

MINUTES

North Dakota Public Employees Retirement System

WSI Boardroom, Bismarck

WSI Meeting Room, Fargo

Thursday, October 22, 2009

8:30 A.M.

Members Present: Ms. Joan Ehrhardt
Mr. Levi Erdmann
Mr. Howard Sage
Mr. Mike Sandal
Ms. Arvy Smith
Mr. Thomas Trenbeath

Via Videoconference: Chairman Jon Strinden

Others Present: Mr. Sparb Collins, NDPERS
Ms. Cheryl Stockert, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Deb Knudsen, NDPERS
Ms. Rebecca Fricke, NDPERS
Ms. Diane Heck, NDPERS
Mr. Aaron Webb, Attorney Generals Office
Mr. Brad Ramirez, Segal
Mr. Kurt Schneider, Segal
Ms. Onalee Sellheim, BCBSND
Mr. Don LaFleur, State Auditor's Office
Mr. Dave Zentner

Via Videoconference: Mr. Paul von Ebers, BCBSND
Mr. Kevin Schoenborn, BCBSND
Ms. Jodi Crouse, BCBSND

Chairmain 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 September 17, 2009 Board meeting. Ms. Smith indicated there was an error in her name on page 7 which needs to be corrected.

MS. EHRHARDT MOVED APPROVAL OF THE SEPTEMBER 17, 2009 NDPERS BOARD MINUTES AS AMENDED. THE MOTION WAS SECONDED BY MR. SAGE. THE MINUTES WERE APPROVED.

GROUP INSURANCE

BCBS

Mr. Collins reported to the Board that Mr. Paul von Ebers, President and CEO of BCBSND, was present to introduce himself to the Board, highlight efforts going on within the company, and share their perspective on national health care reform. Next month the Insurance Department will be at the Board meeting to review the results of the BCBS audit. In January Mr. von Ebers will attend the Board meeting in Bismarck to review in more detail their response to the audit.

Mr. von Ebers reviewed with the Board issues relating to the Insurance Department audit, the letter sent by PERS in April, and health care reform. He indicated BCBS is committed to working with Commissioner Hamm on the audit. Many of the items have been responded to in the sense that BCBS has changed its travel, severance, and investment policies. Mr. von Ebers presented an overview of what has been done in response to the audit stating they expect to be completed by the end of the year. The largest unfinished item is review of executive compensation. BCBS is in the process of gathering information from North Dakota companies relating to their compensation rates for various positions similar to BCBS. Once the executive salary information is received, it will be reviewed based on North Dakota comparisons. The second issue which may be even more difficult has to do with incentive programs around executive performance. Mr. Collins indicated to Mr. von Ebers that while incentives need to be aligned with the needs of the organization, they also need to be aligned with the needs of the members. Mr. von Ebers agreed that the new incentive program should include measures around the cost and quality of health care and the cost of health insurance premiums.

Mr. von Ebers told the Board that there are clearly very important issues brought forward in the Board's April letter to BCBS. He reported he has met with Mr. Collins to become familiar with the April letter. He indicated at this time, there has not been an adequate response to specific Board concerns. It was emphasized that the PERS Board is looking for collaboration and leadership and ideas from BCBS. Mr. von Ebers went on to say he hopes to get a response to the Board soon, although not a final response, to show the direction BCBS is moving. Mr. von Ebers indicated to the Board he plans to attend the January 2010 Board meeting in Bismarck and that if there are any questions as we go forward to let him know prior to the meeting. There were questions of Mr. von Ebers that were discussed.

Mr. von Ebers discussed various health care reform issues with the Board, specifically those issues relating to the rural state of North Dakota. He indicated that members must be engaged in taking care of their health more effectively to save on health care. The state currently does not have a sustainable health care system, neither from the

perspective of the hospitals and doctors nor from the perspective of employers or individuals.

Mr. von Ebers informed the Board that the pilot project "MediQ Home Project" can respond to PERS concerns to keep down medical costs. He is looking at a revision in their payment system in the next year that would reward greater efficiencies in the health care system, as opposed for just paying for more things to be done, which is the current practice.

Mr. von Ebers stated that there are ways that BCBS can become more efficient than they are. He pledged to bring to PERS measures of how they are going to prove year after year productivity improvements. There may be new programs that we mutually agree we want to do like engaging members in their own health. PERS may decide we want to increase funding for certain administrative costs because we jointly believe there will be a return on investment. But, in terms of BCBS routine activities, Mr. von Ebers expects there be ongoing productivity improvements to drive lower administrative costs to PERS over time. He will come back to the Board with more specifics on this. Mr. von Ebers pledged to the Board they will continue to provide high levels of service to PERS.

Finally, the PERS Board has expressed an interest in working with BCBS in a more collaborative manner. Mr. von Ebers indicated that BCBS needs to bring ideas to the table on how to work with the health care delivery system and how wellness and prevention can engage members in their own health. He took it as a strong message of dissatisfaction with BCBS on our program and he intends to make sure that they respond with every resource they have available in the organization.

