PERS Benefits Committee

Sparb Collins

NDPERS

North Dakota Public Employees Retirement System

Agenda

- LTC
- Retirement
- Health

April of 2012 – In April of 2012 we started our process to go out to bid.

- 70% of people who reach age 65 will require long term care services.
- Average length of majority of LTC claims is 3.8 years.
- The average cost of assisted living services is $38,220, for in-home care is $43,472 and for nursing home is $72,190.
- One out of 10 people who apply for LTC insurance ages 50-59 are declined, from ages 60-69 the decline rate doubles and decline rate for 70+ is 45%. Worksite LTC can provide expanded underwriting options.
- North Dakota provides an annual tax credit of $250 per person for someone who purchases a partnership qualified product and $500 per couple.

The Risk for Needing Long-Term Care

Odds of filing a claim for the most common insurance coverage types:

House Fire
1 in 740[1]

Auto Accident
1 in 43[2]

Disability
1 in 8[3]

Long-Term Care
2 in 5[4]

The risk of needing long-term care in a lifetime is greater than all of the insurance incidents above.

1 Karter, Michael J., Fire Loss in the United States During 2004, National Fire Protection Association.
2 Bureau of the Census Data, 2000 and 2000 data collected from the federal Highway Administration, November 2001
3 US Department of Health and Human Services. "National Clearinghouse for Long Term Care Information." 2008.
4 Long-Term Care. AHRQ Focus on Research. AHRQ Pub No. 02-M028, March 2002. Agency for Healthcare Research and Quality, Rockville, MD.

The Future Cost of Care

Year	Projected Annual Cost
2013	$83,950[6]
2023	$130,234
2033	$212,141
2043	$345,546

Increases for the cost of care range from 0.84% to 4.45% (depending upon the type of care)from 2008 to 2013.[6]

December of 2012 – with the above background we had our consultant go to work on a RFP for LTC.

- *I've delayed sending this pending responses to a Request for Information conducted by another state client. That client has been with Prudential and currently covers over 10,000 participants in its group long term care plan. In response to the RFI, no company indicated that it will be willing to submit a proposal if the state issues an RFP. We can go ahead with your solicitation; however it is unlikely that any company will respond.*

March of 2013 – in March the Board had a conference call with Bill Hickman with GRS

- *Ms. Allen reported that Mr. Hickman with Gabriel Roeder Smith was attending via conference call to present information regarding long term care insurance products and the RFP they recently prepared for PERS. Mr. Hickman reported that nationwide there are only a few companies in the market that offer group long term care insurance products. The policy presently offered by PERS is not a group product since there was not sufficient interest generated to meet the minimum participation requirement and it is not partnership qualified. An observation is that any product offered by PERS can be purchased by members as effectively directly from the market.*
-
- *The Board discussed this and concluded that Schmidt Insurance Agency be invited to present additional information on long term care insurance for further consideration before the decision is made to do a request for proposal for our members. Chairman Strinden indicated that this will be put on a future agenda for further review and discussion.*

June of 2013 - At his meeting Gene Schmidt of SIA presented information to the Board

- Gender pricing has entered the market and underwriting requirements have been enhanced.
- Relating to gender pricing:
  - Females incurred 67% of claims and 69% of benefit dollars
  - Home Care incidence rates for females is more than double that for males
  - Mortality for males averages 33% greater than for females
- The cost of care is increasing:
  - The national average monthly rate for a semi-private nursing home is up 4.5% to $76,285*
  - The national average monthly rate for an assisted living facility is up 5% to $40,200*
  - The national average daily rate for adult day care is up 4.5% to $69 *
  - $750,000 projected average cost of three years of care in 30 years**
- Underwriting requirements have been substantially increased for individual policies however for group policies they can be significantly less. He shared the following to demonstrate the difference:

Gene G Schmidt

CEO, The SIA Companies

- Licensed since 1976
- Personally writing LTCi since 1976
- Started Schmidt Insurance: 1979
- Founded SIA in 1986
- SIA serves 14,000+ insurance professionals nationwide
- Nationally recognized expert on LTCi
  who regularly contributes to the design of new benefits
  for the industry's top companies

For Producer Use Only: Not for Public Use or Distribution

Today's Topics

- Gender Pricing Entering the Market
  - Claims on Women vs. Men
- Updated Underwriting Requirements
  - Why the change in underwriting

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Topic #1

Gender Pricing Entering the Market

- Claims on Women vs. Men

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Who's on Claim

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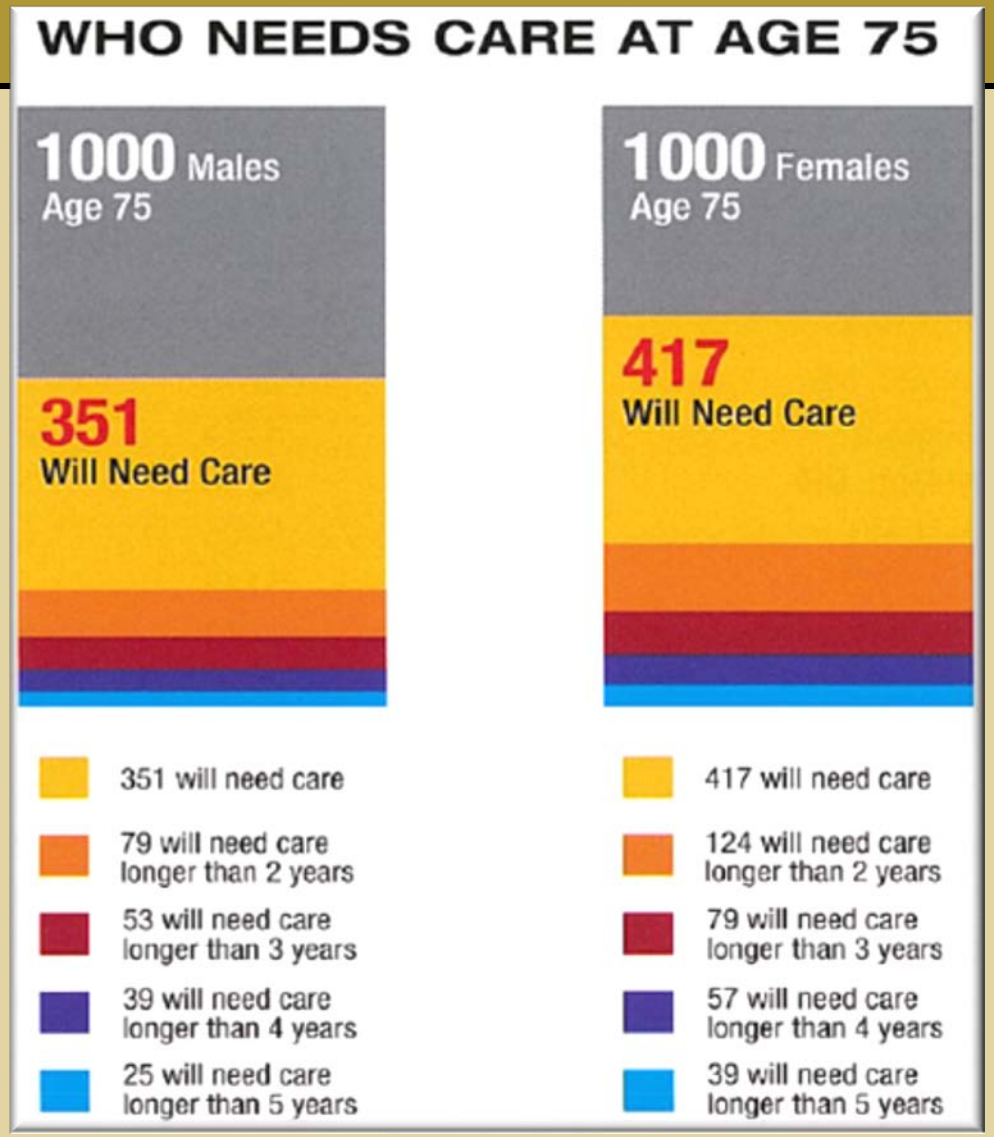
Who's on Claim



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Who's has the most claims

New Claims Opened By Attained Age (2011)

	Men	Women	Total
Under 50	0.1 %	0.2 %	0.3 %
50 - 59	0.8 %	0.9 %	1.7 %
60 - 69	3.5 %	4.9 %	8.4 %
70 - 79	8.6 %	15.5 %	24.1 %
80 and over	22.0 %	43.5 %	65.5 %

*Source: American Association for Long Term Care Insurance, 2012 LTCi Sourcebook

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Longer & Larger Claims

- Females incurred 67% of claims and 69% of benefit dollars
- Home Care incidence rates for females is more than double that for males
- Mortality for males averages 33% greater than for females

*Source: American Association for Long Term Care Insurance, 2012 LTCi Sourcebook

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Cost of Care Increasing

- The national average monthly rate for a semi-private nursing home is up 4.5% to $76,285*
- The national average monthly rate for an assisted living facility is up 5% to $40,200*
- The national average daily rate for adult day care is up 4.5% to $69 *
- $750,000 projected average cost of three years of care in 30 years**

High Net Worth Clients

- **Will continue to demand the best possible package**

*Source: American Association for Long Term Care Insurance, 2012 LTCi Sourcebook

**Based on John Hancock's Cost of Care Survey, conducted by LifePlans, Inc 2011 and an assumed rate of inflation of 4.1% based on the average annual increase in the Consumer Price index for All-Urban Consumers (CPI-U), obtained from the Bureau of Labor Statistics of the U. S. Department of Labor, for the 50-year period ending 12/31/10.

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Industry Response

Introduce Gender Specific rates
with new product design for Individual market

John Hancock's Product

Custom Care III featuring Benefit Builder *in all Compact states*

- Women's premiums *(on average)* increased by 24%[1]
- Men's premiums *(on average)* decreased by 21%[1]
- Married male/female couple's premiums *(on average)* increased about 1.5%[1]

  The changes vary by issue age, benefit period and inflation option.

1. LTC Newslink John Hancock's explanatory flier March 29, 2013.

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Topic #2

Updated Underwriting Requirements

- Why the change in underwriting

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New Application - Components

- **Part I**
  - Personal Profile
  - Insurability Profile
    - SSDI Past 3 Years
    - Assistive Devices/ADLs
    - Use of LTC Services
    - Uninsurable Conditions
  - Client Profile
    - Tobacco Use
    - Employment
    - Volunteer, Hobbies, Driving
  - Other Coverage/Replacement
  - Protection Unintentional Lapse
  - Declarations (Authorization)
  - Conditional Insurance Agreement
  - Signatures
  - Agent Information
- **Part II (Paramed Exam)**
  - Medical Questions
  - IADLs
  - Alcohol/Drug Use
  - Family History
- Examiner's Report
  - Build
- Blood/Urine Samples
- Functional/Cognitive Assessment
  - Living Arrangements
  - ADLs/IADLs
  - Mobility Assessment
  - Cognitive Assessment (EMST*)

*EMST = Enhanced Mental Skills Test. Proprietary to LifePlans, Inc

*Source: Genworth The Next Generation Long Term Care Underwriting 154625

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Underwriting Questions

MODIFIED GUARANTEE ISSUE – Answer Questions in SECTION A only.
SIMPLIFIED ISSUE- Answer Questions in SECTIONS A & B.
FULL UNDERWRITING - Answer Questions in SECTIONS A, B & C.

A

1. During the last 6 MONTHS, have you been continuously and actively at work for your current employer for a minimum of 30 hours per week (away from home), except for vacation? ☐ Yes ☐ No
2. During the last 6 MONTHS, have you missed more than five consecutive days of work due to accidents, injury, sickness or any physical or cognitive impairment? ☐ Yes ☐ No
3. During the last 12 MONTHS, have you ever required assistance or supervision of any kind to perform any everyday activity, such as mobility (including the use of pronged canes), taking medications, dressing, eating, walking, bathing, transferring, or toileting? ☐ Yes ☐ No

If any question 4 – 9 is answered Yes, You are not eligible for coverage.

B

4. Have you EVER had, or been diagnosed, treated or had symptoms of any of the following conditions? ☐ Yes ☐ No

   If Yes, please check the applicable condition(s):

   - ☐ Alzheimer's disease
   - ☐ Amputation due to disease
   - ☐ Amyotrophic Lateral Sclerosis (Lou Gehrig's disease)
   - ☐ Arthritis with narcotic pain medication
   - ☐ Cerebrovascular Accident* (Stroke, CVA, TIA)
   - ☐ Dementia or Senility
   - ☐ Mobility Deficit
   - ☐ Multiple Sclerosis
   - ☐ Muscular Dystrophy
   - ☐ Myasthenia Gravis
   - ☐ Organic Brain Syndrome
   - ☐ Huntington's Chorea
   - ☐ Osteoporosis with fractures
   - ☐ Paraplegia or Quadriplegia
   - ☐ Parkinson's disease
   - ☐ Polymyositis
   - ☐ Scleroderma
   - ☐ Memory loss requiring medical consultation

   *If applicant has had a single Cerebrovascular Accident more than 2 years ago, complete Section C.
5. Have you ever been diagnosed by a medical practitioner as having AIDS (Acquired Immune Deficiency Syndrome) or tested positive for HIV? ☐ Yes ☐ No
6. During the last 3 YEARS, have you used over 60 units of insulin per day to treat Diabetes, or have you been diagnosed or treated for Diabetes WITH COMPLICATIONS (Neuropathy, Retinopathy, Heart Disease, Stroke), Chronic Hepatitis or Cirrhosis, alcohol abuse, drug or prescription drug addiction, or Transient Global Amnesia? ☐ Yes ☐ No
7. During the last 12 MONTHS, have you used a catheter, dialysis, oxygen equipment, a quad or three-pronged cane, respirator, walker, wheelchair, crutches, motorized scooter or chair lift?... ☐ Yes ☐ No
8. During the last 12 MONTHS, have you been confined to a nursing home, assisted living facility, attended an adult day care facility, or required home health care? ☐ Yes ☐ No
9. Do you have a direct family history (parents or siblings) of Huntington's Chorea or Polycystic Kidney Disease? ☐ Yes ☐ No
10. Are you currently taking or been prescribed any prescription drugs or medications? ☐ Yes ☐ No

    If Yes, please list **all**: _____

PRIMARY PHYSICIAN'S NAME	TELEPHONE NUMBER	HMO/PPO ID# (if known)

ADDRESS	DATE LAST CONSULTED

REASON LAST SEEN

If any question 11 – 14 is answered Yes, You are not eligible for coverage. For questions 15-17, if Yes, circle any applicable diagnosis or condition(s) and give details in question # 18.

