

MINUTES

North Dakota Public Employees Retirement System

Wednesday, December 16, 2009
Harold Schafer Leadership Center
University of Mary, Bismarck, ND
9:00 a.m.

Members Present: Ms. Joan Ehrhardt
Mr. Levi Erdmann
Mr. Howard Sage
Mr. Mike Sandal
Ms. Arvy Smith
Mr. Thomas Trenbeath
Chairman Jon Strinden

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

Chairman Strinden called the meeting to order at 9:10 a.m.

Review of NDPERS Programs and Legislative Considerations

Mr. Collins reviewed with the Board a presentation discussing PERS programs and issues relating to each (this presentation is available at the PERS office). Mr. Collins reported that 2010 will be the most challenging and difficult year that PERS will experience.

The first topic in the presentation related to the health plan. Mr. Collins reviewed with the Board the active health plan and the retiree health plan.

GROUP INSURANCE

- Mr. Collins reviewed with the Board the health plan design, wellness benefit changes, retiree plan design, health costs, renewal rates trend, and estimated reserves. Also reviewed were issues affecting health care on the state and national level as well as health care reform initiatives.
- Mr. Collins reviewed with the Board issues relating to our current plan and actions taken to date on issues raised with BCBS as well as what action the Board

believes necessary in the future. It was noted that Mr. von Ebers will attend our Board meeting in January. The Board discussed its feeling that there continues to be questions concerning what has the BCBS board done and what will be done in the future to address the PERS Board concerns expressed last spring.

- In discussing the above, the Board noted that it may be helpful for the PERS Board and the BCBS board to engage in direct discussions about health plan costs. Several options were mentioned that included having someone from PERS appointed to the BCBS board or at a minimum have observation rights with no voting rights, but receive information only. The Board asked Mr. Collins to bring this issue to Mr. von Ebers and seek his thoughts.

Board concurrence and action: In response to the above discussion, the Board asked Mr. Collins to send a follow-up letter to Mr. von Ebers.

Retiree Plan, Part D

Mr. Collins reviewed with the Board issues relating to the Retiree Rx Plan and asked for Board authorization to study the effects of setting up the two programs separately (retiree medical plan and the Part D plan). Specifically, the study would review the effect on the health plan and the retiree health credit program. Mr. Collins indicated that administratively there are problems with the present arrangement. If approved, staff will report the findings to the Board in March or April. The Board had questions and discussed this issue.

MR. SANDAL MOVED THAT STAFF STUDY THE EFFECTS OF SETTING UP THE RETIREE PLAN AND PART D PLAN SEPARATELY. THE MOTION WAS SECONDED BY MS. SMITH.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden

Nays: None

MOTION PASSED

After Board discussion, the motion was amended.

MR. SAGE MOVED TO AMEND THE MOTION TO ALSO INCLUDE IN THE STUDY THE EFFECTS OF PRE-MEDICARE RETIREES APPLYING THEIR HEALTH CREDIT TO ANOTHER PLAN PREMIUM. THE MOTION WAS SECONDED BY MS. EHRHARDT.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden

Nays: None

MOTION PASSED

Mr. Collins indicated that this next summer PERS will be going out to bid on the uniform group health insurance which occurs every six years. A decision on the bid responses will be made by the Board next August or September. During the past year the Board has heard from Medica and will be hearing from Sanford who are both interested in participating in the PERS plan. It has been suggested that PERS consider offering more than one fully insured plan to the membership. As we prepare for the bid, the Board may want to consider including this third approach. If so, a study should be done at this time on the advantages and disadvantages of adding this third option.

MR. ERDMANN MOVED TO STUDY OFFERING MORE THAN ONE PLAN TO EMPLOYEES ON A STATEWIDE OR GEOGRAPHICAL LOCATION BASIS. THE MOTION WAS SECONDED BY MR. SAGE.

The Board discussed the motion.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden

Nays: None

MOTION PASSED

INVESTMENTS

Investments/Value – Fees

Mr. Collins reviewed with the Board the history of investment processes, including administrative savings, expertise, money manager costs and diversification. The Board noted that PERS should continue its efforts to control the management fees on the funds. There were ideas discussed concerning active management versus passive or indexed management. It was suggested that the PERS investment committee review this and report back to the PERS Board. It was also suggested that each quarter the PERS Investment Committee members report to the Board the actions of the SIB relating to PERS funds and that report should discuss the implications of the actions on PERS fees and overall plan risk.

