

TESTIMONY OF  
SPARB COLLINS  
ON  
HOUSE BILL 1072

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

HB 1072 would make the following important changes:

- Sections 1 and 2 change the statutory language to refer to the required monthly contribution to the Retiree Health Benefit Fund, rather than the specific contribution percentage;
- Section 3 increases the required monthly contribution to the Retiree Health Benefit Fund from 1.00% of monthly salary to 1.45% of monthly salary; and
- 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 for many retirees. A solution was the creation of the Retiree Health Credit Program. This program 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**

**\$3,893,070 to 3,519 members,**

**Avg benefit - \$94 per month**

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 the result of the credit remaining fairly constant over time but the cost of insurance continuing to escalate resulting in the out pocket expense to our retirees getting 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 paid by the retiree health credit over time:

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%	\$456	20%

As noted above, when the program started, the credit offset approximately 31% of the Medicare family premium. Today, it is around 20%. For the premedicare retiree

there is a similar situation. While the Medicare retiree will get some assistance in 2006 as a result of the Medicare Rx bill the challenge will remain. For the premedicare retiree who will not get any assistance from Medicare, the premium costs will become increasingly more unaffordable.

This bill proposes to address this situation in Sections 3 and 4. In section 3, the bill proposes an increase in contributions to 1.45%. The proposed level of increase will more than pay for the increase in the benefit level proposed in section 4. It will also provide additional funds to pay down the unfunded liability of the system at a faster rate. This in turn will free up additional funds that can be used to continue to increase the credit in future years above the \$5. By setting up this mechanism it will help to preserve the value of the benefit for the next decade. In section 4 of the bill the credit is increased from \$4.50 to \$5. In the above example this would increase the benefit from \$90 to \$100 per month or by a little over 10%. These two steps taken together will result in additional assistance both immediately and over time. Also as noted by the actuary, the bill would improve the funded status of the system and, therefore, have a positive actuarial impact on the fund.

These improvements would have a cost as noted in the fiscal report. Specifically, for all our participating employers, the cost would be additional contributions of:

\$5.00 Credit/1.45% Contr.	Employees	Monthly Salary	Annual Salary	Biennium Salary	Biennium Cost	General Fund	Other
State Employees	7,571	\$21,576,786	\$258,921,432	\$517,842,864	\$2,330,293	\$1,214,316	\$1,115,977
Higher Education	2,593	\$5,131,222	\$61,574,664	\$123,149,328	\$554,172		\$554,172
Political subdivisions	7,765	\$15,439,685	\$185,276,220	\$370,552,440	\$1,667,486		\$1,667,486
	17,929	\$42,147,693	\$505,772,316	\$1,011,544,632	\$4,551,951	\$1,214,316	\$3,337,635

The cost is slightly higher in the above table than it is in the fiscal note since other political subdivisions participate in our program in addition to counties, cities and school districts.

While there is a cost to this program, please note that the entire rate for this program and retirement program is 9.12%. Even with this increase to 9.57%, the proposed rate is below that many other state sponsored programs

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 and positive to the system with the additional level of contributions. As noted above and in the attached, the contribution requirements of our participating employers will increase. The bill was reviewed by the interim Legislative Employee Benefits Committee and given an unfavorable recommendation due to the cost. However, on behalf of the PERS Board and our members, I am asking for your favorable consideration of this bill due to the challenges faced by our present and future retirees relating to health insurance.

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