

Minutes
North Dakota Public Employees Retirement System
Thursday, January 29, 2004
ND Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo
8:30 A.M.

Members Present: Mr. Weldee Baetsch
Mr. David Gunkel
Mr. Howard Sage
Ms. Arvy Smith
Ms. Sandi Tabor

Via Video Conference Chairman Jon Strinden
Ms. Rosey Sand

Others Present: Mr. Sparb Collins, Executive Director NDPERS
Ms. Kim Humann, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Sharmain Dschaak, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Sharon Schiermeister, NDPERS
Ms. Rebecca Fricke, NDPERS
Ms. Cheryle Masset, NDPERS
Mr. Scott Miller, Attorney General's Office
Ms. Rhonda Peterson, BCBSND
Mr. Tom Tupa, INDSEA
Mr. Howard Snortland, AFPE
Ms. Chris Runge, NDPEA AFT 4660
Mr. Greg Sund, City of Dickinson
Mr. David Peske, ND Medical Association
Dr. Terry Dwelle, ND State Health Officer

Via Video Conference Mr. Larry Brooks, BCBSND

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

MINUTES

Chairman Strinden called for any questions or comments regarding the minutes of the December 19, 2003 meeting.

MR. GUNKEL MOVED APPROVAL OF THE DECEMBER 19, 2003 NDPERS BOARD MINUTES. MR. BAETSCH SECONDED THE MOTION.

GROUP INSURANCE

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Blue Cross Blue Shield Utilization Review (Informational)

Included with the board materials was information from BCBS on the PERS plan utilization and prenatal plus program. Representatives from BCBS reviewed the prenatal plus program and the PERS plan utilization analysis information. The utilization information indicates that the wellness/disease management strategy to be discussed is important to PERS and may be of help in reducing the trends.

Disease Management/Wellness Initiative (Informational)

Dr Dwelle, State Health Officer, shared with the Board some concepts on the importance of having a Wellness/Disease Management strategy in responding to today's health care challenges.

Staff and BCBS are looking at adding a disease management firm's services to the efforts of BCBS. BCBS and PERS staff met with several disease management firms in January. The goal of these efforts would be to continue to improve the quality and efficiency of the care given to our members which should help to reduce costs. Further reports on this issue will be provided to the Board in the next several months.

In addition, it was reported that PERS staff and Dept of Health staff have met with UND School of Medicine seeking their assistance in the development of an approach to do risk assessments on PERS plan members and provide follow-up support to those members whose risk factors require attention. PERS staff is also seeking assistance from the School of Medicine to develop an approach for employer-based wellness programs. PERS staff will be meeting again with the School of Medicine in early February and will be also be meeting with the active employee benefit committee to solicit ideas about incentives.

Smoking Cessation (Informational)

Mr. Brooks, BCBS, provided an update on the progress of the Smoking Cessation Program.

Blue Cross Blue Shield Member Survey (Informational)

Ms. Peterson, BCBS, reviewed the results of the BCBS Member Service Survey for August 2003. This survey was conducted to assess the satisfaction of NDPERS subscribers with the BCBS Service Unit assigned to the PERS group.

Heart of America Renewal (Board Action Requested)

Ms. Allen indicated that included with the board materials was a request from Heart of America in Rugby to continue offering its HMO membership to state employees in its Rugby service area. The term of this renewal is from July 1, 2004 through June 30, 2005. Staff requested the Board to accept or reject the Heart of America request to offer its HMO to PERS membership in the Rugby service area.

MS. TABOR MOVED APPROVAL OF THE HEART OF AMERICA REQUEST TO OFFER THEIR HMO TO PERS MEMBERSHIP IN THE RUGBY SERVICE AREA. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Plan Design (Informational)

Mr. Collins reviewed with the Board the Legislative Employee Benefits Committee meeting of January 15. Per the Committee's request, staff reported the cost of plan designs that had a \$500 deductible and a \$1,000 deductible. Information also reviewed with the Committee included: placing a cap on prescription costs, eliminating the employee cost sharing and what the premium payment practices of the largest BCBS groups were.

Life Insurance Update (Informational)

Mr. Reinhardt provided an update on the PERS Life Insurance Plan for the July 2002 through July 2003 period.

Surplus/Affordability (Informational)

The December 2003 surplus projection and affordability analysis for the NDPERS group medical plan were included with the board materials.

Quarterly Graphs (Informational)

The quarterly health utilizations graphs for the third quarter of 2003 were included with the board materials.

DEFINED CONTRIBUTION DEFERRED COMP

Deferred Comp Provider Training (Board Action Requested)

Last fall provider training programs were conducted in September in Bismarck, Fargo and Minot and November in Bismarck and Grand Forks. Ms. Allen conveyed the meetings were well attended; however, there were a number of provider representatives who did not satisfy the training requirements specified in the administrative contract. On December 1, 2003, letters were sent to the home office contacts for each provider company, citing the contract requirements and included a list of representatives not in compliance with the contract. At this time, staff indicated they had received responses from all provider companies out of compliance except The Equitable. The respondents all took action by sending notification to the representatives on the list PERS provided that they were no longer eligible to participate as agents in the state's deferred compensation plan. This action brought these providers into compliance with the contract provisions. Staff has removed these individuals as instructed. Staff recommended notifying The Equitable via a letter that this situation was reviewed by the Board who found them out of compliance with the contract and that the Board would consider taking action to implement a loss of provider status for The Equitable at its February meeting.

MR. GUNKEL MOVED APPROVAL OF STAFF'S RECOMMENDATION. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

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PASSED

Defined Contribution 2003 Enrollment (Informational)

Included with the board materials was the annual report outlining the number of contacts made with new eligible employees and the number that transferred to the Defined Contribution plan in 2003.

457 and 401(a) Proposals (Informational)

A summary from Deloitte & Touche on the providers who responded to the RFP for the 457 and 401(a) plans was included with the board materials.

RETIREMENT

Benefits Committee Program Suggestions (Board Action Requested)

During the last several months the employee benefits committee for actives and the retiree benefits committee have met to review the status of the retirement programs and develop suggestions for the Board's consideration. Staff has also met with representatives of the Highway Patrol, Judges and National Guard relating to their systems. The following is a list of the benefits committee's suggestions relating to retirement, retiree health and deferred compensation:

| Benefits Committee Suggestions: | Staff Recommendation |
|--|-----------------------------|
| Do not seek increase in retirement contribution | Agree |
| Change final average salary to high 36 of last 180 | Agree |
| Add a Joint & Survivor level social security option | Agree |
| Provide for a Partial Lump Benefit with 12 month maximum | Agree |
| Add a 20 term certain and eliminate the 5 year provision | Agree |
| Provide for a 13 th check for retirees if earning exceed 10.3% by enough to pay for it | Agree |
| Increase retiree health contributions to 1.25% and increase benefit to \$5 | Agree |
| Provide for a default election for new employees of \$25 to the deferred comp companion plan stable value option | Agree |
| Investigate increasing Final Average Salary to offset loss of a general salary increase | This is suggested by staff |
| For the Highway Patrol change definition of Final Average Salary to highest 36 instead of consecutive 36 | Agree |
| For Highway Patrol propose and review changing definition of disability | Agree |
| For the Highway Patrol system add the employer purchase provisions | Agree |

Staff sought direction from the Board on each of these suggestions to determine if they should continue working on developing these ideas into legislation for final consideration in March. All legislation for the 2005 session must be submitted by March 30, 2004. Discussion followed.

MR. SAGE MOVED TO REMOVE THE DEFAULT ELECTION FOR NEW EMPLOYEES TO THE DEFERRED COMPENSATION PLAN FROM FURTHER STUDY. MR. GUNKEL SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

The Board requested that staff seek information on increasing the retiree health credit to \$6.00 or \$6.50. Ms. Sand inquired if the proposal for the highway patrol's final average salary would be changed to be consistent with the main system. Mr. Collins indicated they were interested in pursuing those changes also.

MR. SAGE MOVED TO APPROVE TO PREPARE PROPOSED LEGISLATION FOR THE ABOVE RECOMMENDATIONS EXCEPT FOR THE DEFERRED COMPENSATION PROPOSAL. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith and Chairman Strinden

Nays: None

Absent: Tabor

PASSED

IRS Letter Determination (Informational)

The 2001 Legislative session authorized the purchase of service credit on a pretax basis. However, the legislation specified that the section would become effective on the date the PERS Board of Trustees received a letter ruling from the IRS that implementation of this provision did not jeopardize the qualified status of the plan. It further stated the Board should notify the Legislative Council of the effective date. The request was submitted to the IRS in 2001. Included with the board materials was a copy of the letter opinion from the IRS approving the process.

Based upon the opinion, staff is working with the Segal Company to develop the procedures for pretax purchases and will be prepared to review the recommendations with the Board when they are complete. Mr. Miller, legal counsel, conveyed he felt the letter qualified for notification to the Legislative Council with an effective date of sometime after December 11 or whenever the letter was received for the main system and the highway patrol.

MS. SMITH MOVED TO ACCEPT THE IRS OPINION AND AUTHORIZE STAFF TO NOTIFY THE LEGISLATIVE COUNCIL OF THE EFFECTIVE DATE OF THIS PROVISION. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith and Chairman Strinden

Nays: None

Absent: Tabor

PASSED

Interest Payments (Board Action Requested)

In November the Board reviewed the procedure for refunding employer contributions made in error. PERS practice had been to pay interest on amounts over 90 days. The Board decided in November not to continue this practice based on the advice of our attorney, Mr. Miller, that it was not authorized in statute. Staff was able to identify the cases that were paid interest in the past. Since the conclusion to not pay was based upon the advice that we did not have the legal authority to make this payment, then our past practice was not valid and interest paid was a mistake. Staff will proceed to contact those that were paid interest in error and request a refund. However, several of the amounts are small. Staff requested Board approval to not pursue the small amounts since they are de minimus.

MR. SAGE MOVED NOT TO PURSUE THE DEMINIMUS AMOUNTS. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith and Chairman Strinden

Nays: None

Absent: Tabor

PASSED

Royalty Payments (Board Action Requested)

Dickinson Public Schools has remitted retirement contributions on oil royalty payments. The School addressed a letter to the PERS office stating that they erroneously included the monies as eligible compensation and wish a return of the retirement contributions. The School's letter also stated that they believe that the oil royalty payments do not meet PERS definition of bonuses based on the phrase "for service performed in addition to base salary". The oil royalty payments are disbursed based on the number of full-time positions the school employs.

Mr. Miller, legal counsel, has reviewed this case and concluded that the payments could be interpreted to be bonuses but also stated that the payments don't seem to fit well within any provisions in either the PERS statutes or rules. An argument could be made that the payments are not salary, and should not have contributions made on them. As such, Mr. Miller stated that there does not seem to be anything requiring NDPERS to accept contributions on the oil royalty payments.

Staff recommended that oil royalty payments do not meet the definition of eligible bonuses since the payments most closely resemble a retention bonus and therefore, would not be eligible. Discussion followed. During discussion it was noted that TFFR reviewed this issue and concluded that retirement contributions were required.

MS. SAND MOVED TO KEEP THE MONEY PAID BY THE DICKINSON PUBLIC SCHOOLS AND GO BACK AND CORRECT THE ACCOUNTS WITH REGARD TO THE OIL ROYALTY BONUSES PAID. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand and Smith

Nays: Strinden

Absent: Tabor

PASSED

MISCELLANEOUS

Administrative Rules (Board Action Requested)

A hearing was held on December 11, 2003 in the Missouri Room at the State Capitol at 11:00 a.m. regarding proposed administrative rules. A period for written comments was held open until 5:00 p.m. on January 13th. The minutes of the hearing were included in the board materials. Also included with the board materials was a copy of an attorney general's opinion that is referred to in the hearing minutes. To staff's knowledge, all legal requirements have been satisfied to date, regarding promulgation of these rules. There has been no request for a regulatory analysis received and the proposed rule is not anticipated to have a cost impact on the regulated community. The Board was sent an analysis of the rules impact on small business entities under separate cover. The Board also reviewed the following written comments that were submitted to the PERS office: proposed alternative definition for "Retirement Allowance" from Mr. Greg Sund, Dickinson City Administrator, letter from Mr. Timothy Priebe, Dickinson City Attorney, e-mail from Ms. Jamie Kinsella, and written testimony by Mr. Greg Sund, Dickinson City Administrator. Staff requested the Board's approval of the rules as promulgated and asked for the authority to submit the rules to the Attorney General's Office for review. Subject to obtaining the Attorney General's approval, staff will then submit the rules to Legislative Council for final promulgation.

Mr. Greg Sund, appeared before the Board regarding the proposed adoption of the definition for "retirement allowance". Mr. Sund believes that the "retirement allowance" should be defined by the individual plans maintained by political subdivisions, not a mandated definition by PERS. Discussion of the submissions followed.

MR. GUNKEL MOVED FOR STAFF TO FURTHER LOOK AT THE DEFINITION OF "RETIREMENT ALLOWANCE" AND COME BACK TO THE BOARD WITH THEIR RECOMMENDATION. MS. SAND SECONDED THE MOTION.

Mr. Miller pointed out if there are substantive changes to that particular rule the rule making process would have to start at the beginning of process and if the rules are not approved, the implementation of all the rules will be delayed. Mr. Miller indicated that rule can be deleted from the packet that is being approved or technical changes may be made.

Mr. Gunkel amended his previous motion:

MR. GUNKEL MOVED TO APPROVE THE RULES WITH THE EXCEPTION OF THE DEFINITION RELATING TO "RETIREMENT ALLOWANCE" AND REQUESTED STAFF

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TO FURTHER LOOK AT THIS DEFINITION AND COME BACK TO THE BOARD WITH THEIR RECOMMENDATION AND ACT ON THAT RULE SEPARATELY. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sand, Smith and Strinden

Nays: Sage

Absent: Tabor

PASSED

Meeting Schedule (Informational)

The following upcoming Board meetings have been scheduled:

- February 12th 8:30 - North Dakota Association of Counties
Investment Subcommittee Meeting will follow
- February 19th, 8:30 - North Dakota Association of Counties
- March 24th, 8:30 - 4:00 PM - Peace Garden Room, State Capital
- March 25th, Board Meeting

NDPERS Comprehensive Annual Report (Informational)

The 2003 PERS Annual Report was included with the board materials. The report is also available on the PERS website under the News button. The report was published in December and distributed to all participating employers participating in the retirement system. The report was submitted to the Government Finance Officers Association with an application for the GFOA Certificate of Excellence in Financial Reporting.

Compensation Committee Recommendation

Mr. Baetsch indicated the Executive Director's review and salary adjustment recommendation was discussed at the December meeting and was carried forward. Mr. Baetsch conveyed the compensation committee recommended a 3% salary adjustment for the Executive Director based on the methodology which was used in the past. Discussion followed.

MR. SAGE MOVED TO NOT GRANT THE EXECUTIVE DIRECTOR A SALARY INCREASE. MS. SAND SECONDED THE MOTION.

Ayes: Sage, Sand, Smith and Strinden

Nays: Baetsch, Gunkel

Absent: Tabor

PASSED

MR. BAETSCH MOVED THAT THE HUMAN RESOURCE MANAGEMENT SERVICES DIVISION OF OMB BE REQUESTED TO CONDUCT A STUDY COMPARING JOB DESCRIPTIONS AND SALARIES OF PUBLIC EMPLOYEES RETIREMENT EXECUTIVE POSITIONS IN SELECTED STATES TO PROVIDE THE BOARD WITH MORE DETAILED AND APPROPRIATE DATA FOR DETERMINING FUTURE SALARY ADJUSTMENTS. MS. SAND SECONDED THE MOTION.

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Ayes: Baetsch, Gunkel, Sage, Sand, Smith and Chairman Strinden

Nays: None

Absent: Tabor

PASSED

Chairman Strinden called for any other business or comments. Hearing none, the meeting was adjourned at 12:52 p.m.

Prepared by,

Kim Humann
Administrative Assistant

MINUTES

**North Dakota Public Employees Retirement System
Thursday, February 12, 2004
North Dakota Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo**

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Weldee Baetsch
Ms. Arvy Smith
Ms. Sandi Tabor

**Via Video Conference:
Fargo**

Chairman Jon Strinden
Ms. Rosey Sand

**Others Present:
Bismarck Location:**

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS

Chairman Strinden called the meeting to order at 8:31 AM.

Defined Contribution/Deferred Comp (Board Action Requested)

Deloitte & Touche presented the board with a Provider Assessment of the proposals for the 457 and 401(a) plans. Specifically, Deloitte provided the board with an overview of the Background/Evaluation Criteria which covered the following:

- RFP Respondents
- Provider Attributes
- Proposed Fund Arrays
- Key Strengths and Watchlist Areas
- Provider Fees

Based upon the Provider Assessment results, Deloitte & Touche indicated the top four providers were:

- CitiStreet
- Fidelity
- VALIC
- Amvescap

Discussion followed.

Mr. Sage moved approval to interview the following three companies: CitiStreet, Fidelity and VALIC. Mr. Gunkel seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, Smith, and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Chairman Strinden called for discussion, hearing none the meeting adjourned at 9:50 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

Minutes
North Dakota Public Employees Retirement System
Thursday, February 19, 2004
ND Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo
8:30 A.M.

Members Present: Mr. Weldee Baetsch
Mr. David Gunkel
Mr. Howard Sage
Ms. Arvy Smith
Ms. Sandi Tabor

Via Video Conference Chairman Jon Strinden
Ms. Rosey Sand

Others Present: Mr. Sparb Collins, Executive Director NDPERS
Ms. Kim Humann, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Sharmain Dschaak, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Sharon Schiermeister, NDPERS
Ms. Rebecca Fricke, NDPERS
Mr. Scott Miller, Attorney General's Office
Ms. Rhonda Peterson, BCBSND
Mr. Tom Tupa, INDSEA
Mr. Howard Snortland, AFPE
Mr. David Peske, ND Medical Association
Mr. Galen Jordre, ND Pharmaceutical Association

Via Video Conference Mr. Larry Brooks, BCBSND

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

MINUTES

Chairman Strinden called for any questions or comments regarding the minutes of the January 29, 2004 meeting.

MR. GUNKEL MOVED APPROVAL OF THE JANUARY 29, 2004 NDPERS BOARD MINUTES. MR. BAETSCH SECONDED THE MOTION.

457 and 401(a) Proposals (Informational)

Mr. Collins indicated that Mr. Brad Tollander, Deloitte & Touche, would be joining the meeting via conference call as a follow-up to the discussion on February 12, 2004. Mr. Tollander conveyed he wanted to review the VALIC fees based on concerns expressed at the February 12 meeting. Mr. Tollander indicated he had received comments back from VALIC and pointed out some discrepancies in their fees. Discussion followed. Mr. Collins

inquired based on the additional information received today, if the Board would like to interview one other firm for a total of four firms to interview on March 24.

MR. GUNKEL MOVED TO INVITE AMVESCAP TO THE MARCH 24 MEETING. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

RETIREMENT

National Guard/Law Enforcement Retirement Plan (Board Action Requested)

At the December 2003 board meeting discussion was held regarding administration of the Law Enforcement Plan. Ms. Dschaak indicated currently PERS can not administer dual membership in the Main System and the Law Enforcement Plan. Staff presented the following 3 possible options for modifications:

- Option 1: Change the mandatory eligibility requirements for the Law Enforcement Retirement plan from 20 hours a week to 32 hours and not allow simultaneous dual membership with an alternate plan under N.D.C.C Chapter 54-52.
- Option 2: Maintain the 20 hours per week for 20 or more weeks per year and allow simultaneous dual membership in an alternate plan under N.D.C.C Chapter 54-52. Each employer would pay the required retirement contribution rate applicable to the plan they participate in. The cost to implement this change is currently estimated to be \$17,000.00.
- Option 3: Maintain the 20 hours per week for 20 or more weeks per year and not require dual membership, but require the employer under the alternate retirement to pay the appropriate (higher) Law Enforcement retirement contribution rate.

