

NDPERS BOARD MEETING

Agenda

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

February 25, 2010

Time: 8:30 AM

I. MINUTES

A. January 21, 2010

II. GROUP INSURANCE

- A. BCBS Pharmacy Strategies – BCBS
- B. Annual Health Care Utilization Report – BCBS
- C. BCBS Update – (Information)

III. RETIREMENT

- A. Experience Study – Segal
- B. TFFR – Fay Kopp – (Information)
- C. Defined Contribution Update – Kathy (Information)
- D. Retiree Health Credit for pre-Medicare Retirees – Sparb (Board Action)
- E. Draft Legislation - Sparb

IV. FLEX COMP

- A. FlexComp Update – Kathy (Board Action)

V. DEFERRED COMPENSATION

- A. Provider Training Compliance – Kathy (Board Action)

VI. MISCELLANEOUS

- A. Audit Report – Brady Martz
- B. Administrative Rules – Sparb (Information)
- C. Personnel Policies Update – Kathy (Board Action)
- D. PERSLink Quarterly Report – Bryan (Information)
- E. SIB Agenda

VII. ANNUAL INVESTMENT REPORT – Steve Cochrane (Information)

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**
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Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
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Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: February 17, 2010
SUBJECT: BCBS Pharmacy Strategies

At the last meeting Mr. von Ebers indicated that BCBS will bring forth strategies that PERS could adopt to reduce its health care cost trends. This discussion will start at this meeting with strategies relating to the Rx plan. Representatives of BCBS and PrimeTherapeutics will be at the meeting to identify and discuss options for our Rx plan.

NDPERS 2010 Opportunities NDPERS + BCBSND + Prime

Strategic Pharmacy Approaches

February 25, 2010

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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

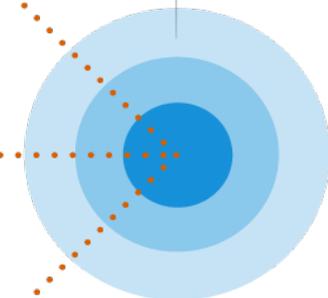
spectrum

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

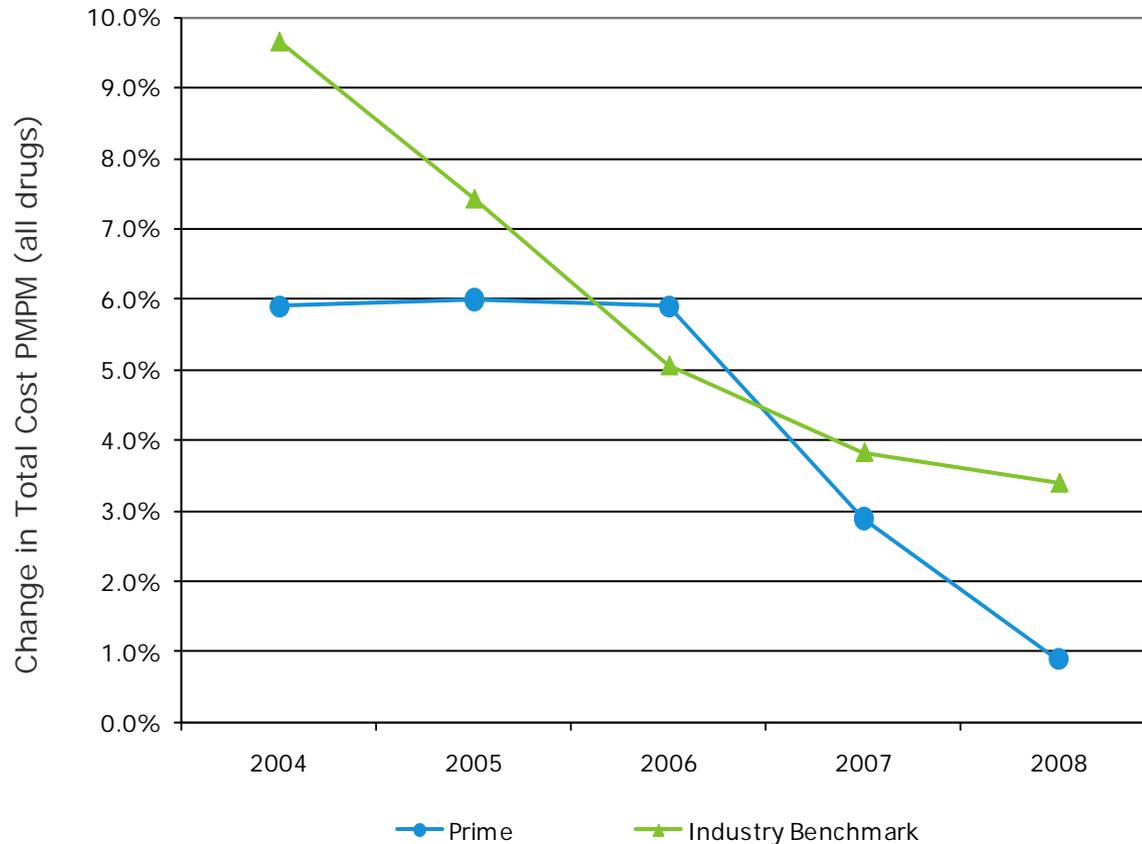
1. PrimeMail data, 2009.

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

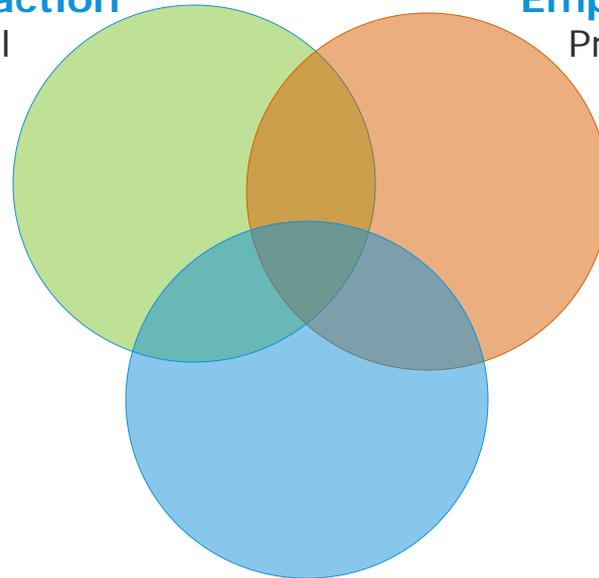
- Administrative ease and operational excellence are proven by high employer and member satisfaction

2008 Member Satisfaction

94% at PrimeMail
93% at Retail

Employer Group Satisfaction

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

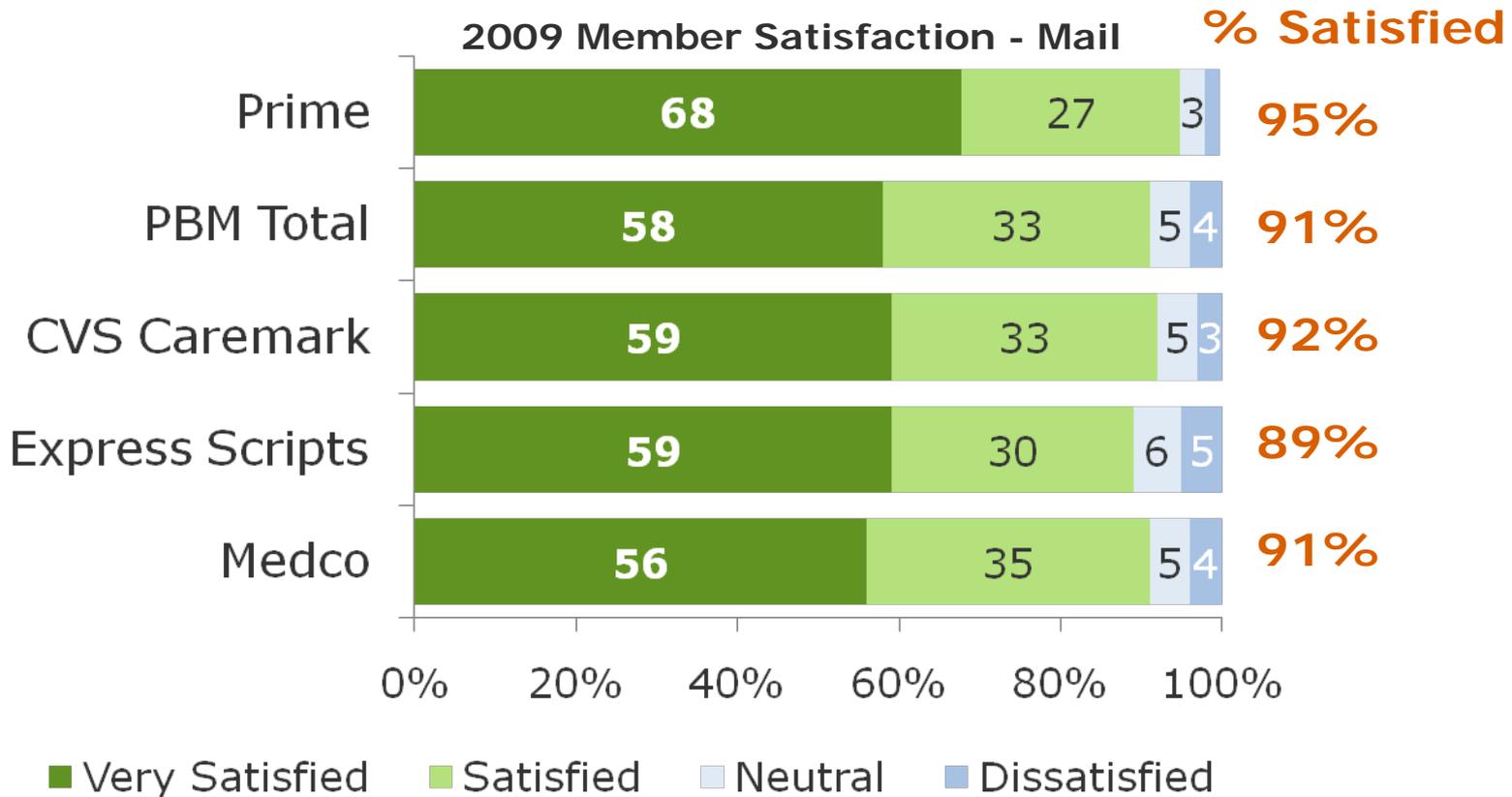


2008 Prime Internal

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

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: February 17, 2010

SUBJECT: Health Care Utilization Study

Representatives from BCBS will be in attendance at the February meeting to review with the Board the attached Health Care Utilization Study for claims incurred July 1, 2006 to June 30, 2009 paid through September 30, 2009.

NDPERS

Annual Utilization

Study

Blue Cross Blue Shield of ND
A Presentation to the NDPERS Board
February 2010

Summary

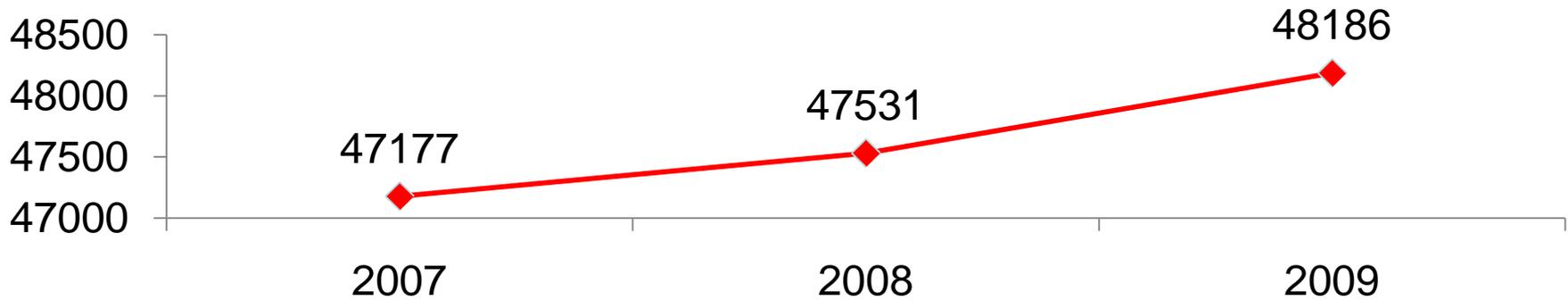
Claims Incurred 07/01/08 - 06/30/09
Run-out through 09/30/09

	IN TOTAL
Total Members	56,496
Total Payments	\$163,346,615
Paid PMPM	\$244.96

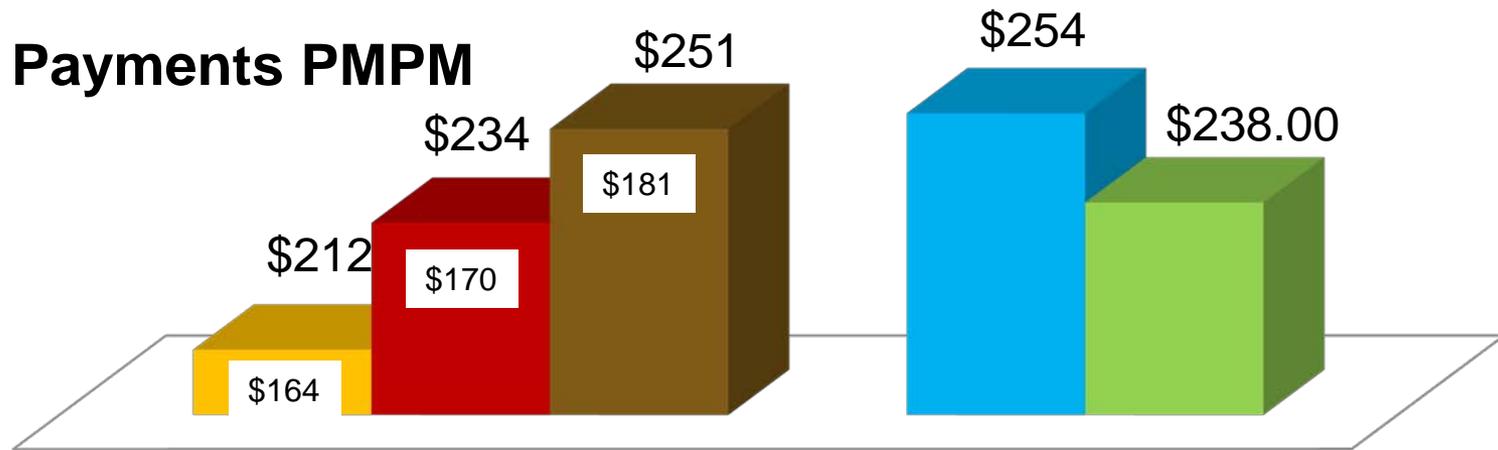
Plan Avg. \$238

Actives Summary

Members



Payments PMPM

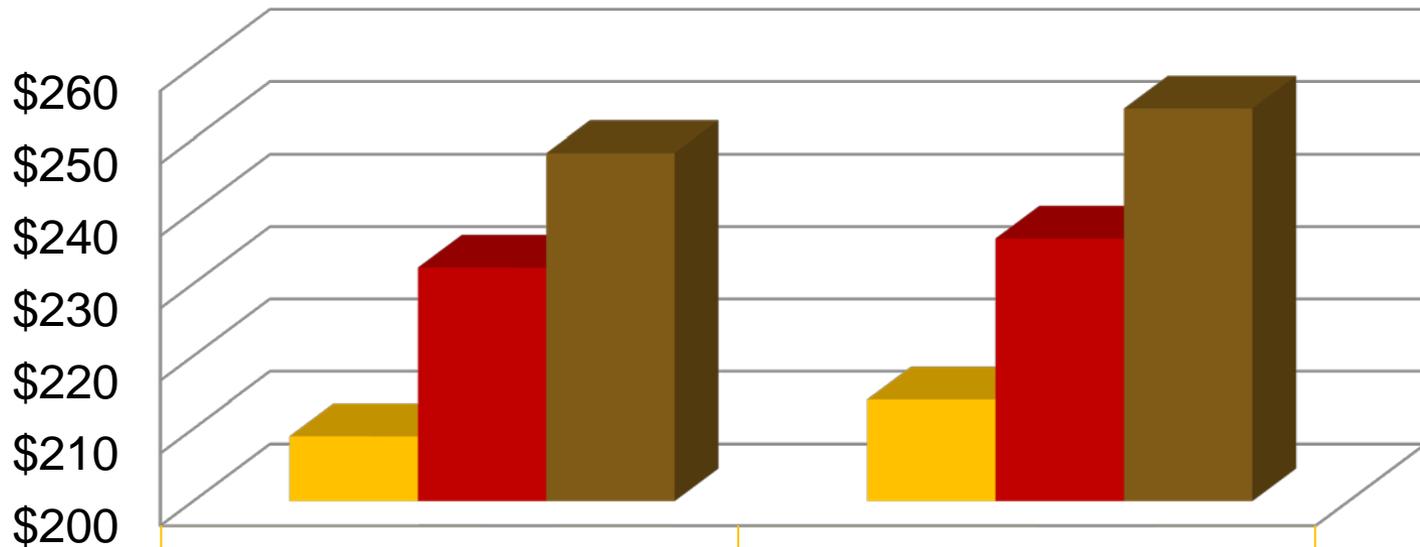


July-June

■ 2007 ■ 2008 ■ 2009 ■ Political Subs ■ 09 Plan2

EPO/PPO Comparison

Payments PMPM



	EPO	PPO
■ 2007	\$209	\$214
■ 2008	\$232	\$236
■ 2009	\$248	\$254

Discounts Comparisons

Active Members

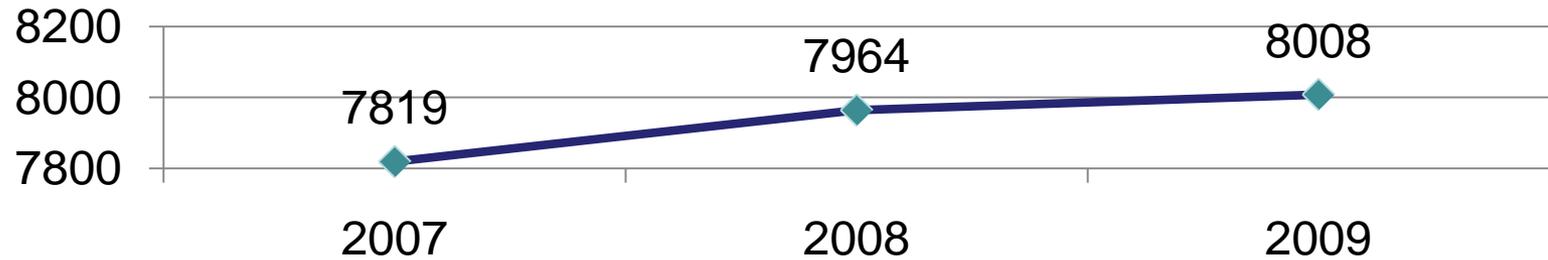
- Total Discounts = \$90,149,262 (or 32% of Charges)
 - BlueCard Discounts = \$8,789,510 (26% of BlueCard Charges)

Retiree Members

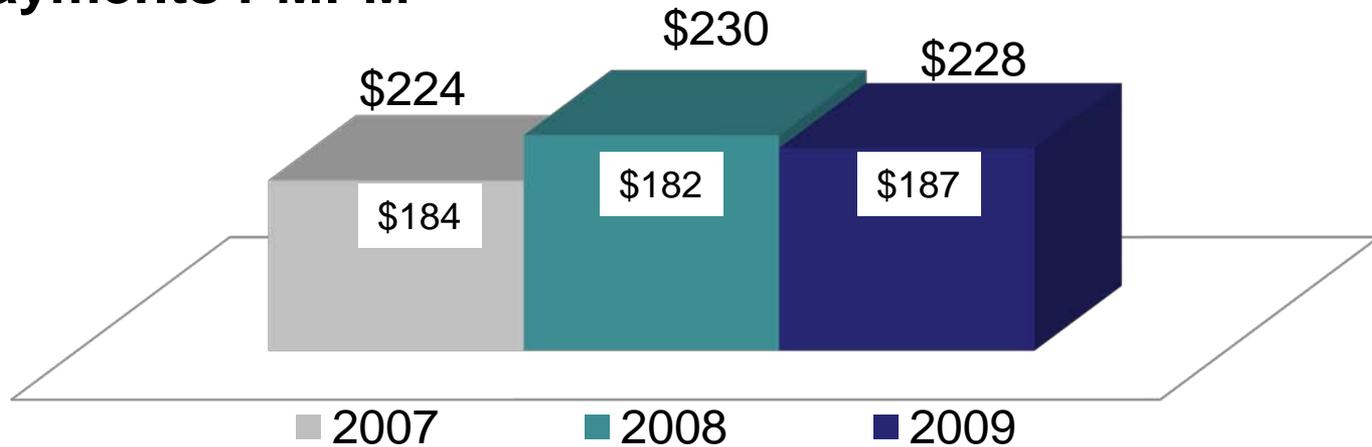
- Total Discounts = \$6,640,815 (or 5% of Charges)
 - BlueCard Discounts = \$1,075,538 (23% of BlueCard Charges)

Retirees Summary

Members



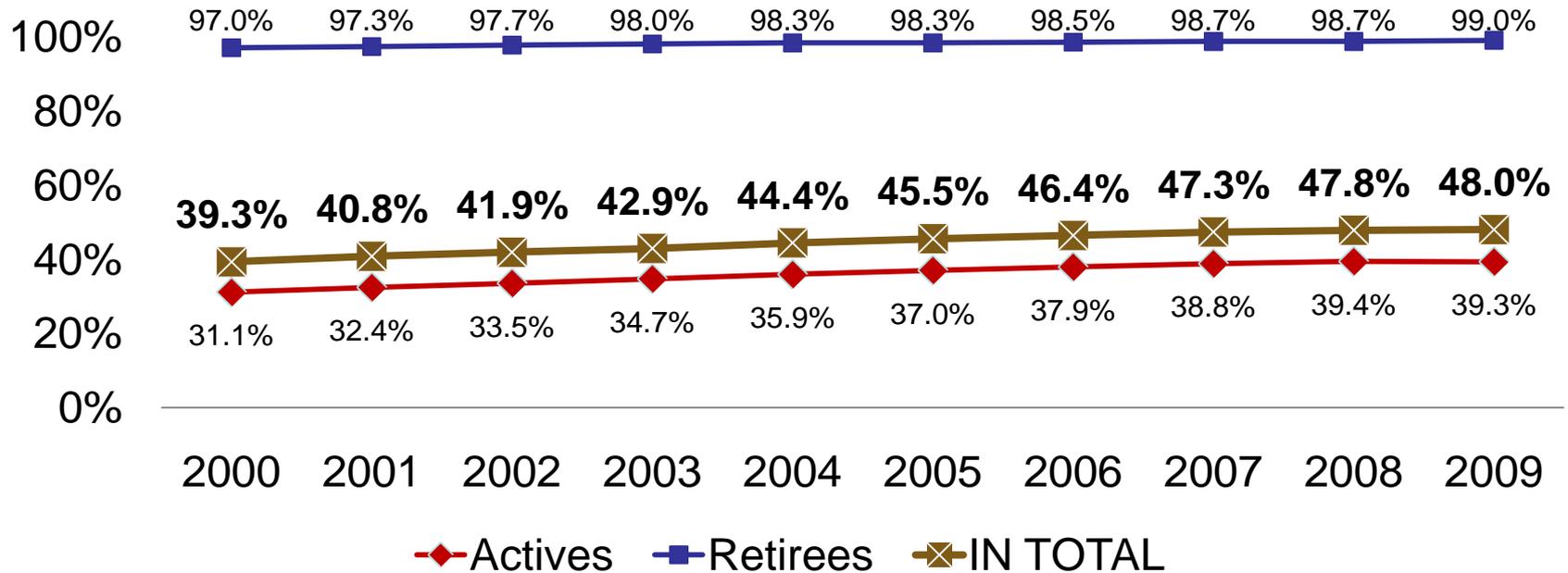
Payments PMPM



July-June

Demographics – IN TOTAL

% of Members over age 45



	Average Age
NDPERS Actives	34.8
Plan	33.0

➤ NDPERS Active members are slightly older than the statewide average

Demographics effect on PMPM

Active Members

Paid PMPM	2005	2006	2007	2008	2009
Age 44 and younger	\$110.51	\$124.63	\$130.04	\$155.35	\$165.98
Age 45 and older	\$285.70	\$305.94	\$340.66	\$356.51	\$381.97

High Dollar Members - IN TOTAL

Claims incurred	High dollar members	High dollar payments*	Percent of Total Payments
07/01/2006-06/30/2007	329	\$ 31,310,846	22.7%
07/01/2007-06/30/2008	384	\$41,498,777	27.3%
07/01/2008-06/30/2009	405	\$44,909,991	27.5%

27.1% Plan Avg.

