

# NDPERS BOARD MEETING

## Agenda

**Bismarck Location:**  
WSI Boardroom  
1600 East Century Avenue  
**Fargo Location:**  
WSI Meeting Room  
2601 12<sup>th</sup> Ave SW

**April 16, 2009**

**Time: 8:30 AM**

### **I. MINUTES**

- A. March 19, 2009

### **II. GROUP INSURANCE**

- A. Diabetes Management Program Update – Jayme Steig (Information)
- B. Disease Management – Sparb (Board Action)
- C. BCBSND – Sparb (Information)
- D. COBRA Update – Sparb (Information)
- E. Consultant Services – Sparb (Board Action)
- F. BCBS 2008 Claims Review – Bryan (Information)
- G. Surplus/Affordability Update – Bryan (Information)

### **III. DEFERRED COMPENSATION**

- A. 457 Provider Training – Deb (Board Action)

### **IV. RETIREMENT**

- A. Other Post Employment Benefit Plans (OPEB) Actuarial Valuation – Sparb (Board Action)

### **V. MISCELLANEOUS**

- A. Legislative Update – Sparb (Information)
- B. Quarterly Consultant Fees – Jim (Information)
- C. Executive Director Review - Chairman Strinden (Board Action)
- D. IFEBP – Sparb (Board Action)
- E. Financial Hardship #2009-001DC – Kathy (Board Action)
- F. SIB Agenda

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Any individual requiring an auxiliary aid or service must contact the NDPERS ADA Coordinator at 328-3900, at least 5 business days before the scheduled meeting.



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# Memorandum

**TO:** NDPERS Board

**FROM:** Kathy & Sparb

**DATE:** April 9, 2009

**SUBJECT:** Diabetes Management Program Update

Jayme Steig, Clinical Coordinator Provider with Frontier Pharmacy Services, will be at the meeting to present an overview on the clinical data obtained thusfar and its indications with regard to the Diabetes Management Program.



## Program Update & Data Overview

Data current as of 3/15/09

Jayne Steig, PharmD, RPh

Frontier Pharmacy Services, Inc

Clinical Coordinator Provider

1-877-364-3932

[jsteig@frontierpharmacyservices.com](mailto:jsteig@frontierpharmacyservices.com)

# Data Overview

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- NDPERS patient population
- Data from program launch to March 15, 2009
- Data is taken from that entered by providers into the MMS Assurance software system
  - No additional claim data, etc has been analyzed yet

# Patient Profile

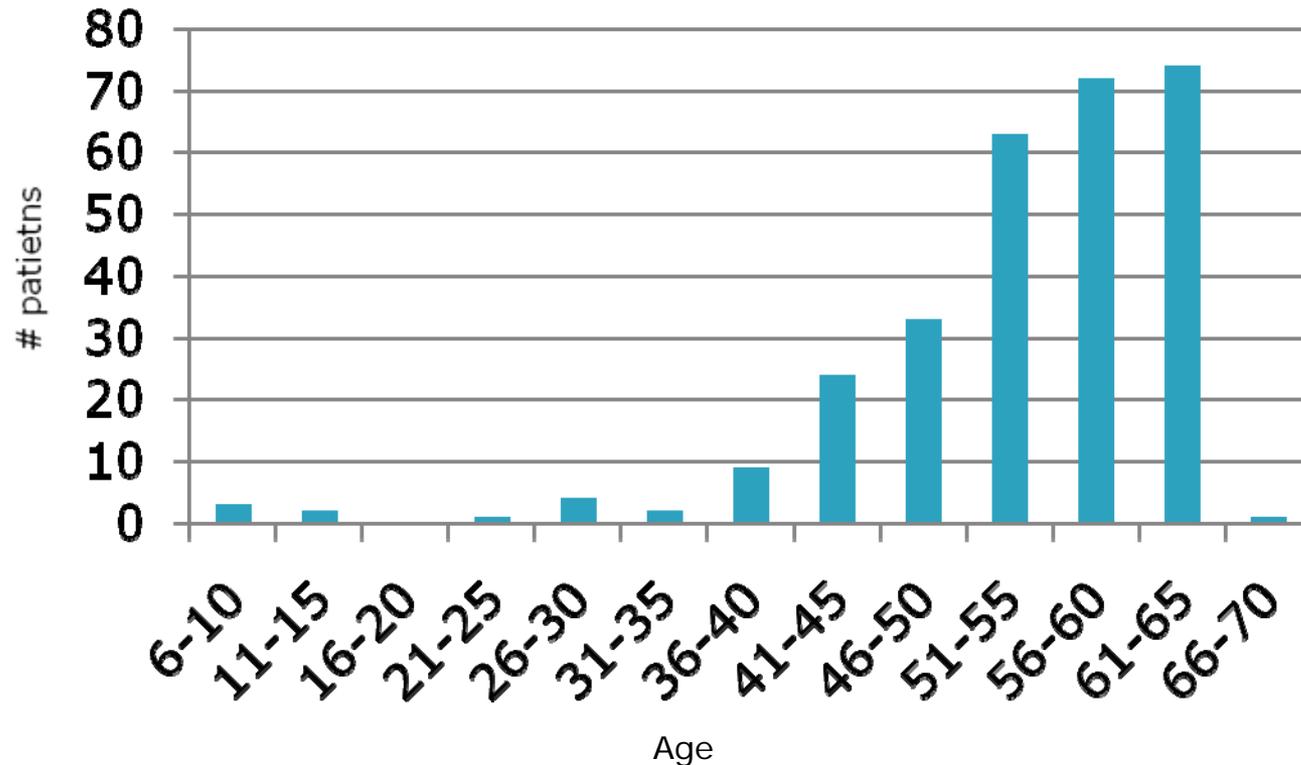
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- 288 patients with documentation
  - 831 encounters
- 53% female
- Average age = 53.7
- 5.7 medical conditions
- 9.8 medications
- 2.6 drug therapy problems

# Patient Age

- Range 6 to 70 yrs, Std Dev 9.6

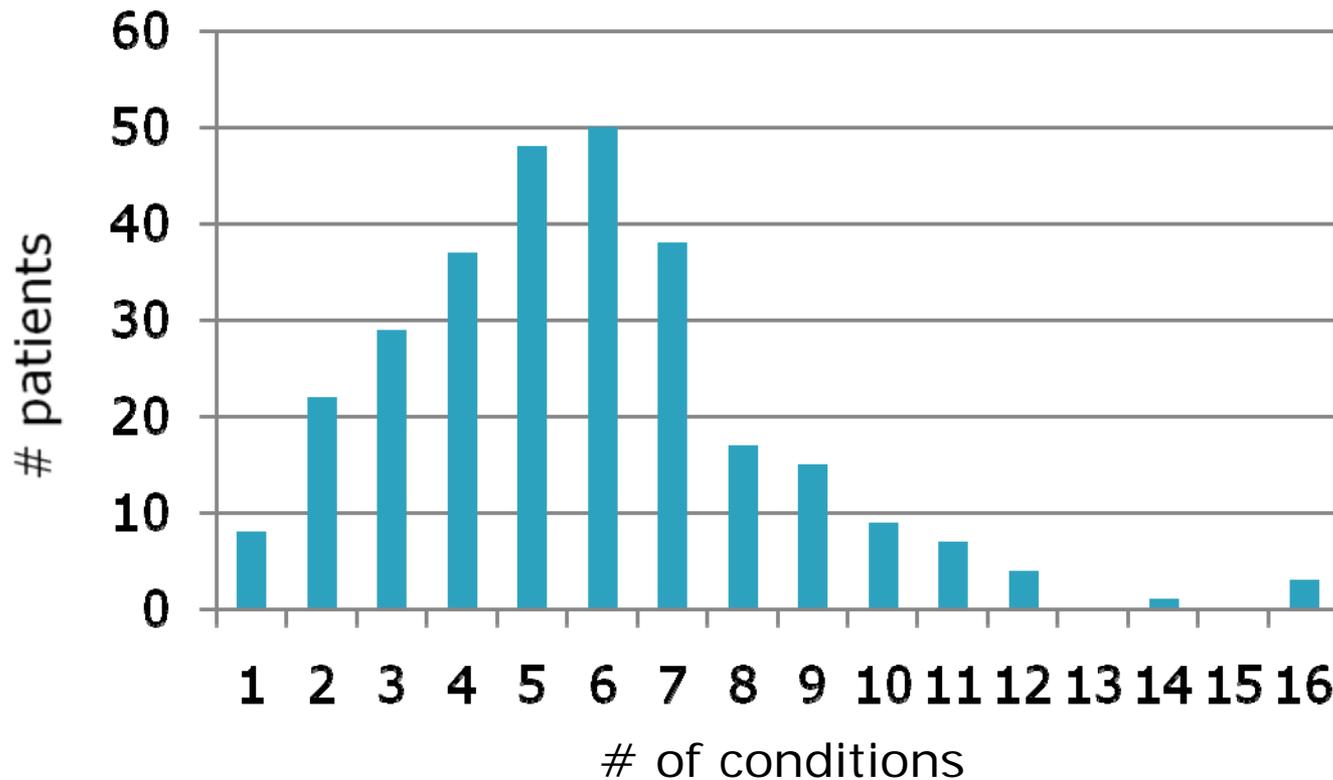
## Age Distribution



# Medical Conditions

- Range 1-16, 1641 total

## Medical Condition Distribution



# Most Frequent Co-morbidities

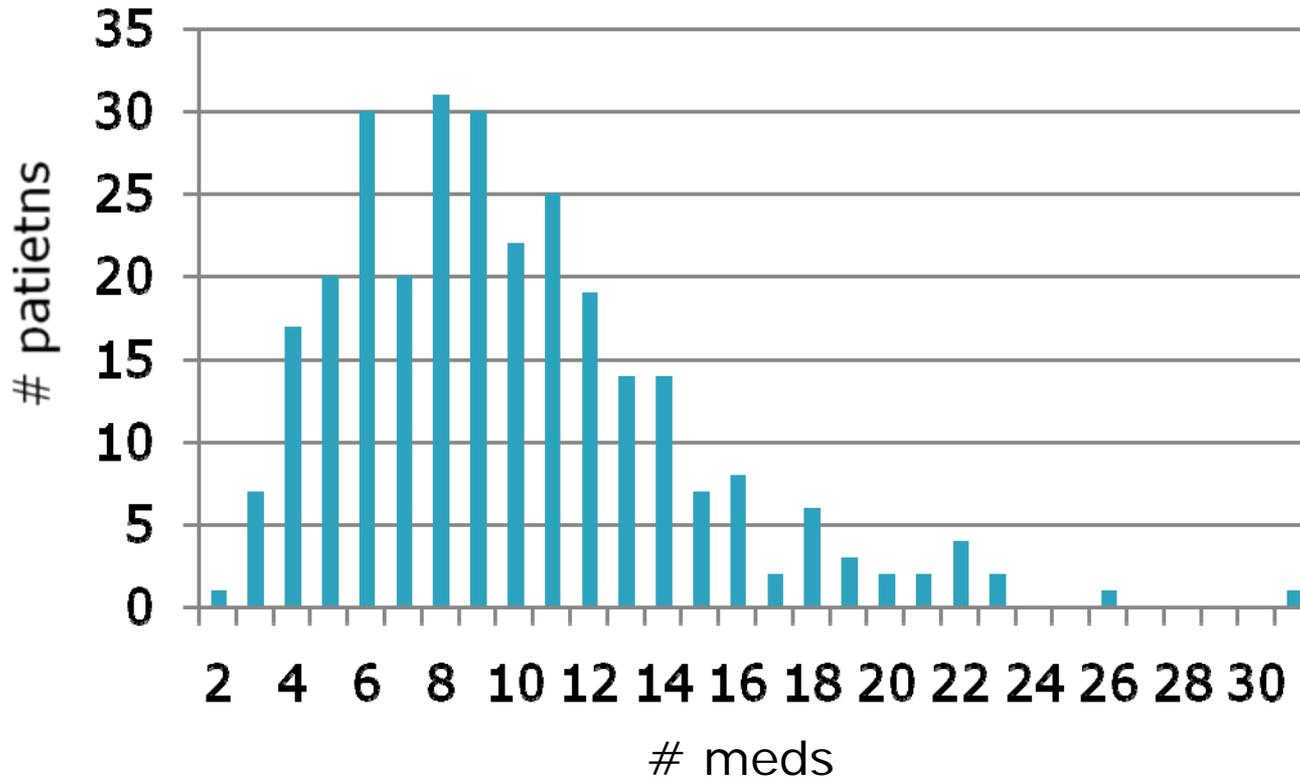
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1. Hyperlipidemia
2. Hypertension
3. Prevent MI/Stroke
4. General Health –  
Vitamins
5. Immunization
6. Depression
7. Hypothyroidism
8. GERD
9. Osteoporosis
10. Pain
11. Allergic Rhinitis
12. Insomnia

# Medications

- Range 2-31, Std Dev 9.6, 2736 total

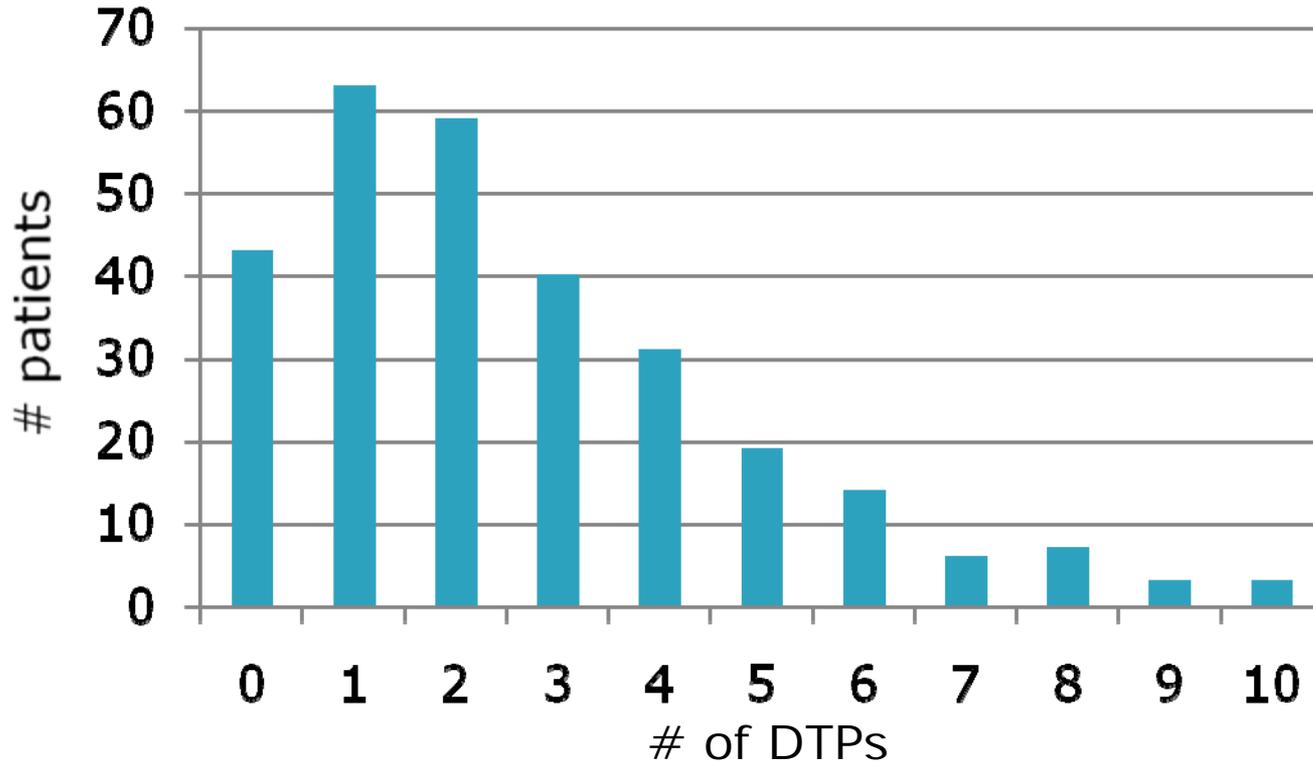
## # of Medications Distribution



# Drug Therapy Problems

- Range 0-10, 759 total

## DTP Distribution



# Drug Therapy Problem Type

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- Indication
  - Unnecessary Drug Therapy – 4%
  - Needs Additional Therapy – 36%
- Effectiveness
  - Ineffective drug – 6%
  - Dosage too low – 21%
- Safety
  - Adverse drug reaction – 12%
  - Dosage too high – 4%
- Compliance
  - Noncompliance – 17%
- TOTAL = 100%

