

# MINUTES

## North Dakota Public Employees Retirement System

Thursday, December 15, 2005  
ND Association of Counties, Bismarck  
BCBS, 4510 13<sup>th</sup> Ave SW, Fargo  
8:30 A.M.

Members Present: Mr. Ron Leingang  
Ms. Arvy Smith  
Ms. Sandi Tabor

Via Video Conference: Ms. Rosey Sand

Members Absent: Mr. Howard Sage  
Chairman Jon Strinden

Others Present: Mr. Sparb Collins, Executive Director, NDPERS  
Ms. Kim Humann, NDPERS  
Ms. Cheryl Stockert, NDPERS  
Ms. Kathy Allen, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Ms. Deb Knudsen, NDPERS  
Ms. Sharon Schiermeister, NDPERS  
Ms. Jamie Kinsella, NDPERS  
Mr. Leon Heck, NDPERS  
Mr. Scott Miller, Attorney General's Office  
Mr. Bill Kalanek, AFPE/INDSEA  
Ms. Gisele Thorson, NDPEA  
Mr. David Peske, ND Medical Association  
Mr. Aaron Ness, Eide Bailly  
Ms. Patricia Hill, ND Pharmacists Association  
Ms. Nancy Kopp, ND Optometric Association

Via Video Conference: Mr. Larry Brooks, BCBSND  
Mr. Kevin Schoenborn, BCBSND  
Mr. Gary Dauenhauer, BCBSND  
Mr. Mark Tschider, BCBSND  
Mr. Tom Christensen, BCBSND  
Ms. Cindy Fischer, BCBSND  
Ms. Kamie Kueneman, Prime Therapeutics  
Mr. Karl Froese, Prime Therapeutics (phone)  
Mr. David Lassen, Prime Therapeutics (phone)  
Mr. Craig Mattson, Prime Therapeutics (phone)

Chair Sandi Tabor called the meeting to order at 8:35 a.m.

**MINUTES (Board Action Requested)**

Chair Tabor called for any questions or comments regarding the minutes of the October 26, 2005 planning meeting and the November 22, 2005 Board meeting.

**THERE BEING NONE, MR. LEINGANG MOVED APPROVAL OF THE OCTOBER 26, 2005 PLANNING MEETING AND NOVEMBER 22, 2005 NDPERS BOARD MINUTES. MS. SMITH SECONDED THE MOTION. THE MINUTES WERE APPROVED.**

**AUDIT REPORT**

Mr. Ness from Eide Bailly reviewed the audit report of the ND Public Employees Retirement System. They audited the financial statement of the business-type activities and fiduciary funds of NDPERS. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The Board questioned whether SAMIS should now be referenced as PeopleSoft in this report as this is the software used by the state of North Dakota for accounting purposes (refer to page 53 of the Report). Mr. Ness stated it was a pleasure working with NDPERS.

**IT PROJECT (Board Action Requested)**

Mr. Collins stated that PERS staff has met with ITD regarding the conversion of the current outdated mainframe system. PERS is at the point where we need to hire a firm to assist us in taking a look at the feasibility of this project, assist us in hiring a vendor, provide project management, and stay on through to the completion of the project. The firm we hire is an important initial step. To assist in the selection process of this firm, it was suggested that we retain a consultant to provide technical expertise in preparing the scope of work, soliciting firms, evaluating the responses and doing background research on candidate firms. Staff indicated that if this approach was acceptable, an RFP would be issued to the list of ITD approved consultants. Staff also asked for approval to retain the consultant based on staff review.

**MS. SMITH MOVED TO PROCEED AS RECOMMENDED BY STAFF. MS. SAND SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nays:** None

**PASSED**

## **RETIREMENT**

### **Fiduciary Review**

Mr. Miller presented the Board with information entitled "Fiduciary Responsibility, A Matter of Trust", based on the Board's request at the planning meeting on October 26, 2005. The Board, acting as trustees, is responsible to the fund's beneficiaries. A trustee's responsibility is the highest standard of duty implied by law. Mr. Miller distributed a fact sheet from the Attorney General's Office regarding Liability of State Employees. The Constitutionality of Benefit Changes information will be presented at the January Board meeting.

### **Job Service (Board Action Requested)**

Chair Tabor stated the Investment Committee recommended that Steve Cochran from RIO and Paul Erlendson from Callan present information to the Board at the January and February meetings regarding the fact that 20% of the Job Service retirement asset fund is invested in timberland.

**MS. SAND MOVED TO APPROVE THE RECOMMENDATION BY STAFF THAT STAFF FROM THE RETIREMENT AND INVESTMENT OFFICE AND CALLAN PRESENT TO THE BOARD AT THE JANUARY AND FEBRUARY MEETINGS REGARDING THE JOB SERVICE PORTFOLIO. MS. SMITH SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor

**Nays:** None

**PASSED**

### **Asset/Liability Study (Board Action Requested)**

Mr. Collins reported that last summer SEI reviewed an asset/liability report for PERS with the Board. The Investment Subcommittee discussed this report at the last meeting. SEI recommended we maintain our existing asset allocation, but their study recommends the capital market assumptions be updated. The investment policies were updated accordingly.

