
NDPERS Legislative Review - Retirement & Health Plan Update

North Dakota Public Employees
Association
10/09/2003

PERS Program Update

- Legislative Update
 - Retirement plan Update
 - Health Plan Update
 - Retiree Health Plan Update
-

LEGISLATIVE UPDATE

Legislative Session

- 15 bills

- 7 Health

- 1 PERS

- 6

- 8 Retirement

- 2 PERS

- 6

- Several health amendments

RETIREMENT PROGRAMS UPDATE

SB 2058 (PERS)

- Deferred Comp Plan
 - Main Retirement System
 - Retiree Health Plan
 - Defined Contribution Program
-

SB 2058 (PERS)

Deferred Comp Plan

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

SB 2058 (PERS)

MAIN RET. PLAN

- Definition of “eligible employee” from 5 months to 20 weeks
 - Clarifies participation of elected and appointed officials
 - Allows trustee to trustee transfers
 - Changes multiple plan membership provisions
 - USERRA
-

SB 2058 (PERS)

MAIN RET. PLAN

- Confidentiality Provisions
 - Update federal compliance provisions
 - Employer purchase of up to five years and sick leave
-

SB 2058 – Employer Purchases

- State Requirements
 - Must not have the option to choose
 - Must meet one of the following
 - Age and service must be “75” or greater
 - Must be 55 with 3 years of service
 - Actuarial cost
 - Purchases completed before retirement
 - Lump sum employer payment
-

SB 2058 – Employer Purchases

- Must complete a checklist indicating
 - Complies with state law
 - Complies with federal law
 - “definitely determinable” benefit
 - Age discrimination etc
 - Submit a copy of the program
-

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
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SB 2058 (PERS)

Retiree Hlth PLAN

- Coordinates the effective date for members to receive the retiree health credit with the effective date for retirement benefits
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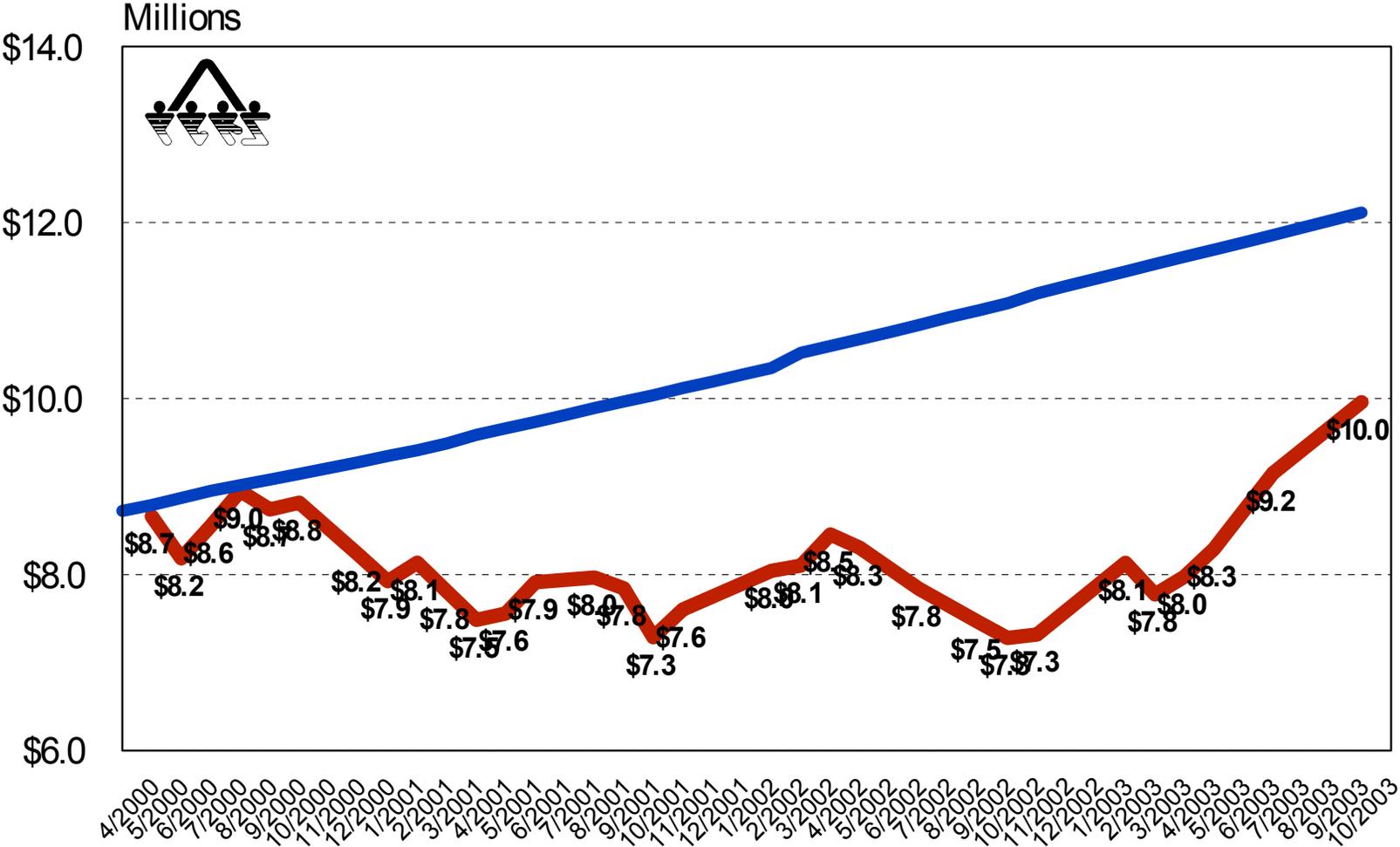
SB 2058 (PERS)

Defined Contribution Plan

- Additional employer contribution
 - USERRA
 - Timeframe for refunds
-

NDPERS Defined Contribution Plan

— Total Contributions — Total Value



SB 2059 HP System

- Provisions similar to Main



SB 2033 – New Plan

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

SB 2316

- Relating to the definition of wages and salaries for purposes of the public employees retirement system
 - Applied to the State Mill & Elevator
 - Employer contribution rate increase from 4.12 to 4.19
-

SB 2335 – Investments

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

North Dakota Investments

- 40 million a year in pension payments
 - 38 million investment pool through BND
 - Venture Capital commitment
-

Other Retirement Legislation

- SB 2013 – DPI Employees
 - HB 1063 - OASIS
 - HB 1064 – Job Service
Retirement
-

RETIREMENT FUTURE EXPECTATIONS – Three years ago

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

PERS Main - Historical Funded Ratio

	<u>Actuarial Accrued Liabilities (millions)</u>	<u>Actuarial Value of Assets (millions)</u>	<u>Funded Ratio</u>
1993	\$ 470	\$ 468	100%
1994	511	506	99%
1995	540	555	103%
1996	598	622	104%
1997	647	704	109%
1998	720	801	111%
1999	843	917	109%
2000	892	1,027	115%
2001	1,009	1,115	111%
2002	1,103	1,150	104%

PERS Main - Projected Funded Ratio and Contribution Margin

(Assumes 8.0% returns for FYE 2004 and after)

<u>FYE</u>	<u>Funded Ratio (AVA)</u>	<u>Funded Ratio (MVA)</u>	<u>Margin</u>
2003	98%	92%	-1.3%
2004	92%	92%	-2.4%
2005	86%	91%	-3.4%
2006	83%	91%	-4.0%
2007	83%	90%	-4.2%
2008	82%	90%	-4.3%
2009	82%	90%	-4.3%
2010	82%	90%	-4.4%
2011	81%	89%	-4.5%
2012	81%	89%	-4.5%
2013	81%	88%	-4.6%
2014	80%	88%	-4.6%
2015	80%	88%	-4.6%
2016	79%	87%	-4.6%
2017	79%	87%	-4.6%
2018	78%	86%	-4.6%

PERS Main - Projected Funded Ratio and Contribution Margin

(Assumes 10.3% returns for FYE 2004 and after)

<u>FYE</u>	<u>Funded Ratio (AVA)</u>	<u>Funded Ratio (MVA)</u>	<u>Margin</u>
2003	98%	92%	-1.3%
2004	92%	94%	-2.3%
2005	88%	95%	-3.2%
2006	86%	97%	-3.6%
2007	87%	99%	-3.4%
2008	88%	101%	-3.1%
2009	90%	103%	-2.8%
2010	92%	105%	-2.5%
2011	94%	108%	-2.1%
2012	96%	110%	-1.6%
2013	99%	113%	-1.2%
2014	102%	116%	-0.7%
2015	105%	120%	-0.1%
2016	108%	124%	0.5%
2017	112%	128%	1.1%
2018	116%	133%	1.8%

What average return is required?

