

NDPERS BOARD MEETING

Agenda

Bismarck Location:
ND Association of Counties
1661 Capitol Way
Fargo Location:
WSI Meeting Room
2601 12th Ave SW

April 7, 2010

Time: 8:30 AM

- I. PREFERRED ONE (Information)
- II. ADMINISTRATIVE RULES – Deb (Board Action)
- III. GROUP INSURANCE BID – Sparb (Board Action)

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.



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: April 1, 2010
SUBJECT: Preferred One

At the last several meetings we have heard from Medica and Sanford about their health insurance related activities in North Dakota. At this meeting we will hear from Preferred One. They are a Minneapolis firm that is also active in North Dakota. In attendance from Preferred One will be Mr. Mike Thielen, Senior Director of Sales and Business Development, and Ms. Darcee Weber, VP, Network Management. In addition, Mr. Jim Kasper, a consultant to Preferred One, will also attend.

Attached is their PowerPoint presentation they will review at the meeting.

PreferredOne[®]

North Dakota Public Employees Retirement System

March 25, 2010

At Your Service

PreferredOne®

ABOUT PREFERREDONE...

PREFERREDONE ADMINISTRATIVE SERVICES, LOCATED IN GOLDEN VALLEY, MINNESOTA IS A PHYSICIAN AND HOSPITAL JOINT VENTURE SPONSORED BY FAIRVIEW HEALTH SERVICES, NORTH MEMORIAL HEALTH CARE AND PREFERREDONE PHYSICIANS ASSOCIATES (PREFERREDONES'S PHYSICIAN ORGANIZATION).



History

PreferredOne[®]
PREFERRED PROVIDER ORGANIZATION

Introduced 1984

Provides network access and claims re-pricing services to regional/national insurance carriers and third party administrators (TPAs)

Introduced 1995

Provides insured HMO products for large and small employer groups

PreferredOne[®]
COMMUNITY HEALTH PLAN

PreferredOne[®]
ADMINISTRATIVE SERVICES

Introduced 1997

Provides medical and dental claims administration for self-funded groups (including HRA, HSA qualified plans, FSA and COBRA)

Introduced 2005

Provides employer stop loss reinsurance and group/individual health insurance products

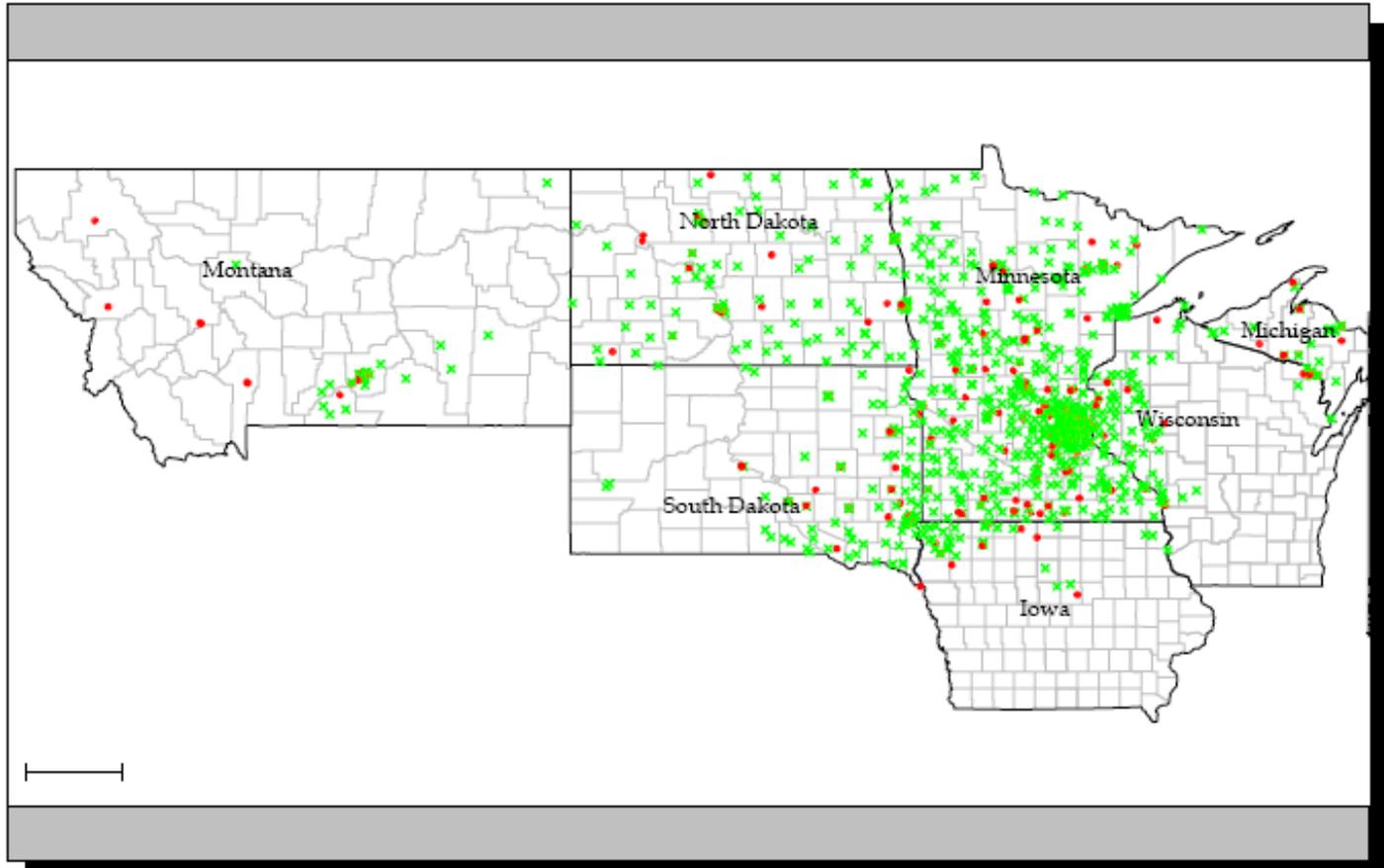
PreferredOne[®]
INSURANCE COMPANY

Network Coverage – Primary Care

PreferredOne Open Access 200 Network

Provider locations

7,700 Primary Care Providers



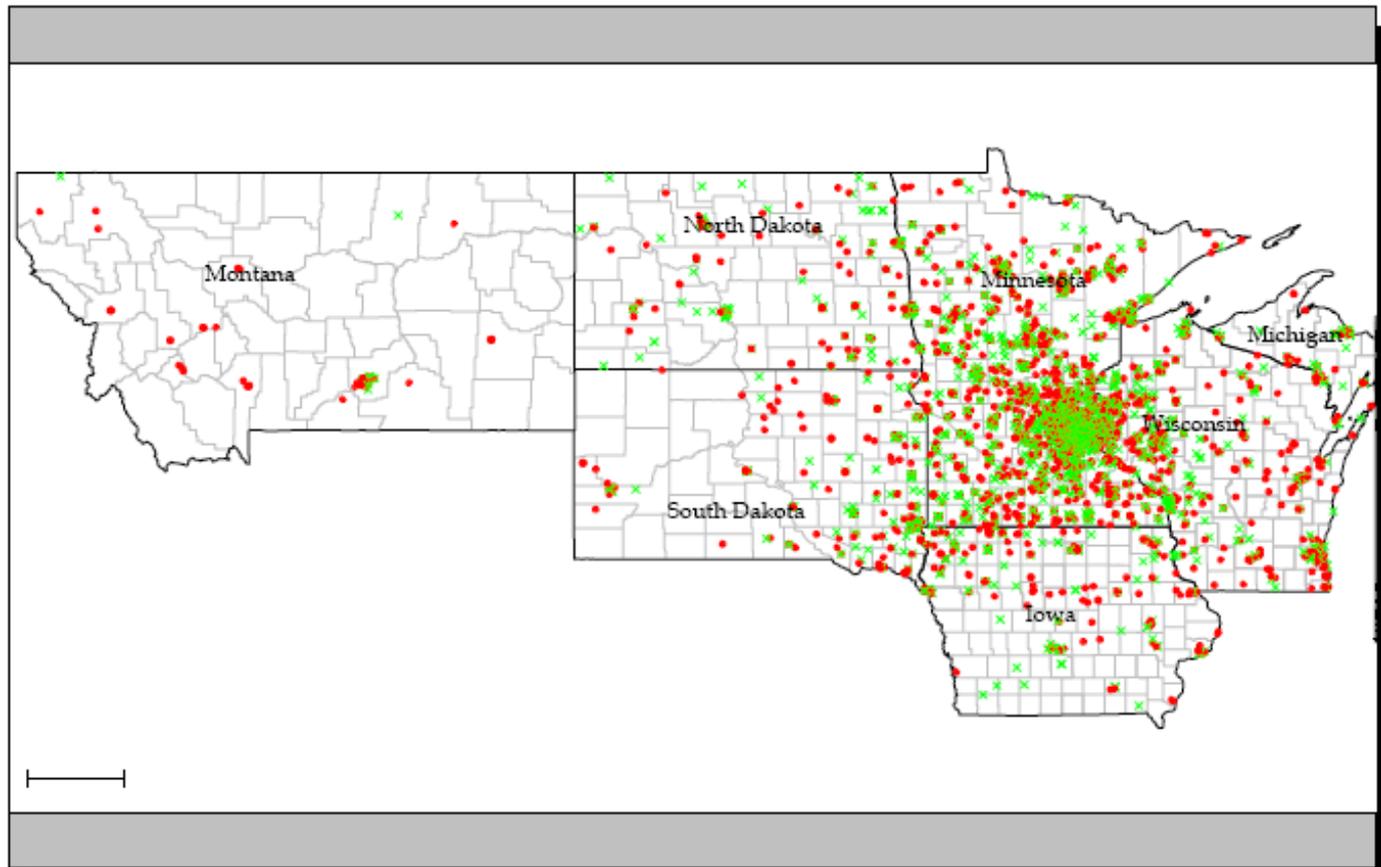
- Single provider locations
- ✕ Multiple provider locations

Network Coverage – Specialty Care

PreferredOne Open Access 200 Network

Provider locations

7,800 Specialty Providers



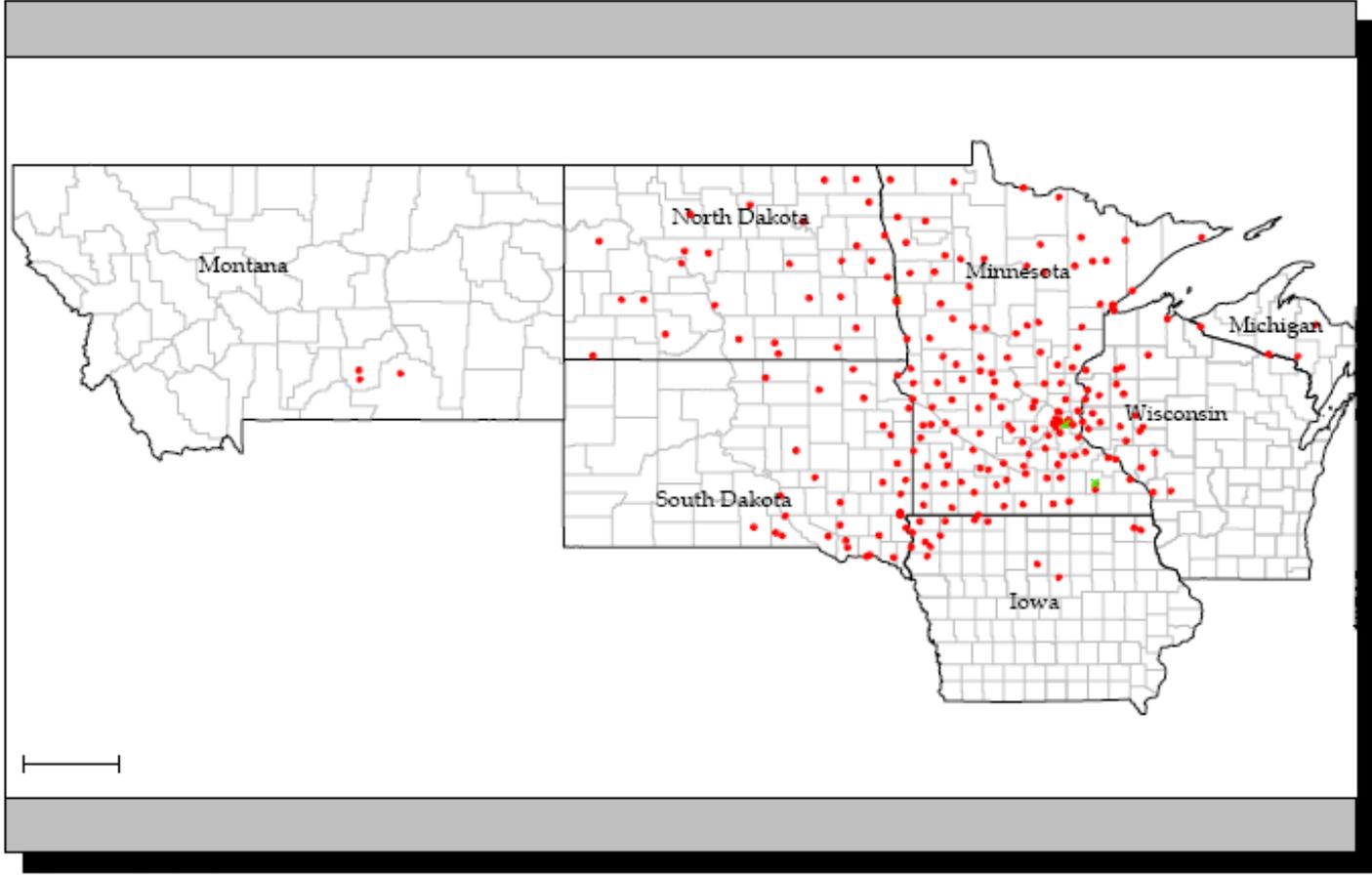
- Single provider locations
- × Multiple provider locations

Network Coverage – Hospitals

PreferredOne Open Access 200 Network

Provider locations

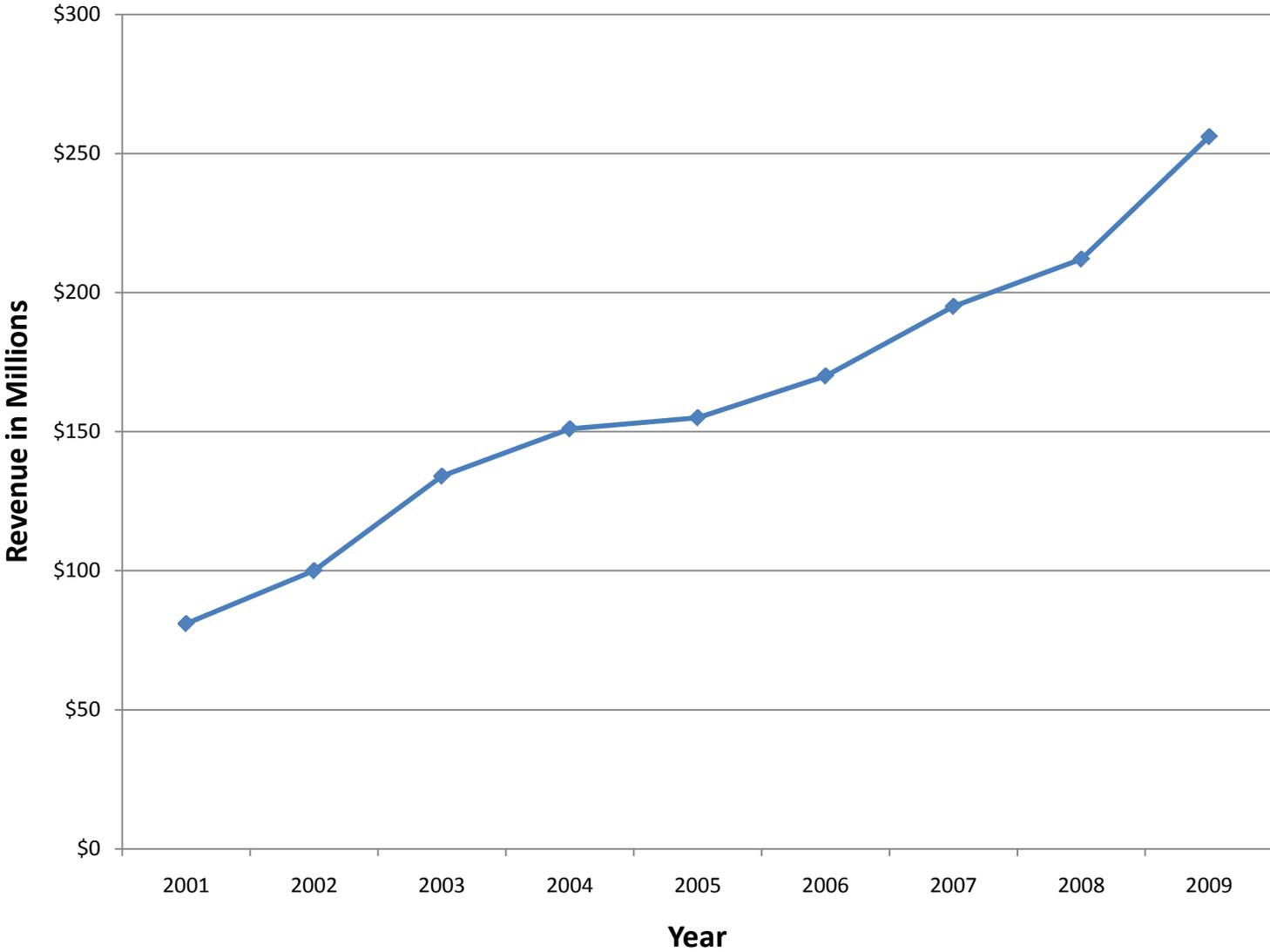
267 Hospitals



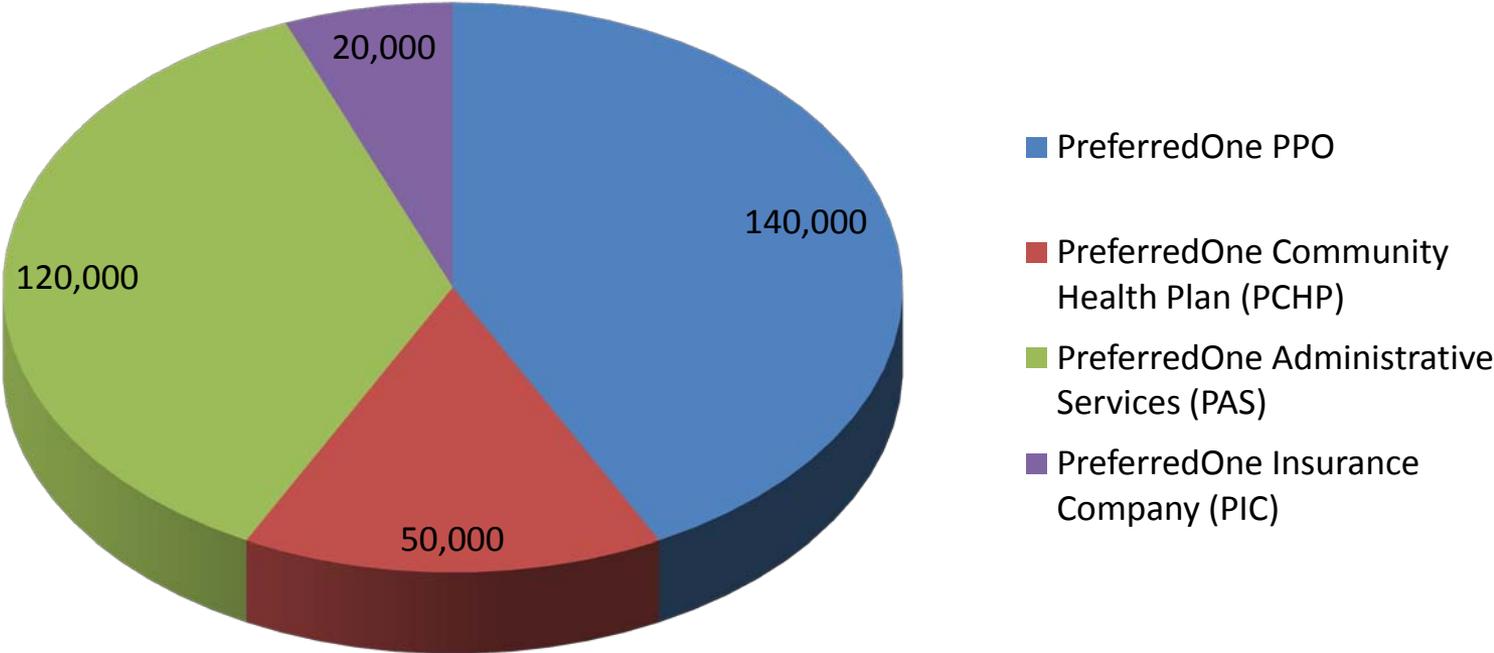
- Single provider locations
- × Multiple provider locations

Esri/arcgis.com

Revenue



Membership

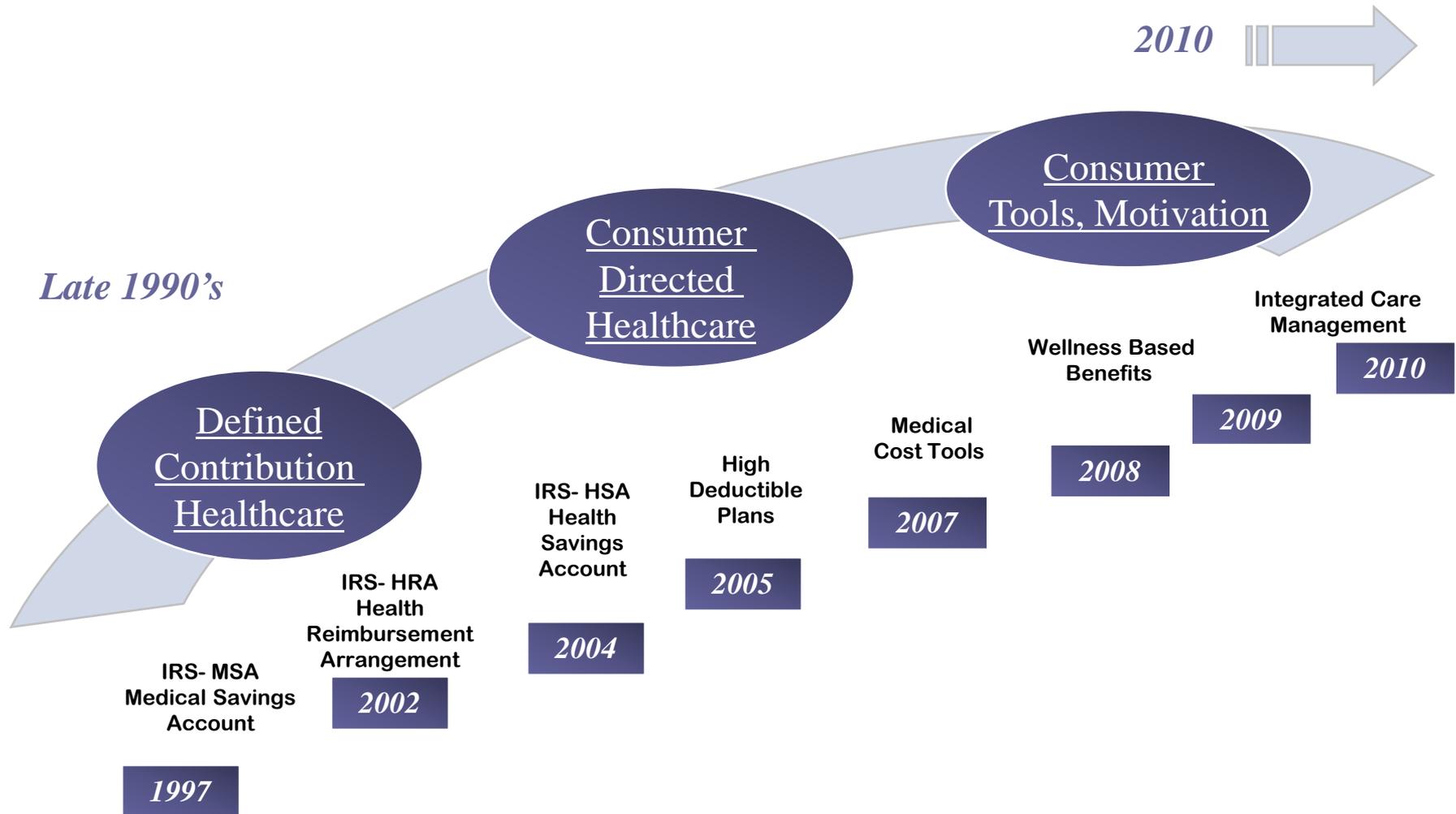


TOTAL MEMBERS: 330,000

- ❑ AFMC (Arizona Foundation For Medical Care)
- ❑ AHA (American Healthcare Alliance)
- ❑ HealthEOS
- ❑ Interplan Health Group,
(a HealthSmart Network)
- ❑ CenterCare
- ❑ Beech Street Corporation
 - ❑ Texas True Choice
- ❑ First Health
- ❑ Devon Health Services

- ❑ IPN
- ❑ Ohio Health Choice
- ❑ Midlands Choice
- ❑ Multiplan / PHCS
- ❑ Cofinity
- ❑ Premier Dental Group
- ❑ Sagamore Health Network
- ❑ TLC Advantage L.L.C.
- ❑ VHN
- ❑ Valley Preferred
- ❑ USA Managed Care Organization

The Market Path



Core Programs (Cost Control)

- **Utilization Management (UM):** Prior-Authorizations, Pre-Certification (RX, Medical and Behavioral Health)
- **Case Management (CM):** Complex, ACUTE, situations i.e. Multiple Trauma, Cancer, Kidney Disease
- **Disease Management (DM):** CHRONIC disease management for Diabetes, COPD, CHF, Asthma and CAD
- **Treatment Decision Support (TDS):** ACUTE, short-term, program steerage for LBP, Maternity and future programs TBD
- **Health & Wellness:** Programs focused on encouraging and maintaining healthy lifestyles at home and in the workplace

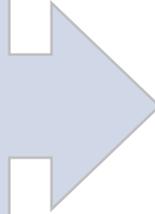
Provider Focus = ■ Member Focus = ■

Support Programs

- **Quality Management:** Initiatives that focus on Population Health Management, Regulatory compliance, and Accreditations
- **Medical Policy:** Development and maintenance of specific criteria for medical necessity and benefit interpretation
- **Appeals:** Administration of the appeal process for denied medical benefits per plan specifics
- **Claims Retro-review:** Post -utilization review of services not previously pre-certified or prior-authorized
- **Reinsurance Management:** Ongoing review and reporting of potential and existing high dollar utilization patterns to Underwriting and the various P1 Reinsurers

Member Web Site

- Claims inquiry
- Deductible and out-of-pocket status
- Medical Cost Guide
- Medical Co\$ Navigator
- Order ID card
- Benefit lookup
- Provider search



Employer Web Site

- Enrollment maintenance
- (adds / terms)
- Funding reports (incl. HRA)
- Eligibility verification
- Deductible and out-of-pocket balances



PreferredOne has partnered with *healthwise*® to provide you with consumer health education content to help you make informed yet personal health decisions that are right for you – and at just the right time.

healthwise® Knowledgebase:

- Health Topics
- Topics by Category
- Symptom Checker
- Decision Points
- Medical Tests
- Medications
- Interactive Tools
- Support Groups

Drug Interaction Checker:

- Create a personal drug list
- Check for drug to drug and drug to food interact



Clinic comparison Pre-set services



PreferredOne®

Select the clinics to be compared

Comparison of Frequently Performed Services

Procedure	Innovis Health	Bridges Medical Center	Fergus Falls Medical Group, P.A.
Bladder Infection	\$99.85	\$105.33	\$121.44
Chest X-Ray	\$45.32	\$47.96	\$56.50
Cholesterol Test	\$29.51	\$31.46	\$29.51
Diabetes Screening - Lab Only	\$13.59	\$14.16	\$13.59
Existing Patient Intermediate Office Visit	\$87.55	\$92.65	\$109.14
Flu Diagnosis	\$115.70	\$122.55	\$137.29
Mammogram Screening	\$116.39	\$123.17	\$145.09
New Patient Intermediate Office Visit	\$131.33	\$138.98	\$163.71
Pap Smear	\$42.00	\$42.00	\$42.00
Routine Physical Exam Age 18-39	\$131.84	\$139.52	\$164.35
Strep Throat	\$115.70	\$122.55	\$137.29
TOTALS	\$928.78	\$980.33	\$1,119.91

Return

Costs Displayed

Clinic comparison – Selected services

Ask a Question

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Condition
Selected

Search Criteria:

- Consumer Advantage Medical Cost Guide
- Medical Condition: **Chronic ear infections with Ear tube surgery**
- Network: **Open Access Network 100 (HMO)**
- Provider Type: **Clinic**
- Around Address: **6105 Golden Hills Dr, Golden Valley, MN 55416**
- Within Radius: **10 mile(s)**

[Click here](#) for a detailed explanation of the data presented.

This list contains clinics that match your specifications. Please be aware that our network providers change periodically.

Note: Not all PreferredOne providers treating this condition will be displayed in the following results list. Providers may be omitted due to an insufficient sample size in our database. This does not imply the provider does not treat the given condition. We encourage you to contact your provider should you have questions concerning the conditions they treat.

**Chronic ear infections
with Ear tube surgery**
Average all clinics:
\$2,943

Clinic	Average Cost This Condition	Severity Index All Conditions
1. Southdale Otolaryngology Locations for this clinic system	\$1,382	1.23
2. Otolaryngology & Head and Neck Surgery, P.A. Locations for this clinic system	\$1,608	0.99
3. Oakdale Ear, Nose & Throat Locations for this clinic system	\$1,731	1.57
4. Park Nicollet Clinic Locations for this clinic system	\$1,754	0.98
5. Minnesota Ear, Head & Neck Clinic, P.A. Locations for this clinic system	\$2,058	1.52
6. Allina Health System - Clinics Locations for this clinic system	\$2,226	0.95
7. Ear, Nose & Throat SpecialtyCare of Minnesota, P.A.	\$2,239	1.42

Cost Guide – Reprice My Claim

5 mile(s)
5 mile(s)
4 mile(s)
4 mile(s)
1 mile(s)
3 mile(s)
4 mile(s)
4 mile(s)
4 mile(s)
1 mile(s)
3 mile(s)

PreferredOne

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Medical Claims
Click on Medical Claim ID for an Explanation of Benefits (EOB) (Requires [Adobe Acrobat Reader](#))

Member	Status	Claim ID	Service Date	Provider	Provider Charges
Smith, Olivia M	Completed	D42606101400	04/21/2006	Partners in Pediatrics, Ltd. Compare with other Providers	\$489.00
Smith, Olivia M	Completed	D50806132400	04/21/2006	North Memorial Medical Center	\$136.23
Smith, Olivia M	Completed	D42706366900	04/19/2006	Northwest Eye Clinic, P.A. Compare with other Providers	\$260.00

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Click and Compare Claim cost at other Network providers

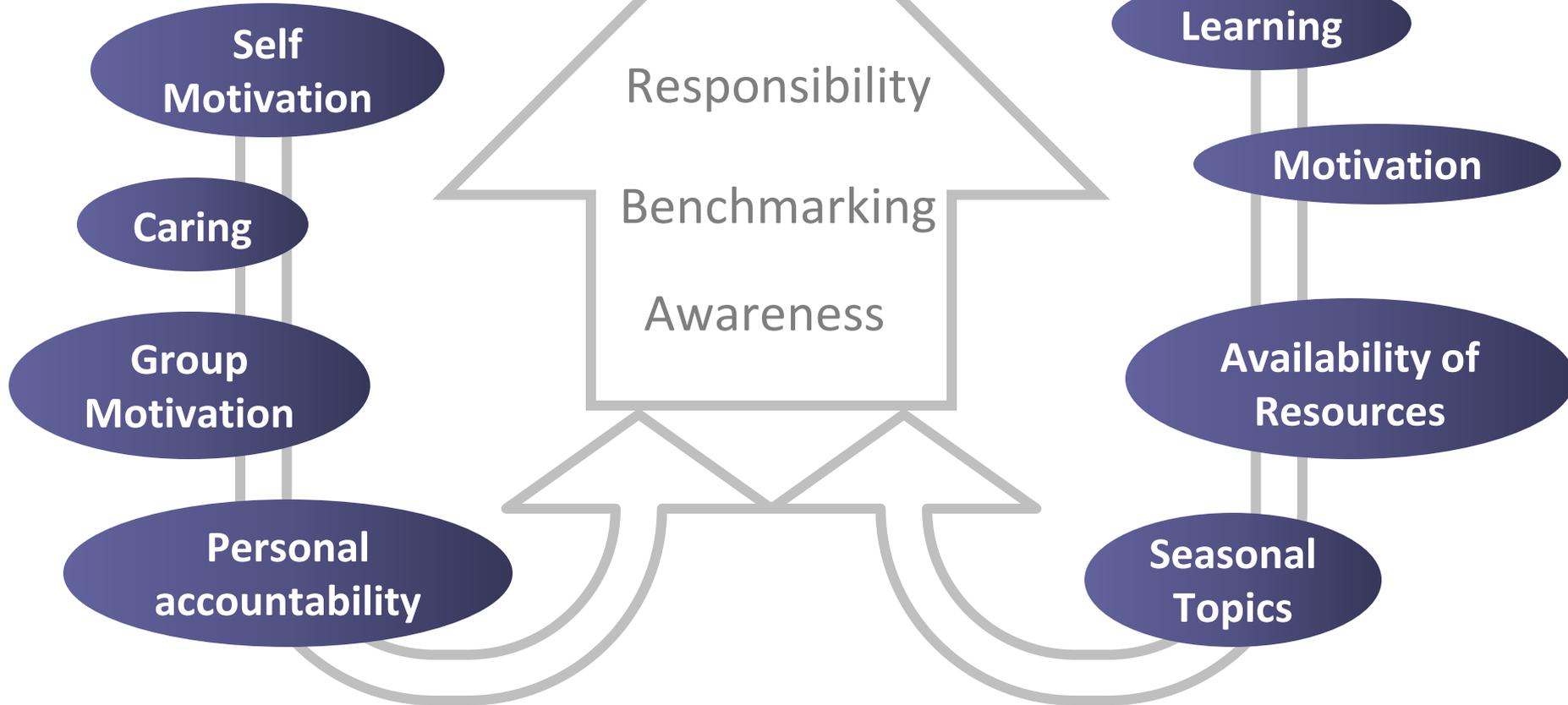
Results:
Reprice My \$260 Claim
(Member Responsibility \$212.85 with contracted discount)

\$225.48
\$225.48
\$225.48
\$237.95
\$237.95
\$240.43
\$269.27
\$269.27
\$269.27
\$269.27
\$364.64
\$364.64

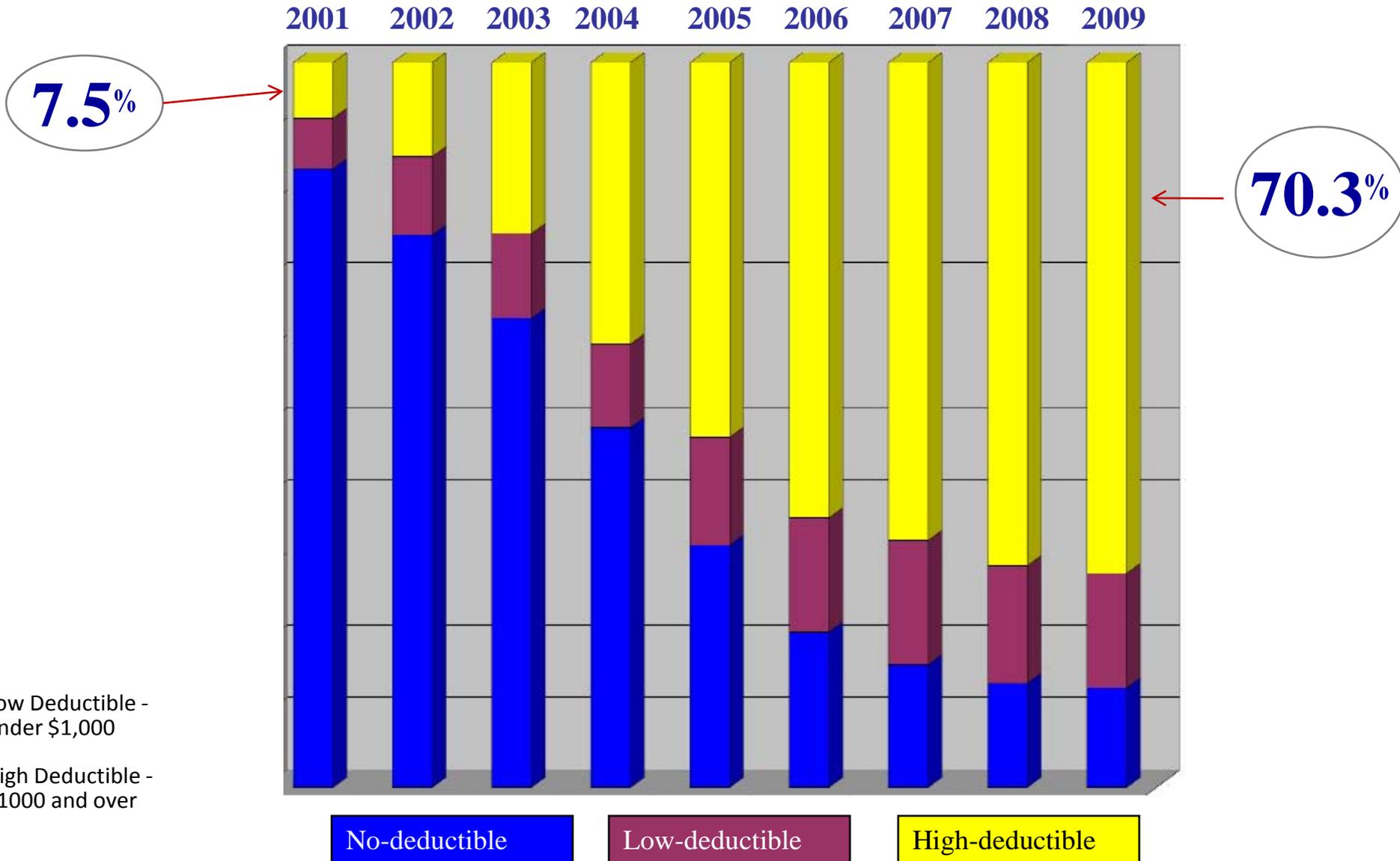
Developing
Cultures
of:

Action

Maintaining



Product Enrollment Shift



Reporting



Widgets, Inc.
 Service Dates: 10/1/2008 - 12/31/2009
 Paid Dates: 1/1/2009 - 12/31/2009

Widgets, Inc.
Reinsurance Summary

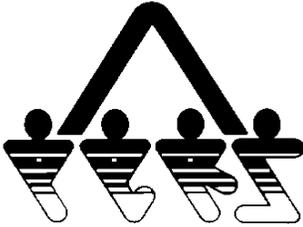
	Aggregate Factors	Specific Rates	Plan Year: Jan 2009 - Dec 2009
Employee Only	\$351.50	\$40.25	Reinsurer/MGU: Acme Re Aggregate Contract Type: 15/12
Family	\$958.90	\$102.11	Specific Contract Type: 15/12 Specific Deductible: \$60,000

Paid Month & Year	Enrollment				Aggregate		Specific		Monthly Claims Experience							YTD Results	
	Emp Only	Family	Total Contracts	Total Members	Monthly Attachment Point	YTD Attachment Point	Monthly Premium Rates	YTD Premium Rates	Medical Claims	Pharmacy Claims	Total Claims	Credits/Adjustments	Claims in Excess of Specific	Benefit Exceptions	Net Claims	YTD Net Claims	YTD Aggregate Funding Ratio
Jan 09	186	123	309	558	\$183,324	\$183,324	\$20,046	\$20,046	\$120,794	\$22,632	\$143,426	\$0	\$0	\$0	\$143,426	\$143,426	78%
Feb 09	185	127	312	567	186,808	370,132	20,414	40,460	83,882	23,373	107,255	0	0	0	107,255	250,681	68%
Mar 09	183	127	310	561	186,105	556,236	20,334	60,794	69,127	25,518	94,646	0	0	0	94,646	345,327	62%
Apr 09	180	122	302	544	180,256	736,492	19,702	80,496	80,279	23,511	103,790	0	0	0	103,790	449,117	61%
May 09	187	126	313	566	186,552	923,044	20,393	100,889	75,590	23,738	99,328	(1,092)	0	0	98,236	547,353	59%
Jun 09	186	126	312	559	186,200	1,109,244	20,352	121,241	106,785	21,403	128,188	0	0	0	128,188	675,541	61%
Jul 09	185	126	311	556	185,849	1,295,093	20,312	141,553	114,991	20,860	135,851	(71)	0	0	135,780	811,321	63%
Aug 09	186	128	314	559	188,118	1,483,212	20,557	162,110	165,849	25,909	191,758	(560)	0	0	191,198	1,002,519	68%
Sep 09	183	131	314	565	189,940	1,673,152	20,742	182,852	203,447	23,010	226,457	(412)	0	0	226,044	1,228,563	73%
Oct 09	183	135	318	586	193,776	1,866,928	21,151	204,003	100,321	26,355	126,676	(1,165)	0	0	125,511	1,354,074	73%
Nov 09	187	131	318	582	191,346	2,058,274	20,903	224,906	84,719	22,713	107,431	(577)	(1,330)	0	105,524	1,459,598	71%
Dec 09	186	136	322	596	195,789	2,254,064	21,373	246,279	183,007	17,409	200,415	(1,140)	(17,354)	0	181,921	1,641,519	73%
Total	2,217	1,538	3,755	6,799	\$2,254,064	\$2,254,064	\$246,279	\$246,279	\$1,388,791	\$276,430	\$1,665,221	(\$5,017)	(\$18,684)	\$0	\$1,641,519	\$1,641,519	73%



True Transparency

- Administrative Fees
- Provider Discounts
- Claims Data



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
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FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board
FROM: Deb Knudsen
DATE: April 1, 2010
SUBJECT: Administrative Rules Hearing

A hearing soliciting comments for the administrative rules proposed amendments, additions and deletions was held on Tuesday, March 23 at 11:00 p.m. in the Fort Totten Room at the State Capitol. There were no members of the public in attendance, only NDPERS staff attended. The minutes from the hearing are attached as well as the proposed rules and small entity regulatory analysis. The rules have been reviewed by Aaron Webb, prior to submission. The comment period will be held open until 5:00 p.m. on April 6, 2010 and any comments received will be provided at the April 7th Board meeting. To date, staff has not received any new written comment on the rules. However, one telephone call that was received back in November was documented for the Board's review and was presented and reviewed at the December board meeting. The comment is enclosed for your review again, as pursuant to NDCC 28-32-11, an agency must fully consider all oral and written submissions concerning the rules prior to adoption.

There has been no request for a regulatory analysis or a takings assessment received and the proposed rules are not anticipated to have a cost impact on the regulated community. However, staff has reviewed and discussed the questions provided by the Attorney General's Office regarding small entity impact analysis as well as economic impact. There were no significant findings to report. In addition, as NDPERS was the sponsor of the legislation associated with the rule changes, no further action for sponsor notification purposes was taken.

Staff is requesting the Board's approval to submit the enclosed rules to the Attorney General's Office for review. Subject to obtaining the Attorney General's approval, staff will then submit the rules to Legislative Council for final promulgation.

Board Action Requested: Acknowledge materials submitted for the board's consideration, approve proposed rules and authorize staff to submit required materials to Attorney General's Office and Legislative Council.

SMALL ENTITY REGULATORY ANALYSIS

1. Was establishment of less stringent compliance or reporting requirements for small entities considered? *NDPERS has limited reporting requirements that relate to benefit contributions and benefit accruals. These are standard for all employers. To what result?*
Reporting requirements must be applied consistently to ensure a uniform benefit is provided.

2. Was establishment of less stringent schedules or deadlines for compliance or reporting requirements considered for small entities? *As discussed above, uniform requirements are necessary to maintain continuity of benefits.*
To what result? *Continuity of benefits is sustained.*

3. Was consolidation or simplification of compliance or reporting requirements for small entities considered? *Please see responses above.*
To what result?

4. Were performance standards established for small entities for replacement design or operational standards required in the proposed rule? *Our rules do not provide for performance standards or replacement design for either large or small employer entities.*
To what result? *N/A*

5. Was exemption of small entities from all or any part of the requirements in the proposed rule considered? *No, again uniformity is necessary for continuity of benefits.*
To what result? *Continuity of benefits is sustained.*

Completed by NDPERS staff 2/9/10

Proposed Rules 2009

PROPOSED RULES	REASON PROPOSED
<p>Section 71-01-02-03 is amended as follows:</p> <p>71-01-02-03. Candidate eligibility.</p> <p>1. Any active <u>participating member employee, members of the defined contribution retirement plan, the highway patrol retirement system and the job service retirement plan</u> are eligible to serve as an elected member of the board in accordance with subsection 4 of North Dakota Century Code section 54-52-03, may become a candidate for election to the board. A department or political subdivision may not be represented by more than one elected member. <u>Employees who have terminated their employment for whatever reason are not eligible to serve as an active elected member of the board.</u></p> <p>2. Any person, as of April fifteenth of the election year, who has accepted a retirement allowance or who is eligible to receive deferred vested retirement benefits, may become a candidate for the retiree member to the board.</p> <p>History: Effective April 1, 1992; amended effective July 1, 1994; July 1, 2000; April 1, 2008, _____, 2010</p> <p>General Authority: NDCC 54-52-04, 54-52-17(5)</p> <p>Law Implemented: NDCC 54-52-03</p>	<p>To comply with provisions of SB 2153. Adds members of the defined contribution, highway patrol and job service retirement systems and clarifies that terminated employees may not serve as an active elected member of the board.</p>

PROPOSED RULES	REASON PROPOSED
<p>A new subsection 8 is added to Section 71-01-02-09 as follows:</p> <p>71-01-02-09. Canvassing rules.</p> <ol style="list-style-type: none"> 1. Ballot counting by election committee members or their authorized representatives will commence at nine a.m. on the third Monday of June and will continue until complete. 2. Each candidate may have one overseer present at the canvassing who may examine each ballot as to its sufficiency after the canvassers have completed the canvassing of all ballots. No overseer may possess a pen, pencil, or other device which could be considered capable of altering a ballot in any manner. 3. A candidate may act as his or her overseer. If a candidate wishes to designate a representative to act as his or her overseer, that candidate must provide a written authorization, duly witnessed, to the election committee at the canvassing. An overseer may act on behalf of more than one candidate; however, each person must show the required authorization from each candidate represented. 4. The overseer may question the decision of the canvassers regarding a 	

PROPOSED RULES	REASON PROPOSED
<p>ballot after completion of the canvassing. If questioned, the comments of an overseer will be heard. The canvassers will then vote regarding the acceptability of the ballot with the majority vote ruling.</p> <p>5. A ballot is not valid where the number of votes on the ballot exceeds the number of vacancies in the election. A ballot that does not, in the opinion of a majority of the canvassers, show a clear indication of the voter's intention, may not be counted.</p> <p>6. If the percentage of votes received by the candidate receiving the highest number of votes is less than one percent more than the votes received by the candidate receiving the next highest number of votes, the board shall order a recount.</p> <p>7. Tie votes will be determined by a coin toss. If this procedure is necessary, the election committee will establish and notify the tied candidates of the procedure and location for resolving the tie.</p> <p>8. <u>If the committee should determine that the outcome of the election has been compromised for any reason, the committee may determine the election to be invalid. If the election is determined to be invalid, the committee shall call for a new election with a new election schedule.</u></p>	<p>Provides the Board authority to call an election and conduct a new election should it determine and election was invalid.</p>

PROPOSED RULES	REASON PROPOSED
<p>History: Effective April 1, 1992; amended effective April 1, 2008, _____, 2010</p> <p>General Authority: NDCC 54-52-04</p> <p>Law Implemented: NDCC 54-52-03</p>	
<p>Subsection 14 of Section 71-02-01-01 is amended as follows:</p> <p style="text-align: center;">CHAPTER 71-02-01 DEFINITIONS</p> <p>71-02-01-01. Definitions. As used in North Dakota Century Code chapter 54-52 and this article:</p> <ol style="list-style-type: none"> 1. "Accumulated contributions" means the total of all of the following: <ol style="list-style-type: none"> a. The employee account fund balance accumulated under the prior plan as of June 30, 1977. b. The vested portion of the employee's "vesting fund" accumulated under the prior plan as of June 30, 1977. c. The member's mandatory contributions made after July 1, 1977. d. The member's vested employer contributions made after January 1, 2000, pursuant to North Dakota Century Code section 54-52-11.1. e. The interest on the sums determined under subdivisions a, b, c, and d, compounded annually at the rate of five percent from July 1, 1977, to June 30, 1981, six percent from July 1, 1981, through June 30, 1986, and one-half of one percent less than the actuarial interest assumption from July 1, 1986, to the member's termination of employment or retirement. f. The sum of any employee purchase or repurchase payments. 2. "Actuarial equivalent" means a benefit calculated to be of equal value to the benefit otherwise payable when computed on the basis of assumptions and methods adopted for this 	

PROPOSED RULES	REASON PROPOSED
<p>purpose by the board.</p> <p>3. "Alternative retirement system" means the teachers' fund for retirement, the highway patrolmen's retirement system, and the teachers' insurance and annuity association of America.</p> <p>4. "Beneficiary" means any person in receipt of a benefit provided by this plan or any person designated by a participating member to receive benefits.</p> <p>5. "Bonus" means cash compensation for services performed in addition to base salary excluding commission and shift differentials. Bonus does not include lump sum payments of sick leave provided under North Dakota Century Code section 54-06-14 or lump sum payments of annual leave or vacation pay.</p> <p>6. "Claim" means the right to receive a monthly retirement allowance, the receiving of a retirement allowance, or the receiving of a disability benefit.</p> <p>7. "Continuously employed" means any period of employment uninterrupted by voluntary or involuntary termination or discharge. A member who has taken a leave of absence approved by the member's employer, not to exceed a year unless approved by the executive director, and returns to employment shall be regarded as continuously employed for the period.</p> <p>8. "Contribution" means the payment into the fund as a percentage of the salary of a member.</p> <p>9. "Correctional officer" means a person who has completed a correctional officer course approved or certified by the North Dakota department of corrections and rehabilitation and is employed by a correctional facility as defined in North Dakota Century Code chapter 12-44.1.</p> <p>10. "County judge" means a judge who was elected pursuant to North Dakota Century Code section 27-07.1-01 or an individual holding the position of county judge, county justice, or judge of county court prior to the general election in 1982, who meets all the eligibility</p>	

PROPOSED RULES	REASON PROPOSED
<p>requirements established under North Dakota Century Code chapter 54-52.</p> <p>11. "Interruption of employment" is when an individual is inducted (enlists or is ordered or called to active duty into the armed forces of the United States) and leaves an employment position with a state agency or political subdivision, other than a temporary position. The individual must have left employment to enter active duty and must make application in accordance with the Uniformed Services Employment and Reemployment Rights Act.</p> <p>12. "Leave of absence" means the period of time up to one year for which an individual may be absent from covered employment without being terminated. At the executive director's discretion, the leave of absence may be extended not to exceed two years, or indefinitely if the leave of absence is due to interruption of employment.</p> <p>13. "Medical consultant" means a person or committee appointed by the board of the North Dakota public employees retirement system to evaluate medical information submitted in relation to disability applications, recertifications, and rehabilitation programs or other such duties as assigned by the board.</p> <p>14. "Normal retirement age", <u>except for members of the national guard and law enforcement,</u> means age sixty-five except as <u>unless</u> otherwise provided. <u>For members of the national guard and law enforcement, normal retirement age means age 55, unless other wise provided.</u></p> <p>History: Amended effective September 1, 1982; November 1, 1990; September 1, 1991; January 1, 1992; September 1, 1992; June 1, 1993; July 1, 1994; June 1, 1996; July 1, 2000; April 1, 2002; May 1, 2004; July 1, 2006, _____, 2010</p> <p>General Authority: NDCC 54-52-04</p> <p>Law Implemented: NDCC 54-52</p>	<p>Clarifies the definition for Normal Retirement Age as Age 65 for all plans except National Guard and Law Enforcement which is age 55.</p>

PROPOSED RULES	REASON PROPOSED
<p>Subsections 2 and 6 of Section 71-02-03-02.2 are amended as follows:</p> <p>71-02-03-02.2. Payment. The total dollar amount for the purchase or repurchase may be paid in a lump sum or on a monthly, quarterly, semiannual, or annual basis. Payments may be subject to contribution limitations established under 26 U.S.C. 415. Payments must begin within ninety days of the date the written cost confirmation is prepared. If the installment method is used, the following conditions apply:</p> <ol style="list-style-type: none"> 1. Simple interest at the actuarial rate of return must accrue monthly on the unpaid balance. Interest is calculated from the fifteenth of each month. 2. The installment schedule may extend for as long as <u>while</u> the employee is employed by a participating employer <u>but for no longer than a 15 year time period.</u> 3. Installment payments may be made by a payroll deduction where available. However, it is the responsibility of the member to initiate and terminate the payroll deduction. 4. Payments may only be received until the fifteenth of the month following the month of the member's termination date with a participating employer. 5. Payments are due by the fifteenth of the month to be credited for the month. 6. <u>Payments must be greater or equal to fifty dollars per month, large enough to pay the current interest plus a portion of principal and an amount necessary to</u> 	<p>Sets minimum payment amount pertaining to payments for service credit purchases and establishes a maximum payment schedule of 15 years. This allows NDPERS to create an amortization schedule for the member with payments sufficient to pay off the purchase contract by the end of the contract term, which will alleviate allowing member's to purchase with a minimum payment amount that only gets applied towards interest and not the principal of the purchase contract (reviewed and approved by the Board at the August 20, 2009 meeting).</p>

PROPOSED RULES	REASON PROPOSED
<p style="text-align: center;"><u>complete the payment contract within the 15 year time period.</u></p> <p>History: Effective November 1, 1990; amended effective July 1, 1994; June 1, 1996; May 1, 2004; July 1, 2006, _____, 2010.</p> <p>General Authority: NDCC 54-52-02.6, 54-52-04, 54-52-17, 54-52-17.2, 54-52-17.4</p> <p>Law Implemented: NDCC 54-52-02.6, 54-52-17, 54-52-17.2, 54-52-17.4</p>	
<p>Section 71-02-03-02.4 is amended as follows:</p> <p>71-02-03-02.4. Crediting purchased or repurchased service. Service purchased or repurchased will be credited in the following manner:</p> <ol style="list-style-type: none"> 1. The member's record must be updated with the additional service credit once the account is paid in full <u>For each month the system receives a payment towards a purchase contract, the member will earn a proportion of service credit.</u> 2. If the member takes a refund, retires, or the member's account is closed due to delinquency, service credit must be granted by taking the months of service credit being purchased times the percentage paid. The percentage is determined by taking the total payments made toward the purchase divided by the total amount to be paid over the term of the 	<p>Due to new business system, NDPERS will be able to pro-rate service credit each time a payment is received, rather than upon completion or closing of a purchase contract. The changes made under this section allow us to apply a proportion of service based upon a payment being received. Also addresses conversion of service from main to judges credit for eligible judges, specifically addressing when their account will be transferred from main to the judges plan (reviewed and approved by the Board at the August 20, 2009 meeting).</p>

PROPOSED RULES	REASON PROPOSED
<p>purchase. Service credit equal to a fraction is deemed to be a whole month of service credit.</p> <p>3. For members converting service under the public employees retirement system to service under the judge's retirement system, each month of county judge service under the public employees retirement system will be converted to one month of judicial service credit. <u>The account balance from the public employee's retirement system will be transferred to the judge's retirement system account once the contract is paid in full or closed.</u></p> <p>History: Effective November 1, 1990; amended effective July 1, 1994; June 1, 1996; May 1, 2004, _____, 2010.</p> <p>General Authority: NDCC 54-52-02.6, 54-52-04, 54-52-17, 54-52-17.2, 54-52-17.4</p> <p>Law Implemented: NDCC 54-52-02.6, 54-52-17, 54-52-17.2, 54-52-17.4</p>	
<p>Subsection 6 of section 71-02-03-07 is amended as follows:</p> <p>71-02-03-07. Employer purchase of service credit or sick leave program. An employer may elect to purchase up to five years of service credit for an employee and purchase an employee's unused sick leave that meets the requirements of section 71-02-03-08. Before offering a purchase program to its employees, the employer must create a program and an</p>	<p>Clarifies timeline for an employer to pay for a purchase on behalf of an employee to make it based on member's termination and not retirement, which can occur many years after a member leaves employment.</p>

PROPOSED RULES	REASON PROPOSED
<p>employer must document the program in writing and submit a copy to the public employees retirement system. The governing authority of the employer shall also submit to the executive director of the public employees retirement system a letter indicating:</p> <ol style="list-style-type: none"> 1. The program meets all the requirements of the North Dakota Century Code. 2. The program meets all applicable federal requirements. 3. The employer agrees to remit to the public employees retirement system a lump sum payment of the cost of the purchase upon being billed. 4. The employer has not given the employee the option of a cash payment in lieu of the employer purchase. 5. The employer shall clearly specify who is eligible for the program and indicate if the program is intended to be permanent or will be for a specific time period only. 6. The employer agrees that all purchases for service credit will be based upon actuarial cost as determined by the public employees retirement system and all unused sick leave purchases will be based upon the computation specified in the North Dakota Century Code. The employer also agrees that all purchases will be completed no later than the <u>15th of the month following the month of the employee's retirement termination</u> or sixty days from the date the employer and employee agree to the purchase, whichever comes first. <p>History: Effective May 1, 2004; amended effective July 1, 2006; April 1, 2008, _____, 2010 .</p>	

PROPOSED RULES	REASON PROPOSED
<p>General Authority: NDCC 54-52-04</p> <p>Law Implemented: NDCC 54-52-17.4, 54-52-29</p>	
<p>Subsections 2 and 3 of section 71-02-04-02 are amended as follows:</p> <p>71-02-04-02. Special retirement options - Application.</p> <ol style="list-style-type: none"> 1. A member may elect a retirement option by filing an application with the office no less than thirty days prior to the beginning date of benefit payments. An application may be filed later than thirty days if approved by the executive director upon receiving sufficient evidence that the application was delayed by the member's employer. 2. A member may revoke the election of an optional benefit as provided in subsection 1 and make a new election, if such revocation is received in writing before the first retirement check is cashed but no later than fifteen days after the first retirement check has been issued. If the member changes the member's election less than fifteen days prior to the named beginning date of benefits, the first retirement payment may be delayed up to two months. Any delayed payment must be adjusted to include any deferred retirement payments. <u>If the member's first retirement payment is paid by direct deposit and the member</u> 	<p>Establishes process and timeframe for a new retiree to make a benefit change in the event the receiver has their first payment deposited directly into a bank account. The new business system will allow us to pay first payments through direct deposit and therefore, rules needed to be added to address benefit change.</p>

PROPOSED RULES	REASON PROPOSED
<p><u>wishes to revoke the election of the benefit, then the member must immediately notify NDPERS of their election. The benefit will only be revoked if NDPERS is able to reverse the direct deposit paid to the bank within the bank reversal window.</u></p> <p>3. A member may not revoke the elected benefit after receiving and cashing the first benefit check <u>or if paid by direct deposit, after the bank reversal window has expired</u>, unless, the member can provide sufficient evidence to the executive director that the factual basis by which the election was made later proved to be incorrect and such was due in part to representation or misrepresentations made by the employer or the office.</p> <p>History: Amended effective November 1, 1990; May 1, 2004, . _____, 2010 General Authority: NDCC 54-52-04, 54-52-17 Law Implemented: NDCC 54-52-17</p>	
<p>Section 71-02-04-03 is amended as follows:</p> <p>71-02-04-03. Payment date - Retirement benefits. Except for retirement options provided in section 71-02-04-02, a member’s retirement benefit shall commence on the first day of the month which follows the member’s eligibility for the benefit and which is at least thirty days after the date on which the member filed an application with the office. Notwithstanding any other provision in this article, benefits must</p>	

PROPOSED RULES	REASON PROPOSED
<p>begin no later than April first of the calendar year after the calendar year in which the member retires or attains the age of seventy and one-half years, whichever is later. If the member is employed but ineligible for active participation in the retirement plan, the member's benefits must begin no later than April first of the calendar year after the calendar year in which the member attains the age of seventy and one-half years. In the absence of a retirement application, benefits shall be paid based on a single life, <u>or normal retirement for judges</u>, payment option. Benefits must be sent to the member's last-known address. If the benefit checks are returned with no forwarding information, the benefits will remain in the fund, and will be distributed in a lump sum retroactive to the required beginning date upon location of the member.</p> <p>History: Amended effective November 1, 1990; July 1, 1994; July 1, 2000, _____, 2010.</p> <p>General Authority: NDCC 54-52-04, 54-52-17</p> <p>Law Implemented: NDCC 54-52-17</p>	<p>Clarifies that the for the Judges plan the benefit is a Normal retirement wherever all other plans the benefit is a Single Life plan. The Normal retirement benefit for Judges provides an unreduced 50% surviving spouse benefit.</p>
<p>Section 71-02-04-04 is amended as follows:</p> <p>71-02-04-04. Optional benefits. A member may elect, as provided in section 71-02-04-02, to receive one of the following optional benefits in lieu of the regular single life, <u>or normal for judges</u>, retirement benefit.</p> <p>1. One hundred percent joint and survivor benefit. A member shall</p>	<p>Removes descriptive language for Level Social Security Option, Partial Lump Sum Option and the Deferred Normal Retirement Option as they are outlined in a new section that provides details on benefit modifications.</p>