**MR. LEINGANG MOVED TO ACCEPT THE RECOMMENDATION THAT WE MAINTAIN OUR EXISTING ASSET ALLOCATION AND REVISE OUR CAPITAL MARKET ASSUMPTIONS. MS. SMITH SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor

**Nays:** None

**PASSED**

**Investment Policies (Board Action Requested)**

Mr. Collins stated the PERS Investment Subcommittee, along with Steve and Connie from the RIO staff, have updated the Investment Policies and is submitting them to the Board for approval. Mr. Collins reviewed with the Board the changes, including those found on page 5 relating to timberland. Mr. Miller stated the timberland investment has done well. Ms. Sand reiterated the fact this is a very difficult asset to own because it is not liquid. Mr. Collins went on to explain that many of the changes to the investment policies were made to be in line with the standard format used by the Retirement and Investment Office policies.

**MR. LEINGANG MOVED TO APPROVE THE RECOMMENDED CHANGES TO THE INVESTMENT POLICIES. MS. SMITH SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nayes:** None

**PASSED**

**Thirteenth Check**

Mr. Collins stated the retirees will be receiving the thirteenth check in January. The half of the thirteenth check is calculated based on the June benefit pursuant to statute.

**GROUP INSURANCE**

**Gallagher Benefit Services (Board Action Requested)**

Mr. Miller has not heard back from Doug Bahr with the Attorney General's Office Civil Litigation Division. It was recommended by Mr. Miller that we not sign the release as it is currently written and not accept the settlement because we do not have sufficient information regarding this litigation.

**MS. SAND MOVED TO ACCEPT THE RECOMMENDATION OF THE ATTORNEY TO NOT SIGN THE RELEASE TO RECEIVE THE SETTLEMENT. MS. SMITH SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nayes:** None

**PASSED**

### **Gallagher Benefit Services Health Trends**

It was noted the report "GBS Actuarial Consensus Trend Forecast, October 2005" was included in the Board materials. This report is a summary of their research and findings regarding medical trends.

### **RX Network Transition**

Mr. Collins indicated that the transition date has been moved from December 1, 2005 to January 1, 2006. Mr. Larry Brooks, BCBSND, reported that after the notification letter was sent to employers and those members incurring services at a nonparticipating pharmacy, BCBS has reconsidered their plan to implement the national network and extend it to January 1, 2006. This allows time to better inform members and work with pharmacies. BCBS indicated they have sent out 60 new offers to pharmacies that are deemed rural pharmacies. As of December 14, they received 7 signed new contracts. Five of these signed onto Medicare Part D as well. BCBSND indicated they are continuing negotiations with pharmacies.

### **Medicare Rx Implementation**

Mr. Brooks stated that opt out letters were mailed on November 30. As of December 14 there were 4 people who elected to opt out. The next step is for BCBSND to create the enrollment file to send out to CMS for auto-enrollment. Once the auto-enrollment process is completed by CMS, members will receive the material they need to begin utilizing their Part D benefits, including new Medicare Part D ID cards. At the same time, internally, changes are being made to the Dakota Retiree Plan to remove prescription drug coverage. All of these tasks need to be done by December 31, 2005 which is going to be a challenge. Mr. Brooks went on to explain that he was notified yesterday that CMS is looking at contingency plans in case ID cards and other notices don't occur by December 31.

Mr. Collins asked if there are some rough estimates of the number of pharmacies in the Rx network. BCBS stated approximately 125 are in the national network and about 98 in the Medicare network. Mr. Collins asked about the formulary and what is the process if you are taking a drug not on formulary. Mr. Brooks stated this is covered in the Summary of Benefits on page 2, which outlines the appeals process. Prime Therapeutics responded that for standard coverage determination requests, they are reviewed within 72 hours. For expedited requests, they are reviewed within 24 hours. Upon reviewing the request and making a decision, they will respond to both the enrollee and the physician in writing as well as an outbound call to the enrollee. In the written responses, they will provide the appeal rights to the next level. For standard requests for appeal, they will be completed within 7 calendar days; if they are expedited, 72 hours. Go to [www.yourmedicaresolutions.com](http://www.yourmedicaresolutions.com) to obtain information regarding the drug formulary.

Mr. Collins asked what drugs would not be on the three tiers. Excluded drugs might include weight loss products, infertility drugs, or certain barbiturates. In general, there are few medications that are not covered.

