

Minutes
North Dakota Public Employees Retirement System
Wednesday, November 8, 2000
Peace Garden Room
State Capitol
Bismarck, ND
8:00 A.M.

Members Present: Mr. Joseph Maichel, Chairman
Mr. Weldee Baetsch
Mr. David Gunkel
Mr. Ron Leingang
Mr. Howard Sage
Ms. Rosellen Sand

Member Absent: Mr. Murray Sagsveen

Others Present: Mr. Sparb Collins, Executive Director NDPERS
Ms. Kim Humann, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Sharon Schiermeister, NDPERS
Mr. Scott Miller, Attorney General's Office
Mr. Howard Snortland, AFPE
Mr. Michael Carter, Watson Wyatt
Mr. Chris Conradi, Watson Wyatt
Mr. Bryan Klipfel, Highway Patrol

Chairman Maichel called the meeting to order at 8:05 a.m.

Watson Wyatt Report

Mr. Michael Carter and Mr. Chris Conradi, Watson Wyatt, provided a detailed overview of the Analysis of the Optional Defined Contribution (DC) Plan-Phase Two. This report is on file at the NDPERS office, located at 400 East Broadway, Suite 505, in Bismarck, ND. The Phase Two study was to:

- ❖ Expand the Phase One Study to:
 - Reflect anticipated future benefit improvements.
 - Study the impact of giving all active members the defined contribution option, not just state employees.
- ❖ Except where noted, all assumptions, methods, etc. were the same as under Phase One study.

The following future benefit improvements were included:

- ❖ The formula multiplier increases from 1.89% to 2.00% at July 1, 2001.

NDPERS Board Meeting

November 8, 2000

Page 2

- ❖ Ad hoc 6% benefit improvement for retirees at July 1, 2001.
- ❖ Ad hoc 2% retiree benefit improvements each year beginning July 1, 2003, continuing until increase is guaranteed.
- ❖ Ad hoc benefit improvements replaced by 2% guaranteed annual benefit increase
 - At July 1, 2005 or
 - At July 1, 2007

The purpose of the study was to:

- ❖ Determine whether proposed benefit increases appear affordable with a 4.12% employer contribution rate, 8% investment return, and no DC option
- ❖ If not, determine what rate of investment return is required
- ❖ Analyze impact of DC option on Defined Benefit (DB) plan given proposed benefit increases
 - No DC option
 - With only state employees having DC election
 - With all active members having DC election

The following are some of the key results for the DB plan only:

- ❖ Population remains constant.
- ❖ Payroll grows at a 3.6% average increase.
- ❖ Assets continue to grow.
- ❖ Contribution increase would be required in year COLA is guaranteed. Contribution rates decline slowly afterwards. The 2% guaranteed COLA cannot be achieved without a contribution rate increase in the absence of better than 8% investment return.
- ❖ Plan stays overfunded until COLA is guaranteed. Becomes overfunded again in 4-6 years.
- ❖ Funded ratio drops below 100% for a few years after COLA is guaranteed, then slowly increases.

Mr. Carter indicated the results under the scenario for the Optional DC Plan-Phase Two were:

- Contribution rate increase will be required in 2005-2007 when COLA is guaranteed.
 - But required increase is smaller if state employees have DC option.
 - Even smaller increase if political subdivision employees were allowed to elect DC plan too.
- Plan remains overfunded whether DC option is limited to state employees or open to all active members, and whether COLA is guaranteed in 2005 or 2007.
- Funded ratio increasing at end of period.
- External cash flow will be slightly negative.
 - Enough to impact some investment decisions, but probably wouldn't have significant impact on asset allocation or assumed return.

Mr. Collins pointed out the DB plan was changed to a hybrid plan which was not factored into the election rates and makes it more competitive against a DC plan.

NDPERS Board Meeting

November 8, 2000

Page 3

The election rates could be higher than anticipated in the future depending on how PERS is able to inform members of their investment decisions. Discussion followed. Mr. Collins pointed out earlier this year an experience was study conducted by The Segal Company and followed up with an asset allocation study. The asset allocation study was developed based on the objectives of reaching the multiplier of 2.0 and an annual COLA for retired members. As a result, the allocation submitted to the State Investment Board for implementation provides for approximately a 9.8% return in the future. These results would generate sufficient funds through investment earnings in order to meet the objective of a 2.0% annual COLA. This study along with the previous study by The Segal Company confirms that the asset allocation set is appropriate to reaching the COLA in 2007 without an increase in the contribution rate. The plan put in place earlier this year will generate sufficient money to achieve this with the DB plan only.

