

MINUTES

North Dakota Public Employees Retirement System

Monday, December 3, 2007
Harold Schafer Leadership Center
University of Mary, Bismarck, ND
9:30 a.m.

Members Present: Ms. Joan Ehrhardt
Mr. Ron Leingang
Mr. Howard Sage
Mr. Mike Sandal
Mr. Thomas Trenbeath
Chairman Jon Strinden

Member Absent: Ms. Arvy Smith

Others Present: Mr. Sparb Collins, NDPERS
Ms. Cheryl Stockert, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Sharon Schiermeister, NDPERS
Mr. Aaron Webb, Attorney General's Office

Chairman Strinden called the meeting to order at 9:40 a.m.

UPDATE ON PROGRESS SINCE 2005 PLANNING MEETING

Mr. Collins reviewed with the Board the issues discussed at the last Board planning meeting in October 2005 and actions taken on those issues since then:

- Retiree inflation Increases: Two years ago the Board decided to go to the legislature for a 2% increase, fully funded in two years. This proposal was included in SB2051, it passed the Senate, however it did not pass the House.
- 13th Check: Included in SB2044 which passed the last legislative session.
- Airtime Purchases: Segal came to several Board meetings to discuss this issue and it was determined that our practice was consistent with federal requirements.
- Interest on Member Accounts: Have not got to this issue, will be carried forward.

- Combining Health Credits: Included in SB2045 which passed this last legislative session.
- Retiree Health Credit Increase: Included in SB2050, passed the Senate and did not pass in the House.
- VEBA: The Board looked into this and decided not to pursue it due to the mandatory requirements for all members.
- Staffing Issues: As a result of Board action, additional staffing was included in our budget (SB2022) and was passed this last session.
- Equity Adjustments: Included in SB2022 and passed.
- Business System Replacement (LASR): Was included in SB2022 and passed. PERS has completed the feasibility study, went through the RFP process, selected a vendor and we are now engaged in a 3 year project to develop an updated integrated business system.
- Board Website and Orientation: Implemented this for the Board. All new Board members who have come on during the last 2 years have gone through the orientation. PERS website updated to include specific link for Board members with resources.
- HDHP: Board heard presentations from Gallagher Benefit Services and the state of Colorado.
- Education: Wellness and health programs have come out of this goal. PERS has started one-on-one onsite benefit counseling sessions at employer worksites as a result of additional staffing.
- Gain Sharing: Will be carried forwarded.

PERS staff reviewed with the Board strengths, weaknesses, opportunities and threats (SWOT) assessment:

Strengths:

- Strong funded status in our retirement plans.
- The health plan is fully funded, we have no deficits. We also have no deficits in any of our plans at this time.
- We have growing membership in all of our programs.
- There are no real marketplace issues at this time such as credibility.
- We have experienced staff in the office which is positive.
- Investment returns

Weaknesses:

- Whatever we do is in the public eye so we must always have to be careful about what we do.
- Have limited ability to respond to situations as a public sector entity.
- Inability to control health care costs. We do things to help contain costs, but we really can't control health care costs.

- At this time, we have no long term plans for retiree increases. Need to discuss cost of living adjustments (COLA's) to see how we can accomplish something in this area.

Opportunities:

- New directions for our programs. We need to take a new look at how we do things, incorporate changes to make it better.
- Economic benefits of our retirement plan. Some states distribute information out to the public relating to the economic benefits of their plan. We put into the state of North Dakota around \$65 million a year in benefits. Most of this comes from investments. This information is presented in legislative committees relating to how much money goes out. We haven't gone to the next step to show how this does affect our state's economy. Some states have done studies to show the broad based economic effect of retirement benefits.
- More member services – we are doing more onsite benefit counseling to employees in other communities without them having to come to Bismarck.

Threats:

- Economic downturns and the associated impact on our plans. We can limit this liability through investment practices, but we can't control it.
- Benefits envy. Public sector benefits may be envied by others.
- Special interest legislation is always a threat to the system.
- Scandals or perceived scandals can be a threat.
- Not living up to promises. Once we get that perception in the marketplace, it is something that takes a long time to recover.
- Rising health care costs are a threat.
- Period of high inflation threaten the defined benefit plan.
- Negative public and member perception are a threat. We need to take a close look at any issues we get involved with to make sure they are appropriate.

The Board discussed what should be some sustaining objectives for the agency:

- Never take on issues that do more harm than good.
- Maintain positive public perceptions.
- Maintain affordable, fair and defensible benefits.
- Must have realistic assumptions.
- Must have honest straight forward accounting and financial records and procedures in place. We want to protect this. We've gotten the GFOA award for excellence in financial reporting for many years.
- We need to plan from our strengths.
- Never make promises we cannot keep.

