Lump sum payment of member's accumulated contributions with interest.

6. Refund of Member Contributions:

Paid to terminated non-vested members and terminated vested members who choose a refund of employee contributions in lieu of a monthly retirement benefit.

7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

Time Period	Per Annum Interest Rate
Through June 30, 1981	5.0%
July 1, 1981, to June 30, 1986	6.0%
After June 30, 1986	0.5% less than the actuarial interest rate assumption

8. Standard and Optional Forms of Payment:

Standard form of payment:

Main System and Law Enforcement:

Monthly benefit for life with a refund to beneficiary at death of the remaining balance (if any) of accumulated member contributions.

Judges:

Monthly benefit for life, with 50% payable to an eligible survivor.

Optional forms of payment:

- Life annuity (for Judges).
- 50% joint and survivor annuity with pop-up (for Main System and Law Enforcement).
- 100% joint and survivor annuity with pop-up.
- Twenty-year certain and life annuity.
- Ten-year certain and life annuity.
- Social Security level income annuity.
- A partial lump sum payment in addition to one of the annuity options above.
- An actuarially equivalent graduated benefit option with either a one percent or two percent increase to be applied the first day of January of each year. Not available for disability or early retirements or in combination with a partial lump sum option, a deferred normal retirement option, or a Social Security level income annuity.

9. Final Average Salary:

Average of the highest salary received by the member for any 36 months employed during the last 180 months of employment.

10. Contributions:

Contribution rates specified in the Century Code (except employer rate for Law Enforcement); differ between permanent full-time employees and part-time temporary employees. Rates are as follow:

	Rates Set by Statute		Rates Determined by the Board of Retirement
	Member	Employer	Employer
Main System Full-Time Employees	7.00%	7.12%	
Main System Part-Time Employees	14.12%	0.00%	
Judges	8.00%	17.52%	
Law Enforcement with prior Main System service	5.50%		9.81%
➢ BCI Employees	6.00%		10.31%
➢ National Guard members[1]	4.50%		7.00%
Law Enforcement without prior Main System service	5.50%		7.93%

[1] *Effective August 1, 2015, the member contribution rate for former National Guard members increased to 6% and the employer contribution rate increased to 9.81%. Effective January 1, 2016, the contribution rate for National Guard members of the State Law Enforcement plan will be reduced by 0.5% to 5.50%.*

BENEFIT PROVISIONS

Effective January 1, 2000:

A member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation Plan under chapter 54-52.2. The vested employer contribution may not exceed:

1. For months one through 12 of service credit, $25 or 1% of the member's monthly salary, whichever is greater.

2. For months 13 through 24 of service credit, $25 or 2% of the member's monthly salary, whichever is greater.

3. For months 25 through 36 of service credit, $25 or 3% of the member's monthly salary, whichever is greater.

4. For service exceeding 36 months, $25 or 4% of the member's monthly salary, whichever is greater.

Vested employer contributions are credited monthly to the member's account balance.

11. Rollovers:

The fund may accept rollovers from other qualified plans under rules adopted by the Board for the purchase of additional service credit.

Deloitte.

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Memo

Date: August 29, 2016

To: Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee

From: Josh Johnson and Pat Pechacek, Deloitte Consulting LLP

Subject: REVIEW OF PROPOSED BILL 17.0117.01000 REGARDING ELIGIBILITY FOR DISABLE JUDGES

The following summarizes our review of the proposed legislation.

OVERVIEW OF PROPOSED BILL

The proposed amendment adds language allowing an active supreme or district court judge receiving disability retirement benefits to elect to continue participating in the uniform group insurance program for medical benefits coverage on the same basis the judge participated before becoming disabled. A judge who makes this election may continue participating in this uniform group insurance program for the remainder of their term of office or until age 65, whichever occurs first.

EXPECTED IMPACT

We would not anticipate any material actuarial impact due to this amendment.

GRS
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August 23, 2016

Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: Legislative Studies

Dear Senator Krebsbach:

In accordance with your request, we have analyzed the impact of Bill No. 17.0109.01000 on the North Dakota Public Employees Retirement System (NDPERS).

Systems Affected:

North Dakota Public Employees Retirement System (Main System, Law Enforcement with prior Main System service, and Law Enforcement without prior Main System service)

Summary:

Bill No. 17.0109.01000
Allows political subdivisions, on behalf of their firefighters, to enter into agreements with the retirement board, for the purpose of extending the benefits of the public employees retirement system to those firefighters.

Actuarial Impact of Bill 109 on NDPERS

The actuarial impact of this change will depend specifically on the number and age of new members who would enter the Law Enforcement Plan, whether or not the new members have participated in the Main System, and the amount of liabilities and assets (if any) that would be transferred into the Law Enforcement Plan. We were not supplied with any member data on firefighters of political subdivisions who may potentially be interested in entering the Law Enforcement Plan. Therefore the following comments are general in nature.

- Eligible firefighters of political subdivisions who currently **do not** participate in NDPERS in the Main System would be allowed to participate in the Law Enforcement without prior Main System service System, but only on a prospective basis. In other words, such employees would have a normal cost but would have no past service liability cost. The normal cost as a percentage of compensation will be dependent on the current age of the firefighters transferring into the system.
  - The following information is based on the results from the actuarial valuation as of July 1, 2015, for the Law Enforcement without prior Main System service System
    - Board approved employer contribution rate of 7.93% of pay
    - Employer normal cost rate (including administrative expenses) of 7.71% of pay

    - Average age of active employees of 37.8
    - Average service of active members of 3.2 years
  - The normal cost as a percentage of compensation would decrease (increase) if the average age for the transferring group is younger (older) than the average age at plan entry for the current active members of the Law Enforcement without prior Main System service System.
  - There would be no past service liability cost since prior plan benefits would not be transferred into the System. However, the political subdivision will still contribute the entire employer contribution rate for the Law Enforcement without prior Main System service System, which includes components for the normal cost and the amortization of the unfunded past service liability based on the members who are currently in the system.
    - If the transferring group has a lower employer normal cost rate than the Board approved employer contribution rate (current 7.93% of pay), there will be a positive impact to the System.
    - If the transferring group has a higher employer normal cost rate than the Board approved employer contribution rate (current 7.93% of pay), there will be a negative impact to the System.

- Eligible firefighters of political subdivisions who currently **do** participate in NDPERS in the Main System would have a normal cost plus an amortization payment of the increase in past service liability as a result of the transfer. The normal cost impact would be similar to the normal cost impact described for political subdivisions transferring from outside of NDPERS. It is assumed that the Main System past service liability would be transferred to the Law Enforcement with prior Main System service System in the form of an asset transfer equal to the value of service accrued under the Main System.
  - The following information is based on the results from the actuarial valuation as of July 1, 2015, for the Law Enforcement with prior Main System service System
    - Board approved employer contribution rate of 9.81% of pay
    - Employer normal cost rate (including administrative expenses) of 6.43% of pay
    - Average age of active employees of 37.1
    - Average service of active members of 6.3 years of total service (5.5 years of service in the Law Enforcement System)
    - Normal retirement eligibility conditions of age 65 or Rule of 85 in the Main System (age 65 or age 60 with Rule of 90 for Main System members enrolled after 12/31/2015) and age 55 with three years of service or Rule of 85 in the Law Enforcement System
    - Early retirement eligibility conditions of age 55 with three years of service in the Main System and age 50 with three years of service or Rule of 85 in the Law Enforcement System

- Because the Law Enforcement with prior Main System service System contains more favorable retirement provisions than the Main System, there would be an increase in past service liability as a result of the transfer. Therefore, the transfer may be less than the value of benefits under the Law Enforcement with prior Main System service System and result in an increase in unfunded actuarial accrued liability.
  - If the transferring group has a total rate (employer normal cost plus amortization of their unfunded liability) that is lower than the Board approved employer contribution rate (current 9.81% of pay), there will be a positive impact to the System.
  - If the transferring group has a total rate (employer normal cost plus amortization of their unfunded liability) that is higher than the Board approved employer contribution rate (current 9.81% of pay), there will be a positive impact to the System.

<u>Policy Issue Analysis</u>

Benefits Policy Issues

- Adequacy of Retirement Benefits

  The Law Enforcement System contains more favorable retirement provisions than the Main System. Therefore, Bill 109 will enhance retirement benefits for firefighters employed by political subdivisions because they will now be able to retire at an earlier age.

- Competitiveness

  The bill may increase the benefits competitiveness for firefighters who transfer into the Law Enforcement System.

- Benefits Equity and Group Integrity

  Under the bill, firefighters would retire under normal and early retirement dates that are similar to the retirement dates of their peers who are employed by political subdivisions.

- Purchasing Power

  No impact.

- Preservation of Benefits

  No impact.

- Portability

  No impact.

- Ancillary Benefits

  No impact.

- Social Security:

  No impact

Funding Policy Issues

- Actuarial Impacts

  Previously noted.

- Investment Impacts

  - Cash Flow: An asset transfer would increase initial cash flow to the Law Enforcement System, but decrease cash flows to the Main System.

  - Asset Allocation: The Board will need to decide how to invest the additional member and employer contributions required by the Bill -- in the same manner as the current Investment Policy provides, or in an alternate manner.

Administration Issues

- Implementation Issues

  The bill will require that the System reprogram the prior service of firefighters to be counted under the rules applicable to firefighters of political subdivisions. While this bill would have minimal impact on administrative costs of the System, it would have an effect on the participating employer since the required contributions would increase.

- Administrative Costs

  The bill will have minimal effect on administrative resources. However, employer contributions will increase, since the statutory employer contribution rate for those transferring will increase from 7.12% of salary to either 9.81% or 7.93% depending on whether the firefighters enter the Law Enforcement Plan with or without Main System past service.

- Needed Authority

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

- Integration

  No impact.

- Employee Communications

  The bill will require employee communications to the firefighters to describe the new retirement rules applicable to them, including the normal retirement age and early retirement age.

Summary

- Firefighters that enter either the Law Enforcement without prior Main System service System or the Law Enforcement with prior Main System service System would be subject to the same eligibility conditions to receive benefits as law enforcement personnel.

- Firefighters that enter either the Law Enforcement without prior Main System service System or the Law Enforcement with prior Main System service System would be subject to the same benefit provisions as law enforcement personnel.

