

Minutes
North Dakota Public Employees Retirement System
Thursday, November 20, 2003
Health Department, State Capitol
Room 210, Judicial Wing
Bismarck, ND
8:30 A.M.

Members Present: Mr. Weldee Baetsch
Mr. David Gunkel
Mr. Howard Sage
Ms. Rosey Sand
Ms. Arvy Smith
Ms. Sandi Tabor

Via Video Conference Chairman Jon Strinden

Others Present: Mr. Sparb Collins, Executive Director NDPERS
Ms. Kim Humann, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Sharmain Dschaak, NDPERS
Mr. Bryan Reinhardt, NDPERS
Mr. Scott Miller, Attorney General's Office
Ms. Rhonda Peterson, BCBSND
Mr. Tom Tupa, INDSEA
Mr. Howard Snortland, AFPE
Ms. Chris Runge, NDPEA AFT 4660

Via Video Conference Mr. Larry Brooks, BCBSND

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

MINUTES

Chairman Strinden called for any questions or comments regarding the minutes of the October 16, 2003 meeting.

MR. GUNKEL MOVED APPROVAL OF THE OCTOBER 16, 2003 NDPERS BOARD MINUTES. MR. BAETSCH SECONDED THE MOTION.

DEFINED CONTRIBUTION & DEFERRED COMPENSATION

Deloitte Request For Proposals (RFP) (Board Action Requested)

The staff members from Deloitte & Touche LLP who have worked on this project joined the board meeting via video conferencing. Included with the board materials was a draft of the RFP for the defined contribution plan and deferred compensation plan. The RFP was developed by Deloitte based upon information supplied by staff and the investment committee. Mr. Collins indicated staff suggested two changes to the RFP: 1) extending

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the date for the RFP to January 15, 2004 and 2) putting a question and answer period in the RFP with a deadline for the questions to be submitted to PERS by the end of December and PERS would answer back by the beginning of January. Once approved, the RFP will be sent to firms interested, will be placed on the PERS web site and ads will be run in newspapers statewide. Discussion followed.

MS. TABOR MOVED TO APPROVE THE DEFINED CONTRIBUTION AND DEFERRED COMPENSATION PLAN RFP WITH THE RECOMMENDED CHANGES. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

RETIREMENT

Walsh County (Board Action Requested)

Earlier this year, it was discovered that Walsh County was treating payments made in lieu of health insurance as retirement salary, which is in violation of statute. At the previous board meeting, staff was directed to pay the principal to Walsh County but to review the current interest payment methodology. Included with the board materials was an explanation of the current practice and options available. Mr. Miller also reviewed the legality of this issue. Mr. Miller conveyed after reviewing this issue in statute and the administrative rules, he did not find any authority for the Board to pay interest for the overpayment by Walsh County.

MR. GUNKEL MOVED TO REFUND THE MONEY TO WALSH COUNTY WITHOUT INTEREST. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Job Service COLA (Board Action Requested)

Ms. Allen indicated the plan document for the Retirement Plan for Employees of Job Service North Dakota indicates, "effective each December 1 of any year, the monthly amount of each retirement annuity, death benefit or disability benefit then payable shall be increased by the percent increase, if any, in the Consumer Price Index." It further states..."no increase in retirement allowance granted under the Plan, or the date for commencement of such increase, will become effective unless the same increase has been authorized for the Civil Service Retirement System, and unless the increase has been authorized by the NDPERS Board." This provision for a COLA increase was authorized by the United States Department of Labor (USDOL) as part of a larger agreement reached with the USDOL in the late 1970's. Since that time the Plan practice has been to provide COLA's consistent with the Federal Civil Service Plan. It has been the practice of Job Service to provide these increases every year. This year the Federal

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Civil Service Plan will provide an annual adjustment of 2.1%. To accommodate the requirements in the plan document, staff requested that a procedure be developed for the Board to review and take action on the increases for future years. Staff recommended approval of the 2.1% increase and designate October of each year as the month to review the COLA increase for the following year. Discussion followed.