# Most common DTPs associated by medication condition

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- Needs additional therapy – diabetes
- Dose too low – diabetes
- Need additional therapy – immunization
- Noncompliance – diabetes
- Dose too low – hypertension
- Noncompliance – hyperlipidemia
- Needs additional therapy – hyperlipidemia
- Adverse drug reaction – hyperlipidemia
- Adverse drug reaction – hypertension
  
- Accounted for 54% of all DTP

# Most common DTPs associated by medication

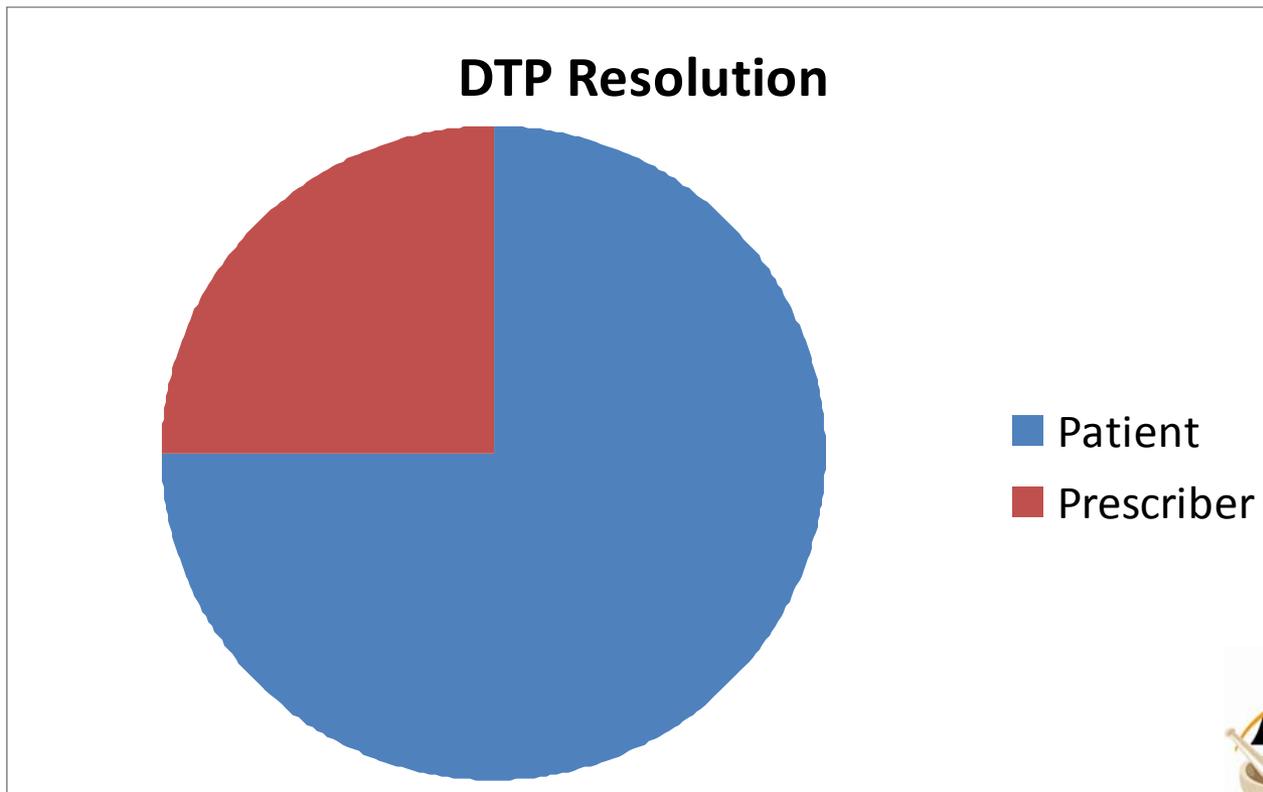
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- Needs additional therapy – vaccine
- Need additional therapy – ACE inhibitor
- Dose too low – insulin
- Noncompliance – glucometer testing
- Dose too low - biguanides
- Needs additional testing– glucometer testing
- Noncompliance – Statins
- Compliance - biguanides
  
- Accounted for 25% of all DTP

# DTP Resolution

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- 75% through patient
  - 25% through physician contact



# Clinical Outcomes

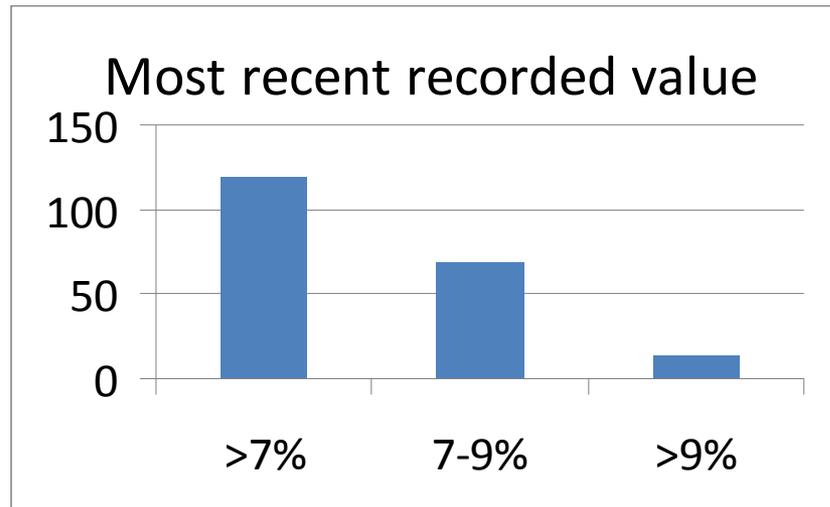
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- Hemoglobin A1C (goal < 7%)
- Systolic (goal 90-130)
- Diastolic (goal 60-80)
- Total cholesterol (goal 50-200)
- LDL (goal 60-100)
- HDL (goal 40-100)
- Triglycerides (goal 50-150)

# Hemoglobin A1C

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- 203 patients with recorded values



- 157 with multiple values
  - 1<sup>st</sup> value avg = 7.36
  - Last value avg = 7.05
    - $P < 0.0005$ , Std Dev 1.38, 1.11

# Hemoglobin A1C

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- 49.7% of patients with multiple values had their initial result  $>7\%$ 
  - Avg A1C of these patients = 8.24
- 33.3% of those patients are now within range
  - Avg A1C of all out of range patients on most recent result = 7.59
    - $P < 0.0005$ , Std Dev 1.37, 1.12

# Systolic

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- 254 patients with recorded values
  - 51% have most recent value at goal
- 226 have multiple values
  - 1<sup>st</sup> visit avg = 133
  - Most recent avg = 131
  - Std dev 16.8, 17.3
- 49% did not initially meet goal
  - 24% now meet goal
  - 1<sup>st</sup> value avg = 147
  - Most recent avg = 141
    - $P < 0.0005$ , Std dev 11.7, 16.7

# Diastolic

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- 253 patients with recorded values
  - 61% have most recent value at goal
- 224 have multiple values
  - 1<sup>st</sup> visit avg = 78
  - Most recent avg = 78
  - Std dev 10.1, 10.5
- 45% did not initially meet goal
  - 45% now meet goal
  - 1<sup>st</sup> value avg = 85.4
  - Most recent avg = 81.9
    - $P < 0.0005$ , Std dev 10, 10.9

# Total Cholesterol

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- 144 patients with recorded values
  - 81% have most recent value at goal
- 89 have multiple values
  - 1<sup>st</sup> visit avg = 174.4
  - Most recent avg = 172.7
  - Std dev 44,38
- 25% did not initially meet goal
  - 45% now meet goal
  - 1<sup>st</sup> value avg = 234
  - Most recent avg = 207
    - $P < 0.0005$ , Std dev 27, 41

# LDL

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- 140 patients with recorded values
  - 64% have most recent value at goal
- 87 have multiple values
  - 1<sup>st</sup> visit avg = 94
  - Most recent avg = 94
  - Std dev 32,29
- 52% did not initially meet goal
  - 31% now meet goal
  - 1<sup>st</sup> value avg = 105
  - Most recent avg = 99
    - $P < 0.0005$ , Std dev 40,33

# HDL

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- 149 patients with recorded values
  - 57% have most recent value at goal
- 99 have multiple values
  - 1<sup>st</sup> visit avg = 43.2
  - Most recent avg = 45.8
  - Std dev 19,23
- 56% did not initially meet goal
  - 15% now meet goal
  - 1<sup>st</sup> value avg = 37.1
  - Most recent avg = 41
    - $P < 0.0005$ , Std dev 22,26

# Triglycerides

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- 141 patients with recorded values
  - 55% have most recent value at goal
- 81 have multiple values
  - 1<sup>st</sup> visit avg = 219
  - Most recent avg = 215.5
  - Std dev 234,347
- 59% did not initially meet goal
  - 25% now meet goal
  - 1<sup>st</sup> value avg = 299
  - Most recent avg = 287
    - $P < 0.0005$ , Std dev 277,436

# Other Indicators

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- Weight – 238 w/multiple values
  - 1<sup>st</sup> value avg = 224
  - Last value avg = 225
- BMI – 121 w/multiple values
  - 1<sup>st</sup> value avg = 34.8
  - Last value avg = 34.8
- Activity level – 53 w/multiple values
  - 1<sup>st</sup> value avg = 1.8
  - 2<sup>nd</sup> value avg = 2.1
    - $P < 0.0005$

# Other Indicators

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- Alcohol – 28 w/multiple values
  - 1<sup>st</sup> value avg = 2.2
  - Last value avg = 2.4
- Tobacco – 121 w/multiple values
  - 1<sup>st</sup> value avg = 34.8
  - Last value avg = 34.8
- Caffeine– 35 w/multiple values
  - 1<sup>st</sup> value avg = 2.4
  - 2<sup>nd</sup> value avg = 2.3

# Surveys

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- Diabetes Awareness and Quality of Life surveys administered at baseline, 6 months, 12 months
  - Results indicate that patients are entering program believing they have a good awareness of their diabetes and an acceptable quality of life
- Program satisfaction survey administered at 6 & 12 months
  - Show high patient satisfaction

# Surveys - examples

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## ○ Diabetes Awareness

1. Describe diabetes and what it does to my body

Agree	57.73%
Disagree	3.15%
Strongly Agree	23.97%
Strongly Disagree	0.95%
Unsure	10.73%

8. Take my medications and administer injections as instructed

Agree	31.55%
Disagree	0.63%
Strongly Agree	59.62%
Strongly Disagree	0.63%
Unsure	2.52%

11. Ask my pharmacist questions I may have about diabetes

Agree	47.95%
Disagree	5.05%
Strongly Agree	37.85%
Strongly Disagree	0.63%
Unsure	4.73%

12. Voice concerns to my doctor about my diabetes

Agree	43.22%
Disagree	1.89%
Strongly Agree	47.00%
Strongly Disagree	0.63%
Unsure	2.84%

# Surveys - examples

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## ○ Patient Satisfaction, n=90

10. The provider's efforts to help you improve your health or stay healthy

2	1.11%
3	2.22%
4	23.33%
5	70.00%

9. Ability of the provider to answer your questions about your medications

2	1.11%
3	1.11%
4	13.33%
5	80.00%

15. The educational materials provided

2	1.11%
3	1.11%
4	21.11%
5	72.22%

7. The provider's efforts to solve problems that you have with your medications

2	1.11%
3	2.22%
4	14.44%
5	78.89%

**EXCELLENT PROGRAM- THANK YOU!**

I hope this program will continue after the 1st year.

Replace weight loss materials with materials that allow for & support health at any size.

**THIS IS AN AMAZING PROGRAM AND IT HAS HELPED ME IMMENSLEY.**

Wish this program would have been available 10-20 years ago.



# Health Care Costs

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- As interpreted by providers in the MMS system
- Expenses – 306 occurrences
  - 77% involved additional drug costs
  - 23% Additional lab, office visits recommended
- Savings – 330 occurrences
  - 30% involved saving drug costs
  - 70% involved saving other health care interventions

# Health Care Costs - Expenses

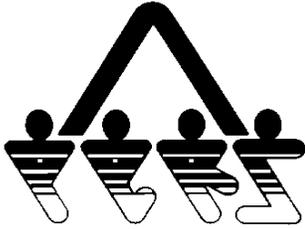
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- \$11-25/90 days drug costs – 21%
- \$26-50/90 days drug costs – 21%
- \$51-100/90 days drug costs – 18%
- <\$10/90 days drug costs – 18%
- Additional lab costs – 11%

# Health Care Costs - Savings

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- Office visit saved– 52%
- \$101-200/90 days drug costs – 9%
- \$51-100/90 days drug costs – 7%
- \$11-25/90 days drug costs – 4%
- 26-50/90 days drug costs – 11%



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb & Kathy  
**DATE:** April 8, 2009  
**SUBJECT:** Disease Management

At this meeting we need to make a final decision relating to the Health Dialog disease management services for the 2009-2011 biennium. The following is a summary of our considerations to date:

1. In the renewal information submitted in August, the cost of maintaining Health Dialog was quoted as \$4.18 per contract per month, spread over all non-Medicare contracts. This would be a total cost of about \$1.8 million for the biennium.
2. When we developed our proposed premiums for the health plan that were submitted to the Governor we did not include Health Dialog for several reasons:
  - a. We recently implemented the disease management program with the North Dakota Pharmacy Association pursuant to the directive in HB1433.

