

# NDPERS BOARD MEETING

## Agenda

**Bismarck Location:**  
ND Association of Counties  
1661 Capitol Way  
**Fargo Location:**  
BCBS, 4510 13<sup>th</sup> Ave SW

**January 17, 2013**

**Time: 10:00 AM**

### **I. MINUTES**

- A. December 20, 2012

### **II. RETIREMENT**

- A. Legislation Update – Sparb (Information)
- B. Companion Plan – Sparb (Information)

### **III. GROUP INSURANCE**

- A. Legislation Update – Sparb (Information)
- B. Affordable Care Act Update – BCBS (Information)
- C. Group Life Insurance Enrollment Update – Kathy (Information)
- D. Flu Vaccination Clinic Update – Rebecca (Information)

### **IV. FLEXCOMP**

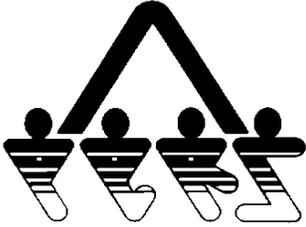
- A. Flexcomp Enrollment Update – Kathy (Information)

### **V. MISCELLANEOUS**

- A. Member Self Service Update – Sharmain (Information)
- B. Legislation Update – Sparb (Information)
- C. Annual Report (Information)
- D. Consultant Fees – (Information)
- E. SIB Update – Mike (Information)

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



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** January 8, 2013  
**SUBJECT:** Retirement Legislation

Attachment #1 is the draft testimony on our proposed retirement legislation for your review.  
No hearing has been scheduled on these bills as of this date.

Attachment #2 is the fiscal notes on the bills.

**DRAFT**

**TESTIMONY OF SPARB COLLINS**

**SENATE BILL 2059**

Good morning, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System (NDPERS). I appear before you today concerning the retirement plans we administer. Our agency provides services to the state and participating political subdivisions. Approximately 55% of our members are from the state and 45% are from political subdivisions. We have approximately 7,000 members retired under our plans.

The proposed legislation before you today is the second part of a four year recovery plan for the PERS Retirement Plans. The first two years were approved last session. The second two years are in this bill and would increase both the employer contribution rates and the member contribution rates that are in statute for the Highway Patrol Retirement Plan, the PERS Hybrid Plan (Main and Judges only) and the PERS Defined Contribution Plan by 1% of the employer and member's rate beginning January 2014, plus an additional 1% increase in both employer and member contribution rates for calendar year January 2015. The bill also would increase the member contribution rates for the following three groups:

- Peace officers and correctional officers in the Hybrid Plan that are employed by political subdivisions, for which the member contribution rate would increase by 0.5% annually, instead of 1%, over the same time period;
- National Guard members in the National Guard Retirement Plan would increase .05% annually; and

- Temporary employees in the Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% annually, instead of 1%, over the same period.

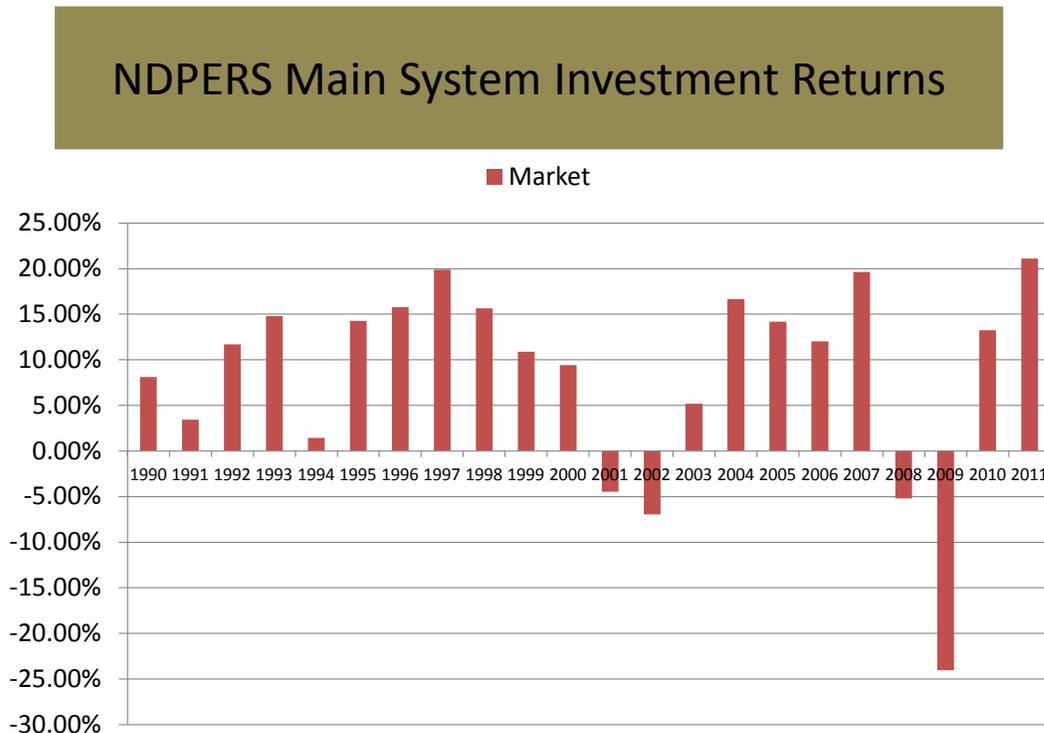
The following details the above changes in the Bill:

<b>Retirement Fund</b>	<b>SB 2059</b> <i>Increase employee and employer contributions equally*</i>
<b>Highway Patrol</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014)               <ul style="list-style-type: none"> <li>○ <b>Section 1</b> increases the employee contribution</li> <li>○ <b>Section 2</b> increases the employer contribution</li> </ul> </li> </ul>
<b>Main</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014)               <ul style="list-style-type: none"> <li>○ <b>Section 3</b> increases the temporary employee contribution</li> <li>○ <b>Section 4</b> increases the employee contribution</li> <li>○ <b>Section 5</b> increases the employer contribution</li> </ul> </li> </ul>
<b>Judges</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014)               <ul style="list-style-type: none"> <li>○ <b>Section 6</b> increases the employer and employee contribution</li> </ul> </li> </ul>
<b>National Guard</b>	<ul style="list-style-type: none"> <li>• .5% employee increase (beginning in Jan of 2014)               <ul style="list-style-type: none"> <li>○ <b>Section 7</b> increases the employee contribution</li> </ul> </li> </ul>
<b>Law Enf</b>	<ul style="list-style-type: none"> <li>• .5% employee increase (beginning in Jan of 2014)               <ul style="list-style-type: none"> <li>○ <b>Section 8</b> increases the employee contribution</li> </ul> </li> </ul>
<b>DC Plan</b>	<ul style="list-style-type: none"> <li>• 2% employee increase and a 2% employer increase (beginning with a 1% increase for both the employer and employee in Jan of 2014)               <ul style="list-style-type: none"> <li>○ <b>Section 9</b> increases temporary employees contribution</li> <li>○ <b>Section 10</b> increases employer and employee contributions</li> </ul> </li> </ul>

This bill addresses the funding shortfall that has occurred in both the PERS defined contribution plan and the PERS defined benefit/hybrid plans as a result of the downturn in the financial markets. Let me start by providing you some background and a summary of the actions taken to date.

## Background

In the 2008/2009 fiscal year the financial market had a major correction. In that year the PERS plan lost about 24.5%. The following table shows the history of returns in that year.

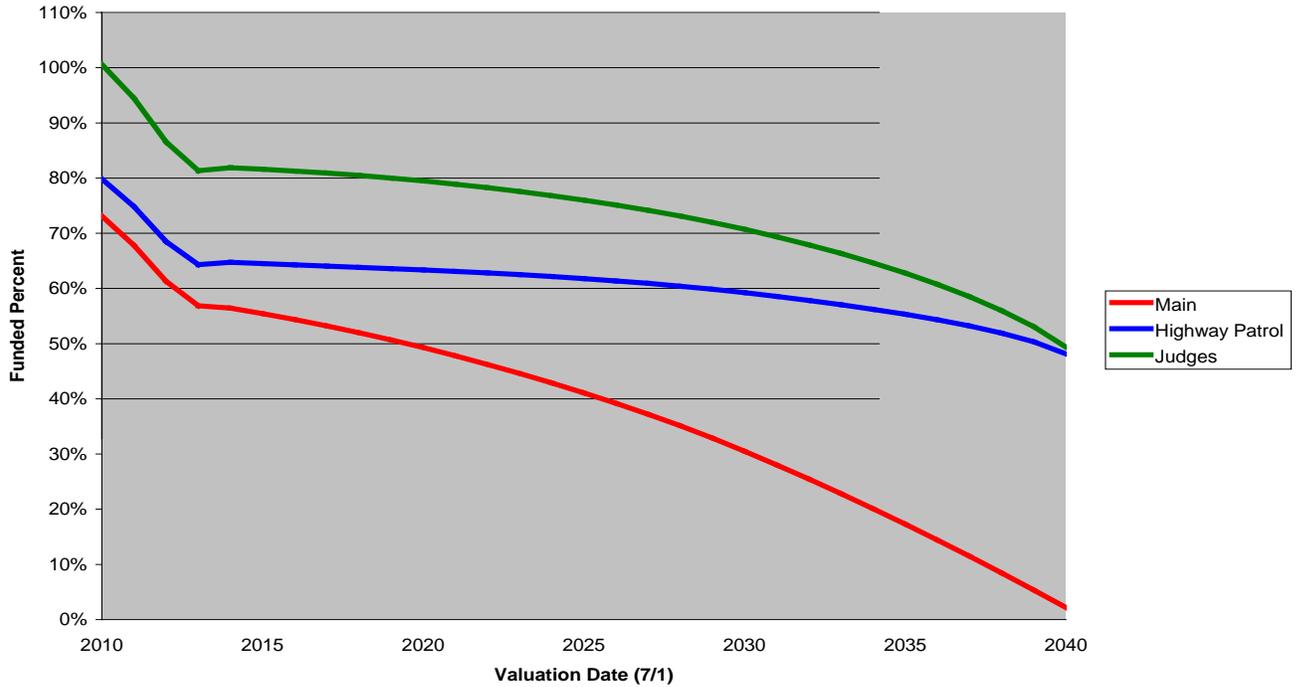


The financial consultant to the State Investment Board, which manages the PERS assets reported that out of 224 years of US stock performance only 4 years were worse than the returns in 2008. What the plan experienced was truly a unique and significant event.

This event created a long term challenge for the funding status of the plans. Based upon the July 2010 actuarial review the following projection of the long term funded status of the Main Hybrid Plan, the Highway Patrol Plan and Judges plan was developed by the actuarial consultant.

## Graph 1

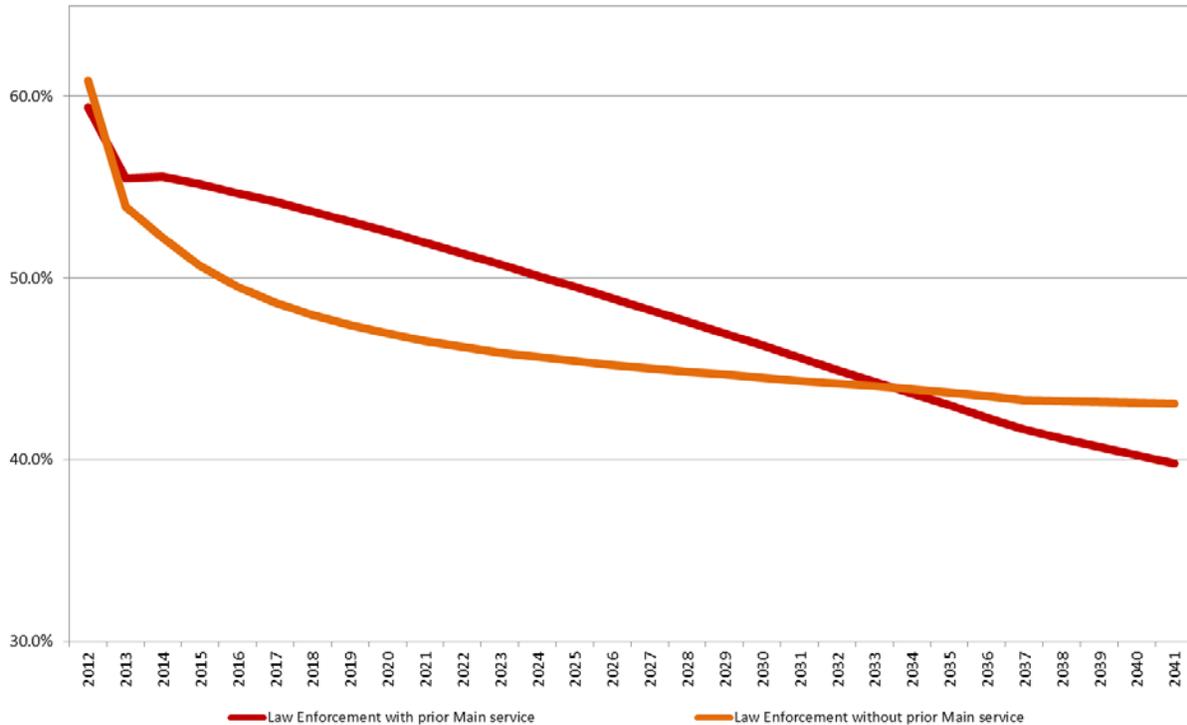
**Projected Funded Ratios  
(Actuarial Value of Assets to Actuarial Accrued Liability)  
Based on July 1, 2010 Data**



Projections of the future funded status at that time indicated the Main plan could become insolvent in approximately 2040 (as noted in the above graph). It also projected a decline in the funded status of the other plans (the Judges and HP).

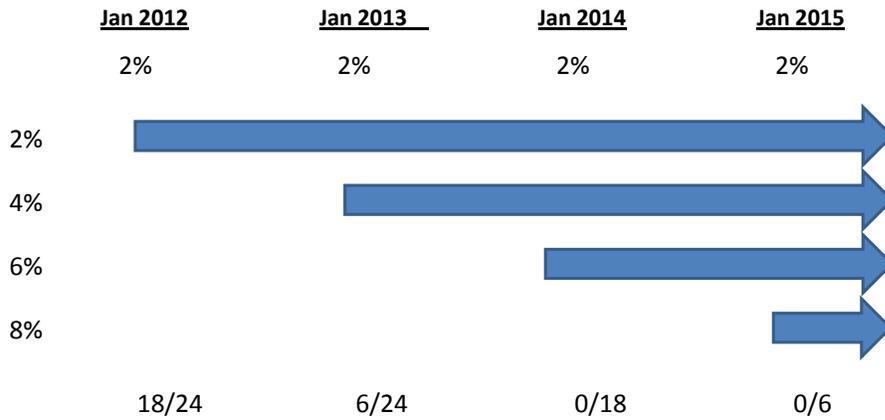
The projections for the Law Enforcement Plan at that time was:

**Graph 2**



After a significant amount of study a proposal was brought forward to increase the contributions by 8% over the period from January 2012 to January 2015 which was projected to close this funding deficit for the Main, judges and HP plans. It became known as the 4 year recovery plan and was based upon the concept that the recovery should be shared between the employer and employee. The thought was that neither party should be responsible for the full cost of the recovery. It was spread over 4 years to reduce the effect of the increase in any given year on either party.

This proposal also proposed increasing the employee contributions for the Law Enforcement plans by 4%. The employer contributions are set by the PERS Board and they have indicated that those contributions would rise as well based upon the legislative action for the other systems.



Months increase effective for 2011-2013/ Months effective for 2013-2015

2015 and beyond 100% effective

2

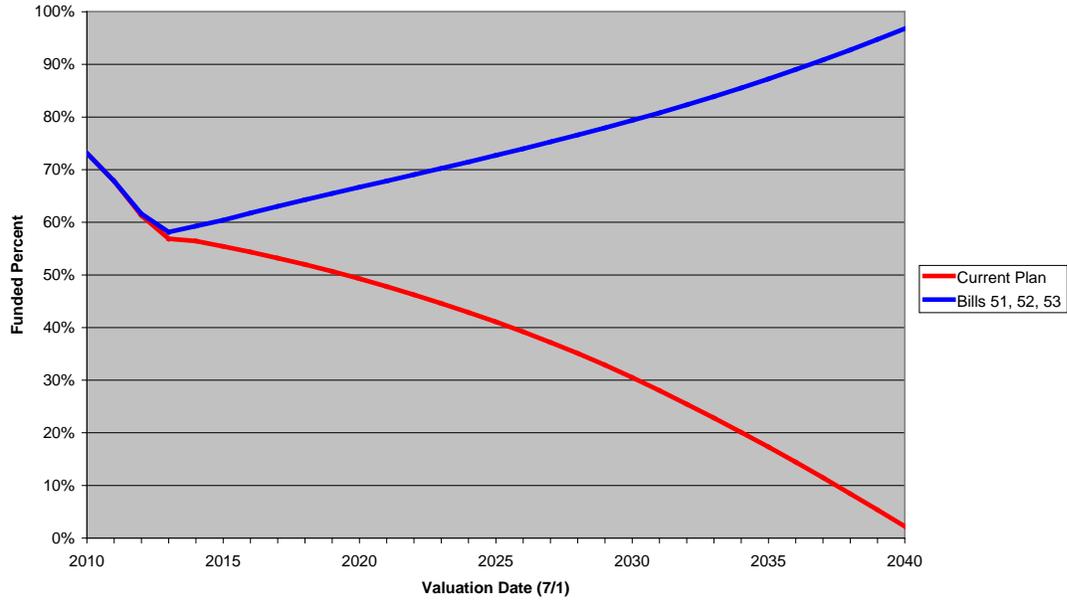
This proposal came together in SB 2108 that was considered last session. This proposal accomplished three objectives:

1. To stop the downward trend in the funded status of the plans
2. To stabilize the plans
3. To put the plans on a course back to 100% funded status

The following graphs were reviewed then showing the projected status of the funds without the increase and the projected status with the increases proposed in the recovery plan.