Chairman Strinden stated these were very encouraging remarks. The Board commented they found the remarks very encouraging as well and they were much more satisfied today than in the past.

Health Reform

Mr. von Ebers, President and CEO of BCBSND, discussed a perspective on health care reform with the PERS Board. There was discussion with and questions of Mr. von Ebers.

Memorandum of Understanding (Wellness and Wellness Program)

Mr. Collins reported legal staff has been working with BCBS on the memorandum of understanding for the wellness program, specifically the issue of information being disseminated to subcontractors. Mr. Webb and Mr. Mullen with the Attorney General's Office have reviewed the MOU and have concluded that subcontractors must adhere to HIPAA to protect employee confidentiality. Mr. Collins reported the information is confidential no matter who has the information. The Board discussed this issue.

MS. SMITH MOVED APPROVAL OF THE AMENDED WELLNESS PROGRAM MEMORANDUM OF UNDERSTANDING. THE MOTION WAS SECONDED BY MS. EHRHARDT.

Ayes: Mr. Sage, Mr. Erdmann, Ms. Smith, Mr. Sandal, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: None

MOTION PASSED

Mr. Collins reported that BCBS has approved the proposal to maintain a position at BCBS that would work half-time on PERS employer-based wellness activities. PERS would pay half the cost for this position for 18 months at an estimated cost of \$75,000. The Board discussed the wellness program, its availability and having it available to retirees. The Board suggested that a specific wellness effort be included on the job description to develop strategies, methodologies and processes for involving PERS retirees in wellness programming.

MS. SMITH MOVED TO PROCEED WITH DEVELOPING THE WELLNESS POSITION AND APPROVED THE BUDGETED AMOUNT OF \$75,000 THROUGH JUNE 30, 2011 (OUT OF THE HEALTH ACCOUNT AT BCBS), AMENDING IT TO INCLUDE A SPECIFIC BULLET POINT ON THE JOB DESCRIPTION TO INCLUDE THE RETIREES ON WELLNESS EFFORTS.

Ayes: Mr. Sage, Mr. Erdmann, Ms. Smith, Mr. Sandal, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: None

MOTION PASSED

Health Consultant RFP

Mr. Collins reported the next request for proposal will be for the group insurance program consultant. The consultant selected will be responsible for assisting with the bids for the group insurance plans that will be occurring in the next couple of years. Mr. Collins noted that staff is suggesting issuing the group health insurance portion of the consultant RFP on a fee for service basis and the other portions on a fixed basis. Mr. Collins reviewed with the Board the RFP process.

MR. ERDMANN MOVED TO APPROVE THE APPROACH FOR THE RFP FOR THE GROUP INSURANCE CONSULTANT AND AUTHORIZED STAFF TO DEVELOP AND ISSUE THE RFP. THE MOTION WAS SECONDED BY MS. SMITH.

Ayes: Mr. Sage, Mr. Erdmann, Ms. Smith, Mr. Sandal, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: None

MOTION PASSED

Surplus/Affordability Update

Mr. Reinhardt presented the August projections to the Board. Projections through September are projected to take a loss of \$4.8 million. Since the plan is fully insured, this liability is the responsibility of BCBS.

RETIREMENT

Actuarial Reports

Mr. Brad Ramirez and Mr. Kurt Schneider with Segal reviewed the 2009 actuarial projections as of July 1, 2009 for the main system, judges, law enforcement, Job Service, Highway Patrol, and retiree health credit program with the Board. Overall, all the plans had a loss due to negative returns but asset smoothing and amortization methods have dampened these effects. Significant asset losses will be recognized over the next five years, which will require increased contributions. The Board had questions of Segal and discussed these valuations. Mr. Collins reported that this information will be presented to the Legislative Employee Benefits next week and the Board will discuss options at the planning meeting in December. A copy of the report is available in the PERS office.

Defined Contribution Valuation

Mr. Ramirez reported that upon Board request, Segal performed an analysis of the NDPERS defined contribution (DC) plan. This plan was adopted in 2000 as a voluntary plan available to non-classified state employees, appointed and elected state officials. The objective of this plan is to provide an option to the defined benefit plan that will allow members to save for their retirement. The evaluation was to measure how the DC members are doing by benchmarking their progress against the PERS DB benefit. The evaluation concluded that the DC plan is not providing a comparable benefit to the DB plan at this time and would not be based upon the assumptions used unless a significant increase in contributions occurred. The level of increase needed would be an increase to about a 20% contribution level.

Investment Policies

Mr. Collins reviewed with the Board some suggested changes to the PERS Investment Policy that were based upon a meeting the Investment Committee had with the Lt. Governor and Mr. Cochrane. Changes were suggested to the Main and Highway Patrol Investment Policies in section 6, Asset Allocation, and section 9, Evaluation. Staff is seeking approval of these changes as well as approval to include these changes in the Job Service and Retiree Health Insurance Credit investment policies.

MR. SAGE MOVED TO APPROVE THE STATE INVESTMENT GOALS AND POLICIES CHANGES AND TO APPLY THESE CHANGES TO THE JOB SERVICE AND RETIREE HEALTH INSURANCE CREDIT INVESTMENT POLICIES. THE MOTION WAS SECONDED BY MR. SANDAL.

