

MINUTES

North Dakota Public Employees Retirement System

Thursday, January 19, 2006
ND Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo
8:30 A.M.

Members Present: Ms. Joan Ehrhardt
Mr. Ron Leingang
Mr. Howard Sage
Ms. Arvy Smith
Chairman Jon Strinden

Via Video Conference: Ms. Rosey Sand

Members Absent: Ms. Sandi Tabor

Others Present: Mr. Sparb Collins, Executive Director, NDPERS
Ms. Cheryl Stockert, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Diane Heck, NDPERS
Ms. Cheryle Masset-Martz
Mr. Scott Miller, Attorney General's Office
Mr. Bill Kalanek, AFPE/INDSEA
Mr. David Peske, ND Medical Association
Ms. Patricia Hill, ND Pharmacy Association
Mr. Steve Cochrane, Retirement & Investment Office
Ms. Peg Nelson, Discovery Benefits
Mr. Michael Fix, ND Insurance Department
Ms. Lisa Kudelka, Bismarck Public Schools
Mr. Bill Robinson, Gallagher Benefit Services
Mr. Weldee Baetsch

Via Video Conference: Mr. Larry Brooks, BCBSND
Mr. Kevin Schoenborn, BCBSND
Ms. Onalee Sellheim, BCBSND
Mr. Tom Christensen, BCBSND
Mr. Mark Tschider, BCBSND
Ms. Kamie Kueneman, Prime Therapeutics
Ms. Leslie Thompson, Segal Company
Mr. Brad Ramirez, Segal Company

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

MINUTES (Board Action Requested)

Chairman Strinden called for any questions or comments regarding the minutes of the December 15, 2005 Board meeting.

THERE BEING NONE, MS. SAND MOVED APPROVAL OF THE DECEMBER 15, 2005 BOARD MINUTES. MR. SAGE SECONDED THE MOTION. THE MINUTES WERE APPROVED.

Board Election Results (Board Action Requested)

Mr. Collins reported that Joan Ehrhardt was elected to the Board and is in attendance at the Board meeting today.

MR. LEINGANG MOVED TO ACCEPT THE BOARD ELECTION RESULTS. MS. SAND SECONDED THE MOTION.

Ayes: Leingang, Sage, Sand, Smith, Strinden

Nayes: None

PASSED

Chairman Strinden congratulated Joan and welcomed her to the Board.

RETIREMENT

Scott was unable to give the Constitutionality of Benefit Changes presentation, so it will be rescheduled for the February Board meeting.

Job Service Retirement Plan

Mr. Collins stated that at the last Board meeting we discussed the timberland asset allocation as part of the Job Service retirement plan. Timberland is part of a fixed income portfolio and it has been allocated back to all the various funds that are part of the State Investment Board, including Job Service and the PERS funds. Approximately 20% of the portfolio is invested in timberland. Mr. Collins indicated that at this Board meeting Mr. Steve Cochrane, Retirement and Investment Office (RIO), will give the Board a perspective on this portfolio, followed by Ms. Leslie Thompson, from Segal, who will also give us an actuarial perspective. Mr. Collins further indicated that at the February Board meeting Callan, the investment consultant to the State Investment Board, and representatives from the timberland investment group will share their perspective on this issue. At the March meeting, Mr. Collins indicated staff will summarize the information regarding the timberland investment for the Board, and at that time the Board could determine if any actions are required.

Mr. Cochrane appeared before the Board and explained various features of this fund from an investment perspective. Major points covered by Mr. Cochrane included:

- The pension trust is about \$3.3 billion in a pool which includes 5 funds.
- Job Service makes up approximately 3% in this pension trust.
- Job Service asset allocation is comprised of 5 funds that have been given to the State Investment Board for implementation.
- Domestic Fixed Income is 55% (very conservative fund).
- RMK and TIR are the timberland investment managers.
- Timberland is part of this fixed income.
- If we segregate the timberland fund, it would be 19% of the total Job Service asset allocation.
- There are a number of issues that TIR will address next month which will include how the portfolio is managed.
- Job Service goal is to start moving toward reducing volatility in their funds, and there is low volatility in the fixed income fund.
- If Job Service for some reason needs cash out of this fund, the Investment Office could segregate this fund very easily into a separate cash pool, and reallocate the assets with very minor impact on the remaining investors.
- Liquidity is not a problem. RIO can accommodate the fund's needs.
- RIO has two diverse timberland managers who manage their properties in a different manner.
- RMK is a traditional, broadly diversified fund distributed across a wide band geographically comprised of southern pines, and scientifically managed for its optimized production. They tend to be outside of urban areas and are located in multiple states.
- TIR built their business plan, more geographically concentrated, and tends to lie in the areas between Atlanta and Chatanooga. A very large portion of these properties are situated geographically in areas that are growing very rapidly. This area north of Georgia is exploding with development.
- There is a real estate component here. Real estate may drive 50% or more of the return characteristics of the TIR holdings.
- RIO has two 12 year agreement cycles – one is in the 4th year and the other in the 3rd year and are looking at an 8-9 year time period. The concerns with 15 years out and liquidity do not apply.
- The North Dakota Pension Trust fund is doing extremely well.