- To return to positive margins by:

<u>FYE</u>	<u>Avg. Return</u>
2008	16.6%
2010	13.4%
2012	11.8%

How are others Doing?

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

How are others Doing?

- **Montana retirement plan facing financial troubles**
 - **City Pension Funds in Red**
 - **Public pensions far short**
 - 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.
 - **W.Va. in deepest pension peril**
 - **Rhode Island cities, towns face pension hike next year**
 - **Oregon Lawmakers Struggle With Last Pension Reform Piece**
 - **Automatic increases in pensions hit nerve**
-

GROUP INSURANCE UPDATE

SB 2060 - GROUP INSURANCE

- Employee Eligibility
 - Ongoing retiree eligibility
 - Minimum employer contributions
 - Employer based wellness
 - Confidentiality
-

SB 2060 - GROUP INSURANCE

- Not passed - PERS competitiveness proposals
 - Bidding
 - PERS provider network
 - Self administration
 - Passed Wellness
-

SB 2176

- Authorizes participation by retirees of political subdivisions who do not receive a retirement benefit from PERS, TFFR or TIAA/CREF
-

SB 2029

■ Mandates

- ❑ Must first go into PERS health plan for one biennium
 - ❑ PERS must conduct a study of the benefit
 - ❑ PERS must report its findings and a recommendation to the legislature
 - ❑ PERS must submit a bill to the next session to authorize the benefit for all plans
-

HB 1247

- Contraceptives; infertility therapy & osteoporosis
 - \$3.60 Per contract per month
 - \$ 1 million
 - Did not pass
-

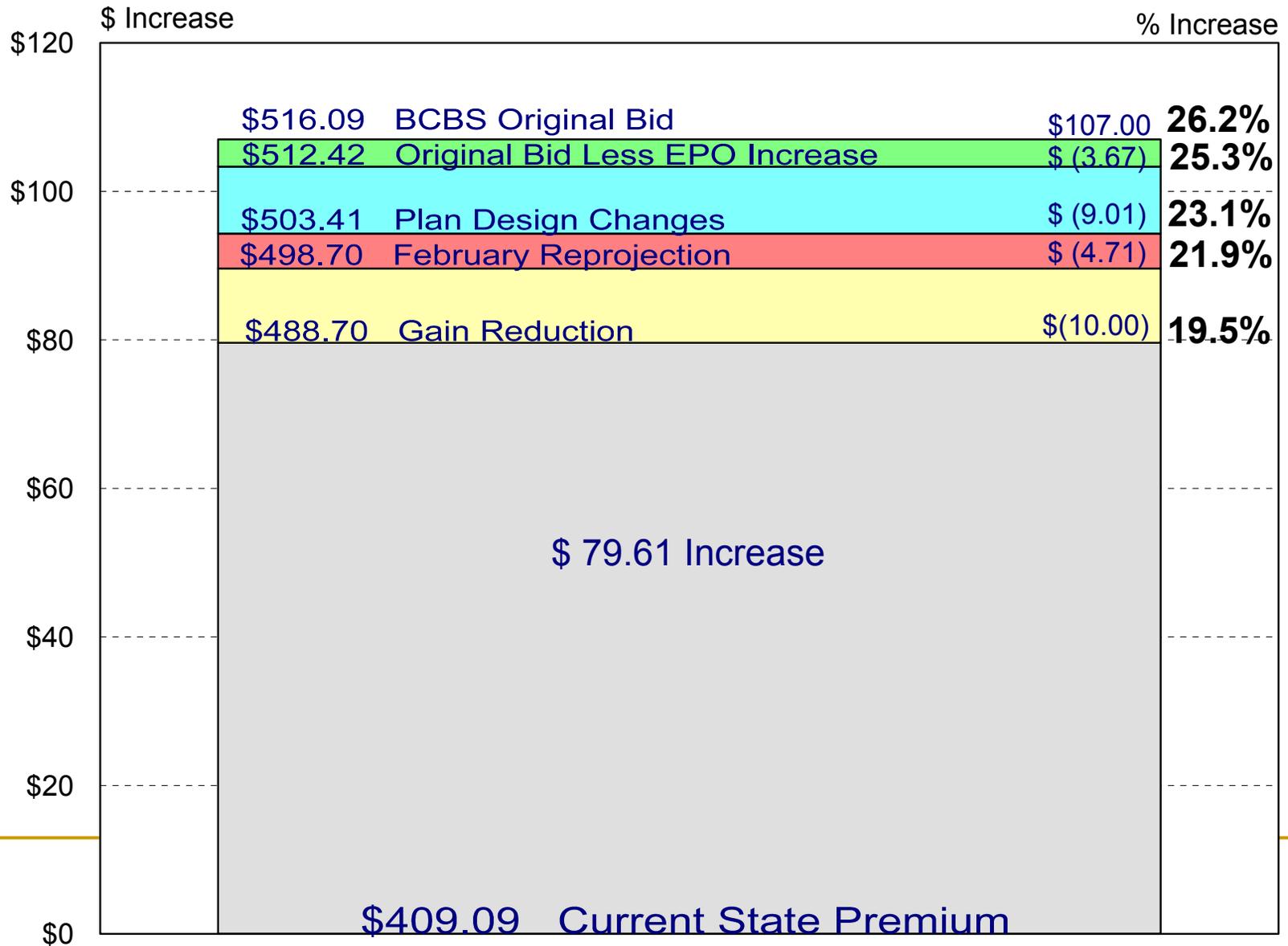
HB 1349

- Colorectal Cancer Screening
 - \$3.20 Per contract per month
 - \$800,000
 - Did not pass
-