Board concurrence and action: It was discussed and decided by the Board that the investment actions need to be reviewed by the PERS Board quarterly in order that they can continue to pursue cost/value efforts.

Asset Liability Study

Mr. Collins indicated to the Board that PERS usually conducts an asset liability study sometime after the experience study. The results of the experience study will be available around March with completion by May. If the Board elects to conduct an asset liability study, a decision also needs to be made as to when this study would be conducted.

**MR. SAGE MOVED THAT AN ASSET LIABILITY STUDY BE CONDUCTED IN 2010.
THE MOTION WAS SECONDED BY MS. EHRHARDT.**

The Board discussed the motion.

Ayes: Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, and Mr. Erdmann

Nays: Mr. Trenbeath and Chairman Strinden

MOTION PASSED

RETIREMENT PLANS

Mr. Collins reviewed with the Board background information on the Plans, looked at the environment of defined benefit plans, and reviewed the status of each Plan. The investment loss totaled negative 24.5 with the assumed return of 8% that is a total investment loss of 32.5% for last year. Year to date returns for this year for PERS is 15.74%, Job Service at 14.75% and retiree health at 17.99%. The challenge is to stop the downward trend, stabilize the fund, and improve the funded status back to 100%.

Mr. Collins reviewed with the Board the various ways in which we can meet this challenge – investment performance exceeding 8%, reducing benefits, and/or increasing employee/employer contributions. He explained that even if benefits are reduced, it does not stabilize the plan, does not improve the funded status, and the Plans' trend continues to be negative. A 1% per year contribution for 4 years would stabilize the Plan at certain return assumptions for this but would not put the plan on a course back to fully funded status, while a 2% per year increase for 4 years would bring the Plan to 100% funded status.

Mr. Collins discussed how these various considerations might be drafted into legislation. PERS legislation must be submitted through the Legislative Employee Benefits Committee with draft legislation submitted by April 1. The bills are then sent for actuarial and technical reviews, heard by the committee, and the committee will vote to give the bills either a favorable, unfavorable, or no recommendation. Concurrent with this process is the executive budget process. PERS will present the Governor with a series of health insurance plan design options. The bills then go to the Legislature for consideration. Bills cannot be amended without first going back to the Legislative Employee Benefits Committee.

Mr. Collins recommended to the Board: 1) to submit three bills which include an 8% increase phased in over 4 years beginning January 2012; 2) the bills should not affect retiree benefits; and 3) the bill should make no benefit changes so as to maintain equity among all employees and equity in contributions. Submitting more than one bill will allow several concepts to have a full actuarial and technical review. Further, it will allow employers and employees an opportunity to testify on the concepts and further facilitate review so the best approach can be developed to respond to our challenge. It was noted

that the audit committee is reviewing the final average salary calculation and that may need to be considered in March as well.

MR. TRENBEATH MOVED THAT STAFF AND LEGAL COUNSEL DRAFT THREE BILLS FOR BOARD CONSIDERATION. THE MOTION WAS SECONDED BY MR. SAGE.

The Board discussed the motion.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden

Nays: None

MOTION PASSED

Mr. Collins reviewed with the Board the benefit structure and the status of the Judges and Highway Patrol systems. The Board concurred with the recommendation to use the same methodology as proposed for the main system.

Mr. Collins reviewed with the Board the National Guard valuation.

Board concurrence and action: The Board concurred that there is no action necessary on this fund at this time.

Mr. Collins indicated that in the law enforcement plan with prior service and without prior service, there is a deficit of .5%. The PERS Board has the authority to set the rate.

Board concurrence and action: After Board discussion, it was decided not to take action on this issue, but to continue to monitor this system.

Group Retirement Consultant

Mr. Collins reported that Segal is currently our group retirement consultant and we are scheduled to go to bid with them in January 2010. Mr. Collins recommended extending this contract for one year in order to maintain the continuity of our benefit planning process this year.

Board concurrence and action: The Board concurred and asked Mr. Collins to obtain information from Segal on the cost to extend their contract for one more year (July 1, 2010 through June 30, 2011) and will bring this information to the January meeting.

