Association of Former Public Employees

October 19, 2003

Areas of Review

1. Last Legislative Session
2. Health Insurance premiums (plan design will be discussed at a future meeting)
3. Retiree Health Credit
4. Retirement Benefits

LEGISLATIVE UPDATE

Legislative Session

1. 15 bills
   1. 7 Health
      1. 1 PERS
      2. 6
   2. 8 Retirement
      1. 2 PERS
      2. 6
2. Several health amendments

SB 2058 (PERS)

1. Deferred Comp Plan
2. Main Retirement System
3. Retiree Health Plan
4. Defined Contribution Program

SB 2058 (PERS)
Deferred Comp Plan

1. Domestic Relation Orders
    1. Relates to the division of a members account in the case of a divorce

SB 2058 (PERS)
MAIN RET. PLAN

1. Definition of "eligible employee" from 5 months to 20 weeks
2. Clarifies participation of elected and appointed officials
3. Allows trustee to trustee transfers
4. Changes multiple plan membership provisions
5. USERRA

SB 2058 (PERS)
MAIN RET. PLAN

1. Confidentiality Provisions
2. Update federal compliance provisions
3. Employer purchase of up to five years and sick leave

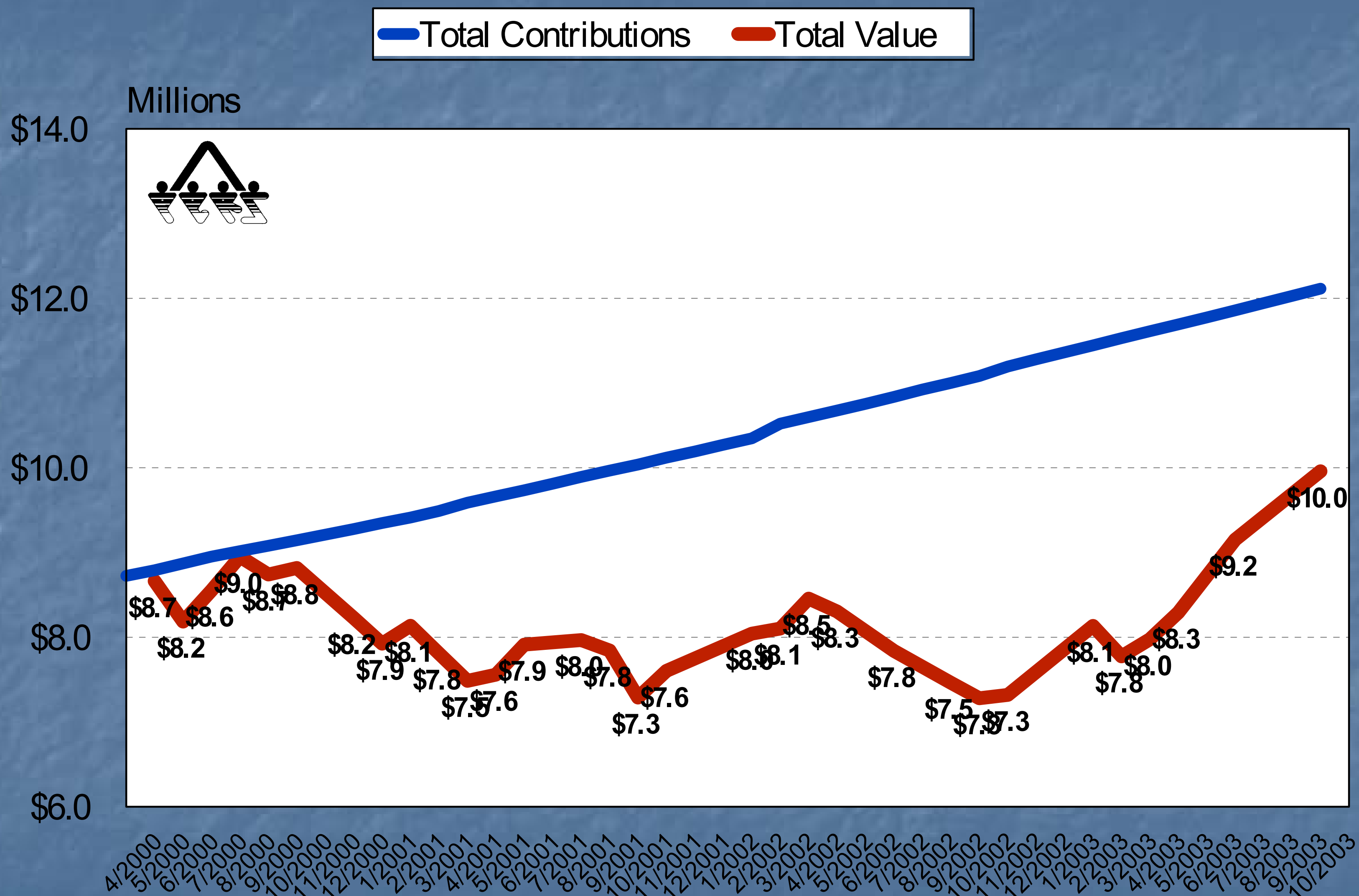
SB 2058 (PERS)
Retiree Health PLAN

Coordinates the effective date for members to receive the retiree health credit with the effective date for retirement benefits