- The addition of a group of firefighters into either the Law Enforcement without prior Main System service System or the Law Enforcement with prior Main System service System does not add a new element of risk to either plan, assuming that the actual experience of firefighters (with respect to disability, death in service, retirement, etc.) is not materially different from that of other law enforcement entities participating in either plan.

Disclosures and Additional Information

Appendix I contains a summary of the plan provisions.

The signing actuaries are independent of the North Dakota Public Employees Retirement System.

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss, EA, MAAA, FCA
Senior Consultant and Team Leader

Amy Williams, ASA, MAAA
Consultant

AW:rl

cc: Mr. Sparb Collins, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Sharon Schiermeister, NDPERS
Mr. Alex Rivera, Gabriel, Roeder, Smith & Company
Ms. Kristen Brundirks, Gabriel, Roeder, Smith & Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith & Company

BENEFIT PROVISIONS

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions.

1. Normal Service Retirement:

- Eligibility:

  Main System and Judges:

  Attainment of age 65, or at any age with age plus service equal to at least 85 (Rule of 85).

  For members enrolled after December 31, 2015, into the Main System, attainment of age 65, or at age 60 with age plus service equal to at least 90 (Rule of 90).

  Law Enforcement:

  Attainment of age 55 and three consecutive years of service, or if not former National Guard, at any age with age plus service equal to at least 85 (Rule of 85). Former National Guard is eligible for Rule of 85 on August 1, 2015.

- Benefit:

  Main System and Law Enforcement:

  2.00% of final average salary multiplied by service.

  Judges:

  3.50% of final average salary for each of the first ten years of service, 2.80% for each of the next ten years of service and 1.25% for service in excess of twenty years.

2. Early Retirement:

- Eligibility:

  Main System:

  Attainment of age 55 with three years of service.

  Judges:

  Attainment of age 55 with five years of service.

Law Enforcement:

Attainment of age 50 with three years of service.

- Benefit:

Main System:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 is met.

For members enrolled after December 31, 2015, into the Main System, a benefit that begins before age 65 (or Rule of 90, if earlier) is reduced by 2/3% of one percent for each month before the earlier of age 65 or the age at which the Rule of 90 is met.

Judges:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65 or the age at which the Rule of 85 is met.

Law Enforcement:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 55 or the age at which the Rule of 85 is met.

3. Disability Benefit:

- Eligibility:

Six months of service and inability to engage in any substantial gainful activity.

- Benefit:

Main System and Law Enforcement:

25% of the member's final average salary at disability minus workers' compensation benefits, with a minimum of $100 per month.

Judges:

70% of the member's final average salary at disability minus Social Security and Workers' Compensation benefits paid.

4. Deferred Vested Retirement:

- Eligibility:

Main System and Law Enforcement:

Three years of service.

Judges:

Five years of service.

- Benefit:

Main System and Judges:

The Normal Service Retirement Benefit payable at age 65 or the Rule of 85, if earlier. Reduced early retirement benefits can be elected upon attainment of age 55.

Law Enforcement:

The Normal Service Retirement Benefit payable at age 55 or the Rule of 85, if earlier. Reduced early retirement benefit can be selected upon attainment of age 50.

5. Pre-Retirement Death Benefits:

(a) Vested participants with a surviving spouse

- Eligibility:

Main System and Law Enforcement:

Three years of service.

Judges:

Five years of service.

- Benefit:

Main System and Law Enforcement:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.

- 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.

- Continuation portion of 100% joint and survivor annuity (only if participant was eligible for normal retirement).

- A partial lump sum payment in addition to the one of the annuity options above.

Judges:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.

- 100% of the member's accrued benefit (not reduced on account of age) payable for the spouse's lifetime.

(b) Non-vested members or vested members without a surviving spouse

➢ Eligibility:

Main System, Judges and Law Enforcement:

Non-vested or no surviving spouse.

➢ Benefit:

Main System, Judges and Law Enforcement:

Lump sum payment of member's accumulated contributions with interest.

6. Refund of Member Contributions:

Paid to terminated non-vested members and terminated vested members who choose a refund of employee contributions in lieu of a monthly retirement benefit.

7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

Time Period	Per Annum Interest Rate
Through June 30, 1981	5.0%
July 1, 1981, to June 30, 1986	6.0%
After June 30, 1986	0.5% less than the actuarial interest rate assumption

8. Standard and Optional Forms of Payment:

Standard form of payment:

Main System and Law Enforcement:

Monthly benefit for life with a refund to beneficiary at death of the remaining balance (if any) of accumulated member contributions.

Judges:

Monthly benefit for life, with 50% payable to an eligible survivor.

Optional forms of payment:

- Life annuity (for Judges).
    - 50% joint and survivor annuity with pop-up (for Main System and Law Enforcement).
    - 100% joint and survivor annuity with pop-up.
    - Twenty-year certain and life annuity.
    - Ten-year certain and life annuity.
    - Social Security level income annuity.
    - A partial lump sum payment in addition to one of the annuity options above.
    - An actuarially equivalent graduated benefit option with either a one percent or two percent increase to be applied the first day of January of each year. Not available for disability or early retirements or in combination with a partial lump sum option, a deferred normal retirement option, or a Social Security level income annuity.

9. Final Average Salary:

Average of the highest salary received by the member for any 36 months employed during the last 180 months of employment.

10. Contributions:

Contribution rates specified in the Century Code (except employer rate for Law Enforcement); differ between permanent full-time employees and part-time temporary employees. Rates are as follow:

	Rates Set by Statute		Rates Determined by the Board of Retirement
	Member	Employer	Employer
Main System Full-Time Employees	7.00%	7.12%	
Main System Part-Time Employees	14.12%	0.00%	
Judges	8.00%	17.52%	
Law Enforcement with prior Main System service	5.50%		9.81%
➢ BCI Employees	6.00%		10.31%
➢ National Guard members[1]	4.50%		7.00%
Law Enforcement without prior Main System service	5.50%		7.93%

[1] *Effective August 1, 2015, the member contribution rate for former National Guard members increased to 6% and the employer contribution rate increased to 9.81%. Effective January 1, 2016, the contribution rate for National Guard members of the State Law Enforcement plan will be reduced by 0.5% to 5.50%.*

Effective January 1, 2000:

A member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation Plan under chapter 54-52.2. The vested employer contribution may not exceed:

1. For months one through 12 of service credit, $25 or 1% of the member's monthly salary, whichever is greater.

2. For months 13 through 24 of service credit, $25 or 2% of the member's monthly salary, whichever is greater.

3. For months 25 through 36 of service credit, $25 or 3% of the member's monthly salary, whichever is greater.

4. For service exceeding 36 months, $25 or 4% of the member's monthly salary, whichever is greater.

Vested employer contributions are credited monthly to the member's account balance.

11. Rollovers:

The fund may accept rollovers from other qualified plans under rules adopted by the Board for the purchase of additional service credit.

GRS

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August 23, 2016

Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: Legislative Studies

Dear Senator Krebsbach:

As requested, we have analyzed the impact of Bill No. 17.0118.01000 on the North Dakota Public Employees Retirement System (NDPERS).

<u>Systems Affected:</u>

North Dakota Public Employees Retirement System (PERS) and Defined Contribution Plan

<u>Summary:</u>

Bill No. 17.0118.01000 includes the following changes:

- PERS
  - ➢ Changes the definition of Retirement and Retirement Board
  - ➢ Decreases the employee contribution rate on behalf of peace officers employed by the Bureau of Criminal Investigation by 0.50% of salary from 6.00% of salary to 5.50% of salary, effective with the monthly reporting period of January 2018
  - ➢ Clarifies that disability benefits are only payable from the fund to which the member was actively contributing at the time the member became disabled
  - ➢ References normal retirement date as defined in Subsection 3, instead of defining normal retirement date for the purpose of calculating the actuarial reduction for early retirement benefits payable before normal retirement date
  - ➢ Although Bill 118 also includes language to decrease the employee contribution rate by 0.50% of salary for security officers employed by the National Guard, Sharon Schiermeister indicated that this change was not intended and will be removed from the bill.
- Defined Contribution Plan
  - ➢ Adds the same language to the Defined Contribution Plan as the Main System Defined Benefit Plan relating to the treatment of late payments of employer contributions, thereby making the administrative remedies the same

Actuarial Impact of Bill 118 on the Law Enforcement with Prior Main Service System

We believe that the only change that has an actuarial impact is the reduction in the employee contribution rate on behalf of peace officers employed by the Bureau of Criminal Investigation (in the Law Enforcement with Prior Main System Service System) by 0.50% of salary (from 6.00% of salary to 5.50% of salary, effective with the monthly reporting period of January 2018.)

Following is a summary of the projected funded ratio on an actuarial value of assets basis and a market value of assets basis under the current provisions and the proposed provisions of Bill 118:

	Law Enforcement with Prior Main System Service					
	Funded Ratio (AVA)			Funded Ratio (MVA)		
Year	Current Provisions	Bill 118 Proposed Provisions	Change	Current Provisions	Bill 118 Proposed Provisions	Change
2015	72.8%	72.8%	0.0%	82.5%	82.5%	0.0%
2016	74.6%	74.6%	0.0%	84.5%	84.5%	0.0%
2017	77.6%	77.6%	0.0%	86.7%	86.7%	0.0%
2018	80.0%	80.0%	0.0%	88.9%	88.9%	0.0%
2019	81.4%	81.4%	0.0%	91.1%	91.0%	0.0%
2020	83.3%	83.2%	-0.1%	93.2%	93.1%	-0.1%
2025	92.1%	91.9%	-0.2%	103.1%	102.9%	-0.2%
2030	100.0%	99.7%	-0.3%	112.1%	111.8%	-0.3%
2035	107.4%	107.0%	-0.4%	120.4%	120.0%	-0.4%
2040	114.8%	114.4%	-0.5%	129.0%	128.5%	-0.5%
2045	123.5%	122.9%	-0.6%	138.9%	138.2%	-0.7%

The reduction in employee contribution rate is projected to very slightly decrease the future funded ratio. After 30 years (by the year 2045):

1. The Law Enforcement with Prior Main System Service System funded ratio is projected to be 0.6 percentage points lower (122.9 percent compared to 123.5 percent) on an actuarial value of assets basis
2. The Law Enforcement with Prior Main System Service System funded ratio is projected to be 0.7 percentage points lower (138.2 percent compared to 138.9 percent) on a market value of assets basis

We have assumed that there will be no additional future changes in the employee contribution rates.