The Board reviewed the agency's overall philosophy:

Agency Drivers and Philosophy

Driver: Provide an employee benefit package that is among the best available from public and private employers in the upper Midwest.

Philosophy: Exercise prudent risk taking; administering the law effectively, efficiently and fairly; operating at the highest ethical and professional standards; and providing the highest quality services and benefit programs.

Concerning the Retirement Plan, the Board discussed:

Retirement Plan

Statistics

Mr. Collins reported the active membership is now at 18,790. With Fargo (city and park district) coming on in January, we will go over the 19,000 mark. Retirees are at 6,500; they are a fairly silent group for now. Annual benefits are \$65 million; \$18 million of that is in Burleigh County, \$6 million in Cass County.

Actuarial Valuation

Mr. Collins reviewed with the Board the funding status of the retirement systems. Currently, 8% is our investment return. The margin, which is the actuarial required contribution compared to the statutory contribution; the difference between the two is a negative 1.96. When we have positive margins, they are reinvested.

Goals for the Retirement Plan

Four main goals: (1) Enable career employees to care for themselves and dependents at retirement and provide plan that will reduce personnel turnover, (2) provide a mechanism to insure the purchasing power of current retirement benefits, (3) to develop more options on a how a member could access, contribute to supplement, and draw their retirement funds, and (4) to allow members to better care for themselves and their dependents in retirement and reward members who engage in supplemental retirement savings.

Status of Retirement Goals:

On the first goal, we wanted to give 90% of final average salary to a member when they retire, assuming a 25 year career. We have achieved this with the multiplier at 2.00. The second goal is to maintain the purchasing power of current retirement benefits. As fund margins become available, the Board has recommended cost of living increases, and provided full retirement benefits (90%) for any member with combined years of service plus age equaling 85 or with a minimum of 25 years of service. In the past, when retirees were given increases, they were given the equivalent of what the actives received.

Mr. Collins reviewed with the Board a chart illustrating the effect of the CPI, showing what a 1980 retiree with a \$500 benefit received, and what their purchasing power was up to 2006. Purchasing power in 1980 was 100%, now it is at 87.6%.

It was noted that North Dakota legislators do not support automatic cost of living adjustments. However, 77 systems do have automatic COLA's; 27 have ad hoc adjustments. NDPERS has been able to provide an ad hoc "thirteenth" check twice. The 2005 check was the equivalent of a 4% increase for 2 years, and in 2007 it was the equivalent of a 6% increase.

The Retiree Subcommittee suggests a 3% increase in January 2010 and a 3% increase in January 2011. Every 1% increase in retiree benefits requires a .06% increase in employer contributions to support this. A 6% increase would require a .36% increase in contributions.

Today PERS services most of the counties, 100 school districts (non teacher staff), 71 cities, and 57 other entities.

Action Item:

The Board would like to explore the possibility of a tiered system approach. They requested a study of the 13th check approach using a graduated system based on returns in lieu of the fixed amount (50% or 75%). Mr. Collins stated staff will present information relating to these approaches at future Board meetings.

On the issue of COLA's, it was noted that PERS does not have a plan for approaching these types of adjustments.

Action Items:

The Board requested that Segal prepare a proposal to provide assistance to the Board in developing an approach to retirement increases.

Another goal of PERS is to develop more options on how a member could access, contribute to, supplement, and draw their retirement funds. Mr. Collins reported during recent legislative sessions we have added the partial lump sum option, 20 year term certain and conducted a major rewrite of dual member statute. The PERS Benefits Committee recommendations are as follows:

- Allow retirees to designate a subsequent beneficiary. For example, if you retire and take a joint and survivor benefit and your spouse passes away or divorces you, the retiree could designate a new beneficiary.
- Allow additional generic service to be purchased exceeding the present 60 month limitation on but not allowing it to count towards the rule of 85.
- Remove the 5 year payment option from the existing retirement plan. There are various problems and difficulties with this and it is not an option that is used much. This option gets taxed pretty heavily. Secondly, with PEP now in place, there are more monies in the account balance than is provided for in a five year payout.
- Provide a joint and survivor benefit to a non-spouse beneficiary.

- Add a graduated benefit option to the plan. When someone retires, there might be a 2% graduated benefit option, a normal retirement benefit might be \$1,000 per month, with the 2% graduated, you would start out saying you want a 2% increase each year for life. Then you may start with \$850 per month, with a 2% increase each year. This would be self-funding a cost of living adjustment.

The Board would like additional information relating to phasing out the Rule of 85 and re-instituting the Rule of 90.

