TESTIMONY

OF

SPARB COLLINS

ON HOUSE BILL 1022

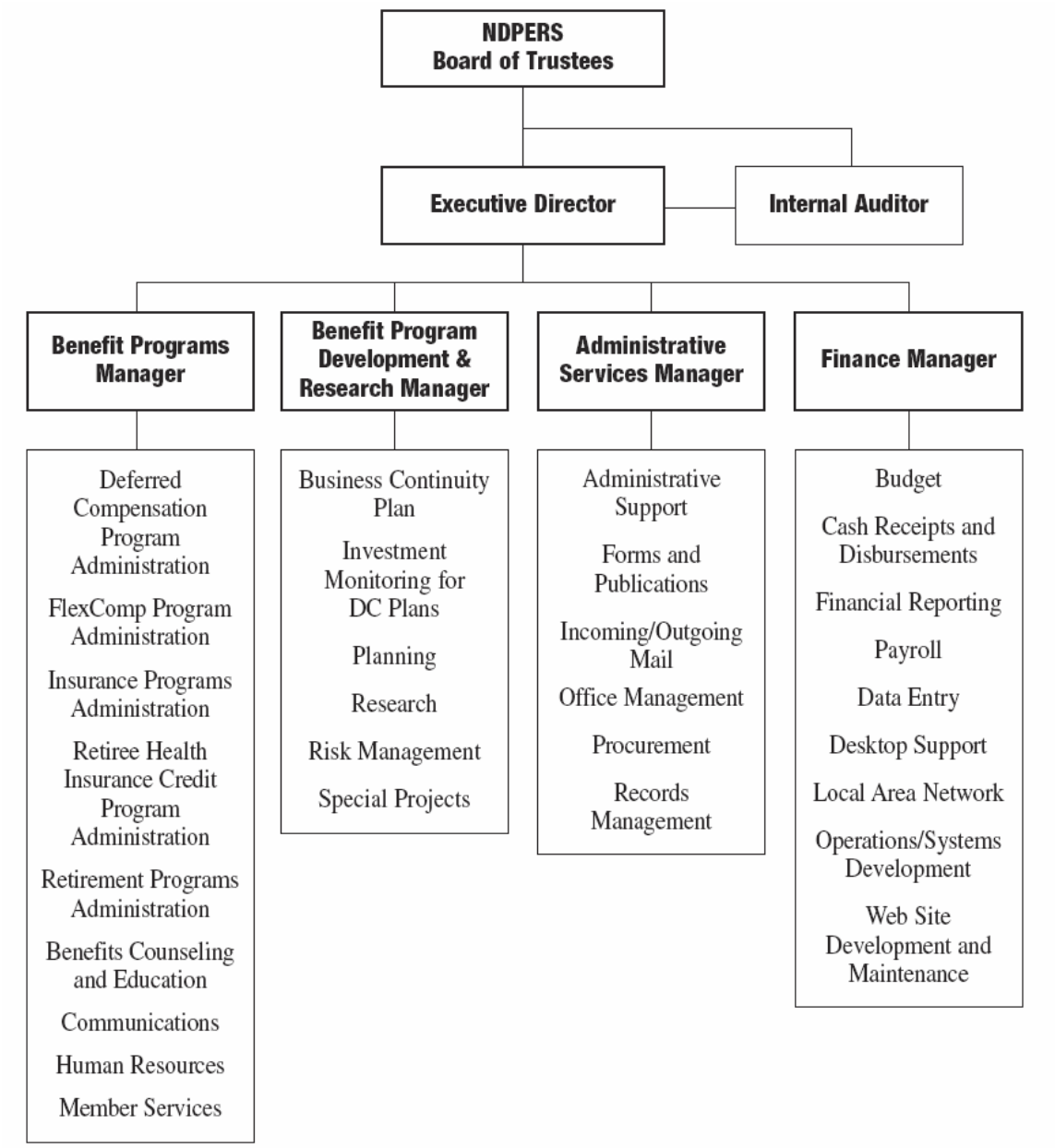
Mr. Chair, members of the committee, good morning my name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you to give you an overview of our agency, an update on the system replacement project approved last session and our budget request.

Agency Overview

First let me start by providing an overview of our agency. PERS is directed by a board composed of the following members:

Chair (appointed by Governor)	Jon Strinden
Appointed by Attorney General	Tom Trenbeath
State Health Officer or Deputy	Arvy Smith
Elected	Levi Erdmann
Elected	Joan Ehrhardt
Elected	Mike Sandal
Elected	Ron Leingang

Administratively PERS is organized as illustrated:



The PERS program responsibilities fall under two broad categories, retirement and group insurance. Section 54-52-02 states the overall mission for the retirement program as: "…to provide for the payment of benefits to state and political subdivision employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high grade men and women". Similarly state statute establishes the overall mission for the group insurance plan as: "In order to promote the economy and

efficiency of employment in the states service, reduce personnel turnover, and offer an incentive to high grade men and women to enter and remain in state service, there is hereby created a uniform group insurance program". Concerning the retirement programs the following table gives you an overview of the programs and some statistical information:

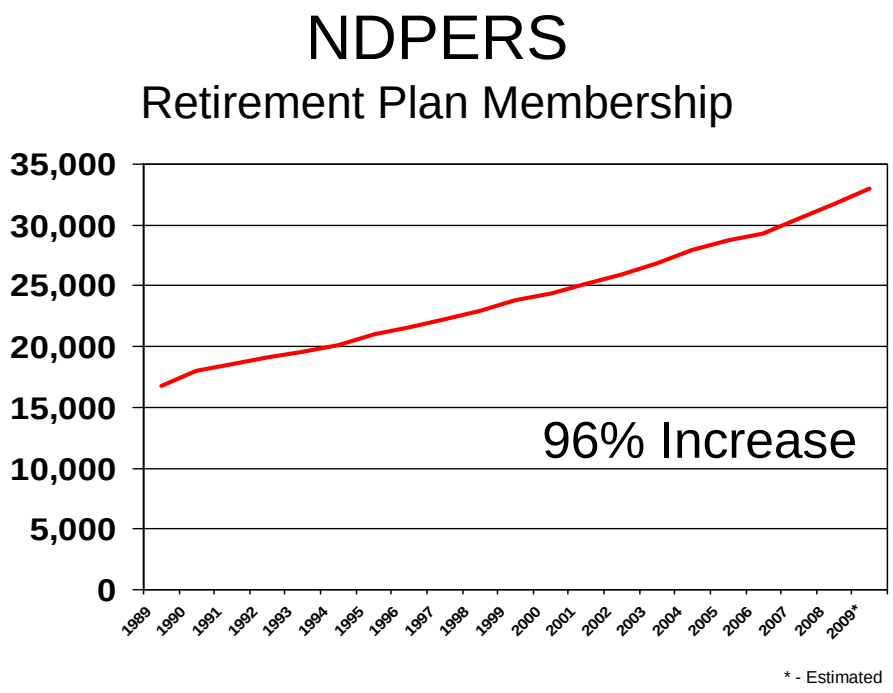
January 1, 2009

RETIREMENT PROGRAMS
MANAGED AND ADMINISTERED BY NDPERS

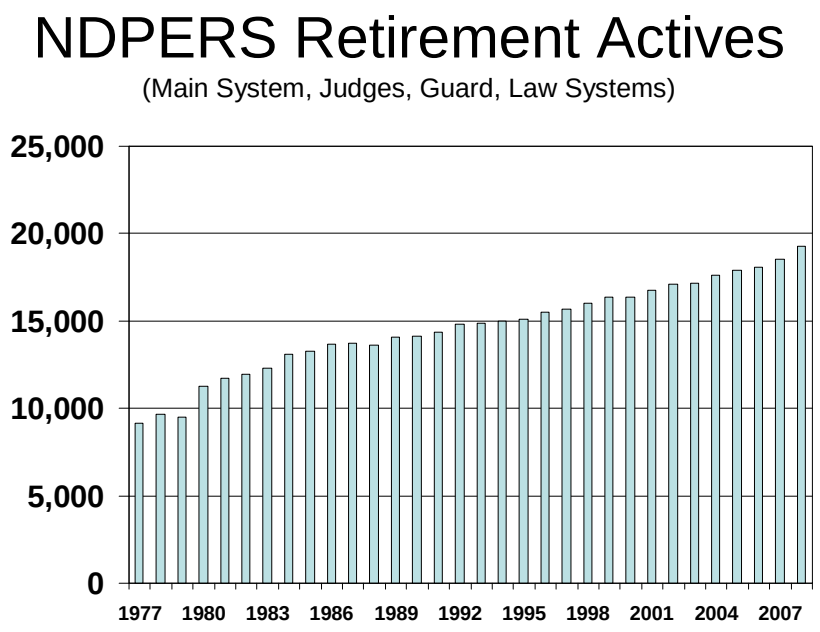
	TOTAL RETIREMENT	*Main System*	*D.C. 401(a)*	*Highway Patrol*	*Judges*	*Guard*	*Law Enforcement*	*Job Service*	*DEFERRED COMP*	*HEALTH CREDIT*
PARTICIPATION										
AGENCY										
State	96	96	32	1	1	1		1	96	96
Counties	48	48					3		44	48
School Dist	104	104							53	104
Cities	72	72					2		27	72
Others	56	56							27	56
	376								***247***	***376***
EMPLOYEES										
State	10,650	10,159	235	130	47	41		38	4,225	10,650
Counties	3,329	3,193					136		1,454	3,329
School Dist	4,875	4,875							556	4,875
Cities	1,225	1,195					30		684	1,225
Others	481	481							249	481
	0									
Retirees	7,218	6,894	57	105	23	10	11	118	1,584	**4,010**
	27,778	***26,797***	***292***	***235***	***70***	***51***	***177***	***156***	***8,174***	***24,570***

As you will note our agency is responsible for the administration of about 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Also not shown above is the OASIS retirement plan which has one remaining member. Three of the above plans were assigned to our agency by the 2001 legislative session. Those were the Job Service Retirement Plan and the OASIS plan. The other is the Law Enforcement Plans for political subdivisions. The 401(a) plan was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main retirement system which provides services to not only the state but also to political subdivisions. In this plan about 55% of the active members are state employees and 45% are political subdivision employees. This last year the cities of Fargo, Grand Forks and Jamestown joined the plan.

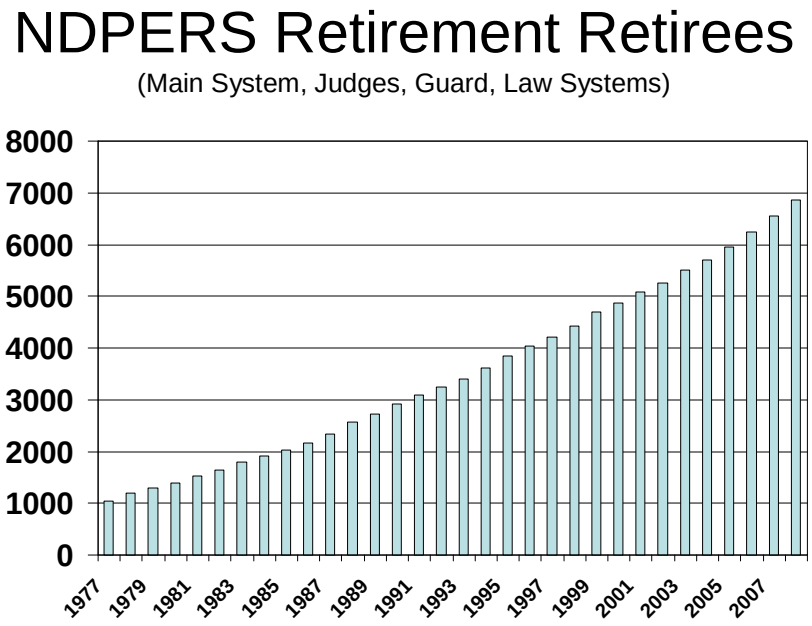
Some historical statistics about the retirement plan include membership:



Of this the number of active members has grown:

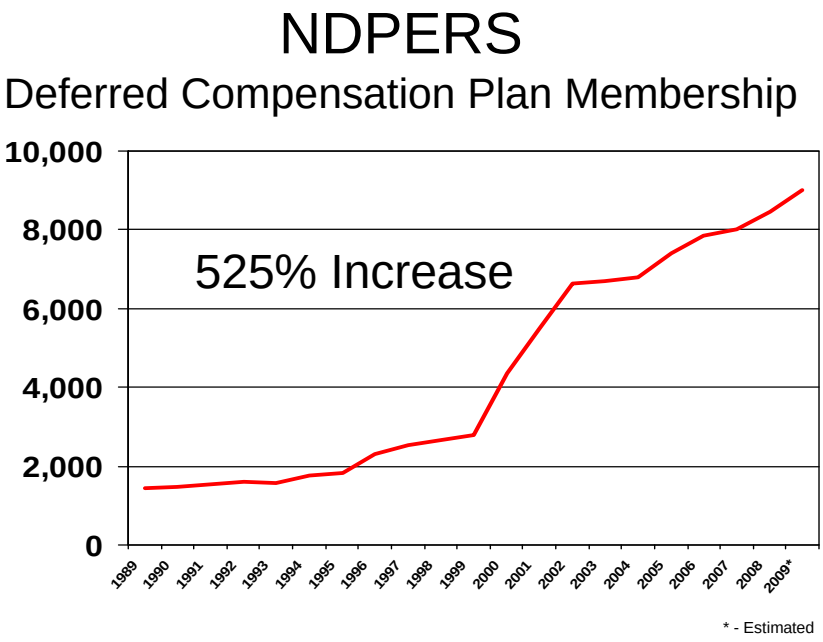


The number of retired members has grown as well and at an even greater rate than our active members:



As we look to the future we see the retired membership continuing to grow and the number of active members remaining about the same. Servicing the present and future needs of the retired membership is going to be a growing challenge to NDPERS.

In addition to the administration of the traditional retirement plans, PERS administers the state's supplemental savings program as well. The membership in that program has also grown over the years:



We are pleased by this growth since it is important that our members save for retirement. This program offers our members 10 different providers including the PERS Companion Plan (presently with Fidelity) and:

Bank of North Dakota . . . . . .
AIG Valic . . . . . .
American Trust Center . . . . . .
AXA Equitable . . . . . .
Hartford Life Insurance Company . . .
Jackson National Life . . . . . .
Nationwide Life Insurance . . . . . .
Symetra Life . . . . . .
Waddell & Reed Financial Services . .

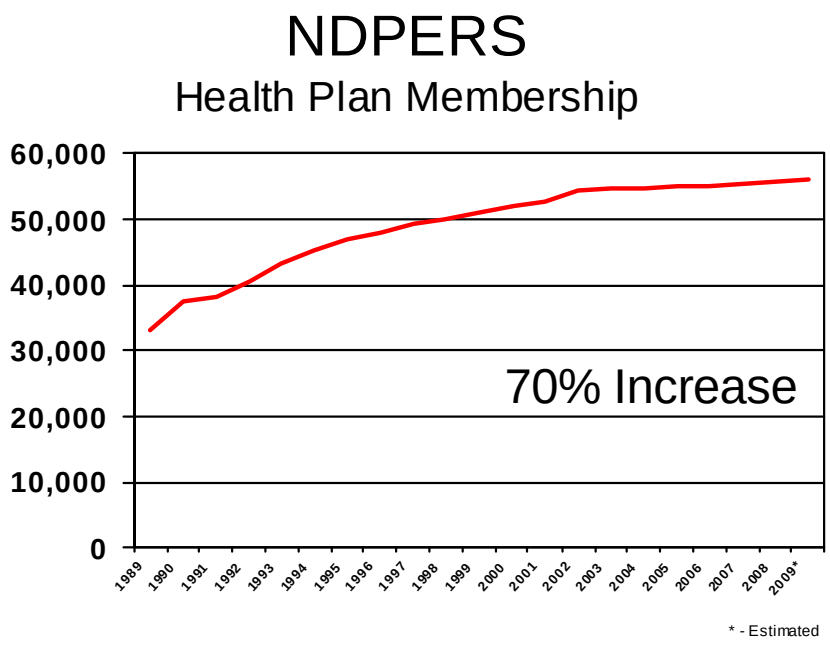
Concerning the group insurance programs the following gives you an overview of the programs and some statistical information:

January 1, 2009

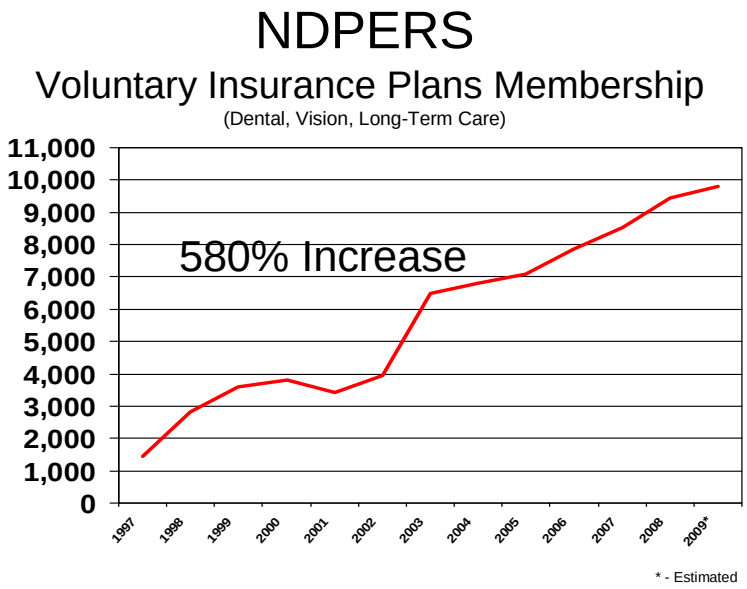
GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS

	HEALTH	*LIFE*	*DENTAL*	*VISION*	*EAP*	*FLEXCOMP*	*LT Care*
PARTICIPATION							
AGENCY							
State	97	97	97	97	97	83	97
Counties	39	28					
School Dist	27	5					
Cities	57	22					
Others	64	21					
	284	***173***	***97***	***97***	***97***	***83***	***97***
EMPLOYEES							
State	14,325	15,002	4,421	3,562	15,002	7,800	75
Counties	1,811	2,626					
School Dist	1,207	113					
Cities	996	174					
Others	519	276					
Legislators	125						
Retirees	5,627	2,983	1,306	737			
COBRA	465		43	18			
	25,075	***21,174***	***5,770***	***4,317***	***15,002***	***7,800***	***75***

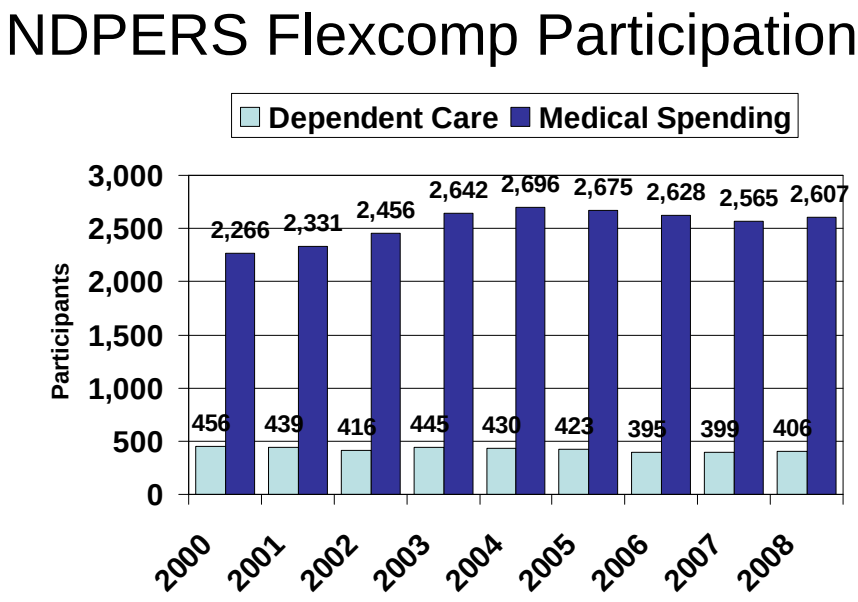
As you will note the largest responsibility in this area is the health plan. In this program about 59% of members are state employees and 41% are political subdivisions or retirees. The most recent additions in the group insurance area include: the assignment to review and analyze any new health coverage mandates passed by the legislature and to make a recommendation on whether or not it should be a part of all health plans, and the addition of the Medicare Part D process to our retiree medical plan. This last area has resulted in a substantial challenge to the agency in coordinating the billings, enrollment and low income subsidy provisions. While it has been a challenge to us, it has been even more of a challenge to our retirees. The following table shows the history of the membership in the health plan:



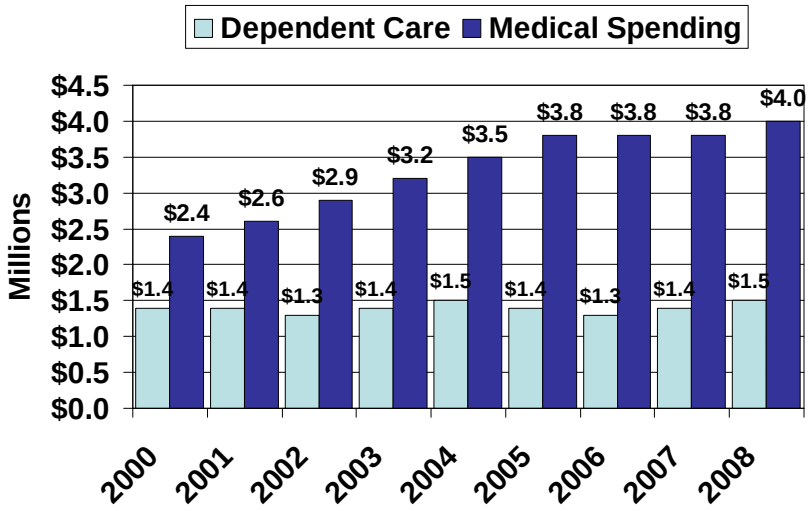
In the late 90's the Employee Assistance Program, Long Term Care Plan, Dental Plan & Vision Plan were added to PERS. The other group insurance programs have been a part of the agency since before 1990. The following table is the history of those programs:



The Flex Comp Program which has been a part of the agency since 1989 allows members to pretax certain insurance premiums, dependent care expenses and medical expenses. Our office processes approximately 16,000 to 17,000 claims a year for this program and maintains the member accounts. The following tables show the history of the number of members and deferrals:

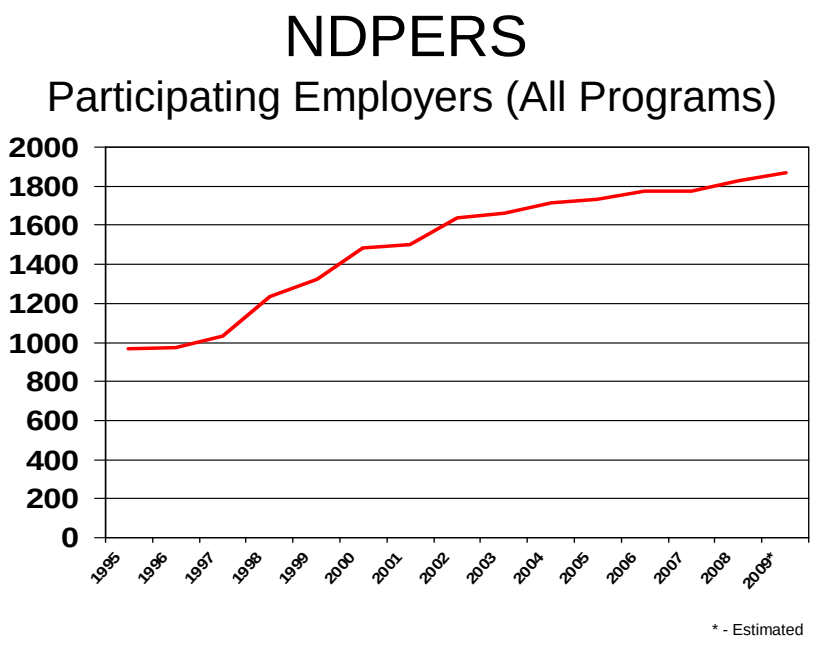


NDPERS Flexcomp Participation

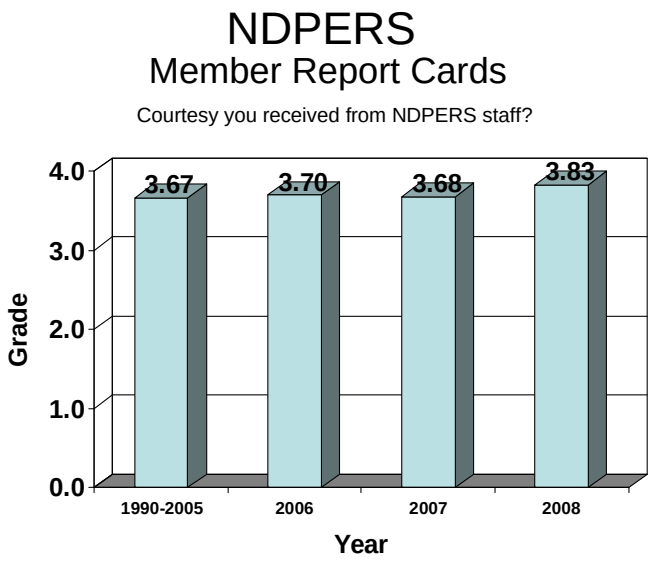


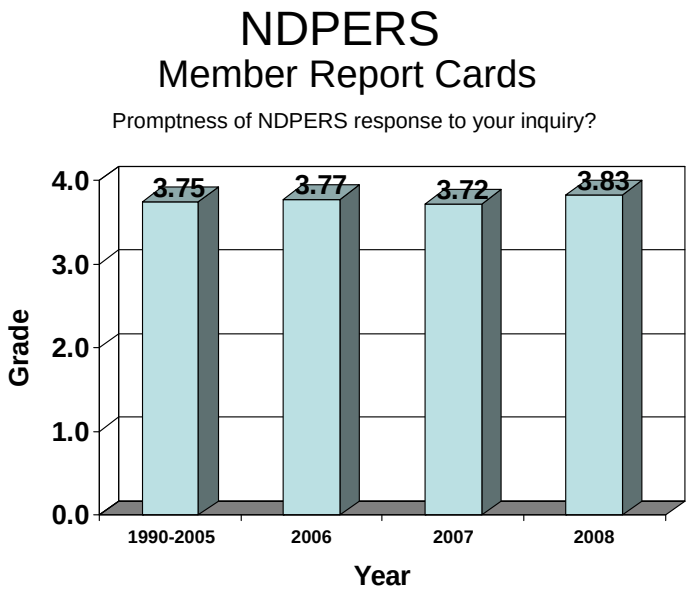
As the above shows the number of members participating in the program has decreased slightly, however, the average deferrals have increased so the numbers of claims we process each year has stayed relatively stable. We expect that in the future as health care costs continue to rise more members will join this program causing our claims level to rise.