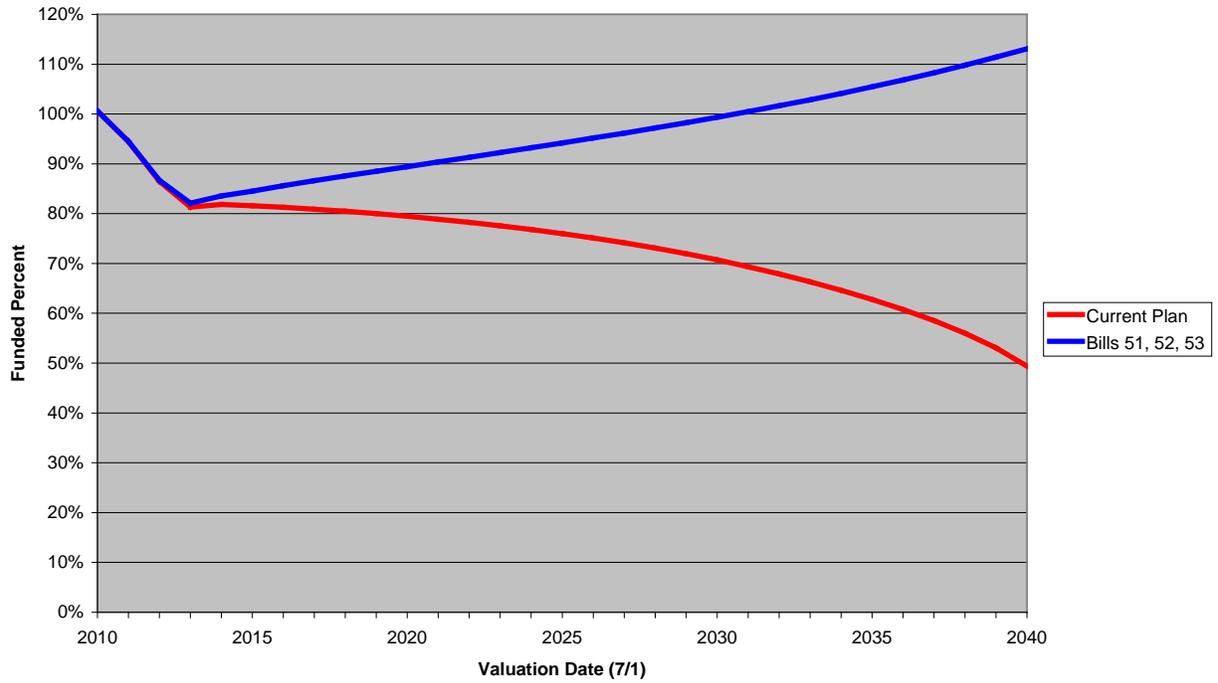
### Graph 3

**PERS (Main System)  
Comparison of Funded Ratio  
(Actuarial Value of Assets to Actuarial Accrued Liability)  
Based on July 1, 2010 Data**



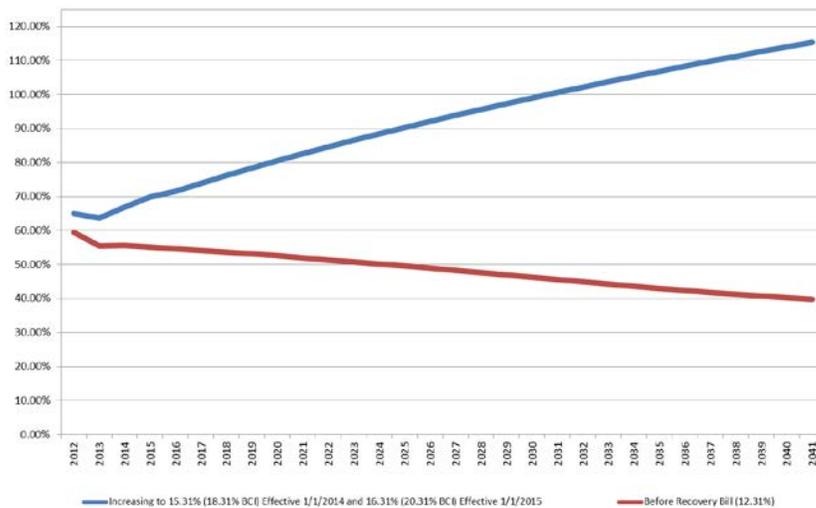
## Graph 4

**Judges**  
**Comparison of Funded Ratio**  
**(Actuarial Value of Assets to Actuarial Accrued Liability)**  
**Based on July 1, 2010 Data**



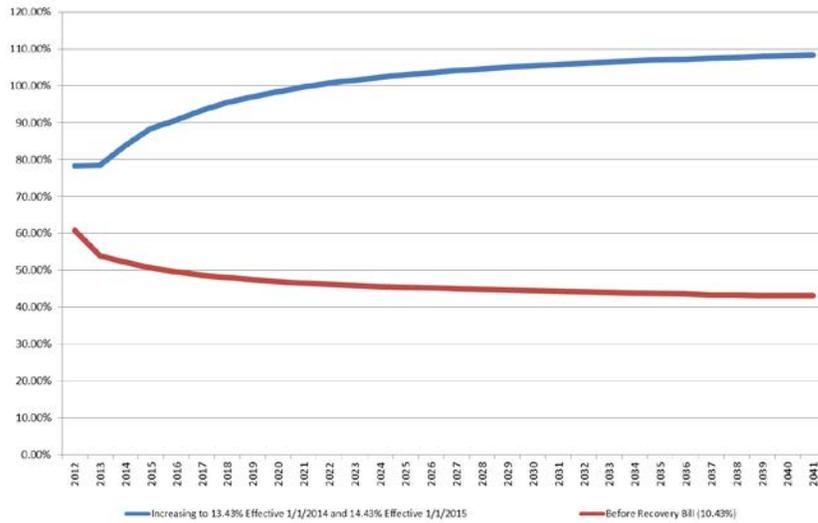
## Graph 5

**Projected Funded Ratios Under Recovery Bill**  
**(AVA Basis) – Law Enforcement with Prior Main System Service**



## Graph 6

### Projected Funded Ratios Under Recovery Bill (AVA Basis) – Law Enforcement without Prior Main System Service

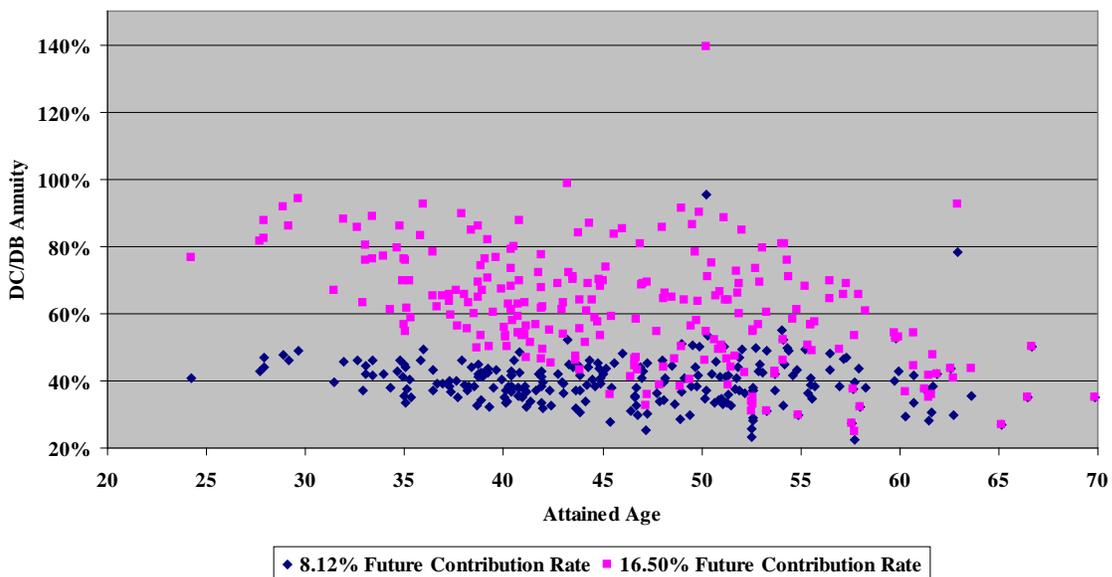


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For the defined contribution plan, the following table shows the challenge faced by that plan in 2010:

## Graph 7

**Exhibit IV**  
**Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit**  
**by Attained Age as of July 1, 2010**



The blue diamonds show the challenge the DC plan members face as a result of the downturn in the financial markets. The squares show the benefit of the increase in contributions to 16.5%.

The proposed recovery plan outlined above for the retirement plans including the DC plan accomplished all three goals. That is, the downward trend in funding is stopped. The plans are stabilized and they are put on a course to 100% funded status. However, for the DC plan we note that while the proposal does much to help the members they are not returned to a 100% level.

Last session the legislature approved the first two years of the recovery plan which included the 2012 and 2013 increases. It was decided to consider the 2014 and 2015 increase this session.

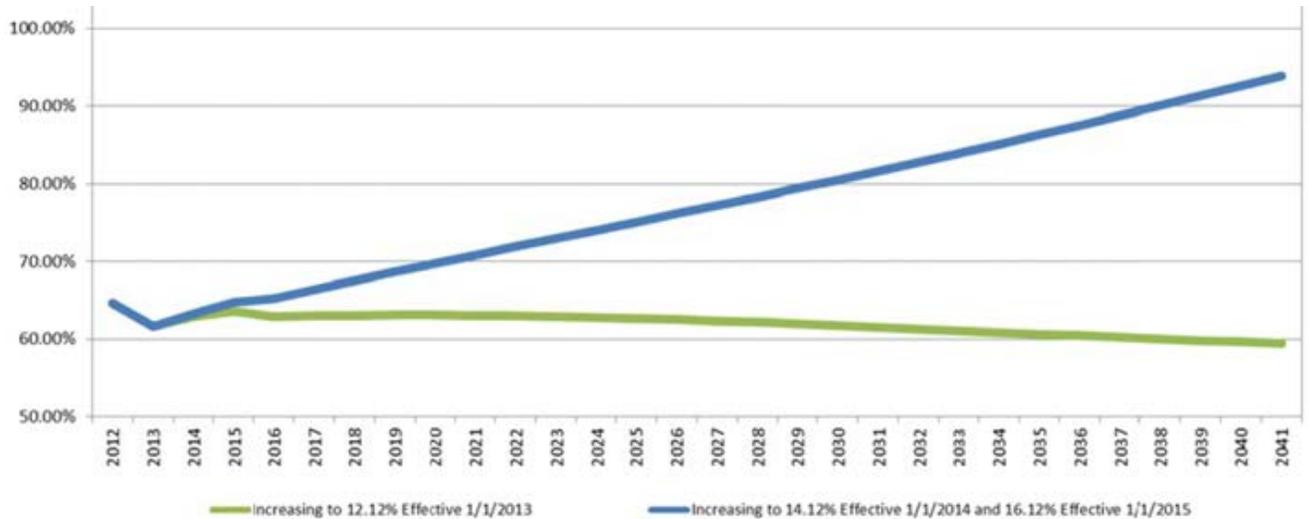
### **Accomplishments** **During Last Two years of Recovery Plan**

During the last legislation the first two years of the recovery plan was approved, that is the 2012 and 2013 increase. It was decided that the 2014 and 2015 increases, the last two years of the recovery plan could be considered during this session.

New projections have been completed for each plan this year as part of the planning and consideration process for the last two years of the recovery plan. The following graphs show what was accomplished by the action of adopting the first two years of the recovery plan and the effect of adopting the last two years of the recovery plan.

This table is for the Hybrid/Main Plan:

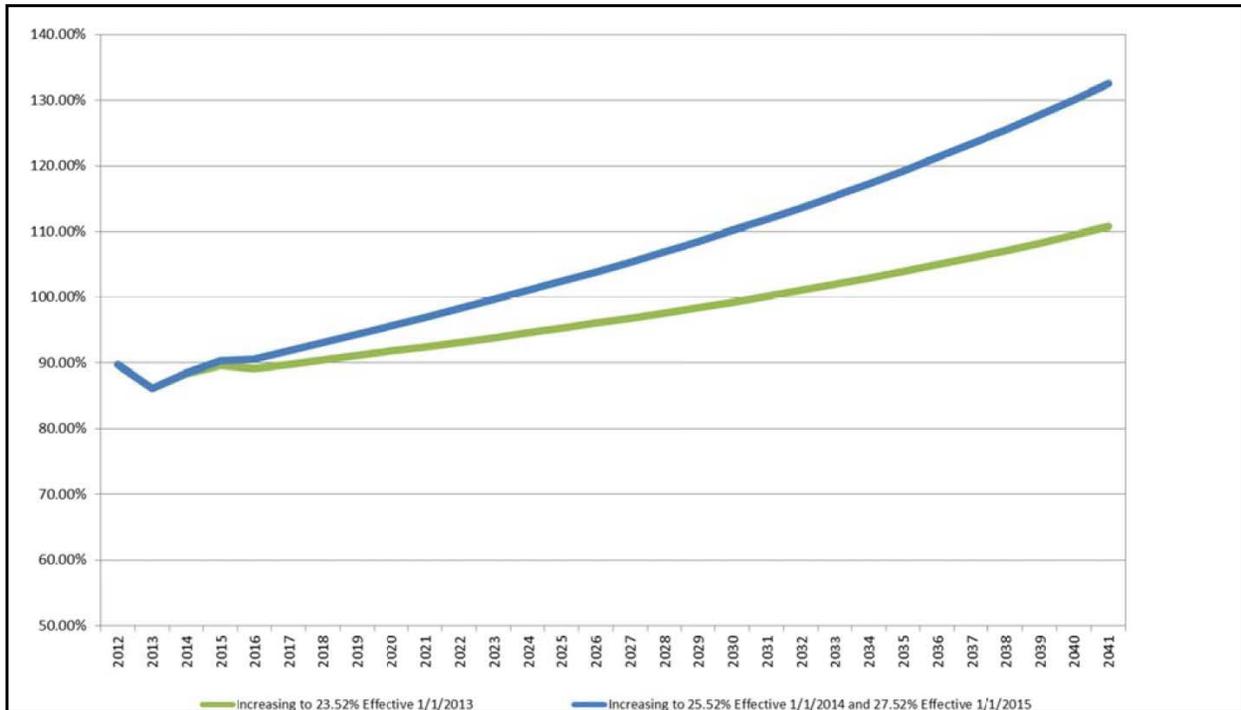
**Graph 8**



As the above shows, the action of adopting the first two years (green line) of the recovery plan stopped the downward trend in the funding status and stabilized the plan at around 60% funded status for the next 30 years or so. Adopting the last two years of the recovery plan will put this plan on a course back to 100% by about 2044 as shown by the blue line above.

This table is for the Judges retirement plan:

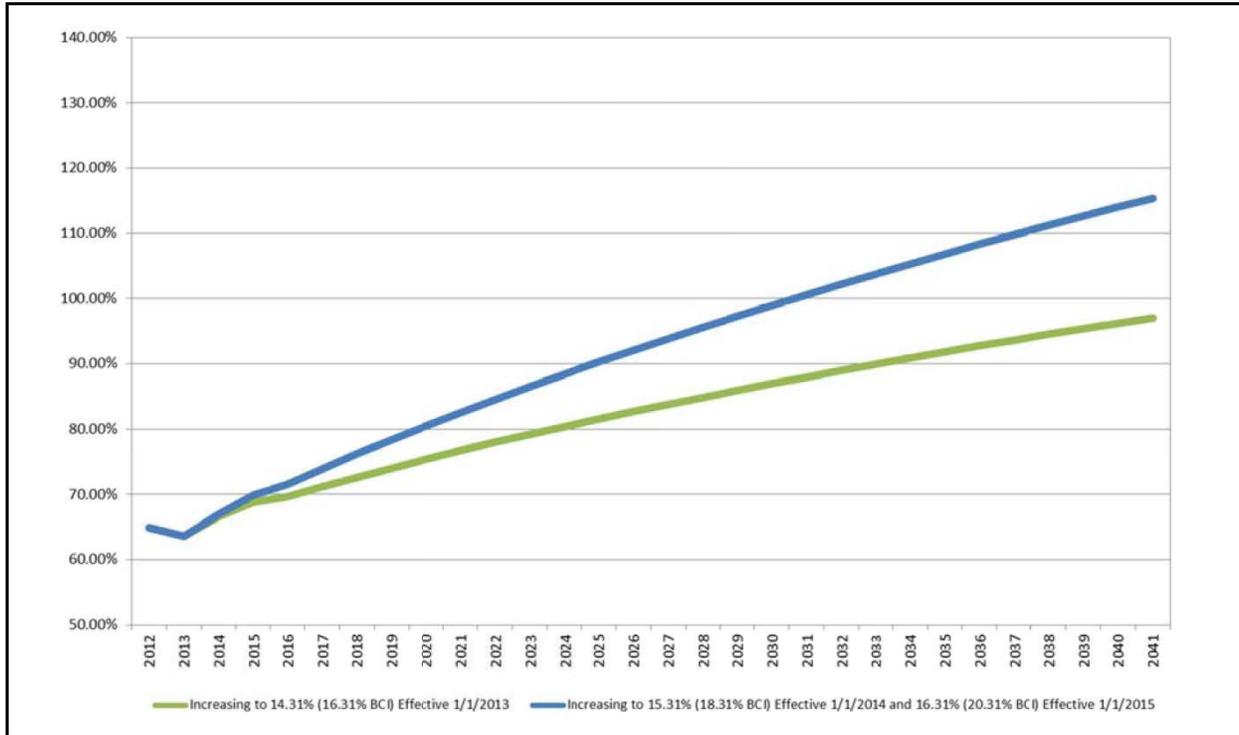
**Graph 9**



For this plan the first two years the recovery plan and the returns for the last two years have put this plan on a track to 100% funded status (green line) around 2035. The approval of the remaining two years of the recovery plan will get this plan back to 100% by around 2023.