C

11. Have you EVER had, been diagnosed with, treated for, or had symptoms of:
    a) COPD (Emphysema) with oxygen use, or steroid medications? ☐ Yes ☐ No
    b) Multiple Strokes (CVA's), or Metastatic or Multi-site Cancer? ☐ Yes ☐ No
12. In the last 24 MONTHS, have you had a Single Stroke (CVA or TIA)? ☐ Yes ☐ No
13. In the last 12 MONTHS, have you had Cardiomyopathy? ☐ Yes ☐ No
14. Within the last 3 MONTHS, have you had a Heart Attack (MI) or Chest Pain; uncontrolled Blood Pressure; Hip or Back Surgery; or Cancer? ☐ Yes ☐ No
15. In the last 5 YEARS, have you been diagnosed with, received treatment for, or had symptoms of:
    a) Chronic Lymphocytic Leukemia, Diabetes, Cancer or Macular Degeneration? ☐ Yes ☐ No
    b) Arthritis, Osteoporosis, Rheumatoid Arthritis, Fibromyalgia, Fractures, Joint Replacement or used a straight cane? ☐ Yes ☐ No
    c) Heart Attack, Chest Pain, Heart Disease, Congestive Heart Failure (CHF), High Blood Pressure, Heart Murmur, Cardiomyopathy or Peripheral Vascular Disease? ☐ Yes ☐ No
    d) Stroke, Cerebrovascular Accident (CVA), Transient Ischemic Attack (TIA), Aneurysm, irregular heartbeat, Carotid Artery Stenosis, or Heart Surgery? ☐ Yes ☐ No
    e) Mental or cognitive disorder including memory loss, confusion, disorientation, mental retardation, depression; or Epilepsy? ☐ Yes ☐ No
    f) Asthma, Chronic Obstructive Pulmonary Disease (COPD), or Emphysema? ☐ Yes ☐ No
    g) Dizziness, fainting, blurred vision, convulsions, paralysis, falls, loss of balance or strength? ☐ Yes ☐ No
    h) Any condition requiring treatment, surgery, home care or hospitalization, but not mentioned above (NOT including routine Colds, Flu, etc.) or unplanned weight loss of 15 lbs or more? ☐ Yes ☐ No
16. In the last 12 MONTHS, has any medical treatment, follow-up, diagnostic testing, or surgery been recommended, but not yet completed? If Yes, give details: ☐ Yes ☐ No

    _____
17. Do you have a handicap sticker, handicap placard, or handicap license plate? ☐ Yes ☐ No

18. Give details for all Yes answers. FOR EVERY MEDICATION THERE SHOULD BE A CONDITION AND FOR MOST CONDITIONS THERE SHOULD BE A MEDICATION OR TREATMENT.

Question #	Nature of Condition/Medication	Date Last Treated/ Medication Taken	Name of Physician Seen/ Physician's Address

What are the key points that we have discovered.

- LTC planning is an important consideration in planning for retirement.
- Purchasing a LTC plan that is “partnership” qualified is the key to accessing the tax credit.
- The information from GRS indicated that an entirely voluntary plan (fully paid by the employee) would likely not get any interest in the market. Also there would likely be no preferencial underwriting. With this understanding, an employee could buy a product just as effectively in the individual market directly from a local agent than through us.
- That if the employer paid a part of the premium and with the tax credit a group plan could likely draw a significant level of participation from its membership which would:

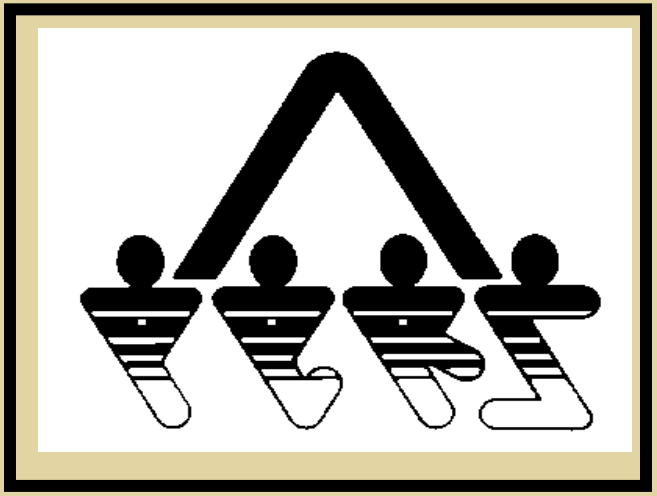
  - Reduce the underwriting requirement making the plan more accessible
  - Help with the overall pricing

- For every $10 in premium support per month by the state, it would cost about $150,000 per month or about $3.6 million per biennium (assumes 15,000 state employees). Assuming the average classified salary is $42,000 per year each $10 is about .28% of salary. A $40 premium support would be about 1.14% of payroll. Note: these numbers assume 100% participation.

Options

#1	#2	#3	#4	#5
Issue an RFP	Request funding for employer payment of part of premuim. ***For every $10 in premium support per month by the state, it would cost about $150,000 per month or about $3.6 million per biennium (assumes 15,000 state employees). Assuming the average classified salary is $42,000 per year each $10 is about .28% of salary. A $40 premium support would be about 1.14% of payroll. Note: these numbers assume 100% participation***	Seek to expand the ND credit so it applies to the existing PERS LTC	As alternative to offering a product, we could develop an approach where we facilitate the flow of information on the importance of this product, how to purchase it in the marketplace, the significance of having a "partnership product" and the effect of age on pricing.	Try to get a product (with medical underwriting) that could be marketed to younger employees and for which the credit would pay most of the premium.

RETIREMENT PROGRAMS



NDPERS Participation

Retirement

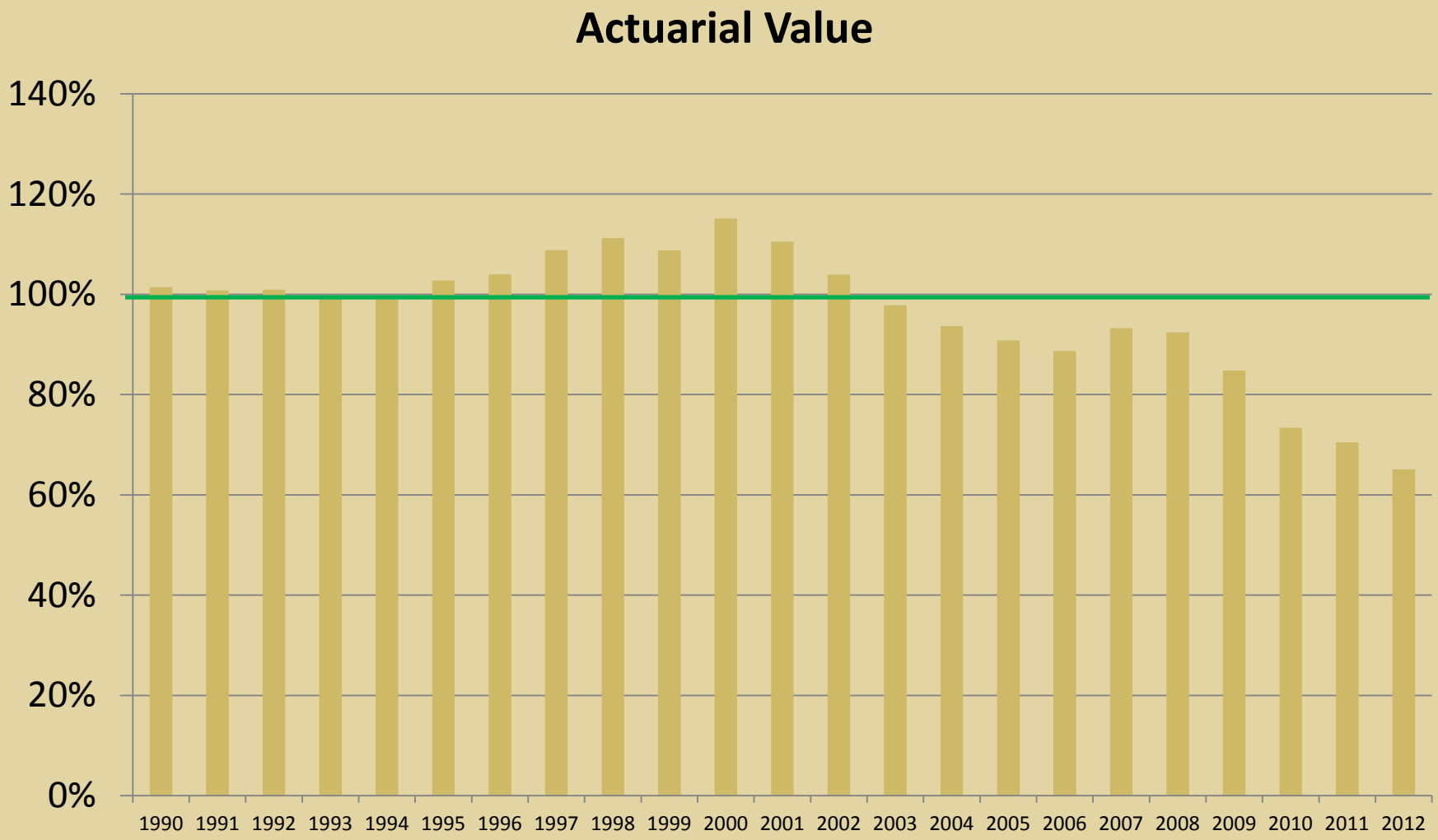
	TOTAL RETIREMENT
PARTICIPATION	
AGENCY	
State	93
Counties	49
School Dist	114
Cities	81
Others	73
	410
EMPLOYEES	
State	10,512
Counties	3,583
School Dist	4,988
Cities	1,475
Others	557
Retirees	7,816
	28,931

Insurance

	HEALTH
PARTICIPATION	
AGENCY	
State	95
Counties	51
School Dist	68
Cities	65
Others	70
	349
EMPLOYEES	
State	14,656
Counties	2,270
School Dist	1,273
Cities	1,642
Others	540
Legislators	118
Retirees	6,389
COBRA	354