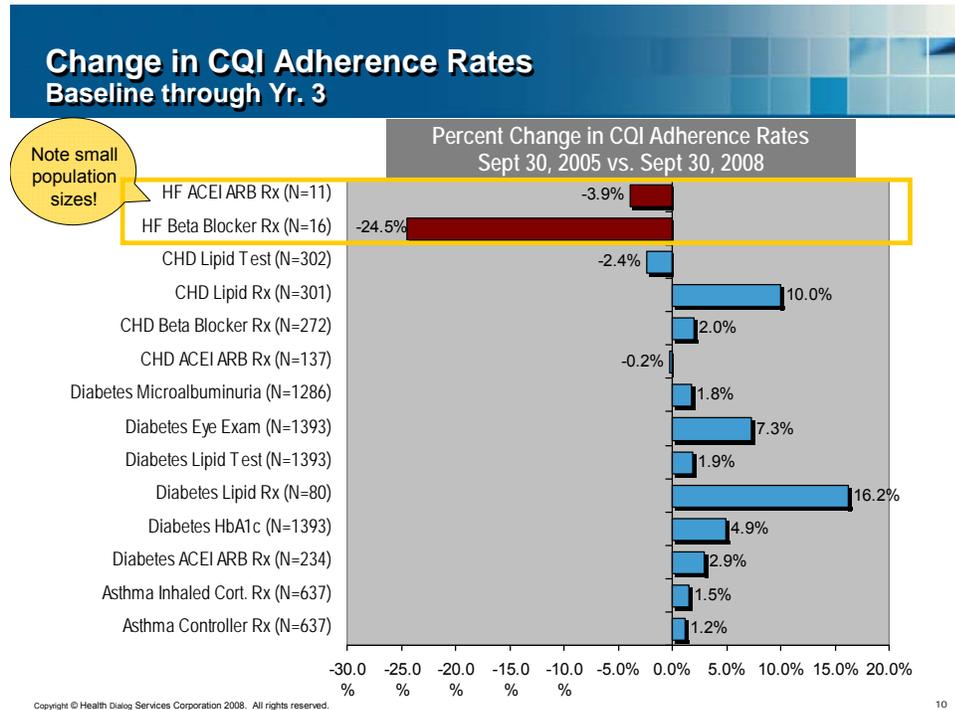
- b. BCBS reported at the June 2008 Board meeting their intention to implement a new program called the AMH that would manage:
- Chronic diseases, such as diabetes, obesity, hypertension and coronary artery disease dominates as morbidity drivers in health.
    - Care provided with AMH principles
      - Diabetes patients have significant reductions in CV risk
      - CHF patients have 35% fewer hospital days
      - Asthma and diabetes patients are more likely to receive appropriate therapy.
  - Cost effective management of chronic disease will have biggest influence on long term costs.
- c. The overall rate of increase was already significant and adding Health Dialog would have increased it further (by a little over .5%)

At the last meeting you heard a presentation from Health Dialog, our existing disease management vendor. They gave us a progress report and noted the following in their executive summary:

## Executive Summary

- The MyHealthConnection program for NDPERS continues to produce strong outcomes through Year 3.
- NDPERS Year 3 estimated medical cost savings (Oct. 2007 – Sept. 2008):
  - Total savings = **\$3.25 million**
  - Savings PCPM = **\$13.56**
  - Year 3 total return **PCPM: 3.6:1**
- Since the launch of the program through Year 3, members have improved their adherence in 10 of the 14 clinical quality measures.

They also provided the following in relation to their efforts:



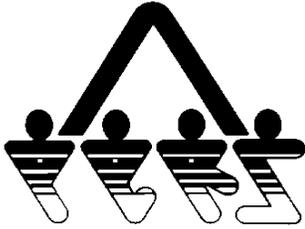
You will note that while the information from Health Dialog indicates their program is cost effective, it also shows that their primary interventions relate to diabetes, asthma, coronary artery disease and congestive heart failure. Our new program with the NDPHA is specifically for diabetes interventions and the new BCBS AMH program relates to all of these areas. Consequently, continuing Health Dialog would mean that its efforts would overlap the other two programs which are either legislatively required or proposed as part of the BCBS renewal. Dr. Rice will be at the Board meeting to give you an update on the AMH (now called the MediQHome Program) (refer to information attached). He will also be available to answer any questions you may have

### **Staff Recommendation**

In recognition of the cost to continue Health Dialog, that this expense was not included in the premiums submitted to the Governor, and the duplication of services between the BCBS program and those provided by Health Dialog, staff would suggest we discontinue Health Dialog effective July 1, 2009.

### **Board Action Requested**

To determine if Health Dialog should be continued or not.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** April 8, 2009  
**SUBJECT:** BCBS

At the last meeting Mr. Tim Huckel, interim BCBS CEO and Mr. Dennis Elbert, BCBS Board Chair, attended our meeting via teleconference. As part of our discussion they offered PERS the opportunity to share our thoughts with their Board for its consideration as they chart the future course for BCBS. Attached, for your review, is a letter to the BCBS board chair and interim CEO that discusses some of the issues PERS has reviewed during the last year.

## Board Action Requested

Decide if PERS would like to send a letter to BCBS and if so, should it be the attached letter, a modified letter or another letter.

DATE

Mr. Tim Huckle, Interim CEO  
BCBSND

Mr. Dennis Elbert, Chair  
BCBSND Board

Thank you for attending our March NDPERS Board meeting. Pursuant to our discussion at that meeting PERS is sending this letter. The PERS Board appreciates this opportunity to share its thoughts with the BCBS Board concerning our relationship. In this letter we would like to discuss our expectations concerning the relationship and our assessment of BCBS's performance.

### **Expectations**

PERS expectations are:

- 1) Affordable health insurance premiums that increase at a reasonable rate.
- 2) Staff incentives aligned with the needs of the employers/members.
- 3) Quality customer service.
- 4) Effective and affordable program administration.
- 5) PERS investments in BCBS should be matched with results.
- 6) A synergistic partnership.

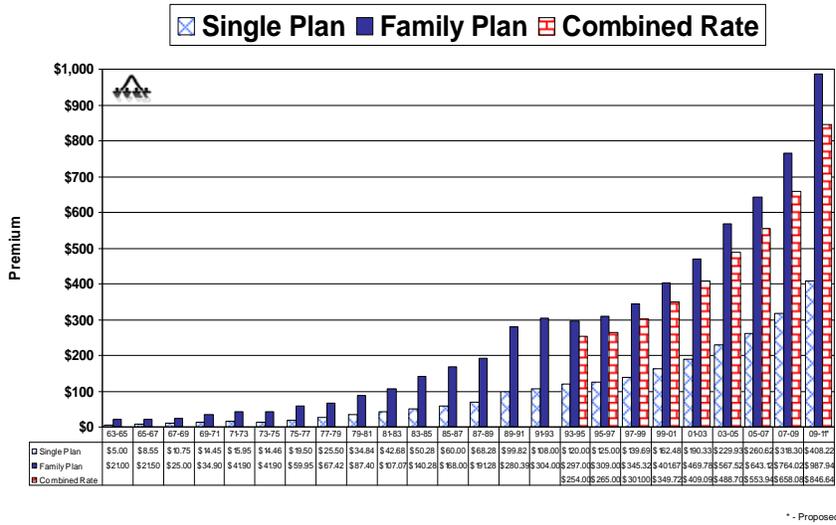
### **Performance Assessment**

The following is our assessment of BCBS's performance as it relates to each expectation.

- 1) Affordable health insurance premiums that increase at a reasonable rate.**

BCBS has failed in this area in recent years. We would note the following results.

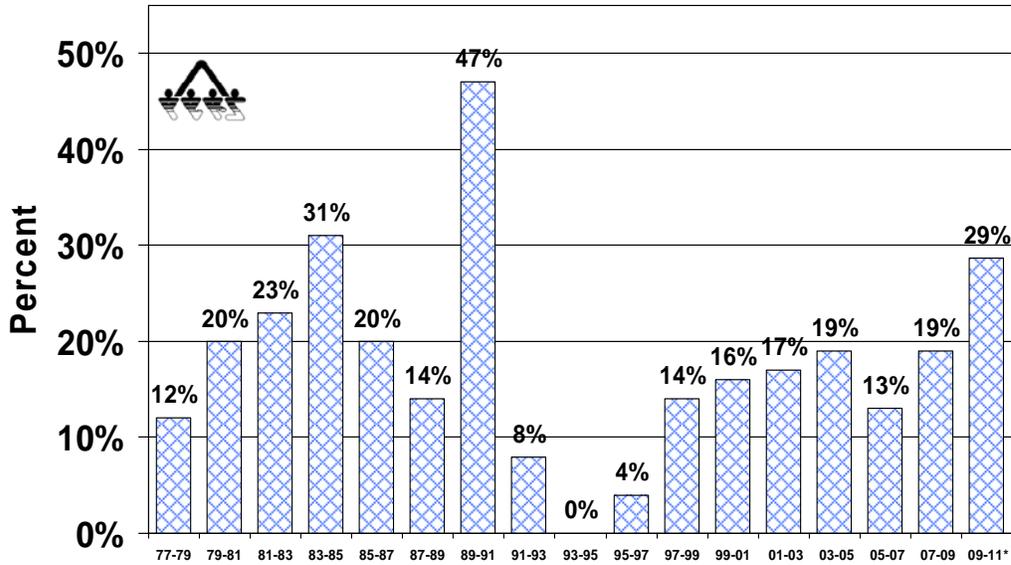
# Active State Billed Health Insurance Premium



\* - Proposed

# State Health Premium Percentage Increase From Previous Biennium

(Excludes Plan Design Changes)

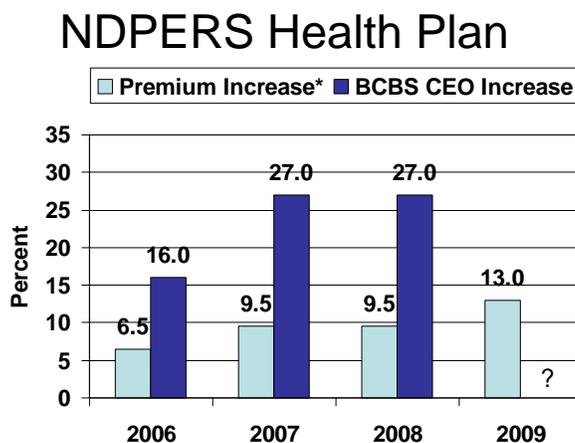


\* - Proposed

As the above show, the rates of increase in the PERS plan have been substantial (77-91 and 96-11). We also note that the coverage provided has decreased substantially, that is deductible's, co-insurance and co-payments have all increased. Clearly these are not reasonable increases. BCBS needs to be more effective in this area.

## 2) Staff incentives that support affordable health care

BCBS incentives are not aligned with the members' needs. While there are many reasons for the above increases, we believe that BCBS should align its business goals, objectives and incentives to providing its clients affordable premiums. We believe this may not be the case. It has also been reported that the BCBS Board has authorized the following compensation increases for the CEO:



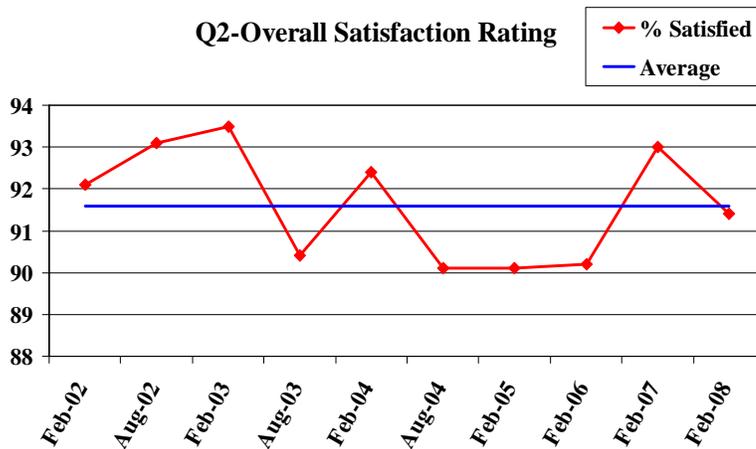
\* - Premium increase does not reflect benefit reductions.

As you will note, the PERS health insurance premiums went up 19% in the 2007- 2009 biennium (9.5+9.5). This increase was a serious hardship for our participating employers and members. In addition, benefits were reduced. The above also shows that the BCBS board increased CEO compensation 54% during this same period. We would suggest that the performance rewarded by the BCBS board was not providing affordable health coverage to your clients, but rather your organization's success in passing along high premium increases. PERS would further suggest that affordable health coverage should be the primary performance reward. Our observation is that it appears there is a significant disconnect between the BCBS board's incentive/reward system and the needs of PERS and its members. Maintaining affordable health insurance coverage should be the primary goal of BCBS and around which the corporate incentives are built. In so doing, BCBS would align itself with the needs of its clients.

### 3) Quality customer service

BCBS has successfully met this expectation. PERS regularly reviews the performance of BCBS in meeting our customer's expectations. We would note the following:

## NDPERS Member Satisfaction Survey



Clearly your organization has been successful in this area. We would also like to acknowledge the work of the BCBS staff that supports PERS. They are dedicated, hard working and very responsive to our requests and needs.

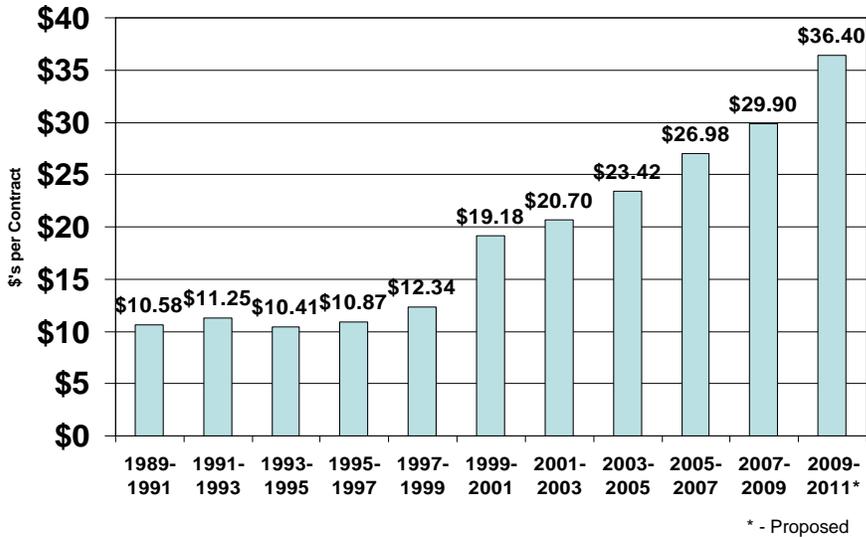
### 4) Effective and affordable program administration

BCBS has provided effective program administration but PERS administrative costs have been going up at an unsustainable rate.

First of all, PERS believes that BCBS does an effective job in administering the PERS plan. Our review of your claims payment procedures have been positive; your technical capabilities are sound and your recordkeeping accurate. In this regard, BCBS is doing a good job.