HEALTH PLAN - AMENDMENTS

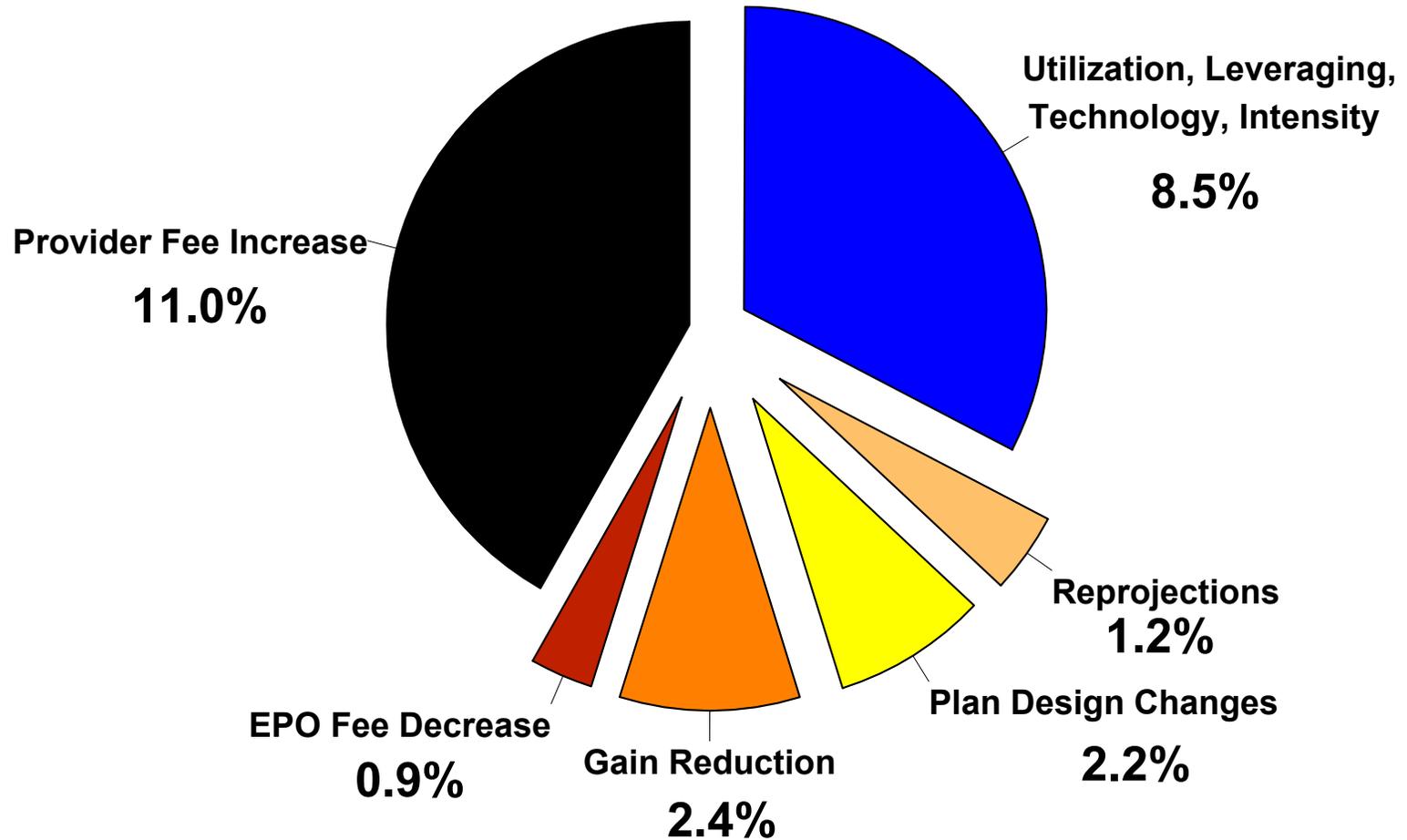
- State employees pay \$25 toward coverage first year and \$50 the second
 - Cost additional \$2 million including H.E. & about 1.1 without for retirement & FICA (could be reduced by 45% if FICA waived)
 - Have employees not working 100% of time pay a pro-rated share of premium
 - Neither of the above were approved
-

NDPERS Health Plan - State Rate 2003-2005



NDPERS 2003-2005 HEALTH RATES

BCBS 26.2% Projected Increase

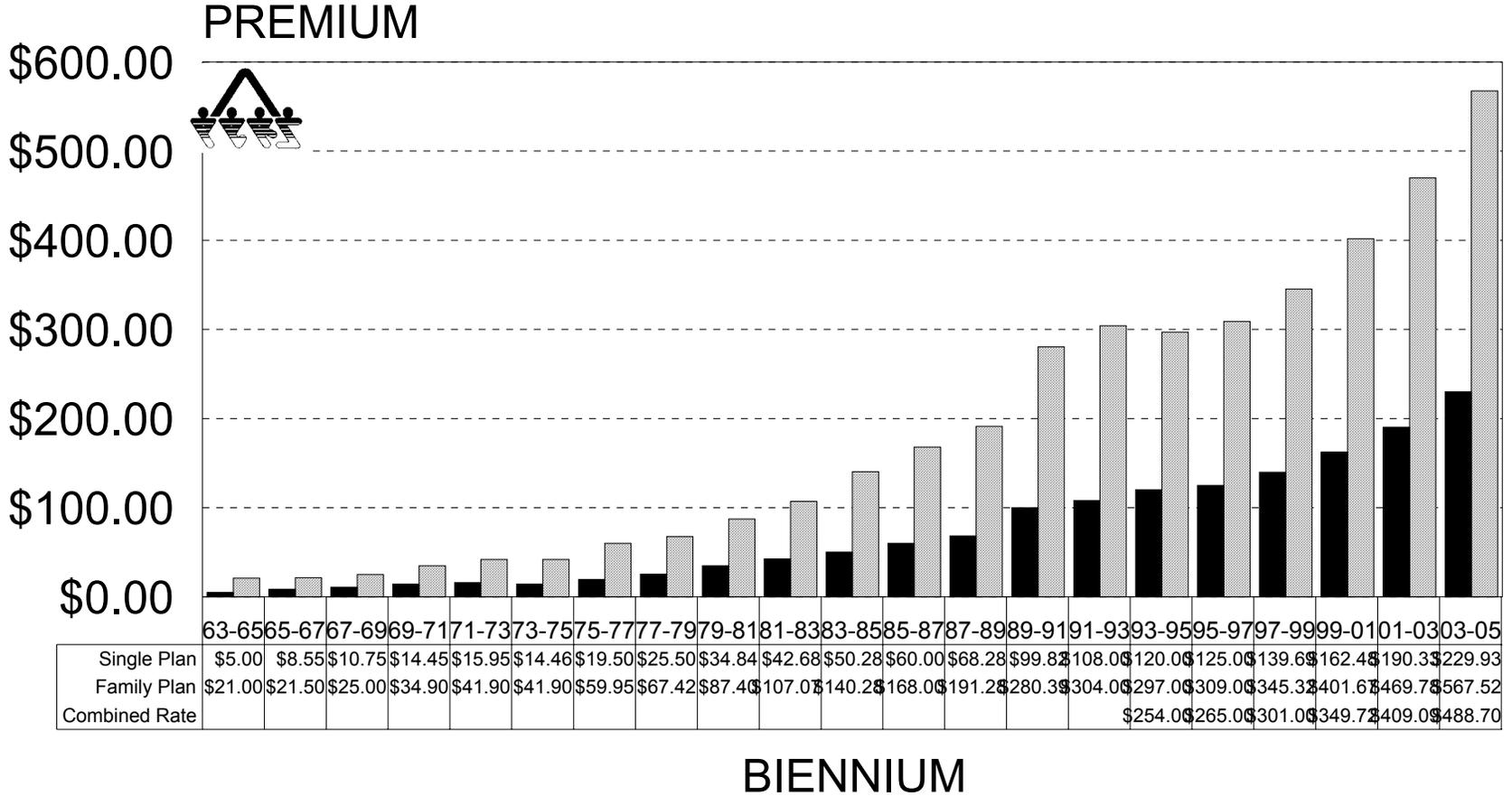


Reduced to 19.5% Increase

NDPERS

Active State Billed Health Insurance Premium

■ Single Plan ■ Family Plan



NDPERS Active Cost Sharing 1992 – 2002

The following table shows the average out-of-pocket cost sharing (deductibles, coinsurance, and copayments) for the active contracts on the NDPERS Health Plan. The bottom line labeled 'Percentage' shows the average percentage of an active employee's salary that goes to pay medical costs.