SB 2058 (PERS)
Defined Contribution Plan

1. Additional employer contribution
2. USERRA
3. Timeframe for refunds

NDPERS Defined Contribution Plan



SB 2059 HP System

Provisions similar to Main

SB 2033 – New Plan

1. Provides for an earlier normal retirement date
2. Cost of including state was about $1 million (AG, DOC & G&F)
3. State amended out
4. Passed for political subs only

SB 2335 – Investments

1. Required a 5% allocation of assets to alternative investments
2. .25% to be invested in North Dakota alternative investment
3. Above provisions amended out
4. PERS already has substantial investment in North Dakota

North Dakota Investments

1. 40 million a year in pension payments
2. 38 million investment pool through BND
3. Venture Capital commitment

Other Retirement Legislation

1. SB 2013 – DPI Employees
2. HB 1063 - OASIS
3. HB 1064 – Job Service Retirement

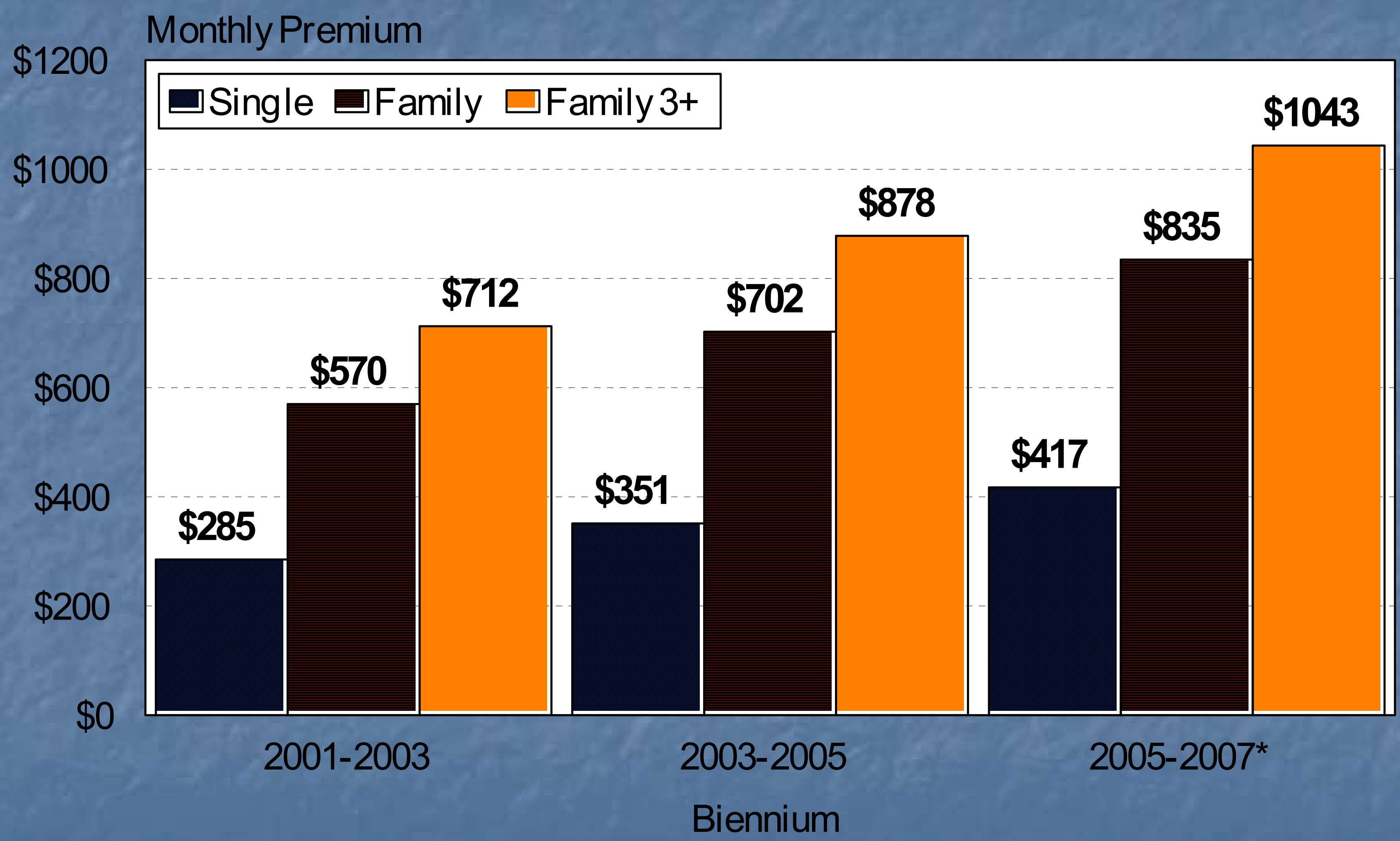
HEALTH INSURANCE

Health Insurance – Future Prospects

1. Estimated national trends
   1. 14.5% increase in 2003
   2. 13% increase in 2004
2. For PERS this would mean another 25% to 30% increase in 2005