Concerning the second area, PERS notes that your organization's administrative fees have grown at a rate equal to or greater than health costs. We feel that our investments in your organization's administrative capabilities should contribute to and result in your ability to deliver affordable health premiums. In other words, there should be a positive return on this investment, especially incremental investments. This is not the case, and PERS notes the following history of administrative/retention charges:

## BCBS Administration NDPERS Health Plan



This table shows:

- BCBS administrative/retention expenses were stable from 1989-1999.
- Since 1999, BCBS has aggressively increased administrative/retention expenses.
- From 1999 to 2007 administrative/retention expenses have increased 242%.
- As proposed for 2009-2011, BCBS administrative/retention expenses would increase by 21.7%.
- As proposed, the administrative expenses will increase from 1999 to 2009 by 295%.
- PERS has not requested any major new initiatives in terms of workload over the above period.
- Staffing levels assigned to PERS by BCBS have not changed dramatically over any of the above periods.
- HIPAA compliance was paid with earlier increases.

In recognition of the above, the following observations are drawn:

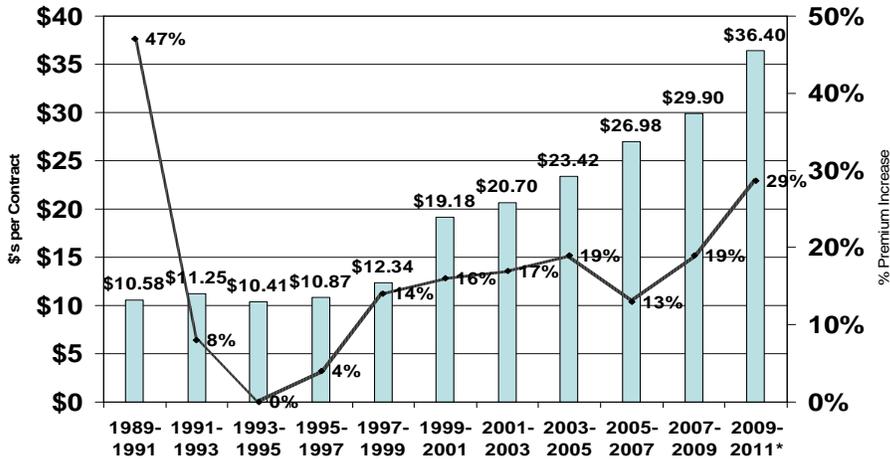
- The BCBS increases have not been based upon workload.
- BCBS appears to be implementing a business decision relating to PERS administrative fees that is unrelated to costs.
- We continue to question where BCBS intends to go with administrative expenses. This rate of increase is not sustainable for PERS

Our conclusion is that your administrative fee increases are not sustainable for our participating employers or members, and BCBS needs to address with us its intentions for the future.

**5) PERS Investments in the BCBS organization should produce results**

*PERS investment in BCBS is not returning a positive result for our members in terms of premiums.* PERS has observed the following relationship between our investments in BCBS administrative/retention expenses, gains and premium increases (please note the bars are the administrative expenses and the line is the health premium increase):

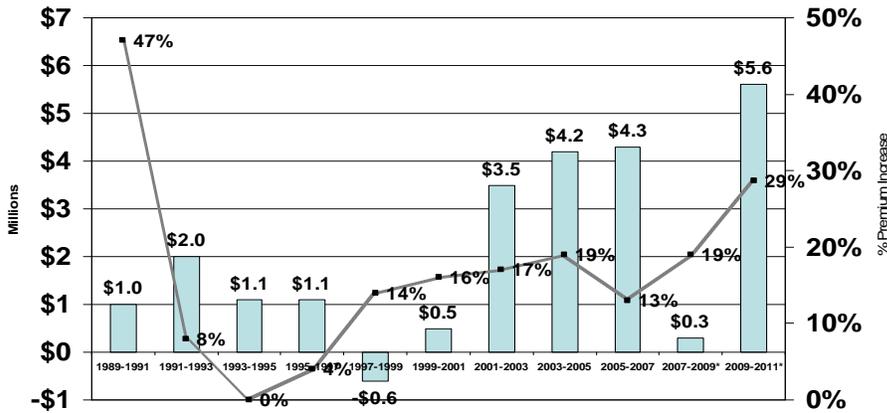
# BCBS Administration NDPERS Health Plan



\* - Proposed

## BCBS Gain

Includes: Risk Charge, Gain Sharing, Interest, and Losses  
NDPERS Health Plan



\* - Estimated

The above tables show:

1. That health premiums have increased substantially as we have been asked to invest more in BCBS administration and while your gains on our contract have gone up (2001 to 2008 vs. 1991 to 1998).
2. That the increased investment by PERS in BCBS administrative/retention costs has not resulted in any positive ROI as premiums have continued to rise (2001 to 2008 vs. 1991 to 1998)..
3. BCBS gains or profits appear to increase more dramatically with higher premium increases and in fact the present system seems to reward BCBS with larger gains for large increases in PERS premiums (2001 to 2008 vs. 1991 to 1998).

4. In addition to the above, increases in the coverage or scope of benefits has diminished in the last several biennium's as a result of increased out of pocket costs that were incurred to reduce the increase in premiums.

The following observations can be drawn from the above:

1. It seems there is a negative relationship between PERS investments in BCBS administration/retention and premiums. Specifically the more PERS pays in administration/retention results in higher premiums by BCBS rather than lower premiums.
2. Additional investments by PERS in BCBS have yielded no positive ROI in terms of premiums and in fact it seems to be a negative ROI.
3. It appears that BCBS gains are larger with higher premium increases than lower increases which appear to be creating an incentive for BCBS not to control premium costs.
4. Based upon the above information BCBS is not as effective at controlling employer costs as it was previously.
5. BCBS does not deliver the value it used to in terms of administrative/retention costs, gains and control of health care premiums.
6. BCBS must reverse this relationship so it is consistent with the employers and clients needs

## **6) A synergistic partnership**

*While there is synergy in administration it terms there is little in terms of overall costs.*

PERS believes that together we have been able to provide our members sound administration and customer service. Our conclusion is based upon our surveys and administrative reviews. We further believe that our administrative resources complement each other.

PERS also believes that BCBS is vested with a unique responsibility to provide affordable health premiums. This occurs because your membership represents such a significant percent of the marketplace. PERS participation in BCBS adds to the market presence by adding our 54,000 members. PERS has awarded our business to BCBS for many reasons. But, one significant reason is our desire to add our market share to BCBS's market share to provide you more leverage in the marketplace to insure our participating employers and members affordable health premiums with reasonable increases. Our experience does not seem to indicate any sort of synergistic benefit to our members in terms of health premiums or increases. PERS will need to continue to review our approach and if there is no synergism with this model, we will need to identify and examine other models.

## Summary

In summary we find:

<b>Expectation</b>	<b>Performance</b>
Affordable health insurance premiums that increase at a reasonable rate.	BCBS has failed in this area in recent years.
Staff incentives that support affordable health care.	BCBS incentives are not aligned with the members' needs.
Quality customer service.	BCBS has successfully met this expectation.
Effective and affordable program administration.	1) BCBS has provided effective program administration. 2) PERS administrative costs have been going up at an unsustainable rate.
PERS investments in BCBS should be matched with results.	PERS investment in BCBS administrative capabilities is not returning a positive return on investment for our members in terms of premiums.
A synergistic partnership.	1) Administratively, we do find a benefit. 2) Our experience does not seem to indicate any sort of synergistic benefit to our members in terms of premiums or rates of increase.

Based upon the above, BCBS has, in our view, the following strengths:

- 1) You have a very good staff that is very competent, good to work with and are very responsive.
- 2) You deliver good customer service in terms of responding to questions and to our members' administrative needs.
- 3) Your administrative system (claims processing, payment, etc) are efficient, accurate and timely.

Your organization is not meeting our needs in the following areas:

- 1) You are not delivering affordable health care premiums.
- 2) Your rates of increase for premiums are high and unsustainable.
- 3) Your administrative fees are increasing at a rate that is also unsustainable.
- 4) Your organization's incentives do not align with the needs for affordable health care.

We would suggest the following:

- 1) BCBS needs to maintain its strengths in customer service and administration.
- 2) BCBS needs to further align its organizational goals with the needs of its members.
- 3) BCBS needs to align its internal incentives with the members' needs and not just the organization's needs.
- 4) BCBS must direct its organizational resources and market share to insure that its premiums will not increase at the same high rates in the future as they have in the past. Instead the company must lower its rates to a reasonable level.

Thank you for providing us this opportunity to share our thoughts with you. We would welcome the opportunity to discuss this further if you so desire.

Sincerely,

NDPERS

c: BCBS Board of Directors

DRAFT



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** April 8, 2009  
**SUBJECT:** COBRA - Stimulus Bill Provision - Update

As we discussed at the last meeting, the Stimulus Bill recently passed by Congress and signed by the President contained a provision for the federal government to pay 65% of the COBRA premium for someone who was involuntarily discharged. Generally the process is that once a COBRA participant is determined to be eligible, the health plan will charge them 35% of the premium amount and charge the employer 65%. The employer will then deduct this from their payroll taxes on Form 941 to recover the funds.

In reviewing options for implementation, we asked Mike Mullen to review the law to determine if PERS as a multi-employer plan could be viewed as the employer and do the Form 941 filing. Attached is his memo. Based upon this review, staff feels the most efficient and best method for our participating employers is for PERS to do the filing instead of trying to bill each of our employers for the 65% premium and then having them pay us and recover their payment from the federal filing (please note that PERS will pay BCBS the 65% each month and then be looking for the money to be reimbursed by the federal government). We recognize that in taking this position, we may find that the IRS could take a more conservative interpretation, and as a result not pay us directly. If this is the case, then we may have to bill our employers for this amount and then they would deduct it from their payroll taxes.



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OFFICE OF ATTORNEY GENERAL

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Wayne Stenehjem  
ATTORNEY GENERAL

April 9, 2009

Mr. Sparb Collins  
Executive Director  
North Dakota Public Employees Retirement System  
PO Box 1657  
Bismarck ND 58502-1657

Dear Sparb:

You ask if NDPERS or OMB is authorized to file IRS form 941 to obtain a payroll tax credit from IRS for all NDPERS "assistance eligible individuals" who have obtained special COBRA coverage.

Under the Stimulus Law, an "assistance eligible individual," generally an individual who has been involuntarily terminated from the covered employee's employment during the period between September 1, 2008, and December 31, 2009, "shall be treated for purposes of any COBRA continuation provision as having paid the amount of such premium if such individual pays... 35 percent of the amount of such premium..." American Recovery and Reinvestment Act of 2009 [Stimulus Law], Title III--Premium Assistance for COBRA Benefits, § 3001(a)(1)(A). A payroll tax credit for the balance of the COBRA premium (65 percent) is given to the employer of an assistance eligible individual or other designated person. Specifically, the payroll tax credit may be claimed by: (1) a multiemployer group health plan, (2) an employer maintaining a group health plan that is subject to Federal COBRA continuation coverage requirements or that is self-insured, or (3) an insurer providing coverage under a plan not included in (1) or (2). Only this person is eligible to offset its payroll taxes by the amount of the subsidy. US Department of Labor, "FAQs For Employees About COBRA Premium Reduction Under ARRA," Q.12 found at – <http://www.dol.gov/ebsa/faqs/faq-cobra-premiumreductionEE.html> (last viewed April 8, 2009) (emphasis added).

Under the Stimulus Law, "group health plan" has the meaning given to that term in section 607(1) of ERISA. Stimulus Law, § 3001(a)(10). Section 607(1) of ERISA defines a group health plan as an employee welfare benefit plan providing medical care to participants or beneficiaries directly or through insurance, reimbursement, or otherwise. 29 U.S.C. § 1167(1). An employee welfare benefit plan is any plan, fund, or program established by an employer, union, or both that provides a wide variety of benefits including "medical, surgical, or hospital care or benefits, or benefits in the event

Mr. Sparb Collins  
April 9, 2009  
Page 2

of sickness, accident, disability, death... ." 29 U.S.C. § 1002(1) (emphasis added). The term "employer" means any person acting directly as an employer, or indirectly in the interest of an employer, in relation to an employee benefit plan; and includes a group or association of employers acting for an employer in such capacity. 29 U.S.C. § 1002(5) (emphasis added).

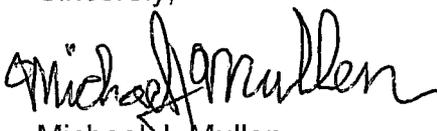
Based on the foregoing, it appears that the NDPERS'S uniform group health plan is a "group health plan" for purposes of the Stimulus Law, and that NDPERS is an "employer" because it is a "person acting... indirectly in the interest of... a group... of state [state and political subdivision] employers... ." Consequently, it appears that NDPERS is a person eligible to submit a claim for a payroll tax credit under IRS form 941.

It could be argued that because NDPERS is a state agency and the Office of Management and Budget files IRS form 941 on behalf of all state agencies, that OMB could file the IRS form 941 for the COBRA payroll tax credit on behalf of NDPERS for all participants in the uniform group health plan, including political subdivisions that participate in the NDPERS health plan. The more conservative approach, however, would be for NDPERS to file for the COBRA payroll tax credit.

This is provisional advice based on a review of the Stimulus Law, and guidance provided on the websites of the Department of Labor and IRS through April 8, 2009. As stated, there is no guidance expressly addressing a multiemployer fully insured group health plan. Should any additional guidance be forthcoming, the advice provided here may need to be modified.

Let me know if you have any further questions regarding this matter.

Sincerely,

  
Michael J. Mullen  
Assistant Attorney General

vkk  
cc: Sheila Peterson, OMB  
Aaron Webb, Assistant Attorney General



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** April 9, 2009  
**SUBJECT:** Gallagher Benefit Services (GBS) Renewal

Our agreement with GBS, our group insurance consultant, expires this June 30. They have one more year under our bid arrangement where the Board can continue the agreement subject to agreement on the rates and that their work efforts meet expectations. I asked GBS to submit to us their proposed rates for the upcoming year for your consideration. Attached is their response. As you will note they are not proposing any increase. Staff would note that work efforts during the last year have met all expectations.

Alternatively if the Board does not approve the continuation, we would go out for a general bid this year. If you do approve, please note we will be going out for a general bid next year.

## **Staff Recommendation**

Approve continuing our relationship with GBS for the next year with no increase in rates.

## **Board Action Requested**

To approve continuing the GBS relationship.



April 8, 2009

Mr. Sparb Collins  
Executive Director  
North Dakota Public Employees Retirement System  
400 East Broadway Suite 505  
Bismarck, ND 58502-1657

Re: Consulting and Actuarial Services Contract

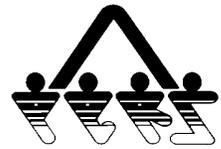
Dear Sparb:

We are pleased to advise that we will maintain current time charge rates for the remaining one year of our contract through June 30, 2010. Please let me know if you have any questions or wish to discuss further.

Sincerely,

A handwritten signature in black ink that reads "William F. Robinson, Jr." with a stylized flourish at the end.