*Paid claims of \$50,000 or more

➤ Not only are the number of claims increasing but also the intensity of those claims.

	2007	2008	2009
\$50-99K	250	257	269
\$100-199	57	96	107
\$200-499	22	27	24
\$500-999	0	3	3
\$1 Million+	0	1	2

High Dollar Claims - Diagnosis

Actives

- Malignancy 35%
- Heart Disease/Circulatory 13%
- Other 13%

Retirees

- Malignancy 32%
- Heart Disease/Circulatory 29%

Institutional Utilization Comparison – IN TOTAL

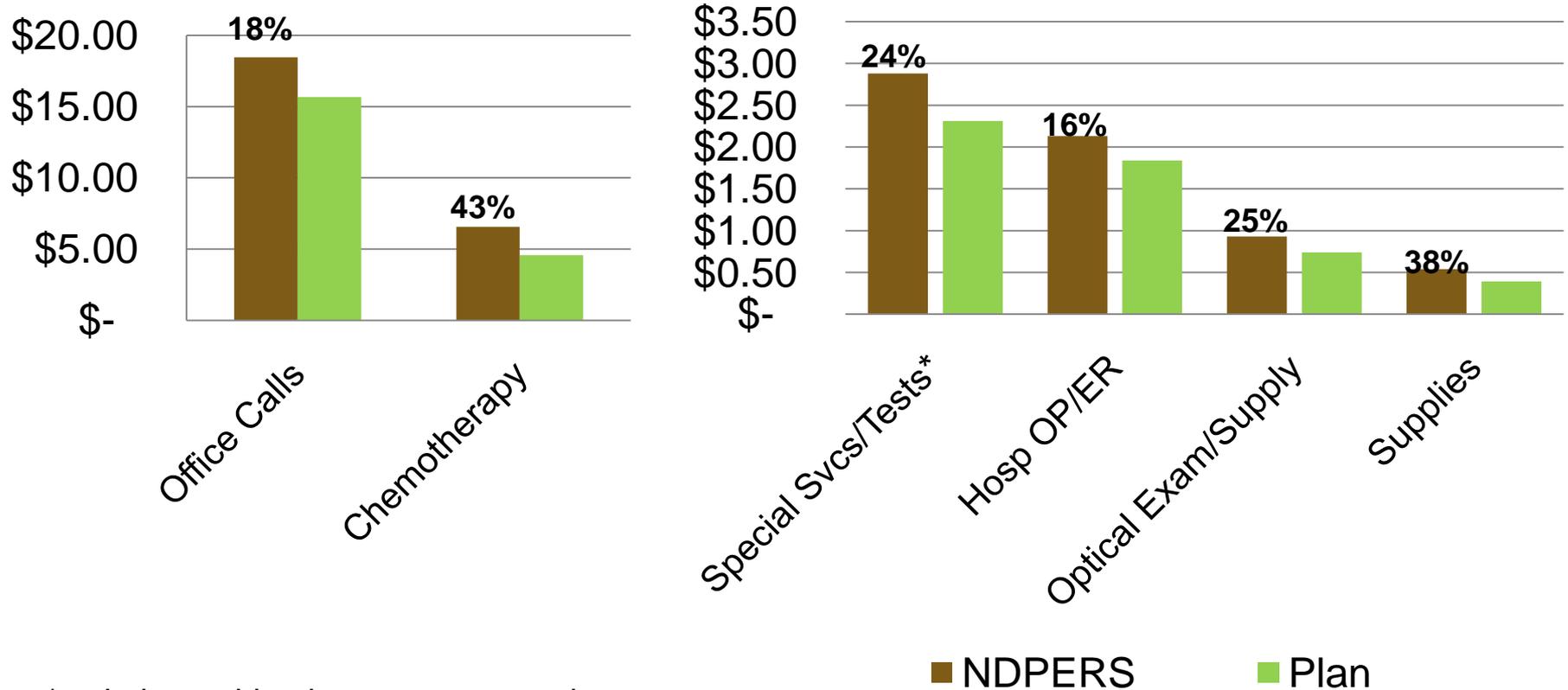
Payments Per Member Per Month



*Services that don't fall into other defined categories ~ typically dialysis.

Professional Utilization Comparison – IN TOTAL

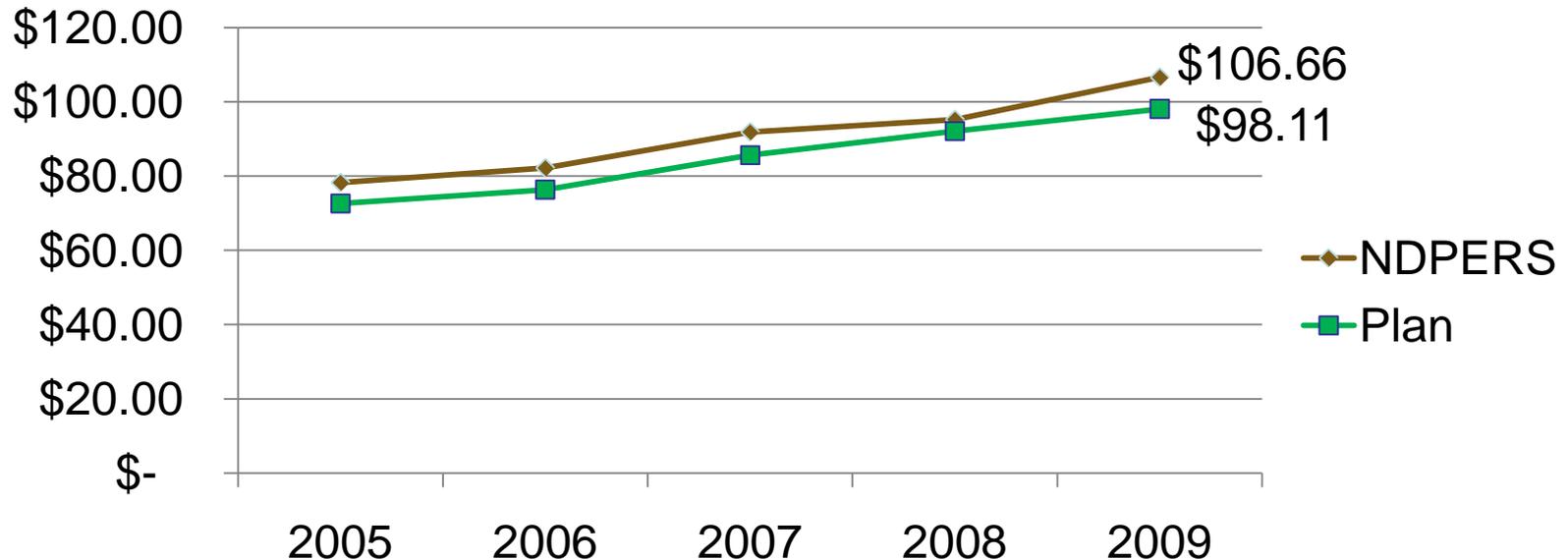
Payments Per Member Per Month



*ambulance, blood components, venipuncture, specimen handling, allergy testing, etc.

Office Calls – IN TOTAL

Includes Lab, X-Ray, and Rx Incurred on the Same Day
Incurred in January with a 3-month run out



2009	Office Visits Per 1000 members
NDPERS	3325
Plan	2874

ER Utilization Rates

	Members	ER Admits	Rate Per 100
<i>Actives</i>			
2006	7,044	9,644	22.37
2007	7,350	10,170	23.18
2008	7,113	9,783	22.17
<i>Plan</i>			
2006	19,155	26,927	20.10
2007	20,090	28,721	20.79
2008	19,880	28,240	21.82

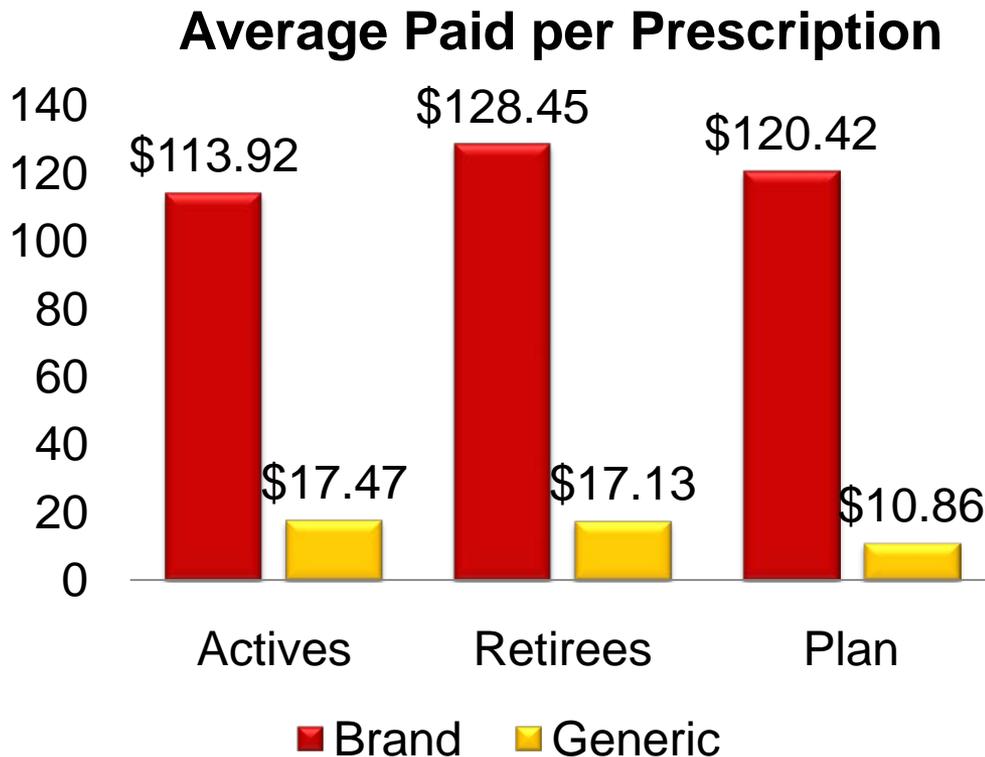
Medical Management reports are run on a CY w/ 3 month run out

ER Utilization Rates Cont.

2008 Top 10 Diagnoses Billed

DESCRIPTIONS	MEMBERS	VISITS
OTITIS MEDIA NOS	243	262
ACUTE URI NOS	226	235
CHEST PAIN NOS	204	212
ABDMNAL PAIN UNSPCF SITE	187	205
ACUTE PHARYNGITIS	192	200
OPEN WOUND OF FINGER	173	173
URIN TRACT INFECTION NOS	148	166
MIGRNE UNSP WO NTRC MGRN	107	166
HEADACHE	121	135
CHEST PAIN NEC	131	133

Prescription Drugs



➤ Generic Utilization rate

- Actives 67%
- Retirees 66%

➤ Top 3 drugs by payments

- Lipitor
- Unlisted drugs/supplies
- Copaxone

➤ 529 mail order Rx's

Member Education

On-going effort by PERS and BCBSND

- Includes a benefit overview
- From *January 2009 through December 2009*:
 - 80 groups/agencies visited (102 Meetings)
 - Jan-Jun: 42 meetings
 - Jul-Dec: 60 meetings
 - 2,601 attendees
- Monthly Group Communication materials available for wellness coordinators

MyHealthCenter & Health Club Credit

July 2009 – Two new wellness programs

- Link in employer based wellness activity
- Train the trainer
- New Position

MyHealthCenter

- Participating – 4,181
HRA's completed
- 10.4% of eligible members
(Plan avg. 9.4%)
- **Payments - \$29,110**

Health Club Credit

- Participating – 1,704
- 4.3% of eligible members
(Plan avg. 4%)
- 63.5% of those
participating have 12+
visits
- **Payments - \$126,900**

Wellness Programs Update

Employer Based Wellness

- Several programs funded
 - Health Fairs, Flu Shots, 5-a-Day Nutrition, Wellness Education, Walking Programs

2007 – 2009 Biennium

- Funded by \$.11/Contract/Month
- Through 6/30/09 - \$64,412 paid for 93 Programs

Current 2009 – 2011 Biennium

- Funded by Cash Reserves
- As of 2/08/10, \$20,125 paid for 26 Programs

Medical Management

- Prenatal Plus - 588 Deliveries
 - 194 Participated in PNP (33%)
 - 12 High Risk
 - 182 Low Risk
 - 394 NON participants

- Detailed Medical Mgmt. report will be provided at a future Board meeting

Smoking Cessation

- Program is in it's fourth Biennium
- Promotional plan is handled by the Health Dept.
 - Mailings, posters
- Will provide numbers update at a future meeting

Pharmacy Disease Management Program

Effective 7-1-2008

BCBSND Provides Administrative Support

1. Provide eligibility files
2. Promotional materials
 - Postcards
3. Copayment Reporting
4. Process Reimbursement Requests (as of 2/3/2010)
 - Provider Reimbursement - \$224,320
 - Copay Incentive Reimbursements – \$78,636
 - Other admin – checks & yearly admin \$6,644.95 (ND Pharmacy Service Corp.)
 - Promotional materials – \$3,192.58 (BCBSND)

Recommendations

Utilization/Benefits

- ER Copay review
- Rx options

Reporting

- Quarterly Executive Summary
- Tobacco Cessation
- Redesign Annual Utilization Study

Recommendations

Promotion in newsletter or email blitz

- Member Ed for Wellness Program Promotion
- Mail order
- Generic Drug Toolkit
- Prenatal Plus

Questions





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Memorandum

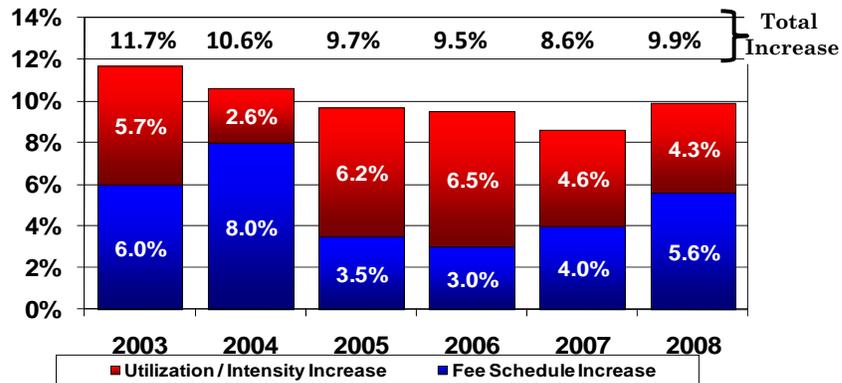
TO: PERS Board
FROM: Sparb Collins
DATE: February 16, 2010
SUBJECT: BCBS Update

Attached is information in response to questions from the Board at the last meeting. Representatives from BCBS will be at the Board meeting to review this information.

- Trend Components
- Milliman Study Summary
- Milliman Study

Reimbursement Increase + Utilization = Trend

Change in Payments to ND Providers

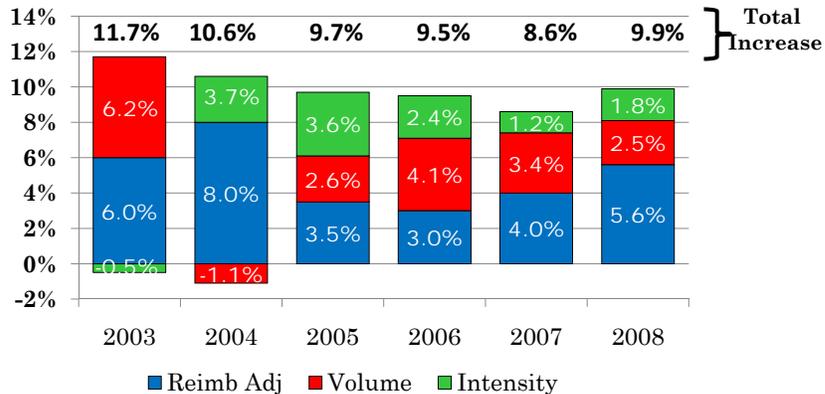


PMPM changes for BCBSND members residing in North Dakota.



Reimb. Adj. + Volume + Intensity = Trend

Change in Payments to ND Providers



PMPM changes for BCBSND members residing in North Dakota.





Milliman Study

- Evaluation of Health Insurance Premiums and Provider Reimbursement Levels
 - **Sponsored by the ND Medical Association**
 - Funded by:
 - Altru Health System
 - Innovis Health
 - MeritCare Health System
 - St. Alexius Medical Center
 - Medcenter One
 - Trinity Health
 - Blue Cross Blue Shield of North Dakota



Milliman Study

- **Comparison consists of five separate components:**
 1. Health insurance premiums
 2. Private payer hospital reimbursement
 3. Private payer physician reimbursement
 4. Hospital operating costs
 5. Hospital operating margins

Comparison States

CMS' West North Central Region + Montana



Confidential and Proprietary Information, BCBSND

Summary of Key Results

Measure	North Dakota	Comparison States' Average	North Dakota vs Other States
I. Average Premium	\$322	\$399	83%
II. Private Payer Hospital Reimbursement per RVU - Geog. Adjusted	\$66	\$96	69%
III. Private Payer Physician Reimbursement as a % of Medicare - Geog. Adjusted	152%	164%	93%
IV. Hospital Costs per RVU - Geog. Adjusted	\$44	\$49	91%
V. FY 2007 Total Hospital Operating Margin	1.8%	6.9%	-5.1%

Confidential Information, BCBSND

Source: Milliman - Table A ⁴



Milliman Study

Premium aligned with Reimbursement

Measure	North Dakota vs Other States	Ratio of Healthcare Expenditure	Weighted Average Reimbursement
I. Average Premium	83%		
II. Private Payer Hospital Reimbursement per RVU - Geog. Adjusted	69%	50%	35%
III. Private Payer Physician Reimbursement as a % of Medicare - Geog. Adjusted	93%	50%	47%
Overall Average Percent of Reimb.			81%

Approximately 15% of BCBSND's provider payments are paid to out of state providers at other plans' rates. Those payments are accounted for in average premium. That is a major contributing factor to the couple of percent difference between premium and reimbursement.

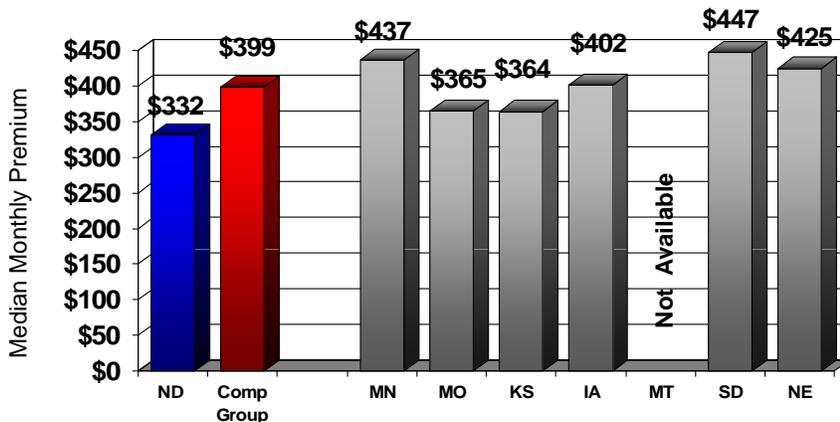
Confidential Information, BCBSND

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Milliman Study

Statewide Premiums - Single Enrollees July 1, 2008

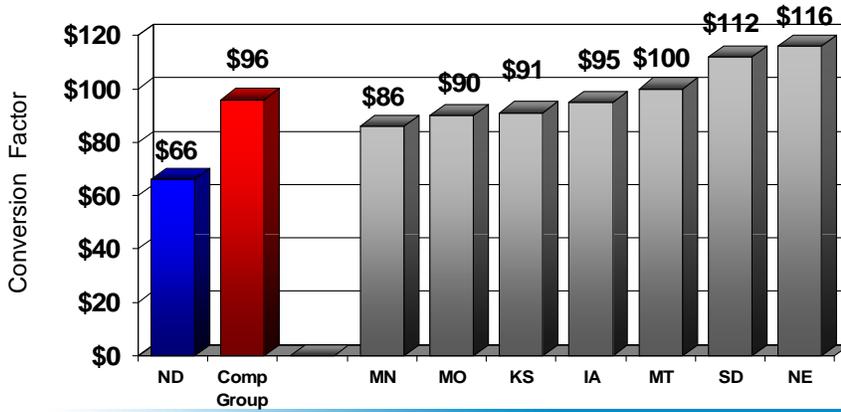


Confidential Information, BCBSND

Source: Milliman - Chart I

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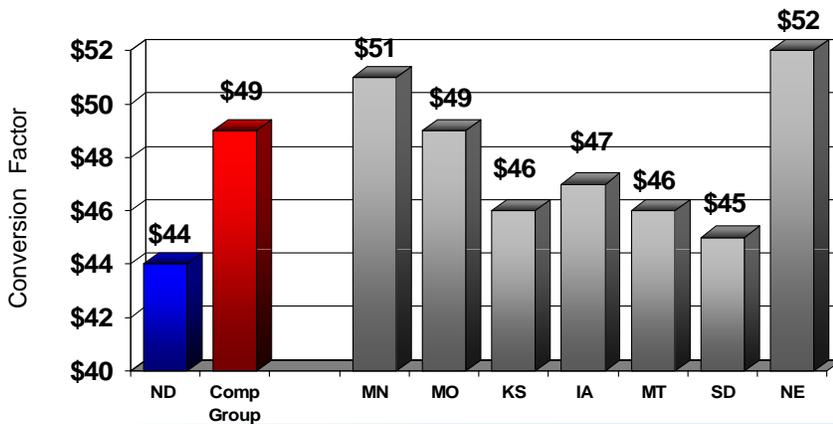
Total 2006 Hospital Payments Geographically Adjusted