The following exhibits provide additional information on the actuarial impact on NDPERS of the proposed changes in Bill 118:

- Exhibit I: Summary of Actuarial Valuation Results as of July 1, 2015
- Graph I: Comparison of Projected Valuation Results for the Law Enforcement With Prior Main System Service System under the Current and Proposed Provisions
- Exhibit II(a): Projected Valuation Results for the Law Enforcement With Prior Main System Service System under the Current Provisions
- Exhibit II(b): Projected Valuation Results for the Law Enforcement With Prior Main System Service System under the Proposed Provisions

Actuarial Impact of Bill 118 on the Defined Contribution Plan

There is no actuarial impact to the Defined Contribution Plan as a result of the change to the treatment of late payments of employer contributions.

Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

  The decrease in employee contributions would have no impact on retirement benefits for existing members in the Law Enforcement With Prior Main System Service System.

  The changes included in Bill 118 do not appear to impact the adequacy of benefits payable from the Defined Contribution Plan.

- Competitiveness

  The decrease in employee contributions to the Law Enforcement With Prior Main System Service System will have no impact on retirement benefits for existing members. It will, however, increase the employees' take-home pay. As such, this bill may increase the total compensation package offered by participating employers in the Law Enforcement With Prior Main System Service System.

- Benefits Equity and Group Integrity

  The bill may increase the total compensation package offered by participating employers in the Law Enforcement With Prior Main System Service System.

- Purchasing Power Retention

  No impact.

- Preservation of Benefits

  Because the employer contribution to the Law Enforcement With Prior Main System Service System is equal to the "….amount determined by the board to be actuarially required to support the level of benefits" any reduction in the member contribution rate may, if necessary, be made up by the employer. As a result, members' promised benefits from the Law Enforcement With Prior Main System Service System will not be impacted by the reduction in the member contribution rate.

- Portability

  No impact.

- Ancillary Benefits

  No impact.

- Social Security:

  No impact

Funding Policy Issues

- Actuarial Impacts

  As previously noted, the reduction in the member contribution rate to the Law Enforcement With Prior Main System Service System is projected to very slightly decrease the future funded ratio. (The Plan is still projected to reach 100% funded.)

- Investment Impacts

  - Cash Flow: The 0.50% reduction in the member contribution rate will not have a material impact on cash flow to the Law Enforcement With Prior Main System Service System.

  - Asset Allocation: No impact

Administration Issues

- Implementation Issues

  This bill would have an impact on the employees, since their required contributions would decrease.

- Administrative Costs

  There may be administrative costs associated with the decrease in member contributions, as well as with the "non actuarial" changes included in Bill 118. This will depend on the employer administrative practices.

- Needed Authority

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

- Integration

  No impact.

- Employee Communications

  Employee communications will be necessary to describe the impact of decreased member contributions on employee pay, as well as any "non-actuarial" changes that may impact the members.

- Miscellaneous and Drafting Issues

  There may be some drafting changes depending on administrative practices.

<u>Projection Assumptions</u>

Following is a summary of the assumptions made for new hires used in the projections. The average new hire information is based on the average of members with at least one year and less than five years of service. The average assumed new hire salary is based on projecting the valuation salary from the 2015 valuation back to hire age using the assumed salary increase assumption and then projecting back to the 2015 valuation using the assumed wage inflation assumption of 4.5 percent per year. The projections assume that the number of active members remains the same in each future year as the number as of the most recent valuation of July 1, 2015.

Average Age	37.1	31.6
Average Benefit Service	5.5	0.0
Average Salary	$58,048	$45,098
Normal Cost Rate (Benefits)	10.46%	10.44%

Disclosures and Additional Information

The actuarial assumptions used in this analysis were the same assumptions used in the actuarial valuation as of July 1, 2015, including an assumed rate of investment return of 8.00 percent on the market value of assets in each future year. A summary of the actuarial assumptions can be found in Appendix I of this letter.

A summary of the current benefit provisions can be found in Appendix II of this letter.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss, EA, MAAA, FCA
Senior Consultant and Team Leader

Amy Williams, ASA, MAAA
Consultant

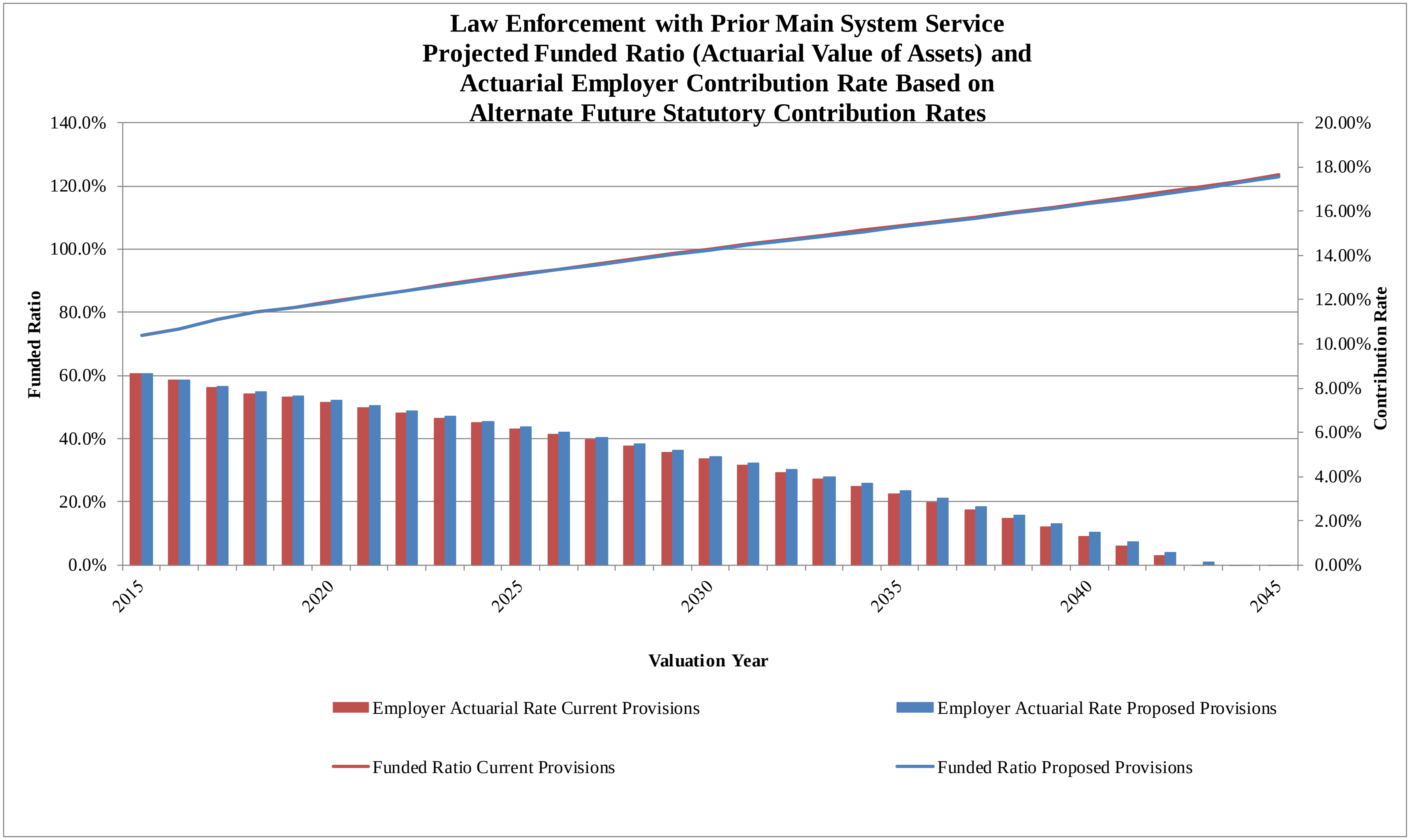
AW:rl

cc: Mr. Sparb Collins, NDPERS
Ms. Sharon Schiermeister, NDPERS
Mr. Bryan Reinhardt, NDPERS
Mr. Alex Rivera, Gabriel, Roeder, Smith & Company
Ms. Kristen Brundirks, Gabriel, Roeder, Smith & Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith & Company

Law Enforcement with Prior Main System Service	Total Normal Cost*	Employee Rate	Net Employer Normal Cost	Actuarial Value of Assets Basis: Unfunded Liability Rate	Actuarial Value of Assets Basis: Total Employer Actuarial Rate	Actuarial Value of Assets Basis: Employer Approved Rate	Actuarial Value of Assets Basis: Approved Rate Deficiency	Market Value of Assets Basis: Unfunded Liability Rate	Market Value of Assets Basis: Total Employer Actuarial Rate	Market Value of Assets Basis: Employer Approved Rate	Market Value of Assets Basis: Approved Rate Deficiency
2015 Valuation Results	12.02%	5.59%	6.43%	3.35%	9.78%	9.81%	-0.03%	2.10%	8.53%	9.81%	-1.28%
GRS 2015 Replication Results											
BCI Employees	10.79%	6.00%	4.79%	3.58%	8.37%	9.81%	-1.44%	2.31%	7.10%	9.81%	-2.71%
Non BCI Employees	10.60%	5.50%	5.10%	3.58%	8.68%	9.81%	-1.13%	2.31%	7.41%	9.81%	-2.40%
Total	10.63%	5.54%	5.09%	3.58%	8.67%	9.81%	-1.14%	2.31%	7.40%	9.81%	-2.41%
Illustrative 2015 Results with Change in Contribution Rates											
BCI Employees	10.78%	5.50%	5.28%	3.58%	8.86%	9.31%	-0.45%	2.31%	7.59%	9.31%	-1.72%
Non BCI Employees	10.60%	5.50%	5.10%	3.58%	8.68%	9.81%	-1.13%	2.31%	7.41%	9.81%	-2.40%
Total	10.62%	5.50%	5.12%	3.58%	8.70%	9.81%	-1.11%	2.31%	7.43%	9.81%	-2.38%

**Includes assumed administrative expenses.*

Unfunded liability rate is based on 20-year open level percentage of payroll amortization of the unfunded liability.