Staff recommended approval of Option #1. This option would avoid extra cost to implement the Law Enforcement Plan and would avoid requiring an employer to pay higher contributions rates. Also by having the higher minimum hours it would ensure the Law Enforcement Plan members are full time law enforcement personnel. Discussion followed. The Board recommended that staff contact the ND Peace Officers Association to get their feedback on this issue and bring their comments back to the Board at the March meeting.

Retirement Issues (Board Action Requested)

Mr. Collins indicated that he has several retirement plan issues to review with the Board relating to proposed legislation. The first issue relates to USERRA and concerns the federal government taking exception to the PERS statutory procedures. Specifically, PERS had determined that the employee must pay the employee retirement contribution

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upon returning and the employer must pay the employer contribution. The federal government maintains that the employer should pay both portions. The present procedure is in the NDCC and was enacted this last legislative session. Previously this procedure had been in Administrative Rules. However, as staff has reviewed this issue, staff has concluded that this issue is between the employer and employee since the USERRA is primarily directed at the employer and what they must do. In recognition of the above, staff suggested changing the statute. Recognizing that there are several hundred employers in the PERS plan and the arrangements between those employers and employees varies, therefore the applicability of USERRA varies based upon those arrangements. Staff suggested changing the statute to allow PERS to accept payment for returning veterans based upon the policy of the employer instead of the present specific method defined in our statute. Staff believes that such a change would most effectively allow PERS to serve the varying needs of our members relating to this issue. Secondly, staff also suggested changing the statute to allow any employer to pay for past time if they elect to do so. The cost would be the actual cost plus interest. This would allow PERS to accommodate situations where an employer may feel that it was appropriate to pay for a returning veteran's time when the Rules or law may have prohibited it. This change would leave these decisions with the employer who would make a determination as to how they should comply with USERRA, instead of the retirement plan prescribing how it should work. Discussion followed.

The second issue concerns temporary employees. Mr. Collins conveyed staff has some observations regarding temporary employee participation in the Retirement Plan that they wanted to bring to the Board's attention:

1. Some temporary employees elect to participate because they get a return of 7.5% which is very competitive in today's market. After their employment they cash out.
2. A growing number of employees will participate in recognition of getting the health credit. Generally these employees are at a low salary and therefore the 1% contribution does not cover the fixed cost of the benefit which is a flat amount of \$4.50 per year of time.

Both of the above have actuarial implications for the plan that may require a subsidy from the other participants to pay for this benefit. In particular, there could be an impact on the retiree health plan. Staff brought this to the Board's attention to determine if they wanted to propose a change in this provision or not. In making a proposal, it would initiate a full actuarial review and public comment that would be reported back to the Board next fall. At that time the Board could determine if they want to include it in the final legislation.

If the Board does not want to make any changes in the temporary employee participation provision, staff suggested that this same benefit be provided in the Defined Contribution (DC) plan. Presently DC members who return can not participate in the DC plan as a temporary employee. Consequently, they then may elect to join the Defined Benefit (DB) plan as a temporary. This allows them to maintain participation in a retirement plan for the health credit but it does interrupt the continuity of participating in only one type of retirement plan. Therefore, if the optional temporary employee participation is allowed, staff recommended that it should be offered in both plans.

MS. TABOR MOVED TO AUTHORIZE STAFF TO MOVE FORWARD IN CHANGING THE STATUTE FOR USERRA. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

MS. SAND MOVED FOR STAFF TO MOVE FORWARD IN DEVELOPING LEGISLATION TO ALLOW TEMPORARY EMPLOYEE PARTICIPATION IN THE DEFINED CONTRIBUTION PLAN FOR MEMBERS OF THE PLAN WHO GO FROM ACTIVE TO TEMPORARY STATUS. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

Proposed Legislation (Board Action Requested)

At the last board meeting the following concepts were approved to include in proposed legislation:

1. To increase the retiree health credit.
2. To provide a 13th check for retirees if returns exceed a specified amount.
3. To adjust members final average salary in recognition of not getting a general salary increase this biennium.

At that meeting the Board also requested additional information on each of the concepts.

Increasing the Retiree Health Credit

The PERS retiree benefits committee recommended that the Board increase the credit from \$4.50 to \$5.00 and pay for it by requesting an increase in contributions from 1% to 1.25%. While the .50¢ increase would only cost .14% it was felt that the remaining .11% in contributions would help to reduce the unfunded liability thereby allowing funding for future increases. In discussing this option, it was noted that it would require an increase of approximately \$6.50 to get it back to a level of support that it was providing at the inception of the plan. The Board requested that staff put together a fiscal note on the cost of increases up to \$7.00. Included with the board materials were the costs. Staff recommended moving forward with the proposal from the retiree committee and requesting an increase of .25% in contributions for the following reasons:

1. The fiscal cost of a greater increase is substantial and may result in the proposal being dismissed.
2. The higher cost could cause the political subdivisions to oppose the increase.
3. The high cost could compete with increases needed for salaries and health insurance

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4. The .25% is the most affordable and would set up a method for future increases. I asked Segal to prepare some additional information on this item and it will be ready for the next meeting.

A handout prepared by Segal regarding the Retiree Health Insurance Credit Fund Projected Margin was distributed. Discussion followed. Mr. Collins indicated that based upon the information from Segal it may be necessary to request more than a .25% increase. By general consensus the Board requested Segal provide additional information at varying contribution levels and rates of return (actuarial vs. expected).

Provide Retirees a 13th Check

While this concept was approved at the last meeting additional information was requested on the level of earnings needed to support such an increase. The following are the comments from Segal (as you will note they also provided information on a 1% cost of living adjustment for comparison, however this was not recommended by the committee):

- On a market value basis, where the full investment return in excess of 10.30% is available to pay for benefit improvements, an additional return of 0.18% (for a total return of 10.48%) would be required to provide a one-time payment equal to one-half of the current monthly pension check to all pay status participants in the Main System as of July 1, 2003.
- On a market value basis, where the full investment return in excess of 10.30% is available to pay for benefit improvements, an additional return of 0.36% (for a total return of 10.66%) would be required to provide a one-percent ad-hoc COLA to all pay status participants in the Main System as of July 1, 2003.
- On an actuarial value basis, where 20% of the investment return in excess of 10.30% is available to pay for benefit improvements, an additional return of 0.90% (for a total return of 11.20%) would be required to provide a one-time payment equal to one-half of the current monthly pension check to all pay status participants in the Main System as of July 1, 2003.
- On an actuarial value basis, where 20% of the investment return in excess of 10.30% is available to pay for benefit improvements, an additional return of 1.80% (for a total return of 12.10%) would be required to provide a one-percent ad-hoc COLA to all pay status participants in the Main System as of July 1, 2003.

Staff recommended the 13th check be proposed as a ½ check and be effective based upon a return of 11.2%. Staff also proposed that it be effective for only one year in the biennium but could occur in either year if sufficient returns are achieved.

MR. GUNKEL MOVED TO APPROVE STAFF'S RECOMMENDATION. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Adjust Members Final Average Salary

The concept of adjusting member's final average salary to recognize the lack of a general salary increase was approved at the last meeting. It was noted that the PERS active benefits committee would be meeting and at that time staff would request their ideas on how to apply such an adjustment. The committee met on February 12 and the question arose that if this was to be done, how should it be done. After a lengthy discussion, the committee consensus was if the final average salary was to be adjusted, it should be across all salaries in the system.

MR. GUNKEL MOVED APPROVAL TO MOVE FORWARD WITH THE ADJUSTMENT OF MEMBER'S FINAL AVERAGE SALARY CONCEPT. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

Retirement Contribution Adjustments (Board Action Requested)

Included with the board materials were the administrative procedures staff proposed regarding delinquent and erroneous retirement contribution adjustments. The changes staff proposed were eliminating correcting certain aspects of a member's record that did not affect a member's benefit. In the past, staff had been fully adjusting a member's record regardless if the adjustment impacted a benefit calculation or not. Staff proposed adjusting a member's record with delinquent or erroneous contributions only if the adjustment would effect a member's retirement benefit calculation. An outline of the functions PERS would perform was included with the board materials. Staff recommended adopting the procedures effective immediately. Discussion followed.

MS. SAND MOVED TO APPROVE THE ADMINISTRATIVE PROCEDURES AS PRESENTED BY STAFF. MS. SMITH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

Consultant Selection RFP (Board Action Requested)

An RFP was recently issued for actuarial and consultant services for the retirement plan. These services are presently provided by Segal. It has been PERS practice to go out to bid every six years for these services. In the RFP it was indicated that whoever is selected as a result of this process will provide these services for the next six years or until 2010. Proposals were received from the following firms:

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1. Deloitte
2. GRS
3. Mellon
4. Mercer
5. Milliman
6. Segal

The staff review team included: Sparb, Kathy, Deb and Bryan. Each reviewed the proposals independently and rated them for all factors except price. During staff's review the pricing proposals were not included. Included with the board materials were the points given for each firm. Also the pricing information was given points based from lowest to highest. That was also reflected in the information provided to the Board.

Based upon the review, staff recommended that if the Board decided to do interviews, that Segal and GRS should be invited. If the Board decided to interview three, Mellon should be invited. If it is decided to award the contract to Segal based upon the staff review, staff suggested that they not be awarded the Asset Liability work and that be given to GRS.

Mr. Collins conveyed the last time an actuary audit was completed was in 1996. Mr. Collins indicated it is recommended that an actuary audit be done every 10 years. An audit involves having another firm redo a valuation in a particular year to determine if they get a similar conclusion. In doing so, it validates the work of the regular consultant. If we change actuaries, an audit is not necessary since all information is checked when the data is transferred from one firm to another. However, if Segal is selected, staff recommended discussing with GRS the possibility of doing the actuarial audit based upon the review. Discussion followed.

MS. SAND MOVED TO INTERVIEW GRS, MELLON AND SEGAL. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Purchase Update (Informational)

Ms. Fricke provided an update on the purchase activity during the final quarter of 2003, October through December.

Pretaxing Employer Purchases (Board Action Requested)

At the last board meeting discussion was held regarding the Letter Ruling we received from the IRS relating to pretax purchasing of retirement credit. In recognition of the ruling and the goal of implementing it by May, staff recommended the following procedures be adopted by the Board:

1. Employees be allowed to convert an existing purchase contract to pretax purchase at any time. If so elected the price would be amortized over the existing purchase period and payments would be required on a monthly basis. In addition the entire contract would need to be moved to a pretax purchase.

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2. If an employee wants to separate an existing purchase contract into a pretax and after tax purchase they must terminate the existing contract and enter into two separate contracts. Contract costs would be recalculated.
3. New purchases can be divided into pretax and after tax but two separate contracts would be required. However, if they elect to open a contract as an after tax contract, they can change the stream of payment in the future to a pretax contract as outlined under # 1 above.
4. In order to do pretax purchases the member's employer must elect to participate and sign an Agreement with the exception of the state agencies who elected to participate in the authorizing legislation.

Staff recommended approval of the above procedures and the agreement for participation by employers other than the state agencies.

MR. GUNKEL MOVED TO APPROVE THE PROCEDURES AND AGREEMENT FOR PRETAXING EMPLOYER PURCHASES. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

GROUP HEALTH

Health Legislation (Board Action Requested)

Mr. Collins indicated staff was seeking direction from the Board on the new Medicare law and several health plan proposals from the last legislative session that were not passed.

Mr. Collins conveyed to date there is not much known about the Medicare law. However, two issues may need legislative authorization if the Board is interested. The Medicare law may provide subsidies for employer sponsored retiree plans such as PERS. If they are available and the Board is interested in pursuing them, staff would need to get legislative authorization to accept them and expend them.

Also, last session the Board proposed several changes to the PERS statute to provide more flexibility and competitiveness to the negotiation process. These proposals included:

1. The elimination of the formal bid process
2. Allowing PERS to develop a independent provider network
3. To allow in house administration of the plan by PERS

All of the above were proposed to encourage more competition for the PERS health plan business. They were removed in the Senate and were not added back in the House. Items #1 and #2 were opposed by different members. Item #1 was opposed by several legislators since they felt some form of bid process was necessary. Item #2 was opposed because several legislators were concerned the network would be sold and they were concerned with the competition aspects. Therefore, the question is does the Board want to again pursue these tools. Discussion followed. The Board discussed the bidding procedure and decided to modify the proposal to continue having a bid but to authorize the

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Board to negotiate on both price and bid specifications. Concerning the provider network, the Board decided to submit it again but to modify the proposal to only allow the network to be used by PERS.

MS. SAND MOVED APPROVAL TO SEEK LEGISLATIVE AUTHORITY TO ACCEPT MEDICARE PRESCRIPTION PAYMENTS. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

MS. TABOR MOVED TO AUTHORIZE STAFF TO PUT TOGETHER A PROPOSAL FOR THE HEALTH INSURANCE PLAN NEGOTIATION PROCESS ON ALL THREE ITEMS THAT WERE LISTED. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Mail Order Rx (Informational)

Mr. Jon Barian, Prime Therapeutics, gave a presentation on their new pharmacy mail order option. Mr. Galen Jordre, ND Pharmacy Association, appeared before the Board and spoke about the implications of a mail order pharmacy plan to North Dakota pharmacies. Discussion followed. Ms. Kamie Kueneman, Prime Therapeutics, provided an update on their clinical programs and drugs in the news.

Prairie Rx Pilot Project (Informational)

Included with the board materials was a copy of the "Prairie Prescriptions Pilot Project" which is proposed by Senator Dorgan. The Senator is seeking letters of support for the project. Mr. Collins conveyed he was going to submit a letter for PERS, subject to Board approval, since this proposal is consistent with the efforts to reduce prescription costs for membership. By general consensus, the Board approved for Mr. Collins to send the letter.

Management Information System Study (Informational)

The NDPERS Annual Management Information Systems (MIS) Study based on claims incurred July 1, 2002 through June 30, 2003 (paid through September 30, 2003) prepared by BCBS was included with the board materials. The information contained in this study provided a summary of actual health membership, utilization and payments.

Smoking Cessation Program Update (Informational)

An update on the progress of the Smoking Cessation Program was included with the board materials.

Dickinson Retiree Participation (Informational)

At the January board meeting the Board reviewed the definition of "retirement allowance." The Board also heard from the City of Dickinson who indicated that their retirees cash out

of their retirement plan at retirement which does not meet the current PERS definition. At that meeting the Board requested that staff further review this issue. Mr. Collins indicated that staff had discussed this in more detail with the City of Dickinson and have received supplemental information from the City on their retirement plan. Mr. Collins conveyed the City indicated that their retirees do receive a special benefit payment for their health insurance. Staff and Mr. Miller, legal counsel, reviewed this and it appears that if this language would be included in their Retirement Plan Document it could be construed as accepting a retirement allowance and then their retirees would be eligible for the plan. Mr. Collins conveyed he had reviewed this with Mr. Sund, City of Dickinson.

Wellness Benefit Program Update (Informational)

Ms. Allen indicated the Wellness Committee was investigating additional programs that could supplement the 10K-A-Day program that is provided by Health Enhancement Systems. BCBS also has a walking program called "Walking Works" and like the 10K-A-Day program, it stresses the importance of walking at least 10,000 steps a day to maintain a basic level of fitness. The program is available free of charge to employers that participate with BCBS. The Committee also followed up with the BCBS Corporate Wellness Division for guidance in developing wellness initiatives for employers. The division provided the following for consideration:

- Nutrition Education / Weight Management
- Chronic Disease Self Management Program (a program developed by Stanford Univ.)
- Cardiovascular Health Education

Ms. Allen conveyed currently the NDPERS office in conjunction with BCBS is pursuing a disease management program for the health plan. The other two proposals involve nutrition and increasing physical activity.

In researching worksite wellness options with the Department of Health, it was suggested to supplement the 10,000 steps a day program, which promotes physical activity, with a nutrition program to educate employees about healthy eating habits. This would involve having nutritionists available to conduct work site programs. The Health Department has access to public health officials throughout the state that could provide these services.

Based on the research conducted, the Committee is pursuing a nutrition program and will work in conjunction with the Health Department to further develop this concept incorporating some of the suggestions provided by BCBS. This will combine both physical activity and nutrition education and is consistent with the goals of the "Healthy North Dakota" initiative.

FLEXCOMP

Enrollment Update (Informational)

The annual open enrollment for the FlexComp Program plan year 2004 concluded on November 15, 2003. Included with the board materials was enrollment highlights for the 2004 plan year.

DEFINED CONTRIBUTION DEFERRED COMP

Deferred Comp Provider Training (Informational)

At the January meeting it was reported that The Equitable was out of compliance with the contract provisions for provider training requirements. The Board took action at the January meeting directing staff to notify The Equitable that they were out of compliance with the contract and that the Board would consider taking action to implement a loss of provider status for The Equitable at its February meeting unless they took appropriate actions to come into compliance. Ms. Allen conveyed staff received a response from The Equitable instructing staff to remove the individuals out of compliance from the list of eligible agents. Staff has removed these agents from the eligible list of provider representatives. This action brought The Equitable into compliance with the contract provisions.

MISCELLANEOUS

Proposed Legislation (Board Action Requested)

Mr. Collins indicated that included with the board materials were the technical changes to the NDPERS statutes for proposed legislation. These amendments are administrative in nature. Staff requested Board approval to include the technical changes in proposed legislation.

MR. GUNKEL MOVED APPROVAL TO ACCEPT THE TECHNICAL CHANGES IN PROPOSED LEGISLATION. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Board Election (Board Action Requested)

The terms of Board members David Gunkel and Weldee Baetsch expire on June 30, 2004. Pursuant to Section 71-01-02-01, an election must be conducted to fill the vacancies. According to the Rules, the Retirement Board must appoint a committee of three from its membership, one of whom must be designated as Chair, to oversee the election process. Ms. Tabor, Mr. Sage and Ms. Smith agreed to serve on the election committee. Mr. Collins indicated it would be necessary to change the date for the June board meeting as the canvassing of election ballots is scheduled for June 21 and the board meeting is scheduled for June 17. The Board has to accept the election results at their June board meeting. It was agreed to look at changing the meeting date to June 24.

Consultant Fees (Informational)

Included with the board materials was a report showing the consulting, investment and administrative fees paid during the quarter ended December 31, 2003.

Business Plan (Informational)

The Business Plan from 2003 with a description of the activities completed through the end of the year was included with the board materials. Mr. Collins indicated the Business Plan for this year will be presented at the March meeting. Ms. Tabor inquired if the Business Plan could be distributed in March with action to be taken at the April board meeting. This would allow Board members adequate time to review the document.

Other Business

➤ Conferences

Mr. Collins indicated the National Conference on Public Employees Retirement System (NCPERS) National Conference will be held the end of May and the Fidelity Client Conference will be held the end of March. In the past the Board has approved for Board Members to attend each of these conferences.