PROPOSED RULES	REASON PROPOSED
<p>receive an actuarially reduced retirement benefit during the member's lifetime and after the member's death the same amount will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. Payments of benefits to a member's surviving spouse shall be made on the first day of each month commencing on the first day of the month following the member's death, providing the beneficiary has supplied a marriage certificate and death certificate and is still living. Benefits shall terminate in the month in which the death of the beneficiary occurs. In the event the designated beneficiary predeceases the member or, in the event of divorce, the option shall be canceled and the member's benefit shall be returned to the single life amount. Payment of the single life amount shall commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree.</p> <p>2. Fifty percent joint and survivor benefit. A member shall receive an actuarially reduced retirement benefit during the member's lifetime and after the member's death one-half the rate of the reduced benefit will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. Payments of benefits to a member's surviving spouse shall be made on the first day of each month commencing on the first day of the month following the member's death,</p>	

PROPOSED RULES	REASON PROPOSED
<p>providing the beneficiary has supplied a marriage certificate and death certificate and is still living. Benefits shall terminate in the month in which the death of the beneficiary occurs. In the event the designated beneficiary predeceases the member or, in the event of divorce, the option shall be canceled and the member's benefit shall be returned to the single life amount. Payment of the single life amount shall commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree.</p> <p>3. Level social security option. A member who retires prior to receiving social security benefits may elect the level social security option. Under this option, the member's monthly benefit is adjusted so the combined benefits received from the fund and social security remain level before, and after, the date social security benefits begin. The adjusted benefit payable from the fund must be determined on an actuarial equivalent based on an age no earlier than sixty two and no later than full retirement age as specified by the social security administration as chosen in writing by the member. A member is not eligible for the level social security option if it results in a benefit payment of less than one hundred dollars per month. A member shall submit an estimated benefit from social security that was computed no more than six months before commencement of retirement benefits.</p>	

PROPOSED RULES	REASON PROPOSED
<p>4. Twenty-year or ten-year certain option. A member may elect an option which is the actuarial equivalent of the member's normal, early, or deferred vested retirement pension payable for life with a twenty-year or ten-year certain feature, as designated by the member.</p> <p>5. Partial lump sum option. The partial lump sum option will only be available to members who retire on or after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve monthly payments determined under the single life annuity option. The member is permitted to choose one of the optional forms of payment, excluding the level social security income option, for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.</p> <p>6. Deferred normal retirement option. The deferred normal retirement option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The ongoing benefits will be actuarially increased to reflect the lump sum.</p>	

PROPOSED RULES	REASON PROPOSED
<p>History: Amended effective September 1, 1982; November 1, 1990; July 1, 1994; May 1, 2004; July 1, 2006; April 1, 2008, _____, 2010.</p> <p>General Authority: NDCC 54-52-04, 54-52-17</p> <p>Law Implemented: NDCC 54-52-17</p>	
<p>Section 71-02-04-04.1 is created as follows:</p> <p><u>71-02-04-04.1. Benefit Modifications.</u> A member may elect as provided in section 71-02-04-02, to receive one of the following benefit modifications.</p> <p>1. <u>Level social security option.</u> A member who retires prior to receiving social security benefits may elect the level social security option. Under this option, the member's monthly benefit is adjusted so the combined benefits received from the fund and social security remain level before, and after, the date social security benefits begin. The adjusted benefit payable from the fund must be determined on an actuarial equivalent based on an age no earlier than sixty-two and no later than full retirement age as specified by the social security administration as chosen in writing by the member. A member shall submit an estimated benefit from social security that was computed no more than six months before commencement of retirement benefits. A member may only select this option if they have selected to receive a single life/normal retirement option.</p>	<p>A new section which establishes benefit modifications specific to the Level Social Security Option, Partial Lump Sum Option, Deferred Normal Retirement Option and the Graduated Benefit Option (graduated benefit option rules reviewed and approved at the March 19, 2009 Board meeting). Also, section specific to Level Social Security Option does not include requirement that benefit payment be greater than \$100 to select the Level Social Security Option.</p>

PROPOSED RULES	REASON PROPOSED
<p>2. <u>Partial lump sum option.</u> The partial lump sum option will only be available to members who retire on or after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve monthly payments determined under the single life annuity option. The member is permitted to choose one of the optional forms of payment as defined in 71-02-04-04 for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.</p> <p>3. <u>Deferred normal retirement option.</u> The deferred normal retirement option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The member is permitted to choose one of the optional forms of payment as defined in 71-02-04-04. The ongoing benefits will be actuarially increased to reflect the lump sum.</p> <p>4. <u>Graduated benefit option.</u> The graduated benefit option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The member is permitted to choose one of the optional forms of payment for ongoing benefits</p>	

PROPOSED RULES	REASON PROPOSED
<p><u>as defined in 71-02-04-04. The ongoing benefits will be actuarially reduced to reflect the election of the graduated benefit option.</u></p> <p>History: Created effective _____, 2010</p> <p>General Authority: NDCC 54-52-04, 54-52-17</p> <p>Law Implemented: NDCC 54-52-17</p>	
<p>71-02-04-07. Amount of early retirement benefit.</p> <p>1. Except for members of the national guard, the early retirement benefit shall be an amount actuarially reduced from the single life retirement benefit by one-half of one percent for each month (six percent per year) that the member is younger than the age at which the member would be at the member's normal retirement date on the date the member's early retirement benefit commence<u>effective date</u>.</p> <p>2. For members of the national guard, the early retirement benefit must be an amount actuarially reduced from the single life retirement benefit by one-half of one percent for each month (six percent per year) that the member is younger than age fifty-five on the date of the member's early retirement benefit commence<u>effective date</u>.</p> <p>History: Amended effective September 1, 1982; June 1, 1996; April 1, 2002; May 1, 2004; July 1, 2006.</p> <p>General Authority: NDCC 54-52-04, 54-52-17</p> <p>Law Implemented: NDCC 54-52-17</p>	<p>Clarifies early retirement reduction is based on member's retirement effective date, not date paid.</p>

PROPOSED RULES	REASON PROPOSED
<p>Section 71-02-04-10 is amended as follows:</p> <p>71-02-04-10. Erroneous payment of benefits - Overpayments.</p> <ol style="list-style-type: none"> 1. An "overpayment" means a payment of money by the public employees retirement system that results in a person receiving a higher payment than the person is entitled to under the provision of the retirement plan of membership. 2. A person who receives an overpayment is liable to refund those payments upon receiving a written explanation and request for the amount to be refunded. All overpayments must be collected using the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like gains. If the cost of recovering the amount of the overpayment is estimated to exceed the overpayment, the repayment is considered to be unrecoverable. 3. If the overpayment of benefits was not the result of any wrongdoing, negligence, misrepresentation, or omission by the recipient, the recipient may make repayment arrangements subject to the executive director's approval within sixty days of the written request for refund <u>notice of overpayment</u> with the minimum repayment amount no less than fifty dollars per month with the total repayment period not to exceed thirty-six months. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial 	<p>Amendments to the recovery of overpayments of benefits are a result of more functionality of new NDPERS business. The repayment time period was added previously as NDPERS had no automated functionality to bill a member or tracking repayment schedules.</p>

PROPOSED RULES	REASON PROPOSED
<p>equivalent of the overpayment is spread over the individual's benefit payment period.</p> <p>4. If the overpayment of benefits was the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the recipient, the recipient is liable to pay interest charges at the rate of six percent on the outstanding balance <u>to compensate the fund for lost earnings</u>; from the time the erroneous benefit was paid through the time it has been refunded in full, plus applicable interest. <u>Recovered funds are first applied to interest, and if any amount is left over, that amount is applied to principal</u>. The recipient may make repayment arrangements, subject to the executive director's approval, within sixty days of the written request for refund with the minimum repayment amount no less than fifty dollars per month with the total repayment period not to exceed thirty-six months. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the individual's benefit payment period.</p> <p>5. If an individual dies prior to fully refunding an erroneous overpayment of benefits, the public employees retirement system must make application to the estate of the deceased to recover the remaining balance.</p> <p>History: Effective June 1, 1996; amended effective April 1, 2002; July 1, 2006; April 1, 2008, _____, 2010.</p>	<p>These amendments to mirror what is in the Highway Patrol overpayment rules. Both sections are being amendment to mirror each other.</p>

PROPOSED RULES	REASON PROPOSED
<p>General Authority: NDCC 54-52-04, 54-52-17</p> <p>Law Implemented: NDCC 39-03.1-25, 54-52-17</p>	
<p>Subsection 1 of section 71-02-05-07.1 is amended as follows:</p> <p>71-02-05-07.1. Judges’ retirement plan optional benefits. For the judges’ retirement plan, an individual deemed eligible for a disability benefit may elect, as provided in this section, to receive one of the following optional benefits in lieu of the regular disability benefit. Under no circumstances is an option available if the calculation of the optional benefit to which the member is entitled results in an amount which is less than one hundred dollars.</p> <p>1. One hundred percent joint survivor benefit. A member shall receive an actuarially reduced disability retirement benefit as long as the member remains eligible for benefits under subdivision e of subsection 3 of North Dakota Century Code section 54-52-17 and after the member’s death the same amount will be continued to the member’s surviving spouse during the spouse’s lifetime. The designated beneficiary is limited to the member’s spouse. Payments of benefits to a member’s surviving spouse must be made on the first day of each month commencing on the first day of the month following the member’s death, provided the beneficiary is still living and has supplied a marriage certificate and the member’s death certificate. Benefits terminate in the month in which the death of the beneficiary occurs. In the event the designated beneficiary predeceases the member or, in the event of divorce, the option must be canceled and the member’s benefit must be returned to the single-life <u>normal</u></p>	

PROPOSED RULES	REASON PROPOSED
<p><u>retirement</u> amount. Payment of the normal retirement amount must commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree.</p>	
<p>Section 71-02-05-09 is amended as follows:</p> <p>71-02-05-09. Interest accrual on accumulated contributions for disabled annuitants. Effective January 1, 1998, interest must accrue on accumulated contributions as defined in article 71-02 until the disabled annuitant reaches that person's normal retirement date<u>age</u>, cancels benefit in accordance with 71-02-05-03, the account is closed, or until benefit payments commence to the member's beneficiary.</p> <p>History: Effective July 1, 1998; amended effective May 1, 2004; July 1, 2006, _____, 2010,</p> <p>General Authority: NDCC 54-52-04</p> <p>Law Implemented: NDCC 54-52-17</p>	<p>Amendment to clarifies when interest accrual on a disability account must end.</p>
<p>Subdivision a of subsection 1 of Section 71-02-06-01 is amended as follows:</p> <p>71-02-06-01. Conditions for return.</p> <p>1. The accumulated contributions of a member who terminates permanent</p>	<p>In compliance with federal law, this section provides clarification regarding contributions to be returned to a non-vested member upon termination of employment if their account balance is less than \$1000.00.</p>

PROPOSED RULES	REASON PROPOSED
<p>employment:</p> <ol style="list-style-type: none"> a. Before accumulating three years of service credit <u>and whose account balance is less than \$1000.00</u> shall be automatically refunded unless the member elects to remain in an inactive status. b. After accumulating three years of service credit shall be refunded upon application filed with the executive director. c. The termination date for purposes of processing an application for refund or rollover must be the last date for which a member receives salary except for a member who is on an approved leave of absence. For members who are paid salary in any month following actual separation from employment if the salary is received after the normal processing date, the termination date for purposes of processing the application must be the same date as the date that the last paycheck was issued as salary. <p>2. Retirement contributions must be returned if a membership enrollment application form has not been filed with the office. Contributions will be returned until proper membership enrollment forms have been filed.</p> <p>History: Amended effective November 1, 1990; June 1, 1996; July 1, 1998; July 1, 2000; May 1, 2004, _____, 2010</p> <p>General Authority: NDCC 54-52-04</p> <p>Law Implemented: NDCC 54-52-06, 54-52-17</p>	

PROPOSED RULES	REASON PROPOSED
<p>Section 71-02-07-02 is amended as follows:</p> <p>71-02-07-02. Return to service - Retired member. The benefits of a retired member who returns to permanent employment shall be suspended without interest accruing on the suspended account, except as provided in subsection 1 of North Dakota Century Code section 54-52-05. Upon subsequent termination, the member's benefit shall be recalculated as follows:</p> <p>1. If the period of subsequent employment is less than two years, the member may elect:</p> <p>a. A return of the member's contributions made after reemployment, and the suspended benefit restored, adjusted for the member's age at subsequent termination and for benefit payments received prior to reemployment; or</p> <p>b. A recalculation of the member's benefit based on the benefit provisions in effect at the member's initial retirement, but adjusted to take account of age at final retirement, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment.</p> <p>2. 1. If the period of subsequent employment is more than two years, t<u>The member's benefit shall be based on the benefit provisions in effect at final retirement and shall include the member's and spouse's age and salary earned during the period of reemployment, and together with total service credits earned before and after reemployment, adjusted to take account of benefit payments received prior to reemployment. If a different option is selected at the second retirement date, the member and ofice will submit information as required to make an actuarial determination of the elected benefit and the related payment of such.</u></p> <p>3. 2. If a member dies during subsequent employment, the member's initial retirement bene fit option election will apply. If a benefit election was an optional benefit under subsection 1 or 2 of section 71-02-04-04, then the member's benefit must be recalculated based on the benefit provisions in effect at the member's initial retirement, but adjusted to take account of age at death, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment. t<u>The member's benefit shall be based on the benefit provisions in effect at final retirement and shall include the member and spouses's ages , salary earned during the period of reemployment, and total service credits earned before and after reemployment, adjusted to take account of bene fit payments received prior to reemployment.</u></p> <p>History: Amended effective November 1, 1990; July 1, 1998; May 1, 2004; July 1,</p>	<p>Removing the refund option for retired members who return to work and subsequently retire. All service earned during the subsequent employment will be combined with the member's previous retirement benefit.</p> <p>Amendment also to clarify that member's monthly benefit will be recalculated based on the factors at final retirement.</p>

PROPOSED RULES	REASON PROPOSED
<p>2006, _____, 2010 . General Authority: NDCC 54-52-04, 54-52-17 Law Implemented: NDCC 54-52-17</p>	
<p>Section 71-02-11-04 is amended as follows:</p> <p>71-02-11-04. Payment. The cost for purchase of eligible military service in the North Dakota public employees retirement system and the North Dakota highway patrolmen’s retirement system is as follows:</p> <ol style="list-style-type: none"> 1. The cost for any required employee contributions to be paid by the member may be paid in a lump sum or in installments pursuant to the rules established for purchase or repurchase payment under subsection 1, 2, or 3 of section 71-02-03-02.2. If retirement occurs before purchase is complete, service being purchased will not be credited to the account for retirement purposes until the payment is complete. If no payments have been made, no credit will be awarded. To prevent any delay in issuing the employee’s first retirement check, purchase must be completed at least thirty days prior to retirement date. 2. The employer cost will be assessed to the member’s most recent participating employer. Upon being billed by the North Dakota public employees retirement system, the participating employer will have thirty days in which to make payment in full. If, after sixty days, the employer has not made payment in 	<p>These changes modify the process for crediting purchased eligible military service credit.</p>

PROPOSED RULES	REASON PROPOSED
<p>full, a civil penalty on fifty dollars will be assessed, and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.</p> <p>3. If the employer contributions are paid and the member becomes delinquent for required employee contributions, then the public employees retirement system will prorate the credit the employee contributions have paid for by the member and this credit will be added to the member's file.</p> <p>History: Effective September 1, 1991; amended effective May 1, 2004; July 1, 2006, _____, 2010 .</p> <p>General Authority: NDCC 54-52-04</p> <p>Law Implemented: NDCC 54-52-17.4(5), 54-52-17.14</p>	
<p>Subsections 2 and 3 of Section 71-03-03-01 are amended as follows:</p> <p>71-03-03-01. Enrollment. An eligible employee is entitled to coverage the first of the month following the month of employment, provided if the employee submits an application for coverage within the first thirty-one days of employment or eligibility for one of the following special enrollment periods:</p> <ol style="list-style-type: none"> 1. Loss of coverage under any other health insurance plan. 2. Addition of a spouse <u>Marriage</u>. An employee who previously waived coverage must is also eligible to enroll for coverage at the time the employee's 	<p>Clarifies and updates language to be consistent with group health contract.</p>

PROPOSED RULES	REASON PROPOSED
<p>spouse is enrolled.</p> <p>3. Addition of a dependent as a result of birth, adoption, placement for adoption, receiving legal guardianship, or receiving a court order to provide health coverage. An employee who previously waived coverage must is also eligible to enroll for coverage at the same time that the employee's eligible dependent is enrolled.</p> <p>History: Effective October 1, 1986; amended effective July 1, 1994; June 1, 1996; July 1, 1998, _____, 2010 .</p> <p>General Authority: NDCC 54-52.1-08</p> <p>Law Implemented: NDCC 54-52.1-03</p>	
<p>Section 71-03-04-01 is amended as follows:</p> <p>71-03-04-01. Employer contribution. Each agency shall pay to the board the full amount of the employer contribution by the fifteenth of each month. The agency will verify the number of eligible employees and the level of coverage for each. An employee is eligible for an employer contribution for the month following the month of employment. <u>If an eligible employee terminates employment prior to the effective date of coverage, no employer contribution is required.</u> The employer contribution ends the month following the month of termination of employment. When an employee transfers from one state agency to another, the new agency is responsible for the payment of the premium for the first of the month following employment.</p> <p>History: Effective October 1, 1986; amended effective November 1, 1990, _____, 2010 .</p> <p>General Authority: NDCC 54-52.1-08</p> <p>Law Implemented: NDCC 54-52.1-06</p>	<p>Adds language to clarify that employer contributions are not payable if employee terminates prior to effective date of coverage.</p>
<p>Section 71-03-04-05 is amended as follows:</p>	

PROPOSED RULES	REASON PROPOSED
<p>71-03-04-05. Premium for basic term life insurance. All state departments and those political subdivisions that elect to participate in the group life insurance program must pay the board the full premium for the basic term life insurance for each of its eligible employees.</p> <p>History: Effective October 1, 1986; amended effective July 1, 1994; July 1, 1998, _____, 2010 .</p> <p>General Authority: NDCC 54-52.1-08</p> <p>Law Implemented: NDCC 54-52.1-01(7)</p>	<p>Removes language referring to political subdivision employer responsibilities as this is addressed in 71-03-07.</p>
<p>Section 71-03-05-05 is amended as follows:</p> <p>71-03-05-05. Appeal process. If an employee’s application for benefits has been denied in whole or in part by the board or its agent, the employee will be notified in writing of the denial and the reasons. Within sixty days of the date shown on the denial notice, the employee may file a petition for review. The petition must be in writing, the reasons stated for disputing the denial and be accompanied by any <u>documentary</u> material. Should the employee filing a petition for review, or should the board or its agent desire information which cannot be presented satisfactorily by correspondence, the board or its designated appeals committee may schedule a hearing. The person filing the appeal will be notified in writing at least fifteen days prior to hearing of the time, date, and place.</p> <p>The board or its agent will render a decision as soon as possible, but not later than one hundred twenty days after the receipt of the petition for review. The</p>	<p>Corrects terminology.</p>

PROPOSED RULES	REASON PROPOSED
<p>decision will be in writing.</p> <p>History: Effective October 1, 1986; amended effective November 1, 1990, _____, 2010 .</p> <p>General Authority: NDCC 54-52.1-08</p> <p>Law Implemented: NDCC 54-52.1-08</p>	
<p>Subdivision a of subsection 4 of Section 71-03-05-08 is amended as follows:</p> <p>71-03-05-08. Erroneous payment of premiums - Underpayments.</p> <ol style="list-style-type: none"> 1. An "underpayment" means a payment of money to the public employees retirement system for group insurance premiums that is less than the premiums due for the level of coverage that should have been in effect. Underpayment of premium is solely an error in the amount of premium billed to the individual. 2. An individual who underpays premiums is liable to pay those premiums upon receiving a request for repayment and an explanation of the amount due from the executive director. All underpayments must be collected using the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like gains. If the cost of 	

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<p>recovering the underpayment is estimated to exceed the amount of the underpayment, the underpayment is considered to be unrecoverable.</p> <p>3. If an underpayment is discovered in the first month it occurs, the individual must pay the amount due in a lump sum within thirty days of the discovery of the error.</p> <p>4. If an underpayment is not discovered within the first month it occurs, the following will apply:</p> <p>a. If not the result of any wrongdoing, negligence, misrepresentation, or omission by the individual, then the individual must make arrangements within sixty days of receiving written notification to either pay by lump sum or installments. The installment payment schedule is subject to approval by the executive director with the minimum repayment amount no less than fifty dollars a month. with the total repayment period not to exceed thirty-six months. If repayment arrangements are not in place within sixty days of the date of the written request for repayment, the executive director shall authorize payment to be made in three equal installments, using the same payment method the individual has authorized for paying current monthly premiums.</p>	<p>Removes language referencing maximum repayment period.</p>

PROPOSED RULES	REASON PROPOSED
<p>b. If underpayment is the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the individual, underpayments must be made in full within sixty days of written notification.</p> <p>5. If an underpayment occurs and the individual no longer participates in the group insurance, any premium amounts due are immediately payable.</p> <p>6. If the individual dies prior to paying in full, then the public employees retirement system must make application to the estate of the deceased to recover the remaining balance.</p> <p>7. If the individual refuses to repay the underpayment, or the underpayment is not paid in full, coverage will be canceled retroactive to the first day of the month following the month for which full premium payment was received. The public employees retirement system will provide written notice advising the individual that payment in full must be received within thirty days of the written notification to reinstate coverage retroactively to the date that coverage was canceled.</p> <p>History: Effective April 1, 2002; amended effective April 1, 2008, _____, 2010.</p> <p>General Authority: NDCC 54-52.1-08</p>	

PROPOSED RULES	REASON PROPOSED
<p>Law Implemented: NDCC 54-52.1-08</p>	
<p>Section 71-03-06-01 is amended as follows:</p> <p>71-03-06-01. Enrollment. 4. New <u>An</u> eligible employee of a participating political subdivision are <u>is</u> entitled to coverage the first of the month following the month of employment, if the employee submits an application for coverage within the first thirty-one days of employment, or eligibility for one of the following special enrollment periods:</p> <ol style="list-style-type: none"> 1. Loss of coverage under any other health insurance plan. 2. Marriage. The enrollment of an employee's spouse. An employee who previously waived coverage <u>must</u> is also eligible to enroll for coverage at the time the employee's spouse is enrolled. 3. Addition of a dependent as a result of birth, adoption, <u>placement for adoption</u> receiving legal guardianship, or receiving a court order to provide health coverage. An employee who previously waived coverage <u>must</u> is also eligible to enroll for coverage at the same time that the employee's eligible dependent is enrolled. <p>2. Eligible employees of qualifying political subdivisions are entitled to individual coverage if the political subdivision for which the employee works does not offer its employees a group health insurance plan and the employee submits an application for coverage within the first thirty-one days of employment or eligibility for one of the special enrollment periods as follows:</p> <ol style="list-style-type: none"> a. Loss of coverage under any other health insurance plan. b. Marriage. The enrollment of an employee's spouse. An employee who previously waived coverage is also eligible to enroll for coverage at the time the employee's spouse is enrolled. 	<p>Clarifies and updates language to be consistent with group health contract.</p> <p>In compliance with provisions of SB 2153. Removes language relating to eligibility of employees that are employed with a political subdivision that does not offer a group health insurance plan.</p>

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<p>c. Addition of a dependent as a result of birth, adoption, receiving legal guardianship, or receiving a court order to provide health coverage. An employee who previously waived coverage is also</p> <p style="text-align: center;">1</p> <p>eligible to enroll for coverage at the same time that the employee's eligible dependent is enrolled.</p> <p>History: Effective June 1, 1996; amended effective July 1, 1998, _____, 2010. General Authority: NDCC 54-52-04 Law Implemented: NDCC 54-52.1-03.1, 54-52.1-03.4</p>	
<p>Section 71-03-06-02 is amended as follows:</p> <p>71-03-06-02. Late Enrollment. Political subdivisions must follow the same enrollment procedures as outlined in section 71-03-03-02. An eligible employee failing to submit an application for coverage within the first thirty one days of employment or eligibility for a special enrollment period may enroll during the annual open enrollment and may be subject to a six-month waiting period for preexisting conditions. Upon a showing of good cause, the executive director may waive the thirty one day application requirement.</p> <p>History: Effective June 1, 1996; amended effective July 1, 1998; May 1, 2004, _____, 2010 General Authority: NDCC 54-52-04, 54-52.1-03.1 Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1</p>	Removes redundant language.
<p>Section 71-03-06-03 is amended as follows:</p> <p>71-03-06-03. Open <u>Special</u> enrollment for certain qualifying events. Political subdivisions must follow the same enrollment procedures as outlined in section</p>	Changes terminology from “open” to “special” enrollment for consistency.

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<p>71-03-03-05.</p> <p>History: Effective June 1, 1996, _____, 2010. General Authority: NDCC 54-52-04, 54-52.1-03.1 Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1</p>	
<p>Section 71-03-06-05 is amended as follows:</p> <p>71-03-06-05. Continuation of health benefits for dependents. Political subdivisions must follow the same continuation procedure as outlined in section 71-03-03-07. A dependent of an employee with family coverage may continue coverage with the group after the dependent's eligibility would ordinarily cease. An employee's dependent, including a divorced or widowed spouse or children no longer dependent on the employee, may continue with the group after the dependent's eligibility would ordinarily cease. Coverage is limited to a period of thirty-six months and must be discontinued if the payment of the premium is not made in a timely manner. Dependents must notify the retirement board within sixty days of the qualifying event and submit an application in a timely manner. An individual who fails to submit an application to the retirement board within the sixty days is not eligible for coverage.</p> <p>History: Effective June 1, 1996, _____, 2010 . General Authority: NDCC 54-52-04, 54-52.1-03.1 Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1</p>	<p>Removes redundant language.</p>
<p>Section 71-03-06-08 is amended as follows:</p> <p>71-03-06-08. Employee contribution. An employee who is enrolled in the group insurance plan and required by the employing agency to pay a part of the premium must pay the amount due to the employing agency in advance of the employer's payment to the public employees retirement system. The employee's</p>	<p>Removes unnecessary language pertaining to payment of employee contributions. This responsibility is defined in 71-03-07-03 under employer's</p>

PROPOSED RULES	REASON PROPOSED
<p>contribution may be paid by payroll deduction or any other method acceptable to the agency.</p> <p>History: Effective June 1, 1996, _____, 2010 . General Authority: NDCC 54-52-04, 54-52.1-03.1 Law Implemented: NDCC 54-52.1-02, 54-52.1-03.1</p>	<p>responsibility.</p>
<p>Section 71-03-07-01 is amended as follows:</p> <p>71-03-07-01. Employer contribution. Each employer must submit to the board the full monthly premium amount for each eligible employee enrolled in the group insurance plan. The employer must verify the number of eligible employees and the level of coverage for each. <u>An employee is eligible for an employer contribution for the month following the month of employment. If an eligible employee terminates employment prior to the effective date of coverage, no employer contribution is required. The employer contribution ends the month following the month of termination of employment. An employee's coverage must end the month after termination of employment.</u> When an employee transfers from one <u>participating enrolled</u> employer to another, the new employer is responsible for the payment of the submitting the premium for the first of the month following employment.</p> <p>History: Effective June 1, 1996, _____, 2010. General Authority: NDCC 54-52-04, 54-52.1-03.1 Law Implemented: NDCC 54-52.1-03.1</p>	<p>Clarifies the terms for payment of employer contributions to the group health insurance premium.</p>
<p>Section 71-03-07-02,71-03-07-03 and 71-03-07-05 are amended as follows:</p>	

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<p>71-03-07-02. Information to employee. Each employer shall inform <u>its each eligible employees</u> of their <u>employee's</u> right to group insurance and the process necessary to enroll. The employer shall provide each eligible employee such forms as necessary to enroll in the group insurance program.</p> <p>History: Effective June 1, 1996, _____, 2010. General Authority: NDCC 54-52-04, 54-52.1-03.1 Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1</p>	<p>Provides that employer will provide information to all employees regarding coverage rights, not just 'eligible employees.'</p>
<p>71-03-07-03. Collecting employee contributions. Each employer shall collect any employee contribution due and submit it with any the employer contribution to the retirement board each month. <u>The employee's contribution may be paid by any method acceptable to the agency.</u> When an employee on an approved leave of absence requests to continue in the group, the employer shall collect the full amount of the premium from the employee each month and remit it to the retirement board. The minimum employer contribution will be determined by the retirement board and must be consistently applied to all eligible employees.</p> <p>History: Effective June 1, 1996; amended effective May 1, 2004, _____, 2010. General Authority: NDCC 54-52-04, 54-52.1-03.1 Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1</p>	<p>Updates language to provide that the employer may specify the method for collection of any employer premium contribution.</p>

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<p>71-03-07-05. Premium for basic term life insurance. All political subdivisions that elects to participate in the group life insurance program shall <u>must</u> pay to the retirement board the full premium for the basic term life insurance for each of its eligible employees.</p> <p>History: Effective June 1, 1996, _____, 2010 .</p> <p>General Authority: NDCC 54-52-04, 54-52.1-03.1</p> <p>Law Implemented: NDCC 54-52.1-02, 54-52.1-03.1</p>	<p>Updates language for consistency purposes.</p>
<p>Subsections 1 and 10 of Section 71-04-01-01 is amended as follows:</p> <p>71-04-01-01. Definitions. The terms used throughout this title have the same meaning as in North Dakota Century Code section 54-52.2-04, except:</p> <ol style="list-style-type: none"> 1. "Beneficiary" means an individual designated by the participant in the participant agreement to receive benefits under the plan in the event the participant dies. 2. "Compensation" means the total annual remuneration for employment or contracted services received by the participant from the employer. 3. "Deferred compensation" means the amount of compensation not yet earned which the participant and the employer shall mutually agree shall be deferred from current monthly salary in accordance with the provisions of the plan. 4. "Eligible state deferred compensation plan" means a plan established and maintained by this state that complies with the Internal Revenue 	<p>Updates language to reflect current administrative policy.</p>

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<p>Code (IRC) 457(b).</p> <p>5. "Employer" means the state of North Dakota or any of its political subdivisions, institutions, departments, or agencies.</p> <p>6. "Participant" is any employee of a participating employer who executes a participant agreement.</p> <p>7. "Participant agreement" means a written agreement between the employer and a participant setting forth certain provisions and elections relative to the plan, incorporating the terms of the plan and establishing the participant's deferral and participation in the plan.</p> <p>8. "Provider" means any insurance company, federally insured financial institutions, Bank of North Dakota, or registered dealer under North Dakota Century Code chapter 10-04 authorized by the retirement board to provide investment vehicles to employees.</p> <p>9. "Retirement" means separation from service with the employer on a date coincidental with the normal, postponed, early, or disability retirement dates as described in North Dakota Century Code chapter 54-52-17.3.</p> <p>10. "Retirement board" or "<u>board</u>" means the seven persons described in North Dakota Century Code chapter 54-52-03.</p> <p>11. "Separation from service" means that term as defined under Internal Revenue Code section 402(d)(4)(A)(3i) and includes termination of employment with the employer by reason of death, disability, retirement, resignation, or discharge.</p> <p>12. "State" means the state of North Dakota, or any department, institution, or separate agency thereof acting as an employer of the participant.</p>	<p>Standardizes language to be consistent with other definitions of "Retirement board" within administrative rules.</p>

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<p>13. "Unforeseeable emergency" means a severe financial hardship to the participant resulting from a sudden and unexpected illness or accident of the participant, the participant's spouse or dependent of the participant, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.</p> <p>History: Effective April 1, 1989; amended effective July 1, 1994; April 1, 2002; May 1, 2004, _____, 2010.</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p> <p>Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2, 54-52.2-04</p>	
<p>Section 71-04-03-02 is amended as follows:</p> <p>71-04-03-02. Effective date of deferrals. All deferrals are effective the payroll period ending in the month following the month in which the deferral is authorized. Deferrals cannot be <u>requested</u> or authorized <u>during</u> <u>for</u> the month in which income is being earned and a deferral is being requested.</p> <p>History: Effective April 1, 1989, _____, 2010.</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03; IRC 457(b)(4)</p>	<p>Clarifies language relating to effective date of deferrals.</p>
<p>Section 71-04-03-05 and 71-04-03-06 are amended as follows:</p> <p>71-04-03-05. Unforeseeable emergency. A participant who, prior to separation from service, experiences an unforeseeable emergency as defined in section 71-04-01-01 may apply for a partial distribution of the participant's deferred compensation account to the extent reasonably needed to satisfy the financial need. The participant may make application by completing a financial hardship form and delivering it to the retirement board offices.</p>	<p>Eliminates the term "partial" as it relates to emergency withdrawals.</p>

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<p>History: Effective April 1, 1989; amended effective July 1, 1994; April 1, 2002, _____, 2010.</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p> <p>Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2</p>	
<p>71-04-03-06. Termination of participation. Participation in the plan may be terminated at any time by completion of a participant agreement indicating an elimination suspension of monthly deferrals.</p> <p>History: Effective April 1, 1989; amended effective July 1, 1994; April 1, 2002; May 1, 2004, _____, 2010.</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p> <p>Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2</p>	<p>Updates language for consistency purposes.</p>
<p>Sections 71-04-04-01, 71-04-04-02, 71-04-04-03, 71-04-04-04, 71-04-04-05, 71-04-04-06, 71-04-04-07 and 71-04-04-10 are amended as follows:</p> <p>71-04-04-01. Enrollment. The retirement board shall design and provide employees with a participant agreement to facilitate the enrollment in the plan. The participant agreement must provide for the collection of all information regarding identification of the employee, starting date of the deduction, the payroll period affected, name of the provider company, and the provider representative.</p> <p>History: Effective April 1, 1989; amended effective September 1, 1997; May 1,</p>	<p>Updates all references to “retirement board” in this chapter for consistency purposes.</p>

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<p>2004, _____, 2010.</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-01, 54-52.2-02, 54-52.2-05</p>	
<p>71-04-04-02. Booklets. The retirement board shall, upon request of the employee, make available a descriptive booklet setting forth the enrollment requirements of the plan, explanation of the deferred compensation plan under section 457 of the Internal Revenue Code, and investment options under the plan.</p> <p>History: Effective April 1, 1989; amended effective September 1, 1997; May 1, 2004, _____, 2010.</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03</p>	
<p>71-04-04-03. Provider agreement. The retirement board shall establish a written provider agreement for the authorization of companies or organizations who offer investment options to public employees. This agreement may include registration and reporting requirements, educational requirements of sales representatives, and limitations of investment options.</p> <p>History: Effective April 1, 1989, _____, 2010 .</p> <p>General Authority: NDCC 28-32-02</p>	

PROPOSED RULES	REASON PROPOSED
Law Implemented: NDCC 54-52.2-03	
<p data-bbox="149 391 1373 881">71-04-04-04. Employer agreement. The retirement board shall establish a written agreement for all employers, other than state departments, agencies, boards, or commissions, which appoint the state to administer their deferred compensation plan. This agreement includes requirement for the employer to adopt the retirement board's rules, employers to make the requested payroll deductions upon proper application by the employee, remit the deductions directly to the retirement board along with a listing of deferred compensation deductions for all employees participating in the plan, submit all provider participant contracts to the retirement board, hold all participant account information as confidential, and notify the retirement board within thirty days of participant's termination of employment.</p> <p data-bbox="149 951 1325 1032">History: Effective April 1, 1989; amended effective April 1, 2002; July 1, 2006, _____, 2010.</p> <p data-bbox="149 1052 627 1084">General Authority: NDCC 28-32-02</p> <p data-bbox="149 1104 648 1136">Law Implemented: NDCC 54-52.2-03</p>	
<p data-bbox="149 1325 1350 1409">71-04-04-05. Payroll deduction authorization. The retirement board shall deliver to the payroll division of each employer a copy of the <u>signed</u> participant agreement as</p>	Clarifies language.

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<p>the payroll division's authorization to begin deductions.</p> <p>History: Effective April 1, 1989, _____, 2010.</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-02</p>	
<p>71-04-04-06. Participant accounts. The retirement board shall have each provider of investment services establish individual accounts to record the participant's contributions, earnings, and other account activity.</p> <p>History: Effective April 1, 1989, _____, 2010 .</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03</p>	<p>Updates all references to "retirement board" in this chapter for consistency purposes.</p>
<p>71-04-04-07. Separation from service. The retirement board shall notify the participant, provider company, and provider representative of the employee's separation from service and eligibility for payment of benefits.</p> <p>History: Effective April 1, 1989; amended effective July 1, 1994; May 1, 2004, _____, 2010.</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p> <p>Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2</p>	

PROPOSED RULES	REASON PROPOSED
<p>71-04-04-10. Processing deductions. The retirement board will process and remit employee deferred compensation deductions to the designated provider company within three business days following receipt in good order of all funds and documentation from the employer.</p> <p>History: Effective July 1, 2006, _____, 2010 .</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03</p>	
<p>Sections 71-04-06-01, 71-04-06-02, 71-04-06-03, 71-04-06-06, 71-04-06-07, 71-04-06-08, 71-04-06-09, 71-04-06-11 and 71-04-06-12 are amended as follows:</p> <p>71-04-06-01. Application. Those firms desiring to offer investment services for the deferred compensation plan shall first notify the retirement board, in writing, of the firms' willingness to become a provider.</p> <p>History: Effective April 1, 1989, _____, 2010.</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03</p>	
<p>71-04-06-02. Administrative agreement. Firms expressing a desire to</p>	<p>Clarifies language.</p>

PROPOSED RULES	REASON PROPOSED
<p>become a provider of investment services under the deferred compensation plan must agree to all provisions found in and sign the retirement boards' administrative agreement. The administrative agreement sets forth the responsibilities of the provider to the plan, the retirement board, and the employee and stipulates that the provider abide by the plan and rules and regulations adopted by the retirement board for the administration of the plan.</p> <p>History: Effective April 1, 1989, _____, 2010 .</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03</p>	
<p>71-04-06-03. Sales representatives. All sales representatives of the provider approved by the retirement board to solicit employees must be fully trained to explain the various investment options available through the provider, be able to explain what the deferred compensation program is as found under section 457 of the Internal Revenue Code, and be licensed with the North Dakota state securities commissioner for the sale of registered or unregistered securities or the North Dakota state insurance commissioner for the sale of insurance contracts or policies, or both.</p> <p>History: Effective April 1, 1989, _____, 2010 .</p> <p>General Authority: NDCC 28-32-02</p>	

PROPOSED RULES	REASON PROPOSED
Law Implemented: NDCC 54-52.2-03	
<p>71-04-06-06. Retirement board report. The provider shall deliver quarterly reports, in an approved electronic format, to the retirement board detailing the activity of each participant's account. The quarterly report must be delivered within thirty days of the end of each calendar quarter and must include an alphabetical listing of the participants, social security numbers of the participants, the provider's contract number for the participants (if any), type of account for each participant, beginning account balance forwarded from the previous reporting period, contributions made by the participants for the current reporting period, transfers and rollovers from other eligible plans during the reporting period, investment earnings or losses added to the account (if any for the reporting period), any withdrawals made during the reporting period, administrative charges assessed against the account during the reporting period, transfers and direct rollovers to other eligible plans during the reporting period, and the account balance at the end of the reporting period. The report columns must be totaled. The quarterly report must include active, inactive, and accounts in payout status, with the exception of accounts which have been annuitized, and be for all payroll divisions for the plan.</p> <p>History: Effective April 1, 1989; amended effective November 1, 1990; July 1, 1994; May 1, 2004; July 1, 2006, _____, 2010.</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p>	

PROPOSED RULES	REASON PROPOSED
<p>Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2</p>	
<p>71-04-06-07. Account transfer. The provider shall allow any participant who so requests, the ability to transfer the participant's account to another provider on a tax-free basis. The request to the provider must be made in writing by the retirement board or its designated representative. The transfer must be made within thirty days of the provider's receipt of the transfer request.</p> <p>History: Effective April 1, 1989; amended effective July 1, 1994, _____, 2010.</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p> <p>Law Implemented: NDCC 54-52.2-03</p>	
<p>71-04-06-08. Benefit requests. The provider shall honor all requests for benefit or refund payments made upon notification of the employee's separation from service by the retirement board.</p> <p>History: Effective April 1, 1989; amended effective May 1, 2004, _____, 2010.</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03</p>	
<p>71-04-06-09. Benefit payments. The provider shall make benefit payments</p>	<p>Updates and clarifies language.</p>

PROPOSED RULES	REASON PROPOSED
<p>to the participant <u>in the manner designated by</u> at the participant's designated mailing address, or, if requested, make direct deposits of the benefits at the participant's bank, savings and loan, or credit union.</p> <p>History: Effective April 1, 1989, _____, 2010 .</p> <p>General Authority: NDCC 28-32-02</p> <p>Law Implemented: NDCC 54-52.2-03</p>	
<p>71-04-06-11. Provider reporting failure - Penalty. Should the provider fail to deliver the required report within a thirty-day period beyond the end of the reporting period, notice must be given by certified mail of the provider's failure to comply. The provider shall then have thirty days from the date of the certified letter to comply with the reporting requirement. If the provider fails to deliver the required report within the thirty-day period, the provider is in violation of the administrative agreement and shall lose active provider status as described under subsection 1 of section 71-04-04-09. If the provider has not filed the report within ninety days after the end of the reporting period, the provider shall lose provider status as described under subsection 2 of section 71-04-04-09. Loss of provider status results in all current contributions of active participants being suspended effective in the next payroll cycle. The retirement board will notify all participants of the company's failure to deliver the required reports. Current participants will be required to either select a new provider for future contributions, or have their</p>	

PROPOSED RULES	REASON PROPOSED
<p>account go into a dormant status with the company losing provider status. The retirement board will then terminate the agreement with the provider.</p> <p>History: Effective April 1, 1989; amended effective November 1, 1990; July 1, 1994; May 1, 2004, _____, 2010 .</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p> <p>Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2</p>	
<p>71-04-06-12. Provider suspension - Employee account transfers.</p> <p>Should the provider be in violation of the administrative agreement, employees shall have the option of transferring their individual accounts to another qualified provider. The employee shall also have the option of leaving the account with the provider; in a dormant status, to be dealt with by <u>until</u> the employee <u>is eligible for a distributable event upon separation from service.</u></p> <p>History: Effective April 1, 1989; amended effective July 1, 1994, _____, 2010.</p> <p>General Authority: NDCC 28-32-02, 54-52.2-03.2</p> <p>Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2</p>	<p>Clarifies and updates language.</p>
<p>Section 71-05-02-05 is amended as follows:</p> <p>71-05-02-05. Interest accrued on accumulated contributions for disabled annuitants.</p> <p>Effective January 1, 1998, interest shall accrue on accumulated contributions as defined in</p>	

PROPOSED RULES	REASON PROPOSED
<p>article 71-01 until the disabled annuitant reaches normal retirement age, <u>cancels benefit in accordance with 71-05-02-05</u>, the account is closed, or until benefit payments commence to the member's beneficiary or dies.</p> <p>History: Effective July 1, 1998, _____, 2010 .</p> <p>General Authority: NDCC 39-03.1-06, 39-03.1-11</p> <p>Law Implemented: NDCC 39-03.1-11.4(d)</p>	
<p>Subsection 2 is amended and a new subsection 6 is created in Section 71-04-04-04 as follows:</p> <p>71-05-04-04. Payment. The total dollar amount for repurchase or purchase may be paid in a lump sum or on a monthly, quarterly, semiannual, or annual basis. Payments may be subject to contribution limitations established under 26 U.S.C. 415. Payments must begin within ninety days of the date the written cost confirmation is prepared. If the installment method is used, the following conditions apply:</p> <ol style="list-style-type: none"> 1. Simple interest at the actuarial rate of return must accrue monthly on the unpaid balance. Interest is calculated from the fifteenth of each month. 2. The installment schedule may extend for as long as <u>while</u> the member is employed by the participating employer <u>but for no longer than a 15 year time period</u>. 	<p>Sets minimum payment amount pertaining to payments for service credit purchases and establishes a maximum payment schedule of 15 years. This allows NDPERS to create an amortization schedule for the member with payments sufficient to pay off the purchase contract by the end of the contract term, which will alleviate allowing member's to purchase with a minimum payment amount that only gets applied towards interest and not the principal of the purchase contract (reviewed and approved by Board at August 20, 2009 meeting).</p>

PROPOSED RULES	REASON PROPOSED
<p>3. Installment payments may be made by a payroll deduction where available. However, it is the responsibility of the contributor to initiate and terminate the payroll deduction.</p> <p>4. Payments are due by the fifteenth of the month to be credited for the month.</p> <p>5. Payments may only be received from a contributor until the fifteenth of the month following the month of the member's termination date with a participating employer.</p> <p>6. <u>Payments must be greater or equal to fifty dollars per month, large enough to pay the current interest plus a portion of the principal and an amount necessary to complete the payment contract within the 15 year time period.</u></p> <p>History: Effective October 1, 1991; amended effective June 1, 1996; May 1, 2004; July 1, 2006, _____, 2010.</p> <p>General Authority: NDCC 39-03.1-06, 39-03.1-08.1, 39-03.1-10.1, 39-03.1-14.1</p> <p>Law Implemented: NDCC 39-03.1-08.1, 39-03.1-10.1, 39-03.1-14.1</p>	
<p>71-05-04-06. Crediting purchased or repurchased service. Service purchased or repurchased will be credited in the following manner:</p>	<p>Due to new business system, NDPERS will be able to pro-rate service credit each time a payment is received, rather than</p>

PROPOSED RULES	REASON PROPOSED
<p>1. The contributor's record must be updated with the additional service credit once the account is paid in full. For each month the system receives a payment towards a purchase contract, the member will earn a proportion of service credit.</p> <p>2. If the contributor or member of an alternative retirement system terminates, retires, or the contributor's account is closed due to delinquency, service credit shall be granted by taking the months of service credit being purchased times the percentage paid. The percentage is determined by taking the total payments made toward the purchase divided by the total amount to be paid over the term of the purchase. Service credit equal to a fraction is deemed to be a whole month of service credit.</p> <p>History: Effective October 1, 1991; amended effective June 1, 1996; May 1, 2004, _____, 2010 .</p> <p>General Authority: NDCC 39-03.1-06, 39-03.1-10.1, 39-03.1-14.1</p> <p>Law Implemented: NDCC 39-03.1-08.1, 39-03.1-10.1, 39-03.1-14.1</p>	<p>upon completion or closing of a purchase contract. The changes made under this section allow us to proportion service based upon a payment being received (reviewed and approved by the Board at the August 20, 2009 meeting).</p>
<p>Subsection 6 of Section 71-05-04-09 is amended as follows:</p> <p>71-05-04-09. Employer purchase of service credit or sick leave program. An employer</p>	<p>Clarifies timeline for an employer to pay for a purchase on behalf of an employee. Language currently specifies "retirement"</p>

PROPOSED RULES	REASON PROPOSED
<p>may elect to purchase up to five years of service credit for an employee and purchase an employee's unused sick leave that meets the requirements of section 71-02-03-08. Before offering a purchase program to its employees the employer must create a program and document the program in writing and submit a copy to the public employees retirement system. The governing authority of the employer shall also submit to the executive director of the public employees retirement system a letter indicating:</p> <ol style="list-style-type: none"> 1. The program meets all the requirements of the North Dakota Century Code. 2. The program meets all applicable federal requirements. 3. The employer agrees to remit to the public employees retirement system a lump sum payment of the cost of the purchase upon being billed. 4. The employer has not given the employee the option of a cash payment in lieu of the employer purchase. 5. The employer shall clearly specify who is eligible for the program and indicate if the program is intended to be permanent or will be for a specific time period only. 6. The employer agrees that all purchases for service credit will be based upon actuarial cost as determined by the public employees retirement system. The 	<p>rather than "termination". Retirement may occur many years after a member terminates employment and defers their benefit.</p>

PROPOSED RULES	REASON PROPOSED
<p>employer also agrees that all purchases will be completed no later than the <u>15th of the month following the month of the employee's retirement termination</u> or sixty days from the date the employer and employee agree to the purchase, whichever comes first.</p> <p>7. The employer agrees that in offering such a program the employer will direct each employee interested in the program to first apply to the employer's authorized agent who will then certify the eligibility of the member, the amount of service credit to be purchased, and send such certification to the public employees retirement system. The employer also agrees that the employer's authorized agent will coordinate the program, authorize all purchases in writing to the public employees retirement system, and be the focal point for communications between the public employees retirement system, the employer, and the employee.</p> <p>8. The employer agrees that for each employee certified to be eligible to have service credit purchased, the employer will first obtain from the employee authorization for the public employees retirement system to share confidential information with the employer.</p> <p>9. The employer certifies that in offering the program, the employer is making it available to all employees or a specified class of employees on a nondiscriminatory basis.</p>	

PROPOSED RULES	REASON PROPOSED
<p>10. The employer agrees to provide information and policies pertaining to the employer purchase program pursuant to North Dakota Century Code section 39-03.1-28.</p> <p>When an employer files the above letter with the public employees retirement system, it may offer the program to its employees. An employer may terminate this program at any time upon the governing authority of the employer sending to the executive director of the public employees retirement system a letter indicating when the program is to be canceled.</p> <p>History: Effective May 1, 2004; amended effective July 1, 2006; April 1, 2008, _____, 2010 .</p> <p>General Authority: NDCC 39-03.1-06</p> <p>Law Implemented: NDCC 39-03.1-10.2</p>	
<p>Subsection 2 and 3 of Section 71-05-05-02 are amended as follows:</p> <p>71-05-05-02. Special retirement options - Application.</p> <p>1. A member may elect a retirement option by filing an application with the office no less than thirty days prior to the beginning date of benefit payments. An application may be filed later than thirty days prior to the beginning date of benefit payments if approved by the plan administrator upon</p>	<p>Establishes process and timeframe for a new retiree to make a benefit change in the event the receiver has their first payment deposited directly into a bank account. The new business system will</p>

PROPOSED RULES	REASON PROPOSED
<p>receiving sufficient evidence that the application was delayed by the member's employer.</p> <p>2. A member may revoke the election of an optional benefit as provided in subsection 1 and make a new election if such revocation is received in writing before the first retirement check is cashed but no later than fifteen days after the first retirement check has been issued. If the member changes the member's election less than fifteen days prior to the named beginning date of benefits, the first retirement payment may be delayed up to two months. Any delayed payment must be adjusted to include any deferred retirement payments. <u>If the member's first retirement payment is paid by direct deposit and the member wishes to revoke the election of the benefit, then the member must immediately notify NDPERS of their election. The benefit will only be revoked if NDPERS is able to reverse the direct deposit paid to the bank within the bank reversal window.</u></p> <p>3. A member may not revoke the elected benefit after receiving and cashing the first benefit check <u>or if paid by direct deposit, after the bank reversal window has expired</u>, unless the member can provide sufficient evidence to the executive director that the factual basis by which the election was made later proved to be incorrect and such was due in part to representation or misrepresentations made by the employer or the retirement office.</p>	<p>allow us to pay a first payment through direct deposit and therefore, rules needed to be added to address this.</p>

PROPOSED RULES	REASON PROPOSED
<p>History: Effective October 1, 1991; amended effective May 1, 2004, _____, 2010.</p> <p>General Authority: NDCC 39-03.1-06</p> <p>Law Implemented: NDCC 39-03.1-11</p>	
<p>Subsections 3 and 4 of Section 71-05-05-04 are repealed in this section and a new section 71-05-05-04.1 is created.</p> <p>71-05-05-04. Optional benefits. A member may elect, as provided in section 71-05-05-02, to receive one of the following optional benefits in lieu of the regular early or normal retirement benefit.</p> <ol style="list-style-type: none"> 1. One hundred percent joint and survivor benefit. A member may receive an actuarially reduced retirement benefit during the member's lifetime and after the member's death the same amount will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. In the event the member's spouse predeceases the member or, in the event of divorce, the option shall be canceled and the member's benefit shall be returned to the normal retirement amount. Payment of the normal retirement amount shall commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree. Should the member remarry and wish to change such designation, a new actuarial retirement benefit will be calculated. 	<p>Removes descriptive language for Level Social Security Option, Partial Lump Sum Option and the Deferred Normal Retirement Option as they are outlined in a new section that provides details on benefit modifications.</p>

PROPOSED RULES	REASON PROPOSED
<p>Payments of benefits to a member's surviving spouse must be made on the first day of each month, commencing on the first day of the month following the member's death, providing the beneficiary has supplied a marriage certificate, death certificate, birth certificate verifying age, and is still living. Benefits must terminate in the month in which the death of the beneficiary occurs.</p> <p>2. Twenty-year or ten-year term certain. A member may elect an option which is the actuarial equivalent of the member's normal, early, or deferred vested retirement pension payable for life with a twenty-year or ten-year certain feature, as designated by the member.</p> <p>3. Partial lump sum option. The partial lump sum option will only be available to members who retire on or after reaching their normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve monthly payments determined under the normal annuity option. The member is permitted to choose one of the optional forms of payment for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.</p> <p>4. Deferred normal retirement option. The deferred normal retirement option will only be available to members who retire after reaching their normal retirement date. This option is an irrevocable election and made at initial</p>	

PROPOSED RULES	REASON PROPOSED
<p>application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The ongoing benefits will be actuarially increased to reflect the lump sum.</p> <p>History: Effective October 1, 1991; amended effective July 1, 2006; April 1, 2008, _____, 2010.</p> <p>General Authority: NDCC 39-03.1-06</p> <p>Law Implemented: NDCC 39-03.1-11</p>	
<p><u>71-05-05-04.1. Benefit Modifications.</u> A member may elect as provided in section 71-05-05-02 to receive one of the following benefit modifications.</p> <p>1. <u>Partial lump sum option.</u> The partial lump sum option will only be available to members who retire on or after reaching their normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve monthly payments determined under the normal annuity option. The member is permitted to choose one of the optional forms of payment for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.</p> <p>2. <u>Deferred normal retirement option.</u> The deferred normal retirement</p>	<p>A new section which establishes benefit modifications specific to the Partial Lump Sum Option, Deferred Normal Retirement Option and the Graduated Benefit Option (graduated benefit option rules reviewed and approved by the Board at March 19, 2009 meeting).</p>

PROPOSED RULES	REASON PROPOSED
<p><u>option will only be available to members who retire after reaching their normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The ongoing benefits will be actuarially increased to reflect the lump sum.</u></p> <p>3. <u>Graduated benefit option.</u> <u>The graduated benefit option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The member is permitted to choose one of the optional forms of payment for ongoing benefits excluding the deferred normal retirement option or partial lump sum option. The ongoing benefits will be actuarially reduced to reflect the election of the graduated benefit.</u></p> <p>History: Created effective _____, 2010 General Authority: NDCC 39-03.1-06 Law Implemented: NDCC 39-03.1-11</p>	
<p>71-05-05-07. Amount of early retirement benefit. The early retirement benefit must be an amount actuarially reduced from the normal retirement benefit by one-half of one percent for each month (six percent per year), that the member is younger than age fifty-five on the date of the member's early retirement benefit commences effective date.</p> <p>History: Effective October 1, 1991.</p>	<p>Clarifies early retirement reduction is based on member's retirement effective date, not date paid.</p>

PROPOSED RULES	REASON PROPOSED
<p>General Authority: NDCC 39-03.1-06</p> <p>Law Implemented: NDCC 39-03.1-11</p>	
<p>Subsection 3, 4 and 5 of Section 71-04-05-10 are amended as follows:</p> <p>71-05-05-10. Erroneous payment of benefits - Overpayments.</p> <ol style="list-style-type: none"> 1. An "overpayment" means a payment of money by the public employees retirement system that results in a person receiving a higher payment than the person is entitled to under the provision of the retirement plan of membership. 2. A person who receives an overpayment is liable to refund those payments upon receiving an explanation and a written request for the amount to be refunded from the executive director. All overpayments must be collected using the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like gains. If the cost of recovering the amount of the overpayment is estimated to exceed the overpayment, the repayment is considered to be unrecoverable. 3. If an overpayment of benefits was not the result of any wrongdoing, negligence, misrepresentation, or omission by the recipient, the recipient may make repayment arrangements subject to the executive director's approval within sixty days of the written notice of overpayment <u>with the minimum repayment amount no less than fifty dollars per month</u>. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the 	<p>These amendments to mirror what is in the Main System overpayment rules. Both sections are being amendment to mirror each other</p>

PROPOSED RULES	REASON PROPOSED
<p>executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the individual's benefit payment period.</p> <p>4. If the overpayment was the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the recipient, the recipient is liable to pay interest charges at the rate of six percent on the outstanding balance to compensate the fund for lost earnings from the time the erroneous benefit was paid through the time it has been refunded in full. Recovered funds are first applied to interest, and if any amount is left over, that amount is applied to principal. <u>The recipient may make repayment arrangements, subject to the executive director's approval, within sixty days of the written request for refund with the minimum repayment amount no less than fifty dollars per month.</u> If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the individual's benefit payment period.</p> <p>5. If an individual dies prior to fully refunding an erroneous overpayment of benefits, the public employees retirement system must make application to the estate of the deceased to recover the remaining balance.</p> <p>History: Effective April 1, 2002; amended effective July 1, 2006, _____, 2010 .</p> <p>General Authority: NDCC 32-03-04, 39-03.1-06, 54-52-04(12), 54-52-14.2</p>	

PROPOSED RULES	REASON PROPOSED
<p>Law Implemented: NDCC 39-03.1-25</p>	
<p>Subsection 1 of section 71-05-06-01 is amended as follows:</p> <p>71-05-06-01. Return of contributions - Conditions for return. The accumulated contributions of a member who terminates permanent employment:</p> <ol style="list-style-type: none"> 1. Before accumulating ten years of service credit <u>and whose account balance is less than \$1000.00</u> must be automatically refunded unless the member elects to remain in an inactive status. 2. After accumulating ten years of service credit, accumulated contributions must be refunded upon application filed with the retirement office. <p>History: Effective October 1, 1991, _____, 2010. General Authority: NDCC 39-03.1-06 Law Implemented: NDCC 39-03.1-10.1</p>	<p>In compliance with federal law, this section provides clarification regarding contributions to be returned to a non-vested member upon termination of employment if their account balance is less than \$1000.00.</p>
<p>Section 71-05-07-01 is amended as follows:</p> <p>71-05-07-01. Return to service – Retired member. The benefits of a retired member who returns to permanent employment must be suspended. Upon final retirement, the member's benefit must be recalculated as follows:</p> <ol style="list-style-type: none"> 1. If the period of subsequent employment is less than two years, the member may elect: <ol style="list-style-type: none"> a. A return of the member's contributions made after reemployment, and the suspended benefit restored, adjusted for the member's age at final retirement and for benefit payments received prior to reemployment; or b. A recalculation of the member's benefit based on the benefit 	<p>Removing the refund option for retired members who return to work and subsequently retire. All service earned during the subsequent employment will be combined with the member's previous retirement benefit.</p>

PROPOSED RULES	REASON PROPOSED
<p style="text-align: center;">provisions in effect at the member's initial retirement, but adjusted to take account of age at final retirement, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment.</p> <p>21. If the period of subsequent employment is more than two years, tThe member's benefit must be based on the benefit provisions in effect at final retirement and shall include the member's <u>and spouse's age, and salary earned during the period of reemployment, and together with</u> total service earned before and after reemployment, adjusted to take account of benefit payments received prior to reemployment. If a different option is selected at the second retirement date, the member and office will submit information as required to make an actuarial determination of the elected benefit and the related payment of such.</p> <p>32. If a member dies during subsequent employment, the member's initial retirement benefit <u>option</u> election will apply. If the benefit election was an optional benefit under section 71-05-02-04, then the member's benefit must be recalculated based on the benefit provisions in effect at the member's initial retirement, but adjusted to take account of age at death, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment. <u>The member's benefit shall be based on the benefit provisions in effect at final retirement and shall include the member and spouses's ages ,salary earned during the period of reemployment, and total service credits earned before and after reemployment, adjusted to take account of benefit payments received prior to reemployment.</u></p> <p>History: Effective October 1, 1991; amended effective May 1, 2004, _____, 2010. General Authority: NDCC 39-03.1-06 Law Implemented: NDCC 39-03.1-11</p>	<p>Amendment also to clarify that member's monthly benefit will be recalculated based on the factors at final retirement.</p>
Section 71-06-01-02 is amended as follows:	

PROPOSED RULES	REASON PROPOSED																								
<p>71-06-01-02. Calculation of retiree health insurance credit. Retiree health insurance credit will be calculated on actual years and months of service, identical to retirement benefits under North Dakota Century Code chapter 54-52.</p> <p>1. Retiree health insurance credit will be subject to reduction factors in the event of early retirement.</p> <p>For annuitants of the public employees retirement system defined benefit plan and North Dakota public employees retirement system judges, and for members of the defined contribution retirement plan, excluding national guard retirees, who take a periodic distribution:</p> <table border="1" data-bbox="138 938 1390 1263"> <thead> <tr> <th><u>Age at Retirement</u></th> <th><u>Reduction Factor</u></th> <th><u>Age at Retirement</u></th> <th><u>Reduction Factor</u></th> </tr> </thead> <tbody> <tr> <td>64 to 65</td> <td>3%</td> <td>59 to 60</td> <td>33%</td> </tr> <tr> <td>63 to 64</td> <td>9%</td> <td>58 to 59</td> <td>39%</td> </tr> <tr> <td>62 to 63</td> <td>15%</td> <td>57 to 58</td> <td>45%</td> </tr> <tr> <td>61 to 62</td> <td>21%</td> <td>56 to 57</td> <td>51%</td> </tr> <tr> <td>60 to 61</td> <td>27%</td> <td>55 to 56</td> <td>57%</td> </tr> </tbody> </table> <p>For annuitants of the job service retirement program: This includes those who retired under a discontinued service annuity but does not include those who retired at a</p>	<u>Age at Retirement</u>	<u>Reduction Factor</u>	<u>Age at Retirement</u>	<u>Reduction Factor</u>	64 to 65	3%	59 to 60	33%	63 to 64	9%	58 to 59	39%	62 to 63	15%	57 to 58	45%	61 to 62	21%	56 to 57	51%	60 to 61	27%	55 to 56	57%	<p>Revises references to century code due to changes in code made previously.</p>
<u>Age at Retirement</u>	<u>Reduction Factor</u>	<u>Age at Retirement</u>	<u>Reduction Factor</u>																						
64 to 65	3%	59 to 60	33%																						
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PROPOSED RULES						REASON PROPOSED												
normal or optional date.																		
<u>Age at Retirement</u>	<u>Reduction Factor</u>	<u>Age at Retirement</u>	<u>Reduction Factor</u>	<u>Age at Retirement</u>	<u>Reduction Factor</u>													
64 to 65	3%	59 to 60	33%	54 to 55	63%													
63 to 64	9%	58 to 59	39%	53 to 54	69%													
62 to 63	15%	57 to 58	45%	52 to 53	75%													
61 to 62	21%	56 to 57	51%	51 to 52	81%													
60 to 61	27%	55 to 56	57%	50 to 51	87%													
<p>For annuitants of the highway patrol fund and national guard security police and firefighters and national guard security police and firefighters who transferred to the defined contribution retirement plan:</p> <table border="0"> <thead> <tr> <th><u>Age at Retirement</u></th> <th><u>Reduction Factor</u></th> </tr> </thead> <tbody> <tr> <td>54 to 55</td> <td>3%</td> </tr> <tr> <td>53 to 54</td> <td>9%</td> </tr> <tr> <td>52 to 53</td> <td>15%</td> </tr> <tr> <td>51 to 52</td> <td>21%</td> </tr> <tr> <td>50 to 51</td> <td>27%</td> </tr> </tbody> </table>						<u>Age at Retirement</u>	<u>Reduction Factor</u>	54 to 55	3%	53 to 54	9%	52 to 53	15%	51 to 52	21%	50 to 51	27%	
<u>Age at Retirement</u>	<u>Reduction Factor</u>																	
54 to 55	3%																	
53 to 54	9%																	
52 to 53	15%																	
51 to 52	21%																	
50 to 51	27%																	

PROPOSED RULES	REASON PROPOSED
<p>2. Disabled annuitants receiving benefits under subdivision <u>e g</u> of subsection 3 of North Dakota Century Code section 54-52-17, subdivision d of subsection 3 of North Dakota Century Code section 39-03.1-11, North Dakota Century Code section 52-11-01, or section 71-02-05-05 will be eligible for full retiree health insurance credit benefits. No age reduction factor will be applied.</p>	
<p>3. A surviving spouse eligible to receive benefits under subdivisions b and e <u>a(2), b(2) and b(3)</u> of subsection 6 of North Dakota Century Code section 54-52-17, subdivisions b and c of subsection 6 of North Dakota Century Code section 39-03.1-11, or North Dakota Century Code section 52-11-01 will receive retiree health insurance credit based on the deceased member's years of service without any age reduction applied.</p>	
<p>4. A surviving spouse receiving benefits under the provisions of subdivision a or e <u>b or d</u> of subsection 9 of North Dakota Century Code section 54-52-17; subdivisions a, b, and c of subsection 5 of North Dakota Century Code section 27-17-01; subsection 9 of North Dakota Century Code section 39-03.1-11; or North Dakota Century Code section 52-11-01 will receive retiree health insurance credit for the duration benefits are paid,</p>	

PROPOSED RULES	REASON PROPOSED
<p>based upon the original annuitant's retirement age.</p> <p>History: Effective April 1, 1992; amended effective June 1, 1996; July 1, 2000.</p> <p>General Authority: NDCC 54-52.1-03.2(b)</p> <p>Law Implemented: NDCC 54-52.1-03.3</p>	
<p>Section 71-08-06-04 is amended as follows:</p> <p>71-08-06-04. Cost. The cost for purchase of eligible military service in the defined contribution plan may be paid as follows:</p> <ol style="list-style-type: none"> 1 The cost for any required employee contributions to be paid by the member may be paid in a lump sum or in installments pursuant to the rules established for purchase or repurchase payment under subsection 3, 4, or 5 of section 71-02-03-02.2. If no payments have been made, no credit will be awarded. 2. If the member elects to make installment payments through payroll deduction, then the employer will be required to match the member contribution month by month. Upon completion of the member contributions, the employer will be required to make a final payment of all remaining employer contributions. 	<p>These changes modify the process for crediting purchased eligible military service credit and clarify that most recent employer will be billed required employer paid contributions.</p>

PROPOSED RULES	REASON PROPOSED
<p>3. If the member elects to make payments through any method other than payroll deductions, then upon the member completing full payment of the required member contributions, the employer cost will be assessed to the member's most recent participating employer.</p> <p>4. <u>The employer cost will be assessed to the member's most recent participating employer.</u> Upon being billed by the public employees retirement system, the participating employer will have thirty days in which to make payment in full. If, after sixty days, the employer has not made payment in full, a civil penalty of fifty dollars will be assessed, and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.</p> <p>History: Effective May 1, 2004; amended effective July 1, 2006, _____, 2010.</p> <p>General Authority: NDCC 54-52-04, 54-52.6-04</p> <p>Law Implemented: NDCC 54-52.6-09.3, 54-52.6-09.4</p>	
<p>Subsection 6 of Section 71-08-07-01 is amended as follows:</p> <p>71-08-07-01. Additional employer contributions. An employer may elect to provide additional employer contributions to an employee's account in an amount not exceeding the equivalent of a purchase of up to five years of service credit for that employee and the purchase of an employee's unused sick leave that meets the requirements of section 71-08-07-02. Before offering such a program to its employees, an employer must create a program</p>	<p>Clarifies timeline for an employer to pay additional employer contributions on behalf of an employee specific to a member's termination, rather than retirement. Retirement can occur many years after termination due to deferral option.</p>

PROPOSED RULES	REASON PROPOSED
<p>and document it in writing and submit a copy to the public employees retirement system. The governing authority of the employer shall also submit to the executive director of the public employees retirement system a letter indicating:</p> <ol style="list-style-type: none"> 1. The program meets all the requirements of the North Dakota Century Code. 2. The program meets all applicable federal requirements. 3. The employer agrees to remit to the public employees retirement system a lump sum payment of the cost of the purchase upon being billed. 4. The employer has not given the employee the option of a cash payment in lieu of the employer purchase. 5. The employer shall clearly specify who is eligible for the program and indicate if the program is intended to be permanent or will be for a specific time period only. 6. The employer agrees that all additional employer contributions will not exceed the equivalent of a purchase of service credit as determined by the public employees retirement system and all unused sick leave purchases will be based upon the computation specified in the North Dakota Century Code. The employer also agrees that all purchases will be completed no later than the <u>15th</u> 	

PROPOSED RULES	REASON PROPOSED
<p>of the month following the month of the employee's retirement <u>termination</u> or sixty days from the date the employer and employee agree to the purchase, whichever comes first.</p> <p>7. The employer agrees that in offering such a program the employer will direct each employee interested in the program to first apply to the employer's authorized agent who will then certify the eligibility of the member and the amount of service credit to be purchased or sick leave to be converted and send such certification to the public employees retirement system. The employer also agrees that the employer's authorized agent will coordinate the program, authorize all purchases in writing to the public employees retirement system and be the focal point for communications between the public employees retirement system, the employer, and the employee.</p> <p>8. The employer agrees that for each employee certified to be eligible to have service credit purchased or sick leave converted, the employer will first obtain from the employee authorization for the public employees retirement system to share confidential information with the employer.</p> <p>9. The employer certifies that in offering the program, the employer is making it available to all employees or a specified class of employees on a nondiscriminatory basis.</p>	

PROPOSED RULES	REASON PROPOSED
<p data-bbox="247 272 1312 406">10. The employer agrees to provide information and policies pertaining to the employer purchase program pursuant to North Dakota Century Code section 54-52-26.</p> <p data-bbox="149 479 1186 706">When an employer files the above letter with the public employees retirement system, the employer may offer the program to its employees. An employer may terminate this program at any time upon the governing authority of the employer sending to the executive director of the public employees retirement system a letter indicating when the program is to be canceled.</p> <p data-bbox="149 779 1312 860">History: Effective May 1, 2004; amended effective July 1, 2006; April 1, 2008, _____, 2010.</p> <p data-bbox="149 885 787 917">General Authority: NDCC 54-52-04, 54-52.6-04</p> <p data-bbox="149 933 682 966">Law Implemented: NDCC 54-52.6-09.2</p>	

Take notice that the North Dakota Public Employees Retirement System will hold a public hearing to address proposed additions, amendments and deletions to existing rules in the following chapters in the North Dakota Administrative Code: 71-01 General Administration 71-02 Public Employees Retirement System, 71-03 Uniform Group Insurance Program, 71-05 Highway Patrol Retirement System, and 71-08 Defined Contribution Retirement Plan. The purpose of the proposed revisions is to implement new statutory provisions and update existing language. Proposed revisions are summarized below. The hearing will be held at 11:00 a.m. on Tuesday, March 23, 2010 in the Fort Totten room at the State Capitol, 600 East Boulevard Avenue, Bismarck, North Dakota. The hearing will continue until 12:00 p.m. or until no further testimony is offered, whichever occurs last. The proposed rule changes are not expected to have an impact on the regulated community in excess of \$50,000. The proposed rules may be viewed online at www.state.nd.us/ndpers or at the NDPERS office at the following location:

North Dakota Public Employees Retirement System
400 E Broadway, Suite 505
Box 1657
Bismarck, ND 58502

Written comments should be submitted to the above address and will be accepted from March 23, 2010 through April 6, 2010. A copy of the proposed rules may be obtained by accessing them on the PERS website at www.nd.gov/ndpers or by calling the North Dakota Public Employees Retirement System at 701-328-3900. If you plan to attend the public hearing and will need special accommodations or assistance, please contact the Public Employees Retirement System at the above address or telephone number at least three business days prior to the public hearing.

