

# NDPERS BOARD SPECIAL MEETING

## Agenda

Bismarck Location:  
NDPERS Conference Room  
400 East Broadway, Suite 505

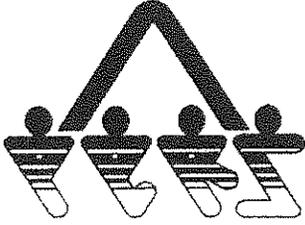
March 12, 2015

Time: 12:00 p.m.

### I. Legislation

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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.



North Dakota  
Public Employees Retirement System  
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Sparb Collins  
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# Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 9, 2015

SUBJECT: Legislation

Attachment #1 is amended House Bill 1080 (the PERS recovery plan bill).

Attachment #2 is the final Segal report on HB1080 as amended. The LEBC met on February 24 and gave it a "favorable recommendation" on a 5-4 vote. The bill also passed the House on a vote of 68 yeas and 25 nays.

Attachment #3 is the original Segal report on the bill as proposed as initially submitted.

## House Bill 1080 History

1. In March of 2014 the board voted to submit the draft bill that would become HB1080 as outlined below.
2. In December the board voted to submit the bill for consideration this session.
3. The Governor included funding in the Executive Budget for the bill as submitted by the board and as requested by the board. He also stated in his budget address "The compensation package continues full health insurance for state employees and their families, and recommends an increase in contributions to the retirement system of two percent the first year of the biennium, with the cost evenly split between employees and the state. This final adjustment will put our outstanding defined benefits pension plan on a path to complete actuarial soundness.

**HB1080 as proposed and as modified:**

The following summarizes the change in HB1080 as proposed to as approved by the House:

Provisions	As proposed	As Approved by House
Increase employer/employee contributions by 1% each (Temporary employees 2%)	Included	Deleted
Decrease the contribution for State Bureau of Criminal Investigation by 5%	Included	Included
Final average salary based on 5 years	Included	Included
Change Rule of 85 to 90 with minimum age of 60	Included	Included
Change early retirement reduction from 6% per year to 8%	Included	Included
Reduce Multiplier from 2% to 1.9%		Added

**Fiscal effect:**

As originally proposed the fiscal effect on the state:

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$4,760,000	\$3,564,000	\$8,346,000	\$4,752,000
Appropriations	\$0	\$0	\$4,760,000	\$3,564,000	\$8,346,000	\$4,752,000

And on the political subs:

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties	\$0	\$2,088,000	\$2,786,000
Cities	\$0	\$1,062,000	\$1,416,000
School Districts	\$0	\$1,966,000	\$2,621,000
Townships	\$0	\$0	\$0

As modified by the House the fiscal effect on the state:

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

And on the political subs:

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

**Actuarial effect:**

As originally proposed, the fund would become 100% funded in about 2035.

As modified by the House, the fund would become 100% funded in 2052.

If no version of this bill would pass, the fund would become 100% funded in 2059.

As the above shows, both versions of the bill have a positive actuarial effect on the fund in that it will become 100% funded sooner.

**Other information:**

Historically, the PERS Board has not opposed a bill that has a positive effect on the fund.

**Board Action Requested:**

This bill has been scheduled for a hearing this Friday and I am seeking your direction on how to testify. Some options are:

1. Support the bill as proposed by the House
2. Support the bill, however, as proposed by PERS rather than as modified. Offer amendments to restore the bill as proposed.
3. Be neutral on the bill and offer no testimony.
4. Oppose the bill as written.
5. Oppose the bill.

**Staff Recommendation:**

Option #2. This is consistent with the Board's action to submit the bill and the Executive Recommendation. Specifically, the Board felt in submitting the bill it was important to get the plan 100% funded by 2035. Supporting the bill as written by the Board would show your continued support for getting back to 100% sooner rather than later.

Sixty-fourth  
Legislative Assembly  
of North Dakota

**ENGROSSED HOUSE BILL NO. 1080**

Introduced by

Government and Veterans Affairs Committee

(At the request of the Public Employees Retirement System)

1 A BILL for an Act to amend and reenact sections 54-52-06.4 and 54-52-17 and subsection 1 of  
2 section 54-52-17.2 of the North Dakota Century Code, relating to decreased employee  
3 contributions under the public employees retirement system for peace officers employed by the  
4 bureau of criminal investigation and benefit changes for employees first enrolled in the public  
5 employees retirement system defined benefit retirement plan after December 31, 2015.

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

7 **SECTION 1. AMENDMENT.** Section 54-52-06.4 of the North Dakota Century Code is  
8 amended and reenacted as follows:

9 **54-52-06.4. Contribution by peace officers employed by the bureau of criminal**  
10 **investigation - Employer contribution.**

11 Each peace officer employed by the bureau of criminal investigation who is a member of the  
12 public employees retirement system is assessed and shall pay monthly four percent of the  
13 employee's monthly salary. Peace officer contributions increase by one percent of the member's  
14 monthly salary beginning with the monthly reporting period of January 2012, and with an  
15 additional increase of one percent, beginning with the reporting period of January 2013. Peace  
16 officer contributions decrease by one-half of one percent of the member's monthly salary  
17 beginning with the monthly reporting period of January 2016. The assessment must be  
18 deducted and retained out of the employee's salary in equal monthly installments. The peace  
19 officer's employer shall contribute an amount determined by the board to be actuarially required  
20 to support the level of benefits specified in section 54-52-17. The employer's contribution must  
21 be paid from funds appropriated for salary or from any other funds available for such purposes.  
22 If the peace officer's assessment is paid by the employer under subsection 3 of section  
23 54-52-05, the employer shall contribute, in addition, an amount equal to the required peace  
24 officer's assessment.

1       **SECTION 2. AMENDMENT.** Section 54-52-17 of the North Dakota Century Code is  
2 amended and reenacted as follows:

3       **54-52-17. Formulation of plan.**

4       Participating members shall receive benefits according to this section and according to  
5 rules adopted by the board, not inconsistent with this chapter. No person is entitled to receive a  
6 prior service benefit if the person was not continuously employed by a governmental unit in  
7 North Dakota for a period of not less than two years immediately prior to eligibility for retirement.

