

**TESTIMONY
OF
SPARB COLLINS
ON SENATE BILL 2022**

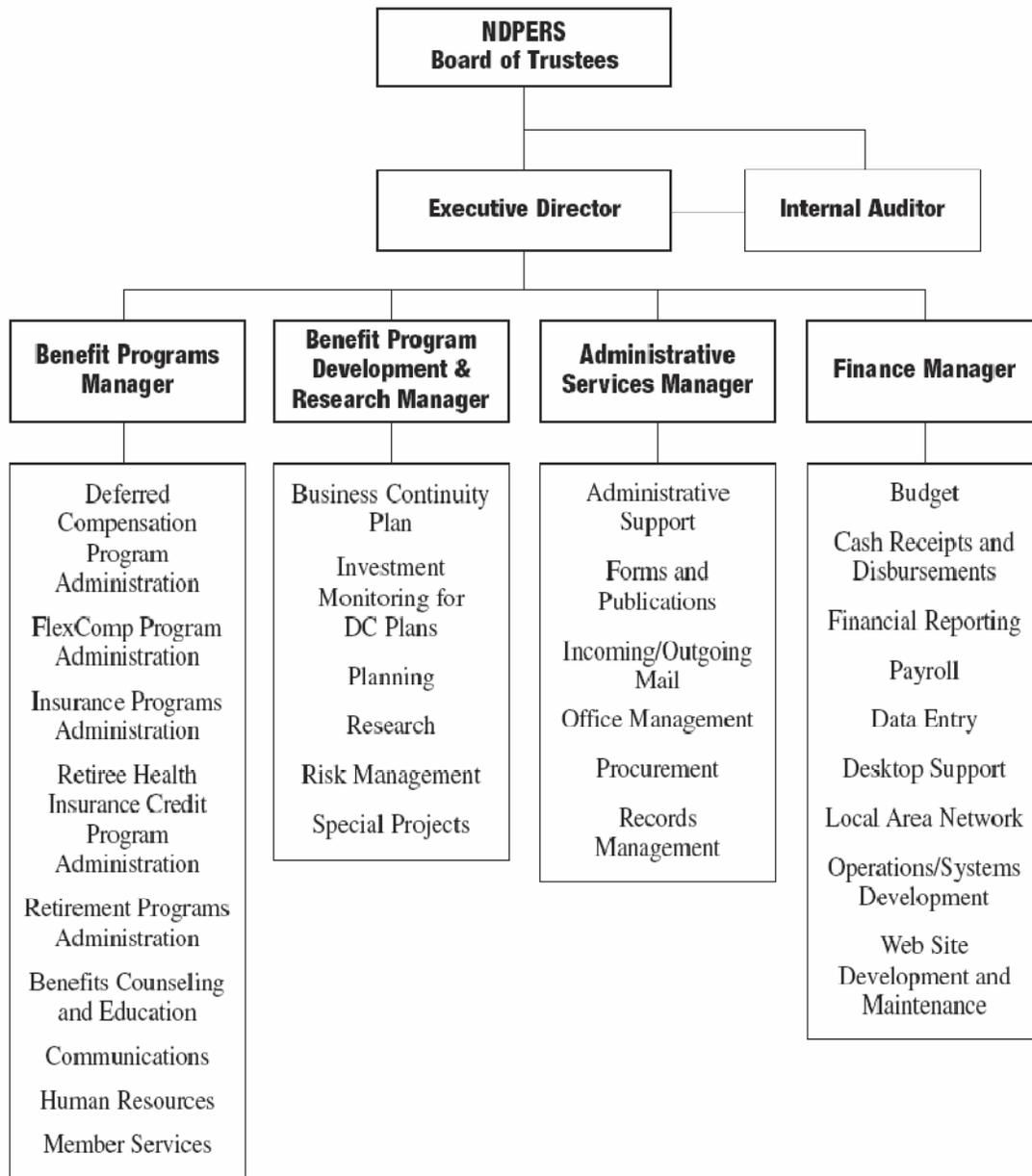
Mr. Chairman, members of the committee, good morning my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you to give you an overview of our agency, our work efforts and our budget request.

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	Howard Sage

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:

RETIREMENT PROGRAMS										
MANAGED AND ADMINISTERED BY NDPERS										
	<i>TOTAL</i>	<i>Main</i>	<i>D.C.</i>	<i>Highway</i>			<i>Law</i>	<i>Job</i>	<i>DEFERRED</i>	<i>HEALTH</i>
	<i>RETIREMENT</i>	<i>System</i>	<i>401(a)</i>	<i>Patrol</i>	<i>Judges</i>	<i>Guard</i>	<i>Enforcement</i>	<i>Service</i>	<i>COMP</i>	<i>CREDIT</i>
January 1, 2010										
PARTICIPATION										
AGENCY										
State	99	99	32	1	1	1	1	1	96	99
Counties	47	47					10		44	47
School Dist	110	110							53	110
Cities	78	78					5		27	78
Others	64	64							27	64
	398								247	398
EMPLOYEES										
State	10,813	10,318	244	133	47	36	37	35	4,225	10,813
Counties	3,391	3,247					144		1,454	3,391
School Dist	5,026	5,026							556	5,026
Cities	1,280	1,250					30		684	1,280
Others	502	502							249	502
Retirees	7,537	7,214	49	109	22	12	11	120	1,584	4,068
	28,549	27,557	293	242	69	48	185	155	8,174	25,080