Law Enforcement with Prior Main System Service
Projected Funded Ratio (Actuarial Value of Assets) and
Actuarial Employer Contribution Rate Based on
Alternate Future Statutory Contribution Rates
Funded Ratio
140.0%
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
Contribution Rate
20.00%
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2015
2020
2025
2030
2035
2040
2045
Valuation Year
Employer Actuarial Rate Current Provisions
Employer Actuarial Rate Proposed Provisions
Funded Ratio Current Provisions
Funded Ratio Proposed Provisions

North Dakota Public Employees Retirement System - Law Enforcement with Prior Main System Service
Projection Results Based on the Actuarial Valuation as of July 1, 2015
Current Plan Provisions
($ in thousands)

			Results Based on Actuarial Value of Assets				Employer Actuarial Rate (%)			Statutory Contribution Amount ($)				Results Based on Market Value of Assets			Member Counts	
Year	Present Value Future Benefits	Actuarial Accrued Liability	Assets	Unfunded Accrued Liability	Funded Ratio	Projected Payroll	Normal Cost	Amortization of UAL	Total	Employer (9.81%)	Employee (5.50%)	Total	Benefit Payments and Expenses	Assets	Funded Ratio	Employer Actuarial Rate	Active	Ben Recip.
2015	$ 51,268	$ 34,797	$ 25,335	$ 9,462	72.8%	$ 18,459	5.09%	3.58%	8.67%	$ 3,328	$ 997	$ 4,325	$ 1,411	$ 28,692	82.5%	7.40%	318	73
2016	54,862	37,088	27,656	9,432	74.6%	19,426	4.99%	3.39%	8.38%	1,811	1,022	2,833	2,512	31,321	84.5%	7.06%	318	87
2017	59,266	40,195	31,190	9,005	77.6%	20,438	4.96%	3.07%	8.03%	1,906	1,083	2,988	1,998	34,856	86.7%	6.78%	318	100
2018	63,838	43,511	34,792	8,719	80.0%	21,681	4.95%	2.81%	7.76%	2,005	1,139	3,144	2,140	38,688	88.9%	6.50%	318	112
2019	68,649	47,087	38,349	8,738	81.4%	22,969	4.94%	2.65%	7.59%	2,127	1,208	3,335	2,277	42,882	91.1%	6.22%	318	123
2020	73,724	50,947	42,448	8,499	83.3%	24,336	4.91%	2.44%	7.35%	2,253	1,279	3,533	2,416	47,473	93.2%	5.91%	318	134
2021	79,128	55,133	46,950	8,183	85.2%	25,747	4.90%	2.22%	7.12%	2,387	1,355	3,743	2,544	52,516	95.3%	5.61%	318	144
2022	84,897	59,636	51,856	7,780	87.0%	27,162	4.88%	2.00%	6.88%	2,526	1,434	3,960	2,711	58,016	97.3%	5.30%	318	156
2023	91,027	64,430	57,150	7,280	88.7%	28,623	4.87%	1.78%	6.65%	2,665	1,512	4,177	2,927	63,956	99.3%	4.99%	318	170
2024	97,482	69,547	62,875	6,672	90.4%	30,176	4.87%	1.54%	6.41%	2,808	1,593	4,401	3,140	70,384	101.2%	4.68%	318	181
2025	104,329	75,018	69,075	5,943	92.1%	31,778	4.86%	1.31%	6.17%	2,960	1,680	4,640	3,360	77,345	103.1%	4.35%	318	194
2026	111,575	80,880	75,800	5,080	93.7%	33,450	4.85%	1.06%	5.91%	3,117	1,768	4,886	3,575	84,895	105.0%	4.01%	318	207
2027	119,265	87,173	83,104	4,069	95.3%	35,202	4.84%	0.81%	5.65%	3,281	1,861	5,143	3,790	93,092	106.8%	3.67%	318	219
2028	127,453	93,937	91,044	2,894	96.9%	37,046	4.83%	0.55%	5.38%	3,453	1,958	5,412	4,005	102,001	108.6%	3.31%	318	232
2029	136,140	101,202	99,664	1,538	98.5%	38,980	4.82%	0.28%	5.10%	3,634	2,061	5,695	4,239	111,675	110.3%	2.95%	318	245
2030	145,394	109,035	109,050	(15)	100.0%	41,011	4.80%	0.00%	4.80%	3,824	2,168	5,992	4,457	122,205	112.1%	2.56%	318	257
2031	155,269	117,455	119,242	(1,786)	101.5%	43,101	4.79%	-0.29%	4.50%	4,023	2,281	6,304	4,708	133,640	113.8%	2.17%	318	272
2032	165,786	126,465	130,264	(3,798)	103.0%	45,254	4.78%	-0.59%	4.19%	4,228	2,397	6,626	5,008	146,013	115.5%	1.77%	318	287
2033	176,967	136,079	142,155	(6,077)	104.5%	47,479	4.76%	-0.89%	3.87%	4,439	2,517	6,956	5,346	159,367	117.1%	1.34%	318	304
2034	188,829	146,289	154,939	(8,650)	105.9%	49,780	4.75%	-1.21%	3.54%	4,658	2,641	7,299	5,744	173,731	118.8%	0.90%	318	318
2035	201,344	157,074	168,623	(11,550)	107.4%	52,160	4.75%	-1.55%	3.20%	4,883	2,769	7,652	6,221	189,118	120.4%	0.46%	318	340
2036	214,513	168,358	183,171	(14,813)	108.8%	54,563	4.74%	-1.89%	2.85%	5,117	2,901	8,018	6,822	205,490	122.1%	-0.01%	318	366
2037	228,285	180,086	198,565	(18,479)	110.3%	57,033	4.74%	-2.26%	2.48%	5,353	3,035	8,387	7,519	222,831	123.7%	-0.49%	318	393
2038	242,628	192,285	214,875	(22,590)	111.7%	59,629	4.75%	-2.64%	2.11%	5,595	3,172	8,767	8,234	241,211	125.4%	-0.98%	318	420
2039	257,546	204,889	232,085	(27,196)	113.3%	62,262	4.75%	-3.05%	1.70%	5,850	3,316	9,166	9,064	260,614	127.2%	-1.50%	318	447
2040	273,003	217,909	250,251	(32,342)	114.8%	65,024	4.76%	-3.47%	1.29%	6,108	3,463	9,571	9,920	281,100	129.0%	-2.02%	318	474
2041	289,009	231,347	269,429	(38,082)	116.5%	67,889	4.77%	-3.91%	0.86%	6,379	3,617	9,996	10,822	302,730	130.9%	-2.57%	318	502
2042	305,587	245,214	289,686	(44,472)	118.1%	70,881	4.77%	-4.38%	0.39%	6,660	3,776	10,436	11,758	325,574	132.8%	-3.14%	318	529
2043	322,783	259,578	311,148	(51,570)	119.9%	74,037	4.78%	-4.86%	-0.08%	6,953	3,943	10,896	12,675	349,771	134.7%	-3.72%	318	550
2044	340,619	274,469	333,912	(59,443)	121.7%	77,353	4.78%	-5.36%	-0.58%	7,263	4,118	11,381	13,618	375,429	136.8%	-4.33%	318	575
2045	359,115	289,873	358,033	(68,160)	123.5%	80,805	4.79%	-5.89%	-1.10%	7,588	4,303	11,891	14,632	402,615	138.9%	-4.95%	318	597

Employee rate is 6.00% and employer rate is 9.81% for BCI employees.

North Dakota Public Employees Retirement System - Law Enforcement with Prior Main System Service
Projection Results Based on the Actuarial Valuation as of July 1, 2015
Proposed Plan Provisions - 0.50 percent of pay decrease to the employee contribution rate for the Bureau of Criminal Investigation (BCI) members
($ in thousands)

