

MINUTES

North Dakota Public Employees Retirement System
Thursday, September 16, 2004
North Dakota Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo

Members Present:

Mr. David Gunkel
Mr. Howard Sage
Mr. Ron Leingang
Ms. Arvy Smith
Ms. Sandi Tabor

Via Video Conference:
Fargo

Chairman Strinden
Ms. Rosey Sand

Others Present:

Mr. Scott Miller, Attorney General's Office
Mr. Sparb Collins, Executive Director NDPERS
Ms. Denise Curfman, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Deb Knudsen, NDPERS
Mr. Larry Brooks, BCBS – Fargo Location
Mr. Tom Tupa, SEA/AFPE
Ms. Patrica Hill, NDPHA
Mr. Howard Snortland, AFPE
Ms. Rhonda Peterson, BCBS
Ms. Jaycee Reisenauer, Pharmacy Student
Mr. Harvey Hanel, NDPHA
Mr. Weldee Baetsch, Former PERS Board Member

Chairman Sage called the meeting to order at 8:50 AM.

Minutes

Chairman Strinden called for any questions or comments regarding the NDPERS Board minutes for August 30, 2004.

Mr. Leingang moved approval of the August 30, 2004, NDPERS Board minutes. Mr. Gunkel seconds.

Job Service (Board Action Requested)

Mr. Collins indicated that over the past year, PERS staff has had the opportunity to assess the administrative operations of the Job Service Travelers plans. This responsibility was transferred to PERS by Job Service effective August 1, 2003.

Mr. Collins indicated that PERS administers benefits for two groups of Job Service retirees:

Travelers Annuitants: NDPERS assumed the administrative and recordkeeping services for the Job Service Travelers plan on August 1, 2003. This group is comprised of those individuals for whom annuities were purchased through The Travelers. Job Service staff performed all benefit calculations, record maintenance, benefit adjustments and administration of the COLA for this group prior to August 1.

JSND Annuitants: PERS pays this group from the Plan assets per the ASO agreement with Job Service dated October 1, 1993. Since August 1, 2003 PERS is also responsible for the administration and recordkeeping to include benefit calculations, record maintenance, benefit adjustments and administration of the annual COLA increase. At this time there are 98 members in this group.

It was the Plans understanding that when the annuity contract with The Travelers was terminated, all dollars were transferred to the Plan. However, in 2002 Travelers notified Job Service it had retained an amount that is referred to as the "paid up annuity" which includes contributions made during the period 1960 to 1971. Of the 98 retirees, 46 have a "paid up annuity" and there are five active participants eligible for these benefits. Travelers would pay the funds to the Plan so that these participants could continue to receive one benefit payment. Effective January 1, 2003, Travelers began making payments to the retirees with a paid up annuity. Because the base annuity amount was correct, it was necessary for Job Service to reduce its current payments to the participants by the amount of The Travelers payment. Total monthly "paid up" benefits paid by The Travelers are \$777.78 and range from a low of \$1.06 to a high of \$69.87 per month.

After reviewing the performance over the last year staff is recommending that PERS pursue the feasibility of system programming for PERS to assume the responsibility of generating monthly COLA checks for Travelers annuitants.

Secondly, staff is recommending that PERS negotiate with Travelers to transfer the "paid up annuity" fund to the plan assets held by the SIB.

Ms. Sand moved approval of staffs recommendation. Mr. Sage seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays: None

Absent: None

PASSED

Actuarial Audit (Board Action Requested)

Mr. Collins indicated that at the February board meeting it was noted that the last time an actuarial audit was done was in 1996 for the year ended 1995. It is generally suggested that an actuarial audit be done at least every ten years.

Mr. Collins indicated that an audit involves having another firm essentially redo a valuation in a particular year to determine if they get a similar conclusion. This is an especially important effort when you have the same consultant on your account for an extended period of time. Mr. Collins indicated that one of the advantages of doing it for the 9 year period ending in June 2004 is that it would be completed before the 5 year experience study next year, thereby assuring that the data upon which the experience study is conducted is correct.

Mr. Collins indicated that if the Board elected to do the audit for this last year three options existed to solicit these services:

1. Do a general search.
2. Since we just completed a general bid go back to the two firms that were finalist. Those firms were GRS and Mellon. Mr. Collins noted the lead actuary on the Mellon bid had recently moved to GRS.
3. Seek a bid from GRS who was a finalist in the 1st general bid and who did the last audit.