NDPERS Health Rates

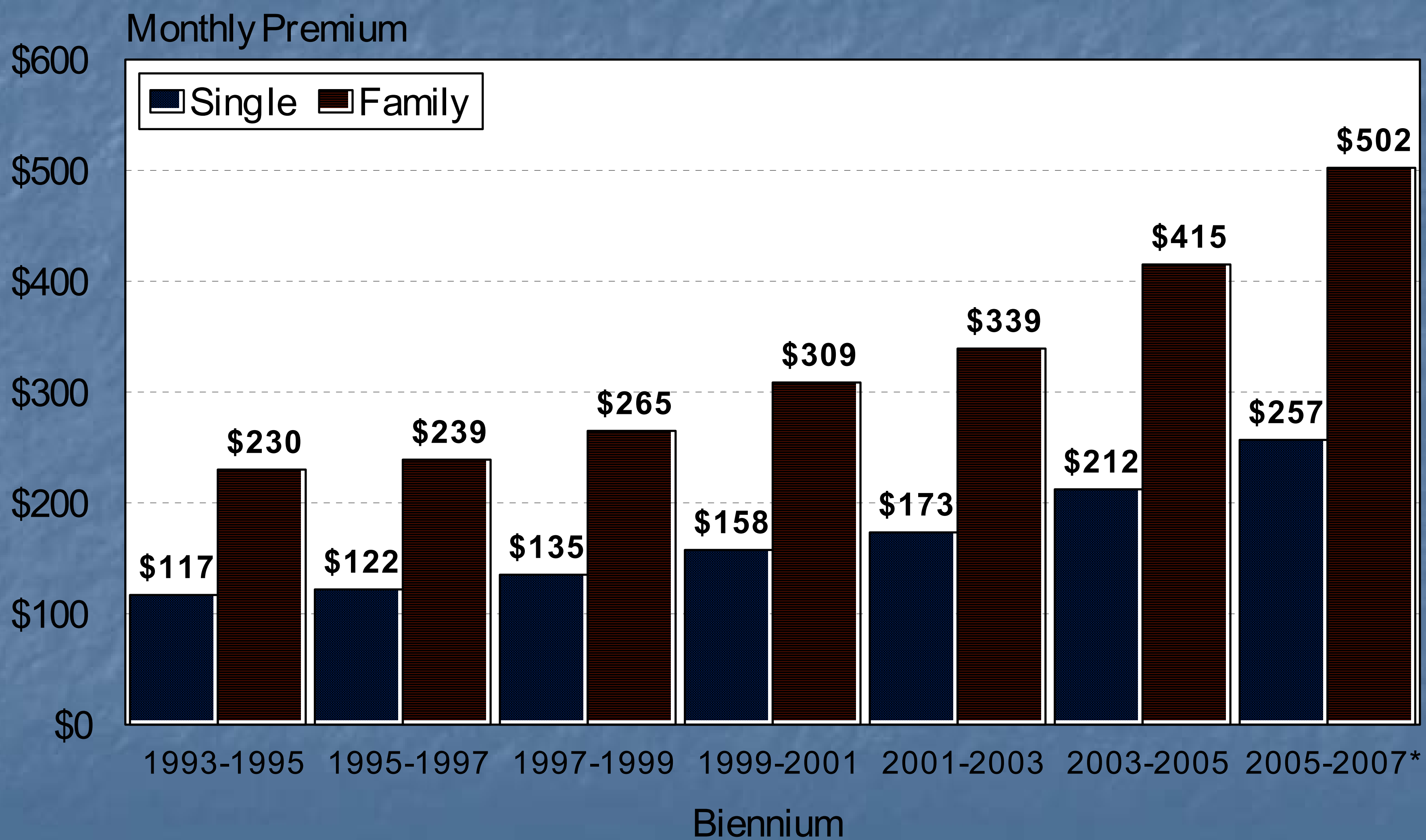
Non-Medicare Retiree



* - Estimated Based on Active Rate at 10% per Year.

NDPERS Health Rates

Medicare Retiree



* - Estimated at 10% per year

Future rates (14% per year)