This table is for the Law Enforcement Plan With Prior Service.

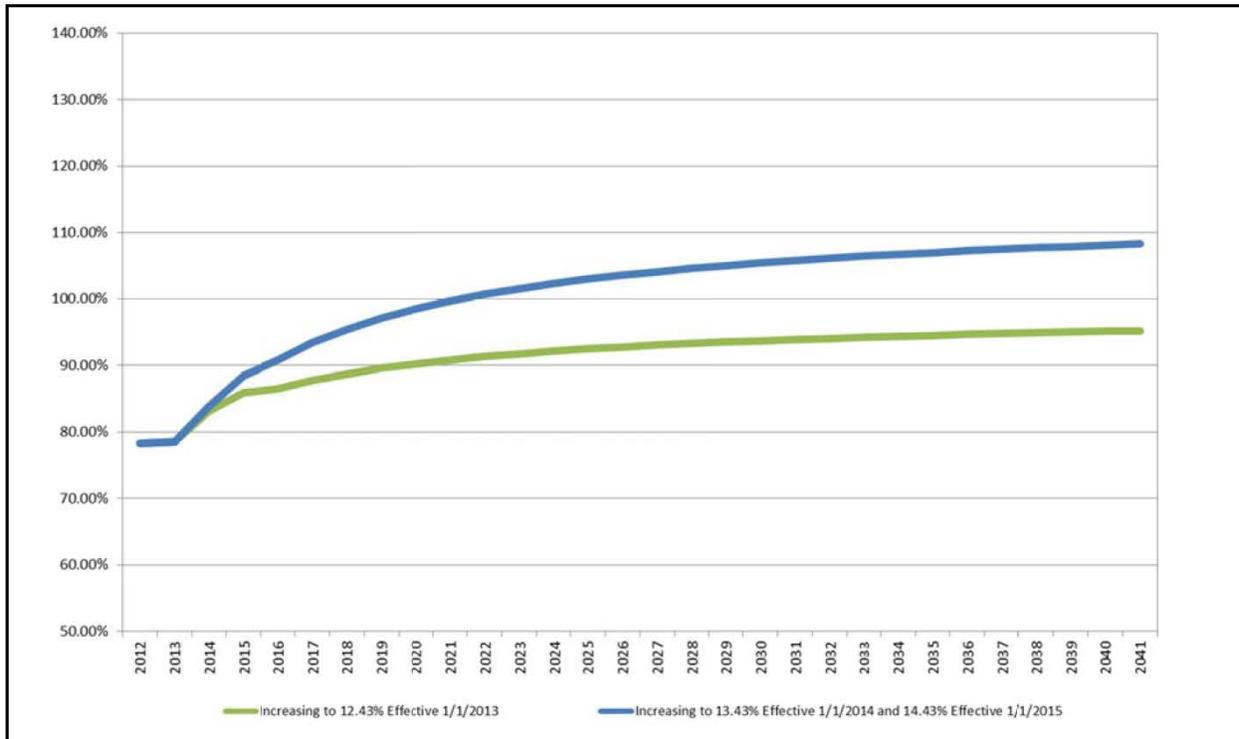
**Graph 10**



For this plan the first two years of the recovery plan and the last two years of returns have put this plan on a positive course and a return to 100% by around 2043 (green line). The adoption of the last two years of the recovery plan will get this plan to 100% funded status by around 2031 (blue line).

The table is for the Law Enforcement Plan Without Prior Service.

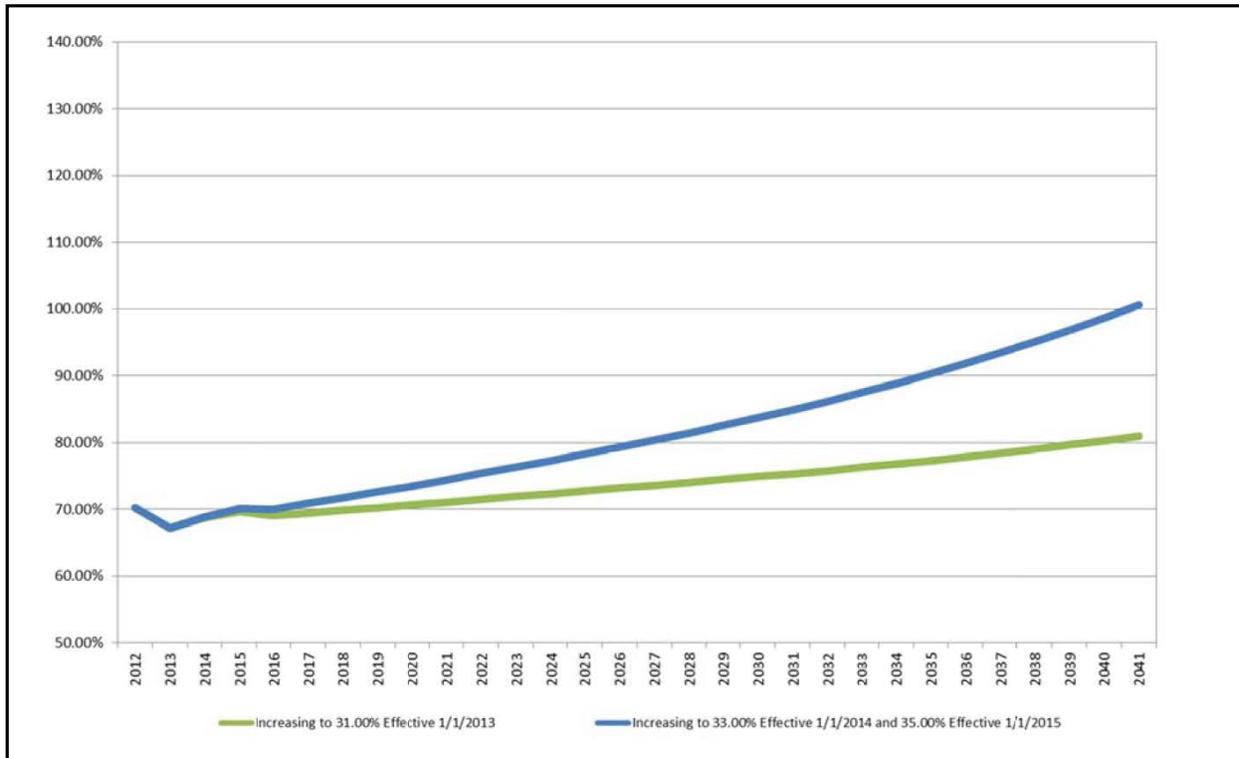
**Graph 11**



The adoption of the first two years of the recovery plan has stabilized this plan at about 95% funded status over the planning period (green line). The approval of the last two years of the recovery plan will get this plan back to 100% by about 2022 (blue line).

The table is for the Highway Patrol plan.

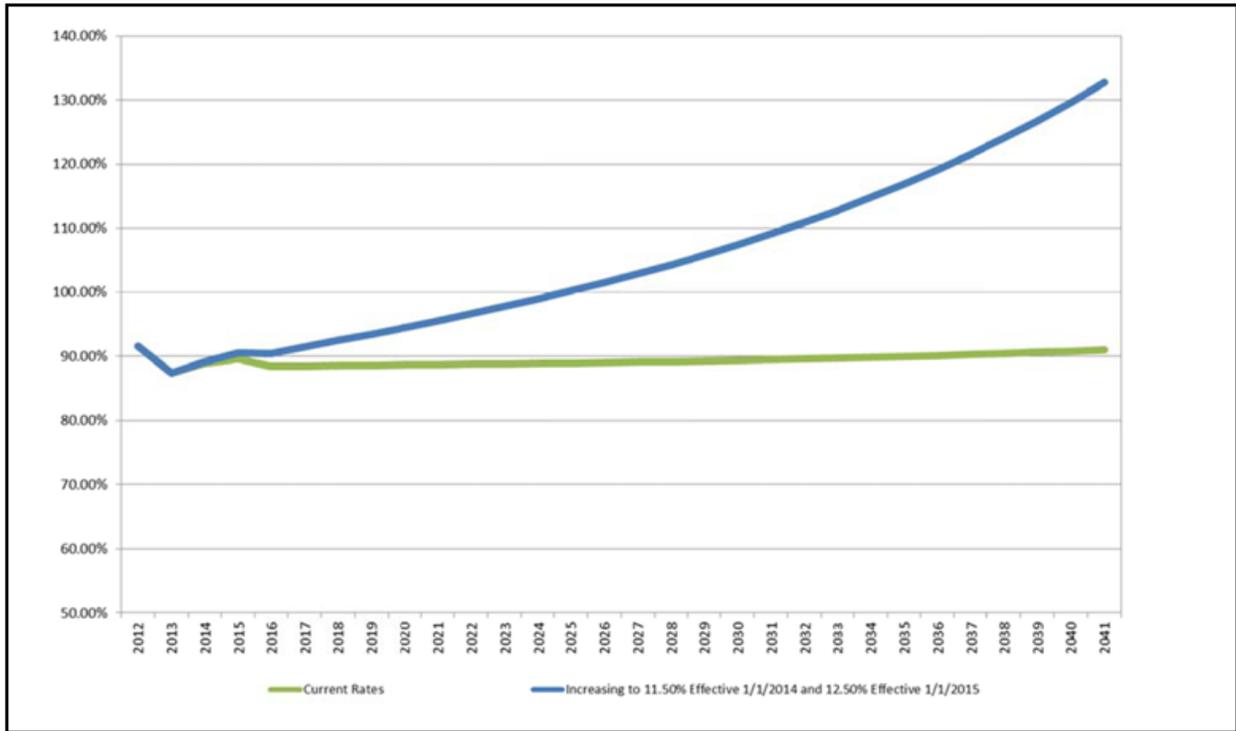
**Graph 12**



The adoption of the first two years of the recovery plan and the last two years of returns has stabilized this plan over the planning period and will increase the funded status over time (green line). The adoption of the last two years of the recovery plan will get this plan back to 100% by 2041 (blue line)

The table is for the National Guard plan.

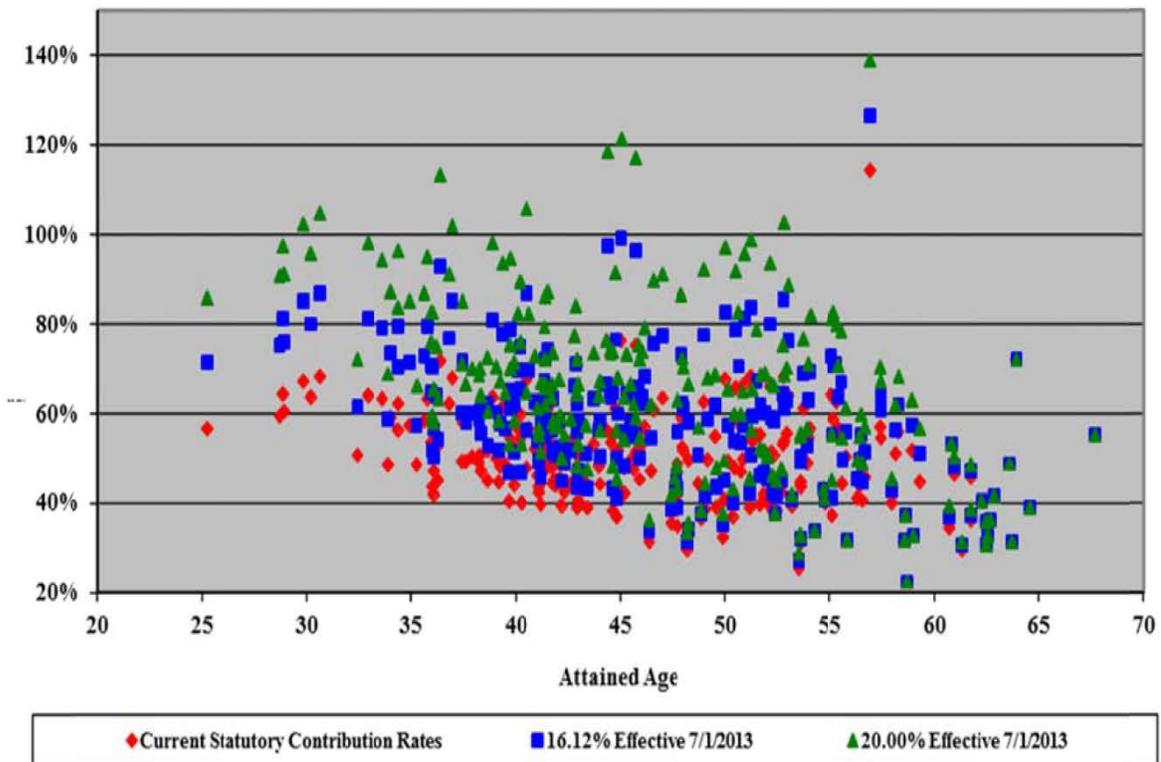
**Graph 13**



This plan is stable over the planning period at about 90% (green line); however, the adoption of the increase for the next two years will get this plan back to 100% by 2016 (blue line).

The table is for the defined contribution plan.

**Graph 14**



The red dots show how the adoption of the first two years of the recovery plan has helped this plans members. The adoption of the second two years is shown by the blue square and clearly improves their position. The last set is in green and shows the benefit of a 20% contribution level to this plan.

## **Summary**

This plan has had considerable study over the years including:

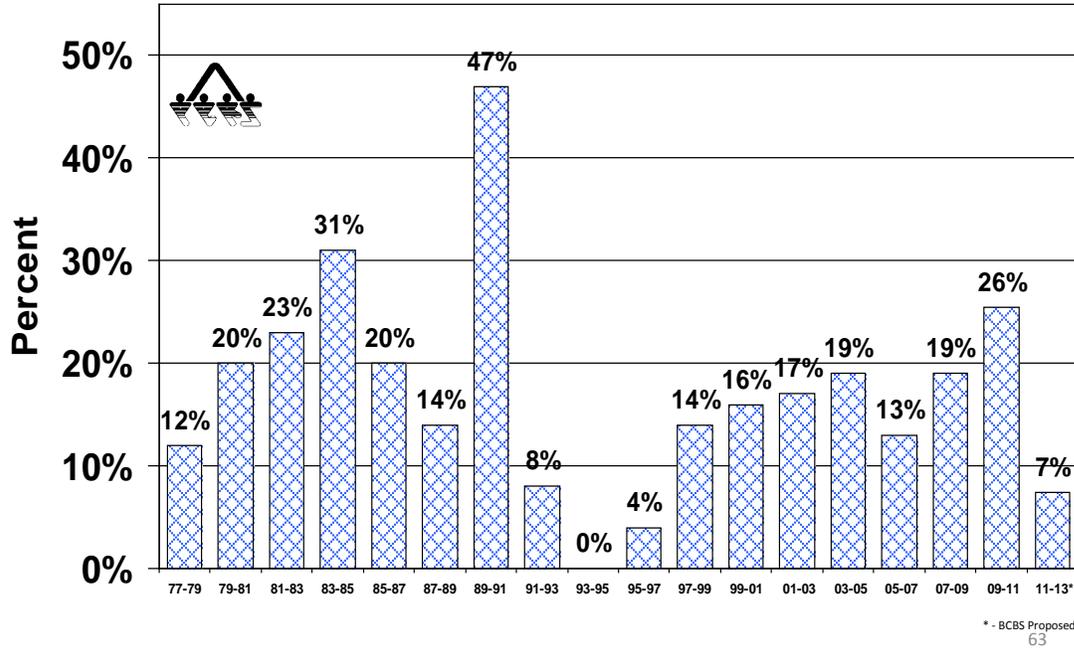
1. The PERS Board worked with our members in developing this proposal. The significant part of this effort is the development of a shared recovery plan with both the member and employer contributions going up not just the employer contribution. This is supported by the employee groups.

2. The Legislative Employee Benefits Committee studied the 4 year recovery proposal in the 2010 interim. They had several hearings on the proposal and reviewed detailed actuarial information over a 5 month period. That committee gave the 4 year recovery plan a favorable recommendation. During the 2012 interim the Legislative Employee Benefits Committee reviewed the proposal for the last 2 years of the recovery plan. They held hearing and reviewed updated actuarial information and again gave it a favorable recommendation
3. The Executive budget for 2011-13 recommended the 2012 and 2013 increases and the Executive budget for 2013 to 2015 recommends the 2014 and 2015 increase to complete the recovery plan.

Attached is the fiscal note for this Bill. While it is significant, one offsetting feature when considering our total benefits is that unlike previous years, this year our health costs are low. The following table is the history of health plan cost increases, including the cost of our upcoming renewal of approximately 7%.