- 8       1. Participating members shall receive credit for full-time employment or its equivalent  
9 from the date they attain eligibility until their normal retirement date, postponed  
10 retirement date, or early retirement date, as defined in this section. Part-time  
11 employment will be recognized as full-time employment on a prorated basis as the  
12 board may prescribe.
- 13       2. Retirement benefits are calculated from the participating member's final average  
14 salary, which is the average of the highest salary received by the member for any  
15 thirty-six months employed during the last one hundred twenty months of employment.  
16 For members who terminate employment on or after August 1, 2010, final average  
17 salary is the average of the highest salary received by the member for any thirty-six  
18 months employed during the last one hundred eighty months of employment. For  
19 members who terminate employment between July 31, 2005, and August 1, 2010, final  
20 average salary is the average of the highest salary received by the member for any  
21 thirty-six months employed during the period for which the board has appropriate and  
22 accurate salary records on its electronic database, but that period may not be more  
23 than the last one hundred eighty months of employment. Except for a national guard  
24 security officer or firefighter, a peace officer or correctional officer employed by the  
25 bureau of criminal investigation or by a political subdivision, or a supreme court or  
26 district court judge, for members first enrolled after December 31, 2015, final average  
27 salary is the average salary earned in the five highest periods of twelve consecutive  
28 months employed during the last one hundred eighty months of employment. Months  
29 not employed without earnings are excluded in arriving at the thirty-six months to be  
30 used for the purpose of computing an average. If the For a participating member first  
31 enrolled before January 1, 2016, who has worked for less than thirty-six months at the

1 normal retirement date, the final average salary is the average salary for the total  
2 months of employment. Except for a national guard security officer or firefighter, a  
3 peace officer or correctional officer employed by the bureau of criminal investigation or  
4 by a political subdivision, or a supreme court or district court judge, for members first  
5 enrolled after December 31, 2015, who worked for less than sixty months at the  
6 normal retirement date, the final average salary is the average salary for the total  
7 months of employment.

8 3. Retirement dates are defined as follows:

9 a. Normal retirement date, except for a national guard security officer or firefighter  
10 or a peace officer or correctional officer employed by the bureau of criminal  
11 investigation or by a political subdivision, is:

12 (1) The first day of the month next following the month in which the member  
13 attains the age of sixty-five years; or

14 (2) When the member has a combined total of years of service credit and years  
15 of age equal to eighty-five and has not received a retirement benefit under  
16 this chapter.

17 b. Except for a national guard security officer or firefighter, a peace officer or  
18 correctional officer employed by the bureau of criminal investigation or by a  
19 political subdivision, or a supreme court or district court judge, normal retirement  
20 date for members first enrolled after December 31, 2015 is:

21 (1) The first day of the month next following the month in which the member  
22 attains the age of sixty-five years; or

23 (2) When the member has a combined total of years of service credit and years  
24 of age equal to ninety and the member attains a minimum age of sixty and  
25 has not received a retirement benefit under this chapter.

26 c. Normal retirement date for a national guard security officer or firefighter is the first  
27 day of the month next following the month in which the national guard security  
28 officer or firefighter attains the age of fifty-five years and has completed at least  
29 three eligible years of employment as a national guard security officer or  
30 firefighter.



1 correctional officer attains the age of fifty years and has completed at least three  
2 years of eligible employment.

3 g-h. Disability retirement date is the first day of the month after a member becomes  
4 permanently and totally disabled, according to medical evidence called for under  
5 the rules of the board, and has completed at least one hundred eighty days of  
6 eligible employment. For supreme and district court judges, permanent and total  
7 disability is based solely on a judge's inability to perform judicial duties arising out  
8 of physical or mental impairment, as determined pursuant to rules adopted by the  
9 board or as provided by subdivision a of subsection 3 of section 27-23-03. A  
10 member is eligible to receive disability retirement benefits only if the member:

- 11 (1) Became disabled during the period of eligible employment; and  
12 (2) Applies for disability retirement benefits within twelve months of the date the  
13 member terminates employment.

14 A member is eligible to continue to receive disability benefits as long as the  
15 permanent and total disability continues and the member submits the necessary  
16 documentation and undergoes medical testing required by the board, or for as  
17 long as the member participates in a rehabilitation program required by the  
18 board, or both. If the board determines that a member no longer meets the  
19 eligibility definition, the board may discontinue the disability retirement benefit.  
20 The board may pay the cost of any medical testing or rehabilitation services it  
21 deems necessary and these payments are appropriated from the retirement fund  
22 for those purposes.

23 4. The board shall calculate retirement benefits as follows:

24 a. ~~Normal retirement benefits for all retirees, except~~ Except supreme and district  
25 court judges, the normal retirement benefits for:

- 26 (1) All retirees first enrolled before January 1, 2016, reaching normal retirement  
27 date equal an annual amount, payable monthly, comprised of a service  
28 benefit and a prior service benefit, as defined in this chapter, which is  
29 determined as follows:

30 ~~(+)~~(a) Service benefit equals two percent of final average salary  
31 multiplied by the number of years of service employment.