Mr. Sage made motion to request a bid from GRS to conduct the audit for review by the board at the October meeting. Ms. Tabor seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Tabor, Smith and Chairman Strinden.

Nays: None

Absent: None

PASSED

Asset Valuation Method (Board Action Requested)

Mr. Collins indicated that last year the Board spent several meetings reviewing the actuarial valuation method with Segal. The conclusion of that effort was to retain the method currently being used. As noted during that discussion the adoption of a methodology that recognized 20% of any gain or loss during the 80's and 90's was likely one of the most significant actions of the board in providing for the security of the retirement plan.

Mr. Collins indicated that as a result of having several years of strong negative markets this method is causing a greater unfunded liability than the system actually has at market value. The result is that the system is showing a need for more funding than required.

Ms. Leslie Thompson from Segal joined the board meeting via conference call. Ms. Thompson discussed with the Board restarting our actuarial valuation method this year. What this would mean is that the system would continue to use the same method but value the assets at market this year and then starting next year it would restart the present valuation method. In restarting the valuation method the funded value this year would reflect the market value. In future years it would again start to reserve funds as it did in the 80's and 90's to deal with future down markets. The advantage of this is that during the current down market it would better reflect the funded status and going forward it would again start to reserve funds for future down markets assuming the future returns are over 8%.

Mr. Leingang made a motion to continue with current method. And not to restart it. Ms. Sand seconds.

Ayes: Leingang, Gunkel, Sand, Smith and Chairman Strinden.

Nays: Sage

Absent: Tabor

PASSED

Disease Management (Informational)

Mr. Collins indicated that at the last meeting the board decided to request funding to add a disease management strategy to the health plan. This was included the health RFP. BCBS responded by offering Health Dialog. Representatives from BCBS and Health Dialog appeared before the Board with an overview of the program.

Mr. Collins also mentioned that at the last meeting the Asheville project was discussed. Included in the board materials was a description of this program. The format for this type of disease management program relies upon using the services of pharmacists instead of out of state vendors. In October or November staff will ask the North Dakota Pharmacy Association to appear before the board to discuss their capabilities relative to this type of concept.

Pharmacy Association (Informational)

Mr. Collins indicated that at the last board meeting the Board discussed PERS participation in the BCBS Rx Dakota network. This network was developed by BCBS of North Dakota. With BCBS partnering with Prime Therapeutics it means that Prime's Rx provider network is also available to BCBS participating groups as an alternative. A representative of BCBS appeared before the board at the last meeting to explain the difference between the two networks. Generally speaking the primary difference is that the Rx Dakota network is more comprehensive but more costly. The Prime network is less costly but not as comprehensive in North Dakota. The difference in cost between the two networks can be as much a \$2 per script and a lower AWP. This could result in a savings of \$1,000,000 or more per year to the plan.

Dr. Patricia Hill and Harvey Hanel, RPH of the North Dakota Pharmacists Association appeared before the board to share their thoughts about changing networks. They noted that such a change could reduce the availability and accessibility of pharmacy services in North Dakota. They also questioned the estimated savings and shared with the Board one individual's experience.

The Board concurred in continuing to explore this option.

PPO Agreements (Informational)

Mr. Collins indicated that BCBS is in the process of updating all their provider contracts. As part of this effort they would like us to consider a different method for our PPO and EPO contracting. Mr. Steve Webster from BCBS appeared before the Board to discuss why they would like to move to the new format.

Mr. Collins indicated that final consideration of this issue will be a part of the final considerations of the BCBS bid.

Medicare Group (Board Action Requested)

Mr. Collins indicated that at past meetings the board has generally talked about the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The most significant component of the Act was the addition of Medicare prescription drug coverage or what is referred to as Medicare Part D. This bill requires us to make some decisions about our Medicare plan Rx benefits. Some of the issues we need to examine in the upcoming months include:

- Eliminate retiree Rx coverage under our plan
- "Wrap" our plan around the new Medicare benefits
- Keep/enhance our retiree Rx Benefits so that our plan qualifies for the 28% rebate.
- Put Rx Benefits in a separate plan
- Use employer contributions to pay for Rx coverage in lieu of other medical benefits.