Summary of Proposed Rule Changes

71-01-02-03. Candidate eligibility. Adds members of the defined contribution, highway patrol and job service retirement systems to the list of eligible candidates and clarifies that terminated employees may not serve as an active elected member of the board.

71-01-02-09. Canvassing rules. Provides provisions for an invalid election.

71-02-01-01(14). Definitions. Clarifies the definition of Normal Retirement Age as age 65 for all plans except National Guard and Law Enforcement which is age 55.

71-02-03-02.2. (6) Payment. Sets a minimum payment amount pertaining to service purchases and establishes a maximum payment schedule of 15 years.

71-02-03-02.4. Crediting purchased or repurchased service. Revises provisions for crediting service.

71-02-03-07. Employer purchase of service credit or sick leave program. Clarifies deadline for employer paid purchases of service in the main retirement system.

71-02-04-02. Special retirement options - Application. Establishes the process and a timeframe for benefit change in the event the receiver has a direct deposit.

71-02-04-03. Payment Date – Retirement benefits. Clarifies benefit payment for judges.

71-02-04-04. Optional Benefits. Clarifies the Optional Benefits and removes requirement that benefit payment be greater than \$100 to select Level Social Security Option.

71-02-04-04.1. Benefit Modifications. Details the benefit modifications that may be elected.

71-02-04-07. Amount of early retirement benefit. Updates terminology to mirror terminology in benefit processing administration.

71-02-04-10. (3) (4) Erroneous payment of Benefits – Overpayments. Modifies repayment provisions for collecting overpayment of benefits.

71-02-05-07.1(1) One hundred percent joint survivor benefit. Provides updated terminology for single life option.

71-02-05-09. Interest accrual on accumulated contributions for disabled annuitants. Provides further information regarding interest accrual after receiving a disability pension.

71-02-06-01. Conditions for return. Provides clarification for contributions to be returned to non-vested members upon termination if their account is less than \$1000, in compliance with federal requirements.

71-02-07-02. Return to service - Retired member. Revises provisions regarding benefit calculation procedure for when retired members return to work.

71-02-11-04. Payment. Modifies process for crediting purchased eligible military service credit.

71-03-03-01. Enrollment. Updates language for consistency purposes in the group health insurance plan.

71-03-04-01. Employer contribution. Adds language to clarify that employer contribution is not payable if employee terminates prior to effective date of coverage in the group insurance plan.

71-03-04-05. Premium for basic term life insurance. Removes language referring to political subdivisions regarding the payment of full premium for life insurance.

71-03-05-05. Appeal process. Corrects terminology.

71-03-05-08. Erroneous payment of premiums – Underpayments. Removes language pertaining to maximum repayment period.

71-03-06-01. Enrollment. Updates language for consistency purposes in the group health insurance plan. Also, removes language relating to eligibility of employees that are employed with a political subdivision that does not offer a group health insurance plan.

71-03-06-02. Late Enrollment. Removes redundant language.

71-03-06-03. Open enrollment for certain qualifying events. Changes terminology from “open” enrollment to “special” enrollment.

71-03-06-05. Continuation of health benefits for dependents. Removes redundant language.

71-03-06-08. Employee contribution. Removes unnecessary language pertaining to payment of employee contributions.

71-03-07-01. Employer contribution. Clarifies terms for payment of employer contribution.

71-03-07-02. Information to employee. Provides that the employer will provide pertinent information to all employees regarding coverage rights, not just “eligible” employees.

71-03-07-03. Collecting employee contributions. Updates language to provide that the employer may specify the method for collection of any employer premium contribution.

71-03-07-05. Premium for basic term life insurance. Updates language for consistency purposes.

71-04-01-01. Definitions. Updates language regarding designating of beneficiaries in the 457 plan as well as clarifies terminology pertaining to the retirement board.

71-04-03-02. Effective date of deferrals. Updates language for consistency purposes.

71-04-03-05. Unforeseeable emergency. Eliminates the term “partial” regarding emergency withdrawals.

71-04-03-06. Termination of participation. Updates language for consistency purposes.

71-04-04. Retirement board responsibilities. Updates references referring to retirement board for consistency purposes

71-04-04-04. Employer agreement. Updates language for consistency purposes

71-04-04-05. Payroll deduction authorization. Updates language for clarity and consistency purposes

71-04-06. Provider responsibilities. Updates references referring to retirement board for consistency purposes

71-04-06-02. Administrative agreement. Updates language for clarity and consistency purposes

71-04-06-09. Benefit payments. Updates language for clarity and consistency purposes.

71-04-06-12. Provider suspension - Employee account transfers. Updates language for clarity and consistency purposes

71-05-02-05. Interest accrued on accumulated contributions for disabled annuitants.

Further defines timeframe for interest accrual after receiving a disability pension.

71-05-04-04. Payment. Provides for minimum payment provisions for service purchases in the highway patrol retirement system and establishes maximum payment schedule of 15 years.

71-05-04-06. Crediting purchased or repurchased service. Revises provisions for crediting service in the highway patrol retirement fund.

71-05-04-09. Employer purchase of service credit or sick leave program Clarifies payment deadline for employer paid purchases of service in the highway patrol retirement system.

71-05-05-02. Special retirement options - application. Establishes process and timeframe for benefit change in the event the receiver has direct deposit in the highway patrol fund.

71-05-05-04. Optional benefits. Removes language for Partial Lump sum option and deferred normal retirement option in the highway patrol fund.

71-05-05-04.1 Benefit Modifications. Establishes the benefit modifications specific to the Partial Lump Sum option, Deferred normal retirement option and graduated benefit option.

71-05-05-07. Amount of early retirement benefit. Standardizes terminology for benefit processing administration.

71-05-05-10. Erroneous payment of benefits – Overpayments. Provides additional guidance in the course of correcting overpayment of benefits in the highway patrol fund.

71-05-06-01. Return of contributions - Conditions for return. Provides clarification for contributions to be returned to non-vested members upon termination from the highway patrol fund if their account balance is less than \$1,000, in compliance with federal requirements.

71-05-07-01. Return to Service. Revises provisions regarding benefit calculation procedure for when retired members return to work in the highway patrol fund.

71-06-01-02. Calculation of retiree health insurance credit. Revises references to century code due to previous changes made.

71-08-06-04. Cost. Modifies process for crediting of purchased eligible military service and clarifies that most recent employer will be billed.

71-08-07-01. Additional employer contributions. Clarifies deadline for employer paid purchases of service in the main retirement system in the defined contribution system.

Deb,

This email is in response to questions you submitted regarding the administrative rules process. You requested that I review what would need to accompany the rules. Upon reviewing the rules and the Administrative Rules Manual, it is my opinion that NDPERS would need to file a Small Entity Regulatory Analysis, but would not need to complete a Regulatory Analysis, Takings Assessment or a Small Entity Economic Impact Statement.

Regulatory Analysis – only needs to be completed if within 20 days after the last published notice of the proposed rule hearing, a written request for an analysis is filed by the Governor or a member of the Legislative Assembly or if the proposed rule is expected to have an impact on the regulated community in excess of \$50,000.

Takings Assessment – only needs to be completed if the proposed rule may limit the use of private real property.

Small Entity Economic Impact Statement – Must be completed if the proposed rule may have an adverse economic impact on small entities. (upon reviewing the rules, I do not see any adverse financial impacts that will be visited on small entities as a result of these rule changes, in fact, it appears that a few of the proposed PERS rules could have a positive economic impact on these entities.)

If you need anything else, just let me know.

Aaron K. Webb
Assistant Attorney General
State Capitol
600 E. Blvd. Ave. Dept 125
Bismarck, ND 58505-0040
701 328 3148
701 328 2226 fax
awebb@nd.gov

Public Hearing Meeting Minutes
Wednesday, March 31, 2010
Ft. Totten Room
State Capitol
11:00 A.M.

Staff Present: Ms. Deb Knudsen
 Ms. Rebecca Fricke
 Ms. Cindy Aaser

Others Present: None

Deb Knudsen called the meeting to order at 11:00 a.m. on Tuesday, March 23, 2010 in the Ft. Totten Room. The public hearing was called for the purpose of allowing all interested individuals an opportunity to submit information concerning proposed additions, amendments, and deletions to existing rules in the following chapters in the North Dakota Administrative code: 71-01 General Administration 71-02 Public Employees Retirement System, 71-03 Uniform Group Insurance Program, 71-05 Highway Patrol Retirement System, and 71-08 Defined Contribution Retirement Plan.

Ms. Knudsen indicated that information gathered at the hearing will be transmitted to the Board of the North Dakota Public Employees Retirement System (NDPERS) for its deliberation and final decision.

The hearing was opened for comments. However, no comments were received.

Ms. Knudsen noted that the record will be held open for written comment until the close of business on April 6, 2010. The hearing was closed at 12:05 p.m.

Section 71-01-02-03 is amended as follows:

71-01-02-03. Candidate eligibility.

1. Any active participating member employee, members of the defined contribution retirement plan, the highway patrol retirement system and the job service retirement plan are eligible to serve as an elected member of the board in accordance with subsection 4 of North Dakota Century Code section 54-52-03, may become a candidate for election to the board. A department or political subdivision may not be represented by more than one elected member. Employees who have terminated their employment for whatever reason are not eligible to serve as an active elected member of the board.
2. Any person, as of April fifteenth of the election year, who has accepted a retirement allowance or who is eligible to receive deferred vested retirement benefits, may become a candidate for the retiree member to the board.

History: Effective April 1, 1992; amended effective July 1, 1994; July 1, 2000; April 1, 2008.

General Authority: NDCC 54-52-04, 54-52-17(5)

Law Implemented: NDCC 54-52-03

A new subsection 8 is added to Section 71-01-02-09 as follows:

71-01-02-09. Canvassing rules.

8. If the committee should determine that the outcome of the election has been compromised for any reason, the committee may determine the election to be

invalid. If the election is determined to be invalid, the committee shall call for a new election with a new election schedule.

History: Effective April 1, 1992; amended effective April 1, 2008.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52-03

Subsection 14 of Section 71-02-01-01 is amended as follows:

71-02-01-01. Definitions. As used in North Dakota Century Code chapter 54-52 and this article:

14. "Normal retirement age", except for members of the national guard and law enforcement, means age sixty-five except as unless otherwise provided. For members of the national guard and law enforcement, normal retirement age means age 55, unless other wise provided.

History: Amended effective September 1, 1982; November 1, 1990; September 1, 1991; January 1, 1992; September 1, 1992; June 1, 1993; July 1, 1994; June 1, 1996; July 1, 2000; April 1, 2002; May 1, 2004; July 1, 2006.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52

Section 71-02-03-02.2 is amended as follows:

71-02-03-02.2. Payment. The total dollar amount for the purchase or repurchase may be paid in a lump sum or on a monthly, quarterly, semiannual, or annual basis. Payments may be subject to contribution limitations established under 26 U.S.C. 415. Payments must begin within ninety days of the date the written cost confirmation is prepared. If the installment method is used, the

following conditions apply:

1. Simple interest at the actuarial rate of return must accrue monthly on the unpaid balance. Interest is calculated from the fifteenth of each month.
2. The installment schedule may extend ~~for as long as~~ while the employee is employed by a participating employer but for no longer than a 15 year time period.
3. Installment payments may be made by a payroll deduction where available. However, it is the responsibility of the member to initiate and terminate the payroll deduction.
4. Payments may only be received until the fifteenth of the month following the month of the member's termination date with a participating employer.
5. Payments are due by the fifteenth of the month to be credited for the month.
6. Payments must be greater or equal to fifty dollars per month, large enough to pay the current interest plus a portion of principal and an amount necessary to complete the payment contract within the 15 year time period.

History: Effective November 1, 1990; amended effective July 1, 1994; June 1, 1996; May 1, 2004; July 1, 2006.

General Authority: NDCC 54-52-02.6, 54-52-04, 54-52-17, 54-52-17.2, 54-52-17.4

Law Implemented: NDCC 54-52-02.6, 54-52-17, 54-52-17.2, 54-52-17.4

Section 71-02-03-02.4 is amended as follows:

71-02-03-02.4. Crediting purchased or repurchased service. Service purchased or repurchased will be credited in the following manner:

1. ~~The member's record must be updated with the additional service credit once the account is paid in full~~ For each month the system receives a payment towards a purchase contract, the member will earn a proportion of service credit.

2. ~~If the member takes a refund, retires, or the member's account is closed due to delinquency, service credit must be granted by taking the months of service credit being purchased times the percentage paid. The percentage is determined by taking the total payments made toward the purchase divided by the total amount to be paid over the term of the purchase. Service credit equal to a fraction is deemed to be a whole month of service credit.~~

3. For members converting service under the public employees retirement system to service under the judge's retirement system, each month of county judge service under the public employees retirement system will be converted to one month of judicial service credit. The account balance from the public employee's retirement system will be transferred to the judge's retirement system account once the contract is paid in full or closed.

History: Effective November 1, 1990; amended effective July 1, 1994; June 1, 1996; May 1, 2004.

General Authority: NDCC 54-52-02.6, 54-52-04, 54-52-17, 54-52-17.2, 54-52-17.4

Law Implemented: NDCC 54-52-02.6, 54-52-17, 54-52-17.2, 54-52-17.4

Section 71-02-03-07 is amended as follows:

71-02-03-07. Employer purchase of service credit or sick leave program. An employer may elect to purchase up to five years of service credit for an employee and purchase an employee's unused sick leave that meets the requirements of section 71-02-03-08. Before offering a purchase program to its employees, the employer must create a program and an employer must document the program in writing and submit a copy to the public employees retirement system. The governing authority of the employer shall also submit to the executive director of the public employees retirement system a letter indicating:

1. The program meets all the requirements of the North Dakota Century Code.
2. The program meets all applicable federal requirements.
3. The employer agrees to remit to the public employees retirement system a lump sum payment of the cost of the purchase upon being billed.
4. The employer has not given the employee the option of a cash payment in lieu of the employer purchase.
5. The employer shall clearly specify who is eligible for the program and indicate if the program is intended to be permanent or will be for a specific time period only.
6. The employer agrees that all purchases for service credit will be based upon actuarial cost as determined by the public employees retirement system and all unused sick leave purchases will be based upon the computation specified in the North Dakota Century Code. The employer also agrees that all purchases will be completed no later than the 15th of the month following the month of the employee's retirement termination or sixty days from the date the employer and employee agree to the purchase, whichever comes first.

History: Effective May 1, 2004; amended effective July 1, 2006; April 1, 2008.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52-17.4, 54-52-29

Section 71-02-04-02 is amended as follows:

71-02-04-02. Special retirement options - Application.

1. A member may elect a retirement option by filing an application with the office no less than thirty days prior to the beginning date of benefit payments. An application may be filed later than thirty days if approved by the executive director upon receiving sufficient evidence that the application was delayed by the member's employer.

2. A member may revoke the election of an optional benefit as provided in subsection 1 and make a new election, if such revocation is received in writing before the first retirement check is cashed but no later than fifteen days after the first retirement check has been issued. If the member changes the member's election less than fifteen days prior to the named beginning date of benefits, the first retirement payment may be delayed up to two months. Any delayed payment must be adjusted to include any deferred retirement payments. If the member's first retirement payment is paid by direct deposit and the member wishes to revoke the election of the benefit, then the member must immediately notify NDPERS of their election. The benefit will only be revoked if NDPERS is able to reverse the direct deposit paid to the bank within the bank reversal window.

3. A member may not revoke the elected benefit after receiving and cashing the first benefit check or if paid by direct deposit, after the bank reversal window has expired, unless, the member can provide sufficient evidence to the executive director that the factual basis by which the election was

made later proved to be incorrect and such was due in part to representation or misrepresentations made by the employer or the office.

History: Amended effective November 1, 1990; May 1, 2004.

General Authority: NDCC 54-52-04, 54-52-17

Law Implemented: NDCC 54-52-17

Section 71-02-04-03 is amended as follows:

71-02-04-03. Payment date - Retirement benefits. Except for retirement options provided in section 71-02-04-02, a member's retirement benefit shall commence on the first day of the month which follows the member's eligibility for the benefit and which is at least thirty days after the date on which the member filed an application with the office. Notwithstanding any other provision in this article, benefits must begin no later than April first of the calendar year after the calendar year in which the member retires or attains the age of seventy and one-half years, whichever is later. If the member is employed but ineligible for active participation in the retirement plan, the member's benefits must begin no later than April first of the calendar year after the calendar year in which the member attains the age of seventy and one-half years. In the absence of a retirement application, benefits shall be paid based on a single life, or normal retirement for judges, payment option. Benefits must be sent to the member's last-known address. If the benefit checks are returned with no forwarding information, the benefits will remain in the fund, and will be distributed in a lump sum retroactive to the required beginning date upon location of the member.

History: Amended effective November 1, 1990; July 1, 1994; July 1, 2000.

General Authority: NDCC 54-52-04, 54-52-17

Law Implemented: NDCC 54-52-17

Section 71-02-04-04 is amended as follows:

71-02-04-04. Optional benefits. A member may elect, as provided in section 71-02-04-02, to receive one of the following optional benefits in lieu of the regular single life, or normal for judges, retirement benefit.

1. **One hundred percent joint and survivor benefit.** A member shall receive an actuarially reduced retirement benefit during the member's lifetime and after the member's death the same amount will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. Payments of benefits to a member's surviving spouse shall be made on the first day of each month commencing on the first day of the month following the member's death, providing the beneficiary has supplied a marriage certificate and death certificate and is still living. Benefits shall terminate in the month in which the death of the beneficiary occurs. In the event the designated beneficiary predeceases the member or, in the event of divorce, the option shall be canceled and the member's benefit shall be returned to the single life amount. Payment of the single life amount shall commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree.

2. **Fifty percent joint and survivor benefit.** A member shall receive an actuarially reduced retirement benefit during the member's lifetime and after the member's death one-half the rate of the reduced benefit will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. Payments of benefits to a member's surviving spouse shall be made on the first day of each month commencing on the first day of the month following the member's death, providing the beneficiary has supplied a marriage

certificate and death certificate and is still living. Benefits shall terminate in the month in which the death of the beneficiary occurs. In the event the designated beneficiary predeceases the member or, in the event of divorce, the option shall be canceled and the member's benefit shall be returned to the single life amount. Payment of the single life amount shall commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree.

3. ~~**Level social security option.** A member who retires prior to receiving social security benefits may elect the level social security option. Under this option, the member's monthly benefit is adjusted so the combined benefits received from the fund and social security remain level before, and after, the date social security benefits begin. The adjusted benefit payable from the fund must be determined on an actuarial equivalent based on an age no earlier than sixty-two and no later than full retirement age as specified by the social security administration as chosen in writing by the member. A member is not eligible for the level social security option if it results in a benefit payment of less than one hundred dollars per month. A member shall submit an estimated benefit from social security that was computed no more than six months before commencement of retirement benefits.~~
4. **Twenty-year or ten-year certain option.** A member may elect an option which is the actuarial equivalent of the member's normal, early, or deferred vested retirement pension payable for life with a twenty-year or ten-year certain feature, as designated by the member.
5. ~~**Partial lump sum option.** The partial lump sum option will only~~

~~be available to members who retire on or after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve monthly payments determined under the single life annuity option. The member is permitted to choose one of the optional forms of payment, excluding the level social security income option, for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.~~

~~6. **Deferred normal retirement option.** The deferred normal retirement option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The ongoing benefits will be actuarially increased to reflect the lump sum.~~

History: Amended effective September 1, 1982; November 1, 1990; July 1, 1994; May 1, 2004; July 1, 2006; April 1, 2008.

General Authority: NDCC 54-52-04, 54-52-17

Law Implemented: NDCC 54-52-17

A new section 71-02-04-04.1 is created as follows:

71-02-04-04.1. Benefit Modifications. A member may elect as provided in section 71-02-04-02, to receive one of the following benefit modifications.

1. **Level social security option.** A member who retires prior to receiving social security benefits may elect the level social security option.

Under this option, the member's monthly benefit is adjusted so the combined benefits received from the fund and social security remain level before, and after, the date social security benefits begin. The adjusted benefit payable from the fund must be determined on an actuarial equivalent based on an age no earlier than sixty-two and no later than full retirement age as specified by the social security administration as chosen in writing by the member. A member shall submit an estimated benefit from social security that was computed no more than six months before commencement of retirement benefits. A member may only select this option if they have selected to receive a single life/normal retirement option.

2. Partial lump sum option. The partial lump sum option will only be available to members who retire on or after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve monthly payments determined under the single life annuity option. The member is permitted to choose one of the optional forms of payment as defined in 71-02-04-04 for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.

3. Deferred normal retirement option. The deferred normal retirement option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The member is permitted to choose one of the optional forms of payment as defined in 71-02-04-04. The ongoing benefits will be actuarially increased to reflect the lump sum.

4. Graduated benefit option. The graduated benefit option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The member is permitted to choose one of the optional forms of payment for ongoing benefits as defined in 71-02-04-04. The ongoing benefits will be actuarially reduced to reflect the election of the graduated benefit option.

History: Created effective _____, 2010

General Authority: NDCC 54-52-04, 54-52-17

Law Implemented: NDCC 54-52-17

Section 71-02-04-07 is amended as follows:

71-02-04-07. Amount of early retirement benefit.

1. Except for members of the national guard, the early retirement benefit shall be an amount actuarially reduced from the single life retirement benefit by one-half of one percent for each month (six percent per year) that the member is younger than the age at which the member would be at the member's normal retirement date on the date of the member's early retirement benefit ~~commences~~ effective date.
2. For members of the national guard, the early retirement benefit must be an amount actuarially reduced from the single life retirement benefit by one-half of one percent for each month (six percent per year) that the member is younger than age fifty-five on the date of the member's early retirement benefit ~~commences~~ effective date.

History: Amended effective September 1, 1982; June 1, 1996; April 1, 2002; May 1, 2004; July 1, 2006.

General Authority: NDCC 54-52-04, 54-52-17

Law Implemented: NDCC 54-52-17

Section 71-02-04-10 is amended as follows:

71-02-04-10. Erroneous payment of benefits - Overpayments.

1. An "overpayment" means a payment of money by the public employees retirement system that results in a person receiving a higher payment than the person is entitled to under the provision of the retirement plan of membership.
2. A person who receives an overpayment is liable to refund those payments upon receiving a written explanation and request for the amount to be refunded. All overpayments must be collected using the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like gains. If the cost of recovering the amount of the overpayment is estimated to exceed the overpayment, the repayment is considered to be unrecoverable.
3. If the overpayment of benefits was not the result of any wrongdoing, negligence, misrepresentation, or omission by the recipient, the recipient may make repayment arrangements subject to the executive director's approval within sixty days of the written ~~request for refund~~ notice of overpayment with the minimum repayment amount no less than fifty dollars per month ~~with the total repayment period not to exceed thirty-six months~~. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the ~~individual's~~ benefit payment period.
4. If the overpayment of benefits was the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the recipient, the recipient is liable to pay interest charges at the rate of six percent on the outstanding balance to compensate the fund for lost earnings, from the

time the erroneous benefit was paid through the time it has been refunded in full, ~~plus applicable interest.~~ Recovered funds are first applied to interest, and if any amount is left over, that amount is applied to principal.

The recipient may make repayment arrangements, subject to the executive director's approval, within sixty days of the written request for refund with the minimum repayment amount no less than fifty dollars per month ~~with the total repayment period not to exceed thirty-six months.~~ If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the individual's benefit payment period.

5. If an individual dies prior to fully refunding an erroneous overpayment of benefits, the public employees retirement system must make application to the estate of the deceased to recover the remaining balance.

History: Effective June 1, 1996; amended effective April 1, 2002; July 1, 2006; April 1, 2008.

General Authority: NDCC 54-52-04, 54-52-17

Law Implemented: NDCC 39-03.1-25, 54-52-17

Section 71-02-05-07.1 is amended as follows:

71-02-05-07.1. Judges' retirement plan optional benefits. For the judges' retirement plan, an individual deemed eligible for a disability benefit may elect, as provided in this section, to receive one of the following optional benefits in lieu of the regular disability benefit. Under no circumstances is an option available if the calculation of the optional benefit to which the member is entitled results in an amount which is less than one hundred dollars.

1. **One hundred percent joint survivor benefit.** A member shall receive an actuarially reduced disability retirement benefit as long as the member remains eligible for benefits under subdivision e of subsection 3 of North Dakota Century Code section 54-52-17 and after the member's death the same amount will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. Payments of benefits to a member's surviving spouse must be made on the first day of each month commencing on the first day of the month following the member's death, provided the beneficiary is still living and has supplied a marriage certificate and the member's death certificate. Benefits terminate in the month in which the death of the beneficiary occurs. In the event the designated beneficiary predeceases the member or, in the event of divorce, the option must be canceled and the member's benefit must be returned to the ~~single life~~ normal retirement amount. Payment of the normal retirement amount must commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree.
2. **Twenty-year or ten-year certain option.** A member may elect an option which is the actuarial equivalent of the member's normal, early, or deferred vested retirement pension payable for life with a twenty-year or ten-year certain feature, as designated by the member.

History: Effective May 1, 2004; amended effective July 1, 2006; April 1, 2008.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52-17

Section 71-02-05-09 is amended as follows:

71-02-05-09. Interest accrual on accumulated contributions for disabled annuitants. Effective January 1, 1998, interest must accrue on accumulated

contributions as defined in article 71-02 until the disabled annuitant reaches that person's normal retirement ~~date~~ age, cancels benefit in accordance with 71-02-05-03, the account is closed, or until benefit payments commence to the member's beneficiary.

History: Effective July 1, 1998; amended effective May 1, 2004; July 1, 2006.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52-17

Section 71-02-06-01 is amended as follows:

71-02-06-01. Conditions for return.

1. The accumulated contributions of a member who terminates permanent employment:
 - a. Before accumulating three years of service credit and whose account balance is less than \$1000.00 shall be automatically refunded unless the member elects to remain in an inactive status.
 - b. After accumulating three years of service credit shall be refunded upon application filed with the executive director.
 - c. The termination date for purposes of processing an application for refund or rollover must be the last date for which a member receives salary except for a member who is on an approved leave of absence. For members who are paid salary in any month following actual separation from employment if the salary is received after the normal processing date, the termination date for purposes of processing the application must be the same date as the date that the last paycheck was issued as salary.

2. Retirement contributions must be returned if a membership enrollment

application form has not been filed with the office. Contributions will be returned until proper membership enrollment forms have been filed.

History: Amended effective November 1, 1990; June 1, 1996; July 1, 1998; July 1, 2000; May 1, 2004.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52-06, 54-52-17

Section 71-02-07-02 is amended as follows:

71-02-07-02. Return to service - Retired member. The benefits of a retired member who returns to permanent employment shall be suspended without interest accruing on the suspended account, except as provided in subsection 1 of North Dakota Century Code section 54-52-05. Upon subsequent termination, the member's benefit shall be recalculated as follows:

1. ~~If the period of subsequent employment is less than two years, the member may elect:~~
 - a. ~~A return of the member's contributions made after reemployment, and the suspended benefit restored, adjusted for the member's age at subsequent termination and for benefit payments received prior to reemployment; or~~
 - b. ~~A recalculation of the member's benefit based on the benefit provisions in effect at the member's initial retirement, but adjusted to take account of age at final retirement, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment.~~
2. ~~If the period of subsequent employment is more than two years, the~~ The member's benefit shall be based on the benefit provisions in effect at final retirement and shall include the member's member and spouse's age and salary earned during the period of reemployment, ~~and together with~~ total service credits earned before and after reemployment, adjusted to take account of benefit payments received prior to reemployment. If a different option is selected at the second retirement date, the member and office will submit information as required to make an actuarial determination of the elected benefit and the related payment of such.
- 3~~2~~. If a member dies during subsequent employment, the member's initial retirement benefit option election will apply. ~~If a benefit election was an optional benefit under subsection 1 or 2 of section 71-02-04-04, then the member's benefit must be recalculated based on the benefit provisions in effect at the member's initial retirement, but adjusted to take account of age at death, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment. the~~ The member's benefit shall be based on the benefit provisions in effect at final retirement and shall include the member and spouses's ages, salary earned during the period of reemployment, and total service

credits earned before and after reemployment, adjusted to take account of benefit payments received prior to reemployment.

History: Amended effective November 1, 1990; July 1, 1998; May 1, 2004; July 1, 2006.

General Authority: NDCC 54-52-04, 54-52-17

Law Implemented: NDCC 54-52-17

Section 71-02-11-04 is amended as follows:

71-02-11-04. Payment. The cost for purchase of eligible military service in the North Dakota public employees retirement system and the North Dakota highway patrolmen's retirement system is as follows:

1. The cost for any required employee contributions to be paid by the member may be paid in a lump sum or in installments pursuant to the rules established for purchase or repurchase payment under subsection 1, 2, or 3 of section 71-02-03-02.2. ~~If retirement occurs before purchase is complete, service being purchased will not be credited to the account for retirement purposes until the payment is complete.~~ If no payments have been made, no credit will be awarded. To prevent any delay in issuing the employee's first retirement check, purchase must be completed at least thirty days prior to retirement date.
2. The employer cost will be assessed to the member's most recent participating employer. Upon being billed by the North Dakota public employees retirement system, the participating employer will have thirty days in which to make payment in full. If, after sixty days, the employer has not made payment in full, a civil penalty on fifty dollars will be assessed, and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.

3. ~~If the employer contributions are paid and the member becomes delinquent for required employee contributions, then the public employees retirement system will prorate the credit the employee contributions have paid for by the member and this credit will be added to the member's file.~~

History: Effective September 1, 1991; amended effective May 1, 2004; July 1, 2006.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52-17.4(5), 54-52-17.14

Section 71-03-03-01 is amended as follows:

71-03-03-01. Enrollment. An eligible employee is entitled to coverage the first of the month following the month of employment, ~~provided if~~ the employee submits an application for coverage within the first thirty-one days of employment or eligibility for one of the following special enrollment periods:

1. Loss of coverage under any other health insurance plan.
2. ~~Addition of a spouse~~ Marriage. An employee who previously waived coverage must ~~is also eligible to~~ enroll for coverage at the time the employee's spouse is enrolled.
3. Addition of a dependent as a result of birth, adoption, placement for adoption, receiving legal guardianship, or receiving a court order to provide health coverage. An employee who previously waived coverage must ~~is also eligible to~~ enroll for coverage at the same time that the employee's eligible dependent is enrolled.

History: Effective October 1, 1986; amended effective July 1, 1994; June 1, 1996; July 1, 1998.

General Authority: NDCC 54-52.1-08

Law Implemented: NDCC 54-52.1-03

Section 71-03-04-01 is amended as follows:

71-03-04-01. Employer contribution. Each agency shall pay to the board the full amount of the employer contribution by the fifteenth of each month. The agency will verify the number of eligible employees and the level of coverage for each. An employee is eligible for an employer contribution for the month following the month of employment. If an eligible employee terminates employment prior to the effective date of coverage, no employer contribution is required. The employer contribution ends the month following the month of termination of employment. When an employee transfers from one state agency to another, the new agency is responsible for the payment of the premium for the first of the month following employment.

History: Effective October 1, 1986; amended effective November 1, 1990.

General Authority: NDCC 54-52.1-08

Law Implemented: NDCC 54-52.1-06

Section 71-03-04-05 is amended as follows:

71-03-04-05. Premium for basic term life insurance. All state departments ~~and those political subdivisions that elect to~~ participate in the group life insurance program must pay the board the full premium for the basic term life insurance for each of its eligible employees.

History: Effective October 1, 1986; amended effective July 1, 1994; July 1, 1998.

General Authority: NDCC 54-52.1-08

Law Implemented: NDCC 54-52.1-01(7)

Section 71-03-05-05 is amended as follows:

71-03-05-05. Appeal process. If an employee's application for benefits has been denied in whole or in part by the board or its agent, the employee will be notified in writing of the denial and the reasons. Within sixty days of the date shown on the denial notice, the employee may file a petition for review. The petition must be in writing, the reasons stated for disputing the denial and be accompanied by any ~~documentary material~~ documentation. Should the employee filing a petition for review, or should the board or its agent desire information which cannot be presented satisfactorily by correspondence, the board or its designated appeals committee may schedule a hearing. The person filing the appeal will be notified in writing at least fifteen days prior to hearing of the time, date, and place.

The board or its agent will render a decision as soon as possible, but not later than one hundred twenty days after the receipt of the petition for review. The decision will be in writing.

History: Effective October 1, 1986; amended effective November 1, 1990.

General Authority: NDCC 54-52.1-08

Law Implemented: NDCC 54-52.1-08

Subsection 4 of section 71-03-05-08 is amended as follows:

71-03-05-08. Erroneous payment of premiums - Underpayments.

4. If an underpayment is not discovered within the first month it occurs, the following will apply:

- a. If not the result of any wrongdoing, negligence, misrepresentation, or omission by the individual, then the individual must make arrangements within sixty days of receiving written notification to either pay by lump sum or installments. The installment payment schedule is subject to approval by the executive director with the minimum repayment amount no less than fifty dollars a month ~~with the total repayment period not to exceed thirty-six months.~~ If repayment arrangements are not in place within sixty days of the date of the written request for repayment, the executive director shall authorize payment to be made in three equal installments, using the same payment method the individual has authorized for paying current monthly premiums.

- b. If underpayment is the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the individual, underpayments must be made in full within sixty days of written notification.

History: Effective April 1, 2002; amended effective April 1, 2008.

General Authority: NDCC 54-52.1-08

Law Implemented: NDCC 54-52.1-08

Section 71-03-06-01 is amended as follows:

71-03-06-01. Enrollment. ~~4. New~~ An eligible employee of a participating political subdivision ~~are~~ is entitled to coverage the first of the month following the month of employment, if the employee submits an application for coverage within the first thirty-one days of employment, or eligibility for one of the following special enrollment periods:

- ~~1.~~ 1. ~~a.~~ Loss of coverage under any other health insurance plan.
 - ~~2.~~ 2. ~~b.~~ Marriage. The enrollment of an employee's spouse. An employee who previously waived coverage must ~~is also eligible to~~ enroll for coverage at the time the employee's spouse is enrolled.
 - ~~3.~~ 3. ~~e.~~ Addition of a dependent as a result of birth, adoption, placement for adoption, receiving legal guardianship, or receiving a court order to provide health coverage. An employee who previously waived coverage must ~~is also~~ ~~eligible to~~ enroll for coverage at the same time that the employee's eligible dependent is enrolled.
- ~~2. Eligible employees of qualifying political subdivisions are entitled to individual coverage if the political subdivision for which the employee works does not offer its employees a group health insurance plan and the employee submits an application for coverage within the first thirty-one days of employment or eligibility for one of the special enrollment periods as follows:~~
- ~~a.~~ Loss of coverage under any other health insurance plan.

~~— b. Marriage. The enrollment of an employee's spouse. An employee who previously waived coverage is also eligible to enroll for coverage at the time the employee's spouse is enrolled.~~

~~— c. Addition of a dependent as a result of birth, adoption, receiving legal guardianship, or receiving a court order to provide health coverage. An employee who previously waived coverage is also~~

~~— eligible to enroll for coverage at the same time that the employee's eligible dependent is enrolled.~~

History: Effective June 1, 1996; amended effective July 1, 1998.

General Authority: NDCC 54-52-04

Law Implemented: NDCC 54-52.1-03.1, 54-52.1-03.4

Section 71-03-06-02 is amended as follows:

71-03-06-02. Late enrollment. ~~An eligible employee failing to submit an application for coverage within the first thirty-one days of employment or eligibility for a special enrollment period may enroll during the annual open enrollment and may be subject to a six-month waiting period for preexisting conditions. Upon a showing of good cause, the executive director may waive the thirty-one day application requirement.~~ Political subdivisions must follow the same late enrollment procedures as outlined in section 71-03-03-02.

History: Effective June 1, 1996; amended effective July 1, 1998; May 1, 2004.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1

Section 71-03-06-03 is amended as follows:

71-03-06-03. Open Special enrollment for certain qualifying events. Political subdivisions must follow the same enrollment procedures as outlined in section 71-03-03-05.

History: Effective June 1, 1996.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1

Section 71-03-06-05 is amended as follows:

71-03-06-05. Continuation of health benefits for dependents.

~~A dependent of an employee with family coverage may continue coverage with the group after the dependent's eligibility would ordinarily cease. An employee's dependent, including a divorced or widowed spouse or children no longer dependent on the employee, may continue with the group after the dependent's eligibility would ordinarily cease. Coverage is limited to a period of thirty-six months and must be discontinued if the payment of the premium is not made in a timely manner. Dependents must notify the retirement board within sixty days of the qualifying event and submit an application in a timely manner. An individual who fails to submit an application to the retirement board within the sixty days is not eligible for coverage. Political subdivisions must follow the same continuation procedure as outlined in section 71-03-03-07.~~

History: Effective June 1, 1996.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1

Section 71-03-06-08 is amended as follows:

71-03-06-08. Employee contribution. An employee who is enrolled in the group insurance plan and required by the employing agency to pay a part of the premium must pay the amount due to the employing agency in advance of the employer's payment to the public employees retirement system. ~~The employee's contribution may be paid by payroll deduction or any other method acceptable to the agency.~~

History: Effective June 1, 1996.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-02, 54-52.1-03.1

Section 71-03-07-01 is amended as follows:

71-03-07-01. Employer contribution. Each employer must submit to the board the full monthly premium amount for each eligible employee enrolled in the group insurance plan. The employer must verify the number of eligible employees and the level of coverage for each. An employee is eligible for an employer contribution for the month following the month of employment. If an eligible employee terminates employment prior to the effective date of coverage, no employer contribution is required.

~~The employer contribution ends the month following the month of termination of employment. An employee's coverage must end the month after termination of employment.~~ When an employee transfers from one participating enrolled employer to another, the new employer is responsible for the payment of ~~submitting~~ the premium for the first of the month following employment.

History: Effective June 1, 1996.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-03.1

Section 71-03-07-02 is amended as follows:

71-03-07-02. Information to employee. Each employer shall inform its ~~each~~ eligible ~~employee~~ employees of ~~the~~ their employee's right to group insurance and the process necessary to enroll. The employer shall provide each eligible employee such forms as necessary to enroll in the group insurance program.

History: Effective June 1, 1996.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1

Section 71-03-07-03 is amended as follows:

71-03-07-03. Collecting employee contributions. Each employer shall collect any employee contribution due and submit it with ~~any~~ the employer contribution to the retirement board each month. When an employee on an approved leave of absence requests to continue in the group, the employer shall collect the full amount of the premium from the employee each month and remit it to the retirement board. The minimum employer contribution will be determined by the retirement board and must be consistently applied to all eligible employees.

History: Effective June 1, 1996; amended effective May 1, 2004.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-03, 54-52.1-03.1

Section 71-03-07-05 is amended as follows:

71-03-07-05. Premium for basic term life insurance. A All political ~~Subdivision~~ subdivisions that ~~elects~~ elect to participate in the group life insurance program shall must pay to the retirement board the full premium for the basic term life insurance for each of its eligible employees.

History: Effective June 1, 1996.

General Authority: NDCC 54-52-04, 54-52.1-03.1

Law Implemented: NDCC 54-52.1-02, 54-52.1-03.1

Subsections 1 and 10 of section 71-04-01-01 are amended as follows:

71-04-01-01. Definitions. The terms used throughout this title have the same meaning as in North Dakota Century Code section 54-52.2-04, except:

1. "Beneficiary" means an individual designated by the participant ~~in the participant agreement~~ to receive benefits under the plan in the event the participant dies.

10. "Retirement board" or "board" means the seven persons described in North Dakota Century Code chapter 54-52-03.

History: Effective April 1, 1989; amended effective July 1, 1994; April 1, 2002; May 1, 2004.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2, 54-52.2-04

Section 71-04-03-02 is amended as follows:

71-04-03-02. Effective date of deferrals. All deferrals are effective the payroll period ending in the month following the month in which the deferral is authorized. Deferrals cannot be requested or authorized ~~during~~ for the month in which income is being earned ~~and a deferral is being requested~~.

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03; IRC 457(b)(4)

Section 71-04-03-05 is amended as follows:

71-04-03-05. Unforeseeable emergency. A participant who, prior to separation from service, experiences an unforeseeable emergency as defined in section 71-04-01-01 may apply for a ~~partial~~ distribution of the participant's deferred compensation account to the extent reasonably needed to satisfy the financial need. The participant may make application by completing a financial hardship form and delivering it to the retirement board offices.

History: Effective April 1, 1989; amended effective July 1, 1994; April 1, 2002.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2

Section 71-04-03-06 is amended as follows:

71-04-03-06. Termination of participation. Participation in the plan may be terminated at any time by completion of a participant agreement indicating ~~an elimination~~ a suspension of monthly deferrals.

History: Effective April 1, 1989; amended effective July 1, 1994; April 1, 2002; May 1, 2004.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2

Section 71-04-04-01 is amended as follows:

71-04-04-01. Enrollment. The ~~retirement~~ board shall design and provide employees with a participant agreement to facilitate the enrollment in the plan. The participant agreement must provide for the collection of all information regarding identification of the employee, starting date of the deduction, the payroll period

affected, name of the provider company, and the provider representative.

History: Effective April 1, 1989; amended effective September 1, 1997; May 1, 2004.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-01, 54-52.2-02, 54-52.2-05

Section 71-04-04-02 is amended as follows:

71-04-04-02. Booklets. The retirement board shall, upon request of the employee, make available a descriptive booklet setting forth the enrollment requirements of the plan, explanation of the deferred compensation plan under section 457 of the Internal Revenue Code, and investment options under the plan.

History: Effective April 1, 1989; amended effective September 1, 1997; May 1, 2004.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-04-03 is amended as follows:

71-04-04-03. Provider agreement. The retirement board shall establish a written provider agreement for the authorization of companies or organizations who offer investment options to public employees. This agreement may include registration and reporting requirements, educational requirements of sales representatives, and limitations of investment options.

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-04-04 is amended as follows:

71-04-04-04. Employer agreement. The retirement board shall establish a written agreement for all employers, other than state departments, agencies, boards, or commissions, which appoint the state to administer their deferred compensation plan. This agreement includes requirement for the employer to adopt the retirement board's rules, employers to make the requested payroll deductions upon proper application by the employee, remit the deductions directly to the retirement board along with a listing of deferred compensation deductions for all employees participating in the plan, submit all provider participant contracts to the retirement board, hold all participant account information as confidential, and notify the retirement board within thirty days of participant's termination of employment.

History: Effective April 1, 1989; amended effective April 1, 2002; July 1, 2006.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-04-05 is amended as follows:

71-04-04-05. Payroll deduction authorization. The retirement board shall deliver to the payroll division of each employer a copy of the signed participant agreement as the payroll division's authorization to begin deductions.

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-02

Section 71-04-04-06 is amended as follows:

71-04-04-06. Participant accounts. The retirement board shall have each provider of investment services establish individual accounts to record the participant's contributions, earnings, and other account activity.

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-04-07 is amended as follows:

71-04-04-07. Separation from service. The retirement board shall notify the participant, provider company, and provider representative of the employee's separation from service and eligibility for payment of benefits.

History: Effective April 1, 1989; amended effective July 1, 1994; May 1, 2004.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2

Section 71-04-04-10 is amended as follows:

71-04-04-10. Processing deductions. The retirement board will process and remit employee deferred compensation deductions to the designated provider company within three business days following receipt in good order of all funds and documentation from the employer.

History: Effective July 1, 2006.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-06-01 is amended as follows:

71-04-06-01. Application. Those firms desiring to offer investment services for the deferred compensation plan shall first notify the retirement board, in writing, of the firms' willingness to become a provider.

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-06-02 is amended as follows:

71-04-06-02. Administrative agreement. Firms expressing a desire to become a provider of investment services under the deferred compensation plan must agree to all provisions found in and sign the retirement boards' administrative agreement. The administrative agreement sets forth the responsibilities of the provider to the plan, the retirement board, and the employee and stipulates that the provider abide by the plan and rules and regulations adopted by the retirement board for the administration of the plan.

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-06-03 is amended as follows:

71-04-06-03. Sales representatives. All sales representatives of the provider approved by the retirement board to solicit employees must be fully trained to explain the various investment options available through the provider, be able to explain what the deferred compensation program is as found under section 457 of the Internal Revenue Code, and be licensed with the North Dakota state

securities commissioner for the sale of registered or unregistered securities or the North Dakota state insurance commissioner for the sale of insurance contracts or policies, or both.

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-06-06 is amended as follows:

71-04-06-06. Retirement board report. The provider shall deliver quarterly reports, in an approved electronic format, to the ~~retirement~~ board detailing the activity of each participant's account. The quarterly report must be delivered within thirty days of the end of each calendar quarter and must include an alphabetical listing of the participants, social security numbers of the participants, the provider's contract number for the participants (if any), type of account for each participant, beginning account balance forwarded from the previous reporting period, contributions made by the participants for the current reporting period, transfers and rollovers from other eligible plans during the reporting period, investment earnings or losses added to the account (if any for the reporting period), any withdrawals made during the reporting period, administrative charges assessed against the account during the reporting period, transfers and direct rollovers to other eligible plans during the reporting period, and the account balance at the end of the reporting period. The report columns must be totaled. The quarterly report must include active, inactive, and accounts in payout status, with the exception of accounts which have been annuitized, and be for all payroll divisions for the plan.

History: Effective April 1, 1989; amended effective November 1, 1990; July 1, 1994; May 1, 2004; July 1, 2006.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2

Section 71-04-06-07 is amended as follows:

71-04-06-07. Account transfer. The provider shall allow any participant who so requests, the ability to transfer the participant's account to another provider on a tax-free basis. The request to the provider must be made in writing by the ~~retirement board~~ or its designated representative. The transfer must be made within thirty days of the provider's receipt of the transfer request.

History: Effective April 1, 1989; amended effective July 1, 1994.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03

Section 71-04-06-08 is amended as follows:

71-04-06-08. Benefit requests. The provider shall honor all requests for benefit or refund payments made upon notification of the employee's separation from service by the ~~retirement board~~.

History: Effective April 1, 1989; amended effective May 1, 2004.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-06-09 is amended as follows:

71-04-06-09. Benefit payments. The provider shall make benefit payments to the participant in the manner designated by at the participant's participant. ~~designated mailing address, or, if requested, make direct deposits of the benefits at the participant's bank, savings and loan, or credit union.~~

History: Effective April 1, 1989.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 54-52.2-03

Section 71-04-06-11 is amended as follows:

71-04-06-11. Provider reporting failure - Penalty. Should the provider fail to deliver the required report within a thirty-day period beyond the end of the reporting period, notice must be given by certified mail of the provider's failure to comply. The provider shall then have thirty days from the date of the certified letter to comply with the reporting requirement. If the provider fails to deliver the required report within the thirty-day period, the provider is in violation of the administrative agreement and shall lose active provider status as described under subsection 1 of section 71-04-04-09. If the provider has not filed the report within ninety days after the end of the reporting period, the provider shall lose provider status as described under subsection 2 of section 71-04-04-09. Loss of provider status results in all current contributions of active participants being suspended effective in the next payroll cycle. The retirement board will notify all participants of the company's failure to deliver the required reports. Current participants will be required to either select a new provider for future contributions, or have their account go into a dormant status with the company losing provider status. The retirement board will then terminate the agreement with the provider.

History: Effective April 1, 1989; amended effective November 1, 1990; July 1, 1994; May 1, 2004.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2

Section 71-04-06-12 is amended as follows:

71-04-06-12. Provider suspension - Employee account transfers.

Should the provider be in violation of the administrative agreement, employees shall have the option of transferring their individual accounts to another qualified provider. The employee shall also have the option of leaving the account with the provider; ~~in a dormant status, to be dealt with by~~ until the employee ~~upon separation from service~~ is eligible for a distributable event.

History: Effective April 1, 1989; amended effective July 1, 1994.

General Authority: NDCC 28-32-02, 54-52.2-03.2

Law Implemented: NDCC 54-52.2-03, 54-52.2-03.2

Section 71-05-02-05 is amended as follows:

71-05-02-05. Interest accrued on accumulated contributions for disabled annuitants. Effective January 1, 1998, interest shall accrue on accumulated contributions as defined in article 71-01 until the disabled annuitant reaches normal retirement age, cancels benefit in accordance with 71-05-02-06, the account is closed, or until benefit payments commence to the member's beneficiary ~~or dies.~~

History: Effective July 1, 1998.

General Authority: NDCC 39-03.1-06, 39-03.1-11

Law Implemented: NDCC 39-03.1-11.4(d)

Section 71-04-04-04 is amended as follows:

71-05-04-04. Payment. The total dollar amount for repurchase or purchase may be paid in a lump sum or on a monthly, quarterly, semiannual, or annual basis. Payments may be subject to contribution limitations established under 26 U.S.C. 415. Payments must begin within ninety days of the date the written cost confirmation is prepared. If the installment method is used, the following conditions apply:

1. Simple interest at the actuarial rate of return must accrue monthly on the unpaid balance. Interest is calculated from the fifteenth of each month.
2. The installment schedule may extend ~~for as long as~~ while the member is employed by the participating employer but for no longer than a 15 year time period.
3. Installment payments may be made by a payroll deduction where available. However, it is the responsibility of the contributor to initiate and terminate the payroll deduction.
4. Payments are due by the fifteenth of the month to be credited for the month.
5. Payments may only be received from a contributor until the fifteenth of the month following the month of the member's termination date with a participating employer.
6. Payments must be greater or equal to fifty dollars per month, large enough to pay the current interest plus a portion of the principal and an amount necessary to complete the payment contract within the 15 year time period.

History: Effective October 1, 1991; amended effective June 1, 1996; May 1, 2004; July 1, 2006.

General Authority: NDCC 39-03.1-06, 39-03.1-08.1, 39-03.1-10.1, 39-03.1-14.1

Law Implemented: NDCC 39-03.1-08.1, 39-03.1-10.1, 39-03.1-14.1

Section 71-05-04-06 is amended as follows:

71-05-04-06. Crediting purchased or repurchased service. ~~Service purchased or repurchased will be credited in the following manner:~~

- ~~1. The contributor's record must be updated with the additional service credit once the account is paid in full. For each month the system receives a payment towards a purchase contract, the member will earn a proportion of service credit.~~

- ~~2. If the contributor or member of an alternative retirement system terminates, retires, or the contributor's account is closed due to delinquency, service credit shall be granted by taking the months of service credit being purchased times the percentage paid. The percentage is determined by taking the total payments made toward the purchase divided by the total amount to be paid over the term of the purchase. Service credit equal to a fraction is deemed to be a whole month of service credit.~~

History: Effective October 1, 1991; amended effective June 1, 1996; May 1, 2004.

General Authority: NDCC 39-03.1-06, 39-03.1-10.1, 39-03.1-14.1

Law Implemented: NDCC 39-03.1-08.1, 39-03.1-10.1, 39-03.1-14.1

Section 71-05-04-09 is amended as follows:

71-05-04-09. Employer purchase of service credit or sick leave program. An employer may elect to purchase up to five years of service credit for an employee and purchase an employee's unused sick leave that meets the requirements of section 71-02-03-08. Before offering a purchase program to its employees the employer must create a program and document the program in writing and submit a copy to the public employees retirement system. The governing authority of the employer shall also submit to the executive director of the public employees retirement system a letter indicating:

1. The program meets all the requirements of the North Dakota Century Code.
2. The program meets all applicable federal requirements.
3. The employer agrees to remit to the public employees retirement system a lump sum payment of the cost of the purchase upon being billed.
4. The employer has not given the employee the option of a cash payment in lieu of the employer purchase.
5. The employer shall clearly specify who is eligible for the program and indicate if the program is intended to be permanent or will be for a specific time period only.
6. The employer agrees that all purchases for service credit will be based upon actuarial cost as determined by the public employees retirement system. The employer also agrees that all purchases will be completed no later than the 15th of the month following the month of the employee's retirement termination or sixty days from the date the employer and employee agree to the purchase, whichever comes first.
7. The employer agrees that in offering such a program the employer will direct each employee interested in the program to first apply to the employer's authorized agent who will then certify the eligibility of the member, the amount of service credit to be purchased, and send such certification to the public employees retirement system. The employer also agrees that the employer's authorized agent will coordinate the program, authorize all purchases in writing to the public employees retirement

system, and be the focal point for communications between the public employees retirement system, the employer, and the employee.

8. The employer agrees that for each employee certified to be eligible to have service credit purchased, the employer will first obtain from the employee authorization for the public employees retirement system to share confidential information with the employer.
9. The employer certifies that in offering the program, the employer is making it available to all employees or a specified class of employees on a nondiscriminatory basis.
10. The employer agrees to provide information and policies pertaining to the employer purchase program pursuant to North Dakota Century Code section 39-03.1-28.

When an employer files the above letter with the public employees retirement system, it may offer the program to its employees. An employer may terminate this program at any time upon the governing authority of the employer sending to the executive director of the public employees retirement system a letter indicating when the program is to be canceled.

History: Effective May 1, 2004; amended effective July 1, 2006; April 1, 2008

General Authority: NDCC 39-03.1-06

Law Implemented: NDCC 39-03.1-10.2

Section 71-05-05-02 is amended as follows:

71-05-05-02. Special retirement options - Application.

