

# MINUTES

**North Dakota Public Employees Retirement System  
Thursday, August 28, 2003  
ND Association of Counties  
1661 Capitol Way  
Bismarck, North Dakota**

**Members Present:**

Chairman Jon Strinden  
Mr. David Gunkel  
Ms. Rosey Sand  
Mr. Howard Sage  
Mr. Weldee Baetsch  
Ms. Arvy Smith  
Ms. Sandi Tabor

**Others Present:**

Mr. Sparb Collins, Executive Director NDPERS  
Mr. Scott Miller, Attorney General's Office  
Ms. Denise Curfman, NDPERS  
Ms. Kathy Allen, NDPERS  
Ms. Sharmain Dschaak, NDPERS  
Ms. Rebecca Fricke, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Ms. Deb Knudsen, NDPERS  
Mr. Tom Tupa, AFPE/INDSEA  
Ms. Rhonda Peterson, BCBS  
Ms. Chris Runge, NDPEA AFT 4660  
Mr. Ron Gilliam, NDPERS  
Mr. Arnie Seitz, NDPERS  
Mr. John Garrett, Segal  
Mr. Bryan Klipfel, Highway Patrol  
Ms. Lorrie Hammerman, OMB

Chairman Strinden called the meeting to order at 8:30 AM.

## **Minutes**

Chairman Strinden called for any questions or comments regarding the July 17, 2003 NDPERS Board minutes.

**Mr. Gunkel moved approval of the July 17, 2003 NDPERS Board minutes. Ms. Tabor seconds.**

### **Long Term Funding Issues (Informational)**

Mr. John Garrett, Segal Company, provided the Board with an educational session on actuarial considerations relating to retirement plan funding in a down market. In summary:

- If assumed returns (8.0%) are achieved: PERS Main funded ratio declines and negative margin increases to -4.6%; RHICF funded ratio continues to increase, margin decreases to -0.11% and assets begin to decline in 2019 due to negative cash flow.
- If expected returns (10.3% for Main and 9.4% for RHICF) are achieved; PERS Main funded ratio returns to 100% in 2014 and contribution margin returns to positive in 2016; RHICF funded ratio increases to 60% in 2018 and positive margin returns in 2015 and continues to increase.
- If any benefit enhancements are going to be added additional contributions will be needed.

### **Retirement Credit (Board Action Requested)**

Ms. Fricke provided the board with information regarding amendments made to the NDAC 71-02-03-01 regarding the granting of free service credit. Ms. Fricke also provided the board with the history of the changes to the Administrative Code.

**Ms. Sand motioned to delete 2-5 of the current section 71-02-03-01. Amend subsection 1 to allow prior service to 7/1/66, and to make this amendment prospectively. Ms. Tabor seconds the motion.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, Smith and Chairman Strinden.

**Nays:**

**Absent:** Sage

**PASSED**

### **Indexing for Highway Petrol (Board Action Requested)**

**Ms Tabor moves approval of the Highway Patrol's recommendation that there be no final average salary indexing for the salaries of deferred vested participants. Ms. Sand seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, and Chairman Strinden.

**Nays:**

**Absent:** Sage and Smith

**PASSED**

### **Travelers Contract (Informational)**

Ms. Allen indicated that at the July meeting, the Board approved the renewal of the The Travelers contract for benefit payment services for one year subject to an acceptable service fee proposal. The Travelers had agreed to renew for one year at the current fees of \$3.25 per payee/per benefit payment made by check, and a fee of \$2.50 per payee/per benefit payment made by electronic funds transfer.

#### USERRA (Informational)

Mr. Collins indicated that included in the board materials was a letter from Mr. Jerry Meske to General Haugen relating to our procedures for returning veterans. Mr. Collins indicated that Mr. Scott Miller will continue to follow this for the board.

#### Investment Returns (Informational)

Mr. Collin indicated that included in the board materials was the investment returns for the year ending June 30, 2003. Mr. Collins indicated that our return for the retirement plan was 5.46%, for the retiree health plan 3.51% and for the Job Service Plan 5.7%.

#### Health Plan Initiative (Board Action Requested)

Mr. Collins indicated that with the recent withdrawal of MedCenter One from the EPO it has caused PERS to look at that product and the direction of managed care in the health plan. The purpose of managed care is to direct the delivery of health care in a manner that produces not only a high quality service but also a positive outcome in a cost effective manner. He noted that PERS uses a capitation/target methodology for the program. If some providers are not willing to engage in this type of program due to the reimbursement method then PERS should review. Therefore staff has proposed the following two efforts:

1. Review using a target methodology in the EPO (presently we use a capitation/target methodology)
2. Review the concept of having a physician based EPO program instead of a clinic based program.