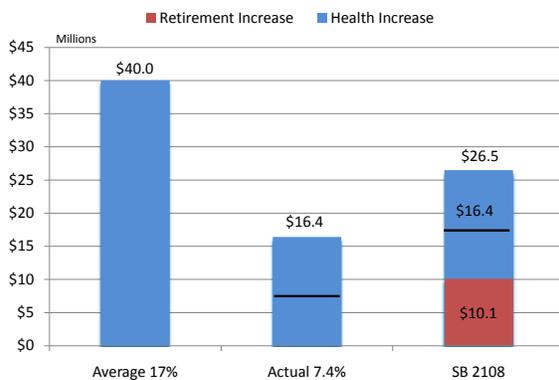
# State Health Premium Percentage Increase From Previous Biennium

(Excludes Plan Design Changes)



Not including this year's renewal, our average increase over the years has been about 17%. The following table shows the projected cost of funding that increase and compares it to the actual cost for both the phased in retirement increase and the new health premium.

## 2011-2013 Biennium Cost



By our members reducing their utilization of services this past biennium, for whatever reasons, it has helped to offset the phased in retirement cost for this biennium since both can be funded for less than the average of just the health.

Mr. Chairman, members of the committee, I wish I did not have to appear before you today with this bill. PERS has never had to request an increase since its inception in 1977. I wish I did not have to today. However, the investment consultant to the State Investment Board stated that the year we had the loss that created this situation was truly unique. In fact, out of 218 years of returns in this country, there were only 4 that were worse. We likely will not experience such an event again in our lifetimes. Unfortunately, this was an unforeseen circumstance and now it needs our consideration and so I stand before you today. In addition, to those I listed above who support the bill, the PERS Board also supports this proposal. If we can assist you with your considerations, please let me know. Thank you.

**DRAFT**

**TESTIMONY OF SPARB COLLINS**

**SENATE BILL 2060**

Mr. Chairman, members of the committee my name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System. I appear before you today on behalf of the PERS Board and in support of this bill. Senate Bill 2060 provides for miscellaneous changes to the PERS statutes relating to the Highway Patrol Plan (Sections 1 &2), the PERS Deferred Comp Plan (Section 3), the PERS Hybrid Plan (Sections 4-6), the PERS Pretax Benefits Program (Section 7), and the PERS Defined Contribution Plan (Section 8 & 9) .

Section 1, page 1 of the bill updates the IRS compliance provisions of the Highway Patrol retirement plan. Each session we must update these provisions to maintain our qualified plan status.

Section 2, page 3 of the bill updates the name for the Legislative Oversight Committee in the Highway Patrol plan statute. North Dakota law provides for a legislative oversight committee for the PERS programs that meets during the interim and reviews each proposed bill relating to PERS. The committee conducts a study of the bill, holds hearings on the bill and concludes the process by giving each bill a favorable, unfavorable or no recommendation. This bill received a favorable recommendation by that committee. This change merely updates the name to its existing name in its authorizing statute.

Section 3, page 3 of the bill relates to the deferred comp plan and would allow the PERS Board to utilize deferred comp provider fees to fund the administration of the deferred comp program subject to legislative appropriation. Our existing provider TIAA-CREF refunds back to the plan 7 basis points. Presently we refund that back to the

member. This would allow the Board and legislature the additional option of using those funds to offset administrative expenses of the plan.

Section 4 has two changes. The first is in subsection 3 b, c & d on page 5 which removes the word “consecutive” before 36 months for eligibility for normal retirement in the national guard and law enforcement plans. Please note it does not change the age requirement or service requirement. For the National Guard plan and the bureau of criminal investigation plans it also removes the words “immediately proceeding retirement” to mirror the change that was made last session for the law enforcement plan. This change also does not effect the age or service requirement for retirement for members of this plan which means that this change will not allow earlier retirements. The second change in section 4 is on page 10 and proposes to eliminate the level social security option for several reasons:

1. Less than 5% of the members that retiree select this option
2. Even though we counsel members carefully on this benefit, they are still surprised when their benefit is reduced in the future – so this option remains confusing.

The addition, the 20 year term certain option recently enacted provides another alternative for members.

Section 5, on page 11 of the bill updates the name for the Legislative Oversight Committee in the PERS Plan statute (NDCC 52-52). Section 2 of the bill made this change for the Highway Patrol plan.

Section 6, on page 12 of the bill updates the IRS compliance provisions of the PERS retirement plan as Section 3 of the bill did for the Highway Patrol (HP) plan. As with the HP plan each session we must update these provisions to maintain our qualified plan status.

Section 7, on page 14 of the bill allows the Board to pay a third party payer from the funds received from the pretax benefits program. NDCC section 54-52.3-06 of our

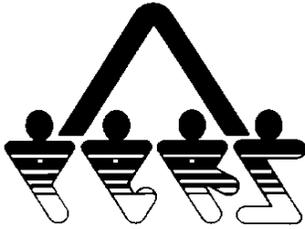
existing statute appears to already provide that authority to the Board, however, NDCC section 54-52.3-03 may limit that authority so it was felt that we should have this clarified in statute therefore this provision is being proposed. We recently switched the claims payment for our flex program from the PeopleSoft system to an outside vendor which gave rise to the need for this clarification. The cost of the outside vendor is \$2.85 per member per month and this is the amount shown on the fiscal note.

Section 8 of the bill has two proposed provisions relating to the PERS Defined Contribution Retirement Plan. The first is on page 14 and clarifies how the defined contribution assets are to be distributed if a named beneficiary predeceases the member. Specifically the proposed provision provides the assets would then be distributed to the remaining survivors. The second proposal is on page 15 of the bill and standardizes the provisions relating to use of the retiree health credit by providing the benefit option for DC plan members as the Main/Hybrid plan members have.

Section 9, page 16 of the bill establishes a federal compliance section for the defined contribution plan similar to that for the PERS Hybrid Plan and Highway Patrol Plan.

Mr. Chairman, members of the committee this bill was reviewed by the Legislative Employee Benefits Committee and given a favorable recommendation. Also attached to my testimony is a table that summarized my testimony relating to this bill.

Thank you, and this concludes my testimony.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** January 8, 2013  
**SUBJECT:** Companion Plan

Recently we discussed establishing performance standards for TIAA-CREF and the Companion Plan. We have started that discussion and they plan to be at the February or March meeting to discuss this and other topics. Attached is a first draft from them of some suggested standards. Please review and we can discuss at the meeting any other areas you would like to add.

	Performance Standard	SLA	Measurement Criteria
<b>Channel Availability</b>	<i>Quality standard for number of seconds on hold while call transfers to CSR</i>	75% of calls answered within 30 seconds	This measurement is calculated as the number of calls answered within the standard divided by the total number of telephone calls.
	<i>Abandonment Rate</i>	3%	This measurement is calculated as the number of abandoned calls divided by the total number of telephone calls.
	<i>Individual/Administrator Web Availability</i>	99% (excluding regularly scheduled maintenance)	Availability is calculated as a percentage of time per quarter functions are available excluding reserved maintenance windows and scheduled application update activities.
	<i>VRS Availability</i>	99% (excluding regularly scheduled maintenance)	Availability is calculated as a percentage of time per quarter functions are available excluding reserved maintenance windows and scheduled application update activities.
	<i>National Call Center Availability</i>	Call center is available 100% of scheduled hours	Availability is calculated as a percentage of time per month customer service representatives are available to receive calls
<b>Transaction Timeliness</b>	<i>Contribution Remittances</i>	Same business day as receipt of funds as of 4:00 PM ET or earlier market close; assumes prior receipt of payroll data in good order.	Total number of contribution and loan repayment files received and processed on the same business day compared to the total number of files received within the reporting period
	<i>Termination distributions, lump sum payments and in-service distributions</i>	99% processed within 5 business days after receipt of approved request received within good order	This measurement is calculated as the number of loans and distribution processed within 5 business days divided by the total number of distribution processed
	<i>Fund to Fund Transfers</i>	99% processed within the same business day the request is received within good order by 4:00p.m. ET or earlier market close.	This measurement is calculated as the number of fund transfers processed within the same day divided by the total number of transfer requests received

	<i>Transfers between plans</i>	99% of requests to transfer between like registered plans under the Employer are processed within 3 business days of the request being received in good order by 4:00p.m. ET or earlier market close	This measurement is calculated as the number of fund transfers between plans processed within 3 days divided by the total number of transfer requests received
	<i>Beneficiary Service (Survivor Benefits Payments)</i>	98% of claims processed within 3 business days of receipt of approved request received in good order.	This measurement is calculated as the total number of claims processed within the standard divided by the total number of claims processed.
	<i>QDRO Processing</i>	90% of transactions processed within 20 business days of request received in good order.	This measurement is calculated as the total number of transactions processed the standard divided by the total number of transactions processed.
<b>Issue Resolution</b>	<i>Issue Resolution – Time to Resolve</i>	95% of verbal customer issues closed within 5 business days. 98% of verbal customer issues closed within 10 business days.	This measurement is calculated as the total number of verbal customer issues closed to within the standard divided by the total number of escalated customer issues received.
<b>Reporting</b>	<i>Administrative Reporting-Timeliness</i>	Reporting for the preceding quarter is available on the Plan Sponsor website within 3 business days after the end of the reporting period.	This measurement is calculated by the availability of the applicable data on TIAA-CREF's reporting systems within 3 business days following the quarter end.
	<i>Benefit Election Confirms–Timeliness</i>	99% of Welcome Confirmations mailed within 2 business days of contract issuance (paper). 99% of Financial Confirmations mailed within 1 business day of transaction posting (paper). 99% of Financial Confirmations available within 1 business day of transaction posting (online).	This measurement is calculated as the number of confirmation statements mailed within the standard divided by the total number of confirmations mailed (paper). This measurement is calculated as a percentage of time confirmations are available within the standard excluding reserved maintenance windows and scheduled application update activities (online).
	<i>Participant Statement-Timelines</i>	95% mailed within 5 business days after end of quarter (paper).	This measurement is calculated as the number of statements mailed within the standard divided by the total number of statements mailed (paper).

		95% available within 5 business days after end of quarter (online).	This measurement is calculated as a percentage of time confirmations are available within the standard excluding reserved maintenance windows and scheduled application update activities (online).
<b>Satisfaction</b>	<i>Participant Satisfaction</i>	85% satisfaction rating (7 or higher on a 10 point scale)	Based on year to date results from TIAA-CREF's current SQMP survey gathered from a random sampling of TIAA-CREF's participant base. Results are reported at the end of the calendar year.
	<i>Plan Sponsor Satisfaction</i>	85% satisfaction rating (7 or higher on a 10 point scale)	Based on year to date results from TIAA-CREF's current SQMP survey gathered from a random sampling of our total plan sponsor base. Results are reported at the end of the calendar year.
<b>Consulting/ Financial Planning Service</b>	<i>Individual and Group Meetings</i>	Delivered within the agreed upon schedule and number of days	

**Legal Qualifiers**

TIAA shall be entitled to a grace period to cure any matter of noncompliance identified by the client as a part of this SLA . Typically the cure period will be 90 days or a date mutually agreed upon by TIAA-CREF and the client. If after the expiration of any such cure period TIAA remains in noncompliance, the client notifies TIAA-CREF that the issue still exists and penalties will be paid as appropriate.

Notwithstanding the foregoing, TIAA's obligations and liabilities shall be limited to the following limitations:

- (a) The National Contact Center (NCC) shall be available to respond to telephone calls Monday through Friday (excluding holidays observed by TIAA) from 8 a.m. to 10 p.m. Eastern Time and Saturdays from 9 a.m. to 5 p.m. Eastern Time. All calls to the NCC will be recorded to help ensure they are handled properly. Calls may be monitored for training, review and other business purposes. TIAA shall also provide Plan participants toll-free access to the Automated Telephone Service (ATS) modules. The ATS shall be available seven days a week and 24 hours a day, except during maintenance downtime and except at other times due to a failure of telecommunication, electrical, and/or computer systems, or other similar situations. TIAA shall use its best efforts to remedy any such failure. TIAA shall provide **[Name of institution]** with

at least 24 hours' advance notice in the event of a scheduled material maintenance of the ATS expected to result in the unavailability of the ATS to **[Name of institution]** participants for any material period of time, and to the extent reasonably feasible, TIAA shall facilitate notification to participants in the plans of such unavailability via the web site.

- (b) To the extent any penalty for noncompliance shall otherwise become due and owing, TIAA shall incur liability for such penalty if and only if payment shall be requested in writing by **[Name of institution]** within a reasonable period of time following the later of: (i) the expiration of the applicable cure period and (ii) the period during which **[Name of institution]** knew or reasonably should have known of TIAA's noncompliance.
- (c) TIAA shall be excused from liability for any errors, omissions or inaccuracies arising as a result of the failure to receive accurate and complete records from **[Name of institution]** or any current or prior service provider(s); provided, however, TIAA shall not be excused from liability to the extent that TIAA has actual knowledge that such data is erroneous or, in the exercise of ordinary business prudence, would have such actual knowledge. In the event TIAA is not supplied with all information necessary to accurately compute the minimum distribution for any individual(s), TIAA shall, to the extent permissible under law of the terms of the annuity contract, calculate the payment using single life and recalculated annually options in the initial year and all subsequent years for that individual(s).
- (d) **[Name of institution]** shall be solely responsible for the timeliness, accuracy and completeness of the data that it (or its agent) submits to TIAA, and for any adverse consequences that may result from errors or inaccuracies caused by the inaccuracy or incompleteness of such data; provided, however, TIAA shall not be excused from liability to the extent that TIAA has actual knowledge that such data is erroneous and does not take reasonable action to notify **[Name of institution]** to obtain corrected data. Subject to the foregoing, TIAA may fully rely on data received, and shall have no obligation to review it or verify its accuracy.
- (e) **[Name of institution]** agrees to promptly provide any information reasonably requested by TIAA to enable the fulfillment of its responsibilities under this Agreement, and to sign miscellaneous certifications and other documentation related to the purposes expressed herein. TIAA shall have no obligation to perform any of the services described in or contemplated under this Agreement, unless and until a reasonable period of time after all information it reasonably may request has been provided by **[Name of institution]**.
- (f) **[Name of institution]** agrees that TIAA's performance may deviate from the established expectations from time to time due to causes beyond TIAA's reasonable control, e.g., TIAA's receipt of poor or incomplete data, the periodic failure of information or communications systems (except where such failures are solely attributable to TIAA's negligence), the operation of the capital markets, computer or operational system failures (except where such system failures are solely attributable to TIAA's negligence in maintaining such systems), "Acts of God," fire, flood, civil or labor disturbance, war, terrorism, act of any governmental authority or other act or threat of any authority (de jure or de facto), legal constraint, fraud or forgery, inability to obtain or interruption of external communications facilities, or any cause beyond the reasonable control of TIAA or other unusual circumstances.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** January 8, 2013  
**SUBJECT:** Health Plan Legislation

Attached please find the draft testimony for the health plan legislation. Attachment #1 is the testimony and Attachment #2 is the fiscal notes. The hearing for HB 1058 hearing is scheduled for January 11 before the House GVA committee. No hearing has been scheduled at this time for HB 1059.

# TESTIMONY OF SPARB COLLINS ON HOUSE BILL 1058

Mr. Chairman, members of the committee, good morning my name is Sparb Collins and I am the Executive Director of the North Dakota Public Employees Retirement System (PERS). Today I appear before you in support of HB1058. This bill relates to retirees, in particular pre-Medicare retirees. Specifically, it does the following:

1. Closes the PERS health plan to pre-Medicare retirees on July 1, 2015 (Section 1)
2. Makes the retiree health credit portable (Section 2 & 3).

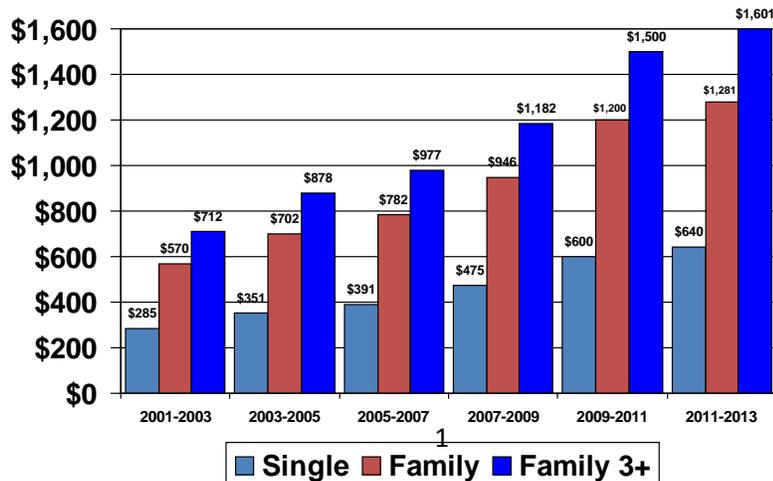
Let me discuss the reasons and details of the proposed changes listed above.

## **SECTION 1 - CLOSING THE PERS HEALTH PLAN TO PRE-MEDICARE RETIREES**

Section 54-52.1-02 (1) authorizes retired employees not eligible for Medicare the option to participate in the PERS Health Plan. Historically, it is my understanding that this option was available to insure that retiring employees would be able to find health coverage when they retired without having to be exposed to medical underwriting requirements or pre-existing condition provisions. The rate for this coverage is also set in statute as:

- the rate for a non-Medicare retiree single plan is one hundred fifty percent of the active member single plan rate,
- the rate for a non-Medicare retiree family plan of two people is twice the non-Medicare retiree single plan rate, and
- the rate for a non-Medicare retiree family plan of three or more persons is two and one-half times the non-Medicare retiree single plan rate.