Confidential Information, BCBSND

Source: Milliman – Chart II-B ⁷

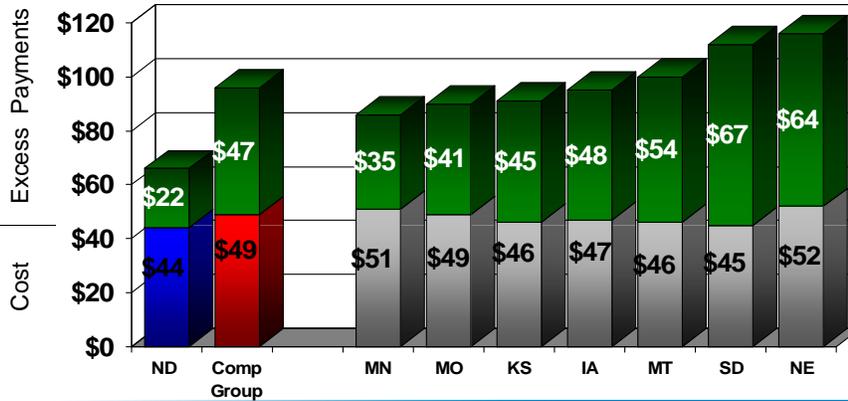
Total 2006 Hospital Costs Geographically Adjusted



Confidential Information, BCBSND

Source: Milliman – Chart IV ⁸

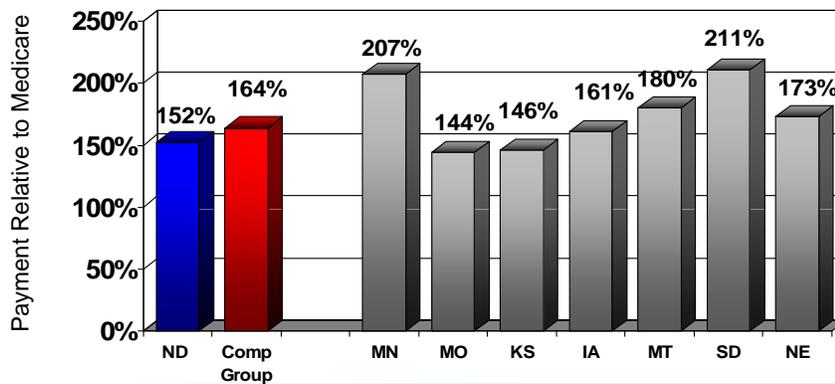
**Total 2006 Hospital Payments
above Hospital Costs per RVU
Geographically Adjusted**



Confidential Information, BCBSND

9

**2006 Physician Payments
as % Medicare Fee Schedule
Geographically Adjusted**



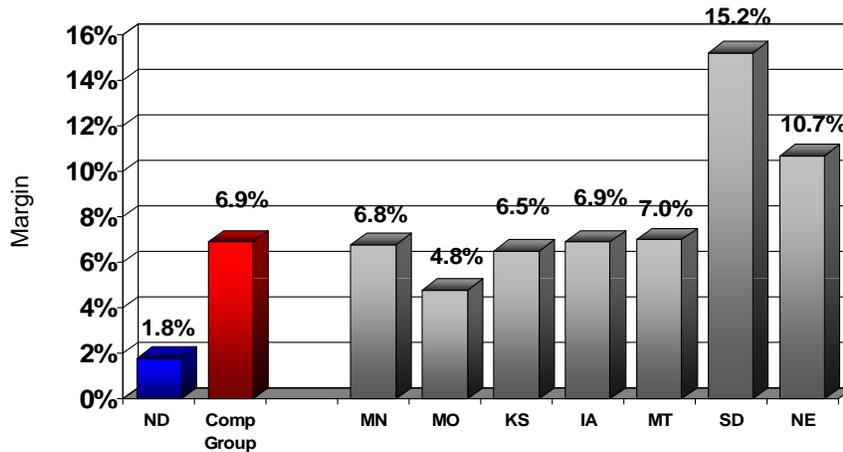
Confidential Information, BCBSND

Source: Milliman – Chart III

10



Total 2007 Hospital Margins



Confidential Information, BCBSND

Source: Milliman – Chart V

11



- **Observations from Milliman study**
 - **Premiums are low – relatively speaking**
 - **Provider payments are low – relatively speaking**
 - **Provider operating costs are low**
 - **Hospital reimbursement at 150% of cost is not sufficient to compensate for continued losses due to inadequate Medicare/Medicaid payments**
 - **Premiums align with provider reimbursement**

Confidential Information, BCBSND

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NORTH DAKOTA MEDICAL ASSOCIATION

*EVALUATION OF HEALTH INSURANCE PREMIUMS AND PROVIDER
REIMBURSEMENT LEVELS*

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EXECUTIVE SUMMARY

At the request of the North Dakota Medical Association (NDMA), Milliman has prepared a report comparing health insurance premiums and provider reimbursement levels in North Dakota against other nearby states. We were originally tasked with a comparison against other states in CMS' West North Central Region (Iowa, Kansas, Minnesota, Missouri, Nebraska and South Dakota). We have also added data for Montana, where available, due to similarities in the health care markets in Montana and North Dakota.

The analysis consists of five separate components each comparing North Dakota to the comparison states:

- Section I – health insurance premiums
- Section II – private payer hospital reimbursement
- Section III – private payer physician reimbursement
- Section IV – hospital operating costs
- Section V – hospital operating margins.

In general, North Dakota has lower premiums, provider costs and provider reimbursement levels than the benchmark comparison states. Table A below summarizes the key results for North Dakota and the benchmark states.

Table A
SUMMARY OF KEY RESULTS

Measure	North Dakota	Comparison States' Average	North Dakota vs Other States
I. Average Premium	\$332	\$399	83%
II. Private Payer Hospital Reimbursement per RVU - Geog. Adjusted	\$66	\$96	69%
III. Private Payer Physician Reimbursement as % of Medicare - Geog. Adjusted	152%	164%	93%
IV. Hospital Costs per RVU - Geog. Adjusted	\$44	\$49	91%
V. FY 2007 Total Hospital Operating Margin	1.8%	6.9%	-5.1%

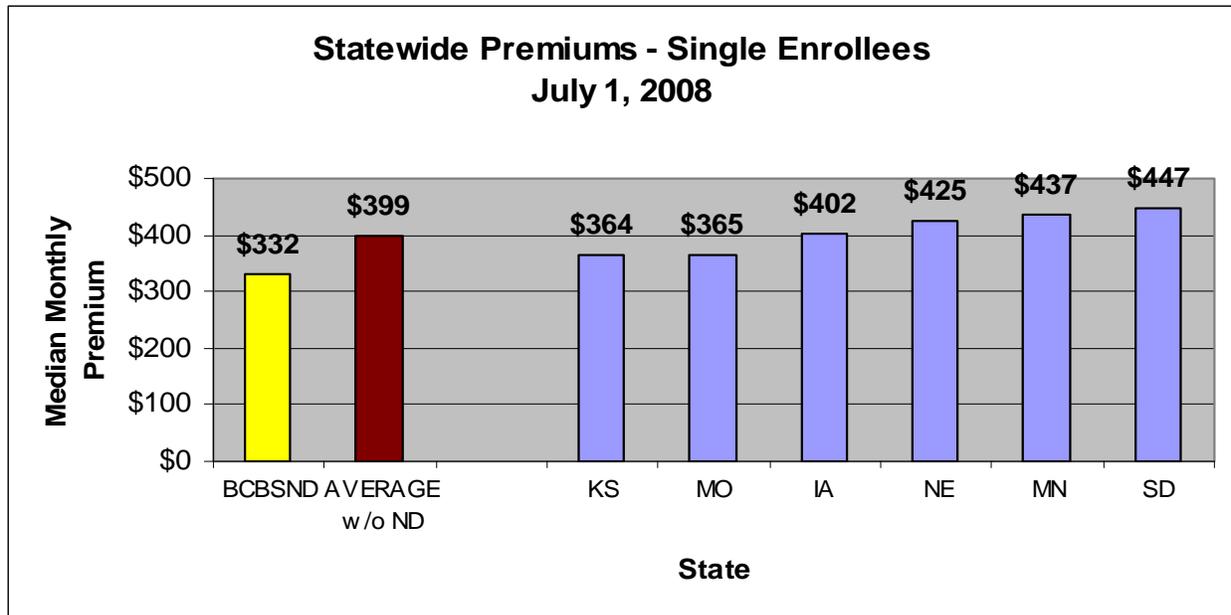
The premium comparison is not adjusted for the relative costs in North Dakota, however the other measures were geographically adjusted for wage and capital cost differences using Medicare geographic adjustments.

The rest of this report presents our methodology, assumptions and additional details comparing North Dakota to the comparison states.

I. HEALTH INSURANCE PREMIUM COMPARISON

Chart I below shows a comparison of health insurance premiums in North Dakota against the benchmark comparison states. Premium rates for BCBSND are below the median and mean for each of the comparison states, and roughly equal to the 25th percentile across the benchmark states. The BCBSND premium is approximately 15% below the median and mean among the comparison states. Note that no survey data was available for Montana. Exhibit I shows more detailed data behind this comparison.

Chart I



Health insurance premiums for North Dakota were provided by BCBSND. Health insurance premiums for comparison states were summarized using PPO data from the 2008 Milliman *Group Health Insurance Survey*. The survey was sent nationwide to HMOs and fully insured PPOs that serve the commercial large- or mid-sized group markets. Over one-third of all companies respond to the survey.

The survey asks carriers to provide premium information for plans with a July 1, 2008 renewal date. Respondents are asked to provide premiums for three standard plan designs based upon a specific set of enrollee demographics. The plan designs are shown in Appendix A. The standard PPO plan design was used for this analysis. BCBSND indicated that their premiums were based upon a slightly different plan design. Using the Milliman *Health Cost Guidelines*, we estimate that the plan priced by BCBSND is approximately 4% less expensive than the standard plan design. Therefore, to create a more accurate comparison, we have increased the BCBSND premium by approximately 4% above what was reported in the survey document. If this adjustment had not been made, the BCBSND premium would have appeared even lower relative to the comparison benchmark.

Milliman has been surveying and publishing premium comparisons for over 10 years. The survey results are a tabulation of unaudited responses. However, results were screened for reasonableness with respondents contacted selectively to gain clarity.

Exhibit I
North Dakota Medical Association
North Dakota Health Insurance Premiums vs. Comparison States
2008 Group Health Insurance Survey Responses

	Monthly Premium (7/1/08 rate level)							
	Single Employee				Family			
	25th Pct	Median	75th Pct	Mean	25th Pct	Median	75th Pct	Mean
BCBSND ⁽¹⁾	\$332.39	\$332.39	\$332.39	\$332.39	\$864.14	\$864.14	\$864.14	\$864.14
Iowa	317.95	402.07	441.12	379.38	817.98	1,049.62	1,101.97	970.23
Kansas	359.25	364.43	386.22	368.95	850.56	953.03	990.75	923.47
Minnesota	404.09	437.32	464.45	431.23	992.68	1,147.27	1,261.83	1,107.24
Missouri	327.88	365.30	399.50	387.02	878.53	981.37	1,036.30	1,002.54
Montana	NA	NA	NA	NA	NA	NA	NA	NA
Nebraska	356.28	424.87	490.63	422.04	961.00	1,100.61	1,239.19	1,099.58
South Dakota	391.21	447.38	485.18	435.13	982.37	1,118.44	1,212.95	1,090.73
Average	341.52	398.96	447.45	400.28	868.25	1,014.47	1,157.17	1,024.70
ND vs. Average	97.3%	83.3%	74.3%	83.0%	99.5%	85.2%	74.7%	84.3%

⁽¹⁾ BCBSND premiums have been increased by approximately 4% based upon differences between BCBSND plan design and the standard surveyplan design

II. HOSPITAL REIMBURSEMENT COMPARISON

Patient severity adjusted private payer hospital reimbursement was measured using the Hospital Evaluation and Comparison System (HECS™), a proprietary product developed by Milliman. HECS™ uses *RBRVS for Hospitals™*, another proprietary product developed by Milliman, to assign Relative Value Units (RVUs) to hospital inpatient and outpatient services. RVUs represent the relative amount of work required for each service. Dividing allowed charges by RVUs for each state yields a conversion factor, which is an indicator of the patient severity adjusted reimbursement per RVU. A hospital with a higher conversion factor is receiving higher reimbursement per unit of work than a hospital with a lower conversion factor.

Appendix B describes the development and use of *RBRVS for Hospitals™* in more detail.

We calculated average conversion factors for hospitals in each state (as well as the average across all comparison states). Calculations were performed in total, for inpatient services, for outpatient services, and by more detailed service categories (e.g. Emergency Room, Inpatient Surgery, Radiology).

We used data from the MedStat MarketScan database for the majority of this hospital analysis. However, MedStat has relatively limited exposure for North Dakota in particular. Therefore, with the consent of BCBSND, we used BCBSND data instead of MedStat for North Dakota. BCBSND is assumed to be representative of the entire state given its large market share. We used allowed charges from both data sources and therefore, they can be combined for analysis without introducing bias. Since the most recent calendar year data available from MedStat is currently 2006, we used 2006 data from both MedStat and BCBSND in our analysis.

Chart II-A

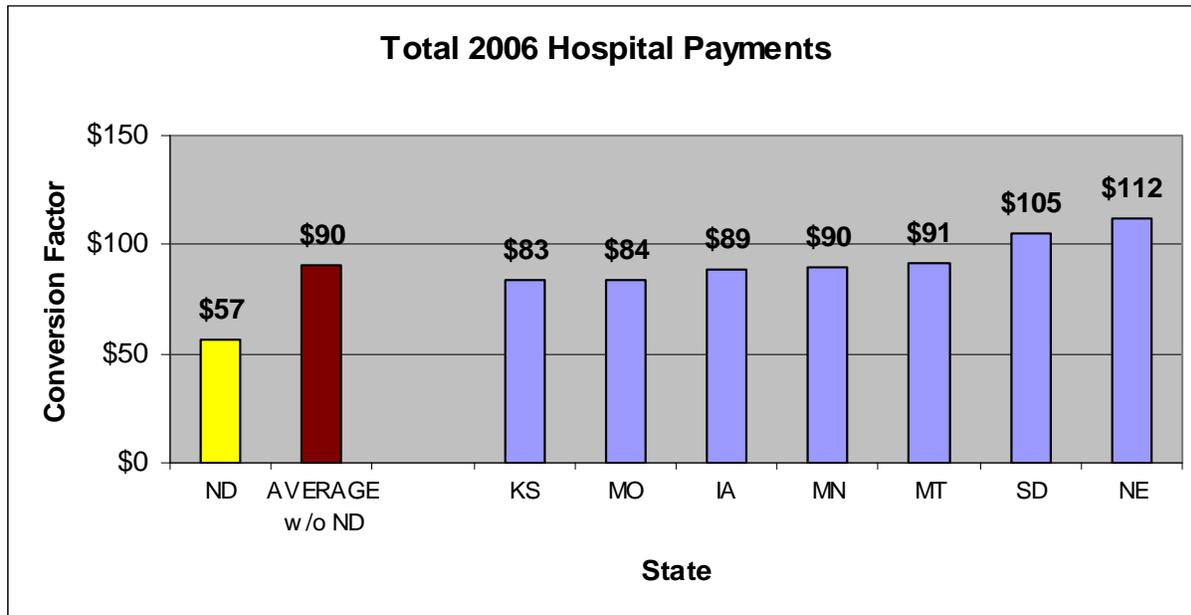
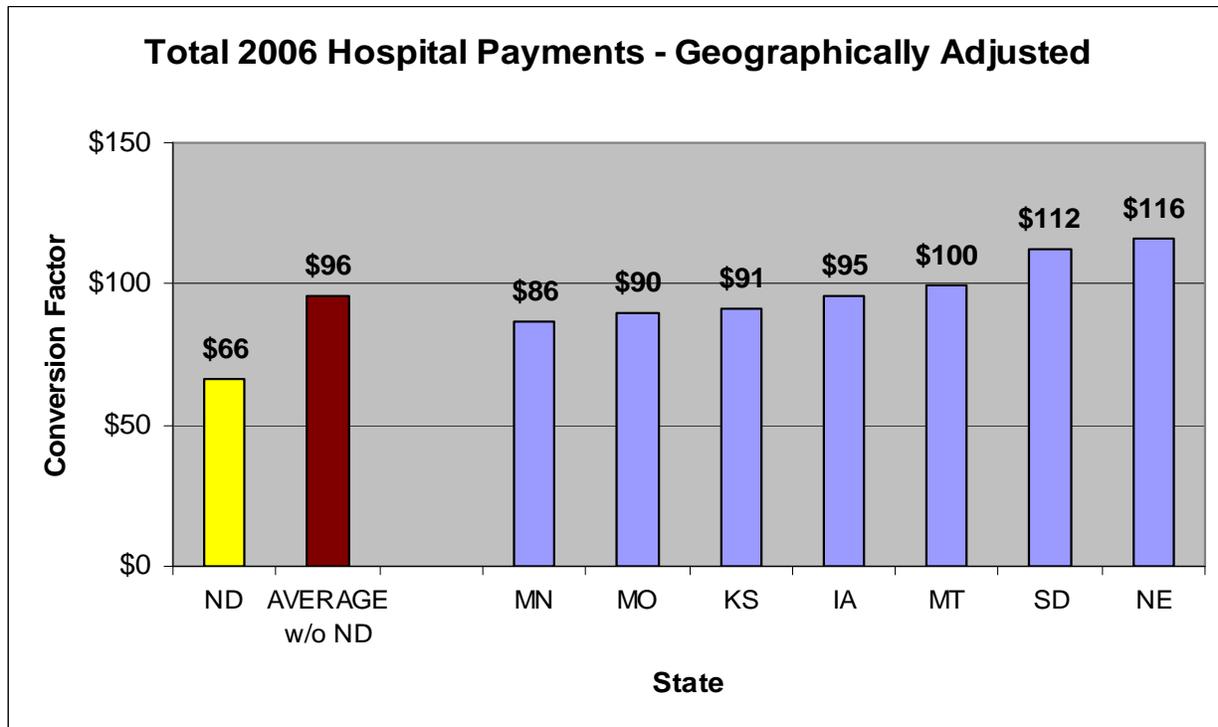


Chart II-A compares hospital reimbursement for North Dakota against each of the comparison states. A more detailed look at hospital reimbursement is shown in Exhibit II. Based on the calculated conversion factors, hospitals in North Dakota are being paid approximately 37% less

than the comparison states for the same level of service (30% for inpatient services, 43% for outpatient services).

In order to account for cost of labor and capital differences by state, we calculated a second set of conversion factors that adjusts for these differences. A comparison of these geographically adjusted conversion factors is shown in Chart II-B below, and they are shown in more detail on Exhibit II.

Chart II-B



For this set of conversion factors, we divided the conversion factors by Medicare’s geographic payment adjustments. We derived the geographic payment adjustments using a weighted average of the Medicare Wage Index Factors (weighted by the labor component of the Medicare payment rate) and 1.00 (weighted by 1 minus the labor component). These factors show that, even with a cost adjustment, North Dakota hospitals are reimbursed at a much lower level than the comparison states. Inpatient services are paid approximately 23% below the comparison states, while outpatient services are paid approximately 38% less than the average of those same states.

Exhibit II
North Dakota Medical Association
North Dakota Hospital Reimbursement vs. Comparison States
2006 Hospital Allowed Charges - Adjusted for Patient Severity

	Patient Severity Adjusted Allowed Charges per RVU												Medicare Geographic Payment Adjustment	
	Inpatient					Outpatient(1)							IP	OP
	Medical + SNF	Surgical	Mat	MH/SA	Total	ER	Surg	Rad	Lab	Other	Total	Total		
North Dakota	\$61	\$64	\$37	\$42	\$57	\$56	\$44	\$77	\$82	\$62	\$56	\$57	0.859	0.857
Iowa	80	75	51	46	74	95	81	113	167	126	105	89	0.938	0.923
Kansas	96	91	62	45	86	99	51	82	126	136	80	83	0.922	0.910
Minnesota	111	95	72	63	94	91	63	84	143	102	86	90	1.046	1.037
Missouri	80	76	49	45	72	131	63	115	177	132	97	84	0.930	0.939
Montana	86	90	67	66	84	95	51	125	124	398	97	91	0.913	0.913
Nebraska	117	103	58	65	99	110	83	144	171	220	129	112	0.965	0.961
South Dakota	124	111	76	61	106	115	74	119	150	156	104	105	0.947	0.923
Average	90	86	60	53	82	98	62	111	144	155	98	90	0.947	0.936
ND vs. Average	68%	75%	62%	80%	70%	57%	71%	70%	57%	40%	57%	63%		

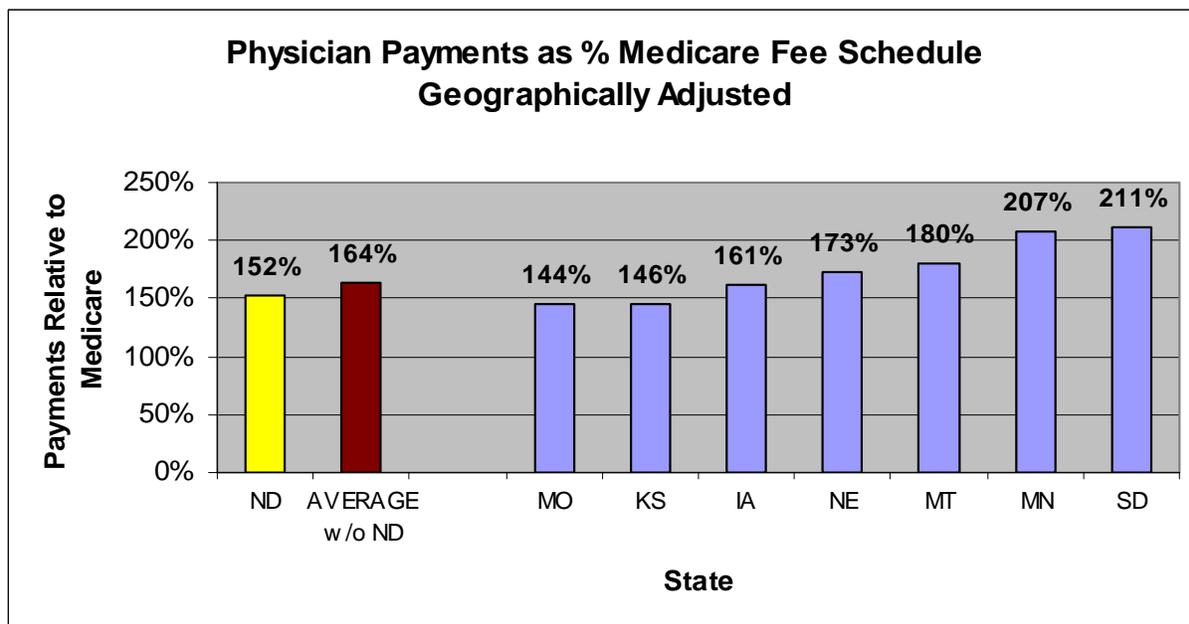
	Patient Severity Adjusted Allowed Charges per RVU - Geographically Adjusted											
	Inpatient					Outpatient(1)						
	Medical + SNF	Surgical	Mat	MH/SA	Total	ER	Surg	Rad	Lab	Other	Total	Total
North Dakota	\$71	\$75	\$43	\$49	\$67	\$66	\$51	\$90	\$96	\$72	\$65	\$66
Iowa	85	80	55	49	79	103	87	123	182	136	113	95
Kansas	105	98	68	50	94	110	55	90	139	149	88	91
Minnesota	106	90	69	61	90	88	60	81	137	99	83	86
Missouri	86	81	53	48	77	140	68	123	189	140	104	90
Montana	94	98	74	72	92	105	56	137	136	436	106	100
Nebraska	121	106	61	67	103	114	87	150	178	229	135	116
South Dakota	131	117	80	64	112	125	80	130	163	169	112	112
Average	95	90	64	56	87	105	66	118	155	165	105	96
ND vs. Average	75%	83%	68%	87%	77%	63%	78%	76%	62%	44%	62%	69%

III. PROFESSIONAL REIMBURSEMENT COMPARISON

Professional reimbursement was determined by comparing actual allowed charges against allowed charges for those same claims repriced using Medicare’s 2008 fee schedules. As in Section II, 2006 MedStat data was used for the benchmark comparison states and 2006 BCBSND data was used for North Dakota due to the limited data for North Dakota within MedStat.