MR. GUNKEL MOVED TO APPROVE THE 2.1% COLA INCREASE FOR THE YEAR AND FOR THE BOARD TO REVIEW THE COLA INCREASE IN OCTOBER EACH YEAR FOR THE FOLLOWING YEAR. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Retirement RFP (Board Action Requested)

A draft RFP for retirement plan services was included with the board materials. The RFP provides for services relating to retirement including an experience study and asset/liability study. Mr. Collins indicated the defined contribution plan was not identified in the RFP and suggested these specifications be added. Mr. Collins recommended the fee for the deferred compensation and defined contribution plans be changed from a fixed fee to a fee per service basis. Mr. Collins also suggested changing the response date to January 15, 2004, adding in a question period, and adjusting the review percentages so they equal. Once approved, the RFP will be placed on the NDPERS web site and invitation letters will be sent to all major actuarial consulting firms.

MR. GUNKEL MOVED APPROVAL OF THE RETIREMENT RFP WITH STAFF'S SUGGESTED CHANGES. MS. SMITH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

National Guard/Law Enforcement (Board Action Requested)

Ms. Dschaak indicated that a review of the previous service aspect of this retirement plan has indicated that this provision could cause adverse selection to the retirement plan if an employee joins at a later date. Joining at a later date would allow an employee to join closer to retirement without having the employer contribute the higher employer contribution rate to pay for the enhanced benefit provisions. An amendment to the National Guard/Law Enforcement Employer Participation Agreement is necessary to avoid this adverse selection. Staff recommended the removal of the provision relating to employees that waive participation at an employer's initial enrollment in the law enforcement retirement plan at a later date. The revisions to the agreement have been reviewed by Mr. Miller, legal counsel, and he concurred with the deletions of the agreement. Staff recommended adoption of the proposed amendment to the National Guard/Law Enforcement Employer Participant Agreement.

MR. SAGE MOVED APPROVAL OF STAFF'S RECOMMENDATION TO ADOPT THE PROPOSED AMENDMENT TO THE NATIONAL GUARD/LAW ENFORCEMENT EMPLOYER PARTICIPATION AGREEMENTS. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

DEFINED CONTRIBUTION DEFERRED COMP

401(a) 3rd Quarter 2003 Reports (Informational)

Included with the board materials was the 401(a) Defined Contribution 3rd Quarter 2003 Report.

457 NDPERS Companion Plan 3rd Quarter 2003 Reports (Informational)

Included with the board materials was the NDPERS 457 Companion Plan 3rd Quarter 2003 Report.

Investment Subcommittee (Informational)

The investment subcommittee is recommending placing the Janus Balanced Fund on "Formal Fund Review" due to recent Janus management changes, operational challenges, and the ongoing investigation by the New York Attorney General's Office. Information was distributed explaining what has taken place and the actions other groups are taking. The Alger and Strong companies are also under investigation with funds in the 457 companion plan and 401(a) defined contribution plan. The Board already has these funds on "Formal Fund Review" due to poor investment performance. Mr. Collins indicated the investment subcommittee suggested that a letter be sent to all 457 companion plan and 401(a) defined contribution plan members acknowledging PERS is aware of the situation and advising them of this situation. Discussion followed.

MR. SAGE MOVED TO PUT THE JANUS BALANCED FUND ON FORMAL FUND REVIEW AND ALSO AUTHORIZE STAFF TO NOTIFY THE MEMBERSHIP OF THE MUTUAL FUND INVESTIGATIONS THAT ARE TAKING PLACE. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

GROUP INSURANCE

RX (Board Action Requested)

Included with the board materials was a letter from Ms. Chris Runge, NDPEA, concerning purchasing drugs from Canada. Ms. Runge also included a series of articles relating to this initiative. This initiative has grown dramatically in terms of the number of states

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pursuing this idea in the last several months. Staff was seeking direction from the Board on whether or not this alternative should be investigated for PERS. If the Board is interested, staff will ask the Pharmacy Benefits Managers, Blue Cross Blue Shield (BCBS) and the North Dakota Pharmacy Association, to address the Board at the next meeting on this issue. Staff will also compile information from Minnesota and other states on their efforts and progress to date. Staff will contact the Governor's office to let them know of our interest. Discussion followed. It was suggested that the Board should also hear from the member groups on this issue. Staff recommended moving forward with researching this alternative.