William F. Robinson, Jr.  
Area Vice President  
bill\_robinson@ajg.com



# Memo

To: NDPERS Board  
From: Bryan T. Reinhardt  
Date: 2/26/2009  
Re: 2008 BCBS Claims Review

---

Each year we conduct a claims review to check the accuracy of BCBS claims processing. In February, I traveled to the BCBS corporate office in Fargo to review a sample of 100 NDPERS claims. A list of the claim specifications is attached. Note that this is not a random sample of all claims, but a select sample from specific areas that we felt needed to be looked at. I focused on claims incurred in the year 2008. BCBS did a good job of having everything ready for me and having staff available to answer my questions and explain the claims payment process. The BCBS audit resulted in more errors than the other recent reviews. These errors are detailed below:

## Review Findings:

1. A claim was paid in full when it was actually a Worker's Compensation claim and should have been reduced by the WSI payment amount.
2. A claim was rejected as a duplicate when it was not.
3. A claim was denied because "Inquiry not returned by subscriber" when the letter actually was returned.
4. A mammogram was not paid by the plan when it should have been and instead the charges went to the member's deductible.
5. A blood sugar lab test at an out-of-network provider was not covered, but should have been paid at the basic level of coverage.
6. Billed unbundled lab tests were paid at the individual rate instead of 'combined' into a panel of tests resulting in \$7.99 overpayment.
7. Billed unbundled lab tests were paid at the individual rate instead of 'combined' into a panel of tests resulting in \$8.55 overpayment.
8. A full claim was denied as 'experimental' when only one line item should have been.

9. Two providers billed the same service on the institutional and professional claim systems, BCBS didn't catch this and paid both.

Four of the five Fecal Occult tests, two of the five cholesterol tests, two of the five Blood Sugar tests, and three of the five PSA tests were paid at 100% under the screening benefits. These tests are not covered in full under the wellness benefit unless there is a 'routine' or 'preventative' diagnosis. Note that if there is a 'routine' diagnosis, other tests are not covered at all. If a member does go to a doctor for an annual physical or some other service that is 'not allowed', they do not receive the benefits of any BCBS or NDPERS fee schedule or discounts. This is true even if the provider is a PPO or EPO provider. All five of the HPV vaccine claims for Gardasil were covered. BCBS notes that the new screening benefit proposed for 7/1/09 will also need the 'routine' or 'preventative' diagnosis? Yes, anything that comes in as preventive will apply to the \$200 Preventive Screening maximum. Once the maximum is met, cost share will apply. Keep in mind that wellness services such as Mammograms and Paps process under their own specific benefits and do not apply to the \$200 Preventive Screening maximum. Other non-covered tests as noted above will now be covered, correct? Yes How about an office visit if one is billed with the tests (we do cover this office visit under the EPO now)? Yes, the office visit will apply to the \$200 Preventive Screening maximum.

There are situations where the provider can receive more than the BCBS allowed amount. This is when the member has additional insurance or it is a Worker's Compensation claim. Here is an example from the audit and the response from BCBS:

Office Visit (08-219-07019/00)

Service Charge: \$162 Service BCBS Allowed Amount (Profile Amount): \$88.03

Had NDPERS been the only coverage:

Greater than Allowed Discount: \$73.97, PPO Discount (5%): \$4.40, Member Copayment: \$25.00, NDPERS Plan Paid: \$58.63 for a **total paid of \$83.63**

With WSI paying:

WSI paid: \$68.04, so the remaining charges are \$93.96 since this is over what we would have paid if Prime that claim looks like:

Greater than Allowed Discount: \$5.93, PPO Discount (5%): \$4.40, Member Copayment: \$25.00, NDPERS Plan Paid: \$58.63 for a **total paid of \$151.67**

I question why the NDPERS plan paid anything on this claim since the WSI payment, the PPO Discount and the Member's copayment covered the allowed amount of \$88.03?

BCBS notes:

As secondary payor, we are responsible to process on the balance left over after the prime insurance has paid up to the amount we would pay a prime payor. The allowed amount he is referring to is OUR allowed amount, not WC's, we cannot tell WC what to allow, we can only apply benefits to the amount that is our responsibility after they have paid.

This example brings up another question. Notice that there is a PPO discount while secondary on this claim. There is a note on the 07-005-040-0002-00 NDPERS Benefit Matrix that states, "After 7/1/2001, discounts are waived only if secondary to Medicare". There is another statement at 01-031-000-0034-00 that says, "The PPO program, in terms of provider reimbursement, applies only to services for which PERS is primary payor. As a result, PPO provider reimbursement discounts are not available when PERS is secondary payer." These two instructions conflict. When NDPERS is secondary now and the left over amount is less than the profile amount, there is no PPO discount taken. Is this true in all cases or only those where the primary coverage had a discount? Could you show me where the PPO contract states that there will only be a discount when the plan is Primary and not for all payments? BCBS notes:

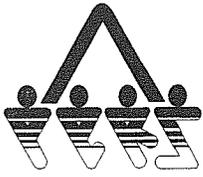
*The language within the matrix has been updated to match. When processing claims as secondary, the prime payment is calculated with the PPO discounts, high charges and costshares, etc. Our responsibility as secondary payor is to pay up to what we would pay as prime payor. Since the PPO discount is taken into consideration on the prime calculation, it is used in secondary processing because without it our secondary responsibility would be greater. When the balance due from the prime contract is greater than what we would have paid as prime payor, we would take the excess dollars and apply them in order of PPO discount first and costshares second.*

If you have any questions, I will be available at the Board meeting.

NDPERS 2008 Audit of 1/2008 – present BCBS Claims Processing

1. Blue Cross PPO (3 claims)
2. Blue Shield PPO (3 claims)
3. Blue Shield EPO (3 claims)
4. Blue Shield Copayment (1 claim)
5. Blue Shield Chiropractic (3 claims)
6. Blue Cross COB (5 claims)
7. Blue Cross COB (2 with Medicare Member age 65+)
8. Blue Cross COB (2 with Medicare Member age <65)
9. Blue Cross COB (3 with Workers Compensation)
10. Blue Shield COB (5 claims)
11. Blue Shield COB (2 with Medicare)
12. Blue Shield COB (3 with Workers Compensation)
13. Blue Cross Supplemental Payments (1 claim)
14. Blue Cross Psych (3 claims)
15. Blue Shield Psych (3 claims)
16. Blue Cross CDU (3 claims)
17. Blue Shield CDU (3 claims)
18. Blue Shield PAP (5 claims)
19. Blue Shield Mammograms (5 claims)
20. Blue Shield EPO Fecal Occult Test (5 claims)
21. Blue Shield EPO Cholesterol Screening (5 claims)
22. Blue Shield EPO Blood Sugar Testing (5 claims)
23. Blue Shield EPO PSA Testing (5 claims)
24. Blue Shield Service performed by a LRD (3 claims)
25. Prescription Drug Formulary (2 claims)
26. Prescription Drug Non-Formulary (2 claims)
27. Prescription Drug for "Gardasil" (HPV drug) (5 claims)
28. Prescription Drug Medicare Part-D claims (5 claims)
27. Blue Cross Ambulance (1 claim)
28. Blue Cross C-Sections (1 claim)
29. Blue Shield Physical Therapy (1 claim)
30. Blue Cross 'Denied Experimental' (2 claims)

Total 100 Claims



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M E M O R A N D U M

**TO:** NDPERS BOARD  
SPARB COLLINS, NDPERS  
KATHY ALLEN, NDPERS  
*BTR*

**FROM:** BRYAN T. REINHARDT

**DATE:** March 16, 2009

**SUBJECT:** GROUP MEDICAL PLAN - SURPLUS/AFFORDABILITY UPDATE

Here is the February surplus projection and affordability analysis for the NDPERS group medical plan. The plan made it through the 2005-2007 biennium and is in the last quarter of the 2007-2009 biennium.

Net premium sent to BCBS in July 2007 was \$13,406,858. In July 2005 it was \$10,853,370. There are now 25,066 contracts on the NDPERS Health Plan, covering 56,000 people. The NDPERS health plan ended up with 23,580 contracts in June, 2005. There were 22,947 contracts in June, 2003, and 21,792 in July 2001.

The 2003 - 2005 biennium settlement is on account at BCBS with a balance of over \$2,051,000. The remaining \$14.3 million was used to buy down premiums for the 05-07 biennium. This amount is at BCBS and receiving interest.

The first settlement for the 2005 - 2007 biennium transferred \$3,672,932 to the NDPERS account. In addition refunds came in greater than IBNR claims, so this biennium has a cash balance of \$334,949. The final settlement for this biennium is June 2009.

The projection for the 2007 - 2009 biennium shows total surplus at -\$2.7 million. If there is a surplus, we share 50/50 in the first \$3.0 million surplus with BCBS. This will make future growth in the gain for NDPERS difficult. The plan is fully insured by BCBS, so the June 30, 2009 NDPERS estimated gain is \$0. IBNR for this estimate is at \$17.0 million and cash to pay claims is at \$17.0 million.

If you have any questions or you should need anymore information, please contact me.

- 
- |                                    |                                  |                                   |
|------------------------------------|----------------------------------|-----------------------------------|
| • FlexComp Program                 | • Retirement Programs            | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees               | • Deferred Compensation Program   |
| • Dental                           | - Highway Patrol                 | • Long Term Care Program          |
| • Vision                           | - National Guard/Law Enforcement |                                   |
|                                    | - Judges                         |                                   |
|                                    | - Prior Service                  |                                   |
|                                    | - Job Service                    |                                   |

# NDPERS - ESTIMATED SURPLUS PROJECTION: 2007-2009 BIENNIUM

February, 2009

The following exhibit summarizes the estimated surplus for the NDPERS group medical plan at the end of the 2007-2009 biennium. The estimate has been updated to include account activity through February, 2009.

1) Preliminary Underwriting Gain/Loss for the 2007-2009 Biennium		(\$3,413,500)
2) Wellness Program Expenses		\$0
3) Estimated Underwriting Gain/Loss for the 2007-2009 Biennium		(\$3,413,500)
4) Projected Interest Accumulation (adjusted for usage as premium)		\$0
5) Refunds and Settlements		
11/30/07 Perform Rebate	(Included as claim rebates)	\$340,034
02/29/08 Perform Rebate	(Included as claim rebates)	\$385,151
05/31/08 Perform Rebate	(Included as claim rebates)	\$328,973
08/31/08 Perform Rebate	(Included as claim rebates)	\$354,915
11/31/08 Perform Rebate	(Included as claim rebates)	\$395,601
02/28/09 Perform Rebate	(Included as claim rebates)	\$299,111
04/30/09 Perform Rebate		\$350,000
06/30/09 Perform Rebate		\$350,000
EPO Settlement Payments 7/07 - 6/08	(No target settlements)	\$0
6) Total Estimated Surplus Held by BCBS		(\$2,713,500)
7) BCBS Portion of Surplus (Half upto \$1,500,000)		\$0
8) PERS Portion of Surplus Held by BCBS		(\$2,713,500)
9) Cash Reserve Account Balance		\$0
Future Contributions:		\$0
Future Interest:		\$0
Total		\$0
10) NDPERS Wellness Accounts		
My Health Connection		\$215,259
Employer Based Wellness		\$12,268
Wellness Benefit Program		(\$1,714)
SubTotal		\$225,814
Total Adjusted for Usage		\$0
11) Total Estimated Funds Available to PERS on June 30, 2009		\$0

NDPERS - Projected Underwritten Experience for the 2007-2009 Biennium

February, 2009

MONTH	PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE \$29.90/Con	NET PREMIUM	INTEREST ON CASH	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS(1)	ESTIMATED GAIN / LOSS
Jul-07	\$13,406,857	\$0	\$13,406,857	\$725,404	\$12,681,453	\$0	\$11,181,703	\$0	\$11,181,703	\$1,499,750
Aug-07	\$13,465,027	\$308	\$13,465,336	\$728,334	\$12,737,002	\$8,720	\$12,168,983	\$0	\$12,168,983	\$576,739
Sep-07	\$13,608,834	\$6,878	\$13,615,713	\$736,018	\$12,879,695	\$32,149	\$10,950,326	\$0	\$10,950,326	\$1,961,518
Oct-07	\$13,577,219	\$7,321	\$13,584,540	\$734,822	\$12,849,718	\$44,159	\$13,051,322	\$0	\$13,051,322	(\$157,445)
Nov-07	\$13,584,631	(\$6,547)	\$13,578,084	\$735,480	\$12,842,604	\$38,392	\$13,273,868	\$0	\$13,273,868	(\$392,872)
Dec-07	\$13,568,728	\$5,601	\$13,574,329	\$734,553	\$12,839,776	\$40,841	\$12,519,882	\$0	\$12,519,882	\$360,735
Jan-08	\$13,582,515	\$3,071	\$13,585,586	\$735,121	\$12,850,465	\$39,733	\$13,716,692	\$0	\$13,716,692	(\$826,494)
Feb-08	\$13,622,093	\$1,733	\$13,623,826	\$737,155	\$12,886,671	\$33,024	\$12,233,302	\$0	\$12,233,302	\$686,393
Mar-08	\$13,620,486	(\$2,685)	\$13,617,801	\$737,125	\$12,880,676	\$25,258	\$13,268,143	\$0	\$13,268,143	(\$362,209)
Apr-08	\$13,626,826	\$1,915	\$13,628,741	\$738,171	\$12,890,570	\$21,216	\$13,257,885	\$0	\$13,257,885	(\$346,099)
May-08	\$13,623,071	\$1,798	\$13,624,869	\$737,992	\$12,886,877	\$17,341	\$12,574,622	\$0	\$12,574,622	\$329,596
Jun-08	\$13,644,570	(\$2,237)	\$13,642,333	\$739,128	\$12,903,205	\$27,130	\$12,831,735	\$30,000	\$12,861,735	\$68,600
Jul-08	\$13,611,228	(\$4,554)	\$13,606,675	\$737,693	\$12,868,982	\$33,409	\$13,830,981	\$280,000	\$14,110,981	(\$1,208,591)
Aug-08	\$13,622,766	\$25,091	\$13,647,857	\$738,052	\$12,909,805	\$29,181	\$12,576,538	\$290,000	\$12,866,538	\$72,448
Sep-08	\$13,750,651	\$3,180	\$13,753,831	\$745,168	\$13,008,663	\$29,890	\$12,958,827	\$400,000	\$13,358,827	(\$320,274)
Oct-08	\$13,718,593	\$26,952	\$13,745,546	\$744,480	\$13,001,065	\$21,426	\$13,210,843	\$550,000	\$13,760,843	(\$738,351)
Nov-08	\$13,728,459	\$9,639	\$13,738,098	\$745,497	\$12,992,601	\$19,221	\$11,808,155	\$1,000,000	\$12,808,155	\$203,668
Dec-08	\$13,733,851	\$566	\$13,734,417	\$745,557	\$12,988,860	\$13,638	\$13,857,012	\$1,700,000	\$15,557,012	(\$2,554,513)
Jan-09	\$13,810,474	(\$5,691)	\$13,804,783	\$749,862	\$13,054,921	\$9,258	\$9,384,366	\$4,100,000	\$13,484,366	(\$420,187)
Feb-09	\$13,811,340	(\$5,048)	\$13,806,292	\$749,952	\$13,056,340	\$6,142	\$2,795,548	\$8,650,000	\$11,445,548	\$1,616,935
Mar-09	\$13,811,340	\$0	\$13,811,340	\$749,473	\$13,061,867	\$7,663	\$0	\$0	\$13,839,932	(\$770,402)
Apr-09	\$13,811,340	\$0	\$13,811,340	\$749,473	\$13,061,867	\$7,871	\$0	\$0	\$13,903,396	(\$833,658)
May-09	\$13,811,340	\$0	\$13,811,340	\$749,473	\$13,061,867	\$7,532	\$0	\$0	\$13,966,861	(\$897,462)
Jun-09	\$13,811,340	\$0	\$13,811,340	\$749,473	\$13,061,867	\$7,162	\$0	\$0	\$14,030,325	(\$961,296)
BIENNIAL										
TOTAL	\$327,963,582	\$67,292	\$328,030,874	\$17,773,456	\$310,257,418	\$520,357	\$241,450,733	\$17,000,000	\$314,191,247	(\$3,413,472)

(1) Future Months are Estimated based on Projection from NDPERS.