After re-pricing to Medicare, claims data was grouped into approximately 40 CPT range categories. The actual allowed charges were then compared to Medicare allowed charges for each state and CPT range. Chart III shows a summary of results. More detailed results are shown in Exhibits III-A and III-B. For Exhibit III-A Medicare allowed charges are calculated without incorporating geographic adjustments (i.e. the Geographic Practice Cost Index, or “GPCI”). Exhibit III-B is similar to Exhibit III-A except that the Medicare allowed charges are adjusted using the GPCI factors.

Chart III



Exhibits III-A and III-B show that professional reimbursement in North Dakota is below the average in the comparison states. After application of the GPCI adjustment, North Dakota physicians are being reimbursed approximately 7% less than physicians in the comparison states for the same services. Chart III shows individual state payment levels (after adjustment for GPCI differences) relative to Medicare.

It is worth noting that the variance among the different CPT range categories is significant, with North Dakota showing higher reimbursement in some and much lower reimbursement in others. One observation is that surgical procedures in North Dakota appear to be reimbursed at a much lower level than in the comparison states (166% of Medicare vs. 205%, or 81% of comparison states). All other procedures appear to be reimbursed at a fairly similar level in aggregate (148% vs. 153%, or 97% of comparison states).

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A second analysis of professional reimbursement was performed using Ingenix MDR data. The Ingenix MDR data provides a distribution of costs for professional services by CPT code and 3-digit zip code. The data was aggregated across zip codes to the state level using standard Milliman demographic data. The Ingenix data shows that reimbursement in North Dakota is higher than in the other comparison states. This is different from the result obtained using the BCBSND and MedStat data. It is our opinion that the BCBSND data is much more credible than the MDR data due to its sheer volume (the MDR data has relatively limited data for North Dakota), and thus we put more credence in the BCBSND/Medstat comparison. However, because we have not been able to reconcile the differences between these two exhibits, we can not say definitively that the BCBSND/Medstat comparison is correct.

Exhibit III-A
North Dakota Medical Association
North Dakota Physician Reimbursement vs. Comparison States
Allowed Charges as a Percentage of Medicare Nationwide Fee Schedule

Average Reimbursement as a Percentage of Nationwide Medicare

Code Range	North							South		ND vs. Average
	Dakota	Iowa	Kansas	Minnesota	Missouri	Montana	Nebraska	Dakota	Average	
Total	140%	154%	139%	204%	141%	168%	160%	196%	157%	89%
Surgery - Total	150%	195%	173%	267%	176%	188%	200%	276%	194%	77%
Non-Surgery	138%	143%	130%	189%	130%	163%	148%	169%	147%	94%
Acupuncture	0%	0%	0%	0%	0%	0%	0%	0%	0%	N/A
Allergy and Clinical Immunology	153%	352%	363%	492%	367%	378%	442%	551%	380%	40%
Cardiovascular	157%	190%	185%	278%	158%	186%	166%	266%	183%	86%
Chemotherapy	147%	147%	138%	192%	132%	182%	167%	196%	155%	95%
Chiropractic / Osteopathic Medicine	148%	124%	126%	138%	126%	141%	132%	130%	129%	114%
Dermatology	89%	128%	104%	115%	125%	109%	110%	198%	118%	75%
Dialysis	161%	161%	184%	355%	147%	175%	185%	253%	178%	91%
ENT Services	129%	150%	131%	169%	129%	140%	140%	181%	143%	90%
Evaluation and Management	129%	128%	116%	161%	115%	143%	134%	143%	129%	100%
Gastroenterology	150%	161%	135%	246%	116%	170%	160%	220%	160%	93%
Home Health / Home Infusion	0%	0%	0%	0%	0%	0%	0%	0%	0%	N/A
Immunizations	108%	119%	118%	130%	115%	122%	123%	123%	120%	90%
Miscellaneous Medical	105%	410%	405%	422%	553%	776%	632%	712%	497%	21%
Neurology	156%	171%	140%	247%	135%	164%	156%	208%	162%	96%
Non-Invasive Vascular Diagnostic Studies	160%	164%	157%	211%	132%	230%	161%	227%	165%	97%
Nutrition Therapy	84%	168%	104%	160%	144%	122%	116%	125%	139%	61%
Ophthalmology	124%	132%	117%	148%	119%	131%	123%	128%	127%	98%
Pathology and Laboratory	160%	165%	130%	223%	150%	174%	156%	206%	161%	99%
Physical Medicine and Rehab	144%	163%	170%	190%	171%	205%	185%	185%	180%	80%
Psychiatry	130%	118%	120%	148%	119%	122%	119%	123%	123%	106%
Pulmonary	136%	167%	152%	238%	138%	180%	151%	213%	166%	82%
Radiology	139%	178%	151%	233%	141%	220%	182%	203%	178%	78%
Surgery - Auditory System	151%	178%	180%	268%	155%	181%	186%	220%	181%	83%
Surgery - Cardiovascular System	160%	223%	239%	371%	199%	200%	235%	382%	233%	69%
Surgery - Digestive System	146%	247%	187%	315%	188%	193%	246%	306%	219%	67%
Surgery - Endocrine System	154%	210%	185%	506%	173%	227%	222%	217%	235%	66%
Surgery - Eye and Ocular Adnexa	150%	186%	178%	241%	164%	178%	159%	271%	179%	84%
Surgery - Female Genital System	150%	201%	169%	243%	168%	215%	212%	263%	194%	77%
Surgery - Hemic and Lymphatic Systems	151%	233%	157%	854%	235%	186%	214%	216%	278%	54%
Surgery - Integumentary System	139%	158%	138%	194%	143%	156%	171%	215%	157%	88%
Surgery - Intersex Surgery	0%	0%	0%	0%	0%	0%	0%	0%	0%	N/A
Surgery - Male Genital System	147%	198%	151%	282%	144%	167%	250%	222%	185%	79%
Surgery - Maternity Care and Delivery	149%	150%	132%	169%	126%	153%	147%	178%	145%	103%
Surgery - Mediastinum and Diaphragm	136%	161%	169%	230%	138%	148%	152%	186%	167%	81%
Surgery - Musculoskeletal System	155%	210%	187%	280%	201%	223%	220%	320%	215%	72%
Surgery - Nervous System	155%	256%	216%	348%	214%	217%	240%	374%	240%	65%
Surgery - Respiratory System	152%	191%	177%	286%	171%	192%	194%	288%	195%	78%
Surgery - Urinary System	153%	201%	158%	313%	165%	191%	224%	287%	196%	78%
Therapeutic Injections	147%	141%	143%	196%	152%	182%	170%	150%	160%	91%

Exhibit III-B
North Dakota Medical Association
North Dakota Physician Reimbursement vs. Comparison States
Allowed Charges as a Percentage of Medicare Area-Adjusted Fee Schedule

Average Reimbursement as a Percentage of Area-Adjusted Medicare

Code Range	<u>North</u>	Iowa	Kansas	Minnesota	Missouri	Montana	Nebraska	<u>South</u>	<u>Average</u>	<u>ND vs.</u>
	<u>Dakota</u>							<u>Dakota</u>		<u>Average</u>
Total	152%	161%	146%	207%	144%	180%	173%	211%	164%	93%
Surgery - Total	166%	207%	185%	275%	181%	203%	221%	305%	205%	81%
Non-Surgery	148%	149%	137%	192%	133%	174%	159%	181%	153%	97%
Acupuncture	0%	0%	0%	0%	0%	0%	0%	0%	0%	N/A
Allergy and Clinical Immunology	177%	387%	411%	508%	403%	445%	513%	644%	425%	42%
Cardiovascular	175%	202%	202%	285%	165%	208%	183%	295%	195%	90%
Chemotherapy	171%	159%	149%	196%	141%	212%	190%	222%	169%	101%
Chiropractic / Osteopathic Medicine	157%	128%	131%	139%	129%	149%	138%	137%	134%	117%
Dermatology	106%	136%	108%	116%	129%	118%	123%	231%	125%	85%
Dialysis	172%	167%	193%	360%	150%	186%	196%	267%	183%	94%
ENT Services	132%	156%	141%	169%	132%	154%	155%	201%	150%	88%
Evaluation and Management	140%	133%	121%	164%	118%	153%	143%	154%	134%	104%
Gastroenterology	171%	171%	146%	250%	120%	189%	171%	241%	169%	101%
Home Health / Home Infusion	0%	0%	0%	0%	0%	0%	0%	0%	0%	N/A
Immunizations	110%	121%	119%	131%	116%	124%	125%	125%	121%	91%
Miscellaneous Medical	116%	375%	423%	429%	563%	817%	674%	760%	503%	23%
Neurology	174%	181%	151%	252%	139%	184%	168%	228%	173%	100%
Non-Invasive Vascular Diagnostic Studies	185%	178%	174%	217%	139%	264%	179%	257%	178%	104%
Nutrition Therapy	91%	170%	105%	162%	147%	124%	117%	125%	141%	65%
Ophthalmology	135%	138%	123%	149%	122%	140%	131%	137%	132%	102%
Pathology and Laboratory	165%	167%	135%	224%	154%	177%	165%	213%	165%	100%
Physical Medicine and Rehab	156%	170%	179%	192%	175%	220%	197%	197%	188%	83%
Psychiatry	136%	120%	123%	149%	121%	126%	122%	127%	125%	108%
Pulmonary	155%	180%	168%	245%	143%	205%	170%	241%	179%	87%
Radiology	155%	191%	165%	239%	147%	248%	200%	225%	191%	82%
Surgery - Auditory System	168%	189%	194%	275%	160%	197%	204%	243%	192%	88%
Surgery - Cardiovascular System	174%	231%	249%	379%	204%	212%	252%	411%	242%	72%
Surgery - Digestive System	160%	258%	200%	322%	192%	207%	267%	330%	229%	70%
Surgery - Endocrine System	169%	222%	198%	522%	178%	243%	242%	237%	247%	68%
Surgery - Eye and Ocular Adnexa	163%	195%	189%	245%	170%	193%	170%	293%	188%	87%
Surgery - Female Genital System	164%	212%	181%	250%	172%	233%	232%	286%	204%	80%
Surgery - Hemic and Lymphatic Systems	166%	245%	167%	877%	240%	201%	232%	233%	291%	57%
Surgery - Integumentary System	154%	167%	147%	198%	148%	171%	187%	238%	166%	93%
Surgery - Intersex Surgery	0%	0%	0%	0%	0%	0%	0%	0%	0%	N/A
Surgery - Male Genital System	163%	210%	159%	288%	148%	184%	271%	243%	196%	83%
Surgery - Maternity Care and Delivery	168%	161%	145%	179%	129%	167%	167%	202%	155%	108%
Surgery - Mediastinum and Diaphragm	149%	171%	182%	238%	141%	159%	166%	205%	176%	85%
Surgery - Musculoskeletal System	174%	224%	202%	291%	207%	243%	245%	358%	228%	76%
Surgery - Nervous System	173%	271%	232%	362%	220%	235%	268%	409%	253%	68%
Surgery - Respiratory System	168%	202%	189%	292%	176%	209%	210%	312%	205%	82%
Surgery - Urinary System	169%	210%	169%	320%	171%	209%	243%	310%	206%	82%
Therapeutic Injections	168%	149%	156%	200%	160%	205%	188%	168%	173%	97%

IV. HOSPITAL COST COMPARISON

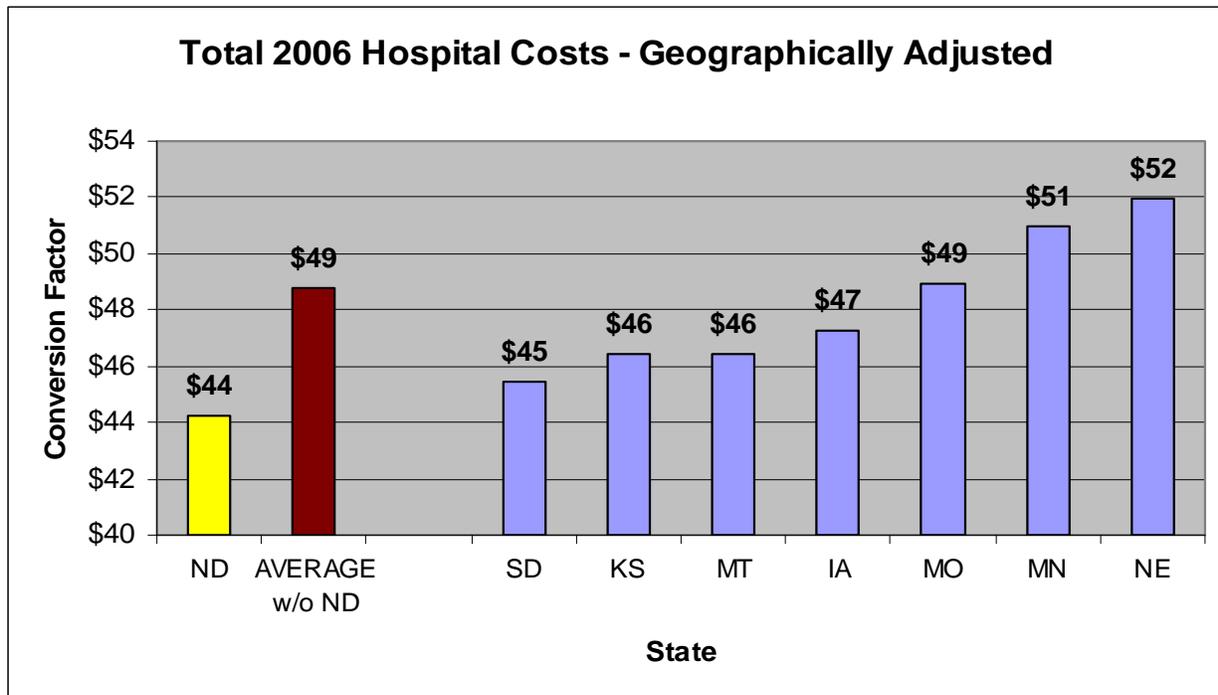
Private payer reimbursement levels within each state are affected by hospital operating costs and possibly a cost shift from Medicare and Medicaid. Therefore, in order to provide further insight into the reasons behind the differences in private payer reimbursement, we calculated average hospital costs within each state. We calculated costs using data from Medicare cost reports and publicly released Medicare claim files, along with HECSTM and RBRVS for HospitalsTM.

For outpatient services, Medicare’s Outpatient Prospective Payment System (OPPS) claim files include costs, in addition to other claims data. We assigned RVUs to the claims in the CY 2006 OPPS file then divided total costs by RVUs to determine conversion factors by service category.

For inpatient services, we used Medicare’s FY 2006 MedPAR file, which includes all Medicare inpatient admissions. The MedPAR file does not contain costs. We calculated costs using billed charges and a Cost-to-Charge Ratio included in the 2006 Medicare Inpatient Provider Specific file.

Chart IV shows average geographically adjusted conversion factors by state. Exhibit IV shows more detailed results including breakdowns by service category. North Dakota has the lowest inpatient costs among the comparison states and is also below average for outpatient costs, leading to the lowest overall hospital costs among the benchmark states. On average, patient severity adjusted hospital costs in North Dakota are approximately 15% below the comparison states average.

Chart IV



As with Exhibit II, we calculated costs a second time after adjusting for Medicare’s geographic payment adjustments, which are intended to reflect differences in wage and capital costs. The adjusted cost for each claim (both inpatient and outpatient) was calculated as the cost divided by

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the Medicare geographic payment adjustment. Adjustments were based on Provider ID and Medicare 2008 Wage Index and Geographic Adjustment factors. Chart IV shows these geographically adjusted costs by state.

Medicare's wage and capital adjustment factors in North Dakota are below the average for the benchmark states. Therefore, adjusting for wage and capital differences causes costs in North Dakota to increase relative to the benchmark states. However, North Dakota remains the lowest cost state for both inpatient services and overall.

Exhibit IV
North Dakota Medical Association
North Dakota Hospital Costs vs. Comparison States
2006 Hospital Costs - Adjusted for Patient Severity

	Patient Severity Adjusted Cost per RVU											
	Inpatient (FY 2006)					Outpatient (CY 2006)						
	Medical	Surgical	Mat	MH/SA	Total	ER	Surg	Rad	Lab	Other	Total	Total
North Dakota	\$36	\$42	\$32	\$34	\$40	\$48	\$36	\$35	\$52	\$37	\$37	\$39
Iowa	43	47	38	34	45	47	41	46	64	45	44	44
Kansas	44	45	43	37	45	51	34	37	64	42	38	43
Minnesota	58	54	51	49	55	58	41	46	67	47	45	53
Missouri	45	47	41	33	46	49	44	39	54	53	45	45
Montana	42	47	40	37	45	51	38	46	44	30	38	43
Nebraska	52	52	35	40	52	62	41	46	50	45	45	50
South Dakota	45	47	37	37	46	53	30	40	51	30	34	43
Average	48	49	43	38	48	52	40	42	58	46	43	47
ND vs. Average	76%	86%	75%	89%	83%	92%	90%	84%	90%	81%	87%	83%

	Patient Severity Adjusted Cost per RVU - Geographically Adjusted											
	Inpatient (FY 2006)					Outpatient (CY 2006)						
	Medical	Surgical	Mat	MH/SA	Total	ER	Surg	Rad	Lab	Other	Total	Total
North Dakota	\$41	\$48	\$36	\$38	\$45	\$54	\$41	\$40	\$59	\$42	\$42	\$44
Iowa	46	49	40	36	48	50	43	48	68	47	46	47
Kansas	48	49	45	40	48	55	37	39	68	45	41	46
Minnesota	55	52	49	47	53	56	40	44	65	45	44	51
Missouri	49	50	45	35	49	53	47	42	57	57	48	49
Montana	46	50	44	40	48	56	41	49	48	33	41	46
Nebraska	54	54	36	41	54	64	42	48	52	46	46	52
South Dakota	48	49	39	38	49	56	32	42	54	31	35	45
Average	50	51	44	39	50	54	42	44	60	48	45	49
ND vs. Average	82%	94%	82%	97%	90%	100%	98%	92%	98%	88%	95%	91%

V. HOSPITAL OPERATING MARGINS

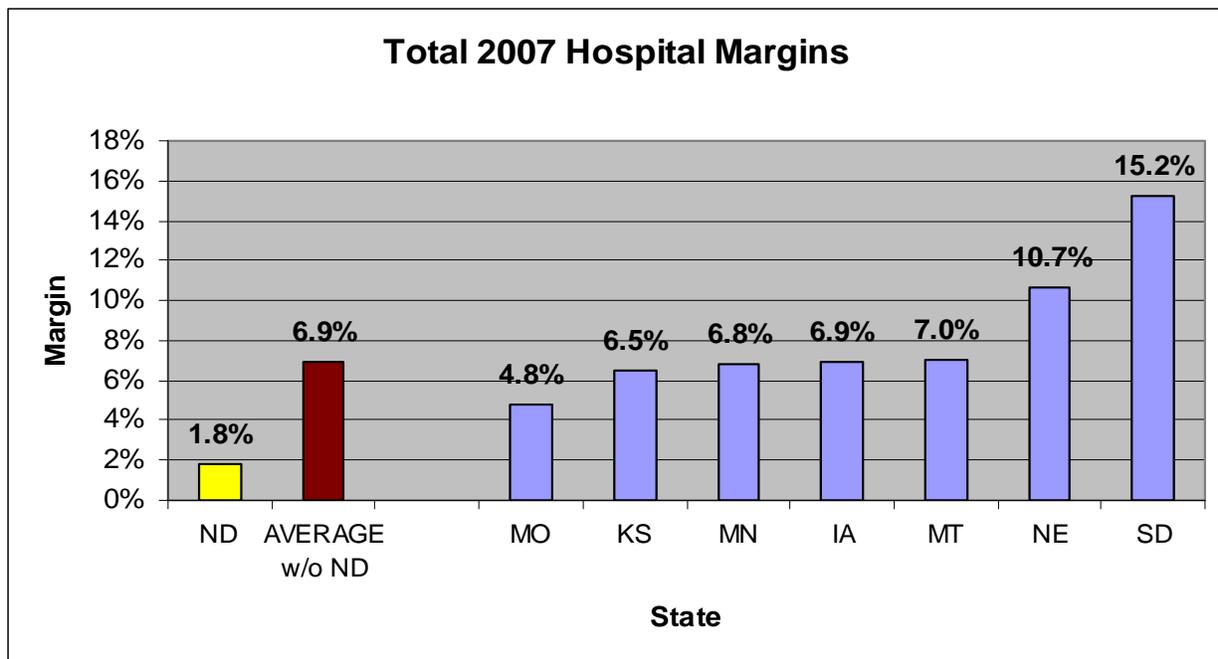
As a final analysis, we examined hospital operating margins to understand the relative profitability and cost shifting pressures in each state. In many parts of the country, Medicare payment is insufficient to cover hospital costs for Medicare patients. As a result, those losses must be covered through higher payment from commercial payers.

Milliman has performed studies in a number of states showing the impact of cost shifting from public to private payers. We did not identify and analyze Medicaid reimbursement for this project. However, we have compared Medicare profitability against overall profit levels for providers.

Exhibit V-A shows the 2007 total margin (operating and non-operating) and Medicare operating margin by state. Exhibit V-B shows the margins for 2005, 2006, and 2007. Lower operating costs will reduce the losses on Medicare and mitigate the need to cost shift and increase private payer payment levels. Higher operating costs results in greater losses on Medicare patients, increased private payer payment levels and higher private insurance premiums. Section IV shows that North Dakota operating costs are relatively low. Section V is consistent with low costs since the Medicare margins are better than most of the comparison states. The low overall margins may be a source of concern depending on the non-operating revenues.

Exhibit V-A shows that overall hospital margins in North Dakota are significantly lower than in the comparison states in 2007. This is also illustrated in Chart V.

Chart V



This low total margin is composed of a margin on Medicare business that is higher (less negative) than the other states, paired with an “other payer” margin that is lower than the other states. The spread between the Medicare margin and total margin is much smaller in North Dakota than in any of the other states. Stated another way, the Medicare cost shift is much lower

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in North Dakota. MedPAC (the Medicare Payment Advisory Commission) claims that Medicare payment levels are adequate for cost efficient hospitals. However, losses on Medicare patients are becoming more common.

