

# MINUTES

## North Dakota Public Employees Retirement System

Thursday, March 16, 2006  
Dakota Carrier Network, 1615 Capitol Way, Bismarck  
BCBS, 4510 13<sup>th</sup> Ave SW, Fargo  
8:30 A.M.

Members Present: Ms. Joan Ehrhardt  
Mr. Ron Leingang  
Mr. Howard Sage  
Ms. Sandi Tabor

Via Video Conference: Ms. Rosey Sand  
Chairman Jon Strinden

Members Absent: Ms. Arvy Smith

Others Present: Mr. Sparb Collins, Executive Director, NDPERS  
Ms. Cheryl Stockert, NDPERS  
Ms. Deb Knudsen, NDPERS  
Ms. Kathy Allen, NDPERS  
Ms. Sharon Schiermeister, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Mr. Ron Gilliam, NDPERS  
Ms. Cheryle Masset-Martz, NDPERS  
Ms. Rebecca Fricke, NDPERS  
Ms. Diane Heck, NDPERS  
Mr. Leon Heick, NDPERS  
Mr. Scott Miller, Attorney General's Office  
Ms. Fay Kopp, RIO  
Ms. Kathy Mangskau, ND Dept. of Health  
Ms. Jodee Buhr, NDPEA  
Mr. Bill Kalanek, AFPE

Via Video Conference: Mr. Gary Dauenhauer, BCBSND  
Mr. Mark Tschider, BCBSND  
Mr. Bob Pope, Nexus

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

### **MINUTES (Board Action Requested)**

Chairman Strinden called for any questions or comments regarding the minutes of the February 16, 2006 Board meeting.

**THERE BEING NONE, MR. LEINGANG MOVED APPROVAL OF THE FEBRUARY 16, 2006 BOARD MINUTES. MR. SAGE SECONDED THE MOTION. THE MINUTES WERE APPROVED.**

### **LEGISLATION**

Mr. Collins and the Board discussed the proposed legislation recommended by the Employee Benefits Committee.

Item 1, the 13<sup>th</sup> Check – the recommendation was to propose legislation to issue three-quarters or 75% of a check rather than the half check issued January 1, 2006, and make the target rate of return 9.16% as of June 30, 2007 or 2008 rather than 11.2% as in previous the legislation.

Items 2 and 3 – the Benefits Committee also discussed the possibility of rather than doing the 13<sup>th</sup> Check, request a cost of living adjustment for our retirees. It was discussed to fund the COLA in one of two ways – as a permanent increase to the employer contribution, or it could be fully paid in two years.

Item 7, increase the retiree health credit from \$4.50 to \$5.00; the cost would be .15% based upon an old estimate (this could change after the final actuarial valuations).

Item 9, combine retiree spouse health credits.

Item 10, establish a VEBA for state employees (sick and annual leave payments would be automatically directed into the VEBA). The funds in the VEBA can be cashed out by the employee and become taxed or the employee could take it out of the VEBA on a pretax basis to pay for eligible expenses such as health care.

Item 12, set up a default enrollment in the 457 plan for new employees at \$25 each month in the state's 457 plan; employees can elect to opt out.

Item 13, return to work – eliminate the provision in the health insurance statute that does not allow an employer to pay for group health insurance for temporary employees. Gallagher suggests employees be employed for 20 hours or more per week to qualify for the health insurance benefit. Currently, if a temporary employee works for 2 hours a week, they qualify for health insurance, and that exposes PERS to potentially adverse selection.

Item 14, health spending accounts, the Benefits Committee believed this issue should be deferred until more information is received. The committee will monitor this issue as an option in the future.

Item 15, currently retiree health insurance is one package (including Medicare Parts A, B, and D). With the arrival of Medicare Part D, this bill would allow retirees to choose the medical and prescription drug coverage as separate policies, providing more flexibility and choice for the retiree. A study would need to be conducted to determine actuarial impacts, if any.

Item 16, increase the basic life coverage from \$1,000 to \$5,000.

Mr. Collins stated PERS staff has met with the National Guard, Highway Patrol, Job Service and Judges retirement systems. The Judges have requested consideration of a bill to restart their method of paying their retirees. In the past, their retirees have received 2% every January, and when the market went down, the COLA was put on hold. The Judges system is fairly well funded with a 2.9% positive margin.

