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August 20, 2004

Senator Karen K. Krebsbach, Chair
Employee Benefits Programs Committee
North Dakota Legislative Council
Bismarck, ND

Re: **Technical Comments - Retirement Bill No. 50052.02**

Dear Senator:

The following presents our analysis of the proposed changes found in Retirement Bill No. 50052.02:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan and Defined Contribution Plan), Highway Patrolmen's Retirement System and Retiree Health Benefit Fund.

Summary: The proposed legislation would make the following important changes:

- Allows employers in the Highway Patrolmen's Retirement Plan, the Hybrid Plan, the Retiree Health Benefit Fund and the Defined Contribution Plan to elect to pick up employee contributions for eligible military service credit for veterans returning after passage of the bill, and if no election is made the default method requires employers to pick up employee contributions for this service credit in the same manner as for regular employee contributions; also allows employers to pay for eligible military service credit prior to the date of passage of the bill;
- Expands the definition of disability under the Highway Patrolmen's Retirement Plan as being unable to perform duties of a highway patrol officer;
- Updates federal compliance provisions of Highway Patrolmen's Retirement Plan and Hybrid Plan;
- Eliminates the 5-year term certain option and adds a 20-year term certain option and partial lump sum option (maximum amount 12 months of payments) to the Highway Patrolmen's Retirement Plan and Hybrid Plan; also adds a joint and survivor option to the level income form in the Hybrid Plan;
- Provides record confidentiality rules under the Highway Patrolmen's Retirement Plan to permit sharing of information with beneficiaries and the name of members with the public for the purpose of locating the member;
- Allows employers in the Highway Patrolmen's Retirement Plan to purchase service credit equal to unused sick leave at termination;

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- Provides for the System to perform background checks on new employees of the Public Employees Retirement System;
- Changes the eligibility requirement for the Law Enforcement Retirement Plan from 20 hours to 32 hours of employment per week for peace officers employed after August 1, 2005 and prohibits such employees from concurrently participating in any other PERS administered retirement plan;
- Allows employees who change from permanent to temporary employee status to continue to participate in the Defined Contribution Plan by filing an election to do so within 180 days of status change and making contributions to the Plan and Retiree Health Benefit Fund;
- Clarifies that non-spouse beneficiaries may receive a distribution from the Defined Contribution Plan in a lump sum form only upon the death of the member.

Actuarial Cost Analysis: A description of the actuarial impact on the Law Enforcement Retirement Plan resulting from the provision of the bill that increases the number of hours of employment required for participation in that Plan is pending our detailed analysis of this provision.

The provision of the bill that expands the definition of disability under the Highway Patrolmen's Retirement System may have an actuarial impact on that System to the extent that behavior by members increases the number of disability pensions.

Technical Comments: Our comments on the bill are as follows:

Benefits Policy Issues

➤ Adequacy of Retirement Benefits

- ◆ The bill would significantly enhance retirement benefits for members of the Defined Contribution Plan who change status from permanent to temporary employee by allowing the employee to retain their participation in the Defined Contribution Plan.
- ◆ The option for employers to pick up contributions for eligible military service credit in the Highway Patrolmen's Retirement System will enhance benefits adequacy for affected members.
- ◆ Allowing employers to purchase service credit equal to unused sick leave at termination in the Highway Patrolmen's Retirement System will enhance benefits adequacy in that Plan and the Retiree Health Benefit Fund.

➤ Benefits Equity and Group Integrity

- ◆ The bill would enhance benefits equity between temporary employees in the Hybrid Plan, who may currently continue to participate in that Plan upon change in status from permanent to temporary, and similarly-situated employees in the Defined Contribution Plan.
- ◆ The bill would enhance benefits equity between employees in the Hybrid Plan, whose employers may currently purchase service credit equal to unused sick leave at termination, and similarly-situated employees in the Highway Patrolmen's Retirement System.

➤ Competitiveness

- ◆ The bill may increase the benefits competitiveness of the Defined Contribution Plan for temporary employees only.
- ◆ The partial lump sum option in the Hybrid Plan and Highway Patrolmen's Retirement Plan will provide members of those systems with the same benefit options that are available in many other plans including the Teachers Fund for Retirement.

➤ Purchasing Power Retention

No impact.

➤ Preservation of Benefits

The partial lump sum option creates a lower monthly benefit from the annuity in the Hybrid Plan and Highway Patrolmen's Retirement System. To the extent these Plans continue to pay ad hoc cost-of-living adjustments (COLAs) based on annuity amount, this provision of the bill may reduce the value of such COLAs.

➤ Portability

Addition of partial lump sum payment option to the Hybrid Plan and Highway Patrolmen's Retirement System provides a measure of portability to members who attain retirement eligibility in those plans.

➤ Ancillary Benefits

No impact.

Funding Policy Issues

➤ Actuarial Impacts

The bill may have an actuarial impact on the Systems, as noted earlier.

➤ Investment Impacts

- ◆ Asset Allocation: The bill does not create new investment asset allocation issues.
- ◆ Cash Flow Impacts: The bill does not create new cash flow needs. The partial lump sum option is limited to an amount equal to a 12-month annuity payment of retirement benefits, which would not significantly impact cash flow.

Administration Issues

➤ Implementation Issues

- ◆ The bill will require development of actuarial factors for the new optional form of benefit payments, including the 20-year certain option, the partial lump sum payment option and the joint and survivor level income option.
- ◆ In addition, PERS must monitor election of the 20-year certain option to ensure it complies with required minimum distribution rules under Internal Revenue Code Section 401(a)(9) and related Treasury Regulations. Under these rules, a member who is over age 78 at the time of retirement cannot elect the 20-year certain option.

➤ Administrative Costs

Based upon information collected by PERS, the cost of implementing the provisions of this bill would be able to be accomplished with existing resources, except for the joint and survivor level income option, which would require computer system modifications that would cost over \$18,000. Additional appropriation authority may be needed to implement the J & S option.

➤ Needed Authority

- ◆ The bill appears to provide sufficient levels of administrative and governance authority to the PERS Board to:
 - Implement the new method for determining how contributions for eligible military service credit are paid;
 - Establish rules and procedures relating to records confidentiality for the purpose of locating members and to background checks of new PERS employees; and
 - Provide new optional forms of payment to members of the Hybrid Plan and Highway Patrolmen's Retirement System.

➤ Cross Impact on Other Plans

No impact.

➤ Employee Communications

Employee communications will be needed to explain the new optional forms of payment under the Hybrid Plan and Highway Patrolmen's Retirement System, as well as the elimination of the 5-year certain form.

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If you have any questions or comments, please contact our office.

Sincerely,

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Senior Vice President and Actuary

Melanie Walker, JD

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cc: Wally Malles, ASA, MAAA, EA

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