The Board discussed this motion.

Ayes: Mr. Sage, Mr. Erdmann, Mr. Sandal, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: None

Absent: Ms. Smith

MOTION PASSED

Job Service COLA

Ms. Allen reported that the Bureau of Labor Statistics publicized there will be no cost of living adjustment for the Federal Civil Service Retirement Plan. The Board determined that Article VII(3) of the job service plan document does not allow the PERS Board to give an increase unless one is provided to federal employees .

MR. ERDMANN MOVED TO RECOGNIZE NO INCREASE FOR JOB SERVICE RETIREES IS POSSIBLE UNDER ARTICLE VII(3) OF THE PLAN DOCUMENT. THE MOTION WAS SECONDED BY MR. SAGE.

Ayes: Mr. Sage, Mr. Erdmann, Ms. Smith, Mr. Sandal, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: None

MOTION PASSED

DEFERRED COMPENSATION

Provider Education Fees

Mr. Collins reported that contractually deferred compensation providers must attend provider training offered through PERS. PERS provides this training twice per year and it is approved for continuing education credit. Effective January 2010, the Insurance Department will charge \$1 per credit. Staff recommends continuing to offer the continuing education credit and pay the \$1 charge.

MR. SAGE MOVED TO CONTINUE OFFERING CONTINUING EDUCATION CREDIT FOR THE REQUIRED DEFERRED COMPENSATION PROVIDER TRAINING AND PAY THE \$1 PER CREDIT HOUR FOR PROVIDERS. THE MOTION WAS SECONDED BY MS. SMITH.

The Board discussed this motion and directed staff to confirm that PERS could pay the Insurance Department directly for the provider representatives' credit hours with the State Auditors Office or the Attorney General's office.

Ayes: Mr. Sage, Mr. Erdmann, Ms. Smith, Mr. Sandal, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: None

MOTION PASSED

Flex Program Changes – Health Reform

Mr. Collins provided the Board with an update relating to health care reform and the flexible spending accounts.

Flex Payments

Ms. Allen gave an update to the Board relating to the status of the flexcomp payment issue resulting from the May 2009 PeopleSoft software upgrade.

State Auditor's Office Security Audit

Mr. Collins informed the Board that Mr. Don LaFleur was present to give information relating to the recent spear phishing attack that was launched against state employees by the State Auditors Office with a scenario email indicating that all state employees will be required to pay a premium for their health care plan. Mr. Don LaFleur, State Auditor's Office, informed the Board they conduct tests of the state's security processes and procedures every two years. The purpose of the test was to determine if employees were vulnerable to an attack and to test the state's processes for identifying and responding to an attack. The scenario was developed by the state's security consultant and the target list of employees was generated by the security consultant which was approved by the State Auditor's Office. In the scenario, state employees were to go to a website link and give their user ID and password. There were questions of and discussion with Mr. LaFleur and the Board expressed concern about this email and indicated it caused much disruption. The Board suggested that in the future, the State Auditor's Office notify the agency director that is affected by the test scenario. The State Auditor's Office apologized for any inconvenience caused by this attack, but wanted to reiterate the importance of testing the system.

Quarterly Consultant Fees

The report of consultant fees paid during the quarter ending September 30, 2009 was presented to the Board for their information.

PERSLink Project Quarterly Report

Mr. Collins presented the third quarterly 2009 PERSLink status report to the Board. The project continues to be on time and on budget.

Appeal #2009-001H

Ms. Allen presented detailed information to the Board relating to a participant's request to be released from liability for payment of an insurance premium underpayment. The Board discussed this appeal.

MR. ERDMANN MOVED TO APPROVE THE REQUEST. THE MOTION WAS SECONDED BY MS. EHRHARDT.

The Board discussed this motion.

Ayes: Mr. Erdmann, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: Mr. Sage, Ms. Smith, Mr. Sandal

MOTION PASSED

Mr. Collins distributed a tentative list of 2010 Board meeting dates for Board review.

BCBS Review

EXECUTIVE SESSION

MR. TRENBEATH MOVED THAT THE BOARD GO INTO EXECUTIVE SESSION PURSUANT TO NDCC §44-04-19.1(2) & (5) TO CONSULT WITH THE ATTORNEY RELATING TO GROUP INSURANCE. THE MOTION WAS SECONDED BY MR. ERDMANN.

Ayes: Mr. Sage, Mr. Erdmann, Ms. Smith, Mr. Sandal, Mr. Trenbeath, Ms. Ehrhardt, and Chairman Strinden

Nays: None

MOTION PASSED

All members named above were in attendance for the Executive Session (closed meeting, electronically recorded) which began at 12:00 p.m. The Executive Session closed at 12:07 p.m. and the Board returned to open session.

Chairman Strinden called for any other business or comments. Hearing none, the meeting adjourned at 12:08 p.m.

Prepared by,

Cheryl Stockert
Secretary to the Board