Mr. Cochrane stated this is a good study. There are many valid questions as to whether or not this exposure makes sense in this fund. Mr. Cochrane indicated that from his perspective, the more you look at this issue, the more you come to the conclusion that there is not a problem in this fund nor does it cause a liquidity problem for the future.

Ms. Leslie Thompson, Segal, Denver, stated the Job Service fund is unique because it is a closed fund. The risk PERS is managing is that you want your assets to stay ahead of the present value of benefits, so no new contribution would be required. Ms. Thompson suggested PERS take a more detailed look at cash flow. She also recommended moving

the 8% return assumption to 7% or lower. This is a conservative recommendation, but unlike any other PERS plan, the Job Service plan has to be more conservative because it is a closed fund. The Board asked Segal to prepare a memo reviewing the implications of a change in the 8% return assumption for review at the February meeting.

13th Check

Mr. Collins reported that the 13th check was sent to retirees. The total payment was approximately \$2.3 million dollars, averaging \$385. The PERS office has been receiving calls from retirees who were pleased with and appreciated receiving the check.

GROUP INSURANCE

Smoking Cessation

Ms. Allen presented information recapping the smoking cessation program activities that ended June 30, 2005. This program, which began October 2003, was funded with a \$250,000 grant from the Health Department authorized by the 2003 legislature. NDPERS used approximately \$35,000 of that grant. The balance was forfeited and we have received a new grant this biennium. Mr. Collins reported our goal is to market this program more aggressively during the current grant period and it will be incorporated into the wellness program. Mr. Brooks reported we currently have 43 people enrolled in the program. The medical management program staff at BCBS follows up with the individuals after approximately 6-9 months to determine if they are still smoke free. Ms. Sand suggested incorporating counseling in a post program format. Mr. Sage suggested following up with the program participants to receive ideas on how to improve the program. Mr. Collins reported that feedback from the last biennium was to pay 100% which we are now doing.

Dental/Long Term Care Request for Proposal

Mr. Collins reported that staff has developed an RFP for the dental and long term care plans. If the Board approves, PERS will send it out January 20 to a list of consultants who are interested in the products. It will also be posted to the PERS web page. One component that was included in the RFP, in addition to bidding it out as a fully insured product, was to bid it as a self-funded program. This is consistent with the statute at Section 54-52.1-04.7. It was suggested that this could enable the Board to explore the whole range of options. Mr. Bill Robinson from Gallagher Benefit Services stated that the state of Wyoming switched to self-funded even though it is a voluntary dental program, and it has been very successful.

MR. LEINGANG MOVED TO APPROVE THE REQUEST FOR PROPOSAL WITH THE SELF FUNDED OPTION. THE MOTION WAS SECONDED BY MS. SAND.

Ayes: Leingang, Sage, Sand, Ehrhardt, Strinden.
Nays: None

PASSED

Flu Shot Report

Ms. Allen gave the Board a recap of this year's flu shot program conducted by UND Center for Family Medicine. The total number of state employees, family members, and retirees that participated was 1,297. UND is planning for next year's campaign as they generally order vaccine in April. Ms. Allen indicated PERS will be working with them in communication efforts and we will also work with them in streamlining the process. One idea we implemented this year to streamline the process was to put the consent form out on the website so the participants could complete the form prior to coming to the clinic, which helped expedite the process.

Pharmacy Network Update

Mr. Brooks from BCBSND appeared before the Board and referred them to a January 16, 2006 memo recapping where the plan is to date relating to implementation of the Prime National Network. There is only one pharmacy that is not participating, Irsfeld Drug in Dickinson, and they have the option to participate at any time. Referring to the table in that memo, the standard rate (urban) is average wholesale price (AWP) minus 14% and the generic is at the maximum allowable cost (MAC) or AWP minus 20% with a \$2.00 dispensing fee. For limited access (which is primarily the rural pharmacies) they are at AWP minus 11% for brand names and MAC or AWP minus 20% for generics plus a \$3.80 dispensing fee.