The following is a history of the premium for that coverage:



Since the above rate is set by a state statute and is not based upon the actuarial requirements of the group, the above rates while high, do not reflect the full cost of that coverage. If the rate was set based upon the actuarial requirement for the pre-Medicare group, it would be even higher. This difference between the statutory rate and the actuarial rate is called an implicit subsidy of the plan.

Relating to financial reporting of this implicit subsidy, the Governmental Accounting Standards Board (GASB) finalized Statements No. 43 (GASB 43 for funded OPEB plans) and 45 (GASB 45 for employers) in 2004. The statements' objectives are to establish uniform standards of financial reporting by state and local governmental entities for post-employment benefit plans other than pension benefits (OPEB plans). This includes post-employment health care benefits such as the one provided to North Dakota pre-Medicare retirees. Pursuant to these statements the State must report the present value of this implicit subsidy as a footnote on the State's financial reports. The most recent valuation put this amount at \$65.2 million. If this bill is adopted, PERS would no longer offer this coverage. Consequently, this liability would be substantially eliminated and, therefore, would not appear on the financial statements.

The second aspect of the implicit subsidy is that in the near term (the cost for one year) the actuarial difference in the cost is applied to the active contracts in the plan. The estimated cost of this to the active contracts in the plan is about \$2.46 per contract per month on premiums for 2013-15. Again, if the provisions of this bill are approved, this cost would no longer be applied to the active contracts in the plan. In the fiscal note, we assumed that this would reduce the active health insurance coverage by about half of this amount in 2015-17. We would expect that by 2018 nearly all pre-Medicare members would be off the health plan and this entire savings would then be reflected in the active premiums.

While the provisions of this bill would result in the above two savings for the employer (no longer having to report the present value of the subsidy on the states financial statements and the subsidy being reflected on the active rates), what about the effect on retirees? First, as mentioned at the beginning, this coverage was offered to pre-Medicare retirees to insure they had access to coverage when they retired. Due to the passage of the Affordable Care Act (ACA), there are provisions in the bill that provide access to insurance without having to be concerned with being medically underwritten or having pre-existing condition provisions. Consequently, the primary reason that PERS offers this coverage to this group may no longer apply. Additional advantages for the pre-Medicare retirees to access coverage through the new health care exchanges may be:

- Possible subsidies for coverage
- More selection of plans

The primary disadvantage to our pre-Medicare retirees is that at this time the PERS Retiree Health Insurance Credit is not portable, so they would lose that benefit by going to the health care exchange. That is why Sections 2 & 3 of this bill are proposed. You

will note, however, that the effective date of this act is not until July 1, 2015 (Section 4, page 7). The reason for this is to allow us enough time to confirm our understanding when the Affordable Care Act provisions are implemented in 2014. If our understanding proves to be incorrect, then corrective provisions can be proposed to the 2015 legislative session before we stop offering non-Medicare coverage. The advantage of passing the bill at this time is that we will see the present value cost on the financial statement's reduced.

## **SECTIONS 2 & 3 – RETIREE HEALTH CREDIT PORTABILITY**

In 1989, the North Dakota Legislature started the Retiree Health Insurance Credit Program (RHIC). The purpose of this program was to help retirees offset the cost of health insurance. It was recognized at the time that the cost of health insurance was becoming increasingly unaffordable. The monthly benefit formula and benefit paid information is:

### **BENEFIT FORMULA:**

*\$5 for each year of credited service*

Example:  $\$5 \times 25 \text{ years} = \$125$

During the last year, the program paid out the following benefits:

### **BENEFITS PAID**

Average benefit: \$118 per month to 4,442 members

This program is presently funded by a 1.14% contribution from payroll.

Presently, this benefit can only be used to purchase PERS retiree health insurance coverage.

If the provision in Section 1 of this bill alone was passed, it would mean that pre-Medicare retirees would not be able to participate in the PERS health plan and would lose this benefit. Consequently, the proposal in Sections 2 & 3 would make this coverage portable for any health insurance coverage and also allow it to be used for the PERS dental, vision, prescription and long term care coverage. This provision adds the portability feature for not only pre-Medicare retirees but also Medicare retirees.

During the interim study of this bill by the Legislative Employee Benefits Committee, it was noted that the cost of making this coverage "portable" would be .19% of payroll, and the cost of the existing program is .90% of payroll. Adding the cost of existing coverage and the portability provision would result in a total cost of 1.09%. The existing contribution is 1.14% which means that the portability provision could be added without the need to increase contributions.

## **Summary**

As noted in the beginning of this testimony, this bill does two basic things:

1. Closes the PERS Health Plan to pre-Medicare retirees on July 1, 2015 (Section 1). As discussed above, this will eliminate the implicit subsidy associated with offering this coverage, which consists of a present value of about \$65 million, thus reducing that amount on the state's financial statements. In addition, this change will reduce the active rates in the future by the annual implicit subsidy cost of about \$2.46 per contract per month.
2. Makes the retiree health insurance credit portable. While this will increase the cost of this program based upon the most recent actuarial valuation, the additional cost can be paid within the existing contribution.

Both the employer and retired employees benefit from the provisions of this bill. The employer gets rid of the implicit subsidy costs. The retiree gets more flexibility for using the health credit.

This bill was reviewed during the interim by the Legislative Employee Benefits Committee and received a favorable recommendation. In addition, the PERS Board requests your favorable consideration of the bill.

Mr. Chairman, this concludes my testimony and thank you.

**DRAFT**

**TESTIMONY OF SPARB COLLINS ON**

**HOUSE BILL 1059**

Mr. Chairman, members of the committee, good morning my name is Sparb Collins and I am the Executive Director of the North Dakota Public Employees Retirement System. Today I appear before you in support of HB1059. This bill addresses two areas:

1. Compliance with the Affordable Care Act (ACA) (Section 1).
2. Participation by political subdivisions in the PERS High Deductible Health Plan (HDHP) (Section 2).

**Section 1 - Compliance with the Affordable Care Act (ACA)**

Section 1 of the bill would amend Section 54-52.1-03.4 of the North Dakota Century Code to modify the uniform group insurance program's eligibility rules for temporary employees first employed after December 31, 2013, and to limit the amount any temporary employee can be required to contribute towards the cost of coverage. The purpose of the proposed changes is to prevent the State of North Dakota from being subjected to the Employer Shared Responsibility penalties with respect to its temporary employees under the Affordable Care Act. The Shared Responsibility penalty for No Coverage will be \$2,000 per FTE per year. This No Coverage penalty will be imposed only if at least one FTE purchases coverage in a Health Insurance Exchange and qualifies for a Premium Tax Credit or Cost-Sharing Reduction.

Section 1 of the bill would make the following two amendments to Section 54.52.1-03.4 of the North Dakota Century Code:

1. The first amendment would make any temporary employee "first employed after December 31, 2013 ... eligible to participate in the uniform group insurance program only if the employee meets the definition of a full-time employee under section 4980H(c)(4) of the Internal Revenue Code [26 U.S.C. 4980H(c)(4)]."
2. The second amendment would preclude any temporary employee's contribution for coverage from exceeding "... the maximum employee required contribution specified under section 36B(c)(2)(C) of the Internal Revenue Code [26 U.S.C. 36B(c)(2)(C)], ...."

The first amendment would ensure that temporary employees first employed after December 31, 2013 could not expose the state to the No Coverage penalty. This is so because these temporary employees would be eligible to participate in the uniform

group insurance program if they are full-time employees for purposes of the Employer Shared Responsibility rules.

The first amendment does not alter the eligibility requirements for temporary employees first employed on or before December 31, 2013. If any of these temporary employees are full-time employees for purposes of IRC § 4980H(c)(4) at any time after January 1, 2014, but are not eligible to participate in the uniform group insurance program, they technically could expose the State to Employer Shared Responsibility penalties. However, the safe harbors outlined in IRS Notice 2012-58 will allow the State to avoid this problem.

The second amendment would ensure that any temporary employee who is eligible to participate in the uniform group insurance program could not expose the State to the Inadequate Coverage penalty based on the temporary employee's cost of coverage. This is so because it would prevent any temporary employee from paying more than 9.5% of his or her household income to obtain coverage.

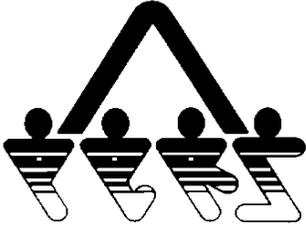
The above changes should insure that the state complies with the shared responsibilities rules without changing our definition of full time employees that are eligible for 100% payment of their health insurance premium. Consequently, the fiscal note on this indicates the estimated cost of this change is \$2,000,000 with 50% coming from the general fund and 50% coming from other funds. This also assumes that the State, as the employer will use a 12 month look-back period for determining eligibility.

### **Section 2 - Political Subdivision Participation in High Deductible Health Plan (HDHP)**

Section 2 of the bill would amend Section 54-52.1-18 of the North Dakota Century Code relating to the high-deductible health plan alternative and clarifies political subdivision participation in the plan. Specifically, it provides that political subdivisions are not required to make the same employer contribution to their employees' HSAs as the State is required to make to its employees' HSAs. Secondly, it allows political subdivisions to directly retain the HSA vendor for its employees. It is felt that these changes will allow this option to operate more efficiently and will facilitate the political subs participation in the HDHP.

Mr. Chairman, members of the committee this bill was reviewed by the Legislative Employee Benefits Committee and given no recommendation. At the time of the Committee's review, they felt that additional information on the ACA would be available at a later date.

Thank you and this concludes my testimony.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** January 8, 2013  
**SUBJECT:** Affordable Care Act Update

BCBS will be at the next meeting to provide us information on a provision in the Affordable Care Act that could require small political subdivisions that are not in the PERS Grandfathered plan to leave the PERS plan (refer to the page 2 for the provisions).

I have also asked Jan to look at our state law. Specifically, there is a provision in our health statute that requires a political subdivision that leaves the PERS plan before the end of 5 years of participation to pay the plan any difference between the expenses they incurred and the premium they paid. This provision was added many years to discourage political subdivisions from coming on and off the plan and to encourage them to stay through a full underwriting cycle (5 years). The question that Jan is looking into is if a political subdivision is required to leave by this federal law would we still have to apply this provision.

## Page 2

From the rating rules proposed rule from Nov 20, 2012:

“Proposed 45 CFR 147.102 would require issuers offering non-grandfathered health insurance coverage in the individual and small group markets starting in 2014, and the large group market *if such coverage is available through an Affordable Insurance Exchange (Exchange) starting in 2017*, to limit any variation in premiums with respect to a particular plan or coverage to age and tobacco use within limits, family size, and geography.”

Further:

“Proposed §156.80 generally would require health insurance issuers to treat all of their non-grandfathered business in the individual market and small group market, respectively, as a single risk pool. A state would have the authority to choose to direct issuers to merge their non-grandfathered individual and small group pools into a combined pool.”

Regarding the definition of small group, the ACA states in 1304:

“(b) Employers- In this title:

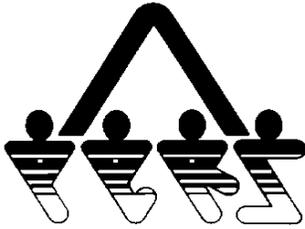
- (1) LARGE EMPLOYER- The term ‘large employer’ means, in connection with a group health plan with respect to a calendar year and a plan year, an employer who employed an average of at least 101 employees on business days during the preceding calendar year and who employs at least 1 employee on the first day of the plan year.
- (2) SMALL EMPLOYER- The term ‘small employer’ means, in connection with a group health plan with respect to a calendar year and a plan year, an employer who employed an average of at least 1 but not more than 100 employees on business days during the preceding calendar year and who employs at least 1 employee on the first day of the plan year.
- (3) STATE OPTION TO TREAT 50 EMPLOYEES AS SMALL- *In the case of plan years beginning before January 1, 2016*, a State may elect to apply this subsection by substituting ‘51 employees’ for ‘101 employees’ in paragraph (1) and by substituting ‘50 employees’ for ‘100 employees’ in paragraph (2).”

Regarding “a State may elect”, the federally-facilitated exchange guidance from 5/16/2012 states:

“For purposes of FF-SHOP eligibility, HHS will adopt *State definitions* of the small group market in 2014 and 2015. HHS will count full-time equivalent employees to determine employer size consistent with the definitions in the Public Health Service Act as required by the law.”

Regarding transition timing:

“By law, issuers must transition all non-grandfathered small group and individual market coverage issued prior to January 1, 2014, to these adjusted community rating rules in the first plan year (small group market) or the first policy year (individual market) beginning on or after January 1, 2014, even if the issuers previously used other rating rules for products in these markets.”



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# Memorandum

**TO:** NDPERS Board

**FROM:** Kathy

**DATE:** January 10, 2013

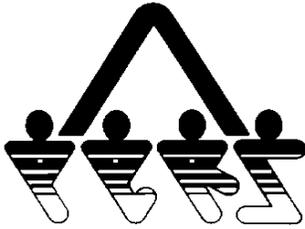
**SUBJECT:** Group Life Insurance Update

At the December meeting, staff reported the participation in the group insurance plans prior to and following the annual enrollment conducted last fall. The group life plan was not reported at that time and the Board requested that information be provided at a future meeting.

During annual enrollment we received 732 applications. As all employees are required to be enrolled for the \$3,500 in basic coverage, this number is not indicative of new coverage, but represents either an increase or decrease in supplemental insurance which affects the volume of coverage. Following is a breakdown of the change in volume of coverage from December 1, 2012 to January 1, 2013:

Coverage Level	Volume		\$ Change	%Change
	12/1/2012	1/1/2013		
Employee Supplemental	\$1,077,484,700	\$1,088,014,800	\$10,530,100	+1%
Dependent Supplemental	\$ 30,485,000	\$ 30,528,000	\$ 43,000	+.14%
Spouse Supplemental	\$ 243,775,000	\$ 247,185,000	\$ 3,410,000	+1.4%

At this time there are approximately 100 applications that are pending for medical underwriting review. We are available for any questions.



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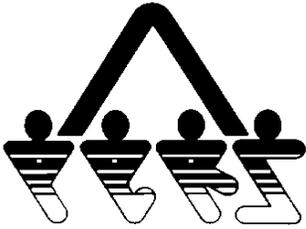
# Memorandum

**TO:** PERS Board  
**FROM:** Rebecca  
**DATE:** January 10, 2013  
**SUBJECT:** Flu Vaccination Clinic

The UND Center for Family Medicine offered the annual Flu Vaccination Clinic this fall to NDPERS members, including eligible family members that participate in the NDPERS health insurance plan. The clinic was offered on 5 days during the period September 25 through October 23, 2012.

UND Center for Family Medicine has notified NDPERS that 1,059 individuals were vaccinated during the 2012 Flu Vaccination Clinic. This amount was less than the previous year, in which 1,397 individuals were vaccinated. One reason the count may be less than the previous year is CVS Pharmacy and Sanford both conducted on-site clinics for state employees at the Capitol.

This item is informational only. Staff will be available at the meeting to answer any questions.



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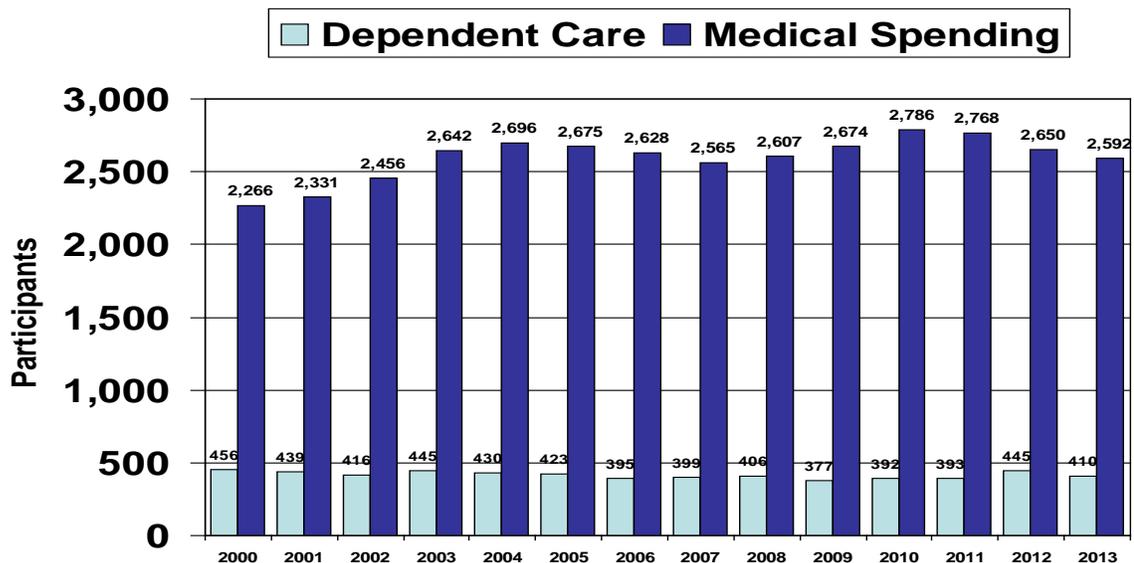
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# Memorandum

**TO:** NDPERS Board  
**FROM:** Kathy  
**DATE:** January 8, 2013  
**SUBJECT:** FlexComp Enrollment Update

At the December meeting, the Board was presented with the participation numbers for the 2013 plan year. Participation for 2013 is 2,729 compared to 3,098 for 2012. The Board inquired about the change in total contributions as a result in the decrease in participation from 2012. The following charts are a history of participation and contributions from 2000 to 2013.