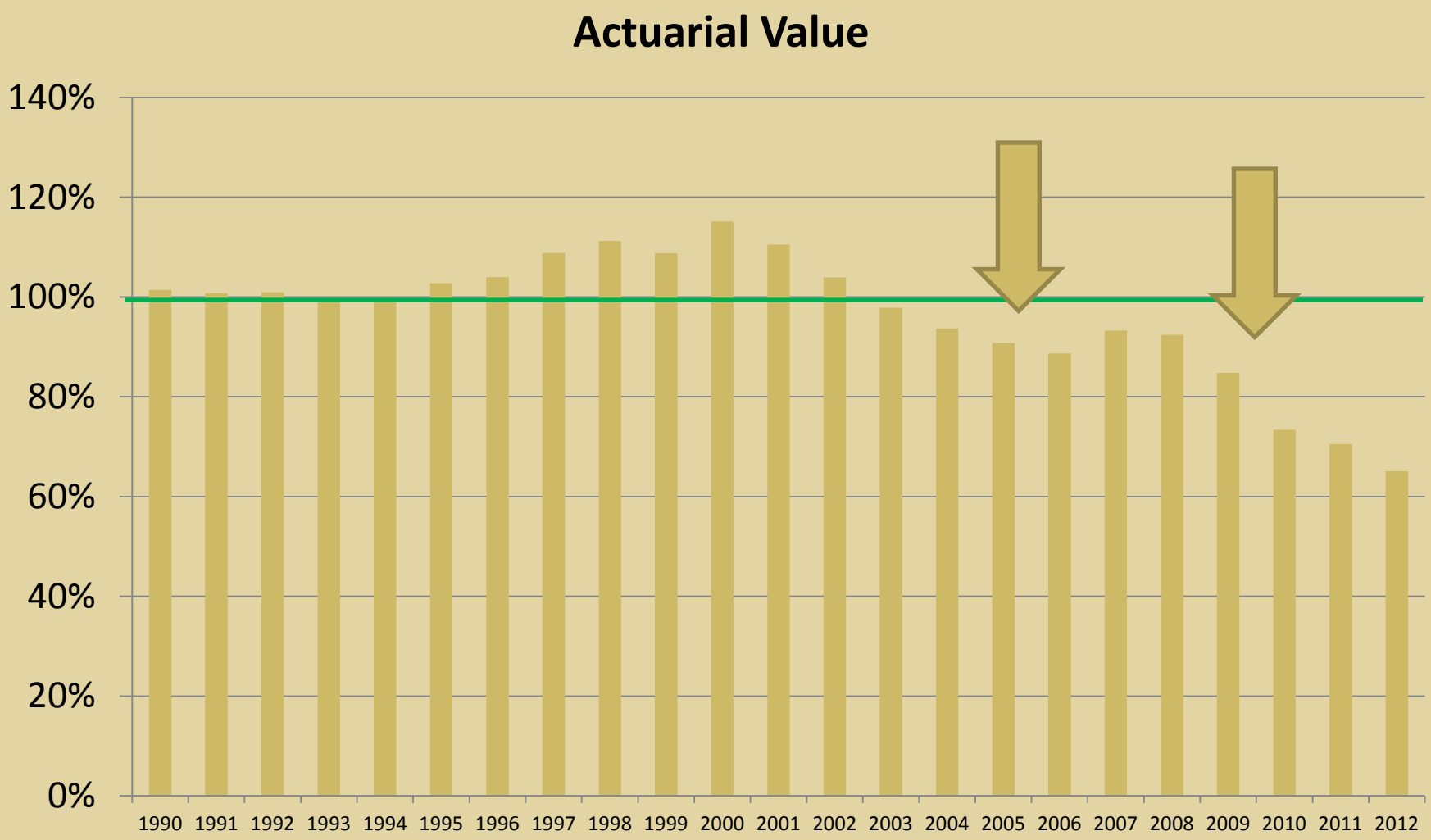
RETIREMENT

NDPERS Funded Ratio

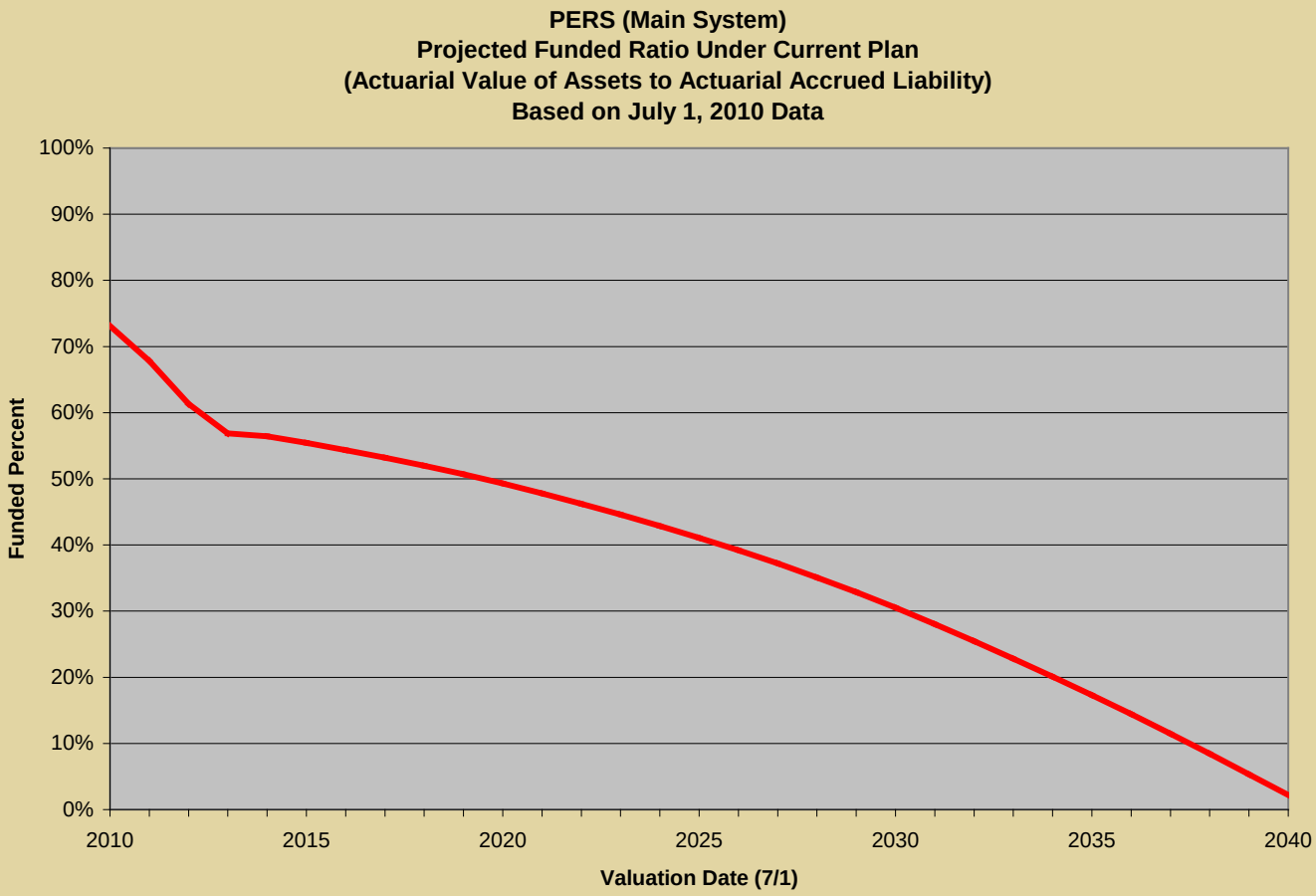


NDPERS Main System Investment Returns

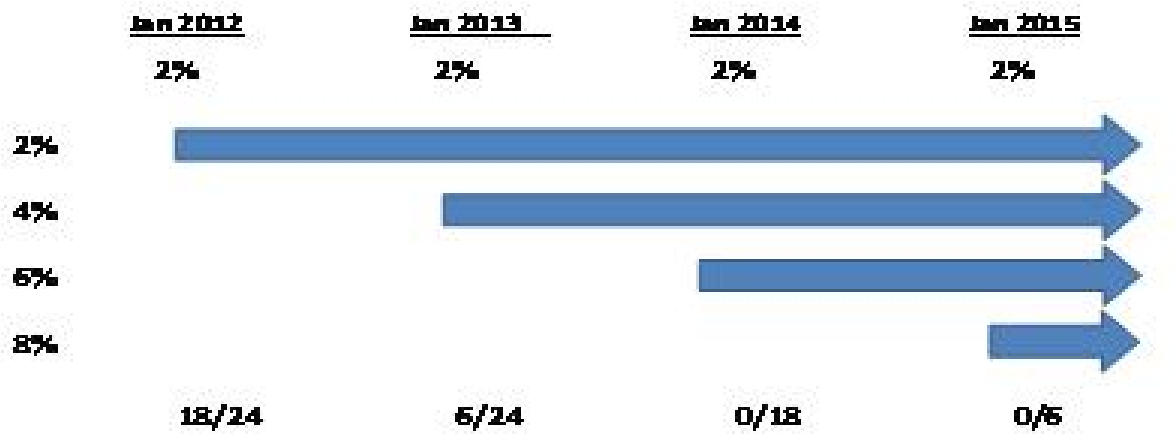
NDPERS Funded Ratio



The challenge



2011 Session Recovery Plan



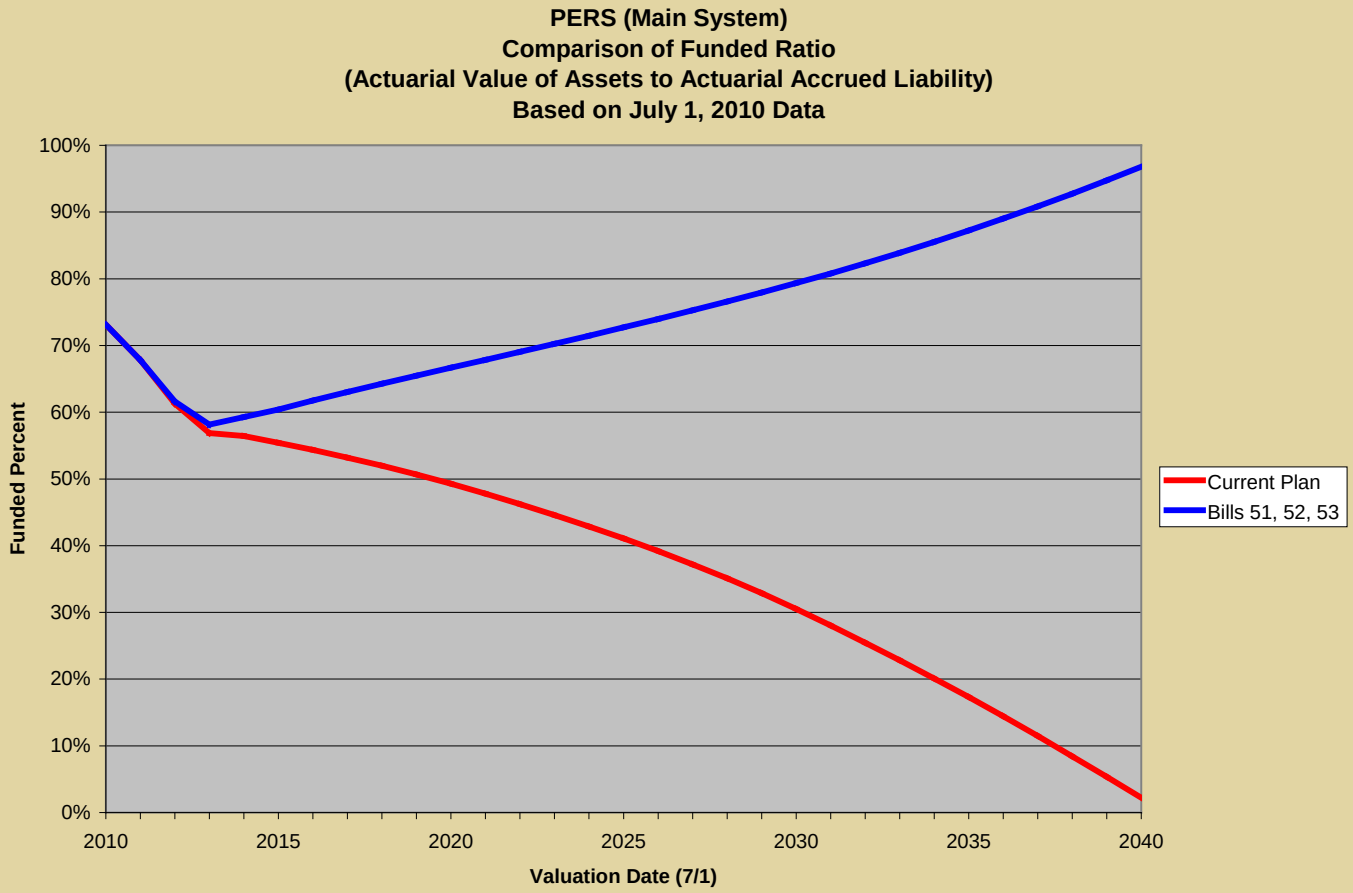
Months increase effective for 2011-2013/ Months effective for 2013-2015