Exhibit V-B shows that the observations noted above for 2007 also hold true for 2005 and 2006. In addition, it is interesting to note how the margins have changed over the three year time period. In both North Dakota and the other states, Medicare margins have declined over the three years. In the comparison states, the other payer margins have increased, leading to an increase in total margin (when combined with the declining Medicare margins). In North Dakota, though, overall margins have decreased. This suggests that “other payer” margins haven’t been sufficient to compensate for the reduction in margins on Medicare business.

The margins are based on analysis of Medicare Cost Report data. The Medicare margins are based on Medicare allowed costs and cost report allocation of expenses. This leads to margins that are greater than would result if all expenses were included and allocated.

The total margin values include operating and non-operating revenue and expense, whereas the Medicare margins are operating margins only.

Exhibit V-A
North Dakota Medical Association
North Dakota Hospital Margins vs. Comparison States
2007 Fiscal Year
in millions

	<i>Number of Hospitals Included</i>	All Payer				Medicare			
		A	B	C=A-B	D=C/A	E	F	G=E-F	H=G/E
		<i>Revenue</i>	<i>Expenses</i>	<i>Income</i>	<i>Total Margin</i>	<i>Revenue</i>	<i>Expenses</i>	<i>Income</i>	<i>Operating Margin</i>
North Dakota	45	1,872	1,838	35	1.8%	477	495	-18	-3.8%
Iowa	116	7,933	7,384	549	6.9%	1,893	2,018	-125	-6.6%
Kansas	144	5,879	5,496	383	6.5%	1,682	1,801	-119	-7.1%
Minnesota	84	5,085	4,738	348	6.8%	1,153	1,279	-126	-10.9%
Missouri	136	15,869	15,107	762	4.8%	3,971	4,292	-320	-8.1%
Montana	59	2,373	2,207	166	7.0%	563	591	-28	-5.0%
Nebraska	93	4,862	4,343	519	10.7%	1,214	1,414	-199	-16.4%
South Dakota	58	2,149	1,822	328	15.2%	546	551	-5	-0.9%
Average	690	44,150	41,097	3,054	6.9%	11,023	11,946	-923	-8.4%
ND vs Average					-5.1%				
						4.6%			

Notes:

- 1) Based on Medicare Cost Reports.
- 2) All Payer revenue includes operating and non-operating revenue.
- 3) Medicare values based on cost report allocation process and Medicare allowed costs. This typically leads to better margins than if all costs are included and allocated by LOB.

Exhibit V-B
North Dakota Medical Association
North Dakota Hospital Margins vs. Comparison States
Changes From FY05 to FY07

	<i>FY07 Number of Hospitals Included⁽⁴⁾</i>	<u>FY05 Margins</u>		<u>FY06 Margins</u>		<u>FY07 Margins</u>	
		<i>Overall⁽⁴⁾</i>	<i>Medicare⁽⁵⁾</i>	<i>Overall⁽⁴⁾</i>	<i>Medicare⁽⁵⁾</i>	<i>Overall⁽⁴⁾</i>	<i>Medicare⁽⁵⁾</i>
		North Dakota	45	3.4%	1.7%	2.9%	-0.9%
Iowa	116	2.5%	-4.6%	5.4%	-5.4%	6.9%	-6.6%
Kansas	144	5.7%	-2.6%	6.8%	-4.7%	6.5%	-7.1%
Minnesota	84	5.3%	-4.4%	3.6%	-8.7%	6.8%	-10.9%
Missouri	136	4.5%	-4.7%	4.9%	-8.2%	4.8%	-8.1%
Montana	59	6.0%	-5.2%	6.1%	-6.3%	7.0%	-5.0%
Nebraska	93	6.9%	-12.0%	12.5%	-14.0%	10.7%	-16.4%
South Dakota	58	4.8%	-2.8%	14.4%	-1.9%	15.2%	-0.9%
Average	690	4.9%	-5.0%	6.1%	-7.6%	6.9%	-8.4%
ND vs Average		-1.4%	6.7%	-3.2%	6.7%	-5.1%	4.6%

Notes:

- 1) Based on Medicare Cost Reports.
- 2) All Payer revenue includes operating and non-operating revenue.
- 3) Medicare values based on cost report allocation process and Medicare allowed costs. This typically leads to better margins than if all costs are included and allocated by LOB.
- 4) Overall margins represent total margin, as on Exhibit 5a
- 5) Medicare margins represent operating margin, as on Exhibit 5a

DATA RELIANCE AND VARIABILITY OF RESULTS

In performing our analysis, we relied on data and other information provided to us by BCBSND as well as information available from CMS, Ingenix and MedStat. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

The attached models are based on Milliman research and on our experience in working with similar data. Our data summarizes historical information only. Current and future experience will vary from our summaries of historical results for many reasons, including differences in population health status, in reimbursement levels, and in the delivery of healthcare services, as well as other non-random and random factors. It is important that actual experience be monitored and that adjustments are made, as appropriate.

This letter and the attached exhibits have been prepared for the North Dakota Medical Association (NDMA). It is our understanding that the information contained in this report may be utilized in a public document. We have provided copies of this report to sponsors specified in the original Request for Proposal. To the extent that the information contained in this report is provided to third parties, the report should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and health care modeling so as not to misinterpret the data presented.

Milliman makes no representations or warranties regarding the contents of this report to third parties. Likewise, third parties are instructed that they are to place no reliance upon this report prepared for the NDMA by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this report must rely upon their own experts in drawing conclusions about North Dakota provider payment rates and provider costs as well as their related assumptions and trends.

This analysis has relied extensively on external data sources. This data was reviewed for reasonableness but no independent audit was performed. Should errors or omissions be discovered in the data, the results of our analysis would need to be modified.

APPENDIX A
GROUP HEALTH INSURANCE SURVEY BENEFIT DESCRIPTION

2008 Group Health Insurance Survey
Rate Questions
Benefit Descriptions

Benefit Package	HMO	Standard PPO Plan Cost Sharing		High Deductible PPO Plan Cost Sharing	
		In-Network	Out-of-Network	In-Network	Out-of-Network
Deductible					
Per Enrollee	None	\$250	\$500	\$1,500	\$3,000
Per Family	None	\$500	\$1,000	\$3,000	\$6,000
Plan Coinsurance	None	90%	70%	90%	70%
Out-of-Pocket Maximum (excluding deductible)					
Per Enrollee	None	\$1,000	\$2,000	\$1,500	\$3,000
Per Family	None	\$2,000	\$4,000	\$3,000	\$6,000
Primary Care Physician Services	\$10 / visit	\$10 / visit	Ded / Coins	Ded / Coins	Ded / Coins
Specialty Physician Services	\$10 / visit	\$10 / visit	Ded / Coins	Ded / Coins	Ded / Coins
Preventive Care (Physical Exams, Well Child, Immunizations)	\$10 / visit	\$10 / visit	Ded / Coins	\$500 max, then Ded / Coins	Ded / Coins
Associated Medical Services (Lab X-Ray, Allergy Treatment, Blood Pressure Checks, etc.)	None	Ded / Coins	Ded / Coins	Ded / Coins	Ded / Coins
Inpatient Hospital Services (Facility Charges)	None	Ded / Coins	Ded / Coins	Ded / Coins	Ded / Coins
Outpatient Hospital Services					
Physician Services	None	Ded / Coins	Ded / Coins	Ded / Coins	Ded / Coins
Other Outpatient Services (Facility Charges)	None	Ded / Coins	Ded / Coins	Ded / Coins	Ded / Coins
Emergency Care					
Hospital Emergency Room or OP Facility	\$50	\$50	Ded / Coins	Ded / Coins	Ded / Coins
Urgent Care	\$25	\$25	Ded / Coins	Ded / Coins	Ded / Coins
Ambulance	None	Ded / Coins	Ded / Coins	Ded / Coins	Ded / Coins
Mental Health / Substance Abuse					
Inpatient (30 days calendar year)	None	Ded / Coins	Ded / Coins	Ded / Coins	Ded / Coins
Outpatient (20 sessions calendar year)	\$25	\$25	Ded / Coins	Ded / Coins	Ded / Coins
Prescription Drugs (including contraceptives)	\$10 generic \$20 brand \$40 non-form	\$10 generic \$20 brand \$40 non-form	NA	Ded / Coins	NA
No Vision Exam or Eyewear Benefits					

Note: If the benefits listed above are not offered by your HMO/PPO, please either adjust your rate projections to the plan above or note your plan differences.

APPENDIX B
RBRVS FOR HOSPITALS™

MILLIMAN RBRVS FOR HOSPITALS™

WHAT IS RBRVS FOR HOSPITALS™?

The Milliman *RBRVS for Hospitals™* Fee Schedule provides a simple solution for comparing hospital contractual allowed amounts, billed charge master levels, efficiency, and patient mix differences. The fee schedule is based on Relative Value Units (RVUs). The RVUs are the same for procedures that require the same relative resources.

ADVANTAGES OF RBRVS FOR HOSPITALS™

- ❑ RVUs have been developed for all hospital services (inpatient and outpatient), so they reflect the relative resources required to perform the care.
- ❑ Conceptually similar to Medicare's RBRVS Physician Fee Schedule, in that a conversion factor provides a valid comparison even for widely different provider types and patient populations.
- ❑ A single conversion factor can be used to benchmark a hospital contract. Lengthy summaries of hospital contracts with medical/surgical per diems, maternity case rates, ICU per diems, outlier arrangements, and miscellaneous outpatient reimbursement structures are no longer necessary.
- ❑ Allows insurers and hospitals to benchmark and compare contractual reimbursement levels, efficiency, billed charge master levels, and benchmark patient mix differences.

DEVELOPING RBRVS FOR HOSPITALS™ RVUS

All inpatient and outpatient procedures are assigned Relative Value Units (RVUs). Procedures requiring the same level of resources have the same RVUs. Both the inpatient and outpatient RVUs are developed using Medicare payment rates, which are then converted to units using Medicare's RBRVS conversion factor. Therefore, inpatient and outpatient RVUs are directly comparable.

INPATIENT RVU DEVELOPMENT AND ADJUDICATION

Inpatient RVUs are developed at the most detailed level possible using data commonly available in administrative data, resulting in a very refined patient severity adjustment.

- ❑ RVUs are assigned per day, rather than per case. The *RBRVS for Hospitals™* RVUs assume a Diagnosis Related Group (DRG) specific Base RVU for each admission. The Base RVU is an estimate of the resources required for the first day of each admission. A DRG specific Additional Day RVU is assigned for each additional day of acute care. This provides a better adjustment for length of stay severity within a case.
- ❑ The Additional Day RVU is typically lower than the Base RVU, reflecting lower resource use on the additional days. Thus, the fee schedule adjusts for characteristics of the given patient populations (i.e., case mix and severity) and the conversion factors are directly comparable when comparing historic fee levels for different hospital contracts.
- ❑ At Medicare's average length of stay, using the Milliman RVUs and the Medicare RBRVS conversion factor will produce payments that are similar to Medicare's case rates, as demonstrated in Table A:

Table A
Inpatient Example #1
FY 2008 Medicare Relative Weights to Milliman RBRVS for Hospitals™ RVUs (v2008.1)
Comparison for DRG 069 – Transient Ischemia

<u>Medicare (FY 2008)</u>		<u>Milliman RBRVS (2008.1) –MS DRG</u>	
Relative Weight	0.7254	Initial Day RVU	58.700
Conversion Factor (Nationwide)	\$5,416.74	Additional Day RVU	21.506
Case Payment	\$3,929.30	Medicare ALOS	3.1
		Total RVUs for ALOS	103.165
		RBRVS Conversion Factor	\$38.0870
		Average Case Payment	\$3,929.26

- For the most refined risk adjustment, inpatient services are grouped to APR-DRGs and severity levels (1,266 DRGs/severity levels versus 745 MS DRGs). In Table B, we provide a comparison of the MS-DRG RVUs to the APR-DRG RVUs.

Table B
Inpatient Example #2
Comparison of Medicare and APR-DRG RVUs (v2008.1)

<u>DRG</u>	<u>Sev.</u>	<u>Description</u>	<u>Base RVUs</u>	<u>Additional Day RVUs</u>
Medicare-DRG				
069		Transient ischemia	58.700	21.506
APR-DRGs				
047	1	Transient ischemia	57.703	20.782
047	2	Transient ischemia	58.108	21.056
047	3	Transient ischemia	62.303	22.315
047	4	Transient ischemia	77.365	27.557

- The four severity levels available using APR-DRGs allow for a more refined quantification of the resources required for specific patients.
- Medicare sets DRG Relative Weights at the case rate level, not accounting for LOS variations.

The RVUs for any inpatient admission are calculated as:

$$(\text{Base RVU} + (\text{Additional Days} * \text{Additional Day RVU}))$$

Note that “Additional Days” is all days after day 1.

RVUs can be assigned to claims either on a per case or a per day basis. The examples above have shown a per day approach. Note that in the per day approach, the first day is assigned higher RVUs than subsequent days to reflect the higher resources typically used early in a patient’s stay.

In order to assign RVUs per case, rather than per day, case RVUs by APR-DRG are first created to be consistent with the characteristics of the population to be measured. For example, case RVUs for a given APR-DRG should differ between commercial and Medicare populations, and potentially between populations in different geographic areas based on LOS management. The case RVUs represent the average resources used for the given service.

With RVUs assigned on both a per day and per case basis, an efficiency measure can be calculated as:

$$\frac{\text{RVUs on a per day basis}}{\text{RVUs on a per case basis}}$$

A value of 1.0 indicates average efficiency. Values lower than 1.0 indicate better than average efficiency, as the hospital required fewer RVUs than average to deliver its mix of services.

Table C shows an example of the implied efficiency for a sample discharge using APR-DRG 225 and Severity Level 1. By summing the RVUs and Case RVUs for each discharge, we estimate the overall efficiency factor for each facility.

Table C				
Example of Implied Efficiency				
DRG 225, Severity Level 1 (Appendectomy, Minor Severity)				
<u>Base RVUs</u>	<u>Base LOS</u>	<u>Additional Day RVUs</u>	<u>Average LOS</u>	<u>Case RVUs</u>
104.374	1.000	19.698	1.711	118.374
Example of Efficiency Calculation				
<u>Assumed LOS</u>	(1) Actual <u>LOS</u>	(2) LOS-Adj. <u>RVUs</u>	(3) <u>Case RVUs</u>	(4) = (2) / (3) Efficiency <u>Factor</u>
Average LOS Patient	1.711	118.374	118.374	1.000
Short LOS Patient	1.000	104.374	118.374	0.882
Long LOS Patient	3.000	143.770	118.374	1.215

OUTPATIENT RVU DEVELOPMENT AND ADJUDICATION

The outpatient patient severity adjustment methodology assigns an RVU for each procedure performed by the hospital using HCPCS. Reimbursement analyses can usually be performed with less than perfect data, since we can assume that the calculated conversion factor for the partial data is representative of the complete outpatient data set.

The Milliman *RBRVS for Hospitals*TM Outpatient RVUs can be viewed as an extension of the Medicare RBRVS schedule, since we use the RBRVS technical component RVUs as a basis for many procedures, such as X-rays and cardiovascular testing. We utilize many data sources to create

our outpatient RVUs. Proprietary data sources, public data sources and clinical and actuarial review are used to establish the relative relationships. We use the following Medicare fee schedules: APC, DME, lab, ASP, and PEN.

Our 2008 Outpatient Hospital RVU Schedule consists of 13,668 procedure codes. The break down of codes by source is as follows:

3,472	Medicare Fee Schedules
10,196	Milliman Defined
13,668	Total

There are many areas where publicly available fee schedules are not adequate for creating RVUs. We used other databases and our internal resources to estimate the relative resources to perform each of these services. For example, Medicare APCs include procedures whose true cost may be as low as half of the APC average or as high as two times the average. Therefore, the actual resources required for a procedure within an APC can vary significantly. Since Medicare APCs do not define homogeneous patient services, Milliman Outpatient RVUs are assigned at the HCPCS level, rather than APC. By assigning RVUs at the HCPCS level for outpatient services, we are able to more precisely reflect the time and resources required for that specific each service.

Table D demonstrates the development of RVUs by HCPCS for outpatient services.

Table D						
Outpatient Example #1						
Comparison of 2008 APC vs RBRVS for APC 0267						
APC 0267 – Level III Diagnostic and Screening Ultrasound						
<u>CPT/ HCPCS</u>	<u>Status Indicator</u>	<u>Description</u>	<u>APC</u>	<u>APC Rate</u>	<u>Milliman</u>	<u>Medicare Frequency</u>
36002	S	Pseudoaneurysm injection trt	0267	\$151.54	\$296.93	530
75945	Q	Intravascular us	0267	\$151.54	\$304.54	312
76811	S	Ob, us, detailed, snlgl fetus	0267	\$151.54	\$68.59	2,323
76831	S	Echo exam, uterus	0267	\$151.54	\$61.36	799
76975	Q	GI endoscopic ultrasound	0267	\$151.54	\$97.58	72
93880	S	Extracranial study	0267	\$151.54	\$146.94	692,547
93882	S	Extracranial study	0267	\$151.54	\$98.68	5,412
93886	S	Introcrainal study	0267	\$151.54	\$166.55	5,884
93925	S	Lower extremity study	0267	\$151.54	\$190.82	88,178
93930	S	Upper extremity study	0267	\$151.54	\$150.90	4,409
93970	S	Extremity study	0267	\$151.54	\$149.03	260,452
93975	S	Vascular study	0267	\$151.54	\$192.68	52,835
93976	S	Vascular study	0267	\$151.54	\$104.02	25,053
93978	S	Vascular study	0267	\$151.54	\$144.39	25,703
93980	S	Penile vascular study	0267	\$151.54	\$78.38	289
93981	S	Penile vascular study	0267	\$151.54	\$69.74	29
G0365	S	Vessel mapping hemo access	0267	\$151.54	\$125.73	2,542
				Minimum	\$61.36	
				Maximum	\$304.54	
				Weighted Average	\$151.53	

The Outpatient RVUs include an identification field for all services that have no units. Some procedures have not yet been valued by Milliman and should be excluded from analysis (i.e.,

“NYV”). These are typically low volume procedures. Some procedures are not valued because a more specific procedure code should be coded (i.e., “NVS”) and some are not valued because they should typically not be paid to a facility, but to another, typically professional, provider type (i.e., “NVO”). Bundled procedures are labeled as NVB.

Conditionally packaged codes (Status Indicator “Q”) have both an RVU value and a not valued reason (either “Q-T” or Q-STVX,” depending upon the bundling rules applicable to each HCPC).

Following is a summary of entries for codes with no RVUs:

- NYV = Not Yet Valued
- NVS = Not Valued – non-Specific procedure code
- NVO = Not Valued – Other provider type should bill
- NVB = Not Valued – Bundled procedure
- Q-T = Bundled if another code with Status Indicator T is included in the same claim. Otherwise, RVUs are separately assigned.
- Q-STVX = Bundled if another code with Status Indicator S, T, V, or X is included in the same claim. Otherwise, RVUs are separately assigned.

Also included is a field labeled “maximum procs,” which puts a limit on the number of times a procedure should be performed during a single encounter. This field can be helpful in evaluating reimbursement levels (attaching RVUs) and adjudicating claims. Our adjudication process limits units to the max proc for a HCPCS.

RBRVS for Hospitals™ also considers revenue codes that represent bundled services. No RVUs should be calculated for line items with these revenue codes (regardless of the CPT/HCPCS code), since the workload is implicitly covered in other lines within the encounter. CPT/HCPCS codes with “N” status indicators have no RVUs since they are bundled items.

Multiple procedure discounting follows the CMS rules. The code with the greatest RVUs and with status ‘T’ is paid at 100%. Other codes with a ‘T’ status are paid at 50% and, therefore, assigned half of their RVUs.

Table E
Sample Outpatient Claim RVU Assignment

<u>Claim Number</u>	<u>Claim Line</u>	<u>Revenue Code</u>	<u>Procedure Code</u>	<u>Status Indicator</u>	<u>RVUs</u>	<u>Adjudicated RVUs</u>	<u>Comments</u>
2004999	1	250			-	-	Bundled revenue code. Not separately payable.
2004999	2	258			-	-	Bundled revenue code. Not separately payable.
2004999	3	270	90779	S	-	-	Bundled revenue code. Not separately payable.
2004999	4	300	88302	X	0.317	0.317	Paid in full
2004999	5	360	49580	T	46.849	46.849	1 st “T” procedure. Paid in full.
2004999	6	360	11100	T	1.917	0.959	2 nd “T” procedure. Reduced 50%.
2004999	7	370			-	-	Bundled revenue code. Not separately payable.
2004999	8	636	J2180	N	-	-	Bundled CPT/HCPCS Code. No RVUs.
2004999	9	636	J2270	N	-	-	Bundled CPT/HCPCS Code. No RVUs.
2004999	10	762			-	-	No CPT code. No amount payable.
Total						48.125	

Table E shows the adjudication of a sample claim.

Note that, as a result of the bundling rules implicit in the *RBRVS for Hospitals*TM, payment amounts should be compared on a claim-by-claim basis and should not use individual service lines, since payment systems that separately pay bundled services will have higher values for those amounts, but lower values for the main procedure(s) within each encounter.

While case rates are problematic for many outpatient encounters, there is good reason for using case rates to pay for outpatient surgeries and emergency room encounters. Rather than add an RVU for each procedure performed, one can assign a single RVU for the entire case, thereby creating an incentive for hospitals to efficiently use ancillary services. Case rate RVUs can also be used to benchmark the efficiency of facilities in the emergency room and surgery departments.

Emergency Room case RVUs include an average level of ancillary diagnostic procedures that varies with the level of emergency room encounter. The surgery case RVUs include an average level of ancillaries and discounted multiple procedures. For an average hospital, the total should be approximately the same if the payment is made using the procedure RVUs or the case RVUs.

The case rate RVUs for both surgery and emergency room cases result in some insurance risk to the hospital, due to the variability of the cost per case. However, the fee schedule also aligns the incentives of the facility to reward efficient providers. Alternatively, a payer can use case RVUs to quantify the relative efficiency of different facilities and to allow higher conversion factors for more efficient facilities.

Case RVUs can be helpful in benchmarking efficiency variations; however, they should be customized for each line of business. Contact Milliman for help creating case RVUs.

CALCULATING CONVERSION FACTORS

Benchmarking contracts is as straightforward as adding up the allowed charges and RVUs for all procedures performed under that contract. Table F shows an example of calculating the cost per unit of care delivered (conversion factor). The example represents two claims, an inpatient and an outpatient claim.

Table F			
Calculating a Conversion Factor			
	<u>Allowed Charges</u>	<u>LOS</u>	<u>RVUs</u>
APR 044-2	\$6,000	3	115.699
82441	\$20		0.218
99284	\$275		5.582
A4642*	\$95		-
74150	\$425		5.328
Totals	\$6,815		126.827
Conversion Factor			\$53.73
[Allowed Charges/RVUs]			
* Bundled service. RVUs are implicitly included in RVUs for other CPT/HCPCS codes.			

