NDPERS BOARD MEETING
Agenda

Bismarck Location:
Dakota Carrier Network Conf. Room
1615 Capitol Way, Bismarck
Fargo Location:
BCBS, 4510 13th Ave SW

March 16, 2006 **Time: 8:30 AM**

I. MINUTES
- A. February 16, 2006

II. LEGISLATION
- A. Proposed Legislation for 2007 – Sparb (Board Action Requested)

III. MONTHLY TOPICS
- A. TFFR IT Program Experience – Fay Kopp, RIO
- B. New Board Member Orientation – Sparb (Board Action Requested)
- C. Airtime Review – Melanie Walker, Segal

IV. FLEX PROGRAM
- A. Grace Period – Kathy (Board Action Requested)

V. MISCELLANEOUS
- A. IT RFP Consultant – Sparb (Board Action Requested)
- B. SIB Alternate Member – Sparb (Board Action Requested)
- C. Audit Committee Minutes – (Information)
- D. Legislative Employee Benefits Committee – Sparb (Information)
- E. SIB Agenda – (Information)

VI. RETIREMENT
- A. Job Service Retirement Plan – Sparb (Board Action Requested)
- B. Constitutionality of Benefit Changes – Scott Miller (Information)

VII. GROUP INSURANCE
- A. Addendum to Group Health Care Insurance Policy for MedicareBlue RX PDP – Sparb (Board Action Requested)
- B. Dental and Long Term Care RFP – Kathy (Board Action Requested)
- C. Smoking Cessation Program – Kathy (Board Action Requested)
- D. Surplus/Affordability Update – Bryan (Information)
- E. 2005 BCBC Claims Review – Bryan (Information)

VIII. DEFERRED COMPENSATION
- A. 4th Quarter 2005 Reports – Bryan (Information)

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

MINUTES

North Dakota Public Employees Retirement System

Thursday, February 16, 2006
ND Association of Counties, Bismarck
BCBS, 4510 13th Ave SW, Fargo
8:30 A.M.

Members Present:	Ms. Joan Ehrhardt Mr. Ron Leingang Mr. Howard Sage Ms. Arvy Smith Ms. Sandi Tabor
Via Video Conference:	Chairman Jon Strinden
Members Absent:	Ms. Rosey Sand
Others Present:	Mr. Sparb Collins, Executive Director, NDPERS Ms. Cheryl Stockert, NDPERS Mr. Bryan Reinhardt, NDPERS Ms. Sharmain Dschaak, NDPERS Ms. Cheryle Masset-Martz, NDPERS Ms. Rebecca Fricke, NDPERS Ms. Pam Binder, NDPERS Mr. Scott Miller, Attorney General's Office Mr. David Peske, ND Medical Association Mr. Steve Cochrane, Retirement & Investment Office Mr. Michael Fix, ND Insurance Department Mr. Tom Tupa, AFPE/SEA Ms. Onalee Sellheim, BCBSND Mr. Josh Dozak, NDPEA Ms. Jodee Buhr, NDPEA Ms. Laurie Sterioti Hammeren, Human Res. Mgmt. Services Ms. Kelly Schmidt, ND State Treasurer Mr. Weldee Baetsch Mr. Paul Erlendson, Callan Associates, Inc. Mr. Tom Johnson, TIR Mr. Keith Johnson, Custer District Health
Via Conference Call:	Ms. Lisa Clute, First District Health Unit Ms. Lana Fischer, Kidder County District Health Unit Ms. Julie Ferry, Nelson/Griggs District Health Unit Mr. Mike Melius, Upper Missouri District Health Unit

Ms. Wanda Kratochvil, Walsh County Health District
Ms. Sharon Unruh, Central Valley Health Unit
Ms. Robin Iszler, Central Valley Health Unit

Via Video Conference: Mr. Larry Brooks, BCBSND
Mr. Kevin Schoenborn, BCBSND
Mr. Tom Christensen, BCBSND
Ms. Janine Weideman, BCBSND
Ms. Kamie Kueneman, Prime Therapeutics
Mr. Bill Robinson, Gallagher Benefit Services
Mr. David Kaye, CO Dept. of Personnel & Adm.
Ms. Vinita Biddle, CO Dept. of Personnel & Adm.

Chairman Jon Strinden called the meeting to order at 8:40 a.m.

MINUTES (Board Action Requested)

Chairman Strinden called for any questions or comments regarding the minutes of the January 19, 2006 Board meeting.

THERE BEING NONE, MR. LEINGANG MOVED APPROVAL OF THE JANUARY 19, 2006 BOARD MINUTES. MS. EHRHARDT SECONDED THE MOTION. THE MINUTES WERE APPROVED.

GROUP INSURANCE

District Health Units

Mr. Collins noted that at previous Board meetings, PERS began a process to review the classification of district health units in the state health plan. The issue is that district health units are treated by PERS as state agencies. They receive the state rate (flat rate) rather than the rate for political subdivisions. However, unlike state agencies they are not required to participate in the PERS health plan, but can make an election to do so. In addition, health districts are not treated as a state agency for purposes of the voluntary programs such as dental, vision, long term care, and the employee assistance program. It was noted they seem to operate more like a political subdivision not a state agency and the question becomes why we differentiate the rates for them. The only other entity that is not a state agency that receives the state rate is the Garrison Diversion Conservancy District, which according to counsel, is considered a political subdivision from a legal standpoint.

Mr. Collins stated that Mr. Keith Johnson, Administrator, Custer District Health Unit, was present to share information regarding this issue. Other representatives from the following health districts joined the Board meeting via conference call: First District Health Unit, Minot; Kidder County District Health Unit, Steele; Nelson/Griggs District

Health Unit, McVille; Upper Missouri District Health Unit, Williston; Walsh County Health District, Grafton; and Central Valley Health Unit, Jamestown.

Mr. Johnson stated this is a very critical issue for the district health units. Mr. Johnson referred the Board to his written testimony dated February 16, 2006. Mr. Johnson stated it is apparent to him that this request from staff to review their status from state agency to political subdivision results from an honest puzzlement as to why they should be treated differently than other political subdivisions in the state. He told the Board that if their classification was changed, the health districts costs would increase $214,780.
He indicated in his testimony that the Garrison Conservancy District and the Regional Court System are treated as state agencies for insurance purposes. Consequently, health districts should be treated as state agencies and be dealt with in the same manner. Ms. Tabor pointed out the fact that the District Courts became state agencies and employees. She was trying to determine what the correlation was between the county courts and the health districts and what Mr. Johnson was trying to suggest in his testimony.

Mr. Miller asked Mr. Johnson to explain his testimony regarding the legislature passing language that allowed the health districts into the health plan at state agency rates. Mr. Johnson responded there was no language giving the health units state agency rates; it was something PERS did.

Mr. Johnson closed his comments by saying that over the years their relationship with PERS has been mutually beneficial. They appreciate what PERS does for their personnel packages. It is what makes it possible for the health districts to hire high quality people. The salaries aren't always the best, but with the fringe benefits package, it swings potential employees to decide to come to work for the health districts. Mr. Johnson continued to review his written testimony with the Board which is available on file at PERS.

Ms. Smith questioned if we were referring not to just the district health units, but also county health departments as well. There is no clear reason as to who is treated one way or another regarding the state rate. Ms. Masset, PERS staff, explained the entire employer groups that are in the group health insurance were pulled from our database. Mr. Johnson stated that a district health unit is a separate entity formed by the member counties, that has a separate governing board and a separate funding source under Chapter 23-35 of the North Dakota Century Code. There are also health departments around the state that are a department of county government and would come under the county regulations.