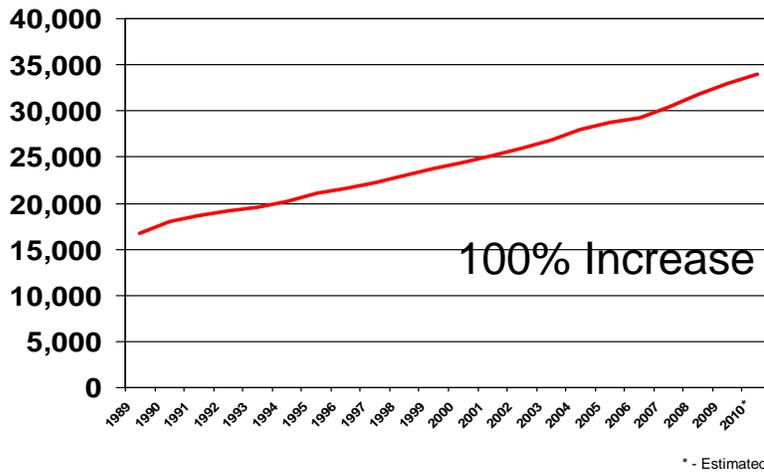
As you will note, our agency is responsible for the administration of approximately 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Several of the above plans were assigned to our agency by the 2001 and 2003 legislative session. Those were the Job Service Retirement Plan and the Law Enforcement Plans for political subdivisions. The Law Enforcement Plan has since been expanded to certain state employees. The 401(a) plan or optional defined contribution plan for non-classified state employees 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. School districts are our second largest group followed by counties and cities.

Some historical statistics about the retirement plan include membership:

NDPERS

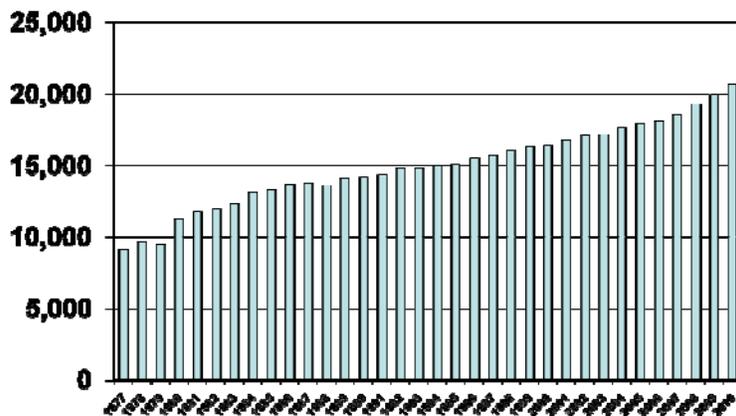
Retirement Plan Membership



Of this the number of active members has grown:

NDPERS Retirement Actives

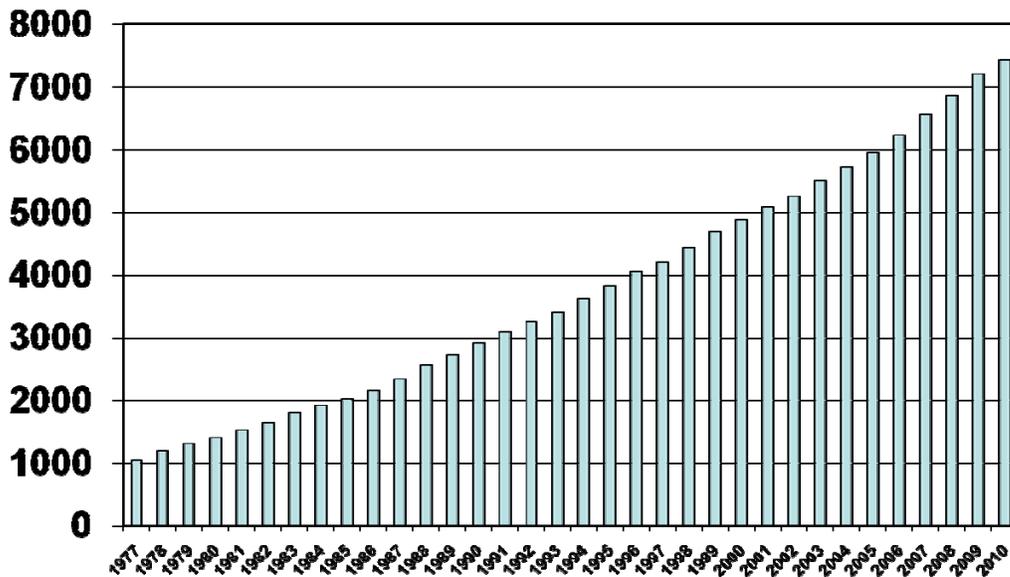
(Main System, Judges, Guard, Law Systems)