MR. SAGE MOVED TO APPROVE UP TO 2 BOARD MEMBERS TO ATTEND EACH OF THE CONFERENCES. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

➤ Staff Update

Mr. Collins provided an update on the PERS staff. Per a request by Chairman Strinden, Mr. Collins reviewed the additional workload staff had absorbed this biennium as a result of action this last session. This included the new Law Enforcement Retirement Plan, the addition of the Job Service and OASIS plans, the new employer based wellness program and the additional responsibility for health mandates. Discussion followed.

Chairman Strinden stepped down as Chairman and asked Mr. Gunkel to serve as Acting Chairman for the meeting.

MR. STRINDEN MOVED TO RECONSIDER THE ACTION AT THE LAST MEETING TO NOT APPROVE A 3% SALARY INCREASE FOR THE EXECUTIVE DIRECTOR. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Tabor and Chairman Strinden

Nays: Sage, Sand, Smith

PASSED

MS. TABOR MOVED TO INCREASE THE EXECUTIVE DIRECTOR'S SALARY BY 2% IN LIGHT OF ADDITIONAL WORKLOAD AND IN RECOGNITION OF A SALARY SURVEY CONDUCTED BY MR. BAETSCH WHICH SHOWED AN ADJUSTMENT MAY BE NEEDED TO MAINTAIN EQUITY. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Smith, Tabor and Chairman Strinden

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Nays: Sage, Sand

PASSED

Mr. Gunkel turned over his role as Acting Chairman to Mr. Strinden.

Mr. Sage distributed a copy of a handout from a Callan Consultants Conference he attended that he felt would be of interest to the Board.

Chairman Strinden called for any other business or comments. Hearing none, the meeting was adjourned at 12:17 p.m.

Prepared by,

Kim Humann
Administrative Assistant

MINUTES

**North Dakota Public Employees Retirement System
Wednesday, March 24, 2004
State Capital, Peace Garden Room
Bismarck, North Dakota**

Members Present:

Acting Chairman

Mr. David Gunkel
Mr. Howard Sage
Mr. Weldee Baetsch
Ms. Sandi Tabor
Ms. Rosey Sand

**Others Present:
Bismarck Location:**

Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Rebecca Fricke, NDPERS
Ms. Sharon Schiermeister, NDPERS
Mr. Jim Smrcka, NDPERS
Ms. Kim Humann, NDPERS

Meeting was called to order by the Acting Chairman, Mr. Sage, at 8:15 AM.

Defined Contribution/Deferred Comp (Board Action Requested)

Deloitte & Touche presented the board with an overview of the day.

Fidelity appeared before the board and provided a comprehensive overview of their services, communication, education, and technology as it related to the Request for Proposal. Fidelity also reviewed their fees with the board.

CitiStreet appeared before the board and provided a comprehensive overview of their services, communication, education, and technology as it related to the Request for Proposal. CitiStreet also reviewed their fees with the board.

VALIC appeared before the board and provided a comprehensive overview of their services, communication, education, and technology as it related to the Request for Proposal. VALIC also reviewed their fees with the board.

AMVESCAP appeared before the board and provided a comprehensive overview of their services, communication, education, and technology as it related to the Request for Proposal. AMVESCAP also reviewed their fees with the board.

Discussion followed for a provider for the 401(a) plan.

Mr. Gunkel moved approval of retaining the current provider, Fidelity, subject to Fidelity being able to provide a mid cap and small cap fund. Ms. Tabor seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Tabor

Nays:

Absent: Smith and Chairman Strinden

PASSED

Discussion followed for a provider for the 457 plan.

Mr. Gunkel moved approval of Fidelity, contingent on some fund changes. Ms. Tabor seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Tabor

Nays:

Absent: Smith and Chairman Strinden

PASSED

Acting Chairman Sage called for discussion, hearing none the meeting adjourned at 3:00 PM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

North Dakota Public Employees Retirement System
Thursday, March 25, 2004
North Dakota Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo

Members Present:

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

Via Video Conference:
Fargo

Chairman Jon Strinden

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Sharon Schiermeister, NDPERS
Ms. Sharmain Dschaak, NDPERS
Ms. Rebecca Fricke, NDPERS
Ms. Rhonda Peterson, BCBS
Mr. Larry Brooks, BCBS
Mr. Tom Tupa, SEA/AFPE
Mr. Howard Snortland, AFPE
Mr. David Peske, ND Medical Association
Ms. Nancy Kopp, NDOA
Mr. Ray Gudajtes, ND Job Service

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

Minutes

Chairman Strinden called for any questions or comments regarding the February 12, 2004 NDPERS Board minutes.

Mr. Sage moved approval of the February 12, 2004 minutes with a correction showing Ms. Tabor present not absent. Ms. Tabor seconds.

Chairman Strinden called for any questions or comments regarding the February 19, 2004 NDPERS Board minutes.

Mr. Gunkel moved approval of the February 19, 2004 minutes. Mr. Sage seconds.

OASIS (Board Action Requested)

Mr. Collins indicated that at the last legislative session PERS was assigned the responsibility for the OASIS retirement plan. Presently there are three surviving members of this system. The plan has been paid for on a pay as you go basis. Staff has completed a projection of the fund for the 2005-2007 biennium and has determined that the fund is not sufficient to support the present level of benefits plus administrative expenses assuming all three members are a part of the system for the entire period. Staff estimated it will need approximately \$21,000 to support the present plan.

Mr. Collins also indicated that Job Service requested each biennium an increase in the benefit. If PERS should request an increase in payments for this system as Job Service has done in the past, it would increase the request to \$23,000

Ms. Sand moved approval of submitting a bill for a general fund appropriation to support the OASIS plan and administrative expenses for the 2005-2007 biennium and to seek an increase in benefits of \$26.66. Ms. Tabor seconds.

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

Nays:

Absent:

PASSED

Retiree Health Credit Legislation (Board Action Requested)

Mr. Collins indicated that previously the board approved the proposal of the retiree benefits committee to submit a bill to increase the retiree health credit from \$4.50 to \$5 and to request an increase in contributions to support this benefit enhancement and to pay down the unfunded liability quicker in order to support future enhancements. The board suggested that staff gather additional projections for the performance of the retiree health fund in order to determine the level of increase to request. Mr. Collins indicated that in the board materials were from tables from Segal for the planning period of 2003 to 2030.

Mr. Collins indicated that by increasing the contribution to 1.45% it will allow us to increase the credit by about 50 cents every two years if the rate of return is slightly over 10.1% whereas increasing the contribution to 1.35% will allow PERS to increase the credit by 50 cents approximately every 4 years. The cost for the employers would be an increase in contributions of \$4.5 million with \$1.2 coming from the general fund.

Mr. Gunkel moved approval of submitting proposed legislation increasing the credit to \$5 and the contribution to 1.45% for the retiree health credit program. Mr. Sage seconds.

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

Nays:
Absent:
PASSED

Law Enforcement – (Board Action Requested)

Mr. Collins indicated that at that last meeting the board reviewed a memo from staff concerning the administrative difficulties of dual membership and staffs recommendation to change the definition of an eligible law enforcement officer to someone who works 32 hours or more per week. After discussion the board requested that staff contact some of our participating entities to solicit their thoughts.

Pursuant to the above direction staff contacted all political subdivision employer groups who have either become participating employers in the law enforcement retirement program or who have inquired about the program. Staff also talked with the Bureau of Criminal Investigation. The findings were included in the board materials.

Mr. Collins indicated that staff is recommending making the change but only apply to new members and submit it for review and hearing by the legislative employee benefits committee.

Ms. Tabor moved approval of staff recommendation to make the change but only apply to new members and submit it for review and hearing by the legislative employee benefits committee. Ms. Sand seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, Smith, Tabor, and Chairman Strinden.
Nays:
Absent:
PASSED

Proposed Legislation (Board Action Requested)

Mr. Collins indicated that in the board materials were copies of the proposed bill drafts and summary of the proposals which included there proposal previously approved by the board. Mr. Scott Miller, Legal Council, provided the board with an explanation of the default provision relating to USERRA. Mr. Collins also noted the addition of language requiring background checks for PERS employees.

Ms. Sand moved approval of the bills for submission. Ms. Tabor seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, Smith, Tabor, and Chairman Strinden.
Nays:
Absent:
PASSED

Health RFP- Actuarial & Consultant Services (Board Action Requested)

Mr. Collins indicated that the RFP for actuarial and consultant services for the health plan had been issued. These services are presently provided by Deloitte. PERS practice has been to go to bid every four to six years. In the RFP it was indicated that it was the boards intention to contract whoever is selected as a result of this process for the next six years or until 2010. Staff received proposals from the following firms:

1. Deloitte
2. GRS
3. Mellon
4. Gallagher
5. Segal

Mr. Collins indicated that staff reviewed the proposals independently and rated them for all factors except price. Mr. Reinhart totaled them and determined the average. The points given to each firm was included in the board materials.

Mr. Collins indicated that based on the points staff recommended the board interview Deloitte, Gallagher and Segal at the April meeting.

Mr. Gunkel moved approval to interview Deloitte, Gallagher, and Segal at the April meeting. Ms. Sand seconds.

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

Nays:

Absent:

PASSED

Pre-Tax Purchase Payroll Deduction and the Retiree Health Insurance Credit (Board Action Requested)

Ms. Rebecca Fricke indicated that at the February Board meeting, the board approved policies relating to the implementation of the Pre-tax payroll deduction option for service credit purchases based on the recent IRS Letter Ruling. Since that meeting, an additional item has been identified that needs to be addressed as policy by the Board.

During a further review of the IRS Letter Ruling, it appears that the pre-tax payroll deduction paid by an employee can not be applied to the retiree health credit portion of the purchase cost. Ms. Fricke indicated that staff recommends to handle this payment in a similar manner as the retiree health credit portion when an individual is purchasing service through a rollover/transfer from a qualified plan. NDPERS requires an individual to make a personal lump sum payment for the health credit. Staff recommends that for individuals wanting to enter into a pre-tax monthly payroll deduction, a lump sum payment of the retiree health credit portion be required before the pre-tax agreement is entered into.

This method would accommodate both new purchase contracts and those that already have an existing contract in place that want to transition to a pre-tax payment arrangement. NDPERS staff is able to determine the remaining amount due for the retiree health credit portion on an existing contract and could administer the collection of these funds prior to accepting pre-tax payroll deductions from the individual.

Mr. Gunkel moved approval of staff recommendation to require payment by employee for the retiree health insurance credit prior to entering a pre-tax payroll deduction agreement for service credit purchases. Ms. Smith seconds.

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

Nays:

Absent:

PASSED

Retirement Consultants (Board Action Requested)

Mr. Collins indicated that at the last meeting the board narrowed the list of retirement consultants to three based upon the evaluations of the proposals.

Mr. Collins indicated that the services requested in the RFP includes retirement consulting (annual valuations, legislative proposal evaluations and general retirement consulting), conducting the five year experience study as required by statute, doing an asset/liability study

relating to our investment strategy, doing the annual evaluation of the retiree health plan and providing general consulting for our defined contribution plans.

Gabriel, Roeder, Smith and Co. appeared before the board and provided an overview of their services as it related to the RFP.

The Segal Company appeared before the board and provided an overview of their services as it related to the RFP.

Mellon Human Resources & Investor Solutions appeared before the board and provided an overview of their services as it related to the RFP.

Discussion followed.

Mr. Sage moved approval of Gabriel, Roeder, Smith and Co. for the next two years as PERS retirement consultant. Mr. Gunkel seconds.

Ayes: Gunkel and Sage,

Nays: Baetsch, Sand, Smith, Tabor, and Chairman Strinden.

Absent:

FAILED

Discussion followed.

Ms. Tabor moved approval in retaining The Segal Company as PERS retirement consultant. Ms. Sand seconds.

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

Nays:

Absent:

PASSED

Chairman Strinden called for discussion, hearing none the meeting adjourned at 12:00 PM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

North Dakota Public Employees Retirement System
Thursday, April 15, 2004
North Dakota Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Weldee Baetsch
Ms. Arvy Smith
Ms. Sandi Tabor

Via Video Conference:
Fargo

Chairman Jon Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Ms. Rhonda Peterson, BCBS
Mr. Larry Brooks, BCBS
Mr. Tom Tupa, SEA/AFPE
Mr. Howard Snortland, AFPE
Dr. Patricia Hill, ND Pharmacists Assoc.

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

Minutes

Chairman Strinden called for any questions or comments regarding the March 24, 2004 NDPERS Board minutes.

Mr. Baetsch moved approval of the March 24, 2004. Mr. Gunkel seconds.

Chairman Strinden called for any questions or comments regarding the March 25, 2004 NDPERS Board minutes.

Mr. Baetsch moved approval of the March 25, 2004 minutes. Mr. Gunkel seconds. With the following correction to the motion on page four made by Mr. Gunkel to: “*staff recommendation to require payment by employee for the retiree health insurance credit prior to entering a pre-tax payroll deduction agreement for service credit purchases.*”

Hardship Withdrawal (Board Action Requested)

Mr. Collins indicated that during the reconciling of the year-end semi-annual reports of the deferred compensation provider companies, three companies were identified as having made unauthorized in-service distributions to plan participants. This means that PERS did not have copies of any paperwork on file indicating that the PERS board had authorized these distributions. The companies were:

Hartford
Nationwide
Waddell & Reed

PERS staff accountant contacted the appointed representatives of each company and requested copies of any paperwork related to the transactions. In all cases, the paperwork submitted by the providers indicated the distribution reason as “unforeseeable emergency/financial hardship.” The applications used in all cases were the provider company forms and none had an authorized signature by PERS. Our Provider Representative Handbook, summary plan description, and our provider training materials include complete instructions on how to apply for a hardship withdrawal and stipulate that the completed application and supporting documentation must be considered by the NDPERS Board to determine whether the request meets IRC requirements for a hardship distribution.

Each of the provider companies were notified of this violation in writing and asked to give their interpretation of the issues and propose any remedies.

Each provider responded to the PERS notification of the violation those responses were included in the board materials.

Ms. Allen handed out to the board a memo with staff recommendations.

Mr. Gunkel moved approval of staff recommendation option 2. Require the provider company to reinsate the distribtuions to the affected accounts back to the date of distribtuion and including any gains or losses. Also for the PERS board to review each hardship prior to the provider requesting reimbursement from the member. Ms. Sand seconds.

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

Nays:

Absent:

PASSED

401(a) 4th Quarter 2003 Reports (Informational)

Included with the board materials was the 401(a) Defined Contribution 4th Quarter 2003 Report.

457 NDPERS Companion Plan 4th Quarter 2003 Reports (Informational)

Included with the board materials was the NDPERS 457 Companion Plan 4th Quarter Report.

Health Consultants (Board Action Requested)

Mr. Collins indicated that there were three firms had been invited to interview with the board concerning the actuarial and consulting work for the health plan.

- Gallagher Benefit Service appeared before the board and provided a comprehensive overview of their services as it related to the Request for Proposal.
- The Segal Company appeared before the board and provided a comprehensive overview of their services as it related to the Request for Proposal.
- Deloitte Consulting LLP appeared before the board and provided a comprehensive overview of their services as it related to the Request for Proposal.

Discussion followed.

Mr. Gunkel moved approval of Gallagher Benefit Services as NDPERS new Health Consultant.

Mr. Sage seconds.

BCBS Prescription Drugs (Informational)

Included with the board materials was a letter from BCBS updating the letter dated January 21, 2004, which detailed the position of BCBS related to reimbursing BCBS members for the costs of drugs imported by BCBS member into the United States from any foreign country.

Health Care Discussion (Informational)

Included with the board materials was the latest Health Care Discussion newsletter.

PERS Business Plan – 2004 (Informational)

Included with the board materials was PERS 2004 Business Plan. The board had no additions or changes to the plan for 2004.

PERS November 18, 2003 Audit Committee Minutes (Informational)

Included with the board materials was the PERS November 18, 2003 Audit Committee Minutes.

PERS Board Meeting Dates (Informational)

Included with the board material were the upcoming Board meeting dates and locations.

Chairman Strinden called for discussion, hearing none the meeting adjourned at 11:30 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

North Dakota Public Employees Retirement System
Thursday, May 20, 2004
North Dakota Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Weldee Baetsch

Via Video Conference:
Fargo

Chairman Jon Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Ms. Sharon Schiermeister, NDPERS
Ms. Rhonda Peterson, BCBS
Mr. Larry Brooks, BCBS
Mr. David Peske, ND Medical Assoc.
Mr. Tom Tupa, SEA/AFPE
Ms. Chris Runge, NDPEA AFT 4661
Dr. Patricia Hill, ND Pharmacists Assoc.

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

Minutes

Chairman Strinden called for any questions or comments regarding the April 15, 2004 NDPERS Board minutes.

Mr. Gunkel moved approval of the April 15, 2004. Mr. Baetsch seconds.

Proposed Changes in Guidelines (Board Action Requested)

Mr. Steve Cochrane and Ms. Connie Flanagan, from RIO, appeared before the Board to review a proposed wording change in the NDPERS Investment Guidelines Statement as indicated:

V. Restrictions

F. Publicly traded REITs may not be used in the Real Estate asset allocation.

This change relates to investment in a new commingled vehicle with one of the current real estate managers, INVESCO, who is creating a *private* REIT.

Mr. Gunkel moved approval of the wording change. Mr. Sage seconds.

Ayes: Baetsch, Gunkel, Sage, and Chairman Strinden.

Nays:

Absent: Sand, Smith, and Tabor.

PASSED

BCBS Overview (Informational)

Mr. Tim Huckel, from BCBSND, appeared before the board, via video conference, to review the staffing changes in upper management at BCBSND. Mr. Huckel also provided the board with an overview of how BCBSND has adapted to those changes.

Rx Update (Informational)

Mr. Collins indicated that several meetings ago the board heard a report from Prime Therapeutics about the pharmacy program and mail order purchasing. At that meeting it was suggested that the board have a follow-up presentation that provided an overview of prescription drug pricing and reimbursement as well as additional information on mail order.

Included in the board materials was a memo providing answers to the questions the board had from the February 19, 2004 presentation given by Jon Barian of Prime Therapeutics, Inc.

Mr. Jon Barian of Prime Therapeutics, Inc., BCBSND's pharmacy benefits manager, appeared before the board, via video conference, to provide the Board with education on pharmacy equation.

Smoking Cessation Program Update (Informational)

Mr. Larry Brooks of BCBSND appeared before the board via video conference to provide the Board with an update on the Smoking Cessation Program. Mr. Brooks indicated that as of May 11, 2004 twenty-four members have enrolled in the program. Twelve of the 24 members have completed the program. Mr. Brooks indicated that, to date, all 12 members who have completed the program have successfully quit their tobacco use by the end of the program.

Mr. Brooks indicated that the working group is working on ideas to increase awareness about the program to all NDPERS employees. The working group met on April 20, 2004 and proposed the following strategies:

- Create brochures/mailing stuffers about the program and include related information about smoking and its affect on health and associated costs. These items could be sent in a series of emails and/or payroll stuffers to all employees.
- The second part of the plan would include providing promotional materials or toll kits to the 15 local provider agencies and let them promote the program, along with any of their

own materials, to their regional NDPERS employer groups through educational meetings.

- Action Item – Communication with develop prototypes of the brochures and stuffers. These items are in progress.

EPO Report (Informational)

Mr. Mike Potts and Ms. Charley Hundley, from BCBSND, presented information to the board on EPO reimbursement options and provider relations.

Surplus/Affordability Update (Informational)

Mr. Collins indicated that pursuant to the renewal agreement PERS must deposit with BCBS \$6,000,000 on August 1, 2004. Staff has begun working with BCBS to develop final numbers in July.

Mr. Reinhardt provided the Board with an overview of the latest Surplus/Affordability report. The report was included in the board materials.