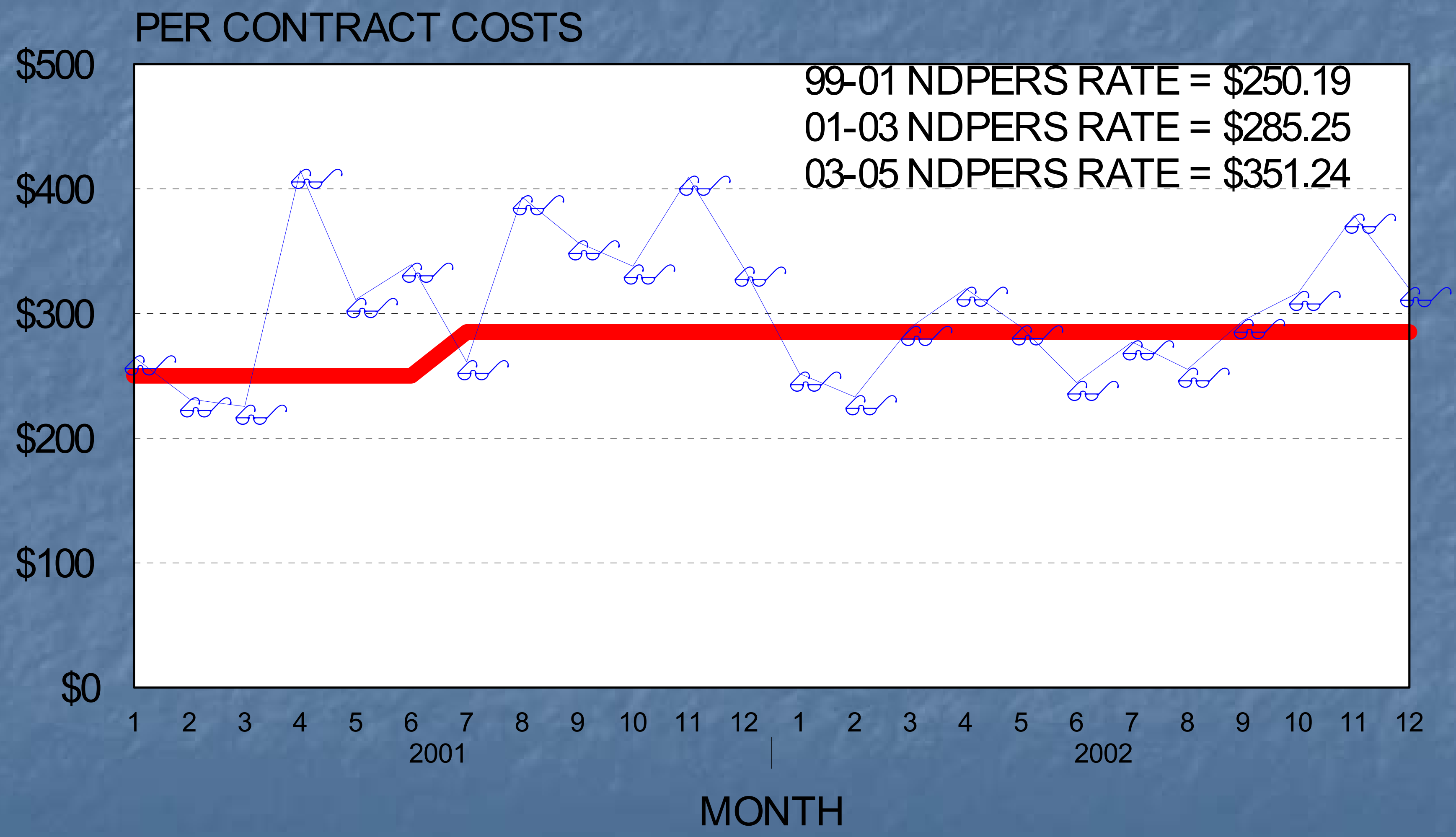
	Present	2005 – 07 Rate
Non Med Single	$351	$450
Non Med Fam.	$702	$899
Non Med F. 3+	$878	$1,124
Med One/under	$522	$668
Med Single	$212	$271
Med Family	$415	$531

PRE – Medicare Retiree

1. Rates set in statute (NDCC 54-52.1-02)
    1. Single is 150% of active single
    2. Family is 2 times single
    3. Family of 3+ is 2.5 times single
2. In 2002, the non-Medicare contracts had $4,292,359 in premium and the NDPERS Health Plan paid $4,795,321 in claims & administration. This is a difference of $502,962 or a subsidy of $46.16 per contract per month costing active contracts a little over $1 per month.