**Ms. Tabor moved approval of staff recommendation to investigate the two concepts and report back to the board in the first part of next year. Ms. Sand seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, and Chairman Strinden.

**Nays:** None

**Absent:** Sage and Smith

**PASSED**

#### Dental Plan Renewal (Board Action Requested)

Ms. Allen indicated that the ING's dental plan renewal rate notification for the January 1, 2004 plan year was in your board materials. Also included was a summary of the experience underwriting formula used to calculate the renewal rates. A 6.91% rate adjustment is proposed for next year. We renewed our contract with ING for 2003 when we accepted its proposal for the plan in response to our RFP. There was no rate increase associate with the proposal. The current rates and the proposed rates for 2004 are as follows:

**Mr. Baetsch moved approval of the 2004 dental rate renewal. Ms. Tabor seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, and Chairman Strinden.

**Nays:** None

**Absent:** Sage and Smith

**PASSED**

#### Wellness Benefit Program (Board Action Requested)

Ms. Allen indicated effective July 1, 2003, BCBS increased the funding for the wellness benefit program to \$38,000 for the biennium. In the past our funding was \$19,000 per biennium. The Committee feels there should be an adjustment to the current criteria established with regard to the wellness dollars available to employers that elect to offer on-site wellness programs.

At its inception, the program allowed a maximum benefit up to \$500 subject to Committee review and approval. Benefit requests in excess of \$500 were subject to review and approval by the Board. Since 1994, we have had 92 applications (34 were for the 10K program) that received benefits of \$500 or less, 3 between \$501 and \$1,000, and 8 over \$1000. Based on these statistics, the Committee is recommending the following benefit structure:

- The first \$500 would be funded at 100%, or actual cost, whichever is less.
- The next \$500 would be funded at 75% to a maximum of \$1,000
- Requests in excess of \$1,000 would be subject to the Board's approval and would also be funded at 75% after the first \$500.

This proposal will maintain the current \$500 allowance while allowing a higher benefit that requires some monetary commitment by the employer or the employees. As the majority of programs funded are for \$500 or less, those agencies accustomed to receiving 100% funding will still have that guarantee with some financial commitment on their part should the program costs exceed the \$500 allowance. In addition, this structure will make it easier for site wellness coordinators to determine the financial commitment that may be required by the employer or the participants if the cost exceeds the allowance.

**Mr. Gunkel motioned for the first \$500 funded at 100% whichever is less. All decision to be made by the committee. Requests in excess of \$500 would be funded or not by the decision of the committee at the levels decided by the committee Ms. Tabor seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, and Chairman Strinden.

**Nays:** None

**Absent:** Sage and Smith

**PASSED**

Minimum Contribution Requirements (Board Action Requested)

Ms. Allen indicated that pursuant to the Board's approval, legislation was submitted to require a minimum premium contribution for political subdivisions. This change allows the PERS Board to establish a minimum employer contribution as a condition to participate in the group insurance program. This provision is intended to prevent adverse selection to the plan that could occur as a result of an employer's individual premium contribution policy. Section 71-03-07-03 of the Administrative Rules is proposed to be amended to give the Board the authority to determine the minimum contribution requirement.

Ms. Allen indicated that BCBS current minimum contribution guidelines are "All new groups enrolled must have at least the minimum employer contribution, which is defined as at least 50% of the single premium." We are providing this information for the Board's consideration in establishing a policy for PERS. These guidelines would be adopted on a prospective basis subject to promulgation of the aforementioned rules.

**Ms. Sand moved approval of adopting the same guideline as BCBS on a prospective basis for the NDPERS Group Health Plan. Ms. Tabor seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, and Chairman Strinden.

**Nays:** None

**Absent:** Sage and Smith

**PASSED**

### BCBS Administrative Service Agreement (Informational)

Mr. Collins indicated that the Administrative Services Agreement for the July 1, 2003 through June 30, 2005 contract period was included in the board materials. Mr. Collins indicated that the document is being reviewed by staff and our legal counsel. It is staffs goal to have a final agreement for your approval at the September meeting.