MS. SAND MOVED APPROVAL TO RESEARCH THE LEGALITY, FEASIBILITY AND POSSIBLE BENEFITS THAT MAY BE DERIVED FOR THE STATE BY PURCHASING DRUGS FROM CANADA. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Life Insurance (Board Action Requested)

Ms. Allen conveyed currently an employee called to active duty can keep their employee and spouse supplemental life insurance coverage in force for up to 12 months provided they continue to make the monthly premium payments. Due to the extension of the assignments for many active duty reservists, it is possible that the tour for some of these individuals may exceed the 12-months limit and they could lose their eligibility to retain their life insurance coverage. According to the Life Insurance Plan document, the continuation period is one year. However, coverage can be continued for up to an additional 12 months for a total of two years, subject to Board approval. Staff recommended Board approval for the extension of the continuation period for employee and spouse supplemental coverage for an additional 12 months to allow a total of 24 months of coverage continuation for reservists on active duty. Discussion followed.

MR. GUNKEL MOVED TO EXTEND THE TIME PERIOD TO 24 MONTHS FOR ALL EMPLOYEES. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

Smoking Cessation (Board Action Requested)

Mr. Collins indicated a draft of the basic elements for a smoking cessation program for state employees was included with the board materials. This draft was put together by Dr. Rice, BCBS. The document is the result of a joint effort among PERS, BCBS and the Health Department. The Health Department has indicated the program could be eligible for a grant up to \$250,000.00. An issue has been raised regarding the participation of BCBS. Specifically BCBS had recently indicated there would be an administrative fee of 10% of the total payments. Staff expressed their concern that this fee was unexpected

since prior to this a fee had never been mentioned. Staff felt that the amount proposed by BCBS was too high, diverted too much program funding to administration and was not consistent with the goal of trying to maximize the effort toward smoking reduction. Mr. Collins conveyed the only alternative would be to bring this effort totally in house. If this was done the medical and technical expertise of BCBS would be lost. While PERS would charge its variable costs to the project there would be no charges for the fixed costs to it since they are already built into overhead expenses, therefore, this would leave more funds to cessation efforts. This is the main difference in approaches envisioned by BCBS and PERS staff. However, in bringing this effort in house staff recognized this was not anticipated in the appropriations request or the anticipated work efforts for this biennium. Mr. Collins presented options for obtaining the additional operating funds through the contingency line item or Emergency Commission for receipt of necessary funds. Staff recommended approval of the smoking cessation methodology, authorizing staff to submit and application and having the administration done by PERS and not BCBS. Discussion followed. It was noted that BCBS could roll out the program on a statewide basis by January 1, 2004. Staff indicated if it was brought in house they could not start the program within the same time frame but would have to roll it out over the first half of 2004.

MS. TABOR MOVED TO ADOPT BCBS 10% FEE AND AUTHORIZE BCBS TO ADMINISTER THE PLAN. MR. SAGE SECONDED THE MOTION.

Mr. Brooks conveyed since the information he received from Dr. Rice for a January 1 implementation date was given to him a few weeks ago, he requested to verify with Dr. Rice that the implementation date was still ok and report back to the Board later in the meeting.

Ms. Tabor withdrew her motion. Mr. Sage withdrew his second to the motion.

