

# **Testimony of Sparb Collins On Senate Bill 2154**

Mr. 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.

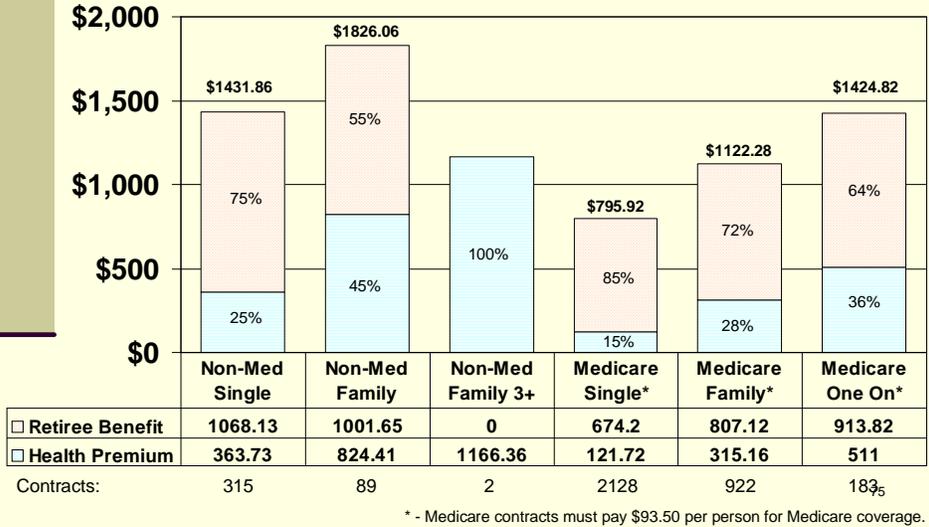
SB 2154 would make the following important changes:

- Section 1 increases the required monthly contribution to the Retiree Health Benefit Fund from 1.00% of monthly salary to 1.14% of monthly salary. 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, with higher contribution rates for these two groups for a specified period that are intended to fund past service.
- Section 2 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 for many retirees. The following table shows the effect of health insurance costs on the average benefit.

## NDPERS Retirees with Health Credit

### 2007 Average Health Premium & Remaining Benefit

(Excludes COBRA Retirees)



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:  $\$4.50 \times 25 = \$112.50$**

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

### **BENEFITS PAID**

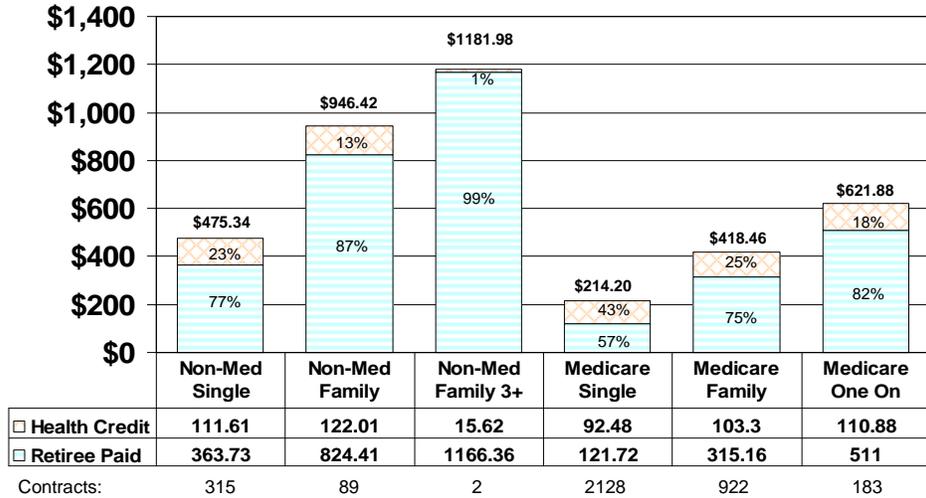
**Avg benefit - \$98 per month to 3,922 members**

As applied to the member's health insurance premium:

# NDPERS Retiree Health Credit

2007 Average Premiums & Health Credit

(Excludes COBRA Retirees)



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.

Specifically the above provisions are implemented in sections 1 and 2 of this bill.

Section 1 of the bill increases the required employer contribution by .14% to pay for the increase in benefits in section 2. 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
<b>Revenues</b>						
<b>Expenditures</b>			\$582,172	\$824,720	\$582,172	\$824,720
<b>Appropriations</b>			\$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.

Section 2 of the bill authorizes the increase in benefit from \$4.50 to \$5.00 per year of service.

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.

Mr. Chairman I would also like to offer a technical amendment to the bill. As we did our final review of this proposal, we noticed we did not include a corresponding increase in contributions for temporary employees and those purchasing service. We are therefore asking that the bill be amended to include this provision so if passed it is equitable to all members.

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