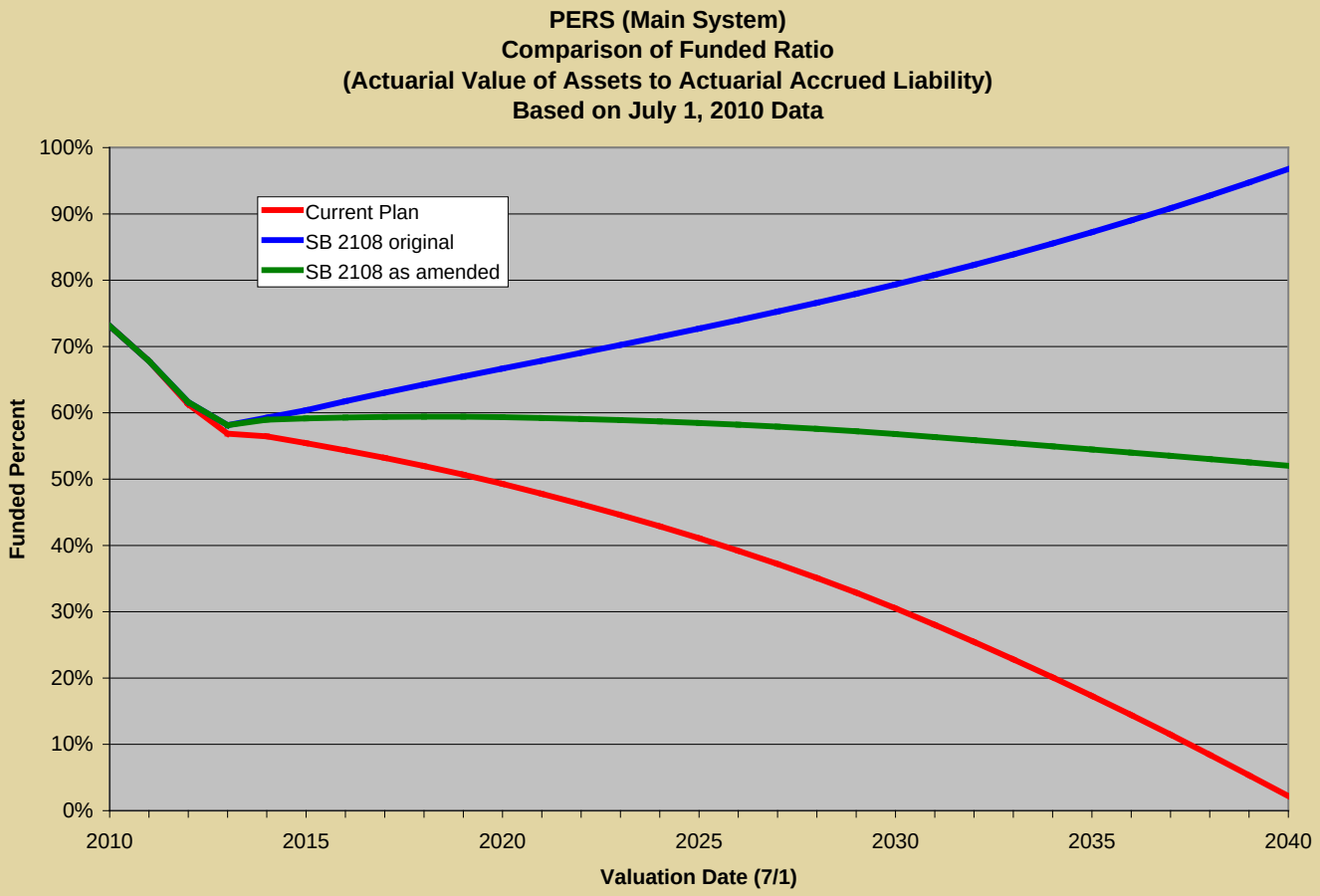
2015 and beyond 100% effective

2

SHARED RECOVERY PLAN

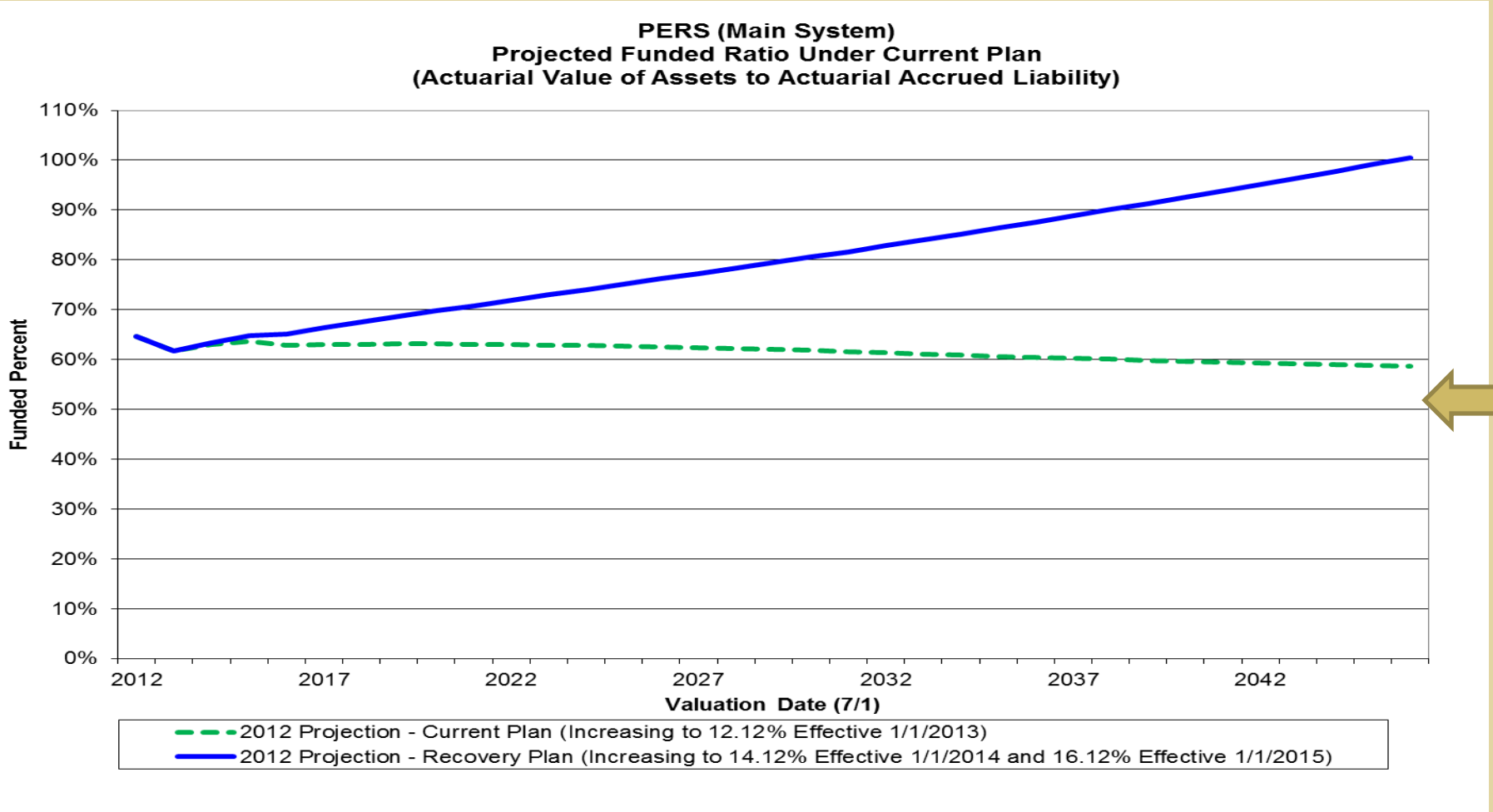
2011 Session Recovery Plan



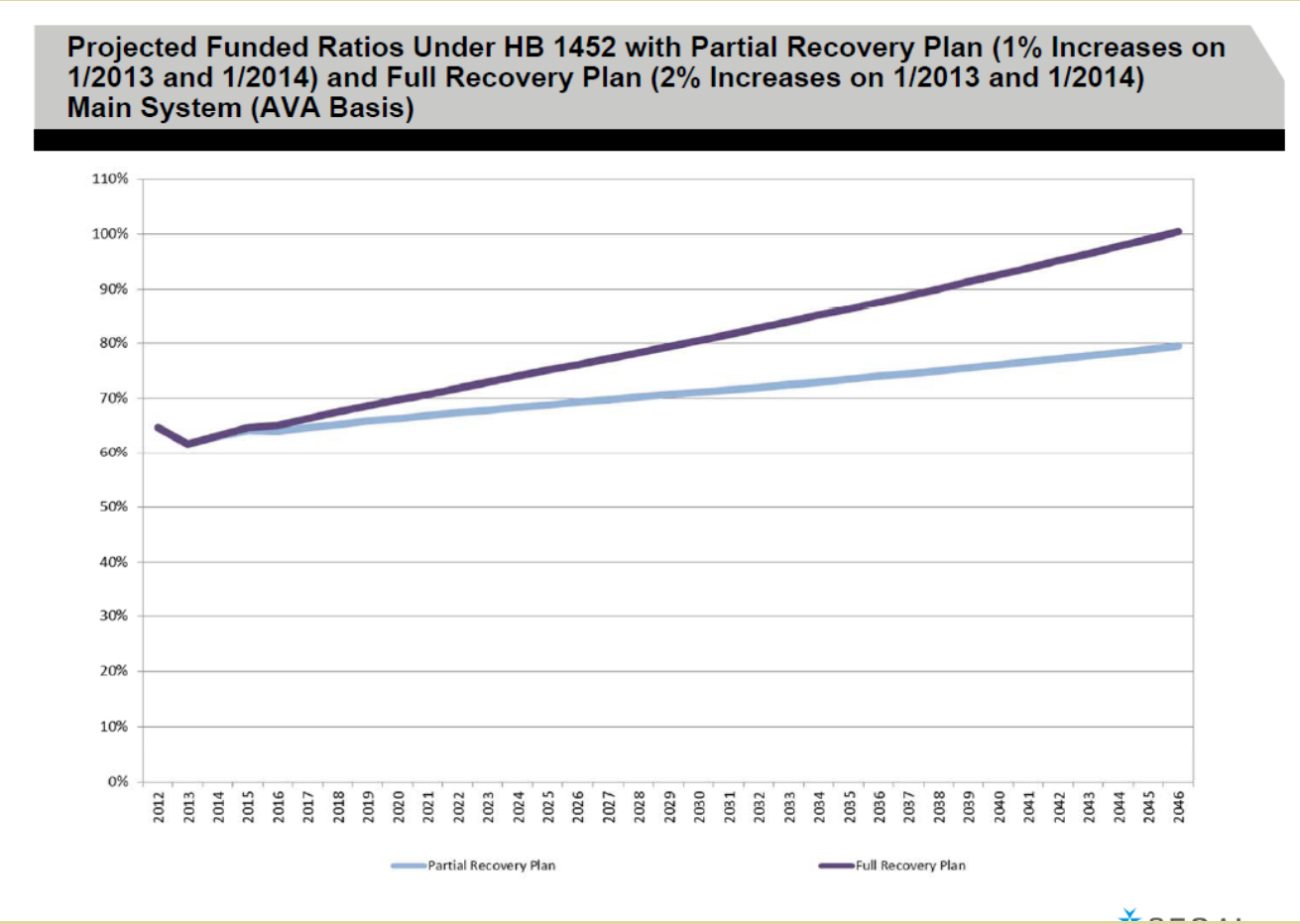

PERS (Main System)
Comparison of Funded Ratio
(Actuarial Value of Assets to Actuarial Accrued Liability)
Based on July 1, 2010 Data
Current Plan
SB 2108 original
SB 2108 as amended
Funded Percent
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2010
2015
2020
2025
2030
2035
2040
Valuation Date (7/1)