Retiree Health Insurance Credit Program

Mr. Collins reported the benefit formula is based on \$4.50 for each year of credited service. The goal has been to increase the prefunded health credit as funds become available. Specifically the goal states the Board will recommend the prefunded health credit be increased to fund, at a minimum, a single retiree health premium for a "career" employee. It was noted that approximately 66% of the members participate in the retiree health credit program. On the Medicare side, we have 62%. This program is not designed for 100% participation. Mr. Collins reviewed with the Board the 2007 average premiums and health credit and remaining benefit. The credit has not increased since 1993 because there has been no margin for funding.

Last session in Senate Bill 2050, the governor included a .15% increase in contributions to pay for a 50 cent increase in his budget. The bill passed the Senate, but failed in the House.

The Retiree Subcommittee is recommending an increase to the retiree health credit program by 50 cents in January 2010 and 50 cents in January 2011 and suggesting it be funded by an increase in employer contributions. Other suggestions/considerations would be to utilize the margin and include legislators in the retiree health credit program.

Action Item

The Board would like to obtain additional information relating to bringing the legislators onto the Retiree Health Insurance Credit program. The Board also requested actuarial cost information relating to increasing the health credit by 75 cents.

Investments

Investment Board Membership

Mr. Collins discussed with the Board the suggestion to amend the North Dakota Century Code to allow the PERS Board to expand its authority in its appointments on the State Investment Board. It was noted that the statute presently limits PERS membership on the SIB to elected members. The Board discussed changing this to allow non elected Board members to be appointed to the SIB, similar to what RIO currently has in place.

Action Item

Draft legislative language to provide for a change in statute to allow non elected members to serve on the SIB.

Investment Board Review

Mr. Collins reported that the Audit Committee is reviewing topics relating to the State Investment Board. This includes inviting the RIO auditors to the next investment subcommittee meeting. The Board also discussed several other topics relating to investments including reviewing the diversification strategy of the SIB and asset classes.

Action Items:

The Audit Committee should review and examine the usefulness of hiring an independent firm such as CEM to review the effectiveness of our investment program.

The Audit Committee should also meet with the SIB to discuss the various asset classes, the types of investments in the classes and the effect, if any, on the overall plan risk.

The Audit Committee should periodically review and monitor the investment management fees.

Health Plan

Dakota Plan

Mr. Collins covered with the Board information relating to the current number of contracts, health insurance premium rates, percentage increases, non-Medicare and Medicare premium rates, central states employer contributions for single and family health coverage, deductible amounts, co-payment amounts, coinsurance amounts, annual out of pocket maximums, prescription information, EPO networks and enrollment, and basic utilization information.

The Board reviewed the goals for the health plan which include:

- Promote positive competition through purchasing initiatives: This has been stymied, EPO have expanded back to full coverage in the last year. PPO continues to grow. Quality efforts can be improved.
- Develop and maintain an information database on quality and costs: It is established.
- Consider modifications and improvements to the benefit plan design that can be accomplished within the constraint of available funding.
- Encourage healthy lifestyles and preventative attitudes. We are conducting the Wellness Program, My Health Connection, Health Dialog.

The Board discussed how the plan was doing in relation to each of the goals. It was noted that:

- Our health care premiums compare favorably to other states.
- Health plan increases are projected by BCBS to be 10% a year in the next couple of years due in large part to provider increases.
- Our scope of benefits does not include benefits that are a part of the BCBS standard coverages.
- That PERS has implemented and expanded the employer based wellness program in the last couple of years.
- PERS is implementing a diabetes disease management program pursuant to HB 1433.
- PERS has offered a tobacco cessation program to members for the last 3 years.

Several topics were discussed in more detail by the Board including:

Scope of Benefits

Mr. Collins reviewed with the Board the plan design differences that BCBSND has in their plan that the Dakota Plan does not include in our plan.

Action item:

The Benefits Committee has recommended, at a minimum, to increase our plan to include the CDC approved immunizations. The Board suggested that this be included in the list of options when it considers the health plan renewal.

Plan Design Options

Mr. Collins indicated we will need to start looking at the plan design prior to the next renewal. Costs are continuing to rise (trend rate in last renewal was 9%). Several alternative designs were reviewed

EPO

Mr. Collins indicated that as the EPO program developed in the 90's, it was a capitated product. The goal of the EPO program was to transfer risk to the health care providers and encourage managed care. It was noted that as of 2007 the providers would no longer accept the risk transfer method. However, they indicated that they would continue to provide managed care. At this point the challenge is where to go with this program. One option is to discontinue it in 2011 since providers are no longer willing to share in risk.