Ms. Smith informed the Board that she was asked questions regarding this issue at the last interim Budget Committee on Health Care in December. Some of the members of that committee expressed great concern about this issue and the financial impact to public health and indicated this could become a legislative issue.

Ms. Tabor has two things she wants answers to regarding this issue for the April discussion. First question is, what is the Board's authority relating to setting rates and classifying entities into the rate structure? The second question is, if we have authorization, then what is the reason for allowing the exception? Ms. Tabor expressed concern if we grant one exception for this, why not another? Chairman Strinden indicated those were good questions and asked Sparb to have staff look into those items and report back to the April meeting.

Ms. Kratochvil from Walsh County Health District, Grafton, had a clarification/comment. In 2003 they changed their name from Walsh County Health Department to Walsh County Health District, specifically because of recommendations from PERS relating to the fact that they had become a health district and the name should reflect that.

Ms. Clute from First District Health Unit, Minot, reiterated the fact this is an important issue for the health districts. The financial impact would force them into decreasing health insurance benefits. There is no way they could absorb the additional costs. Ms. Clute was at the legislative committee meeting when they discussed this issue, and one of their suggestions was that PERS should consider not implementing any new policies before the next session.

Chairman Strinden thanked Mr. Johnson for the information provided to the Board and also the comments from representatives of the health districts. The Board will review this issue at the April meeting.

Heart of America Medical Center, Rugby

Mr. Collins stated the Heart of America Medical Center in Rugby is again seeking approval to offer its health plan to PERS membership in the Rugby service area.

MS. TABOR MOVED TO ACCEPT THE HEART OF AMERICA MEDICAL CENTER IN RUGBY TO OFFER ITS HEALTH PLAN TO PERS MEMBERSHIP IN THE RUGBY AREA. MR. LEINGANG SECONDED THE MOTION.

Ayes: Ehrhardt, Leingang, Sage, Tabor, and Chairman Strinden.
Nays: None
Absent: Sand, Smith
PASSED

Prudential Group Contract

Mr. Collins reported the contract has been reviewed and approved by the Attorney General's Office. Mr. Miller indicated that it took some effort to have Prudential agree to the provisions in the contract as required by the state.

MS. TABOR MOVED TO ACCEPT THE APPROVED CONTRACT FOR SIGNATURE. MR. SAGE SECONDED THE MOTION.

Ayes: Ehrhardt, Leingang, Sage, Smith, Tabor, and Chairman Strinden.
Nays: None
Absent: Sand
PASSED

Quarterly Health Graphs

Mr. Reinhardt referred the Board to the 2005 quarterly health graphs. He indicated that the trend line of total membership has gone up from $165 to $200. Keep in mind this an approximate 21% trend for the 2 years, about 10% annually. We need to be aware of this as we project for 2007-2009 plan year for health care. Mr. Reinhardt responded to a Board question regarding the large spike on the retired dependents list, which he indicated was likely the result of one large claim.

RETIREMENT

Job Service Retirement Plan

Mr. Collins reported to the Board that Mr. Paul Erlendson from Callan, and Mr. Tom Johnson from Timberland Investment Resources (TIR) were at the meeting to present information regarding the Job Service timber allocation, which is a follow-up from our last Board meeting. Mr. Paul Erlendson from Callan, an investment consultant to the State Investment Board (SIB), has reviewed the Job Service asset allocation and will provide comments to the Board.

Major points covered by Mr. Erlendson:

- This is a unique pension plan with no current contributions.
- JSND's plan is financially sound.
- The SIB investment structure employs strategies intended to minimize cost, control risk, and maximize return.
- A decision was to put 20% in large cap equity, 5% in small cap equity, 5% in international fund, and 55% in fixed income.
- The SIB took steps to enhance the fixed income program through the addition of timber.
- Industry best practices focuses on broad asset classes in the asset allocation process.
- An asset class is a group of investments that share common characteristics. They generally react similarly to economic factors (i.e. if interest rates go up, eventually the value of your bonds returns go down).

- Timber is much less sensitive to changing interest rates because timber is not as closely valued according to interest rates, it is also valued according to demand for wood products, fiber products, etc.
- JSND's fixed income structure uses active strategies in the context of a Total Return approach (i.e. appreciation plus income) to investing.
- Total Return relies on the fixed income portfolio to anchor the fund, with greater investment risks assumed in other asset classes.
- Timber offers a unique form of investment: its income is derived from harvesting a commodity; supply and demand conditions can dominate income and capital appreciation; investment returns defined by biological growth, timber prices and timberland appreciation; biological growth touted as a natural hedge to inflation; value added from manager's operational skill (harvesting and forest management).
- RMK and TIR, timber managers, both operate with different styles of management.
- There are elements of diversification by style of management functions.
- The properties themselves are diversified across six different states, in over 360 tracts.
- In total, there are 600 different "securities" in this portfolio as of December 21, 2005.

Conclusions for JSND:

- The strategies employed to implement manager structures to meet the needs of plans are changing and adapting rapidly. The use of timber within the SIB's fixed income structure, although unusual, fits within this trend.
- JSND's fixed income allocation contains a variety of both investment strategies and managers. The incremental diversity present at both the manager and investment strategy levels results in risk reduction.
- The two timber portfolios comprise over 360 individual tracts, roughly equivalent to a well diversified set of individual holdings in either an equity or a fixed income manager's portfolio.
- Given the requirements imposed by the JSND fund's benefit and funding policies, fixed income constitutes 55% of the fund's target asset allocation. As a consequence, timber equates to approximately 19% of fund assets. It is critically important that the timber portfolio produce cash flows that are equivalent to or higher than that which is available from bonds.
- The timber program is well diversified at the manager and asset levels. It provides beneficial diversification benefits. The projected cash flows must be monitored going forward to assure their adequacy to JSND's needs.

Mr. Collins indicated that Segal has reviewed our 8% return assumption and that we could potentially reduce that down to 6%, maybe even 5 ½ % at market value. If we have 55% currently in fixed income results in 19% timber, what happens if we go 100% fixed income and now we are 40% timber? Mr. Cochrane indicated we could create another bucket for fixed income exposure that Job Service could invest directly in to. An example would be within the insurance trust, as Workforce Safety ratcheted down their target exposure, they began to include asset types that we haven't strategically used such as treasury inflation protected securities (TIPS). When we carved out a piece of that fund, it created a strategic exposure to TIPS. They are the only fund within the insurance trust which has about 15 participants that actually invest in those TIPS.

Mr. Erlendson stated the timber portfolio is a very well diversified portfolio, so there is no risk in the diversification within this portfolio. Inflation is the worst enemy of fixed income portfolios, because it decreases the value of assets. As you move forward and you make no significant changes in your assumptions, then the one thing you will want to do is monitor the cash flow that is coming off the timber portfolio.

Mr. Sage questioned the responsibility of the Board relating to the asset allocation of timberland and if the Board was liable if there was a failure. This is the concern of the Board. Mr. Erlendson responded that the trustees are trying to do what is in the best interest of the plan. You are gathering the best information you can to evaluate the alternatives. Many of these issues are far more complex and do not lend themselves to black and white kinds of answers, and you are exercising due diligence in your efforts.

Mr. Miller commented that the SIB invested in timber four years ago. PERS was involved with this portfolio as a result of legislation passed in the 2003 session effective either July or August 2003. Ms. Tabor commented we have done our due diligence. We need to continue to monitor this portfolio.