1. A member may elect a retirement option by filing an application with

the office no less than thirty days prior to the beginning date of benefit payments. An application may be filed later than thirty days prior to the beginning date of benefit payments if approved by the plan administrator upon receiving sufficient evidence that the application was delayed by the member's employer.

2. A member may revoke the election of an optional benefit as provided in subsection 1 and make a new election if such revocation is received in writing before the first retirement check is cashed but no later than fifteen days after the first retirement check has been issued. If the member changes the member's election less than fifteen days prior to the named beginning date of benefits, the first retirement payment may be delayed up to two months. Any delayed payment must be adjusted to include any deferred retirement payments. If the member's first retirement payment is paid by direct deposit and the member wishes to revoke the election of the benefit, then the member must immediately notify NDPERS of their election. The benefit will only be revoked if NDPERS is able to reverse the direct deposit paid to the bank within the bank reversal window.
3. A member may not revoke the elected benefit after receiving and cashing the first benefit check or if paid by direct deposit, after the bank reversal window has expired, unless the member can provide sufficient evidence to the executive director that the factual basis by which the election was made later proved to be incorrect and such was due in part to representation or misrepresentations made by the employer or the retirement office.

History: Effective October 1, 1991; amended effective May 1, 2004, _____, 2010.

General Authority: NDCC 39-03.1-06

Law Implemented: NDCC 39-03.1-11

Section 71-05-05-04 is amended as follows:

71-05-05-04. Optional benefits. A member may elect, as provided in section 71-05-05-02, to receive one of the following optional benefits in lieu of the regular early or normal retirement benefit.

1. **One hundred percent joint and survivor benefit.** A member may receive an actuarially reduced retirement benefit during the member's lifetime and after the member's death the same amount will be continued to the member's surviving spouse during the spouse's lifetime. The designated beneficiary is limited to the member's spouse. In the event the member's spouse predeceases the member or, in the event of divorce, the option shall be canceled and the member's benefit shall be returned to the normal retirement amount. Payment of the normal retirement amount shall commence on the first day of the month following the spouse's death providing written notification of death and a death certificate has been submitted or, in the event of divorce, a photocopy of the divorce decree. Should the member remarry and wish to change such designation, a new actuarial retirement benefit will be calculated.
Payments of benefits to a member's surviving spouse must be made on the first day of each month, commencing on the first day of the month following the member's death, providing the beneficiary has supplied a marriage certificate, death certificate, birth certificate verifying age, and is still living. Benefits must terminate in the month in which the death of the beneficiary occurs.
2. **Twenty-year or ten-year term certain.** A member may elect an option which is the actuarial equivalent of the member's normal, early, or deferred vested retirement pension payable for life with a twenty-year or ten-year certain feature, as designated by the member.

- ~~3. **Partial lump sum option.** The partial lump sum option will only be available to members who retire on or after reaching their normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve monthly payments determined under the normal annuity option. The member is permitted to choose one of the optional forms of payment for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.~~

- ~~4. **Deferred normal retirement option.** The deferred normal retirement option will only be available to members who retire after reaching their normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The ongoing benefits will be actuarially increased to reflect the lump sum.~~

History: Effective October 1, 1991; amended effective July 1, 2006; April 1, 2008.

General Authority: NDCC 39-03.1-06

Law Implemented: NDCC 39-03.1-11

A new section 71-05-05-04.1 is created as follows:

71-05-05-04.1. Benefit Modifications. A member may elect as provided in section 71-05-05-02 to receive one of the following benefit modifications.

- 1. Partial lump sum option.** The partial lump sum option will only be available to members who retire on or after reaching their normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is equal to twelve

monthly payments determined under the normal annuity option. The member is permitted to choose one of the optional forms of payment for ongoing benefits. The ongoing benefits will be actuarially reduced to reflect the partial lump sum payment.

2. Deferred normal retirement option. The deferred normal retirement option will only be available to members who retire after reaching their normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The ongoing benefits will be actuarially increased to reflect the lump sum.

3. Graduated benefit option. The graduated benefit option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The member is permitted to choose one of the optional forms of payment for ongoing benefits excluding the deferred normal retirement option or partial lump sum option. The ongoing benefits will be actuarially reduced to reflect the election of the graduated benefit.

History: Created effective _____, 2010

General Authority: NDCC 39-03.1-06

Law Implemented: NDCC 39-03.1-11

Section 71-05-05-07 is amended as follows:

71-05-05-07. Amount of early retirement benefit. The early retirement benefit must be an amount actuarially reduced from the normal retirement benefit by one-half of one percent for each month (six percent per year), that the member is younger than age fifty-five on the date of the member's early retirement benefit commences effective date.

History: Effective October 1, 1991.

General Authority: NDCC 39-03.1-06

Law Implemented: NDCC 39-03.1-11

Section 71-04-05-10 is amended as follows:

71-05-05-10. Erroneous payment of benefits - Overpayments.

1. An "overpayment" means a payment of money by the public employees retirement system that results in a person receiving a higher payment than the person is entitled to under the provision of the retirement plan of membership.
2. A person who receives an overpayment is liable to refund those payments upon receiving an explanation and a written request for the amount to be refunded from the executive director. All overpayments must be collected using the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like gains. If the cost of recovering the amount of the overpayment is estimated to exceed the overpayment, the repayment is considered to be unrecoverable.
3. If an overpayment of benefits was not the result of any wrongdoing, negligence, misrepresentation, or omission by the recipient, the recipient may make repayment arrangements subject to the executive director's approval within sixty days of the written notice of overpayment with the minimum repayment amount no less than fifty dollars per month. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the individual's benefit payment period.
4. If the overpayment was the result, in whole or in part, of the wrongdoing, negligence, misrepresentation, or omission of the recipient, the recipient is liable to pay interest charges at the rate of six percent on the outstanding

balance to compensate the fund for lost earnings from the time the erroneous benefit was paid through the time it has been refunded in full. Recovered funds are first applied to interest, and if any amount is left over, that amount is applied to principal. The recipient may make repayment arrangements, subject to the executive director's approval, within sixty days of the written request for refund with the minimum repayment amount no less than fifty dollars per month. If repayment arrangements are not in place within sixty days of the date of the written notice of overpayment, the executive director shall offset the amount of the overpayment from the amount of future retirement benefit payments so that the actuarial equivalent of the overpayment is spread over the individual's benefit payment period.

5. If an individual dies prior to fully refunding an erroneous overpayment of benefits, the public employees retirement system must make application to the estate of the deceased to recover the remaining balance.

History: Effective April 1, 2002; amended effective July 1, 2006.

General Authority: NDCC 32-03-04, 39-03.1-06, 54-52-04(12), 54-52-14.2

Law Implemented: NDCC 39-03.1-25

Section 71-05-06-01 is amended as follows:

71-05-06-01. Return of contributions - Conditions for return. The accumulated contributions of a member who terminates permanent employment:

1. Before accumulating ten years of service credit and whose account balance is less than \$1000.00 must be automatically refunded unless the member elects to remain in an inactive status.
2. After accumulating ten years of service credit, accumulated contributions must be refunded upon application filed with the retirement office.

History: Effective October 1, 1991.

General Authority: NDCC 39-03.1-06

Law Implemented: NDCC 39-03.1-10.1

Section 71-05-07-01 is amended as follows:

71-05-07-01. Return to service – Retired member. The benefits of a retired member who returns to permanent employment must be suspended. Upon final retirement, the member's benefit must be recalculated as follows:

1. ~~If the period of subsequent employment is less than two years, the member may elect:~~
 - a. ~~A return of the member's contributions made after reemployment, and the suspended benefit restored, adjusted for the member's age at final retirement and for benefit payments received prior to reemployment; or~~
 - b. ~~A recalculation of the member's benefit based on the benefit provisions in effect at the member's initial retirement, but adjusted to take account of age at final retirement, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment.~~
2. ~~If the period of subsequent employment is more than two years, the~~ The member's benefit must be based on the benefit provisions in effect at final retirement and shall include the member's member and spouse's age, and salary earned during the period of reemployment, and together with total service earned before and after reemployment, adjusted to take account of benefit payments received prior to reemployment. If a different option is selected at the second retirement date, the member and office will submit information as required to make an actuarial determination of the elected benefit and the related payment of such.
3. ~~If a member dies during subsequent employment, the member's initial retirement benefit option election will apply. If the benefit election was an optional benefit under section 71-05-02-04, then the member's benefit must be recalculated based on the benefit provisions in effect at the member's initial retirement, but adjusted to take account of age at death, benefit payments received prior to reemployment, salary and service credits, and any benefit increases accrued during the period of subsequent employment.~~ The member's benefit shall be based on the benefit provisions in effect at final retirement and shall include the member and spouses's ages ,salary earned during the period of reemployment, and total service credits earned before and after reemployment, adjusted to take account of benefit payments received prior to reemployment.

History: Effective October 1, 1991; amended effective May 1, 2004.
General Authority: NDCC 39-03.1-06
Law Implemented: NDCC 39-03.1-11

Section 71-06-01-02 is amended as follows:

71-06-01-02. Calculation of retiree health insurance credit. Retiree health insurance credit will be calculated on actual years and months of service, identical to retirement benefits under North Dakota Century Code chapter 54-52.

1. Retiree health insurance credit will be subject to reduction factors in the event of early retirement.

For annuitants of the public employees retirement system defined benefit plan and North Dakota public employees retirement system judges, and for members of the defined contribution retirement plan, excluding national guard retirees, who take a periodic distribution:

<u>Age at Retirement</u>	<u>Reduction Factor</u>	<u>Age at Retirement</u>	<u>Reduction Factor</u>
64 to 65	3%	59 to 60	33%
63 to 64	9%	58 to 59	39%
62 to 63	15%	57 to 58	45%
61 to 62	21%	56 to 57	51%
60 to 61	27%	55 to 56	57%

For annuitants of the job service retirement program: This includes those who retired under a discontinued service annuity but does not include those who retired at a normal or optional date.

<u>Age at</u>	<u>Reduction</u>	<u>Age at</u>	<u>Reduction</u>	<u>Age at</u>	<u>Reduction</u>
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<u>Retirement</u>	<u>Factor</u>	<u>Retirement</u>	<u>Factor</u>	<u>Retirement</u>	<u>Factor</u>
64 to 65	3%	59 to 60	33%	54 to 55	63%
63 to 64	9%	58 to 59	39%	53 to 54	69%
62 to 63	15%	57 to 58	45%	52 to 53	75%
61 to 62	21%	56 to 57	51%	51 to 52	81%
60 to 61	27%	55 to 56	57%	50 to 51	87%

For annuitants of the highway patrol fund and national guard security police and firefighters and national guard security police and firefighters who transferred to the defined contribution retirement plan:

<u>Age at Retirement</u>	<u>Reduction Factor</u>
54 to 55	3%
53 to 54	9%
52 to 53	15%
51 to 52	21%
50 to 51	27%

2. Disabled annuitants receiving benefits under subdivision e g of subsection 3 of North Dakota Century Code section 54-52-17, subdivision d of subsection 3 of North Dakota Century Code section 39-03.1-11, North Dakota Century Code section 52-11-01, or section 71-02-05-05 will be eligible for full retiree health insurance credit benefits. No age reduction factor will be applied.
3. A surviving spouse eligible to receive benefits under subdivisions ~~b and e~~ a(2), b(2) and b(3) of subsection 6 of North Dakota Century Code section 54-52-17, subdivisions b and c of subsection 6 of North Dakota Century Code section 39-03.1-11, or North Dakota Century Code section 52-11-01

will receive retiree health insurance credit based on the deceased member's years of service without any age reduction applied.

4. A surviving spouse receiving benefits under the provisions of subdivision a or ~~e~~ b or d of subsection 9 of North Dakota Century Code section 54-52-17; subdivisions a, b, and c of subsection 5 of North Dakota Century Code section 27-17-01; subsection 9 of North Dakota Century Code section 39-03.1-11; or North Dakota Century Code section 52-11-01 will receive retiree health insurance credit for the duration benefits are paid, based upon the original annuitant's retirement age.

History: Effective April 1, 1992; amended effective June 1, 1996; July 1, 2000.

General Authority: NDCC 54-52.1-03.2(b)

Law Implemented: NDCC 54-52.1-03.3

Section 71-08-06-04 is amended as follows:

71-08-06-04. Cost. The cost for purchase of eligible military service in the defined contribution plan may be paid as follows:

- 1 The cost for any required employee contributions to be paid by the member may be paid in a lump sum or in installments pursuant to the rules established for purchase or repurchase payment under subsection 3, 4, or 5 of section 71-02-03-02.2. If no payments have been made, no credit will be awarded.
2. ~~If the member elects to make installment payments through payroll deduction, then the employer will be required to match the member contribution month by month. Upon completion of the member~~

~~contributions, the employer will be required to make a final payment of all remaining employer contributions.~~

~~3. If the member elects to make payments through any method other than payroll deductions, then upon the member completing full payment of the required member contributions, the employer cost will be assessed to the member's most recent participating employer.~~

4. The employer cost will be assessed to the member's most recent participating employer. Upon being billed by the public employees retirement system, the participating employer will have thirty days in which to make payment in full. If, after sixty days, the employer has not made payment in full, a civil penalty of fifty dollars will be assessed, and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.

History: Effective May 1, 2004; amended effective July 1, 2006, _____, 2010.

General Authority: NDCC 54-52-04, 54-52.6-04

Law Implemented: NDCC 54-52.6-09.3, 54-52.6-09.4

Section 71-08-07-01 is amended as follows:

71-08-07-01. Additional employer contributions. An employer may elect to provide additional employer contributions to an employee's account in an amount not exceeding the equivalent of a purchase of up to five years of service credit for that employee and the purchase of an employee's unused sick leave that meets the requirements of section 71-08-07-02. Before offering such a program to its employees, an employer must create a program and document it in writing and submit a copy to the public employees retirement system. The governing authority of the employer shall also submit to the executive director of the public employees retirement system a letter indicating:

1. The program meets all the requirements of the North Dakota Century Code.
2. The program meets all applicable federal requirements.
3. The employer agrees to remit to the public employees retirement system a lump sum payment of the cost of the purchase upon being billed.
4. The employer has not given the employee the option of a cash payment in lieu of the employer purchase.
5. The employer shall clearly specify who is eligible for the program and indicate if the program is intended to be permanent or will be for a specific time period only.
6. The employer agrees that all additional employer contributions will not exceed the equivalent of a purchase of service credit as determined by the public employees retirement system and all unused sick leave purchases will be based upon the computation specified in the North Dakota Century Code. The employer also agrees that all purchases will be completed no later than the 15th of the month following the month of the employee's retirement termination or sixty days from the date the employer and employee agree to the purchase, whichever comes first.
7. The employer agrees that in offering such a program the employer will direct each employee interested in the program to first apply to the employer's authorized agent who will then certify the eligibility of the member and the amount of service credit to be purchased or sick leave to be converted and send such certification to the public employees

retirement system. The employer also agrees that the employer's authorized agent will coordinate the program, authorize all purchases in writing to the public employees retirement system and be the focal point for communications between the public employees retirement system, the employer, and the employee.

8. The employer agrees that for each employee certified to be eligible to have service credit purchased or sick leave converted, the employer will first obtain from the employee authorization for the public employees retirement system to share confidential information with the employer.
9. The employer certifies that in offering the program, the employer is making it available to all employees or a specified class of employees on a nondiscriminatory basis.
10. The employer agrees to provide information and policies pertaining to the employer purchase program pursuant to North Dakota Century Code section 54-52-26.

When an employer files the above letter with the public employees retirement system, the employer may offer the program to its employees. An employer may terminate this program at any time upon the governing authority of the employer sending to the executive director of the public employees retirement system a letter indicating when the program is to be canceled.

History: Effective May 1, 2004; amended effective July 1, 2006; April 1, 2008.

General Authority: NDCC 54-52-04, 54-52.6-04

Law Implemented: NDCC 54-52.6-09.2



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board
FROM: Sparb
DATE: April 1, 2010
SUBJECT: Health Bid

Deloitte will be at the meeting to continue our discussion of our bid strategy for the health plan. Since this is a discussion of our strategy, I would suggest that the Board go into executive session for this part of the agenda pursuant to NDCC Section 44-04-19.1, Subsection 9, to discuss negotiating strategy for the health bid.

The Board heard from Deloitte at the March meeting. After our April meeting, they will prepare the RFP for your approval prior to it being released.

NDPERS BOARD MEETING

Agenda

Bismarck Location:
ND Association of Counties
1661 Capitol Way
Fargo Location:
BCBS, 4510 13th Ave SW

April 29, 2010

Time: 8:30 AM

I. MINUTES

- A. March 25, 2010
- B. April 7, 2010

II. PERSLink

- A. ICON Contract – Sharon (Board Action)
- B. Update – Sharon (Information)
- C. Quarterly Report – Bryan (Information)

III. GROUP INSURANCE

- A. Health Plan Strategies – Sparb (Board Action)
- B. Health Bid – Sparb (Board Action)
- C. BCBS Update – Sparb (Information)

IV. RETIREMENT

- A. Experience Study – Sparb (Board Action)
- B. Judges Plan – Sparb (Information)

V. DEFERRED COMPENSATION

- A. Provider Issues – Kathy (Board Action)

VI. MISCELLANEOUS

- A. Quarterly Consultant Fees – Jim (Information)
- B. SIB Agenda
- C. Review – Sparb

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: PERS Board
FROM: Sharon Schiermeister
DATE: April 19, 2010
SUBJECT: PERSLink Data Conversion (ICON)

In June 2009, the PERS Board provided approval to hire a vendor, ICON Integration, to assist with the PERSLink data conversion effort. The firm was retained and has provided services with the data reconciliation process. The contract for this effort was \$120,000. The cost of this contract was absorbed within the project budget through a re-allocation of the cost savings from the backfile conversion effort.

We are completing the initial round of data reconciliation which consists of matching information on the mainframe with information on PERSLink. Items we looked at include member counts by plan, status and employer, service credit, salary balances, contribution balances, pension payment amounts, and insurance premiums. This process has allowed us to identify records on the mainframe that may require correcting and to fine-tune the logic that is being used to convert data into PERSLink. It has also provided an increased level of confidence that critical data has been converted correctly, which could not be achieved by just a random sampling of converted records.

Throughout the remainder of the project, we are planning to convert data 3 more times. As part of the data conversion process, we feel it is prudent to also perform the data reconciliation process. We are proposing that we contract with ICON Integration to assist with this process. ICON has provided the following proposal:

Task	Fixed Fee	On-Site Hourly Rate (\$150)	Off-Site Hourly Rate (\$125)
Reconciliation Cycle #1	\$ 6,250		\$ 5,625
Reconciliation Cycle #2 – parallel testing	\$ 6,250		\$ 5,625
Reconciliation Cycle #3 – final for go-live	\$ 6,250	\$ 6,750	
TOTAL	\$18,750	\$ 6,750	\$11,250

The proposal consists of a fixed fee and also up to 45 hours of additional time for each conversion run. The fixed fee is the cost to complete the reconciliation process as currently defined, assuming there are no changes in business rules or conversion rules. However, because we are still fine-tuning the conversion logic, we felt it was necessary to ask ICON to include a reasonable estimate of hours assuming we will have some changes. ICON felt that 45 hours per conversion run would be reasonable. The additional hours would only be billed based upon identification of a change that is pre-approved by NDPERS. ICON suggests that the Cycle #1 and Cycle #2 be completed off-site and Cycle #3 be performed on-site. However, this is also at the discretion of NDPERS.

The total cost of this contract would be \$36,750. This assumes the additional 45 hours are used for each Cycle, and Cycle #1 and Cycle #2 are off-site and Cycle #3 is on-site. As part of our original project budget, there is a contingency line item of \$730,640 which could be allocated for this contract.

Staff Recommendation: Retain ICON to assist the PERSLink project team with the data reconciliation process.

Board Action Requested: Approve reallocation of project budget to contract with ICON for data conversion assistance up to \$36,750.



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FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sharon Schiermeister

DATE: April 20, 2010

SUBJECT: PERSLink Project Update

As we near completion of the PERSLink project, we thought it would be useful to provide more frequent updates to the Board. Presentations will be made in April, June, August and October to keep you informed of project activities.

The presentation today will focus on the current status of the project, major activities remaining to be accomplished, communication activities, change management, and ongoing support & maintenance.

Future presentations will cover more specific topics, such as the training plan for internal and external users and an overview of web self-service functionality for employers and members.

North Dakota Public Employees Retirement System

NDPERS PERSLink

Board Presentation

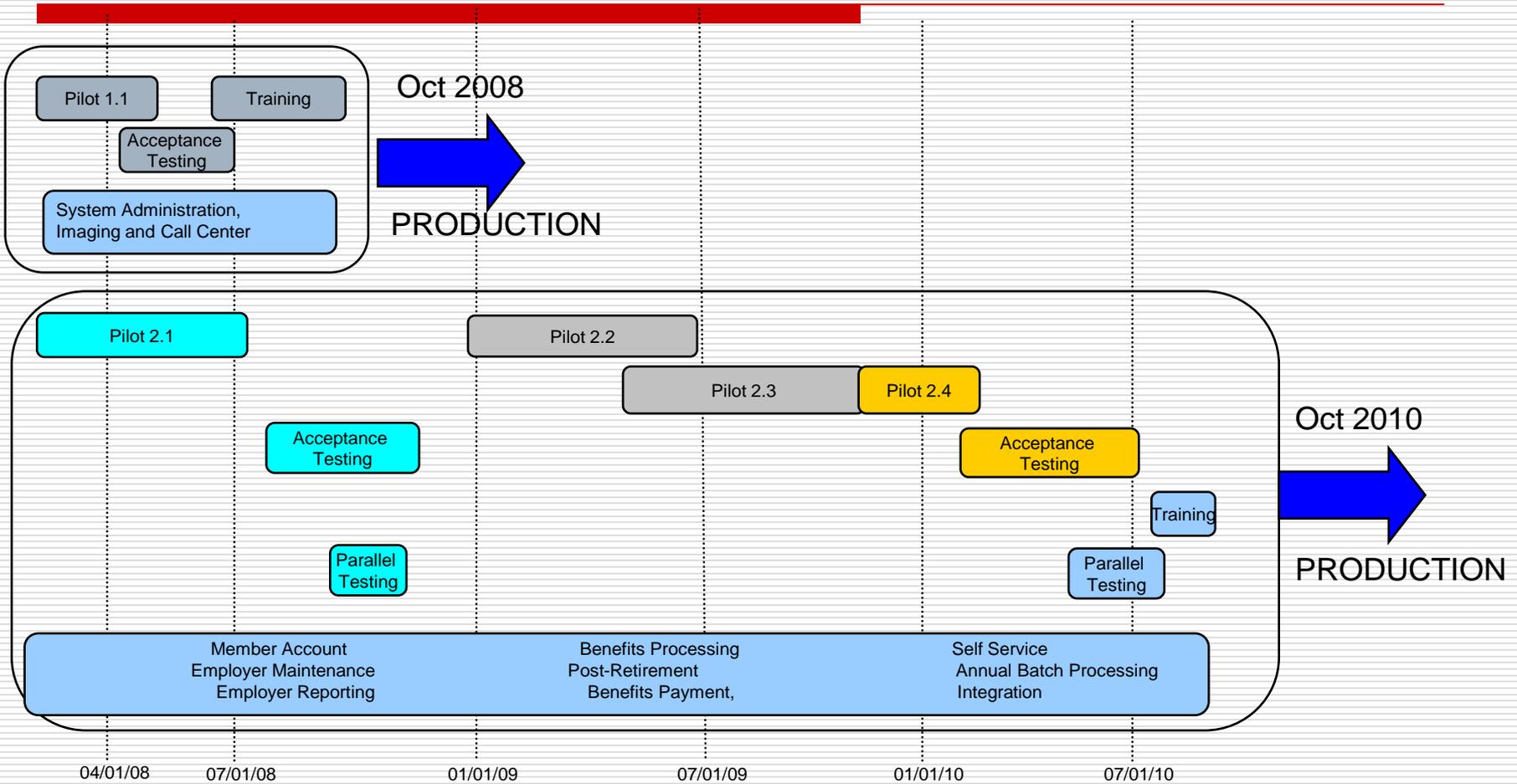
April 29, 2010

"We commit to successfully implement a robust, reliable, secure web-enabled, integrated benefit administration system that improves NDPERS' business operations and service."

Project Status

- ❑ Start Date: October 1, 2007
 - ❑ Project Status: Green – within 10% variance on schedule and budget
 - ❑ Scheduled End Date: October 1, 2010 – however, we are currently tracking 1 month behind
-

Overall Project Schedule



Key Remaining Activities

- Completion of User Acceptance Testing
 - Completion of Parallel Testing
 - Finalize Data Conversion
 - Complete testing with employers and vendors
 - Complete training of NDPERS staff and employers
 - Completion of Deployment Tasks
-

Project Schedule

- Tracking 1 month behind
 - Testing is taking longer
 - limited PERS resources
 - Evaluating options
 - focus is on quality
-

Communication Events

- Board Updates – April, June, August, October
 - Increase visibility of PERSLink
 - Notice to employers on employer reporting changes
 - Employer Newsletter Article
 - Employee Newsletter Article
-

Change Management Goals

- ❑ Eliminate Silos within NDPERS
 - ❑ Provide better backups through cross training and multi functional positions
 - ❑ Prepare Staff
 - Determine new roles and responsibilities
 - Provide in house training on new areas of responsibility
 - Provide Comprehensive Training on PERSLink
 - Provide tools to assist – On Line Help, Video Scripts
-

Short/Long Term Support for PERSLink

- Reviewed IT staffing needs post go live and providing necessary specialized training
 - Planning to Utilize ITD Service Desk Model to assist in support for members and employers after go live
 - Need to determine the best Post Warranty Support Model for NDPERS
 - Full outsourcing
 - Full in house staffing
 - Mix of outsourcing/in house staffing
-

Support & Maintenance

- A support system needs to be in place to continue to maintain and enhance the system:
 - Ongoing operations and production support – running batches, troubleshooting problems, specialized inquiries, external interfaces, etc.
 - Enhancements and software updates: New legislation with new benefit plans, tax law changes, etc. will require modifications and updates to the system
 - Hardware maintenance and support- LAN, servers, desktops, printers, etc.

 - Staff will present support and maintenance options and associated costs at May Board meeting
-

Summary

- ❑ Satisfied with vendor commitment and quality of product being delivered
 - ❑ Staff likes what they see
 - ❑ Project team remains committed to delivering a quality product
-



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: April 21, 2010
SUBJECT: Pharmacy Program Strategies

At the February meeting we heard a presentation from BCBS on pharmacy strategies (Attachment #1). Attachment #2 is a memo from BCBS with their recommendations on which strategy PERS should consider implementing.

Staff Recommendation

Accept the recommendations of BCBS with the exception of Option #1 (please note BCBS is not recommending Option #5 at this time and staff agrees as well). Specifically accept:

- Option 2 – implement a specialty pharmacy program
- Option 3 – make available more education material to our members relating to Prime Mail
- Option 4 – implement a step therapy program

Staff is recommending to not accept recommendation #1 to move to the Prime Select network. We are recommending deferring this decision until after the bid.

NDPERS 2010 Opportunities NDPERS + BCBSND + Prime

Strategic Pharmacy Approaches

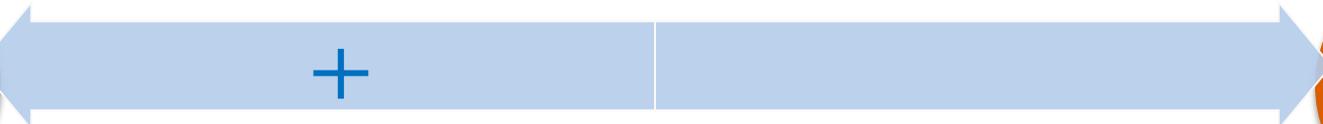
February 25, 2010

Confidential Trade Secret, Proprietary or Commercial Information

Materials contained in this submission to the North Dakota Public Employee Retirement System (NDPERS) are the proprietary and confidential information of Prime Therapeutics LLC and constitute trade secrets and/or commercial information that is of a privileged nature, not previously having been publicly disclosed, and the disclosure of which is likely to cause substantial harm to the competitive positions of Prime Therapeutics LLC and to impair the Government's ability to obtain necessary information in the future. Accordingly, Prime Therapeutics hereby claims exemption from disclosure under Section 44-04-18.4 of the North Dakota Century Code to the information contained herein.

This document contains confidential and proprietary information owned by Prime Therapeutics LLC. Unauthorized use and distribution are prohibited.

Overall pharmacy management spectrum



NDPERS Placement on Spectrum = +

NDPERS highlighted in BLUE

Characteristics	Characteristics
<ul style="list-style-type: none"> > Open formulary > 100 day channel neutral > Few Utilization Management Programs > Low member cost sharing > Highest pharmacy access 	<ul style="list-style-type: none"> > Highly managed formulary > 100 day channel promotes mail > Actively managed with Utilization Management Programs with limited grandfathering > Higher (>25%) member cost sharing > Restricted Pharmacy Network
Cost Implications	Cost Implications
<ul style="list-style-type: none"> > Lower rebates > Less competitive network > Lower generic utilization > Higher administrative costs 	<ul style="list-style-type: none"> > Higher rebates > Most competitive network > High generic utilization/low unit cost > Lower administrative costs
Tactics	Tactics
<ul style="list-style-type: none"> > Two tier benefit structures > Low, or free, generics > Member support tools and education programs > Inclusive network contracting approach > Channel neutral (retail / mail) 	<ul style="list-style-type: none"> > Maximizing formulary > Mandatory mail > Step edits and quantity limits without grandfathering > Drug class closures and/or lockouts > Limited networks, improving network rates

Leveraging pharmacy for NDPERS in 2010

- Appropriate management of **Pharmacy Utilization** and **Drug Mix** can impact **Total Health Spend**
- Emphasis on Lower PMPM Costs differentiates Prime and BCBSND from others in the Market

BENEFIT TOOLS

Design

- + plan design
- + formulary
- + delivery channel

Manage

- + clinical programs
- + utilization management

Encourage

- + targeted outreach
- + education

DRUG IMPACT GROUPS

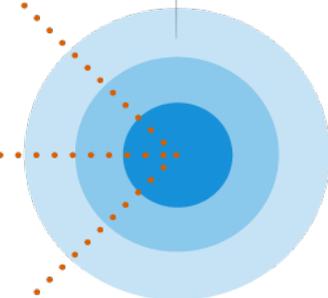
spectrum

focus

total health impact

specialty

TOTAL HEALTH SPEND



Opportunities for focused NDPERS efforts in 2010

- Keeping the following points of impact (+ or -) in mind:
 * Cost * Quality & Outcome * Members * Providers * BCBSND & NDPERS

	Cost of Care	Outcomes	Members	Providers	BCBSND & NDPERS
Formulary Mgmt	↓	No Change	+/-	No Change	+/-
Benefit Design	↓	+/-	+/-	No Change	+/-
Utilization Mgmt	↓	No Change	No Change or (-)	No Change or (-)	+/-
Network Mgmt	↓	No Change	+	-	+/-
Specialty Mgmt	↓	+	+	No Change or (-)	+/-
PrimeMail	↓	+	+	-	+/-

Menu of clinical products and services

- Integrated programs incorporate medical diagnoses, generating the greatest potential to positively impact health outcomes and hold down total cost

Integrated Programs	Efficiency Assessment	Assessment combines pharmacy and medical data and applies predictive modeling logic to identify members at high risk for an adverse medical event; targeted interventions can then be applied	Utilization Management	Clinical pharmacy programs cover step therapy, prior authorization and quantity limits; all include clinical protocols and administrative support
	Adherence Program	Diagnostic reporting and interventions that target members to increase adherence to drug therapies	Drug Alerts	Timely alerts on new generics, drug safety issues and drug withdrawals sent to employers, physicians, members and plans
	Drug Utilization Review (DUR)	Concurrent and retrospective DUR combines reporting and interventions to alert physicians of drug safety or utilization issues	Triessent[®] Specialty Pharmacy Program	Specialty pharmacy solutions that support a superior member experience while balancing the real-world financial and logistical considerations of employers
Standard	\$0 Generic Copay Program	Targets members with chronic conditions to encourage formulary compliance and generic drug use	Generic Opportunity Program	Reporting and consultation help identify and prioritize opportunities to improve generic utilization

Utilization management savings opportunities

Program Name	Impacted Members	Drug Cost Savings
PPI Step Therapy	Medium	\$\$\$ - \$\$\$\$
ACE/ARB Step Therapy	Medium	\$\$ - \$\$\$
Bisphosphonate Step Therapy	Low	\$
Insomnia Step Therapy	Low	\$ - \$\$

Program Name	Impacted Members	Drug Cost Savings
PPI Class Closure	High	\$\$\$\$ Plus
NSAH Class Closure	Low	\$

SCALE	Impacted Members	SCALE	Drug Cost Savings
Low	Under 200	\$	\$10,000 to \$50,000
Medium	500 to 2,800	\$\$	\$50,000 to \$200,000
High	2,800 or more	\$\$\$	\$200,000 to \$500,000
		\$\$\$\$	\$500,000 or more

Generics Plus formulary savings opportunity

NDPERS

Generics Plus Formulary:

- Consists of all generics (except those with safety concerns) and the minimum clinically necessary number of brands.
- Impacts (reduces) manufacturer rebates due to lower brand utilization

Savings Assumptions:

- Every 1% increase in Generic Utilization Rate = 1 to 1.5% savings in total cost

Current Generic Utilization	GUR
NDPERS (non-specialty)	69.1%

	GUR	Increase to GUR	Total Paid Savings*	Annual Savings*
"Low Range" Estimated under Generics Plus	77.3%	+8.2 pts	10.2%	\$\$
"High Range" Estimated under Generics Plus	84.1%	+15.0 pts	22.5%	\$\$\$\$\$

Drug Cost Savings
Every \$ = \$1 Million

*Savings are estimates and should not be considered binding

Triessent® specialty drug program savings

NDPERS 2009 Specialty PMPM Trend = **17.1% (\$2.9M Annual Spend)**

NDPERS 2009 Non-Specialty PMPM Trend = **-0.7% (\$30M Annual Spend)**

NDPERS Specialty Drugs	Claims	Utilizers	Estimated Annual Savings	Percent of Specialty Savings
Total	1,403	310	\$100,000	3.32%



Triessent provides specialty pharmacy solutions supporting a superior member experience, while balancing the real-world financial and logistical considerations of members and plan sponsors.

What is PrimeMail?

- PrimeMail is the mail-service pharmacy for Blue Cross Blue Shield of North Dakota
 - > Superior levels of quality and timeliness
 - 99.99% dispensing accuracy¹
 - 95% member satisfaction²
 - 1 day average in-house script turnaround³
 - > State-of-the-art efficiencies
 - 5+ million prescriptions shipped annually¹
 - Dispensing capacity of more than 15 million prescriptions annually
 - 150,000 square feet combined space
 - VIPPS certified for safety, quality and security
 - URAC accredited



1. PrimeMail data, 2009.
2. 2009 Prime Therapeutics annual member survey.
3. PrimeMail data, January-September 2009.

NDPERS PrimeMail savings opportunity

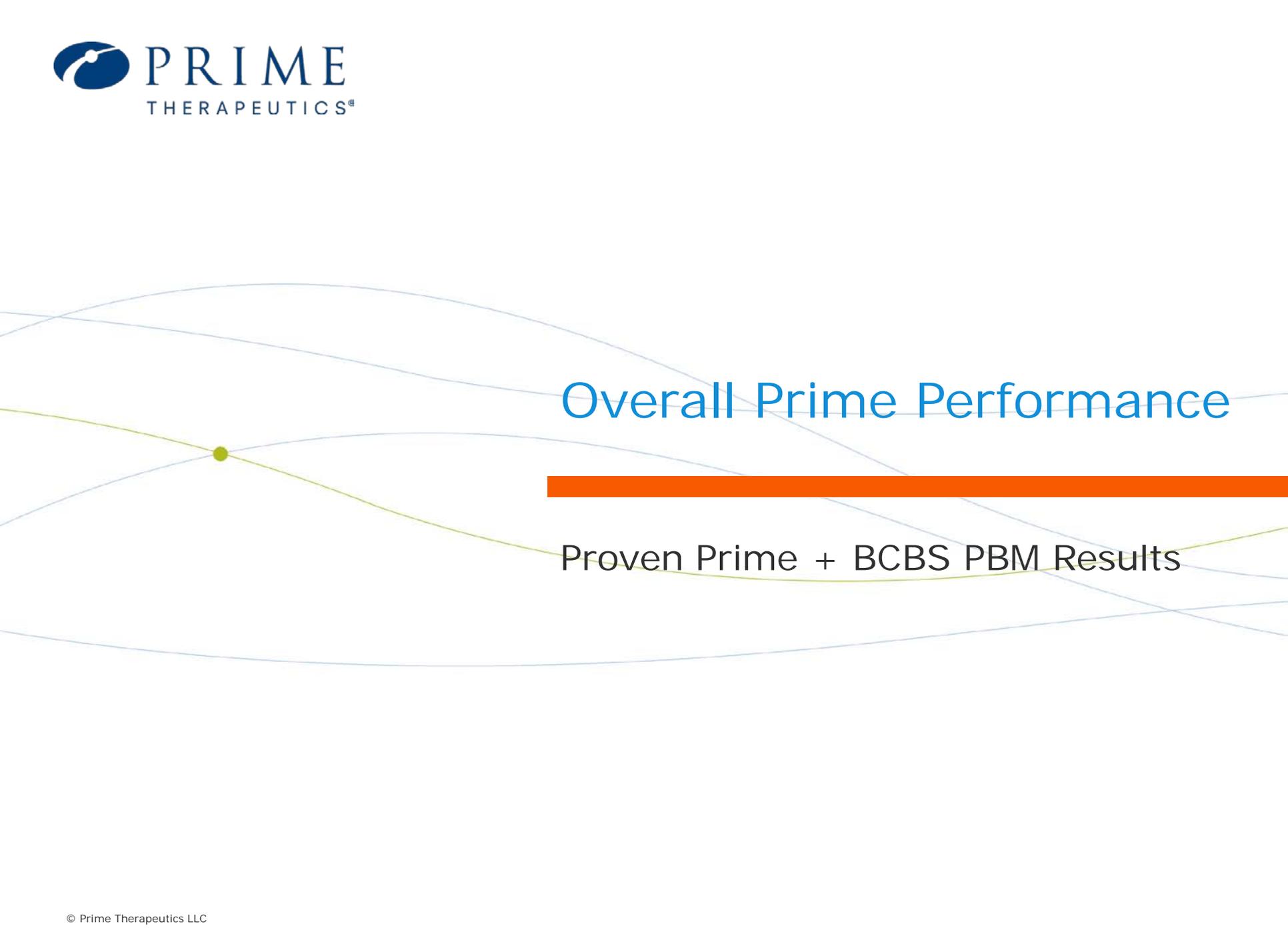
- **Lower pharmacy costs**
 - > PrimeMail on average yields \$60 in total savings per prescription compared to retail¹
- **Increased adherence, which can lead to lower total health care costs**
 - > 90-day supplies offered through PrimeMail can increase adherence to maintenance medications
- **PrimeMail delivers convenience to members**
 - > Members choose where their prescriptions are sent
 - > Medications can be ordered easily online, over the phone or through the mail
 - > 90-day medication supplies from PrimeMail require fewer refills and increased convenience
 - > Plain-labeled packaging protects the privacy of members

Example:

If a plan sponsor with 500,000 annual retail prescriptions shifted 5% of those scripts to mail, it could result in an average total savings of \$1,500,000 each year

1. PrimeMail data, 2009.

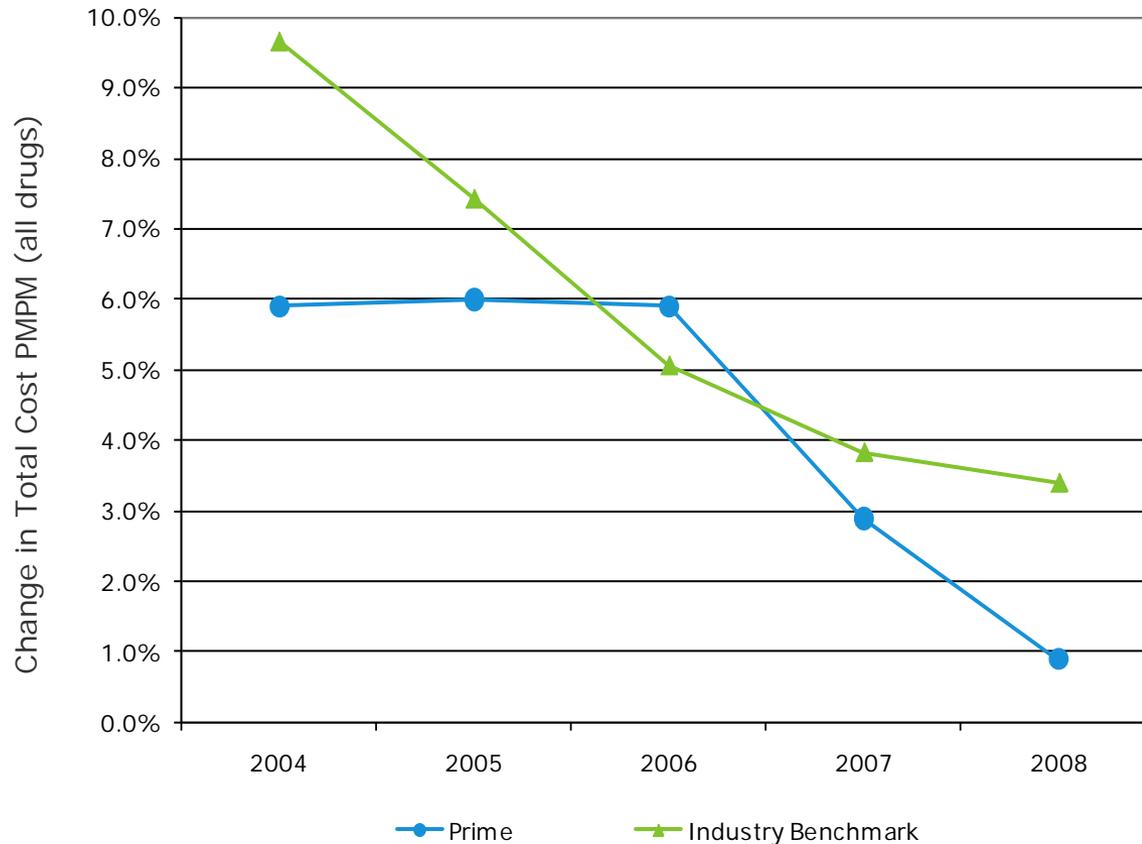
Overall Prime Performance



Proven Prime + BCBS PBM Results

Proven results: drug trend

- Prime's drug trend consistently tracks better than industry benchmarks



2008 Commercial Trend Performance

PBM	PMPM Trend (all drugs)
CVS Caremark	3.90%
Express Scripts	3.00%
Medco Health	3.30%
Prime	0.90%

Proven results: competitive pricing

- Prime outperforms competition in total Ingredient/Rx and Generic Fill Rate

	Prime	Standalone PBM 1	Standalone PBM 2	Standalone PBM 3	National Health Plan PBM
Generics					
Adjusted Claims Count	16,950,835	905,356	1,012,698	1,193,781	13,459,615
Ingredient Cost/Rx	\$18.48	\$21.36	\$21.72	\$23.30	\$19.49
Discount %	69.3%	68.5%	64.0%	64.5%	65.9%
Days of Therapy/Rx	23.28	25.06	22.80	24.20	22.37
Cost Per Day	\$0.79	\$0.85	\$0.95	\$0.96	\$0.87
GFR	64.9%	61.5%	55.2%	56.0%	63.7%
Brand Drugs					
Adjusted Claims Count	9,248,292	566,108	821,535	939,835	7,681,702
Ingredient Cost/Rx	\$140.39	\$135.59	\$125.66	\$128.98	\$138.61
Discount %	17.5%	21.9%	19.4%	20.9%	16.8%
Days of Therapy/Rx	27.31	27.65	26.77	27.94	26.30
Cost Per Day	\$5.14	\$4.90	\$4.69	\$4.62	\$5.27
Total					
Total Ingredient/Rx	\$61.27	\$65.31	\$68.27	\$69.85	\$62.77

- Prime's financial competitiveness was validated by Ingenix in an independent study

High satisfaction rates for employers and members

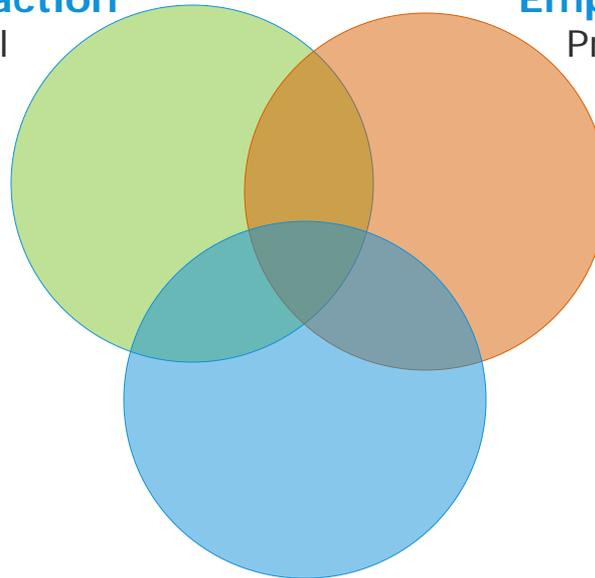
- Administrative ease and operational excellence are proven by high employer and member satisfaction

2008 Member Satisfaction

94% at PrimeMail
93% at Retail

Employer Group Satisfaction

Prime ranked 2nd in overall employer satisfaction
(2008 PBMI Survey)

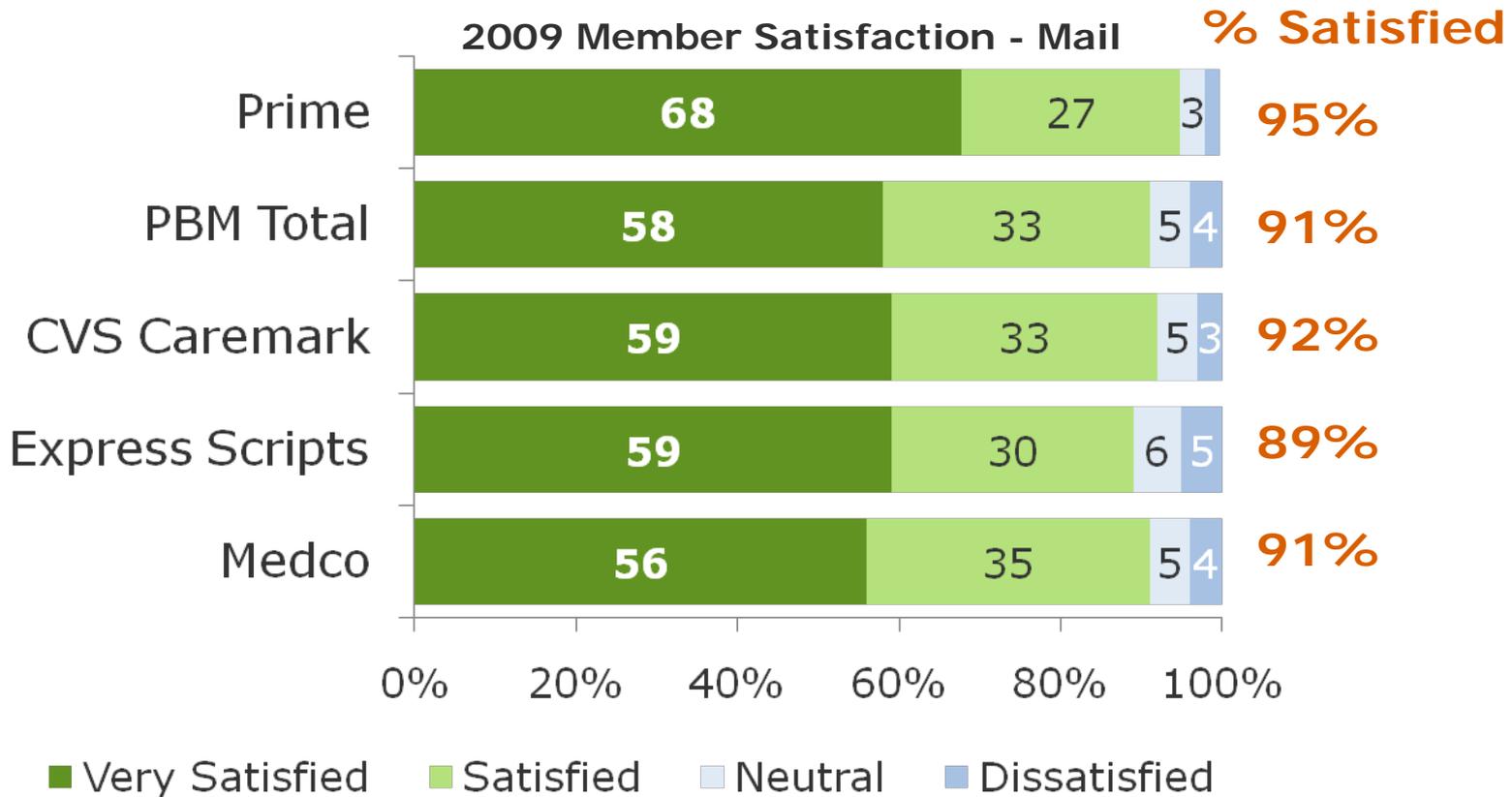


2008 Prime Internal

Quality Metrics
97.6%

Our approach and focus to our Clients also leads to best in class member service

- Member satisfaction is at the core of everything we do, as illustrated by our competitive survey benchmarks



Information provided from Prime Therapeutics Annual Member Satisfaction Survey, December 2008

Contact Information

Casey Martin

Account Executive

tel 612.777.5239

cmartin@primetherapeutics.com

Bethany Pfister

Clinical Program Manager

tel 701.323.7773

bpfister@primetherapeutics.com

Strategic Pharmacy Approaches

Managing a pharmacy benefit plan requires balance between cost, member impact and administrative concerns. To stem increasing drug costs this balance requires management tools designed to minimize member impact, improve administrative oversight, and increasing drug costs. Each option contains a brief review of potential cost savings, member impact and administrative considerations, and Blue Cross Blue Shield North Dakota's (BCBSND) recommendation. An attempt was made to present the programs on a continuum of least to greatest member impact.

Option 1: Transition to the Prime Select Network

Prime Therapeutics maintains two retail pharmacy networks, the **Prime Select** and the **Prime National** networks. Most pharmacies in North Dakota, and throughout the United States, have contracts in both networks. The **Prime Select** network has modestly deeper discounts on brand medications and lower dispensing fees.

BCBSND currently reimburses pharmacies located in North Dakota, and those out-of-state pharmacies located within one contiguous county along the North Dakota border, under the **Prime National** network contract. Other out-of-state pharmacy locations are reimbursed under the **Prime Select** network contract.

Cost Impact: Prime Therapeutics estimates that transitioning the NDPERS membership to the Prime Select network would result in annual savings of approximately \$800,000 to \$1 million.

Member Impact: Transitioning the NDPERS membership to the Prime Select network would have very little member impact. There are only five North Dakota pharmacies participating in the Prime National network that do not participate in the Prime Select Network. In 4th Quarter 2009, 396 NDPERS members utilized the five pharmacies not currently contracted in the Prime Select network.

Administrative Consideration: Although the vast majority of North Dakota pharmacies have **Prime Select** pharmacy network contracts in place, there is the possibility a number of pharmacies could cancel their current contracts and seek more favorable reimbursement rates. Prime would work to negotiate with all non-contracted pharmacies to ensure a broad network of participating pharmacies should NDPERS membership transition to the **Prime Select** network.

BCBSND recommends transitioning the NDPERS membership to the Prime Select network.

Option 2: Triessent Specialty Pharmacy Program

Triessent is Prime Therapeutics' specialty pharmacy program. The program is designed to help improve the health of members with specialty conditions (like rheumatoid arthritis, hepatitis C, and multiple sclerosis). Triessent offers safe and efficient medication delivery, member education, and guidance from pharmacists and nurses experienced with specialty conditions. Triessent offers modestly deeper discounts on specialty medication than retail pharmacy networks.

Cost Impact: Prime Therapeutics estimates that exclusive use of Triessent Specialty Pharmacy Program services would yield approximately \$100,000 in annual savings

Member Impact: In 2009, approximately 310 NDPERS members filed claims for a specialty medication. Under an exclusive specialty pharmacy program, these members would be required to obtain their medications through Triessent. Currently, most NDPERS members use retail pharmacies for their specialty medication needs, so the use of a specialty pharmacy involves a different member experience. Some employer groups have experienced member disruption implementing the Triessent program (transferring prescriptions, arranging delivery schedules) when they entered into an exclusive, fixed start date with Triessent. Member disruption issues may be avoided initially in a voluntary program.

Administrative Considerations: Specialty medications are the fastest growing segment of the pharmaceutical market, both in terms of new products and inflationary pricing. While specialty medications account for only a very small number of claims filed by a very small number of members, the specialty class of drugs is driving the overall pharmacy cost trend. In 2009, NDPERS' specialty medication PMPM trend was 17%. The non-specialty medication PMPM trend was a deflationary -0.7%. It appears that managing these products apart from the general drug benefit would be beneficial.

Benefit changes may be needed to support this arrangement.

BCBSND recommends we enter into an exclusive arrangement through Triessent on behalf of NDPERS membership. Doing so now minimizes member impact and establishes the program to better manage the increased utilization of specialty medications in the future.

Option 3: Maintenance Drugs at PrimeMail

PrimeMail is Prime Therapeutics' fully integrated mail-service pharmacy providing safe, convenient, cost-effective home delivery of medications. PrimeMail helps manage total health care spend by offering significant discounts on medications and no dispensing fees.

Cost Impact: Prime Therapeutics estimates annual savings of approximately \$800,000 assuming 100% of maintenance medications go to PrimeMail.

Member Impact: In 2009, approximately 15,000 NDPERS members filed a claim for a maintenance medication. Currently, most NDPERS members use retail pharmacies for their maintenance medication needs, so the use of a mail service pharmacy involves a different member experience. A mandatory mail benefit for maintenance medications will force some members into a distribution channel not of their first choice.

Administrative Considerations: Under non-exclusive mail service arrangements, members still need to do comparison shopping on generic medications. In addition, the retail pharmacy market strongly opposes mandatory mail benefits.

Due to the high member impact and recommended move to the Prime Select network, BCBSND recommends greater efforts be made at promoting PrimeMail to ensure Member awareness of this service. BCBSND, on NDPERS behalf, may desire entering into an exclusive maintenance medication arrangement with PrimeMail at a later date.

Option 4: Utilization Management Programs

Prime Therapeutics offers a number of utilization management programs designed to ensure members receive the safest, most cost effective medications. In particular, step therapy programs drive safety and cost savings by encouraging members to try a first-line medication, usually a generic alternative, before coverage is provided for a second-line medication, usually a more costly, brand-name medication.

Cost Impact: Cost savings vary by the step therapy program implemented. Recommended step therapy programs and associated cost saving estimates include: PPI step therapy (\$528K), ACE/ARB step therapy (\$433K), Biphosphonate step therapy (\$32K), Insomnia step therapy (\$54K).

Member Impact: Member impact also varies by the step therapy program implemented. Recommended step therapy programs and associated member impact estimates include: PPI step therapy (1,440), ACE/ARB step therapy (1,712), Biphosphonate step therapy (176), Insomnia step therapy (331). Prior to implementing a step therapy program, attempts are made to notify members of the impending program. Despite best efforts, some members will first become aware of the program at the point of the dispensing pharmacy.

Administrative Considerations: Step therapy can ease the transition to more highly managed programs such as the GenericPlus Formulary. On the other hand, step therapy can increase the burden of exception requests and appeals.

BCBSND recommends that NDPERS adopt the use of cost-beneficial step therapy programs and would assist in determining which program(s) to implement at this time.

Option 5: Generic Plus Formulary

The Generics Plus Formulary is a clinically sound formulary that encourages the use of lower cost generic medications. The formulary consists of all generic medications (except those with safety concerns) and the minimum clinically necessary number of brand medications.

Cost Impact: Savings associated with the Generics Plus Formulary depend on the benefit design put in place to drive compliance with the formulary. More restrictive benefit designs (closed formulary) yield the greatest potential savings (approximately \$5 million annually). Less restrictive benefit designs (open formulary) yield lesser savings (approximately \$2 million annually).

Member Impact: Prime estimates that approximately 13,000 members are currently filing claims for current formulary brand drugs that are not on the Generic Plus Formulary.

Administrative Considerations: The BCBSND absolute year-to-year increase in the generic dispensing rate has averaged approximately 4% per annum over the last seven years. It is likely the trend will continue over the next several years. Step therapy programs offer a more focused approach to increasing generic dispensing rates and may ease the transition toward a generic formulary.

At this time, BCBSND recommends the implementation of step therapy programs in lieu of implementing a Generic Plus Formulary, which would have a large impact on members.



North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb

DATE: April 21, 2010

SUBJECT: Group Health Insurance Bid

Deloitte will be at the April 29 Board meeting to review the draft group health insurance Request for Proposal.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: April 21, 2010
SUBJECT: BCBS Update

Jon Strinden and I are to meet with the BCBS Board on Friday April 23rd. Attached, for your information, is the PowerPoint that will be reviewed with them. We will provide you a further update at our board meeting on the 29th.