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

NDPERS Retirement Retirees

(Main System, Judges, Guard, Law Systems)

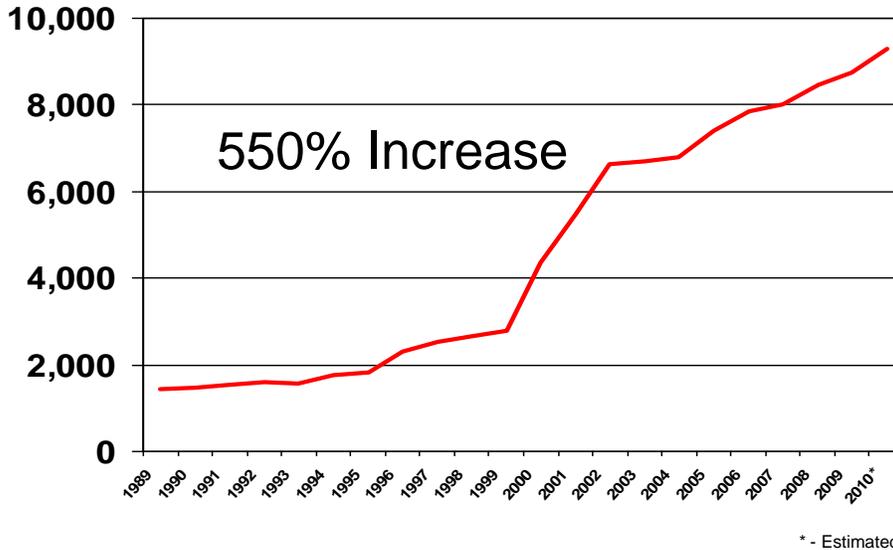


As we look to the future, we see the retired membership continuing to grow and the number of active members remaining about the same. Servicing the present and future needs of the retired membership is going to be a growing challenge for NDPERS.

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:

NDPERS

Deferred Compensation Plan Membership



We are pleased by this growth since it is important that our members save for retirement. In 1999 the legislature started the PEP provision in our retirement plan to encourage employees to do supplemental savings. You can see that program has been successful.

Deferred Compensation offers our members 10 different providers to choose from 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 . .

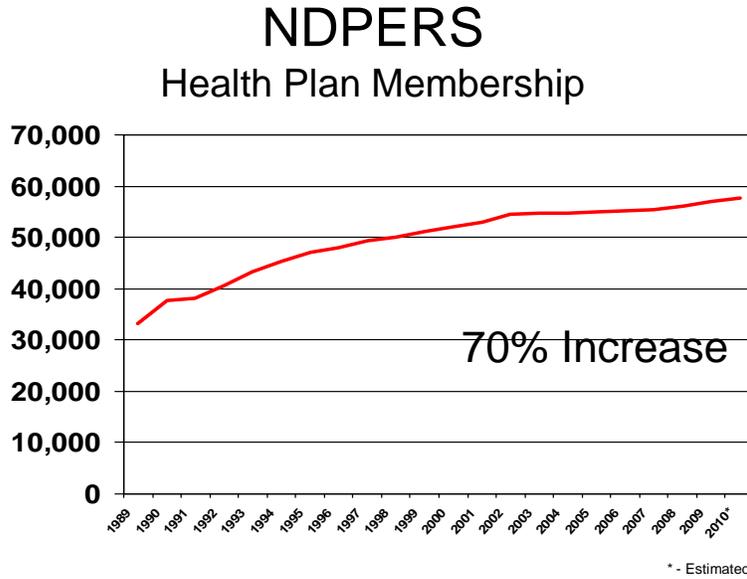
Concerning the group insurance programs, the following gives you an overview of the programs and some statistical information:

January 1, 2010	GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS						
	<i>HEALTH</i>	<i>LIFE</i>	<i>DENTAL</i>	<i>VISION</i>	<i>EAP</i>	<i>FLEXCOMP</i>	<i>LT Care</i>
PARTICIPATION							
AGENCY							
State	99	99	99	99	99	99	97
Counties	39	28					
School Dist	28	5					
Cities	57	22					
Others	65	22					
	288	176	99	99	99	99	97
EMPLOYEES							
State	14,682	15,385	4,796	3,774	15,358	8,375	55
Counties	1,865	2,439					
School Dist	1,180	123					
Cities	1,009	180					
Others	521	281					
Legislators	127						
Retirees	5,694	2,977	1,361	764			
COBRA	354		36	17			
	25,432	21,385	6,193	4,555	15,358	8,375	55