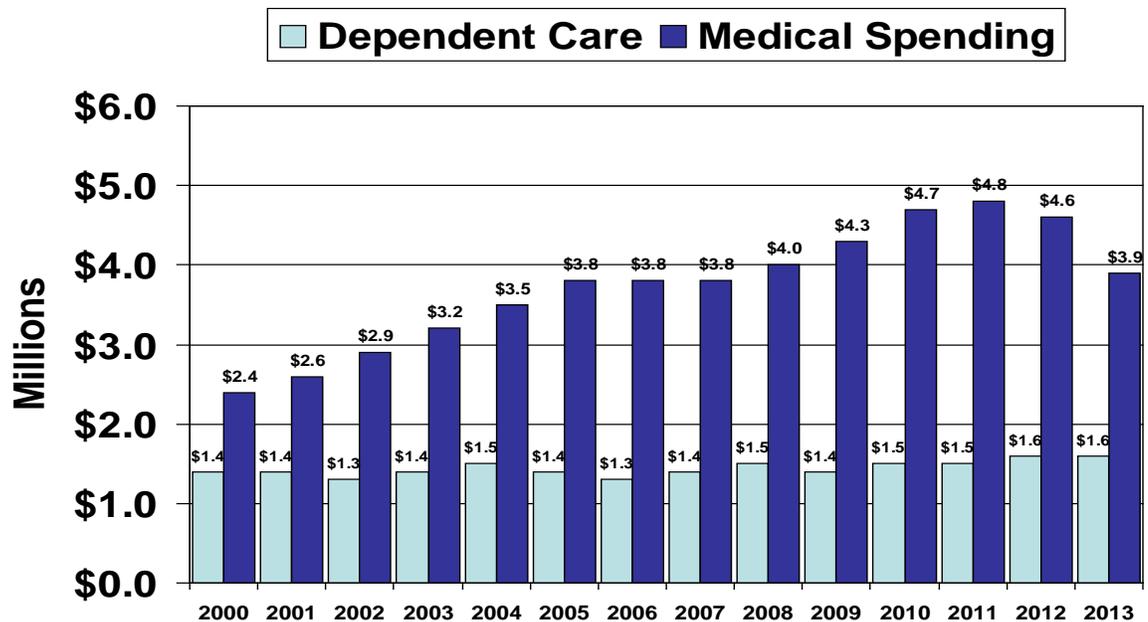
## NDPERS Flexcomp Participation



The chart below shows the history of total annual dollars contributed for the dependent care and medical spending accounts. The dependent care contributions have remained steady; however, there is a decrease in contributions to medical spending accounts from \$4.6 million in 2012 to \$3.9 million for 2013. Two factors previously discussed that may have contributed to this decline include:

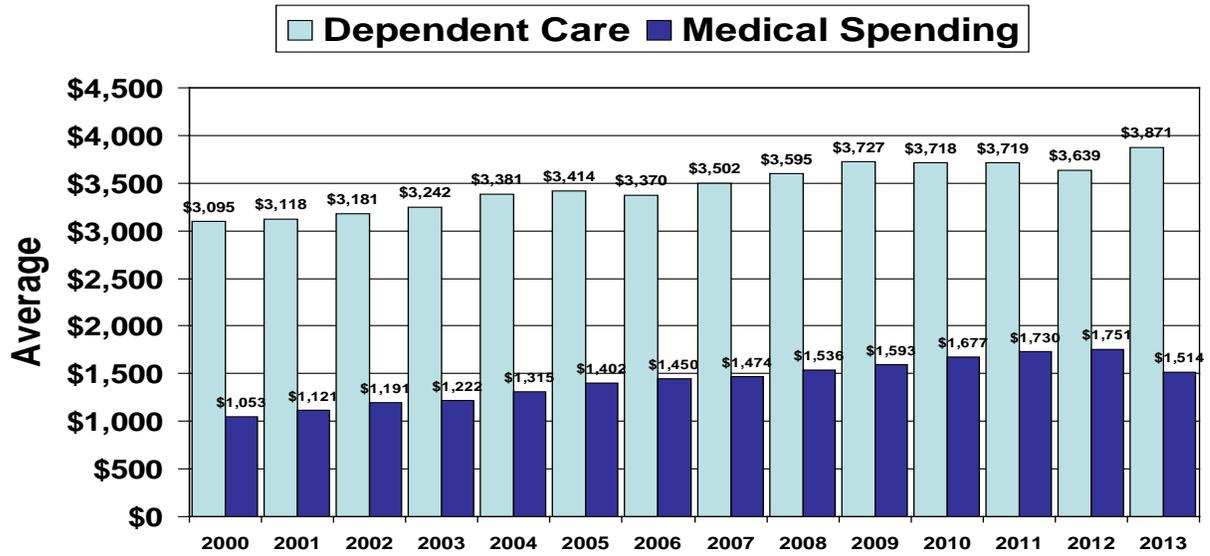
- The ACA contained a provision to decrease the maximum allowable annual contribution to a medical spending from \$6,000 to \$2,500 beginning January 1, 2013.
- NDPERS contracted with ADP to do claims administration for the plan which is a significant change for participants.

## NDPERS Flexcomp Participation

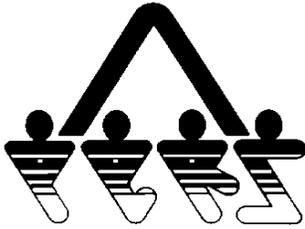


The chart on the following page is the average monthly contribution by participant. The average dependent care contribution per month increased from \$3,639 in 2012 to \$3,871 for 2013. The average contribution to a medical spending account decreased from \$1,751 in 2012 to \$1,514 for 2013 which is consistent with the drop in the total annual medical spending account contributions.

## NDPERS Flexcomp Participation



We are available for any questions.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sharmain  
**DATE:** January 2013  
**SUBJECT:** Member Self Service (MSS)-2013 Annual Enrollment

NDPERS had 12 pilot employers use MSS for the 2013 Annual Enrollment. Organizations that are participating in the MSS Pilot Program:

Burleigh County, Central Services, City of Fargo, DOT, Facility Management, ITD, Juveniles Services, NDPERS, ND Youth Correctional Center, NDSU, OMB, and Stutsman county

NDPERS conducted weekly meetings with the pilot employers as well as a “Lessons Learned” meeting at the end of the Annual Enrollment period.

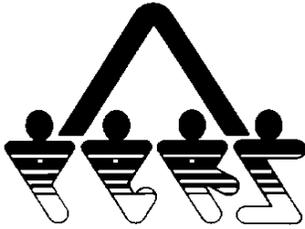
There were 1,372 employees that used MSS to make their 2013 Annual Enrollment elections. Also, since launching our MSS to the pilot employer in September, there are 5,996 plan enrollments or enrollment changes submitted through MSS.

Some Observations Made by Employers/Employees:

- Employees had difficulties on how to review their annual enrollment elections after completing their election
- Confused on which “link” on the Homepage to use for Annual Enrollment
- Thought MSS was easy, took 5 minutes to finish
- Employees confused on the requirement to reelect Dental & Vision pretax enrollment
- Employees like doing this on-line rather than through paper. Some employees have been resistant, but overall good feedback
- Some confusion on increasing life insurance coverage
- Employees commented it was easy to do

- Some confusion on Flexcomp plan when electing medical or dependent care reimbursement amounts, some employees added a monthly amount instead of an Annual Amount
- Employees were expecting an e-mail confirmation versus a Message on their MSS
- Some employees would have liked an MSS step by step annual enrollment guide

In summary, we felt that MSS has been very successful. We are working with staff and employers to continue to improve our MSS functionality.



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# Memorandum

**TO:** PERS Board  
**FROM:** Sparb  
**DATE:** January 9, 2013  
**SUBJECT:** Legislation Update - Administration

Attached please find the first draft testimony for our agency appropriation bill (HB 1022). The first hearing on the bill is scheduled for Wednesday, January 16 at 9:00 a.m. You find it interesting to review pages 16-18 that discusses what initiatives were completed in the last two years. As you will note, we have accomplished many efforts in all our program areas.

# TESTIMONY OF SPARB COLLINS

## HOUSE BILL 1022

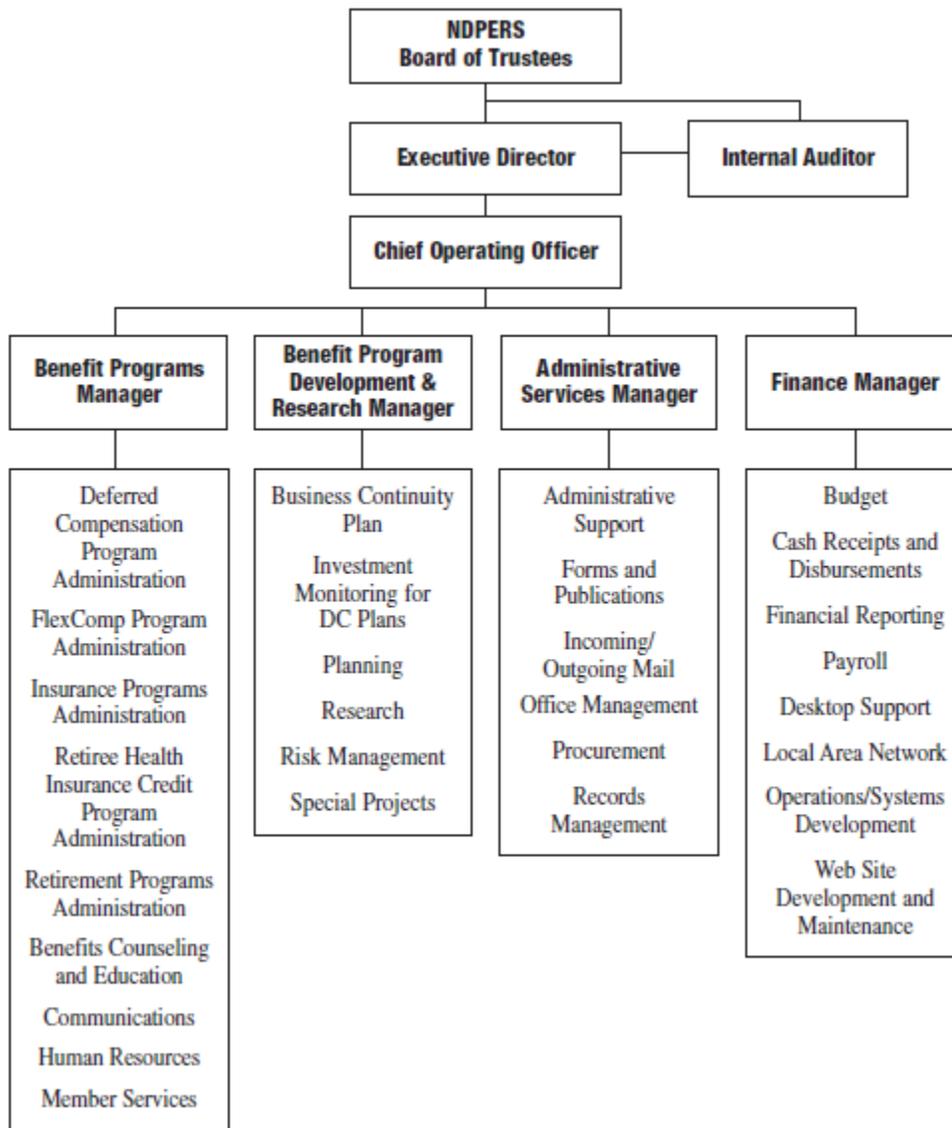
Mr. Chairman, members of the committee, good morning my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you to give you an overview of our agency, our work efforts and our budget request.

### **Agency Overview**

First let me start by providing an overview of our agency. PERS is directed by a Board composed of the following members:

Chair (appointed by Governor)	Jon Strinden
Appointed by Attorney General	Tom Trenbeath
State Health Officer or Deputy	Arvy Smith
Elected	Levi Erdmann
Elected	Joan Ehrhardt
Elected	Mike Sandal
Elected	Howard Sage

Administratively PERS is organized as illustrated:



Please note that our organization chart has changed since last reviewed with you. We have added a COO (chief operating officer). Our Finance Manager fills both roles within our organization, so the addition does not represent a new position but rather a refinement of our organization.

The PERS program responsibilities fall under two broad categories – retirement and group insurance. Section 54-52-02 states the overall mission for the retirement program as: “...to provide for the payment of benefits to state and political subdivision

employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high grade men and women”. Similarly, state statute establishes the overall mission for the group insurance plan as: “In order to promote the economy and efficiency of employment in the states service, reduce personnel turnover, and offer an incentive to high grade men and women to enter and remain in state service, there is hereby created a uniform group insurance program”. Concerning the retirement programs, the following table gives you an overview of the programs and some statistical information:

January, 2013

### STATE OF NORTH DAKOTA GROUP BENEFITS MANAGED AND ADMINISTERED BY NDPERS

PARTICIPATION	RETIREMENT	HEALTH	LIFE	DENTAL	VISION	EAP	DEFERRED COMP	FLEXCOMP	RETIREE HEALTH CREDIT
<b>AGENCY</b>									
State	93	125	130	85	90	95	89	77	93
Counties	49	51	51				35	-	49
School Dist	114	68	65				18	-	114
Cities	81	65	55				34	-	81
Others	73	70	34	12	11	20	29	3	73
	<b>410</b>	<b>379</b>	<b>335</b>	<b>97</b>	<b>101</b>	<b>115</b>	<b>205</b>	<b>80</b>	<b>410</b>
<b>EMPLOYEES</b>									
State	10,512	14,656	15,137	5,636	6,696	16,067	4,561	2,755	10,512
Counties	3,583	2,270	2,569				580	-	3,583
School Dist	4,988	1,273	327				75	-	4,988
Cities	1,475	1,642	270				225	-	1,475
Others	557	540	340				189	-	557
Legislators	0	118						-	-
Retirees	7,816	6,389	3,143 (1)	1,531	1,140			-	4,442
COBRA		354		41	44			-	-
	<b>28,931</b>	<b>27,242</b>	<b>21,786</b>	<b>7,208</b>	<b>7,880</b>	<b>16,067</b>	<b>5,630</b>	<b>2,755</b>	
<b>INCOME CONTRIBUTIONS</b>	12.12% Gross Annual Payroll	\$426.96 Individual \$1029.00 Family (Rates differ for retirees & political subdivisions)	\$3,500 @ .28/Month + Supplemental Contributions	Full cost of the Dental Plan is paid by the member.	Full cost of the Vision Plan is paid by the member.	Per Contract cost of \$1.54 per month.	Level of Participation Decided by Employees	Level of Participation Decided by Employees	1.14% of Gross Annual Payroll
<b>FINANCIAL</b>									
Estimated Annual Receivables	\$78,736,000	\$225,000,000	\$3,000,000	\$4,000,000	\$500,000	\$297,000	\$13,100,000	\$5,500,000	\$15,900,000
Estimated Annual Payables	\$99,382,000	\$225,000,000 (4)	\$2,500,000 (2)	\$4,000,000 (5)	\$500,000	\$297,000	\$10,000,000	\$5,500,000 + Pretax Amount \$1,100,000 (3)	\$12,300,000
<b>Total Assets</b>	<b>\$1,785,190,000 (6)</b>						<b>\$155,000,000</b>		<b>\$63,900,000</b>

(1) Full cost paid by retiree @ \$1,300 limit  
(2) Estimated based on past experience

(3) Assumes all deferrals are claimed  
(4) Plan is fully insured by BCBS

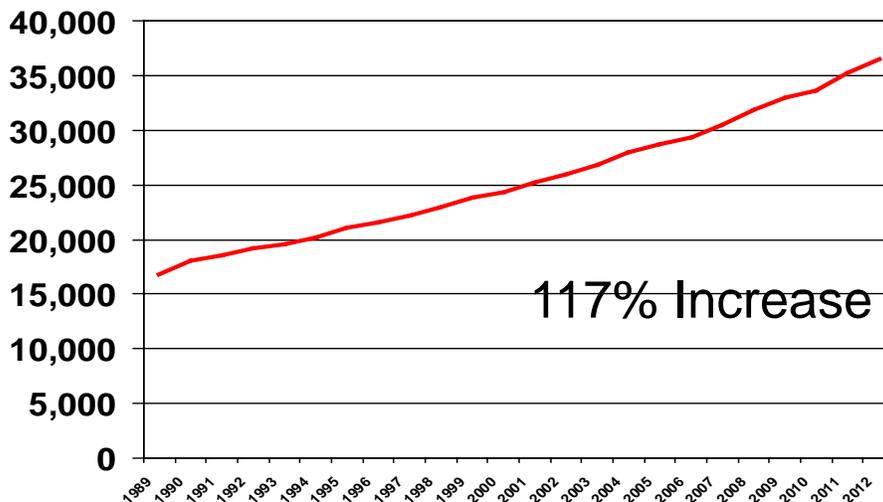
(5) Plan is fully insured by Delta Dental  
(6) Excludes \$24.9 million in D.C. 401(a) assets

As you will note, our agency is responsible for the administration of approximately 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Several of the above plans were assigned to our

agency by the 2001 and 2003 legislative session. Those were the Job Service Retirement Plan and the Law Enforcement Plans for political subdivisions. The Law Enforcement Plan has since been expanded to certain state employees. The 401(a) plan or optional defined contribution plan for non-classified state employees was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main retirement system which provides services to not only the state, but also to political subdivisions. In this plan about 55% of the active members are state employees and 45% are political subdivision employees. School districts are our second largest group followed by counties and cities.