OTHER

Pharmacy Benefit Manager Audit RFP

Mr. Collins reported to the Board that twelve companies submitted proposals for the PBM audit. PERS staff reviewed the proposals and rated each company. After review, staff recommends performing the audit and awarding the bid to TriCast. Mr. Collins noted that one of the employees of TriCast was a former employee of Prime Therapeutics (1994-

1999), but he will not be involved in doing the actual audit work. Mr. Collins also noted that the TriCast fee included doing the claims audit for one year which exceeded the bid specification of only the 4th quarter. Mr. Collins indicated to the Board that if there are funds recovered as a result of this audit, those funds should go back to PERS reserves.

MR. ERDMANN MOVED THAT THE AUDIT BE CONDUCTED AND THE EFFORT BE AWARDED TO TRICAST. THE MOTION WAS SECONDED BY MR. SANDAL.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden

Nays: None

MOTION PASSED

Group Insurance Consultant RFP

Mr. Collins reported to the Board that the health insurance consultant effort was bid on a fee for service basis and all the other group insurance bids were bid on a fixed fee basis. PERS received five proposals. Upon staff review, the firm that ranked highest on the fixed fee was Gabriel Roeder Smith (GRS). The number two ranked firm was Gallagher Benefit Services. Staff recommends awarding the bid to GRS.

MR. SAGE MOVED TO AWARD THE HEALTH INSURANCE ACTUARIAL AND CONSULTING SERVICES FOR THE FIXED FEE EFFORT TO GABRIEL ROEDER SMITH. SHOULD STAFF LEARN THAT THE PRICE QUOTE WITH GRS WAS INCORRECT, THE SECOND CHOICE IS GALLAGHER BENEFIT SERVICES. THE MOTION WAS SECONDED BY MR. SANDAL.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden

Nays: None

MOTION PASSED

Mr. Collins reported to the Board that, based on staff review, Deloitte ranked highest on the fee for service efforts for group insurance plans. Deloitte is from Minneapolis and they have worked for PERS in the past. If contract negotiations are not successful with Deloitte, then the number two ranked firm was Gabriel Roeder Smith.

MR. TRENBEATH MOVED TO AWARD THE GROUP INSURANCE ACTUARIAL AND CONSULTING SERVICES FOR THE FEE FOR SERVICE EFFORT TO DELOITTE. THE MOTION WAS SECONDED BY MR. ERDMANN.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden
Nays: None

MOTION PASSED

Segal Contract

Mr. Collins reviewed the Segal contract with the Board which extends the 401(a) and 457 technical assistance efforts through July 30, 2011.

MR. TRENBEATH MOVED TO EXTEND THE CONTRACT WITH SEGAL THROUGH JULY 30, 2011 TO PROVIDE TECHNICAL ASSISTANCE ON THE 401(a) AND 457 PLANS. THE MOTION WAS SECONDED BY MR. ERDMANN.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden
Nays: None

MOTION PASSED

Fidelity Contract

Mr. Collins reviewed with the Board the contract extensions with Fidelity for the 401(a) and 457 plans through July 30, 2011. These contracts have been reviewed and approved by the Attorney General's office.

MR. SAGE MOVED APPROVAL OF THE FIDELITY CONTRACT EXTENSIONS THROUGH JULY 30, 2011. THE MOTION WAS SECONDED BY MR. SANDAL.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden
Nays: None

MOTION PASSED

Administrative Rules

Mr. Collins reported to the Board that the hearing on the administrative rules was held on November 17 with the comment period open until 5:00 p.m. December 10. Mr. Collins shared with the Board one telephone inquiry relating to the rules. Staff requested Board approval to submit the rules to the Attorney General's Office for review, then to the Legislative Council for final promulgation.

MR. TRENBEATH MOVED TO APPROVE THE RULES AND TO OBTAIN APPROVAL FROM THE ATTORNEY GENERAL'S OFFICE AND THE LEGISLATIVE COUNCIL. THE MOTION WAS SECONDED BY MR. SAGE.

Ayes: Mr. Trenbeath, Mr. Sandal, Mr. Sage, Ms. Ehrhardt, Ms. Smith, Mr. Erdmann, and Chairman Strinden

Nays: None

MOTION PASSED

The Board discussed whether they should start succession planning for the Executive Director's position. Mr. Collins indicated to the Board that the current organizational structure includes four management staff who works closely with him on the day-to-day activities of the PERS organization. The Board decided to review this in the future.

Chairman Strinden called for any other business or comments. Hearing none, the meeting adjourned at 2:00 p.m.

Prepared by,

Cheryl Stockert
Secretary to the Board