2003 BCBS Claims Review (Informational)

Mr. Bryan Reinhardt provided the Board with an overview of his review of accuracy of BCBS claims processing. The review findings and BCBS response was included in the board materials.

Quarterly Health Graphs (Informational)

Mr. Reinhardt provided the Board with an overview of the quarterly health graphs. The graphs were included in the board materials.

2003 EAP Utilization (Informational)

Mr. Reinhardt provided the Board with an overview of the 2003 EAP Utilization. The board asked for a clarification of the "other" category. Mr. Reinhardt indicated he will follow up with the providers and report back to the board.

2001 NDPERS Inpatient Comparison (Informational)

Mr. Reinhardt provided the Board with an overview of the 2001 NDPERS inpatient Comparison.

RFP Draft (Board Action Requested)

Mr. Collins indicated that the draft RFP for the group health insurance plan as prepared by Gallagher Benefit Services (GBS). This program was last bid out in 1998. Mr. Collins indicated that GBS has suggested that the board may want to consider adding the additional options relating to plan design:

1. It is becoming very common in parts of the country to have higher office visit copays for specialists than PCPs. They are often twice the PCP copay. To add a question asking pricing impact of such a change (although not recommended by your committee).
2. The rule of thumb for drug plans is to have the non-formulary brand copay be at least \$15 more than the formulary copay in order to optimize drug rebates. Currently PERS is only \$10. Suggestion to price the impact of a \$15 spread.
3. To ask the following question in insured medical sections: "Are you willing to unbundle prescription drugs and allow a stand-alone PBM?" "If so, what is the impact, if any, to your insured rates?"

Mr. Collins indicated that staff would not suggest #2 since the plan already has a coinsurance differential that is significant. The other questions staff would suggest be added.

Mr. Collins also reviewed the time lines for the RFP with the Board.

Mr. Sage moved approval of the draft RFP, to include suggested question #1 & #3 to the RFP, and the timelines presented. Mr. Baetsch seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

Nays:

Absent: Smith, and Tabor.

PASSED

On Line Services/Sign on Procedures (Board Action Requested)

Mr. Collins indicated that one of PERS strategic objectives has been to offer more online services to PERS members. Previously staff presented to the board the new PERS web site. The first step in the on line services was to access the annual statement. That has now been supplemented with offering members the opportunity to access the following account information:

- Retirement benefit estimates
- Disability Benefit Estimates
- Member Account Balance

Mr. Collins also indicated that staff is seeking the boards approval of the sign on procedure to access this information. Specifically the method staff is suggesting would require the member to do the following to access their information:

- Acquire a North Dakota Logon ID
- Provide their Social Security Number
- Provide their Date of Birth

Access would be granted at this point. PERS would mail a 'Welcome' letter to the address on file as a follow-up. This procedure is modified from the method originally used which required a more extensive sign on procedure and waiting up to 5 days to have a password send to the members home. This latter procedure had a high failure rate.

Mr. Arnie Seitz and Ms. Sharmain Dschaak, from PERS, appeared before the board to preview the new services and to demonstrate the proposed sign on procedures.

Mr. Gunkel moved approval of the new sign on procedures. Mr. Sage seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

Nays:

Absent: Smith, and Tabor.

PASSED

Disability Consulting Contract (Board Action Requested)

Ms. Allen indicated that the contract with Mid Dakota Clinic for disability consulting services expires June 30, 2004. The Board must determine whether to go out for bid or renew the present contract. The current contract rate is \$140.00 an hour and has been in effect since July 1, 2002. Mid Dakota clinic has indicated they wish to continue to perform these service for NDPERS at the rate of \$150 an hour for the July 1, 2004 through June 30, 2005 contract period. This is a \$10.00 an hour increase. The amount paid in consulting fees for this contract period beginning on July 1, 2003 to date is \$5,040. A copy of the current contract was included in the board materials.

Ms. Sand moved approval to renew the current contract with Mid Dakota Clinic for the period of July 1, 2004 through June 30, 2005 at the rate of \$150.00 an hour. Mr. Sage seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

Nays:

Absent: Smith, and Tabor.

PASSED

Hardship Withdrawal Compliance (Board Action Requested)

Ms. Allen indicated that at the April meeting the Board was notified that three deferred comp provider companies, The Hartford, Nationwide, and Waddell & Reed, had made unauthorized hardship distributions to active plan participants. Each of the companies was asked to respond to this issue and provide an explanation for the violation and propose any remedies.

Ms. Allen indicated that each of the companies had complied to the boards directions to:

- Distributed funds be reinstated to the affected accounts back to the date of distribution and include any gains or losses that have occurred.
- The companies were further directed to document and report the compliance with this request prior to the Board's May 20th meeting.

No further action was required.

Deferred Compensation Plan Amended Employer Administrative Agreement (Board Action Requested)

Ms. Allen indicated that changes were made to the Deferred Compensation Plan Employer Administrative Agreement as a result of the Board's decision to have deferred compensation deductions remitted to NDPERS, instead of directly to the investment provider companies by participating employers, and to make corrections or updates as a result of promulgation of new rules effective May 1, 2004. These changes were in the board materials.

Ms. Allen indicated that due to the proposed revisions, it would be necessary to request that all participating employers sign a new agreement with NDPERS. Staff is proposing this request be subject to the following schedule:

- The new agreement will be sent out by the end of May, 2004.
- The employer will be notified that the deadline to return the signed agreement to NDPERS is July 1, 2004.
- Failure to comply with this requirement will result in termination of the contract effective August 1, 2004.

The schedule is consistent with the terms cited in Section IV of the employer agreement, "This agreement may be terminated at any time by the Retirement Board or the Employer, upon 60 days written notice to the other party."

Mr. Gunkel moved approval of the proposed revisions to the Employer Administrative Agreement and the schedule. Mr. Baetsch seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

Nays:

Absent: Smith, and Tabor.

PASSED

Companion Plan Transition Update (Board Action Requested)

Mr. Collins indicated that since the board selected Fidelity as the provider for both the 401(a) and 457 plans staff has:

1. Notified all parties of the selection,
2. Started the transition process,
3. Worked with both parties to set up a transition team, and
4. Established some tentative timeframes for transfer of assets.

Mr. Collins provided the board with recommendations of the investment subcommittee on adding the following mutual funds to the 401(a) & 457 plan:

- Dreyfus Mid Cap Index
- Dreyfus Small Cap Index
- Fidelity Dividend Growth
- Fidelity Growth Company
- Add 5 year lifestyle funds (2005, 2015, 2025 and 2035)

Mr. Collins reviewed with the board the following funds that will be dropped in the 401(a) plan:

- Alger
- INVESCO
- Strong

For those members who would want to continue with these funds they could do so through the Fundsnet lineup for the 401(a) plan only. If the member did not elect to take action to go to the Fundsnet or move them to another fund prior to September 1, 2004, the money would be mapped over as follows:

- Strong to Mutual Shares A
- INVESCO to Fidelity Mid Cap
- Alger to Morgan Stanley Small Co Grwth B.

Mr. Collins indicated that in the 457 Companion plan the VALIC funds line up will be mapped over to Fidelity. The committee had proposed a mapping changes as follows:

- Strong Opportunity to Mutual Shares A
- In the 457 Companion plan the Vanguard Mid Cap Index to the Dreyfus Mid Cap Index fund.

Mr. Collins indicated that the committee also discussed how funds should be invested if a member has not indicated an asset allocation by the time the funds were received by Fidelity. Currently when a member signs up for the 401(a) plan and does not make their investment selection the money will automatically be defaulted into a fixed income fund. The committee and Fidelity has suggested that the default fund be the lifestyle funds based on the member's age. Mr. Collins indicated that there are 39 individuals who are in the fixed income fund.

Mr. Collins presented the proposed implementation timeline for the 401(a) plan and 457 plans. Mr. Collins highlighted the time frame of August 16th through the week of September 3rd as a black out period. Members would be locked out at this time. Also indicated that the beneficiary will not transfer from VALIC to Fidelity.

Ms. Sand moved approval of the mutual funds mapping and time lines. Mr. Sage seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

Nays:

Absent: Smith, and Tabor.

PASSED

Discussion followed on the default fund.

Mr. Sage moved approval to change the default fund in the 401 (a) and 457 plan to the lifestyle funds for new enrollment. Mr. Gunkel seconds.

Discussion followed.

Ayes: Baetsch, Gunkel, Sage, and Chairman Strinden.

Nays: Sand,

Absent: Smith, and Tabor.

PASSED

Mr. Sage moved approval to keep the 39 participants currently in the default option in the 401(a) stable value fund; upon transfer, change their current default election to be their elected fund option. Mr. Baetsch seconds.

Discussion followed.

Ayes: Baetsch, Sage, and Chairman Strinden.

Nays: Gunkel, Sand,

Absent: Smith, and Tabor.

PASSED

Budget (Board Action Requested)

Ms. Schiermeister indicated that in March of 2004, Governor Hoeven released the budget guidelines for the 2005-2007 biennium. He indicated that agencies would be required to submit their budget at the same funding level as the current biennium. Since that time, staff has been advised by PERS budget analyst at OMB that agencies whose funding is from special funds are encouraged, but not required, to submit their budget at the same funding level as the 03-05 biennium. The budget presented in the board materials is equal to our appropriation for the 2003-05 biennium.

Ms. Schiermeister also indicated that the budget guidelines also provide agencies with an opportunity to submit optional funding requests that are in addition to the base budget request. Staff has identified some IT projects that were not been included in the base budget request.

Ms. Sand moved approval of the base budget. Mr. Gunkel seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

Nays:

Absent: Smith, and Tabor.

PASSED

August Board Meeting (Board Action Requested)

Mr. Collins indicated that it was asked to change the August board meeting to August 30th.

The Board concurred.

Candidate Nominations (Informational)

Ms. Allen indicated that Mr. David Gunkel has been nominated by the active members and Mr. Ron Leingang has been nominated by the retiree members for election to the PERS board.

Consultant Fees (Informational)

Included in the board materials was the report showing the consulting, investment and administrative fees paid during the quarter ending March 31, 2004.

Audit Committee Minutes (Informational)

Included in the board materials was the February 12, 2004 PERS Audit Committee Minutes.

Executive Directors Evaluations

Mr. Baetsch indicated that each of the board members is to complete the evaluation and mail it directly to Chairman Strinden.

Chairman Strinden called for discussion, hearing none the meeting adjourned at 12:00 PM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

North Dakota Public Employees Retirement System
Tuesday, June 1, 2004
North Dakota Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo

Members Present:

Mr. David Gunkel
Mr. Howard Sage (Acting Chairman)
Mr. Weldee Baetsch
Ms. Arvy Smith
Ms. Sandi Tabor

Via Video Conference:
Fargo

Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Ms. Rhonda Peterson, BCBS
Mr. Larry Brooks, BCBS
Mr. Steve Cochran, NDRIO
Ms. Connie Flanagan, NDRIO
Mr. Howard Snortland, AFPE

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

Annual Investment Report (Informational)

Mr. Steve Cochran and Ms. Connie Flanagan, from RIO, appeared before the Board to review the progress of the fund and its asset allocation.

Rx Concept (Informational)

Mr. Collins indicated that included in the board materials was a suggested approach for providing prescription medications offered by North Dakota Pharmacy Board. Staff has been working with Mr. Howard Anderson and BCBS on this concept during the last several weeks. The purpose of the presentation was to review the idea and efforts to date with the board.

Mr. Tom Christensen of BCBS appeared before the board via video conference to share his observations.

Employer Based Wellness (Informational)

Mr. Collins indicated that last session the following provision was passed:

*54-21.1-14. **Wellness program.** The board shall develop an employer-based wellness program. The program must encourage employers to adopt a board-developed wellness program by either charging extra health insurance premium to non participating employers or reducing premium for participating employers.*

As discussed at previous board meetings the goal is to develop a plan of action relating to this initiative by this fall for consideration in the budget request for the health plan for 2005-2007. To assist with this effort Dr Dwelle and Ms. Arvy Smith set up a video conference with UND to discuss this challenge and seek their assistance. Since then Ms. Nancy Vogeltanz-Holm and her staff at the Center for Health Promotion, UND School of Medicine have been researching and developing a conceptual approach to implementing this provision.

Ms. Vogeltanz-Holm and Dr. Jeffrey Holm, appeared before the board via video conference to discuss the work she and her colleagues have completed.

Health Spending Accounts/High Deductible Plans (Informational)

Mr. Collins indicated that High Deductible Plans with Health Spending Accounts were recently approved by the Congress and signed by the President. This new plan design has created a lot of discussion in the benefits community.

Mr. Larry Brooks, Senior Consultant, marketing/Consulting Service, and Mr. Pat Gulbranson, Senior Analyst, Development & Business Strategies, from BCBSND appeared before the board via video conference to provide the board with an overview/implication of these plans.

Mr. Don Heilman, Gallagher Benefits Services, Inc. appeared before the board via video conference to provide the board with some of the challenges/concerns/opportunities inherent to these plans and PERS.

Constitutionality of Benefit Changes (Informational)

Mr. Collins indicated that included in the board materials was a recent letter from Mr. Scott Miller responding to a question raised by the Teacher Fund for Retirement concerning retirement benefit changes relating to new hires, current members, deferred members and retirees. In the various industry articles from around the county this has been a question that has arisen in many governmental units and is causing a lot of discussion around the nation as many plans struggle to improve their funded status. Mr. Scott Miller appeared before the board to addresses how North Dakota law relates to this issue.

Chairman Sage called for discussion, hearing none the meeting adjourned at 11:50 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

**North Dakota Public Employees Retirement System
Tuesday, June 16, 2004
Supreme Court Conference Room, State Capital, Bismarck**

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Weldee Baetsch
Ms. Arvy Smith

**Via Phone Conference:
Fargo**

Mr. Jon Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Mr. Jay Buringrud, NDLC
Mr. John Walstad, NDLC

Chairman Strinden called the meeting to order at 8:00 AM.

401(a) & 457 Plan Investment Options (Board Action Requested)

Mr. Collins indicated the first item of discussion was the decision of Fidelity to close the Low Priced Stock Fund. Since the last meeting, the Investment Subcommittee had met several times to review possible replacement funds. The committee is proposing the PIMCO Small Cap Value fund. Included in the board materials was a matrix showing the style box category the fund is proposed to fit and some information on the fund. It was also suggested that this fund be treated in the same manner as the other closed funds. It would continue to be offered in the funds window network.

Mr. Collins indicated that the question to be decided is if they should automatically maintain the election of the member in the funds window network without requiring election material or require that election be automatically mapped to PIMCO unless they make an election for the window by a specific date. Some considerations relating to this decision would be:

- let them automatically continue with the Low Priced Stock Fund without completing a Funds Net election, they may be confused as to why they couldn't invest in other Funds Net options they become aware of without filling out an election. By letting them go into the Funds Net automatically, they also have not had to acknowledge in writing that they understand the NDPERS Board neither endorses nor monitors the mutual funds available through the Mutual Fund Window, nor does NDPERS make any representation that the funds available through the window are proper investments for retirement monies.
- Allowing them to go into the Funds Net option automatically would ensure that they did not lose their eligibility to invest in the Low Priced Stock Fund inadvertently, due to an incorrect address or unread mail.

Mr. Gunkel moved approval of staff recommendation to replace the Fidelity Low Priced Stock Fund with PIMCO, with the option of the members in the low price stock being mapped automatically over to the new fund unless they complete the funds net application paper work. Mr. Baetsch seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, Smith, and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Stable Value Fund 457 Plan

Mr. Collins indicated that the stable value fund is a non allocate account with VALIC and one of the provisions in this contract is that employer directed withdrawals with that plan are limited to 20% per year so it takes 5 years for the employer to direct those funds out to another fund. There are no similar restrictions at the member lever so a member can move the money as they elect.

In August the 457 plan assets are going to move from VALIC to Fidelity. VALIC indicated that once the transfer of assets occurs they will no longer be record keeping the assets at the member level. The record keeping that VALIC would be doing on the non allocated account would be at the plan level not at the member specific level. This also means that the member would no longer receive a report on their account. Fidelity has indicated that they will not do the record keeping on a fund they do not have as part of their system.

Staff has and will continue to work with both Fidelity and VALIC to resolve this issue.

Mr. Collins informed the board that due to this issue the communication pieces to the members may be delayed and that once a plan of action is developed another special board meeting maybe necessary.

Chairman Strinden called for discussion, hearing none the meeting adjourned at 8:45 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

Minutes
North Dakota Public Employees Retirement System
Wednesday, July 28, 2004
ND Department of Health, Northbrook Mall, Bismarck
BCBS, 4510 13th Ave SW, Fargo
9:00 A.M.

| | |
|----------------------|---|
| Members Present: | Mr. Ron Leingang Mr. David Gunkel Mr. Howard Sage Ms. Arvy Smith Ms. Sandi Tabor |
| Via Video Conference | Chairman Jon Strinden Ms. Rosey Sand |
| Others Present: | |
| Via Video Conference | Mr. Sparb Collins, Executive Director NDPERS Ms. Kim Humann, NDPERS Ms. Kathy Allen, NDPERS Ms. Sharmain Dschaak, NDPERS Mr. Bryan Reinhardt, NDPERS Ms. Deb Knudsen, NDPERS Mr. Scott Miller, Attorney General's Office Mr. Tom Tupa, INDSEA Ms. Tami Wahl, AFPE/INDSEA Mr. Howard Snortland, AFPE Dr. Patricia Hill, ND Pharmacists Association |
| Via Video Conference | Mr. Larry Brooks, BCBSND |
| Via Video Conference | Ms. Rhonda Peterson, BCBSND |
| Via Conference Call | Mr. Bill Robinson, Gallagher Benefit Services |

Chairman Strinden called the meeting to order at 9:05 a.m.

Chairman Strinden welcomed new Board member, Mr. Leingang, to the NDPERS Board.

MINUTES

Chairman Strinden called for any questions or comments regarding the minutes of the June 25, 2004 meeting.

MS. TABOR MOVED APPROVAL OF THE JUNE 25, 2004 NDPERS BOARD MINUTES. MR. GUNKEL SECONDED THE MOTION.

Chairman Strinden called for any questions or comments regarding the minutes of the June 30, 2004 meeting.

MS. TABOR MOVED APPROVAL OF THE JUNE 30, 2004 NDPERS BOARD MINUTES. MR. GUNKEL SECONDED THE MOTION.

DEFERRED COMPENSATION

Fidelity Agreement (Board Action Requested)

Included with the board materials was the Fidelity Agreement. Staff and Mr. Miller, legal counsel, have worked on this agreement and Fidelity has responded satisfactorily to all concerns. Ms. Allen indicated staff had received a change to Section 4(b) on page 6 which pertains to withdrawal requests. The language in the copy with the board materials did not reflect the current procedures staff is working under and what is required for all other providers. The new language in this section now specifically states that no withdrawals will be processed until Fidelity receives written documentation from the sponsor confirming that the participant has severed employment or is otherwise eligible for distribution of benefits from the plan. This language is consistent with how the plan is currently being administered regarding withdrawals. Ms. Allen indicated the last sentence in Section 4(a) had no changes. However, Mr. Miller, legal counsel, advised staff this language is not consistent with the current language the other Provider Agreements have in place. Ms. Allen conveyed she spoke with Fidelity regarding this sentence and their legal staff does not want to change the language. Discussion followed. Ms. Allen pointed out on Schedule A, page 16 the Spartan Extended Market Index fund needs to be added. Ms. Allen indicated Fidelity added the language "as directed and approved" on page 19, #4, second bullet from the bottom.