- 1                                    ~~(2)(b)~~ Prior service benefit equals two percent of final average salary  
2                                    multiplied by the number of years of prior service employment.
- 3                    (2) All retirees first enrolled after December 31, 2015, reaching normal  
4                    retirement date equal an amount, payable monthly, comprised of a service  
5                    benefit and a prior service benefit, as defined in this chapter, which is  
6                    determined as follows:
- 7                    (a) Service benefit equals one and nine-tenths percent of final average  
8                    salary multiplied by the number of years of service employment.
- 9                    (b) Prior service benefit equals one and nine-tenths percent of final  
10                    average salary multiplied by the number of years of prior service  
11                    employment.
- 12            b. Normal retirement benefits for all supreme and district court judges under the  
13            public employees retirement system reaching normal retirement date equal an  
14            annual amount, payable monthly, comprised of a benefit as defined in this  
15            chapter, determined as follows:
- 16            (1) Benefits must be calculated from the time of appointment or election to the  
17            bench and must equal three and one-half percent of final average salary  
18            multiplied by the first ten years of judicial service, two and eighty hundredths  
19            percent of final average salary multiplied by the second ten years of judicial  
20            service, and one and one-fourth percent of final average salary multiplied by  
21            the number of years of judicial service exceeding twenty years.
- 22            (2) Service benefits must include, in addition, an amount equal to the percent  
23            specified in subdivision a of final average salary multiplied by the number of  
24            years of nonjudicial employee service and employment.
- 25            c. Postponed retirement benefits are calculated as for single life benefits for those  
26            members who retired on or after July 1, 1977.
- 27            d. Early retirement benefits are calculated as for single life benefits accrued to the  
28            date of termination of employment, but must be actuarially reduced to account for  
29            benefit payments beginning prior to the normal retirement date, which is the  
30            earlier of age sixty-five or the age at which current service plus age equals  
31            eighty-five. Except for a national guard security officer or firefighter, a peace

- 1           officer or correctional officer employed by the bureau of criminal investigation or  
2           by a political subdivision, or a supreme court or district court judge, early  
3           retirement benefits for members first enrolled after December 31, 2015, are  
4           calculated for single life benefits accrued to the date of termination of  
5           employment, but must be reduced by a fixed rate of eight percent per year to  
6           account for benefit payments beginning before the normal retirement date. A  
7           retiree, other than a supreme or district court judge, is eligible for early retirement  
8           benefits only after having completed three years of eligible employment. A  
9           supreme or district court judge retiree is eligible for early retirement benefits only  
10          after having completed five years of eligible employment.
- 11          e.    Except for supreme and district court judges, disability retirement benefits are  
12          twenty-five percent of the member's final average salary. Disability retirement  
13          benefits for supreme and district court judges are seventy percent of final  
14          average salary reduced by the member's primary social security benefits and by  
15          any workforce safety and insurance benefits paid. The minimum monthly  
16          disability retirement benefit under this section is one hundred dollars.
- 17          5.    Upon termination of employment after completing three years of eligible employment,  
18          except for supreme and district court judges, who must complete five years of eligible  
19          employment, but before normal retirement date, a member who does not elect to  
20          receive early retirement benefits is eligible to receive deferred vested retirement  
21          benefits payable commencing on the member's normal retirement date in one of the  
22          optional forms provided in subsection 9. Members who have delayed or inadvertently  
23          failed to apply for retirement benefits to commence on their normal retirement date  
24          may choose to receive either a lump sum payment equal to the amount of missed  
25          payments, or an actuarial increase to the form of benefit the member has selected,  
26          which increase must reflect the missed payments.
- 27          6.    If before retiring a member dies after completing three years of eligible employment,  
28          except for supreme and district court judges, who must have completed five years of  
29          eligible employment, the board shall pay the member's account balance to the  
30          member's designated beneficiary as provided in this subsection. If the member has  
31          designated an alternate beneficiary with the surviving spouse's written consent, the

1 board shall pay the member's account balance to the named beneficiary. If the  
2 member has named more than one primary beneficiary, the board shall pay the  
3 member's account balance to the named primary beneficiaries in the percentages  
4 designated by the member or, if the member has not designated a percentage for the  
5 beneficiaries, in equal percentages. If one or more of the primary beneficiaries has  
6 predeceased the member, the board shall pay the predeceased beneficiary's share to  
7 the remaining primary beneficiaries. If any beneficiary survives the member, yet dies  
8 before distribution of the beneficiary's share, the beneficiary must be treated as if the  
9 beneficiary predeceased the member. If there are no remaining primary beneficiaries,  
10 the board shall pay the member's account balance to the contingent beneficiaries in  
11 the same manner. If there are no remaining designated beneficiaries, the board shall  
12 pay the member's account balance to the member's estate. If the member has not  
13 designated an alternate beneficiary or the surviving spouse is the beneficiary, the  
14 surviving spouse of the member may select a form of payment as follows:

15 a. If the member was a supreme or district court judge, the surviving spouse may  
16 select one of the following optional forms of payment:

17 (1) A lump sum payment of the member's retirement account as of the date of  
18 death.

19 (2) Payments as calculated for the deceased member as if the member was of  
20 normal retirement age at the date of death, payable until the spouse dies.

21 b. The surviving spouse of all other members may select one of the following  
22 options:

23 (1) A lump sum payment of the member's retirement account as of the date of  
24 death.

25 (2) Payment of a monthly retirement benefit equal to fifty percent of the  
26 deceased member's accrued single life retirement benefits until the spouse  
27 dies.

28 (3) If the member dies on or after the member's normal retirement date, the  
29 payment of a monthly retirement benefit equal to an amount that would have  
30 been paid to the surviving spouse if the member had retired on the day of  
31 the member's death and had selected a one hundred percent joint and

1 survivor annuity, payable until the spouse dies. A surviving spouse who  
2 received a benefit under this subsection as of July 31, 1995, is entitled to  
3 the higher of that person's existing benefit or the equivalent of the accrued  
4 benefit available under the one hundred percent joint and survivor provision  
5 as if the deceased member were of normal retirement age, with the increase  
6 payable beginning August 1, 1995.

7 7. If a member not coming under the provisions of subsection 6 terminates employment  
8 because of death, permanent and total disability, or any voluntary or involuntary  
9 reason prior to retirement, the member or the member's designated beneficiary is  
10 entitled to the member's account balance at termination. The board automatically shall  
11 refund a member's account balance if the member has completed less than three  
12 years of eligible employment, has an account balance of less than one thousand  
13 dollars, and was not a supreme or district court judge. If the member was a supreme  
14 or district court judge, the board automatically shall refund a member's account  
15 balance if the member completed less than five years of eligible employment. A  
16 member may waive the refund if the member submits a written statement to the board,  
17 within thirty days after termination, requesting that the member's account balance  
18 remain in the fund.