	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03**
Active Contracts	14,213	14,785	14,961	15,302	15,382	15,498	15,827	16,154	16,602	17,298	17,679
Average Cost Sharing	\$572.44	\$566.49	\$584.39	\$571.89	\$561.74	\$599.98	\$638.86	\$829.40	\$699.15	\$725.51	\$753.44+
Average Salary*	\$20,158	\$20,125	\$22,312	\$22,981	\$22,898	\$23,637	\$24,345	\$24,978	\$25,864	\$26,998	\$27,808***
Percentage	2.84%	2.81%	2.62%	2.49%	2.45%	2.54%	2.62%	3.32%	2.70%	2.69%	2.71%+

* - Average Salary is taken from the Actuarial Valuation Retirement Reports by Segal.

** - Paid claims through 8/03, approximately 95 percent complete.

*** - Estimated

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

	Total Budget Appropriation	FTE	Health Premium	Health Plan Appropriation	% of Total Appropriations	% Increase in \$'s Appropriated	% Increase in Premiums
1991-93	2,771,064,605	8,179	\$254.00	\$49,859,184	1.80%		9.48%
1993-95	2,935,767,081	8,216	\$254.00	\$50,084,736	1.71%	0.45%	0.00%
1995-97	3,107,356,520	8,024	\$265.00	\$51,032,640	1.64%	1.89%	4.33%
1997-99	3,347,823,922	8,118	\$301.00	\$58,644,432	1.75%	14.92%	13.58%
1999-01	3,767,007,536	8,400	\$349.72	\$70,503,552	1.87%	20.22%	16.19%
2001-03	4,325,559,659	8,538	\$409.09	\$83,827,450	1.94%	18.90%	16.98%
2003-05	4,587,351,203	8,392	\$488.70	\$98,428,090	2.15%	17.42%	19.46%

PLAN FEATURES	01-03 Plan			03-05 Plan		
	BASIC	PPO	EPO	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	\$250 \$750	\$250 \$750	\$100 \$300	All \$250 \$750 services	All \$250 \$750 services	All \$100 \$300 services
Copayment for Physician Office Visits Copayment for Emergency Room Visits	\$25 \$50	\$20 \$50	\$15 \$50	\$25 \$50	\$20 \$50	\$15 \$50
Copayment for Diagnostic X-ray / Lab Services - Per Service Annual DXL Copayment Maximum - Individual - Family Note: Co-Insurance Applies per Service after Copayment	\$20 \$200 \$400	\$10 \$100 \$200	\$5 \$50 \$100	\$0	\$0	\$0
Co-Insurance on covered services EXCEPT Physician Office Visits	80/20	85/15	90/10	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$15 25%	\$15 25%	\$15 25%	\$15 25%	\$15 25%	\$15 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 25%	\$25 25%	\$25 25%	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)*						
-Single	\$1500	\$1000	\$600	\$1500	\$1000	\$600
-Family	\$3250	\$2250	\$1300	\$3250	\$2250	\$1300
* - Copayments and Prescription Drugs are Additional						
State Combined Premium	\$507.36**			\$498.70**		
\$6 Million reserve option for all rates.	(\$10.00)			(\$10.00)		
State Combined Premium (Currently \$409.09)	\$497.36 (21.5%)			\$488.70 (19.5%)		

Health Plan Issues

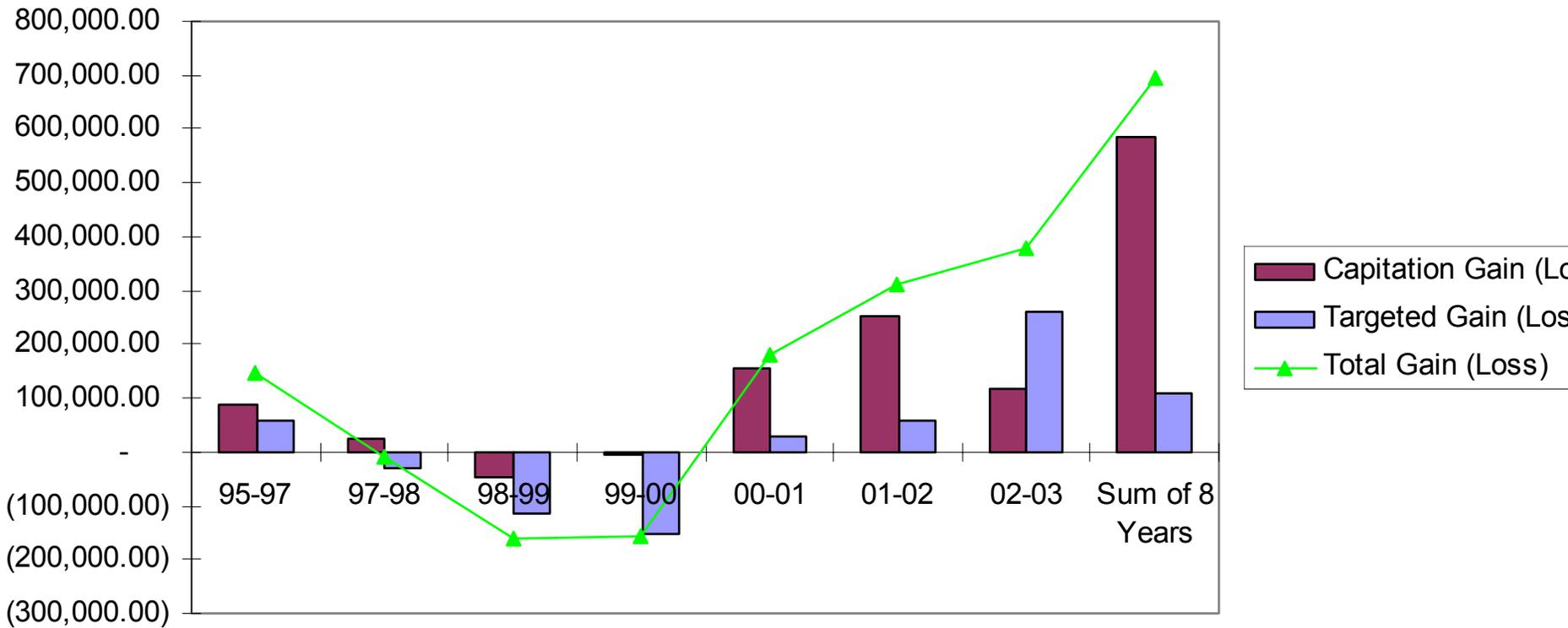
- EPO
 - Future Costs
 - Quality Care
 - Wellness initiatives
 - Employer (SB 2060)
 - Employee
 - Rx Cost
-

Numbers for EPO Membership Per Network

Here are the numbers for each EPO network effective June 30, 2003 and July 31, 2003:

Network	June		July	
	Contracts	Members	Contracts	Members
Dakota – Fargo	504	1,296	525	1,339
MeritCare – Fargo	2,348	6,395	2,416	6,609
Altru – Grand Forks	2,111	5,806	2,154	5,949
Mercy – Williston	124	344	127	351
MedCenter – Bismarck	1,789	4,833	0	0
Greater Plains – Dickinson	227	571	0	0

Medcenter EPO Gains (Losses)



What to do about EPO

- Reviewing reimbursement method
- Looking at alternative for areas without an EPO



Rates - What is predicted?

