

# MINUTES

North Dakota Public Employees Retirement System  
Thursday, May 20, 2004  
North Dakota Association of Counties, Bismarck  
BCBS, 4510 13<sup>th</sup> Ave SW, Fargo

Members Present:

Mr. David Gunkel  
Mr. Howard Sage  
Mr. Weldee Baetsch

Via Video Conference:  
Fargo

Chairman Jon Strinden  
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office  
Mr. Sparb Collins, Executive Director NDPERS  
Ms. Denise Curfman, NDPERS  
Ms. Kathy Allen, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Ms. Deb Knudsen, NDPERS  
Ms. Cheryle Masset-Martz, NDPERS  
Ms. Sharon Schiermeister, NDPERS  
Ms. Rhonda Peterson, BCBS  
Mr. Larry Brooks, BCBS  
Mr. David Peske, ND Medical Assoc.  
Mr. Tom Tupa, SEA/AFPE  
Ms. Chris Runge, NDPEA AFT 4661  
Dr. Patricia Hill, ND Pharmacists Assoc.

Chairman Strinden called the meeting to order at 8:30 AM.

## **Minutes**

Chairman Strinden called for any questions or comments regarding the April 15, 2004 NDPERS Board minutes.

**Mr. Gunkel moved approval of the April 15, 2004. Mr. Baetsch seconds.**

### **Proposed Changes in Guidelines (Board Action Requested)**

Mr. Steve Cochrane and Ms. Connie Flanagan, from RIO, appeared before the Board to review a proposed wording change in the NDPERS Investment Guidelines Statement as indicated:

#### *V. Restrictions*

##### *F. Publicly traded REITs may not be used in the Real Estate asset allocation.*

This change relates to investment in a new commingled vehicle with one of the current real estate managers, INVESCO, who is creating a *private* REIT.

**Mr. Gunkel moved approval of the wording change. Mr. Sage seconds.**

**Ayes:** Baetsch, Gunkel, Sage, and Chairman Strinden.

**Nays:**

**Absent:** Sand, Smith, and Tabor.

**PASSED**

### **BCBS Overview (Informational)**

Mr. Tim Huckel, from BCBSND, appeared before the board, via video conference, to review the staffing changes in upper management at BCBSND. Mr. Huckel also provided the board with an overview of how BCBSND has adapted to those changes.

### **Rx Update (Informational)**

Mr. Collins indicated that several meetings ago the board heard a report from Prime Therapeutics about the pharmacy program and mail order purchasing. At that meeting it was suggested that the board have a follow-up presentation that provided an overview of prescription drug pricing and reimbursement as well as additional information on mail order.

Included in the board materials was a memo providing answers to the questions the board had from the February 19, 2004 presentation given by Jon Barian of Prime Therapeutics, Inc.

Mr. Jon Barian of Prime Therapeutics, Inc., BCBSND's pharmacy benefits manager, appeared before the board, via video conference, to provide the Board with education on pharmacy equation.

### **Smoking Cessation Program Update (Informational)**

Mr. Larry Brooks of BCBSND appeared before the board via video conference to provide the Board with an update on the Smoking Cessation Program. Mr. Brooks indicated that as of May 11, 2004 twenty-four members have enrolled in the program. Twelve of the 24 members have completed the program. Mr. Brooks indicated that, to date, all 12 members who have completed the program have successfully quit their tobacco use by the end of the program.

Mr. Brooks indicated that the working group is working on ideas to increase awareness about the program to all NDPERS employees. The working group met on April 20, 2004 and proposed the following strategies:

- Create brochures/mailing stuffers about the program and include related information about smoking and its affect on health and associated costs. These items could be sent in a series of emails and/or payroll stuffers to all employees.
- The second part of the plan would include providing promotional materials or toll kits to the 15 local provider agencies and let them promote the program, along with any of their

own materials, to their regional NDPERS employer groups through educational meetings.