			Results Based on Actuarial Value of Assets							Statutory Contribution Amount ($)				Results Based on Market Value of Assets				
							Employer Actuarial Rate (%)						Benefit			Employer	Member Counts	
Year	Present Value Future Benefits	Actuarial Accrued Liability	Assets	Unfunded Accrued Liability	Funded Ratio	Projected Payroll	Normal Cost	Amortization of UAL	Total	Employer (9.81%)	Employee (5.50%)	Total	Payments and Expenses	Assets	Funded Ratio	Actuarial Rate	Active	Ben Recip.
2015	$ 51,268	$ 34,795	$ 25,335	$ 9,460	72.8%	$ 18,459	5.09%	3.58%	8.67%	$ 3,328	$ 997	$ 4,325	$ 1,411	$ 28,692	82.5%	7.40%	318	73
2016	54,862	37,085	27,656	9,430	74.6%	19,426	4.99%	3.39%	8.38%	1,811	1,022	2,833	2,512	31,321	84.5%	7.06%	318	87
2017	59,266	40,192	31,190	9,002	77.6%	20,438	5.00%	3.07%	8.07%	1,906	1,083	2,988	1,998	34,856	86.7%	6.82%	318	100
2018	63,838	43,508	34,785	8,723	80.0%	21,681	5.02%	2.81%	7.83%	2,005	1,132	3,137	2,139	38,681	88.9%	6.57%	318	112
2019	68,649	47,083	38,326	8,757	81.4%	22,969	5.00%	2.66%	7.66%	2,127	1,192	3,319	2,277	42,859	91.0%	6.28%	318	123
2020	73,724	50,943	42,409	8,535	83.2%	24,336	4.98%	2.45%	7.43%	2,253	1,263	3,517	2,416	47,432	93.1%	5.99%	318	134
2021	79,128	55,128	46,892	8,236	85.1%	25,747	4.97%	2.23%	7.20%	2,387	1,338	3,726	2,544	52,455	95.2%	5.69%	318	144
2022	84,897	59,631	51,778	7,853	86.8%	27,162	4.95%	2.02%	6.97%	2,526	1,416	3,942	2,710	57,931	97.1%	5.39%	318	156
2023	91,027	64,424	57,049	7,375	88.6%	28,623	4.94%	1.80%	6.74%	2,665	1,494	4,158	2,926	63,847	99.1%	5.08%	318	170
2024	97,482	69,541	62,750	6,791	90.2%	30,176	4.93%	1.57%	6.50%	2,808	1,574	4,382	3,139	70,247	101.0%	4.77%	318	181
2025	104,329	75,011	68,923	6,088	91.9%	31,778	4.92%	1.34%	6.26%	2,960	1,660	4,620	3,359	77,177	102.9%	4.44%	318	194
2026	111,575	80,872	75,618	5,254	93.5%	33,450	4.91%	1.10%	6.01%	3,117	1,748	4,865	3,574	84,694	104.7%	4.11%	318	207
2027	119,265	87,164	82,889	4,275	95.1%	35,202	4.90%	0.85%	5.75%	3,281	1,840	5,121	3,788	92,854	106.5%	3.77%	318	219
2028	127,453	93,927	90,792	3,135	96.7%	37,046	4.88%	0.59%	5.47%	3,453	1,936	5,389	4,004	101,723	108.3%	3.41%	318	232
2029	136,140	101,190	99,372	1,818	98.2%	38,980	4.87%	0.33%	5.20%	3,634	2,038	5,672	4,238	111,351	110.0%	3.05%	318	245
2030	145,394	109,021	108,714	307	99.7%	41,011	4.86%	0.05%	4.91%	3,824	2,144	5,968	4,455	121,831	111.8%	2.68%	318	257
2031	155,269	117,439	118,856	(1,417)	101.2%	43,101	4.85%	-0.23%	4.62%	4,023	2,256	6,279	4,706	133,212	113.4%	2.30%	318	272
2032	165,786	126,447	129,825	(3,378)	102.7%	45,254	4.83%	-0.52%	4.31%	4,228	2,371	6,599	5,006	145,524	115.1%	1.89%	318	287
2033	176,967	136,058	141,657	(5,599)	104.1%	47,479	4.82%	-0.82%	4.00%	4,439	2,489	6,928	5,344	158,812	116.7%	1.48%	318	304
2034	188,829	146,266	154,376	(8,110)	105.5%	49,780	4.81%	-1.14%	3.67%	4,658	2,611	7,269	5,742	173,104	118.3%	1.05%	318	318
2035	201,344	157,047	167,989	(10,941)	107.0%	52,160	4.80%	-1.46%	3.34%	4,883	2,738	7,621	6,218	188,410	120.0%	0.60%	318	340
2036	214,513	168,328	182,458	(14,130)	108.4%	54,563	4.80%	-1.81%	2.99%	5,117	2,869	7,986	6,819	204,695	121.6%	0.15%	318	366
2037	228,285	180,053	197,767	(17,714)	109.8%	57,033	4.80%	-2.17%	2.63%	5,353	3,001	8,354	7,516	221,941	123.3%	-0.33%	318	393
2038	242,628	192,249	213,984	(21,735)	111.3%	59,629	4.80%	-2.54%	2.26%	5,595	3,137	8,732	8,231	240,216	125.0%	-0.81%	318	420
2039	257,546	204,849	231,092	(26,243)	112.8%	62,262	4.81%	-2.94%	1.87%	5,850	3,280	9,129	9,060	259,505	126.7%	-1.32%	318	447
2040	273,003	217,865	249,147	(31,281)	114.4%	65,024	4.81%	-3.36%	1.45%	6,108	3,424	9,532	9,916	279,866	128.5%	-1.84%	318	474
2041	289,009	231,299	268,204	(36,904)	116.0%	67,889	4.82%	-3.79%	1.03%	6,379	3,576	9,955	10,818	301,359	130.3%	-2.38%	318	502
2042	305,587	245,162	288,327	(43,165)	117.6%	70,881	4.83%	-4.25%	0.58%	6,660	3,734	10,394	11,753	324,055	132.2%	-2.94%	318	529
2043	322,783	259,521	309,645	(50,124)	119.3%	74,037	4.83%	-4.72%	0.11%	6,953	3,898	10,852	12,670	348,091	134.1%	-3.52%	318	550
2044	340,619	274,408	332,251	(57,844)	121.1%	77,353	4.84%	-5.22%	-0.38%	7,263	4,072	11,335	13,612	373,572	136.1%	-4.11%	318	575
2045	359,115	289,807	356,201	(66,394)	122.9%	80,805	4.84%	-5.73%	-0.89%	7,588	4,254	11,843	14,625	400,566	138.2%	-4.73%	318	597

Employee rate is 6.00% and employer rate is 9.81% for BCI employee until January 1, 2018. Beginning January 1, 2018, the employee rate decreases to 5.50%.

ACTUARIAL ASSUMPTIONS

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using the ***Individual Entry Age Normal*** *actuarial cost method* having the following characteristics:

- The normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and
- Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Financing of Unfunded Actuarial Accrued Liabilities. The unfunded actuarial accrued liability is amortized using 20-year open level-percentage of pay amortization of the unfunded liability as of the valuation date.

Actuarial Value of Pension Plan Assets. The asset value is the actuarial value of assets which is calculated by recognizing 100 percent of the current year's interest and dividends and 20 percent of the current year and previous four years' total appreciation/(depreciation). The total appreciation/(depreciation) for a given year is fully recognized after a five-year period.

Valuation Assumptions

The contribution and benefit values of the System are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost method described above.

The principal areas of financial risk which require assumptions about future experiences are:

- Long-term rates of investment return to be generated by the assets of the Plan;
- Patterns of pay increases to members;
- Rates of mortality among members, retirees and beneficiaries;
- Rates of withdrawal of active members;
- Rates of disability among members; and
- The age patterns of actual retirement.

In a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives; a period of time which can be as long as a century.

Actual experience of the Plan will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time-to-time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). Thus, an experience review of the North Dakota Public Employees Retirement System for the period July 1, 2009, to July 1, 2014, was performed to compare the demographic and economic experience against the actuarial assumptions used in the valuations. The actuarial assumptions described in this section were adopted by the Board for use beginning with the July 1, 2015, valuation. Additional information regarding the rationale for the assumptions may be found in the 2015 experience review report. **The experience review was performed by the prior actuary.** All actuarial assumptions are expectations of future experience, not current market measures.

Current Valuation Assumptions and Methods

The assumed rate of investment return used was 8.00%, net of expenses, annually.

The assumed rate of price inflation is 3.50 percent.

No Cost of Living Adjustments (COLA) are provided to benefits recipients. Therefore, there is no assumption for this valuation.

The rates of annual salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

Service At Beginning of Year	State Employee	Non-State Employee	Law Enforcement	Judges
1	12.00%	15.00%	20.00%	
2	9.50%	10.00%	20.00%	
3	7.25%	8.00%	20.00%	
4			10.00%	
5			10.00%	
Age				
Under 30	6.75%	9.55%	6.75%	4.00%
30-39	6.00%	9.50%	6.00%	4.00%
40-49	5.75%	9.00%	5.75%	4.00%
50-59	5.25%	8.50%	5.25%	4.00%
60+	4.50%	8.25%	4.50%	4.00%

The assumed rate of total payroll growth used in amortizing the unfunded liability as a level percentage of pay is:

Main System and Law Enforcement: 4.50 percent
Judges: 4.00 percent

The assumed increase in the Social Security Taxable Wage Base is 3.25 percent.

ACTUARIAL ASSUMPTIONS

The mortality assumptions are as follows:

	Male Setback	Female Setback
RP-2000 Combined Healthy Mortality Table (healthy mortality)	2 years	3 years
RP-2000 Disabled Retiree Mortality Table (disabled post retirement)*	1 year	0 years

*Rates multiplied by 125 percent.

To provide a margin for future mortality improvements, generational mortality improvements from the year 2014 using the Social Security Administration (SSA) 2014 Intermediate Cost scale were assumed.

Following is a table with the life expectancies by age as of the valuation date.

	Healthy Mortality Post-Retirement Future Life Expectancy (years) in 2015		Disabled Mortality Future Life Expectancy (years) in 2015	
Age	**Men**	**Women**	**Men**	**Women**
20	67.55	71.96	32.00	49.54
25	62.15	66.55	30.13	45.71
30	56.76	61.13	28.14	41.80
35	51.39	55.72	26.03	37.81
40	46.08	50.35	23.67	33.67
45	40.81	45.01	20.99	29.37
50	35.60	39.74	18.12	25.13
55	30.48	34.54	15.64	21.39
60	25.54	29.47	13.47	18.11
65	20.89	24.62	11.45	15.12
70	16.65	20.14	9.49	12.35
75	12.83	16.03	7.64	9.85
80	9.52	12.38	6.04	7.71
85	6.79	9.21	4.74	5.90
90	4.72	6.63	3.58	4.44
95	3.36	4.84	2.52	3.36
100	2.56	3.82	1.90	2.73
105	2.13	3.11	1.59	2.13

ACTUARIAL ASSUMPTIONS

Rates of separation from active membership are represented by the following table (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members terminating employment.

Service Beginning of Year	Service and Age-Based Rates For First Five Years of Service					
	Main System			Law Enforcement		
	Age					
	Under 30	30-39	40+	Under 30	30-39	40+
0	22.00%	16.00%	12.00%	25.00%	20.00%	17.00%
1	18.00%	14.00%	10.00%	23.00%	17.00%	15.00%
2	16.00%	12.00%	10.00%	20.00%	15.00%	12.00%
3	14.00%	12.00%	8.00%	17.00%	13.00%	10.00%
4	14.00%	11.00%	7.00%	15.00%	11.00%	7.00%

Age	Age-Based Rates Only After First Five Years of Service	
	Main System	Law Enforcement
20-24	8.80%	8.80%
25-29	8.80%	8.80%
30-34	5.50%	5.50%
35-39	4.70%	4.70%
40-44	3.90%	3.90%
45-49	3.70%	3.70%
50-54	3.40%	3.40%
55-59	0.10%	0.10%
60+	0.20%	0.20%

No pre-retirement termination is assumed for Judges.

Vested participants that terminate are assumed to elect the option with the greater present value:

1) *A refund of their accumulated contributions with interest or*
2) *A deferred benefit.*

Withdrawal rates end upon eligibility for early retirement.

Early retirement eligibility is as follows:
Main System: Earlier of (i) age 55 and 3 years of service, and (ii) eligibility for Rule of 85.
Law Enforcement: Age 50 and 3 years of service.

Account Balance Due to Vested Employer Contribution (PEP): Participation Under Chapter 54-52.2: If not elected: None. If elected: 100% of active members of the Main System and Law Enforcement. Contribution: Maximum allowed, based on service at the beginning of the Plan year.

ACTUARIAL ASSUMPTIONS

Rates of disability:

Before age 65: Males: 20% of OASDI disability incidence rates.
Females: 10% of OASDI disability incidence rates.
Age 65 and later: 0.25% per year.