19 8. The surviving spouse of a member receiving retirement benefits must be the  
20 member's primary beneficiary unless there is no surviving spouse or the surviving  
21 spouse designates an alternate beneficiary in writing. If a member receiving retirement  
22 benefits or the member's surviving spouse receiving retirement benefits dies before  
23 the total amount of benefits paid to either or both equals the amount of the member's  
24 account balance at retirement, the difference must be paid to the named beneficiary of  
25 the recipient or, if there is no named beneficiary, to the recipient's estate.

26 9. The board shall adopt rules providing for the receipt of retirement benefits in the  
27 following optional forms:

- 28 a. Single life.  
29 b. An actuarially equivalent joint and survivor option, with fifty percent or one  
30 hundred percent options.  
31 c. Actuarially equivalent life with ten-year or twenty-year certain options.

1 d. An actuarially equivalent partial lump sum distribution option with a twelve-month  
2 maximum lump sum distribution.

3 e. An actuarially equivalent graduated benefit option with either a one percent or  
4 two percent increase to be applied the first day of January of each year.

5 Except for supreme and district court judges, unless a member specifically requests  
6 that the member receive benefits according to one of these options at the time of  
7 applying for retirement, all retirement benefits must be in the form of a single life  
8 benefit. For supreme and district court judges, unless a member specifically requests  
9 that the member receive benefits according to one of these options at the time of  
10 applying for retirement, all retirement benefits must be in the form of a lifetime monthly  
11 pension with fifty percent of the benefit continuing for the life of the surviving spouse, if  
12 any.

13 10. The fund may accept rollovers from other eligible plans under rules adopted by the  
14 board for the purchase of additional service credit, but only to the extent the transfer is  
15 a rollover contribution that meets the requirement of section 408 of the Internal  
16 Revenue Code.

17 11. The board may accept trustee-to-trustee transfers as permitted by Internal Revenue  
18 Code section 403(b)(13) and section 457(e)(17) from an Internal Revenue Code  
19 section 403(b) annuity or Internal Revenue Code section 457 deferred compensation  
20 plan for the purchase of permissive service credit, as defined in Internal Revenue  
21 Code section 415(n)(3)(A) or as repayment of a cashout from a governmental plan  
22 under Internal Revenue Code section 415(k)(3).

23 12. The board may establish individual retirement accounts and individual retirement  
24 annuities as permitted under section 408(q) of the Internal Revenue Code to allow  
25 employees to make voluntary employee contributions. The board may adopt rules to  
26 implement and administer the accounts and annuities under this section.

27 **SECTION 3. AMENDMENT.** Subsection 1 of section 54-52-17.2 of the North Dakota  
28 Century Code is amended and reenacted as follows:

29 1. a. For the purpose of determining eligibility for benefits under this chapter, an  
30 employee's years of service credit is the total of the years of service credit earned

Sixty-fourth  
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1 in the public employees retirement system and the years of service credit earned  
2 in any number of the following:

- 3 (1) The teachers' fund for retirement.  
4 (2) The highway patrolmen's retirement system.  
5 (3) The teachers' insurance and annuity association of America - college  
6 retirement equities fund (TIAA-CREF), for service credit earned while  
7 employed by North Dakota institutions of higher education.

8 Service credit may not exceed twelve months of credit per year.

9 b. Pursuant to rules adopted by the board, an employee who has service credit in  
10 the system and in any of the plans described in paragraphs 1 and 2 of  
11 subdivision a is entitled to benefits under this chapter. The employee may elect to  
12 have benefits calculated using the benefit formula in section 54-52-17 under  
13 either of the following methods:

14 (1) The average of the highest salary received by the member for any thirty-six  
15 months employed during the last one hundred twenty months of  
16 employment in the public employees retirement system. If the participating  
17 member has worked for less than thirty-six months at retirement, the final  
18 average salary is the average salary for the total months of employment. If  
19 the participating member was first enrolled after December 31, 2015, and  
20 worked for less than sixty months at retirement, the final average salary is  
21 the average salary for the total months of employment.

22 (2) The average of the highest salary received by the member for any thirty-six  
23 consecutive months during the last one hundred twenty months of  
24 employment with any of the three eligible employers under this subdivision,  
25 with service credit not to exceed one month in any month when combined  
26 with the service credit earned in the alternate retirement system.

27 The board shall calculate benefits for an employee under this subsection by using only  
28 those years of service credit earned under this chapter.



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## Attachment 2

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February 23, 2015

Mr. Sparb Collins  
Executive Director  
State of North Dakota Public Employees' Retirement System  
400 East Broadway, Suite 505  
P.O. Box 1657  
Bismarck, ND 58502

Re: **Technical Comments – Bill Draft No. 15.0137.03000 (House Bill No. 1080)**

Dear Sparb:

The following presents our analysis of the proposed changes found in draft Bill No. 15.0137.03000 (House Bill No. 1080):

**Systems Affected:** North Dakota Public Employees Retirement System (PERS) Hybrid Plan and Defined Contribution Plan

**Summary:** The bill would adjust member contribution rates for Peace officers in the Hybrid Plan employed by the State bureau of criminal investigation, for which member contributions would decrease by 0.5% of monthly salary. While not part of the draft bill, we have assumed the employer contributions will not decrease in 2016 unless approved by the PERS board.

The proposed legislation would also make the following benefit modifications for Hybrid Plan members (except for National Guard security officers, peace officers or correctional officers employed by the Bureau of Criminal Investigation or by a political subdivision, or a Supreme Court or district court judge) first enrolled after December 31, 2015:

- Final average salary would be based on the five highest periods of twelve consecutive months employed during the last one hundred eighty months immediately preceding retirement, excluding months without earnings. Currently, final average salary is based on the highest salary for any thirty six months employed within the last one hundred eighty months of employment, with no requirement for any months to be consecutive; and
- The minimum age at which unreduced benefits could begin (normal retirement date) would be increased to a combined total of years of service credit and years of age equal to ninety