The procedural basis can be a CPT/HCPCS procedure code (i.e., outpatient hospital services) or a DRG (i.e., inpatient hospital stays). For DRGs, the RVUs vary with the LOS to further reflect the severity within a DRG.

A conversion factor may be calculated using thousands of unique procedures or only a few, depending on the volume of services performed under the contract. If a procedure can be performed multiple times in one encounter (i.e., 15-minute physical therapy), then the procedure can either be listed multiple times or with multiple units of service on a single line. In either case, the units will be multiplied by the RVUs per unit of service to show RVUs consistent with the charges on the claim.

CONTRACT COMPARISONS USING CONVERSION FACTORS

Once the user has calculated the conversion factor for all contracts, the conversion factor, which is a case mix and severity adjusted cost per unit indicator, can easily be compared among the various contracts. Since the *RBRVS for Hospitals*™ RVUs adjust for the relative resources required to perform the services, the calculated conversion factors are comparable regardless of the underlying population, hospital type or location. See Table G for an example of conversion factors for six contracts and their relative cost differences.

	<i>Total Conversion Factor</i>	<i>Conversion Factor Relative to Total</i>
Contract #1	\$55.48	1.000
Contract #2	\$46.29	0.834
Contract #3	\$80.43	1.450
Contract #4	\$60.64	1.093
Contract #5	\$63.70	1.148
Contract #6	\$48.46	0.874
Total	\$55.47	1.000

Many times the user may want to better understand the components that are driving the total conversion factor and may want to look at the results by type of service. Table H expands the six-contract conversion factor summary from Table G with the major category conversion factors for inpatient and outpatient services.

Contract	Inpatient CFs					ER	Outpatient CFs					Total
	Medical	Surg.	MH/SA	Mat	Total		Surg.	Rad.	Lab	Other	Total	
Contract #1	\$65	\$52	\$61	\$58	\$58	\$53	\$32	\$68	\$89	\$57	\$50	\$55
Contract #2	\$48	\$30	\$37	\$53	\$40	\$45	\$41	\$77	\$60	\$60	\$53	\$46
Contract #3	\$85	\$92	N/A	\$79	\$86	\$49	\$77	\$95	\$94	\$80	\$77	\$80
Contract #4	\$54	\$41	\$70	\$53	\$53	\$36	\$50	\$81	\$83	\$74	\$67	\$61
Contract #5	\$58	\$44	\$75	\$57	\$57	\$42	\$49	\$87	\$88	\$79	\$69	\$64
Contract #6	\$51	\$33	\$56	\$53	\$45	\$38	\$47	\$54	\$58	\$68	\$50	\$48
Total	\$62	\$48	\$59	\$57	\$55	\$47	\$41	\$72	\$77	\$67	\$56	\$55

A summary like Table H can be useful in identifying where a contract is high or low and allows the user to develop an action plan to change the contract details to improve the desired results. For

example, assume that Table H represents six contracts for a payer and the payer wants to re-negotiate Contract #3 rates to be more in line with the other contracts. Rather than just ask for an overall rate decrease, the payer may want to focus on a particular area, such as outpatient radiology. The payer may either propose that the contract move to use the *RBRVS for Hospitals*[™] RVUs and a lower conversion factor, or they may simply negotiate a lower payment using the current payment methodology (e.g., percent of billed).

Alternatively, assume that Table H represents six contracts for a hospital and the hospital identifies that Contract #2 is a low outlier. The hospital can use the information in Table G to quantify the amount of increase needed. They may decide that they need a 25% increase in inpatient rates, but the outpatient rates are satisfactory.

RBRVS FOR HOSPITALS[™] USERS AND REVIEWS

There are a large number of companies that have or currently use the *RBRVS for Hospitals*[™]. They include:

- ❑ Twenty Blue Cross Blue Shield plans
- ❑ Many other insurers
- ❑ Three State Medicaid plans
- ❑ Hospitals (academic, tertiary, community)
- ❑ CalPERS used them to create a high performance network

The RVUs were first developed in 1994 and are updated and reviewed at least once per year, in accordance with Milliman's strict internal peer review standards. In addition, the RVUs are receiving continuous outside review as they are used by a wide variety of clients.

At the request of a client, an independent actuarial consulting firm performed a review. This review encompassed not only the RVUs themselves, but also the worksheets used to calculate relative provider costs, and ultimately, determine relative facility rankings.

A complete audit of the RVUs and hospital rankings was performed by the California Bureau of State Audits. The audit was comprehensive, covering all aspects of the hospital ranking process. The audit included an on-site review of the RVU development and documentation by an independent actuary hired by the state.



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Executive Director
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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: February 17, 2010
SUBJECT: Experience Study

Pursuant to the North Dakota Century Code, we must do an experience study for the retirement plans administered by PERS. After doing an RFP, we contracted with Segal to perform this study. Attached is the draft report. Brad Ramirez, our actuary from Segal, will be at the Board meeting to review the report and their recommendations with you.

We will have this topic on the March agenda for you to decide which, if any, of the recommendations to accept. Between this meeting and March meeting, Segal will follow-up on your questions and prepare any further information you need.



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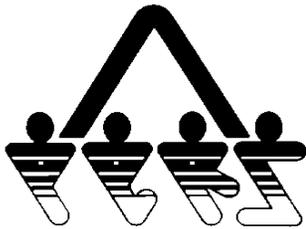
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Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: February 17, 2010
SUBJECT: TFFR Update

Fay Kopp from RIO will be at the Board meeting to provide information relating to TFFR's funding challenge, options the Board is considering to improve TFFR's funding level, and respond to PERS Board questions.



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Memorandum

TO: NDPERS Board
FROM: Kathy
DATE: February 16, 2010
SUBJECT: Defined Contribution Plan – 2009 Enrollment

The following is our annual report for the Board outlining the number of contacts we made with new eligible employees and the number that actually transferred to the defined contribution plan in 2009:

	Total Contacts	Total Transfers
2009	50	6

We are available to answer any questions.



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Memorandum

TO: PERS Board

FROM: Sparb Collins

DATE: February 17, 2010

SUBJECT: Retiree Health Care Credit

Attachment #1 is the Board memo from the last meeting relating to allowing retirees to use the health credit for more than just the PERS Health Plan. At the last meeting it was requested that we ask Segal to give us additional information on allowing only the pre-Medicare retirees to use the health credit for more than just the PERS Health Plan.

Attachment #2 is that information from Segal. They will be at the Board meeting to answer any questions you may have.



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bramirez@segalco.com

February 16, 2010

Mr. Sparb Collins
Executive Director
North Dakota Public Employees Retirement System
P.O. Box 1657
Bismarck, ND 58502

Re: Cost Analysis of Retiree Health Credit Eligibility Change

Dear Sparb:

Per your request, we have calculated the effect of changing the eligibility for the credit that is paid from the Retiree Health Insurance Credit Fund. Currently, retired PERS members are eligible to receive credit towards retiree health coverage, but only if they elect to participate in the North Dakota PERS Group Health Insurance Plan. We have calculated the cost to extend the credit to all pre-Medicare retirees for use towards any retiree health coverage.

The cost of the Retiree Health Insurance Credit Fund is based in part on the participation rate of PERS members. An assumption is made as to how many PERS members will elect retiree health coverage through PERS and be eligible for the retiree health credit. We understand that, if the above change were enacted, all pre-Medicare retirees (non-disabled retirees under age 65) would be eligible for the health credit until age 65. In order to value the cost of this proposal we have not specifically changed any of the current actuarial assumptions. However, for purposes of valuing the cost of this proposal, non-disabled retirees not assumed to elect retiree health coverage through PERS are now assumed to receive the retiree health credit until age 65.



The actuarial contribution requirements are shown below as a percentage of payroll:

Plan Provision	Current Plan	Proposed Plan
Normal Cost	0.46%	0.48%
Amortization Cost	0.54%	0.55%
Total Cost	1.00%	1.03%

These cost estimates are based on the July 1, 2009 actuarial valuation results for the Retiree Health Insurance Credit Fund, including the participant data and actuarial assumptions on which that valuation was based. In particular, the recommended assumptions in the actuarial experience study have not been used to value the cost of this proposal. They may impact the cost that has been calculated. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

KS/



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Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: February 16, 2010
SUBJECT: Proposed Legislation

Attached is the first draft of the three bills the Board directed to be prepared at the planning meeting in December. The drafts are:

1. An 8% increase in employer contributions phased in over 4 years beginning in January of 2012.
2. An 8% increase in employee contributions phased in over 4 years beginning in January of 2012. The bill provides that the employee contribution increase would be pre-taxed pursuant to section 404(h).
3. A 4% increase in employee premiums and a 4% increase in employer premiums phased in equally over 4 years beginning in January of 2012. Similar to #2, the state employee contribution increase would be pre-taxed pursuant to section 404(h).

The above provisions apply to the main PERS Plan, the Judges, the Highway Patrol Plan and the Defined Contribution Plan. The increase proposed in these bills will put each plan on course to return to fully funded status.

At our planning meeting we discussed splitting the employee contribution for the main plan based upon the existing ratio for employer/employee contributions. Specifically, the employer contribution is 4.12% and the employee 4%. This means the employer pays 50.74% ($4.12/8.12$) of the total contributions and the employee pays 49.26% of the requested 8% increase. If this same methodology is also used for the Judges and Highway Patrol, it results in the following ratios:

1. The Judges total contribution is 19.52% of which the employer contribution is 14.52% which would mean the employer would pay 74% of the requested 8% increase.

2. The Highway Patrol total contribution is 27% of which the employer contribution is 16.7% which would mean the employer pays about 62%.

Staff is recommending that we not use the above method and instead split the increase 50/50 in the bill having a shared increase between employer and employee for the following reasons:

1. It will be difficult to explain why we chose this method.
2. The method results in dramatically different cost sharing provisions for our respective plans that will likely be perceived as inequitable by the members of the main plan.
3. The employer perception of this may be negative resulting in an additional issue that could detract from the main issue which is funding the plan.

In addition to the above bill, staff is proposing an administrative bill with the following provisions:

Proposed Provision/Change	Reason
Relating to TIAA/CREF transfers	The provisions of the defined benefit plan have allow members who leave covered employment with PERS and move to covered employment in Higher Ed with TIAA/CREF the opportunity to elect to transfer their funds from PERS to TIAA/CREF. When the defined contribution plan was enacted it did not include this provision. We are proposing that it be added to the DC plan in a like manner as exists in the Main PERS plan
Edit 54-52-27	Remove the last sentence regarding payment timeframe of 60 days.
Edit 39-03.1-11(6)(b) relating to the HP	Remove the 5 year pre-retirement death benefit. This was removed in the main plan last year and therefore we are suggesting changing for the HP this time
Edit 39-03-1-14.1	Remove "consecutive" from 3a and 3b. Last time we changed the final average salary provision for the HP from consecutive months to highest months. This change is reflective of the change made last session
Edit 54-52-17(6)	Revise the language to specify that method for distributing the funds when a member passes away and one of the beneficiaries also passes away prior to PERS distributing the funds.
Law Enforcement Plan	The plan presently provides that the normal retirement date is when they "attain the age of fifty-five years and has completed at least three consecutive years of employment as a peace officer or correctional officer immediately preceding retirement". We are suggesting that we remove the

Proposed Provision/Change	Reason
	wording "immediately preceding retirement".
Temporary employees	We are suggesting eliminating the provisions relating to temporary employees participating in the retirement plan or the health plan. Temporary employees have salaries that vary and therefore do not match the level funding provisions for the retirement plan. For the retiree health plan, due to the nature of that plan's benefits and the salary levels of temps, their benefits are subsidized by the other member of the plan. Finally, for the health plan they have the potential to adversely affect the plan due to our open enrollment process.
Deferred vested members ability to be candidates for the Board	In the last review of the Board's election process, it was suggested that deferred vested members not be allowed to run for the Board.
Final Average Salary (FAS)	The audit committee has discussed an issue relating to the calculation of FAS. Specifically, it has been noted that employers and employees that have irregular salaries can get a higher benefit. For example, an employer with a biweekly payroll would have two months out of the year with 3 pay checks. Pursuant to our method of calculating FAS, we take the high 36 months of the last 120 soon to be 180. Consequently, we pick up the 3 pay check months and that inflates the member's FAS and their retirement benefit. The Audit Committee is considering developing a recommendation relating to this for the Board's consideration.
54-52.1-03	<p>We are proposing the following change to this section to put into statute our administrative practice of allowing the spouse to stay on the plan after the member passes:</p> <p>54-52.1-03. Employee participation in plan - Employee to furnish information - Benefits to continue upon retirement or termination.</p> <p>.....3. A retiree who has accepted a periodic distribution from the defined contribution retirement plan pursuant to section 54-52.6-13 who the board determines is eligible for participation in the uniform group insurance program or has accepted a retirement allowance from the public employees retirement system, the highway patrolmen's retirement system, the teachers' insurance and annuity association of America - college retirement equities fund for service credit earned while employed by North Dakota institutions of higher education, the retirement system established by job service North Dakota under section 52-11-01, the judges' retirement system established under chapter 27-17, or the teachers' fund for retirement may elect to participate in the uniform group under this chapter without meeting minimum requirements at age sixty-five, when the member's spouse reaches age sixty-five, upon the receipt of a benefit, or when the spouse terminates employment. If a retiree or surviving spouse does not elect to participate at the times specified in this subsection, the retiree or surviving spouse must meet the minimum requirements established by the board. Subject to sections 54-52.1-03.2 and 54-52.1-03.3, each retiree or surviving spouse shall pay directly to the board the premiums in effect for the coverage then being provided.</p>

Proposed Provision/Change	Reason
	A retiree <u>or surviving spouse</u> who has met the initial eligibility requirements of this subsection to begin participation in the uniform group insurance program remains eligible as long as the retiree maintains the retiree's participation in the program by paying the required premium pursuant to rules adopted by the board.....

Staff is requesting your approval to develop an administrative bill for PERS with the above changes for your consideration in March.

Board Action Requested

1. To authorize developing an administrative bill draft with the above changes.
2. To change the contribution sharing provision to 50/50.

Introduced by

1 A BILL for an Act to amend and reenact section 39-03.1-09, 54-52-02.9, 54-52-05, 54-
2 52-06.1, subsection 6 of section 54-52.6-02, and 54-52.6-09 of the North Dakota
3 Century Code, relating to increased employee contributions under the highway
4 patrolmen's retirement plan and public employees retirement system.

5 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

6 **SECTION 1. AMENDMENT.** Section 39-03.1-09 of the North Dakota Century
7 Code is amended and reenacted as follows:

8 **39-03.1-09. Payments by contributors - Employer payment of employee**
9 **contribution.**

- 10 1. Every member, except as provided in section 39-03.1-07, shall contribute
11 into the fund ten and thirty-hundredths percent of the member's monthly
12 salary, which sum must be deducted from the member's salary and
13 credited to the member's account in the fund. Member contributions shall
14 be increased by two percent effective January 1, 2012, and shall be
15 increased annually thereafter by two percent, with the final increase taking
16 place on January 1, 2015.
- 17 2. The state of North Dakota, at its option, may pay the member
18 contributions required by subsection 1 for all compensation earned after
19 June 30, 1983, and may pay the member contributions required to
20 purchase service credit on a pretax basis pursuant to subsection 8 of
21 section 39-03.1-08.2. The amount paid must be paid by the state in lieu of
22 contributions by the member. A member may not receive the contributed
23 amounts directly once the employer has elected to pay the member

1 contributions. If the state decides not to pay the contributions, the amount
2 that would have been paid will continue to be deducted from
3 compensation. If contributions are paid by the state, they must be treated
4 as employer contributions in determining tax treatment under this code
5 and the federal Internal Revenue Code. If contributions are paid by the
6 state, they must not be included as gross income of the member in
7 determining tax treatment under this code and the Internal Revenue Code
8 until they are distributed or made available. The state shall pay these
9 member contributions from the same source of funds used in paying
10 compensation to the members. The state shall pay these contributions by
11 effecting an equal cash reduction in the gross salary of the employee or by
12 an offset against future salary increases or by a combination of a
13 reduction in gross salary and offset against future salary increases. If
14 member contributions are paid by the state, they must be treated for the
15 purposes of this chapter in the same manner and to the same extent as
16 member contributions made prior to the date the contributions were
17 assumed by the state. The option given employers by this subsection
18 must be exercised in accordance with rules adopted by the board.

19 3. For compensation earned after August 1, 2009, all employee contributions
20 required under subsection 1, and not otherwise paid under subsection 2,
21 must be paid by the state in lieu of contributions by the member. All
22 contributions paid by the state under this subsection must be treated as
23 employer contributions in determining tax treatment under this code and
24 the federal Internal Revenue Code. Contributions paid by the state under
25 this subsection may not be included as gross income of the member in
26 determining tax treatment under this code and the Internal Revenue Code
27 until the contributions are distributed or made available. Contributions paid

1 by the state in accordance with this subsection must be treated for the
2 purposes of this chapter in the same manner and to the same extent as
3 member contributions made before the date the contributions were
4 assumed by the state. The state shall pay these member contributions
5 from the same source of funds used in paying compensation to the
6 members. The state shall pay these contributions by effecting an equal
7 cash reduction in the gross salary of the employee. The state shall
8 continue making payments under this section unless otherwise specifically
9 provided for under the agency's biennial appropriation or by law.

10
11 **SECTION 2. AMENDMENT.** Section 54-52-02.9 of the North Dakota Century
12 Code is amended and reenacted as follows:

13 **54-52-02.9. Participation by temporary employees.** A temporary employee
14 may elect, within one hundred eighty days of beginning employment, to participate in
15 the public employees retirement system and receive credit for service after enrollment.
16 The temporary employee shall pay monthly to the fund an amount equal to eight and
17 twelve-hundredths percent times the temporary employee's present monthly salary. The
18 amount required to be paid by a temporary employee shall be increased by two percent
19 effective January 1, 2012, and shall be increased annually thereafter by two percent,
20 with the final increase taking place on January 1, 2015. The temporary employee shall
21 also pay the required monthly contribution to the retiree health benefit fund established
22 under section 54-52.1-03.2. This contribution must be recorded as a member
23 contribution pursuant to section 54-52.1-03.2. An employer may not pay the temporary
24 employee's contributions. A temporary employee may continue to participate as a
25 temporary employee in the public employees retirement system until termination of
26 employment or reclassification of the temporary employee as a permanent employee. A

1 temporary employee may not purchase any additional credit, including additional credit
2 under section 54-52-17.4 or past service under section 54-52-02.6.

3

4 **SECTION 3. AMENDMENT.** Section 54-52-05 of the North Dakota Century
5 Code is amended and reenacted as follows:

6 **54-52-05. Membership and assessments - Employer payment of employee**
7 **contributions.**

8 1. Every eligible governmental unit employee concurring in the plan must so
9 state in writing and all future eligible employees are participating
10 members. An employee who was not enrolled in the retirement system
11 when eligible to participate must be enrolled immediately upon notice of
12 the employee's eligibility, unless the employee waives in writing the
13 employee's right to participate for the previous time of eligibility, to avoid
14 contributing to the fund for past service. An employee who is eligible for
15 normal retirement who accepts a retirement benefit under this chapter and
16 who subsequently becomes employed with a participating employer other
17 than the employer with which the employee was employed at the time the
18 employee retired under this chapter may, before reenrolling in the
19 retirement plan, elect to permanently waive future participation in the
20 retirement plan and the retiree health program and maintain that
21 employee's retirement status. An employee making this election is not
22 required to make any future employee contributions to the public
23 employees retirement system nor is the employee's employer required to
24 make any further contributions on behalf of that employee.

25 2. Each member must be assessed and required to pay monthly four percent
26 of the monthly salary or wage paid to the member, and such assessment
27 must be deducted and retained out of such salary in equal monthly

1 installments commencing with the first month of employment. Member
2 contributions shall be increased by two percent effective January 1, 2012,
3 and shall be increased annually thereafter by two percent, with the final
4 increase taking place on January 1, 2015.

- 5 3. Each employer, at its option, may pay all or a portion of the employee
6 contributions required by subsection 2 and sections 54-52-06.1, 54-52-
7 06.2, 54-52-06.3, and 54-52-06.4 or the employee contributions required
8 to purchase service credit on a pretax basis pursuant to subsection 5 of
9 section 54-52-17.4. Employees may not receive the contributed amounts
10 directly once the employer has elected to pay the employee contributions.
11 The amount paid must be paid by the employer in lieu of contributions by
12 the employee. If the state determines not to pay the contributions, the
13 amount that would have been paid must continue to be deducted from the
14 employee's compensation. If contributions are paid by the employer, they
15 must be treated as employer contributions in determining tax treatment
16 under this code and the federal Internal Revenue Code. If contributions
17 are paid by the employer, they may not be included as gross income of
18 the employee in determining tax treatment under this code and the
19 Internal Revenue Code until they are distributed or made available. The
20 employer shall pay these employee contributions from the same source of
21 funds used in paying compensation to the employee or from the levy
22 authorized by subsection 5 of section 57-15-28.1. The employer shall pay
23 these contributions by effecting an equal cash reduction in the gross
24 salary of the employee or by an offset against future salary increases or
25 by a contribution of a reduction in gross salary and offset against future
26 salary increases. If employee contributions are paid by the employer, they
27 must be treated for the purposes of this chapter in the same manner and

1 to the same extent as employee contributions made prior to the date on
2 which employee contributions were assumed by the employer. An
3 employer exercising its option under this subsection shall report its choice
4 to the board in writing.

5 4. For compensation earned after August 1, 2009, all employee contributions
6 required under section 54-52-06.1 and the job service North Dakota
7 retirement plan, and not otherwise paid under subsection 3, must be paid
8 by the employer in lieu of contributions by the member. All contributions
9 paid by the employer under this subsection must be treated as employer
10 contributions in determining tax treatment under this code and the Internal
11 Revenue Code. Contributions paid by the employer under this subsection
12 may not be included as gross income of the member in determining tax
13 treatment under this code and the Internal Revenue Code until the
14 contributions are distributed or made available. Contributions paid by the
15 employer in accordance with this subsection must be treated for the
16 purposes of this chapter in the same manner and to the same extent as
17 member contributions made before the date the contributions were
18 assumed by the employer. The employer shall pay these member
19 contributions from the same source of funds used in paying compensation
20 to the employee. The employer shall pay these contributions by effecting
21 an equal cash reduction in the gross salary of the employee. The
22 employer shall continue making payments under this section unless
23 otherwise specifically provided for under the agency's biennial
24 appropriation or by amendment to law.

25
26 **SECTION 4.** Section 54-52-06.1 of the North Dakota Century Code is amended
27 and reenacted as follows:

1 **54-52-06.1. Contribution by supreme and district court judges - Employer**

2 **contribution.** Each judge of the supreme or district court who is a member of the
3 public employees retirement system must be assessed and required to pay monthly five
4 percent of the judge's monthly salary. Member contributions shall be increased by two
5 percent effective January 1, 2012, and shall be increased annually thereafter by two
6 percent, with the final increase taking place on January 1, 2015. The assessment must
7 be deducted and retained out of the judge's salary in equal monthly installments. The
8 state shall contribute an amount equal to fourteen and fifty-two one-hundredths percent
9 of the monthly salary of a supreme or district court judge who is a participating member
10 of the system, which matching contribution must be paid from its funds appropriated for
11 salary, or from any other funds available for such purposes. If the judge's contribution is
12 paid by the state under subsection 3 of section 54-52-05, the state shall contribute, in
13 addition, an amount equal to the required judge's contribution.