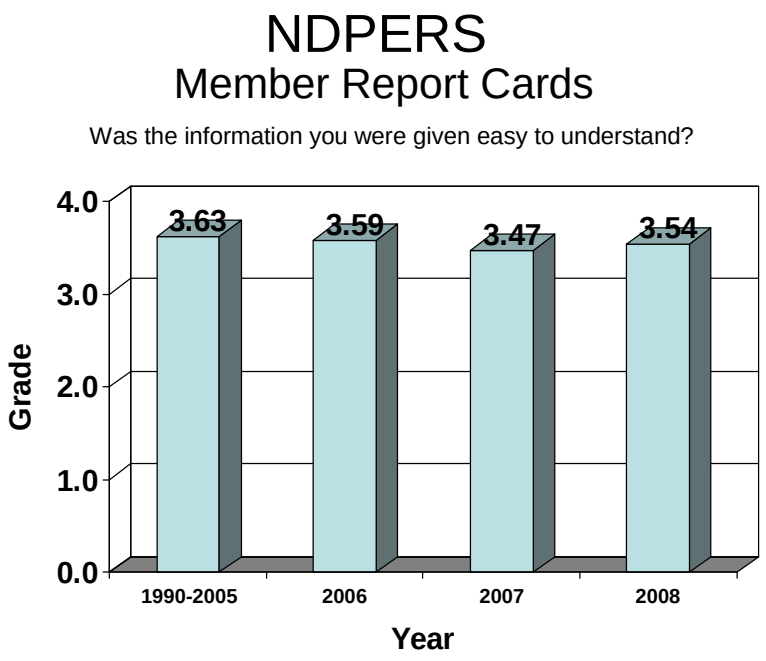
While we have been serving more members in more programs over time we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):



As shown above PERS has faced two challenges over the years. First is the growth of program responsibilities. The second is the growing membership needs for assistance. We welcome the legislature's confidence in us by the growing assignments and we have appreciated your support in administering these programs. We have also tried to meet the needs of members and monitor how we are doing by sending to them a rating card. The following are the responses:


NDPERS
Member Report Cards
Courtesy you received from NDPERS staff?
4.0
3.0
2.0
1.0
0.0
Grade
3.67
3.70
3.68
3.83
1990-2005
2006
2007
2008
Year


NDPERS
Member Report Cards
Promptness of NDPERS response to your inquiry?
4.0
3.0
2.0
1.0
0.0
Grade
3.75
3.77
3.72
3.83
1990-2005
2006
2007
2008
Year



As the above shows we have been able to maintain and improve slightly on the first two indicators but the last one, “understandability of information”, has become more challenging with the growth of the number and complexity of programs. We did see some improvement in the last year and I think that has to do with the additional resources PERS has been able to apply to member services.

We are also concerned with maintaining the quality of what we do. To that extent we have sought national review of our systems and other reviews as noted in the following:

- 1996,1998,2000, & 2007 Public Pension Achievement Award
- Certificate of Achievement for Excellence in Financial Reporting 1996-2007
- Unqualified Audit Opinions for over 20 years

PERS System Replacement Project

Last legislative session you approved our request to replace our original business system. That request was for:

1. A 3 year project from July 2007 – October 2010
2. A budget of $9,594,000 for the new system; for Independent Validation & Verification, Quality Assurance and Oversight Project Management services; for backfile conversion; for hardware and software; and for contingency.

Please note that we will be requesting the carryover of the remaining appropriation for this project into the next biennium to complete this effort as proposed. We are projecting to spend approximately $5.7 million in the 2007-09 biennium, with the remaining $3.9 million of appropriation authority carried over to the 2009-2011 biennium. As of December 31, 2008, expenditures for the project are $3,997,264.

Attachment #1 is from our testimony last session and recaps some of the major administrative challenges we faced and the reason for this project. As noted this project will directly respond to those challenges and inefficiencies. We expect that this project will be finished this next biennium (2009-2011) and fully integrated into the agency during the 2011-2013 biennium.

Here is a brief overview of the PERS System Replacement Project. In October 2007 a Project Team was assembled to begin working on the PERSLink Project. The project team consists of a Project Manager, functional analysts, developers, implementation managers and other experts from Sagitec (the software and implementation vendor selected through a competitive process); an Oversight Project Manager from L.R. Wechsler Ltd. to independently monitor the work of the implementation vendor, review all deliverables and support NDPERS in its implementation effort; 3.5 experienced NDPERS staff members to work on the project with the assistance of other NDPERS staff who expect to spend over 20,000 hours on the development and implementation of the business solution during the project life cycle. NDPERS is also working closely with

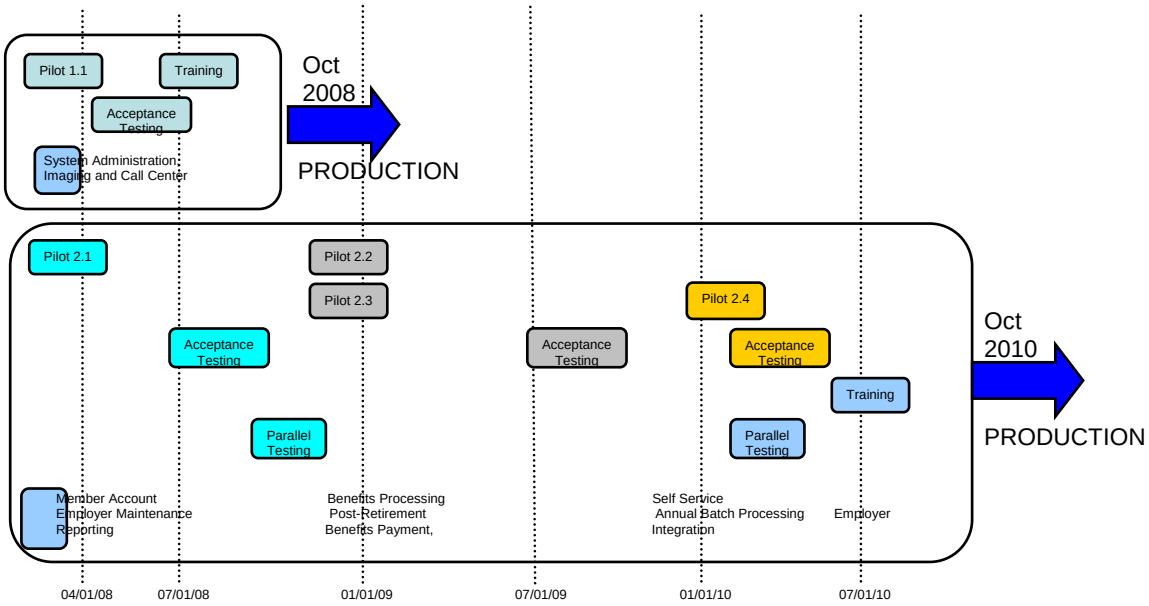
the State's ITD staff for the acquisition and configuration of hardware needed for the new system and for data conversion and interface issues.

