



## **RETIREMENT**

### **Reduction Factor Tables – (Board Action Requested)**

Ms. Leslie Thompson, our actuary from the Segal Company joined the meeting via conference call to review alternatives to our present methodology (Age-difference table) and its implications for reduction factor tables for Joint and Survivor benefits. Ms. Thompson showed the Board three main ways that actuarial equivalence for Joint and Survivor factors would work. 1) Age-based table, 2) Age-difference table and 3) Single point estimate. Ms. Thompson indicated that the Age-based table is closest to actuarial equivalence and the most common method used. With an age-based table you would “look up” age of member and age of beneficiary then apply the factor to produce the actuarially equivalent benefit amount. With an age-difference table you would “look up” the difference in age, this table must assume a normal retirement age for the Main System the table assumes age 65. Ms. Thompson provided a comparison of current (age-difference table) and proposed (age-based table), moving to the proposed table provides a higher benefit for a retiree that goes out at age 60 and a lower benefit for a retiree who goes out at age 70. Ms. Thompson indicated there would be no financial impact on the system because both methods are deemed to be actuarial equivalent in terms of evaluation. Mr. Collins inquired under the age-based table assuming the retirement age is 65 what if the actual age is the rule of 85? Ms. Thompson indicated that it doesn’t matter which way they go out on retirement under an age-based table. You will just be looking up ages and then convert to the optional form. Chairman Maichel requested that the PERS staff make a recommendation to the Board next meeting. Mr. Collins indicated that PERS staff could take a look at it and provide an implementation plan, identify situations and provide suggestions on how to deal with them. The Board agreed to Mr. Collins recommendation.

### **Early Retirement Reduction- (Board Action Requested)**

Mr. Collins indicated that presently, we apply an early retirement reduction factor of a half of a percent for each month an individual retires before age 65. Our proposed legislation does modify this present methodology by changing it so the early reduction factor would apply from the earlier of age 65 or when an individual meets the rule of 85. At the December Board meeting we discussed two alternatives to the present method, which were: 1) An age graded methodology and 2) A service based methodology, it was also suggested that we take a look at an age and service related table methodology. Ms. Leslie Thompson, our actuary from the Segal Company joined the meeting via conference. Ms. Thompson has provided a matrix of the age graded and the service related methodology. Ms. Thompson indicated that no other organization is providing this type of methodology. After reviewing this type of methodology the current methodology is closest to actuarial equivalence. Mr. Sage inquired on whether we are in compliance with the statute which provides “Early retirement benefits are calculated as for single life benefits accrued to the date of termination of employment, but must be actuarially reduced to account for benefit payments beginning price to the date of termination”. Decision followed concerning whether “actuarially reduced” meet actuarially equivalent.” Ms. Thompson indicated she would review and provide at the next meeting information on whether the current 6% reduction is actuarially neutral. The Board did not take any action at this time.

### **QDRO Procedures – Board Action Requested)**

Mr. Collins indicated that recently an issue has risen concerning the procedures used in determining whether a Domestic Relations Order (DRO) is qualified. Our present process is in chapter 71-02-10 of the North Dakota Administrative Code. It indicated that once we received a DRO the Executive Director should review it to determine if it is qualified. Internally when the DRO is received a copy of it is forwarded to our Legal Counsel, Scott Miller and a second copy is forwarded to our technical consultant, Rod Crane, at the Segal Company. If it is determined that the DRO is not qualified it is then communicated to the parties and we identify why it does not qualify. Recently Scott Miller advised PERS that our procedure is not consistent with our confidentiality statutes. Staff is seeking the Boards guidance on how to proceed. Ms. Tabor recommended that we make a technical amendment to SB2082. Mr. Collins indicated that the bill that would be amended would be our Main Retirement Bill, which is before the

House at this time and if the amendment was to be accepted it would have to go back to the Senate. The Board indicated to Mr. Collins to continue with current procedures.

**Ms. Tabor moved to amend SB2082. Mr. Barnett seconded the motion.**

**Ayes:** Baetsch, Gunkel, Leingang, Sage, Barnett, Tabor and Chairman Maichel.

**Nays:** None

**Defined Contribution Plan Quarterly Review (Informational)**

Mr. Bob Liberto and Mr. John DeMairo of Segal Advisors joined the Board via conference call to provide an overview of the quarterly report. This report is on file at the North Dakota Public Employees Retirement System Office.