Major points of Mr. Johnson, Timberland Investment Resources:

- Biological growth, coupled with intensive management, drive timberland returns.
- Value is driven by biological growth and trees growing into higher value product classes (this is 40% of the return).
- Intensive management involves maximizing biological growth through improved planting and on the ground forest management.
- Land management is targeted planned use at the end of the investment term.
- Timberland values are driven by land use potential (higher and better use) such as residential communities, office, retail, and industrial sites, or retirement and second home tracts.
- Timber prices are influenced primarily by regional timber market dynamics.
- U.S. timber prices are derived by a number of sectors of the economy, many are interest rate sensitive such as new home sales, furniture sales, new offices and factories, packaged food and merchandise.
- Timber prices tend to revert to the norm over time, which corresponds to changes in inflation.
- Miscellaneous income includes hunting leases which can command high premiums.
- There are two types of risk that you are exposed to in timberland investments: one type of what is systematic risk. It's just by virtue that you are in that asset class you are exposed to it. One way to mitigate that risk is through diversification. As Mr.

Erlendson pointed out this portfolio is diversified. Also included in this risk category is biological risk such as fire, wind, and insects.

- Another type of risk is non-systematic risk which is manager specific. Managers you select will have different tools for measuring inventory, for forecasting, modeling the growth yield, harvesting which ultimately culminate the decision-making about how to manage that portfolio and cash flows.

Mr. Collins indicated that the Job Service Retirement Plan will be discussed at the next Board meeting. The Board will decide if any action is necessary based on the information presented.

The Constitutionality of Benefit Changes presentation will be presented at the January Board meeting.

DEFINED CONTRIBUTION

The Board reviewed a report on the defined contribution plan. It was noted that a total of 5 new eligible employees transferred to the defined contribution plan in 2005.

MONTHLY TOPICS

HSA's

Mr. Collins indicated that Mr. Bill Robinson from Gallagher Benefit Services was at the meeting and has arranged for the Board to hear information from the state of Colorado regarding consumer driven health plans such as high deductible health plans (HDHP's) and health spending accounts. Mr. Robinson stated Mr. David Kaye, Deputy Director of Human Resources for the State Department of Personnel Administration, and Ms. Vinita Biddle, Employee Benefits Supervisor, were available at the Board meeting to discuss the Colorado HDHP.

Mr. Kaye and Ms. Biddle appeared before the Board and explained various features of their HDHP and HSA in the state of Colorado. Major points included:

- Colorado introduced its qualified HDHP (PPO-H plan) with an HSA option effective July 1, 2005.
- The state does not contribute to the HSA and employees pay 100% of any fees associated with their accounts.
- Only PPO-H is a qualified HSA plan.
- Approximately 10% of enrollees selected the HDHP option without the State sponsored HSA.
- Approximately 3.3% enrolled in the HDHP with the HSA.

- The state does not know how many employees have opened HSA accounts on their own.
- In 2006 Colorado began self-funding all medical plans except for two localized HMO's.
- The Plan Design for the PPO-H qualified HSA plan includes:
  - PPO plan design.
  - $1000/$2000 in network and $2000/$4000 out of network deductibles.
  - Annual out of pocket maximums of $5000/$10000 in network and $10000/$20000 out of network.
  - Coinsurance of 85% in and 65% out of network (includes prescription drugs).
  - Preventative services subject to coinsurance but not deductibles.

- Plan pricing. PPO-H is not the lowest cost option for employees.

Ms. Biddle stated the employer contribution to the plans ranges about 63% across the board. The type of employee that elects the HDHP's versus the type of employee that elects your higher coverage plans is split about 50% each between single and family. Many of the employees at this first enrollment did not understand the concept of HSA so they believe there will be more during the next enrollment period. There are about 9,000 participating in the Kaiser plan and about 16,000 participating in the self-funded plan. Their medical plans have always included an employee contribution.

Major points covered by Mr. Bill Robinson regarding the state of Wyoming plan:

- Wyoming has offered an HDHP since 2005 with a $2,500 deductible that is not HSA qualified.
- Prescription drugs are not subject to deductible and coinsurance in the $2,500 HDHP.
- January 1, 2006 the state offered an HSA eligible $1,500 deductible plan in addition to the existing non-qualified HDHP.
- Wyoming does not contribute to employee's HSA's or fund the account fees.
- Wyoming is a self-funded plan.
- Approximately 235 people out of 12,000 are enrolled in the HDHP in Wyoming.
- The Plan Design for the HDHP/HSA has the following characteristics:
  - Plan pricing. Employees do not contribute to either of the two HDHP's. Employees wanting a HDHP in 2006 for dependents must elect the HSA plan.
  - Employees electing either HDHP whose total costs are less than the State contribution can use the balance to offset the costs of other contributory coverages (but cannot receive the balance as cash or for contributions to an HSA).

BCBSND HDHP 2005-2007 Illustrative Rates

Ms. Janine Weideman from BCBS developed an illustrative rate for a HDHP using a $1,500 deductible, 80/20 coinsurance, $2,500 coinsurance maximum, 2 per family, no copays, deductible applies to all services including prescription drugs. These deductibles would be times 2 for a family. There would an approximate 15% premium savings when going with the HDHP. Highlight of the assumptions are that it assumes that employees do not have individual choice. Adverse selection risk is significant. This is a general overview of how this HDHP could be set up, which is subject to much change.

Retiree Health Insurance Credit Program (RHIC)

Mr. Collins reported that at the planning meeting in October 2005, the Board requested further study of the RHIC program. Specifically, if you have two retired spouse state employees, they can presently apply for two single plans; however, the two spouses cannot combine their credits for a family plan. We are seeking Board action to determine if changes are needed to the existing statute and submitted during the 2007 legislative session. Mr. Dschaak reported that there are additional factors to be considered in combining RHIC's including: How should members receiving retirement benefits from a surviving spouse account and an individual account be treated; How should beneficiaries receiving retirement benefits from multiple surviving spouse accounts be treated; and How should participating spouses who elect optional forms of RHIC be treated. Possible changes may be required: business system enhancement; more indepth member education; additional staff efforts; an actuarial impact as a result of more utilization of the RHIC funds; and an increased opportunity for overpayment of benefits. Mr. Collins asked the Board if this is something that should be considered for possible legislation.

MS. SMITH MOVED TO INCLUDE ON THE LIST OF LEGISLATIVE CHANGES FOR THE 2007 SESSION A PROVISION TO ALLOW A PARTICIPATING RETIRED HUSBAND AND WIFE TO COMBINE HEALTH CREDIT TO PURCHASE A FAMILY PLAN. MR. SAGE SECONDED THE MOTION.

Mr. Collins reported this item will be added to the legislative proposals list and agenda. At the next Board meeting, we will go through the proposed legislation list with the Board to determine the topics we need to prepare legislation for. This will be completed by April 1, 2006. The March meeting will be our last chance to put together items for legislation.

Ayes: Ehrhardt, Leingang, Sage, Smith, and Chairman Strinden.
Nays: None
Absent: Sand, Tabor
PASSED

New Board Member Orientation

Mr. Collins indicated that Ms. Tabor, Ms. Sand, and he had developed new Board member orientation program. Since Ms. Tabor and Ms. Sand are not available at this time, this agenda item will be moved to the next Board meeting in March.

FLEXCOMP PROGRAM

Open Enrollment

The flexcomp annual enrollment for the 2006 plan year concluded on November 15, 2005. Participation for 2006 in the dependent care account is 28 less than 2005. Total dollars pretaxed shows an 8.5% decrease over 2005. Participation in the medical spending account for 2006 is 47 less than in 2005. Total dollars pretaxed increased by approximately 1.6%.