North Dakota Public Employees Retirement System

DAKOTA PLAN



*Presentation to the
Blue Cross Blue Shield
Board of Directors*

Jon Strinden, Chair NDPERS

Sparb Collins, Executive Director, NDPERS

Thank you

- For your staff
- For your support
- For your efforts
- For your interest



Today

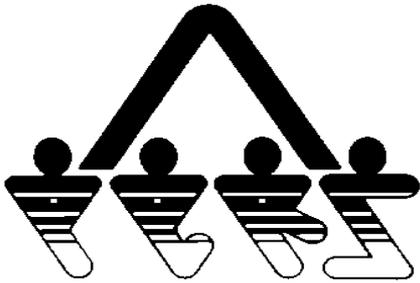
- Background
- Our Challenge
- Our Vision
- Discussion

Background Information

- PERS
- PERS/BCBS



North Dakota Public Employees Retirement System



PERS



North Dakota Public Employees Retirement System

PERS BOARD

- *Jon Strinden* *Chair*
- *Howard Sage* *Elected - Retirees*
- *Joan Ehrhardt* *Elected - Actives*
- *Mike Sandal* *Elected - Actives*
- *Levi Erdmann* *Elected - Actives*
- *Arvy Smith* *Health Officer*
- *Tom Trenbeath* *Attorney General*

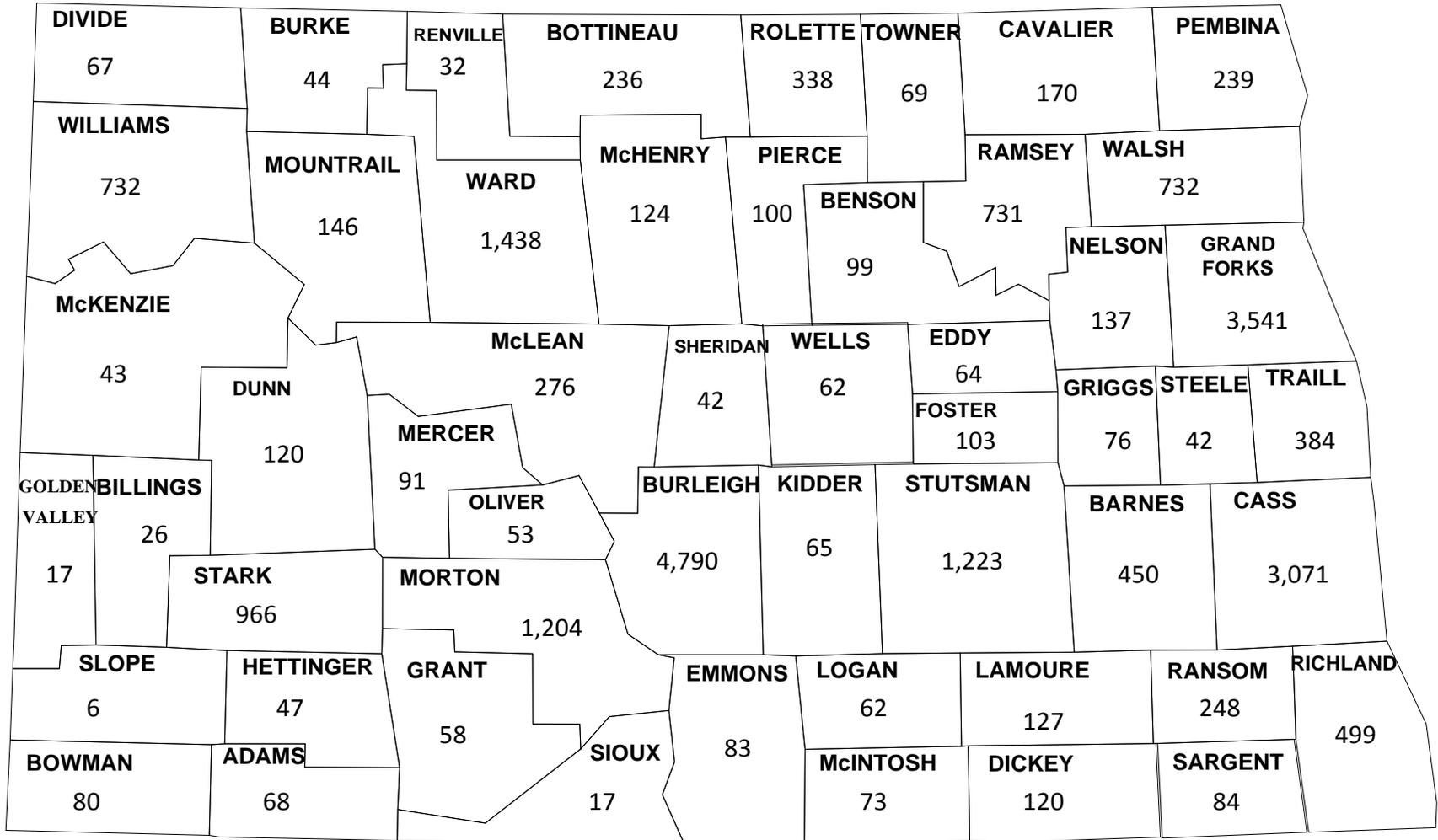
PROGRAMS

- *RETIREMENT*
 - *Five defined benefit plans*
 - *Two defined contribution plans*
- *GROUP INSURANCE*
 - *Health*
 - *Dental*
 - *LTC*
 - *Life*
 - *Retiree Health*
- *FLEX COMP*
- *EMPLOYEE ASSISTANCE*

	<i>RETIREMENT</i>	<i>HEALTH</i>	<i>LIFE</i>	<i>DENTAL</i>	<i>VISION</i>	<i>EAP</i>	<i>DEFERRED COMP</i>	<i>FLEXCOMP</i>
PARTICIPATION								
AGENCY								
State	99	99	99	99	99	99	99	99
Counties	47	39	28				48	-
School Dist	110	28	5				55	-
Cities	78	57	22				35	-
Others	64	65	22				21	
	<i>398</i>	<i>288</i>	<i>176</i>	<i>99</i>	<i>99</i>	<i>99</i>	<i>258</i>	<i>99</i>
EMPLOYEES								
State	10,813	14,682	15,358	4,796	3,774	15,358	4,482	8,375
Counties	3,391	1,865	2,439				1,502	-
School Dist	5,026	1,180	123				495	-
Cities	1,280	1,009	180				719	-
Others	502	521	281				285	
Legislators	0	127						-
Retirees	7,537	5,694	2,977 (1)	1,361	764		1,817	-
COBRA		354		36	17			-
	<i>28,549</i>	<i>25,432</i>	<i>21,358</i>	<i>6,193</i>	<i>4,555</i>	<i>15,358</i>	<i>9,300</i>	<i>8,375</i>

NDPERS Health Contracts

January 2010



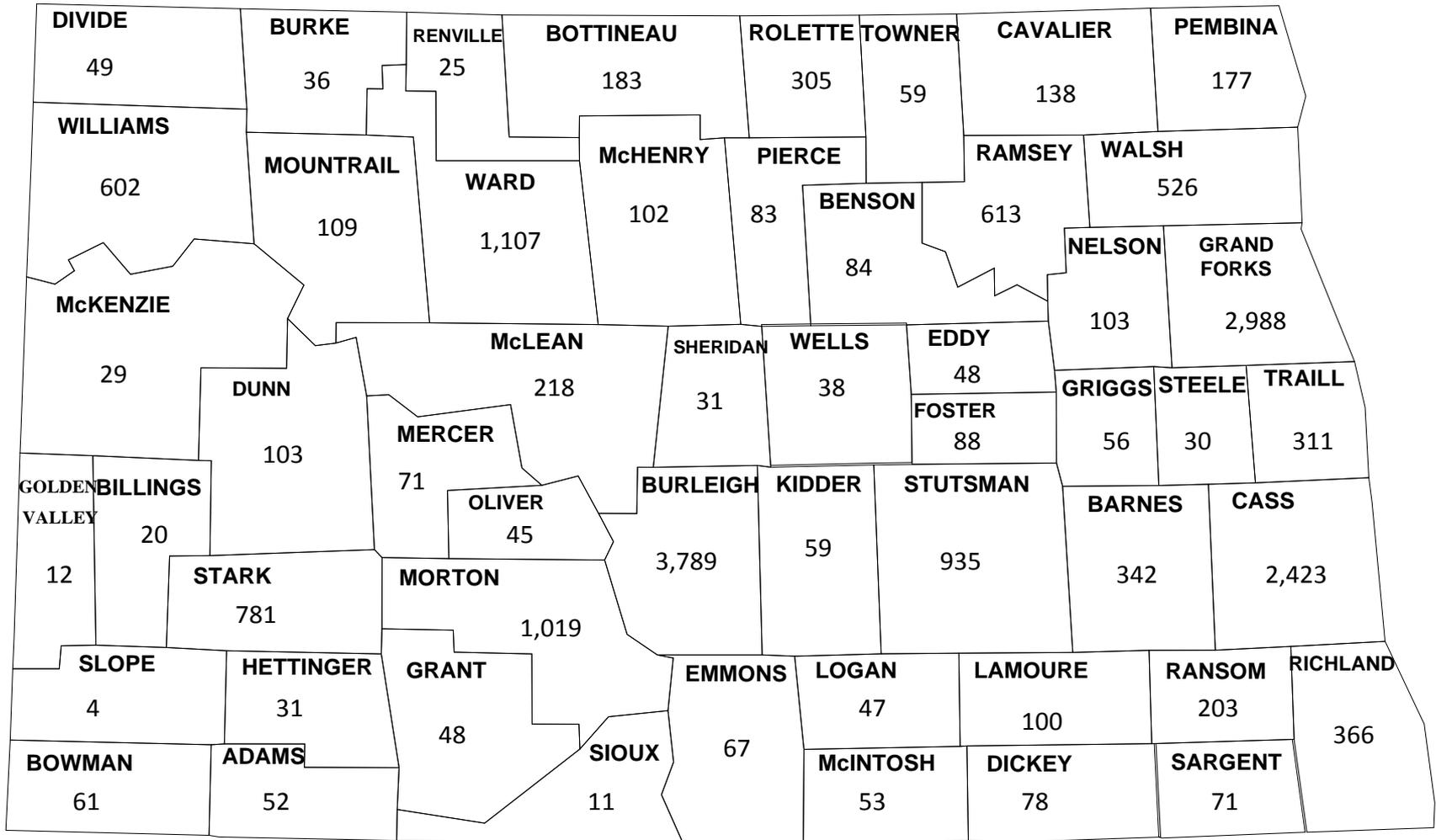
Out-of-State – 2,046

Total – 25,760

Average Contract Size = 2.24

NDPERS Health Contracts – Age < 65

January 2010



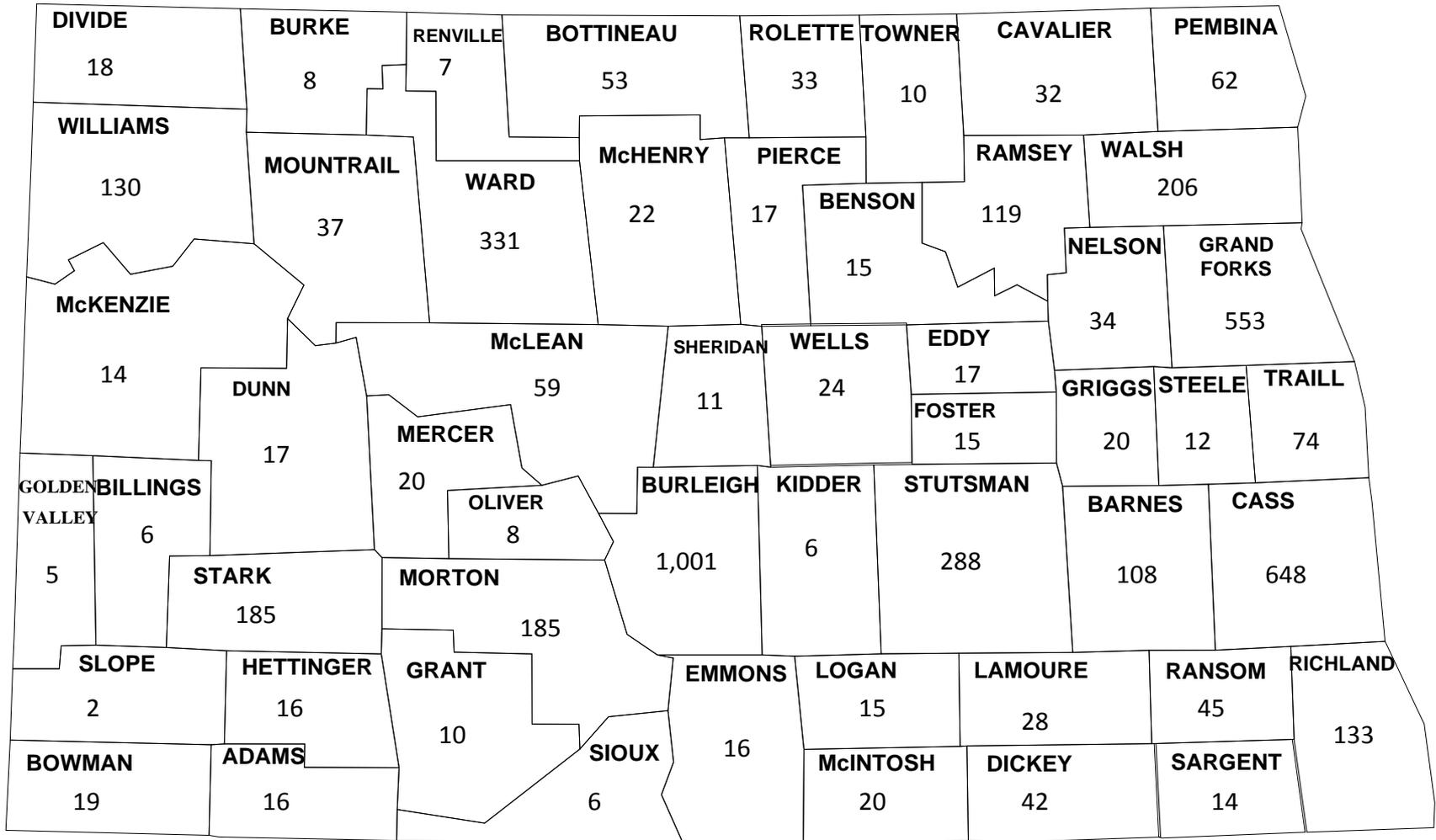
Out-of-State – 1,305

Total – 20,230

Average Contract Size = 2.47

NDPERS Health Contracts – Age 65+

January 2010

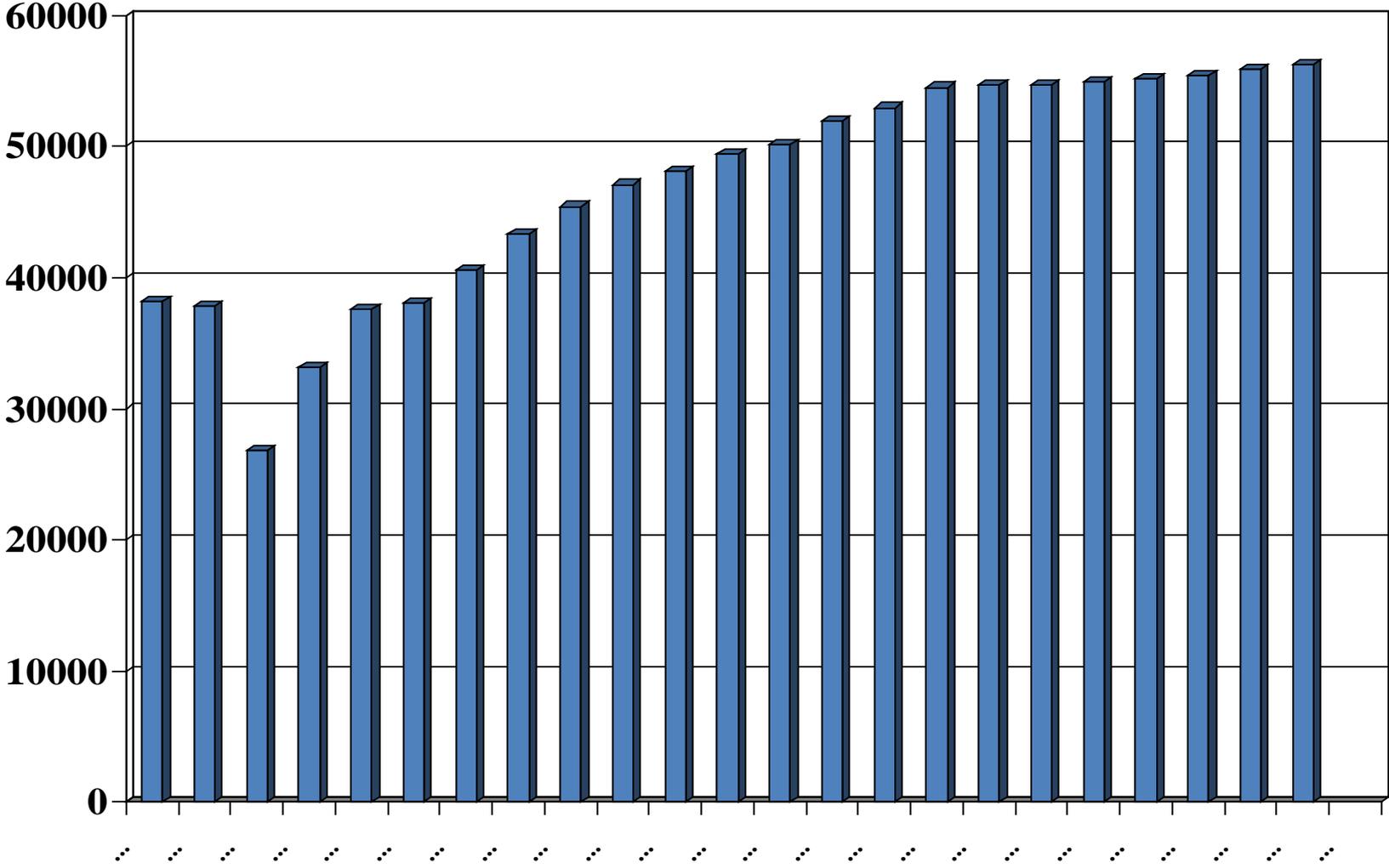


Out-of-State – 742

Total – 5,530

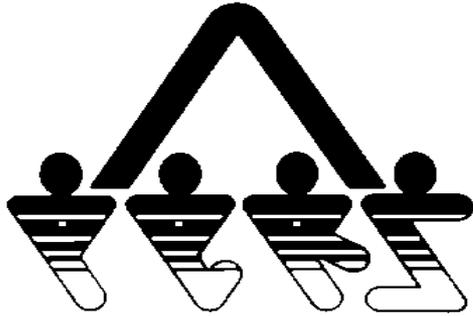
Average Contract Size = 1.38

NDPERS Health Plan Membership



NDPERS Active Health Insurance Out-Of-Pocket
 July-June Fiscal Year ending:

	2001	2002	2003	2004	2005	2006	2007	2008
Active Contracts	16,565	17,253	17,632	17,573	17,889	18,114	18,303	18,589
Deductibles	\$2,307,596	\$1,789,727	\$1,967,859	\$5,765,933	\$5,080,986	\$4,859,625	\$5,006,043	\$8,862,624
Coinsurance	\$6,427,972	\$7,340,161	\$8,424,109	\$9,315,964	\$11,044,560	\$11,358,692	\$11,932,003	\$10,519,042
RX Sanctions	\$0	\$0	\$0	\$795,964	\$0	\$0	\$0	\$1,443,755
Copayments	\$5,188,715	\$8,445,132	\$8,768,553	\$7,456,340	\$7,533,643	\$7,546,375	\$7,686,951	\$9,191,945
Exceed Max	\$247,044	\$361,158	\$672,490	\$378,841	\$550,479	\$744,321	\$549,843	\$2,727,629
Exclusions	\$1,560,268	\$1,702,808	\$1,847,570	\$2,322,307	\$2,516,646	\$2,919,717	\$3,112,107	\$3,900,148
TOTAL	\$15,731,595	\$19,638,986	\$21,680,581	\$26,035,349	\$26,726,314	\$27,428,730	\$28,286,947	\$36,645,143
Per Contract	\$950	\$1,138	\$1,230	\$1,482	\$1,494	\$1,514	\$1,545	\$1,971



PERS/BCBS



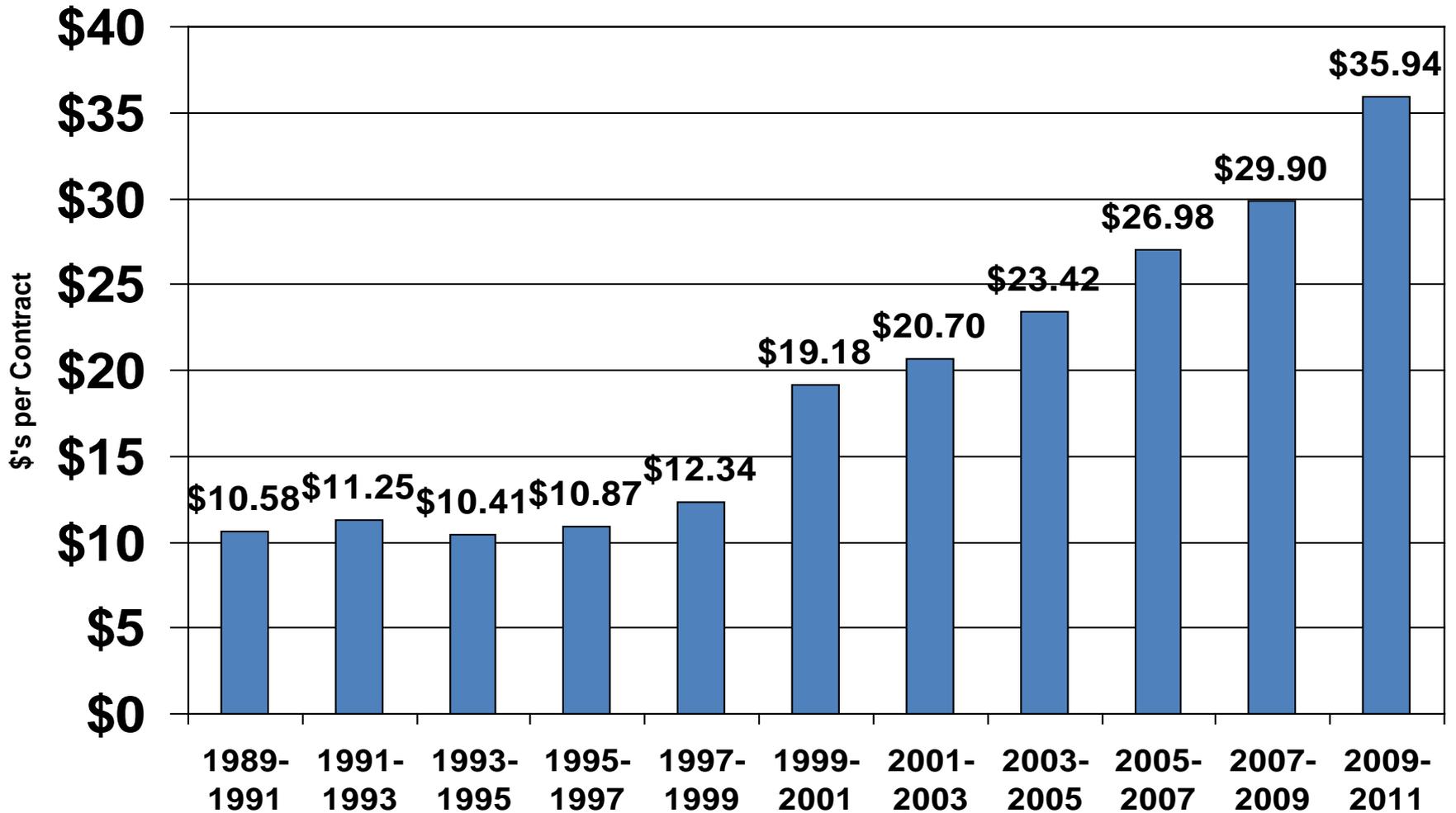
North Dakota Public Employees Retirement System

History

- Prior to 1989 PERS was self-insured with BCBS
- Since 1989 PERS has had a modified fully insured plan with BCBS

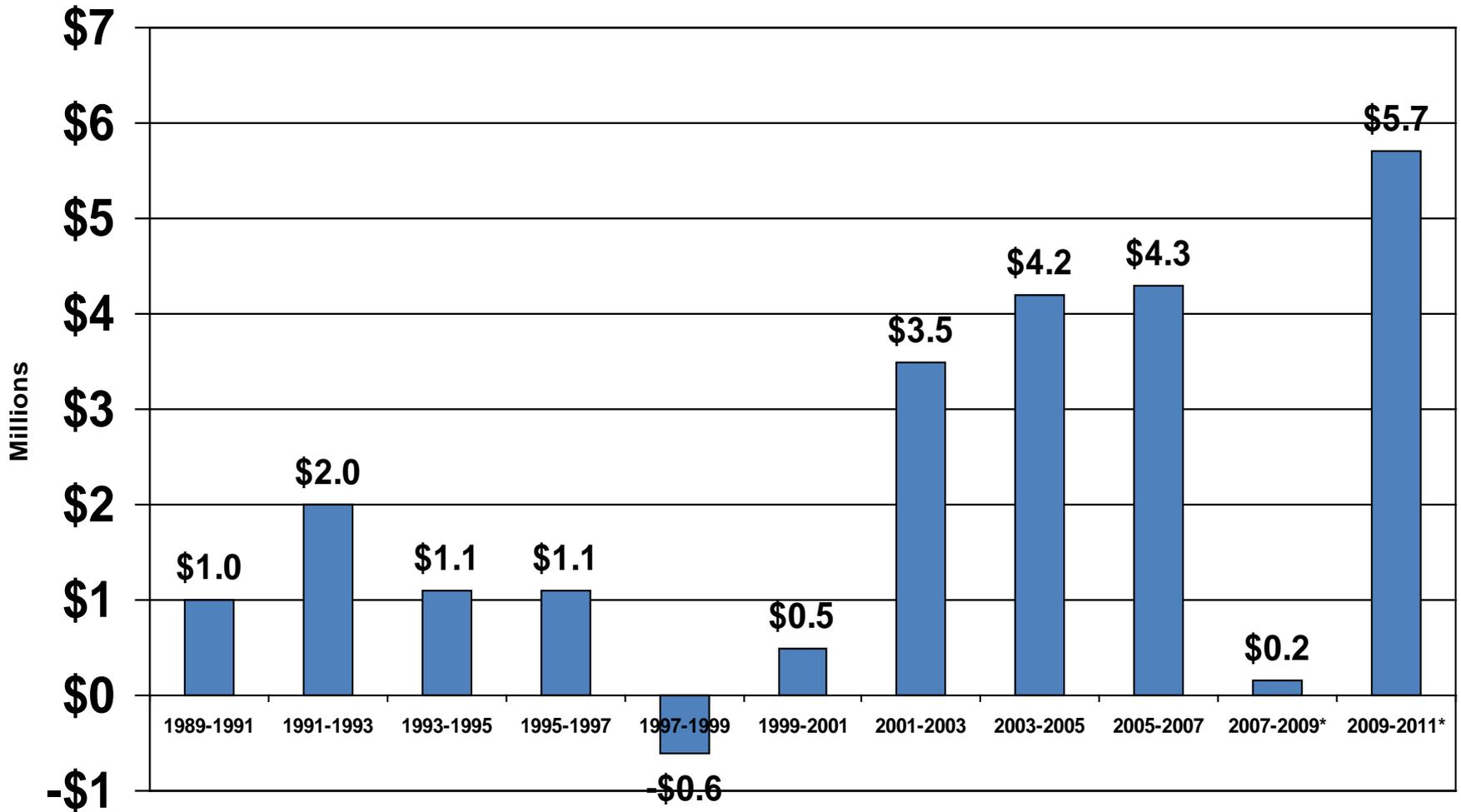
BCBS Administration

NDPERS Health Plan



BCBS Gain

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

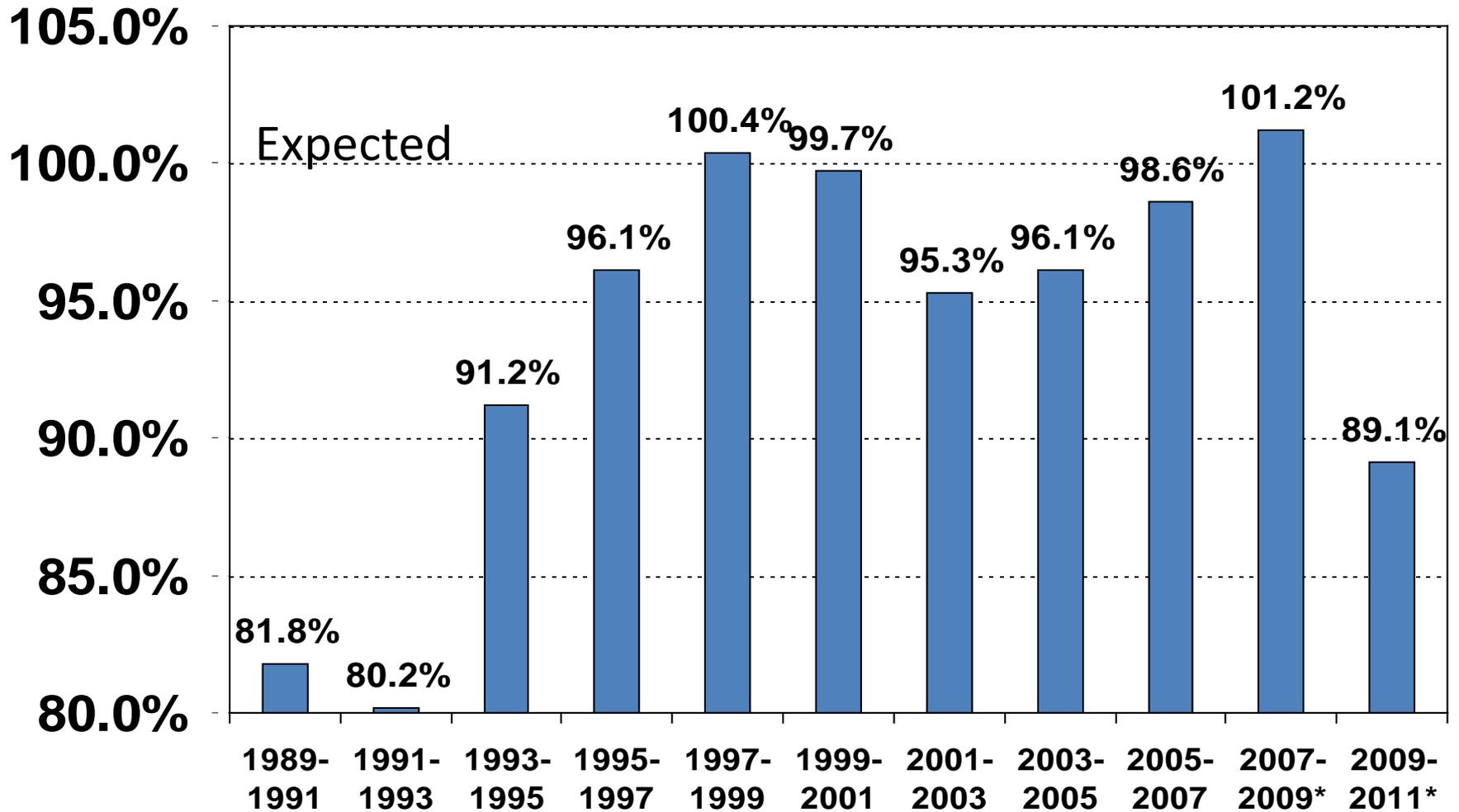


* - Estimated

NDPERS Health Plan

Expected VS Actual History

Net Premium vs Claims Paid
(Excludes any Risk Charge)



* - Estimated

Our Challenge

- Cost
- Outcomes



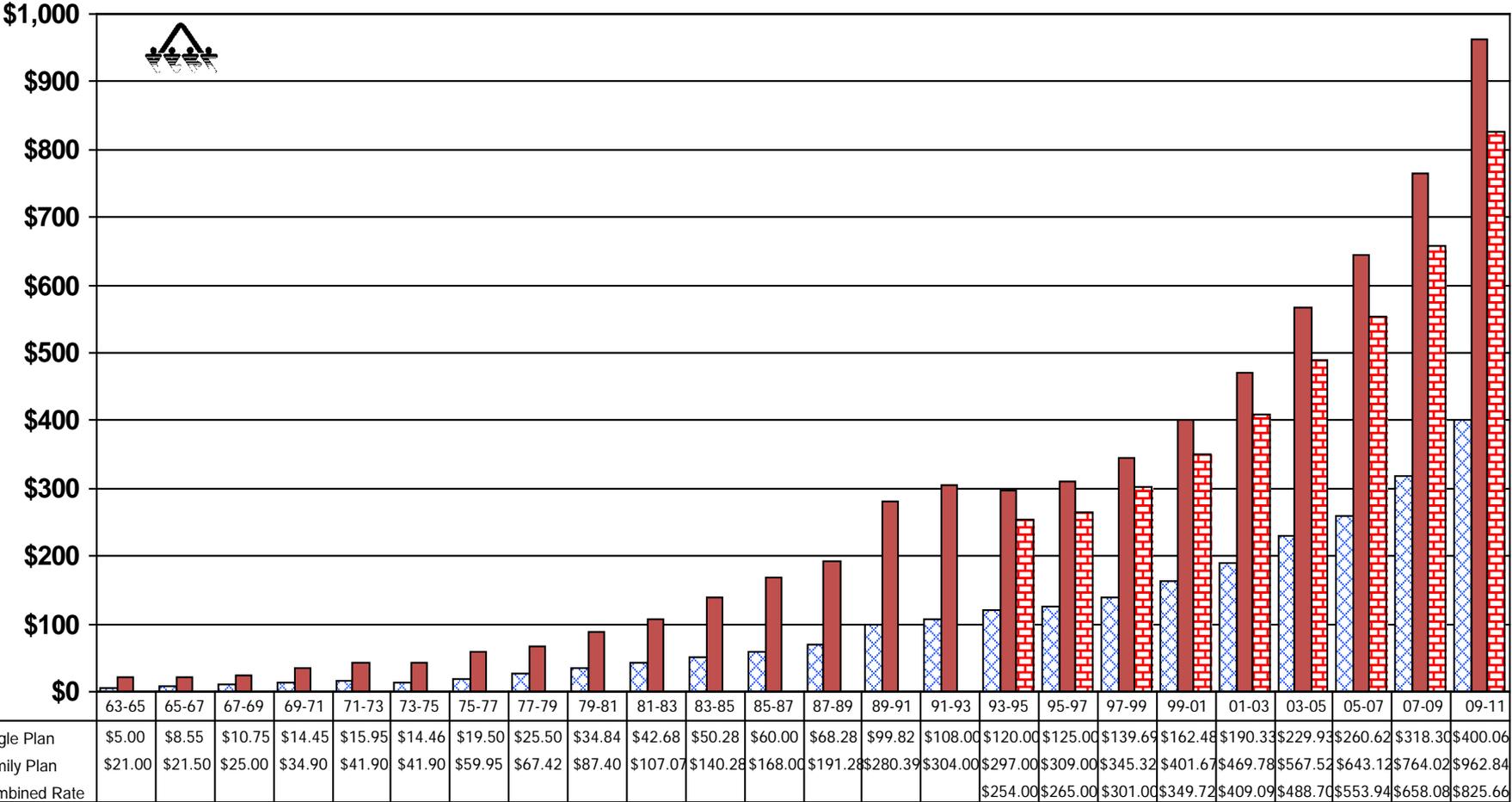
North Dakota Public Employees Retirement System

Active State Billed Health Insurance Premium

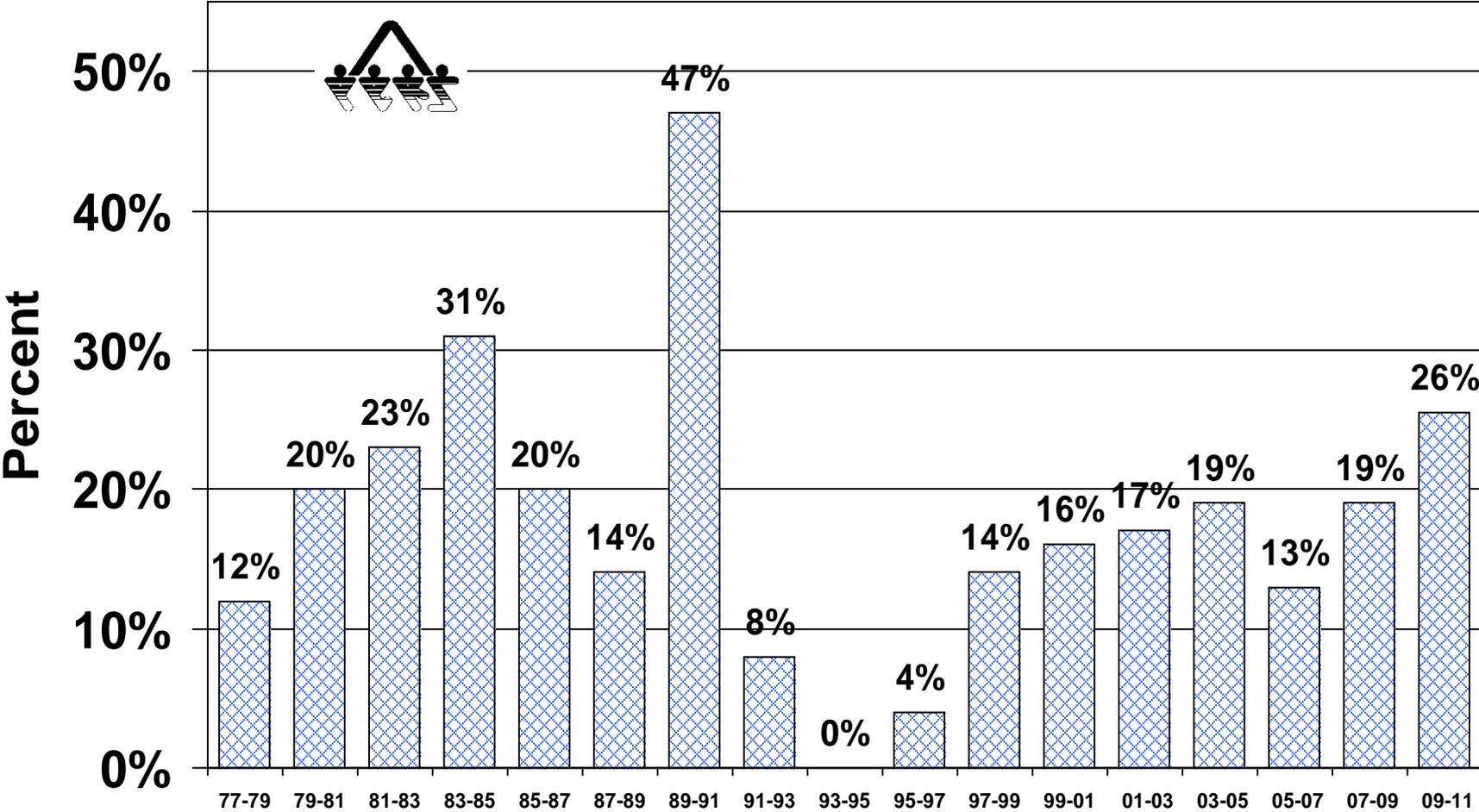
Single Plan

Family Plan

Combined Rate



State Health Premium Percentage Increase



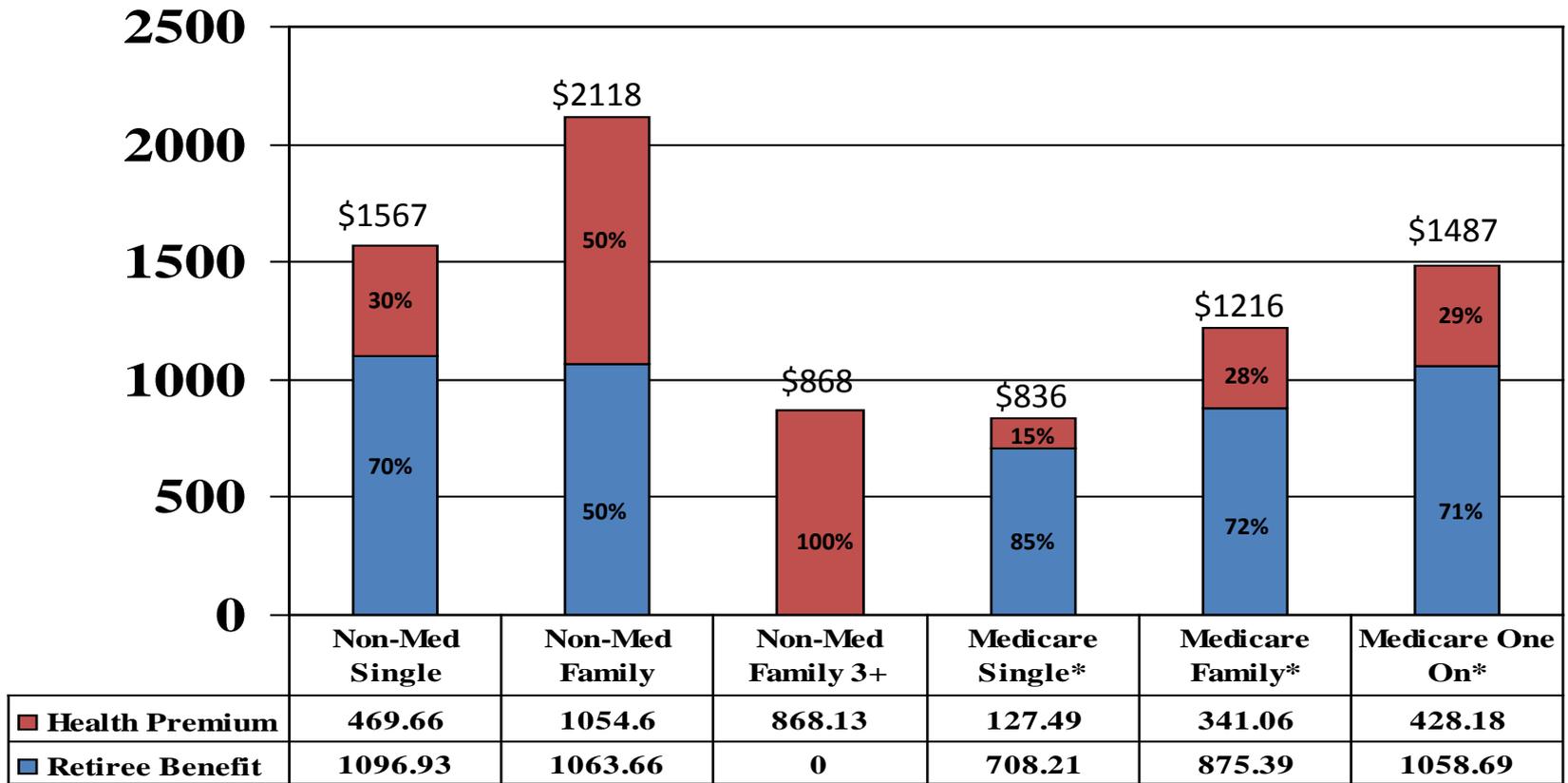
State of North Dakota Health Plan Appropriations (Excludes Higher Education)

	Total Budget Appropriation	FTE	Health Premium	Health Plan Appropriation	% of Total Appropriation s
1991-93	2,771,064,605	8,179	\$254.00	\$49,859,184	1.80%
1993-95	2,935,767,081	8,216	\$254.00	\$50,084,736	1.71%
1995-97	3,107,356,520	8,024	\$265.00	\$51,032,640	1.64%
1997-99	3,347,823,922	8,118	\$301.00	\$58,644,432	1.75%
1999-01	3,767,007,536	8,400	\$349.72	\$70,503,552	1.87%
2001-03	4,325,559,659	8,538	\$409.09	\$83,827,450	1.94%
2003-05	4,587,351,203	8,392	\$488.70	\$98,428,090	2.15%
2005-07	5,186,963,789	8,438	\$553.94	\$112,179,497	2.16%
2007-09	5,843,419,715	8,808	\$658.08	\$139,111,900	2.38%
2009-11*	6,930,935,156	8,987	\$825.66	\$178,080,198	2.57%

* - Executive Recommendation

NDPERS Retirees with Health Credit

2009 Average Health Premium & Remaining Benefit
(Excludes COBRA Retirees)



Contracts: 301 104 4 2315 956 188

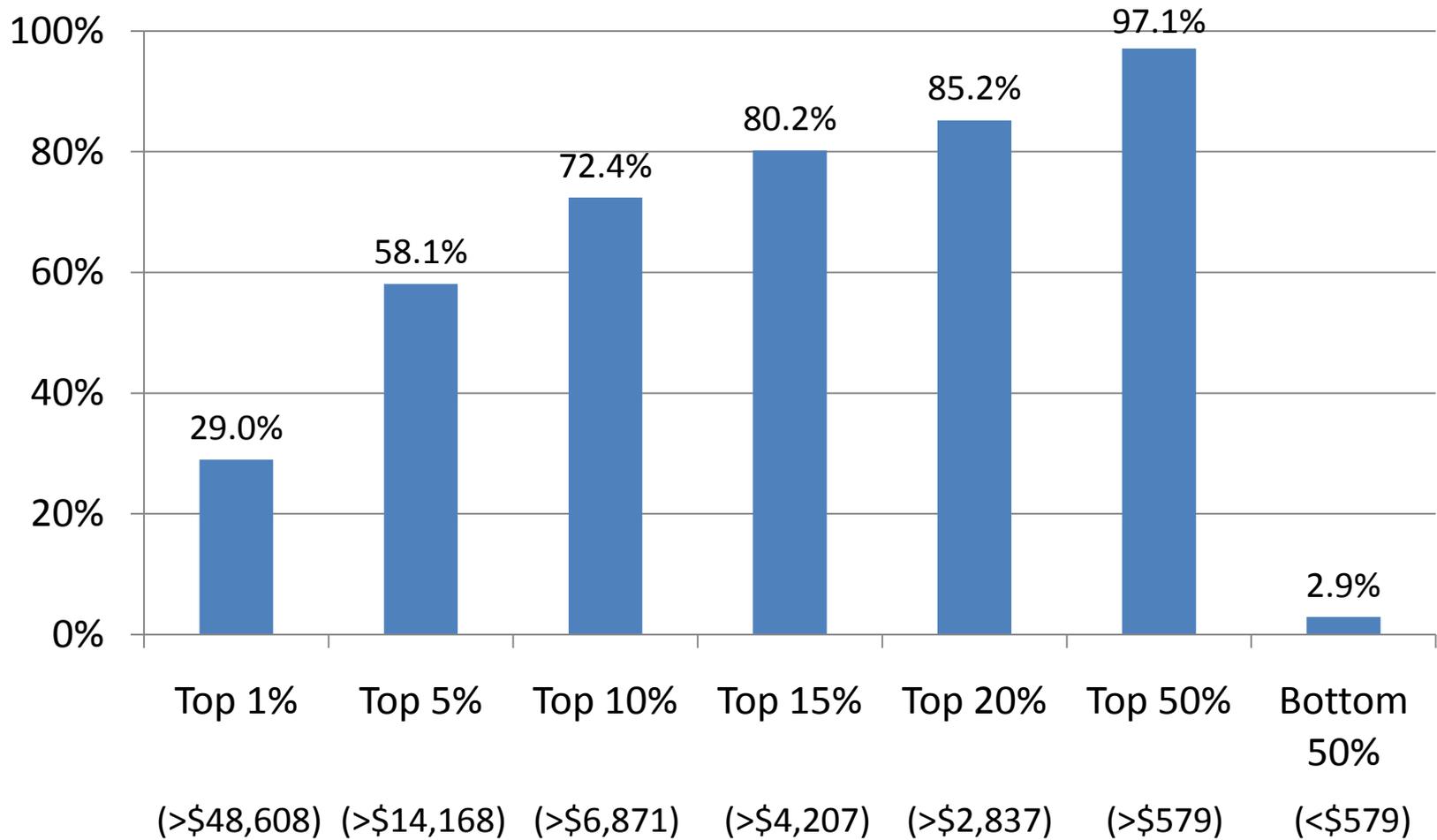
* - Medicare contracts must also pay \$96.40 per person for Medicare coverage.

Outcomes



- Health care services
- Member health

Concentration of Per Member NDPERS Health Care Spending in 2009



Includes Hospital, Physician/Clinic and Pharmacy Claims paid through February, 2010.

Our Vision

Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.

[-John Welch](#)

- Value
- Quality



North Dakota Public Employees Retirement System

Our vision is to deliver:

1. Value
 1. For our members
 2. For our participating employers
2. Quality
 1. Patient oriented
 2. Positive outcomes



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • PO Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Dire
(701) 328-3900
1-800-803-737

FAX: (701) 328-3920 • EMAIL: NDPERS-INFO@ND.GOV • www.nd.gov/ndpers

April 21, 2009

Mr. Dennis Elbert, Chair
BCBSND Board

Mr. Tim Huckler, Interim CEO
BCBSND
4510 13th Avenue SW
Fargo, ND 58121

Thank you for attending our March NDPERS Board meeting. Pursuant to your invitation we are 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 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:

Expectation
Affordable health insurance premiums that increase at a reasonable rate.
Staff compensation/incentives that support affordable health care.
Quality customer service.
Effective and affordable program administration.
PERS investments in BCBS should be matched with results.
A synergistic partnership.



Value

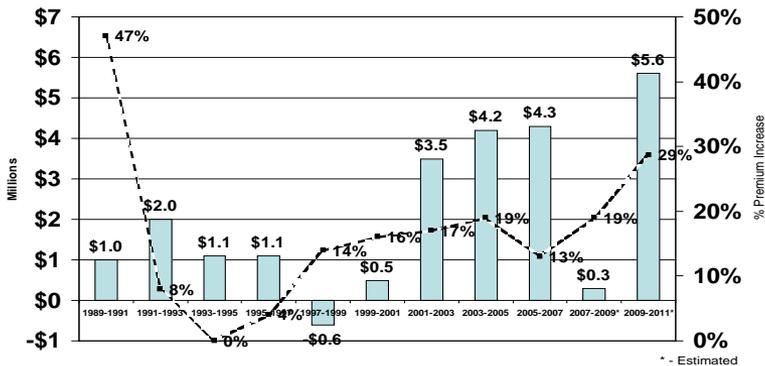
	March Performance	Goal
Claims Processing Accuracy	99.63%	97%
Claims Financial Accuracy	99.58%	99%
Claims Timeliness	99.87%	97%

	1 st Quarter Performance	Goal
Claims Processing Accuracy	99.71%	97%
Claims Financial Accuracy	99.82%	99%
Claims Timeliness	99.78%	97%
Inquiry Timeliness	98.60%	90%
Call Abandoned Rate	.40%	5%
Call Blockage Rate	0%	8%

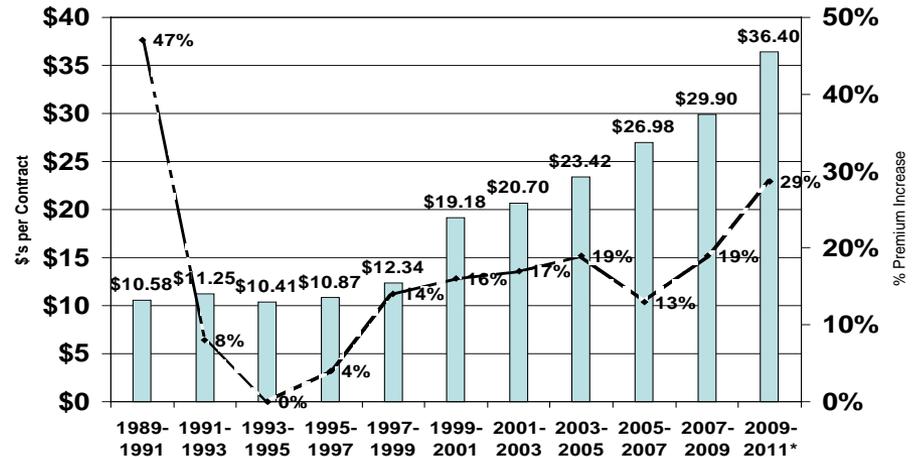
BCBS Administration NDPERS Health Plan

BCBS Gain

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



* - Estimated



* - Proposed

1. Wellness/Lifestyle 
2. Member Information
3. Evidence Based
Medicine
4. Quality Reimbursement

PERS/BCBS Meeting 2006

Quality

1. Wellness



Wellness - Accomplishments

- PERS Wellness Premium
- Employer based programs (covering over 95% of members)
- BCBS Programs
 - Health Center
 - On- Line Programs
- Addition of new BCBS Wellness Coordinator for PERS

2. Member - Information



High quality care costs less!

THE NEW HONDA ACCORD
vs. SUBARU LEGACY & SATURN L200



RATINGS Cordless tools • Microwave ovens • Water filters

Consumer Reports

BEFORE YOU BUY CHICKEN READ THIS (PAGE 24)

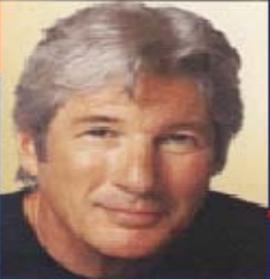
www.ConsumerReports.org

How safe is your hospital?

- WHAT YOU NEED TO KNOW THAT HOSPITALS DON'T REVEAL
- 21,000 READERS RATE THEIR STAYS
- DECODING YOUR BILL



Cut Car Insurance 50%



rd.com

Reader's Digest

FATAL HOSPITAL MISTAKES

How to Avoid Them

Richard Gere's surprising path to happiness

Exclusive Survey

Why Sex Only Gets Better

February 2003 \$2.99

PLUS ChangeOne Diet: What Makes You Eat • Daredevil Stunt Sisters • Lost in the Wilderness Solving An Almost Perfect Murder



Information

- Limited to:
 - Health plan overviews
 - General satisfaction surveys
 - Reputation surveys of providers or provider level surveys

Information Concepts

- Needs to be available (cost and effectiveness)
 - By outcomes
 - By procedures
 - By practitioner
- Enhanced Communications
 - Web
 - Social Media

Medical Information

- Establish database on practitioners and procedures
- Make it available to members



3. Evidence Based Medicine



Evidence
Based
Medicine



Medical Guesswork

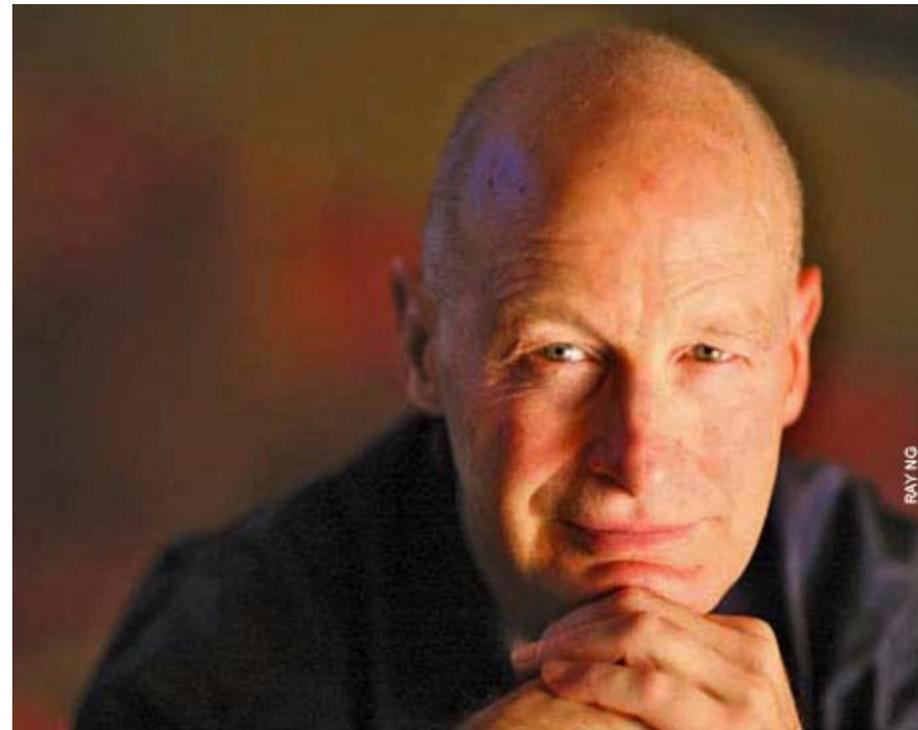
From heart surgery to prostate care, the medical industry knows little about which treatments really work

BY JOHN GAREY (P. 72)



Treatments are based largely on rules and traditions, not scientific evidence

“I’ve spent 25 years proving that what we lovingly call clinical judgment is woefully outmatched by the complexities of medicine,” says Dr. David Eddy, heart surgeon turned mathematician and health-care economist. Think about the implications for helping patients make decisions “Go to one doctor, and get one answer. Go to another, and get a different one.” Or think about expert testimony. “You don’t have to hire an expert to lie. You can just find one who truly believes the number you want.”



Evidence based medicine - concepts

- Need to find methods to more quickly integrate new information
- Maybe we need projects to improve this for certain procedures each year which include both the provider and the patient
- Reimbursement needs to reflect this information

4. Quality- Reimbursement





Quality of Health Care in the United States: A Chartbook

Sheila Leatherman
Douglas McCarthy



April 2002

The Commonwealth Fund
One East 75th Street
New York, NY 10021-2692
Telephone (212) 606-3800
Facsimile (212) 606-3509
cmwf@cmwf.org
www.cmwf.org

*E*nvisioning the National Health Care Quality Report

INSTITUTE OF MEDICINE

CROSSING THE QUALITY CHASM

A New Health System for the 21st Century

Quality Reimbursement

- Today we use a standard reimbursement schedule that assumes all treatment is equal and therefore quality is a constant (“[Lake Wobegon effect](#), where everybody claims – impossibly – to be above average”)

Quality/Reimbursement Concepts

- Provider payments should be outcome oriented
- Provider payments should be specific not general
- Need to be focused on practitioner not clinics

Need to align ourselves more with the patient



- Encourage evidence-based practice
- Quality reimbursement

Members:

- *Wellness/lifestyle*
- *Medical Information*

We need a partner(s)

- Leadership
- Vision



A Synergistic Partnership

Dedicated To:

Quality

Value

Member Data
Resources

Quality Based
Reimbursement

Evidence Based
Medicine

Member
Initiatives

Affordable
Premiums

Aligned with the
needs of the
member

Quality customer
service

Effective and
Affordable
Administration

Emphasis on
matching
investment with
results

“The right kind of competition drives stunning value improvements in other parts of the economy, and it will do so in health care. Health care, by its very nature, is ripe for a value revolution. Better quality in health care is often less costly due to more accurate diagnoses, fewer complications and errors, less invasive treatments, faster recoveries, and reduced risk of severity of disease.”

We believe that a truly synergistic partnership is based upon a shared vision.

We look forward to a further exchange of information between the BCBS Board and PERS Board on our visions for health care in North Dakota.



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Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
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FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: April 21, 2010
SUBJECT: Experience Study and Amortization Period

At this meeting we will follow-up on the experience study conducted by Segal that was presented at the February meeting and the paper by Segal included in the March meeting about extending the amortization schedule for the retirement plans from 20 years to 30 years. Segal will be at the meeting to answer questions and review the recommended changes.

Experience Study – Attachment #1

The experience study is completed every 5 years to test the actuarial assumptions that are used to value the plan each year. The test is to compare how our plan has performed in relation to each assumption (disabilities, mortality, retirement rates, etc). Based upon this review Segal has recommended the following changes in assumptions (the investment and inflation assumption are not recommending to change):

Assumption	Background	Segal Recommendation
Salary increase (p. 13)	<p>Increases in the salary of a member between the date of the valuation to the date of separation from active service. This assumption has three components:</p> <ul style="list-style-type: none"> ➤ Inflationary salary increases, ➤ Real “across the board” salary 	<p>Increase the overall salary increase assumption. Maintain the current inflationary salary increase assumption at 3.50% and the current real “across the board” salary increase assumption at 0.50% for Judges and 1.00% for the rest of PERS and HPRS as discussed in Section III(C). In addition to the combined inflationary and real “across the board” increases, increase the promotional and merit increases to those developed in Section IV(F).</p>

Assumption	Background	Segal Recommendation								
	<p>increases, and</p> <ul style="list-style-type: none"> ➤ Promotional and merit increases. 									
Retirement Rates (p. 17)	The probability of retirement at each age at which participants are eligible to retire	Adjust the current retirement rates to those developed in Section IV(A).								
Mortality Rates (p. 31)	The probability of dying at each age. Mortality rates are used to project life expectancies.	Update the current mortality table by decreasing pre- and post-retirement mortality rates for non-disabled members as developed in Section IV(B). Decrease mortality rates for disabled members as developed in Section IV(C).								
Termination Rates (p. 38)	The probability of leaving employment at each age and receiving either a refund of contributions or a deferred vested retirement benefit.	Decrease the current termination rates to those developed in Section IV(D). In addition, apply an assumption that a member will choose between a refund of contributions and a deferred vested benefit based on which option is more valuable as discussed in Section IV(G).								
Disability Incidence Rates (p. 45)	The probability of becoming disabled at each age.	Decrease the current disability rates overall for PERS members to those developed in Section IV(E).								
Percent Married (p. 23)	This assumption is for the percent of members that are married when they retire.	Segal is recommending a slight increase in this assumption to 80% for male members and 65% for female members. These same assumptions will be applied to National Guard and Law Enforcement. For Judges and Highway Patrol, we recommend maintaining those assumptions at 100% and 90% respectively.								
Spouse age difference (p. 24)	Since the value of the survivor's benefit is dependent on the survivor's age and sex, we must also have assumptions for the age and sex of the survivor.	<p>The recommended assumption for the age of the survivor is shown below. These assumptions will continue to be monitored in future experience studies.</p> <table border="1" data-bbox="852 1669 1409 1860"> <thead> <tr> <th data-bbox="852 1745 1003 1801">Beneficiary Sex</th> <th data-bbox="1068 1669 1409 1726">Survivor's Age as Compared to Member's Age</th> </tr> <tr> <th data-bbox="852 1770 1003 1801"></th> <th data-bbox="1068 1770 1409 1801">Recommended Assumption</th> </tr> </thead> <tbody> <tr> <td data-bbox="852 1801 1003 1833">Male</td> <td data-bbox="1068 1801 1409 1833">3 years older</td> </tr> <tr> <td data-bbox="852 1833 1003 1860">Female</td> <td data-bbox="1068 1833 1409 1860">3 years younger</td> </tr> </tbody> </table>	Beneficiary Sex	Survivor's Age as Compared to Member's Age		Recommended Assumption	Male	3 years older	Female	3 years younger
Beneficiary Sex	Survivor's Age as Compared to Member's Age									
	Recommended Assumption									
Male	3 years older									
Female	3 years younger									

Assumption	Background	Segal Recommendation																																
Refund of Employee Contributions (p. 56)	Upon termination of employment, vested members may withdraw their member contributions (as well as vested employer contributions if any) with interest in lieu of receiving a monthly benefit from PERS	Although the number is close to the assumption, we believe a better method would be to assume that vested members terminating from employment will elect a refund of contributions only when the member account balance has a higher value than the annuity they will forfeit by taking a refund. This is consistent with the assumption used for HPRS.																																
PEP participation (p. 57)	This sets the assumed number of members who elect to participate in this program	<p>Our data indicates that over the last five years only about 2 to 3 percent of continuing active employees have begun to contribute to a deferred compensation plan each year. It is unknown whether they will continue to do so until termination of employment. Overall, roughly 35% of the active members of the Main System at July 1, 2009 have contributed to a deferred compensation plan. We propose that the current assumption for those who have contributed to a deferred compensation program remain that 100% will continue to do so, but those that have not contributed will be assumed to not contribute in the future.</p> <p>In addition, we propose that the valuation assumption be that everyone maintains their current election in future years after the valuation date. Those currently contributing will continue to do so, and those not currently contributing will continue not to. If this recommendation is adopted</p>																																
Retiree health participation rates (p. 58)	For purposes of determining the cost of the RHICF, an assumption is made regarding the percentage of members who will retire from active service and elect retiree medical coverage provided by PERS.	<table border="1" data-bbox="824 1346 1284 1528"> <thead> <tr> <th colspan="4" style="text-align: center;">Main</th> </tr> <tr> <th>Years of Service at Retirement</th> <th>Current Participation Rate</th> <th>Actual Participation Rate</th> <th>Proposed Participation Rate</th> </tr> </thead> <tbody> <tr> <td>3 – 4</td> <td>25.00%</td> <td>35.29%</td> <td>30.00%</td> </tr> <tr> <td>5 – 9</td> <td>50.00</td> <td>48.83</td> <td>50.00</td> </tr> <tr> <td>10 – 14</td> <td>70.00</td> <td>59.47</td> <td>65.00</td> </tr> <tr> <td>15 – 19</td> <td>80.00</td> <td>72.40</td> <td>80.00</td> </tr> <tr> <td>20 – 24</td> <td>95.00</td> <td>74.93</td> <td>85.00</td> </tr> <tr> <td>25+</td> <td>100.00</td> <td>79.05</td> <td>95.00</td> </tr> </tbody> </table> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin-left: 815px; margin-top: 10px;">Recommended change</div> <p>Except that Judges and Highway Patrol continue the assumption that no participation occurs before five years of service.</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin-left: 540px; margin-top: 20px;">Recommend the following rates:</div>	Main				Years of Service at Retirement	Current Participation Rate	Actual Participation Rate	Proposed Participation Rate	3 – 4	25.00%	35.29%	30.00%	5 – 9	50.00	48.83	50.00	10 – 14	70.00	59.47	65.00	15 – 19	80.00	72.40	80.00	20 – 24	95.00	74.93	85.00	25+	100.00	79.05	95.00
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Retiree health J & S option election rates (p. 60)	The cost of the RHICF depends on the annuity option the retiree elects as his/her form of payment in the Retirement	<table border="1" data-bbox="876 1724 1404 1850"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">% Electing Continuation</th> </tr> <tr> <th>Males</th> <th>Females</th> </tr> </thead> <tbody> <tr> <td>Main, National Guard and Law Enforcement</td> <td>60%</td> <td>25%</td> </tr> <tr> <td>Judges</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>Highway Patrol</td> <td>90%</td> <td>90%</td> </tr> </tbody> </table>		% Electing Continuation		Males	Females	Main, National Guard and Law Enforcement	60%	25%	Judges	100%	100%	Highway Patrol	90%	90%																		
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<p>Administrative Expenses (p. 60)</p>	<p>Like benefit payments made to members, expenses incurred in connection with the plan's operation are paid from system assets. These expenses include fees for administrative, legal, accounting, and actuarial services, as well as routine costs for printing, mailings, computer-related activities, and other functions carried out by the retirement system.</p>	<p>Staff is recommending we change this assumption but not to the recommended level but rather the average level.</p> <table border="1" data-bbox="841 1129 1425 1390"> <caption>PERS ADMINISTRATIVE EXPENSES (Dollars in Thousands)</caption> <thead> <tr> <th>Year Ending June 30</th> <th>Main</th> <th>Judges</th> <th>National Guard</th> <th>Law Enforcement with Prior Main Service</th> <th>Law Enforcement w/o Prior Main Service</th> </tr> </thead> <tbody> <tr><td>2009</td><td>\$1,231.9</td><td>\$10.2</td><td>\$3.2</td><td>\$4.0</td><td>\$11.6</td></tr> <tr><td>2008</td><td>1,087.8</td><td>10.6</td><td>4.3</td><td>3.3</td><td>12.2</td></tr> <tr><td>2007</td><td>1,091.2</td><td>7.5</td><td>2.4</td><td>2.0</td><td>6.2</td></tr> <tr><td>2006</td><td>1,024.2</td><td>4.8</td><td>2.5</td><td>1.3</td><td>4.7</td></tr> <tr><td>2005</td><td>1,062.3</td><td>4.5</td><td>1.3</td><td>1.2</td><td>3.0</td></tr> <tr><td>Average</td><td>1,099.5</td><td>7.5</td><td>2.7</td><td>2.4</td><td>7.5</td></tr> <tr><td>Expected</td><td>710.0</td><td>5.0</td><td>5.0 for NG and Law Enf. Combined</td><td></td><td></td></tr> <tr><td>Proposed</td><td>1,300.0</td><td>11.0</td><td>4.0</td><td>4.0</td><td>10.0</td></tr> </tbody> </table> <table border="1" data-bbox="928 1407 1334 1621"> <caption>HPRS AND RHICF ADMINISTRATIVE EXPENSES (Dollars in Thousands)</caption> <thead> <tr> <th>Year Ending June 30</th> <th>HPRS</th> <th>RHICF</th> </tr> </thead> <tbody> <tr><td>2009</td><td>\$19.1</td><td>\$115.2</td></tr> <tr><td>2008</td><td>18.4</td><td>89.9</td></tr> <tr><td>2007</td><td>19.4</td><td>105.0</td></tr> <tr><td>2006</td><td>17.5</td><td>88.6</td></tr> <tr><td>2005</td><td>16.1</td><td>85.3</td></tr> <tr><td>Average</td><td>18.1</td><td>96.8</td></tr> <tr><td>Expected</td><td>16.0</td><td>65.0</td></tr> <tr><td>Proposed</td><td>20.0</td><td>110.0</td></tr> </tbody> </table>	Year Ending June 30	Main	Judges	National Guard	Law Enforcement with Prior Main Service	Law Enforcement w/o Prior Main Service	2009	\$1,231.9	\$10.2	\$3.2	\$4.0	\$11.6	2008	1,087.8	10.6	4.3	3.3	12.2	2007	1,091.2	7.5	2.4	2.0	6.2	2006	1,024.2	4.8	2.5	1.3	4.7	2005	1,062.3	4.5	1.3	1.2	3.0	Average	1,099.5	7.5	2.7	2.4	7.5	Expected	710.0	5.0	5.0 for NG and Law Enf. Combined			Proposed	1,300.0	11.0	4.0	4.0	10.0	Year Ending June 30	HPRS	RHICF	2009	\$19.1	\$115.2	2008	18.4	89.9	2007	19.4	105.0	2006	17.5	88.6	2005	16.1	85.3	Average	18.1	96.8	Expected	16.0	65.0	Proposed	20.0	110.0
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Staff Recommendation on Experience Study Changes:

Staff recommends accepting the Segal recommendations with the exception of the Administrative Expense. At this time we would recommend from the expected to the average and not the proposed.