- Segal study predicts increases of 13% to 15% for 2004
 - Hay Group predicts 15% for 2004
 - Employers expect their health plan costs to increase by an average of 14 percent in 2004, according to Deloitte's 2003 Employer Health Care Strategy Survey.
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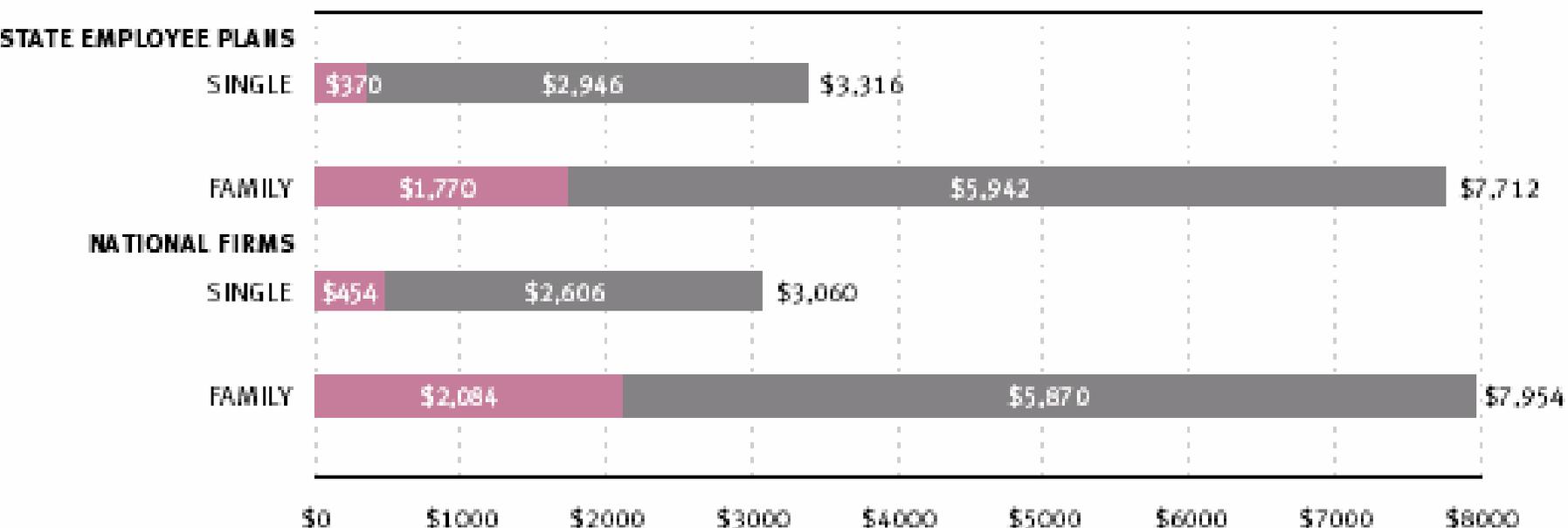
Future of plan - Active State Renewal Rate

NDPERS 2003- 2005 Allocation and 2005-2007 Projection	NDPERS 2005-2007 Planning Projections			
	5% Trend	7.5% Trend	10% Trend	15% Trend
1999-2001 buy down rate	\$349.72	\$349.72	\$349.72	\$349.72
2001-2003 reserve option rate	\$409.09	\$409.09	\$409.09	\$409.09
2003-2005 reserve option rate	\$488.70	\$488.70	\$488.70	\$488.70
2003-2005 % increase	19.5%	19.5%	19.5%	19.5%
Expected 2005-2007 BCBS rate	\$538.79	\$564.75	\$591.33	\$646.31
Expected available surplus in 2005- 2007 (\$3 million)?	\$5.43	\$5.43	\$5.43	\$5.43
Expected 2003-2005 buy down rate	\$533.36	\$559.32	\$585.90	\$640.88
2005-2007 \$ increase	\$44.66	\$70.62	\$97.20	\$152.18
2003-2005 % increase	9.1%	14.5%	19.9%	31.1%
Total additional funds*	\$12,326,000	\$19,491,000	\$26,827,000	\$42,002,000
Total additional general funds**	\$7,396,000	\$11,695,000	\$16,096,000	\$25,201,000

* - For biennium assuming 11,500 FTE's

** - Assumed to be 60% of total funds

Average Annual Worker and Employer Contributions, 2002

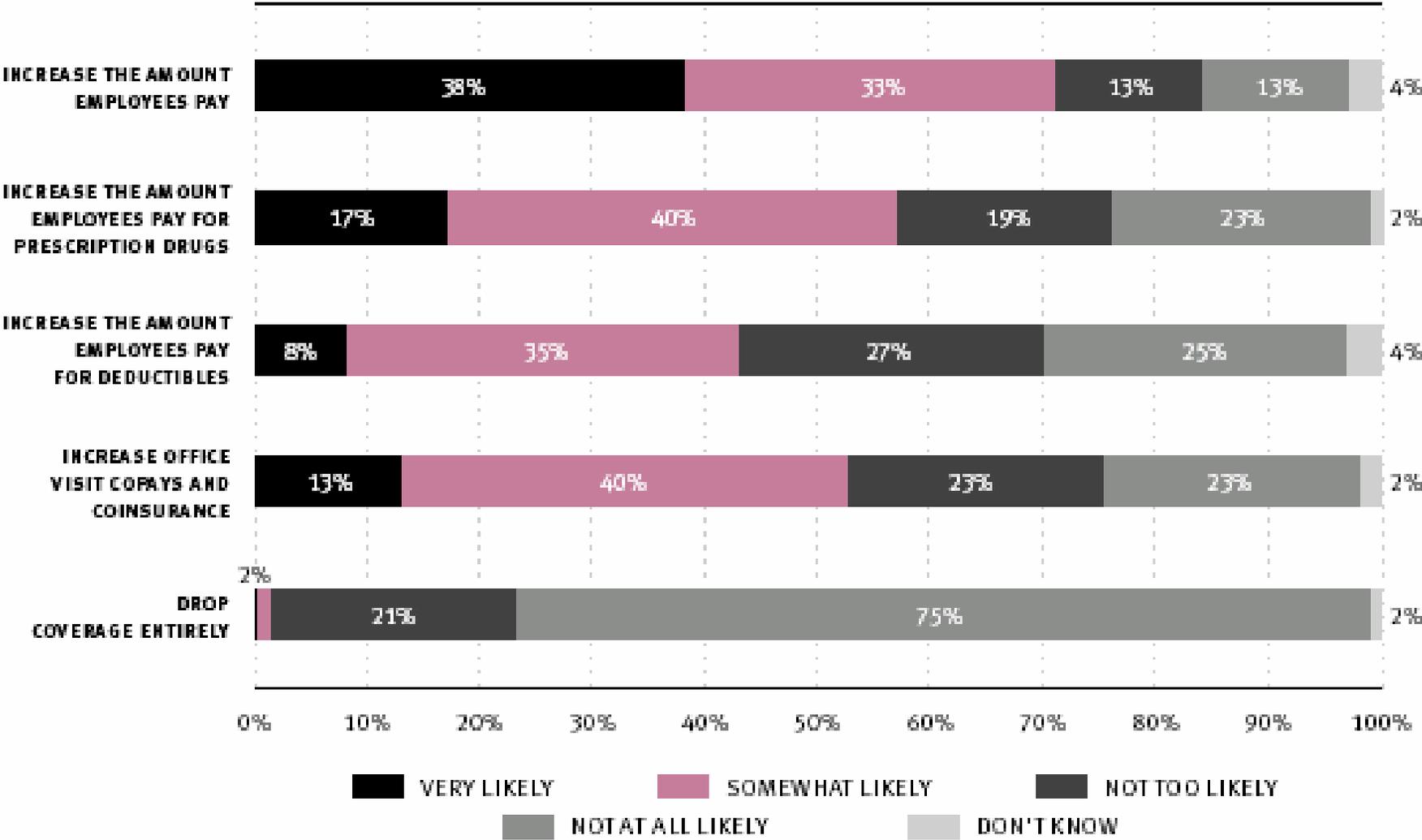


Sources: Kaiser/HRET Survey of State Employee Health Benefits: 2002;
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