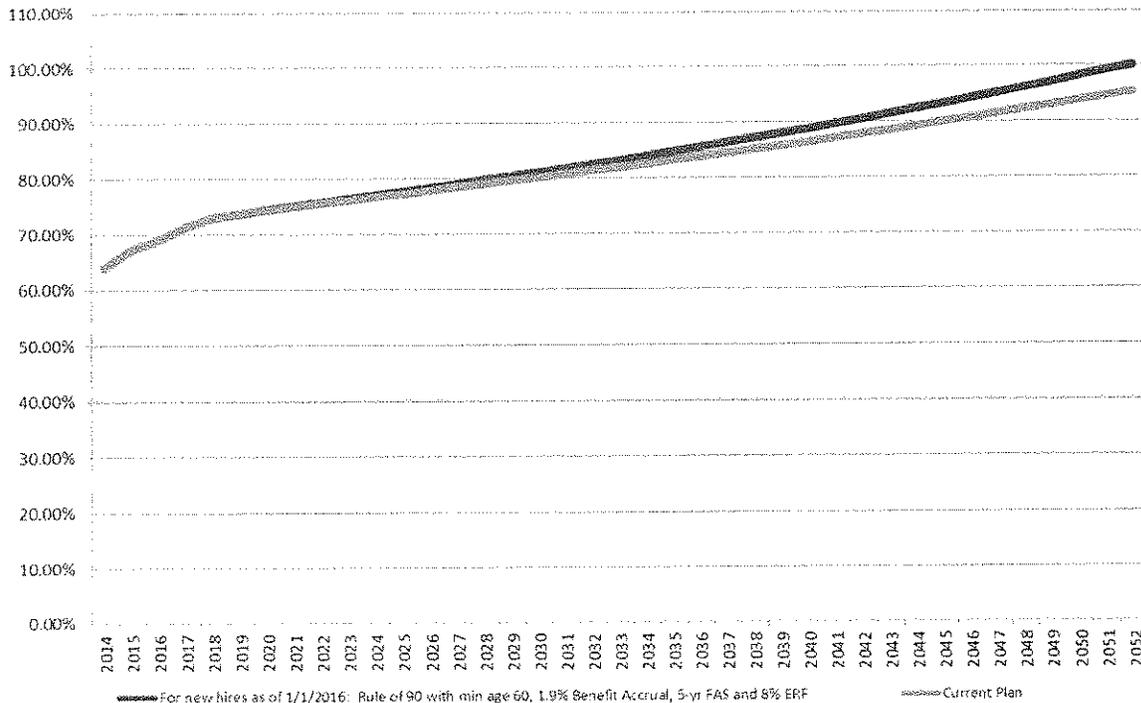
where member is at least sixty years old (Rule of 90). Currently, normal retirement age requires attaining age 65 or Rule of 85 with no minimum age; and

- The early retirement reduction would be changed from an actuarial reduction to account for benefit payment prior to normal retirement date to a fixed rate of eight percent per year benefit payments begin prior to normal retirement date; and
- The service benefit would be based upon 1.9% of final average salary per year of service. The current retirement benefit is based upon 2.0% of final average salary per year of service.

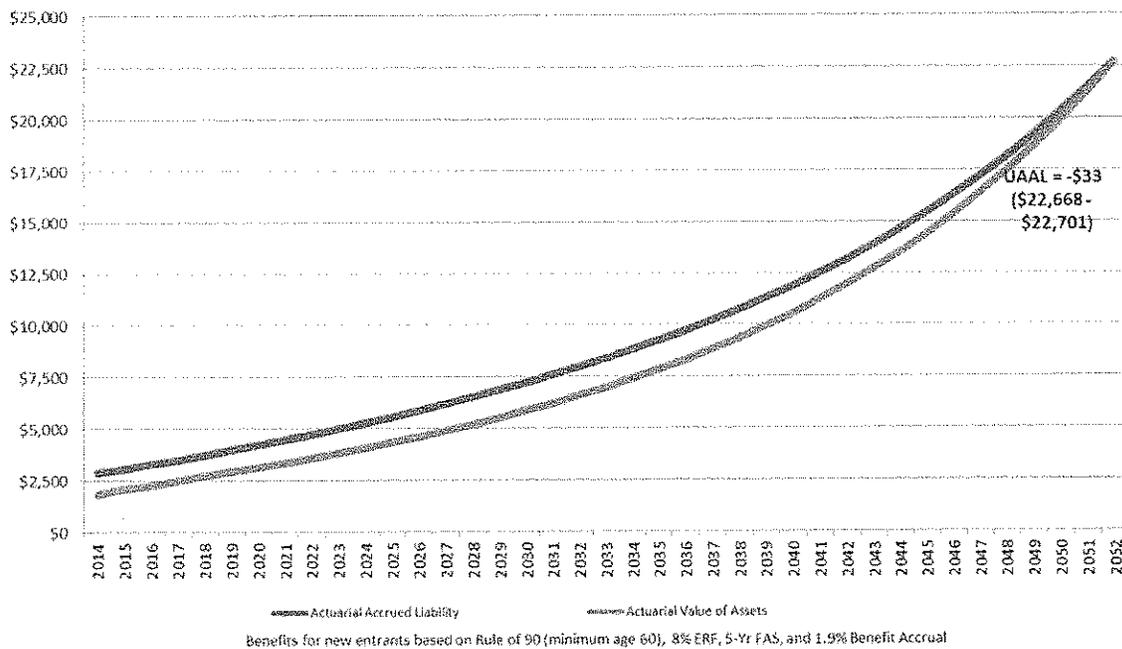
**Actuarial Cost Analysis:**

This bill would positively affect the current funding level of the Hybrid Plan. As a result of the proposed plan changes, the Normal Cost of the Main System will be reduced from 10.36% to 9.90%, a decrease in the actuarially required contribution of 0.46% of payroll. Approximately one-half of this decrease, or 0.20% of payroll, would be a result of the change in the benefit multiplier from 2.0% to 1.9%. The cost savings would be very gradual and would be expected to take 20 to 30 years to completely take effect.

To illustrate the effect, the funded ratios (Actuarial Value of Assets compared to Actuarial Accrued Liability) for the Main System are compared in the graph below for the current plan of benefits (green line) and the proposed changes (red line). We have assumed an 8% market value return for all years.



To further illustrate the impact, the graph below shows that the Main System is projected to have an Actuarial Value of Assets (green line) in excess of the Actuarial Accrued Liability (blue line) by July 1, 2052.