Rates of disability were as follows:

	All Plans	
Age	**Male**	**Female**
20	0.0120%	0.0060%
25	0.0171%	0.0085%
30	0.0220%	0.0110%
35	0.0295%	0.0147%
40	0.0440%	0.0220%
45	0.0719%	0.0360%
50	0.1212%	0.0606%
55	0.2018%	0.1009%
60	0.3254%	0.1627%
65	0.2500%	0.2500%

Social Security Disability (for Judges' disability benefit offset):
Eligibility: 50%
Consumer Price Index Increases: 3.5% per annum
Wage Base Increases: 5.0% per annum

Workers' Compensation (for Judges' disability benefit offset):
None assumed.

ACTUARIAL ASSUMPTIONS

Rates of retirement for members eligible to retire during the next year were as follows:

	Main System		Law Enforcement	Judges
Age	**Reduced**	**Unreduced**	**Unreduced**	**Unreduced**
50		30.00%	25.00%	
51		10.00%	25.00%	
52		10.00%	25.00%	
53		10.00%	25.00%	
54		10.00%	25.00%	
55	1.00%	10.00%	10.00%	10.00%
56	1.00%	8.00%	10.00%	10.00%
57	1.00%	8.00%	10.00%	10.00%
58	1.00%	8.00%	10.00%	10.00%
59	1.00%	8.00%	10.00%	10.00%
60	2.00%	8.00%	10.00%	10.00%
61	5.00%	15.00%	10.00%	10.00%
62	10.00%	30.00%	50.00%	10.00%
63	10.00%	30.00%	50.00%	10.00%
64	10.00%	20.00%	50.00%	10.00%
65		30.00%	50.00%	20.00%
66		20.00%	20.00%	20.00%
67		15.00%	20.00%	20.00%
68		15.00%	20.00%	20.00%
69		15.00%	20.00%	20.00%
70		15.00%	20.00%	20.00%
71		15.00%	20.00%	20.00%
72		15.00%	20.00%	20.00%
73		15.00%	20.00%	20.00%
74		15.00%	20.00%	20.00%
75+		100.00%	100.00%	100.00%

ACTUARIAL ASSUMPTIONS

Assumed Service Credit: All active members (full time and part time) are assumed to earn one full year of service for each assumed future year of service.

Marital Status: It is assumed that 75 percent of participants in the Main System and Law Enforcement and 100 percent of Judges have an eligible spouse at the time of retirement or pre-retirement death. The male spouse is assumed to be three years older than the female spouse.

Form of Payment Election Assumption:

Form of Payment	Main System and Law Enforcement	Judges
Life Annuity	50%	0%
50% Joint and Survivor	45%	100%
Refund of Member Contributions	5%	0%

Benefit Service: Exact fractional years of service are used to determine the amount of benefit payable.

Decrement Timing: All decrements are assumed to occur at the middle of the year.

Decrement Operation: Turnover decrements do not operate after the member reaches retirement eligibility (early or normal).

Eligibility Testing: Eligibility for benefits is determined based upon the age nearest birthday and service on the date the decrement is assumed to occur.

Pay Increase Timing: End of (fiscal) year.

Expenses: Assumed administrative expenses were added to the Normal Cost and are based on the prior year's expenses, adjusted for inflation. The assumed amount added to the Normal Cost is:

			Law Enforcement		
Expenses	**Main System**	**Judges**	**With Prior**	**Without**	**Total**
Assumed FY 2015	$ 1,100,000	$ 7,500	$ 5,500	$ 7,500	$ 1,120,500
Actual FY 2015	2,318,204	11,168	28,834	7,151	2,365,357
Assumed FY 2016	2,399,341	11,559	29,843	7,402	2,448,145

BENEFIT PROVISIONS

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions.

1. Normal Service Retirement:

- Eligibility:

Main System and Judges:

Attainment of age 65, or at any age with age plus service equal to at least 85 (Rule of 85).

For members enrolled after December 31, 2015, into the Main System, attainment of age 65, or at age 60 with age plus service equal to at least 90 (Rule of 90).

Law Enforcement:

Attainment of age 55 and three consecutive years of service, or if not former National Guard, at any age with age plus service equal to at least 85 (Rule of 85). Former National Guard is eligible for Rule of 85 on August 1, 2015.

- Benefit:

Main System and Law Enforcement:

2.00% of final average salary multiplied by service.

Judges:

3.50% of final average salary for each of the first ten years of service, 2.80% for each of the next ten years of service and 1.25% for service in excess of twenty years.

2. Early Retirement:

- Eligibility:

Main System:

Attainment of age 55 with three years of service.

Judges:

Attainment of age 55 with five years of service.

Law Enforcement:

Attainment of age 50 with three years of service.

- Benefit:

Main System:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 is met.

For members enrolled after December 31, 2015, into the Main System, a benefit that begins before age 65 (or Rule of 90, if earlier) is reduced by 2/3% of one percent for each month before the earlier of age 65 or the age at which the Rule of 90 is met.

Judges:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65 or the age at which the Rule of 85 is met.

Law Enforcement:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 55 or the age at which the Rule of 85 is met.

3. Disability Benefit:

- Eligibility:

Six months of service and inability to engage in any substantial gainful activity.

- Benefit:

Main System and Law Enforcement:

25% of the member's final average salary at disability minus workers' compensation benefits, with a minimum of $100 per month.

Judges:

70% of the member's final average salary at disability minus Social Security and Workers' Compensation benefits paid.

4. Deferred Vested Retirement:

- Eligibility:

Main System and Law Enforcement:

Three years of service.

Judges:

Five years of service.

- Benefit:

Main System and Judges:

The Normal Service Retirement Benefit payable at age 65 or the Rule of 85, if earlier. Reduced early retirement benefits can be elected upon attainment of age 55.

Law Enforcement:

The Normal Service Retirement Benefit payable at age 55 or the Rule of 85, if earlier. Reduced early retirement benefit can be selected upon attainment of age 50.

5. Pre-Retirement Death Benefits:

(a) Vested participants with a surviving spouse

- Eligibility:

Main System and Law Enforcement:

Three years of service.

Judges:

Five years of service.

- Benefit:

Main System and Law Enforcement:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.

- 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.

- Continuation portion of 100% joint and survivor annuity (only if participant was eligible for normal retirement).

- A partial lump sum payment in addition to the one of the annuity options above.

Judges:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.

- 100% of the member's accrued benefit (not reduced on account of age) payable for the spouse's lifetime.

(b) Non-vested members or vested members without a surviving spouse

➢ Eligibility:

Main System, Judges and Law Enforcement:

Non-vested or no surviving spouse.

➢ Benefit:

Main System, Judges and Law Enforcement:

Lump sum payment of member's accumulated contributions with interest.

6. Refund of Member Contributions:

Paid to terminated non-vested members and terminated vested members who choose a refund of employee contributions in lieu of a monthly retirement benefit.

7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

Time Period	Per Annum Interest Rate
Through June 30, 1981	5.0%
July 1, 1981, to June 30, 1986	6.0%
After June 30, 1986	0.5% less than the actuarial interest rate assumption

8. Standard and Optional Forms of Payment:

Standard form of payment:

Main System and Law Enforcement:

Monthly benefit for life with a refund to beneficiary at death of the remaining balance (if any) of accumulated member contributions.

Judges:

Monthly benefit for life, with 50% payable to an eligible survivor.

Optional forms of payment:

- Life annuity (for Judges).
  - 50% joint and survivor annuity with pop-up (for Main System and Law Enforcement).
  - 100% joint and survivor annuity with pop-up.
  - Twenty-year certain and life annuity.
  - Ten-year certain and life annuity.
  - Social Security level income annuity.
  - A partial lump sum payment in addition to one of the annuity options above.
  - An actuarially equivalent graduated benefit option with either a one percent or two percent increase to be applied the first day of January of each year. Not available for disability or early retirements or in combination with a partial lump sum option, a deferred normal retirement option, or a Social Security level income annuity.

9. Final Average Salary:

Average of the highest salary received by the member for any 36 months employed during the last 180 months of employment.

10. Contributions:

Contribution rates specified in the Century Code (except employer rate for Law Enforcement); differ between permanent full-time employees and part-time temporary employees. Rates are as follow:

	Rates Set by Statute		Rates Determined by the Board of Retirement
	Member	Employer	Employer
Main System Full-Time Employees	7.00%	7.12%	
Main System Part-Time Employees	14.12%	0.00%	
Judges	8.00%	17.52%	
Law Enforcement with prior Main System service	5.50%		9.81%
➢ BCI Employees [1]	6.00%		10.31%
➢ National Guard members[2]	4.50%		7.00%
Law Enforcement without prior Main System service	5.50%		7.93%

[1] *Effective July 1, 2016, the employer contribution rate for BCI employees of the State Law Enforcement plan will be reduced by 0.5% to 9.81%.*

[2] *Effective August 1, 2015, the member contribution rate for former National Guard members increased to 6.00% and the employer contribution rate increased to 9.81%. Effective January 1, 2016, the contribution rate for National Guard members of the State Law Enforcement plan will be reduced by 0.50% to 5.50%.*

BENEFIT PROVISIONS

Effective January 1, 2000:

A member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation Plan under chapter 54-52.2. The vested employer contribution may not exceed:

1. For months one through 12 of service credit, $25 or 1% of the member's monthly salary, whichever is greater.

2. For months 13 through 24 of service credit, $25 or 2% of the member's monthly salary, whichever is greater.

3. For months 25 through 36 of service credit, $25 or 3% of the member's monthly salary, whichever is greater.

4. For service exceeding 36 months, $25 or 4% of the member's monthly salary, whichever is greater.

Vested employer contributions are credited monthly to the member's account balance.

11. Rollovers:

The fund may accept rollovers from other qualified plans under rules adopted by the Board for the purchase of additional service credit.

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Memo

Date: August 29, 2016

To: Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee

From: Josh Johnson and Pat Pechacek, Deloitte Consulting LLP

Subject: REVIEW OF SECTIONS 4-6 OF PROPOSED TECHNICAL BILL 17.0118.01000

The following summarizes our review of the selected sections of the proposed legislation.

OVERVIEW OF AMENDMENTS TO SECTIONS 4 and 6 OF PROPOSED BILL

Section 4:

NDPERS requires enrollment within 31 days of hire into an eligible position with coverage effective the first of the month following hire date. The proposed amendment removes outdated language that contradicts the above.