- Move to a CDHC plan for Rx Benefits only

Part D becomes effective in January of 2006. In order for PERS to move forward on this staff should get help from a consultant with expertise relating to the developing federal regulations on this and has the actuarial capabilities to do any actuarially equivalent evaluations that may be required. To address this issue staff believes the following assistance may be helpful:

- Board and staff education on the bill
- Identification of the issues and decisions that need to be made
- Development of the pros and cons with each issue and potential decision.
- Actuarial help.
- Assistance to the Board in deciding which approach PERS should follow.
- Assistance in renegotiating our Medicare retiree rates and changing our plan design as appropriate.

Since the scope of the work is not fully understood staff does not believe this could be done on a fixed fee basis but rather it could be done on an hourly fee basis.

Mr. Gunkel made a motion to move forward with the effort on a fee for service basis and to utilize the PERS health consultant, GRS. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Health Insurance (Board Action Requested)

Mr. Collins indicated that at the last meeting the Board discussed the BCBS bid and identified some issues that the Board wanted BCBS to consider further. Those issues were:

- Wellness Benefit Program fee of 9 cents- BCBS did not include this amount in their administrative fee but rather broke it out separately. In the past three or four renewals it has always been negotiated as part of the administrative fee. After discussion it was decided to ask BCBS to again consider including it in their administrative fee.
- Interest on claims payment fund –Six years ago PERS lost as part of the negotiations interest on the funds in the claims payment account. PERS gave up the interest at that time in consideration of a reduction in the premium amount. The interest did not appear to be a consideration in the premium. After discussion the board felt that it was appropriate that BCBS should again start paying interest on this account.
- Rx co-insurance max – At the last meeting the board decided to request adding a co-insurance max to the plan. A question came up as to how this applied to non formulary drugs. Their response was included in the board materials.

Mr. Larry Brooks was at the meeting and indicated that BCBS position on the wellness benefit program is to keep it out of the administrative fee. Mr. Brooks also indicated that on the second issue relating to the interest on the claims payment fund, BCBS's proposal gives PERS a reduced retention rate as a result of BCBS retaining the interest.

Mr. Collins also indicated that included in the board materials was the presentation he had given to OMB and the Legislative Employee Benefits committee about the boards' considerations thus far on the health plan. This presentation will also be giving to the State Employees

Compensation Commission on September 24, 2004. Mr. Collins referred the Board to slide number 11. Mr. Collins indicated that at the last meeting a question came up about the amount the plan pays. It was noted that today 85% of expenses go to 20% of members. This is an increase from several years ago when 80% of our expenses went to 20% of our members. This is the area that a disease management program is directed at to gain some better efficiency in health care delivery for these people.

Transition Update (Informational)

Mr. Collins provided the Board with an update on the transition of the Companion plan. Included in the board materials was the education meeting schedule.

Certificate of Achievement for Excellence in Financial Reporting (Informational)

Mr. Collins informed the Board that PERS has been notified that our comprehensive annual financial report for the fiscal year ended June 30, 2003, qualified for the "Certificate of Achievement for Excellence in Financial Reporting". The Certificate is the highest form of recognition in government accounting and financial reporting. Mr. Collins indicated that Ms. Sharon Schiermeister is responsible for the development of this report and to whom the agency owes its appreciation for this accomplishment.

2005 Board Meeting Schedule (Board Action Requested)

Mr. Collins reviewed the proposed 2005 board meeting schedule and location.

Mr. Sage moved approval of the 2005 board meeting schedule. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Chairman Strinden called for other business or discussion.

Mr. Collins indicated that a special board meeting would need to be called to discuss the health insurance bid. The board concurred. The special board meeting was scheduled for October 1, 2004.

Mr. Sage asked the board for approval to attend the Super Bowl of Indexing conference in Phoenix and to pay one day of travel in December of 2004.

Mr. Leingang moved approval of the conference and one day of travel. Ms. Smith seconds.

Ayes: Leingang, Gunkel, Sand, Sage, Smith and Chairman Strinden.

Nays:

Absent: Tabor

PASSED

Chairman Strinden called for other business or discussion, hearing none the meeting adjourned at 11:40 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*