Mr. Collins indicated that with the new PeopleSoft online system, employees will no longer be receiving a hard copy of their payments or quarterly reports. Our flexcomp program was included in the PeopleSoft system to enable participants to use the online system to track their balances. Later this summer flexcomp participants can go online and view their flex information. When the online system is implemented, PERS will discontinue mailing the quarterly statements and advice statements to participants.

MISCELLANEOUS

PERS Benefits Committee Legislative Proposals

Mr. Collins indicated this issue will be discussed further at the March meeting.

IT Request for Proposal

Mr. Collins stated the information regarding the RFP has been provided to the Board. This issue will be included on the March agenda and we may conduct interviews of these firms in late March.

Board Committees

Mr. Collins suggested we could take action on the agenda item or wait until Ms. Sand and Ms. Tabor were present. Ms. Smith pointed out she is on the Wellness Committee.

MR. SAGE MOVED WE ESTABLISH THE COMMITTEES AND INCLUDE MS. EHRHARDT ON THE BENEFITS COMMITTEE, WITH THE REMAINING BOARD MEMBER ASSIGNMENTS REMAINING AS ASSIGNED. MR. LEINGANG SECONDED THE MOTION.

Ayes: Ehrhardt, Leingang, Sage, Smith, and Chairman Strinden.
Nays: None
Absent: Sand, Tabor
PASSED

Mr. Sage stated the NCPERS Conference is going to be held in May and he requested to attend this conference.

MR. SAGE MOVED THE BOARD APPROVE TWO BOARD MEMBERS TO ATTEND THE NCPERS CONFERENCE IN MAY 2006. MS. SMITH SECONDED THE MOTION.

Ayes: Ehrhardt, Leingang, Sage, Smith, and Chairman Strinden.
Nays: None
Absent: Sand, Tabor
PASSED

Ms. Smith requested information regarding HSA's, specifically those categories of PERS members that benefit, and what percentage of our membership would be included in that group. This will assist the Board in determining the benefit to a smaller group of participants versus a larger group.

The meeting adjourned at 11:40 a.m.

Prepared by,

Cheryl Stockert
Secretary to the NDPERS Board

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: Proposed Legislation

Attached is a list of proposed legislative concepts which includes suggested legislation from the PERS Benefits Committee (concepts #1-16) and suggested technical changes in legislation recommended by PERS staff (concepts #17-23). As you recall at the last Board meeting, it was recommended to make a change in the Retiree Health Insurance Credit program.

At this meeting we will need to finalize our legislative agenda. Staff is recommending the following:

1) We accept all of the recommendations of the PERS Benefits Committee, except we may want to hold off on the HSA/HRA recommendation and continue our review of these concepts. For the 13th check, the committee didn't recommend an amount or a target point. Staff would recommend a 13th check equal to 75% and that occurs if the fund return is 9.16% or more.
2) If we accept the above recommendations, we may want to discuss at the meeting the option of funding a retiree cost of living adjustment (concept #2) instead of the 13th check over a single biennium. Our retirees have not had a COLA increase in a while and this would provide that increase and pay for it over just a single biennium with a one time increase in contributions.

3) We may also want to discuss at our meeting concept #6 concerning pre Medicare retirees. The cost of their health insurance continues to rise. The down side of a proposal in this area is not only the cost but also the effect of OPEB liability.
4) In addition to the above, we should adopt the Board concept of changing the retiree health credit program (concept #9)
5) We should include all technical changes suggested by staff (concepts #17-23).

During the week of March 6 staff will be meeting with National Guard, Judges and Highway Patrol plan representatives and we will share with you at the meeting any suggestions they may have as well.

At the meeting staff will review each of these ideas. After discussion, we will be seeking your direction on which concepts to include in our proposed legislation for the next session.

Board Action Requested

To determine which concepts to include in our proposed legislation for 2007.

PERS BENEFITS COMMITTEE
New Legislation Concepts – Retirement

<table>
<tr><th></th><th>Concept</th><th>Benefits Committee</th><th>Cost</th></tr>
<tr><td>1</td><td>13th Check</td><td>Believed this was the option with positive possibility of success.</td><td>
<table>
<tr><th>Amount of Adjustment</th><th>Cost on July 1, 2005</th><th>% of AVA Excess Return</th><th>% of MVA Excess Return</th></tr>
<tr><td>Full 13th Check</td><td>4,360,432</td><td>0.36%</td><td>1.55%</td></tr>
<tr><td>¾ of 13th Check</td><td>3,270,324</td><td>0.27%</td><td>1.16%</td></tr>
<tr><td>½ of 13th Check</td><td>2,180,216</td><td>0.18%</td><td>0.78%</td></tr>
</table>
</td></tr>
<tr><td>2</td><td>Cost of living adjustment fully paid in 2 years</td><td>Provided the best long term approach to retiree increases and could be consistent with state's ability to pay, but felt it could be unlikely to pass.</td><td>
<table>
<tr><th>COLA Adjustment</th><th>Cost on July 1, 2005</th><th>Two-Year % of Pay</th></tr>
<tr><td>2.00%</td><td>8,850,552</td><td>0.88%</td></tr>
<tr><td>3.00%</td><td>13,275,829</td><td>1.32%</td></tr>
<tr><td>4.00%</td><td>17,701,105</td><td>1.76%</td></tr>
<tr><td>5.00%</td><td>22,126,381</td><td>2.20%</td></tr>
</table>
</td></tr>
<tr><td>3</td><td>Cost of living adjustment fully paid by permanent increases in contributions</td><td>Provided the best long term approach to retiree increases but is unlikely to pass.</td><td>
<table>
<tr><th>COLA Adjustment</th><th>Cost on July 1, 2005</th><th>Increase in Amortization (% of Pay)</th><th>Total Increase (% of Pay)</th></tr>
<tr><td>2.00%</td><td>8,850,552</td><td>0.12%</td><td>0.12%</td></tr>
<tr><td>3.00%</td><td>13,275,829</td><td>0.18%</td><td>0.18%</td></tr>
<tr><td>4.00%</td><td>17,701,105</td><td>0.24%</td><td>0.24%</td></tr>
<tr><td>5.00%</td><td>22,126,381</td><td>0.30%</td><td>0.30%</td></tr>
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<table>
<tr><th></th><th>Concept</th><th>Benefits Committee</th><th>Cost</th></tr>
<tr><td>4</td><td>The committee discussed increasing the multiplier for years above 25</td><td>It was felt that this would not be beneficial to pursue at this time</td><td>
<table>
<tr><td>Increase in multiplier to 2.25% for service over 25 years</td><td>0.08%</td><td>0.27%</td><td>0.35%</td></tr>
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</td></tr>
<tr><td>5</td><td>The committee discussed reducing the early retirement reduction</td><td>It was felt that this would not be beneficial to pursue at this time</td><td>
<table>
<tr><th>Change</th><th>Increase in Normal Cost (% of Pay)</th><th>Increase in Amortization (% of Pay)</th><th>Total Increase (% of Pay)</th></tr>
<tr><td>Early retirement reduction 4%/year from age 65/RO85</td><td>0.27%</td><td>0.20%</td><td>0.47%</td></tr>
<tr><td>Early retirement reduction 6%/year from age 60/RO85</td><td>0.60%</td><td>0.41%</td><td>1.01%</td></tr>
<tr><td>Early retirement reduction 4%/year from age 60/RO85</td><td>0.68%</td><td>0.47%</td><td>1.15%</td></tr>
</table>
</td></tr>
</table>

New Legislation Concepts – Pre Medicare Retiree

	Concept	Benefits Committee	Cost
6	**Reduce statutory rate differential between active members and pre-Medicare members**	Recognized the issue for pre-Medicare retirees but felt addressing it for all retirees was the most important consideration	What if the formula for calculating Non-Medicare health rates was 125% of the active single rate instead of 150%? There are 733 NM contracts (490 Single and 243 Family) with 976 NM members. The difference between a state active single $260.62 and NM single $390.92 is $130.31, and half of this is $65.16. This times 12 months times the 976 members is $763,154 for a year. Spread back among the 18,000 active contracts would be about $42.40 per year or $3.53 per active contract per month.