Medicare Rx PDP Plan Update

Mr. Collins reported that effective January 1, 2006 the NDPERS health plan has 2,105 Medicare Single, 1,339 Medicare Family, and 363 One on Medicare contracts. Premium rates have dropped for a total of \$3,422,847 per year savings for retirees. It was noted that PERS continues to receive calls on the new Medicare PDP because of the transition difficulties. One problem area is with those enrolled in both our plan and Medicaid. They were auto-enrolled by Medicaid which took them off our system. This has caused confusion.

Mr. Brooks stated that because Medicare Part D is a federal program, there are many issues and circumstances they have no control over. Ms. Kueneman indicated Prime has developed claims processing functionality to handle a 30-day transitional period for retail beneficiaries and a 90-day transitional period for long term care beneficiaries. Mr. Collins asked why the 5 excluded drugs were not covered now for PERS retirees. Ms. Kueneman indicated that CMS used certain criteria. Two of the five excluded drug types caused falls and related safety issues in the elderly population. There may be drug substitutes, so it is recommended the individual check with their physician.

Group Medical Plan Surplus/Affordability Update

Mr. Reinhardt reported we will begin projecting the 2005-2007 biennium after we have about six months experience. The surplus should put us close to the required \$14.3 million projection provided to the last Legislature that they used to fund the plan for this biennium.

DEFERRED COMPENSATION

AXA Equitable/Training

Ms. Allen reported that at the December meeting she informed the Board that Equitable did not respond to our request regarding their noncompliance of the agents' training requirements. The Board indicated they wanted Equitable to respond to this issue and how they would address these issues in the future. Staff notified Equitable of this requirement and was subsequently notified that Equitable had prepared a response dated November 29, 2005 and hand delivered it to our office. Staff was unable to locate this document, Equitable provided us with another copy and is in compliance with the training requirements. Therefore, there is no further action to recommend on this issue.

MONTHLY TOPICS

HSA Overview

Mr. Collins indicated that Mr. Bill Robinson from Gallagher Benefit Services was at the meeting, along with BCBSND, to speak to the Board regarding consumer driven health plans such as high deductible health plans and health spending accounts. BCBSND also appeared before the Board and reviewed the product they presently offer. They discussed actuarial concerns relating to such plans as an option. They also noted the HDHP they presently offer is not widely used.

Ms. Peg Nelson from Discovery Benefit Services appeared before the Board and reviewed the Health Savings Account they offer as part of the BCBS product.

Next month the agenda will continue the discussion on HDHP's, and the Board will hear from Colorado on their plan. Mr. Robinson and BCBSND will provide additional information.

COLA'S

The topics of cost of living adjustments to be presented by Ms. Thompson from Segal will be covered at a future Board meeting.

IT Project

Mr. Collins reported to the Board that the PERS office issued the Request for Proposal for technical assistance in preparing the IT consulting RFP, and that Nexus was retained. He further indicated that PERS is in the process of working on the RFP to retain a contractor to assist in the development and implementation of a business applications system for

PERS. The goal of PERS staff is to have the RFP finalized and released by the end of January. Mr. Collins asked for the Board's approval to continue with this plan. The next step would be to get responses back so a selection can be made by the end of March. PERS could have this consultant on board by April 1. Mr. Collins reviewed the four phases of the project:

- Project assessment would start in April to June.
- Develop an RFI from June to August, so if it is still a go we could put this in the Executive Budget.
- The next step would be to develop the RFP between October to December, get the information to the Board in January to make sure the RFP numbers match up with our RFI numbers. If they do not, then we are in a position to go before the Legislature and say they don't match up to get our funding requirement. We would then retain a software vendor the first part of 2007. The vendor would come on board in February 2007.
- The fourth phase of this project would be ongoing project management.

It was further noted that the Teachers Fund for Retirement system replacement cost \$2 million which is for one system. PERS is a series of retirement systems plus group insurance programs which will result in it being several times the cost of the Teacher's system. Mr. Collins asked for concurrence from the Board, based on this outline, to proceed.

BY GENERAL CONCENSUS, THE BOARD APPROVED STAFF TO RELEASE THE REQUEST FOR PROPOSAL TO RETAIN A CONTRACTOR FOR DEVELOPMENT OF AN RFP FOR NDPERS BUSINESS APPLICATION SYSTEM REPLACEMENT TO BE RELEASED THE END OF JANUARY.

MISCELLANEOUS

Chairman Strinden called for any comments on the remaining miscellaneous agenda items or if any Board member had new business. The miscellaneous agenda items included: State Investment Board PERS Members; 2005 Annual Report; June Board Meeting Date Change; and State Investment Board Agenda. Hearing none, the meeting adjourned at 11:20 a.m.

Prepared by,

Cheryl Stockert
Secretary to the NDPERS Board