Mr. Collins indicated that for several bienniums a provision was included to allow employers in both the defined benefit and defined contribution plans to place an amount equal to the sick leave into the retirement plan for both DB and DC plans. As this provision was enacted, it became more limited for the DC plan. Staff suggested we harmonize these two plans so they are consistent.

The remaining items were technical items to update the North Dakota Century Code. A copy of the memo is available at the PERS office.

The Board discussed their approach to the retiree increases. The Board suggested doing a permanent increase with additional contributions. One recommendation was to give retirees a 4% COLA. To fund this, we would ask the legislature for 1% and 1% from employee contributions. Mr. Miller commented that a 4% increase for retirees cannot be funded through employees because employees must also have a corresponding benefit for their increased contribution (constitutionality of benefits provision). Another suggestion was to give retirees a 13<sup>th</sup> check and a COLA. The bill could be drafted to include an either or provision. Mr. Miller stated the bill could be submitted with two sections, and the second section says if the first section doesn't pass, then the second section could pass. The Board felt we could submit two bills on each increase. Another approach could be to submit a bill for a 13<sup>th</sup> check for 2007-2008, then submit a separate bill for COLA for 2008-2009 that would fully pay the cost of the benefit in two years, since the enhancement is fully paid in two years and no long term obligations are placed on employees.

The Board agreed to submit legislation for a 13<sup>th</sup> check, and include in the bill a 2% ad hoc increase starting 2 years from now with an employer contribution.

**MR. SAGE MOVED TO SUBMIT LEGISLATION FOR THIS BIENNIUM TO ISSUE A 13<sup>TH</sup> CHECK FOR RETIREES SUBJECT TO THE TARGET RATE OF RETURN AT 9.16%, AND ALSO SUBMIT A SECOND BILL TO INCREASE THE EMPLOYER CONTRIBUTION NEXT BIENNIUM TO FUND A 2% COST OF LIVING ADJUSTMENT. MS. SAND SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden.

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

Mr. Collins indicated if we include an increase for the defined benefit plan, it is recommended we should increase by this same amount in the defined contribution plan.

Mr. Leingang questioned why legislation for #6 was not included. Mr. Collins indicated it did not get recommended because of the new GASB provision, with the implicit liability of almost \$12 million. By reducing it, we would spread about \$763,000 on the active rates next biennium. Pre Medicare rates are very high right now.

**MS. SAND MOVED WE SUBMIT LEGISLATION FOR ALL REMAINING RECOMMENDED BILLS (#7, 9, 10, 12, 13, 14, 15, 16) AND STAFF RECOMMENDATIONS TO NORTH DAKOTA CENTURY CODE #17, 18, 19, 21, 22, AND 23). MS. TABOR SECONDED THE MOTION.**

Some Board members expressed concern requiring employees to contribute \$25 into a 457 deferred compensation plan. Mr. Collins indicated this has been discussed in committee, but that at the time of enrollment employees can opt out. It was noted that this issue was discussed several years ago and the motion did not pass. Mr. Collins indicated that statistics show when employers offer this option, there is almost twice the participation than when it is not offered. The first year PERS allowed employees to make an affirmative election on pre-taxing the first \$50,000 in life coverage, we had about 5% or less participation rate, however, when PERS changed that to a default election, then 95% of employees participated.

**MS. SAND AMENDED HER ORIGINAL MOTION NOT TO SUBMIT A BILL FOR #12, THE AUTOMATIC ENROLLMENT IN THE 457 PROGRAM FOR NEW EMPLOYEES AT \$25 PER MONTH. THE MOTION WAS SECONDED BY MS. TABOR.**

Vote on motion to amend:

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden.

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

Vote on amended motion:

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden.

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

**MR. SAGE MOVED THAT PERS NOT SUBMIT A BILL FOR #12, THE AUTOMATIC ENROLLMENT IN THE 457 PROGRAM FOR NEW EMPLOYEES AT \$25 PER MONTH. MS. TABOR SECONDED THE MOTION.**

It was noted that this program is becoming a more popular option nationwide. What is important about this is that even though it is automatic enrollment, they can opt out right away. Mr. Miller indicated that the draft bill reads they have 30 days from their start date to opt out and we do not start taking money out for 2 ½ months. The first month they can't have dollars withdrawn for deferred compensation is well after their opt out period.