**Deferred Compensation Plan Quarterly Review (Informational)**

Mr. Bob Liberto and Mr. John DeMairo of Segal Advisors joined the Board via conference call to provide an overview of the quarterly report. This report is on file at the North Dakota Public Employees Retirement System Office.

**Termination – Board Action Requested)**

Mr. Collins indicated that PERS has allowed a member to begin drawing retirement when they are no longer eligible to participate in the PERS Retirement Plan. Eligibility to participate is defined in the statute as someone who is working 20 or more hours per week 5 or more months out of the year and filling an approved and regularly fund position with the following being acceptable:

1. An employee who may have gone from being a permanent fulltime employee and now as a result of a reduction in hours is a temporary employee could begin to draw their retirement if they were eligible.
2. An employee in Higher Education who became eligible to join TIAA-CREF as a result of a job promotion could cash out their PERS benefits.

However as a result of the recent review of these procedures with Mr. Miller, he points out that section 54-52-02 the North Dakota Century Code defines retirement as “acceptance of a retirement allowance under this chapter upon termination of employment”. Further Mr. Miller notes that chapter 71-02-01 North Dakota Administration Code (NDAC) defines termination of employment as “a severance of employment by not being under a payroll of a covered employer for a minimum of one month.” Therefore Mr. Miller has concluded that our present practices are not consistent with these definitions. This information was also reviewed with Mr. Crane, Segal Advisors. Mr. Crane joined the meeting via conference call. Mr. Crane indicated that the IRS prohibits “in service distributions.” An “in service distribution” occurs when a member continues to work and concurrently begins drawing a retirement benefit. In order for it not to be deemed an in service benefit an employee must have terminated employment prior to drawing a retirement benefit. Mr. Crane indicated that the IRS has never formally defined what constitutes termination of employment but has generally accepted the rule that termination occurs if someone is off the covered payroll of an employer for 30 days or more. Mr. Collins indicated in light of the above information it is clear that our historical practices need to be changed prospectively. Clearly we need to ensure that no retirement benefits or distribution occur without the employee being off the covered payroll of an employer for more then one month. In adjusting our practices several decisions need to be made: 1) What constitutes a month 2) How do we define employer. Mr. Crane indicated that using a calendar month would also be something that would be accepted by the IRS. Mr. Collins indicated that staff is suggesting that we adjust our procedures prospectively that we use a calendar month or 30 days as the defining circumstance in determining whether someone has terminated. Mr. Collins also requested guidance from the Board as to “what constitutes a covered employer”? Indicating that covered employer could mean all of the employers within PERS.

Using this definition it would mean that no one would be eligible to draw their retirement unless they had left employment under any of our covered employers. Or it could be defined, as the covered employer is

the individual employing agency or political subdivision. Chairman Maichel recommended that Mr. Collins and staff develop suggestions and recommendations on what they believe to be an employer for the Boards consideration. No Board action was taken at this time.

**Bottineau County Appeal 2001-001-R – Board Action Requested**

Mr. Collins indicated that several members of the Bottineau County Commission did not exercise their option to join the PERS system with in the first six months of employment. Bottineau County Commissioner, the States Attorney for Bottineau County and the County Auditor joined the meeting via conference call. Mr. Collins indicated to Bottineau County that this is not a confidential issue. Chairman Maichel asked if the Commissioner had a comment or statement. The Commissioner indicated that he was elected in 1986 and in 1999 he was informed that he was not enrolled in the PERS system. Chairman Maichel asked Mr. Miller to review the basic law that applies. Mr. Miller indicated that the 1996 statute says eligible employees included elected officials at their sole election. Mr. Miller indicated that this individual has been re-elected several times and at the time of re-election would have the same 6-month window to enroll. Chairman Maichel requested that Mr. Miller look back and review the applicable statutes that applied over this time period and report that information back to the Board at the next meeting. The Board agreed with Chairman Maichel. No Board action taken.

**DEFFERED COMP**

**Fidelity Contract (Board Action Requested)**

Mr. Collins indicated that the Defined Contribution Plan has now been in operation a little over one year. In the summer of 1999 we placed this contract with Fidelity after undergoing a request for proposal (RFP) bid process. The contract we signed with Fidelity states in Section 10:

“This Agreement shall remain in effect until June 30, 2001, unless terminated by either party in accordance with Section 12 hereof; provided, however, that Sponsor may extend the duration of this Agreement for two-year periods beginning July 1, 2001, by notifying fidelity of such extension prior to the expiration of the term of this Agreement.”