NDPERS GROUP REPORTING

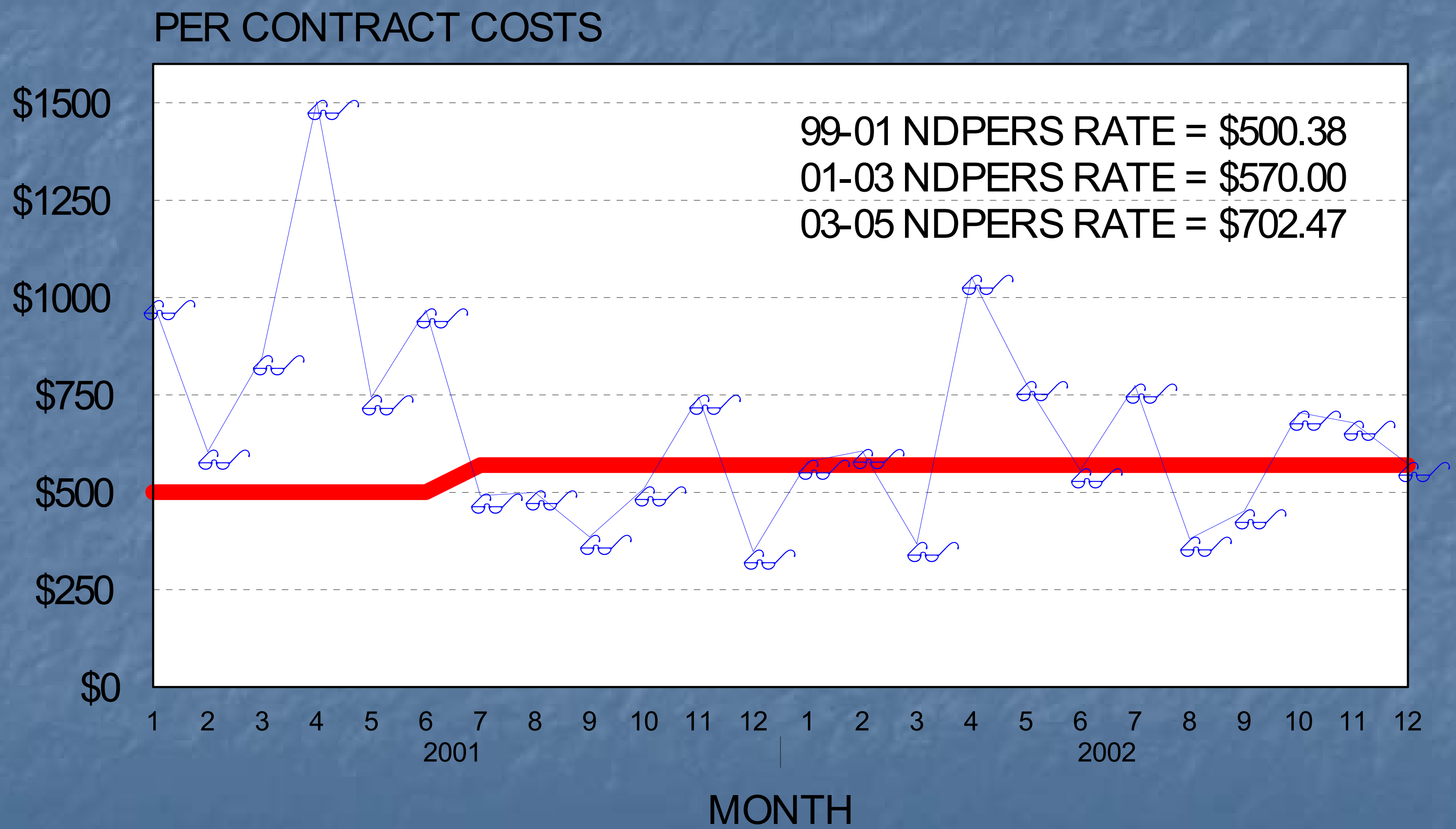
NON-MEDICARE - SINGLE



Graph Does Not Include $22 Administration ($19.18 BCBS & $2.80 NDPERS)

NDPERS GROUP REPORTING

NON-MEDICARE - FAMILY



Graph Does Not Include $22 Administration ($19.18 BCBS & $2.80 NDPERS)

PRE – Medicare Retiree

Billed rates also benefited from gain sharing. Average is about $10 per month reduction.

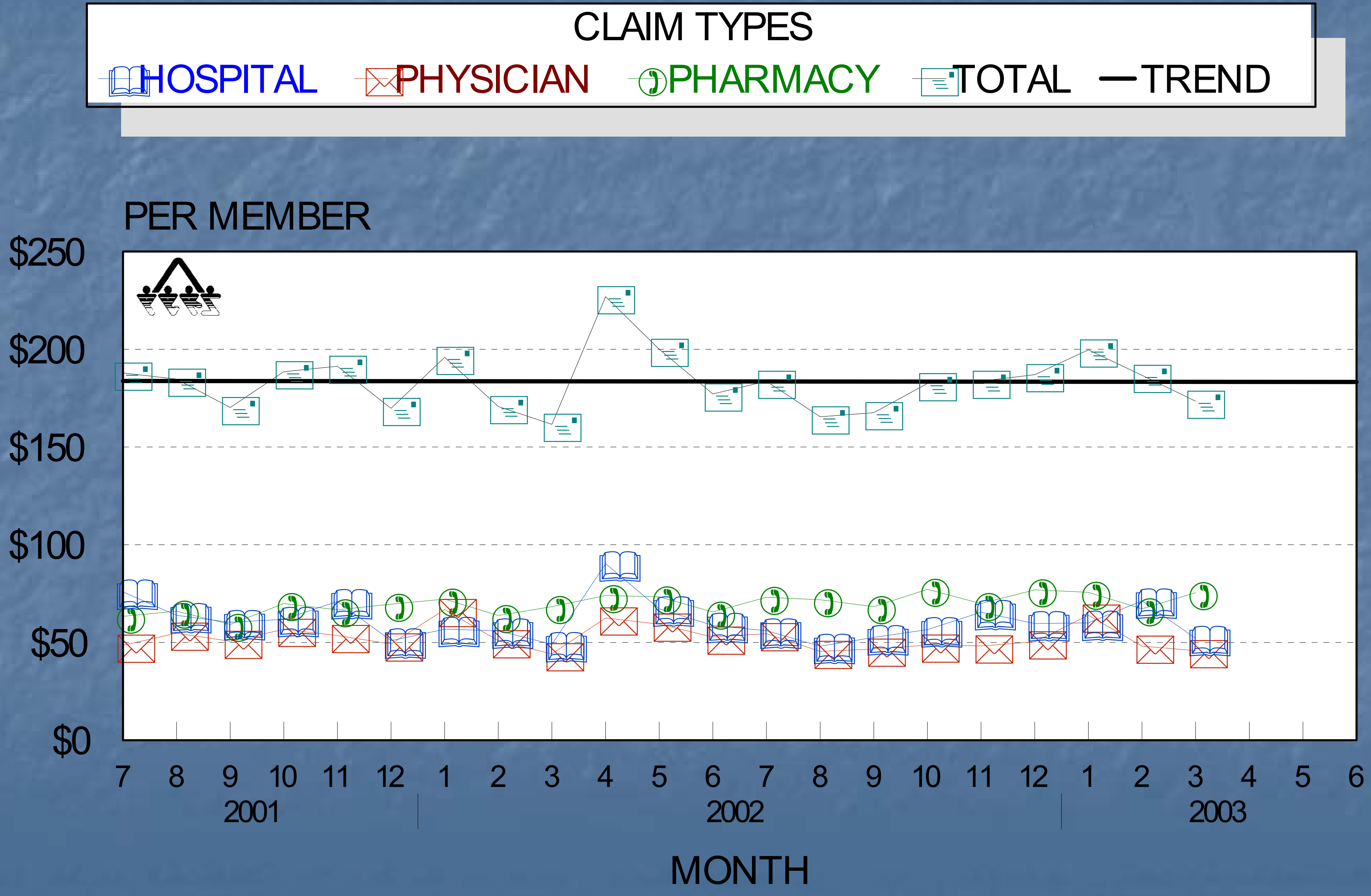
PRE – Medicare Rates

1. Total average subsidy per contract - $56 per month
    - $46 per month in rating
    - $10 per month in gain sharing
- Average premium per contract is approx. $480
- Average reduction is about 10%