A Steering Committee consisting of myself, an ITD Oversight Project Manager, the Sagitec Project Manager and Deputy Project Manager, NDPERS Project Manager, and the Oversight Project Manager was established at the start of the project. The committee meets monthly to review the overall project status, the accomplishments of the team, the project schedule and any slipping tasks, risks, issues and action items, the project budget and plans for the ensuing 30 day period.

The first three months of the project were spent on high level project planning activities including establishing a communications plan, identification of project risks, development of a detailed work plan, publication of a change management plan and quality assurance plan and issuance of statements of work. During this period, the team developed this Mission Statement: "We commit to successfully implement a robust, reliable, secure web-enabled, integrated benefit administration system that improves NDPERS' business operations and service." The team selected Sharepoint to use as a project repository for all project documents and to assist with collaboration of project team members.

At the conclusion of the planning phase, the team provided this overall project schedule:

Overall Project Schedule



The schedule proposed by the team consists of two production rollouts. The business reasons for having two rollouts includes an earlier use of the new system in two highly visible functional areas; early integration of the imaging system; minimal impact on the existing legacy application; robust acceptance testing and minimization of risks by using parallel testing.

In October 2008, we went live with the first phase of the project which provided our agency with up front imaging of all documents coming into our office and an introduction to the concept of work flow (moving work from one person to another to perform assigned tasks). We have reduced the routing of paper as our source of incoming work and now utilize electronic images to process the day to day work, decreasing the possibility for lost documents. In addition, we now have a contact management system that tracks all of our member contacts in a single repository that is available to all staff. This allows us to add notes on line for responses to member inquiries both verbal and written.

In late summer of 2008, we began the conversion of our old member records from microfiche to electronic images as part of a backfile conversion effort. As part of our agreement with Sagitec, a vendor, FNTI, was hired to perform the required work. Approximately 900,000 member records will be converted to the same format as our other member records. We are utilizing the services of two staff through a temporary staffing company to perform the necessary quality assurance to insure that the converted records are clear and properly coded to the member's account with NDPERS. To date the vendor has converted approximately 700,000 records with the remainder to follow in the next few weeks.

In addition to completing the first production rollout, the team has designed, developed and tested the functionality for member account enrollment and maintenance, set up and maintenance for employers, vendors, banks and providers, employer reporting, service purchases, individual billing services, daily deposits, and aggregation of general ledger transactions.

As of today our project is approximately 40% complete. Planning has begun on the next phases of the project that will include benefit processing, refunds, Domestic Relations Orders, death processing and maintaining various pension payroll deductions. Joint application design sessions are expected to begin in February 2009. User acceptance testing for the remaining system is scheduled to occur in 2010, with final rollout into production scheduled for the Fall of 2010.

PERS Budget

The proposed budget before you today is basically a hold even budget. With the system replacement project and our other efforts, the challenge we face in the next biennium is just keeping up with our existing commitments. Consequently no major new initiatives are proposed in this budget. The following is a summary of the budget compared to this biennium:

	2007-2009 Appropriation	2009-2011 Recommendation	Change
Salaries	$3,776,271	$4,302,137	$525,866
Operating	11,247,019	1,659,999	(9,587,020)
Contingency	250,000	250,000	
Total Base	$15,273,290	$6,212,136	($9,061,154)

If we look at this comparison and factor out the one-time costs for our system replacement project and HB 1078 for Career & Tech Ed, it shows:

	2007-2009 Appropriation	2009-2011 Recommendation	Change
Salaries	$3,776,271	$4,302,137	$525,866
Operating	1,650,019	1,659,999	9,980
Contingency	250,000	250,000	
Total Base	$5,676,290	$6,212,136	$535,846

Breaking down the recommended budget further by percent we find:

	Recommended Budget	
Salaries	$4,302,137	69%
Operating	1,659,999	27%
Contingency	250,000	4%
Total Base	$6,212,136	100%

The salaries and wage line item is 69% of our budget and supports 33 FTE. The reconciliation of this line item from this biennium to the recommended budget is as follows:

2007-2009 budget		$3,776,271
	Payplan changes (second yr 4%, etc)	72,509
	Overtime decrease	(5,500)
	Gov recommended increase	

Salary Equity	62,522
Salary/Benefits Inc	396,335
2009-2011 recommended	$ 4,302,137

The operating line item is 27% of our budget and you will note that it has increased slightly from the 07-09 biennium, after subtracting out the one-time expenditures. This increase is primarily the result of a request for $13,000 from the general fund to continue payments under the OASIS retirement program. Seven line item categories account for 90% of the operating line costs. The following highlights some of the dynamics of these line items:

- The IT line item is 35% of the operating line item and 9.4% of our total budget. This line includes ITD fees for data processing and telephone services and projected maintenance fees for our software vendor to support our new business system. After factoring out the one-time expenditures from the 07-09 biennium, the amount requested for this line item is about $40,000 less than the current budget. The decrease is due to the reduced level of maintenance for the existing mainframe system as a result of PERSLink project, offset by the maintenance fee that will be paid to Sagitec at the end of the warranty period. As a result of the net IT reduction we were able to absorb the inflationary increases in the OMB central service cost allocation, travel, postage, printing and office rent. Please note that in the past, our data processing costs have been very straightforward. We were able to forecast our expenditures based on past trends, plus/minus rate changes from ITD, plus programming expenses for legislation. For the 09-11 biennium, our costs are not as straightforward. We had to make more assumptions, such as, how the PERSLink project will impact our data processing costs and how legislative programming changes will impact the mainframe system and/or PERSLink costs. We feel the recommended budget request should be sufficient to cover our costs, however, in the event costs are underestimated, the contingency line item may have to be drawn upon.
- The lease/rental line items are 17% of the operating line item and about 4.6% of our total budget. These line items support our office lease and copier rental. We

are proposing a 2% increase for the next biennium primarily to cover an increase in our office rent.

- The postage line item is 13% of the operating line and about 3.4% of our total budget. This line item supports all of our communications with our active and retired members and employers such as, correspondence, monthly pension checks, Flex Comp claim reimbursements, 1099R tax reporting, annual statements, annual enrollment, rate changes, newsletters, billings, enrollments, and disenrollments. In recent years, to reduce the rate of increase in this item we have expanded the information available on the NDPERS web site, encouraged more direct deposits, stopped sending out program booklets, increased use of email for employer and employee communications and encouraged use of the PeopleSoft Portal for viewing Flex Comp account information rather than mailing out quarterly statements. We are proposing a 4% increase primarily to cover postage rate increases.
- The printing line item is 5.6% of the operating line item and about 1.5% of our total budget. To reduce costs in this area, we have expanded the information available on our web site. This initiative has allowed us to stop printing many items including our Summary Plan Descriptions, many of our forms, informational items, employer newsletters, our annual report, investment options booklet and other items. We are proposing a 9% increase in this line item to cover inflationary increases.
- Travel is 5.5% of our operating line item and 1.5% of our total budget. This line supports our entire employer/member outreach program, board and staff education, informational meeting requests, educational seminars and other activities. This biennium we are requesting an increase. We find that with our increasing participation of members from across the state it is more and more of a challenge to meet their needs. At some point PERS may need to consider a branch office but at this time we will continue with our outreach. Initiatives that we have been doing in this area include conducting meetings by using “Go to Meeting”, an internet based meeting format; all our board meetings use video conferencing so our board members do not need to travel to Bismarck; and we

have a meeting coordinator so our travel around the state is done so we can go to more then one site per trip if possible. The increase being requested is mainly inflationary to cover the higher fuel costs for in-state and out-of-state travel and the higher volume of travel to provide outreach services to our growing membership.

- Operating fees are 5% of our operating line and 1.4% of our total budget. This line item primarily supports the OMB Statewide Indirect Cost Allocation, advertising costs and payments under the OASIS retirement plan. This retirement plan is a pay as you go plan with one remaining member. The increase being requested is to support the projected increase in the indirect cost allocation and $13,000 to pay the OASIS benefits for the 09-11 biennium
- Professional Services is 9% or our operating line and 2.4% of our total budget. This line item primarily supports contract labor hired through temporary staffing agencies and the cost of criminal background checks. The budget request for the 09-11 biennium is $3,300 less than the current biennium as the result of eliminating fees paid for Muzak and off-site storage.

The operating line item also includes funding of $37,000 for replacing the agency's desktop computers, laptops and printers during the 09-11 biennium. Since we are on a 4 year replacement cycle, these costs are incurred every other biennium.
In summary, the 2009-11 budget request submitted by PERS is a hold even budget pursuant to guidelines provided by OMB, with the exception of the additional $13,000 in General Funds to provide benefits under the OASIS retirement plan.

Mr. Chairman, members of the committee I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided to our members valuable benefits that have truly made a significant difference in peoples lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you and this concludes my testimony.

Attachment #1- Business Needs 2007 Testimony

1. While it is impossible to speculate what new duties could be assigned to PERS legislatively, it is clear that just the existing responsibilities will result in increased workload in the future. As noted in 4.2.1, if existing trends are predictive of the future, the number of retirements could increase by 60% in the next five years. This increases the workload for all programs as people retire and sign up for the other programs. Additional staffing to accommodate these new clients, based upon existing business practices, could be 7 more FTEs at a cost of $600,000 or more per biennium (4.2.1).
2. It is problematic and will inevitably become more so to maintain this system with the increasing number of retirees (4.2.1) and the near obsolescence of the technology (4.3.4, 4.3.5). This issue was discussed with ITD who also indicated that it would be difficult to maintain this system over time since the language is old, the application has key programs that need to be changed with most maintenance requests, the complexity of the system makes it more difficult to enhance the system, the current system runs on an old technology infrastructure that ITD would like to replace, the current system is not a relational database and the pool of developers is getting smaller.
3. In order to accommodate the workload growth over the years and the limitations of the existing system, PERS has had to develop many workarounds (4.1.2). This lack of integration creates opportunities for errors (4.2.3, 4.3.3).
4. The current system results in: difficulty integrating new applications into the existing system such as program enhancements (4.3.1 & 4.3.11), limitations in adding new programs (4.3.2), limitations on retention of history (4.3.6 & 4.3.8), difficulty with production operations (4.3.7), limitations on edits (4.3.10) and integration of accounting systems (4.3.12).
5. Modern systems would have employers do more entering and verifying of data (4.2.5 & 4.3.9).