**North Dakota  
Public Employees Retirement System**  
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**Sparb Collins**  
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# Memorandum

**TO:** PERS Board  
**FROM:** Deb Knudsen  
**DATE:** April 8, 2009  
**SUBJECT:** 457 Provider Training for 2009

As you know, staff conducts annual training meetings for 457 providers pursuant to the contract we have with each provider company. Specifically, the contract reads:

“...All sales representatives must complete an initial orientation of the deferred compensation program within one year of beginning service and all sales representatives must complete ongoing training orientation every two years as prescribed by the Retirement Board...”

Last year NDPERS staff conducted a pilot training program utilizing the “Go To Meeting” website which allowed our out of town representatives the option of attending our training from a remote location. The group that we presented this option to were quite receptive and indicated that they favored this approach for routine meetings.

As the time again approaches when we will need to plan our training meetings, staff finds that there is not a lot of new material to present. Therefore, the training will consist of review materials similar to last year. As this training has a duration of approximately one hour for each of the two segments offered, we discussed optional methods to provide the training in the most cost effective and time efficient manner. What we devised is a multi-faceted approach.

First, we have approximately 14 new provider representatives. As this is a group of individuals new to our program, we felt that there should be a separate program tailored for this group. This program would facilitate their work between NDPERS and our members and introduce them to NDPERS staff, who they will have an ongoing working relationship with.

Second, the group we are to meet with this spring is approximately 187 existing representatives who have already attended at least one if not several of NDPERS

sponsored trainings and who work in 23 different towns throughout the state. This group has been cooperative in attending sessions, but has asked if we could provide them with alternatives to attending in person. In reviewing our resources, we have found that a telephone bridge can be set up to accommodate up to 40 individuals provided all 40 lines are available on the date we schedule the training. As we offer the training in both the spring and the fall, we believe that we could accommodate this year's larger group using "Go To Meeting" as well. However, as this is just review, another option would be to offer them the opportunity to view the training by clicking on our website and then sending in a written certification to document that they had completed the review and satisfied the contractual requirement. The difference between the "Go To Meeting" option and the web option would be that the representative would not be able to receive continuing education credits if he or she participated via the website.

Staff feels that this is a "win-win" proposal, as it allows representatives who have completed their initial training more flexibility in satisfying the contractual requirements, but does not eliminate their opportunity to receive continuing education credit if they wish to receive it.

Staff proposes this as an extension of the pilot program we utilized last year and seeks the NDPERS Board's approval to proceed.

**Board Action Required**

Determine whether or not to approve the proposed changes to the 457 Provider Training Program.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** April 9, 2009  
**SUBJECT:** OPEB Valuation

The Government Accounting Standards Board (GASB) released Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 43) in April 2004 and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans (GASB 45) in June 2004. These two statements establish uniform accounting and financial reporting standards for state and local governments related to post-employment benefits other than pensions (OPEB). NDPERS must follow these reporting standards for our fiscal year ended June 30, 2009. This requires an actuarial valuation for the implicit subsidy applicable to our pre-Medicare retirees who are participating in our health plan.

This requires:

1. Calculate the implicit subsidy for the fiscal year July 1, 2006 through June 30, 2007
2. Prepare an actuarial valuation following GASB 43 and GASB 45 standards for the fiscal year ending June 30, 2009
3. Prepare the necessary material for the Comprehensive Annual Financial Report to comply with GASB OPEB reporting and disclosure requirements
4. Provide general consulting on GASB 43 and GASB 45 compliance

GBS did our previous valuation (refer to attached).

At this time we need to determine if we should again ask GBS to do this work or if we should bid this out. If we request GBS to do the work, I will ask them for an estimate for you to review at the next meeting.

# **NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

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## **ACTUARIAL VALUATION OF RETIREE HEALTH PLANS AS OF JULY 1, 2007**

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*September 17, 2007*

**TABLE OF CONTENTS**

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	<u>Section</u>
<b>Executive Summary .....</b>	<b>1</b>
<b>Summary of GASB Statements No. 43 and No. 45 .....</b>	<b>2</b>
<b>Valuation Results .....</b>	<b>3</b>
<b>Trend Rate Sensitivity .....</b>	<b>4</b>
<b>10-Year Summary of Expected Cashflows .....</b>	<b>5</b>
<b>Summary of Other Actuarial Cost Methods .....</b>	<b>6</b>
<b>Summary of Plan Provisions.....</b>	<b>7</b>
<b>Summary of Actuarial Assumptions .....</b>	<b>8</b>
<b>Census Summary .....</b>	<b>9</b>

DRAFT

## Introduction

### *Scope*

This report presents the results of the actuarial valuation of the North Dakota Public Employee Retirement System (“NDPERS”) post-retirement benefit plan (other than pensions) as of July 1, 2007. The purpose of the report is to:

- Develop the expected plan liability and annual expense assuming implementation on July 1, 2007; and
- Document actuarial assumptions and plan provisions.

### *Plans Valued*

The retiree benefits included in this actuarial valuation are the fully-insured Dakota Plan for early retirees and Dakota Retiree Plan for Medicare-eligible retirees. These plans cover both medical services and prescription drugs.

### *Applicability of Accounting Standards*

The Governmental Accounting Standards Board (GASB) released Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (“GASB 43”) in April 2004 and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans (“GASB 45”) in June 2004. These two statements establish uniform accounting and financial reporting standards for state and local governmental entities related to post-employment benefits other than pensions (“OPEB”).

The required effective dates for implementation of the standards by an employer varies depending on their total annual revenue. For the purposes of defining the effective date of the standards, GASB 43 and 45 use the terms *phase 1 government*, *phase 2 government*, and *phase 3 government*. The following table shows the definition of the three phases for plans and employers and their respective effective dates. The employer is required to report under the standards no later than the first fiscal year beginning after the date shown.

<b>Phase</b>	<b>Total Annual Revenues</b>	<b>Plans</b>	<b>Employers</b>
1	\$100,000,000 or more	12/15/05	12/15/06
2	\$10,000,000 - \$100,000,000	12/15/06	12/15/07
3	Less than \$10,000,000	12/15/07	12/15/08

### *Data*

We relied on the accuracy of the data supplied to APEX by NDPERS for this project. We have assumed the census provided to APEX represents all potential retirees and their dependents who can receive post-retirement medical benefits. Please note we may have adjusted some of the underlying census data records to correct duplicate records or to correct what “appeared” to be inconsistent or illogical dates. In our opinion, the changes we made are not material in the aggregate and, for purposes of this report, did not warrant a delay in the release of these results.

### Summary of Results

GASB allows the use of one of the following actuarial cost methods for the valuation: Unit Credit, Entry Age Normal, Attained Age, Aggregate, Frozen Entry Age, or Frozen Attained Age. These methods can be amortized on either a level dollar or a level percentage of earnings basis. The results in this report assume the use of the Unit Credit method with amortization on a level percentage basis because we believe the Unit Credit method provides the most logical correlation between accruing and expensing of retiree benefits. (Note: The Unit Credit method is the only method allowed under the Financial Accounting Standards Board's ("FASB") corresponding statement, *Statement of Financial Accounting Standards No. 106* ("FAS106")).

The valuation results were developed assuming two different discount rates. Each discount rate is determined based on the expected rate of return for investments used to finance the payment of benefits. For an unfunded plan, the investment return assumption is based on the expected return on employer assets which generally consist of short-term liquid investments. For a funded plan, the investment return assumes benefits are provided through a trust or similar arrangement; contributions are consistently greater than or equal to the Annual Required Contribution, and the plan's assets are the sole source for the payment of benefits. The investment return for the funded plan is based on the expected return on the plan's assets which generally consist of long-term, less liquid investments. Overall, the long-term investment return for a funded plan will be greater than an unfunded plan. Currently, the NDPERS is considered to be an unfunded plan since there are no assets and retiree benefits are paid annually on a cash basis.

### Actuarial Accrued Liability

The Actuarial Accrued Liability ("AAL") is the present value of all future expected postretirement medical payments and administrative costs which are attributable to past service. Depending on how they fund the retiree benefit, we have determined the AAL as of July 1, 2007 to be:

	Unfunded	Funded
Accrued Actuarial Liability	\$30,733,000	\$23,771,000

### Annual Required Contribution

The Annual Required Contribution ("ARC") is the annual expense recognition of the post-retirement benefit plan cost for the fiscal year. For the year ending June 30, 2008, we have projected the following ARC values:

	Unfunded	Funded
Normal Cost	\$2,656,000	\$1,864,000
Interest on Normal Cost	\$133,000	\$149,000
Amortization	\$1,172,000	\$1,299,000
Interest on Amortization	\$59,000	\$104,000
Total ARC	\$4,020,000	\$3,416,000

***Pay-As-You-Go Expense***

The Pay-As-You-Go Expense is the net expected cost of providing retiree benefits. This expense reflects the expected cost of providing the medical/Rx benefit to retirees less retiree contributions. The expected Pay-As-You-Go Expense for the period July 1, 2007 – June 30, 2008 is \$1,542,000.

***Net OPEB Obligation***

The Net OPEB Obligation (“NOO”) is the cumulative difference between the ARC and the employer’s contributions to the plan. Since this is considered to be the transition period, the NOO is equal to zero.

However, we have estimated that if NDPERS continues paying benefits on a pay-as-you-go basis (Unfunded) or contributes an amount up to the ARC (Funded), the NOO at June 30, 2008 will be:

	<b>Unfunded</b>	<b>Funded</b>
<b>NOO – Beginning of Year</b>	\$0	\$0
<b>Annual OPEB Cost</b>	\$4,020,000	\$3,416,000
<b>Employer Contributions</b>	\$1,542,000	\$3,416,000
<b>Increase in NOO</b>	\$2,478,000	\$0
<b>NOO – End of Year</b>	\$2,478,000	\$0

***Caveat***

The results of this analysis are based on assumptions related to current and future retiree benefit costs. Actual results may differ from expected. In some cases, these differences may be material. Therefore, we recommend continued monitoring of actual versus expected results for the purpose of determining whether any or all of the assumptions should be modified.

*Actuarial Certification*

North Dakota Public Employees Retirement System retained the APEX Management Group, a division of Gallagher Benefit Services, Inc., to perform a valuation of its required disclosure information under Statement No. 45 of the Governmental Accounting Standards Board (“GASB 45”). The calculations derived for this report have been made on a basis consistent with our understanding of GASB 45. The valuation has been conducted in accordance with generally accepted actuarial principles and practices. The results of this report are to be used solely for the purpose of meeting employer financial accounting requirements.

In preparing the results of this report, we have relied on employee data, plan information and claims data provided by the North Dakota Public Employees Retirement System. While the scope of the engagement did not call for us to perform an audit or independent verification of this information, we reviewed it for reasonableness. The accuracy of the results presented in the report is dependent upon the accuracy and completeness of the underlying information.

---

Thomas M. Skurat, FSA, MAAA  
Consulting Actuary  
September 17, 2007

### **Actuarial Cost Methods**

One of the following actuarial cost methods can be used: Unit Credit, Entry Age Normal, Attained Age, Aggregate, Frozen Entry Age, or Frozen Attained Age. These methods can be used on a service (level dollar) or earnings (level percentage) basis.

### **Calculation Definitions**

- Actuarial Accrued Liability (“AAL”) – The AAL is the portion of the actuarial present value of the total projected benefits allocated to years of employment prior to the measurement date.
- Unfunded Actuarial Accrued Liability (“UAAL”) – The UAAL is the difference between the AAL and the actuarial value of plan assets.

### **Reporting Requirements**

- Annual Required Contribution (“ARC”) – The ARC is equal to the normal cost and the amortization of the Unfunded Actuarial Accrued Liability plus interest. The normal cost is equal to the actuarial present value (“APV”) allocated to one year of service.
- Net OPEB Obligation (“NOO”) – The NOO is the cumulative difference between the ARC and employer’s contributions to the plan. For unfunded plans, the employer’s contribution would be equal to the annual benefit payments less employee contributions. At transition, the NOO may be set at zero.
- Required Supplementary Information (“RSI”) – The RSI will require historical trend information from the last three valuations, including disclosure information about the UAAL and the progress in funding the plan. At transition, the RSI may include only the first year of information.

### **Disclosures**

The following information is required to be disclosed:

- Plan description, including:
  - Type of employer – single employer, multiple-employer, etc.
  - Classes of employees covered and the number of plan members
  - Brief description of benefit provisions
- Summary of significant accounting policies, including a brief description of how fair value of investments is determined.
- Contributions and reserves, including:
  - Authority under which the obligations of plan members, employer(s), and other contributing entities who contribute to the plan are established or may be amended.
  - Funding policy
  - Required contribution rates of actives and retirees in accordance with the funding policy.

- Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date.
- The balance in the plan's legally required reserves at the reporting date.
- Funded status and progress
  - Information about the funded status as of the most recent valuation date, including:
    - Actuarial Valuation Date
    - Actuarial Value of Assets
    - Actuarial Accrued Liability ("AAL")
    - Total Unfunded Actuarial Accrued Liability ("UAAL")
    - Funded ratio – actuarial value of assets as a percentage of the actuarial accrued liability
    - Annual Covered Payroll
    - Ratio of Unfunded Actuarial Liability to Annual Covered Payroll
- Disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress of OPEB plans are based.

The following tables provide a summary of participant information and the Present Value of Future Benefits for NDPERS.