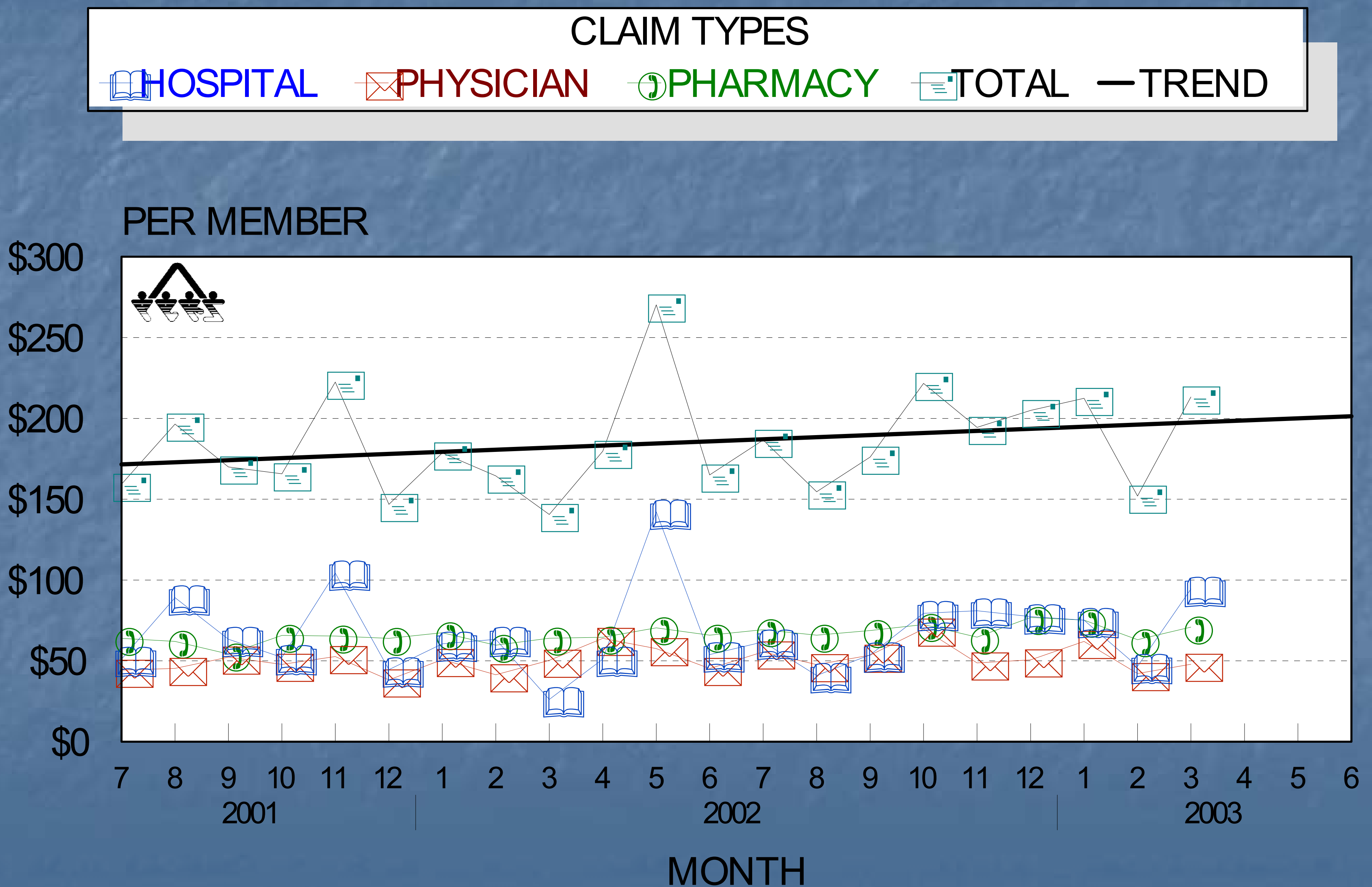
Medicare Rates

1. Group rate is actuarial determined on its own
2. Group is getting an average of $10 per month gain sharing

NDPERS HEALTH INSURANCE PLAN
RETIRED EMPLOYEES



NDPERS HEALTH INSURANCE PLAN
RETIRED DEPENDENTS



Medicare Retiree's

1. About 1/3 of costs are for Rx
2. Congress presently working on Rx benefit
3. Set a date of Oct 17 for conference committee
4. Help in this area could reduce our premium costs

Comparison of Coverage under Proposed Medicare Prescription Drug Program

	House Version	Senate Version
Deductible	$250	$275
Initial Tier of Coverage	$251 - $2,000 *Beneficiaries pay 20% of drug costs**	$276 - $4,500 *Beneficiaries pay 50% of drug costs*
No Coverage ("Doughnut Hole")	$2,001 - $4,900 *Beneficiaries pay 100% of drug costs**	$4,501 - $5,813 *Beneficiaries pay 100% of drug costs*
Catastrophic Tier of Coverage	$4,900 + *Beneficiaries pay 0% of drug costs. Coverage begins when beneficiaries' out-of-pocket spending on drugs reaches $3,500.**	$5,813 + *Beneficiaries pay 10% of drug costs. Coverage begins when beneficiaries' out-of-pocket spending on drugs reaches $3,700.*

* The House Ways and Means Committee provides a description of the House version in its June 27, 2003 release (http://waysandmeans.house.gov) that is somewhat briefer than the summary here. The Committee description states that Medicare pays 80% of drug costs between $251 and $2,000 and the beneficiary pays 20%. It also states that the catastrophic coverage begins when a beneficiary's out-of-pocket spending on drugs reaches $3,500 and that 100% of the costs are covered. The description does not include the $4,900 amount, which is included here in order to provide an analysis that more closely matches the Senate version.