WORKER CONTRIBUTION
 EMPLOYER CONTRIBUTION

Monthly premiums for covered workers in state employee plans averaged \$276 for single coverage and \$643 per month for family coverage (compared to \$255 single and \$663 family on average, for employer sponsored coverage nationally) (FIGURE 2). Single premiums

Likelihood of State Plans Making the Following Changes in 2003



PERSPECTIVE

- **Americans Worry More About Health Premium Increases Than Terrorist Attacks**
 - Politicians take note: Americans fret more about losing their health insurance than being a victim of a terrorist attack, according to the results of a poll released Tuesday." (AP via Washington Post)
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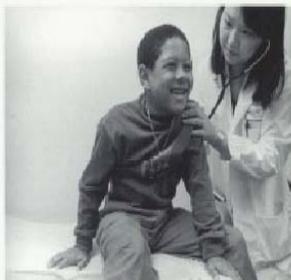
Quality Care

Serious and widespread problems of quality exist in the United States, with evidence of underuse of beneficial services, overuse of other procedures that are not medically necessary, and mistakes leading to patient injury (IOM 2001a President's Advisory Commission 1998). The Institute of Medicine of the National Academy of Sciences has stated, "that the quality of health care received by the people of the United States falls short of what it should be" (IOM 2001b).



Quality of Health Care in the United States: A Chartbook

Sheila Leatherman
Douglas McCarthy



April 2002

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*E*nvisioning the National Health Care Quality Report

INSTITUTE OF MEDICINE

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High quality care costs less!

THE NEW HONDA ACCORD
vs. SUBARU LEGACY & SATURN L200 

RATINGS Cordless tools • Microwave ovens • Water filters

Consumer Reports

BEFORE YOU BUY CHICKEN READ THIS (PAGE 24)

How safe is your hospital?

WHAT YOU NEED TO KNOW THAT HOSPITALS DON'T REVEAL

21,000 READERS RATE THEIR STAYS

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www.ConsumerReports.org



Cut Car Insurance 50%

rd.com

Reader's Digest

FATAL HOSPITAL MISTAKES
How to Avoid Them

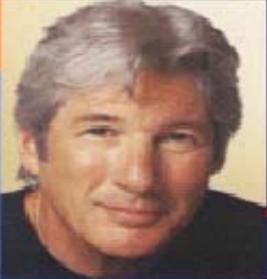
Richard Gere's surprising path to happiness

Exclusive Survey

Why Sex Only Gets Better

PLUS ChangeOne Diet: What Makes You Eat • Daredevil Stunt Sisters • Lost in the Wilderness Solving An Almost Perfect Murder

February 2003 \$2.99



Quality Care

- A handful of common medical complications kill more than 32,500 U.S. hospital patients every year and add \$9.3 billion annually to hospital charges, estimates one of the first studies to put a price tag on unexpected harm to patients.
 - Journal of the American Medical Association
-

Quality Care

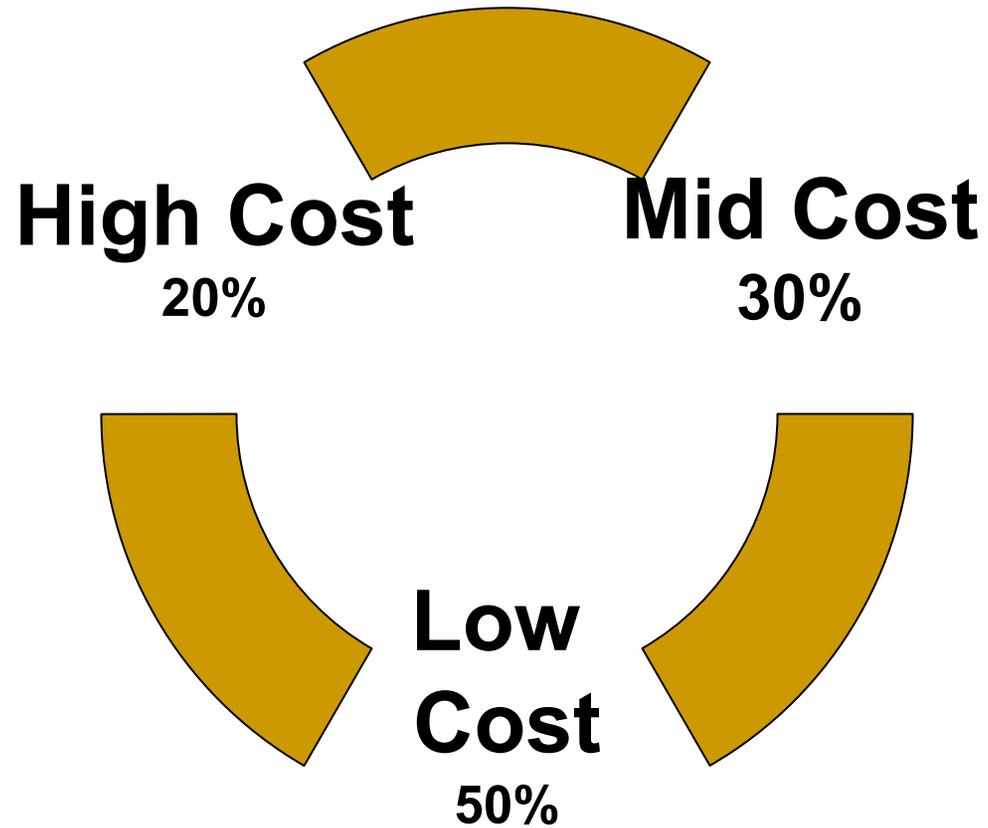
- Worst off were patients who contracted sepsis after an operation. They were nearly 22 percent more likely to die than similar patients admitted at the same hospital.
 - Patients who contracted sepsis also ran up an average of \$57,727 more in medical charges and stayed in the hospital about 11 days longer than similar patients who did not develop the bloodstream infection.
-

Wellness incentives

AMOUNT	% OF MBR	% PAID
\$0	1.2%	0%
\$0-\$500	52.17% (53%)	5.5%
\$500-999	15.92% (69%)	6.7% (12%)
\$1000-1649	10.50% (80%)	7.9% (20%)
\$1650	20.21%	79.9%

20% of members account for 80% of expenses

5% of members account for 50% of expenses



What accounts for change?