14
15 **SECTION 5. AMENDMENT.** Subsection 6 of section 54-52.6-02 of the North
16 Dakota Century Code is amended and reenacted as follows:

17 6. A participating member who becomes a temporary employee may still
18 participate in the defined contribution retirement plan upon filing an
19 election with the board within one hundred eighty days of transferring to
20 temporary employee status. The participating member may not become a
21 member of the defined benefit plan as a temporary employee. The
22 temporary employee electing to participate in the defined contribution
23 retirement plan shall pay monthly to the fund an amount equal to eight and
24 twelve-hundredths percent times the temporary employee's present
25 monthly salary. The amount required to be paid by a temporary employee
26 shall be increased by two percent effective January 1, 2012, and shall be
27 increased annually thereafter by two percent, with the final increase taking

1 place on January 1, 2015. The temporary employee shall also pay the
2 required monthly contribution to the retiree health benefit fund established
3 under section 54-52.1-03.2. This contribution must be recorded as a
4 member contribution pursuant to section 54-52.1-03.2. An employer may
5 not pay the temporary employee's contributions. A temporary employee
6 may continue to participate as a temporary employee until termination of
7 employment or reclassification of the temporary employee as a permanent
8 employee.

9
10 **SECTION 6. AMENDMENT.** Section 54-52.6-09 of the North Dakota Century
11 Code is amended and reenacted as follows:

12 **54-52.6-09. Contributions - Penalty.**

13 1. Each participating member shall contribute monthly four percent of the
14 monthly salary or wage paid to the participant, and this assessment must
15 be deducted from the participant's salary in equal monthly installments
16 commencing with the first month of participation in the defined contribution
17 retirement plan established under this chapter. Participating member
18 contributions shall be increased by two percent effective January 1, 2012,
19 and shall be increased annually thereafter by two percent, with the final
20 increase taking place on January 1, 2015.

21 2. The employer shall contribute an amount equal to four and twelve-
22 hundredths percent of the monthly salary or wage of a participating
23 member. If the employee's contribution is paid by the employer under
24 subsection 3, the employer shall contribute, in addition, an amount equal
25 to the required employee's contribution. The employer shall pay monthly
26 such contribution into the participating member's account from its funds
27 appropriated for payroll and salary or any other funds available for such

1 purposes. If the employer fails to pay the contributions monthly, it is
2 subject to a civil penalty of fifty dollars and, as interest, one percent of the
3 amount due for each month of delay or fraction thereof after the payment
4 became due.

- 5 3. Each employer, at its option, may pay the employee contributions required
6 by this section for all compensation earned after December 31, 1999. The
7 amount paid must be paid by the employer in lieu of contributions by the
8 employee. If the employer decides not to pay the contributions, the
9 amount that would have been paid will continue to be deducted from the
10 employee's compensation. If contributions are paid by the employer, they
11 must be treated as employer contributions in determining tax treatment
12 under this code and the federal Internal Revenue Code. Contributions paid
13 by the employer may not be included as gross income of the employee in
14 determining tax treatment under this code and the federal Internal
15 Revenue Code until they are distributed or made available. The employer
16 shall pay these employee contributions from the same source of funds
17 used in paying compensation to the employee. The employer shall pay
18 these contributions by effecting an equal cash reduction in the gross
19 salary of the employee or by an offset against future salary increases or
20 by a combination of a reduction in gross salary and offset against future
21 salary increases. Employee contributions paid by the employer must be
22 treated for the purposes of this chapter in the same manner and to the
23 same extent as employee contributions made before the date on which
24 employee contributions were assumed by the employer. An employer shall
25 exercise its option under this subsection by December 1, 1999, and shall
26 report its choice to the board in writing. The option chosen may not be
27 revoked for the remainder of the biennium. Thereafter, the option choice

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- 1 must be forwarded to the board, in writing, by June fifteenth of each odd-
- 2 numbered year.

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Legislative Assembly
of North Dakota

Introduced by

1 A BILL for an Act to amend and reenact section 39-03.1-10, 54-52-02.9, 54-52-06, 54-
2 52-06.1, subsection 6 of section 54-52.6-02, and 54-52.6-09 of the North Dakota
3 Century Code, relating to increased employer and temporary employee contributions
4 under the highway patrolmen's retirement plan and public employees retirement
5 system.

6 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

7

8 **SECTION 1.** Section 39-03.1-10 of the North Dakota Century Code is amended
9 and reenacted as follows:

10 **39-03.1-10. Contributions by the state.** The state shall contribute to the fund a
11 sum equal to sixteen and seventy-hundredths percent of the monthly salary or wage of
12 a participating member. State contributions shall be increased by two percent effective
13 January 1, 2012, and shall be increased annually thereafter by two percent, with the
14 final increase taking place on January 1, 2015. If the member's contribution is paid by
15 the state under subsection 2 of section 39-03.1-09, the state shall contribute, in
16 addition, an amount equal to the required member's contribution. The state shall pay the
17 associated employer contribution for those members who elect to exercise their rights
18 under subsection 3 of section 39-03.1-10.1.

19

20 **SECTION 2. AMENDMENT.** Section 54-52-02.9 of the North Dakota Century
21 Code is amended and reenacted as follows:

22 **54-52-02.9. Participation by temporary employees.** A temporary employee
23 may elect, within one hundred eighty days of beginning employment, to participate in

1 the public employees retirement system and receive credit for service after enrollment.
2 The temporary employee shall pay monthly to the fund an amount equal to eight and
3 twelve-hundredths percent times the temporary employee's present monthly salary. The
4 amount required to be paid by a temporary employee shall be increased by two percent
5 effective January 1, 2012, and shall be increased annually thereafter by two percent,
6 with the final increase taking place on January 1, 2015. The temporary employee shall
7 also pay the required monthly contribution to the retiree health benefit fund established
8 under section 54-52.1-03.2. This contribution must be recorded as a member
9 contribution pursuant to section 54-52.1-03.2. An employer may not pay the temporary
10 employee's contributions. A temporary employee may continue to participate as a
11 temporary employee in the public employees retirement system until termination of
12 employment or reclassification of the temporary employee as a permanent employee. A
13 temporary employee may not purchase any additional credit, including additional credit
14 under section 54-52-17.4 or past service under section 54-52-02.6.

15

16 **SECTION 3. AMENDMENT.** Section 54-52-06 of the North Dakota Century
17 Code is amended and reenacted as follows:

18 **54-52-06. Employer's contribution to retirement plan.** Each governmental
19 unit shall contribute an amount equal to four and twelve-hundredths percent of the
20 monthly salary or wage of a participating member. Governmental unit contributions shall
21 be increased by two percent effective January 1, 2012, and shall be increased annually
22 thereafter by two percent, with the final increase taking place on January 1, 2015. For
23 those members who elect to exercise their rights under section 54-52-17.14, the
24 employing governmental unit, or in the case of a member not presently under covered
25 employment the most recent employing governmental unit, shall pay the associated
26 employer contribution. If the employee's contribution is paid by the governmental unit
27 under subsection 3 of section 54-52-05, the employer unit shall contribute, in addition,

1 an amount equal to the required employee's contribution. Each governmental unit shall
2 pay the contribution monthly, or in the case of an election made pursuant to section 54-
3 52-17.14 a lump sum, into the retirement fund from its funds appropriated for payroll
4 and salary or any other funds available for these purposes. Any governmental unit
5 failing to pay the contributions monthly, or in the case of an election made pursuant to
6 section 54-52-17.14 a lump sum, is subject to a civil penalty of fifty dollars and, as
7 interest, one percent of the amount due for each month of delay or fraction thereof after
8 the payment became due. In lieu of assessing a civil penalty or one percent per month,
9 or both, interest at the actuarial rate of return may be assessed for each month the
10 contributions are delinquent. If contributions are paid within ninety days of the date they
11 became due, penalty and interest to be paid on delinquent contributions may be waived.
12 An employer is required to submit contributions for any past eligible employee who was
13 employed after July 1, 1977, for which contributions were not made if the employee
14 would have been eligible to become vested had the employee participated and if the
15 employee elects to join the public employees retirement system. Employer contributions
16 may not be assessed for eligible service that an employee has waived pursuant to
17 subsection 1 of section 54-52-05. The board shall report to each session of the
18 legislative assembly the contributions necessary, as determined by the actuarial study,
19 to maintain the fund's actuarial soundness.

20

21 **SECTION 4.** Section 54-52-06.1 of the North Dakota Century Code is amended
22 and reenacted as follows:

23 **54-52-06.1. Contribution by supreme and district court judges - Employer**
24 **contribution.** Each judge of the supreme or district court who is a member of the
25 public employees retirement system must be assessed and required to pay monthly five
26 percent of the judge's monthly salary. The assessment must be deducted and retained
27 out of the judge's salary in equal monthly installments. The state shall contribute an

1 amount equal to fourteen and fifty-two one-hundredths percent of the monthly salary of
2 a supreme or district court judge who is a participating member of the system, which
3 matching contribution must be paid from its funds appropriated for salary, or from any
4 other funds available for such purposes. State contributions shall be increased by two
5 percent effective January 1, 2012, and shall be increased annually thereafter by two
6 percent, with the final increase taking place on January 1, 2015. If the judge's
7 contribution is paid by the state under subsection 3 of section 54-52-05, the state shall
8 contribute, in addition, an amount equal to the required judge's contribution.

9

10 **SECTION 5. AMENDMENT.** Subsection 6 of section 54-52.6-02 of the North
11 Dakota Century Code is amended and reenacted as follows:

12 6. A participating member who becomes a temporary employee may still
13 participate in the defined contribution retirement plan upon filing an
14 election with the board within one hundred eighty days of transferring to
15 temporary employee status. The participating member may not become a
16 member of the defined benefit plan as a temporary employee. The
17 temporary employee electing to participate in the defined contribution
18 retirement plan shall pay monthly to the fund an amount equal to eight and
19 twelve-hundredths percent times the temporary employee's present
20 monthly salary. The amount required to be paid by a temporary employee
21 shall be increased by two percent effective January 1, 2012, and shall be
22 increased annually thereafter by two percent, with the final increase taking
23 place on January 1, 2015. The temporary employee shall also pay the
24 required monthly contribution to the retiree health benefit fund established
25 under section 54-52.1-03.2. This contribution must be recorded as a
26 member contribution pursuant to section 54-52.1-03.2. An employer may
27 not pay the temporary employee's contributions. A temporary employee

1 may continue to participate as a temporary employee until termination of
2 employment or reclassification of the temporary employee as a permanent
3 employee.

4
5 **SECTION 6. AMENDMENT.** Section 54-52.6-09 of the North Dakota Century
6 Code is amended and reenacted as follows:

7 **54-52.6-09. Contributions - Penalty.**

- 8 1. Each participating member shall contribute monthly four percent of the
9 monthly salary or wage paid to the participant, and this assessment must
10 be deducted from the participant's salary in equal monthly installments
11 commencing with the first month of participation in the defined contribution
12 retirement plan established under this chapter.
- 13 2. The employer shall contribute an amount equal to four and twelve-
14 hundredths percent of the monthly salary or wage of a participating
15 member. Employer contributions shall be increased by two percent
16 effective January 1, 2012, and shall be increased annually thereafter by
17 two percent, with the final increase taking place on January 1, 2015. If the
18 employee's contribution is paid by the employer under subsection 3, the
19 employer shall contribute, in addition, an amount equal to the required
20 employee's contribution. The employer shall pay monthly such contribution
21 into the participating member's account from its funds appropriated for
22 payroll and salary or any other funds available for such purposes. If the
23 employer fails to pay the contributions monthly, it is subject to a civil
24 penalty of fifty dollars and, as interest, one percent of the amount due for
25 each month of delay or fraction thereof after the payment became due.
- 26 3. Each employer, at its option, may pay the employee contributions required
27 by this section for all compensation earned after December 31, 1999. The

1 amount paid must be paid by the employer in lieu of contributions by the
2 employee. If the employer decides not to pay the contributions, the
3 amount that would have been paid will continue to be deducted from the
4 employee's compensation. If contributions are paid by the employer, they
5 must be treated as employer contributions in determining tax treatment
6 under this code and the federal Internal Revenue Code. Contributions paid
7 by the employer may not be included as gross income of the employee in
8 determining tax treatment under this code and the federal Internal
9 Revenue Code until they are distributed or made available. The employer
10 shall pay these employee contributions from the same source of funds
11 used in paying compensation to the employee. The employer shall pay
12 these contributions by effecting an equal cash reduction in the gross
13 salary of the employee or by an offset against future salary increases or
14 by a combination of a reduction in gross salary and offset against future
15 salary increases. Employee contributions paid by the employer must be
16 treated for the purposes of this chapter in the same manner and to the
17 same extent as employee contributions made before the date on which
18 employee contributions were assumed by the employer. An employer shall
19 exercise its option under this subsection by December 1, 1999, and shall
20 report its choice to the board in writing. The option chosen may not be
21 revoked for the remainder of the biennium. Thereafter, the option choice
22 must be forwarded to the board, in writing, by June fifteenth of each odd-
23 numbered year.

Sixty-second
Legislative Assembly
of North Dakota

Introduced by

1 A BILL for an Act to amend and reenact section 39-03.1-09, 39-03.1-10, 54-52-02.9, 54-
2 52-05, 54-52-06, 54-52-06.1, subsection 6 of section 54-52.6-02, and 54-52.6-09 of the
3 North Dakota Century Code, relating to increased employer and employee contributions
4 under the highway patrolmen's retirement plan and public employees retirement
5 system.

6 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

7 **SECTION 1. AMENDMENT.** Section 39-03.1-09 of the North Dakota Century
8 Code is amended and reenacted as follows:

9 **39-03.1-09. Payments by contributors - Employer payment of employee**
10 **contribution.**

11 1. Every member, except as provided in section 39-03.1-07, shall contribute
12 into the fund ten and thirty-hundredths percent of the member's monthly
13 salary, which sum must be deducted from the member's salary and
14 credited to the member's account in the fund. Member contributions shall
15 be increased by one percent effective January 1, 2012, and shall be
16 increased annually thereafter by one percent, with the final increase taking
17 place on January 1, 2015.

18 2. The state of North Dakota, at its option, may pay the member
19 contributions required by subsection 1 for all compensation earned after
20 June 30, 1983, and may pay the member contributions required to
21 purchase service credit on a pretax basis pursuant to subsection 8 of
22 section 39-03.1-08.2. The amount paid must be paid by the state in lieu of
23 contributions by the member. A member may not receive the contributed

1 amounts directly once the employer has elected to pay the member
2 contributions. If the state decides not to pay the contributions, the amount
3 that would have been paid will continue to be deducted from
4 compensation. If contributions are paid by the state, they must be treated
5 as employer contributions in determining tax treatment under this code
6 and the federal Internal Revenue Code. If contributions are paid by the
7 state, they must not be included as gross income of the member in
8 determining tax treatment under this code and the Internal Revenue Code
9 until they are distributed or made available. The state shall pay these
10 member contributions from the same source of funds used in paying
11 compensation to the members. The state shall pay these contributions by
12 effecting an equal cash reduction in the gross salary of the employee or by
13 an offset against future salary increases or by a combination of a
14 reduction in gross salary and offset against future salary increases. If
15 member contributions are paid by the state, they must be treated for the
16 purposes of this chapter in the same manner and to the same extent as
17 member contributions made prior to the date the contributions were
18 assumed by the state. The option given employers by this subsection
19 must be exercised in accordance with rules adopted by the board.

20 3. For compensation earned after August 1, 2009, all employee contributions
21 required under subsection 1, and not otherwise paid under subsection 2,
22 must be paid by the state in lieu of contributions by the member. All
23 contributions paid by the state under this subsection must be treated as
24 employer contributions in determining tax treatment under this code and
25 the federal Internal Revenue Code. Contributions paid by the state under
26 this subsection may not be included as gross income of the member in
27 determining tax treatment under this code and the Internal Revenue Code

1 until the contributions are distributed or made available. Contributions paid
2 by the state in accordance with this subsection must be treated for the
3 purposes of this chapter in the same manner and to the same extent as
4 member contributions made before the date the contributions were
5 assumed by the state. The state shall pay these member contributions
6 from the same source of funds used in paying compensation to the
7 members. The state shall pay these contributions by effecting an equal
8 cash reduction in the gross salary of the employee. The state shall
9 continue making payments under this section unless otherwise specifically
10 provided for under the agency's biennial appropriation or by law.

11
12 **SECTION 2.** Section 39-03.1-10 of the North Dakota Century Code is amended
13 and reenacted as follows:

14 **39-03.1-10. Contributions by the state.** The state shall contribute to the fund a
15 sum equal to sixteen and seventy-hundredths percent of the monthly salary or wage of
16 a participating member. State contributions shall be increased by one percent effective
17 January 1, 2012, and shall be increased annually thereafter by one percent, with the
18 final increase taking place on January 1, 2015. If the member's contribution is paid by
19 the state under subsection 2 of section 39-03.1-09, the state shall contribute, in
20 addition, an amount equal to the required member's contribution. The state shall pay the
21 associated employer contribution for those members who elect to exercise their rights
22 under subsection 3 of section 39-03.1-10.1.

23
24 **SECTION 3. AMENDMENT.** Section 54-52-02.9 of the North Dakota Century
25 Code is amended and reenacted as follows:

26 **54-52-02.9. Participation by temporary employees.** A temporary employee
27 may elect, within one hundred eighty days of beginning employment, to participate in

1 the public employees retirement system and receive credit for service after enrollment.
2 The temporary employee shall pay monthly to the fund an amount equal to eight and
3 twelve-hundredths percent times the temporary employee's present monthly salary. The
4 amount required to be paid by a temporary employee shall be increased by two percent
5 effective January 1, 2012, and shall be increased annually thereafter by two percent,
6 with the final increase taking place on January 1, 2015. The temporary employee shall
7 also pay the required monthly contribution to the retiree health benefit fund established
8 under section 54-52.1-03.2. This contribution must be recorded as a member
9 contribution pursuant to section 54-52.1-03.2. An employer may not pay the temporary
10 employee's contributions. A temporary employee may continue to participate as a
11 temporary employee in the public employees retirement system until termination of
12 employment or reclassification of the temporary employee as a permanent employee. A
13 temporary employee may not purchase any additional credit, including additional credit
14 under section 54-52-17.4 or past service under section 54-52-02.6.

15

16 **SECTION 4. AMENDMENT.** Section 54-52-05 of the North Dakota Century
17 Code is amended and reenacted as follows:

18 **54-52-05. Membership and assessments - Employer payment of employee**
19 **contributions.**

20 1. Every eligible governmental unit employee concurring in the plan must so
21 state in writing and all future eligible employees are participating
22 members. An employee who was not enrolled in the retirement system
23 when eligible to participate must be enrolled immediately upon notice of
24 the employee's eligibility, unless the employee waives in writing the
25 employee's right to participate for the previous time of eligibility, to avoid
26 contributing to the fund for past service. An employee who is eligible for
27 normal retirement who accepts a retirement benefit under this chapter and

1 who subsequently becomes employed with a participating employer other
2 than the employer with which the employee was employed at the time the
3 employee retired under this chapter may, before reenrolling in the
4 retirement plan, elect to permanently waive future participation in the
5 retirement plan and the retiree health program and maintain that
6 employee's retirement status. An employee making this election is not
7 required to make any future employee contributions to the public
8 employees retirement system nor is the employee's employer required to
9 make any further contributions on behalf of that employee.

10 2. Each member must be assessed and required to pay monthly four percent
11 of the monthly salary or wage paid to the member, and such assessment
12 must be deducted and retained out of such salary in equal monthly
13 installments commencing with the first month of employment. Member
14 contributions shall be increased by one percent effective January 1, 2012,
15 and shall be increased annually thereafter by one percent, with the final
16 increase taking place on January 1, 2015.

17 3. Each employer, at its option, may pay all or a portion of the employee
18 contributions required by subsection 2 and sections 54-52-06.1, 54-52-
19 06.2, 54-52-06.3, and 54-52-06.4 or the employee contributions required
20 to purchase service credit on a pretax basis pursuant to subsection 5 of
21 section 54-52-17.4. Employees may not receive the contributed amounts
22 directly once the employer has elected to pay the employee contributions.
23 The amount paid must be paid by the employer in lieu of contributions by
24 the employee. If the state determines not to pay the contributions, the
25 amount that would have been paid must continue to be deducted from the
26 employee's compensation. If contributions are paid by the employer, they
27 must be treated as employer contributions in determining tax treatment

1 under this code and the federal Internal Revenue Code. If contributions
2 are paid by the employer, they may not be included as gross income of
3 the employee in determining tax treatment under this code and the
4 Internal Revenue Code until they are distributed or made available. The
5 employer shall pay these employee contributions from the same source of
6 funds used in paying compensation to the employee or from the levy
7 authorized by subsection 5 of section 57-15-28.1. The employer shall pay
8 these contributions by effecting an equal cash reduction in the gross
9 salary of the employee or by an offset against future salary increases or
10 by a contribution of a reduction in gross salary and offset against future
11 salary increases. If employee contributions are paid by the employer, they
12 must be treated for the purposes of this chapter in the same manner and
13 to the same extent as employee contributions made prior to the date on
14 which employee contributions were assumed by the employer. An
15 employer exercising its option under this subsection shall report its choice
16 to the board in writing.

17 4. For compensation earned after August 1, 2009, all employee contributions
18 required under section 54-52-06.1 and the job service North Dakota
19 retirement plan, and not otherwise paid under subsection 3, must be paid
20 by the employer in lieu of contributions by the member. All contributions
21 paid by the employer under this subsection must be treated as employer
22 contributions in determining tax treatment under this code and the Internal
23 Revenue Code. Contributions paid by the employer under this subsection
24 may not be included as gross income of the member in determining tax
25 treatment under this code and the Internal Revenue Code until the
26 contributions are distributed or made available. Contributions paid by the
27 employer in accordance with this subsection must be treated for the

1 purposes of this chapter in the same manner and to the same extent as
2 member contributions made before the date the contributions were
3 assumed by the employer. The employer shall pay these member
4 contributions from the same source of funds used in paying compensation
5 to the employee. The employer shall pay these contributions by effecting
6 an equal cash reduction in the gross salary of the employee. The
7 employer shall continue making payments under this section unless
8 otherwise specifically provided for under the agency's biennial
9 appropriation or by amendment to law.