Retiree Health Credit

Programs Benefit

Vesting in Benefit: 120 months - Highway Patrol36 months - PERS Main System, Judges, National Guard, Defined Contribution

Goal: Increase retiree health insurance credit to reduce the health premium for retiree insurance coverage.

Benefit Formula: $4.50 for each year of credited service

Example: $4.50 x 25 = $112.50

Contribution 1%

Plan History

1989 - Plan started. Credit was $3 per year of service

1991- Credit was increased to $4.00 per year of service

1993 - Credit increased to $4.50 per year of service

Retiree Health Credt Challenge – Support for retiree premiums

Year	Credit	Credit with 20 Years of Service	NonMedicare Family Premium	%	Medicare Family Premium	%
1989	$3.00	$60.00	$360.07	17%	$190.50	31%
1991	$4.00	$80.00	$321.00	25%	$230.00	35%
1993	$4.50	$90.00	$368.00	24%	$230.00	39%
1995	$4.50	$90.00	$390.00	23%	$239.00	38%
1997	$4.50	$90.00	$438.48	21%	$264.98	34%
1999	$4.50	$90.00	$500.38	18%	$308.62	29%
2001	$4.50	$90.00	$570.00	16%	$339.30	27%
2003	$4.50	$90.00	$702.47	13%	$415.18	22%
2005	$4.50	$90.00	$835	11%	$502	18%

2003 Actuarial Valuation - Retiree Health Insurance Credit Fund

	2003	2002	Change
Total Number of Active Members	17,545	17,462	0.5% increase
Average Age of Active Members	45.9 years	45.6 years	4 month increase
Average Annual Salary	$28,335	$27,285	3.8% increase
Total Payroll	$497 million	$476 million	4.4% increase

Retiree Health Plan

1. Returns for 2003 were approx. 3.4%
2. Loss of 4.6% for year (8% -3.4%)

Retiree Health Insurance Credit Fund 2002 to 2003

Employer Cost Rate, 2002	0.98%
Plan Experience	0.00%
Employer Cost Rate, 2003	0.98%
Statutory Rate, 2003	1.00%
Contribution Margin	0.02%

Retiree Health Insurance Credit Fund - Funded Ratio

	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1994	$42.0	$ 8.1	19.3%
1995	46.6	10.7	23.0%
1996	47.0	11.4	24.3%
1997	51.8	13.7	26.4%
1998	54.7	16.3	29.7%
1999	57.6	19.4	33.7%
2000	61.9	22.6	36.5%
2001	65.5	24.8	37.8%
2002	69.0	26.4	38.3%
2003	72.0	27.5	38.2%

Retiree Health Insurance Credit Fund

1. Assets, at Market Value, total $25.4 million
2. Assets, at Actuarial Value, total $27.5 million
3. (108% of Market Value)
4. Market Value rate of return was 3.64%
5. Actuarial Value rate of return was 0.80%,
6. 7.20% less than the 8.00% investment return assumption

RHICF - Projected Funded Ratio and Contribution Margin (Assumes 8.0% returns for FYE 2004 and after)

FYE	Funded Ratio (AVA)	Funded Ratio (MVA)	Margin
2003	38%	35%	0.00%
2004	37%	37%	-0.02%
2005	37%	39%	-0.04%
2006	37%	40%	-0.05%
2007	38%	42%	-0.05%
2008	39%	43%	-0.06%
2009	40%	44%	-0.06%
2010	42%	45%	-0.06%
2011	43%	47%	-0.07%
2012	44%	48%	-0.07%
2013	44%	49%	-0.08%
2014	45%	50%	-0.08%
2015	46%	51%	-0.09%
2016	47%	51%	-0.10%
2017	47%	52%	-0.10%
2018	48%	53%	-0.11%

RHICF - Projected Funded Ratio and Contribution Margin (Assumes 10.3% returns for FYE 2004 and after)

FYE	Funded Ratio (AVA)	Funded Ratio (MVA)	Margin
2003	38%	35%	0.00%
2004	37%	37%	-0.01%
2005	37%	40%	-0.03%
2006	37%	42%	-0.04%
2007	39%	44%	-0.04%
2008	41%	46%	-0.04%
2009	43%	48%	-0.04%
2010	44%	50%	-0.03%
2011	46%	52%	-0.03%
2012	48%	54%	-0.02%
2013	50%	56%	-0.02%
2014	52%	58%	-0.01%
2015	54%	60%	0.00%
2016	55%	62%	0.01%
2017	57%	65%	0.02%
2018	60%	67%	0.03%

Future fund prospects:

1. Fund will not be able to support enhancements for the next 10 years
2. Fund may need additional contributions to support existing benefit structure unless the market increases. Increased amount could be .10 or more of contributions

National trends

- Private employers are reducing retiree health coverage
- Public sector employers are making some minor changes to reduce the rate of increase.

Where should PERS go?