Impact on GASB Liability - Non-Medicare Premiums Set at 150% of the Active Rate Compared with Non-Medicare Premiums Set at 125% of the Active Rate

	Prior Valuation (Non-Medicare Premium at 150% of Rate)	**New Scenario** (Non-Medicare Premium at 125% of Rate)	**Expected Change** $	%
ACTUARIAL ACCRUED LIABILITY (AAL)				
EXPLICIT SUBSIDY (RHC)	$64,938,404	$64,938,404	$0	0%
IMPLICIT SUBSIDY	$4,749,037	$16,804,586	$12,055,549	254 %
TOTAL	$69,687,441	$81,742,990	$12,055,549	17%
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)				
EXPLICIT SUBSIDY (RHC)	$31,305,398	$31,305,398	$0	0%
IMPLICIT SUBSIDY	$4,749,037	$16,804,586	$12,055,549	254 %
TOTAL	$36,054,435	$48,109,984	$12,055,549	33%
ANNUAL REQUIRED CONTRIBUTION (ARC)				
NORMAL COST	$2,157,365	$2,989,964	$832,599	39%
INTEREST COST	$211,897	$289,424	$77,527	37%
AMORTIZATION PAYMENT	$1,374,254	$1,833,764	$459,510	33%
TOTAL	$3,743,516	$5,113,152	$1,369,636	37%

<table>
<tr><th></th><th>Concept</th><th>Benefits Committee</th><th>Cost</th></tr>
<tr><td>7</td><td>Increase retiree health credit</td><td>Felt this was the approach with the broadest benefit to retirees. However given last sessions experience, it may be difficult to get passed.</td><td>.15% for each 50 cents

NDPERS MAIN SYSTEM COSTS 6/2005
<table>
<tr><th>GROUP</th><th>MONTHLY PAYROLL</th><th>BIENNIAL PAYROLL</th><th>1% HEALTH CREDIT</th><th>1.15% HEALTH CREDIT</th><th>INCREASE</th><th>INCREASE General (45.83%)</th><th>INCREASE Other</th></tr>
<tr><td>STATE</td><td>$26,448,000</td><td>$634,752,000</td><td>$6,347,520</td><td>$7,299,648</td><td>$952,128</td><td>$436,360</td><td>$515,768</td></tr>
<tr><td>COUNTY</td><td>$7,300,000</td><td>$175,200,000</td><td>$1,752,000</td><td>$2,014,800</td><td>$262,800</td><td></td><td>$262,800</td></tr>
<tr><td>SCHOOLS</td><td>$7,400,000</td><td>$177,600,000</td><td>$1,776,000</td><td>$2,042,400</td><td>$266,400</td><td></td><td>$266,400</td></tr>
<tr><td>CITIES</td><td>$1,050,000</td><td>$25,200,000</td><td>$252,000</td><td>$289,800</td><td>$37,800</td><td></td><td>$37,800</td></tr>
<tr><td>OTHERS</td><td>$1,230,000</td><td>$29,520,000</td><td>$295,200</td><td>$339,480</td><td>$44,280</td><td></td><td>$44,280</td></tr>
<tr><td>TOTAL:</td><td>$43,428,000</td><td>$1,042,272,000</td><td>$10,422,720</td><td>$11,986,128</td><td>$1,563,408</td><td>$436,360</td><td>$1,127,048</td></tr>
</table></td></tr>
<tr><td>8</td><td>Increase retiree health credit, reduce unfunded liability, and fund increases</td><td>Was the best approach to fund long term enhancements to the plan. Could get some legislative support with the shared contribution approach, however, unsure if employees would support the additional contribution, especially younger members.</td><td>Increase employer contributions by ½% and increase employee contributions by ½ %.</td></tr>
<tr><td>9</td><td>Combine retired spouse health credits</td><td>Allow retired spouses to combine health credits to purchase family health insurance</td><td>To be determined by actuarial study.</td></tr>
</table>

New Legislation Concepts – Other Ideas

	Concept	Benefits Committee	Cost
10	**Establish a VEBA for state employees. All sick leave and vacation payments would go to the VEBA. This allows those contributions to be drawn out on a pretax basis for health expenses. It was noted that if set up all sick leave and vacation payments could be required to go into this fund.**	Felt this was a good idea and should be set up for state employees	Unknown but felt to be minimal
11	**$25 match for 457 plan**	Noted that participation had increased the last couple of years and that it would be unlikely this would pass.	$905,700 min to $2,100,000 max for Non-HE State Employees
12	**Automatic enrollment for new employees at $25**	Many members of the committee felt this would be a good idea. It was noted that this approach is becoming more widely used. Some reservations were expressed.	No cost
13	**Return to work – two ideas were discussed. The first was to extend the provisions of HB1266 to state employers. The second was to change 54-52.1-03.4 to allow employers to pay health premiums for temporary employees.**	The committee felt that changing 54-52.1-03.4 was the best approach.	None
14	**Health Spending Accounts (HSA's & HRA's)**	Suggested the Board submit legislation to authorize PERS to set up such accounts. However, the committee did not believe such accounts should be set up until a detailed review is completed to determine the precise effects and benefits	Unknown
15	**Medicare Rx**	The committee suggested that legislation be submitted to authorize PERS to offer the medical and Rx coverage separately for retirees. However here again the committee did not believe this should be done until a detailed study is conducted to determine any actuarial effect.	Unknown
16	**Group Life Plan**	The committee is suggesting that PERS should propose legislation to increase the basic life coverage to $5,000.	$230,000

PERS STAFF SUGGESTED TECHNICAL CHANGES NDCC

	North Dakota Century Code Text	Change
17	**54-52-17. Formulation of plan.** Participating members shall receive benefits according to this section and according to rules adopted by the board, not inconsistent with this chapter. No person is entitled to receive a prior service benefit if the person was not continuously employed by a governmental unit in North Dakota for a period of not less than two years immediately prior to eligibility for retirement. 2. Retirement benefits are calculated from the participating member's final average salary, which is the average of the highest salary received by the member for any thirty-six months employed during the last one hundred twenty months of employment. For members who **retire** on or after **July 1, 2009**, final average salary is the average of the highest salary received by the member for any thirty-six months employed during the last one hundred eighty months of employment. Months not employed are excluded in arriving at the thirty-six months to be used for the purpose of computing an average. If the participating member has worked for less than thirty-six months at the normal retirement date, the final average salary is the average salary for the total months of employment.	1. Change July 1, 2009 to August 1, 2010 to retain 180 months of salary for the new final average salary calculation. Current law only provides for 167 months of salary retention. 2. Change the word "retire" to "terminate employment". Deferred individuals will not have 180 months retained. As the current FAS is only 120 months, salaries prior to the 120 months have already been removed from the business system. 3. Add additional language to address individuals who terminate employment between August 1, 2005 and August 1, 2010 to allow the FAS to calculate on those salaries that have been retained. (Less than 180 months but more than 120 months). As of August 1, 2005, NDPERS business has retain salary information in preparation of the FAS change in 2010.
18	**54-52.6-13. Distributions.** 4. If the former participating member's vested account balance is less than **five thousand dollars**, the board shall automatically refund the member's vested account balance upon termination of employment. The member may waive the refund if the member submits a written statement to the board, within one hundred twenty days after termination, requesting that the member's vested account balance remain in the plan.	1. Due to federal law change, change five thousand to one thousand.
19	**54-52-02.9. Participation by temporary employees.** A temporary employee may elect, within one hundred eighty days of beginning employment, to participate in the public employees retirement system and receive credit for service after enrollment. The temporary employee shall pay monthly to the fund an amount equal to eight and twelve-hundredths percent times the temporary employee's present monthly salary. The temporary employee shall also pay monthly to the retiree health benefit fund established under section 54-52.1-03.2 one percent times the temporary employee's present monthly salary. This contribution must be recorded as a member contribution pursuant to section 54-52.1-03.2. An employer may not pay the temporary	1. Clarify that individuals who participate in NDPERS as optional participants cannot repurchase past refunded service credit. a. Add reference to 54-52-02-.6 to final sentence.