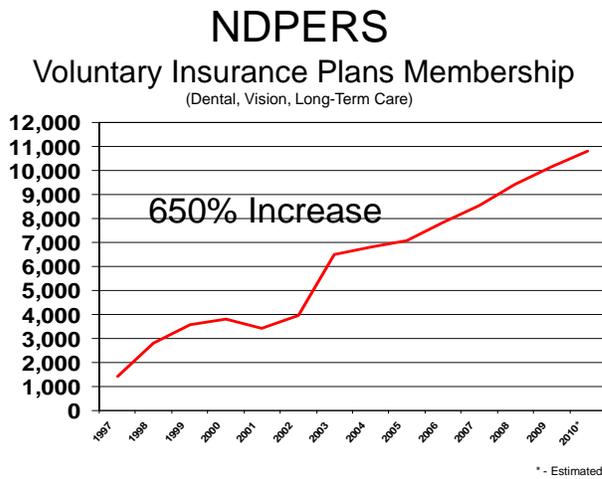
As you will note, the largest responsibility in this area is the health plan. In this program about 59% of members are state employees and 41% are political subdivisions or retirees. This biennium one of the challenges we faced with the health program was the enactment of federal health care reform. In response, we took the following actions:

1. Maintained the plan as a grandfathered plan under the law which means we do not have to comply with all the provisions.
2. Applied for the subsidy for providing services to pre-Medicare retirees. We were approved and in 2011 we will submit our reimbursement requests to the federal government. We may be eligible for up to \$1 to \$1.5 million per year. These funds will be available to the next session to help pay for health costs for the 2013-2015 biennium.

The following table shows the history of the membership in the health plan:

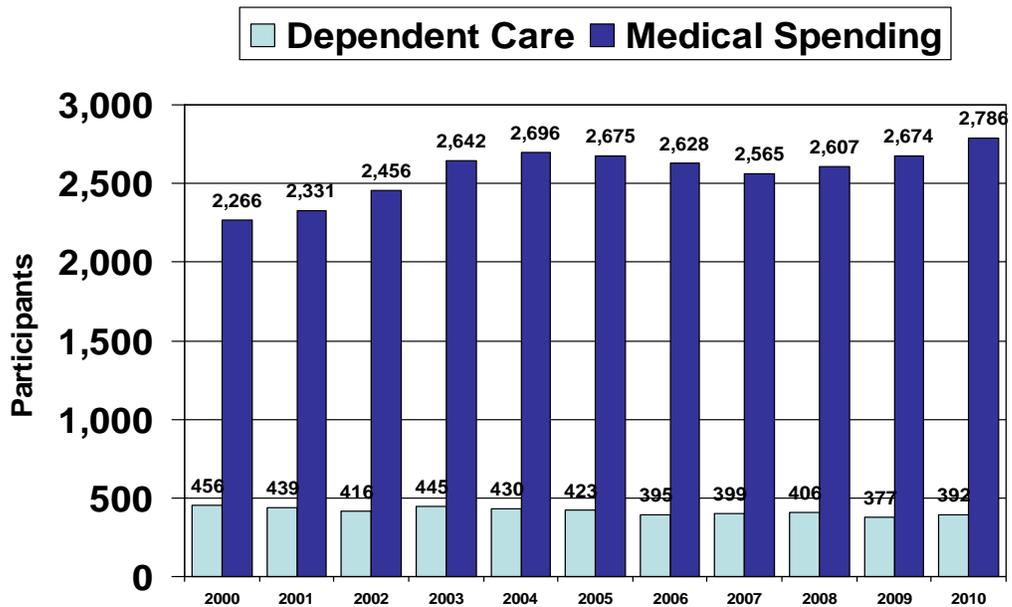


In the late 1990's the Employee Assistance Program, Long Term Care Plan, Dental Plan & Vision Plan were added to PERS. The other group insurance programs have been a part of the agency since before 1990. The following table is the history of those programs (not including the EAP):

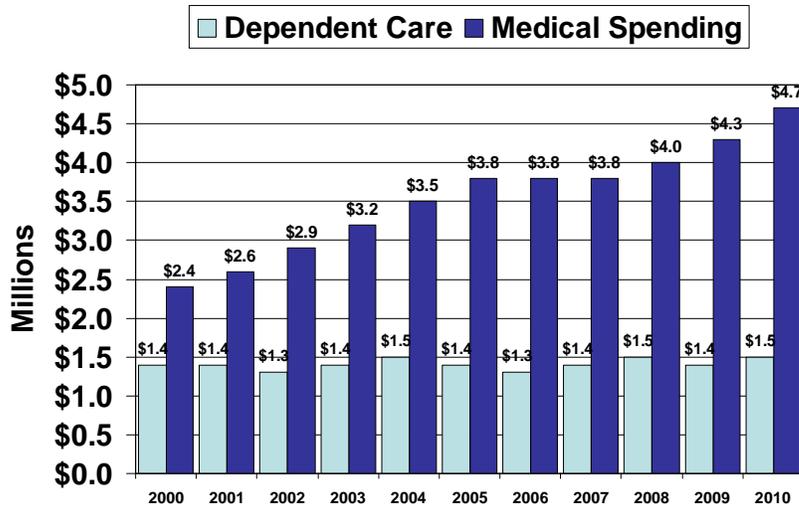


The Flex Comp Program which has been a part of the agency since 1989 allows members to pretax certain insurance premiums, dependent care expenses and medical expenses. Our office processes approximately 16,000 to 17,000 claims a year for this program and maintains the member accounts. The following tables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