1. Options
    1. Maintain existing system
    2. Propose change to Pre Med rating
    3. Request additional contribution to support existing program
    4. Propose change to Increase Credit

Increase Credit

1. Increase Credit by .50 cents would cost about .14% of payroll
2. Total payroll in 2002 was $476,500,000
3. Contribution increase would be about $667,000 per year.
4. Would increase contributions from 1% to 1.14%
5. In addition contributions may need to increase existing program by .10 or more.

PERS RETIREMENT PLAN

RETIREMENT FUTURE EXPECTATIONS – Three years ago

1. **On March 10, 2000, Nasdaq was at 5,048. Today it's a little over 1,800.**
2. **Three years ago the dot-com bubble had not entirely burst.**
3. **Accounting firms bragged in advertisements about their aggressive consulting services**
4. **Foreign policy ranked almost dead last on a list of America's top concerns**
5. **Enron was trading in the neighborhood of$80 per share and Fortune Magazine called them Americas most innovative company**
6. **Corporate governance was a topic best left to academics**

2003 Actuarial Valuation - Main System

	2003	2002	Change
Total Number of Active Members	17,101	17,039	0.4% increase
Average Age of Active Members	46.0 years	45.6 years	5 month increase
Average Annual Salary	$27,751	$26,824	3.5% increase
Total Payroll	$475 million	$457 million	3.9% increase

Main System - 2002 to 2003

Employer Cost Rate, 2002	4.42%
Employer Cost Rate, 2003	5.51%
Total Change in Contribution Rate	1.09%
Statutory Rate, 2003	4.12%
Contribution Margin, 2003	(1.39)%

Significant Factors Affecting the Employer Cost Rate-Main System

1.	Loss on investments	0.94%
2.	(Investments under performed assumptions)	
3.	Assumption changes	0.00%
4.	Benefit improvements	0.00%
5.	Loss on retirements	0.10%
6.	Loss on actual contributions received	0.02%
7.	Effect of maintaining 20-year amortization	(0.02)%
8.	Gain on salary increases	(0.08)%
9.	Loss on turnover	0.05%
10.	Loss on active mortality	0.03%
11.	(Fewer deaths than assumed)	
12.	Retired mortality	0.00%
13.	Miscellaneous - all others	0.05%
	Total Increase in Contribution Rate	1.09%

Main- Funded Ratio

	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	$710	$788	111%
1999	831	901	109%
2000	879	1,010	115%
2001	994	1,096	110%
2002	1,087	1,130	104%
2003	1,170	1,145	98%

PERS Main - Projected Funded Ratio and Contribution Margin (Assumes 8.0% annual market value returns for FYE 2004 and after)

FYE	Funded Ratio (AVA)	Funded Ratio (MVA)	Margin
2003	98%	92%	-1.4%
2004	92%	91%	-2.4%
2005	86%	91%	-3.5%
2006	83%	91%	-4.1%
2007	83%	91%	-4.3%
2008	83%	91%	-4.4%
2009	82%	90%	-4.5%
2010	82%	90%	-4.5%
2011	82%	90%	-4.6%
2012	82%	90%	-4.7%
2013	82%	90%	-4.7%
2014	82%	90%	-4.8%
2015	82%	90%	-4.8%
2016	82%	90%	-4.8%
2017	82%	90%	-4.9%
2018	82%	90%	-4.9%

PERS Main - Projected Funded Ratio and Contribution Margin (Assumes 10.3% annual market value returns for FYE 2004 and after)

FYE	Funded Ratio (AVA)	Funded Ratio (MVA)	Margin
2003	98%	92%	-1.4%
2004	92%	93%	-2.4%
2005	88%	95%	-3.3%
2006	86%	97%	-3.7%
2007	87%	99%	-3.5%
2008	89%	101%	-3.2%
2009	90%	103%	-2.9%
2010	92%	106%	-2.5%
2011	95%	108%	-2.1%
2012	97%	111%	-1.7%
2013	99%	113%	-1.2%
2014	102%	116%	-0.6%
2015	105%	120%	0.0%
2016	108%	123%	0.6%
2017	111%	127%	1.3%
2018	114%	131%	2.0%

PERS Longer-Term Margin Analysis

1. Questions to be considered:

    1. What is the estimated long-term impact to contribution margins and funded ratios if 8.0% return assumption is met?

    2. What is the estimated long term impact if 10.3% expected return is met?

    3. What estimated return is needed to return to positive margins by 2008?

    4. Is the asset smoothing method working? Is there a better alternative?

What average return is required?

- To return to positive margins by:

FYE	Avg. Return
2008	16.6%
2010	13.4%
2012	11.8%

How are others Doing?

1. **State debates KPERS funding**
2. **Legislators mull future of KPERS**
3. ***Cozy state pension deal costs taxpayers billions***
4. **State workers lose 401(k) employer match**
5. **Ohio Teachers' Union Sues Retirement System Over Health-Care Increase**
6. **State's pension fund almost $2.5 billion in the hole**
7. **Oregon Voters Asked for Pension Help**

How are others Doing?

1. **Montana retirement plan facing financial troubles**
2. **City Pension Funds in Red**
3. **Public pensions far short**
    1. The 123 public pension funds that operate statewide, covering both state and local workers, have $180 billion less in assets than they need to cover their long-term benefit obligations, reports Wilshire Associates, an investment adviser in Santa Monica, Calif.
4. **W.Va. in deepest pension peril**
5. **Rhode Island cities, towns face pension hike next year**
6. **Oregon Lawmakers Struggle With Last Pension Reform Piece**
7. **Automatic increases in pensions hit nerve**