Mr. Collins asked if there were any drugs that were covered under the three tiers we presently have that will not be covered under the three tiers on January 1. He requested BCBSND to respond back with this information so we can communicate this information to our members. Mr. Brooks indicated he would provide PERS with this information.

Ms. Sand received a letter from a member who said the pharmacy reimbursement was 50% less in Medicare Part D than Medicare. Mr. Brooks confirmed rates are lower and the reason the rates are lower is this is a nationally competitive program.

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

Mr. Collins stated, per the Board's request at the last Board meeting, staff researched what the total consulting fees we paid on the last bid for the dental plan. We paid Segal a fixed fee of \$29,500 in 2002 for the dental, vision and long term care RFP's. Since the last meeting, it was noted that our work plan calls for review of the long term care product. Staff is suggesting that we consider going out for bid on the long term care plan at the same time we go out for bid on the dental plan. Currently, PERS has about 3,000 enrolled in the dental plan. The long term care plan has about 50 enrolled, but the product has changed and evolved over the last few years, so it's time to look at a different type of product and different type of marketing approach.

**MR. LEINGANG MOVED THAT NDPERS DO A REQUEST FOR PROPOSAL FOR BOTH THE DENTAL PLAN AND THE LONG TERM CARE PLAN. THE MOTION WAS SECONDED BY MS. SMITH.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nays:** None

**PASSED**

The next question was if we should have our existing consultant do the work or bid it out.

**MS. SMITH MOVED THAT NDPERS DEVELOP A REQUEST FOR PROPOSAL FOR A CONSULTANT FOR BOTH THE DENTAL PLAN AND THE LONG TERM CARE PLAN. THE MOTION WAS SECONDED BY MR. LEINGANG.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nays:** None

**PASSED**

**Diabetes Eye Exams (Board Action Requested)**

Chair Tabor stated that BCBSND has modified the benefit relating to diabetes eye exams and is proposing to pay diabetes eye exams at the in-network level for EPO services effective January 1, 2006. BCBS noted this change would not affect the PERS premium if approved.

**MS. SMITH MOVED THAT WE APPROVE THIS CHANGE WHICH WILL TAKE EFFECT JANUARY 1, 2006. MS. SAND SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nays:** None

**PASSED**

**DEFERRED COMPENSATION**

**Training Compliance (Board Action Requested)**

Chair Tabor stated that the Board must take action relating to reinstating Chase Insurance to the active provider status effective January 1, 2006. Ms. Allen reported that since the last Board meeting in November, Chase has come into compliance with the educational requirements.

**MS. SAND MOVED THAT WE REINSTATE CHASE INSURANCE TO ACTIVE STATUS EFFECTIVE JANUARY 1, 2006. MR. LEINGANG SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nays:** None

**PASSED**

Chair Tabor indicated the Board must take action relative to Equitable and the fact they are out of compliance. Ms. Allen stated that since the last Board meeting in November, all the companies that were not in compliance with the training requirement have responded with the exception of AXA Equitable. Staff recommendation is that we notify Equitable that the Board found them out of compliance and that at its January meeting will consider taking action to implement a loss of provider status pursuant to our administrative rules. Ms. Allen stated Equitable was in the same situation last year, and after staff did follow-up they did come into compliance.

**MR. LEINGANG MOVED TO PROVIDE EQUITABLE WITH A NOTICE TO RESPOND TO THE BOARD AS TO WHY THEY ARE CONSISTENTLY IN NONCOMPLIANCE AND WHAT ACTION THEY ARE GOING TO TAKE TO COMPLY WITH THE RULES IN THE FUTURE. THE MOTION WAS SECONDED BY MS. SMITH.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nays:** None

**PASSED**

### **Third Quarter Investment Report**

Mr. Reinhardt reported on the third quarter 457 Companion Plan and 401(a) Plan. Assets in the 401(a) plan increased to over \$13.8 million as of September 30, 2005. The number participating in this plan is 297 and the largest fund is the Fidelity Managed Income Portfolio with 19% of the assets. Assets in the 457 Companion Plan increased to about \$15.9 million as of September 30, 2005. This is a 31% increase up from \$12.1 million. The number of participants dropped from 1,319 to 1,061. The largest fund is the Spartan U.S. Equity Index with 12% of the assets. Approximately 9% of the assets are in the Fidelity and VALIC cash accounts.

### **MISCELLANEOUS**

#### **Planning Meeting**

The Board discussed the 2006 calendar with the monthly educational topics and the question was raised when legislation would be discussed. Mr. Collins indicated that legislation will be discussed in March. It was suggested that the topic of Airtime Review should be moved to the March meeting in case legislation needs to be proposed.

Chair Tabor stated that the June 15, 2006 meeting is right in the middle of the State Bar Association annual meeting which many Board members will be attending and requested staff change the meeting date. Staff will change the date of this meeting.