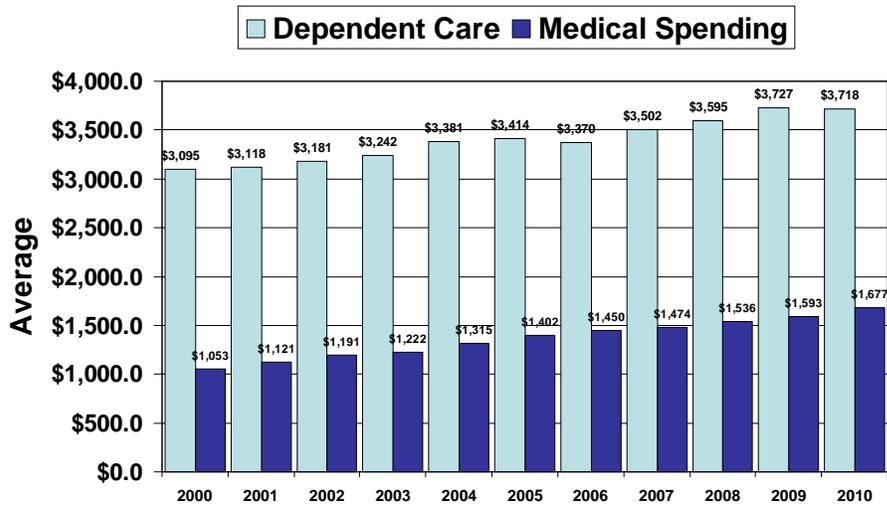
NDPERS Flexcomp Participation



NDPERS Flexcomp Participation



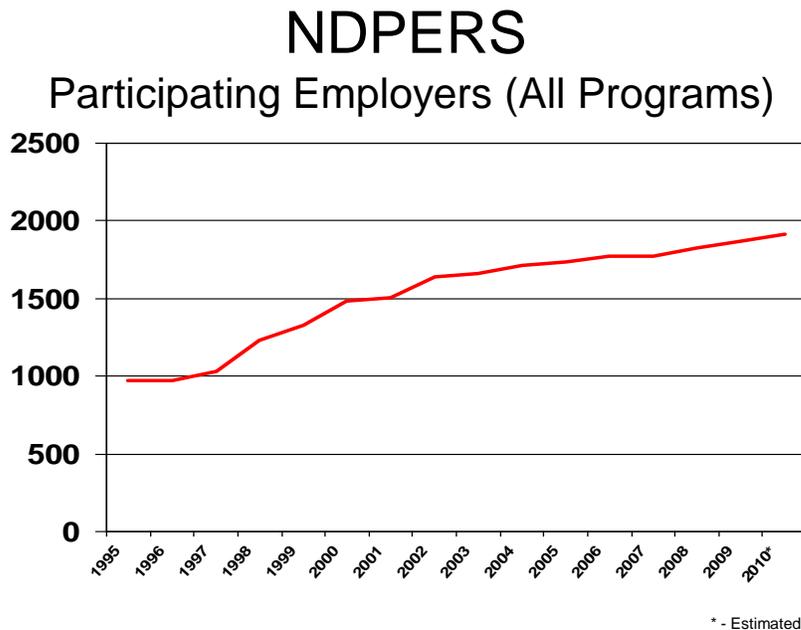
NDPERS Flexcomp Participation



As the above shows, the number of members participating in the program has increased slightly and the average deferrals have increased. We expect that in the

future as health care costs continue to rise, more members will join this program, causing our processed claims level to rise.

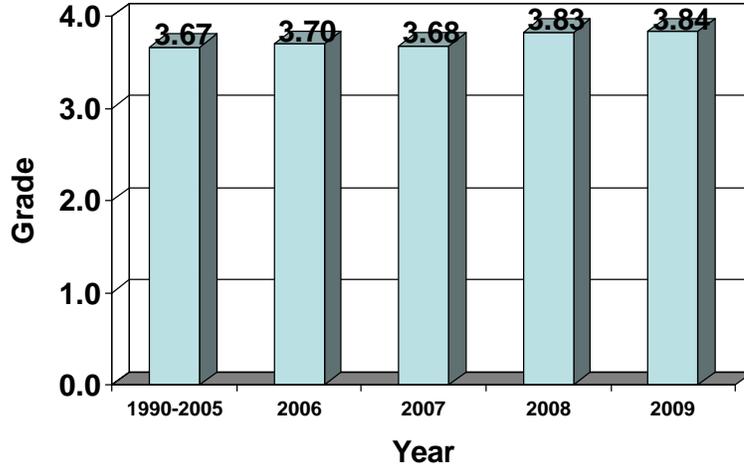
While we have been serving more members in more programs over time we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):