The findings of the report conclude that:

- ❖ Guaranteed COLA cannot be adopted by either 2005 or 2007, without higher investment return or additional contributions or other changes/gains.
- ❖ Based on the assumptions and methods, the DB plan is not harmed by the optional DC program.
- ❖ Expansion of the optional program to political subdivisions helps, not hurts, the DB system.
- ❖ Diversion of some members to DC program allows a guaranteed COLA to be paid for out of overfunding. (Overfunding goes further when spread over fewer DB members.)
- ❖ External cash flow may become an issue in 15-20 years, but still will not force significant changes to allocation or assumed investment return.

Mr. Sage expressed his concerns regarding increasing the contribution. Discussion followed. Mr. Carter pointed out the Board should be optimistic about achieving their goal of the multiplier of 2.0 and a 2% guaranteed COLA. He indicated the DC option is not going to hurt and may help the Board in their long-term goals. Mr. Collins pointed out the PERS system is constantly growing and this study reflects a constant membership.

Mr. Carter conveyed the exercise the Board has gone through with Watson Wyatt is a credit to the wisdom of the Board for doing an in-depth analysis before a change is made and should be congratulated for it. Mr. Baetsch expressed his concerns regarding locking into the guaranteed 2% COLA that may not allow additional retiree benefit enhancements.

Consultant Analysis

Included with the Board materials were the final actuarial reviews and technical comments. Two additional reviews from Deloitte & Touche were distributed at the board meeting. A new bill was submitted by Senator Mathern since the last Legislative Employee Benefits Committee meeting. The purpose of this bill is to expand eligibility of the group health insurance plan to include group homes. The

NDPERS Board Meeting

November 8, 2000

Page 4

review by Deloitte on this bill indicates that many of the same issues are present as the bill opening the group health insurance plan to the general public. Mr. Collins commented regarding Bill 50 and indicated that the Watson Wyatt analysis will be presented to the Legislative Employee Benefit Committee. Concerning the National Guard plan, Mr. Collins reviewed the Board's recommendation given to the Legislative Employee Benefits Committee at its last meeting which was that the National Guard retirement system should not be included until a plan had been developed for the system's dwindling participants. Mr. Collins conveyed that staff had met with the National Guard to review the results of their actuarial valuation and the Board's recommendation. A letter was received from the Office of the Adjutant General in response and was distributed requesting this option to be available to the National Guard's non-classified personnel. This item was informational only and required no action by the Board.

Bill 76-Dental Plan

Mr. Collins requested direction from the Board as to how to proceed with Bill 76 for the Dental Plan at the Legislative Employee Benefits Committee on November 9. Deloitte has given their technical comments and established an estimated cost for the bill. Discussion followed.

MR. SAGE MOVED TO WITHDRAW THE DENTAL BILL #76. MR. GUNKEL SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Sand, Chairman Maichel

Nays: None

PASSED

Reliastar-ING

Concerning the health insurance plan renewal with Blue Cross Blue Shield, staff indicated it had moved forward with arrangements with Reliastar for the health reserve account to be established. Discussions were held regarding the funds being withdrawn and staff requested a withdrawal. However, Reliastar has deducted some of the funds. Staff is in the early stages of exploring this and has sent them a letter requesting information. Staff will report any additional information regarding this matter at the November 30, 2000 board meeting. This item was informational only and required no action by the Board.

Other

Mr. Sage inquired if the Board should go on record at some time supporting the DC bill or what the strategy will be. Mr. Collins conveyed at the last Legislative Employee Benefit Committee meeting, testimony was given recommending changes to the bill. Mr. Sage inquired if it would be beneficial to take a position on the bill with the results from the Analysis of Optional DC Plan-Phase Two taken into consideration. Mr. Collins suggested waiting until it is determined if the bill

NDPERS Board Meeting

November 8, 2000

Page 5

sponsor's incorporate the recommendations suggested by the Board. Discussion followed.

Chairman Maichel called for any other business or comments. Hearing none, the meeting was adjourned at 9:45 a.m.

Prepared by,

Kim Humann
Administrative Assistant