	North Dakota Century Code Text	Change
	employee's contributions. A temporary employee may continue to participate as a temporary employee in the public employees retirement system until termination of employment or reclassification of the temporary employee as a permanent employee. A temporary employee may not purchase additional credit under section 54-52-17.4.	
20	**54-52-02.1. Political subdivisions authorized to join public employees retirement system.** 3. Notwithstanding any other provision of this chapter, a political subdivision of this state not currently participating in the public employees retirement system may not become a participant in the retirement system until an actuarial study is performed under the direction of the board to calculate the required employer contribution. The required employer contribution must be an amount determined sufficient to fund the normal cost and amortize any past service liability over a period not to exceed thirty years as determined by the board. Any fees incurred in performing the actuarial study must be paid for by the political subdivision in a manner determined by the board.	Add clarification regarding how long a new group has to elect to purchase past service on behalf of their eligible employees. Example: A written election or payment regarding the employer's decision to purchase past service on behalf of the employees must be submitted within 60 days of the participation effective date.
21	**54-52-27. Purchase of sick leave credit.** At termination of eligible employment a member is entitled to credit in the retirement system for each month of unused sick leave, as certified by the member's employer, if the member or the member's employer pays an amount equal to the member's final average salary, times the number of months of sick leave converted, times the percent of employer and employee contributions to the retirement program of the member, plus one percent for the retiree health benefits program. Hours of sick leave equal to a fraction of a month are deemed to be a full month for purposes of conversion to service credit. A member may convert all of the member's certified sick leave or a part of the member's certified sick leave. All conversion payments must be made within sixty days of termination of employment and before the member receives a retirement annuity unless the member has submitted an approved payment plan to the board.	1) Because of recent 415 limit clarification by Segal and possible revised federal regulations, remove "At termination of eligible employment" and last sentence "All conversion payments must be made within sixty days of termination of employment and before the member receives a retirement annuity unless the member has submitted an approved payment plan to the board." Readdress the above through Board policy and/or Administrative Rules
22	**54-52-26. Confidentiality of records.** All records relating to the retirement benefits of a member or a beneficiary under this chapter, chapter 54-52.2, and chapter 54-52.6 are confidential and are not public records. Information and records may be disclosed, under rules adopted by the board, only to:	Add the ability for an employer to provide to the public specific details regarding an employer purchase agreement.
23	**54-52-17. Formulation of plan.** Participating members shall receive benefits according to this section and according to rules adopted by the board, not inconsistent with this chapter. No person is entitled to receive a prior service benefit if the person was not continuously employed by a governmental unit in North Dakota for a period of not less than two years immediately prior to eligibility for retirement. 5. Upon termination of employment after completing three years of eligible employment, except for supreme and district court judges, who must complete five years of eligible employment, but before normal retirement date, a member who does not elect to receive early retirement benefits is eligible to receive deferred vested retirement benefits payable commencing on the member's normal retirement date equal to one hundred percent of the member's accrued single life benefits.	Add the following option: In lieu of a lump payment of delayed benefit payments, a member may elect to receive the lump sum over the period of the remaining number of monthly retirement benefit payments, including monthly benefit payments to surviving beneficiaries."

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Bismarck, North Dakota 58502-1657

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

FAX: (701) 328-3920 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: TFFR IT Business System Upgrade

Fay Kopp from TFFR will be at this Board meeting to review with us the experience of that system with their recent IT business system upgrade. This will give us some of the background on their project as we begin our process to begin discussing candidates for our IT consultant.

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Memorandum

TO: PERS Board

FROM: Sandi Tabor, Rosey Sand & Sparb Collins

DATE: March 8, 2006

SUBJECT: New Board Member Orientation

At the Board Planning meeting in November we discussed establishing a suggested outline for new Board member orientation/education. This memo is from the committee that was established to consider a suggested format. The following is what the committee is proposing:

1. Each new Board member should be given an overview of PERS, its programs and current issues by the Executive Director. In addition, the Executive Director should review PERS' relationship with RIO and the Legislative Employee Benefits Committee.
2. Each new Board member should be provided an opportunity to get an orientation in the PERS office from the managers and program administrators about the operational aspects of each division and its programs
3. Each new Board member should be given the opportunity to meet with Scott Miller to get an overview of the legal responsibilities of being a fiduciary of the funds in PERS
4. Each new Board member should be given the opportunity to meet with RIO staff to get an overview of the services provided by them.
5. The Executive Director should meet with a new Board member prior to each Board meeting for the first six months or so to provide the new member background information on issues coming before the Board that month.
6. PERS should establish a reference library on the PERS website for new and existing Board members with information on state statutes, administrative rules, plan documents, Board policies, Board meeting minutes, investment results and other information that would be available for the Board's reference (see attached outline for the site).

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: Airtime Review

At our planning meeting it was decided to review the status of airtime purchases to insure that they are still in compliance with federal law. Attached is a memo from Melanie Walker from Segal discussing the issue. She will also be at the Board meeting via conference call to answer any questions you may have. You will note her conclusion is that these purchases are still acceptable and that provisions are proposed to be added to the tax code to make this clear.

According to the NASRA Washington office, the pending pension reform bills that have passed the House (HR 2830) and Senate (S 1783) have been held up for weeks due to the failure of leadership in the Senate to reach consensus on conferees. However, it appears that that obstacle may have been cleared and the following Senate conferees have been named:

> Sens. Charles Grassley (R-IA), Orrin Hatch (R-UT), Trent Lott (R-MS), Olympia Snowe (R-ME), Rick Santorum (R-PA), Michael Enzi (R-WY), Judd Gregg (R-NH), Mike DeWine (R-OH), Johnny Isakson (R-GA), Max Baucus (D-MT), John D. Rockefeller (D-WV), Kent Conrad (D-ND), Jeff Bingaman (D-NM), Edward Kennedy (D-MA), Tom Harkin (D-IA), and Barbara Mikulski (D-MD).

It is speculated that House conferees would likely include Majority Leader John Boehner (R-Ohio), Education and the Workforce Committee Chairman Howard "Buck" McKeon (R-Calif.), and Ways and Means Committee Chairman William Thomas (R-Calif.), and could include Republican Reps. Dave Camp (R-Mich.), John Kline (R-Minn.), Sam Johnson (R-Texas), Patrick J. Tiberi (R-Ohio), Ways and Means Committee ranking member Charles Rangel (D-N.Y.) and Education and the Workforce Committee ranking member George Miller (D-Calif.).