NDPERS Main System Investment Returns

2013 Session Recovery Plan (last half)

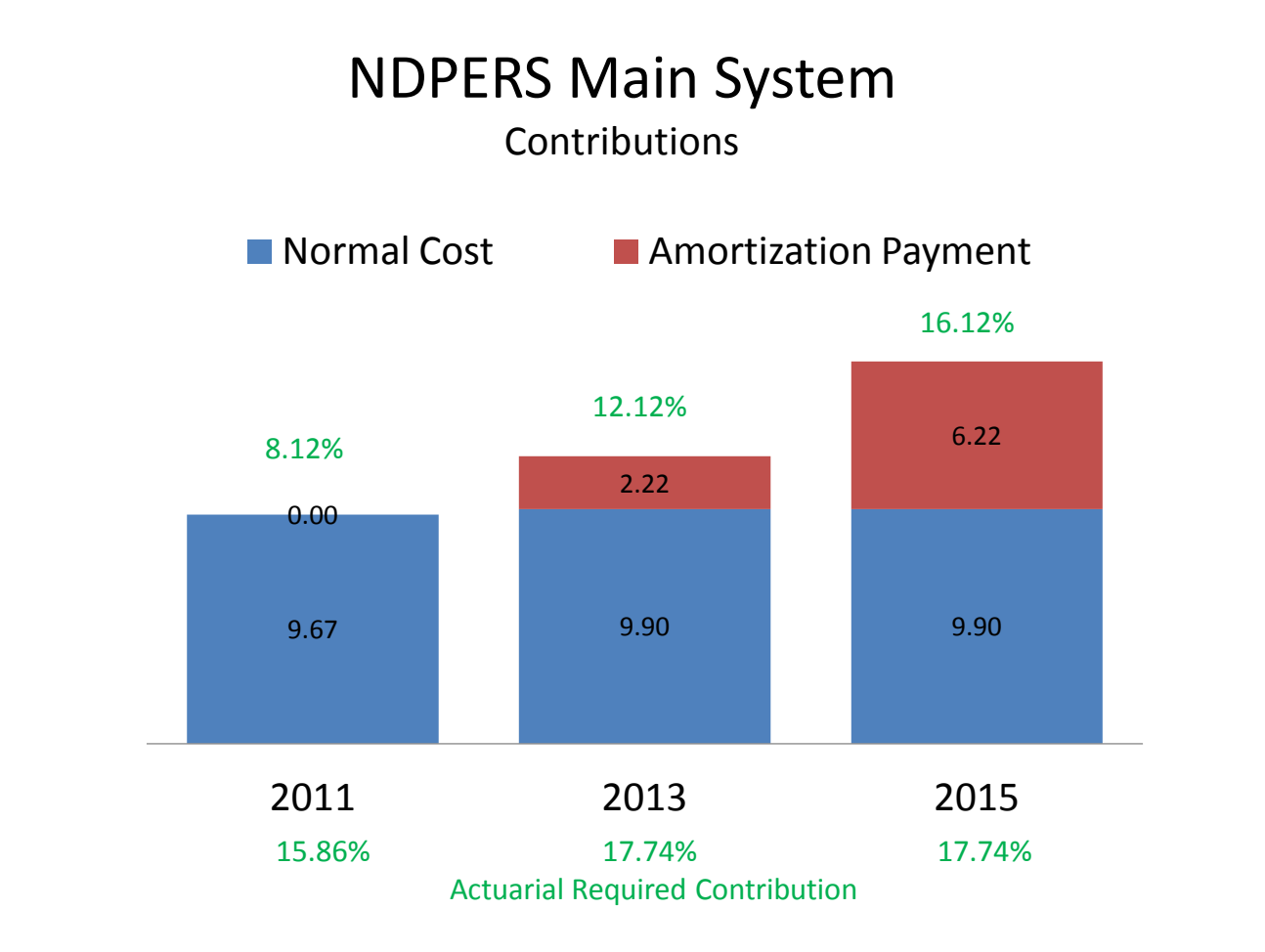


2013 Session Recovery Plan (last half)

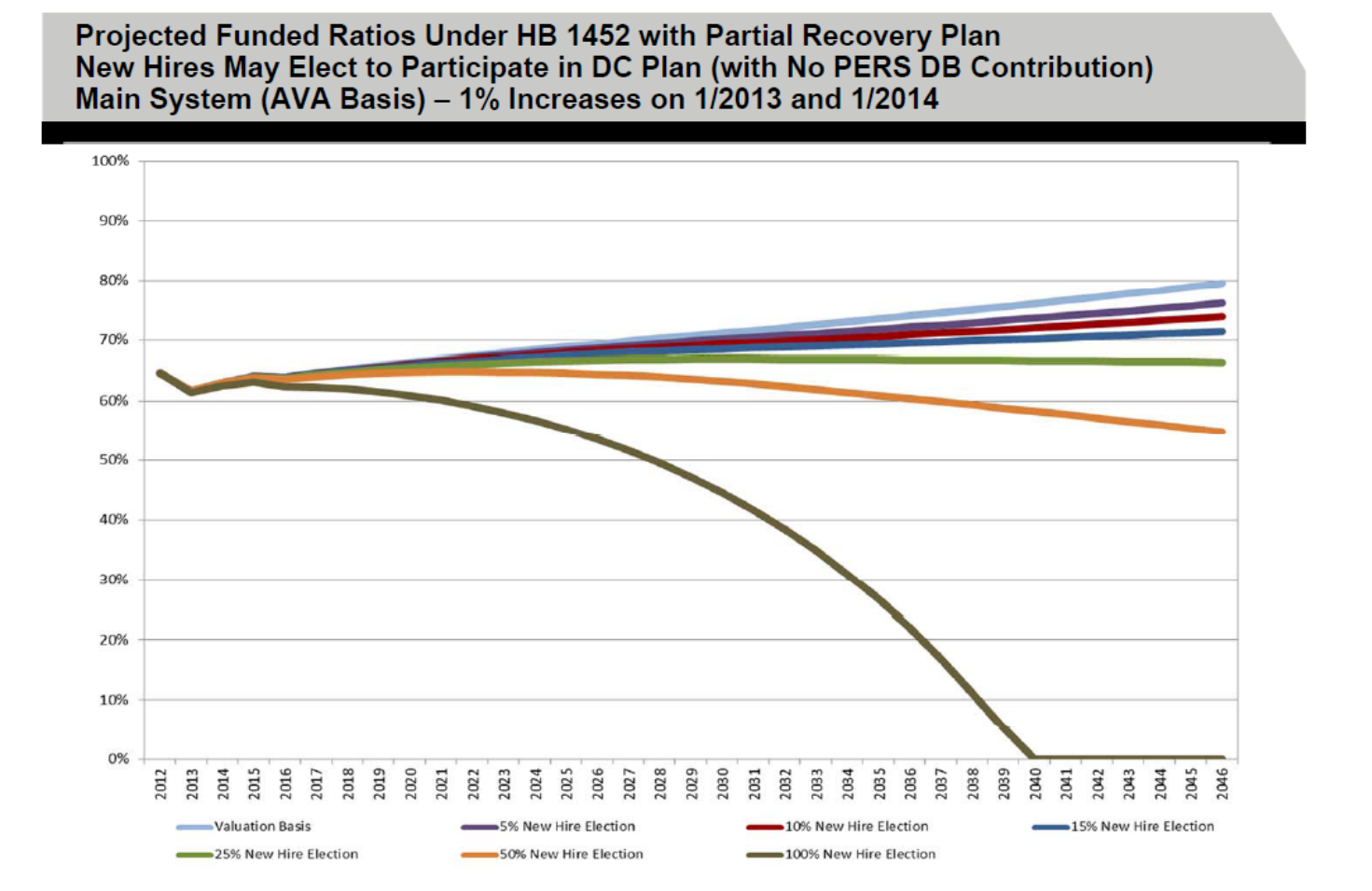


2014 increase approved not 2015

2013 Session Recovery Plan also a DC option for State Employees



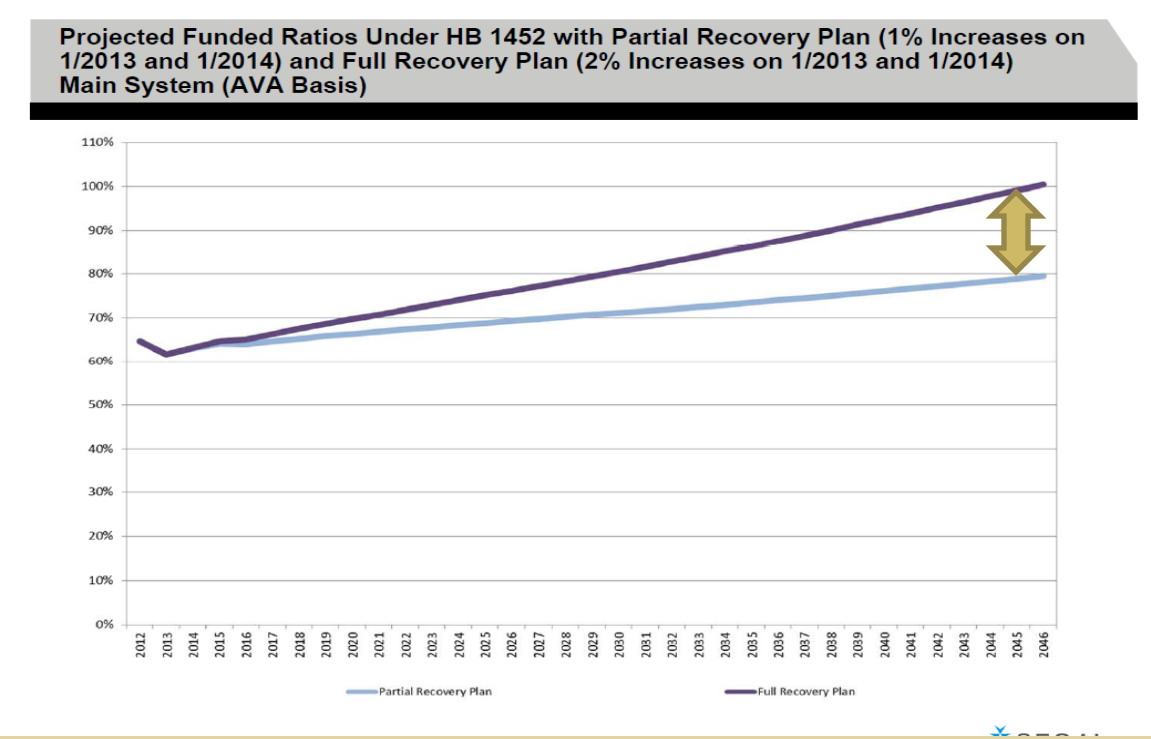
2013 Session Recovery Plan also a DC option for State Employees



Above assumes DC option is permenant, as passed it is only till the middle of 2017 consequently cost would be closer to blue. If permanent then additional cost would be as shown above.

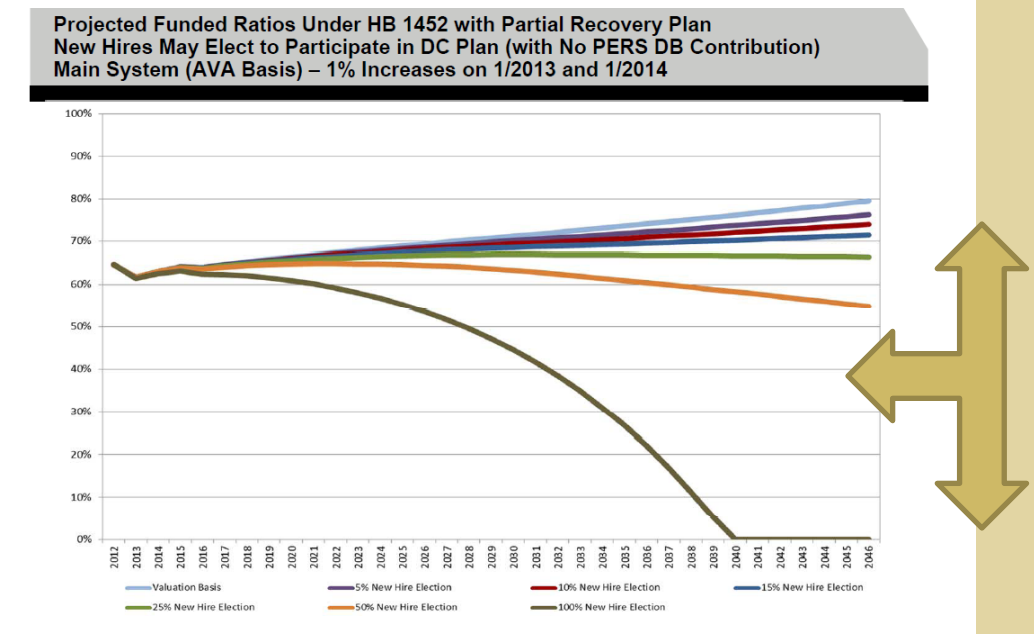
Going Forward

- Additional contribution increases will likely be needed in the future



Going Forward

- Additional contribution increases will be needed in the future
- DC plan costs will need to be added if continued



Option

- Submit a bill for a general fund transfer to pay the hybrid plan for lost contribution for the unfunded liability based upon the election rates for the first 9 months.

Going Forward

- Additional contribution increases may be needed in the future
- DC plan costs will need to be added if continued
- Effect on political subdivisions will need to be considered and adjustments made if needed

OTHER RETIREMENT RELATED ACTIVITIES

GASB Statements 67 and 68

Governmental Accounting Standards Board

Financial Reporting Focus

- GASB establishes accounting and financial reporting, *not funding policies*
- Focus is on pension obligation, changes in obligation, and attribution of expense

Long-Term Nature of Governments

- Cost of services to long-term operation
- "Interperiod equity" matches current period resources and costs

Employer-Employee Exchange

- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship

GASB Statements 67 and 68

GASB Statement 67: Financial Reporting for Pension Plans (revises GASB Statement No. 25)

GASB Statement 68: Employer Accounting & Financial Reporting for Pensions (revises GASB Statement No. 27)

- Effective dates
  - For plan reporting: effective for all plan years beginning after June 15, 2013
    - Years beginning July 1, 2013 or January 1, 2014
  - For employer reporting: effective for all fiscal years beginning after June 15, 2014
    - Years beginning July 1, 2014 or January 1, 2015
- GASB "Implementation Guide"
  - Will address outstanding technical issues in accordance with final Statements

Net Pension Liability

- NPL is calculated using:
  - Projected future benefits
    - Includes projected future service and salary increases
    - Includes the cost of ad hoc COLAs if "substantially automatic"
  - A new blended discount rate
    - Determined using projections of contributions and benefit payments
  - "Entry age" actuarial cost method
    - Most commonly used method
  - Market value of assets
    - AKA "Fiduciary Net Position"
    - No actuarial smoothing

Accounting NPL will be more volatile than the current unfunded accrued liability (which will still be used for funding).

Discount Rate

How are contributions projected in determining the discount rate?

- This depends upon how employer contributions are determined
  - Is one of the following true?
    - Contributions are subject to statutory or contractual requirements, or
    - A formal, written policy related to contributions exists
  - If so, then use professional judgment to project contributions
    - Consider the employer's 5-year history as indicator for future contributions
    - Reflect all known events and conditions
  - If neither is true, projected contributions are based on average of contributions for past 5 years
    - Average can be percentage of pay, percentage of actuarially determined contribution, or percentage of Annual Required Contribution
    - Potentially modified for subsequent events

The new methodology underscores the need for a formal funding policy if none currently exists.

Cost-Sharing Plans

New GASB 67/68 standards

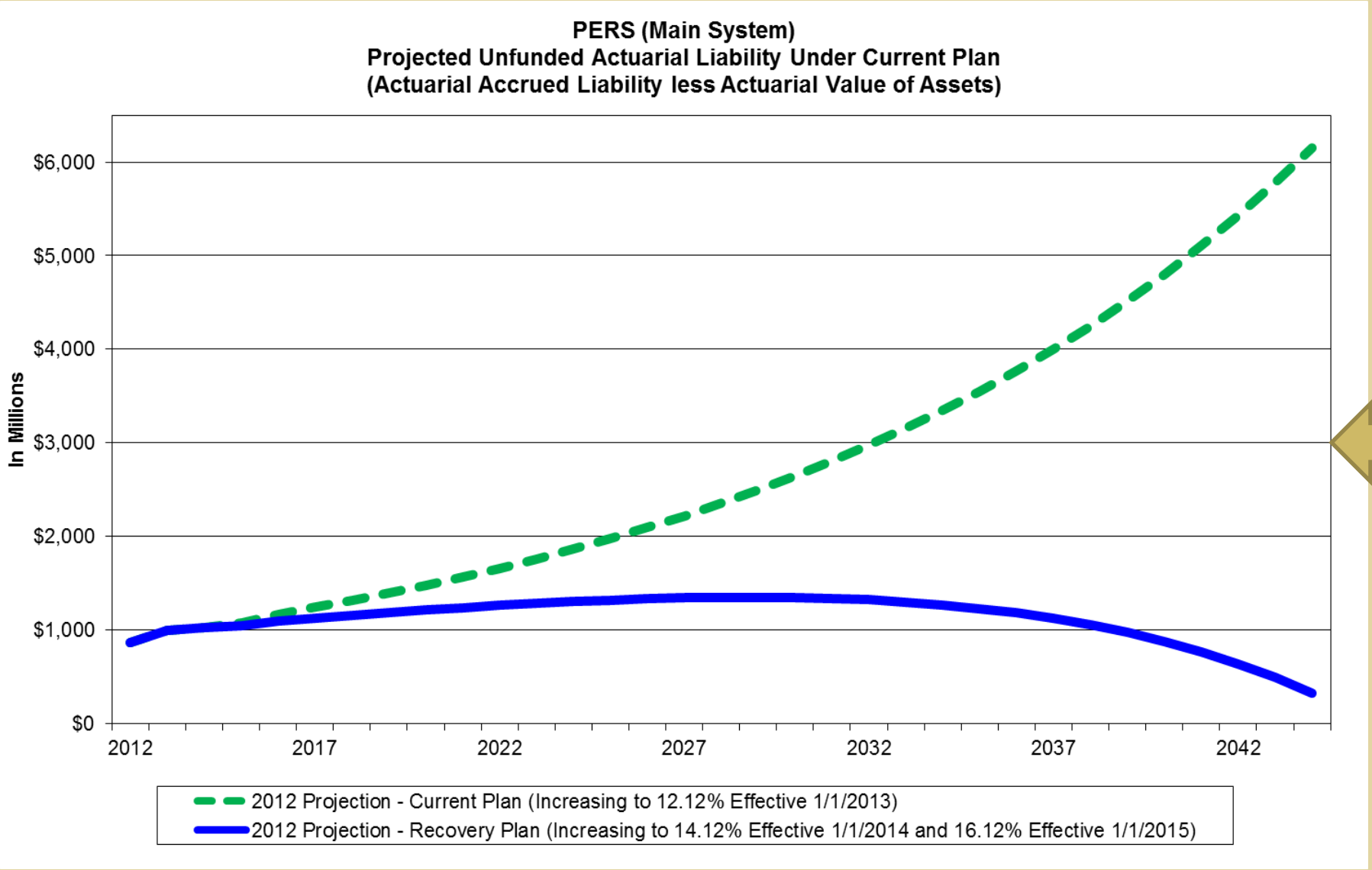
- Recognize "proportionate share" of collective Net Pension Liability and pension expense
- Proportionate share determination
  - Should be consistent with the way required contributions are determined
  - Use of the projected long-term contribution effort of the employers is encouraged
  - If different contribution rates are assessed for different groups the allocation should reflect these relationships
    - For example: different rates calculated within a single fund for different classes or tiers of employees
- This share of liability is allocated regardless of the terms of liability assignment in the employer/employee contribution agreement

Employers in "pooled" plans will now have a portion of the NPL assigned to their balance sheet.