10
11 **SECTION 5. AMENDMENT.** Section 54-52-06 of the North Dakota Century
12 Code is amended and reenacted as follows:

13 **54-52-06. Employer's contribution to retirement plan.** Each governmental
14 unit shall contribute an amount equal to four and twelve-hundredths percent of the
15 monthly salary or wage of a participating member. Governmental unit contributions shall
16 be increased by one percent effective January 1, 2012, and shall be increased annually
17 thereafter by one percent, with the final increase taking place on January 1, 2015. For
18 those members who elect to exercise their rights under section 54-52-17.14, the
19 employing governmental unit, or in the case of a member not presently under covered
20 employment the most recent employing governmental unit, shall pay the associated
21 employer contribution. If the employee's contribution is paid by the governmental unit
22 under subsection 3 of section 54-52-05, the employer unit shall contribute, in addition,
23 an amount equal to the required employee's contribution. Each governmental unit shall
24 pay the contribution monthly, or in the case of an election made pursuant to section 54-
25 52-17.14 a lump sum, into the retirement fund from its funds appropriated for payroll
26 and salary or any other funds available for these purposes. Any governmental unit
27 failing to pay the contributions monthly, or in the case of an election made pursuant to

1 section 54-52-17.14 a lump sum, is subject to a civil penalty of fifty dollars and, as
2 interest, one percent of the amount due for each month of delay or fraction thereof after
3 the payment became due. In lieu of assessing a civil penalty or one percent per month,
4 or both, interest at the actuarial rate of return may be assessed for each month the
5 contributions are delinquent. If contributions are paid within ninety days of the date they
6 became due, penalty and interest to be paid on delinquent contributions may be waived.
7 An employer is required to submit contributions for any past eligible employee who was
8 employed after July 1, 1977, for which contributions were not made if the employee
9 would have been eligible to become vested had the employee participated and if the
10 employee elects to join the public employees retirement system. Employer contributions
11 may not be assessed for eligible service that an employee has waived pursuant to
12 subsection 1 of section 54-52-05. The board shall report to each session of the
13 legislative assembly the contributions necessary, as determined by the actuarial study,
14 to maintain the fund's actuarial soundness.

15

16 **SECTION 6.** Section 54-52-06.1 of the North Dakota Century Code is amended
17 and reenacted as follows:

18 **54-52-06.1. Contribution by supreme and district court judges - Employer**
19 **contribution.** Each judge of the supreme or district court who is a member of the
20 public employees retirement system must be assessed and required to pay monthly five
21 percent of the judge's monthly salary. Member contributions shall be increased by one
22 percent effective January 1, 2012, and shall be increased annually thereafter by one
23 percent, with the final increase taking place on January 1, 2015. The assessment must
24 be deducted and retained out of the judge's salary in equal monthly installments. The
25 state shall contribute an amount equal to fourteen and fifty-two one-hundredths percent
26 of the monthly salary of a supreme or district court judge who is a participating member
27 of the system, which matching contribution must be paid from its funds appropriated for

1 salary, or from any other funds available for such purposes. State contributions shall be
2 increased by one percent effective January 1, 2012, and shall be increased annually
3 thereafter by one percent, with the final increase taking place on January 1, 2015. If the
4 judge's contribution is paid by the state under subsection 3 of section 54-52-05, the
5 state shall contribute, in addition, an amount equal to the required judge's contribution.

6

7 **SECTION 7. AMENDMENT.** Subsection 6 of section 54-52.6-02 of the North
8 Dakota Century Code is amended and reenacted as follows:

9 6. A participating member who becomes a temporary employee may still
10 participate in the defined contribution retirement plan upon filing an
11 election with the board within one hundred eighty days of transferring to
12 temporary employee status. The participating member may not become a
13 member of the defined benefit plan as a temporary employee. The
14 temporary employee electing to participate in the defined contribution
15 retirement plan shall pay monthly to the fund an amount equal to eight and
16 twelve-hundredths percent times the temporary employee's present
17 monthly salary. The amount required to be paid by a temporary employee
18 shall be increased by two percent effective January 1, 2012, and shall be
19 increased annually thereafter by two percent, with the final increase taking
20 place on January 1, 2015. The temporary employee shall also pay the
21 required monthly contribution to the retiree health benefit fund established
22 under section 54-52.1-03.2. This contribution must be recorded as a
23 member contribution pursuant to section 54-52.1-03.2. An employer may
24 not pay the temporary employee's contributions. A temporary employee
25 may continue to participate as a temporary employee until termination of
26 employment or reclassification of the temporary employee as a permanent
27 employee.

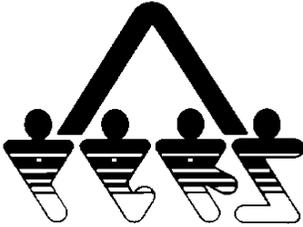
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SECTION 8. AMENDMENT. Section 54-52.6-09 of the North Dakota Century Code is amended and reenacted as follows:

54-52.6-09. Contributions - Penalty.

1. Each participating member shall contribute monthly four percent of the monthly salary or wage paid to the participant, and this assessment must be deducted from the participant's salary in equal monthly installments commencing with the first month of participation in the defined contribution retirement plan established under this chapter. Participating member contributions shall be increased by one percent effective January 1, 2012, and shall be increased annually thereafter by one percent, with the final increase taking place on January 1, 2015.
2. The employer shall contribute an amount equal to four and twelve-hundredths percent of the monthly salary or wage of a participating member. Employer contributions shall be increased by one percent effective January 1, 2012, and shall be increased annually thereafter by one percent, with the final increase taking place on January 1, 2015. If the employee's contribution is paid by the employer under subsection 3, the employer shall contribute, in addition, an amount equal to the required employee's contribution. The employer shall pay monthly such contribution into the participating member's account from its funds appropriated for payroll and salary or any other funds available for such purposes. If the employer fails to pay the contributions monthly, it is subject to a civil penalty of fifty dollars and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.
3. Each employer, at its option, may pay the employee contributions required by this section for all compensation earned after December 31, 1999. The

1 amount paid must be paid by the employer in lieu of contributions by the
2 employee. If the employer decides not to pay the contributions, the
3 amount that would have been paid will continue to be deducted from the
4 employee's compensation. If contributions are paid by the employer, they
5 must be treated as employer contributions in determining tax treatment
6 under this code and the federal Internal Revenue Code. Contributions paid
7 by the employer may not be included as gross income of the employee in
8 determining tax treatment under this code and the federal Internal
9 Revenue Code until they are distributed or made available. The employer
10 shall pay these employee contributions from the same source of funds
11 used in paying compensation to the employee. The employer shall pay
12 these contributions by effecting an equal cash reduction in the gross
13 salary of the employee or by an offset against future salary increases or
14 by a combination of a reduction in gross salary and offset against future
15 salary increases. Employee contributions paid by the employer must be
16 treated for the purposes of this chapter in the same manner and to the
17 same extent as employee contributions made before the date on which
18 employee contributions were assumed by the employer. An employer shall
19 exercise its option under this subsection by December 1, 1999, and shall
20 report its choice to the board in writing. The option chosen may not be
21 revoked for the remainder of the biennium. Thereafter, the option choice
22 must be forwarded to the board, in writing, by June fifteenth of each odd-
23 numbered year.



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Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: February 17, 2010

SUBJECT: FlexComp Payment Issue - Update

At the October meeting we provided the Board an update regarding the progress made in correcting the error we discovered in May that occurred due to an upgrade to the PeopleSoft FlexComp claim processing system that wrote over some customized code which resulted in the system generating reimbursement checks to about 106 individuals that had a balance remaining in their 2008 medical spending account. The following is the status of the accounts still outstanding:

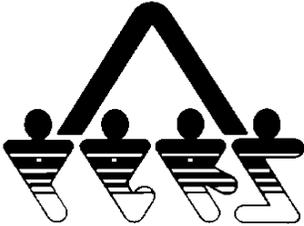
- Employee owes \$282.84. Has received two certified letters the second returned as undeliverable. Sent e-mail notice on February 15, 2010 stating arrangements must be made or it may be necessary to reissue an amended 2009 W-2 form.
- Employee owes \$175.93; repaid \$100 and still owes \$75.93. Has received three certified letters; sent e-mail notice on February 15, 2010 stating arrangements must be made or it may be necessary to reissue an amended 2009 W-2 form.
- Employee owes \$74.20. Sent three certified letters and none were claimed. The employee took a lump sum benefit and did not elect COBRA continuation; therefore, we have no address update.

To determine if we have any other options to resolve these overpayments, staff discussed the issue with our consultant, The Segal Company. Segal indicated that since the overpayment occurred in 2009 that we could consider it income and issue an amended 2009 W-2. Staff then followed up with OMB and they confirmed we could pursue this action.

Board Action Request

The Board has the following options with regarding to the outstanding accounts:

- Direct staff to write off the account balances, or
- Direct staff to have OMB issue amended 2009 W-2 forms.



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Memorandum

TO: NDPERS Board

FROM: Kathy Allen

DATE: February 16, 2010

SUBJECT: Provider Training Compliance

In 2009 we conducted provider training sessions in Bismarck on June 16, 17, 23, and 24 and on October 20, 21, 27, and 28. In addition to our on-site meetings conducted at the NDPERS office, agents could participate through our remote service using GoToMeeting or by using our web version of the training module which was available until December 31. The meetings were well attended; however, there were representatives with several provider companies that did not satisfy the training requirements specified in the NDPERS administrative contract. On January 15, 2010 we sent letters to the home office contacts for each of the following companies with a request to respond by February 5:

Chase Life
The Hartford
Symetra Financial
Jackson National Life
AXA Equitable
Waddell & Reed

Jackson National, AXA Equitable, and Waddell & Reed responded within the required time frame. In all cases the agents in question were no longer affiliated with the provider company and we were instructed to remove them from our directory. These providers are now in compliance with the contract provisions. We did not receive any acknowledgement from Chase, Symetra or The Hartford.

Pursuant to NDCC 71-04-04-09, the Board may take the following actions with respect to providers out of compliance with the training requirements:

The board shall suspend a provider that does not meet the requirements under article 71-04 or North Dakota Century Code chapter 54-52.2. The board may apply either of the following two types of suspension:

1. *Loss of active provider status. Under this type of suspension, the provider may not enroll any new participants. The provider may continue to receive contributions from existing members.*
2. **Loss of provider status. Under this type of suspension, the provider may not enroll any new participants nor receive any further contributions from existing members.**

In the past, the Board has directed staff to notify the provider that the issue has been reviewed and that it is considering applying a loss of status as defined in #1 above. However, regarding Chase and Symetra, the Board took action at its May 15, 2008 meeting to apply a 'loss of active provider status' to both companies due to failure to take action with regard to its agents out compliance with the training requirements at that time. That suspension is still valid.

Staff Recommendation:

Direct staff to notify The Hartford that this situation has been reviewed by the Board which finds them out of compliance with our contract, and that at its March meeting the Board will consider taking action to implement a "loss of active provider status" pursuant to our administrative rules.

As Chase and Symetra are in a unique situation that hasn't previously been addressed by the Board, staff is requesting direction to on what action to take for any future communications.

Board Action Requested

- Approve or reject staff's recommendation on future action for The Hartford.
- Provide direction to staff on future action for Chase and Symetra.

Memorandum

DATE: February 16, 2010
TO: NDPERS Board
FROM: Jamie
SUBJECT: 2009 Audit Report Presentation

Included is the 2009 audit report for the PERS agency. John Mongeon and Patrick Brown from Brady Martz & Associates will be at the Board meeting to review the report with you and answer any questions you may have. This report was reviewed by the Audit Committee at its November meeting.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: February 16, 2010
SUBJECT: Administrative Rules

During the final review of our administrative rules at the Attorney General's office it was discovered that we had several substantive errors in our proposed rules. Specifically, there were several instances where we had not underlined a change or lost the underlining in the final draft that went to hearing. As a result it was determined that we should re-advertise the rules and hold a new hearing. We have started that process and will bring them back to you once that has been completed.

This has also prompted us to review our rule making process. As you know administratively we have taken the position over the years that we should have detailed rules that document our processes instead of having them in a policy document. We still believe this to be the best approach. However, we now have lengthy rules that touch on all aspects of the organization and require numerous staff to be involved in the drafting process. The issue that has arisen in the recent review by the Attorney General's Office has highlighted for us that this process has grown to a new level that requires a new methodology by PERS. Consequently, we are revising our future rule making process. Specifically, we will have one master for making changes, we will use the editing process available in Microsoft to track changes and we will run the master for the changes against the original master at the end of our process to determine if there are any changes not shown. We are also going to have our attorney, Aaron, involved more deeply in the process of reviewing the changes, both from an editing standpoint and substantively. We feel this more centralized approach will prevent any future occurrences of what happened this time.



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Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: February 17, 2010

SUBJECT: Personnel Policy Manual Revisions

We have updated/revised the following sections of our Personnel Policy Manual:

- Chapter 2.1: Updated in compliance with the Genetic Information Nondiscrimination Act to include genetic information as one of the protected traits that have EEO status.
- Chapter 8.3: Revised from reporting annual leave in no less than half-hour increments to allowing this leave to be reported in no less than one-quarter hour increments. This change was made to be consistent with the parameters of the PeopleSoft Absence Management reporting system.
- Chapter 9.4: Revised from reporting sick leave in no less than half-hour increments to allowing this leave to be reported in no less than one-quarter hour increments. This change was made for the same reason as those in Chapter 8.3 above.
- Chapter 21.2: Revised to reflect that monetary awards allowed in compliance with the schedule in NDAC 4-07-18 will be in the form of a gift card and further clarifies that such awards are taxable under IRS rules.

Staff recommends that the Board approve the proposed revisions.

Board Action Requested



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Memorandum

TO: PERS Board
FROM: Bryan and Sharon
DATE: February 17, 2010
SUBJECT: PERSLink Project Quarterly Report

Quarterly Report

Attached is the fourth quarter 2009 PERSLink status report. NDPERS is required to file this report with ITD throughout the duration of our system replacement project. This is the eighth progress report in the execution stage and we are into the final year of the three year project. Note that the planning phase went well and the project is on time and on budget.

Bryan will be available at the Board meeting if you have any questions on the report.

Project Status Report

Project Name *PERSLink*

Project Phase *EXECUTION*

For period:	<i>October 1, 2009-December 31, 2009</i>
Submitted by:	Sharon Schiermeister, NDPERS Project Manager
Green	Strong probability the project will be delivered on time, within budget, and with acceptable quality.
Yellow	Good probability the project will be delivered on time, within budget, and with acceptable quality. Schedule, budget, resource, or scope changes may be needed.
Red	Probable that the project will NOT be delivered with acceptable quality without changes to schedule, budget, resources, and/or scope.

EXECUTIVE SUMMARY

Status Item	Current Status	Prior Status	Summary
Overall Project Status	Green	Green	<i>Overall, the project is on time, on budget and within scope. The vendor is producing deliverables that conform to the acceptance criteria included in the Request for Proposal and that adhere to the ITD Enterprise Project Management criteria. The project team exhibits a dedicated, cooperative, and professional approach to the project – focused on producing and accepting deliverables while meeting the project timetables.</i>
Scope	Green	Green	<i>No variance on scope. New requirements and enhancements are being tracked using a Scope Management Register. Additions and removals from scope are recorded and a process to dispose of additions in excess of removals was agreed and is being executed by the Project Management Team with the approval from the Steering Committee as needed.</i>
Schedule	Green	Green	<i>Pilots 2.1 and 2.2 are now completed, except for data conversion and online documentation review. Pilot 2.3 is in progress and Pilot 2.4 was also started. The scheduled implementation date of October 1 2010 could be extended by one month if the current schedule variance cannot be recovered.</i>
Cost	Green	Green	<i>Actual costs are 10.58% less than expected costs due to a combination of actual NDPERS staff hours being less than projected hours and a timing difference in the production of deliverables by Sagitec.</i>
Project Risk	Green	Green	<i>The risk management log developed during the Planning Phase is maintained in SharePoint and is being reviewed periodically by the project management team. One new high priority risk was added during the quarter and one risk was elevated to very high. These changes were reviewed with the PERSLink Steering Committee. The Steering Committee also reviewed staffing adjustments proposed by Sagitec to minimize risk to the project completion.</i>

Accomplishments:

During this reporting period of the Execution phase the PERSLink Project Team continued to provide post-implementation support for Release 1.0, focusing on critical PIRS and initiated the transition of maintenance of Online Help Documentation to

NDPERS staff.

In parallel, the project team also continued work on resolving and testing remaining Pilot 2.1 functionality and "Unable to Test" Business Rules, and continued to work on the data conversion, interfaces with PeopleSoft and vendors, and online help documentation. NDPERS hired Icon to work on data reconciliation and Sagitec brought their data conversion specialist from Chennai to work onsite.

The project team also continued to work on Pilot 2.2 data conversion and online documentation development.

Pilot 2.3 execution is in progress and on track. The PERSLink team completed the analysis, documentation, review and sign off of all UCS and started the review of System Test Cases. Construction and unit testing are completed and system testing is in progress.

Pilot 2.4 execution is in progress: The PERSLink Project Team completed the statement of work and revised project plan, and started JAD Sessions.

The deliverables that were developed, reviewed and approved are listed in the Deliverable Acceptance Log Summary.

The following team building events occurred:

1. Sagitec conducted a Group Process Review on Dec 14, 2009.
2. Training on the use of Robo help was provided by the vendor to NDPERS.

The following project communications events occurred:

1. The October 2009 PERSLink Newsletter was published
2. NDPERS Project Manager made periodic updates to the NDPERS Management Team and staff
3. PERSLink Project Management held the quarterly review of the contract terms and conditions.

Expected Accomplishments:

During the next reporting period the project team plans to accomplish the following:

1. Complete the following tasks and deliverables:
 - a. Release 1.0
 - Continue to transition the maintenance of online documentation to NDPERS staff
 - b. Continue work on Pilot 2.3
 - Complete system testing, data conversion and documentation
 - Complete review of System Test cases and preparation for UAT
 - Provide demonstration of Pilot 2.3
 - Start UAT
 - c. Continue work on Pilot 2.4
 - Complete JAD sessions
 - Complete construction and unit testing
 - Start system testing, data conversion and online documentation
 - d. Planning Release 2 transition
 - Complete data conversion verification and 95 % of data cleansing
 - Test External interfaces
 - Start communication with employers and vendors
 - Develop UAT and Parallel Testing plan
 - Finalize development of UAT test cases
 - Finalize post-implementation IT staff recommendation
 - Start UAT for Pilots 2.2 and 2.3
 - Develop training plan and training material

RISK MANAGEMENT

Status Item	Current Status	Prior Status	Summary
Project Risk	Green	Green	A risk assessment session was conducted on 12/3/09 and the Risk Register was updated. A new High priority risk and Medium priority risk were added and the risk related to data conversion was

elevated to Very High.

Risk Management Log Summary

Risk #	Description	Response Plan	Owner
27	NDPERS Project Manager is responsible for too many areas, some of them critical to project closure (data conversion, organizational change, external contact with employers/vendors)	Delegate some of the responsibility to other NDPERS people; engage NDPERS Management team and the PERSLink team.	Sharon Schiermeister

Comments:
A complete Risk Log is available on PERSLink Project Portal in SharePoint. A total of 22 active risks have been identified, prioritized and are being monitored by the PERSLink Project Team.

Issues Log Summary

Issue #	Description	Required Action	Owner

Comments:
An Issue Management process document was developed and approved during the project planning phase. As areas of risk eventuate an issue is created in the Issue Register (PERSLink Project Portal in SharePoint) and assigned an owner for resolution. One new issue was added during the quarter and closed before the end of the quarter. At this time, there are no issues outstanding.

SCOPE MANAGEMENT

Status Item	Current Status	Prior Status	Summary
Scope	Green	Green	<i>No scope change this quarter.</i>

Change Control Log Summary

Change #	Description	Action Accept / Reject	Action Date

Comments:
A Change Management Process document was developed and approved by the PERSLink project team during the Planning Phase. There are no entries in the Change Management Log on the PERSLink Project Portal in SharePoint. New requirements and enhancements are being tracked using a Scope Management Register in SharePoint. Additions and removals from scope are recorded and a process to dispose of additions in excess of removals was agreed and is being executed by the Project Management Team and approval from the Steering Committee as needed.

Deliverable Acceptance Log Summary

Deliverable #	Deliverable Name	Action Accept / Reject	Action Date
	Phase 5 Pilot 2.3		
	P2.3 Analysis/Design Package		
	P2.3 Functional Analysis/Design		
	P2.3 Use Case Scenarios	Accepted	11/03/09
	P2.3 Activity Diagrams	Accepted	11/03/09
	P2.3 Data Definitions	Accepted	11/03/09
	P2.3 Business Rules	Accepted	11/03/09
	P2.3 Updated RTM	Accepted	11/03/09
	P2.3 Correspondence Definitions	Accepted	11/03/09

	P2.3 Report Definitions	Accepted	11/03/09
	P2.3 Interface Definitions (UID)	Accepted	11/03/09
	Phase 5 Pilot 2.4	Accepted	
	P2.4 Deliverables		
	P2.4 Planning Package		
	P2.4 Statement of Work	Accepted	11/27/09
	P2.4 Fine Grained Phase WBS	Accepted	11/27/09
	P2.4 Scope Definition Package		
	P2.4 Updated RTM	Accepted	12/14/09
	P2.4 Use Case Model	Accepted	1/15/10
	P2.4 Problem/Opportunity Analysis	Accepted	1/15/10
	P2.4 Current/Target Performance Analysis	Accepted	1/15/10

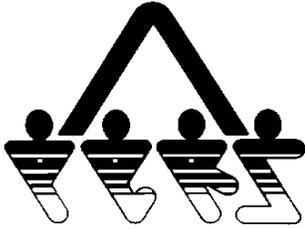
Comments:

All PERSLink deliverables are maintained on the PERSLink Project Portal in SharePoint. All accepted deliverables are maintained in the Acceptance Folder in word format and on the Archive folder in pdf format

COST MANAGEMENT

Status Item	Current Status	Prior Status	Summary
Budget	Green	Green	<i>At the end of the quarter, actual costs were lower than expected costs. Actual payments made to Sagitec were less than expected payments. Expectation was that Pilot 2.2 and Pilot 2.3 would be run in parallel; decision was made to run them consecutively which results in deliverables and payments being delayed. This variation is a timing difference which will be resolved in the next quarter.</i>
Project Budget	Revised Budget (if applicable)		Expenditures to Date
\$0.00	\$0.00		\$0.00
			Estimated Cost at Completion
			\$0.00

	Original Budget	Revisions	Revised Budget	Actual Costs	Expected Costs	Actual vs Expected Variance	Remaining Budget	Cost Performance Index (CPI)	Estimate at Completion (EAC)
Sagitec	7,678,360	(120,017)	7,558,343	4,892,926	5,268,544	(375,618)	2,665,417	1.08	7,019,474
LRWL	1,000,000		1,000,000	642,088	666,661	(24,574)	357,912	1.04	963,139
ICON Integration	0	120,017	120,017	44,413	120,017	(75,605)	75,605	2.70	44,413
Hardware/Software	185,000		185,000	12,430	12,430	0	172,570	1.00	185,000
Contingency	730,640		730,640	39,204	39,204	0	691,436	1.00	730,640
Total Appropriation	9,594,000	0	9,594,000	5,631,060	6,106,856	(475,797)	3,962,940	1.08	8,846,513
PERS Staffing hours	908,214		908,214	474,878	721,779	(246,900)	433,336	1.52	597,540
	24,000		24,000	12,022	19,073	(7,051)	11,978		
Total Budget	10,502,214	0	10,502,214	6,105,938	6,828,635	(722,697)	4,396,276	1.12	9,390,730



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Memorandum

TO: PERS Board

FROM: Sparb Collins

DATE: February 17, 2010

SUBJECT: ANNUAL INVESTMENT REPORT

Mr. Steve Cochrane will be at the Board meeting to give the year-end investment report. He appeared before the Board with the first part of the presentation in November and he will conclude his presentation at this meeting.