As shown above, PERS has faced two challenges over the years. First, is the growth of program responsibilities. Second, is the growing membership needs for assistance. We have also tried to meet the needs of our members and monitor how we are doing by sending to them a rating card. The following are the responses:

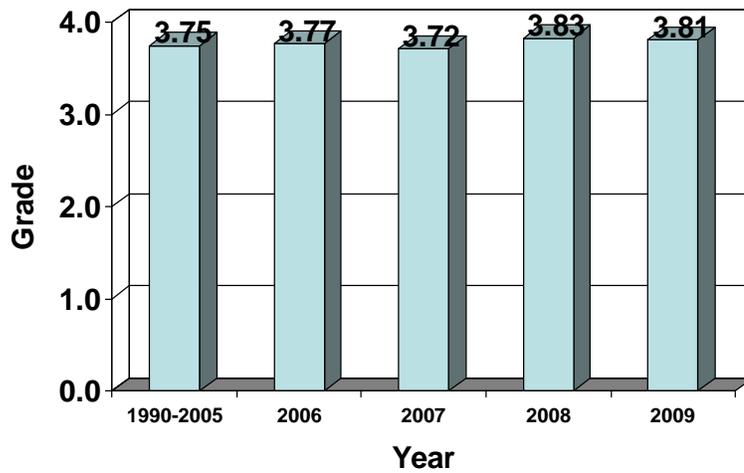
NDPERS Member Report Cards

Courtesy you received from NDPERS staff?



NDPERS Member Report Cards

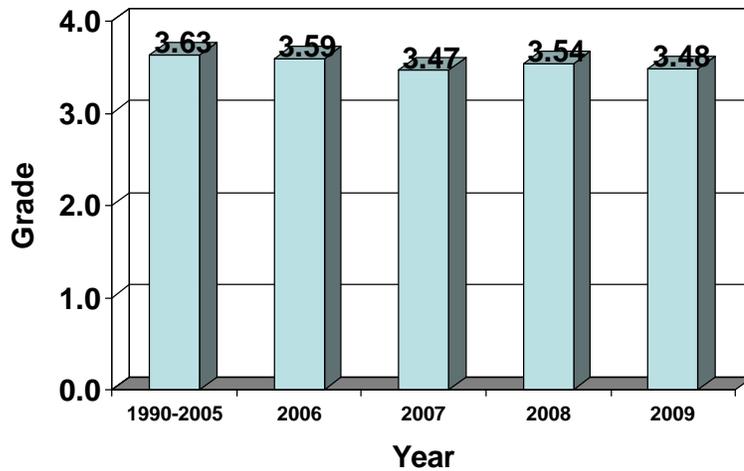
Promptness of NDPERS response to your inquiry?



NDPERS

Member Report Cards

Was the information you were given easy to understand?



As the above shows, we have been able to maintain a positive rating by the members but we note that we face a challenge in communicating the details of our programs to our members.

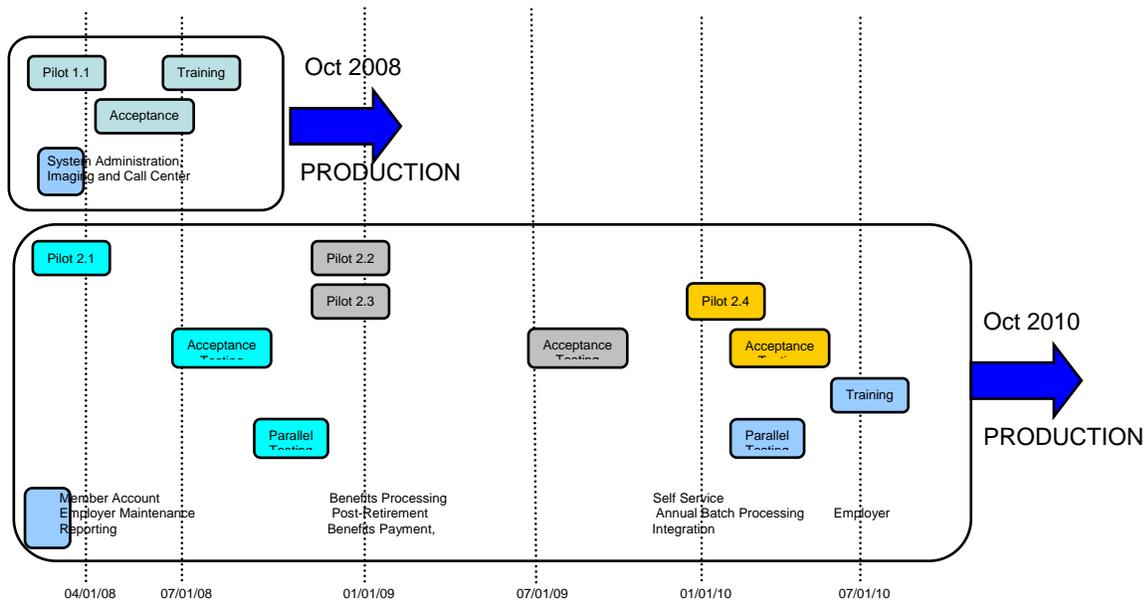
We are also concerned with maintaining the quality of what we do. To that extent, we have sought national review of our systems and other reviews as noted in the following:

- We have received the Public Pension Achievement Award and the Recognition Award for Administration.
- We have received the Certificate of Achievement for Excellence in Financial Reporting 1996-2009.
- We have had Unqualified Audit Opinions for over 20 years.

PERS Business System Replacement Project

Several bienniums ago, you approved funding the replacement of our business system. The following was the schedule we discussed:

Overall Project Schedule



I am pleased to report to you that our project did go live as projected in October of 2010 after three years of development. The employee portal is scheduled to go live in the second half of 2011. This project has been extremely challenging for PERS over the last several years. As challenging as that has been, we are finding that implementation is equally as challenging. With the rollout of the project most of the jobs in our agency changed, most of our staff is presently learning new ways to do our business. Externally, our participating employers are learning a new way to communicate with PERS. We are finding that these new processes pose many challenges, both internally and externally, and since implementation we are discovering ways to improve the system to make it more user friendly. We know that much of 2011 and into 2012 will

require a lot of effort by our agency to refine our implementation processes and business system to more effectively meet the needs of our employers and members. I also want to report to you that our project is on budget at this time as well.

2009-2011 Initiatives

The following are some of the major initiatives done this biennium.

Major Initiatives Retirement

- Performed a retirement plan performance study on our defined contribution plan.
- Worked with participating employers, members and representative groups to review the challenge facing the PERS retirement plan and to prepare options to address the situation.
- Received and reviewed the annual actuarial valuation for the PERS defined benefit plans.
- Reviewed the PERS investment policies.
- Reviewed the results of the experience for the PERS retirement plans and adjusted the assumptions where indicated.
- Prepared draft legislation for funding our retirement programs and submitted it to our legislative oversight committee.
- Started efforts on an Asset/Liability Study for the PERS Retirement plans
- Implemented the increase in the retiree health credit.
- Issued an RFP for a consultant to provide assistance with seeking a bundled provider (recordkeeping and investments) for the 401 (a) plan and 457 plan.
- Worked with the IRS on our determination letter under Schedule C.
- Received the “Recognition Award for Administration” from the Public Employees Coordinating Council.

Administrative

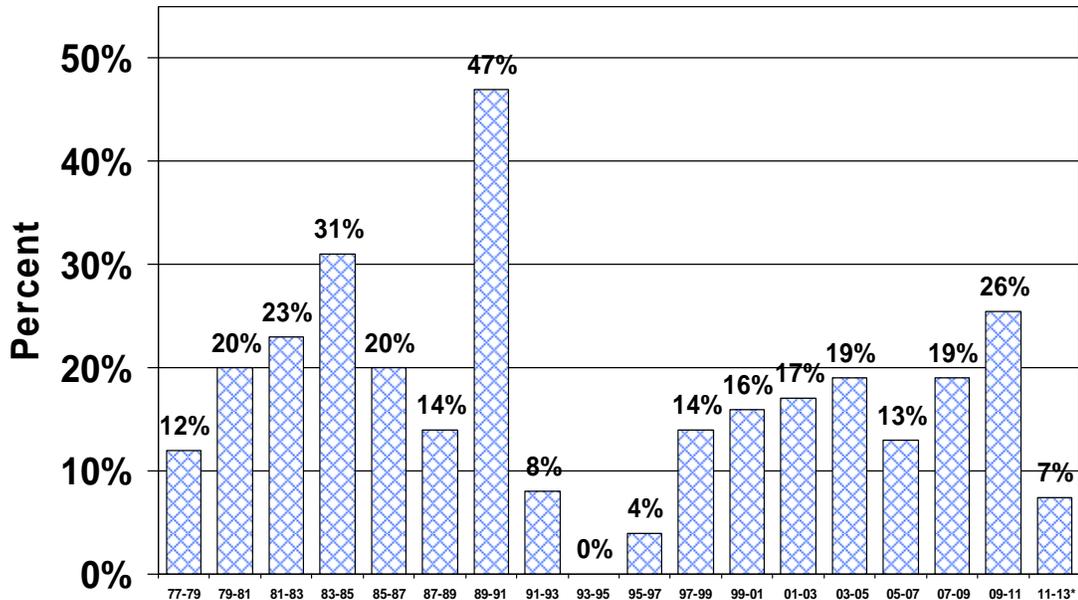
- Continued development of the new PERS business system and implemented it in October of 2010, the project remained on schedule and within budget.
- Promulgated our administrative rules to implement legislation passed by the 2009 Legislative Session.
- Completed and reviewed the annual audit report.
- Developed new job requirements and processes in agency for implementation of the PERSLink system.
- Received the GFOA Certificate for Excellence in Financial reporting.