Amortization Schedule – Attachment #2

In February we decided to look at our amortization assumption for our actuarially recommended contribution. Today the actuarially recommended contribution utilizes a 20 year open amortization schedule for our unfunded liabilities. Open means that each year the amount that is calculated assumes a new 20 year period. Attachment 2 discusses the various methods and the last two illustrations show the payments that are required under each method and the balance. If we were to extend our schedule from 20 to 30 years, we could reduce our annual actuarial recommended payment in the near term assuming we keep it open. However, the actuarial recommended payment will increase in the long term to reflect the interest on deferred payments.

Staff Recommendation on Experience Study Changes:

Maintain the current amortization period.

Attachment



Benefits, Compensation and HR Consulting

**North Dakota Public Employees Retirement System (PERS)
North Dakota Highway Patrolmen's Retirement System
North Dakota PERS Retiree Health Insurance Credit Fund
ACTUARIAL EXPERIENCE STUDY
Analysis of Actuarial Experience
During the Period July 1, 2004 through June 30, 2009**

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THE SEGAL COMPANY
5670 Greenwood Plaza Blvd., Suite 425 Greenwood Village, CO 80111-2499
T 303.714.9900 F 303.714.9990 www.segalco.com

February 16, 2010

Board Members
North Dakota Public Employees Retirement System
Bismarck, North Dakota

**Re: Review of Actuarial Assumptions and Methods
for the July 1, 2010 Actuarial Valuations**

Dear Members of the Board:

We are pleased to submit this report of our review of the actuarial experience of the North Dakota Public Employees Retirement System (PERS), North Dakota Highway Patrolmen's Retirement Systems (HPRS) and North Dakota PERS Retiree Health Insurance Credit Fund (RHICF). This study utilizes the census data of the last five actuarial valuations. The study includes the proposed actuarial assumptions and methods to be used in future actuarial valuations starting with the July 1, 2010 actuarial valuations.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

Brad Ramirez, FSA, FCA, MAAA, EA
Consulting Actuary

John Monroe, ASA, MAAA, EA
Vice President & Associate Actuary

Kurt Schneider, ASA, MAAA, EA
Associate Actuary

AB/bqb

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MEXICO CITY OSLO PARIS

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I. INTRODUCTION, SUMMARY, AND RECOMMENDATIONS

Actuarial valuations are prepared annually to determine whether the statutory contribution rates are sufficient to fund the retirement systems on an actuarial reserve basis. To project the cost and liabilities of the retirement systems, assumptions are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the projected experience, and to the extent there are differences, the future contribution requirement is adjusted.

If assumptions are modified, actuarial contribution requirements are adjusted to take into account a change in the projected experience in all future years. There is a great difference in both philosophy and cost impact between recognizing the actuarial deviations as they occur annually and changing the actuarial assumptions. Taking into account one year's gains or losses without making a change in the assumptions means that that year's experience was temporary and that, over the long run, experience will return to what was originally assumed. Changing assumptions reflects a basic change in thinking about the future, and it has a much greater effect on the current actuarial contribution requirements than recognizing gains or losses as they occur.

The use of realistic actuarial assumptions is important in maintaining adequate funding, while paying promised benefit amounts to participants already retired and to those near retirement. These assumptions will be utilized in establishing future costs and projecting the funded status of the retirement system. Therefore, matching the assumptions as closely as possible to expected plan experience will allow for accurate planning for the level of contributions necessary to fund the retirement system.

The actuarial assumptions used do not determine the "actual cost" of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received. However, it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

This study was undertaken in order to review the economic and demographic actuarial assumptions and to compare the actual experience with that expected under the current assumptions during the five year experience period from July 1, 2004 through June 30, 2009. The actuarial methods currently approved by the Board for use in actuarial valuations have also been reviewed. The study was performed in accordance with Actuarial Standard of Practice (ASOP) No. 35, “Selection of Demographic and Other Non-economic Assumptions for Measuring Pension Obligations” and ASOP No. 27 “Selection of Economic Assumptions for Measuring Pension Obligations.” These Standards of Practice put forth guidelines for the selection of the various actuarial assumptions utilized in a pension plan actuarial valuation. Based on the study’s results and expected near-term experience, we are recommending various changes in the current actuarial assumptions.

We are recommending changes in the assumptions for the incidence of retirement from active employment, average retirement age for deferred vested members, percent of participants with survivor benefits, pre-retirement mortality, healthy life post-retirement mortality, disabled life post-retirement mortality, turnover, disability, salary increases and other miscellaneous assumptions.

In some cases we have refined the structure of the assumptions as long as accuracy and predictive power are not lost in the process. For example, the assumption for termination that currently differentiates between males and females, reflects experience that is not significantly different enough to warrant establishing different assumptions by sex. This is also evident by the fact that the current male and female assumptions are similar. Our recommendations for the major actuarial assumption categories are as follows:

Investment Return – The estimated average future rate of return net of investment expenses on current and future assets of the systems as of the valuation date. This rate is used to discount liabilities.

Recommendation: Maintain the current rate at 8.00% per annum for both PERS/HPRS and RHICF as discussed in Section III(B).

Inflation – Future increases in the cost-of-living index which drives investment returns and active member salary increases.

Recommendation: Maintain the current rate at 3.50% per annum as discussed in Section III(A).

Individual Salary Increases – Increases in the salary of a member between the date of the valuation to the date of separation from active service. This assumption has three components:

- Inflationary salary increases,
- Real “across the board” salary increases, and
- Promotional and merit increases.

Recommendation: Increase the overall salary increase assumption. Maintain the current inflationary salary increase assumption at 3.50% and the current real “across the board” salary increase assumption at 0.50% for Judges and 1.00% for the rest of PERS and HPRS as discussed in Section III(C). In addition to the combined inflationary and real “across the board” increases, increase the promotional and merit increases to those developed in Section IV(F).

Retirement Rates - The probability of retirement at each age at which participants are eligible to retire.

Recommendation: Adjust the current retirement rates to those developed in Section IV(A).

Mortality Rates - The probability of dying at each age. Mortality rates are used to project life expectancies.

Recommendation: Update the current mortality table by decreasing pre- and post-retirement mortality rates for non-disabled members as developed in Section IV(B). Decrease mortality rates for disabled members as developed in Section IV(C).

Termination Rates - The probability of leaving employment at each age and receiving either a refund of contributions or a deferred vested retirement benefit.

Recommendation: Decrease the current termination rates to those developed in Section IV(D). In addition, apply an assumption that a member will choose between a refund of contributions and a deferred vested benefit based on which option is more valuable as discussed in Section IV(G).

Disability Incidence Rates - The probability of becoming disabled at each age.

Recommendation: Decrease the current disability rates overall for PERS members to those developed in Section IV(E).

Actuarial Cost Methods - No changes are recommended for the actuarial cost method or the method for determining the actuarial value of assets. These methods and the method for amortizing the unfunded actuarial accrued liability (UAAL) are Board policy decisions. The current methods used are widely accepted and permitted by relevant guidance. However, the Board may wish to consider further analysis of these methods in order to verify that the methods currently used serve your policy goals.

Section II provides some background on basic principles and the methodology used for the experience study and for the review of the economic and demographic actuarial assumptions. A detailed discussion of each assumption and methods and reasons for the proposed changes is found in Section III for the economic assumptions and Section IV for the demographic assumptions and actuarial methods. Section V shows the cost impact of the proposed assumption changes.

II. BACKGROUND AND METHODOLOGY

In this report, we analyzed both economic and demographic (“non-economic”) assumptions. The primary economic assumptions reviewed are inflation, investment return, and salary increases. Demographic assumptions include the probabilities of certain events occurring in the population of members, referred to as “decrements,” e.g., termination from service, disability retirement, service retirement, and death after retirement.

Economic Assumptions

Economic assumptions consist of:

Inflation – Increases in the price of goods and services. The inflation assumption reflects the basic return that investors expect from securities markets. It also reflects the expected basic salary increase for active employees.

Investment Return – Expected long term rate of return on the System’s investments after expenses. This assumption has a significant impact on actuarial contribution rates.

Salary Increases – In addition to inflationary increases, it is assumed that salaries will also grow by any “across the board” real pay increases in excess of price inflation. It is also assumed that employees will receive raises above these average increases as they advance in their careers. These are commonly referred to as promotional and merit increases. Payments to amortize any Unfunded Actuarial Accrued Liability (UAAL) are assumed to increase each year by the inflation rate plus any “across the board” pay increases that are assumed.

The setting of these assumptions is described in Section III.

Demographic Assumptions

In order to determine the probability of an event occurring, we examine the “decrements” and “exposures” of that event. For example, taking termination from service, we compare the number of employees who actually terminate in a certain age and/or service category (i.e., the number of “decrements”) with those “who could have terminated” (i.e., the number of “exposures”). For example, if there were 500 active employees in the 20-24 age group at the beginning of the year and 50 of them

terminate during the year, we would say the probability of termination in that age group is $50 \div 500$ or 10%.

The reliability of the resulting probability is highly dependent on both the number of decrements and the number of exposures. For example, if there are only a few people in a high age category at the beginning of the year (number of exposures), we would not lend as much credence to the probability of termination developed for that age category, especially if it is out of line with the pattern shown for the other age groups. Similarly, if we are considering the death decrement, there may be a large number of exposures in, say, the age 20-24 category, but very few decrements (actual deaths); therefore, we would not be able to rely heavily on the probability developed for that category.

One reason we use several years of experience for such a study is to have more exposures and decrements, and therefore more statistical reliability. Another reason for using several years of data is to smooth out fluctuations that may occur from one year to the next. However, we also calculate the rates on a year-to-year basis to check for any trend that may be developing in the later years.

III. ECONOMIC ASSUMPTIONS

The investment return assumption is comprised of two components: (i) Inflation; and (ii) Real Rate of Return.

A. INFLATION

Unless an investment grows at least as fast as prices increase, investors will experience a reduction in the inflation-adjusted value of their investment. There may be times when “riskless” investments return more or less than inflation, but over the long term, investment market forces will generally require an issuer of fixed income securities to maintain a minimum return which protects investors from inflation.

The inflation assumption is long term in nature, so it is set using primarily historical information. Following is an analysis of 15 and 30 year moving averages of historical inflation rates:

Historical Consumer Price Index – 1930 to 2009			
(U.S. City Average - All Urban Consumers)			
	<u>25th Percentile</u>	<u>Median</u>	<u>75th Percentile</u>
15 year moving averages	2.7%	3.5%	4.8%
30 year moving averages	3.3%	4.3%	5.0%

The average inflation rates have continued to decline gradually over the last several years due to the relatively low inflationary period in the 1990s and early 2000s. However, the inflation rates for the past few years have started to show some increase. Also, the later of the 15-year averages during the period are lower as they do not include the high inflation years of the mid-1970s and early 1980s.

PERS’s investment consultant, SEI Global Institutional Solutions (SEI), anticipates an annual inflation rate of 2.30%. Note that, in general, the investment consultants’ time horizon for this assumption is shorter than the time horizon we use for the actuarial valuation.

In the 2009 public fund survey published by the National Association of State Retirement Administrators, the median inflation assumption used by 113 large public retirement funds in their 2008 valuations has remained unchanged from the 3.50% used in the 2007 valuations.

Based on all of the above information, we recommend that the annual inflation assumption be maintained at 3.50% for the July 1, 2010 valuation.

B. REAL RATE OF INVESTMENT RETURN

This component represents the portfolio's incremental investment market returns over inflation. Theory has it that, as an investor takes a greater investment risk, the return on the investment is expected to also be greater, at least in the long run. This additional return is expected to vary by asset class and empirical data supports that expectation. For that reason, the real rate of return assumptions are developed by asset class. Therefore, the real rate of return assumption for a retirement system's portfolio will vary with the Board's asset allocation among asset classes.

The following is the System's target asset allocation and the assumed real rate of return assumptions by asset class. The first column of real rate of return assumptions are determined by netting SEI's total return assumptions by their assumed 2.30% for inflation. The second column of returns represents the average of a sample of real rate of return assumptions. The sample includes the expected annual real rate of returns provided to us by SEI and nine other investment advisory firms retained by Segal's public sector clients. We believe these assumptions reasonably reflect a consensus forecast of long term future market returns.

Current Target Asset Allocations and Assumed Arithmetic Real Rate of Return Assumptions by Asset Class and for the Portfolios

Asset Class	PERS and HPRS	RHICF	SEI's Assumed Real Rate of Return ⁽¹⁾	Average from a Sample of Consultants to Segal's Public Sector Clients' Real Rates of Return ⁽²⁾
Domestic Large Cap Equity	30%	37%	8.40%	7.19%
Domestic Small Cap Equity	10	9	10.30	7.89
Developed International Equity	10	14	9.20	7.63
Emerging Market Equity	5	0	13.60	10.49
Domestic Fixed Income	24	40	3.90	2.74
High Yield Fixed Income	5	0	6.20	5.62
International Fixed Income	5	0	2.80	2.50
Real Estate	5	0	5.10	4.80
Private Equity	5	0	10.40	10.40 ⁽³⁾
Cash and Equivalents	<u>1</u>	<u>0</u>	<u>0.10</u>	<u>0.66</u>
Total Portfolio	100%	100%		
PERS and HPRS			7.31%	6.06%
RHICF			6.88%	5.54%

⁽¹⁾ *Derived by netting SEI's rate of return assumptions by their assumed 2.30% inflation rate.*

⁽²⁾ *Including the county retirement systems of San Bernardino, Alameda, Contra Costa, San Diego, Orange, Sacramento, Ventura, Sonoma and Imperial, the City of Fresno, the LA City Employees' Retirement Systems, and North Dakota PERS.*

⁽³⁾ *For this asset class SEI's assumption is applied in lieu of the average because there is a larger disparity in returns for this asset class among the firms surveyed and using SEI's assumption should more closely reflect the underlying investments made specifically for North Dakota PERS.*

These are based on projected arithmetic returns provided by the investment advisory firms.

Please note that the above are representative of “indexed” returns and do not include any additional returns (“alpha”) from active management. This is consistent with the Actuarial Standard of Practice No. 27, Section 3.6.3.e, which states:

“Investment Manager Performance — Anticipating superior (or inferior) investment manager performance may be unduly optimistic (pessimistic). Few investment managers consistently achieve significant above-market returns net of expenses over long periods.”

The following are some observations about the returns provided above:

1. The investment consultants to our public sector clients have each provided us with their expected real rates of return for each asset class, over various future periods of time. However, in general, the returns available from investment consultants are projected over time periods shorter than the durations of a retirement plan’s liabilities.
2. Using a sample average of expected real rates of return allows the System’s investment return assumption to reflect a broader range of capital market information and should help reduce year to year volatility in the System’s investment return assumption.
3. Therefore we recommend that the 6.06% portfolio real rate of return be used to determine the investment return assumption for PERS and HPRS and 5.54% for RHICF.

Investment Expenses

The real rate of return assumption for the portfolio needs to be adjusted for investment expenses expected to be paid from investment income.

The following table provides these expenses in relation to the actuarial value of assets for the five years ending June 30, 2009.

Investment Expenses as a Percentage of Actuarial Value of Assets (All dollars in 000's)						
FYE	PERS/HPRS			RHICF		
	Actuarial Value of Assets*	Investment Expenses**	As a Percent of Actuarial Value of Assets	Actuarial Value of Assets*	Investment Expenses	As a Percent of Actuarial Value of Assets
2005	\$1,276,811	\$5,316	0.42%	\$30,892	\$62	0.20%
2006	1,357,301	12,818	0.94	34,020	69	0.20
2007	1,551,308	9,479	0.61	38,881	128	0.33
2008	1,660,619	11,448	0.69	42,543	111	0.26
2009	1,667,345	6,637	<u>0.40</u>	44,829	75	<u>0.17</u>
Average			0.61%			0.23%

* As of end of plan year

** Net of securities lending expenses. Because we do not assume any additional net return for this program, we effectively assume that any expenses will be offset by related income.

The average expense percentage over this five year period is 0.61% for PERS and HPRS combined and 0.23% for RHICF. Based on this experience, we have used a future expense assumption of 0.60% for PERS and HPRS and 0.25% for RHICF. This assumption will be re-examined as new data becomes available.

Risk Adjustment

The real rate of return assumption for the portfolio is adjusted to reflect the potential risk of shortfalls in the return assumptions. The System's asset allocation also determines this portfolio risk, since risk levels also are expected to vary by asset class. In the economic model that we advise our clients on setting the real rate of return assumptions, this portfolio risk is incorporated into the real rate of return assumption through a risk adjustment.

The purpose of the risk adjustment is to increase the likelihood of achieving the actuarial investment return assumption in the long term. The 6.06% expected real rate of return developed earlier in this report for PERS and HPRS was based on "mean" or average returns. This means there is a 50% chance of the actual return being at least as great as the average. The risk adjustment increases that probability. This is consistent with our experience that retirement boards generally would prefer that returns exceed the assumed rate more often than not.

For PERS and HPRS, the current 8.00% investment return assumption, together with the 3.50% inflation assumption recommended earlier in this report, implies a risk adjustment of 0.96%, reflecting a

confidence level (described below) of 61%. This level is consistent with many of Segal's other public retirement practice clients.

The confidence level associated with a particular risk adjustment represents the likelihood that the System's actual mean return would equal or exceed the assumed value over a 15-year period. For example, if we set our real rate of return assumption using a risk adjustment that produces a confidence level of 60%, then there is a 60% chance (3 out of 5) that the average return over 15 years will be equal to or greater than the assumed value. This confidence level is determined using the System's portfolio standard deviation (which is 12.58% as calculated based on SEI's capital market assumptions) and assuming that the distribution of returns over that period follows the Normal statistical distribution¹.

The current annual investment return assumption adopted by the Board for RHICF is also 8.00%, although the asset mix is significantly different than PERS and HPRS. When combined with the other components recommended in this report, it implies a risk adjustment of 0.79% (i.e., 3.50% inflation plus 5.54% expected real rate of return minus 0.25% expenses, compared to the assumed return of 8.00%). A 0.81% risk adjustment for a System with an annual portfolio standard deviation of 12.53% (as calculated based on SEI's capital market assumptions) leads to about a 60% chance that the actual average return over 15 years would equal or exceed the assumed return, if the distribution of returns over that period follows the Normal statistical distribution.

We note that this 8.00% investment return assumption is within the most common range for this assumption among most of Segal's other public sector retirement systems. That range, with few exceptions, is from 7.75% to 8.00%.

¹ The theory that long-term investment returns follow a Normal distribution is debatable; however, we believe the Normal distribution assumption is not unreasonable for purposes of setting the risk adjustment.

Recommended Investment Return Assumption

The following table summarizes the components of the investment return assumption developed in the previous discussion.

Calculation of Net Investment Return Assumption		
<u>Assumption Component</u>	<u>PERS and HPRS</u>	<u>RHICF</u>
Inflation	3.50%	3.50%
Plus Portfolio Real Rate of Return	6.06%	5.54%
Minus Expense Adjustment	(0.60%)	(0.25%)
Minus Risk Adjustment	<u>(0.96%)</u>	<u>(0.79%)</u>
Total	8.00%	8.00%

Based on this analysis, we recommend that the investment return assumptions be maintained at 8.00%.

C. SALARY INCREASE

Salary increases impact plan costs in two ways: (i) by increasing members' benefits (since benefits are a function of the members' highest average pay) and future normal cost collections; and (ii) by increasing total active member payroll which in turn generates higher UAAL amortization payments (or higher amortization credits if the UAAL is negative). These two impacts are discussed separately below.

As an employee progresses through his or her career, increases in pay are expected to come from three sources:

1. Inflation – Unless pay grows at least as fast as consumer prices grow, employees will experience a reduction in their standard of living. There may be times when pay increases lag or exceed inflation, but over the long term, it is assumed that labor market forces will require an employer to maintain its employees' standards of living.

As discussed earlier in this report, we are recommending an assumed rate of inflation of 3.50%. This inflation component will be used as part of the salary increase assumption.

2. Real “Across the Board” Pay Increases – These increases are sometimes termed “productivity” increases since they are considered to be derived from the ability of an organization or an economy to produce goods and services in a more efficient manner. As that occurs, at least some portion of the value of these improvements can provide a source for pay increases. These increases are typically assumed to extend to all employees “across the board.” The State and Local Government Workers Employment Cost Index produced by the Department of Labor provides evidence that real “across the board” pay increases have averaged about 0.7% - 1.0% annually during the last 10 - 20 years.

We have also reviewed the change in the average active salary over the last several years to determine if there is a need to adjust the current 4.50% (4.00% for Judges) combined inflation plus real “across the board” pay increases assumption. The results are provided in the following table.

Plan Year Ending	<u>PERS (excluding Judges)</u>		<u>Judges</u>		<u>Highway Patrol</u>	
	Average Active Salary	Percentage Change	Average Active Salary	Percentage Change	Average Active Salary	Percentage Change
June 30, 1999	\$24,178		\$82,329		\$36,011	
June 30, 2000	24,808	2.6%	82,906	0.7%	38,152	5.9%
June 30, 2001	25,702	3.6%	83,282	0.5%	39,302	3.0%
June 30, 2002	26,825	4.4%	89,649	7.6%	40,583	3.3%
June 30, 2003	27,756	3.5%	95,993	7.1%	40,928	0.9%
June 30, 2004	28,231	1.7%	95,998	0.0%	40,857	(0.2%)
June 30, 2005	28,892	2.3%	95,579	(0.4%)	42,393	3.8%
June 30, 2006	30,038	4.0%	99,500	4.1%	44,789	5.7%
June 30, 2007	31,203	3.9%	103,683	4.2%	46,082	2.9%
June 30, 2008	33,012	5.8%	111,427	7.5%	50,066	8.6%
June 30, 2009	34,795	5.4%	115,741	3.9%	52,701	5.3%
5-yr Average (CPI 2.6%)		4.3%		3.8%		5.2%
10-yr Average (CPI 2.6%)		3.7%		3.5%		3.9%

Over the most recent 10-year period, increases in the average salary for PERS members (excluding Judges) have averaged 1.1% higher than corresponding increases in CPI. For HPRS members over that same period, the increases in average salary have averaged 1.4% more than the increases in CPI. We believe that the current “across the board” salary increase assumption of 1.00% is still sufficient for PERS (excluding Judges) and HPRS. The Judges increases in average salary continue to be lower than the rest of PERS, and over the last five years the Judges’ increases in average salary have averaged 0.5% less than the rest of PERS (0.2% less over the last ten years).

Considering these factors, we recommend maintaining the real “across the board” salary increase assumption at 0.50% for Judges and 1.00% for the rest of PERS and HPRS.

3. Promotional and Merit Increases – As the name implies, these increases come from an employee’s career advances. This form of pay increase differs from the previous two, since it is specific to the individual. For PERS and HPRS, there are age-specific assumed promotional and merit increases that vary by group. We have reviewed this promotional and merit component in the demographic section of this report.

Recommended promotional and merit assumptions are provided in the demographic section of this report.

4. The above three forces will be incorporated into a salary increase assumption which is applied in the actuarial valuation to project future benefits and future normal cost contribution collections.

Active Member Payroll

Projected active member payrolls are used to develop the UAAL contribution rate. Future values are determined as a product of the number of employees in the workforce and the average pay for all employees. The average pay for all employees is assumed to increase only by inflation and real “across the board” pay increases. The merit and promotional increases are not an influence, because this average pay is not specific to an individual.

Based upon the above analysis, we recommend that the active member payroll increase assumption be 4.00% for Judges and 4.50% for the rest of PERS and HPRS, consistent with the combined

inflation plus real “across the board” salary increase assumptions. Again, this is unchanged from the prior valuation.

IV. DEMOGRAPHIC ASSUMPTIONS

A. RETIREMENT RATES

The age at which a member retires from service (i.e., who did not retire on a disability pension) will affect both the amount of the benefits that will be paid to that member as well as the period over which funding must take place.

The table on the following page shows the observed service retirement rates for Main members that are eligible for an unreduced retirement (either Rule of 85 or age 65 and over) based on the actual experience over the past five years. The observed service retirement rates were determined by comparing those members who actually retired from service to those eligible to retire from service. This same methodology is followed throughout this report and was described in Section II. Also shown are the current rates assumed and the rates we propose:

Main (Eligible for Unreduced Retirement)

Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
51	0.00%	66.67%	8.00%
52	0.00	29.41	8.00
53	0.00	20.37	8.00
54	0.00	11.27	8.00
55	4.00	9.33	8.00
56	6.00	10.23	10.00
57	6.00	12.41	10.00
58	6.00	10.59	10.00
59	6.00	11.82	10.00
60	8.00	10.55	10.00
61	15.00	22.46	20.00
62	35.00	32.45	35.00
63	25.00	25.75	25.00
64	25.00	36.43	30.00
65	40.00	24.71	30.00
66	20.00	20.50	20.00
67	20.00	15.77	20.00
68	20.00	15.59	20.00
69	20.00	16.33	20.00
70	100.00	14.13	20.00
71	100.00	14.86	20.00
72	100.00	19.35	20.00
73	100.00	15.60	20.00
74	100.00	16.09	20.00
75 & Over	100.00	14.83	100.00

As shown above, we are generally recommending increases in the retirement rates for Main members that are eligible for an unreduced retirement. We are also increasing the age at which 100% retirement is assumed from age 70 to age 75.

Chart 1 that follows later in this section compares actual experience with the current and proposed rates of retirement for Main members that are eligible for an unreduced retirement.

The following table shows the observed retirement rates for Main members that are not eligible for an unreduced retirement over the past five years. Also shown are the current rates assumed and the rates we propose:

Main (Not Eligible for Unreduced Retirement)			
Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
55	4.00%	0.94%	2.00%
56	4.00	1.08	2.00
57	4.00	1.01	2.00
58	4.00	1.64	2.00
59	4.00	2.44	2.00
60	6.00	2.62	4.00
61	12.00	7.77	10.00
62	25.00	14.69	20.00
63	20.00	10.38	15.00
64	20.00	8.45	10.00

We are recommending decreases in the retirement rates for Main members that are not eligible for an unreduced retirement.

Chart 2 compares actual experience with the current and proposed rates for Main members that are not eligible for an unreduced retirement.

The following table shows the observed retirement rates for Judges over the past five years. Also shown are the current rates assumed and the rates we propose:

Judges			
Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
55	0.00%	0.00%	0.00%
56	0.00	0.00	0.00
57	0.00	0.00	0.00
58	0.00	0.00	0.00
59	0.00	8.33	0.00
60	0.00	16.67	10.00
61	0.00	11.11	10.00
62	35.00	0.00	20.00
63	35.00	14.29	20.00
64	35.00	0.00	20.00
65	50.00	57.14	50.00
66	50.00	0.00	50.00
67	50.00	100.00	50.00
68	50.00	0.00	50.00
69	50.00	0.00	50.00
70 & over	100.00	16.67	100.00

We are recommending changes in the retirement rates for Judges. Overall, these changes result in a small decrease in assumed retirements.

Chart 3 compares actual experience with the current and proposed rates for Judges.

The following table shows the observed retirement rates for National Guard and Law Enforcement over the past five years. Also shown are the current rates assumed and the rates we propose:

National Guard and Law Enforcement			
Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
50	0.00%	14.29%	0.00%
51	0.00	0.00	0.00
52	0.00	0.00	0.00
53	0.00	0.00	0.00
54	0.00	5.26	0.00
55	0.00	21.05	20.00
56	0.00	12.50	20.00
57	0.00	7.14	20.00
58	0.00	30.77	20.00
59	0.00	25.00	20.00
60	100.00	0.00	20.00
61	100.00	0.00	20.00
62	100.00	20.00	20.00
63	100.00	33.33	20.00
64	100.00	66.67	50.00
65 & over	100.00	100.00	100.00

We are recommending increases in the retirement rates for National Guard and Law Enforcement members below age 60. We also recommend increasing the age at which 100% retirement is assumed from age 60 to age 65.

Chart 4 compares actual experience with the current and proposed rates for National Guard and Law Enforcement.

The following table shows the observed retirement rates for Highway Patrol members that are eligible for an unreduced retirement (either Rule of 80 or age 55 and above with at least 10 years of service) over the past five years. Also shown are the current rates assumed and the rates we propose:

Highway Patrol (Eligible for Unreduced Retirement)			
Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
48	0.00%	100.00%	0.00%
49	0.00	0.00	0.00
50	100.00	0.00	100.00
51	100.00	100.00	100.00
52	100.00	75.00	100.00
53	100.00	80.00	100.00
54	100.00	100.00	100.00
55 & over	100.00	100.00	100.00

We are recommending no changes in the retirement rates for Highway Patrol members that are eligible for an unreduced retirement.

Chart 5 compares actual experience with the current and proposed rates for Highway Patrol members that are eligible for an unreduced retirement.

The following table shows the observed retirement rates for Highway Patrol member that are not eligible for an unreduced retirement over the past five years. Also shown are the current rates assumed and the rates we propose:

Highway Patrol (Not Eligible for Unreduced Retirement)			
Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
50	50.00	0.00	0.00
51	50.00	0.00	0.00
52	50.00	0.00	0.00
53	50.00	0.00	0.00
54	50.00	0.00	0.00

We are recommending that retirement rates for Highway Patrol members that are not eligible for an unreduced retirement be reduced to zero based on the experience for the last five years.

Chart 6 compares actual experience with the current and proposed rates for Highway Patrol members that are not eligible for unreduced retirement.

Because the employee groups are substantially the same, we recommend that the same retirement rates be used in the actuarial valuation for the RHICF.

In prior valuations, deferred vested members were assumed to retire at the age upon which they were eligible to retire with an unreduced pension. For Main members this is the earlier of age 65 or eligibility for the Rule of 85 pension. The average age at retirement for Main members over the past five years was 62. We recommend decreasing the age at which Main deferred vested members are assumed to retire to the earlier of age 64 or eligibility for the Rule of 85 pension

The experience for other deferred vested members, i.e. Judges, National Guard, Law Enforcement and Highway Patrol was very limited, but seemed to support leaving the assumption unchanged at the age upon which they were eligible to retire with an unreduced pension. Therefore, we recommend no change for these members.

For Main, National Guard and Law Enforcement it was assumed that 75% of male members and 60% female members would be married when they retired. For Judges the assumption was 100% and for Highway Patrol it was 90%. We reviewed new retirees during the five year period and determined the actual percentage of these new retirees that had an eligible spouse at the time of retirement. The results of that analysis are shown below.

New Retirees – Actual Percent with Eligible Spouse		
	Male	Female
Main	84%	70%
Judges	100%	100%
Highway Patrol	92%	N/A

According to experience of Main members who retired during the last five years, about 84% of all male members and 70% of all female members were married at retirement. We recommend a slight increase in this assumption to 80% for male members and 65% for female members. These same assumptions will be applied to National Guard and Law Enforcement. For Judges and Highway Patrol, we recommend maintaining those assumptions at 100% and 90% respectively.

Since the value of the survivor's benefit is dependent on the survivor's age and sex, we must also have assumptions for the age and sex of the survivor. Based on the experience during the five year period and studies done for other retirement systems, we believe that it is reasonable to assume a three year age difference for the survivor's age as compared to the member's age. This is a change from the current assumptions of a four year age difference for Main and five years for all other PERS members. For Highway Patrol there is no change being proposed since the current assumption is a three year age difference.

Since the majority of survivors are expected to be of the opposite sex, we will continue to assume that the survivor's sex is the opposite of the member.

The recommended assumption for the age of the survivor is shown below. These assumptions will continue to be monitored in future experience studies.

Survivor's Age as Compared to Member's Age	
Beneficiary Sex	Recommended Assumption
Male	3 years older
Female	3 years younger

Chart 1
Retirement Rates - Main
(Eligible for Unreduced Retirement)

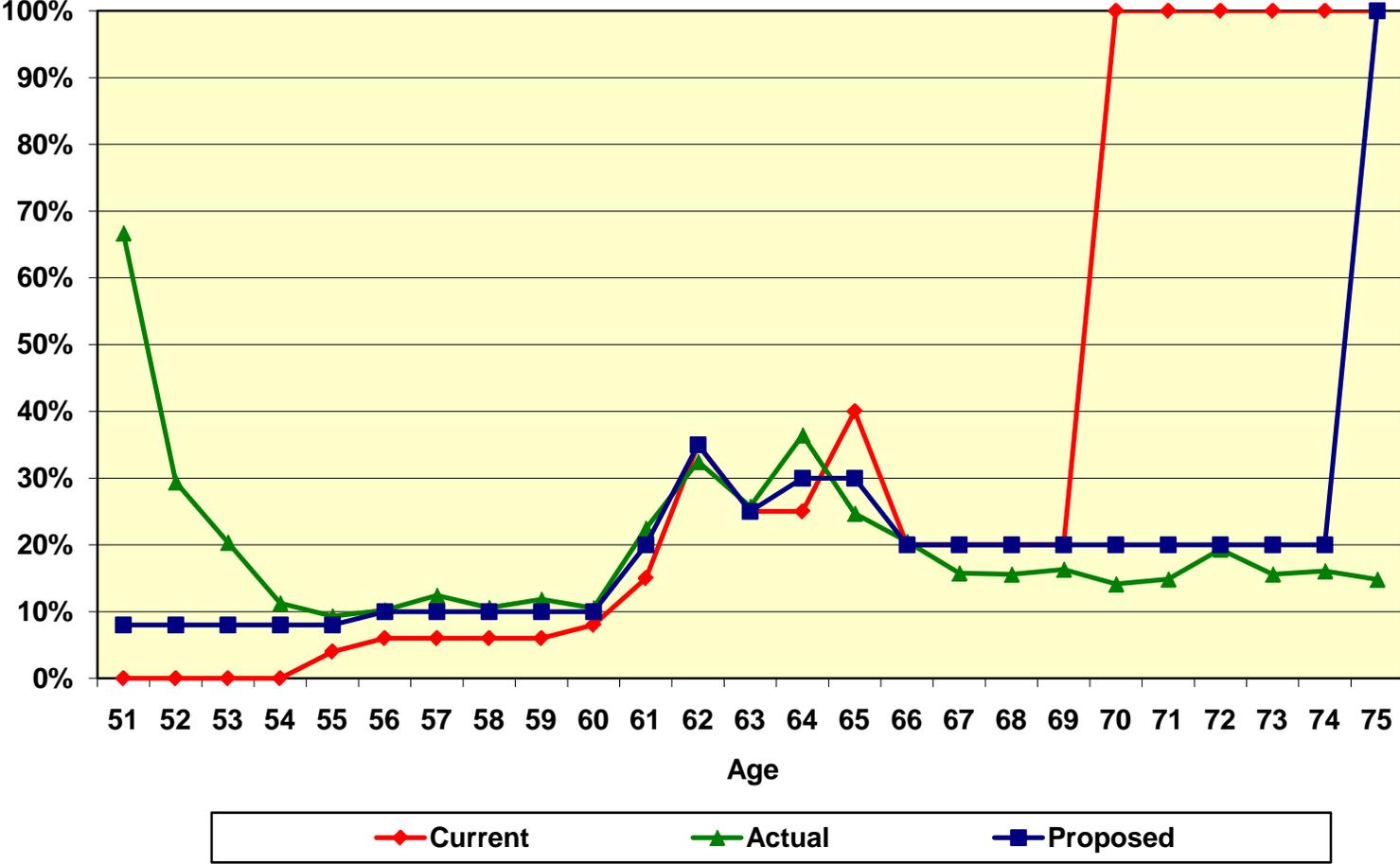


Chart 2
Retirement Rates - Main
(Not Eligible for Unreduced Retirement)

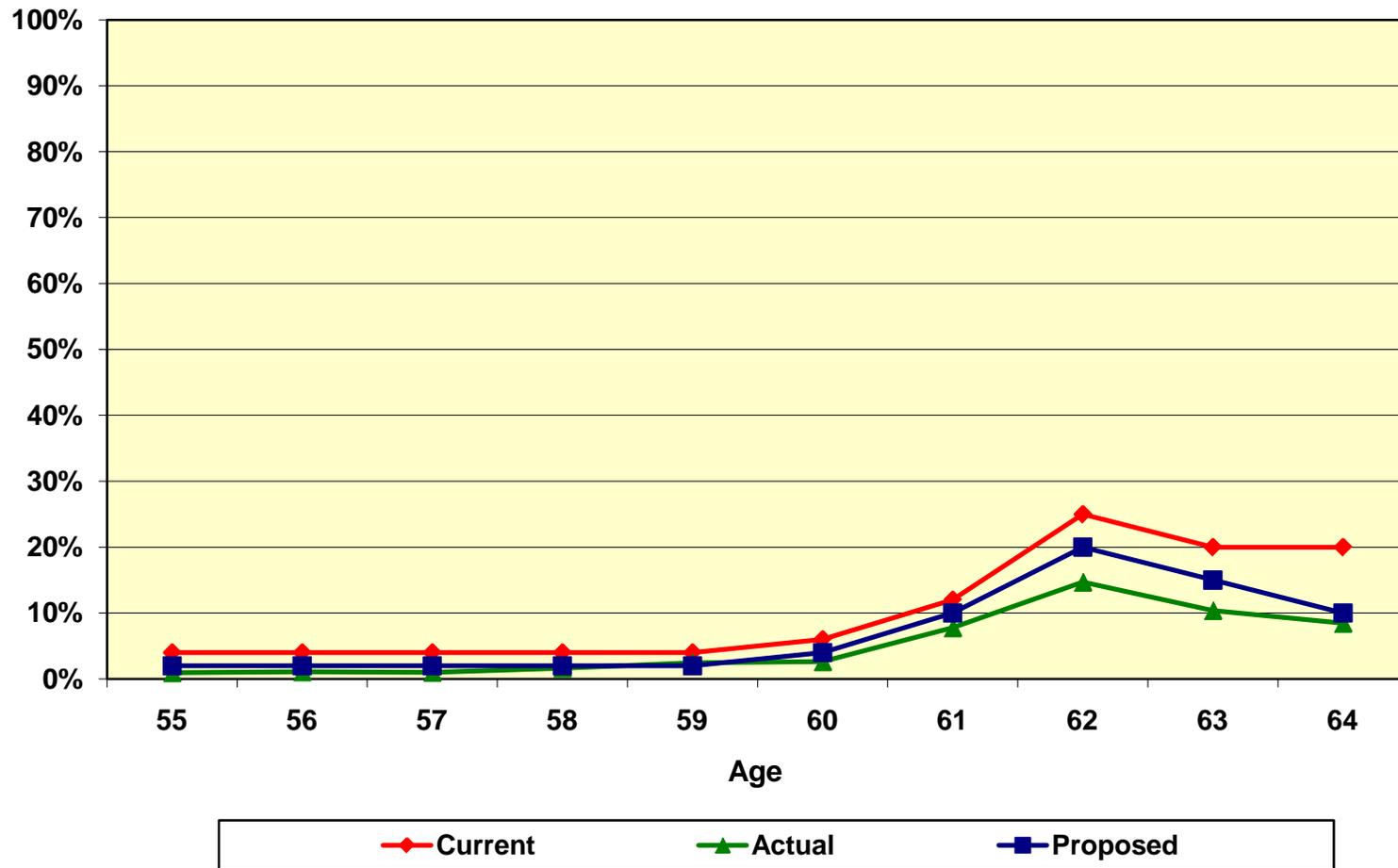


Chart 3
Retirement Rates - Judges

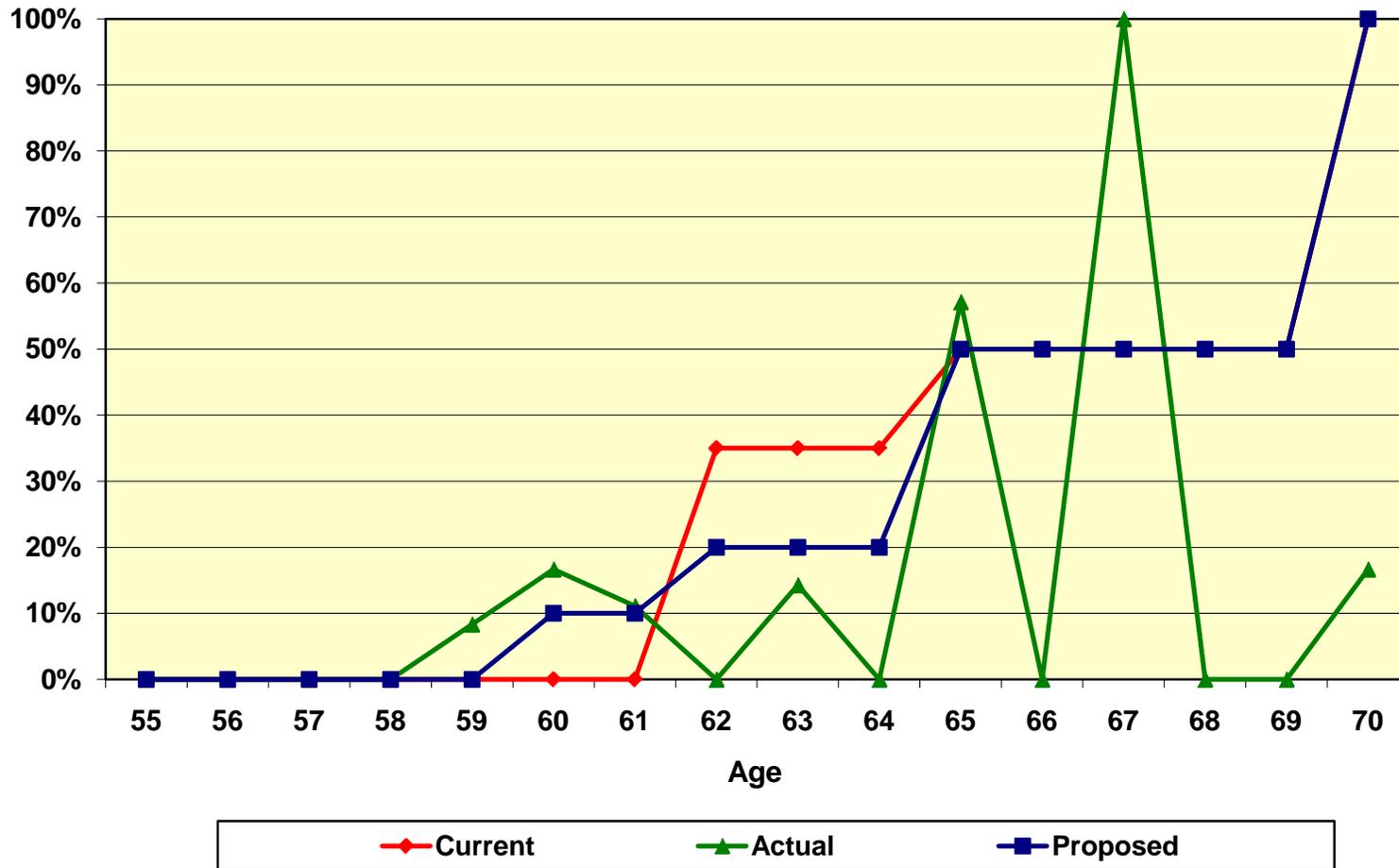


Chart 4
Retirement Rates - National Guard and Law Enforcement

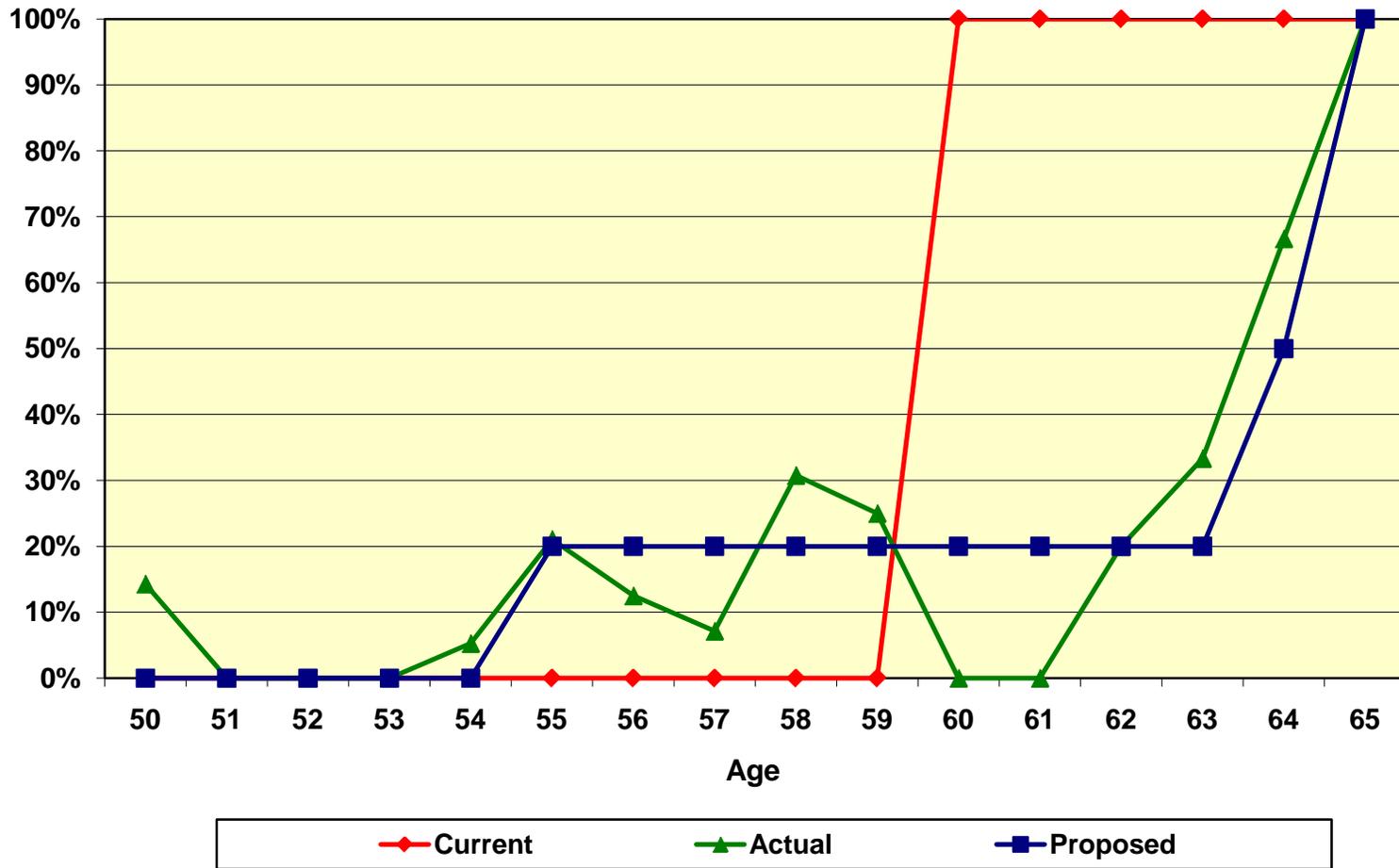
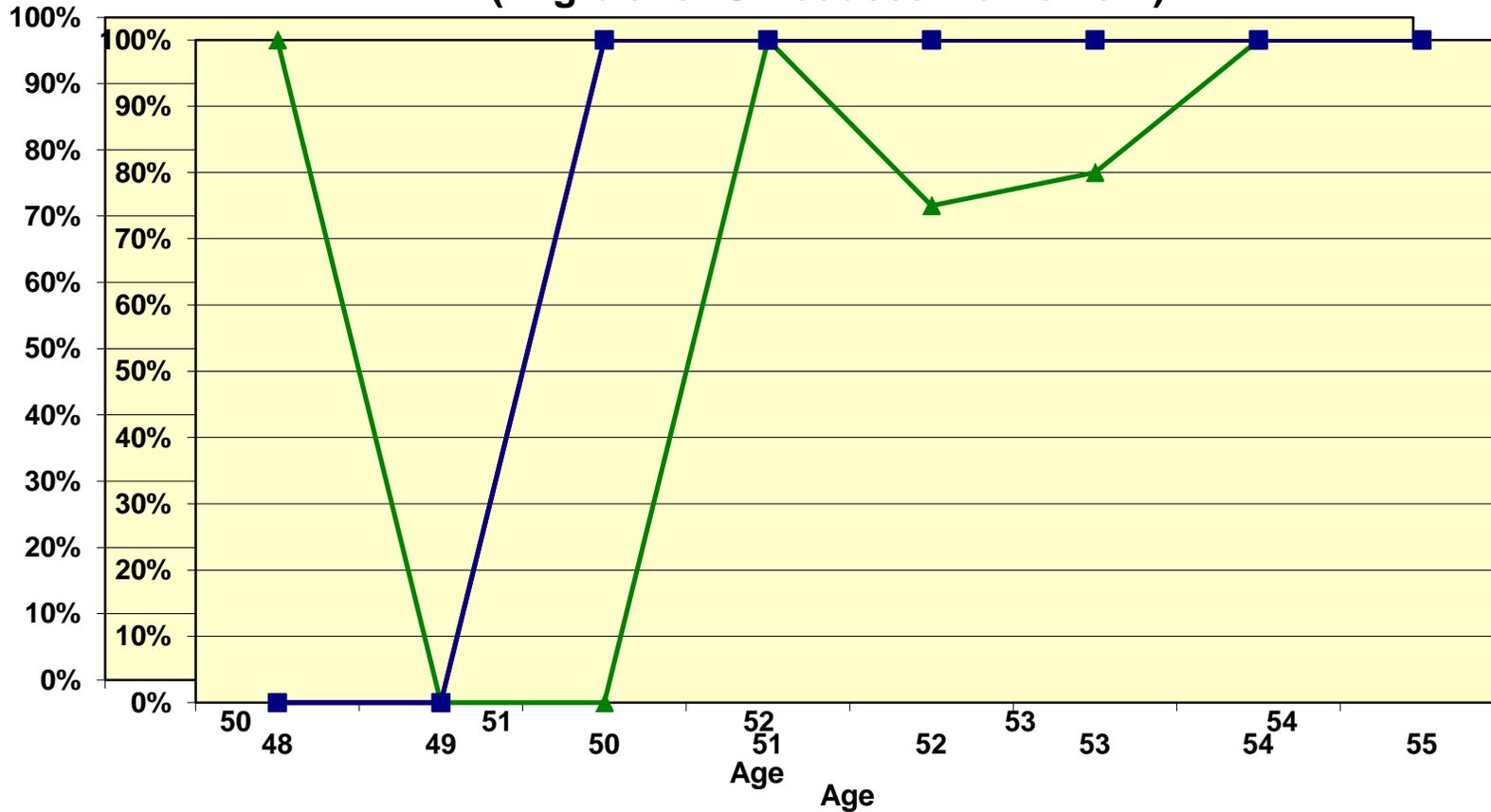


Chart 6
 Retirement Rates - Highway Patrol
 (Not Eligible for Unreduced Retirement)

Chart 5
 Retirement Rates - Highway Patrol
 (Eligible for Unreduced Retirement)



◆ Current ▲ Actual ■ Proposed
◆ Current ▲ Actual ■ Proposed

B. MORTALITY RATES - HEALTHY

The “healthy” mortality rates project what proportion of members will die before retirement as well as the life expectancy of a member who retires from service (i.e., who did not retire on a disability pension). The table currently being used for post-service retirement mortality rates is the 1983 Group Annuity Mortality Table (separate tables for males and females), with ages set back one year for males.

Pre-Retirement Mortality

The number of deaths among active and deferred vested members is not large enough to provide a statistically credible basis for a specific pre-retirement mortality analysis. Therefore, we continue to propose that pre-retirement mortality follow the same tables used for post-retirement mortality.

Post-Retirement Mortality (Service Retirements)

Among service retired Main members, the actual deaths compared to the expected deaths under the current and proposed assumptions for the last five years are as follows:

Year Ended June 30	Main – Healthy		
	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths
Total	914	793	716
Actual / Expected	87%		111%

Chart 7 compares actual to expected deaths for Main members under the current and proposed assumptions over the last five years. Experience shows that there were fewer deaths than predicted by the current table.

For Main service retirees the ratio of actual to expected deaths was 87%. We recommend updating the current table to the RP-2000 Combined Table (separate tables for males and females) with ages set back three years. This will bring the actual to expected ratio to 111%. This is consistent with standard actuarial practice to include some margin in the rates to anticipate expected future improvement in life expectancy. Generally, preferable practice is to have a margin of around 10%; that is, the actual deaths among current retirees are around 10% greater than the expected deaths during the study period.

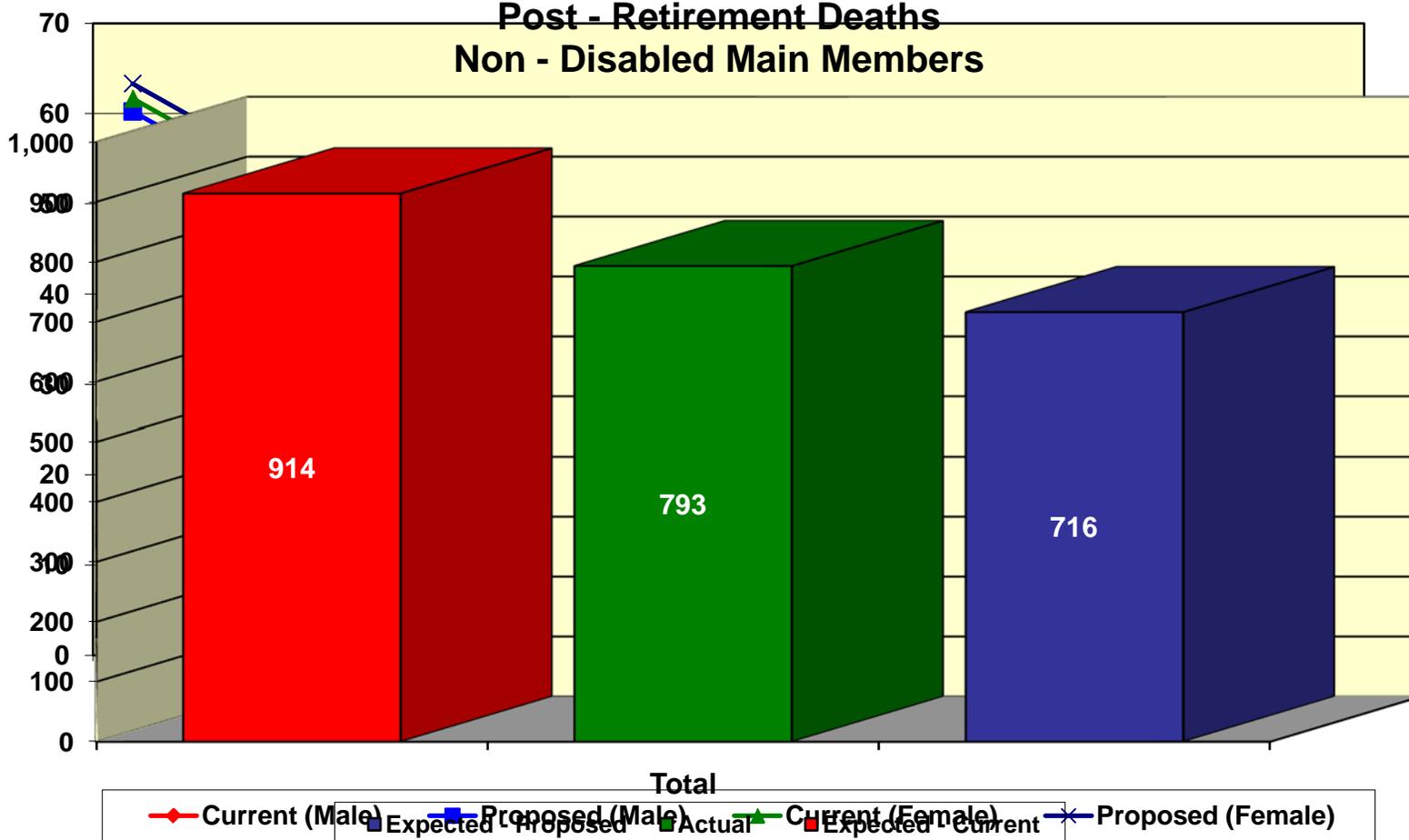
Even though the proposed mortality tables result in an actual to expected ratio of 111% in total, this is not the case for males and females separately. The actual deaths during the five years for females are about the same as those expected under the proposed assumption, while for males the actual deaths are more than 111% of the assumed deaths under the proposed assumption. This experience is not consistent with the experience from the previous experience study, nor is it consistent with the adjustments applied to the current mortality tables. Therefore, we recommend applying the same three year set back to both the male and female mortality tables. We will closely monitor this in future studies.

Because there is considerably less mortality experience available for Judges, National Guard, Law Enforcement and Highway Patrol, we recommend applying the same mortality assumption to all non-disabled PERS and Highway Patrol members.

Chart 8 shows the life expectancies (i.e., expected future lifetime) under the current and the proposed tables for PERS and Highway Patrol members.

Note that if these assumptions are adopted by the Board, the actuarial factors used for optional forms of payment will need to be updated to be on a basis consistent with the mortality (and possibly other) assumptions proposed in this report. We will follow-up with a letter that contains those factors and the assumptions used after the assumptions in this study have been adopted.

Chart 8
Life Expectancies
Non - Disabled PERS and Highway Patrol



C. MORTALITY RATES - DISABLED

Since death rates for disabled members can vary from those of healthy members, a different mortality assumption is often used. The table currently being used for disabled Main members is the PBGC Disabled Life Mortality Table for Individuals receiving Social Security Disability Benefits (separate tables for males and females).

The number of actual deaths compared to the number expected over the last five years has been as follows:

	Main – Disabled		
	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths
Total	87	70	64
Actual / Expected	80%		109%

Based on this experience, we recommend that the mortality table for disabled Main members be updated to the RP-2000 Disabled Mortality Table (separate tables for males and females) with ages set back one year for males.

Chart 9 compares actual to expected deaths under both the current and proposed assumptions for disabled Main members over the last five years. Experience shows that there were less deaths than predicted by the current table. Similar to our recommendation for healthy mortality, we have incorporated a margin for future mortality improvement.

We recommend applying this mortality assumption to all disabled PERS and Highway Patrol members.

Chart 10 shows the life expectancies under both the current and proposed tables for disabled PERS and Highway Patrol members.