Key Implications

- The faster recognition of net pension liability changes will introduce much greater volatility in the reported expense.
- This volatility will be reflected directly on the income statements of plan sponsors.
- The new expense amount will most likely be too volatile to serve as a funding policy for most entities

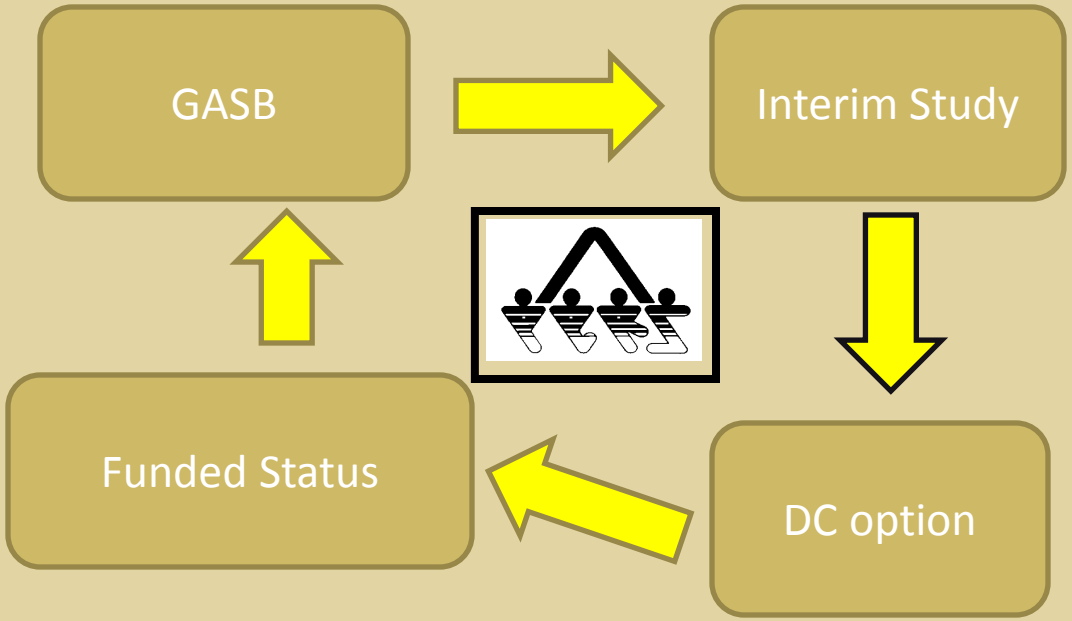
By applying the new standards, GASB is effectively decoupling plan funding and plan expense.


PERS (Main System)
Projected Unfunded Actuarial Liability Under Current Plan
(Actuarial Accrued Liability less Actuarial Value of Assets)
In Millions
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
2012
2017
2022
2027
2032
2037
2042
2012 Projection - Current Plan (Increasing to 12.12% Effective 1/1/2013)
2012 Projection - Recovery Plan (Increasing to 14.12% Effective 1/1/2014 and 16.12% Effective 1/1/2015)

SECTION 16. LEGISLATIVE MANAGEMENT STUDY - NORTH DAKOTA RETIREMENT PLANS.

During the 2013-14 interim, the legislative management shall consider studying the feasibility and desirability of existing and possible state retirement plans. The study must include an analysis of both a defined benefit plan and a defined contribution plan with considerations and possible consequences for transitioning to a state defined contribution plan. The study may not be conducted by the employee benefits programs committee. The legislative management shall report its findings and recommendations, together with any legislation needed to implement the recommendations, to the sixty-fourth legislative assembly.

Environment



What to do next session

Option #1	Option #2	Option #3	Option #4	Option #5	Option #6
Finish recovery plan	Standardized the plan with TFFR	Standardized the plan with TFFR plus reduce the multipliner	Standardize the plan with TFFR plus contribution increases each year	No Legislation	Submit legislation to pay for lost amortization payments by members going to DC plan

Contribution Increase

Retirement System Biennium Cost Estimates

			Increase Biennium Cost 2015-2017				
	Jul-13	2013-2015	1.00%	0.75%	0.50%	0.25%	0.10%
Plan	Employees	Biennium Payroll					
Main - State	11631	$ 1,093,946,372	$ 10,939,464	$ 8,204,598	$ 5,469,732	$ 2,734,866	$ 1,093,946
Judges	47	$ 12,810,520	$ 128,105	$ 96,079	$ 64,053	$ 32,026	$ 12,811
Highway Patrol	141	$ 18,073,433	$ 180,734	$ 135,551	$ 90,367	$ 45,184	$ 18,073
DC Plan	219	$ 33,540,006	$ 335,400	$ 251,550	$ 167,700	$ 83,850	$ 33,540
Total	12038	$ 1,158,370,331	$ 11,583,703	$ 8,687,777	$ 5,791,852	$ 2,895,926	$ 1,158,370
General Fund	53.38%	$ 618,338,083	$ 6,183,381	$ 4,637,536	$ 3,091,690	$ 1,545,845	$ 618,338
Political Subs							
County	3581	$320,111,689	$ 3,201,117	$ 2,400,838	$ 1,600,558	$ 800,279	$ 320,112
City	1475	$162,456,950	$ 1,624,570	$ 1,218,427	$ 812,285	$ 406,142	$ 162,457
Schools	4988	$303,998,340	$ 3,039,983	$ 2,279,988	$ 1,519,992	$ 759,996	$ 303,998
Others	557	$47,604,153	$ 476,042	$ 357,031	$ 238,021	$ 119,010	$ 47,604
Subs Total	10601	$834,171,132	$ 8,341,711	$ 6,256,283	$ 4,170,856	$ 2,085,428	$ 834,171
Total			$ 19,925,415	$ 14,944,061	$ 9,962,707	$ 4,981,354	$ 1,992,541

Rule and FAS

The actuarial recommended contribution rates are shown below as a percentage of payroll:

Plan Provision	Ultimate Contribution Rate	Savings If Current Employees Included*	Savings If Only New Employees Affected
Current Plan Employer Contribution	12.24%	N/A	N/A
Rule of 85, min. age 55	12.10%	0.26%	0.14%
Rule of 85, min. age 60	12.07%	0.29%	0.17%
5-Year Final Average Compensation	11.91%	N/A	0.33%

*Employees within ten years of eligibility for the Rule of 85 would not be affected.

Change Multiplier

Per your request, we have calculated the effect of changing the future benefit accrual rate from 2.0% to 1.9% of final average salary multiplied by service, where final average salary is determined using a three-year average of compensation.

The actuarial recommended contribution rates are shown below as a percentage of payroll:

Plan Provision	Ultimate Contribution Rate	Savings If Current Employees Included	Savings If Only New Employees Affected
Current Plan Employer Contribution	12.24%	N/A	N/A
1.9% Benefit Accrual	11.62%	0.62%	0.36%

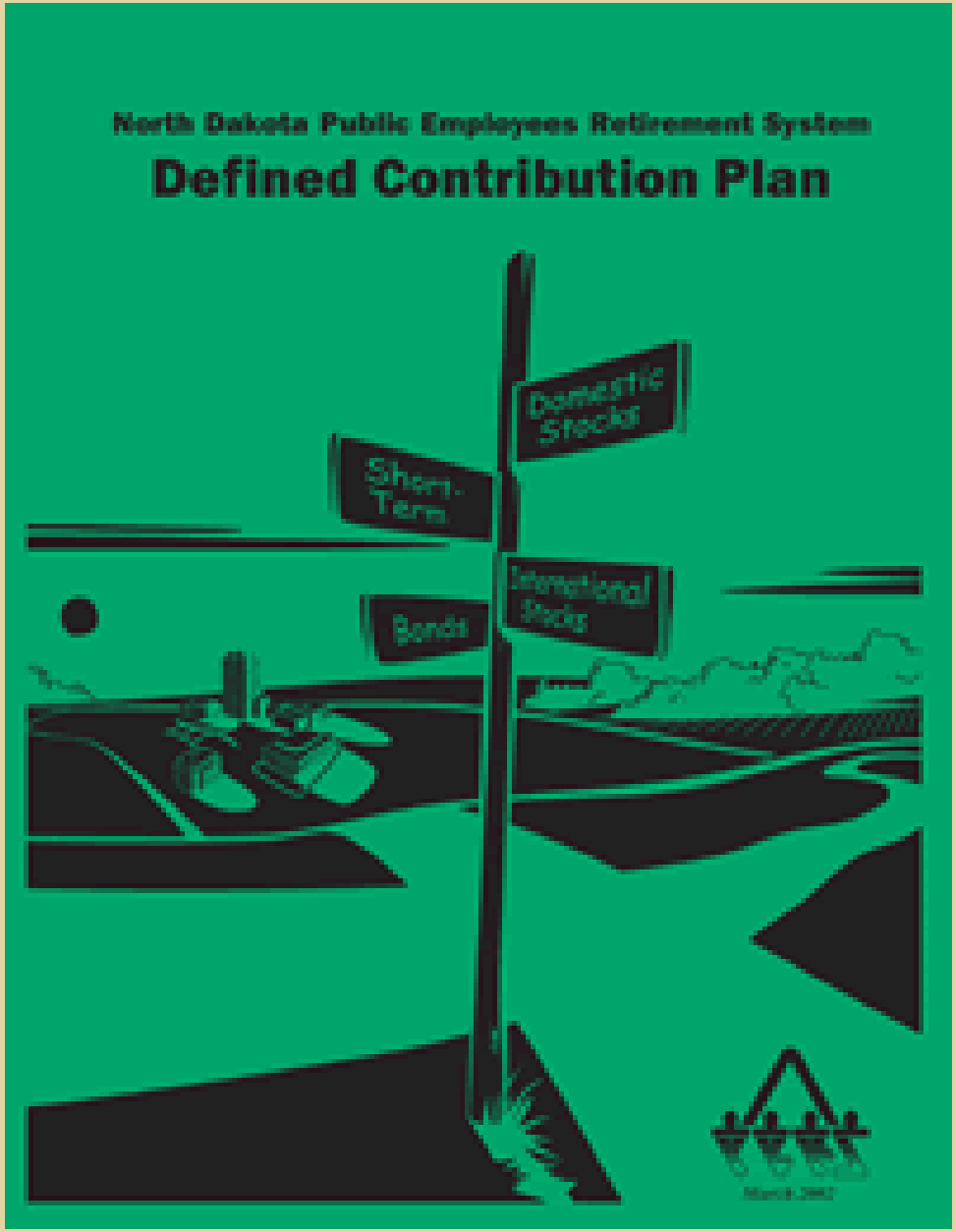
Interest rate – employee Accounts

PERS Main System Employer Contribution Rate	7.50% Crediting Rate (Current Plan)	4.00% Crediting Rate (Proposed)	Savings
Normal Cost*	5.31%	5.00%	0.31%
20-Year UAL Payment	6.05%	6.05%	0.00%
Actuarial Recommended Contribution	11.36%	11.05%	0.31%

PEP

Service Credit	PEP Contribution (Current Plan)	PEP Contribution (Proposed)
0 – 12 months	1%	1.5%
13 – 24 months	2%	3.0%
25 – 36 months	3%	4.5%
37 or more months	4%	6.0%

PERS Main System Employer Contribution Rate	PEP Contribution (Current Plan)	PEP Contribution (Proposed)	Increase
Normal Cost*	5.31%	5.48%	0.17%
20-Year UAL Payment	6.05%	6.02%	(0.03%)
Actuarial Recommended Contribution	11.36%	11.50%	0.14%



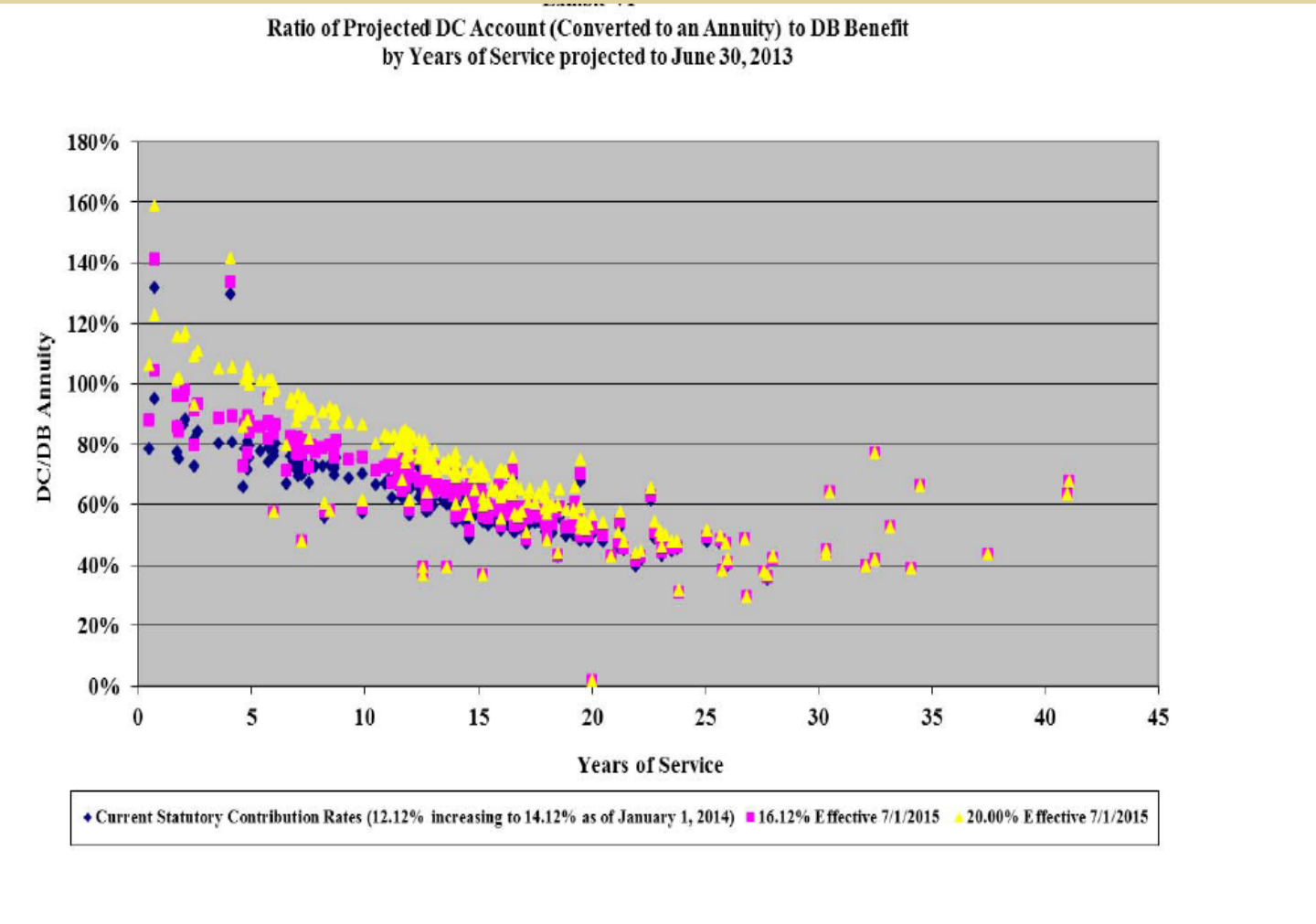
DEFINED
CONTRIBUTION PLAN

DC 401(a) Plan – June 2013

- Active participants: 213
- Suspended: 54
- Retired: 12
- Withdrawn: 121

DC Plan Challenge

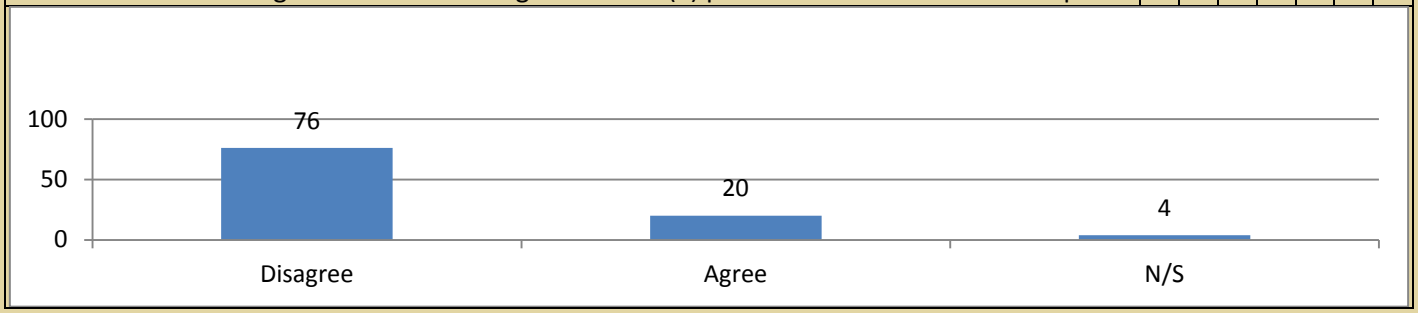
Ratio of Projected DC to DB Benefits	Future Contribution Rate: Current Plan 14.12% effective January 1, 2014	Increase to 16.12% effective July 1, 2015	Increase to 20.00% effective July 1, 2015
Less than 50%	49	41	32
50% - 75%	149	131	106
75% - 100%	27	52	69
100% and Over	2	3	20
Total	227	227	227


Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Years of Service projected to June 30, 2013
DC/DB Annuity
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
0
5
10
15
20
25
30
35
40
45
Years of Service
Current Statutory Contribution Rates (12.12% increasing to 14.12% as of January 1, 2014)
16.12% Effective 7/1/2015
20.00% Effective 7/1/2015

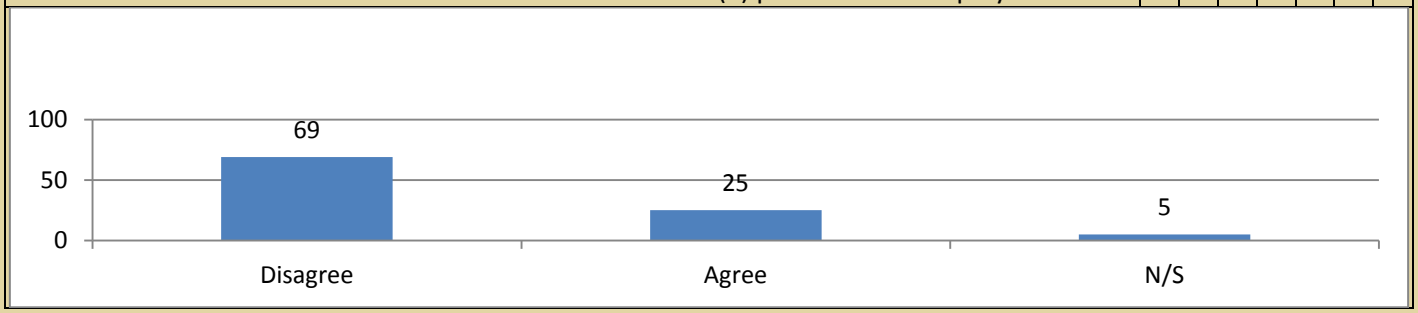
Concerning the above, the Segal report stated: *Overall, this analysis shows that the majority of the current DC Plan members are projected to receive significantly less retirement income under the DC Plan than projected under the DB Plan. In particular, the ratio of DC Plan to DB Plan benefits declines somewhat as age increases, and declines dramatically as length of service increases. The DC Plan benefits are projected to be higher with an increase in the contribution rate but are still less than 100% of the DB Plan benefits for most participants. Under existing contribution levels, the only way that DC Plan benefits would consistently reach the level of DB Plan benefits would be to earn long term investment returns above the assumed 8%.*

DC Questions

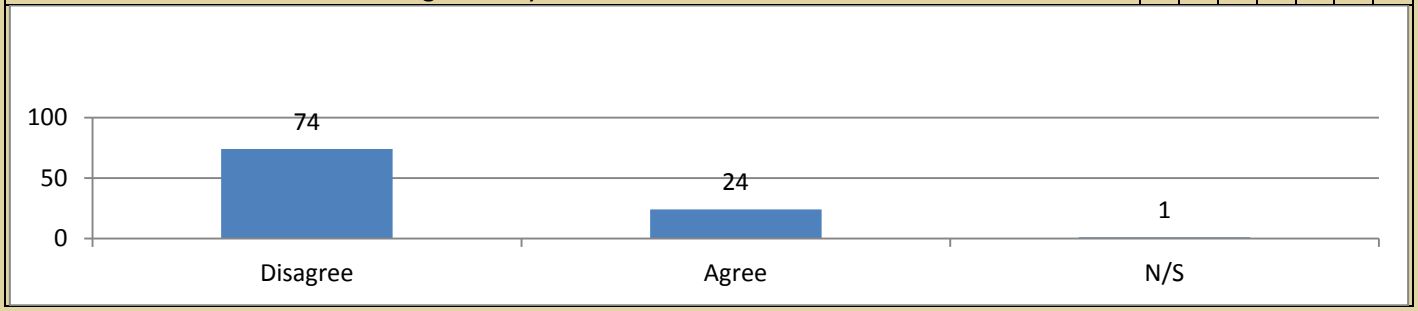
14. I feel I made the right decision selecting the DC 401(a) plan over the Defined Benefit plan.	54	9	13	7	8	5	4



17. I would recommend the PERS Defined Contribution 401(a) plan to other employees?	47	15	7	15	9	1	5



18. I am confident I will have enough money to retire.	47	13	14	6	16	2	1



Other Issue

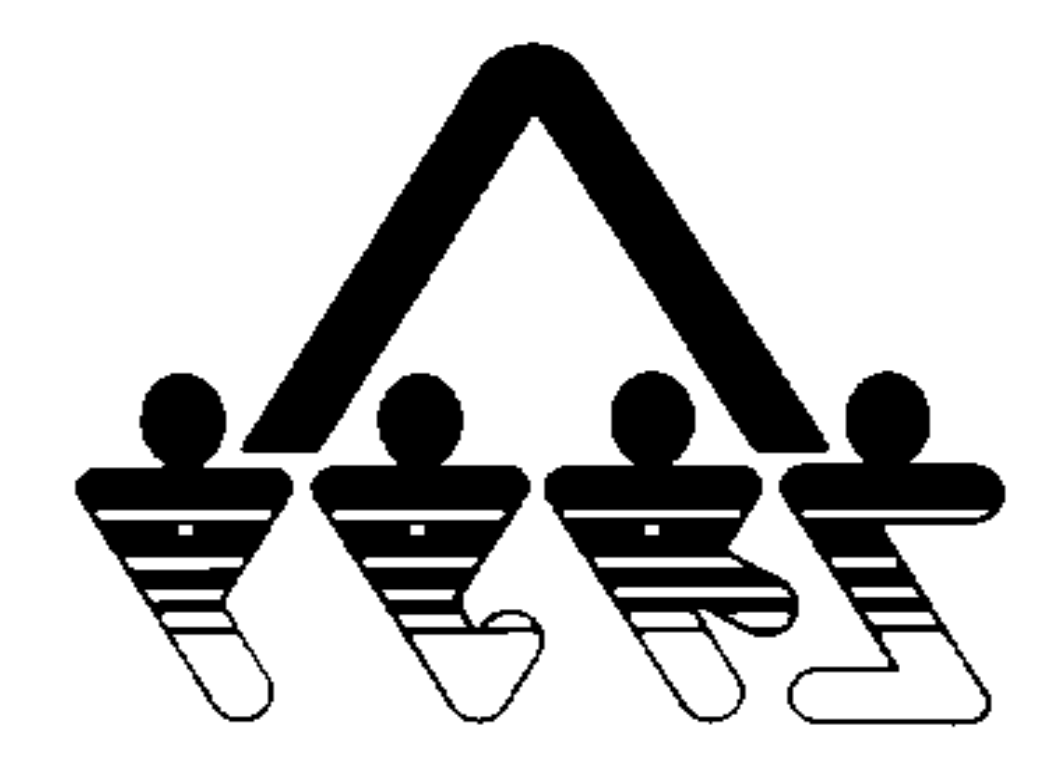
- Disability
- Leave time for finacial planning
- Life insurance

DC Plan

Option #1	Option #2	Option #3	Option #4	Option #5
Increase Employee contributions by 2% with goal of further increases in future sessions to a total of 18% to 20%	Provide statutory language to provide time for financial planning	Increase life insurance paid by employer to $75,000	Add employer paid disability coverage	Allow existing long term members the opportunity to rejoin the Hybrid plan.

HEALTH INSURANCE

North Dakota Public Employees Retirement System



PERS Health Insurance Plan

2013-2015 Rates and Plan design

2013-15 Premiums

BCBS Premium	Sanford Premium
12.98%	**25.49%**

2013-15 Premiums

BCBS Premium	PERS BUYDOWN
+12.98%	**-2.26**

Final Premium for 2015-2017 +10.72%

About 5.5% per year

State of North Dakota Health Plan Appropriations (Excludes Higher Education)

	Total Budget Appropriation	FTE	Health Premium	Health Plan Appropriation	% of Total Appropriations
1991-93	2,771,064,605	8,179	$254.00	$49,859,184	1.80%
1993-95	2,935,767,081	8,216	$254.00	$50,084,736	1.71%
1995-97	3,107,356,520	8,024	$265.00	$51,032,640	1.64%
1997-99	3,347,823,922	8,118	$301.00	$58,644,432	1.75%
1999-01	3,767,007,536	8,400	$349.72	$70,503,552	1.87%
2001-03	4,325,559,659	8,538	$409.09	$83,827,450	1.94%
2003-05	4,587,351,203	8,392	$488.70	$98,428,090	2.15%
2005-07	5,186,963,789	8,438	$553.94	$112,179,497	2.16%
2007-09	5,843,419,715	8,808	$658.08	$139,111,900	2.38%
2009-11	8,052,214,358	8,960	$825.66	$177,549,926	2.20%
2011-13*	8,556,123,763	9,011	$886.62	$191,743,988	2.24%