Some historical statistics about the retirement plan include membership:

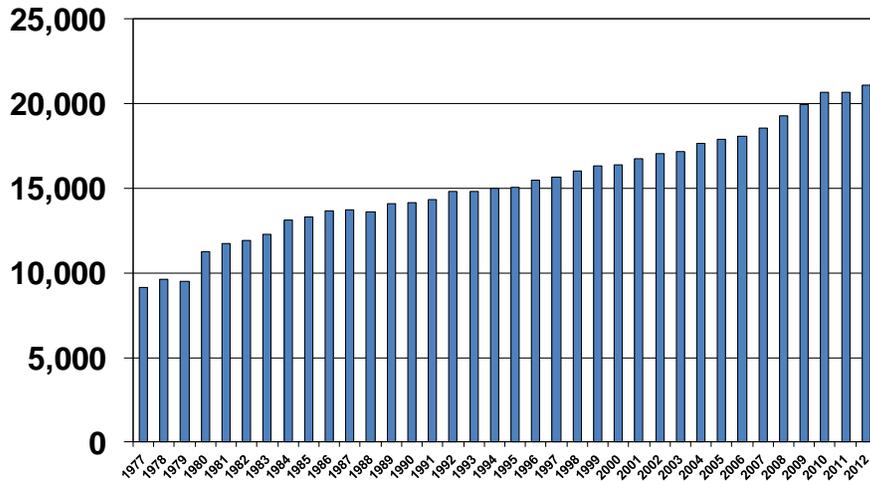
## NDPERS Retirement Plan Membership



Of this, the number of active members has grown:

## NDPERS Retirement Actives

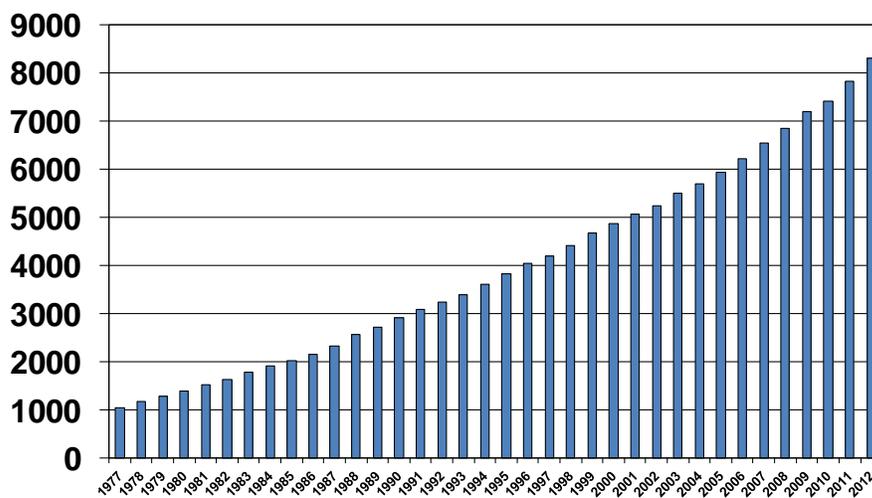
(Main System, Judges, Guard, Law Systems)



The number of retired members has grown as well and at an even greater rate than our active members:

## NDPERS Retirement Retirees

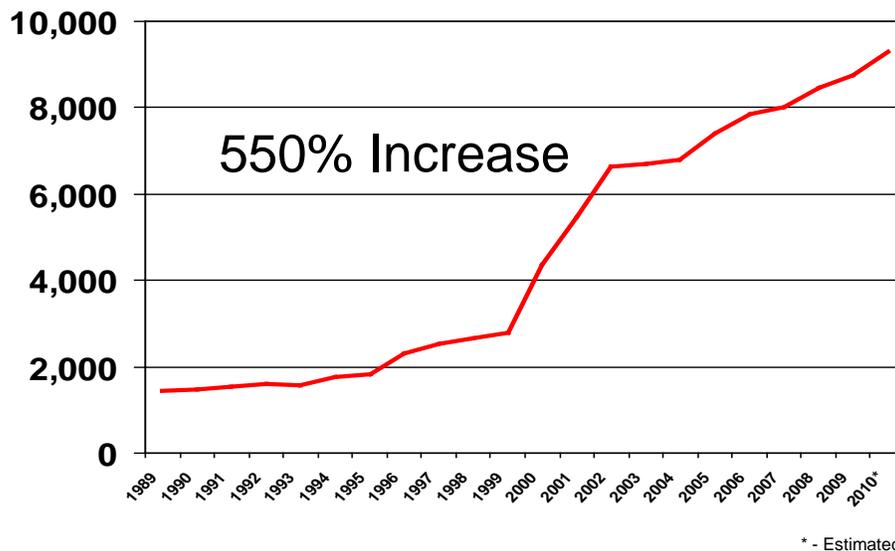
(Main System, Judges, Guard, Law Systems)



As we look to the future, we see the retired membership continuing to grow and the number of active members remaining about the same. Servicing the present and future needs of the retired membership is going to be a growing challenge for NDPERS.

In addition to the administration of the traditional retirement plans, PERS administers the state's supplemental savings program as well. The membership in that program has also grown over the years (this shows both active and inactive accounts):

## NDPERS Deferred Compensation Plan Membership



We are pleased by this growth since it is important that our members save for retirement. In 1999 the legislature started the PEP provision in our retirement plan, thereby turning the Main plan into a hybrid plan to encourage employees to do supplemental savings. You can see that program has been successful.

Deferred Compensation offers our members approximately 8 different providers to choose from including the PERS Companion Plan (presently with TIAA-CREF) and:

American Trust Center  
 AXA Equitable  
 Bank of North Dakota  
 Hartford Life

Jackson National  
 Nationwide Life  
 VALIC  
 Waddell & Reed

Concerning the group insurance programs, the following gives you an overview of the programs and some statistical information:

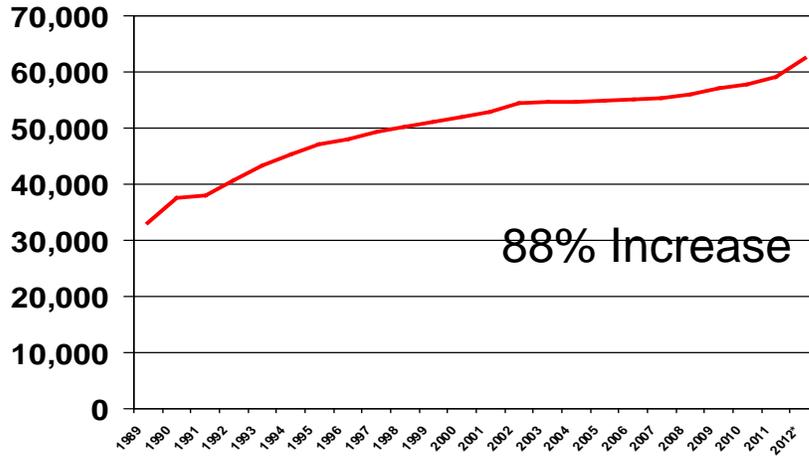
January 1, 2013		<b>GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS</b>						
	<i>HEALTH</i>	<i>LIFE</i>	<i>DENTAL</i>	<i>VISION</i>	<i>EAP</i>	<i>FLEXCOMP</i>	<i>LT Care</i>	
<b>PARTICIPATION</b>								
<b>AGENCY</b>								
State	125	130	85	90	95	77	95	
Counties	51	51						
School Dist	68	65						
Cities	65	55						
Others	70	34			20	3		
	<b>379</b>	<b>335</b>	<b>85</b>	<b>90</b>	<b>115</b>	<b>80</b>	<b>95</b>	
<b>EMPLOYEES</b>								
State	14,656	15,137	5,636	6,696	16,067	2,755	55	
Counties	2,270	2,569						
School Dist	1,273	327						
Cities	1,642	270						
Others	540	340						
Legislators	118							
Retirees	6,389	2,800	1,531	1,140				
COBRA	354		41	44				
	<b>27,242</b>	<b>21,443</b>	<b>7,208</b>	<b>7,880</b>	<b>16,067</b>	<b>2,755</b>	<b>55</b>	

As you will note, the largest responsibility in this area is the health plan. In this program about 54% of members are state employees and 46% are political subdivisions or retirees. This biennium one of the challenges we faced with the health program was the enactment of federal health care reform. In response, we took the following actions:

1. Maintained the plan as a grandfathered plan under the law which means we do not have to comply with all the provisions.
2. Applied for the subsidy for providing services to pre-Medicare retirees
3. Implemented the required plan design changes.

The following table shows the history of the membership in the health plan:

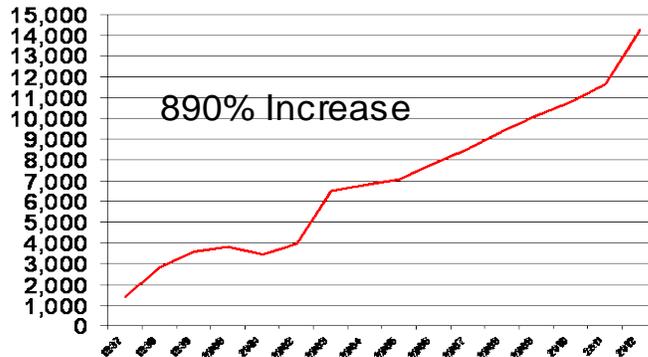
## NDPERS Health Plan Membership



\* - Estimated

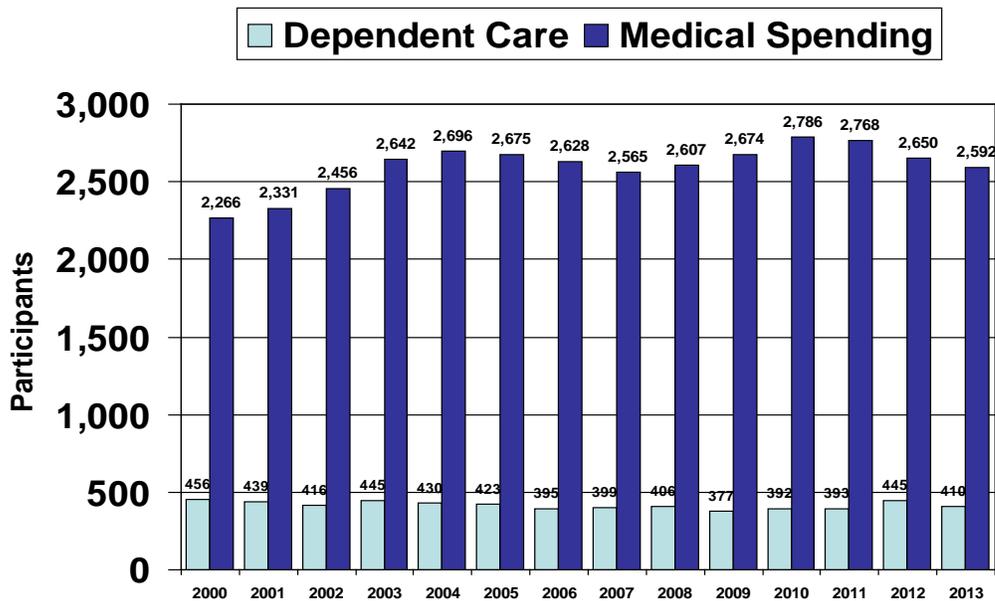
In the late 1990's the Employee Assistance Program, Long Term Care Plan, Dental Plan & Vision Plan were added to PERS. The other group insurance programs have been a part of the agency since before 1990. The following table is the history of those programs (not including the EAP):

## NDPERS Voluntary Insurance Plans Membership (Dental, Vision, Long-Term Care)

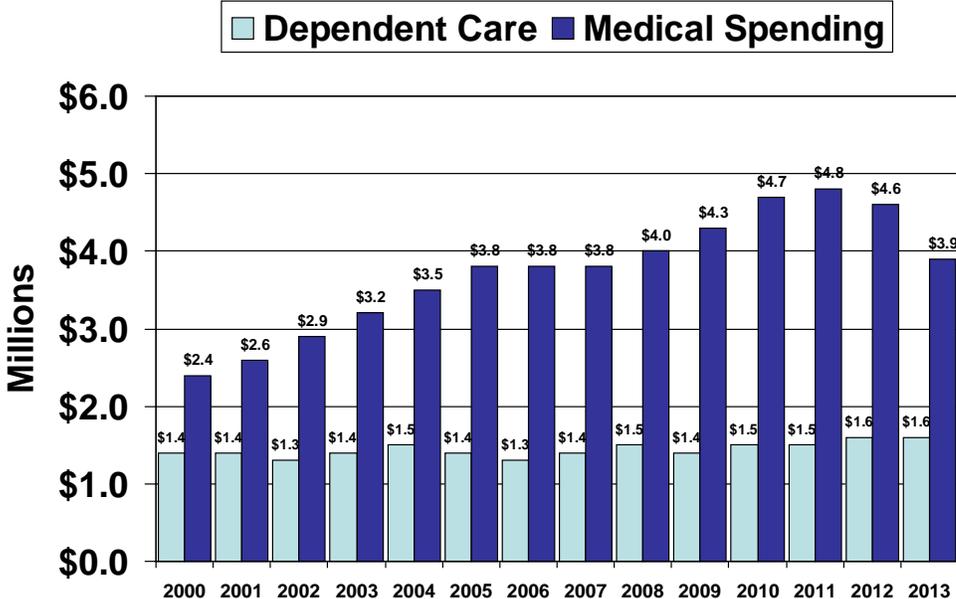


The Flex Comp Program which has been a part of the agency since 1989 allows members to pretax certain insurance premiums, dependent care expenses and medical expenses. The following tables show the history of the number of members and deferrals:

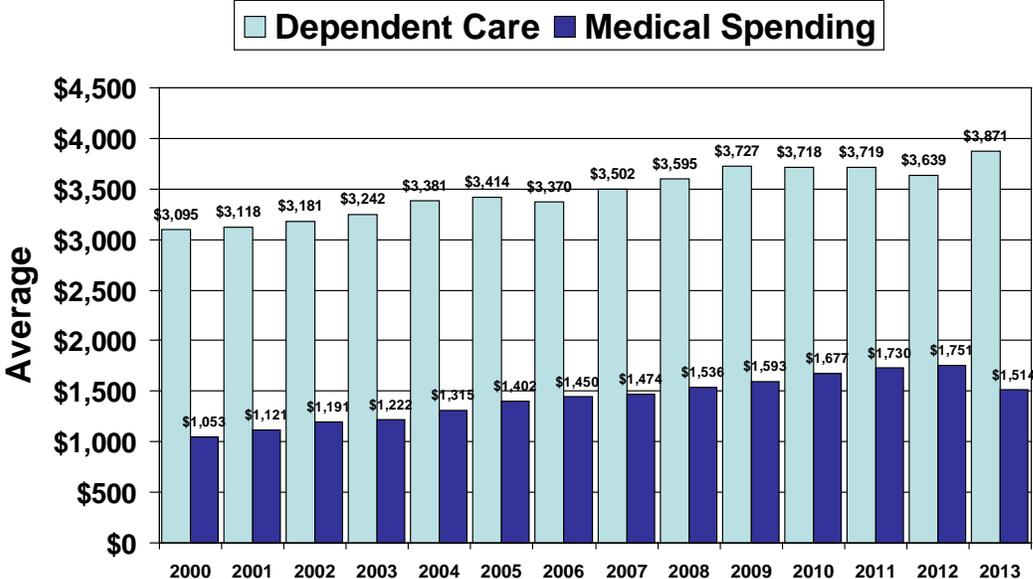
## NDPERS Flexcomp Participation



# NDPERS Flexcomp Participation



# NDPERS Flexcomp Participation

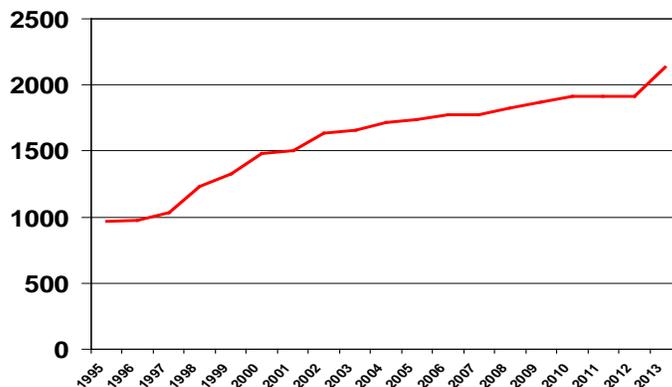


As the above shows, the number of members participating in the program has decreased slightly and as well as the average deferrals. One of the reasons for this decline is the Affordable Care Act (ACA) which limited the total deferrals the medical account to \$2,500 our old limit was \$6,000. As we look to the future with the limitation in place, we believe that we will have to make it easier for members with smaller accounts to join the plan. The primary reason they do not is the paper work. In recognition of this we have changed the claims processing format this year from using PeopleSoft to hiring a new claims payment firm - ADP. This new format will add additional options for claims payment processing beyond the traditional paper process. The new options are a debit card, auto adjudication and mobile applications. This will make it easier for our members to use this program and will facilitate small accounts. As we look to the future we expect to see the number of users increase. Please note that we are seeking a continuing appropriation in SB 2060 to pay the claims processor (\$95,000 per year) from the savings that accrue from this program.