MR. GUNKEL MOVED APPROVAL OF THE FIDELITY AGREEMENT WITH THE CHANGES IN SECTION 4(B) PAGE 6, PAGE 16 AND PAGE 19. MR. SAGE SECONDED THE MOTION.

Ayes: Leingang, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

GROUP INSURANCE

Adverse Selection Policy (Board Action Requested)

At the June meeting, the Board was informed of an issue with Cavalier Public Schools regarding its compliance with the requirements of the Employer Administrative Agreement. The school was not consistent in its policies as they apply to administration of premium contributions. At that time the Board acknowledged that Cavalier School's current policies were in violation of the agreement and that they have six months to bring their policies into compliance or its participation in the health plan will be terminated January 1, 2005. A copy of the notice to the school was included with the board materials.

Also at the June meeting, the Board directed staff to further investigate our current contract requirements to review the continued applicability of the administrative agreement terms. Staff requested assistance from our consultant, Bill Robinson, with Gallagher Benefit Services (GBS). Included with the board materials was their response. It is their

NDPERS Board Meeting

July 28, 2004

Page 3

determination that the implementation of the minimum participation and employer contribution requirements provides protections against adverse selection and, therefore, the current requirement that employer contributions be consistent for all employees should be eliminated and replaced with a requirement that the "contributions be consistent for each employee classification."

In viewing the "no cash in lieu of policy" it is GBS recommendation that we not completely eliminate this requirement. However, they do suggest that this provision be modified by limiting the cash benefit offered in lieu of participation to no more than 33% of the employer contribution as this limit would provide actuarial protection against adverse selection while making the choice much less financially attractive to the employee.

Staff proposed the Board determine whether or not to:

1. Eliminate the "consistent administration for all employees" requirement and replace it with "contributions must be consistent for each employee classification."
2. Retain the "no compensation in lieu of policy" but limit the cash benefit offered in lieu of participation to no more than 33% of the employer contribution.

Discussion followed. By general consensus, the Board directed staff to survey the participating employers in the group health insurance plan regarding the proposed policy changes to determine how many would be impacted by these changes. The Board deferred taking action on this item until the survey results are compiled.

Flu Shots (Board Action Requested)

Ms. Allen indicated at the June board meeting, the Board reviewed a letter from the Family Practice Center regarding the flu shot program they have conducted over the past years. They indicated due to the increase in costs of the vaccine they could no longer provide the flu shots free of charge. However, they did propose offering the flu shots for up to 2,200 PERS members for a flat rate of \$8,800.00. Staff identified the following options for consideration along with the pros and cons of each:

- 1) Discontinue the program.
- 2) Pay the expenses from the Wellness Benefit Program.
- 3) Charge the participants \$4.00.

Staff recommended option 3 for the following reasons:

- 1) Funding it through the wellness benefit program could establish a precedent that would jeopardize the availability of funds for other programs at the employer level.
- 2) This action is not consistent with the terms of the Wellness Benefit Program agreement between BCBS and PERS.
- 3) Staff believes participants will not view this as a negative given the reasonable cost.
- 4) PERS can provide staff to collect fees and issue receipts, and UND is willing to accept payment on this basis.

Ms. Allen conveyed that the Family Practice Center had indicated they want to continue to provide the service from its downtown Bismarck location. Mr. Sage suggested staff

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explore with UND Family Practice expanding the flu shot program to their Minot and Fargo locations for next year.

MR. GUNKEL MOVED APPROVAL OF STAFF'S RECOMMENDATION. MS. TABOR SECONDED THE MOTION.

Ayes: Leingang, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Employer Based Wellness (Informational)

Mr. Collins indicated staff has continued to move forward with developing the concept for an employer based wellness program. At the last meeting several items were discussed and approved. First, premiums will be increased by 1% and those employers having an employer based wellness program will have the premium reduced accordingly. Second, the program will be decentralized with the agencies developing their own programs that respond to the criteria established by PERS. Third, it was decided that the program should be a low intensity work requirement for the agencies and they should be given a reasonable amount of time to develop and implement it.

Staff has refined the concept further in two areas. Included with the board materials were the proposed implementation time frames and program components. If these are acceptable to the Board, staff will continue to refine each of the areas and start work on developing the wellness program requirements. By general consensus, the Board concurred with the proposed implementation time frames and program components for the employer based wellness program.

Surplus/Affordability Update (Informational)

The June 2004 surplus projection and affordability analysis for the NDPERS group medical plan were included with the board materials.

MISCELLANEOUS

Board Committee Assignments (Board Action Requested)

Mr. Collins indicated with the recently completed election the Board normally reviews and considers the committee assignments. The Board committees are: investments, audit, and benefits. State law provides that the Investment Board representative shall be made up of 3 members. The retiree member shall serve and two of the members who are elected by the active members. This means that Mr. Leingang will be on the State Investment Board and two members need to be selected. Currently Mr. Sage and Mr. Gunkel are the other members on the State Investment Board.

The second committee is the audit committee. In the past the Board chair has been appointed to this committee and one other member who has been the retiree representative. Mr. Leingang agreed to serve on the audit committee.

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The final committee is the benefit committee. Presently that committee is comprised of Ms. Tabor, Ms. Sand and Ms. Smith.

By general consensus the Board agreed that all other committee assignments will remain the same and are as follows:

State Investment Board

Mr. Leingang

Mr. Sage

Mr. Gunkel

Audit Committee

Chairman Strinden

Mr. Leingang

Benefits Committee

Ms. Tabor

Ms. Sand

Ms. Smith

Mr. Sage inquired about compensation for the committee members. Mr. Collins indicated currently the audit committee members are compensated. Mr. Sage conveyed that he felt compensation should be consistent among all committees. Mr. Collins indicated this item was discussed previously. Staff will place this item on the August board meeting agenda and will include information from prior action taken regarding committee compensation.

RETIREMENT

Implementation of Administrative Rule 71-02-05-03 (Board Action Requested)

Administrative Rule 71-02-05-03 became effective May 1 of this year. The benefit of the rule is that it allows disabled members whose accrued retirement based upon the formula is greater than the disability benefit (25% of final average) to elect an unreduced normal retirement benefit if it is higher.

It is clear when implementing this rule that for all members who become disabled after the effective date of May 1, 2004 that they have this option when reaching the normal retirement age (rule of 85 or age 65). However, there are two other groups of members for whom staff is seeking your guidance on how to apply this rule.

First are disabled members who became disabled prior to this rule but who do not meet their normal retirement age (65 or rule of 85) until after May 1, 2004. Staff would recommend that they have the option to make this determination since their eligibility to make this election is after the rule became effective.

The third group of members is those members who became disabled prior to and passed their normal retirement age (rule of 85 or age 65) prior to May 1, 2004. Staff would recommend that this group not be offered this election.

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Ms. Dschaak indicated due to this rule change, staff is actively monitoring and contacting members who are on disability offering them a chance to drop their disability and apply for retirement. Discussion followed. Ms. Dschaak indicated the following that approximately: a) 103 members are over 65 of which 7 have a higher retirement benefit; b) 7 members are past the rule and in all cases their retirement benefit is higher; c) 15 members have not met the rule yet and of those 15 their retirement benefit is higher.

MS. SAND MOVED TO CONTACT THE MEMBERS WHO BECAME DISABLED PRIOR TO AND PASSED THEIR RETIREMENT AGE PRIOR TO MAY 1, 2004 (14 MEMBERS) AND LET THEM KNOW THIS OPTION IS AVAILABLE. MR. LEINGANG SECONDED THE MOTION.

Ayes: Leingang, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

GROUP INSURANCE

Health Insurance Plan Bid Opening

The bids for the group health insurance plan were opened. Bids were received from CoreSource and Blue Cross Blue Shield.

Appeal #2004-001 (Board Action Requested)

Ms. Dschaak indicated a member is appealing the Board's policy on retroactive retirement benefit payments. In January 2001, the Board adopted a policy on back payment of retirement benefits to retirees past Normal retirement age. The member requested an exception to the board's policy due to the fact that the lump sum payment may have considerable tax implications.

The member was eligible to begin full retirement benefits August 1, 1997 when the Rule of 85 was adopted. To date, the member has not elected to begin payment today, but under IRS Code Chapter 104(a)(9), participants who have attained age 70½ are generally subject to "minimum distribution" requirements. Therefore, the member must begin drawing benefits effective September 1, 2004 to avoid potential penalties from the IRS.

Staff recommended if an exception is made to current policy, to accept method #3 outlined in Segal's January 1, 2001 letter, which states. "3. Upon application for benefits PERS would begin making the regular accrued annuity payments increased on an actuarial equivalent basis to take into account the delayed retirement date." Discussion followed.

MR. GUNKEL MOVED TO ALLOW THE MEMBER THE ELECTION TO BEGIN RECEIVING THEIR REGULAR ACCRUED ANNUITY PAYMENT THAT WILL BE INCREASED ON AN ACTUARIAL EQUIVALENT BASIS TO TAKE INTO ACCOUNT THEIR DELAYED RETIREMENT DATE. MR. LEINGANG SECONDED THE MOTION.

Ayes: Leingang, Gunkel, Sand, Smith, Tabor and Chairman Strinden

Nays: Sage

PASSED

Mr. Sage inquired if this action was a policy change. Mr. Collins recommended looking at a broader policy statement relating to this and staff to develop new language as part of an Administrative Rule change.

Other Business

➤ Conference

The National Association of Government Deferred Compensation Administrators (NAGDCA) Annual conference will be held September 10-14, 2004 in Salt Lake City, Utah. In the past the Board has approved for a Board Member to attend this conference.

MR. SAGE MOVED TO APPROVE ONE BOARD MEMBER TO ATTEND THE UPCOMING NAGDCA CONFERENCE. MS. SMITH SECONDED THE MOTION.

Ayes: Leingang, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Chairman Strinden called for any other business or comments. Hearing none, the meeting was adjourned at 10:55 a.m.

Prepared by,

Kim Humann
Administrative Assistant

MINUTES

North Dakota Public Employees Retirement System
Monday August 30, 2004
Fort Totten Room, State Capital, Bismarck

Members Present:

Chairman Jon Strinden via phone
Mr. David Gunkel
Mr. Howard Sage
Mr. Ron Leingang
Ms. Rosey Sand via phone
Ms. Arvy Smith

Absent

Ms. Sandi Tabor

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Ms. Rhonda Peterson, BCBS
Mr. Larry Brooks, BCBS
Mr. Tom Tupa, SEA/AFPE
Ms. Tami Wahl, INDSEA & AFPE
Ms. Chris Runge, NDPEA AFT 4661
Mr. Howard Snortland, AFPE
Mr. Jim Flemming, Child Support

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

Minutes

Chairman Strinden called for any questions or comments regarding the NDPERS Board minutes for July 28, 2004.

Mr. Leingang indicated a change to the minute's attendance to show that he was at the meeting instead of Mr. Baetsch.

Mr. Gunkel moved approval of the July 28, 2004, NDPERS Board minutes with the change in the attendance from Mr. Baetsch to Mr. Leingang. Mr. Sage seconds.

Health Bid (Board Action Requested)

Mr. Collins indicated that included in the board materials was the analysis of the group insurance bids from Gallagher Benefits Services (GBS). Mr. Bill Robinson, from GBS, appeared before the board and provided the board with a summary of the health bid. It was noted that two bids were received, one from BCBS and one from CoreSource. The bid from CoreSource was only for the Retiree group and it did not meet all the bid specifications.

Mr. Collins also indicated that included in the board materials was an overview of the proposed rates compared to the present billed rates and rate that are paid to BCBS.

The Board decided to proceed by reviewing each issue relating to the bid from BCBS.

The first issue was disease management.

Mr. Collins indicated that at the January 2004 PERS Board meeting, BCBS presented information relating to our plan's utilization and Dr. Dwelle appeared before the board to present information on disease management programs. BCBS information indicated that the PERS plan utilization was slightly higher than non-NDPERS plans. Dr. Dwelle indicated that disease management presented an opportunity for PERS to mitigate some of the cost increases. It was further noted that disease management programs are generally implemented for high prevalence conditions or complex conditions associated with significant variation in clinical practice or for conditions comprising high volume or high costs. This strategy directly relates to managing the cost relating to that 20% of members who consume 80% of our costs. Given this opportunity PERS included in the RFP a request for information on adding a Disease Management strategy to our plan. The information from BCBS indicates that the cost for a disease management program from Health Dialog would be \$2.98 per contract per month. Mr. Collins indicated that staff recommended that PERS continue to pursue this option by including this cost in the proposed premium and having Health Dialog appear before the board at its September or October meeting. Also, recommended that staff explore the North Carolina model as well.

Mr. Sage moved approval of staff recommendation to include the \$2.98 per contract per month in the proposed premium in the budget. Ms. Smith Seconds.

Ayes: Sand, Sage, Smith, and Chairman Strinden.

Nays: Leingang and Gunkel,

Absent: Tabor

PASSED

The second issue was a member specific wellness program.

Mr. Collins indicated that in June the board heard a presentation from Ms. Nancy Vogeltanz-Holm from the Center for Health Promotion concerning Wellness Programs. This effort was initiated in recognition of the fact that while 80% of the members only consume 20% of the costs. Something still needs to be done for this group to limit the number that may develop conditions that will result in them becoming one of the 20% that consume 80% of our costs. It

further recognized the importance of encouraging a positive lifestyle and how that relates to the health plan costs:

Ms. Nancy Vogeltanz-Holm and her staff researched for PERS effective strategies to achieve the goal of encouraging members to have a more positive lifestyle. One of the basic conclusions was to provide employees the opportunity to complete a yearly health risk appraisal and receive individualized feedback, health coaching and recommendations for improving or maintaining health. Included in the board materials was an overview of that concept. Mr. Collins indicated that staff was recommending that PERS pilot this effort in the next biennium in several of the employer groups to determine if a more intensive wellness effort such as this will help to reduce the trend.

Ms. Smith moved approval of staffs' recommendation. Mr. Sage seconds.

Ayes: Gunkel, Sand, Sage, Smith, and Chairman Strinden.

Nays: Leingang

Absent: Tabor

PASSED

The third issue was adding a mail order option.

Mr. Collins indicated that in February of this year the board heard several presentations concerning the addition of a mail order Rx option to the plan. The first presentation was from the pharmacy benefits manager Prime Therapeutics and the second presentation was from Galen Jordre of the North Dakota Pharmacy Association. Prime indicated that the pros to offering this option are that it can be convenient and less costly for the member and the plan. Mr. Jordre indicated that some of the concerns with this option are that it would be detrimental to the pharmacies, the beneficiaries they serve and the public as a whole. After these presentations it was decided to include in the RFP a provision asking for a mail order option. This has been provided by BCBS in its response. It should be noted that adding this option will not decrease the premium but could cause us to have a greater surplus if it does reduce our expected claims for prescription drugs. Mr. Collins indicated that staffs recommendation is to add the mail order to the plan as an option.

Mr. Gunkel moved approval of staffs' recommendation to add the mail order to the plan as an option. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

The third issue was the Rx benefit..

Mr. Collins indicated that during the past year the board reviewed the present Rx plan design. It was noted that the plan does not have a maximum on the out of pocket expenses for the members.

Mr. Collins indicated that there are 555 members that pay more then \$1,000 out of pocket for drugs with 21 members paying more then \$4,000. Consequently, in the RFP we included a request on the cost of adding a \$1,000 out of pocket maximum to our plan design to address this issue. BCBS indicated that this change would cost about \$1.10 per contract per month. Mr. Collins indicated that staffs' recommendation is to propose modifying the plan design to put a \$1,000 max on out of pocket for Rx.

Mr. Sage moved approval of staffs' recommendation to propose modifying the plan design to put a \$1,000 max on out of pocket for Rx at a cost of \$1.10 per contract per month. Ms. Sand seconds.

Ayes: Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: Gunkel

Absent: Tabor

PASSED

The fourth issue was the addition of a Rx rebate program for members.

Mr. Collins indicated that at the October 2003 Board meeting the Board reviewed a new pharmacy program they were putting into place for its fully insured lines of business. The program outline was included in the board materials. This program relates to the rebates PERS receive for the prescription drug business. This program was initiated to reduce BCBS's exposure to possible legal liability relating to these rebates. After consideration, the PERS Board elected not to participate in the program this biennium. In the proposed bid BCBS is requiring PERS to participate in the program as part of its contract with BCBS. In discussing this with BCBS they indicated they would waive this condition only if PERS indemnified them on this issue. Mr. Collins indicated that staffs' recommendation is to follow the BCBS proposal if they agree to indemnify PERS.

Mr. Gunkel moved approval of staffs' recommendation to follow the BCBS proposal if they agree to indemnify PERS. Mr. Leingang seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

The fifth issue was EPO reimbursement.

Mr. Collins indicated that during the last year the board directed staff to look at the EPO and how it could be changed to encourage broader participation by providers. Staff had several meetings with BCBS. It was also discovered during those meetings that some new difficulties had arisen relating to our present reimbursement methodology. BCBS appeared before the board at the May 2004 meeting to, review these issues and discuss an alternative methodology using global targeting. This alternative has been included in the proposal and would be the new method for 2005 – 2007. As part of this conversion, BCBS would again approach all providers to determine their interest. Providers in Bismarck have indicated that they would be willing to review this new method. Mr. Collins indicated that staffs' recommendation is to move to the global target reimbursement method.

Mr. Sage moved approval of staffs' recommendation is to move to the global target reimbursement method. Ms. Smith seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

The sixth item reviewed was several alternative plan designs.

Mr. Collins indicated that the Legislative Employee Benefits Committee requested some information on plan design changes and this was requested in the bid. Included in the board materials were several tables showing several plan design changes and how those changes

would affect the premiums. Mr. Collins indicated that the information will be given to the Legislature Employee Benefits Committee and executive branch.

The seventh item discussed was the expected gain for 2003-2005.

Mr. Collins indicated that for the 2005-2007 biennium GBS had projected in gain available for buy down based upon three scenarios – high, medium and low probability. The scenarios were in the board materials. Staffs' recommendation is to suggest to the Governor and Legislature to use \$14,000,000 for premium planning purposes for the 2005-2007 biennium.

Mr. Leingang moved approval of staffs' recommendation to use \$14,000,000 for premium planning purposes for the 2005-2007 biennium. Mr. Gunkel seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

The eight issue was the wellness benefit program.

Mr. Collins indicated that the Wellness benefit program has always been a part of the BCBS rate. BCBS broke this out in their bid. Staff had asked them to review this and include this as part of their administrative fee as they have done previously. Mr. Collins indicated that staffs' recommendation is to continue to include this as part of the BCBS administrative fee.

Ms. Smith moved approval of staffs' recommendation is to continue to include this as part of the BCBS administrative fee. Mr. Gunkel seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

The ninth issue is the February re-projection if fully insured.

Mr. Collins indicated that in the RFP the providers were asked if they would be willing to do a re-projection of their rates in February of the 2005 and if warranted reduce their rates. BCBS indicated they would be willing to do this in February. Mr. Collins indicated that staff recommendation is to accept this provision and do the re-projection in February of 2005 and provide that information to the legislature.

Ms. Smith moves approval of staffs recommendation is to accept this provision and do the re-projection in February of 2005 and provide that information to the legislature. Mr. Sage seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

The last issue discussed was interest on the funds held by BCBS. It was noted that prior to six years ago PERS would receive interest on all account balances. However, in an effort to reduce premium as part of the bid at that time PERS agreed to give up interest in return for a reduction of premium. With this bid it was not noted that premiums are reduced because BCBS was not paying interest. Therefore staff recommended that PERS should again request interest on all funds held by BCBS. They asked staff to pursue this issue with BCBS.