### Medical Review (Informational)

Mr. Collins indicated that last year the PERS Board adopted the following initiatives relating to the rising cost of health insurance:

- Increase competition for state plan business
  - Change bid statute
  - Allow self administration
  - Develop an independent provider network
- Develop employer based wellness programs
- Increase large case management (chronic care)

The first two initiatives required legislative authorization and were proposed in SB 2060. The first one did not pass but the second one did. Staff will begin work on the wellness proposal this fall. The last one did not require legislative approval and staff has been working on this with BCBS during the last year. BCBS has agreed to dedicate a case manager to PERS. The individual was hired this summer. Included in the board materials was an overview of the case management process and some concepts being talking about relating to enhancements in the process for PERS.

### 2002 NDPERS Health Care Report (Informational)

Mr. Reinhardt provided the Board with an overview of the 2002 NDPERS Health Care Report. This report was included in the board materials.

### Surplus/Affordability Update (Informational)

Mr. Reinhardt provided the Board with an overview of the Surplus/Affordability Update. This report was included in the board materials. It was noted that the estimated ending balance is slightly less than 6 million.

### FlexComp (Informational)

Mr. Collins indicated that at the last meeting the Board discussed the issue of certain prescription drugs going over the counter and the effect on insurance and flex reimbursement. The Board requested that staff contact Segal to review this issue and provide some background relating to flex. Mr. Collins indicated that Segal reviewed the issue and there response was included in the board materials.

### Deferred Compensation Contributions (Board Action Requested)

Mr. Collins indicated that Employers who participate in the Deferred Compensation Plan (DCP) are responsible for setting up the payroll deductions for authorized deferred comp contributions and remitting the contributions directly to the designated investment provider. In reviewing current procedures, staff feels compliance and internal controls could be improved if employers sent the deductions to PERS, instead of directly to the investment providers. Mr. Collins indicated that PERS is monitoring compliance after the fact and performing a lot of manual reconcilements.

This change would provide the following advantages:

- Only authorized deductions would get sent to the provider
- More convenient for employers – they would only need to issue one check payable to PERS for all deferred comp deductions

- PEP calculation would be more reliable, as we would know that deferred comp deductions under the State's plan were actually taken and sent to the provider
- Improve the process for reconciling contributions to the provider reports
- Providers would only need to deal with PERS, instead of each employer. This could result in lower administrative charges.
- Moving from manual to electronic transmission should cut down on provider errors posting contributions to participant accounts

The following disadvantages were also identified:

- Delay in deductions getting sent to providers. Could take 3 days from date PERS receives the contributions until the contributions are posted to the employee's account
- Will require mainframe programming changes to handle employers who are not on a monthly pay cycle
- Will require mainframe programming to create electronic files for each provider, which could all be different formats
- Number of wire transfers will increase – need to send to each provider company each time we receive deductions throughout the month.

Mr. Collins indicated that In order to accomplish this change, the following business processes would need to be changed:

- We currently are on a monthly reporting cycle – will need to establish new process that allows employers to report deferred comp deductions for each payroll to insure timely transmission to providers
- Providers will need to be able to receive electronic transmission of contribution information

Mr. Gunkel moved approval of staff recommendation to implement the change for all deferred compensation providers effective August 1, 2004. Ms. Smith seconds.

Discussion followed:

**Mr. Gunkel withdrew his motion. Ms. Smith seconds.**

The Board requested that staff move forward and to bring setup costs for programming and additional work effort back to the board for final approval.

Request for Proposal (Board Action Requested)

Mr. Collins indicated that pursuant to the action of the Board at the last meeting staff sent out the RFP to seek assistance with the proposal process for the defined contribution and deferred comp programs. Staff reviewed the proposal. Mr. Reinhardt handed the results out to the Board.

**Ms. Tabor moves approval to award the RFP to Deloitte & Touche. Ms. Sand seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, Smith and Chairman Strinden.

**Nays:** None

**Absent:** Sage

**PASSED**

Final Section 457 Regulations (Board Action Requested)

Ms. Allen indicated that on July 10, the IRS issued final regulations relating to Section 457 deferred compensation plans. The final regulations contain some specific rules related to the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 and apply for taxable

years beginning January 1, 2004. There are two provisions that will have implications for our members. They are the ability to defer sick, vacation, and back pay and the refunding of excess deferrals.

### **Deferral of Sick, Vacation, and Back Pay**

Currently, these additional payments are not eligible for deferral. The regulations now allow participants to defer accumulated sick pay, vacation pay, and back pay. The agreement to defer these payments must be made before the beginning of the month in which such amounts will be paid or made available and the participant must be an employee in that month. The deferrals are treated as part of the participant's "annual deferrals," and are subject to the plan's annual maximum deferral limits and catch-up contribution limits, if applicable.