■ One aspect is lifestyle

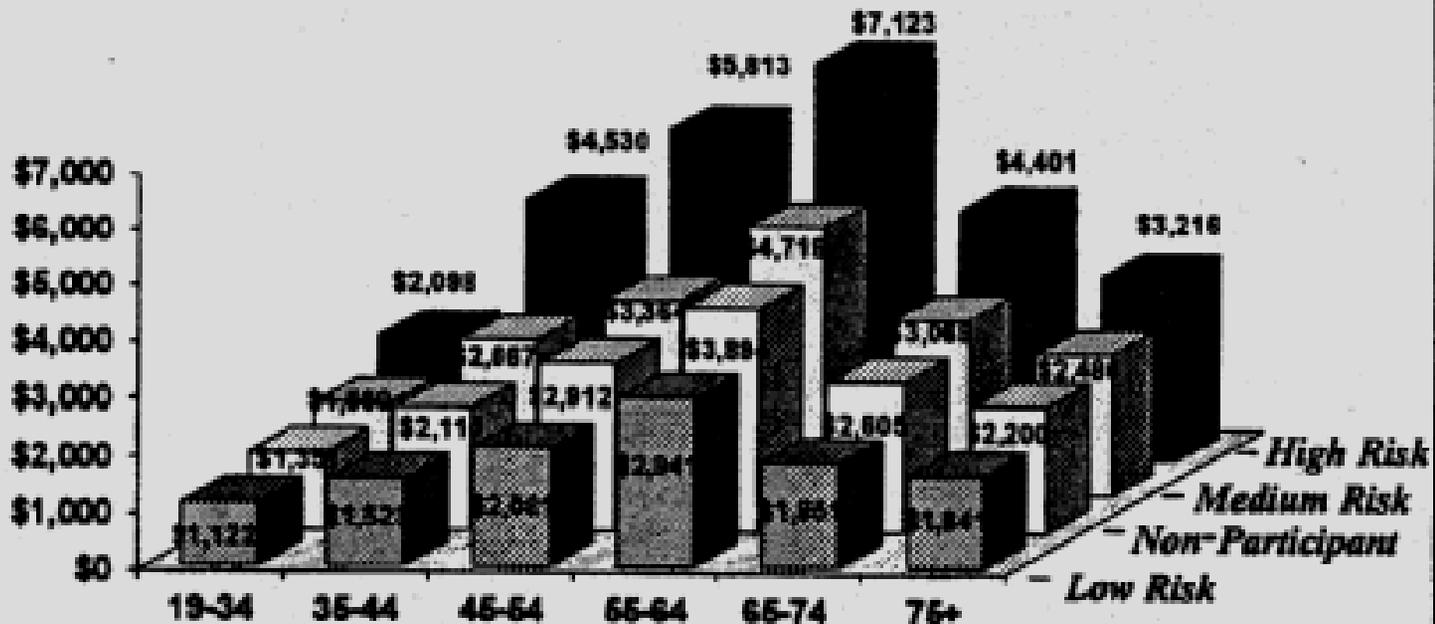
- Alcohol use
- Blood pressure
- Body Weight
- Smoking
- Physical activity
- Safety Belt
- Cholesterol

■ Contributes to:

- Heart problems
 - Diabetes
 - Cancer
 - Stroke
 - Arthritis
 - Emphsema
 - Asthma
-

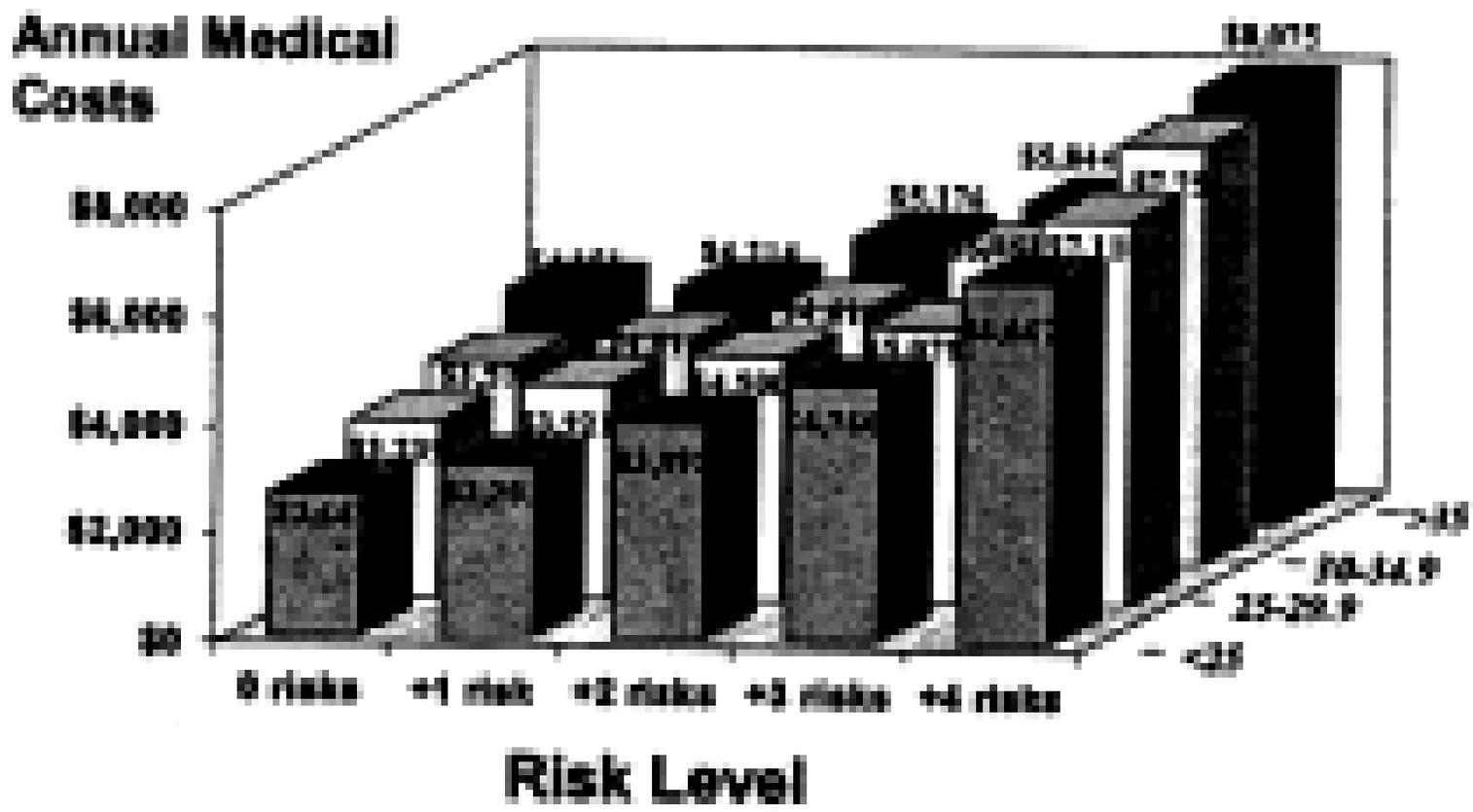
Costs Associated with Risks

Medical Paid Amount x Age x Risk



Edington, D. W. Emerging Research. *AJHP*. 2001;15(5):343-349.

Medical Costs Associated with Risks by Categories of Body Mass Index



Wanik, Lu, McInerney, Champagne, Sabegian. Submitted for

Rx Costs

- **Iowa Plans to Procure Drugs From Canada State Joins Growing Group Seeking Cheaper Medicines Outside U.S.**
 - Washington Post
 - **Pawlenty says he wants to import drugs from Canada**
 - Star Tribune
 - **Frustrated by Washington's inability to control health costs, Illinois Gov. Rod Blagojevich has proposed establishing a drug importation program for state employees and retirees**
 - USA Today
-

What does future hold

- Higher Costs
 - How will this be paid for?
 - Employer payment
 - Employee payment
 - Plan design changes
 - premium
-