Major Initiatives Insurance

- Conducted an audit of our pharmacy benefit manager.
- Completed the Medicare Part D renewal.
- Issued an RFP for our Group Insurance Consultant, analyzed the responses and issued a contract for services.
- Completed the OPEB valuation.
- Prepared and issued an RFP for the group health insurance plan.
- Monitored the health care reform effort and its implication for the PERS plan and took all required actions.
- Expanded the PERS Wellness program to more employers/members.

In the group health insurance area our plan has had some significant success this biennium. As you may have noted, our health plan trend has dropped substantially.

The following table shows the effect this has had on our premiums:



As the above shows, the health premium increase this biennium is a little over 7%. This is the third lowest increase since 1977 and represents a significant savings for this biennium. Our plan is also projecting a gain for this biennium that under our settlement process with BCBS will be available next biennium to help offset future increases.

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 requested or no new FTE are proposed in this budget. No increase for costs related to Health Care Reform have been included in the budget. Any additional costs incurred as a result of this will be paid through the Contingency Line Item when and if they arise.

The following is a summary of the budget compared to this biennium:

	2009-2011 <u>Appropriation</u>	2011-2013 <u>Recommendation</u>	<u>Change</u>
Salaries	\$4,236,489	\$4,563,507	\$327,018
Operating	1,659,999	1,963,383	303,384
Tech. Prj.	4,734,726	0	(4,734,726)
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$10,881,214	\$6,776,890	(4,104,324)

If we look at this comparison and factor out the one-time costs for our system replacement project it shows:

	2009-2011 <u>Appropriation</u>	2011-2013 <u>Recommendation</u>	<u>Change</u>
Salaries	\$4,236,489	\$4,563,507	\$327,018
Operating	1,659,999	1,963,383	303,384
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$6,146,488	\$6,776,890	\$630,402

Breaking down the recommended budget further by percent we find:

	<u>Recommended Budget</u>	
Salaries	\$4,563,507	67%
Operating	1,963,383	29%
Contingency	<u>250,000</u>	4%
Total Base	\$6,776,890	100%

The salaries and wage line item is 67% of our budget and supports 33 FTE. The reconciliation of this line item from this biennium to the recommended budget is as follows:

2009-2011 budget	\$4,236,489
Payplan changes (second yr 5%, etc)	81,799
Gov recommended increase	
Salary	163,458
Benefits Inc	81,761
2011-2013 recommendation	\$ 4,563,507

The operating line item is 29% of our budget and you will note that it has increased from the 2009-11 biennium. This increase is primarily the result of our IT project moving from development to implementation. More specifically during development this biennium the cost was reflected in our special line item. The cost of the old system was in operating but since we were no longer maintaining the old system those costs were at a low level. Now that our new system has gone live, the ongoing cost will be reflected in the operating line and no special line item will be used. The following highlights some of the dynamics of these line items:

1. Operating expenses were reduced by \$127,426 as a result of the completion of the PERSLink Project. The 2009-11 budget included funding to rent additional office space for the PERSLink Project Team and also included funding to hire additional help through a temporary service agency which was used at various times throughout the duration of the project. These expenses will no longer be necessary.
2. IT related services represent about 50% of our operating line item. Operating expenses were increased by \$447,348 for Information Technology activities. The primary component of this increase is the maintenance and ongoing support fees paid to our IT vendor for the PERSLink System. This is offset by a reduction in data processing expenses paid to ITD.

Our fees to ITD were reduced to reflect retiring our mainframe applications. However, as a result of PERSLink, we have additional fees for hosting the

application, disaster recovery and using the ITD Service Desk to help support our external customers.

IT Equipment has also been reduced. The agency is on a 4 year hardware replacement cycle, which occurred during the 2009-11 biennium.

3. An increase of \$43,819 has been included for inflation. The three areas impacted by this are postage, office rent and the OMB central service allocation.
4. A reduction of \$13,000 in general fund appropriation authority to pay OASIS benefits has been removed as there are no longer any beneficiaries being paid from this plan.
5. Out of state travel, printing and equipment rent have been reduced to more accurately reflect our actual expenditure trends.

In addition to the above HB 1364 adds an additional responsibility to PERS. Specifically it would add to our health plan a HDHP/HSA option. That bill provides an additional \$91,000 in operating expense for one time modifications to our business system for the new program (approximately \$81,000 and for educational material with the rollout of the program \$20,000). No additional staff is requested in that bill for this new program. This bill passed the House and is now in the Senate for consideration.

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.