### **Excess Deferrals**

When deferrals in excess of the annual maximum limit occur, the excess is taxable to the participant in the year deferred. The excess cannot be refunded as it is considered an in-service distribution which is prohibited by the 457 regulations. Under the final regulations, a plan must now provide for distribution of any excess deferrals, including any earned income, to the participant as soon as administratively practicable after it is determined that the amount is an excess deferral.

Ms. Allen indicated that staff recommends amending the appropriate documents in order to implement the provisions of the final regulations for the deferral of sick, vacation, and back pay effective January 1, 2004. According to the regulations, a plan must allow for refund of excess deferrals; therefore, no action is required and staff recommends that implementation of this provision be immediately.

**Ms. Sand moves approval of staff recommendation. Ms. Tabor seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, Smith and Chairman Strinden.

**Nays:** None

**Absent:** Sage

**PASSED**

### Deferred Comp – QDRO Model (Board Action Requested)

Ms. Allen indicated that the EGTRRA 2001 regulations contained a provision to allow Section 457 plans to distribute accounts prior to termination consistent with the requirements of a qualified domestic relations order (QDRO). In order to allow this option in the state's deferred comp plan, it was necessary to submit enabling legislation. With approval of Section 17 of SB 2058, the Board now has the authority to apportion a participating member's account in the deferred compensation plan in accordance with the requirements of a QDRO.

Ms. Allen indicate that in order to implement this legislation, staff developed a draft model domestic relations order to assist members and their attorneys in establishing a QDRO with the deferred comp plan. The draft model has been reviewed by Mr. Miller and Segal. This draft model was included in the board materials.

**Ms. Tabor moved approval of the draft model. Ms. Sand seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, Smith and Chairman Strinden.

**Nays:** None

**Absent:** Sage

**PASSED**

NDPERS 401(a) Defined Contribution 2<sup>nd</sup> Quarter 2003 Report (Informational)

Mr. Reinhardt provided the Board with an over view of the 401(a) Defined Contribution 2<sup>nd</sup> Quarter 2003 Report. This report was included in the board materials.

NDPERS 457 Companion Plan 2<sup>nd</sup> Quarter 2003 Report (Informational)

Mr. Reinhardt provided the Board with an over view of the 457 Companion Plan 2<sup>nd</sup> Quarter 2003 Report. This report was included in the board materials.

Employer Participation Agreements (Board Action Requested)

This item was deferred to the next meeting.

September Board Meeting (Board Action Requested)

Mr. Collins indicated that there was a request to change the September 18<sup>th</sup> board meeting. Discussion followed. The board meeting was not changed.

Retiree Working Group (Board Action Requested)

Mr. Collins proposed that the board continue to use the retiree working group it established earlier this year to look at the retiree plan design. The purpose of continuing to use this group would be have it review issues facing retirees and propose initiatives or changes for the board's consideration later this year. There has always been the PERS benefits committee that has assisted PERS and in fact has already started to meet. However the benefits committee is more focused on active member issues. With today's challenges it may be helpful to have another committee that is more focused on retiree issues. I would propose continuing the committee used last time which consisted of the following members:

Mr. Carl Rodlund	Mr. James Saver
Mr. Howard Snortland	Mr. Tom Tupa
Mr. Joe Novak	Ms. Chris Runge

In addition Mr. Collins suggested asking Mr. Gerald Balzer, Mr. Rob Graham and Mr. Chet Nelson.

**Mr. Baetsch moves approval of continuing the retiree working group with the above listed individuals. Ms. Tabor seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Tabor, Smith and Chairman Strinden.

**Nays:** None

**Absent:** Sage

**PASSED**

Audit Committee Minutes (Informational)

Included in the board materials were the May 13, 2003 Audit Committee Minutes.

Draft of Proposed Rules (Informational)

Mr. Collins indicated that the draft of the proposed additions, deletions and revisions to the administrative rules were included in the board materials.

Consultant Fees (Informational)

Included in the board materials were the consultant fees paid for the quarter ending June 30, 2003.

Web Demo (Informational)

Mr. Ron Gilliam and Mr. Arnie Seitz, from NDPERS IT division, provide the Board with a brief review and demo of NDPERS new web site and new products that PERS is rolling out.

Chairman Strinden called for any other business, hearing none the meeting adjourned at 11:05 AM.

*Respectfully Submitted*

*Denise A. Curfman*

*Denise A. Curfman  
Secretary, NDPERS Board*