Health RFP (Board Action Requested)

Staff is currently in the process of developing the RFP for the health and life consultant. One of the major work efforts by the consultant is the renewal with BCBS for the health plan. The work effort is substantially more in those years when going out to formal bid, which is done every six years. In 2004 a formal bid must be sought. Staff explained the process that has taken place in the past. The difference in the formal bid years versus the renewal years is that in the renewal years a fixed estimate is received from BCBS for the subsequent biennium that is submitted to the Governor. In the bid years, this is not received until December and therefore, an estimate is submitted to the Governor. Consequently, the amount approved by the Governor may not be correct. In order to resolve this dilemma, an alternative would be to move up the formal bid from October to July with responses due by August 1. The consultant would review the responses and report to the Board in early September and staff would then forward to OMB the fixed price estimate in early October. The life plan also goes to bid in 2004. If the timing is changed for the health bid, the life bid can be left with the October issuing date. Staff recommended issuing the health RFP in July and continuing to issue the life RFP in October.

MS. SAND MOVED TO APPROVE CHANGING THE TIMEFRAME FOR ISSUING THE HEALTH RFP SO A FIRM AMOUNT MAY BE OBTAINED. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

Health Background (Informational)

Mr. Collins gave a presentation on PERS Health Program Overview which was also given to the Legislative Employee Benefits Programs Committee.

Smoking Cessation (continued)

Mr. Brooks reported that Dr. Rice conveyed the January 1, 2004 implementation date should not be a problem.

MS. TABOR MOVED TO ADOPT THE 10% FEE AND HAVE BCBS IMPLEMENT THE SMOKING CESSATION PROGRAM BY JANUARY 1, 2004. MS. SAND SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden
Nays: None

PASSED

Health Background (Informational)

Ms. Janine Weideman, BCBS, gave a presentation on the national and local healthcare costs which was also given to the Legislative Employee Benefits Programs Committee.

Chairman Strinden conveyed he had to leave the meeting and asked Mr. Gunkel to serve as Acting Chairman during his absence.

Surplus/Affordability (Informational)

The October surplus projection and affordability analysis for the NDPERS group medical plan was included with the board materials. Mr. Reinhardt reviewed some changes in the analysis that were found after the board materials were distributed.

MISCELLANEOUS

2004 NDPERS Board Meetings (Board Action Requested)

The proposed 2004 board meeting schedule and locations was included in the board materials. Mr. Collins indicated it may be necessary to hold two meetings in February and March due to the deferred compensation and defined contribution plans RFP process. Due to a conflict in Ms. Sand's schedule, she will not be able to attend the board meeting on December 18. Discussion followed. Mr. Collins indicated he would contact Deloitte to see if they would be available on Friday, December 19 as they will be giving a presentation. Mr. Collins will have Ms. Curfman contact board members and set up a location for a possible board meeting date of Friday, December 19.

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MS. SAND MOVED TO APPROVE THE 2004 BOARD MEETING SCHEDULE. MS. SMITH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Sage, Sand, Smith, Tabor and Chairman Strinden

Nays: None

PASSED

NDPERS Website Information (Informational)

Mr. Collins indicated currently board member's individual pictures are on the PERS web site. Staff would like to include additional information next to each of the pictures. Included with the board materials was the information staff would be adding to this area of the website. By general consensus, the Board approved adding this information to the web site with the changes submitted.

Pre-Retirement Education Programs (PREP) Update (Informational)

An update on PREP conducted by PERS was included with the board materials. This program is intended to provide pre-retirement education geared to assisting long-term employees and spouses in planning for a successful life after leaving state employment. This program is available to all employers participating in PERS.

Compensation Committee Recommendation

Mr. Baetsch indicated the compensation committee had a recommendation, however, due to the fact that the Chairman was no longer in attendance this item should be deferred to the next meeting. By general consensus, the board agreed to defer this item to next meeting.

Acting Chairman Gunkel called for any other business or comments. Hearing none, the meeting was adjourned at 11:40 a.m.

Prepared by,

Kim Humann
Administrative Assistant