- Action Item – Communication with develop prototypes of the brochures and stuffers. These items are in progress.

#### EPO Report (Informational)

Mr. Mike Potts and Ms. Charley Hundley, from BCBSND, presented information to the board on EPO reimbursement options and provider relations.

#### Surplus/Affordability Update (Informational)

Mr. Collins indicated that pursuant to the renewal agreement PERS must deposit with BCBS \$6,000,000 on August 1, 2004. Staff has begun working with BCBS to develop final numbers in July.

Mr. Reinhardt provided the Board with an overview of the latest Surplus/Affordability report. The report was included in the board materials.

#### 2003 BCBS Claims Review (Informational)

Mr. Bryan Reinhardt provided the Board with an overview of his review of accuracy of BCBS claims processing. The review findings and BCBS response was included in the board materials.

#### Quarterly Health Graphs (Informational)

Mr. Reinhardt provided the Board with an overview of the quarterly health graphs. The graphs were included in the board materials.

#### 2003 EAP Utilization (Informational)

Mr. Reinhardt provided the Board with an overview of the 2003 EAP Utilization. The board asked for a clarification of the "other" category. Mr. Reinhardt indicated he will follow up with the providers and report back to the board.

#### 2001 NDPERS Inpatient Comparison (Informational)

Mr. Reinhardt provided the Board with an overview of the 2001 NDPERS inpatient Comparison.

#### RFP Draft (Board Action Requested)

Mr. Collins indicated that the draft RFP for the group health insurance plan as prepared by Gallagher Benefit Services (GBS). This program was last bid out in 1998. Mr. Collins indicated that GBS has suggested that the board may want to consider adding the additional options relating to plan design:

1. It is becoming very common in parts of the country to have higher office visit copays for specialists than PCPs. They are often twice the PCP copay. To add a question asking pricing impact of such a change (although not recommended by your committee).
2. The rule of thumb for drug plans is to have the non-formulary brand copay be at least \$15 more than the formulary copay in order to optimize drug rebates. Currently PERS is only \$10. Suggestion to price the impact of a \$15 spread.
3. To ask the following question in insured medical sections: "Are you willing to unbundle prescription drugs and allow a stand-alone PBM?" "If so, what is the impact, if any, to your insured rates?"

Mr. Collins indicated that staff would not suggest #2 since the plan already has a coinsurance differential that is significant. The other questions staff would suggest be added.

Mr. Collins also reviewed the time lines for the RFP with the Board.

**Mr. Sage moved approval of the draft RFP, to include suggested question #1 & #3 to the RFP, and the timelines presented. Mr. Baetsch seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

**Nays:**

**Absent:** Smith, and Tabor.

**PASSED**

On Line Services/Sign on Procedures (Board Action Requested)

Mr. Collins indicated that one of PERS strategic objectives has been to offer more online services to PERS members. Previously staff presented to the board the new PERS web site. The first step in the on line services was to access the annual statement. That has now been supplemented with offering members the opportunity to access the following account information:

- Retirement benefit estimates
- Disability Benefit Estimates
- Member Account Balance

Mr. Collins also indicated that staff is seeking the boards approval of the sign on procedure to access this information. Specifically the method staff is suggesting would require the member to do the following to access their information:

- Acquire a North Dakota Logon ID
- Provide their Social Security Number
- Provide their Date of Birth

Access would be granted at this point. PERS would mail a 'Welcome' letter to the address on file as a follow-up. This procedure is modified from the method originally used which required a more extensive sign on procedure and waiting up to 5 days to have a password send to the members home. This latter procedure had a high failure rate.

Mr. Arnie Seitz and Ms. Sharmain Dschaak, from PERS, appeared before the board to preview the new services and to demonstrate the proposed sign on procedures.