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

### General

The changes applicable to new members enrolled after December 31, 2015 would not provide immediate costs savings but would be realized over a period of years as new members replace those currently in the System.

### Benefits Policy Issues

> Adequacy of Retirement Benefits

For new members enrolled after December 31, 2015, the changes in final average salary, normal retirement date, early retirement reductions, and benefit multiplier would have the effect of reducing the overall adequacy of retirement benefits as compared to existing members. Such effect will vary based on the individual experience of the member.

> Benefits Equity and Group Integrity

To the extent decreased member contributions raises the take-home pay of members, this bill would rebalance salary equity between peace officers/correctional officers employed by political subdivisions and peace officers employed by the State Bureau of Criminal Investigation, so that members in both groups will be required to make contributions equal to 5.5% of pay effective in 2016. Currently, peace officers/correctional officers employed by political subdivisions make member contributions equal to 5.5% of pay, while peace officers employed by the State Bureau of Criminal Investigation make member contributions equal to 6% of pay.

For new members enrolled after December 31, 2015, the changes in final average salary, normal retirement date, early retirement reductions, and benefit multiplier would have the effect of reducing the overall equity of retirement benefits as compared to existing members. This means that a new employee working in the same position with similar job duties as a current employee would be paying the same member contributions but accruing less valuable retirement benefits.

> Competitiveness

Due to the changes to final average salary, normal retirement date, early retirement reductions, and benefit multiplier under this bill, new members enrolled after December 31, 2015 would receive a lower compensation package than is currently offered by participating employers in the System.

> Purchasing Power Retention

No impact.

> Preservation of Benefits

The bill would not provide increased funding to the System in the form of additional employer and member contributions. Increases to contributions would reduce the unfunded actuarial accrued liability of the System at a faster rate than currently projected.

> Portability

No impact.

> Ancillary Benefits

- No impact.
- Social Security: No impact.

**Funding Policy Issues**

> Actuarial Impacts

As previously noted, the bill will have a positive actuarial impact on the Hybrid Plan.

> Investment Impacts

- Cash Flow: The bill would have a positive impact on cash flow.
- Asset Allocation: The bill does not create new investment asset allocation issues.

Administration Issues

> Implementation Issues

This bill would have an impact on administrative costs of the PERS as new benefit structures would be added for new employees.

In addition, pursuant to rules under Internal Revenue Code section 414(h), participating employers (including the State) would be required to take formal, written action to elect to pick up the decreased member contribution amounts for 2016, in order for such contributions to be made on a pre-tax basis.

> Administrative Costs

No impact.

> Needed Authority

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

> Integration

No impact.

> Employee Communications

Employee communications will be necessary to describe the impact of decreased member contributions on employee pay for peace officers/correctional officers employed by political subdivisions and peace officers employed by the State Bureau of Criminal Investigation.

Employee communications provided to new members (e.g., member handbooks) will need to be updated to describe the benefit modifications to final average salary, normal retirement date, early retirement reductions and benefit multiplier.

> Miscellaneous and Drafting Issues

The language regarding a change to the multiplier for service benefits and prior service benefits indicates that the new multiplier applies to “retirees first enrolled after December 31, 2015”. Our analysis is based on the assumption that the multiplier change applies to retirees

who were first enrolled *in the plan* after December 31, 2015. However, this language appears to be unclear as to whether the multiplier change applies to members who first enrolled in the plan after such date or retirees who first enrolled in retirement benefits after such date.

The projections were made using generally accepted actuarial practices and are based on the July 1, 2014 actuarial valuation. Calculations were completed under the supervision of Laura Mitchell, MAAA, EA.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

The information contained in this letter is provided within our role as the plan's actuary and benefits consultant and is not intended to provide tax or legal advice. We recommend that you address all issues described herein with your legal counsel. Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, FCA, EA  
Vice President and Consulting Actuary

Sincerely,



Melanie Walker, JD  
Vice President

/cz

cc: Tammy Dixon  
Laura Mitchell



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## Attachment 3

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October 16, 2014

Mr. Sparb Collins  
Executive Director  
State of North Dakota Public Employees' Retirement System  
400 East Broadway, Suite 505  
P.O. Box 1657  
Bismarck, ND 58502

Re: **Technical Comments – Bill Draft No. 15.0137.02000**

Dear Sparb:

The following presents our analysis of the proposed changes found in draft Bill No. 15.0137.02000:

**Systems Affected:** North Dakota Public Employees Retirement System (PERS) Hybrid Plan and Defined Contribution Plan

**Summary:** The proposed legislation would increase both the employer contribution rates and the member contribution rates that are mandated by statute in the Hybrid Plan (Main only) and Defined Contribution Plan by 1% of the member's monthly salary beginning January 2016. The bill would also adjust member contribution rates for the following groups:

- Peace officers in the Hybrid Plan employed by the State bureau of criminal investigation, for which member contributions would *decrease* by 0.5% of monthly salary, rather than increase. While not part of the draft bill, we have assumed the employer contributions will not decrease in 2016 unless approved by the PERS board; and
- Temporary employees in the Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% of monthly salary in 2016, instead of 1%.