I was recently in Washington, D.C., and met with representatives of our Congressional delegation and pointed out the importance of these purchase provisions to our members.

SEGAL

THE SEGAL COMPANY
6300 South Syracuse Way, Suite 750 Englewood, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

MEMORANDUM

To: Sparb Collins

From: Melanie Walker

Date: March 3, 2006

Re: **North Dakota PERS- purchase of service credit**

At your request, we are providing this summary of the rules for purchase of service credit in a governmental defined benefit plan, as set forth in Code section 415(n), especially with respect to service credit known as "air time." We have also included a brief update of the most recent regulatory and legislative developments regarding purchase of service credit.

Summary of Code Rules

There are four *sources* of funds that can be used to purchase service: rollover, direct transfer, after-tax employee contributions (usually in a lump sum but installments payments also permitted) and pre-tax employee contributions via irrevocable salary reduction agreement, which in a governmental plan can be picked up by the employer under Code section 414(h).

There are also three *types* of service (called permissive service) that can be purchased in a governmental defined benefit plan in accordance with Code section 415(n), as follows:

1. Qualified permissive service credit, which is any amount of service: (a) as an employee of the federal government or a state government or political subdivision (b) as an employee of certain educational institutions or (c) for military service other than as required under USERRA. Qualified service credit must be service that is not recognized by any other retirement plan;
2. Nonqualified permissive service credit that is no greater than 5 years of service where employee has at least 5 years of participation in the plan ("air time");
3. All other nonqualified permissive service credit provided for under the plan.

If the service is purchased via a rollover or direct transfer, the limits of Code section 415(n) do not apply to the purchased amount under the rationale that the amount of the rollover or direct transfer has already satisfied the 415 limits or other contribution limits under the Code in the original plan prior to rollover or transfer. This has been confirmed by the IRS and Treasury in the preamble to the final 457 regulations, which states:

"The final regulations also allow a plan-to-plan transfer from an eligible governmental plan to a governmental defined benefit plan for permissive service credit ... Treasury and IRS have concluded that section 415(n) does not apply to such a transfer in any case in which the actuarial value of the benefit increase that results from the transfer does not exceed the amount transferred."

If the service is purchased via after-tax employee contribution or salary reduction agreement picked up by the employer, the 415 limit applied is based on the type of service purchased.

If the service purchased is qualified permissive service credit or not more than 5 years of "air time" service, either: (1) the total benefit payable from the plan (including the purchased service) must satisfy Code section 415(b) dollar limits unreduced for early retirement ($175,000 in 2006); or (2) the total contribution to the plan for the year (including the service purchase amount) must satisfy Code section 415(c) dollar limits ($44,000 in 2006). If the service purchased is nonqualified permissive service credit greater than the 5 years of "air time," the purchase amount of service greater than 5 years must not exceed Code section 415(c) limits (lesser of $44,000 or 100% of compensation).

Regulatory and Legislative Update

As you can see, the Treasury made an important clarification regarding purchase of service credit in the final 457 regulations issued in 2003. In November 2004, proposed regulations for 403(b) plans were issued, and the section describing service purchase rules via direct transfer from a 403(b) plan to a governmental defined benefit plan is very similar to the language in the 457 regulations. In May 2005, the Treasury issued comprehensive, proposed 415 regulations, which specifically state that no new guidance is provided for purchase of service credit rules under Code section 415(n) in those regulations.

With respect to federal legislation, the Pension Security and Transparency Act of 2005 (S. 1783) passed the Senate on November 16, 2005. This Act contains important clarifications regarding purchase of service credit under Code section 415(n) that were originally introduced as the NESTEG legislation (National Savings Trust Equity Guarantee Act) in early 2005. The purchase of service credit clarifications in this legislation include:

1. Direct transfers from 457 and 403(b) plans into a governmental defined benefit plan to purchase service are not subject to the limits on air time under Code section 415(n); and

2. Qualified service credit can be purchased for periods for which there is no performance of service.

Although, these provisions have passed the Senate, the House version does not contain the purchase of service clarifications. Therefore, a Congressional committee is working toward reconciling the two versions. We do not know if the final version will include purchase of service credit provisions.

We hope this discussion is helpful. If we can provide any further information on this issue, please let us know.

cc: Leslie L. Thompson, FSA, MAAA, EA

145198/01640.044

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Memorandum

TO: **PERS Board**

FROM: **Kathy**

DATE: **March 8, 2006**

SUBJECT: **FlexComp Program – Grace Period**

At its June 2005 meeting, the PERS Board moved to amend the medical spending account provisions of the FlexComp Plan document to incorporate the provisions of IRS notice 2005-42 which relates to the 2½ month rule. This rule allows participants to submit claims incurred between January 1 and March 15 (Grace Period) of the plan year to be paid out of any account balance remaining from the previous plan year. The amendment includes a 6-week run-out period or until April 30 to submit these claims. Because there was lack of guidance available relating to the implementation of the 'grace period' option provided under the notice, the PERS Board at its August meeting moved not to implement these new regulations until all outstanding issues were resolved. In December, 2005 final guidance was issued and the Board moved to go forward with the amendment to the plan document.

Since that time, additional administrative issues have been identified related to implementing these provisions. The plan has always provided for a plan year run-out period of three months or until March 31st to allow participants to submit claims incurred in the previous plan year to be paid from that year's accounts. The new Grace Period allows for a run-out period through April 30. For administrative consistency, staff is recommending that the plan year run-out provisions be amended to coincide with the Grace Period run-out of April 30th for both the medical spending and dependent care accounts. Segal has indicated that since the plan year run-out period is at the plan sponsor's discretion, this change presents no compliance issues with the IRC125 regulations.

Included for your review is the amended plan document prepared by The Segal Company. Sections 7.04(d) and 7.05(d) were amended to change the plan year run out from March 31 to April 30 per staff's above recommendation. Section 7.06 was added to outline the policies for administration of the new Grace Period provisions. Please note under subsection (c) that health care expenses will be charged against any current plan year account amounts unless the participant instructs that claims be reimbursed from any available prior plan year health care expenses. To administer this provision, staff will modify our current reimbursement form to provide participants this option.

Board Action Requested

Approve the amended FlexComp Plan Document

AMENDMENT NO. 3
TO THE
STATE OF NORTH DAKOTA
FLEXCOMP PROGRAM
PLAN DOCUMENT

Effective January 1, 2006, the Plan Document for THE STATE OF NORTH DAKOTA FLEXCOMP PROGRAM is hereby amended as follows:

ARTICLE II Definitions is amended by adding a new Section 2.12 Grace Period as identified by underscoring and renumbering Sections 2.13 through 2.25 as follows:

2.12 Grace Period. "Grace Period" shall mean the period that begins immediately following the close of a Plan Year and ends on the day that is two months plus 15 days following the close of that Plan Year.

2.13 Health Care Expense.
2.14 Participant.
2.15 Plan.
2.16 Plan Year.
2.17 Pre-Tax Premium(s).
2.18 Qualified Beneficiary.
2.19 Qualified Dependent Care Expenses.
2.20 Qualified Health Care Expenses.
2.21 Qualifying Event.
2.22 Qualifying Individual.
2.23 Salary Reduction Agreement.
2.24 Spouse.
2.25 Student.