Section 6:

The proposed amendment adds language clarifying that if member has closed their health savings account before a deposit has been made by NDPERS, the system is not responsible for depositing the money. Federal law does not allow NDPERS to reopen the account.

EXPECTED IMPACT

The proposed amendments remove outdated language and/or clarify administrative aspects of the program already in place. We would not anticipate any material actuarial impact due to these amendments.

Sixty-fifth
Legislative Assembly
of North Dakota

BILL NO.

Introduced by

Representative Carlson

A BILL for an Act to amend and reenact section 54-52.1-05 of the North Dakota Century Code, relating to the term of the public employee uniform group insurance contract for health benefits coverage; to provide for application; and to declare an emergency.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 54-52.1-05 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-05. Provisions of contract - Term of fully insured uniform group insurance contract for hospital benefits, medical benefits, or prescription drug coverage.

1. Each uniform group insurance contract entered by the board must be consistent with ~~the provisions of~~ this chapter, must be signed for the state of North Dakota by the chairman of the board, and must include the following:
   a. As many optional coverages as deemed feasible and advantageous by the board.
   b. A detailed statement of benefits offered, including maximum limitations and exclusions, and such other provisions as the board may deem necessary or desirable.
2. The ~~initial~~ term ~~or the renewal term~~ of a fully insured uniform group insurance contract for hospital benefits coverage, medical benefits coverage, or prescription drug coverage may not exceed two years.
   ~~a.~~ The board may not renew a contract subject to this subsection ~~without soliciting a bid under section 54-52.1-04 if the board determines the carrier's performance under the existing contract meets the board's expectations and the proposed premium renewal amount does not exceed the board's expectations.~~
   ~~b.~~ ~~In making a determination under this subsection, the board shall:~~

~~(1) Use the services of a consultant to concurrently and independently prepare a renewal estimate the board shall consider in determining the reasonableness of the proposed premium renewal amount.~~

~~(2) Review the carrier's performance measures, including payment accuracy, claim processing time, member service center metrics, wellness or other special program participation levels, and any other measures the board determines relevant to making the determination and shall consider these measures in determining the board's satisfaction with the carrier's performance.~~

~~(3) Consider any additional information the board determines relevant to making the determination.~~

~~c. If the board determines the carrier's performance under the existing contract does not meet the board's expectations or the proposed premium renewal amount exceeds the board's expectations and the board determines to solicit a bid under section 54-52.1-04, the board shall specify its reasons for the determination to solicit a bid~~.

SECTION 2. APPLICATION. This Act applies to a fully insured uniform group insurance contract for hospital benefits coverage, medical benefits coverage, or prescription drug coverage in effect on or entered after the effective date of this Act.

SECTION 3. EMERGENCY. This Act is declared to be an emergency measure.

Tentative Agenda

HEALTH CARE REFORM REVIEW COMMITTEE

Wednesday, September 7, 2016
Roughrider Room, State Capitol
Bismarck, North Dakota

9:00 a.m.	Call to order Roll call Consideration of the minutes of the May 18, 2016, meeting Comments by the Chairman

AFFORDABLE CARE ACT

9:05 a.m.	Presentation by a representative of the Insurance Department, regarding the status of implementation of the federal Affordable Care Act Committee discussion and directives

HEALTH SERVICES IN INDIAN COUNTRY

9:25 a.m.	Presentation by Mr. Nick Kotzea, Legislative Affairs, Sanford Health, regarding opportunities for increased federal funding of Medicaid and Medicaid Expansion in Indian country Comments by interested persons Committee discussion and directives

MEDICAID EXPANSION

9:50 a.m.	Committee review of a bill draft relating to Medicaid Expansion premium cost-sharing
10:00 a.m.	Presentation by Mr. Erik Elkins, Medical Services Division, Department of Human Services, regarding copayment and premium cost-sharing options under the Medicaid Expansion program.
10:30 a.m.	Break
10:40 a.m.	Panel discussion of health service providers, facilities, insurers, and consumer advocates regarding copayment and premium cost-sharing under the Medicaid Expansion program Comments by interested persons Committee discussion and directives
11:15 a.m.	Committee review of a bill draft relating to administration of the Medicaid Expansion program Comments by interested persons Committee discussion and directives
12:00 noon	Luncheon recess
1:00 p.m.	Committee review of a bill draft relating to the Department of Human Services access to Medicaid Expansion reimbursement rates Comments by interested persons

PUBLIC EMPLOYEES HEALTH PLAN

1:45 p.m.	Presentation by a representative of the Public Employees Retirement System (PERS) and a representative of Sanford Health Plan providing an update on PERS health plan renewal proposals
	Committee discussion and directives
2:45 p.m.	Break
3:00 p.m.	Committee review of a bill draft relating to state employer contributions to the PERS health plan
	Panel discussion of insurers regarding retention of grandfathered status under the federal Affordable Care Act
	Comments by interested persons
	Committee discussion and directives
4:00 p.m.	Presentation by Mr. Sparb Collins, Executive Director, Public Employees Retirement System, regarding pretax opportunities for employee health premiums
4:15 p.m.	Committee discussion and directives
4:30 p.m.	Adjourn

17.0277.01000

Sixty-fifth
Legislative Assembly
of North Dakota

FIRST DRAFT:
Prepared by the Legislative Council staff for the
Health Care Reform Review Committee
September 2016

Introduced by

A BILL for an Act to amend and reenact sections 54-52.1-06 and 54-52.1-18 of the North Dakota Century Code, relating to state contribution for public employees retirement system health benefits.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 54-52.1-06 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-06. State contribution.

~~Each~~

1. Monthly, each department, board, or agency shall pay to the board ~~each month~~ from its funds appropriated for payroll and salary amounts a state contribution ~~in the~~ amount ~~as determined by the primary carrier of the group contract for the full single rate~~toward the monthly premium for each of its eligible employees enrolled in the uniform group insurance program and ~~the full rate monthly premium, in an amount equal to that contributed under the alternate family contract, including major medical coverage,~~ for hospital and medical benefits coverage for spouses and dependent children of its eligible employees enrolled in the uniform group insurance program pursuant to section 54-52.1-07. The board shall ~~then~~ pay the necessary and proper premium amount for the uniform group insurance program to the proper carrier or carriers on a monthly basis.
2. Any refund, rebate, dividend, experience rating allowance, discount, or other reduction of premium amount must be credited at least annually to a separate fund of the uniform group insurance program to be used by the board to reimburse the administrative expense and benefit fund of the public employees retirement program for the costs of administration of the uniform group insurance program. ~~In the event~~

3. If an enrolled eligible employee is not entitled to receive salary, wages, or other compensation for a particular calendar month, that employee may make direct payment of the required premium to the board to continue the employee's coverage, and the employing department, board, or agency shall provide for the giving of a timely notice to the employee of that ~~person's~~employee's right to make such payment at the time the right arises.

SECTION 2. AMENDMENT. Section 54-52.1-18 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-18. High-deductible health plan alternative with health savings account option.

1. The board shall develop and implement a high-deductible health plan as an alternative to the plan under section 54-52.1-02. The high-deductible health plan alternative with a health savings account must be made available to state employees ~~by January 1, 2012. After June 30, 2015~~and, at the board's discretion, the high-deductible health plan alternative may be offered to political subdivisions for coverage of political subdivision employees. If a political subdivision elects this high-deductible option the political subdivision may not offer the plan under section 54-52.1-02.
2. Health savings account fees for participating state employees must be paid by the employer.
    a. Except as provided in subdivision b, subject to the limits of section 223(b) of the Internal Revenue Code [26 U.S.C. 233(b)], the difference between the cost of the state contribution for the single and family premium for eligible state employees under section 54-52.1-06 and the premium for those employees electing to participate under the high-deductible health plan under this section must be deposited in a health savings account for the benefit of each participating employee.
    b. If the public employees retirement system is unable to establish a health savings account due to the employee's ineligibility under federal or state law or due to failure of the employee to provide necessary information ~~in order~~ to establish the account, the system is not responsible for depositing the health savings account

contribution. The member will remain a participant in the high-deductible health plan regardless of whether a health savings account is established.

3. Each new state employee must be provided the opportunity to elect the high-deductible health plan alternative. At least once each biennium, the board shall provide an open enrollment period allowing existing state employees or a political subdivision to change ~~their~~ coverage.

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Public Employees Retirement System
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Memorandum

TO: NDPERS Board

FROM: Rebecca

DATE: September 15, 2016

SUBJECT: Events

The following is an update regarding recent and upcoming events for wellness, group insurance and the FlexComp plan.

COSE Wellness Fair

State Employee Recognition Week (SERW) was held for state employees September 12-16, 2016. Activities were sponsored by the Council of State Employees (COSE) throughout the week to recognize state employees for their efforts. As in previous years, NDPERS sponsored a Wellness & Benefits Fair at the State Capitol for employees to attend. The fair this year was on September 13, 2016. Attached is the flyer that provides details on vendor attendance, services and screenings provided, as well as presentations conducted.

Flu Shot Clinics

The UND Center for Family Medicine will be providing 5 clinics at the Center for employees, retirees and dependents covered on the health insurance plan. The clinics begin on September 29th and run through October 27th. In addition, there will be 2 clinics held at the Capitol in October. Information will be posted to the website and emails will be sent to employers in the Bismarck/Mandan area to forward to their employees.

Annual Enrollment

Annual Enrollment for the insurance and FlexComp plan will be conducted October 17th through November 4th. Information regarding annual enrollment will be sent to the employees home via a special PERSpectives newsletter and also through a series of emails sent to the employers to forward to their employees. Employers will receive updates via the employer newsletter and also weekly employer emails. Details specific to annual enrollment will be added to the website and also Member Self Service (MSS). Employees will be able to make their annual enrollment elections using the NDPERS Mobile App for the first time this year. Otherwise, elections can be made through MSS or by completing paper applications.

ACA Special Enrollment

The ACA Special Enrollment for temporary employees to enroll in the health plan will be held November 21 through December 9. Information regarding the enrollment will be shared with employers through the newsletter and emails. Details will also be posted to the website at a date closer to the enrollment.

This item is informational and does not require any action by the board. Staff will be available to answer any questions the board may have.