The proposed legislation would also make the following benefit modifications for Hybrid Plan members (except for National Guard security officers, peace officers or correctional officers employed by the Bureau of Criminal Investigation or by a political subdivision, or a Supreme Court or district court judge) first enrolled after December 31, 2015:

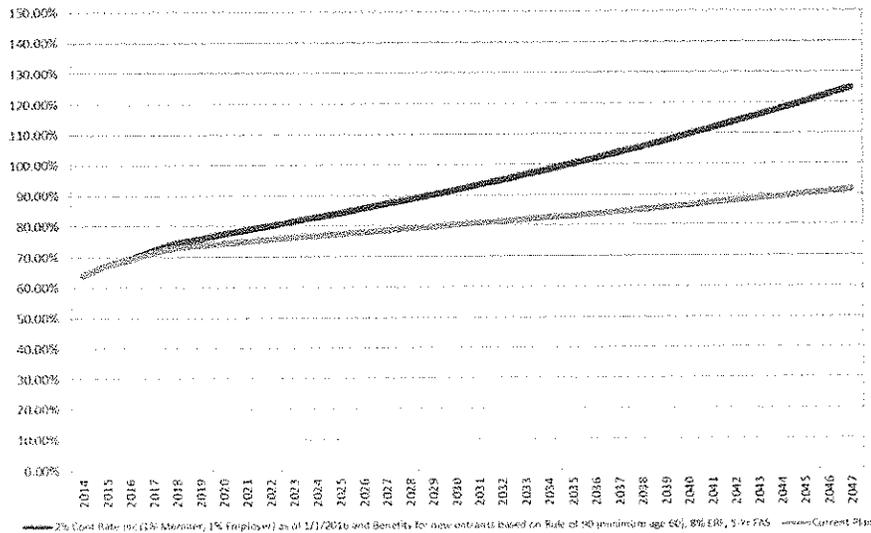
- Final average salary would be based on the five highest periods of twelve consecutive months employed during the last one hundred eighty months immediately preceding

retirement, excluding months without earnings. Currently, final average salary is based on the highest salary for any thirty six months employed within the last one hundred eighty months of employment, with no requirement for any months to be consecutive; and

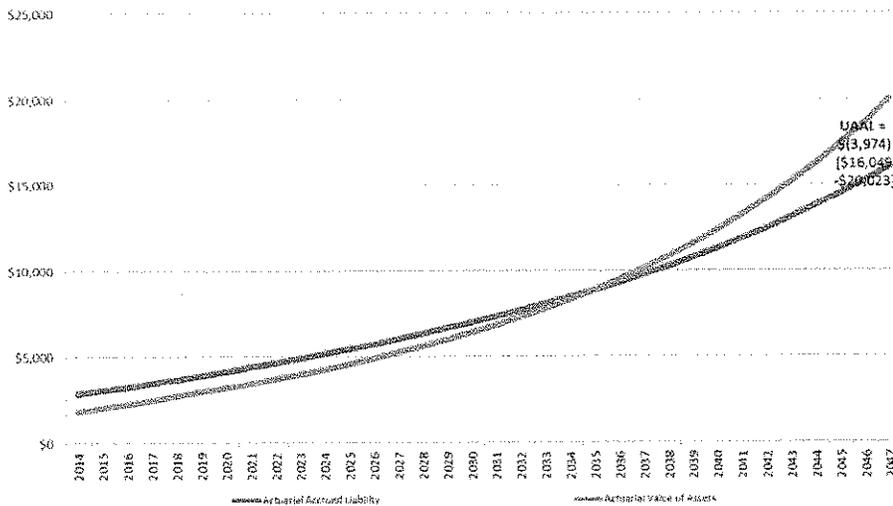
- > The minimum age at which unreduced benefits could begin (normal retirement date) would be increased to a combined total of years of service credit and years of age equal to ninety where member is at least sixty years old (Rule of 90). Currently, normal retirement age requires attaining a Rule of 85 with no minimum age; and
- > The early retirement reduction would be changed from an actuarial reduction to account for benefit payment prior to normal retirement date to a fixed rate of eight percent per year benefit payments begin prior to normal retirement date.

**Actuarial Cost Analysis:**

This bill would positively affect the current funding level of the Hybrid Plan. To illustrate the effect, the funded ratios (Actuarial Value of Assets compared to Actuarial Accrued Liability) for the Main System are compared in the graph below for the current plan of benefits (green line) and the proposed changes (red line). We have assumed an 8% market value return for all years.



To further illustrate the impact, the graph below shows that the Main System is projected to have an Actuarial Value of Assets (green line) in excess of the Actuarial Accrued Liability (blue line) by July 1, 2035.



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

**General**

The bill would significantly increase funding to the Systems in the form of additional employer and member contributions.

The changes applicable to new members enrolled after December 31, 2015 would not provide immediate costs savings but would be realized over a period of years as new members replace those currently in the System. The cost savings would be very gradual and would be expected to take over 30 years to completely take effect.

**Benefits Policy Issues**

➤ **Adequacy of Retirement Benefits**

The increase in member and employer contributions would have no impact on retirement benefits for existing members in the Hybrid Plan. The additional contributions to the Defined Contribution Plan will provide additional retirement income to members of that Plan.

For new members enrolled after December 31, 2015, the changes in final average salary, normal retirement date and early retirement reduction would have the effect of reducing the overall adequacy of retirement benefits as compared to existing members. Such effect will vary based on the individual experience of the member.

➤ **Benefits Equity and Group Integrity**

To the extent decreased member contributions raises the take-home pay of members, this bill would rebalance salary equity between peace officers/correctional officers employed by political subdivisions and peace officers employed by the State Bureau of Criminal

Investigation, so that members in both groups will be required to make contributions equal to 5.5% of pay effective in 2016. Currently, peace officers/correctional officers employed by political subdivisions make member contributions equal to 5.5% of pay, while peace officers employed by the State Bureau of Criminal Investigation make member contributions equal to 6% of pay.

For new members enrolled after December 31, 2015, the changes in final average salary, normal retirement date and early retirement reduction would have the effect of reducing the overall equity of retirement benefits as compared to existing members. This means that a new employee working in the same position with similar job duties as a current employee would be paying the same member contributions but accruing less valuable retirement benefits.

> Competitiveness

To the extent increased member contributions reduce the take-home pay of members without a resulting increase in pension benefits under the Hybrid Plan, this bill may diminish the total compensation package offered by participating employers in the System.

Similarly, due to the changes to final average salary, normal retirement date and early retirement reductions under this bill, new members enrolled after December 31, 2015 would receive a lower compensation package than is currently offered by participating employers in the System.

> Purchasing Power Retention

No impact.

> Preservation of Benefits

Increased funding to the System in the form of additional employer and member contributions will reduce the unfunded actuarial accrued liability of the System at a faster rate than currently projected. By requiring additional funding the bill would help preserve the value of benefits from the System for several years.

> Portability

The additional member contributions to the Defined Contribution plan would be fully portable as are the existing member contributions.

