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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. 50053.01**

Dear Senator:

The following presents our analysis of the proposed changes found in Retirement Bill No. 50053.01:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan) and Highway Patrolmen's Retirement System.

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

- Changes the definition of final average salary under the Highway Patrolmen's Retirement Plan from the highest 36 consecutive months to the highest 36 months, effective for retirements on and after August 1, 2005 and from the highest 36 months in the last 120 months of employment to the last 180 months of employment, effective for retirements on and after July 1, 2009;
- Changes the definition of final average salary under the Hybrid Plan from highest 36 months in the last 120 months of employment to the highest 36 months in the last 180 months of employment, effective for retirements on and after July 1, 2009;
- Increases by 3.0% the final average salary for individuals who are members of the Hybrid Plan or the Highway Patrolmen's Retirement System on August 1, 2005; and
- Allows the board to provide for a one-time post-retirement payment equal to 50% of the member's currently monthly benefit payment amount payable in January of either 2006 or 2007, if the trust fund's total annualized return on investments is at least 11.20% for the fiscal year ending June of 2005 or 2006, applicable to both the Hybrid Plan and the Highway Patrolmen's Retirement System. This is a potential one-time payment in the biennium.

Actuarial Cost Analysis: This bill would have an actuarial impact on the Hybrid Plan and Highway Patrolmen's Retirement System.

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

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, D.C.



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General

The purpose of the provision of the bill which increases by 3.0% the final average salary of members on August 1, 2005 is to offset the impact on retirement benefits of no general salary increase for employees during the period from 2003 to 2005.

Benefits Policy Issues

➤ Adequacy of Retirement Benefits

The bill would enhance retirement benefits for any member of the Hybrid Plan or Highway Patrolmen's Retirement System on August 1, 2005.

The bill would enhance members transition from varying types of employment under the Hybrid Plan and the Highway Patrolmen's Retirement System who retire on or after July 1, 2009. Individuals likely to take advantage of this enhancement include members near retirement age who desire to phase into retirement (i.e.-by reducing their hours of work or changing to a lower-paid position with less responsibility) without affecting their retirement benefits and members who elect to transition from higher paid supervisory positions to line position in covered employment.

➤ Benefits Equity and Group Integrity

The bill enhances benefit equity between members of the Hybrid Plan and Highway Patrolmen's Retirement System by changing the definition of final average salary to be the same for both Plans.

Plan design changes made by the bill to the Hybrid Plan do not affect the benefits equity between the Hybrid Plan and Defined Contribution Plan because contributions to both Plans remain the same.

➤ Competitiveness

No impact.

➤ Purchasing Power Retention

The one-time post-retirement payment continues the Board's policy of maintaining purchasing power of retirement benefits through ad hoc increases when such are affordable. However, a one-time payment equal to 50% of current monthly benefits is not anticipated to fully maintain the purchasing power of retirement benefits whenever price inflation exceeds the amount of the post-retirement payment.

➤ Preservation of Benefits

The 3% increase in final average salary helps to preserve the benefits of the members of the Hybrid Plan and the Highway Patrolmen's Retirement Plan. The lack of a general salary increase for members has the obvious effect on current income but also has a secondary effect on members' retirement benefits. Since no salary increase occurs the member's final average salary does not grow as expected and therefore their lifetime retirement benefit is also reduced. The proposal in this bill would offset the lack of a salary increase on the retirement benefit.

➤ Portability

No impact.

➤ Ancillary Benefits

No impact.

Funding Policy Issues

➤ Actuarial Impacts

The bill would 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 provision of the bill which provides for a one-time post-retirement payment creates new cash flow needs, but the impact is minimal.

Administration Issues

➤ Implementation Issues

The bill will require changes to the method or system for tracking members' final average salary.

➤ Administrative Costs

The bill will have only a minimal impact on administrative resources.

➤ Needed Authority

The bill appears to provide sufficient levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

➤ Cross Impact on Other Plans

No impact.

➤ Employee Communications

Employee communications will be needed to explain the one-time post-retirement payment, if applicable, and the changes to final average salary.

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

Sincerely,

Leslie L. Thompson, FSA, MAAA, EA
Senior Vice President and Actuary

Melanie Walker, JD

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cc: Wally Malles, ASA, MAAA, EA

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