**Ayes:** Mr. Sage, Ms. Tabor

**Nays:** Mr. Leingang, Ms. Sand, Ms. Ehrhardt, Chairman Strinden

**Absent:** Ms. Smith

**FAILED**

**MS. SAND MOVED TO INTRODUCE A BILL RELATING TO #12 MANDATING \$25 MONTHLY PAYMENT TO THE 457 (DEFERRED COMPENSATION) PROGRAM WITH AN OPT OUT PROVISION. MR. LEINGANG SECONDED THE MOTION.**

Board discussion related to the fact that if legislation passes, PERS must have good policies in place and train the authorized agents so employees understand the process. The Board members had concerns that \$25 is a lot of money, and government should not be in the business of telling people how to run their lives.

**Ayes:** Mr. Leingang, Ms. Sand, Ms. Ehrhardt, Chairman Strinden.

**Nays:** Mr. Sage, Ms. Tabor

**Absent:** Ms. Smith

**PASSED**

## **MONTHLY TOPICS**

### **TFFR IT Program Experience**

Ms. Fay Kopp, Deputy Director of the Retirement and Investment Office, presented an overview of TFFR's IT business system upgrade project. The total project took 4 years.

Project planning began in 2000-2001 when they identified the need for an outside study of their pension software solutions to replace or upgrade the existing TFFR system. TFFR staff made the recommendation to their board to update their business system. The next year a consulting contract was entered into with MSI/ESI to conduct a feasibility study/business case. TFFR board approved \$2 million to be included in the 2003-05 optional budget request. The budgeted dollars for this project came out of the TFFR funds, not general funds. In 2002-03 consultant and staff conducted vendor and product analysis even though the RFP was not approved at that point. Their board then approved the high level project plan, contingent upon legislative approval of the budget which was subsequently approved at \$2 million in an optional budget package to replace the TFFR mainframe system. The selection process stage began in 2003-04 to work with the consultant to develop an RFP.

The contract was signed in March 2004 and went live January 2006, with final signoff on February 2, 2006 (4 months behind schedule). There were no changes in scope of the project. There was some schedule slippage, problems with resource availability and data conversion delays. There were 15 change requests during the course of the project. The total consulting fees paid were \$399,200. Maintenance fees are \$100,000 per year. Total paid to date for the project is \$1.9 million. Project end date was 4 months behind schedule, so had to report to State Information Technology Advisory Council (SITAC). Many project challenges included performance bond requirement, staff limitations (RIO, ITD, and vendor), prioritization at agency level and at ITD.

Ms. Kopp summarized that the success of the project was a result of the commitment of their board, staff, the consultant, ITD, and the vendor. She noted it will:

- Cost more than you want to spend and it will be worth every cent (make sure of that).
- Take the guidance and expertise of an IT consultant.
- Take the support from your board and management (moral support and financial support).
- Take coordination and support from ITD, a big player in this process, as well as assistance from the Attorney General's Office, OMB Procurement Office, and other state entities.
- Take an incredible amount of staff time and effort, more than expected, and much hard work, flexibility, patience and commitment from staff.

### **New Board Member Orientation**

Mr. Collins indicated a committee, including Ms. Tabor and Ms. Sand, developed an orientation program for new PERS Board members and reviewed it with the Board.

**MS. TABOR MOVED APPROVAL OF THE NEW BOARD MEMBER ORIENTATION.  
MS. SAND SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Chairman Strinden

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

### **Airtime Review**

Mr. Collins stated that in follow-up to the planning meeting Melanie Walker from Segal has provided the Board with information relating to purchase of service credit in a governmental defined benefit plan, specifically, service credit known as air time. According to her summary, the purchase of service credit is acceptable and there have been purchase of service credit clarifications included in legislation which states that direct transfers from 457 and 403(b) plans into a governmental defined benefit plan to purchase service are not subject to the limits on air time under the Code and qualified service credit can be purchased for periods for which there is no service. Based upon this information, It appears PERS will not need to recommend legislative changes.

