Testimony of
Sparb Collins
On
Senate Bill 2154

Before the House Government and Veterans Affairs Committee

Madam Chairman, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill.

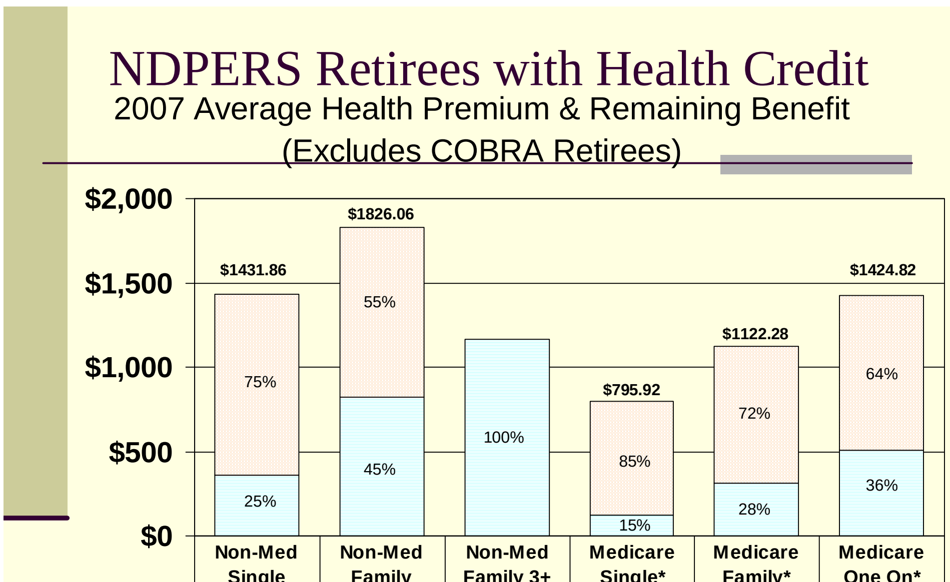
SB 2154 would make the following important changes:

- Section 1, 2 and 3 increase the required monthly contribution to the Retiree Health Benefit Fund by.14% of monthly salary. Section 1 increases the contribution for temporary employees who elect to participate in PERS. Section 2 increases the contribution for those who elect to purchase unused sick leave at termination of employment. Section 3 increases the employer contribution rate for ongoing participation. Presently the program is funded by a 1% employer contribution this section would increase that to 1.14%. There are also corresponding contribution rate increases for both nonteaching employees of the superintendent of public instruction and employees of the state board for career and technical education. These employers have a higher contribution rate due to legislation passed in previous sessions making special arrangements for them to participate.

  You will note that sections 1 and 2 were added to the bill in the Senate. These additions were technical in nature and were to insure that the contribution increase applied to temporary employees and sick leave purchases.

- Section 4 increases the monthly retiree health credit from $4.50 per year of credited service to $5.00 per year of credited service.

By way of background, in 1989 the North Dakota Legislature started the Retiree Health Credit Program. The purpose of this program was to help retirees pay the cost of health insurance. It was recognized at that time the cost of health insurance was becoming increasingly unaffordable. The following table shows the effect of health insurance costs on the average benefit.



	Non-Med Single	Non-Med Family	Non-Med Family 3+	Medicare Single*	Medicare Family*	Medicare One On*
Retiree Benefit	1068.13	1001.65	0	674.2	807.12	913.82
Health Premium	363.73	824.41	1166.36	121.72	315.16	511
Contracts:	315	89	2	2128	922	183

* - Medicare contracts must pay $93.50 per person for Medicare coverage.

The non-Medicare single contract holder spends approximately 25% of their benefit on health insurance. Similarly the Medicare family contract holder spends about 28% of their benefit on health insurance. The health credit was designed to help with these costs and presently provides the following benefit to PERS retirees:

BENEFIT FORMULA:

$4.50 for each year of credited service

Example: ***$4.50 x 25 = $112.50***

During the last year the program paid out the following benefits:

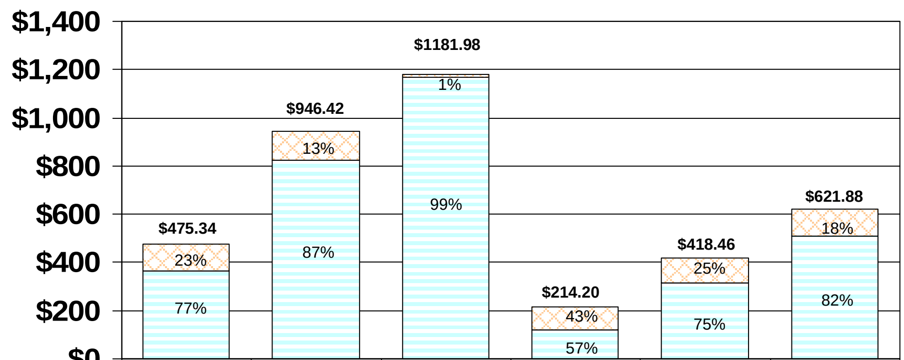
BENEFITS PAID

Avg benefit - $98 per month to 3,922 members

As applied to the member's health insurance premium:

NDPERS Retiree Health Credit

2007 Average Premiums & Health Credit
(Excludes COBRA Retirees)



	Non-Med Single	Non-Med Family	Non-Med Family 3+	Medicare Single	Medicare Family	Medicare One On
Health Credit	111.61	122.01	15.62	92.48	103.3	110.88
Retiree Paid	363.73	824.41	1166.36	121.72	315.16	511
Contracts:	315	89	2	2128	922	183

The dilemma is the retiree health credit has diminished in value over the years in terms of offsetting the cost of health insurance. The reason this has occurred is because the credit has remained fairly constant over time but the cost of insurance continues to escalate resulting in the out pocket expense to our retirees growing larger both in terms of percent paid and in absolute dollar amount paid.

The following table illustrates this dilemma by showing the diminishing percentage of premiums being offset by the retiree health credit over time for an employee with 25 years of service:

20 Year Employee

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	$781.86	12%	$427.24	21%
2006	$4.50	$90.00	$781.86	12%	$329.24	27%
2007	$4.50	$90.00	$946.42	10%	$418.46	22%
2008	$4.50	$90.00	$946.42	10%	$410.98	22%
2009	$4.50	$90.00	$946.42	8%	$425.58	21%

As noted above, when the program started, the credit offset was approximately 31% of the Medicare family premium. As the credit was increased in the early 1990’s it offset as much as 39% of the premium. Today, it is around 22%. For the non-Medicare retiree there is a similar situation. You will also note on the above table that the offset increased from 2005 to 2006. The reason for this change was the implementation of Medicare Part D which provided a federal subsidy for prescription drug coverage.

You will note this has a fiscal impact as identified in the fiscal note which shows the following:

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			$582,172	$824,720	$582,172	$824,720
Appropriations			$582,172	$824,720	$582,172	$824,720

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$311,000	$74,000	$254,000	$311,000	$74,000	$254,000

Concerning the appropriations, please note this proposal was part of the Governor's executive budget recommendation and is included in the budget that was submitted.

The provisions of this bill have been reviewed by the actuary for the Legislative Employee Benefits Committee and the proposal was determined to be actuarially sound. The bill was reviewed by the interim Legislative Employee Benefits Committee and given a favorable recommendation.

Madam Chairman, members of the committee, this concludes my testimony and thank you for your consideration of this important provision.