"WELLNESS & BENEFITS FAIR"

COSE — Council of State Employees — North Dakota

NDPERS Wellness — building healthy members

Tuesday, September 13th
Capitol Building: Ground Floor, West End

9:00 a.m. to 3:00 p.m.*

Cholesterol, blood sugar and PSA screening will begin at ***8:15 a.m*.*

Fasting for at least 10 hours prior to screening will provide more accurate results.

All other screenings and vendor tables will be available at 9:00 a.m.

Presentations/Screenings/Vendors are subject to change.

Presentations

Who	What	When	Where
Sanford Health Plan	**"Dakota Wellness Program"** **(20-25 minutes)** Learn how to earn your $250 wellness incentive and navigate the new wellness portal.	9:00 am 1:30 pm	Peace Garden Room
Sanford Health Plan	**"Self-Care for Tension, Pain & Stress"** **(20-25 minutes)** Learn how and when to use pressure points, therapeutic stretches & breathing techniques.	10:30 am 2:30 pm	Peace Garden Room
Village EAP	**"Wellness, One Small Step Now"** **(20-25 minutes)** Explore the areas of wellness & reflect upon a personal wellness goal.	9:30 am 2:00 pm	Ft. Union Room
UND Health Sciences Library	**"Health Information You Can Trust"** **(20-25 minutes)** Learn how to locate free & reliable health information online and with mobile devices.	11:00 am 1:00 pm	Roosevelt Park Room

Screenings

Who	What	When	Cost	Where
WorkLife Inc	Cholesterol & Blood Sugar	8:15-3:00	$5.00	Brynhild-Haugland
WorkLife Inc	Prostate Specific Antigen (PSA)	8:15-3:00	$48.00	Brynhild-Haugland
St. Alexius Health - Trauma	Blood Pressure	9:00-3:00	Free	Brynhild-Haugland
St. Alexius Health – Radiology	Bone Density	9:00-3:00	Free	Brynhild-Haugland

Information Tables – Ground Floor Hallway – West End

- American Heart Association (until 2:00 p.m.)
- Sanford Health Plan
- About the Patient – Diabetes Program
- St Alexius Health - Trauma
- UND Library of the Health Sciences
- Serve YES
- Sanford Sleep Center
- Village Business Institute EAP
- Great Plains Rehabilitation Services
- Life In Balance
- St. Alexius EAP
- Bismarck Cancer Center
- ND State Library
- West Central Human Service Center
- Superior Vision Services
- ADP
- Delta Dental
- ND Dept of Health – Family Health
- ND Dept of Health – Emergency Preparedness & Response
- Missouri Valley Family YMCA
- ND Dept of Health – Diabetes Prevention & Control Program

Employee participation is subject to agency approval.

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

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

FAX: (701) 328-3920 • EMAIL: NDPERS-INFO@ND.GOV • www.nd.gov/ndpers

MEMORANDUM

TO: NDPERS Board

FROM: Jamie Kinsella Jamie

DATE: August 31, 2016

SUBJECT: **May 18, 2016 PERS Audit Committee Minutes**

Attached are the approved minutes from the May 18, 2016 meeting. Those who attended the meeting are available to answer any questions you may have.

The minutes may also be viewed on the NDPERS web site at www.nd.gov/ndpers.

The next audit committee meeting is currently scheduled for November 16, 2016 at 10:00 a.m., in the NDPERS Conference Room.

Attachment

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MEMORANDUM

TO: Audit Committee
Jon Strinden
Arvy Smith
Rebecca Dorwart

FROM: Jamie Kinsella, Internal Auditor Jamie

DATE: June 1, 2016

SUBJECT: **May 18, 2016 Audit Committee Meeting**

In Attendance:
Jon Strinden
Arvy Smith
Rebecca Dorwart
Representative Pamela Anderson
Jamie Kinsella
Julie McCabe
Sparb Collins
Sharon Schiermeister
Derrick Hohbein
Kathy Allen
Mary Jo Steffes
Michael Sisk

The meeting was called to order at 10:25 a.m.

I. March 10, 2016 Audit Committee Minutes

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

II. Internal Audit Reports

A. Quarterly Audit Plan Status Report – A summary of the internal audit staff time spent for the past quarter was included with the audit committee materials. A total of 888 hours were spent on audit and consulting

B. Audit Recommendations Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit recommendations of the external auditors, as well as any found by the internal auditor. The report has been updated to reflect what has been accomplished during February 1, 2016 through April 30, 2016.

C. Benefit/Premium Adjustments Report – The quarterly benefit adjustment report was provided to the audit committee. The report is in two sections, Retirement and Insurance. This report has 13 retirement, 2 RHIC and 1 insurance adjustment. The adjustments resulted from a variety of reasons as shown on a report to the committee.

The report has been revised adding a column to indicate who found the error. Individuals whom Internal Audit found with errors were fixed prior to the check being written have also been added.

III. Administrative

A. Audit Committee Meeting Date & Time - The next audit committee meeting is scheduled for August 17, 2016 at 10:00 a.m.

B. Internship Update - Michael Sisk started his internship on February 8th. Funding for this internship program will end after 720 hours. Total hours Michael has worked for February through April is 221 hours, therefore 499 hours remain for his internship program. It is estimated, if he works 40 hours per week through July, he will use 504 hours, so the funding for this internship will end the final week in July or first part of August.

IV. Miscellaneous

A. Benefit Payment Process Presentation - Sharon Schiermeister informed the Audit Committee of what will be done to address and/or resolve the number of errors found in the retirement and benefits audits.

Mary Jo Steffes and Kathy Allen provided an overview of the Benefit Payment Specialists and Counselors responsibilities in setting up benefit payments.

A. Travel Expenditures Update – There were travel expenditures incurred by the Board and/or Executive Director for out-of-state travel for the period February 1, 2016 through April 30, 2016. This information was provided to the Audit Committee.

B. Risk Management Report - The Loss Control Committee provides quarterly to the Audit Committee a copy of the Loss Control Committee's agenda from their last meeting as well as the approved minutes. Copies of the December 18, 2015 minutes and the agenda for the March 9, 2016 meeting were provided to the audit committee.

C. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should "Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." A copy of the report showing the actuary/consulting audit, legal, investment and administrative fees paid during the quarter ended March 2016 was attached for the audit committee's information.

D. Publications – The February 2016 publication of the Tone at the Top was provided to the audit committee for their perusal.

E. Webinars and CPE's – Ms. Kinsella and Ms. McCabe have been participating in free Webinars that the Institute of Internal Auditors provides for their members. Each 1 hour webinar provides 1 hour of continuing professional education credits. The internal auditors have attended six webinars from February 1, 2016 through April 30, 2016. These webinars are held during the lunch hour so the internal auditors remain available to staff during normal business hours.

Meeting adjourned at 11:40 a.m.

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Memorandum

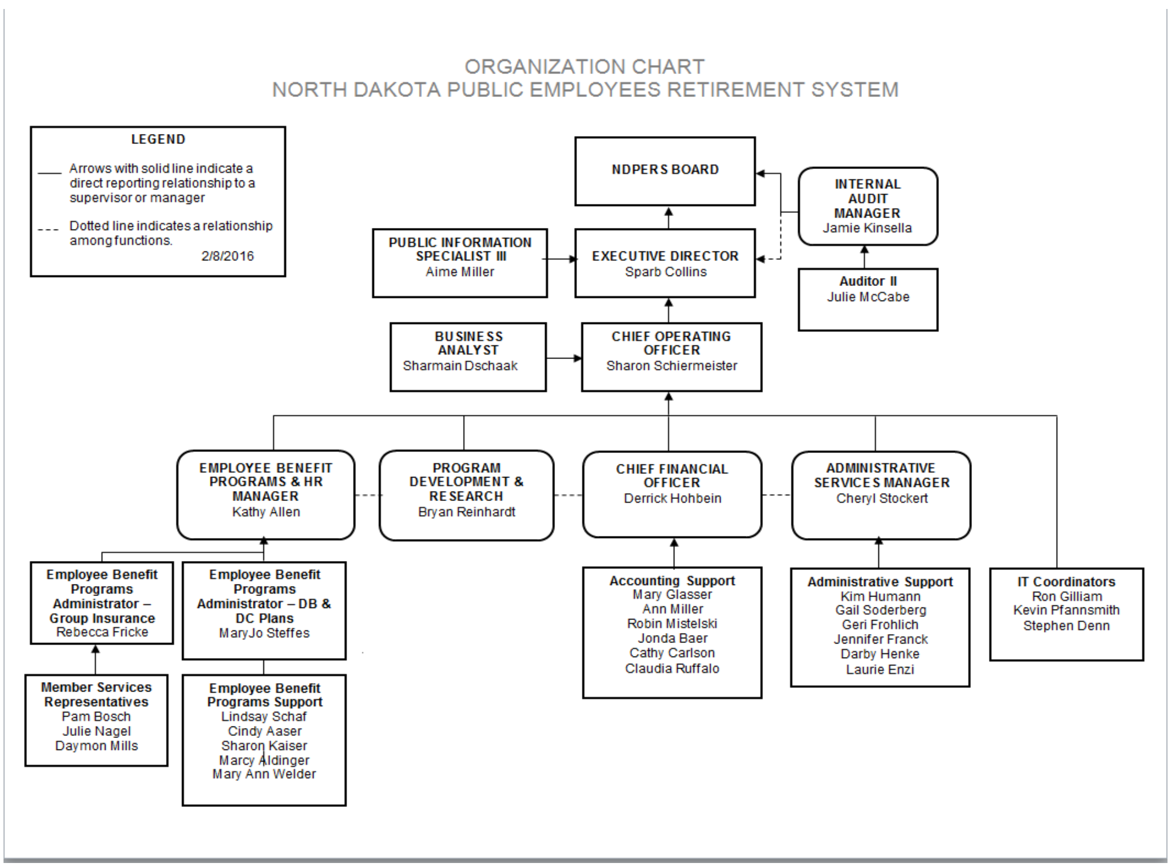
TO: PERS Board

FROM: Sparb

DATE:

SUBJECT: PERS Staffing and review

At our February meeting we discussed the changing organization at PERS by reviewing the following:



By way of an update we have submitted reclassifications for Sharon, Derrick and Bryan that have all been approved by HRMS with an effective date of January of this year. Aime our new PI has successfully completed her probationary period. As we discussed in Feb the new structure is designed to for:

- Dispersion of responsibilities
- Depth in each area
- Increase external communication
- Increase agency controls