### **FlexComp Program Grace Period**

Ms. Allen stated this issue had been discussed in June 2005 when the Board moved to amend the medical spending account provisions of the flex comp program to incorporate the provisions of the IRS two and one/half month rule. That rule allows participants to submit claims incurred between January 1 and March 15 (grace period) of the plan year to be paid out of any account balance remaining from the previous plan year. The amendment included a 6-week run-out period or until April 30 for participants to submit these claims. Final guidance was issued December 2005 and the Board moved to go forward with the amendment to the plan document. Therefore, staff is recommending that the plan year run-out provisions be amended to coincide with the grade period run-out of April 30 for both the medical spending and dependent care. This would be effective January 1, 2007 for the 2006 plan year.

**MS. SAND MOVED TO APPROVE THE PROPOSED AMENDMENTS TO THE FLEXCOMP PROGRAM PLAN DOCUMENT AS RECOMMENDED BY PERS STAFF. MS. TABOR SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden.

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

### **IT Consultant**

Mr. Collins indicated Mr. Bob Pope is at the Fargo location for this Board meeting. PERS staff is suggesting we interview the top three vendors in late March – Maximus, MTG, and Wechsler. The average hourly rates do not vary much for each of the three vendors. As you can see, our costs are higher than what you had seen for TFFR. Board members suggested the review committee meet to interview the vendors and give their recommendations to the Board for final approval. The Board suggested that PERS send the proposal over to ITD for their review of the vendors.

Mr. Collins indicated PERS goal is to have a firm committed by the first part of April. The Board agreed to schedule a special meeting the first week of April to review staff recommendation and approve a firm.

### **SIB Alternate Member**

Mr. Collins indicated, according to state statute, PERS can have an alternate member for the State Investment Board (SIB). Ms. Sand had been the alternate member and now she is on the SIB. Ms. Tabor indicated she is willing to serve as an alternate member to the SIB.

**MS. SAND MOVED THAT MS. TABOR BE APPOINTED AS THE ALTERNATE MEMBER ON THE STATE INVESTMENT BOARD. MR. SAGE SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

### **Audit Committee Minutes**

The Audit Committee minutes of November 30, 2005 were presented to the Board for their information.

### **Legislative Employee Benefits Committee**

Chairman Strinden stated information has been provided regarding the activities of the Employee Benefits Committee. There were no comments from the Board.

### **State Investment Board**

Information provided to the Board relating to upcoming agenda and approved minutes. There were no comments from the Board.

## **RETIREMENT**

### **Job Service Retirement Plan**

Mr. Collins reported that the Board has been reviewing the issue of timberland investment in the fixed income portion of the portfolio. PERS staff has put together a recap of the information presented. Based upon the Segal recommendation, it is recommended PERS drop the assumed rate of return in the JSND retirement plan from 8% to 7%. If that rate of return can go down even more in the future, PERS can move toward investments that are more guaranteed so returns are predictable. It was noted by all presenters that timberland is not increasing the risk in this portfolio causing any liquidity risks. Therefore, Mr. Collins suggested PERS could write a letter to Mr. Steve Cochrane, State Investment Board, summarizing our findings and noting our goal is to continue to move toward the elimination of risk in this plan. This information would be shared with the Investment Board so the Investment Board does recognize and realize this plan is unique in terms of its characteristics compared to the PERS plan and some of the other plans.

Mr. Sage stated that this has been a lengthy process, but felt it was important that we did undertake it.

**MR. SAGE MOVED TO ACCEPT STAFF RECOMMENDATION. MS. TABOR SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Mr. Ehrhardt, Chairman Strinden

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

### **Constitutionality of Benefit Changes**

Mr. Scott Miller presented information regarding constitutionality of benefit changes which he also presented to the Teachers Fund for Retirement. A copy of this presentation is available at the PERS office.

## **GROUP INSURANCE**

### **Addendum to Group Health Care Insurance Policy for MedicareBlue RX PDP**

Mr. Collins stated PERS is seeking Board approval to sign this addendum to reflect the new MedicareBlue RX Prescription Drug Program rates. Mr. Miller has reviewed it and approved the addendum.