<b>NUMBER OF PARTICIPANTS</b>	
Actives (Fully Eligible)	5,328
Actives (Not Fully Eligible)	18,797
Retirees	5,650
<b>TOTAL</b>	<b>29,775</b>

	<b>UNFUNDED PLAN</b>	<b>FUNDED PLAN</b>
<b>PRESENT VALUE OF FUTURE BENEFITS (PVFB)</b>		

<b>BY EMPLOYEE TYPE</b>		
Actives (Fully Eligible)	\$11,908,000	\$10,351,000
Actives (Not Fully Eligible)	\$49,011,000	\$30,431,000
<b>TOTAL ACTIVES</b>	<b>\$60,919,000</b>	<b>\$40,782,000</b>
Retirees	\$5,415,000	\$4,904,000
<b>TOTAL</b>	<b>\$66,334,000</b>	<b>\$45,686,000</b>

<b>BY BENEFIT</b>		
Expected Retiree Premiums	\$2,120,039,000	\$1,201,688,000
Retiree Contributions	(\$2,053,705,000)	(\$1,156,002,000)
<b>TOTAL</b>	<b>\$66,334,000</b>	<b>\$45,686,000</b>

<b>BY SUBSIDY TYPE</b>		
Explicit Subsidy	\$0	\$0
Implicit Subsidy	\$66,334,000	\$45,686,000
<b>TOTAL</b>	<b>\$66,334,000</b>	<b>\$45,686,000</b>

<b>BY AGE</b>		
Actives (<65)	\$60,919,000	\$40,782,000
Actives (65+)	\$0	\$0
<b>TOTAL ACTIVES</b>	<b>\$60,919,000</b>	<b>\$40,782,000</b>
Retirees (<65)	\$5,415,000	\$4,904,000
Retirees (65+)	\$0	\$0
<b>TOTAL RETIREES</b>	<b>\$5,415,000</b>	<b>\$4,904,000</b>
<b>TOTAL</b>	<b>\$66,334,000</b>	<b>\$45,686,000</b>

The following tables provide the Actuarial Accrued Liability using the Projected Unit Credit cost method on an unfunded and funded basis.

	<b>UNFUNDED PLAN</b>	<b>FUNDED PLAN</b>
<b>ACTUARIAL ACCRUED LIABILITY (AAL)</b>		
<b>BY EMPLOYEE TYPE</b>		
Actives (Fully Eligible)	\$8,772,000	\$7,655,000
Actives (Not Fully Eligible)	\$16,546,000	\$11,212,000
<b>TOTAL ACTIVES</b>	<b>\$25,318,000</b>	<b>\$18,867,000</b>
Retirees	\$5,415,000	\$4,904,000
<b>TOTAL</b>	<b>\$30,733,000</b>	<b>\$23,771,000</b>
<b>BY BENEFIT</b>		
Expected Retiree Premiums	\$1,179,103,000	\$756,557,000
Retiree Contributions	(\$1,148,370,000)	(\$732,786,000)
<b>TOTAL</b>	<b>\$30,733,000</b>	<b>\$23,771,000</b>
<b>BY SUBSIDY TYPE</b>		
Explicit Subsidy	\$0	\$0
Implicit Subsidy	\$30,733,000	\$23,771,000
<b>TOTAL</b>	<b>\$30,733,000</b>	<b>\$23,771,000</b>
<b>BY AGE</b>		
Actives (<65)	\$25,318,000	\$18,867,000
Actives (65+)	\$0	\$0
<b>TOTAL ACTIVES</b>	<b>\$25,318,000</b>	<b>\$18,867,000</b>
Retirees (<65)	\$5,415,000	\$4,904,000
Retirees (65+)	\$0	\$0
<b>TOTAL RETIREES</b>	<b>\$5,415,000</b>	<b>\$4,904,000</b>
<b>TOTAL</b>	<b>\$30,733,000</b>	<b>\$23,771,000</b>
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)</b>		
<b>TOTAL</b>	<b>\$30,733,000</b>	<b>\$23,771,000</b>

The following tables provide the Annual Required Contribution (“ARC”) and Net OPEB Obligation for the Projected Unit Credit cost method on an unfunded and funded basis. The ARC is calculated on a level percentage of earnings assuming an amortization period of 30 years (maximum allowed by GASB 45).

	UNFUNDED PLAN	FUNDED PLAN
<b>ANNUAL REQUIRED CONTRIBUTION (ARC)</b>		
Normal Cost	\$2,656,000	\$1,864,000
Interest on Normal Cost	\$133,000	\$149,000
Amortization Payment	\$1,172,000	\$1,299,000
Interest on Amortization Payment	\$59,000	\$104,000
<b>TOTAL</b>	<b>\$4,020,000</b>	<b>\$3,416,000</b>

<b>NET OPEB OBLIGATION *</b>		
<b>Net OPEB Obligation - Beginning of Year</b>	\$0	\$0
<b>ARC</b>	\$4,020,000	\$3,416,000
<b>Interest on prior year NOO</b>	\$0	\$0
<b>Adjustment to ARC</b>	\$0	\$0
<b>Annual OPEB Cost</b>	<b>\$4,020,000</b>	<b>\$3,416,000</b>
<b>Employer Contributions *</b>	\$1,542,000	\$3,416,000
<b>Increase in Net OPEB Obligation</b>	<b>\$2,478,000</b>	<b>\$0</b>
<b>Net OPEB Obligation – End of Year</b>	<b>\$2,478,000</b>	<b>\$0</b>
<b>Percentage of OPEB Cost Contributed</b>	<b>38.4%</b>	<b>100.0%</b>

\* For illustrative purposes, we have assumed that contributions are equal to the expected pay-as-you-go cost in the Unfunded scenario and contributions are equal to the ARC in the Funded scenario.

The following exhibit illustrates the impact of a 1% change in the health care trend rates:

UNFUNDED PLAN		FUNDED PLAN	
Plus 1%	Minus 1%	Plus 1%	Minus 1%

### VALUATION RESULTS

ACTUARIAL ACCRUED LIABILITY (AAL)				
<b>TOTAL</b>	\$33,528,000	\$28,274,000	\$25,617,000	\$22,125,000

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)				
<b>TOTAL</b>	\$33,528,000	\$28,274,000	\$25,617,000	\$22,125,000

ANNUAL REQUIRED CONTRIBUTION (ARC)				
Normal Cost	\$3,003,000	\$2,360,000	\$2,072,000	\$1,685,000
Interest on Normal Cost	\$150,000	\$118,000	\$165,000	\$135,000
Amortization Payment	\$1,280,000	\$1,079,000	\$1,400,000	\$1,209,000
Interest on Amortization Payment	\$64,000	\$54,000	\$112,000	\$96,000
<b>TOTAL</b>	\$4,497,000	\$3,611,000	\$3,749,000	\$3,125,000

### IMPACT OF TREND CHANGE

ACTUARIAL ACCRUED LIABILITY (AAL)				
<b>TOTAL</b>	\$2,795,000	(\$2,459,000)	\$1,846,000	(\$1,646,000)
<b>% CHANGE</b>	9.1%	-8.0%	7.8%	-6.9%

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)				
<b>TOTAL</b>	\$2,795,000	(\$2,459,000)	\$1,846,000	(\$1,646,000)
<b>% CHANGE</b>	9.1%	-8.0%	7.8%	-6.9%

ANNUAL REQUIRED CONTRIBUTION (ARC)				
Normal Cost	\$347,000	(\$296,000)	\$208,000	(\$179,000)
Interest on Normal Cost	\$17,000	(\$15,000)	\$16,000	(\$14,000)
Amortization Payment	\$108,000	(\$93,000)	\$101,000	(\$90,000)
Interest on Amortization Payment	\$5,000	(\$5,000)	\$8,000	(\$8,000)
<b>TOTAL</b>	\$477,000	(\$409,000)	\$333,000	(\$291,000)
<b>% CHANGE</b>	11.9%	-10.2%	9.7%	-8.5%

The following exhibit provides the expected cash flow for the NDPERS retiree benefit based on the current population:

<b>Year</b>	<b>Retiree Premiums</b>	<b>Retiree Contributions</b>	<b>Net Benefit Payments</b>
7/2007 - 6/2008	\$29,596,000	(\$28,054,000)	\$1,542,000
7/2008 - 6/2009	\$34,273,000	(\$31,136,000)	\$3,137,000
7/2009 - 6/2010	\$39,617,000	(\$37,360,000)	\$2,257,000
7/2010 - 6/2011	\$45,727,000	(\$43,041,000)	\$2,686,000
7/2011 - 6/2012	\$52,504,000	(\$49,375,000)	\$3,129,000
7/2012 - 6/2013	\$58,962,000	(\$55,531,000)	\$3,431,000
7/2013 - 6/2014	\$65,523,000	(\$61,823,000)	\$3,700,000
7/2014 - 6/2015	\$72,322,000	(\$68,349,000)	\$3,973,000
7/2015 - 6/2016	\$79,244,000	(\$74,958,000)	\$4,286,000
7/2016 - 6/2017	\$86,530,000	(\$81,901,000)	\$4,629,000

**SUMMARY OF OTHER ACTUARIAL COST METHODS**

The following table provides the Actuarial Accrued Liability and Annual Required Contribution (“ARC”) for each allowable cost method under GASB 45. The ARC is calculated assuming an amortization period of 30 years (maximum allowed by GASB 45). The results are presented using discount rate assumptions for both unfunded and funded plans.

**UNFUNDED PLAN**

	COST METHOD				
	UNIT CREDIT	ENTRY AGE NORMAL	AGGREGATE	FROZEN ENTRY AGE	FROZEN ATTAINED AGE
<b>ACTUARIAL ACCRUED LIABILITY (AAL)</b>					
TOTAL	\$30,733,000	\$37,450,000	\$0	\$37,450,000	\$30,733,000

<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)</b>					
TOTAL	\$30,733,000	\$37,450,000	\$0	\$37,450,000	\$30,733,000

**ANNUAL REQUIRED CONTRIBUTION (ARC)**

<b>1. LEVEL PERCENTAGE OF PROJECTED PAYROLL</b>					
Normal Cost	\$2,656,000	\$2,813,000	\$6,587,000	\$2,870,000	\$3,535,000
Interest on Normal Cost	\$133,000	\$141,000	\$329,000	\$143,000	\$177,000
Amortization Payment	\$1,172,000	\$1,429,000	\$0	\$1,429,000	\$1,172,000
Interest on Amortization	\$59,000	\$71,000	\$0	\$71,000	\$59,000
<b>TOTAL</b>	<b>\$4,020,000</b>	<b>\$4,454,000</b>	<b>\$6,916,000</b>	<b>\$4,513,000</b>	<b>\$4,943,000</b>

<b>2. LEVEL DOLLAR</b>					
Normal Cost	\$2,656,000	\$2,813,000	\$6,587,000	\$2,870,000	\$3,535,000
Interest on Normal Cost	\$133,000	\$141,000	\$329,000	\$143,000	\$177,000
Amortization Payment	\$1,903,000	\$2,320,000	\$0	\$2,320,000	\$1,903,000
Interest on Amortization	\$96,000	\$115,000	\$0	\$115,000	\$96,000
<b>TOTAL</b>	<b>\$4,788,000</b>	<b>\$5,389,000</b>	<b>\$6,916,000</b>	<b>\$5,448,000</b>	<b>\$5,711,000</b>

**FUNDED PLAN**

	COST METHOD				
	UNIT CREDIT	ENTRY AGE NORMAL	AGGREGATE	FROZEN ENTRY AGE	FROZEN ATTAINED AGE
<b>ACTUARIAL ACCRUED LIABILITY (AAL)</b>					
TOTAL	\$23,771,000	\$28,119,000	\$0	\$28,119,000	\$23,771,000

<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)</b>					
TOTAL	\$23,771,000	\$28,119,000	\$0	\$28,119,000	\$23,771,000

**ANNUAL REQUIRED CONTRIBUTION (ARC)**

<b>1. LEVEL PERCENTAGE OF PROJECTED PAYROLL</b>					
Normal Cost	\$1,864,000	\$1,857,000	\$4,538,000	\$1,746,000	\$2,177,000
Interest on Normal Cost	\$149,000	\$148,000	\$363,000	\$140,000	\$175,000
Amortization Payment	\$1,299,000	\$1,536,000	\$0	\$1,536,000	\$1,299,000
Interest on Amortization	\$104,000	\$123,000	\$0	\$123,000	\$104,000
TOTAL	\$3,416,000	\$3,664,000	\$4,901,000	\$3,545,000	\$3,755,000

<b>2. LEVEL DOLLAR</b>					
Normal Cost	\$1,864,000	\$1,857,000	\$4,538,000	\$1,746,000	\$2,177,000
Interest on Normal Cost	\$149,000	\$148,000	\$363,000	\$140,000	\$175,000
Amortization Payment	\$1,955,000	\$2,313,000	\$0	\$2,313,000	\$1,955,000
Interest on Amortization	\$156,000	\$185,000	\$0	\$185,000	\$156,000
TOTAL	\$4,124,000	\$4,503,000	\$4,901,000	\$4,384,000	\$4,463,000

**Eligibility**

A member must be receiving a retirement allowance from NDPERS to be eligible for the retiree health benefit. The eligibility for a retirement allowance varies depending on the type of employee. The earliest eligibility by employee is as follows:

***Main System***

Employee must be a minimum of age 55 with 3 years of service.

***Judges***

Employee must be a minimum of age 55 with 5 years of service.

***National Guard and Law Enforcement***

Employee must be a minimum of age 50 with 3 years of service.

***Highway Patrol***

Employee must be a minimum of age 50 with 10 years of service.

**Plan Design**

Eligible retirees receive health care coverage through one of two medical plans: the Dakota Plan or the Dakota Retiree Plan. The Dakota Plan is available until retired employees or covered dependent(s) become eligible for Medicare. Upon attaining Medicare eligibility, a member can enroll in the Dakota Retiree Plan.

A summary of the key plan design features for each plan is provided in the tables below:

**Dakota Plan**

<b>Benefit</b>	<b>EPO</b>	<b>PPO</b>	<b>Basic</b>
<b>Deductible (3X Family)</b>	\$200	\$400	\$400
<b>Coinsurance</b>	85%	80%	75%
<b>Coins. Max. (2X Family)</b>	\$500	\$750	\$1,250
<b>E.R. Copayment</b>	\$50	\$50	\$50
<b>Office Visit Copayment</b>	\$20	\$25	\$30
<b>Rx Drug Copay</b>			
<b>Generic *</b>	\$5 and 15% Coinsurance		
<b>Preferred Brand *</b>	\$20 and 25% Coinsurance		
<b>Non-Preferred Brand</b>	\$25 and 50% Coinsurance		
<b>* OOP Maximum</b>	* Covered at 100% after \$1,000		

**Dakota Retiree Plan**

<b>Benefit</b>	<b>In-Network</b>	<b>Out-of-Network</b>
<b>Hospital Deductible</b>	\$400	\$400
<b>Hospital Coinsurance</b>	80%	75%
<b>Physician Coinsurance</b>	80% of Medicare's Balance	75% of Medicare's Balance
<b>Rx Drug Copay</b>		
<b>Generic</b>	\$5 and 15% Coinsurance	
<b>Preferred Brand</b>	\$15 and 25% Coinsurance	
<b>Non-Preferred Brand</b>	\$25 and 50% Coinsurance	
<b>OOP Maximum</b>	\$3,850, after which claimants pay the greater of a 5% coinsurance or a copay of \$2.15 for generic or \$5.35 for brand drugs	

**Required Monthly Retiree Contributions**

Contributions are required for both retiree and dependent coverage. These contributions reflect the actual fully insured premiums and are dependent on family size and Medicare eligibility for a retiree/dependent.

The current monthly contribution amounts are provided in the table below.