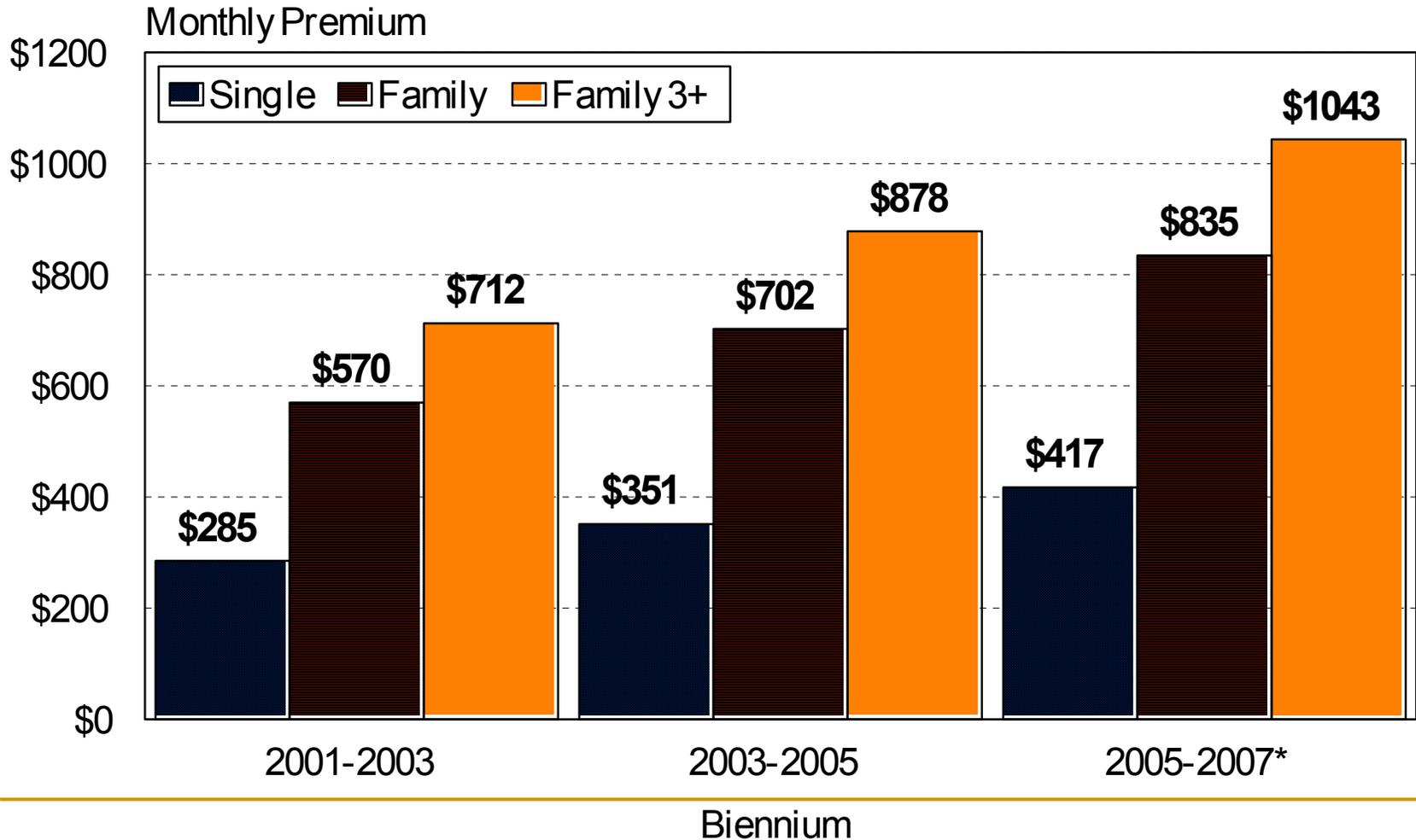
Retirement & Health Plan Future

- Benefit plans will be facing significant funding challenges in the coming years
 - Funding challenge is going to create an atmosphere in which significant change in benefit design may occur
 - We need to know how you want to proceed
 - You need to be involved
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Retiree Health Plan

NDPERS Health Rates

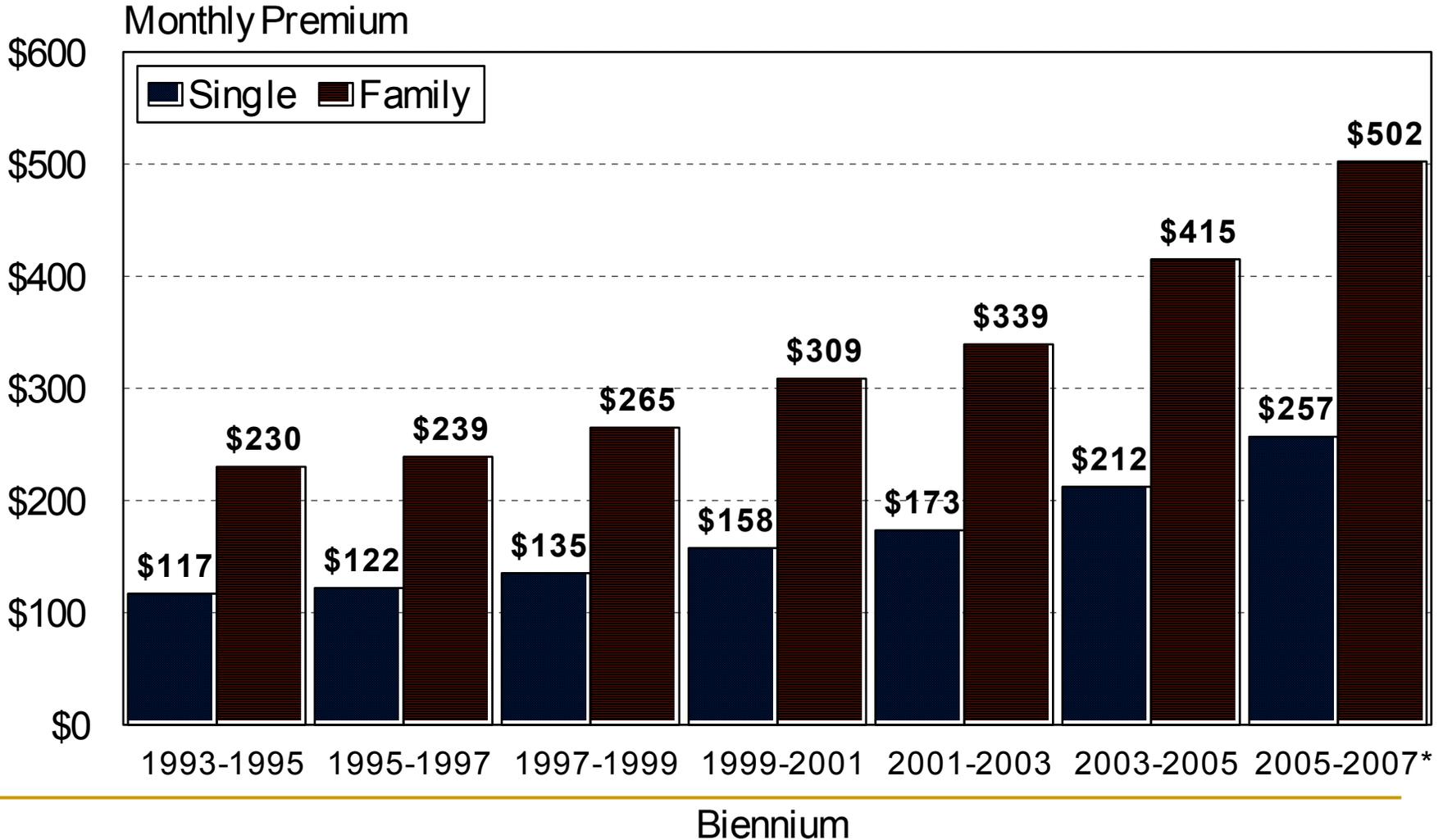
Non-Medicare Retiree



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

NDPERS Health Rates

Medicare Retiree



* - Estimated at 10% per year

Retiree Health Credit 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%

RHICF - Projected Funded Ratio and Contribution Margin

(Assumes 8.0% returns for FYE 2004 and after)

<u>FYE</u>	<u>Funded Ratio (AVA)</u>	<u>Funded Ratio (MVA)</u>	<u>Margin</u>
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)

<u>FYE</u>	<u>Funded Ratio (AVA)</u>	<u>Funded Ratio (MVA)</u>	<u>Margin</u>
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%

Retiree Health

- Plan will not be able to support enhancements
 - Program is not supporting Health premiums at the same level and is paying less every year
 - Cost to increase credit 50 cents is .14%
 - Where do we go:
 - Increased employer contribution
 - Increased employee contribution
-

Flex Plan Change

- OTC Drugs now eligible
 - Pre Tax health expenses
 - Open Enrollment now going on
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The
TIPPING POINT

*How Little Things Can
Make a Big Difference*

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