Chart 9
Post - Retirement Deaths
Disabled Main Members

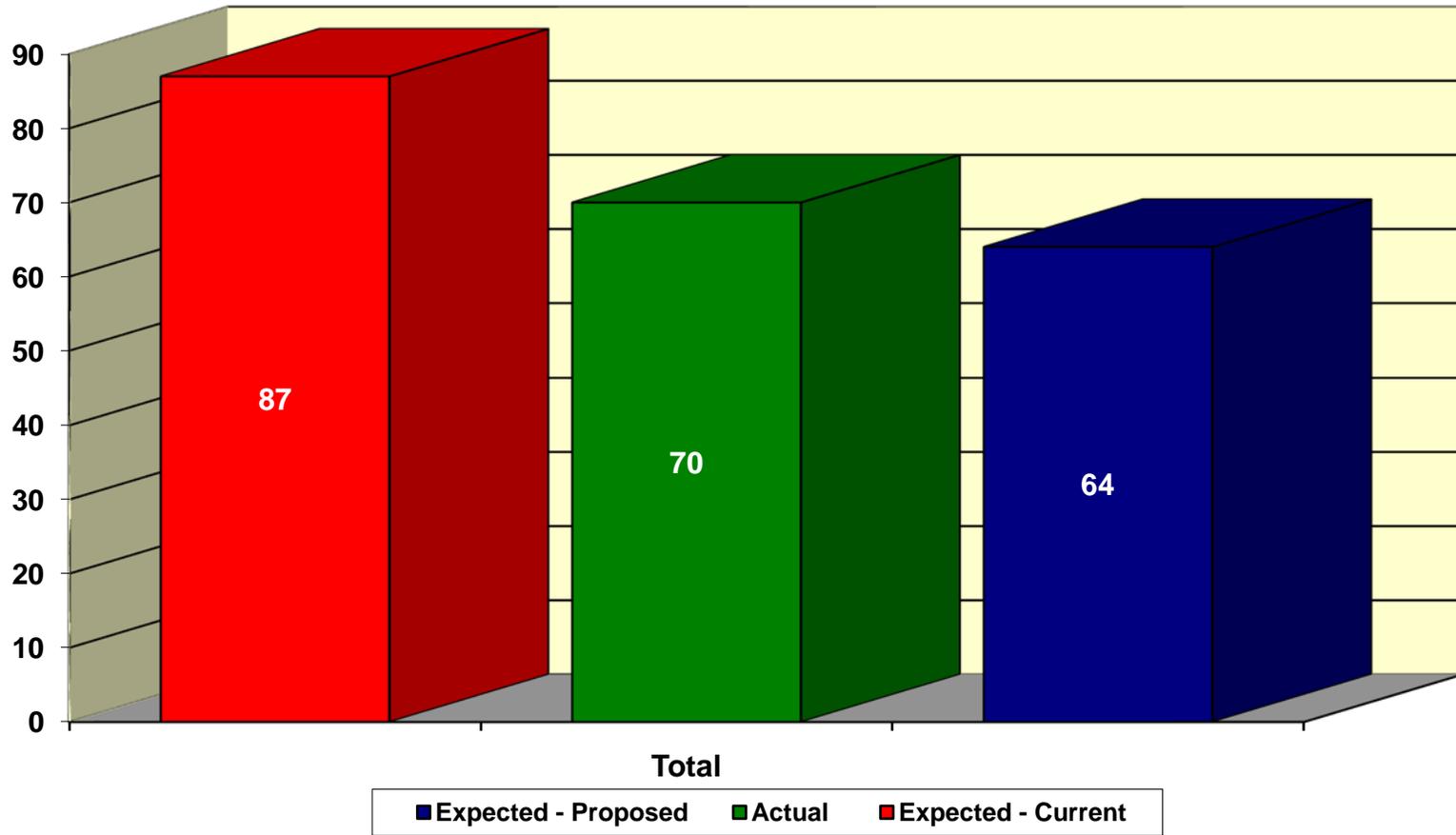
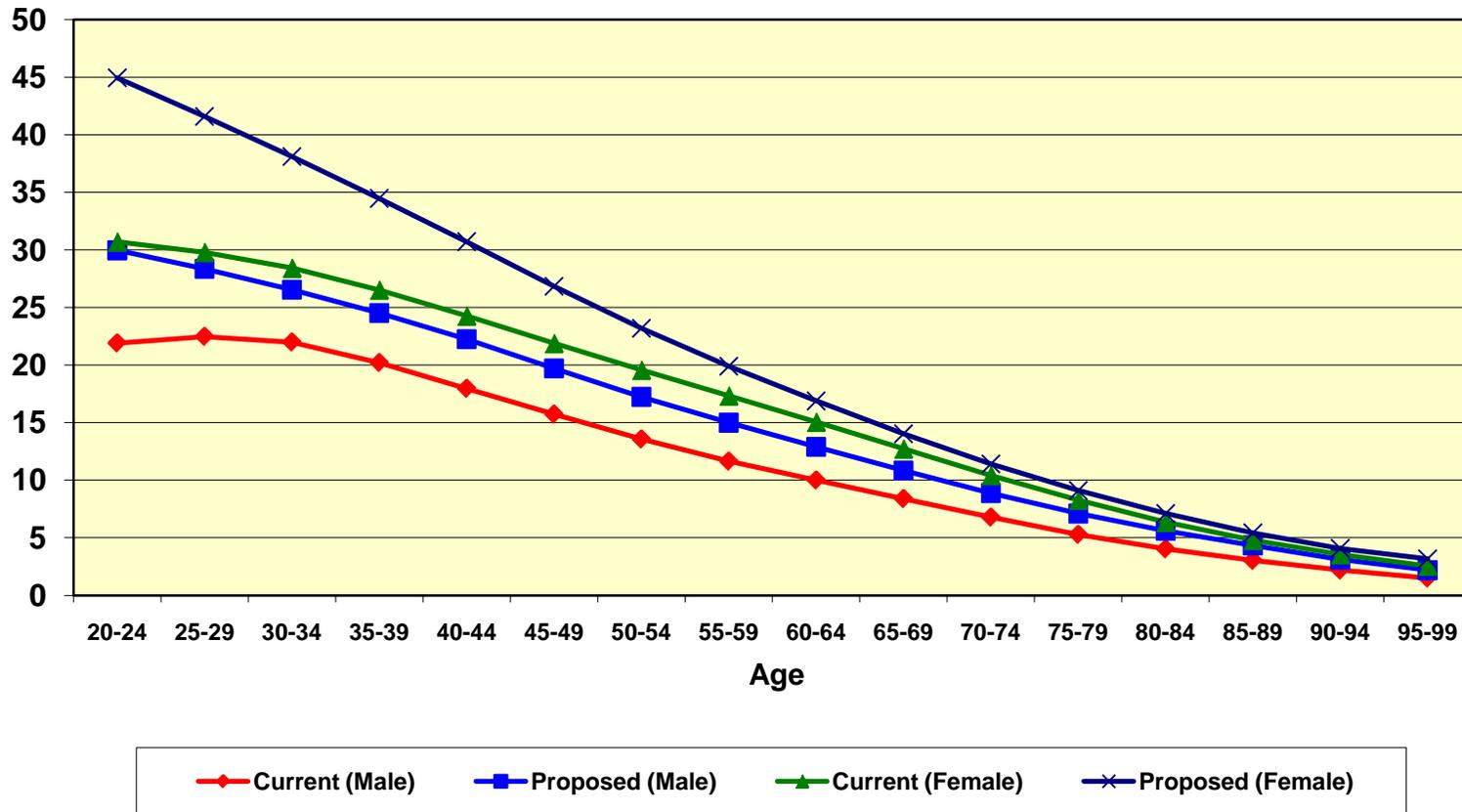


Chart 10
Life Expectancies
Disabled PERS and Highway Patrol Members



D. TERMINATION RATES

Termination rates include all terminations for reasons other than death, disability, or retirement. Under the current assumptions there is an overall incidence of termination assumed, combined with an assumption concerning whether vested members will elect a refund of contributions or a deferred vested benefit. The assumptions for terminating vested members electing a refund of contributions is discussed later in this report. Currently there are sex distinct termination assumptions for members with five or more years of service. However, there are relatively minor differences in the current assumptions for males and females. Also, the experience during the five year period showed similar termination experience for males and females. Therefore, we recommend using unisex termination assumptions. The termination experience over the last five years for Main members, separated between those employees with under five years of service (shown separately by years of service) and those with five or more years of service, is as follows:

**Rates of Termination (Main)
(Zero Years of Service)**

Age	Current Rate	Observed Rate	Proposed Rate
20-24	18.00%	36.34%	22.00%
25-29	18.00	35.18	22.00
30-34	12.00	24.60	16.00
35-39	12.00	25.43	16.00
40-44	10.00	23.99	12.00
45-49	10.00	23.03	12.00
50-54	10.00	15.73	12.00

**Rates of Termination (Main)
(One Year of Service)**

Age	Current Rate	Observed Rate	Proposed Rate
20-24	15.00%	28.82%	18.00%
25-29	15.00	24.46	18.00
30-34	12.00	19.52	14.00
35-39	12.00	18.05	14.00
40-44	10.00	14.59	10.00
45-49	10.00	13.83	10.00
50-54	10.00	13.20	10.00

**Rates of Termination (Main)
(Two Years of Service)**

Age	Current Rate	Observed Rate	Proposed Rate
20-24	12.00%	22.35%	16.00%
25-29	12.00	18.05	16.00
30-34	11.00	18.79	12.00
35-39	11.00	11.92	12.00
40-44	8.00	12.95	10.00
45-49	8.00	11.93	10.00
50-54	8.00	11.88	10.00

**Rates of Termination (Main)
(Three Years of Service)**

Age	Current Rate	Observed Rate	Proposed Rate
20-24	10.00%	14.53%	14.00%
25-29	10.00	15.30	14.00
30-34	10.00	14.64	12.00
35-39	10.00	13.44	12.00
40-44	7.00	10.02	8.00
45-49	7.00	9.00	8.00
50-54	7.00	8.82	8.00

**Rates of Termination (Main)
(Four Years of Service)**

Age	Current Rate	Observed Rate	Proposed Rate
20 – 24	15.00%	14.55%	14.00%
25 – 29	15.00	12.39	14.00
30 – 34	11.00	11.38	11.00
35 – 39	11.00	10.78	11.00
40 – 44	6.00	6.54	7.00
45 – 49	6.00	8.43	7.00
50 – 54	6.00	6.65	7.00

**Rates of Termination (Main)
(Five or More Years of Service)**

Age	Current Rate	Observed Rate	Proposed Rate
20 – 24	10.00%	11.11%	8.75%
25 – 29	9.07	7.27	7.30
30 – 34	6.70	6.11	5.24
35 – 39	4.35	4.71	4.64
40 – 44	3.62	3.81	3.89
45 – 49	3.14	3.48	3.68
50 – 54	2.62	3.17	3.18

Chart 11 compares actual to expected terminations over the past five years for both the current and proposed assumptions for Main members.

Chart 12 shows the current, along with the proposed termination rates for Main members with less than five years of service.

Chart 13 shows the current, along with the proposed termination rates for Main members with five or more years of service.

Based upon the recent experience, the termination rates for Main members have been increased.

For National Guard and Law Enforcement, the experience over the five year period showed a greater than expected amount of terminations for members with less than five years of service. We propose increases to those rates. For members with five or more years of service, we recommend applying the proposed rates for Main. This is consistent with current practice.

For Judges, the current termination assumptions apply no matter how many years of service the member has attained. We recommend continuing this structure. The current termination rates for Judges are equal to 50% of the Main termination rates for those with five or more years of service. During the five year period there were no terminations from employment for Judges. We propose decreasing the termination rates for Judges to be 25% of the proposed termination rates for Main for those with five or more years of service.

For Highway Patrol, termination rates of 5% per year are currently assumed for the first five years of service. For members with five or more years of service, termination rates of 2% per year are currently assumed for those under age 35 and 1% per year for those 35 and older. During the five year period there were more terminations than expected. We propose increasing the termination rate for Highway Patrol members in their first year of service from 5% to 10%. We also propose increasing the termination rate for Highway Patrol members that are under age 35 with five or more years of service from 2% per year to 2.5% per year.

We will also continue to assume that termination rates are zero at any age where members are assumed to retire. In other words, at those ages, members will either retire (and commence receiving a benefit) or continue working.

Chart 11
Actual Number of Terminations Compared
to Expected - Main Members

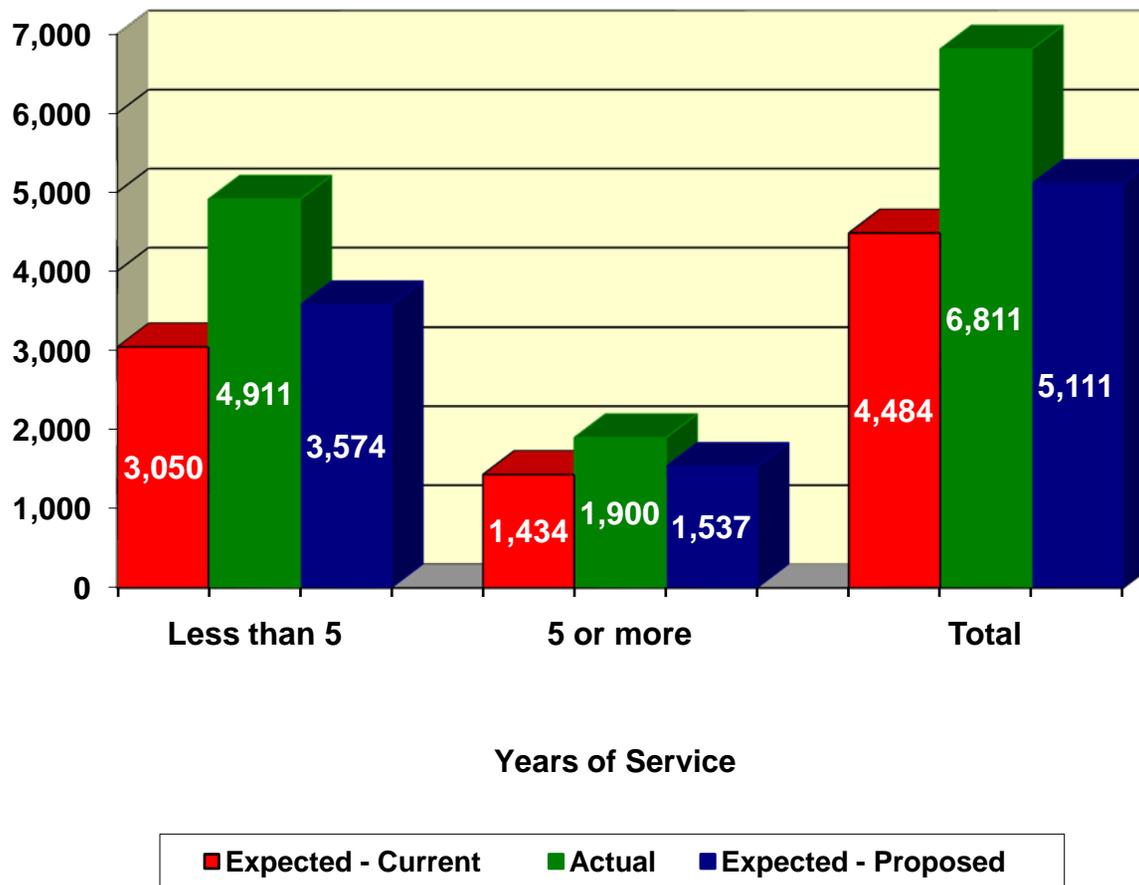


Chart 12
Termination Rates - Main Members
(Less than 5 Years of Service)

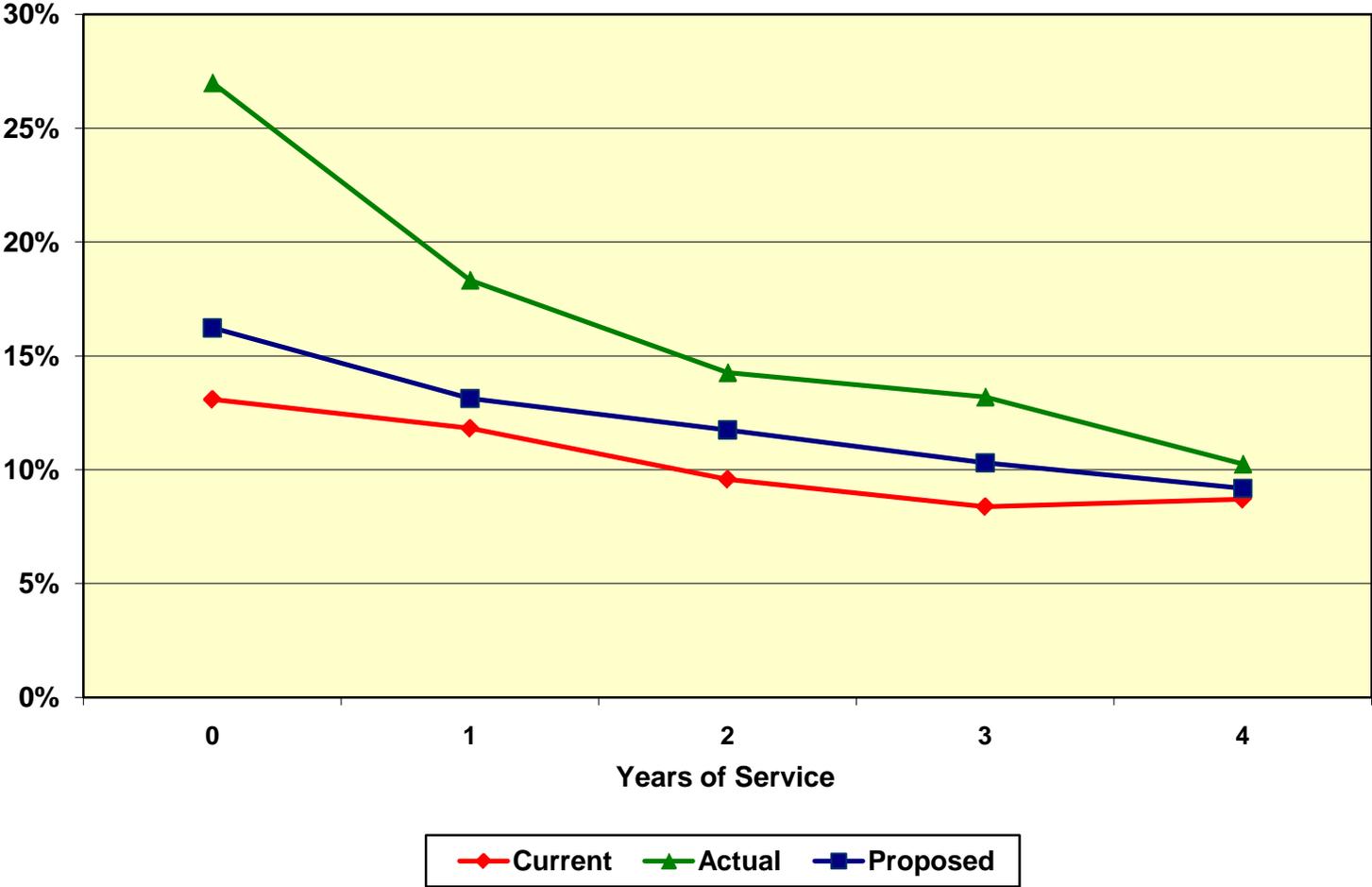
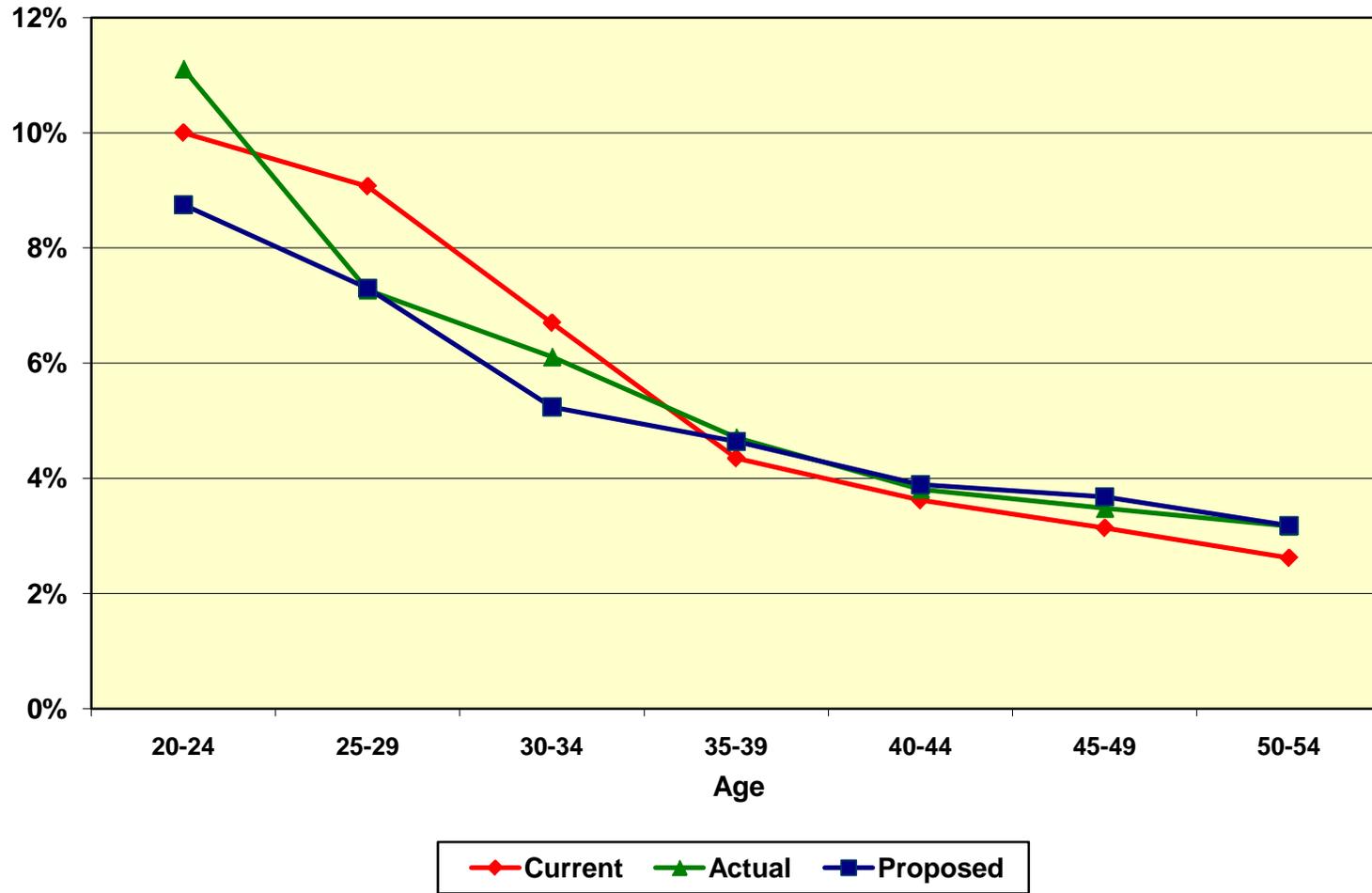


Chart 13
Termination Rates - Main Members
(Five or More Years of Service)



E. DISABILITY INCIDENCE RATES

When a member becomes disabled, he or she may be entitled to a disability pension that is independent of years of service. The following summarizes the actual incidence of disabilities over the past five years compared to the current and proposed assumptions for disability incidence:

Main			
Rates of Disability Incidence (Males)			
Age	Current Rate	Observed Rate	Proposed Rate
20 – 24	0.03%	0.00%	0.02%
25 – 29	0.04	0.00	0.03
30 – 34	0.05	0.00	0.04
35 – 39	0.07	0.09	0.06
40 – 44	0.11	0.10	0.09
45 – 49	0.19	0.04	0.15
50 – 54	0.31	0.15	0.25
55 – 59	0.52	0.25	0.40
60 – 64	0.82	0.42	0.64
65 – 69	0.25	0.10	0.25

Main			
Rates of Disability Incidence (Females)			
Age	Current Rate	Observed Rate	Proposed Rate
20 – 24	0.02%	0.00%	0.01%
25 – 29	0.03	0.03	0.02
30 – 34	0.04	0.02	0.02
35 – 39	0.05	0.04	0.03
40 – 44	0.08	0.04	0.05
45 – 49	0.13	0.09	0.09
50 – 54	0.22	0.08	0.15
55 – 59	0.37	0.18	0.25
60 – 64	0.58	0.22	0.39
65-69	0.35	0.00	0.25

Highway Patrol			
Rates of Disability Incidence (All)			
Age	Current Rate	Observed Rate	Proposed Rate
20 – 24	0.03%	0.00%	0.03%
25 – 29	0.08	0.00	0.08
30 – 34	0.15	0.00	0.15
35 – 39	0.23	0.00	0.23
40 – 44	0.35	2.11	0.35
45 – 49	0.37	0.00	0.37
50 – 54	0.41	0.00	0.41
55 – 59	0.00	0.00	0.00

Chart 14 compares the actual number of disabilities over the past five years to that expected under both the current and proposed assumptions. The proposed disability rates were adjusted to reflect the past years experience. There are decreases in the rates proposed for Main and no changes for Highway Patrol. The lower than expected disabilities for the Main members are consistent with the experience from the previous study.

We propose applying the Main disability incidence rates to all PERS members based on limited experience available for Judges, National Guard and Law Enforcement.

Charts 15 and 16 show actual disability incidence rates, compared to the assumed and proposed rates for PERS members (separately for males and females).

Chart 17 graphs the same information as Charts 15 and 16, but for Highway Patrol members.

Chart 14
Actual Number of Disabilities Compared to Expected

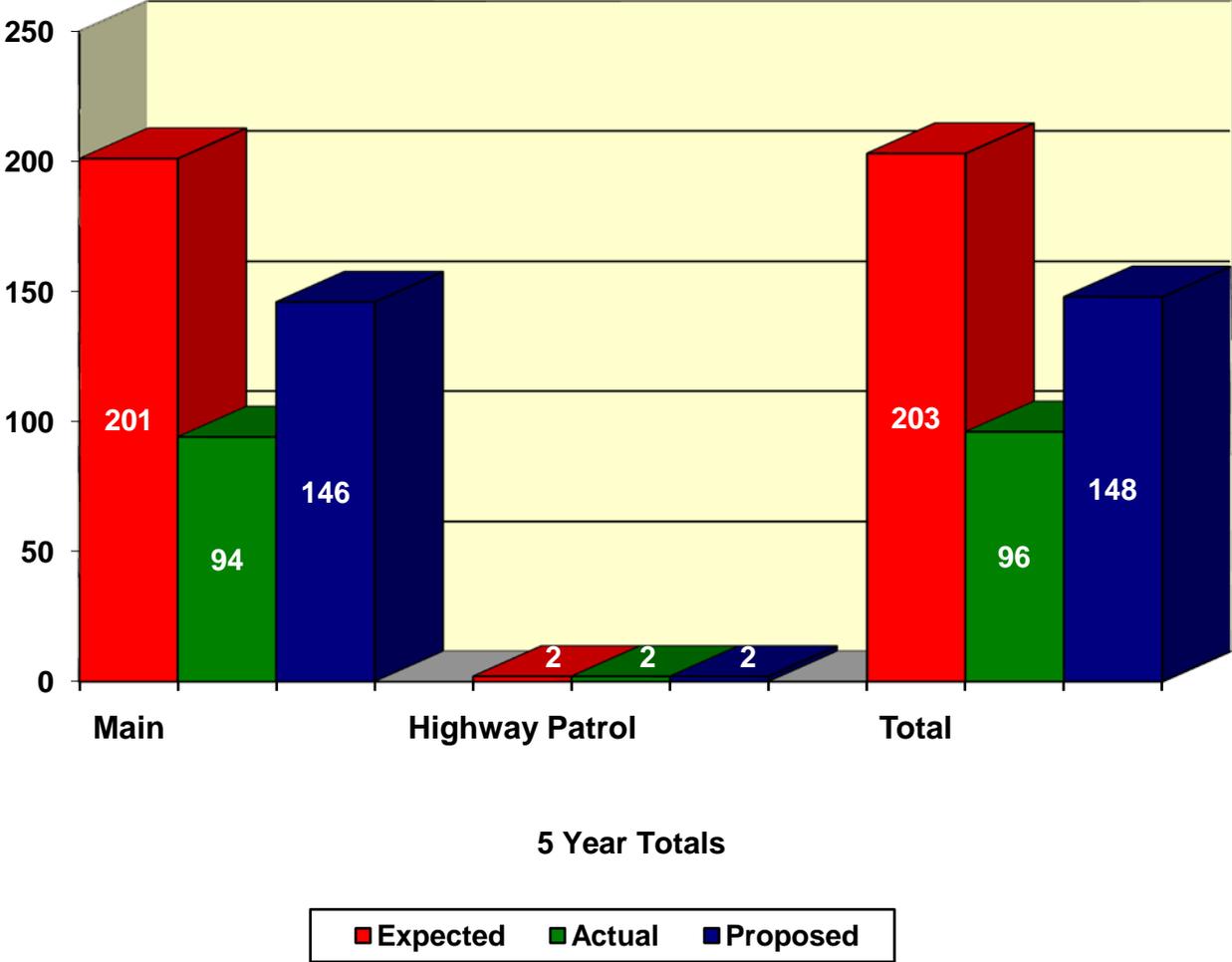


Chart 15
Disability Incidence Rates for PERS Members (Male)

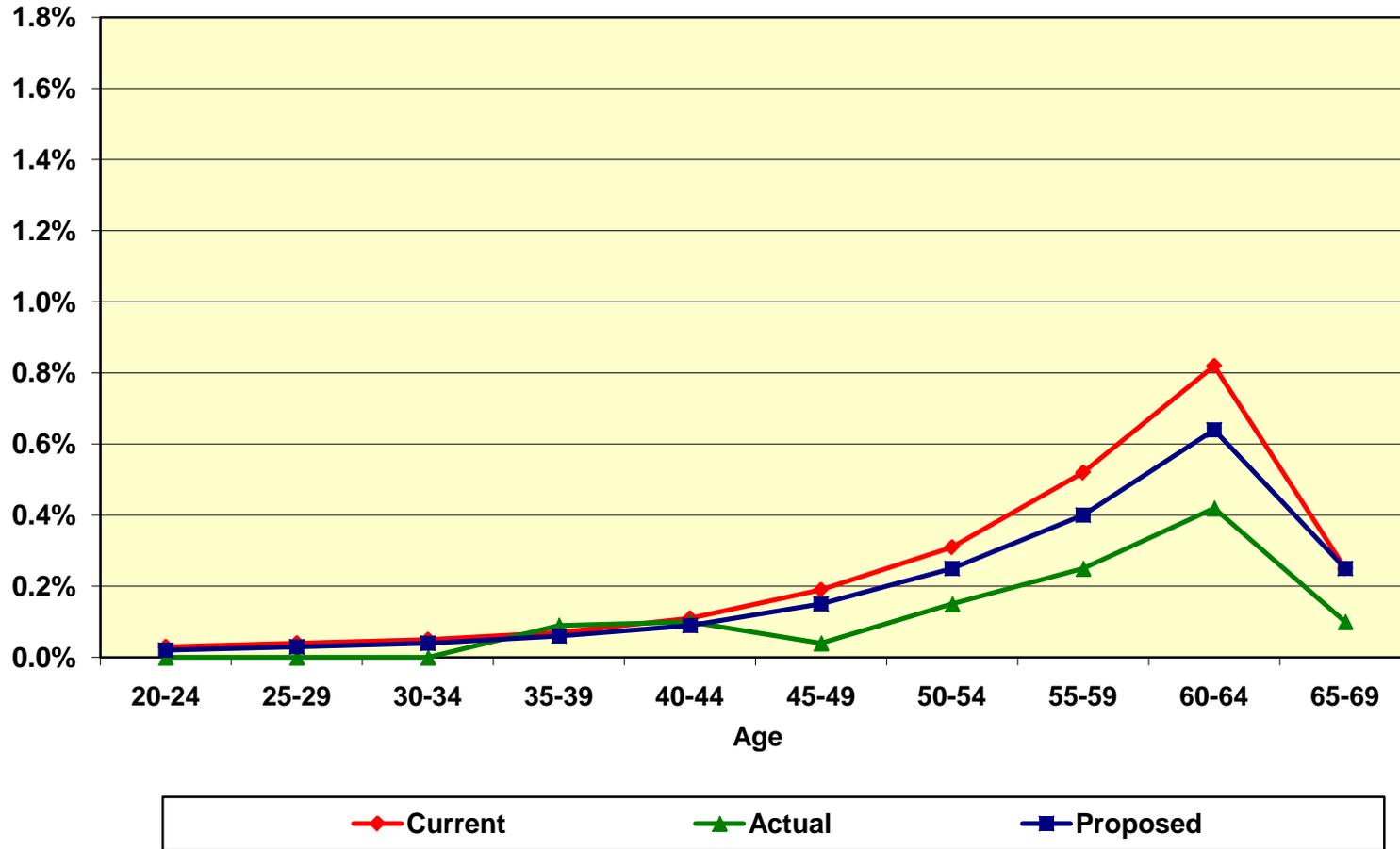


Chart 16
Disability Incidence Rates for PERS Members (Females)

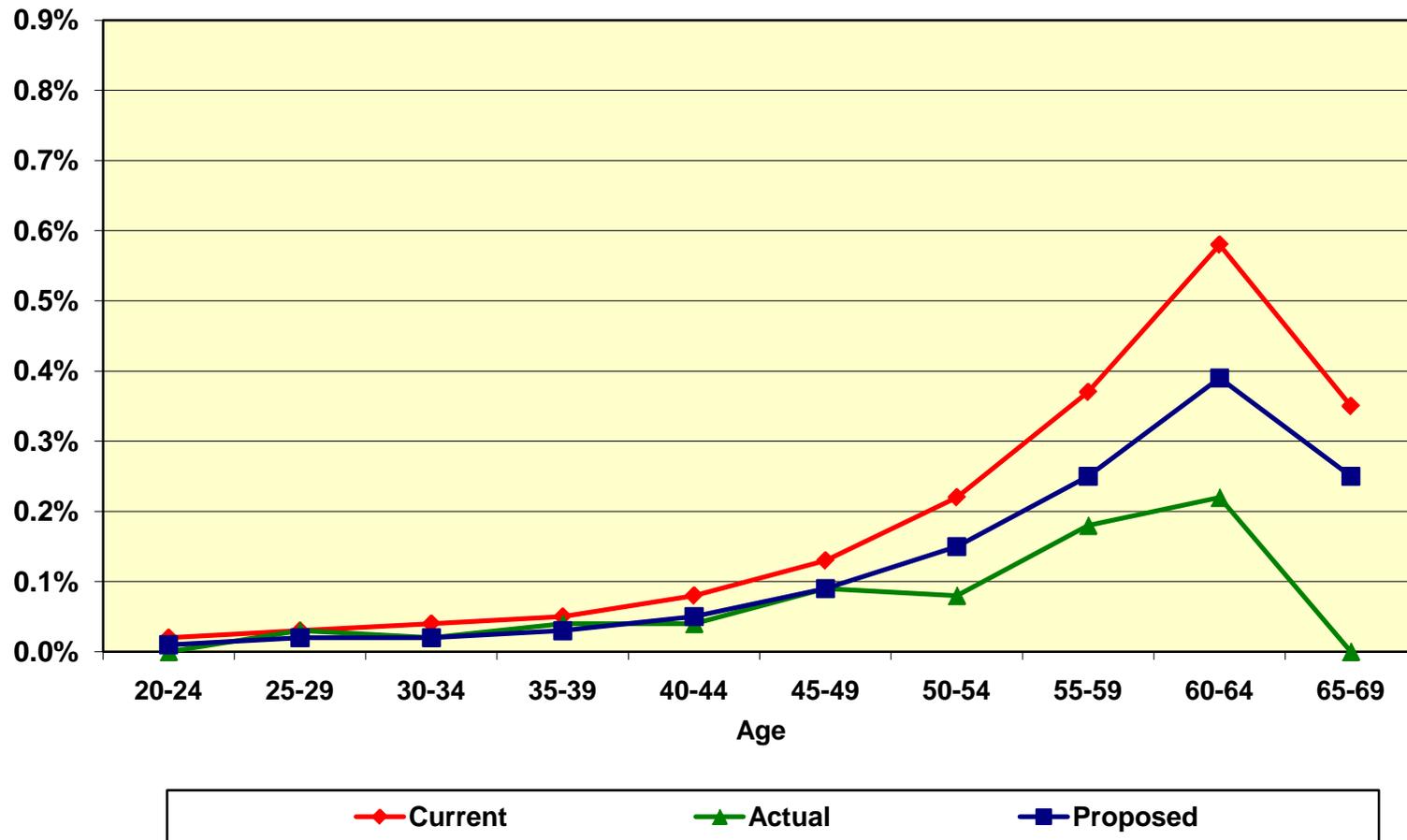
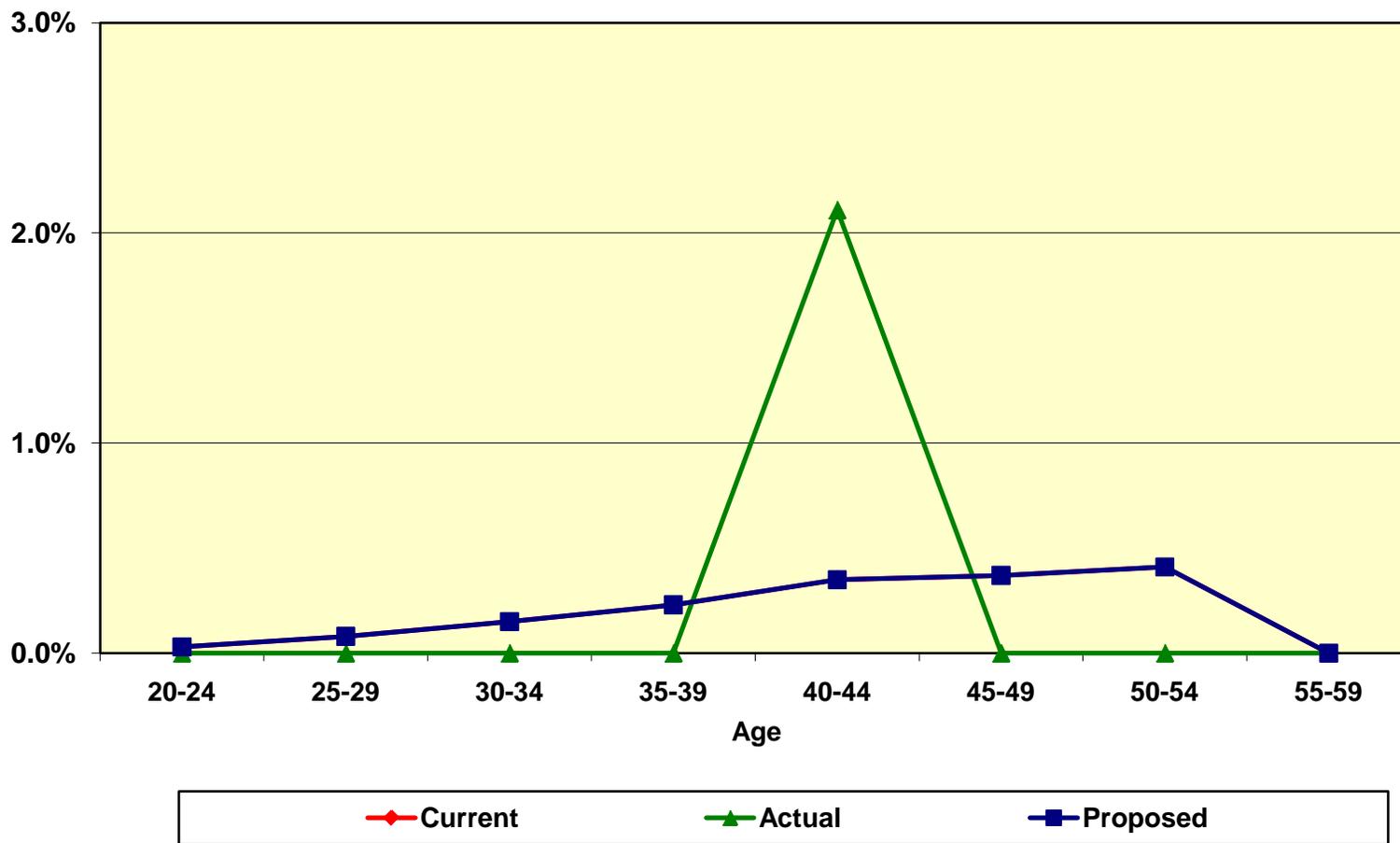


Chart 17
Disability Incidence Rates for Highway Patrol Members (All)



F. PROMOTIONAL AND MERIT SALARY INCREASES

The System's retirement benefits are determined in large part by a member's compensation just prior to retirement. For that reason, it is important to anticipate salary increases that employees will receive over their careers. These salary increases are made up of three components:

- Inflationary increases;
- Real "across the board" increases; and
- Promotional and merit increases.

The inflationary increases are assumed to follow the general annual price inflation assumption discussed in the economic assumptions section of this report where we recommend maintaining the assumption at 3.50%. We also discussed our recommendation to maintain the assumption for annual "across the board" real pay increases at 1.00% (0.50 for Judges). Therefore, the total assumed inflation and real "across the board" pay increase (i.e., wage inflation) assumption is 4.50% (4.00% for Judges). This is the assumed annual rate of payroll growth at which payments to amortize the Unfunded Actuarial Accrued Liability (UAAL) are assumed to increase.

The annual promotional and merit increases are determined by measuring the actual increases received by members over the experience period, net of the inflationary and real "across the board" pay increases. Increases are measured separately for Main members and Judges. This is accomplished by:

- Measuring each member's actual salary increase over each year of the experience period;
- Categorizing these increases according to member demographics;
- Removing the wage inflation component from these increases (equal to the increase in the members' average salary during the year);
- Averaging these annual increases over the experience period; and
- Modifying current assumptions to reflect some portion of these measured increases reflective of their "credibility."

Note that, to be consistent with your experience, these merit and promotional assumptions should be used in combination with the 4.50% (4.00% for Judges) assumed inflation and real "across the board" increases.

The current assumption structure for PERS and Highway Patrol members (excluding Judges) for promotional and merit salary increases consists of a select period where the increases are based on years of service followed by an ultimate period where the increases are based on age. For Judges, a flat assumption is used for all years of service and ages.

The following tables show the Main members' actual average promotional and merit increases by years of service for those members with less than five years of service and by age for those members with five or more years of service over the five year period from July 1, 2004 through June 30, 2009. The actual increases were reduced by 4.3%, the actual average inflation plus "across the board" increase (i.e., wage inflation) over the five year experience period.

**Main
(Less than Five Years of Service)**

Years of Service	Current Assumptions	July 1, 2004 Through June 30, 2009 Average Main Promotional and Merit Increases	Proposed Assumptions
Less than 1	2.50%	5.13%	3.75%
1	2.50	2.73	2.75
2	2.50	2.12	2.25
3	2.50	2.01	2.00
4	2.50	1.73	1.75

**Main
(Five or More Years of Service)**

Age	Current Assumptions	July 1, 2005 Through June 30, 2009 Average Main Promotional and Merit Increases	Proposed Assumptions
25-29	1.28%	2.33%	1.75%
30-34	0.98	1.94	1.22
35-39	0.72	1.83	0.88
40-44	0.52	1.22	0.67
45-49	0.36	0.83	0.57
50-54	0.26	0.68	0.48
55-59	0.20	0.49	0.41
60-64	0.20	0.37	0.24
65-69	0.20	0.24	0.20

The proposed promotional and merit salary increase assumptions for Main members with less than two or five or more years of service are an increase compared to the current assumptions. Decreases are proposed for Main members with at least two but less than five years of service.

Charts 18 and 19 provide a graphical comparison of the actual promotional and merit increases, compared to the proposed assumptions. Chart 18 shows this information for Main members with less than five years of service and Chart 19 is for Main members with five years or more of service.

Because there is considerably less experience available for National Guard, Law Enforcement and Highway Patrol, we recommend using the same promotional and merit salary scale assumptions for those members. This is consistent with the current assumptions.

For Judges, the current promotional merit salary scale assumption is a flat 1.50% that is independent of years of service and age. The actual salary increases for Judges during the five year period from July 1, 2004 through June 30, 2009 appear to consist solely of inflation and real “across the board” increases. Therefore, we propose reducing the promotional and merit salary increase assumption for Judges from 1.50% to 1.00%.

Chart 18
Promotional and Merit Salary Increase Rates -
Main Members (Less than 5 Years of Service)

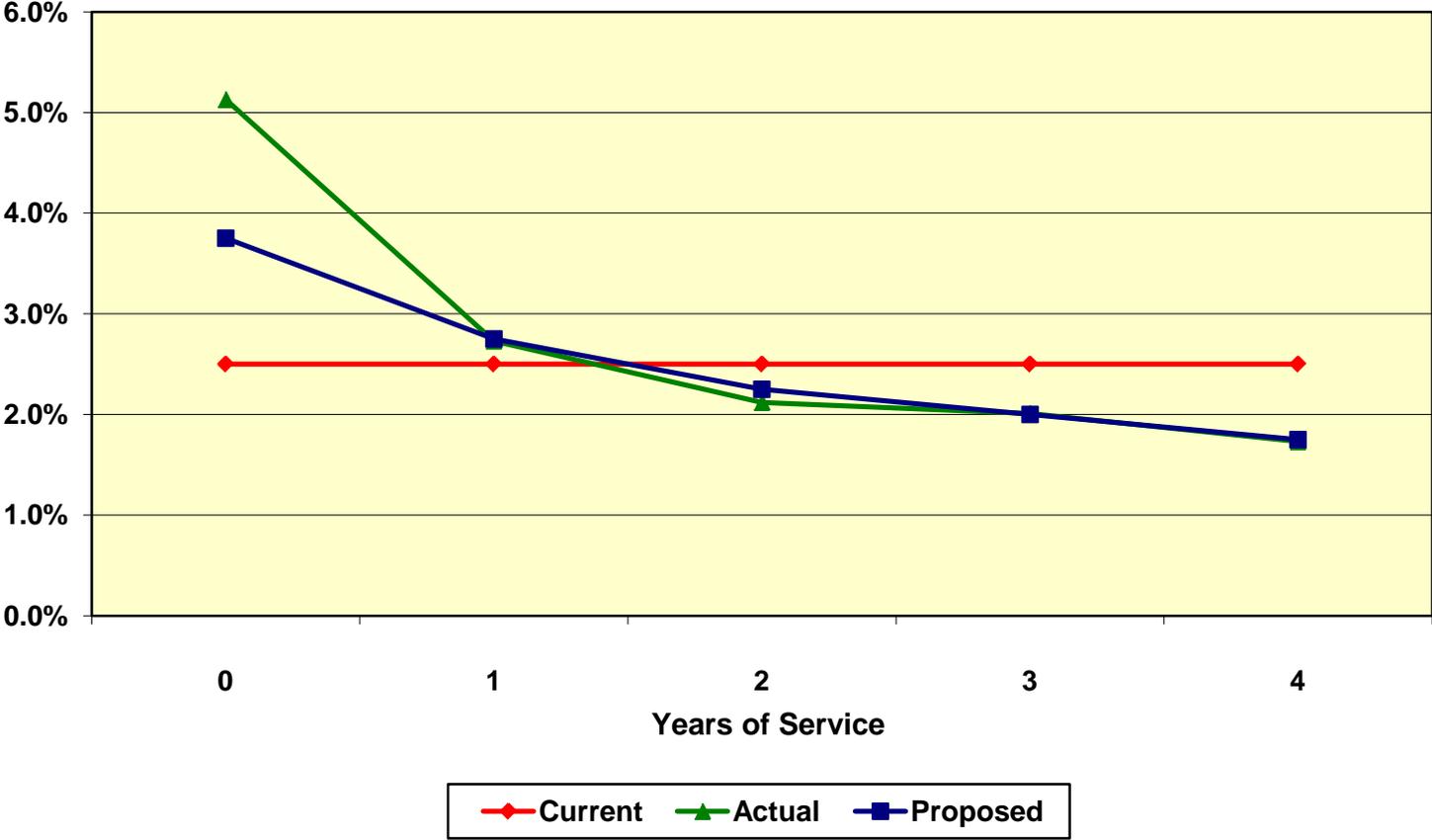
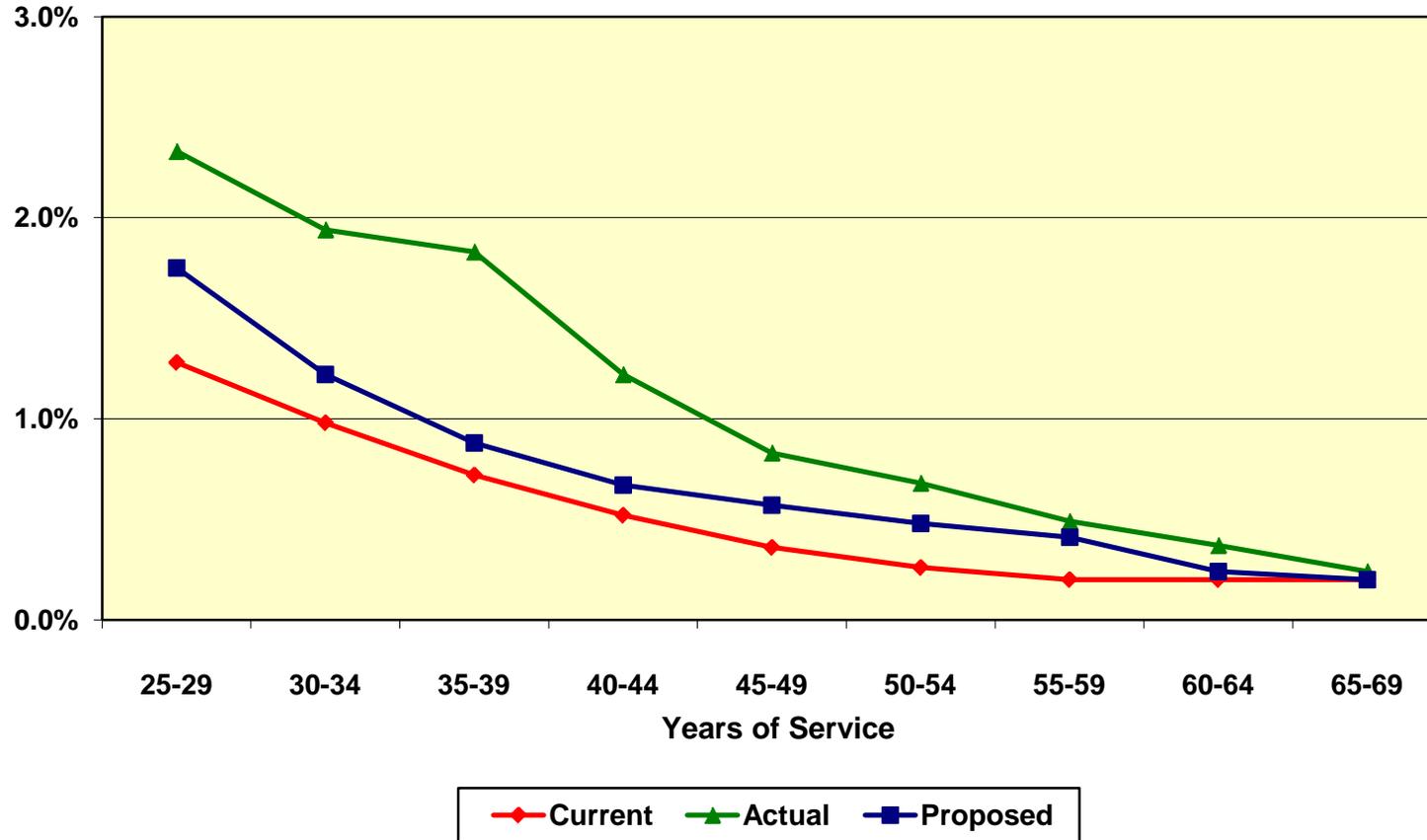


Chart 19
Promotional and Merit Salary Increase Rates -
Main Members (Five or More Years of Service)



G. REFUND OF EMPLOYEE CONTRIBUTIONS

Upon termination of employment, vested members may withdraw their member contributions (as well as vested employer contributions if any) with interest in lieu of receiving a monthly benefit from PERS. The current assumption is that 50% of inactive vested Main System and Judges and 100% of inactive vested National Guard and Law Enforcement are assumed to elect a refund of employee contributions in lieu of a pension benefit regardless of their age or service. Based on the data available to us, we estimate that approximately 54% of Main members who terminated in the prior five-year period have or will receive a refund of contributions.

Although the number is close to the assumption, we believe a better method would be to assume that vested members terminating from employment will elect a refund of contributions only when the member account balance has a higher value than the annuity they will forfeit by taking a refund. This is consistent with the assumption used for HPRS.

The current assumption for HPRS is that vested members terminating from employment will withdraw their contributions when it is more valuable than the annuity they would otherwise be entitled to. We propose no change in this assumption.

This assumption will be applied to both current and future inactive vested members.

H. ACCOUNT BALANCE DUE TO VESTED EMPLOYER CONTRIBUTION (PEP)

Members of the Main System contribute 4% of their salary to the pension fund and their employer contributes 4.12%. The members' contributions are vested and earn interest within the fund. Upon termination the member may withdraw their contributions with interest in lieu of receiving a monthly benefit from PERS. The Portability Enhancement Provision (PEP) allows up to 4% of the employer contribution to become vested in addition to the member's contributions. These contributions only become vested if the member contributes to an approved deferred compensation program. An assumption is made as to whether or not a member will contribute to a deferred compensation program.

The current assumption is that 100% of those who have a vested employer contribution balance will continue to contribute to a deferred compensation program. For those that have not contributed, 50% will begin contributing immediately and do so until termination of employment.

Our data indicates that over the last five years only about 2 to 3 percent of continuing active employees have begun to contribute to a deferred compensation plan each year. It is unknown whether they will continue to do so until termination of employment. Overall, roughly 35% of the active members of the Main System at July 1, 2009 have contributed to a deferred compensation plan. We propose that the current assumption for those who have contributed to a deferred compensation program remain that 100% will continue to do so, but those that have not contributed will be assumed to not contribute in the future.

In addition, we propose that the valuation assumption be that everyone maintains their current election in future years after the valuation date. Those currently contributing will continue to do so, and those not currently contributing will continue not to. If this recommendation is adopted

by the Board, we will work with your staff so that this data can be made available to us as part of the valuation process.

I. RETIREE HEALTH INSURANCE CREDIT FUND PARTICIPATION RATES

The members of the Main System, the Judges, the National Guard, and the Highway Patrolmen's Retirement System are members in the Retiree Health Insurance Credit Fund (RHICF). This Fund provides a monthly stipend (based on years of service) toward the premium for retired members who elect coverage under the retiree NDPERS Group Health Plan.

For purposes of determining the cost of the RHICF, an assumption is made regarding the percentage of members who will retire from active service and elect retiree medical coverage provided by PERS. The table below shows the current assumption, actual experience and proposed assumption for these participation rates for Main members during the five year period.

Main			
Years of Service at Retirement	Current Participation Rate	Actual Participation Rate	Proposed Participation Rate
3 – 4	25.00%	35.29%	30.00%
5 – 9	50.00	48.83	50.00
10 – 14	70.00	59.47	65.00
15 – 19	80.00	72.40	80.00
20 – 24	95.00	74.93	85.00
25+	100.00	79.05	95.00

These rates reflect participation by (i) members who retire from active service, (ii) members who have terminated with a deferred vested benefit, and (iii) members who previously retired and did not elect NDPERS retiree health coverage and ultimately elect participation in the RHICF.

Based on the above experience we are proposing increases in the participation rates for those Main members with three to four years of service and some decreases for those Main members with larger years of service at retirement.

For other members of PERS and Highway Patrol, it is currently assumed that they have the same participation rates as Main, with the exception that for Judges and Highway Patrol, no participation is assumed before five years of service. Based on the limited experience during the five-year period we propose using the same participation rates for other members of PERS and Highway Patrol as are proposed for Main, with the exception that Judges and Highway Patrol continue the assumption that no participation occurs before five years of service. The proposed assumptions along with the current

assumptions) for Judges and Highway Patrol are shown below:

Judges and Highway Patrol		
Years of Service at Retirement	Current Participation Rate	Proposed Participation Rate
3 – 4	0.00%	0.00%
5 – 9	50.00	50.00
10 – 14	70.00	65.00
15 – 19	80.00	80.00
20 – 24	95.00	85.00
25+	100.00	95.00

**J. RETIREE HEALTH INSURANCE CREDIT FUND JOINT AND SURVIVOR OPTION
ELECTION RATES**

The cost of the RHICF depends on the annuity option the retiree elects as his/her form of payment in the Retirement System. If the retiree elects a form of payment in the Retirement System that provides a lifetime benefit to his/her spouse, the benefit from the RHICF will continue to the spouse for his/her lifetime. On the other hand, if the retiree elects a form of payment in the Retirement System that ends upon the retiree’s death, the benefit from the RHICF will end upon the retiree’s death (unless the retiree elects an actuarial equivalent optional form of payment in the RHICF that continues for the lifetime of the spouse).

The actuarial valuation of the RHICF includes an assumption regarding the percentage of members who will elect a form of payment from the Retirement System that provides a lifetime benefit to his/her spouse upon the death of the member. These assumptions are as follows:

	<u>% Electing Continuation</u>	
	<u>Males</u>	<u>Females</u>
Main, Judges, National Guard and Law Enforcement	65%	20%
Highway Patrol	90%	90%

The experience for Main members indicates that approximately 54% of males and 28% of females that retired during the five year period are currently receiving a payment form from the Retirement System that provides spousal continuation. Based on this experience we propose an assumption of 60% for males and 25% for females. This assumption would also be applied to National Guard and Law Enforcement members.

For Judges, based on our earlier assumption that all Judges are married at retirement and the fact that there is no reduction for the Joint and Survivor option for Judges, we propose an assumption that 100% of Judges will elect an option with spousal continuation upon retirement.

For Highway Patrol, the actual experience indicates that 84% of members that retired during the five year period are currently receiving a payment form from the Retirement System that provides spousal continuation. Therefore, we recommend maintaining the assumption that 90% of Highway Patrol members will elect an option with spousal upon retirement.

A table containing the proposed assumptions is as follows:

	<u>% Electing Continuation</u>	
	<u>Males</u>	<u>Females</u>
Main, National Guard and Law Enforcement	60%	25%
Judges	100%	100%
Highway Patrol	90%	90%

K. ADMINISTRATIVE EXPENSES

Like benefit payments made to members, expenses incurred in connection with the plan’s operation are paid from system assets. These expenses include fees for administrative, legal, accounting, and actuarial services, as well as routine costs for printing, mailings, computer-related activities, and other functions carried out by the retirement system. They generally do not include investment-related expenses. In order to reflect future administrative expenses in the plan’s funding costs, an explicit load is added to the normal cost as part of the current funding policy.

PERS ADMINISTRATIVE EXPENSES
(Dollars in Thousands)

Year Ending June 30	Main	Judges	National Guard	Law Enforcement with Prior Main Service	Law Enforcement w/o Prior Main Service
2009	\$1,231.9	\$10.2	\$3.2	\$4.0	\$11.6
2008	1,087.8	10.6	4.3	3.3	12.2
2007	1,091.2	7.5	2.4	2.0	6.2
2006	1,024.2	4.8	2.5	1.3	4.7
2005	1,062.3	4.5	1.3	1.2	3.0
Average	1,099.5	7.5	2.7	2.4	7.5
Expected	710.0	5.0	5.0 for NG and Law Enf. Combined		
Proposed	1,300.0	11.0	4.0	4.0	10.0

HPRS AND RHICF ADMINISTRATIVE EXPENSES
(Dollars in Thousands)

Year Ending June 30	HPRS	RHICF
2009	\$19.1	\$115.2
2008	18.4	89.9
2007	19.4	105.0
2006	17.5	88.6
2005	16.1	85.3
Average	18.1	96.8
Expected	16.0	65.0
Proposed	20.0	110.0

The experience shows that actual administrative expenses have exceeded the assumption over the study period. Based on experience and future expectations, we are recommending increases to this assumption for all systems.

L. INDEXING FOR BENEFITS OF INACTIVE VESTED HIGHWAY PATROL MEMBERS

For terminated vested Highway Patrol members who have not yet commenced a retirement benefit, their vested benefits are indexed at a rate set by the Retirement Board. This increase is applied to the final average salary calculated upon termination until the benefit commencement date. The historical increases that the Board has approved are as follows:

<u>Year Beginning</u>	<u>Annual Increase</u>
7/1/1994	3.00%
7/1/1995	2.00
7/1/1996	2.00
7/1/1997	3.00
7/1/1998	1.80
7/1/1999	1.26
7/1/2000	2.00
7/1/2001	1.81
7/1/2002	1.73
7/1/2003	0.00
7/1/2004	0.00
7/1/2005	4.00
7/1/2006	4.00
7/1/2007	4.00
7/1/2008	4.00
7/1/2009	5.00
5-year Average	4.20
10-year Average	2.65

The current assumption is that the Board will grant increases of 5% per annum. Based on the experience as well as the fact that the current and proposed payroll growth assumption for active members is 4.5%, we recommend lowering the assumption to 4.5% per annum.

M. ACTUARIAL COST METHOD

The actuarial cost method is the procedure used to allocate the cost of the plan among different plan years. A portion of the value of benefits is attributable to past service (actuarial accrued liability) and the remainder (the present value of future normal costs) is attributable to future service. Actuarial valuations for the Systems (excluding the RHICF) have been based on the actuarial cost method known as the Entry Age Normal Actuarial Cost Method. This method produces costs that remain relatively level as a percentage of covered payroll. Under the Entry Age Normal Cost Method, the total contribution requirement has two components - an annual normal cost, and a payment with respect to the unfunded actuarial accrued liability. The annual normal cost is calculated for each active employee as the level percentage of pay required over the employee's period of assumed employment to pay the total expected benefits. If actuarial assumptions are met, the total normal cost rate will remain level as a percentage of payroll.

The actuarial valuation for the RHICF is based on the Projected Unit Credit Cost Method. This cost method is used by some employers in the accounting of their retiree health plans. Under this cost method, to the extent the average age of the membership increases over time, then the annual normal cost will generally increase over time.

However, since the benefits payable from the RHICF are not related to payroll, the annual normal cost expressed as a percent of payroll will vary depending on the average age of the membership and the total payroll. If a change was made to use the Entry Age Normal Cost Method, then the annual normal cost would remain level (in dollars) if all assumptions are met. However, since the total payroll would be increasing over time, the normal cost would decrease as a percent of payroll over time.