**MS. TABOR MOVED TO APPROVE THE ADDENDUM. MS. SAND SECONDED THE MOTION.**

Ayes: Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden  
Nays: None  
Absent: Ms. Smith

**PASSED**

**Dental and Long Term Care RFP**

Ms. Allen reported that at the December meeting the Board approved preparing a request for proposal (RFP) for consulting services to bid out the dental and long term care programs. PERS staff evaluated all four proposals and as the results indicate, the scores on the technical elements were close among all firms. Gallagher Benefit Services received the most points in terms of price and when combined with the technical score, gave them the highest overall score of 85.3. Based on the analysis, staff recommends that Gallagher Benefit Services be awarded the bid for consulting services for the dental and long term care plans.

**MS. TABOR MOVED TO AWARD CONSULTANT SERVICES FOR THE DENTAL AND LONG TERM CARE PLANS RFP TO GALLAGHER BENEFIT SERVICES. MS. SAND SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden  
**Nays:** None  
**Absent:** Ms. Smith

**PASSED**

**Smoking Cessation Program**

Ms. Allen reported we were notified there are two new nicotine replacement therapies (NRT's) available on the market – Nicotrol NS, a nasal spray, and Nicotrol Inhaler. Blue Cross contacted us requesting our direction regarding coverage for these two new smoking deterrents as they have had requests from smoking cessation providers and also have two claims pending reimbursement. Staff requested input from Kathy Mangskau of the Department of Health and Dr. Rice with BCBS regarding the effectiveness of the spray and inhaler. Dr. Rice indicated both products are FDA approved for the same indication as other NRT's. Ms. Mangskau indicated that the inhaler and spray offer options for individuals that are allergic to or unable to use other products. Both these new products require a prescription for purchase. The cost for an 8-week program for the new products is somewhat higher, but it does fall within the reimbursement guidelines in the grant proposal, and since our proposal does not specify product names, it is staff's interpretation and consequent recommendation that Nicotrol

spray and inhaler are eligible for coverage and that Blue Cross should be instructed to reimburse them accordingly.

**MS. SAND MOVED TO ACCEPT STAFF RECOMMENDATION THAT NICOTROL SPRAY AND INHALER ARE ELIGIBLE FOR COVERAGE. MS. TABOR SECONDED THE MOTION.**

**Ayes:** Mr. Leingang, Mr. Sage, Ms. Sand, Ms. Tabor, Ms. Ehrhardt, Chairman Strinden

**Nays:** None

**Absent:** Ms. Smith

**PASSED**

**Surplus/Affordability Update**

Mr. Reinhardt reported the projection for the 2003-2005 biennium was \$15.8 million. \$14.3 million was allocated by the legislature to BCBS to buy down the premiums. The early projection of 2005-2007 shows an ending balance of \$2.1 million. If you recall at the last meeting, we were running at about a 10% per year trend. Keep in mind we probably won't have that \$14.3 million, so in addition to the current trend, we will have to make up that buy down. Staff will be looking at reprojecting rates this summer.

**2005 BCBS Claims Review**

Mr. Reinhardt reported that each year staff reviews 100 BCBS claims to determine if they were processed and paid correctly. When a member has additional service and the can coordinate benefits, the member receives a credit to their copayments, deductibles, and coinsurance. It is a complicated process, they call it coordination of benefits banking. Staff received notice from BCBS they will discontinue this practice. Another issue is the fact the Prime Therapeutics cannot determine if a member has Prenatal Plus. They have been waiving the deductible for all prenatal vitamin prescriptions and applying 15% coinsurance since all were generic. There are now nonformulary prenatal vitamins available. Should these be processed at the 50% nonformulary coinsurance instead of the generic coinsurance? The copayment amount for prenatal vitamins is waived when the members enrolled under the Prenatal Plus program. BCBS is compiling information and will get back to staff on this issue.

**DEFERRED COMPENSATION**

**4<sup>th</sup> Quarter 2005 Reports**

Mr. Reinhardt reported the 4<sup>th</sup> Quarter Reports for the 457 Companion Plan and 401(a) Plan are included. The Investment Subcommittee met last month to review this information. The 401(a) plans increased to over \$14.1 million and the 457 Companion Plan increased to about \$16.5 million.

Mr. Collins indicated there were schedule conflicts with the April Board meeting, but the meeting will be scheduled as originally set for April 20.

The meeting adjourned at 11:30 a.m.

Prepared by,

Cheryl Stockert  
Secretary to the NDPERS Board