Based upon the above direction it was decided that staff should talk with BCBS about the issues and report back at the September meeting.

Rx Dakota (Board Action Requested)

Mr. Collins indicated that PERS participation with BCBS has met that the pharmacy plan has been through the Rx Dakota network. This network was developed by BCBS of North Dakota. With BCBS partnering with Prime Therapeutics it means that their Rx provider network is also available to BCBS participating groups as an alternative. Mr. Tom Christenson, Director of Pharmacy Management, A representative of BCBS appeared before the board to explain the difference between the two networks. The primary difference is that the Rx Dakota network is more comprehensive but more costly. The Prime network is less costly but not as comprehensive in North Dakota. The difference in cost between the two networks can be as much as \$2 per script and a lower AWP. This could result in a savings of \$1,000,000 or more per year.

Mr. Collins indicated that staffs' recommendation is to continue to investigate changing networks during the next several months by collecting additional information from BCBS and soliciting comments from the Pharmacy Association.

Mr. Gunkel moved approval of staffs' recommendation to continue to investigate changing networks during the next several months by collecting additional information from BCBS and soliciting comments from the Pharmacy Association.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Technical Reviews – Proposed Health Legislation (Board Action Requested)

Mr. Collins indicated that included in the board materials were the technical reviews of the proposed health legislation from Gallagher Benefit Services. These reviews will be presented by PERS staff to the Legislative Employee Benefits Committee on September 8. At that time the committee will be seeking comments from interested individuals and groups on the proposed bills. Mr. Collins indicated that GBS has identified some concerns with Bill# 22 and 43.

Bill #22

Bill #22 was submitted by Senator Mathern and would expand participation in the uniform group insurance program by permitting permanent and temporary employees of private sector employers and uninsured private citizens of the State to participate in the PERS benefit plan. One of the key provisions of the bill was to allow PERS to establish minimum requirements to reduce the potential for adverse selection. This bill has been submitted to the last three sessions and has not passed. PERS has not taken a position on the bill since the previous technical reviews by Deloitte concluded that we could underwrite new participants. PERS would underwrite new private sectors groups such that PERS would screen out unhealthy individuals and therefore limit any adverse selection. GBS has concluded:

As long as ND PERS continues to insure its health plans, it is our opinion that it must comply with HIPAA's nondiscrimination requirements. Consequently, it would not be able to "apply medical underwriting and risk-adjusted premiums" as stated in the proposed bill. Alternatively, if it decides to self-fund and allow non-governmental employees in the plan as allowed by the proposed bill, we question whether the governmental exemption would then apply.

To determine the estimated fiscal impact of not being able to medically underwrite or risk adjust new applicants would require separate actuarial analysis, which we would be pleased to do at the State's direction. However, one indication of the potential additional costs to group health plans as a result of HIPPA's impact comes from the economic impact study done by the Department of Labor and HHS. They estimated that HIPPA non-discrimination would add approximately "one percent [to] total health plan expenditures." (Federal Register, Vol. 66, No. 5, P. 1394).

Mr. Collins indicated that by not being able to underwrite it significantly changes the financial implications to the PERS plan. Based upon this the plan could be significantly affected by adverse selection resulting in rising costs to all our members. Mr. Collins indicated that *staffs' recommendation is to revise our position on this bill from being neutral to indicating that PERS cannot support this bill because of the significant possibility of adverse selection to the plan.*

Mr. Collins advised the board that staff had requested Mr. Mike Mullen, the HIPAA attorney for the state, to look at this conclusion. Mr. Mullen's agrees with GBS, and a copy of his memo was in the board materials.

Mr. Leingang moved approval of staffs' recommendation to no longer maintain a neutral position. Mr. Sage seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Bill # 43

Mr. Collins indicated that this bill allows retirees of political subdivisions who have terminated their relationship with their employer by cashing out of their employer sponsored plan to participate in the uniform group insurance plan. This issue came up during the consideration of the proposed rules and representatives from the City of Dickinson appeared before the board. They approached their local legislator to submit a bill to address this issue. Senator Wardner is the sponsor. Several concerns have been raised. The review was included in the board materials. Most significant is that it would facilitate the participation of more retirees who do not get the health credit. GBS states:

ND PERS own claim experience points out the added costs of early retirees that do not qualify for a retiree health credit. Of the 619 non-Medicare retirees on the plan in 2003, 305 (49%) had no retiree health credits. The average cost in 2003 for this group was 17% greater than the 314 (51%) of the member that had a retiree health credit due to meeting current age and longevity standards. Although not a sample size sufficient to draw any definite conclusions, it does support the general belief that retirees that are eligible for a credit are better risks than those that do not. To the extent this group grows and the costs increase due to adverse selection this would have an impact on the active employer rates

since the premium for this group is set in Section 54-52.1-02 and any costs to this group beyond the premium become a cost to the active group.

Using NDPERS' own experience and enrollment and applying BCBSND's proposed renewal rates gives some indication of the potential additional costs to the plan as a result of this proposed bill. An additional 50 early retirees that did not qualify for a retiree credit would add almost \$57,000 per year in costs to the plan. 100 new early retirees would add almost \$114,000 in new costs per year. Ultimately, these additional costs will have to be absorbed by the active employee group.

Mr. Collins indicated that GBS concludes by stating:

In conclusion, for the reasons stated above, we are concerned that this proposed bill would expand access to the uniform health program to more pre-Medicare retirees which would be harmful to the overall financial health of the program. To protect the integrity of the program, we suggest that the Board continue to apply actuarially determined and consistent standards for retiree health insurance eligibility.

Mr. Collins indicates that staffs recommendation is that PERS indicate that it cannot support this bill because of the potential for increased costs, loss of coverage and differing treatment for political subdivision employees and state employees.

Mr. Gunkel moves approval of staffs' recommendation to not support this bill. Ms. Smith seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Life Insurance Plan (Board Action Requested)

Mr. Collins indicated that the next RFP PERS has scheduled to release is the life insurance proposal. GBS will be preparing, sending and analyzing the bids. Included in the board materials was a memo from GBS providing some initial observations on the process and was seeking the Boards guidance. Mr. Robinson, from GBS, appeared before the board to review several items and suggestions, which were listed in the memo in the board materials.

The board concurred with GBS suggestions for the RFP.

Employee Assistance Plan (Board Action Requested)

Mr. Collins indicated that staff recently sent a letter to the EAP providers indicating that PERS is beginning its planning process for the 2005-2007 biennium and asked them to share their thoughts with the board concerning the program and funding. Included in the board materials were their responses. Mr. Collins indicated that at this point the critical issue for us to consider is if staff need to request an increase in the EAP premium. All providers indicated that an increase in the premium would be welcome. One indicated an increase to \$1.50 and another indicted a 5% to 7% increase. The premium for this program has not gone up in the last six years, since the programs inception. In recognition of the above staff would suggest that we request an increase of 5% to 7% from OMB.

Mr. Gunkel moved approval of a 5% increase. Mr. Sage seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

NDPERS Tobacco Cessation (Informational)

Mr. Collins indicated that the material in the board book on this program was informational. The information provided the board with an update of the program.

NDPERS 2003 Health Care Analysis (Informational)

The analysis was included in the board materials.

Surplus/Affordability Update (Informational)

The report was included in the board materials.

Child Support Payment (Board Action Requested)

Mr. Collins indicated that included in the board materials was proposed legislation from Mr. Jim Flemming, the Deputy Director/General Counsel, State Child support Office, Department of Human Services. Mr. Flemming appeared before the board to address the statutory issue relating to these payments and offered a suggested legislative remedy.

Mr. Gunkel moved that PERS not oppose this bill if language can be incorporated that is acceptable to Legal Council and the Executive Director. Ms. Sand seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Technical Comments – Retirement Legislation (Board Action Requested)

Mr. Collins indicated that the Technical Comments from Segal on the proposed retirement legislation was included in the board book. Mr. Collins indicated that two issues were identified relating to the proposed legislation in Bill52.02:

1. The proposed language relating to USERRA does not fully accomplish PERS intent
2. The cost for the proposed J&S level income option is higher than expected

Mr. Collins indicated that under USERRA the original proposal was intended to accomplish the following:

1. For veterans returning after the passage of the bill the employer may elect to pay the employee contribution for the returning veterans
2. If the employer does not make an election the bill establishes a default election that would have the employer pay the cost if they are picking up the employee contribution.
3. Allows the employer to pay for past service if they so elect.

This intent is not fully accomplished and staff recommends the following amendment:

PROPOSED AMENDMENTS TO COMMITTEE BILL NO. 50052.0200

Page 2, line 5, replace “In” with “For qualified military service after August 1, 2005, in”

Page 8, line 2, replace “In” with “For qualified military service after August 1, 2005, in”

Page 10, line 8, replace “In” with “For qualified military service after August 1, 2005, in”

The purpose of this amendment is to make it clear that all service before the date of this act would be handled pursuant to direction from the employer and would not be automatically defaulted to a payment status.

Mr. Collins also indicated that the legislature asked PERS to collect information on the potential cost impact to the state. Staff collected the following:

- OMB had 23 people with an average monthly salary of \$2,550 for a total of \$58,700. This would be the central payroll employees only. So, \$58,700 X 4% (Employee Retirement Contribution) = \$2,350 monthly or \$28,175 yearly. In addition, there are 6 non-central payroll employees (all higher education) on military leave with a total monthly salary of \$13,775. If these six are on the NDPERS system it would be an additional \$551 monthly or \$6,612 yearly. The political subs would not be included in this.

Mr. Collins noted that PERS was proposing in bill 52 the addition of a joint and survivor social security option. Staff has received some of the implementation costs of adding this option. The cost could be around \$18,000 in computer modifications alone. Staff is suggesting that due to this cost, staff is recommending withdrawing this proposal.

Mr. Gunkel moved approval of staffs' recommendation of proposed amendments to committee Bill # 52.02, and to withdraw the J&S level social security income option. Mr. Leingang seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Final Average Salary Indexing for Highway Patrol (Board Action Requested)

Ms. Allen indicated that it is necessary for the NDPERS Board to determine the rate to be used in conjunction with establishing the index factor for deferred members of the highway patrol. This is established in North Dakota Century Code 39-03.1-11(5). Staff had contacted Highway Patrol leadership for their input and recommendation. Their recommendation was included in the board materials.

Mr. Sage moved approval of the Highway Patrol recommendation that there be no final average salary indexing for the salaries of deferred vested participants. Ms. Smith seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Fidelity Implementation Update (Informational)

Mr. Collins indicated that the transition is on schedule for the transition of employee account information from VALIC to Fidelity.

Investment Policy Modifications (Board Action Requested)

Mr. Collins indicated that the PERS Investment Committee met on August 3, 2004 and reviewed the benchmarks for the 401(a) plan and Companion Plan funds. The committee recommended the following changes:

- For the balanced fund change the mix from 65/35 to 60/40 and the Russell 1000 Value to Russell 3000 Value.
- Benchmark the Fidelity Growth Company fund to the Russell 3000 Growth
- Benchmark the Fidelity Spartan Extended Market fund to the Wilshire 4500
- Continue to Benchmark the Dreyfus Small Cap to the Russell 2000 and display the S & P 600

- To modify the benchmarks for the Freedom Funds to recognize the varying allocation percentages in the fund prospectus

Included in the board materials were the investment policies with those changes.

In addition the committee reviewed the mutual fund window and noted that PERS has the option of expanding this to include all the Funds Net funds. This would enhance the number of choices in this option from about 150 to about 300 funds. The investment committee is recommending this be added.

Mr. Gunkel moved approval of the PERS Investment Committees recommendations on the benchmark changes for the 401(a) plan and Companion Plan and to expand the mutual funds window to include all Funds Net funds for the 401(a) pan and Companion Plan. Ms. Sand seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Unauthorized Withdrawals (Board Action Requested)

Hartford

Ms. Allen indicated that at the April meeting, the Board was informed about some unauthorized distributions under the hardship provisions of the deferred compensation plan. It was the Board's decision that the companies in violation would be directed "to reinstate the distributions to the affected accounts back to the date of distribution and including any gains or losses." In addition, before the companies could take any action to recover the funds they were required to give the participant the option to complete and submit a hardship application to the Board for its review."

Ms. Allen indicated that Hartford reinstated the distribution to the participant account and requested that the participant submit a hardship application to the Board. The participant declined and indicated that he was terminating employment on August 1, 2004 and planned to withdraw his account balance and that Hartford could recover the hardship distribution amount from the gross distribution. Included in the board materials were copies of The Hartford's explanation of the events as well as a written acknowledgement by the participant that this action was acceptable.

Mr. Sage moved approval of Hartford's action. Mr. Gunkel seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Waddell & Reed

Ms. Allen indicated that Waddell & Reed has attempted to get both participants to complete the necessary hardship applications for the Board's consideration. Neither individual has complied with this request. Copies of the related correspondence outlining Waddell and Reed's efforts were included in the board materials.

Mr. Sage moved to recognize that Waddell & Reed had complied with the Boards direction. Mr. Gunkel seconds.

Ayes: Gunkel, Leingang, Sand, Sage, Smith, and Chairman Strinden.

Nays: None

Absent: Tabor

PASSED

Annual Enrollment (Informational)

Mr. Collins indicated that PERS is approaching its annual enrollment season. During the last several years staff has been working on continuing to improve this process. One of the significant accomplishments has been the establishment of a standard enrollment timeframe for all programs with the exception of the EPO. The timeframe is now October 1 through November 15th and the programs that are part of the annual enrollment are Health, Life, Dental, Vision, FlexComp, and Long Term Care.

Mr. Collins indicated that this has been a major improvement in terms of focusing the communication to the member and coordinating the process. In addition last year staff used the following process for the annual enrollment.

- Packet outlining programs and procedures sent to home addresses
- Directed to download forms from PERS website
- Submit forms to payroll

This year staff is changing the process to:

- Post all enrollment information on PERS website by October 1st
- Notify members by e-mail via payroll contacts on October 1st and November 1st
- Send postcards to home addresses directing them to the PERS website
- Include a reminder with the PERS FlexComp quarterly statement

Mr. Collins indicated that staff reviewed this proposal with the payroll contacts at PERS mini payroll meeting in July and asked them for comments and suggestion by the middle of August. Staff did not receive any suggestions. Therefore staff is going to give this approach a try this year.

Administrative Rules (Informational)

Mr. Collins indicated that on July 26th our administrative rules were presented to the Legislative Administrative Rules Committee. The committee had no exceptions. This was the last step in the promulgation process. The testimony that was presented to the committee was included in the board materials.

Board Committees (Board Action Requested)

Mr. Collins indicated that at the last meeting it was suggested that staff review PERS procedures for reimbursement of board committees. The present policy was developed in the early 1990's. Include in the board materials was the information previously reviewed by the board in setting the existing policy.

Staff also asked Mr. Scott Miller, Legal Council, to review the policy and included in the board materials was his response. His conclusion was that all Board approved committees would be eligible for reimbursement.

Mr. Sage moved approval of paying all committees established by the Board (Election Committee, Audit Committee, Investment Committee and Wellness Committee). He further moved that payment for meetings of two hours or less, half day payment, and two hours or more, full day payment. Mr. Gunkel seconds.

Ayes: Gunkel, Leingang, Sage, Smith, and Chairman Strinden.

Nays: Sand
Absent: Tabor
PASSED

International Foundation of Employee Benefit Plans Update (Informational)

Mr. Collins indicated that the material in the board books was informational to provide the board with an update.

September Board Meeting (Board Action Requested)

Mr. Collins indicated that discussion had come up on moving the September 16, 2004 board meeting to a later date. The board directed staff to e-mail the board for an alternate date.

Annual Review (Informational)

Chairman Strinden provided the Board with a summary of the Executive Directors annual review.

May 12th, 2004 PERS Audit Committee Minutes (Informational)

Included in the board materials was the May 12th, 2004 PERS Audit Committee Minutes.

Chairman Strinden called for discussion, hearing none the meeting adjourned at 12:10.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

North Dakota Public Employees Retirement System
Thursday, September 16, 2004
North Dakota Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Ron Leingang
Ms. Arvy Smith
Ms. Sandi Tabor

Via Video Conference:
Fargo

Chairman Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Mr. Larry Brooks, BCBS – Fargo Location
Mr. Tom Tupa, SEA/AFPE
Ms. Patrica Hill, NDPHA
Mr. Howard Snortland, AFPE
Ms. Rhonda Peterson, BCBS
Ms. Jaycee Reisenauer, Pharmacy Student
Mr. Harvey Hanel, NDPHA
Mr. Weldee Baetsch, Former PERS Board Member

Chairman Sage called the meeting to order at 8:50 AM.

Minutes

Chairman Strinden called for any questions or comments regarding the NDPERS Board minutes for August 30, 2004.

Mr. Leingang moved approval of the August 30, 2004, NDPERS Board minutes. Mr. Gunkel seconds.

Job Service (Board Action Requested)

Mr. Collins indicated that over the past year, PERS staff has had the opportunity to assess the administrative operations of the Job Service Travelers plans. This responsibility was transferred to PERS by Job Service effective August 1, 2003.

Mr. Collins indicated that PERS administers benefits for two groups of Job Service retirees:

Travelers Annuitants: NDPERS assumed the administrative and recordkeeping services for the Job Service Travelers plan on August 1, 2003. This group is comprised of those individuals for whom annuities were purchased through The Travelers. Job Service staff performed all benefit calculations, record maintenance, benefit adjustments and administration of the COLA for this group prior to August 1.

JSND Annuitants: PERS pays this group from the Plan assets per the ASO agreement with Job Service dated October 1, 1993. Since August 1, 2003 PERS is also responsible for the administration and recordkeeping to include benefit calculations, record maintenance, benefit adjustments and administration of the annual COLA increase. At this time there are 98 members in this group.

It was the Plans understanding that when the annuity contract with The Travelers was terminated, all dollars were transferred to the Plan. However, in 2002 Travelers notified Job Service it had retained an amount that is referred to as the "paid up annuity" which includes contributions made during the period 1960 to 1971. Of the 98 retirees, 46 have a "paid up annuity" and there are five active participants eligible for these benefits. Travelers would pay the funds to the Plan so that these participants could continue to receive one benefit payment. Effective January 1, 2003, Travelers began making payments to the retirees with a paid up annuity. Because the base annuity amount was correct, it was necessary for Job Service to reduce its current payments to the participants by the amount of The Travelers payment. Total monthly "paid up" benefits paid by The Travelers are \$777.78 and range from a low of \$1.06 to a high of \$69.87 per month.

After reviewing the performance over the last year staff is recommending that PERS pursue the feasibility of system programming for PERS to assume the responsibility of generating monthly COLA checks for Travelers annuitants.

Secondly, staff is recommending that PERS negotiate with Travelers to transfer the "paid up annuity" fund to the plan assets held by the SIB.

Ms. Sand moved approval of staffs recommendation. Mr. Sage seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays: None

Absent: None

PASSED

Actuarial Audit (Board Action Requested)

Mr. Collins indicated that at the February board meeting it was noted that the last time an actuarial audit was done was in 1996 for the year ended 1995. It is generally suggested that an actuarial audit be done at least every ten years.