<b>Dakota Plan (Non-Medicare Retiree)</b>	
<b>Rate Tier</b>	<b>Monthly Contribution*</b>
<b>Single</b>	\$475.32
<b>Family</b>	\$946.40
<b>Family (3+)</b>	\$1,181.95

<b>Dakota Retiree Plan (Medicare Retiree)</b>		
<b>Rate Tier</b>	<b>Enrolled Prior 7/1/07*</b>	<b>Enrolled On or After 7/1/07</b>
<b>Single</b>	\$214.20	\$207.22
<b>Family</b>	\$418.46	\$404.96
<b>Family (One Medicare/One Non-Medicare)</b>	\$621.88	\$596.44

\* These rates remain in effect until June 30, 2009. After this date, we have assumed retiree contributions increase with medical trend.

In addition, a member is eligible for COBRA continuation if enrolled in the Dakota plan as an active employee and is not eligible for Medicare, whichever occurs first. A member receiving a retiree allowance from NDPERS is eligible for 18 months of COBRA continuation.

The current monthly contribution COBRA amounts are provided in the table below.

<b>Employee Type</b>	<b>Single</b>	<b>Family</b>
<b>State Agencies</b>	\$324.58	\$779.22
<b>Political Subdivisions, enrolled prior to 7/1/07*</b>	\$346.27	\$833.85
<b>Political Subdivisions, enrolled after 6/30/07</b>	\$330.76	\$796.23
<b>EPO Only Groups, prior to 7/1/07*</b>	\$322.54	\$775.99
<b>EPO Only Groups, enrolled after 6/30/07</b>	\$308.12	\$741.01

\* These rates remain in effect until June 30, 2009. After this date, we have assumed retiree contributions increase with medical trend.

**Valuation Date**

July 1, 2007

**Discount Rate**

The analysis assumes two discount rates for comparison purposes. A 5.0% annual discount rate is used assuming NDPERS will fund the retirement benefit on a pay-as-you-go basis. An 8.0% annual discount rate is used assuming NDPERS will fund the plan and consistently contribute an amount equal to or greater than the ARC.

**Attribution Method**

Projected Unit Credit. The results for all other cost methods (Entry Age, Aggregate, Frozen Entry Age, and Frozen Attained Age) are presented in Section 6.

**Amortization Method**

The Unfunded Actuarial Accrued Liability is amortized over the maximum acceptable period of 30 years. It is calculated assuming a level percentage of projected payroll.

**Expected Monthly Costs**

North Dakota state law establishes the rate for Pre-Medicare retirees as:

- Single Rate – 150% of the state active single rate
- Family Rate – 2 times the Pre-Medicare single rate

Since the premiums for non-Medicare retirees are based on a combined active/retiree population, there is an implicit subsidy associated with the non-Medicare population. Based on an analysis of NDPERS non-Medicare retiree experience, we have developed the expected fully-insured premiums if the non-Medicare retirees were rated on their own and were self-supporting.

Based on this analysis, the projected monthly premiums for non-Medicare retirees are:

<b>Rate Tier</b>	<b>Non-Medicare Monthly Premium</b>
<b>Single</b>	\$522
<b>Family</b>	\$1,010

This results in a monthly implicit subsidy for pre-Medicare retirees of approximately:

<b>Rate Tier</b>	<b>Approximate Monthly Implicit Subsidy</b>
<b>Single</b>	\$47
<b>Family</b>	\$64

For Medicare retirees, we believe the current premiums being charged by BCBS are self-supporting. For this reason, there is no implicit subsidy associated with this benefit.

**Health Care Cost Trend**

The following annual trend rates are applied to the expected monthly premiums and contributions on a select and ultimate basis:

<b>Benefit</b>	<b>Select</b>	<b>Ultimate</b>
Medical/Rx	11.0%	6.0%

Select trends are reduced 0.5% each year until reaching the ultimate trend.

**Retirement Age**

Retirement probabilities have been developed from the North Dakota Public Employee Retirement System Actuarial Valuation as of July 1, 2006.

Retirement probabilities for Main System members are based on the age of the employee. Sample retirement ages and the associated annual probabilities of retirement are as follows:

<b>Age</b>	<b>Annual Probability</b>
55	4.0%
57	6.0%
60	8.0%
62	35.0%
65	40.0%
67	20.0%
70	100.0%

Retirement probabilities for Judges begin at age 65. Thirty-five percent of Judges are assumed to retire at each age from 62 to 64, 50% at each age from 65 to 69, and 100% at age 70.

Retirement for members of the National Guard and Law Enforcement is assumed to occur at age 60 or initial eligibility date, whichever comes later.

Retirement for members of the Highway Patrol is assumed to occur at age 50 or initial eligibility date, whichever comes later.

**Mortality**

1983 Group Annuity Mortality Table, applied on a gender-specific basis

**Termination**

Probabilities of withdrawal for reasons other than death and retirement have been developed from the North Dakota Public Employee Retirement System Actuarial Valuation as of July 1, 2006.

**Main System Employees**

In the first five years of services, the assumed termination rates are as follows:

Years of Service	Entry Age		
	Less than 30	30-39	40 & Over
1	23%	17%	15%
2	20%	15%	12%
3	17%	13%	10%
4	16%	12%	8%
5	15%	11%	6%

After five years of services, the assumed withdrawal rates are as follows:

Age	Male	Female
20-24	12.0%	12.0%
25-29	8.0%	10.0%
30-34	5.0%	8.0%
35-39	3.5%	5.0%
40-44	3.0%	4.0%
45-49	2.5%	3.5%
50+	2.0%	3.0%

**National Guard and Law Enforcement Employees**

In the first five years of services, the assumed termination rates are as follows:

Years of Service	Entry Age		
	Less than 30	30-39	40 & Over
1	23%	17%	15%
2	20%	15%	12%
3	17%	13%	10%
4	16%	12%	8%
5	15%	11%	6%

After five years of services, the assumed termination rates are as follows:

<b>Age</b>	<b>Male</b>	<b>Female</b>
<b>20-24</b>	12.0%	12.0%
<b>25-29</b>	8.0%	10.0%
<b>30-34</b>	5.0%	8.0%
<b>35-39</b>	4.0%	6.0%
<b>40-44</b>	3.0%	5.0%
<b>45-49</b>	3.0%	4.0%
<b>50+</b>	2.0%	3.0%

**Judges**

Withdrawal rates at each age are 50% of the rate for members of the National Guard and Law Enforcement with at least five years of service.

**Highway Patrol**

Withdrawal rates are 2% per year under age 35 and 1% per year for age 35 and older.

**Plan Participation Percentage**

Plan participation probabilities have been developed from the North Dakota Public Employee Retirement System NRPERS Retiree Health Insurance Credit Valuation as of July 1, 2006. The percentage of eligible employees and their spouses who participate in the retiree health plan is dependent on the years of service at retirement.

The expected participation rates are as follows:

<b>Years of Service</b>	<b>Main System, National Guard and Law Enforcement</b>	<b>Judges and Highway Patrol</b>
<b>Less than 3</b>	0%	0%
<b>3-4</b>	25%	0%
<b>5-9</b>	50%	50%
<b>10-14</b>	70%	70%
<b>15-19</b>	80%	80%
<b>20-24</b>	95%	95%
<b>25+</b>	100%	100%

**Dependent Composition at Retirement**

For retired employees, the assumed number of eligible dependents is based on the current proportions of single and family contracts. For active employees, the percentage of employees with spouses is based on the current retiree population. We have assumed that 55% of male employees and 34% of female employees will have spouses at retirement.

**Salary Increase Assumption**

4.0% per Annum

**Medicare Part D Prescription Drug Subsidy**

Based on GASB Technical Bulletin No. 2006-1, an employer should apply the measurement requirements of GASB Statement 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost *without reduction* for RDS payments. For this reason, we have excluded the Medicare Part D employer subsidy from this valuation.

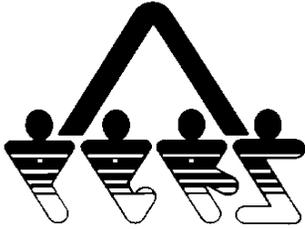
DRAFT

A summary of the current active employee and retired population for NDPERS is provided in the tables below:

Age Group	ACTIVE POPULATION			RETIRED EMPLOYEES
	Fully Eligible	Not Fully Eligible	Total	
<40	0	6,873	6,873	0
40-44	0	2,954	2,954	4
45-49	0	3,993	3,993	19
50-54	33	4,197	4,230	76
55-59	2,944	457	3,401	327
60-64	1,675	226	1,901	838
65-69	475	59	534	1,153
70-74	144	26	170	1,228
75-79	53	10	63	926
80-84	4	2	6	614
85+	0	0	0	465
<b>Total</b>	<b>5,328</b>	<b>18,797</b>	<b>24,125</b>	<b>5,650</b>

A summary of the current active employees based on years of service is provided in the table below:

Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
<40	4,664	1,589	474	141	5	0	0	6,873
40-44	1,146	776	441	413	170	8	0	2,954
45-49	1,189	973	559	572	393	285	22	3,993
50-54	1,000	903	608	720	401	368	230	4,230
55-59	763	629	437	647	384	309	232	3,401
60-64	375	342	256	426	226	137	139	1,901
65-69	106	127	73	133	44	31	20	534
70-74	43	37	33	30	12	6	9	170
75-79	18	12	14	8	6	1	4	63
80-84	3	0	0	1	0	2	0	6
85+	0	0	0	0	0	0	0	0
<b>Total</b>	<b>9,307</b>	<b>5,388</b>	<b>2,895</b>	<b>3,091</b>	<b>1,641</b>	<b>1,147</b>	<b>656</b>	<b>24,125</b>



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** April 8, 2009  
**SUBJECT:** Legislative Update

Attached please find the update on those bills affecting the PERS plan.  
We will review this at the Board meeting.

Please note that SB2154 relating to the retiree health benefits fund passed.



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## MEMORANDUM

**TO:** NDERS Board  
**FROM:** Jim Smrcka  
**DATE:** April 8, 2009  
**SUBJECT:** Consultant Fees

Attached is a report showing the consulting, investment and administrative fees paid during the quarter ended March 31, 2009 Please let me know if you have any questions on the report.

Attachment

- 
- |                                    |                                  |                                   |
|------------------------------------|----------------------------------|-----------------------------------|
| • FlexComp Program                 | • Retirement Programs            | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees               | - Judges                          |
| • Dental                           | - Highway Patrol                 | - Prior Service                   |
| • Vision                           | - National Guard/Law Enforcement | - Job Service                     |
|                                    |                                  | • Deferred Compensation Program   |
|                                    |                                  | • Long Term Care Program          |

**North Dakota Public Employees Retirement System  
Consulting/Investment/Administrative Fees  
For the Quarter ended March 31, 2009**

Program/Project	Fee Type	Jan-09	Feb-09	Mar-09	Fees Paid During The Quarter	Fees Paid Year-To-Date
<b>Actuary/Consulting Fees:</b>						
Gallagher Benefit Services, Inc	Insurance	Fixed Fee	-	-	-	0
Gallagher Benefit Services, Inc	Ongoing consulting	Time charges	-	-	4,623	4,623
Gallagher Benefit Services, Inc	Travel Expenses	Actual	-	-	-	0
Cem Benchmarking Inc	Cost effectiveness ranking charts		-	-	5,000	5,000
LR Wechsler, LTD	IT Project	Fixed Fee	52,204	21,156	16,509	89,869
LR Wechsler, LTD	Travel Expenses	Actual	4,994	3,897	2,464	11,355
Sagitec Solutions LLC	PERSLINK Project		-	-	-	0
Sagitec Solutions LLC	Back file conversion	Actual	-	43,534	-	43,534
Mid Dakota Clinic	Retirement Disability	Time charges	-	650	450	1,100
The Segal Company	Retirement (DB)	Fixed Fee	13,388	-	-	13,388
The Segal Company	Ret Health Credit	Fixed Fee	2,475	-	-	2,475
The Segal Company	FlexComp	Fixed Fee	2,700	-	-	2,700
The Segal Company	Job Service	Fixed Fee	3,600	-	-	3,600
The Segal Company	QDRO/Compliance	Time charges	10,585	-	1,967	12,551
The Segal Company	Legislation	Time charges	2,592	-	7,497	10,089
The Segal Company	Retirement (DC)	Time charges	-	-	-	0
The Segal Company	Deferred Comp	Time charges	490	-	-	490
The Segal Company	CYCLE C filing consult	Time charges	-	-	11,213	-
The Segal Company	Travel Expenses	Actual	-	-	-	0
			\$ 93,027	\$ 69,238	\$ 49,722	\$ 200,774
						\$200,774
<b>Audit Fees:</b>						
Brady Martz	Annual audit & CAFR	Fixed Fee	-	-	\$ -	\$0
Brady Martz	Amended 1099R's		-	\$ 497	\$ 497	\$497
<b>Legal Fees:</b>						
ICEMILLER LLP	IT Project	Time charges	-	-	\$ -	\$0
ND Attorney General	Administrative	Time charges	-	2,743	4,898	\$7,641
Calhoun Law Group	Administrative	Time charges	-	-	\$ -	\$0
<b>Investment Fees:</b>						
SIB - Investment Fees	Retirement (DB)	% Allocation	601,498	559,750	558,612	1,719,860
SIB - Investment Fees	Ret Health Credit	% Allocation	22,300	326	480	23,106
SIB - Investment Fees	Insurance	% Allocation	176	44	43	263
SIB - Administrative Fees	Retirement (DB)	% Allocation	14,475	14,526	14,199	43,200
					\$ 1,786,429	\$1,786,429
<b>Administrative Fee:</b>						
Blue Cross Blue Shield	Health Plan	Fixed fee	749,862	749,952	\$ -	1,499,814

\* fees not yet available



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# Memorandum

**TO:** PERS Board  
**FROM:** Jon Strinden  
**DATE:** April 9, 2009  
**SUBJECT:** Executive Director Review

It is time for us to do our annual review of the Executive Director. I am asking for several Board members (2 to 3) to coordinate the review and prepare a recommendation for the Board's consideration on salary by the June meeting. This will mean that all of us will need to complete our review and have them back to the committee by June 1. Attached is the evaluation form which will be emailed to Board members for completion.

## **Board Action Requested**

To appoint a committee of 2 to 3 Board members to coordinate the annual review for the Executive Director and to prepare a salary adjustment recommendation.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** April 8, 2009  
**SUBJECT:** International Foundation of Employee Benefit Plans

As I have previously reported to you, I have been serving on the Public Employees Board of the International Foundation of Employee Benefit Plans (IFEBP) for the past 6 years. This organization is the largest non profit benefits education/certification organization in the United States. Its sole goal is employee benefits education. To that end, it sponsors over 50 educational meetings during the year with its large annual conference in late fall (usually attended by about 5,500 individuals).

I have been recently elected again to serve as an officer for the Public Employees Board. This means next year I will be secretary, then vice chair, then chair. As an officer, I will also serve on the board of directors for the IFEBP. My expenses for attending their meeting are paid by the IFEBP. Pursuant to the Board's policy, I am reporting this to you and seeking your approval for them to pay these expenses (our policy is that the Board needs to approve the payment of expenses for a staff member by an outside organization).

## **Board Action Requested**

To approve the payment of expenses by the IFEBP.