In the public fund survey published in 2009 by the National Association of State Retirement Administrators, the Entry Age Normal Cost Method was used by approximately 75% of the large public retirement funds in their 2008 valuations. We do not recommend a change to the current actuarial cost methods at this time.

N. ACTUARIAL VALUE OF ASSETS

The purpose of an actuarial asset valuation method is to smooth the normal volatility of the economic markets and dampen the effect this volatility has on determining the System's statutory rates. The current asset valuation method used in the actuarial valuations for PERS, HPRS and RHICF is the adjusted market value that immediately recognized interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized. There is no corridor that limits how far the actuarial value of assets can deviate from the market value of assets.

A characteristic of this asset valuation method is that, over time, it is more likely to produce an actuarial value of assets that is less than the market value of assets.

We are not recommending any changes in the asset valuation method at this time. If the Board would like more information on possible alternative asset valuation methods, smoothing periods and corridors then we would be available to prepare and present additional information on this topic.

O. AMORTIZATION METHOD FOR UNFUNDED ACTUARIAL ACCRUED LIABILITY

One component of the annual cost for each System is the amortization of the unfunded actuarial accrued liability (UAAL). For PERS and HPRS the Board has adopted a schedule of amortizing the UAAL over an open period of 20 years. The annual payments are determined as a level percent of payroll, with payroll expected to increase 4.5% per year (4.0% for Judges).

The Board should be aware that the first amortization payment under this method is less than the interest charged on the UAAL during that year. Therefore, the outstanding balance of the UAAL is expected to increase during that first year even if all assumptions and the actuarial contribution requirement are met. This is sometimes referred to as “negative amortization.” Combining this with the open (non-declining) amortization period results in the UAAL never being amortized, let alone ever reduced below its initial balance if all assumptions and actuarial contribution requirements are met. While this is an acceptable method of amortizing the UAAL under applicable accounting standards, the Board should verify that the method fits with its funding policy goals.

The Board could consider using separate 20 year amortization layers for each source of UAAL instead of a single 20 year amortization layer. Each layer would have the advantage of tracking separately each new portion of UAAL and identifying a date certain by which each will be funded.

The schedule adopted by the Board for amortizing the UAAL for the RHICF is a closed (fixed) period that ends on June 30, 2030. This method has the advantage of using a closed period, however, over time this will lead to a very short amortization period and high volatility in the actuarially determined contribution rate. The Board could consider using separate layers for each source of UAAL.

We are available to follow-up with further information on possible alternatives for the UAAL amortization method.

V. COST IMPACT OF ASSUMPTION CHANGES

The tables below show the changes in the employer actuarial contribution requirements as a percent of payroll due to the recommended assumption changes as if they were applied in the July 1, 2009 actuarial valuation. If all of the proposed assumption changes were implemented, the Main System's employer rate would have increased by 1.68% of payroll. The UAAL for PERS would have increased by \$122 million, and the UAAL for HPRS would have increased by \$1.7 million.

Main			
	Current Assumptions	Proposed Assumptions	Change
Normal Cost	4.85%	5.31%	0.46%
UAAL	<u>2.89%</u>	<u>4.11%</u>	<u>1.22%</u>
Total	7.74%	9.42%	1.68%
Judges			
	Current Assumptions	Proposed Assumptions	Change
Normal Cost	14.31%	14.62%	0.31%
UAAL	<u>(3.83%)</u>	<u>(2.74%)</u>	<u>1.09%</u>
Total	10.48%	11.88%	1.40%
National Guard			
	Current Assumptions	Proposed Assumptions	Change
Normal Cost	4.89%	5.70%	0.81%
UAAL	<u>(1.18%)</u>	<u>(0.34%)</u>	<u>0.84%</u>
Total	3.71%	5.36%	1.65%
Law Enforcement w/ Prior Main Service			
	Current Assumptions	Proposed Assumptions	Change
Normal Cost	4.80%	5.79%	0.99%
UAAL	<u>4.31%</u>	<u>5.27%</u>	<u>0.96%</u>
Total	9.11%	11.06%	1.95%
Law Enforcement w/o Prior Main Service			
	Current Assumptions	Proposed Assumptions	Change
Normal Cost	5.60%	7.06%	1.46%
UAAL	<u>1.23%</u>	<u>1.50%</u>	<u>0.27%</u>
Total	6.83%	8.56%	1.73%

Highway Patrol

	Current Assumptions	Proposed Assumptions	Change
Normal Cost	11.40%	11.07%	(0.33%)
UAAL	<u>7.33%</u>	<u>9.05%</u>	<u>1.72%</u>
Total	18.73%	20.12%	1.39%

Retiree Health Insurance Credit Fund

	Current Assumptions	Proposed Assumptions	Change
Normal Cost	0.46%	0.44%	(0.02%)
UAAL	<u>0.54%</u>	<u>0.50%</u>	<u>(0.04%)</u>
Total	1.00%	0.94%	(0.06%)

APPENDIX A

CURRENT ACTUARIAL ASSUMPTIONS

Mortality Rates:

Healthy: 1983 Group Annuity Mortality Table, set back one year for males (not set back for females).

Disabled: Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Disability Benefits.

Sample healthy rates are as follows:

Age	Male	Female	Rate (%)
25	0.04	0.03	
30	0.06	0.03	
35	0.08	0.05	
40	0.11	0.07	
45	0.19	0.10	
50	0.35	0.16	
55	0.57	0.25	
60	0.84	0.42	
65	1.39	0.71	

Annual Withdrawal Rates:

Main System:

First five years of service:

Age	Years of Service				
<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
29 & Under	18%	15%	12%	10%	15%
30 - 39	12	12	11	10	11
40 & Over	10	10	8	7	6

Ultimate withdrawal rates after five years service:

<u>Age</u>	<u>Male</u>	<u>Female</u>
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 & Over	2.0	3.0

National Guard and Law Enforcement:

First five years of service:

<u>Age</u>	<u>Years of Service</u>				
	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
29 & Under	23%	20%	17%	16%	15%
30 - 39	17	15	13	12	11
40 & Over	15	12	10	8	6

Ultimate withdrawal rates after five years service:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20 - 24	12%	12%
25 - 29	8	10
30 - 34	5	8
35 - 39	4	6
40 - 44	3	5
45 - 49	3	4
50 & Over	2	3

Judges:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20 – 24	6.0%	6.0%
25 – 29	4.0	5.0
30 – 34	2.5	4.0
35 – 39	2.0	3.0
40 – 44	1.5	2.5
45 – 49	1.5	2.0
50 & Over	1.0	1.5

Highway Patrol:

First five years of service: 5% per year.

After five years of service:

Under age 35: 2% at each age.

Age 35 and older: 1% at each age.

Withdrawal rates end upon eligibility for early retirement. Early retirement eligibility is as follows:

Main System:

Earlier of (i) age 55 and 3 years of service, and (ii) eligibility for Rule of 85.

Judges:

Earlier of (i) age 55 and 5 years of service, and (ii) eligibility for Rule of 85.

National Guard and Law Enforcement:

Age 50 and 3 years of service.

Highway Patrol:

Age 50 and 5 years of service.

Disability Incidence Rates:

Main System, Judges, National Guard and Law Enforcement:

Before age 65:	Males	42% of OASDI disability incidence rates.
	Females	30% of OASDI disability incidence rates.
Age 65 and later:	Males	0.25% per year.
	Females	0.35% per year.

Sample rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.03%	0.02%
30	0.05	0.03
40	0.09	0.07
50	0.25	0.18
60	0.68	0.49

Highway Patrol:

Age based rates. Sample rates:

<u>Age</u>	<u>Rate</u>
25	0.05%
30	0.12
35	0.20
40	0.30
45	0.37
50	0.38
55	0.55

Refund of Employee Contributions:

Main System, Judges, National Guard and Law Enforcement:

Fifty percent of inactive vested Main System and Judges and 100% of inactive vested National Guard and Law Enforcement are assumed to elect a refund of employee contributions in lieu of a pension benefit.

Highway Patrol:

The employee is assumed to receive the greater of the employees' contribution balance or a deferred retirement benefit.

Retirement Rates for Active Members:

Main System:

<u>Age</u>	<u>Rule of 85 Eligible Rate</u>	<u>All Other Retirements</u>
55	4%	4%
56	6	4
57	6	4
58	6	4
59	6	4
60	8	6
61	15	12
62	35	25
63	25	20
64	25	20
65	40	30
66	20	20
67	20	20
68	20	20
69	20	20
70	100	100

Age 64 or older and 20 years of service: 100% (retiree health only)

Judges:

<u>Age</u>	<u>Rate</u>
62	35%
63	35
64	35
65	50
66	50
67	50
68	50
69	50
70	100

National Guard and Law Enforcement:

<u>Age</u>	<u>Rate</u>
60	100%

Highway Patrol:

<u>Age</u>	<u>Eligible for Rule of 80</u>	<u>Not Eligible for Rule of 80</u>
50 – 54	100%	50%*
55+	100	100

* Those retiring with a reduced benefit are assumed to delay commencement until they satisfy the Rule of 80 if that is more valuable.

Retirement Age for Inactive Vested Members:

Main System and Judges:

The earlier of:

- Age 65.
- Unreduced retirement date for each individual.

National Guard and Highway Patrol:

Age 55.

Law Enforcement:

The earlier of:

- Age 55.
- Unreduced retirement date for each individual.

Net Investment Return: 8.00% per annum net of investment expenses.

Annual Administrative Expenses:

<i>Main System:</i>	\$ 710,000
<i>Judges:</i>	5,000
<i>National Guard and Law Enforcement combined:</i>	5,000
<i>Highway Patrol:</i>	16,000
<i>Retiree Health:</i>	65,000

Salary Scale:

Main System, National Guard, Law Enforcement and Highway Patrol:

Less than five years of service: 7.00% per annum.

Five or more years of service (sample rates are as follows):

<u>Age</u>	<u>Percentage Increase</u>	<u>Age</u>	<u>Percentage Increase</u>
25	5.90%	45	4.90%
30	5.60	50	4.80
35	5.30	55	4.70
40	5.10	60	4.70

Judges:

5.50% per annum for all years of service.

Payroll Growth:

Main System, National Guard, Law Enforcement and Highway Patrol: 4.50% per annum.

Judges: 4.00% per annum.

Retiree Health: 4.50% per annum

Percent Married and Age of Spouse:

Main System, Judges, National Guard and Law Enforcement:

At death, 75% of male members and 60% of female members are assumed to have spouses. The same assumption applies at retirement, except for Judges, for whom 100% are assumed to have spouses. For the Main system, males are assumed to be four years older than their female spouses. For all other systems, males are assumed to be five years older than their female spouses.

Highway Patrol:

At retirement or death, 90% of non-retired members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

Workers' Compensation:

None assumed for Judges' disability benefit offset.

Indexing for Benefits of Inactive Vested Members:

Highway Patrol: 5.00% per annum.

Transfers to Main System:

Highway Patrol:

Annual withdrawal, disability incidence and retirement rate assumptions for members who have transferred to the Main System follow those specified in the Main System, and are applied to the benefits held in the HPRS.

Part-Time Employees:

Main System, National Guard, Judges and Law Enforcement:

One full year of service is credited for each future year of service.

Split Service:

Liabilities are held in both plans based on service in each plan and are based on the actuarial assumptions of the plan in which they are currently active.

Actuarial Cost Method:

PERS and Highway Patrol:

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments increasing by the payroll growth assumption each year over an open 20-year period.

Retiree Health:

Projected Unit Credit Actuarial Cost Method. Unfunded actuarial accrued liability amortized in installments increasing by the payroll growth assumption each year over a fixed period that ends on June 30, 2030.

Joint and Survivor Option Election Rates (for retiree health):

Main System, Judges, National Guard and Law Enforcement:

65% of male retirees and 20% of female retirees will elect a joint and survivor form of pension from the retirement system in which they participated.

Highway Patrol:

90% of retirees will elect a joint and survivor form of pension from the retirement system.

APPENDIX B

PROPOSED ACTUARIAL ASSUMPTIONS

Mortality Rates:

- Healthy:** The RP-2000 Combined Healthy Mortality Table set back three years.
- Disabled:** The RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females).

Sample healthy rates are as follows:

<u>Age</u>	<u>Rate (%)</u>	
	<u>Male</u>	<u>Female</u>
25	0.04	0.02
30	0.04	0.02
35	0.06	0.04
40	0.09	0.06
45	0.12	0.09
50	0.17	0.13
55	0.27	0.20
60	0.47	0.35
65	0.88	0.67

Annual Withdrawal Rates:

Main System:

First five years of service:

<u>Age</u>	<u>Years of Service</u>				
	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
29 & Under	22%	18%	16%	14%	14%
30 - 39	16	14	12	12	11
40 & Over	12	10	10	8	7

Ultimate withdrawal rates after five years service:

<u>Age</u>	
20 - 24	8.8%
25 - 29	8.8
30 - 34	5.5
35 - 39	4.7
40 - 44	3.9
45 - 49	3.7
50 - 54	3.4
55 - 59	0.1
60 & Over	0.2

National Guard and Law Enforcement:

First five years of service:

<u>Age</u>	<u>Years of Service</u>				
	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
29 & Under	25%	23%	20%	17%	15%
30 - 39	20	17	15	13	11
40 & Over	17	15	12	10	7

Ultimate withdrawal rates after five years service:

<u>Age</u>	
20 - 24	8.8%
25 - 29	8.8
30 - 34	5.5
35 - 39	4.7
40 - 44	3.9
45 - 49	3.7
50 - 54	3.4
55 - 59	0.1
60 & Over	0.2

Judges:

<u>Age</u>	
20 - 24	2.2%
25 - 29	2.2
30 - 34	1.4
35 - 39	1.2
40 - 44	1.0
45 - 49	0.9
50 - 54	0.8
55 - 59	0.0
60 & Over	0.1

Highway Patrol:

First year of service: 10% per year.

Second through fifth years of service: 5% per year.

After five years of service:

Under age 35: 2.5% at each age.

Age 35 and older: 1% at each age.

Withdrawal rates end upon eligibility for early retirement. Early retirement eligibility is as follows:

Main System:

Earlier of (i) age 55 and 3 years of service, and (ii) eligibility for Rule of 85.

Judges:

Earlier of (i) age 55 and 5 years of service, and (ii) eligibility for Rule of 85.

National Guard and Law Enforcement:

Age 50 and 3 years of service.

Highway Patrol:

Age 50 and 5 years of service.

Disability Incidence Rates:

Main System, Judges, National Guard and Law Enforcement:

Before age 65: Males 33% of OASDI disability incidence rates.
 Females 20% of OASDI disability incidence rates.

Age 65 and later: 0.25% per year.

Sample rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.02%	0.01%
30	0.04	0.02
40	0.07	0.04
50	0.20	0.12
60	0.54	0.33

Highway Patrol:

Age based rates. Sample rates:

<u>Age</u>	<u>Rate</u>
25	0.05%
30	0.12
35	0.20
40	0.30
45	0.37
50	0.38
55	0.55

Refund of Employee Contributions:

Inactive vested members are assumed to elect a refund of employee contributions in lieu of a deferred pension benefit when it is more valuable than the deferred annuity.

Retirement Rates for Active Members:

Main System:

<u>Age</u>	<u>Early Retirement</u>	<u>Unreduced Retirements*</u>
51		8%
52		8
53		8
54		8
55	2%	8
56	2	10
57	2	10
58	2	10
59	2	10
60	4	10
61	10	20
62	20	35
63	15	25
64	10	30
65		30
66		20
67		20
68		20
69		20
70		20
71		20
72		20
73		20
74		20
75		100

* Age 65 or Rule of 85

Judges:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
60	10%	65	50%
61	10	66	50
62	20	67	50
63	20	68	50
64	20	69	50
		70	100

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National Guard and Law Enforcement:

<u>Age</u>	<u>Rate</u>
55	20%
56	20%
57	20%
58	20%
59	20%
60	20%
61	20%
62	20%
63	20%
64	50%
65	100%

Highway Patrol:

<u>Age</u>	<u>Early Retirement</u>	<u>Unreduced Retirement*</u>
50 – 54	0%	100%
55+	0	100

* Age 55 or Rule of 80

Retirement Age for Inactive Vested Members:

Main System and Judges:

The earlier of:

- Age 64.
- Unreduced retirement date for each individual.

National Guard and Highway Patrol:

Age 55.

Law Enforcement:

The earlier of:

- Age 55.
- Unreduced retirement date for each individual.

Net Investment Return: 8.00% per annum net of investment expenses.

Annual Administrative Expenses:

<i>Main System:</i>	\$1,300,000
<i>Judges:</i>	11,000
<i>National Guard:</i>	4,000
<i>Law Enforcement With Prior Main Service:</i>	4,000
<i>Law Enforcement Without Prior Main Service:</i>	10,000
<i>Highway Patrol:</i>	20,000
<i>Retiree Health:</i>	110,000

Salary Scale:

Main System, National Guard, Law Enforcement and Highway Patrol:

Less than five years of service:

<u>Service</u>	<u>Percentage Increase</u>
0	8.25%
1	7.25
2	6.75
3	6.50
4	6.25

Five or more years of service (sample rates are as follows):

<u>Age</u>	<u>Percentage Increase</u>	<u>Age</u>	<u>Percentage Increase</u>
25	6.25%	45	5.11%
30	5.93	50	5.02
35	5.50	55	4.93
40	5.23	60	4.86

Judges:

5.00% per annum for all years of service.

Payroll Growth:

<i>Main System, National Guard, Law Enforcement and Highway Patrol:</i>	4.50% per annum.
<i>Judges:</i>	4.00% per annum.
<i>Retiree Health:</i>	4.50% per annum

Percent Married and Age of Spouse:

Main System, National Guard and Law Enforcement:

At retirement or death, 80% of male members and 65% of female members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

Judges

At retirement or death, 100% of members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

Highway Patrol:

At retirement or death, 90% of members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

Workers' Compensation:

None assumed for Judges' disability benefit offset.

Indexing for Benefits of Inactive Vested Members:

Highway Patrol: 4.50% per annum.

Transfers to Main System:

Highway Patrol:

Annual withdrawal, disability incidence and retirement rate assumptions for members who have transferred to the Main System follow those specified in the Main System, and are applied to the benefits held in the HPRS.

Part-Time Employees:

Main System, National Guard, Judges and Law Enforcement:

One full year of service is credited for each future year of service.

Split Service:

Liabilities are held in both plans based on service in each plan and are based on the actuarial assumptions of the plan in which they are currently active.

Actuarial Cost Method:

PERS and Highway Patrol:

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments increasing by the payroll growth assumption each year over an open 20-year period.

Retiree Health:

Projected Unit Credit Actuarial Cost Method. Unfunded actuarial accrued liability amortized in installments increasing by the payroll growth assumption each year over a fixed period that ends on June 30, 2030.

Actuarial Value of Assets:

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized. A characteristic of this asset valuation method is that, over time, it is more likely to produce an actuarial value of assets that is less than the market value of assets.

Social Security Disability (for Judges' disability benefit offset):

Eligibility:	50%
Consumer Price Index Increases:	3.5% per annum
Wage Base Increases:	5.0% per annum

Account Balance Additions Due to Vested Employer Contribution (PEP):

Main System, Judges, National Guard and Law Enforcement:

Participation

Under Chapter 54-52.2:	If not elected: None
	If elected: 100% of active members of the Main System, National Guard and Law Enforcement.

Contribution: Maximum allowed based on service at the beginning of the Plan year.

Retiree Health Participation Rates:

The percentage of eligible members electing coverage under the health insurance program and receiving the stipend varies with years of service. Rates are as follows:

Main System, National Guard and Law Enforcement		Judges and Highway Patrol	
<u>Years of Service</u>	<u>Participation Rate</u>	<u>Years of Service</u>	<u>Participation Rate</u>
3 - 4	30%	5 - 9	50%
5 - 9	50%	10 - 14	65%
10 - 14	65%	15 - 19	80%
15 - 19	80%	20 - 24	85%
20 - 24	85%	25 or more	90%
25 or more	95%		

Joint and Survivor Option Election Rates (for retiree health):

Main System, National Guard and Law Enforcement:

60% of male retirees and 25% of female retirees will elect a joint and survivor form of pension from the retirement system in which they participated.

Judges:

100% of retirees will elect a joint and survivor form of pension from the retirement system.

Highway Patrol:

90% of retirees will elect a joint and survivor form of pension from the retirement system.



DIRECT DIAL NUMBER
303-714-9952

THE SEGAL COMPANY
5670 Greenwood Plaza Blvd., Suite 425 Greenwood Village, CO 80111-2499
T 303.714.9900 F 303.714.9990 www.segalco.com

E-MAIL ADDRESS
bramirez@segalco.com

VIA EMAIL AND USPS

March 17, 2010

Mr. Sparb Collins
Executive Director
North Dakota Public Employees Retirement System
P.O. Box 1657
Bismarck, ND 58502

**Re: North Dakota Public Employees Retirement System
Amortization Policy Review**

Dear Sparb:

In this letter, we have summarized the amortization policy of North Dakota PERS. We have also included a discussion of several alternative policies that may be considered by the Board for future actuarial valuations. Numerical examples are provided at the end of the letter and refer to the Main System unless noted.

The amortization policy determines the length of time and the structure of the payments for the contributions required to systemically pay off the Plan's Unfunded Actuarial Accrued Liability (UAAL). For governmental or public defined benefit plans, like NDPERS, there are no specific external funding or funding policy requirements such as those established for single employer (corporate) and multiemployer (Taft-Hartley) defined benefit pension plans under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC). The accounting standards promulgated by the Governmental Accounting Standards Board (GASB) define an Annual Required Contribution (ARC) that, despite its name, is actually the amount of expense that the employer must recognize each year. Also, the GASB accounting standards provide considerable policy latitude when determining the ARC.

Even though this leaves governmental or public plans relatively free to set funding policy, it is worth noting that all long term funding policy structures – corporate, multiemployer and GASB – take the same form, at least for underfunded plans (plans with a UAAL):

1. Contribute the Normal Cost for the year, and

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MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, D.C.



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2. Contribute an additional amount that will fully fund (“amortize”) any UAAL over a period of years.

Implicit in this form of policy is *a funding target of 100 percent*, since at the end of the amortization period the plan will be fully funded provided contributions are made equal to the actuarially required contribution rate. This is in contrast to “corridor” methods that allow contributions equal to only the Normal Cost as long as the plan is within, for example, 5 percent of being fully funded. The funding policy discussed here is based on the UAAL amortization method because it is well established for all types of pension plans as it targets 100 percent funding of the AAL.

Note that, for the UAAL, longer amortization periods result in lower current contributions and a longer period before the contribution reverts to the Normal Cost. Longer periods also produce lower contribution volatility. Shorter amortization periods get to full funding more rapidly but at the price of higher current contributions and higher contribution volatility.

AMORTIZATION POLICY

Amortization Policy: Selection of Amortization Structure and Methods

Setting an amortization policy involves a few choices in addition to selecting the amortization periods. Here is a brief description of the alternatives, followed by the current NDPERS policy and some possible modifications that may be considered by the Board.

- Single amortization layer for the entire UAAL or surplus, or separate amortization layers for each source of UAAL or surplus.
- Closed (fixed) period amortization or open (rolling) period amortization.
- Level dollar or level percent of pay amortization payments.

The current NDPERS policy uses a single, 20-year, open amortization period for the total UAAL.

Level Dollar vs. Level Percent of Pay Amortization

The amortization payments may be patterned in one of two ways: as a level dollar amount or as a level percentage of pay. The ERISA/IRC rules for corporate and multiemployer plans require level dollar amortization, similar to a typical home mortgage. However, the overwhelming majority of public plans use level percent of pay amortization where the payments increase each year in proportion to the assumed payroll growth. That means they start lower than the corresponding level dollar payments, but then increase until they are higher.

The level dollar method is more conservative in that it funds the UAAL faster in the early years. For the same reason it also incurs less interest cost over the amortization period.

The current NDPERS policy uses level percentage of pay amortization. Using level percent of pay payments for amortization is consistent with the Normal Cost (which for pay related plans is always determined as a percentage of pay) and provides a total cost that remains level as a percentage of pay. In contrast, level dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period.

Negative Amortization

Unlike a level dollar amortization, under level percent of pay amortization the UAAL may increase during the early years of the amortization period even though contributions are being made to amortize the UAAL. This happens because with level percent of pay amortization, the lower early payments can actually be less than the annual interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plan assumptions (including NDPERS), this happens whenever the amortization period is longer than about 17 years. This means that the outstanding balance of the UAAL does not decrease until there are 17 or fewer years left in the amortization period. It also means that the outstanding balance will not fall below the original amount until some years after that time.

Attachment 2 shows this effect for a sample UAAL layer of \$404 million under various level percent of pay amortization periods. While there is nothing inherently wrong with negative amortization, the Board should be aware of its consequences, especially for amortization periods substantially longer than 17 years.

Selection of Amortization Periods

The UAAL amortization periods for public plans typically range from 15 to 30 years, with 30 years being the maximum allowable period under the GASB accounting standards. The length of the amortization period should not be set so short that it creates too much volatility in the contributions yet it should not be so long that it contributes a shift of cost to future funding sources.

In the past some plans used an amortization period of 30 years; however, recent actuarial practice has evolved to use a shorter period. Some of the arguments for using a period less than 30 years include:

- Matching the amortization period to the average future working lifetime of the active members
- Matching the amortization period to the average life expectancy of the retired members
- Considering any special circumstances that may apply to a specific benefit improvement

The first two considerations would usually lead to at most a 15- to 20-year amortization period.

Improvements covered by the last consideration would include things like an early retirement window. The cost of the enhanced retirement benefit is offset by savings in salary. The salary

savings are realized over a short period of time, that is, the time until the member would have retired without the window, so it stands to reason that the cost should be amortized an equally short period of time. That could be as short as five years.

Plans that amortize the UAAL in layers by source sometimes use different amortization periods for different sources of UAAL. Generally such plans amortize actuarial gains or losses over shorter periods (15 to 20 years or less) and UAAL changes due to assumption or method changes and plan amendments over longer periods (often the 30-year GASB limit).

NDPERS currently uses a 20 year amortization period regardless of the source of the change in UAAL.

Open Versus Closed Amortization Periods

Using an open amortization period assists in managing contribution rate volatility by spreading the amortization payment of the UAAL over a non-decreasing amortization period. While GASB permits amortization periods up to 30 years, any open amortization period longer than about 17 years will result in permanent negative amortization. If the contributions were equal to the actuarially determined contribution rate, and if all actuarial assumptions were met, the UAAL would increase each year rather than be amortized. Therefore, it can be concluded that the use of the current 20-year open amortization period does not result in any amortization at all.

Using a closed amortization period usually solves the problem of long-term negative amortization. However, note that under a 30-year amortization period, since the UAAL does not start to decrease until there are 17 years left in the amortization period, the UAAL actually increases for the first 13 years. Even though it starts to decrease after 13 years, it does not decrease below the initial UAAL balance until 23 years have elapsed. The UAAL is then actually amortized in the final 7 years of the 30-year amortization period. Ultimately, the practical problem with using a closed amortization period is that this method produces increasingly more volatile rates as the remaining amortization period becomes very short.

A common alternative to these two methods is to use multiple amortization layers. One can think of multiple amortization layers as a hybrid between open and closed single layers. The method starts with one initial layer amortized over a closed period, but each year actuarial gains/losses, plan changes, or assumption changes create a new layer. Since each layer is closed, negative amortization is only temporary. Since new gains and losses are always amortized over the initial period for each layer, contribution rate volatility is managed. This method has the advantage of tracking separately each new portion of underfunding and identifying a date certain by which each will be funded. This is the structure required by the ERISA/IRC rules for corporate and multiemployer plans, and is increasingly common for public pension plans. No matter what amortization period the Board decides to adopt, we recommend that the layered approach be used.

Cost Impact

It is not possible to quantify in advance the full future cost impact associated with adopting an alternative amortization method simply because the System's future changes in UAAL are not yet identified. However, we can measure the effect that a change in the amortization period would have for the \$404 million in UAAL that the Main System would have had as of July 1, 2009 after reflecting proposed assumptions.

For example, a change from the 20-year to the 30-year amortization period for the UAAL as of July 1, 2009 using the assumptions proposed by Segal in the experience study presented to the Board in February 2010 would have reduced the 4.11% payroll cost required to amortize the Main System's \$404 million UAAL to 3.16% of payroll. However, the 30-year amortization cost would be paid for 10 additional years beyond that of the 20-year amortization. The charts in Attachments #1 and #2 compare the annual UAAL payments and the outstanding balance of the UAAL for a sample UAAL of \$404 million under different amortization periods.

Please note that with the above alternatives, we are continuing to recommend that the Board maintain its current level percent of pay amortization.

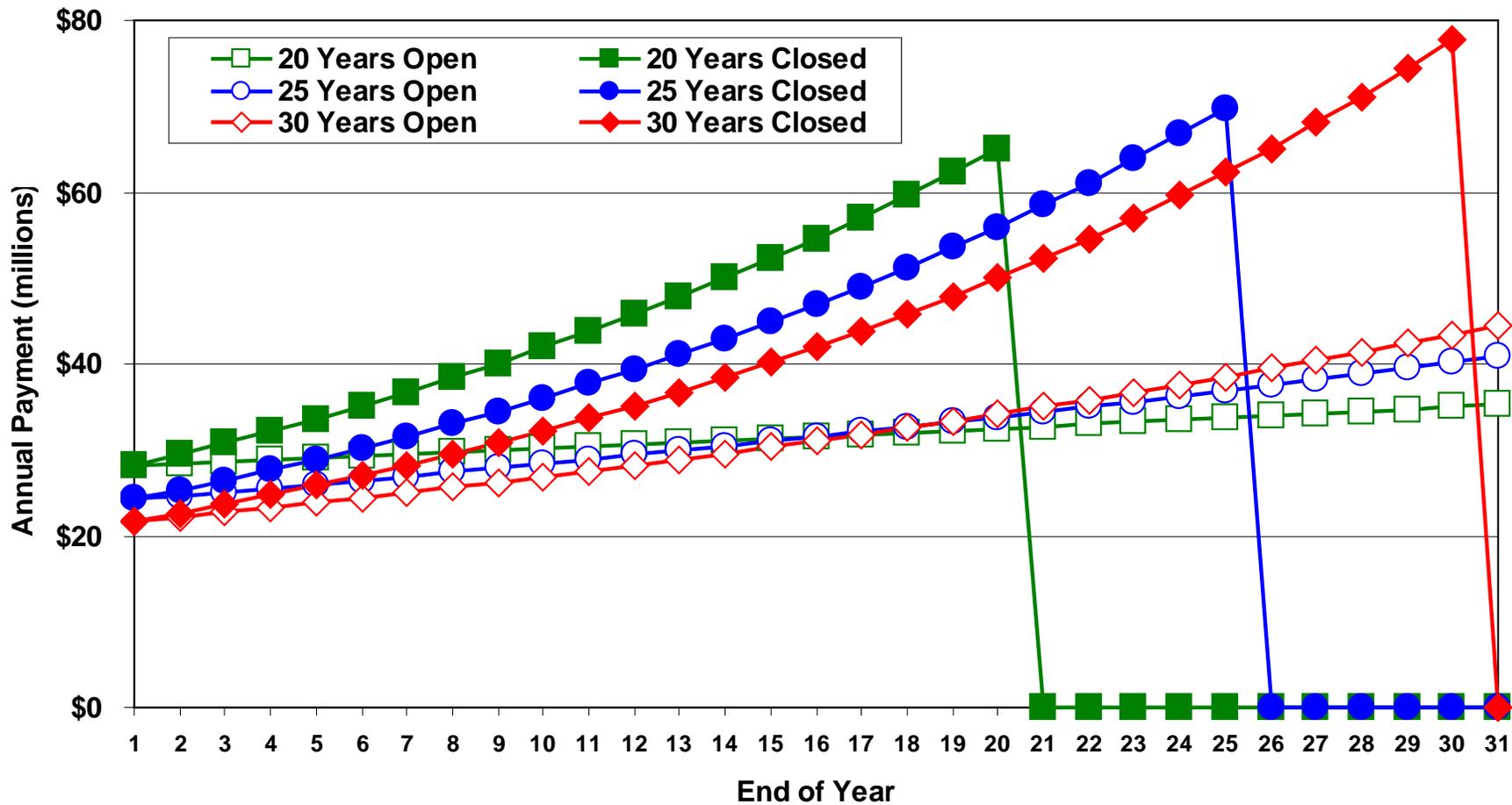
We look forward to discussing this with you and your Board.

Sincerely,

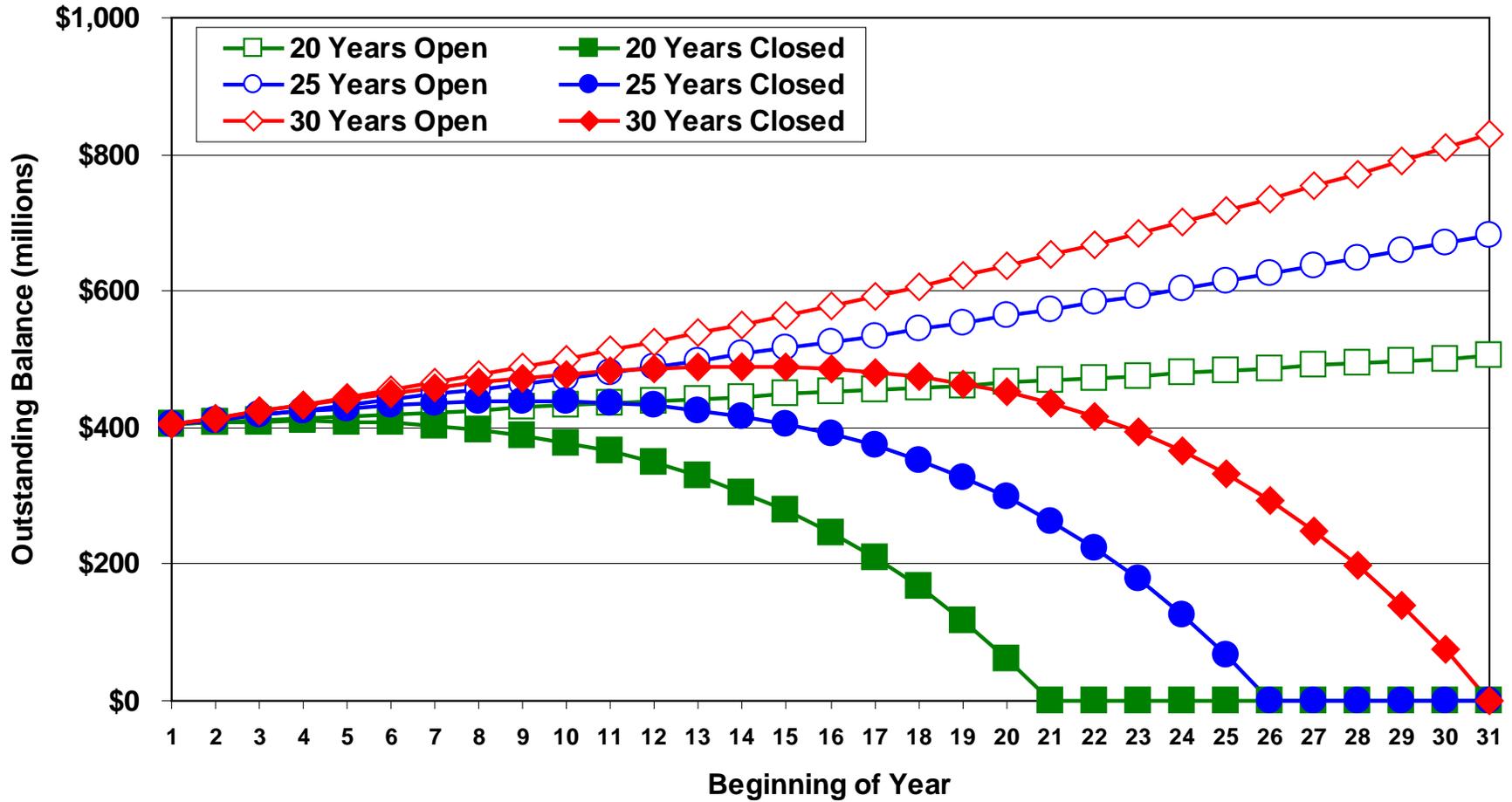
Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

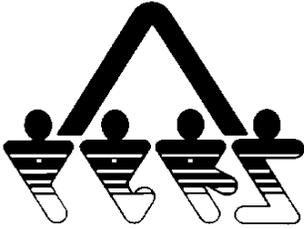
KS/
Enclosures

**Attachment #1 - Illustration of Payments Under Different Amortization Periods
(On \$404 million UAAL as a Level Percent of Payroll)**



Attachment #2 - Illustration of Outstanding UAAL Balance Under Different Amortization Periods
 (On \$404 million UAAL as a Level Percent of Payroll)





North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb and Deb

DATE: April 21, 2010

SUBJECT: Judges Plan

Attachment #1 is the first draft of the plan documents for implementing the Judges health care savings plan. This last session HB 1173 was passed authorizing PERS to implement this plan if 75% of the judges vote for establishing it. Attachment 2 is a copy of the bill. The judges will be voting on the plan at their meeting in June. If approved, the plan would be effective July 1 for salary paid in August. The savings vehicle initially is going to be set up in accounts at the Bank of North Dakota. At this time we are still working with the bank on the final details of getting this set up.

The plan documents are being presented to you for your review and comment. We are also providing them to the judges and to Aaron for review. In May we plan to bring back to you a final draft of the attached for final approval.

**STATE OF NORTH DAKOTA JUDGES
HEALTH CARE SAVINGS PLAN**

EFFECTIVE _____

North Dakota Public Employees Retirement System
400 East Broadway, Suite 505
P.O. Box 1657
Bismarck, North Dakota 58502-1657

www.nd.gov/ndpers

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GLOSSARY OF TERMS

Administrator: Administrator means the Board or person(s) designated by the Board with the powers and duties described on page 6 to administer the Plan for the benefit of Participants.

Board: Board means the Public Employees Retirement System Board.

Code: Code means the Internal Revenue Code of 1986, as amended or replaced from time to time.

Dependent: Dependent means any person (including a spouse) who can be legally claimed as a dependent by the Participant for federal tax purposes. For such purpose, dependent is defined in Code section 152, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B).

Employer: Employer means the State of North Dakota.

Participant: Participant means any current or former supreme court or district court judge for whom an individual account is maintained under the Plan.

Plan: Plan means the State of North Dakota Judges Health Care Savings Plan as set forth herein, and any modification, amendment or restatement thereof.

Plan Year: Plan Year means a calendar year. The initial Plan Year shall commence July 1, 20__ and end December 31, 20__.

Trustee: Trustee means the person(s) designated by the Board to act as trustee of the Trust Fund, or any successor Trustee, in accordance with the Trust Fund document.

Trust Fund: The assets of the Plan held in trust under the State of North Dakota Judges Health Care Savings Plan Trust from contributions made by the Employer and from which benefit payments under the Plan are made.

The Trust Fund shall be established under Code section 115 and shall be an irrevocable trust under applicable law of the State of North Dakota. The Trust Fund established under this Plan and the assets held thereunder shall not be used for, or diverted to, purposes other than the exclusive benefit of Participants.

PARTICIPATION

All supreme court and district court judges employed by the State of North Dakota shall participate in the Plan as of their date of hire, or the effective date of this Plan, if later.

CONTRIBUTIONS

The Employer shall contribute a specified dollar amount or a percentage of the judges' salary into individual accounts established for each participant in the Trust Fund. The current contribution level is _____, effective _____. No other types or amounts of contributions shall be permitted under the Plan.

The Employer shall remit contributions to the Trust Fund within a period that is not longer than is reasonable for proper administration of the Plan. Contributions made on behalf of a participant shall be separately accounted for within the Trust Fund. A participant's individual account balance will be carried forward each plan year until the account balance is exhausted.

VESTING

A Participant's individual account shall be immediately 100% vested to the extent of contributions made to the Trust Fund on behalf of such Participant.

INVESTMENT OF INDIVIDUAL ACCOUNTS

Effective _____, the Board shall direct investment of the Trust Fund. The assets of the Trust Fund are currently invested with the _____ Money Market Account with the Bank of _____, the Plan's custodian. A money market account is *[Note: description to be completed by custodial bank]*. Interest shall accrue to an individual account.

The Board has the authority to permit participants to direct the investment of their individual accounts from among investment options selected by the Board.

ELIGIBILITY FOR BENEFITS

Participants are eligible to request payment of benefits from their individual account upon termination of employment from the Employer. Once a Participant terminates employment, he/she may request receipt of benefits at any time thereafter.

PAYMENT OF BENEFITS

Benefits under the Plan are limited to reimbursement of medical care expenses (as defined in Code section 213(d)) incurred by a Participant or the Participant's spouse or Dependent upon attaining eligibility for benefits up to the amount in the Participant's individual account.

Medical care expenses include health insurance premiums, COBRA premiums, Medigap and Medicare premiums. Medical care expenses also include, but are not limited to diagnosis, cure, mitigation, treatment or prevention of disease, and for treatments affecting any part or function of the body, whether intended to alleviate or prevent a physical or mental defect or illness.

The Plan Administrator shall require evidence that medical care expenses have been incurred by a Participant, spouse or Dependent before a reimbursement is made under the Plan. All claims for reimbursement are verified in accordance with applicable IRS rules, including IRS Publication 502 to ensure compliance with Code section 213(d).

Medical care expenses can only be reimbursed under this Plan to the extent not reimbursed through insurance or any other accident or health plan. If medical care expenses of a Participant are covered by both this Plan and a health care flexible spending account, then this Plan is not available for reimbursement of such medical care expenses until after amounts for reimbursement under the health care flexible spending account have been exhausted.

DIRECT DEPOSIT

All payments for reimbursement under the Plan will be directly deposited into a personal account designated by the Participant. The Board shall establish procedures necessary to process reimbursements under the Plan.

DEATH BENEFITS

If a Participant dies with a balance in his/her individual account, the Participant's surviving spouse and any Dependents shall be eligible to request reimbursements for medical care expenses from the Participant's individual account until the account balance is exhausted. At which time there is no surviving spouse or Dependents, then the remaining individual account balance of the Participant is forfeited. Forfeited amounts shall be used to offset administrative expenses under the Plan.

PLAN ADMINISTRATION

The Board shall be the Plan Administrator. However, the Board shall have the authority to appoint any other person(s) or entity as Administrator for any or all duties of the Administrator. The Board shall have the authority to remove Plan Administrator authority from any person or entity so appointed and name a successor administrator for such duties.

The Administrator's primary duty is to administer the Plan for the exclusive benefit of Participants, in accordance with the terms of the Plan. The Administrator shall have all discretionary authority to accomplish duties under the Plan, including the authority to determine all questions arising in connection with administration, interpretation and application of the Plan, and full and exclusive discretionary authority to determine eligibility for contributions and/or benefits under the Plan. The Plan Administrator will review and determine all appeals relating to benefits under the Plan.

The Administrator may appoint counsel, advisors, consultants, a custodian and the Trustee as the Administrator deems necessary or desirable to administer the Plan. The Administrator may rely on information provided by the Employer and shall have no duty to verify such information. The Administrator may rely on information provided by Participants and has the right to maintain an action to recover any amounts improperly paid to any person.

PLAN RECORDKEEPING

The Plan Administrator shall appoint a recordkeeper to be responsible for the administration of investments held in the Plan. The Plan's recordkeeping duties include receiving contributions under the terms of the Plan and Trust Fund, paying reimbursements from individual accounts within the Trust Fund as directed by the Plan Administrator, and maintaining accurate records of the Trust Fund assets, which must be made available to the Plan Administrator. The Plan's recordkeeper shall also provide benefit statements to Participants of their individual accounts on a quarterly basis, which shall include the total balance of the individual account, contributions made to the account, investment income or losses, and reimbursements and expenses paid from the account.

ADMINISTRATIVE FEES AND EXPENSES

The Employer shall pay the costs of establishing and setting up the Plan. All on-going administrative and investment fees or expenses shall be paid from the individual accounts of Participants on a prorated basis.

OTHER PLAN RULES

Compliance with Federal Laws. Benefits under this Plan shall be provided in compliance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Family and Medical Leave Act of 1993 (FMLA), the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) and other federal laws applicable to group health plans as such are amended and to the extent required by such laws.

Protected Health Information. The Plan will use and disclose “Protected Health Information” (PHI), including electronic PHI, as defined in HIPAA regulations to the extent of and in accordance with the uses and disclosures permitted by the privacy and security regulations under HIPAA. Specifically, the Plan will use and disclose PHI only for purposes related to payment for health care and health care operations as defined in the Plan’s HIPAA privacy notice.

For purposes of HIPAA compliance, the Employer is the Plan sponsor. The Plan sponsor shall maintain adequate separation from the Plan’s PHI. The Plan Sponsor will not use or disclose PHI other than as permitted or required under HIPAA privacy regulations. The Plan sponsor will appoint a privacy official to carry out duties of such person(s) defined in HIPAA privacy regulations. The Plan sponsor will also implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of electronic PHI that it creates, receives, maintains or transmits on behalf of the Plan.

In addition to HIPAA privacy and security regulations, the Plan and Plan sponsor shall comply with the laws of the State of North Dakota with respect to the protection, disclosure and accounting of personal data, to the extent applicable.

Amendment and Termination. The Employer has the right to discontinue contributions to the Plan and Trust fund at any time. The Board has the authority to amend or terminate the Plan at any time, in whole or in part. Participants shall be notified of any material changes to the Plan. Upon termination of the Plan, the Administrator shall take steps as necessary or desirable to comply with applicable laws. In the event of Plan termination, any assets remaining in the Trust Fund after individual accounts are paid to Participants or not otherwise used to pay reasonable fees or expenses of the Trust Fund may revert to the Employer.

Nonassignability. No assets of the Plan or Trust Fund are assignable in law or in equity or subject to estate tax or execution levy, attachment, garnishment or other legal processes, except as required under applicable State and/or federal law.

No Employment Contract. This Plan is not in any way deemed to be a contract between the Employer and any Participant, spouse or Dependent, and it in no way affects the employment relationship between the Employer and Participant. Participation in the Plan shall not give Participants the right or claim to any post-retirement health insurance or any other benefits other than as specifically provided for in this Plan.

**Agreement and Declaration of Trust
Establishing the**

**STATE OF NORTH DAKOTA JUDGES
HEALTH CARE SAVINGS PLAN
TRUST FUND**

EFFECTIVE _____

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ARTICLE I

ESTABLISHMENT AND PURPOSE OF TRUST FUND

1.01 Establishment of Trust Fund. Effective _____, the State of North Dakota Public Employees Retirement System (PERS) Board hereby establishes this Judges Health Care Savings Plan Trust Fund in accordance with North Dakota Century Code §54-52-04 to accept, invest and dispose of the assets of the North Dakota Judges Health Care Savings Plan (the “Plan”). This Trust Fund is intended to be a tax-exempt governmental trust established under Code section 115 and an irrevocable trust under applicable law of the State of North Dakota.

The Trust Fund shall consist of such sums of money and such other property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee pursuant to this Plan and the earnings thereon. All such money and property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less any payments made by the Trustee, pursuant to the terms of the Plan, shall constitute the Trust Fund.

The assets of the Trust Fund shall be irrevocable, and shall be preserved, invested and expended solely for the purposes of the Plan, including to make payments for benefits and pay the costs of administering the Plan. All assets of the Trust Fund shall be protected against the claims of creditors of the Employer, Administrator and participants of the Plan.

1.02 Purpose. The assets of the State of North Dakota Judges Health Care Savings Plan shall be held in a trust established under Code section 115 and shall be an irrevocable trust under applicable law of the State of North Dakota.

1.03 Eligibility to Participate. All supreme court and district court judges employed by the State of North Dakota shall participate in the Plan, as determined by the terms of the Plan. This Agreement and Declaration of Trust, does not give any participant of the Plan or any other person any legal or equitable right against the State of North Dakota, the PERS Board, the Trustee or the corpus or income of the Trust Fund unless the right is specifically provided for hereunder or in the Plan, nor does it give any participant in the Plan the right to be retained in service of the Employer.

ARTICLE II

DEFINITIONS

The following words and phrases shall, when used herein with initial capitalization, have the following meanings unless the context clearly indicates otherwise. Some of the words and phrases used in this Trust Fund are defined, for convenience, as they are introduced into the text, rather than in this Article II.

- 2.01 Administrator.** The Board or person(s) designated by the Board with the powers and duties described in the Plan to administer the Plan for the benefit of participants.
- 2.02 Board.** The Public Employees Retirement System Board.
- 2.03 Code.** The Internal Revenue Code of 1986, as amended or replaced from time to time.
- 2.04 Employer.** The State of North Dakota.
- 2.05 Plan.** The State of North Dakota Judges Health Care Savings Plan, and any modification, amendment or restatement thereof.
- 2.06 Plan Year.** The calendar year. The initial Plan Year shall commence July 1, 20__ and end December 31, 20__.
- 2.07 Trustee.** The person(s) designated by the Board to act as trustee of the Trust Fund, or any successor Trustee, in accordance with Article IV.
- 2.08 Trust Fund.** The assets of the Plan held in trust, established hereunder from contributions made by the Employer and from which any benefit payments under the Plan are made.

ARTICLE III

FUNDING AND INVESTMENT OF TRUST FUND

- 3.01 Contributions.** The Trust Fund shall be funded from contributions of the Employer, made in accordance with the terms of the Plan. All contributions of the Employer shall be paid to the Trustee for deposit into the Trust Fund. Such contributions shall be invested in accordance with Section 3.03 so as to produce the best returns possible consistent with prudent investment policies and legal requirements. The Trustee is under no duty to inquire into the correctness of contributed amounts paid to the Trustee or to enforce payment of contributions by the Employer.
- 3.02 Refund of Contributions.** No contribution made to the Trust Fund may be refunded to the Employer unless a contribution was made because of a mistake of fact, and any such refund must be made within one year from the date the contribution was made, subject to the provisions of Section 6.04.
- 3.03 Investment of the Trust Fund.**
- a. The Administrator shall direct the Trustee to invest and reinvest the Trust Fund without distinction between principal and income and in such securities or property, real or personal, as the Administrator shall deem advisable.
 - b. The Administrator may from time to time, direct the Trustee to transfer all or such part of the Trust Fund as the Administrator may deem advisable to, and engage in any transaction with a common or collective trust fund or pooled investment fund which is authorized and permitted to receive investments from the Trust Fund. The Administrator may, from time to time, direct the Trustee to withdraw from such common or collective trust fund or pooled investment fund all or such part of the Trust Fund as the Administrator may deem advisable.
 - c. The Administrator shall have additional powers to direct the Trustee with respect to investment of the Trust Fund, including, but not limited, to the following:
 1. To purchase, or subscribe for, any securities or other property and to retain the same.
 2. To sell, exchange, convey, transfer, grant options to purchase, or otherwise dispose of any securities or other property held by the Trust Fund.

3. To vote upon any stocks, bonds, or other securities and generally to exercise any of the powers of an owner with respect to stocks, bonds, securities, or other property.
 4. To cause any securities or other property to be registered in the Trustee's own name or the name of its designee, and to hold any investments in bearer form, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust Fund.
- d. The Administrator may appoint one or more Investment Managers to manage all or any of the assets of the Trust Fund. For this purpose, "Investment Manager" is defined as an entity that has the power to manage, acquire, or dispose of Trust Fund assets and acknowledges fiduciary responsibility to the Plan and Trust Fund in writing. Such entity must be a person, firm, or corporation registered as an investment adviser under the Investment Advisers Act of 1940; a bank; or an insurance company, which is qualified to manage, acquire or dispose of Trust Fund assets. Any Investment Manager appointed hereunder may be removed by the Administrator at any time.

3.04 Forfeitures. Amounts forfeited in accordance with the terms of the Plan shall be used to offset administrative expenses of the Plan and Trust Fund.

ARTICLE IV

TRUSTEE

4.01 Appointment and Removal of Trustee. The Board shall appoint a Trustee and may remove the Trustee and appoint a successor from time to time as it deems necessary for proper administration of the Trust Fund.

4.02 Powers and Duties of the Trustee. The Trustee is authorized to exercise all powers conferred upon trustees by law which it may deem necessary or proper for management and protection of the Trust Fund. To the extent that the Trustee exercises authority over the management and investment of Trust Fund assets, it shall have all powers and duties now or hereafter conferred or permitted by law, including, but not limited, to the following:

- a. To hold, invest and reinvest Trust Fund assets, together with the income, in accordance with directions of the Administrator and guidelines established under the Plan, including any written investment policy, subject to the provisions of Section 3.03 d.
- b. To retain in cash or other property unproductive of income, without liability for interest, so much of the Trust Fund assets as may be determined; to deposit cash in any bank and select any bank as custodian; and cause securities or other property to be registered and/or held in its individual name, or in the name of its designee.
- c. To establish an individual account for each participant unless an individual account has already been so established. The Trustee shall allocate to each individual account contributions, net income or losses, expenses and payments or distributions, as directed by the Administrator.
- d. To pay benefits to participants of the Plan, as directed by the Administrator.
- e. To pay expenses of administration of the Trust Fund or expenses of administration of the Plan, as directed by the Administrator.
- f. To select and appoint a designee to carry out specified duties of the Trustee as the Trustee may deem appropriate, including contracting with such designee to perform such services.
- g. To maintain records of receipts and disbursements and furnish to the Administrator periodic reports, as directed by the Administrator.

- h. To make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers and duties granted herein.
- i. To do all such acts and exercise all such powers, although not mentioned specifically herein, as the Trustee may deem necessary to carry out the purpose of the Trust Fund.

4.03 Records of Trustee. The records of the Trustee pertaining to the Plan and Trust Fund must be open to inspection of the Plan Administrator and the Employer at all reasonable times and may be audited from time to time by any persons as the Employer or Plan Administrator may specify in writing. The Trustee must furnish the Plan Administrator any information relating to the Trust Fund as the Plan Administrator deems necessary.

4.04 Payment of Expenses. All expenses of administration of the Plan and Trust Fund shall be paid out of the Trust Fund. Such expenses shall include, but shall not be limited to, fees of the Trustee, accountants, counsel and other specialists and their agents. The expenses shall constitute a liability of the Trust Fund until paid.

ARTICLE V

GENERAL PROVISIONS

- 5.01 Nonassignability.** No assets of the Trust Fund are assignable in law or in equity or subject to estate tax or execution levy, attachment, garnishment or other legal processes, except as required under applicable state and/or federal law.
- 5.02 Exclusive Benefit.** Except as provided herein and otherwise specifically permitted by law, it shall be impossible by operation of the Trust Fund, by termination, amendment, or by the happening of any contingency for any part of the corpus or income of the Trust Fund or any funds contributed thereto to be used for, or diverted to, purposes other than the payment of benefits to or on behalf of participants and defraying reasonable expenses of administering the Plan for the exclusive benefit of participants of the Plan.
- 5.03 Severability.** If any provision or provisions of the Trust Fund shall be for any reason invalid or unenforceable, this will not affect any other provision of the Trust Fund. In the event of any such holding, the Board will immediately amend the provisions to remedy the defect to the extent possible.
- 5.04 Applicable Laws.** This Trust Fund shall be governed in all respects by applicable laws of the State of North Dakota, unless superseded by federal law. This Trust Fund is intended to comply with the requirements of Code section 115 and all regulations thereunder, and is to be interpreted and applied consistent with that intent.

ARTICLE VI

AMENDMENT AND TERMINATION

6.01 Discontinuance of Contributions. It is the intention of the Employer that this Trust Fund shall be maintained indefinitely. However, the Employer reserves the right at any time or times to discontinue contributions to the Trust Fund to any extent in their sole judgment. The Employer's failure to contribute to the Trust Fund in any Plan Year will not discontinue the Trust Fund.

6.02 Amendment. It is the intention of the Board that this Trust Fund shall be maintained indefinitely. However, the Board reserves the right at any time or times to amend the Trust Fund, in accordance with the provisions of this Article VI. Any such amendment shall be by written instrument delivered to the Administrator and the Trustee.

All Plan participants and any persons claiming any interest in the Trust Fund will be bound by such amendment, provided that no amendment causes any of the Trust Fund assets to be diverted to purposes other than the exclusive benefit of participants of the Plan.

6.03 Termination. The Board specifically reserves the right to terminate this Trust Fund in whole or in part. Upon a termination of the Trust Fund, the Trustee shall take such steps as determined to be necessary or desirable to comply with applicable laws.

6.04 Assets in Excess of Liabilities. If after satisfaction of all liabilities under the Plan, including payment of individual account balances to participants and payment of reasonable fees or expenses of the Trust Fund, there is any remaining assets in the Trust Fund, such assets shall revert to the Employer if not otherwise prohibited by law.

HOUSE BILL NO. 1173

Introduced by

Representatives Klemin, Kretschmar, Griffin

Senators Triplett, Hogue, Fiebiger

1 A BILL for an Act to create and enact a new subsection to section 54-52-04 of the North Dakota
2 Century Code, relating to the authority of the public employees retirement system board to
3 create a trust health care savings plan for all supreme and district court judges participating in
4 the public employees retirement system.

5 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

6 **SECTION 1.** A new subsection to section 54-52-04 of the North Dakota Century Code
7 is created and enacted as follows:

8 The board may create and implement an Internal Revenue Code section 115 trust
9 health care savings plan for all supreme and district court judges participating in
10 the public employees retirement system if seventy-five percent of the total active
11 participating supreme and district court judges vote to approve the program. If
12 approved, the contribution level specified in the vote applies to all current and
13 future participating supreme and district court judges and must be paid pursuant to
14 the plan document developed by the board. The contribution level may only be
15 changed by a vote of seventy-five percent of the total active participating supreme
16 and district court judges at that time.



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: April 21, 2010

SUBJECT: Provider Training Compliance Update

At its March meeting, the Board was informed that Chase and Symetra were out of compliance with our training requirements and had not responded to our initial request to remedy this situation. As directed by the Board, both companies were sent another letter on March 8, 2010 notifying them that the Board has reviewed the issue. They were further informed that since they were already on a "loss of active provider status" the other option available to the Board was to impose a "loss of provider status". We requested they respond as to what specific implications this action would have on their existing participants and provide any other information they felt the Board should consider in making its determination. The deadline for response was March 31, 2010.

Chase did respond to our request and has taken the appropriate action to bring them into compliance with the contract provisions regarding agent training. To date we have had no response from Symetra.

As previously stated, because Symetra is already on a "loss of active provider status" the other suspension option available pursuant to NDAC 71-04-04-09 is a "loss of provider status which would prohibit them from enrolling any new participants and from accepting any further contributions from existing members. As of March 31, 2010, Symetra had 31 participants with assets totaling \$659,693.88. Of the participants, 11 are currently contributing a total \$2,035 per month. Based on this information, staff recommends the Board approve a "loss of provider status" as provided in the above referenced section of the administrative code and authorize staff to notify the 11 active participants that they must make arrangements to suspend their contributions effective with the July payroll paid August 1, 2010.

Board Action Required

MEMORANDUM

TO: NDPERs Board
FROM: Jim Smrcka
DATE: April 19, 2010
SUBJECT: **Consultant Fees**

Attached is a report showing the consulting, investment and administrative fees paid during the quarter ended March 31, 2010 Please let me know if you have any questions on the report.

Attachment

**North Dakota Public Employees Retirement System
Consulting/Investment/Administrative Fees
For the Quarter ended March 31, 2010**

Program/Project	Fee Type	Jan-10	Feb-10	Mar-10	Fees Paid During The Quarter	Fees Paid Year-To-Date
Actuary/Consulting Fees:						
Gallagher Benefit Services, Inc	Insurance				-	0
Gallagher Benefit Services, Inc	Ongoing consulting					
Gallagher Benefit Services, Inc	Travel Expenses			1,774	1,774	1,774
Gabriel Roeder Smith & Company	Vision RFP				-	0
Cem Benchmarking Inc	Cost effectiveness ranking charts			2,660	2,660	
LR Wechsler, LTD	IT Project				-	0
LR Wechsler, LTD	Travel Expenses	40,777	12,361	11,102	64,240	64,240
Sagitec Solutions LLC	PERSLINK Project	4,744	3,185	2,819	10,749	10,749
Sagitec Solutions LLC	Back file conversion	249,704			249,704	249,704
Sagitec Solutions LLC	Enhancements				-	0
ICON INTEGRATION & DESIGN	PERSLINK Project				-	0
UND	Diabetes management		1,846		1,846	1,846
VanIwaarden	Travel Expenses					
VanIwaarden	Retirement Disability		300	1,200	1,600	1,600
Mid Dakota Clinic	Retirement (DB)	100				
The Segal Company	Ret Health Credit	13,388			13,388	13,388
The Segal Company	FlexComp	2,475			2,475	2,475
The Segal Company	Job Service	2,700			2,700	2,700
The Segal Company	QDRO/Compliance	3,600			3,600	3,600
The Segal Company	Legislation				-	0
The Segal Company	Retirement (DC)				-	0
The Segal Company	Deferred Comp	12,500			12,500	12,500
The Segal Company	RFP preparation investment consultin			15,000	15,000	15,000
The Segal Company	Travel Expenses				-	0
		\$ 329,987	\$ 17,693	\$ 34,555	\$ 382,235	\$364,575
Audit Fees:						
Brady Martz	Annual audit & CAFR	4,350			4,350	\$4,350
Brady Martz	Other items	\$ 925			\$ 925	\$925
Legal Fees:						
ICEMILLER LLP	IT Project					\$0
ND Attorney General	Administrative					\$0
Calhoun Law Group	Administrative					\$0
Investment Fees:						
SIB - Investment Fees	Retirement (DB)	5,579	389,040	871,228	1,265,847	1,265,847
SIB - Investment Fees	Ret Health Credit	494	428	370	1,292	1,292
SIB - Investment Fees	Insurance	147	40	43	230	230
SIB - Administrative Fees	Retirement (DB)	18,843	16,498	18,097	53,438	53,438
					\$ 1,320,807	\$1,320,807
Administrative Fee:						
Blue Cross Blue Shield	Health Plan	925,886	927,791	*	\$ 1,853,677	\$1,853,677

* fees not yet available



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 • EMAIL: NDPERS-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board
FROM: Jon Strinden
DATE: April 21, 2010
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.

Board Action Requested

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