A second idea would be to move the program to a wellness based plan design. This would help us move to the next level in the wellness effort. . One concept would be to do a tiered level, gold, silver, and bronze and relate this to the EPO, PPO, or basic plan level. This concept demonstrates how the EPO could be retained and coordinated with wellness efforts. Members could access the higher benefit level, but in order to get to this higher level, they would have to accomplish a wellness effort. The Benefits Committee has looked at this concept and believes it has merit.

A third option would be to continue it as presently defined.

Mr. Collins reported that approximately 40% of our members are enrolled in the EPO. So, if 70% of our members attain the EPO level of benefit, it could cost us more.

Action Item:

PERS should further develop the second concept by May or June.

Other Issues Discussed:

- Pharmacy issues, ND limitation on ownership.
- Employer sponsored clinics, should we have a clinic of this type?
- The Pharmacy Benefits Management (PBM) audit is something the Audit Committee is working on.
- The next health insurance bid in 2011.

Action Items:

Review with the ND Pharmacy Association why there are no pharmacy programs like Wal Mart's \$4 program.

The Board requested that a series of educational programs on health insurance in North Dakota be requested from the Insurance Department and other health plans such as Medica who is doing business in the eastern part of the state.

Agency Based Wellness Programs

Mr. Collins presented information relating to the PERS wellness program. It was noted that worksite wellness programs should try to encourage comprehensive programs including health risk assessment. For PERS it was noted that ideas to consider would be to have health coaching availability, specific employees dedicated to wellness, services and assistance provided from worksite wellness professionals, and possibly having discretionary funds available at worksites that can be used for incentive programs. These incentives should be standardized across all employers. Evidence shows that comprehensive programs provide the greatest potential for positive health changes as well as cost reductions.

Action Item:

Staff should prepare options for the employer based worksite wellness programs based on the suggestions from wellness coordinators.

Pre Medicare Retirees

Mr. Collins reported that rates continue to increase and that their rates are set in statute. Last year based on the current rate structure, there was a \$2 million loss for the biennium. This is the implicit liability that Gallagher Benefit Services has discussed with the Board. This cost shift must be reported on our financial statements. The average age of a pre-Medicare retiree is 61. The BCBS rates compare with our rates on pre Medicare.

Mr. Collins indicated we could put in place a high deductible health insurance plan option for pre Medicare retirees. If this is combined with an HSA, the individual could put \$2,900 per year into their account to offset expenses. This HSA account is an individual account and can be used to pay expenses for a prior year.

Possible Design

The Retiree Subcommittee has indicated we should take a look at the HDHP for pre Medicare retirees, but the goal would be not to have this carry over to the active employees. A review of the present index for pre-Medicare retirees is needed, with the goal of reducing premiums.

Action Items:

The Board would like to have staff collect information relating to adding a pre Medicare HDHP option, as well as information on the effect of changing the ratio. Both these issues require legislation so will be discussed with the Board in February.

Medicare Retirees

The Retiree Subcommittee is looking at various issues relating to coverage such as reviewing the benefit of separating the medical and Rx coverages and having a Medigap plan instead of a carve out. The Retiree Subcommittee will continue to work on issues and will report to the Board this spring.

Life Insurance

Currently the basic life insurance for state employees is \$1,300. There was a bill to increase it to \$5,000 last session, but it did not pass. The Benefits Committee is recommending increasing life insurance to \$10,000.

Action Item:

The Board suggests that staff obtain information on the cost of providing \$10,000 life insurance coverage to state employees.

Deferred Compensation Program

As a result of PEP, enrollment has increased. During the last session, the bill to auto enroll participants was vetoed by the Governor.

Action Items:

The Benefits Committee has suggested that we look at the option of auto enrollment with possible legislation this next session. Staff will provide more education and outreach to the Governor and Higher Education. We could talk with the employee organizations as well.

Legislation could be developed as an incentive to participating in the 457 program to allow 457 PEP contributions to purchase service credit at 9.12% on a per month basis for up to 1, 2, or 3 years.

Administrative Update

Mr. Collins reported that the equity adjustment package passed this last session and 4 additional FTE were approved, 2 in accounting and 2 in benefits. Staff was very appreciative of the adjustments. As of January we will be fully staffed. The project to replace our business system with an integrated system has begun and will continue for 3 years.

Board Election

Mr. Collins reviewed with the Board information relating to filling the unexpired term of elected Board member Howard Sage which ends June 30, 2008. The Board discussed the situation, reviewed the information with legal counsel, and decided to hold a regular general Board election during the normal time frame. The next five year term will begin July 1, 2008.

Chairman Strinden called for any other business or comments. Hearing none, the meeting was adjourned at 2:15 p.m.

Prepared by,

Cheryl Stockert
Secretary to the Board