> Ancillary Benefits

- No impact.
- Social Security: No impact.

### Funding Policy Issues

> Actuarial Impacts

As previously noted, the bill will have a positive actuarial impact on the Hybrid Plan.

> Investment Impacts

- Cash Flow: The bill would have a positive impact on cash flow.
- Asset Allocation: The bill does not create new investment asset allocation issues.

### Administration Issues

> Implementation Issues

This bill would have an impact on administrative costs of the PERS as new benefit structures would be added for new employees. It would also have an effect on the members and participating employers, since their required contributions would increase.

In addition, pursuant to rules under Internal Revenue Code section 414(h), participating employers (including the State) would be required to take formal, written action to elect to pick up the increased (or decreased) member contribution amounts for 2016, in order for such contributions to be made on a pre-tax basis.

> Administrative Costs

No impact.

> Needed Authority

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

> Integration

No impact.

> Employee Communications

Employee communications will be necessary to describe the impact of increased (or decreased) member contributions on employee pay.

Employee communications provided to new members (e.g., member handbooks) will need to be updated to describe the benefit modifications to final average salary, normal retirement date and early retirement reductions.

➤ Miscellaneous and Drafting Issues

Since this bill would increase member contribution rates, participating employers (including the State) would need to determine whether they can pay for the increased member contributions from their own funds as a salary supplement or would reduce members' current or future salary, while also paying an increased employer contribution rate. Any participating employer that decides to reduce members' salary to pay for the increased level of member contributions must pay and report FICA taxes on the member contribution amounts made via salary reduction.

The projections were made using generally accepted actuarial practices and are based on the July 1, 2014 actuarial valuation. Calculations were completed under the supervision of Tammy Dixon, FSA, MAAA, EA.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

The information contained in this letter is provided within our role as the plan's actuary and benefits consultant and is not intended to provide tax or legal advice. We recommend that you address all issues described herein with your legal counsel. Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, FCA, EA  
Vice President and Consulting Actuary

Sincerely,



Melanie Walker, JD  
Vice President

/cz

cc: Tammy Dixon  
Laura Mitchell

**2015 Legislative Session  
North Dakota Public Employees Retirement System**

<b>Bill Number Hearings</b>	<b>Sponsor Committee Assignment Action</b>	<b>Bill Summary</b>
House Bill 1038 Hearing 3-11-2015, 10:00 a.m. Red River Room	Government and Veterans Affairs Committee Rep Jim Kasper, Chair (14) Senator Dick Dever, Chair (7)  <b>House Passed 88-5</b>	PERS coverage of telemedicine
House Bill 1039 Hearing 3-11-2015, 11:00 a.m. Red River Room	Human Services Committee Rep Robin Weisz, Chair (13) Senator Judy Lee, Chair (6)  <b>House Passed as amended, 80-12</b>	Health insurance coverage of substance abuse treatment
House Bill 1062 Hearing 3-13-2015, 9:45 a.m. Missouri River Room	PERS: Government and Veterans Affairs Committee  <b>House Passed 92-0</b>	Technical bill
House Bill 1063 Hearing 3-13-2015, 10:15 a.m. Missouri River Room	Government and Veterans Affairs Committee  <b>House Passed 92-0</b>	Investment policies of the State Investment Board (just follow)
House Bill 1072 Hearing 3-11-2015 9:00 a.m. Red River Room	Human Services  <b>House Passed 60-33</b>	Insurance coverage of cancer treatment medications
House Bill 1080 Hearing 3-13-2015, 9:15 a.m. Missouri River Room	PERS: Government and Veterans Affairs Committee  <b>House Passed 68-25</b>	Retirement Contribution increase legislation

Bill Number Hearings	Sponsor Committee Assignment Action	Bill Summary
House Bill 1154	Rep. Haak Government and Veterans Affairs	Transfer from DC to DB Plan
House Bill 1200 Track	<b>Do Pass 15-6-2</b> <b>House Failed 40-51</b> Government and Veterans Affairs	Create a save toward retirement today program for small, nongovernmental employers and their employees (Secretary of State would administer)
House Bill 1300 Track	<b>House Failed 17-73</b> Industry, Business and Labor Committee Rep. George Keiser, Chair (15) Senator Jerry Klein, Chair (7) <b>House Failed 0-86</b>	Provider networks for uniform group insurance program
Senate Bill 2022 Hearing 3-11-2015 2:15 p.m. Medora Room	Appropriations Committee  Senator Ray Holmberg, Chair (13) Rep. Senate Gov Operations Division Rep. Blair Thoreson, Chairman (8) Government and Veterans Affairs Committee Senator Dick Dever Chair (7)	PERS budget bill
Senate Bill 2038	<b>Senate Failed 8-39</b>	Defined contribution plan legislation
Senate Bill 2039	Education Committee Senator Tim Flakoll, Chair (6) Rep. Mike Nathe, Chair (13) <b>Senate Passed as amended 46-0</b>	PERS stabilization fund and school construction assistance loan fund

Bill Number Hearings	Sponsor Committee Assignment Action	Bill Summary
Senate Bill 2102 Hearing 3-5-15 9:00 a.m. Fort Union Room	Adjutant General: Government and Veterans Affairs Committee  <b>Senate Passed 46-0</b> <b>House Passed 91-0</b>	Retirement contributions by national guard security officers and firefighters (just follow)
Senate Bill 2160 Track	Human Services Committee Senator Judy Lee, Chair (6)	Create health information hub office in ITD
Senate Bill 2290	<b>Senate Passed 46-0</b> Government and Veterans Affairs Committee	Relating to determination of full-time employment of the state
HCR 3003	<b>Senate Failed 15-32</b> Legislative Management: Government and Veterans Affairs Committee	Study state contributions to state employee health insurance premiums
SCR 4003	<b>Do Pass</b> Education Committee  <b>Second Engrossment</b> <b>Senate Passed 46-0</b>	Amend Section 24 of Article X of the Constitution relating to the foundation aid stabilization fund
Draft Possible Bill	Bill with suggested health insurance amendments Not yet submitted	