Mr. Collins indicated that an audit involves having another firm essentially redo a valuation in a particular year to determine if they get a similar conclusion. This is an especially important effort when you have the same consultant on your account for an extended period of time. Mr. Collins indicated that one of the advantages of doing it for the 9 year period ending in June 2004 is that it would be completed before the 5 year experience study next year, thereby assuring that the data upon which the experience study is conducted is correct.

Mr. Collins indicated that if the Board elected to do the audit for this last year three options existed to solicit these services:

1. Do a general search.
2. Since we just completed a general bid go back to the two firms that were finalist. Those firms were GRS and Mellon. Mr. Collins noted the lead actuary on the Mellon bid had recently moved to GRS.
3. Seek a bid from GRS who was a finalist in the 1st general bid and who did the last audit.

Mr. Sage made motion to request a bid from GRS to conduct the audit for review by the board at the October meeting. Ms. Tabor seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays: None

Absent: None

PASSED

Asset Valuation Method (Board Action Requested)

Mr. Collins indicated that last year the Board spent several meetings reviewing the actuarial valuation method with Segal. The conclusion of that effort was to retain the method currently being used. As noted during that discussion the adoption of a methodology that recognized 20% of any gain or loss during the 80's and 90's was likely one of the most significant actions of the board in providing for the security of the retirement plan.

Mr. Collins indicated that as a result of having several years of strong negative markets this method is causing a greater unfunded liability than the system actually has at market value. The result is that the system is showing a need for more funding than required.

Ms. Leslie Thompson from Segal joined the board meeting via conference call. Ms. Thompson discussed with the Board restarting our actuarial valuation method this year. What this would mean is that the system would continue to use the same method but value the assets at market this year and then starting next year it would restart the present valuation method. In restarting the valuation method the funded value this year would reflect the market value. In future years it would again start to reserve funds as it did in the 80's and 90's to deal with future down markets. The advantage of this is that during the current down market it would better reflect the funded status and going forward it would again start to reserve funds for future down markets assuming the future returns are over 8%.

Mr. Leingang made a motion to continue with current method. And not to restart it. Ms. Sand seconds.

Ayes: Leingang, Gunkel, Sand, Smith and Chairman Strinden.

Nays: Sage

Absent: Tabor

PASSED

Disease Management (Informational)

Mr. Collins indicated that at the last meeting the board decided to request funding to add a disease management strategy to the health plan. This was included the health RFP. BCBS responded by offering Health Dialog. Representatives from BCBS and Health Dialog appeared before the Board with an overview of the program.

Mr. Collins also mentioned that at the last meeting the Asheville project was discussed. Included in the board materials was a description of this program. The format for this type of disease management program relies upon using the services of pharmacists instead of out of state vendors. In October or November staff will ask the North Dakota Pharmacy Association to appear before the board to discuss their capabilities relative to this type of concept.

Pharmacy Association (Informational)

Mr. Collins indicated that at the last board meeting the Board discussed PERS participation in the BCBS Rx Dakota network. This network was developed by BCBS of North Dakota. With BCBS partnering with Prime Therapeutics it means that Prime's Rx provider network is also available to BCBS participating groups as an alternative. A representative of BCBS appeared before the board at the last meeting to explain the difference between the two networks. Generally speaking the primary difference is that the Rx Dakota network is more comprehensive but more costly. The Prime network is less costly but not as comprehensive in North Dakota. The difference in cost between the two networks can be as much a \$2 per script and a lower AWP. This could result in a savings of \$1,000,000 or more per year to the plan.

Dr. Patricia Hill and Harvey Hanel, RPH of the North Dakota Pharmacists Association appeared before the board to share their thoughts about changing networks. They noted that such a change could reduce the availability and accessibility of pharmacy services in North Dakota. They also questioned the estimated savings and shared with the Board one individual's experience.

The Board concurred in continuing to explore this option.

PPO Agreements (Informational)

Mr. Collins indicated that BCBS is in the process of updating all their provider contracts. As part of this effort they would like us to consider a different method for our PPO and EPO contracting. Mr. Steve Webster from BCBS appeared before the Board to discuss why they would like to move to the new format.

Mr. Collins indicated that final consideration of this issue will be a part of the final considerations of the BCBS bid.

Medicare Group (Board Action Requested)

Mr. Collins indicated that at past meetings the board has generally talked about the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The most significant component of the Act was the addition of Medicare prescription drug coverage or what is referred to as Medicare Part D. This bill requires us to make some decisions about our Medicare plan Rx benefits. Some of the issues we need to examine in the upcoming months include:

- Eliminate retiree Rx coverage under our plan
- "Wrap" our plan around the new Medicare benefits
- Keep/enhance our retiree Rx Benefits so that our plan qualifies for the 28% rebate.
- Put Rx Benefits in a separate plan
- Use employer contributions to pay for Rx coverage in lieu of other medical benefits.

- Move to a CDHC plan for Rx Benefits only

Part D becomes effective in January of 2006. In order for PERS to move forward on this staff should get help from a consultant with expertise relating to the developing federal regulations on this and has the actuarial capabilities to do any actuarially equivalent evaluations that may be required. To address this issue staff believes the following assistance may be helpful:

- Board and staff education on the bill
- Identification of the issues and decisions that need to be made
- Development of the pros and cons with each issue and potential decision.
- Actuarial help.
- Assistance to the Board in deciding which approach PERS should follow.
- Assistance in renegotiating our Medicare retiree rates and changing our plan design as appropriate.

Since the scope of the work is not fully understood staff does not believe this could be done on a fixed fee basis but rather it could be done on an hourly fee basis.

Mr. Gunkel made a motion to move forward with the effort on a fee for service basis and to utilize the PERS health consultant, GRS. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Health Insurance (Board Action Requested)

Mr. Collins indicated that at the last meeting the Board discussed the BCBS bid and identified some issues that the Board wanted BCBS to consider further. Those issues were:

- Wellness Benefit Program fee of 9 cents- BCBS did not include this amount in their administrative fee but rather broke it out separately. In the past three or four renewals it has always been negotiated as part of the administrative fee. After discussion it was decided to ask BCBS to again consider including it in their administrative fee.
- Interest on claims payment fund –Six years ago PERS lost as part of the negotiations interest on the funds in the claims payment account. PERS gave up the interest at that time in consideration of a reduction in the premium amount. The interest did not appear to be a consideration in the premium. After discussion the board felt that it was appropriate that BCBS should again start paying interest on this account.
- Rx co-insurance max – At the last meeting the board decided to request adding a co-insurance max to the plan. A question came up as to how this applied to non formulary drugs. Their response was included in the board materials.

Mr. Larry Brooks was at the meeting and indicated that BCBS position on the wellness benefit program is to keep it out of the administrative fee. Mr. Brooks also indicated that on the second issue relating to the interest on the claims payment fund, BCBS's proposal gives PERS a reduced retention rate as a result of BCBS retaining the interest.

Mr. Collins also indicated that included in the board materials was the presentation he had given to OMB and the Legislative Employee Benefits committee about the boards' considerations thus far on the health plan. This presentation will also be giving to the State Employees

Compensation Commission on September 24, 2004. Mr. Collins referred the Board to slide number 11. Mr. Collins indicated that at the last meeting a question came up about the amount the plan pays. It was noted that today 85% of expenses go to 20% of members. This is an increase from several years ago when 80% of our expenses went to 20% of our members. This is the area that a disease management program is directed at to gain some better efficiency in health care delivery for these people.

Transition Update (Informational)

Mr. Collins provided the Board with an update on the transition of the Companion plan. Included in the board materials was the education meeting schedule.

Certificate of Achievement for Excellence in Financial Reporting (Informational)

Mr. Collins informed the Board that PERS has been notified that our comprehensive annual financial report for the fiscal year ended June 30, 2003, qualified for the "Certificate of Achievement for Excellence in Financial Reporting". The Certificate is the highest form of recognition in government accounting and financial reporting. Mr. Collins indicated that Ms. Sharon Schiermeister is responsible for the development of this report and to whom the agency owes its appreciation for this accomplishment.

2005 Board Meeting Schedule (Board Action Requested)

Mr. Collins reviewed the proposed 2005 board meeting schedule and location.

Mr. Sage moved approval of the 2005 board meeting schedule. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Chairman Strinden called for other business or discussion.

Mr. Collins indicated that a special board meeting would need to be called to discuss the health insurance bid. The board concurred. The special board meeting was scheduled for October 1, 2004.

Mr. Sage asked the board for approval to attend the Super Bowl of Indexing conference in Phoenix and to pay one day of travel in December of 2004.

Mr. Leingang moved approval of the conference and one day of travel. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Chairman Strinden called for other business or discussion, hearing none the meeting adjourned at 11:40 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

**North Dakota Public Employees Retirement System
Friday, October 1, 2004
ND Department of Health, Northbrook Mall, Bismarck
BCBS, 4510 13th Ave SW, Fargo**

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Ron Leingang
Ms. Arvy Smith

**Via Video Conference:
Fargo**

Chairman Jon Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Ms. Rhonda Peterson, BCBS – Fargo
Mr. Larry Brooks, BCBS – Fargo
Mr. Tom Tupa, SEA/AFPE
Mr. Howard Snortland, AFPE

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

Insurance Department Presentation (Informational)

Mr. Collins indicated that at the last meeting the board decided to invite the Insurance Department to come to a special meeting of the Board and provide an overview of health insurance in North Dakota. Mr. Michael L. Fix, Director of Life & Health Division and Actuary, from the ND Insurance Department appeared before the board to provide them with an overview of regulation, risk retention, reserves, level of surplus and RBC issues relating to health plans in North Dakota.

BCBS Bid (Board Action Requested)

Mr. Collins indicated that at the last meeting the Board discussed the BCBS bid and the answers they gave to the questions posed. Those questions and answers were included in the board materials. The single most important issue at this time is the interest on the funds that BCBS holds during the biennium. Up until the renewal six years ago PERS use to get interest. With the renewal at that time PERS gave up the interest to get a reduction in premium because the bid came in higher then expected. At that same time they were increasing their retention from .5% to 1.5%. They reduced that to 1% for us giving up interest and in return they reduced the premium.

Mr. Collins provided the board with a presentation on fully insured/self insured. Mr. Bill Robinson of GBS appeared before the board via video conference to review the following options:

- Accepting the fully insured bid
- Self Insurance
 - With stop loss coverage
 - Without stop loss coverage

The Board discussed the advantages and disadvantages of those options.

It was noted in the evaluation that there is little difference between fully insured and self funded with stop loss. However the evaluation did indicate that the business case for continuing the fully insured arrangement was diminished when compared to self funded without stop loss. The major reason for this diminished case is that PERS does not get interest on its account. For PERS to consider such an arrangement the Century Code would need to be changed thus requiring legislative approval.

Mr. Collins indicated that staffs recommendation at this point would be to prepare an amendment to allow PERS to self fund without stop loss for consideration at the October 21st board meeting. Staff also recommended inviting BCBS to the October 21st Board meeting to provide comments on its proposal for the boards consideration.

Mr. Gunkel moved approval of staffs recommendations. Mr. Sage seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Life RFP (Board Action Requested)

Mr. Collins indicated that included in the board materials was the Life RFP. Mr. Bill Robinson of GBS appeared before the board via video conference to review the RFP and to answer questions. Ms. Allen handed out modifications to the RFP relating to certain definitions.

Mr. Leingang moved approval of the RFP with the modification. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Chairman Strinden called for discussion, hearing none the meeting adjourned at 9:30 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

**North Dakota Public Employees Retirement System
Friday, November 5, 2004
ND Supreme Court, State Capitol, Bismarck**

Members Present:

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

Others Present:

Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Mr. Guy Tangedahl, MD, UND Center for Family Medicine
Mr. Larry Shireley, ND Department of Health

Chairman Strinden called the meeting to order at 7:30 AM.

Flu Shot Clinic (Board Action Requested)

Mr. Collins indicated that the PERS annual flu shot clinic has been scheduled for Tuesday, November 9, 2004 at UND Center for Family Medicine. The concern is whether PERS and UND Center for Family Medicine should go forward with the clinic due to the shortage of flu shots. The clinic is for PERS at risk employees, retirees and their eligible family members. The following at risk categories were identified by the CDC:

- Age greater than 65
- Age 6 months to 23 months
- 2nd or 3rd trimester in pregnancy
- Chronic medical condition (asthma, emphysema, congestive heart failure, diabetes)
- Health care workers

Discussion followed.

After discussion it was suggest that, a PERS representative attend the local area flu shot coordinating group meeting on Monday, November 8th to determine if any of the other local groups need vaccine for high risk members in the high risk group. If not it was further suggested that PERS proceed with its clinic for high risk members.

The Board conquered.

Chairman Strinden called for discussion, hearing none the meeting adjourned at 8:30 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

**North Dakota Public Employees Retirement System
Thursday, November 18, 2004
ND Department of Health, Northbrook Mall, Bismarck
BCBS, 4510 13th Ave SW, Fargo**

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Ron Leingang
Ms. Arvy Smith

**Via Video Conference:
Fargo**

Chairman Jon Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Ms. Rebecca Fricke, NDPERS
Ms. Sharmain Dschaak, NDPERS
Ms. Deb Knudsen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Rhonda Peterson, BCBS
Mr. Larry Brooks, BCBS – Fargo
Mr. Tom Tupa, SEA/AFPE
Mr. Howard Snortland, AFPE
Ms. Chris Runge, NDPEA AFT
Mr. Dennis Ziner, NDPEA AFT
Mr. David Peske, ND Medical Assoc.
Ms. Tami Wahl, AFPE/INDSEA
Mr. Bill Kalanek, AFPE/INDSEA
Mr. Weldee Baetsch, Former Board Trustee
Ms. Patricia Hill, NDPHA & NDPSC
Mr. Chris Conradi, GRS
Mr. Flick Fonia, GRS
Mr. Scott Hughes R.PH, Community Care RX
Mr. David Olig R.PH, ND Pharmacy Assoc.
Mr. Tony Welder R.PH, ND Pharmacy Assoc.
Ms. Patty Kumbera, Outcomes Pharmaceutical Health Care
Mr. Curtis McGarvey R.PH, ND Pharmacy Assoc.
Mr. Bob Tueithime, ND Pharmacy, Dickinson, ND
Mr. Spencer Clairmont R.Ph., ND Pharmacy Assoc.
Mr. Dennis Johnson R.Ph., ND Pharmacy Assoc.

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

Minutes

Chairman Strinden called for any questions or comments regarding the NDPERS Board minutes for October 21, 2004.

Ms. Tabor moved approval of the October 21, 2004, NDPERS Board minutes. Mr. Sage seconds.

Actuarial Audit (Board Action Requested)

Mr. Collins indicated that included in the board materials was the information from GRS that the Board requested at the last meeting. Mr. Collins noted the savings from doing a reduced scope audit are \$8,500 (\$58,000 - \$49,500).

Mr. Chris Conradi and Mr. Flick Fornia, from GRS appeared before the board to answer questions.

Mr. Gunkel moved approval for GRS to do a full audit. Mr. Leingang seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays:

Absent:

PASSED

Pharmacy (Informational)

Mr. Collins indicated that at a previous meeting the Board heard from BCBS and Prime Therapeutics on an alternative pharmacy network in North Dakota that has lower script filling fees and a lower AWP. The savings to PERS for changing networks could be \$500,000 to \$1,000,000 per year. Those savings would all occur due to a reduction in the amount that is paid to pharmacies for their services. Mr. Collins also indicated that several meeting ago the Board heard from the Pharmacy Association on their thoughts to such a change. At that time they share some thoughts on such a change. The Board requested at that time to have them return with additional ideas on other alternatives that may provide efficiencies and cost savings to the plan.

Ms. Patricia Hill, ND Pharmacy Association, along with Mr. Tony Welder R.PH, Mr. David Olig R.PH, local Pharmacists, Mr. Scott Hughes R.PH, Community Care RX, and Ms. Patty Kumbera, CEO of Outcomes Pharmaceutical Health Care, appeared before the Board to present an alternative.

71-02-03-08 Review (Board Action Requested)

Mr. Collins indicated that PERS received a letter from a participating employer concerning the consistency of PERS Administrative Rule with the Century Code. The letter was included in the board materials. Mr. Collins indicated that the purpose in enacting the provision was that the sick leave purchase is highly subsidized by the retirement plan. The concern is that without a limit, an employer could adopt a highly liberal sick leave accrual policy (for example 20 or more hours per month) as a benefit for their employees, which would require substantial subsidies from the retirement plan.

Mr. Mike Sandal, Director of Human Resources, Supreme Court, appeared before the Board requesting the rule be modified from eight hours to twelve hours and indicated the rule may not be consistent with the statute.

After discussion it was suggested that PERS seek an opinion from our attorney on whether or not the rule is consistent with statute. If it is determined not to be consistent then the limit would

not apply and staff should bring a new proposal forward for the boards consideration as part of the legislative package for 2007.

Mr. Gunkel moved approval for staff to request a review of this from Mr. Scott Miller, Legal Council, Attorney Generals Office. Ms. Tabor seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays:

Absent:

PASSED

Medicare Rx (Board Action Requested)

Mr. Collins indicated that at the previous meeting the Board approved hiring GBS to help with the Medicare Rx implementation effort. Staff is proposing that the next step would be to form a retiree subcommittee to review the issue and develop recommendations. Staff has suggested the following Members for the committee:

PERS retiree representative - Ron Leingang
AFPE representatives (2)
NDPEA representatives (2)
NDEA representative (1)
TIAA/CREF representative (1) as appointed by Higher Education
TFFR representative (1)

Mr. Collins indicated that the following goals would be:

- To appoint this committee by the beginning of December.
- The next step would be a presentation by GBS providing background on the new law.
- With this background the committee would begin its work and be asked to report back its findings to the board at its February or March meeting. The task for the committee would be to define the alternatives for implementation of the Medicare Rx, identify the advantages and disadvantages of each and develop a recommendation.

Ms. Sand moved approval of staffs suggested committee. Ms. Tabor seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays:

Absent:

PASSED

PPO Agreement (Board Action Requested)

Mr. Collins indicated that at the September meeting Mr. Steve Webster from BCBS appeared before the board on the change in the PPO Agreements. Mr. Webster reviewed with the Board that BCBS is in the process of updating all their provider contracts. As part of this effort they would like PERS to consider a different method for the PPO and EPO contracting. Included in the board materials was the new format that would be used instead of PERS signing each provider agreement.

Mr. Collins indicated that the Board deferred action on this until the renewal was approved. The renewal was completed at the October board meeting. BCBS is looking for the boards' decision on the new method for the PPO and EPO contracting.

Ms. Tabor moved approval on the new method for the PPO and EPO contracting. Mr. Gunkel seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays:

Absent:

PASSED

2002 NDPERS Inpatient Comparison (Informational)

Mr. Reinhardt indicated that the 2002 comparison of NDPERS inpatient claims with the Nation Hospital Discharge Survey was included in the board materials. Mr. Reinhardt indicated that overall, NDPERS has about 67.9% of the 2002 national average inpatient hospital episodes.

Quarterly Health Graphs (Informational)

Mr. Reinhardt provided the board an overview of the quarterly health graphs for the 2nd quarter of 2004. The report was included in the board materials.

Deferred Comp Provider Training Compliance (Board Action Required)

Ms. Allen indicated that since the board materials were sent out, all providers have satisfied the training requirements specified in the NDPERS administrative contract. And no board action is necessary.