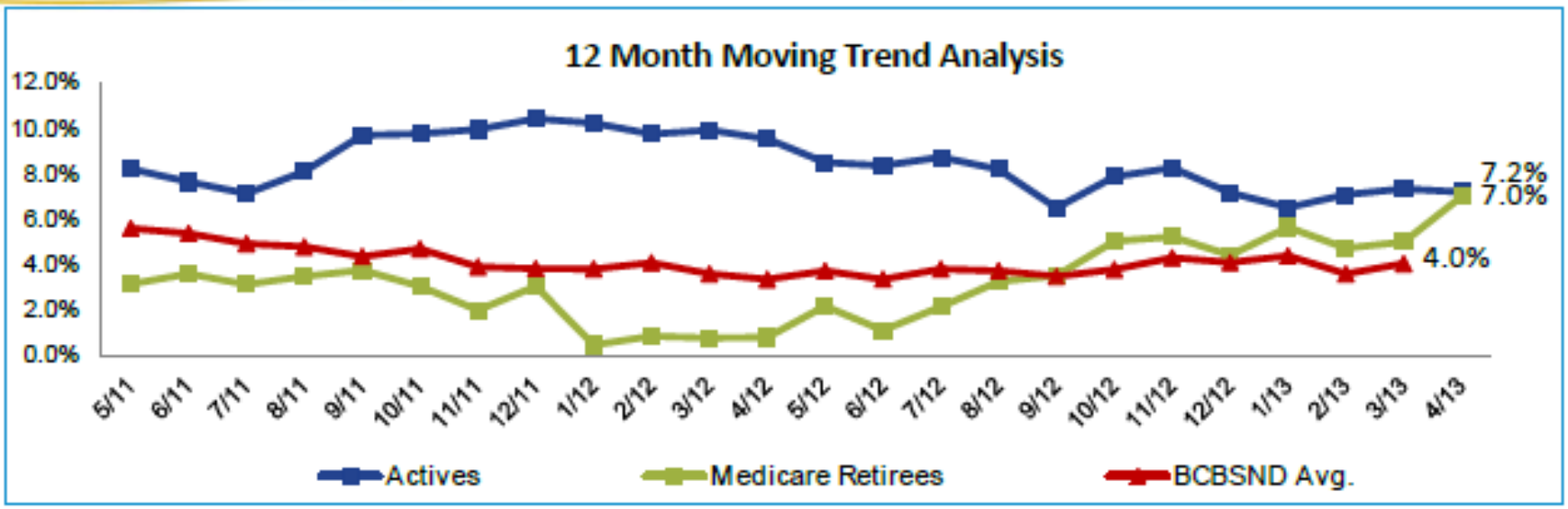
* - Executive Recommendation

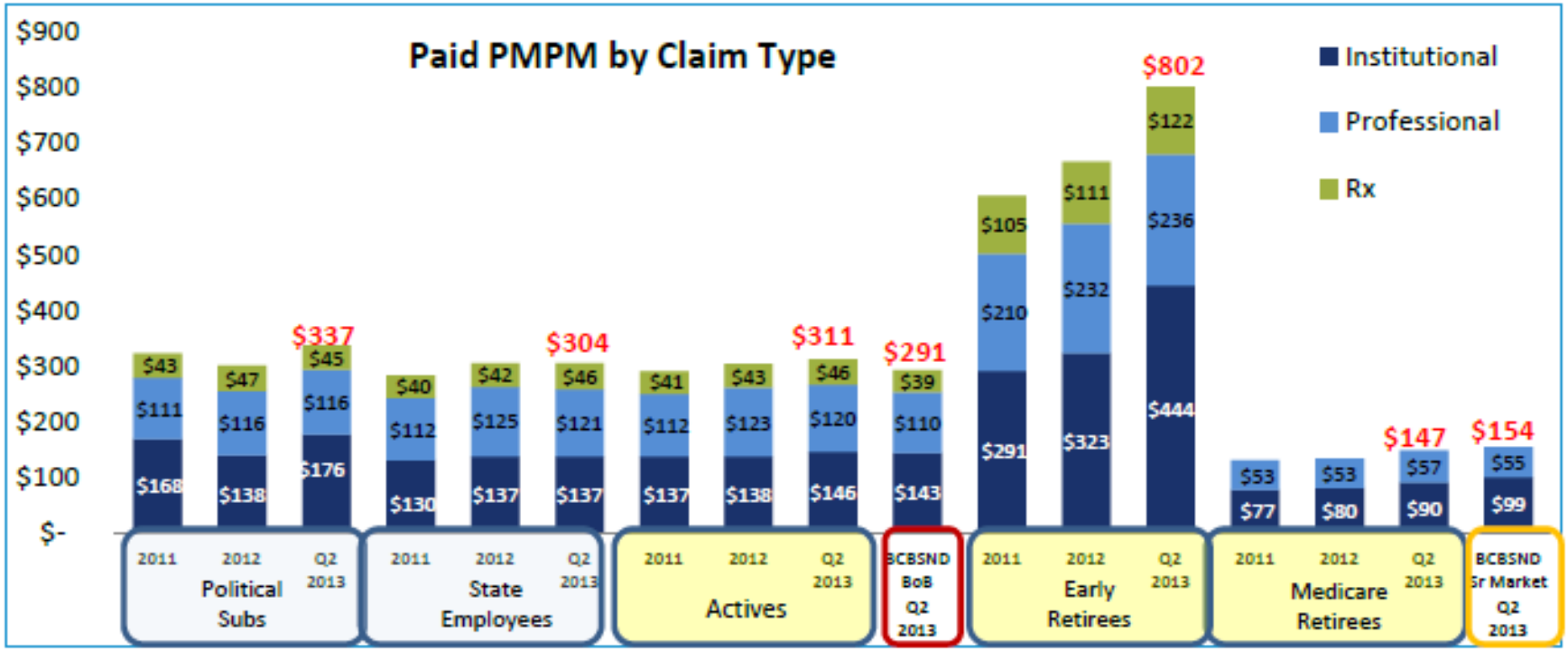
NDPERS Active Health Insurance Out-Of-Pocket

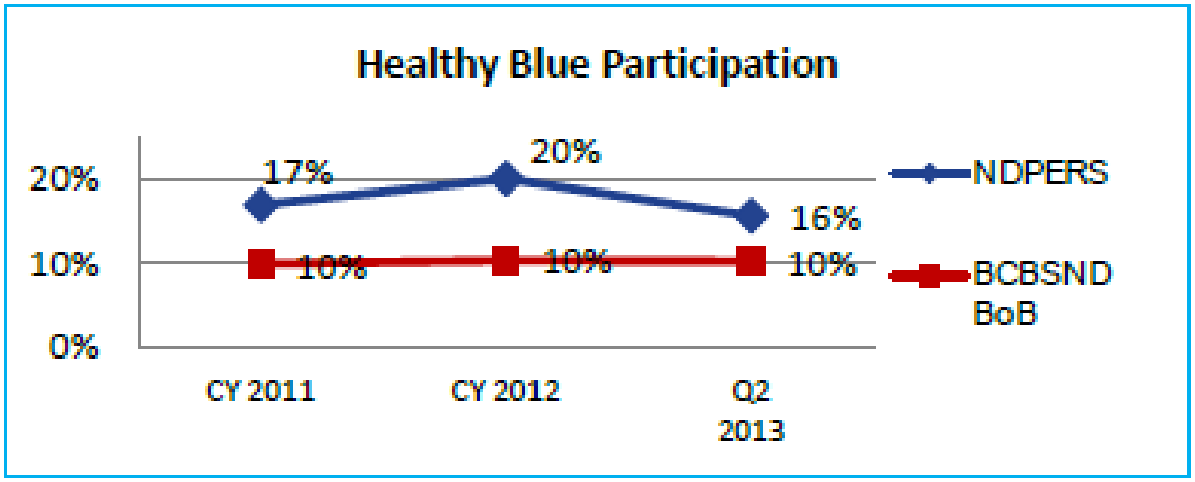
July-June Fiscal Year ending: ******Calendar Year Jan – Dec******

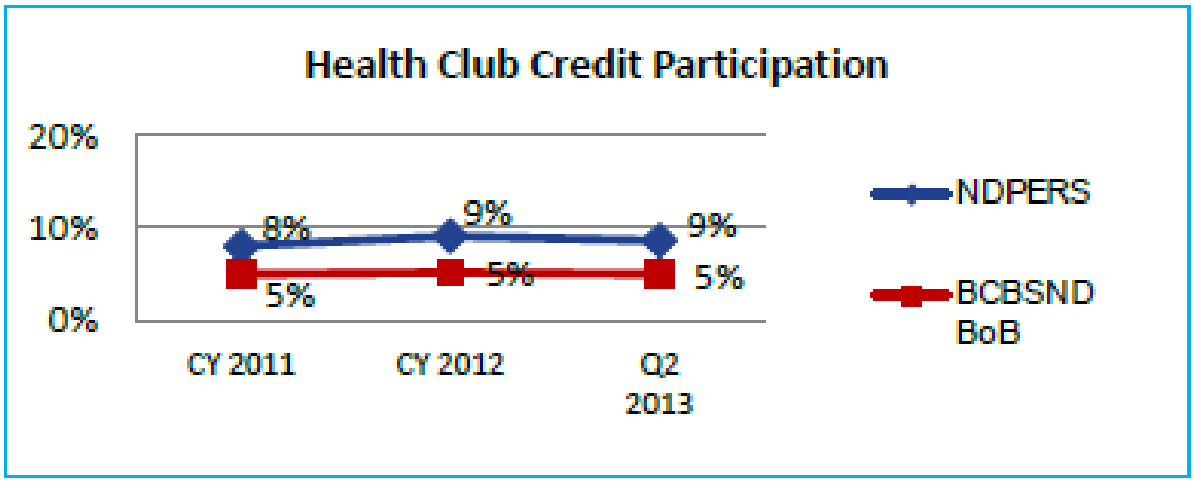
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Active Contracts	16,565	17,253	17,632	17,573	17,889	18,114	18,303	18,791	19,116	19,728	20,014	20,940
Deductibles	$2,307,596	$1,789,727	$1,967,859	$5,765,933	$5,080,986	$4,859,625	$5,006,043	$8,968,213	$8,092,001	$9,816,469	$10,073,095	$10,967,963
Coinsurance	$6,427,972	$7,340,161	$8,424,109	$9,315,964	$11,044,560	$11,358,692	$11,932,003	$10,710,173	$11,179,053	$12,712,265	$11,714,676	$13,930,488
Sanctions	$0	$0	$0	$795,964	$0	$0	$0	$1,469,334	$1,791,889	$2,794,769	$2,695,473	$2,650,929
Copayments	$5,188,715	$8,445,132	$8,768,553	$7,456,340	$7,533,643	$7,546,375	$7,686,951	$9,334,245	$9,190,399	$11,465,517	$11,696,304	$12,214,972
Exceed Max	$247,044	$361,158	$672,490	$378,841	$550,479	$744,321	$549,843	$2,752,873	$1,910,581			
Exclusions	$1,560,268	$1,702,808	$1,847,570	$2,322,307	$2,516,646	$2,919,717	$3,112,107	$4,044,846	$3,956,861	$4,497,621	$5,850,646	$9,056,696
TOTAL	$15,731,595	$19,638,986	$21,680,581	$26,035,349	$26,726,314	$27,428,730	$28,286,947	$37,279,684	$36,120,784	$41,286,641	$42,030,194	$48,821,048
Per Contract	$950	$1,138	$1,230	$1,482	$1,494	$1,514	$1,545	$1,984	$1,890	$2,092	$2,100	$2,331
Average Salary	$25,864	$26,998	$27,943	$28,408	$29,063	$30,218	$31,387	$33,203	$34,987	$37,242	$38,858	$37,973
Percent	3.7%	4.2%	4.4%	5.2%	5.1%	5.0%	4.9%	6.0%	5.4%	5.6%	5.4%	6.1%

Health Trend




Paid PMPM by Claim Type
Institutional
Professional
Rx
$900
$800
$700
$600
$500
$400
$300
$200
$100
$-
$337
$304
$311
$291
$802
$147
$154
$43
$111
$168
$47
$116
$138
$45
$116
$176
$40
$112
$130
$42
$125
$137
$46
$121
$137
$41
$112
$137
$43
$123
$138
$46
$120
$146
$39
$110
$143
$105
$210
$291
$111
$232
$323
$122
$236
$444
$53
$77
$53
$80
$57
$90
$55
$99
2011
2012
Q2 2013
Political Subs
State Employees
Actives
BCBSND BoB Q2 2013
Early Retirees
Medicare Retirees
BCBSND Sr Market Q2 2013


Healthy Blue Participation
20%
10%
0%
17%
20%
16%
10%
10%
10%
CY 2011
CY 2012
Q2 2013
NDPERS
BCBSND BoB


Health Club Credit Participation
20%
10%
0%
8%
9%
9%
5%
5%
5%
CY 2011
CY 2012
Q2 2013
NDPERS
BCBSND BoB

What could this mean for 2015-17

- Trend could be between 7-8%
- Such a trend could produce a premium increase of 14% to 16%
- ACA changes are unpredictable

Active State Renewal Rate

NDPERS 2013- 2015 Allocation and 2015-2017 Projection	NDPERS 2015-2017 Planning Projections			
	5.0% Trend	7.0% Trend	9.0% Trend	10.0% Trend
2009-2011 rate	$825.66	$825.66	$825.66	$825.66
2011-2013 rate	$886.62	$886.62	$886.62	$886.62
2013-2015 rate ($998.92 BCBS)	$981.68	$981.68	$981.68	$981.68
2013-2015 % increase	10.72%	10.72%	10.72%	10.72%
Projected 2015-2017 rate	$1101.31	$1143.66	$1186.82	$1208.69
2015-2017 $ increase	$102.39	$144.74	$187.90	$209.77
2015-2017 % increase	12.19%	16.50%	20.09%	23.12%
Total State additional funds*	$29,488,000	$41,685,000	$54,115,000	$60,414,000
Total additional general funds**	$16,218,000	$22,927,000	$29,763,000	$33,228,000

* - For biennium assuming 12,000 State FTE's
** - Assumed to be 55% of total funds

Allowed changes

NDPERS PPO Health Plan Design Cost Shifts

Maximum changes allowed to retain Grandfathered Status

	Estimated PPO Percentage Change
Annual Premium Reductions to change deductible: from $400 single/$1200 family to $450 single/$1350 family	0.7%
Annual Premium Reductions to change coinsurance maximum: from $750/1500 to $900/1800 IN and $1250/2500 to $1500/3000 OON	0.6%
Annual Premium Reduction for a $5 increase in office visit copay:	0.5%
Annual Premium Reduction for a $10 increase in emergency room copay:	0.05%
Annual Premium Reductions to change RX Formulary Generic copay: from $5 copay to $10 copay	0.8%
Annual Premium Reductions to change RX Formulary Brand copay: from $20 copay to $25 copay	0.3%
Annual Premium Reductions to change RX Non-Formulary copay: from $25 copay to $30 copay	0.08%
Annual Premium Reductions to change RX Formulary coinsurance maximum: from $1000 to $1200	0.05%
Total of all changes shown above:	3.08%

AFFORDABLE CARE ACT (ACA)

Upcoming compliance provisions

Large Employers

Must:

•Offer coverage to all full time employees

•Must met certain minimum value guidelines (benefit design and cost- no more than 9.5% of household income)

- Small employer is 50 or more employees
- Is an employer responsibility not a health plan responsibility
- PERS did change our statute this session to comply with the ACA

- **Significance of Full-Time Employee Status**

Significance of "Full-Time Employee" Status

- Employer Shared Responsibility rules apply only to "Applicable Large Employers"
  - Employed an average of at least 50 "Full-Time Employees" for more than 120 days during the preceding calendar year
    - "Full-Time Equivalent" employees counted for this purpose only
    - Special rule for seasonal employees
- Employer Shared Responsibility penalties apply only with respect to "***Full-Time Employees***"
  - Potential **$2,000** penalty per FTE if coverage not offered to FTEs and their dependents
  - Potential **$3,000** penalty for each FTE who opts out of the employer's coverage if it isn't "affordable" or doesn't meet a *"minimum value" threshold*
    - Note: Penalties are "potential" because they are imposed only if a FTE obtains coverage in a State Health Insurance Exchange and qualifies for a Premium Tax Credit or Cost-Sharing Subsidy

Definition of "Full-Time Employee"

- The Employer Shared Responsibility rules only apply with respect to "Full-Time Employees"
  - "The term 'full-time employee' means, with respect to any month, an employee who is employed on average at least 30 hours of service per week." IRC § 4980H(c)(4)(A).

- Because of the potential penalties associated with not offering coverage to "Full-Time Employees", this definition raises many concerns
  - Can part-time employees become full-time employees from time to time, just because they work too many hours in a given month?
  - What about new employees, if the employer isn't sure how much they will work?
  - Are there any special rules for temporary and seasonal employees?

Ongoing and New Full-Time Employees

AFFORDABLE CARE ACT (ACA)

Ongoing Employees

- Key Definitions
  - *Ongoing Employee*: any employee employed by the employer for at least one complete Standard Measurement Period
  - *Standard Measurement Period*: a defined time period, as chosen by the employer, of at least 3 – but no more than 12 – consecutive calendar months, used to determine full-time status for ongoing employees
  - *Stability Period*: the period during which coverage must be offered to those employees determined to be "full-time" during the relevant Standard Measurement Period in order to avoid Shared Responsibility penalties.

Options

#1	#2	#3	#4
Continue to use reserves to buydown premiums	Adjust benefits as allowed to help control trend	Maintain status quo	Give up Grandfathered status