**Mr. Gunkel moved approval of the new sign on procedures. Mr. Sage seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

**Nays:**

**Absent:** Smith, and Tabor.

**PASSED**

Disability Consulting Contract (Board Action Requested)

Ms. Allen indicated that the contract with Mid Dakota Clinic for disability consulting services expires June 30, 2004. The Board must determine whether to go out for bid or renew the present contract. The current contract rate is \$140.00 an hour and has been in effect since July 1, 2002. Mid Dakota clinic has indicated they wish to continue to perform these service for NDPERS at the rate of \$150 an hour for the July 1, 2004 through June 30, 2005 contract period. This is a \$10.00 an hour increase. The amount paid in consulting fees for this contract period beginning on July 1, 2003 to date is \$5,040. A copy of the current contract was included in the board materials.

Ms. Sand moved approval to renewal the current contract with Mid Dakota Clinic for the period of July 1, 2004 through June 30, 2005 at the rate of \$150.00 an hour. Mr. Sage seconds.

**Ayes:** Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

**Nays:**

**Absent:** Smith, and Tabor.

**PASSED**

Hardship Withdrawal Compliance (Board Action Requested)

Ms. Allen indicated that at the April meeting the Board was notified that three deferred comp provider companies, The Hartford, Nationwide, and Waddell & Reed, had made unauthorized hardship distributions to active plan participants. Each of the companies was asked to respond to this issue and provide an explanation for the violation and propose any remedies.

Ms. Allen indicated that each of the companies had complied to the boards directions to:

- Distributed funds be reinstated to the affected accounts back to the date of distribution and include any gains or losses that have occurred.
- The companies were further directed to document and report the compliance with this request prior to the Board's May 20<sup>th</sup> meeting.

No further action was required.

Deferred Compensation Plan Amended Employer Administrative Agreement (Board Action Requested)

Ms. Allen indicated that changes were made to the Deferred Compensation Plan Employer Administrative Agreement as a result of the Board's decision to have deferred compensation deductions remitted to NDPERS, instead of directly to the investment provider companies by participating employers, and to make corrections or updates as a result of promulgation of new rules effective May 1, 2004. These changes were in the board materials.

Ms. Allen indicated that due to the proposed revisions, it would be necessary to request that all participating employers sign a new agreement with NDPERS. Staff is proposing this request be subject to the following schedule:

- The new agreement will be sent out by the end of May, 2004.
- The employer will be notified that the deadline to return the signed agreement to NDPERS is July 1, 2004.
- Failure to comply with this requirement will result in termination of the contract effective August 1, 2004.

The schedule is consistent with the terms cited in Section IV of the employer agreement, "This agreement may be terminated at any time by the Retirement Board or the Employer, upon 60 days written notice to the other party."

**Mr. Gunkel moved approval of the proposed revisions to the Employer Administrative Agreement and the schedule. Mr. Baetsch seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

**Nays:**

**Absent:** Smith, and Tabor.

**PASSED**

### Companion Plan Transition Update (Board Action Requested)

Mr. Collins indicated that since the board selected Fidelity as the provider for both the 401(a) and 457 plans staff has:

1. Notified all parties of the selection,
2. Started the transition process,
3. Worked with both parties to set up a transition team, and
4. Established some tentative timeframes for transfer of assets.

Mr. Collins provided the board with recommendations of the investment subcommittee on adding the following mutual funds to the 401(a) & 457 plan:

- Dreyfus Mid Cap Index
- Dreyfus Small Cap Index
- Fidelity Dividend Growth
- Fidelity Growth Company
- Add 5 year lifestyle funds (2005, 2015, 2025 and 2035)

Mr. Collins reviewed with the board the following funds that will be dropped in the 401(a) plan:

- Alger
- INVESCO
- Strong

For those members who would want to continue with these funds they could do so through the Fundsnet lineup for the 401(a) plan only. If the member did not elect to take action to go to the Fundsnet or move them to another fund prior to September 1, 2004, the money would be mapped over as follows:

- Strong to Mutual Shares A
- INVESCO to Fidelity Mid Cap
- Alger to Morgan Stanley Small Co Grwth B.