While we have been serving more members in more programs over time, we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):

## NDPERS

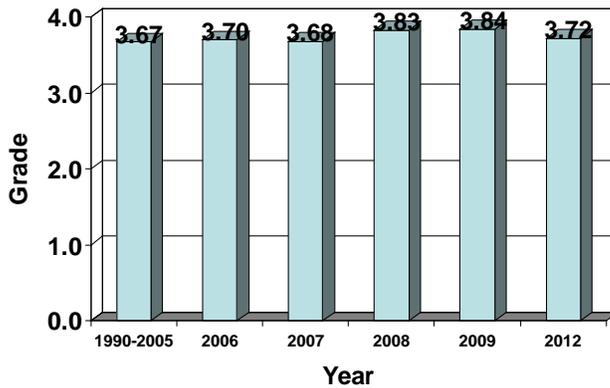
Participating Employers (All Programs)



As shown above, PERS has faced two challenges over the years. First, is the growth of program responsibilities. Second, is the growing membership needs for assistance. We have also tried to meet the needs of our members and monitor how we are doing by sending to them a rating card. The following are the responses:

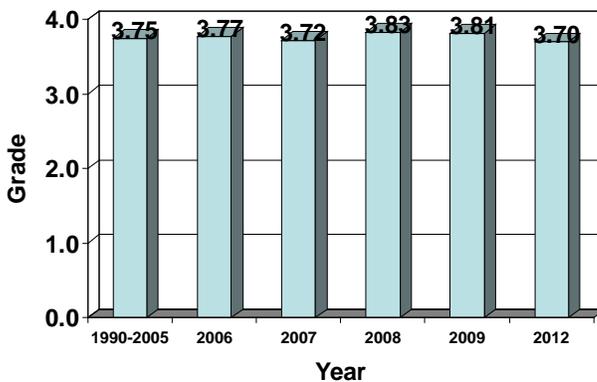
### NDPERS Member Report Cards

Courtesy you received from NDPERS staff?



### NDPERS Member Report Cards

Promptness of NDPERS response to your inquiry?



As the above shows, we have been able to maintain a positive rating by the members but we note can do better and will continue to work to that goal.

We are also concerned with maintaining the quality of what we do. To that extent, we have sought national review of our systems and other reviews as noted in the following:

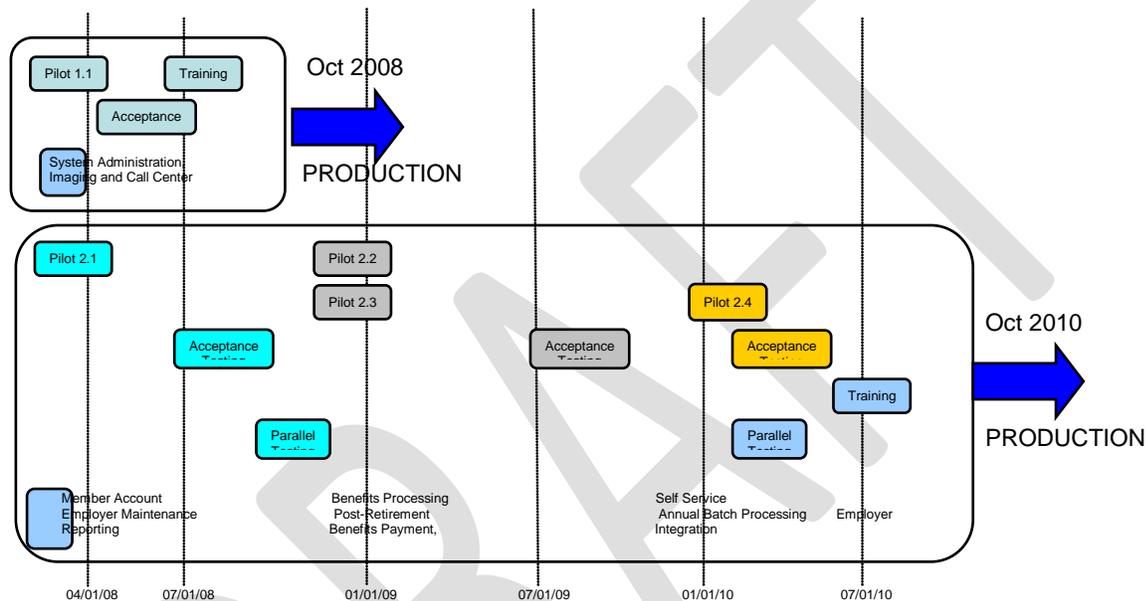
- We have received the Public Pension Achievement Award and the Recognition Award for Administration.
- We have received the Certificate of Achievement for Excellence in Financial Reporting 1996-2012.
- We have had Unqualified Audit Opinions for over 22 years.

DRAFT

# PERS Business System Replacement Project

Several bienniums ago, you approved funding the replacement of our business system. The following was the schedule we discussed:

## Overall Project Schedule



I am pleased to report to you that our project was officially completed this last year. We went live as projected in October of 2010 after three years of development. The employee portal was completed in 2012 and was successfully piloted to select agencies in this last open enrollment. We will now roll it out to our other members in 2013 and use it for all members during the 2013 annual enrollment. The project came in within budget.

The new employee portal will offer the following capabilities to our members:

- View
  - Demographics
  - Benefit Plan Enrollments including
    - Member Account Balance
    - Levels of Coverage
    - Dependents
    - Retirement & Life Beneficiaries
  - Annual Statements
  - Service Purchase Contracts
- Update Demographic details
- Enroll in eligible benefit plans
  - Update to enrolled plans
- Report a Death
- Request an Appointment
- Submit On-line Question
- View & Enroll in Upcoming Seminars
- Perform Retirement Benefit Projections
  - Includes:
    - Ability to forecast salary increases
    - Service purchases cost & affect
    - Deductions (Insurances, Income Tax)
- Perform Service Purchase Projections
  - Includes:
    - Cost Calculations
    - Installment Payment Schedules

## **2011-2013 Initiatives**

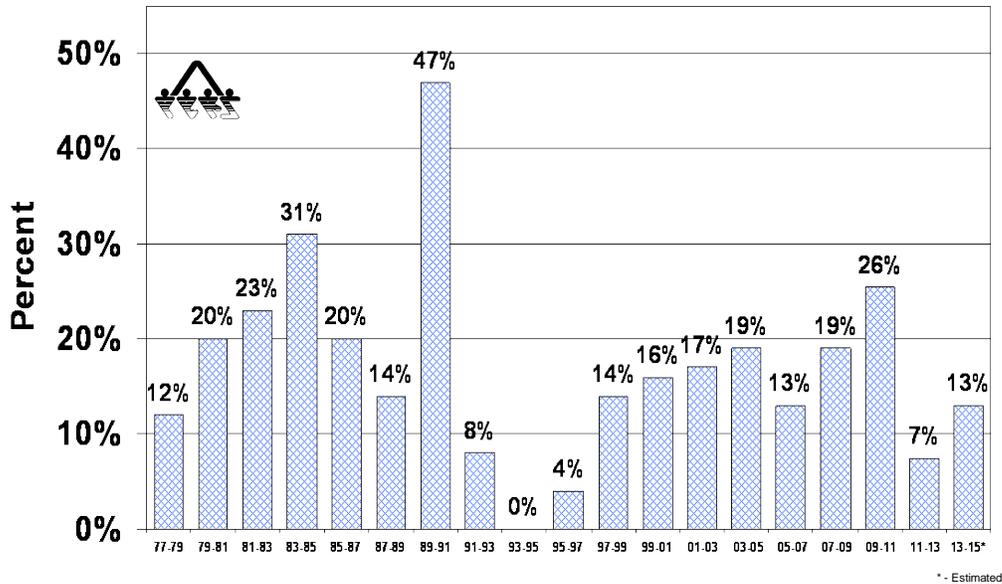
The following are some of the major initiatives done this biennium.

- Health Plan
  - Completed a competitive bid process (two bidders)
    - 12.9% active increase
    - No retiree increase
  - Developed additional reserves
  - Continued implementation of health care reform
  - Developed a proposal to eliminate the State's \$65 Million OPEB liability (except for legislators) (HB 1058)
- Dental Plan
  - Completed a competitive bid process (over 10 bidders)
  - Selected a new vendor
    - 7% reduction in rates
    - Addition of an optional network for member use (60% of claims already go through the new network)
- Flex Program
  - Completed a competitive bid process (12 bidders)
  - Selected a new vendor
  - Adding new services for members
    - Debit cards
    - On line claims submission
    - Mobile applications
    - Auto substantiation
    - Expanded service center hours
- Life insurance
  - Completed implementation of a competitive bid process (9 bidders)
  - Basic life coverage for active employees increased from \$1,300 to \$3,500
  - Reduced the employee and spouse rates an average of 18% and 26.5%, respectively

- Completed Asset liability Study for the PERS Plan
- Implemented a new HDHP/HSA plan as part of the PERS Health Plan and offered it to State employees
- Implemented the first two years of the four year recovery plan for the PERS Retirement plans and submitted the second 2 years of the recovery plan for consideration this session
- Added a new Wellness Provider
- Completed our annual flu shot clinics in Bismarck together with the Family Practice Center (1059 shots in 2012 and 1397 in 2011)
- Defined Contribution and Companion Plan Provider
  - Completed a competitive bid process (8 proposals)
  - Selected a new vendor
    - Lower administrative fees for members
    - Revenue sharing
    - Greater fund selection in mutual fund window
    - 280 days of on site counseling vs 21
- Completed implementation of new Vision Plan
  - 35% increase in participation during open enrollment
  - Added a vision network

# State Health Premium Percentage Increase From Previous Biennium

(Excludes Plan Design Changes)



As the above shows, the health premium increase this biennium is a little over 12% which will be about a 10% increase to the state.

## **PERS Budget**

The proposed budget before you today is basically a hold even budget. With the system replacement project and our other efforts, the challenge we face in the next biennium is just keeping up with our existing commitments. Consequently, no major new initiatives are requested or no new FTE are proposed in this budget. No increase for costs related to Health Care Reform have been included in the budget. Any additional costs incurred as a result of this will be paid through the Contingency Line Item when and if they arise.

The following is a summary of the budget compared to this biennium:

	2011-2013 <u>Appropriation</u>	2013-2015 <u>Recommendation</u>	<u>Change</u>
Salaries	\$4,563,507	\$5,206,609	\$643,102
Operating	2,054,383	2,258,894	204,511
PERSLink carryover	597,338	0	(597,338)
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$7,465,228	\$7,715,503	\$250,275

If we look at this comparison and factor out the one-time costs for our system replacement project it shows:

	2011-2013 <u>Appropriation</u>	2013-2015 <u>Recommendation</u>	<u>Change</u>
Salaries	\$4,563,507	\$5,206,609	\$643,102
Operating	2,054,383	2,258,894	204,511
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$6,867,890	\$7,715,503	\$847,613

Breaking down the recommended budget further by percent we find:

	<u>Recommended Budget</u>	
Salaries	\$5,206,609	67%
Operating	2,258,894	29%
Contingency	<u>250,000</u>	<u>4%</u>
Total Base	\$7,715,503	100%

The salaries and wage line item is 67% of our budget and supports 33 FTE. The reconciliation of this line item from this biennium to the recommended budget is as follows:

2011-2013 budget	\$4,563,507
Pay plan changes (second yr 3%, etc)	156,756
Gov recommended increase	
Salary	374,229
Benefits Inc	112,117
2013-2015 recommendation	\$5,206,609

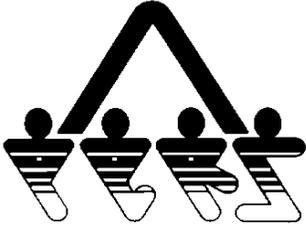
The operating line item is 29% of our budget and you will note that it has increased from the 2011-13 biennium. The following discussion highlights some of the changes in line item:

<b>OPERATING LINE ITEM ADJUSTMENTS</b>	
Operating expenses were decreased by \$40,200 to remove one-time expenditures for office equipment that was purchased in the current biennium and also reduce the amount budgeted for temporary contract labor to assist with annual enrollment.	<b>\$ (40,200)</b>
IT services are approximately 52% of our operating line item. Expenses for this area were increased by \$245,930 for Information Technology activities that are included in the agency's IT Strategic Plan. This includes the following: <ul style="list-style-type: none"> <li>• An increase in IT-Contractual Services to fund 24 months of payments for the licensing fee paid to our software vendor for our PERSLink System. The current biennium only includes 13 months of payments. Funding was also included to cover projected rate increases for services provided by our software vendor.</li> <li>• An increase in IT-Data Processing to fund projected rate increases for services provided by ITD.</li> </ul>	<b>\$ 245,930</b>
IT Equipment has also been increased by \$35,200 to fund replacement of computer hardware and software following the agency's 4 year hardware replacement cycle.	<b>\$ 35,200</b>
Operating expenses were increased by \$54,581 due to inflation. The three areas impacted by this are postage, office rent and the OMB central service allocation.	<b>\$ 54,581</b>
The agency also received an appropriation of \$91,000 as part of HB 1364 to cover costs to implement a High Deductible Health Plan and Health Savings Account. This plan was implemented January 1, 2012; therefore, this appropriation will not be carried forward into the 13-15 biennium. On going costs for this program are part of general operating expenses.	<b>\$ (91,000)</b>
<b>TOTAL ADJUSTMENTS</b>	<b>\$ 204,511</b>

The agency had a carryover appropriation of \$597,338 from the 09-11 biennium for IT contractual services, which was used to complete the PERSLink IT project. The project will be completed during the 11-13 biennium; therefore, these costs will not be carried forward into the 13-15 biennium.

Mr. Chairman, members of the committee, I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided to our members valuable benefits that have truly made a significant difference in people's lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you and this concludes my testimony.

DRAFT



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

**TO:** NDPERS Board

**FROM:** Sharon Schiermeister

**DATE:** January 8, 2013

**SUBJECT:** 2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT

The 2012 comprehensive annual financial report has been completed. Here is the link to our website if you wish to review the report.

<http://www.nd.gov/ndpers/forms-and-publications/index.html>

An email notice was sent to each participating employer notifying them that the annual report is available on the NDPERS website. The report was submitted to the Government Finance Officers Association with an application for the GFOA Certificate of Excellence in Financial Reporting.

Please let me know if you have any questions on the report.

## MEMORANDUM

**TO:** NDPERS Board  
**FROM:** Jim Smrcka  
**DATE:** January 08, 2013  
**SUBJECT:** **Consultant Fees**

Attached is a report showing the consulting, investment and administrative fees paid during the quarter ended December 31, 2012.

Attachment

**North Dakota Public Employees Retirement System  
Consulting/Investment/Administrative Fees  
For the Quarter ended December 31, 2012**

Program/Project	Fee Type	Oct-12	Nov-12	Dec-12	Fees Paid During The Quarter	Fees Paid Year-To-Date
<b>Actuary/Consulting Fees:</b>						
Deloitte					-	56,277
Sagitec Solutions LLC	PERSLINK Project				-	21,629
Deloitte consulting		56,277	43,723		100,001	100,001
CALLAN ASSOCIATES					-	1,018
Gabriel Roeder Smith & Company					-	750
SEGAL ROGERSCASEY	RFP and consulting				-	1,995
Mid Dakota Clinic	Retirement Disability	Time charges	3,450	1,100	4,550	8,400
The Segal Company	Retirement (DB)	Fixed Fee	17,050		17,050	66,250
The Segal Company	Ret Health Credit	Fixed Fee	3,150		3,150	12,225
The Segal Company	FlexComp	Fixed Fee			-	6,930
The Segal Company	Job Service	Fixed Fee	4,575		4,575	17,775
The Segal Company	QDRO/Compliance	Time charges	8,545		8,545	30,174
The Segal Company	Legislation	Time charges	13,858		21,494	35,352
The Segal Company	Retirement (DC)	Time charges			-	2,880
The Segal Company	Health plan	Time charges			-	360
The Segal Company	Group Ins	Time charges			-	2,880
The Segal Company	Def comp	time charges	1,688		1,688	5,023
The Segal Company	FLEX COMP	time charges	1,688		1,688	5,023
The Segal Company	Dental RFP		24,000		24,000	24,000
			\$ 134,280	\$ 44,823	\$ 21,494	\$ 200,597
						\$ 468,990
<b>Audit Fees:</b>						
Brady Martz	Annual audit	Fixed Fee		9,800	9,800	42,768
<b>Legal Fees:</b>						
ICEMILLER llp	IT Project	Time charges			\$ -	-
ND Attorney General	Administrative	Time charges	\$ 2,219	\$ 1,722	\$ 965	\$ 4,906
Calhoun Law Group	Administrative	Time charges			\$ -	-
<b>Investment Fees:</b>						
SIB - Investment Fees	Retirement (DB)	% Allocation	134,416	571,200	*	705,616
SIB - Investment Fees	Ret Health Credit	% Allocation	602	44,811	*	45,413
SIB - Investment Fees	Insurance	% Allocation	141	322	*	463
SIB - Administrative Fees	Retirement (DB)	% Allocation	13,349	15,737	*	29,086
					\$ 780,578	\$6,094,841
<b>Administrative Fee:</b>						
Blue Cross Blue Shield	Health Plan	Fixed fee	\$ 1,058,352	\$ 1,060,852	*	\$ 2,119,204

\* fees not yet available