Staff would recommend that we move forward with a renewal with Fidelity.

**Mr. Gunkel motioned to renew the contract with Fidelity on a 2-year contract assuming the price is the same.**

**Mr. Sage seconded the motion.**

**Ayes:** Baetsch, Gunkel, Leingang, Sage, Barnett and Chairman Maichel.

**Nays:** None

**PASSED**

**Equitable Survey (Informational)**

Mr. Reinhardt, NDPERS, presented the survey to the Board. The survey is on file at the North Dakota Public Employees Retirement System office.

**Valic (Board Action Requested)**

Mr. Collins indicated that Mr. Reinhardt, NDPERS, examined several issues related to VALIC and their record keeping methodology. As a result of this information the PERS staff is suggesting that we formally write to VALIC and indicate that we have reviewed the issues with the Board and request from VALIC a formal response and also forward this information on to the Segal Advisors to see if they have any advise concerning these issues and then review the response from VALIC and the information from the Segal Advisors at a future meeting.

**Mr. Gunkel motioned to approve PERS plan of action.  
Mr. Leingang seconded the motion.**

**Ayes:** Baetsch, Gunkel, Leingang, Sage, Barnett and Chairman Maichel  
**Nays:** None

**PASSED**

### **GROUP INSURANCE**

#### **Heart of America (Board Action Requested)**

Ms. Allen indicated that Heart of America in Rugby contract is up for renewal. Heart of America is requesting to offer its HMO membership to state employees in their Rugby and Minot services area. The term of this renewal is from July 1, 2001 through June 30, 2002. Last year the Board approved the HMO for the Rugby services area only. Mr. Collins indicated that the PERS recommendation would be to approve the contract for the Rugby area only.

**Mr. Baetsch motioned to approve the contract for the Rugby area and not for the Minot area.  
Mr. Gunkel seconded the motion.**

**Ayes:** Baetsch, Gunkel, Leingang, Sage, Barnett and Chairman Maichel  
**Nays:** None

**PASSED**

#### **ING Dental Administration (Informational)**

Ms. Allen at the December meeting reviewed some issues relating the administration of the Dental Plan and ING (Reliastar). A letter was sent to ING. PERS had received a response from them and has had a conference call with them to review their response. ING has provided PERS with some options to consider and we are reviewing them. Ms. Allen indicated that staff will continue to update the Board on this effort at future Board meetings

#### **Blue Cross Blue Shield Audit Response (Informational)**

Mr. Reinhardt indicated that we are continuing to work the BCBS on many of these issues. We have scheduled a meeting with BCBS March 19, 2001 in Fargo to discuss these issues in more detail and will bring the outcome back to the Board. Mr. Collins indicated that we would like to advise BCBS that the Board is expecting quarterly review of these issues until they are cleared up. The Board agreed.

#### **Plan Performance Update Report - (Informational)**

Mr. Reinhardt, NDPERS review the Plan Performance with the Board. The report is on file at the NDPERS office.

### **Miscellaneous**

#### **Proposed Legislation**

Mr. Collins informed the Board that all the PERS bills have moved forward and have been approved by the respective chambers. We did have one amendment that occurred to House Bill 1025. The House did not concur with the addition of a new position to provide retirement education/investment education programs for state employees concerning HB 1217; staff has requested several changes to this bill pursuant to previous Board action when it appeared before the Senate Government and Veterans Affairs Committee. Staff also reviewed with the Board HB 1125 and staff believes we should request an exemption from the provisions of the Bill. .

**Mr. Gunkel moved to request for an exemption on HB 1125.  
Mr. Baetsch seconded.**

**Ayes:** Baetsch, Gunkel, Leingang, Sage, Barnett and Chairman Maichel  
**Nays:** None

**PASSED**

**Public Pension Coordinating Council (PPCC) Award- (Informational)**

Mr. Collins indicated that PERS once again has received the PPCC achievement award. Mr. Collins also indicated that this is the 3<sup>rd</sup> time that PERS has received the award.

**Next Board Meeting**

The next meeting of the NDPERS Board was scheduled for March 22, 2001 at 8:30 AM, Heritage Center, Lecture Room A, Bismarck, North Dakota

**Other Business**

Chairman Maichel called for any other business or comments. Hearing none, the meeting was adjourned at 11:45 AM.

Respectfully Submitted

Denise A. Curfman  
Secretary, NDPERS Board