Mr. Collins indicated that in the 457 Companion plan the VALIC funds line up will be mapped over to Fidelity. The committee had proposed a mapping changes as follows:

- Strong Opportunity to Mutual Shares A
- In the 457 Companion plan the Vanguard Mid Cap Index to the Dreyfus Mid Cap Index fund.

Mr. Collins indicated that the committee also discussed how funds should be invested if a member has not indicated an asset allocation by the time the funds were received by Fidelity. Currently when a member signs up for the 401(a) plan and does not make their investment selection the money will automatically be defaulted into a fixed income fund. The committee and Fidelity has suggested that the default fund be the lifestyle funds based on the member's age. Mr. Collins indicated that there are 39 individuals who are in the fixed income fund.

Mr. Collins presented the proposed implementation timeline for the 401(a) plan and 457 plans. Mr. Collins highlighted the time frame of August 16<sup>th</sup> through the week of September 3<sup>rd</sup> as a black out period. Members would be locked out at this time. Also indicated that the beneficiary will not transfer from VALIC to Fidelity.

**Ms. Sand moved approval of the mutual funds mapping and time lines. Mr. Sage seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

**Nays:**

**Absent:** Smith, and Tabor.

**PASSED**

Discussion followed on the default fund.

**Mr. Sage moved approval to change the default fund in the 401 (a) and 457 plan to the lifestyle funds for new enrollment. Mr. Gunkel seconds.**

Discussion followed.

**Ayes:** Baetsch, Gunkel, Sage, and Chairman Strinden.

**Nays:** Sand,

**Absent:** Smith, and Tabor.

**PASSED**

**Mr. Sage moved approval to keep the 39 participants currently in the default option in the 401(a) stable value fund; upon transfer, change their current default election to be their elected fund option. Mr. Baetsch seconds.**

Discussion followed.

**Ayes:** Baetsch, Sage, and Chairman Strinden.

**Nays:** Gunkel, Sand,

**Absent:** Smith, and Tabor.

**PASSED**

Budget (Board Action Requested)

Ms. Schiermeister indicated that in March of 2004, Governor Hoeven released the budget guidelines for the 2005-2007 biennium. He indicated that agencies would be required to submit their budget at the same funding level as the current biennium. Since that time, staff has been advised by PERS budget analyst at OMB that agencies whose funding is from special funds are encouraged, but not required, to submit their budget at the same funding level as the 03-05 biennium. The budget presented in the board materials is equal to our appropriation for the 2003-05 biennium.

Ms. Schiermeister also indicated that the budget guidelines also provide agencies with an opportunity to submit optional funding requests that are in addition to the base budget request. Staff has identified some IT projects that were not been included in the base budget request.

**Ms. Sand moved approval of the base budget. Mr. Gunkel seconds.**

**Ayes:** Baetsch, Gunkel, Sand, Sage, and Chairman Strinden.

**Nays:**

**Absent:** Smith, and Tabor.

**PASSED**

August Board Meeting (Board Action Requested)

Mr. Collins indicated that it was asked to change the August board meeting to August 30<sup>th</sup>.

The Board concurred.

Candidate Nominations (Informational)

Ms. Allen indicated that Mr. David Gunkel has been nominated by the active members and Mr. Ron Leingang has been nominated by the retiree members for election to the PERS board.

Consultant Fees (Informational)

Included in the board materials was the report showing the consulting, investment and administrative fees paid during the quarter ending March 31, 2004.

Audit Committee Minutes (Informational)

Included in the board materials was the February 12, 2004 PERS Audit Committee Minutes.

Executive Directors Evaluations

Mr. Baetsch indicated that each of the board members is to complete the evaluation and mail it directly to Chairman Strinden.

Chairman Strinden called for discussion, hearing none the meeting adjourned at 12:00 PM.

*Respectfully Submitted*

*Denise A. Curfman*

*Denise A. Curfman  
Secretary, NDPERS Board*