**BY GENERAL CONCENSUS, THE BOARD APPROVED THE TIMELINE FOR THE MONTHLY TOPICS THAT WERE REQUESTED AT THE PLANNING MEETING (WITH THE TOPIC OF AIRTIME REVIEW MOVED FROM APRIL TO MARCH).**

#### **Public Hearing on Rulemaking (Board Action Requested)**

Ms. Knudsen presented information relating to the November 29, 2005 administrative rules hearing. No written comments were received regarding the proposed rules.

**MS. SAND MOVED THAT THE RULES BE SUBMITTED TO THE ATTORNEY GENERAL'S OFFICE FOR REVIEW AND APPROVAL. SUBJECT TO ATTORNEY GENERAL'S APPROVAL, THE RULES ARE TO BE SUBMITTED TO THE LEGISLATIVE COUNCIL FOR FINAL PROMULGATION. THE MOTION WAS SECONDED BY MS. SMITH.**

**Ayes:** Leingang, Sand, Smith, Tabor  
**Nayes:** None  
**PASSED**

### **Election Update**

An election update was provided to the Board. There are four nominees and the election results will be presented to the Board at their January 19, 2006 meeting.

### **Retiree Seminar (Board Action Requested)**

Chair Tabor stated staff is looking for the Board's approval to hold a one-day retiree seminar in Medora this summer with a tentative date of Tuesday, August 15, 2006. The seminar will be for retirees only. Mr. Collins stated this idea was from our strategic plan and recognized that we do not often sponsor educational events for retirees.

**MR. LEINGANG MOVED THAT PERS SPONSOR A ONE-DAY RETIREE SEMINAR IN MEDORA, NORTH DAKOTA, THIS SUMMER. MS. SMITH SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor  
**Nayes:** None  
**PASSED**

### **Audit Committee Minutes**

The Board reviewed the August 24, 2005 Audit Committee Minutes which were presented for their information only.

### **Audit Committee Internal Audit Charter (Board Action Requested)**

Chair Tabor stated the Internal Audit Charter Revision was approved by the Internal Audit Committee and is being offered for approval by the PERS Board. It was noted that the charter was last reviewed and approved by the PERS Board in June 1994.

**MS. SMITH MOVED TO APPROVE THE REVISED NDPERS INTERNAL AUDIT POLICY, REVISED AS OF SEPTEMBER 1, 2005. MS. SAND SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor

**Nayes:** None

**PASSED**

### **State Investment Board (SIB)**

Chair Tabor stated the information in the Board book from the State Investment Board is pursuant to the planning meeting request that the Board obtain the monthly SIB agendas. SIB does not have a December meeting, so the November agenda along with the October minutes was included. Mr. Collins stated that in the future we will e-mail Board members the SIB agenda when we receive it from the SIB. The next SIB meeting is scheduled for January 20.

### **NDPERS Benefits Committee**

The minutes from the December 6, 2005 NDPERS Benefits Committee were presented to the Board for their information.

### **OTHER ITEMS**

#### **Flexcomp**

Mr. Collins stated that we previously considered the issue of the IRS authorizing an extension of time of 2 ½ months to file flex claims, but we deferred action until clarification was received on some tax reporting issues. The clarifications we received were positive. We will bring the information to the Board in January. Staff didn't believe PERS would be able to implement the extension this year. The only way to accomplish the extension this year would have been to manually alter and back date the claims in the system. Staff is not suggesting we do that at this point. Instead, staff would just as soon make the proper changes in the proper process and do it next year.

#### **Health Districts**

Chair Tabor indicated PERS received a letter from the ND Local Health Administrators yesterday. The letter was distributed to the Board. Mr. Collins stated, as previously discussed at the November 22, Board meeting, PERS would be seeking input from the Health Units in January and inviting them to the February Board meeting. However, it was noted several health administrators have contacted their legislators. Consequently when Mr. Collins and Ms. Smith attended the legislative Budget Committee on Human Services meeting. They were asked to clarify where the Board was going with this issue. Mr. Collins stated that several legislators asked that PERS consider making any change effective in July 2007 rather than January so that if the legislature wants to look at this issue they can.

### **Flu Shots**

Mr. Brooks stated that a decision was recently made by BCBS, on the same order as the diabetes eye exam, to pay for flu shots at the in-network level for EPO services effective January 1, 2006. Mr. Brooks said that if PERS approved this change it would have no effect on premiums.

**MS. SMITH MOVED TO INCLUDE THE FLU SHOTS ALONG WITH THE DIABETES EYE EXAMS AT THE IN-NETWORK LEVEL EFFECTIVE JANUARY 1, 2006. MR. LEINGANG SECONDED THE MOTION.**

**Ayes:** Leingang, Sand, Smith, Tabor.

**Nayes:** None

**PASSED**

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

Prepared by,

Cheryl Stockert  
Secretary to the NDPERS Board