Proposed Legislation (Board Action Required)

Mr. Collins indicated that the Legislative Employee Benefits Committee met on October 26 and took actions on the proposed legislation. All of the bills got a favorable recommendation except proposed bill #55 relating to the retiree health credit. The reason for the unfavorable recommendation was the requested increase in contributions from 1% to 1.45%. Another bill was submitted to the committee concerning PERS and a members ability to return to work after retiring. Staff has referred this bill to Segal for an actuarial and technical review and will discuss it further at the December meeting.

Mr. Collins indicated that Staffs recommendation is that the board approve submitting all the PERS proposed bills to the Legislative Council (50052, 50053, 50054, 50055 & 50056) for consideration by the upcoming legislative session. Staff is suggesting that the Health Credit bill also be included with the proposed legislation for next session because staff has also requested that the Governor fund the increase in his recommended budget. If he does include this in his recommendation it would provide a lot of support for the bill and respond to the concerns of the Employee Benefits Committee. If the bill is not submitted a situation could arise where the Governor included it in his budget but there would not be a bill before the next session to enact the change.

Ms. Tabor moved approval submitting all bills. Mr. Sage seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, and Chairman Strinden.

Nays:

Absent: Smith

PASSED

NDPERS Personnel Policy Manual (Board Action Requested)

Ms. Allen indicated that a revision to the Personnel Policy Manual needs to be made as a result of a review of the risk management policy regarding computer access and security. The first paragraph outlines a policy already in place. The second paragraph was added to address computer access for employees on who take a leave of absence. This policy will be a new subsection under section 2 of the manual:

2.12 Computer Access – It is NDPERS policy that all new employees must read and sign an acknowledgement that they understand and agree to the provisions governing computer access prior to access being granted. These guidelines are referenced in subsections 2.6, 2.7, 2.8, 2.10 and 2.11 of this section.

If you are on an approved leave of absence (LOA) that exceeds thirty (30) days, system access will be terminated unless otherwise authorized by your supervisor if it is determined that continued access should be allowed based on a business related reason. For those occurrences in which access is terminated, upon return from the LOA the employee will be required to sign a new acknowledgement.

Ms. Sand moved approval of revisions. Mr. Gunkel seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, and Chairman Strinden.

Nays:

Absent: Smith

PASSED

Chairman Strinden called for any additional items.

Mr. Gunkel requested a special board meeting to review and compare the different programs presented over the last several months on Pharmacy and Disease Management. Ms. Tabor conquered with this request. Mr. Collins indicated that staff will solicit the board via e-mail for dates in December.

Chairman Strinden called for discussion, hearing none the meeting adjourned at 11:30 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*

MINUTES

**North Dakota Public Employees Retirement System
Thursday, December 16, 2004
ND Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo**

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Ron Leingang
Ms. Sandi Tabor

**Via Video Conference:
Fargo**

Chairman Jon Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Cheryle Masset-Martz, NDPERS
Ms. Deb Knudsen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Rhonda Peterson, BCBS
Mr. Larry Brooks, BCBS – Fargo
Mr. Tom Tupa, SEA/AFPE
Mr. Howard Snortland, AFPE
Ms. Chris Runge, NDPEA AFT
Mr. David Peske, ND Medical Assoc.
Mr. Weldee Baetsch, Former Board Trustee
Ms. Patricia Hill, NDPHA & NDPSC
Mr. Bill Lardy, NDPEA/SHIX
Mr. Carl Rodlund, AFPE
Mr. Gary Rath, NDEA
Mr. Lowell Latimer, NDTFFR
Mr. Joseph Westby, NDEA
Ms. Mary Schwab, Job Service

Chairman Strinden called the meeting to order at 8:35 AM.

Minutes

Chairman Strinden called for any questions or comments regarding the NDPERS Board minutes for November 5th and November 18, 2004.

Mr. Leingang moved approval of the November 5th and November 18, 2004, NDPERS Board minutes. Ms. Tabor seconds.

Adverse Selection (Board Action Requested)

Mr. Collins indicated that this last summer the Board started a discussion of the following policy relating to the health plan:

“Premium contribution by the Employer on behalf of eligible participating employees must be administered consistently for all members. The Employer may not provide any monetary compensation to any employee in lieu of participation in the Plan.”

These discussions started because of a situation that came up in one of PERS participating political subdivisions that allowed cash in the equivalent of the premium to go into a 125 plan and then be cashed out. At that time, the board concluded the above policy is still applicable but asked staff to investigate and develop a proposed policy to more clearly define what is meant by “monetary compensation ... in lieu of participation” contained in the last sentence. At a subsequent meeting the board discussed this issue with Bill Robinson from GBS and he indicated that based upon his experience, plans such as ours limit the amount that can be offered in cash for not participating to about 25% to 33% of the premium. He indicated that this was the actuarial equivalent. Staff suggested that we develop such a policy for PERS and apply it to each classification of employee. At that time, the board asked us to survey our participating political subdivisions to determine the use of 125 plans, cash in lieu of policies and what the reaction would be if the policy was adopted. Included in the board materials is a memo from Ms. Cheryle Masset, providing the findings relating to two surveys conducted.

Ms. Masset appeared before the Board to review the survey results and comments. The survey results and comments were included in the board materials.

Mr. Sage made motion for staff to modify the policy on the health insurance premium for the cash in lieu of to the 25% -33%. Ms. Sand seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, and Chairman Strinden.

Nays:

Absent: Smith

PASSED

Ms. Tabor made motion for staff to change the language in the administrative policy to include “each classification”. Mr. Gunkel seconds.

Discussion followed.

Ms. Tabor withdrew her motion. Mr. Gunkel withdrew his second.

Suggestion followed for staff to consult with Gallagher Benefit Services to draft a couple of statements and bring them back to the Board for approval.

Medicare Rx (Informational)

Mr. Collins indicated that the members of the Medicare subcommittee appointed by the board were present. Mr. Bill Robinson of Gallagher appeared before the Board via video conference. Mr. Robinson provided the Board with an overview of the Medicare legislation and options for the Medicare Rx provision in the PERS retire health plan. Mr. Collins indicated that the subcommittee will begin their meetings in January of 2005.

Smoking (Board Action Requested)

Mr. Collins indicated that included in the board materials was an update report from BCBS on the Smoking Cessation program. Mr. Collins indicated that several emails and payroll staffer were sent to employees. Staff and BCBS have reviewed the low utilization of this plan and with only the first quarter of next year left on this program they believe that changing the reimbursement for the last quarter from the following:

- Counseling program - \$200 per member completing 8 weeks
- Physician's office visit – 75% of member paid amount, not to exceed \$50.00 (Receipt must be presented to counseling program)
- Prescription drugs – At occurred expense rate based on receipts provided by member through counseling program *75%.
- OTC nicotine replacement – At occurred expense rate based on receipts provided by member through counseling program * 75%
- Medications are limited to \$500 total. (\$375 from the plan and \$125 from the individual)

The plan (NDPERS/BCBSND) will not be responsible for any cost share amounts for cessation medications above \$375. Those will be the responsibility of the individual.

To:

One hundred percent (100%) of the cost of the program (Physician office visit and Prescription Drugs) up to a maximum of \$500 for each member enrolling by the end of January.

Mr. Collins indicated that BCBS will develop a promotional campaign announcing this change around the theme of "New Years and New Start". Emails and post cards will be sent to all state employees by the end of the year.

Mr. Sage moved approval of the above change though the end of February. Ms. Sand seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, and Chairman Strinden.

Nays:

Absent: Smith

PASSED

Surplus/Affordability Update (Informational)

Mr. Reinhardt provided the Board with an overview of the latest Surplus/Affordability report. The report was included in the board materials.

Purchase of Sick Leave (Board Action Requested)

Mr. Collins indicated that in the mid 1990's the legislature authorized employees to purchase sick leave in the retirement system at a rate of 8.12% of final average salary. One of the items discussed by PERS in proposing this legislation was whether such purchases should be on a pretax basis or after tax basis. At that time the method of doing it on a pretax basis would have

required all employees to purchase the sick leave at termination. In recognition that some may not want to purchase their unused sick leave as retirement credit we did not propose a mandatory election as part of the bill. Consequently sick leave purchases are done on an after tax basis.

Recently staff asked Segal to again review our options. There response was included in the board materials. Mr. Collins noted that option #1 is what was considered in the past and was not pursued. However option #2 and #3 are new. #3 would require a statutory change since only active employees can purchase. Presently the sick leave payment is in the final check and if it was transferred to the 457 plan it would be after an employee terminated. Option #2 has the limitation that it is subject to the permissive service rule.

Mr. Gunkel moved approval for staff to further look at all the options provided by Segal and to explore option 2. Ms. Tabor seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, and Chairman Strinden.

Nays:

Absent: Smith

PASSED

Employer Based Wellness Plan (Informational)

Mr. Collins indicated that included in the board materials was the presentation on the proposed implementations of the employer based wellness plan. This presentation was given to the employee benefits subcommittee. The presentation reviewed the actions of the board at the July and August meetings. The information was also mailed to the members who were unable to attend. Since the committee membership includes some of our participating employers we were seeking their thoughts on the reasonableness of the proposed implementation. All comments were positive, along with one written comment which was included in the board materials.

Employee Based Wellness Program Initiative (Informational)

Dr. Nancy Vogeltanz-Holm and Jeff Holm appeared before the Board via video conference. They presented information on the proposed employee based wellness pilot project.

Legislative Health Insurance Study (Informational)

Mr. Collins indicated that included in the board materials was the final report of the Legislative Employee Benefits Committee concerning the interim study of the health insurance plan pursuant to the study resolution passed by the last legislature.

Proposed Legislation (Board Action Requested)

Mr. Collins indicated that included in the board materials was the two bills that have been submitted in the last several weeks relating to the PERS retirement plan and the Retiree health credit. Bill # 50248.01 relates to the retiree health credit program and provides the retiree health insurance credit may be applied to premium payments for any health insurance coverage selected by the retiree, rather than just to the PERS uniform group health insurance coverage program for retirees. The second bill is # 50201.01 and allows employees, who are eligible for normal retirement benefits to retire, begin receiving benefit payments, return to PERS-covered employment without suspension of benefit payments and elect to waive further participation in PERS. The legislative Employee Benefits Committee met on December 7 to review these bills. They took jurisdiction over the bills, reviewed the technical and actuarial reports, which were included in the board materials, and decided to meet again in the first week of the session to take action on the bills.

Bill # 50248.01- Relating to the retiree health credit

Mr. Collins noted the following issues relating to Bill # 50248.01:

- As presently drafted the bill is not actuarial sound since it does not provide funding for the additional benefit. The required additional contribution to support this benefit is .12% of payroll. This is approximately an additional 1.2 million a biennium in additional employer contributions.
- To support this program PERS would need to modify its computer software at a cost of about \$40,000. This would be a one time cost. The bill does not provide for this appropriation.
- Staff will need to authorize payments of the credit to other carriers based upon the member submitting a claim. This will require staff to review each claim, approve it and set it up for payment or reject it and send it back to the member. This could require processing 2,100 or more claims per month. To support this for the next biennium it would require the following:

| | |
|---|----------|
| • SALARY & WAGES | |
| • New .5 FTE (Grade 7) | \$38,000 |
| • | |
| • TOTAL | 38,000 |
| • | |
| • OPERATING EXPENSE | |
| • Data Processing | |
| • Network Access Charge (\$29/person/month) | 696 |
| • EDMS User Fee (\$22/person/month) | 528 |
| • Telephone | |
| • Basic phone service (\$28.00/person/month)+installation | 722 |
| • Long distance (2% increase) | 257 |
| • Office Rent (2% increase) | 3,454 |
| • Office Supplies (2% increase) | 672 |
| • Computer software | 600 |
| • TOTAL | 6,929 |
| • | |
| • EQUIPMENT | |
| • Office furniture | 2,500 |
| • Chair | 600 |
| • Computer | 1,300 |
| • TOTAL | 4,400 |
| • | |
| • TOTAL COSTS | \$49,329 |

The bill does not presently provide for this effort.

Mr. Collins indicated that staffs recommendation is to offer an amendment to the bill to address the above and indicated that PERS opposes the bill unless it is amended to be actuarial sound and provide for the necessary administrative support and if amended PERS take a neutral position.

Mr. Sage moved approval of staffs' recommendation. Mr. Leingang seconds.

Ayes: Leingang, Gunkel, Sage, and Chairman Strinden.

Nays:

Absent: Sand, Smith, and Tabor
PASSED

Bill # 50201.01 relating to retirement

Mr. Collins noted the following issues relating to Bill # 50201.01:

- The bill needs to be clearer on whether or not is both the employer and employee contribution that would not be paid if the member waives participation.
- The bill should clarify that a member can waive only if they are returning to work with a new employer.
- The bill should make it clear that when the member waives participation they are also waiving participation in the retiree health program.
- The bill should address the ADEA issue and specifically provide that a member may waive participation in PERS only if they waive they execute and ADEA waiver.
- The bill should provide guidance in how the benefits under 54-52.1 (health, life, dental, vision and LTC) should be administered for a member that waives.

Mr. Collins indicated that staffs' recommendation is to support the bill subject to the above clarifications.

Mr. Sage moved approval of staffs' recommendation. Mr. Gunkel seconds.

Ayes: Leingang, Gunkel, Sage, and Chairman Strinden.

Nays:

Absent: Sand, Smith, and Tabor

PASSED

Job Service SPD (Board Action Required)

Ms. Allen indicated that included in the board materials for your review and approval was the revised Summary Plan Description for the Job Service Retirement Plan. There have been no material changes to the plan of benefits. Revisions include:

- Changing Job Service of North Dakota references to NDPERS,
- Including standard introduction used in our other benefit books.
- Incorporate information about QDROs and our confidentiality policy.

Mr. Sage moved approval of the changes to the SPD. Mr. Gunkel seconds.

Ayes: Leingang, Gunkel, Sage, and Chairman Strinden.

Nays:

Absent: Sand, Smith, and Tabor

PASSED

Fargo Retirement Plan (Board Action Required)

Mr. Collins indicated that the North Dakota Century Code allows political subdivisions to join the PERS plan and each year our plan grows as a result of this provision. Generally plans join and prospectively start to accrue benefits. Since there is no past service liability they join and are charged the regular rate of 9.12%. However the law allows the following:

3. Notwithstanding any other provision of this chapter, a political subdivision of this state not currently participating in the public employees retirement system may not become a participant in the retirement system until an actuarial study is performed under the direction of the board to calculate the required employer contribution. The required employer contribution must be an amount determined sufficient to fund the normal cost and amortize any past service liability over a period not to exceed thirty years as determined by the board. Any fees incurred in performing the actuarial study must be paid for by the political subdivision in a manner determined by the board.

The city of Fargo is considering joining the PERS plan and purchasing its past service liability. Since this is a new situation staff wanted to advise the board of it and how they were proceeding.

Mr. Gunkel moved approval for staff to move forward. Mr. Leingang seconds.

Ayes: Leingang, Gunkel, Sage, and Chairman Strinden.

Nays:

Absent: Sand, Smith, and Tabor

PASSED

Deferred Comp Plan (Board Action Requested)

Mr. Collins indicated that when the EGTRRA provisions were implemented in 2001, we elected to defer including in our plan the ability to accept rollover contributions from an eligible retirement plan (other than a 457 plan). At the time, we noted that the final regulations providing guidance on this matter had not been completed and there could be some administrative complexity for our providers since it would require separate accounting. The final regulations have been completed and staff is now seeking the board's direction on whether or not to add this option to the plan. If so, staff would suggest the following steps:

- Ask Segal to draft a plan amendment.
- Send the plan amendment to our providers and ask for their comments.
- Review the comments and make a final decision on the plan amendment.

Mr. Gunkel moved approval staff recommendation. Mr. Sage seconds.

Ayes: Leingang, Gunkel, Sand, Sage, and Chairman Strinden.

Nays:

Absent: Sand, Smith, and Tabor,

PASSED

Companion Plan Transition (Informational)

Mr. Collins indicated that since the transition of the Companion Plan to Fidelity in August, staff has tracked the number of transfer requests. At this time 239 individuals have transferred out of the Companion Plan, with the majority of these accounts going to AIG VALIC. This is approximately \$1.8 million in funds.

Included in the board materials is a report of the total assets in the Companion Plan by quarter beginning in 2003 and through September 2004. As the funds transferred out of Fidelity did not occur until after September, this change in the fund balance will be reflected in the 4th quarter report.

Defined Contribution Plan (Informational)

Mr. Collins indicated that to assist and encourage the defined contribution members to actively plan for retirement, two years ago PERS sent a letter and worksheet to all our DC plan members. As a starting point we filled in the worksheets for each of the DC plan members with the information that we have relating to the DC plan. This year we again sent material to our members. The materials were included in the board materials. Mr. Collins indicated the following findings:

- Two years ago 52 (21%) out of 248 members were showing as adequately saving for retirement. This year 35 (14%) out of 249 members were adequately saving for retirement.
- Two years ago the shortfall averaged about \$11,186 per person in the plan. This year the shortfall averaged about \$11,664 per person.
- For this year the shortfall broken down by age is:

| Age | # | \$'s | Average |
|-------|----|-------------|----------|
| 28-39 | 89 | \$143,820 | \$1,616 |
| 40-49 | 81 | \$614,681 | \$7,589 |
| 50-54 | 24 | \$635,460 | \$26,478 |
| 55+ | 20 | \$1,102,133 | \$55,107 |

- Of the 214 people that have a shortfall 50% or 106 of them participate in the deferred comp program.

Deferred Compensation – New Provider (Informational)

Ms. Allen informed the Board of a new provider has met the requirements to provide services under the State’s deferred compensation plan. American Trust Center has submitted a signed Provider Administrative Agreement along with 56 completed and signed applications (the requirement is 50) which have been verified and are ready for authorization by PERS. American Trust Center is a North Dakota chartered trust company owned equally by American State Bank, Dickinson and Bank Center First, Bismarck. American Trust Center’s product consists of no-load mutual funds. The menu of investment options includes funds in all major asset classes. The product is being offered through Investment Centers of America. Ms. Allen handed out a menu of their investment options. The effective date of participation is January 1, 2005.

457 Companion Plan & 401(a) Plan 3rd Quarter 2004 Reports (Informational)

Mr. Reinhardt reviewed the 457 Companion Plan & 401(a) Plan 3rd Quarter 2004 Reports with the Board. The reports were included in the board materials.

Governors Budget Recommendation (Informational)

Mr. Collins indicated that on December 8, Governor Hoeven released his budget recommendation. The following are his recommendations relating to PERS:

Health Insurance

The following was the request on the health plan:

| | |
|----------------------------------|----------------|
| ■ BCBS Bid | \$579.33 |
| ■ Other Initiatives | 4.54 |
| □ Less possible buy down & other | (24.72) |
| ■ _Estimated total | \$559.15 |

- Employer Wellness Incentive

5.59
\$564.74

The Governors proposed funding level is \$559.15 this includes the following initiatives proposed by the board:

- Disease Management \$2.98
 - Wellness Pilot \$.41
 - Rx Max \$1.15
- \$4.54

It does not include the additional 1% give back to state employers if they have a wellness program.

Employee Assistance Program

We had requested an increase from \$1.35 and we had requested an increase of 5%. The Governors requested funding level is \$1.42

Retiree Health Plan Increase

We had requested an increase in contributions from 1% to 1.45%. The Governor recommendation did not include this improvement

Administrative Budget

The Governors recommendation on the administrative budget for the agency included all our optional budget requests except our requested equity adjustment.

Chairman Strinden called for any additional items, hearing none the meeting adjourned at 11:30 AM.

Respectfully Submitted

Denise A. Curfman

Denise A. Curfman
Secretary, NDPERS Board