ARTICLE VII. PAYMENT OF CLAIMS section 7.04 Claims Reimbursement for Qualified Health Care Expenses subsection d. and section 7.05 Claims Reimbursement for Qualified Dependent Care Expenses. subsection d. are restated and new section 7.06 Grace Period for Qualified Health Care Expenses is hereby added as follows:

7.04 Claims Reimbursement for Qualified Health Care Expenses.

a. The Participant must submit a properly completed claim form to the Executive Director or the designated agent along with written evidence from an independent third party stating the Health Care Expense has been incurred, the amount of such expense, and such other information as the Executive Director may find necessary.

b. The Participant must submit with other required documents a signed statement in such form as determined by the Executive Director certifying that the expenses for which reimbursement is sought are expenses that the Participant believes in good faith are Qualified Health Care Expenses.

c. The Executive Director reserves the right to verify to his/her satisfaction all claimed expenses prior to reimbursement and to refuse to reimburse any amounts which are not Qualified Health Care Expenses.

d. All claims for reimbursement must be submitted no later than April 30th ~~three (3) months~~ following the end of the Plan Year in which the expense was incurred.

7.05 Claims Reimbursement for Qualified Dependent Care Expenses.

a. To make a claim for reimbursement of Qualified Dependent Care Expenses, the Participant shall submit a statement to the Executive Director or the designated agent on an appropriate form adopted by the Executive Director which may contain the following information:

1. the Qualifying Individual(s) for whom the Qualified Dependent Care Expenses were incurred;

2. a statement to substantiate that the dependent or dependents are Qualifying Individuals, such as the age of the dependent or a statement as to the physical or mental capacity of the dependent;

3. the nature of the services which will generate the Qualified Dependent Care Expenses;

4. written evidence from an independent third party stating the expenses have been incurred, the amount of such expense, and such other information as the Executive Director or the designated agent in its sole discretion may request;

5. the relationship, if any, of the person performing the services to the Participant;

6. a statement as to where the services were performed;

7. if the services are to be performed in a Dependent Care Center, a statement verifying that each of the requirements for a Dependent Care Center specified in section 2.05 of the Plan are met;

8. a statement indicating whether the services are necessary to enable the Participant to be gainfully employed;

9. if the Participant is married, a statement:

   (a) that the Spouse is employed; or

   (b) if the Spouse is not employed, a statement that he/she is incapacitated or that he/she is a Student within the meaning of section 2.24 of the Plan.

   If an Employee's Spouse is not employed, not incapacitated, nor a Student as defined in Section 2.24, such Employee is not eligible to participate in this Plan; and

10. a statement that the Qualified Dependent Care Expenses have not been reimbursed and are not reimbursable under any other plan or by any other entity.

b. The Participant must submit with other required documents a signed statement in such form as determined by the Executive Director certifying that the expenses for which reimbursement is sought are expenses that the Participant believes in good faith are Qualified Dependent Care Expenses.

c. The Executive Director reserves the right to verify to his/her satisfaction all claimed expenses prior to reimbursement and to refuse to reimburse any amounts which are not Qualified Dependent Care Expenses.

d. All claims for reimbursement must be submitted not later than April 30th ~~three (3) months~~ following the end of the Plan Year in which the expense was incurred.

7.06 Grace Period for Qualified Health Care Expenses. Amounts remaining in a Participant's Health care expense account at the end of a Plan Year can be used to reimburse the Participant for Health Care Expenses that are incurred during the period that begins immediately following the close of that Plan Year and ends on the day that is two months plus 15 days following the close of that Plan Year (the "Grace Period") under the following conditions:

(a) *Applicability.*

In order for an individual to be reimbursed for Health Care Expenses incurred during a Grace Period from amounts remaining in his or her Health care Expense Account at the end of the Plan Year to which that Grace Period relates, he or she must be either (1) a Participant with Health Care Expense account coverage that is in effect on the last day of that Plan Year; or (2) a qualified beneficiary (as defined under COBRA) who has COBRA coverage under the Health Care Expense Account component on the last day of that Plan Year.

(b) *No Cash-Out or Conversion.*

Prior Plan Year Health Care Expense Accounts may not be cashed out or converted to any other taxable or nontaxable benefit. For example, a Prior Plan Year Health Care Expense Account may not be used to reimburse Dependent Care Expenses.

(c) *Reimbursement of Grace Period Expenses.*

Health Care Expenses incurred during a Grace Period and approved for reimbursement in accordance with the Plan's claims procedure for the Health Care Expense Account Component will be reimbursed and charged against any current Plan Year Health Care Expense Account Amounts unless the Participant instructs that claims be reimbursed from any available Prior Plan Year Health Care Expense Account. All claims for reimbursement under the Health Care Expense Account component will be paid in the order in which they are approved. Once paid, a claim will not be reprocessed so as to pay it (or treat it as paid) from amounts attributable to a different Plan Year or Period of Coverage.

(d) *Run-Out Period and Forfeitures.*

Claims for reimbursement of Health Care Expenses incurred during a Plan Year or its related Grace Period must be submitted no later than the April 30 following the close of the Plan Year in order to be reimbursed from Prior Plan Year Health Care Expense Account Amounts. Any Prior Plan Year Health Care Expense Account Amounts that remain after all reimbursements have been made for the Plan Year and its related Grace Period shall not be carried over to reimburse the Participant for expenses incurred after the Grace Period ends.

The Participant will forfeit all rights with respect to such balance, which will be subject to the Plan's provisions regarding forfeitures in Section 6.04 of the Plan.

Dated: ______________________

By: ______________________
North Dakota Public Employees Retirement System

Title: ______________________

144237/01640.001

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

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Executive Director
(701) 328-3900
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FAX: (701) 328-3920 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: IT Consultant

Pursuant to the schedule adopted and the proposal approved by the Board, we have sent out the RFP for the IT consultant (attached). Proposals were due by Feb 24, 2006. We received five responses. Staff is presently reviewing the proposals and will send to you a copy of that analysis by March 14. At the meeting we will need to determine if we want to interview the consultants, if so the number to interview and the date of the interviews. To maintain the schedule, we would be looking to conducting those interviews before the end of the month, probably the last week of March, so please review your schedules to see what dates will work for you that week. I would anticipate the interviews would take about 3-4 hours. Also please check the following week in case we need to do it then.

Request
for
Proposal

Business Applications System
Replacement Project

North Dakota Public Employees Retirement System
400 East Broadway Avenue, Suite 505
P.O. Box 1657
Bismarck, ND 58502-1657

Phone: (701) 328-3900
Fax: (701) 328-3920

TABLE OF CONTENTS

I. Introduction

This Request for Proposal (RFP) is issued by the North Dakota Public Employees Retirement System (NDPERS or System) for the purpose of hiring a Contracting Firm (Contractor) who has experience in public employee benefits administration to perform the services requested in this RFP.

The services detailed in this RFP will be to conduct the feasibility study and cost benefit analysis, define the project scope and system requirements, develop/analyze an RFI and an RFP. An RFI will assist the Board in determining the costs of this project for budgeting purposes. With Board approval, an RFP will be developed and issued to potential software vendors, and the Contracting Firm will assist in the selection process. An optional phase would be to provide Project Management for the implementation phase of the system upgrade scheduled to begin February 2007.

DEFINITIONS

Contracting Firm (Contractor) shall mean the business entity submitting a bid for this Request for Proposal, its directors, officers, employees, agents, partners, affiliates, consultants, and other persons acting under the direction and control of the business entity.

NDPERS (the Board) shall mean the North Dakota Public Employees Retirement System (NDPERS), its board members, officers, and employees.

Software Vendor shall mean the business entity selected in subsequent fiscal years to provide a new integrated Business Applications System.

Replacement Project shall mean the multi-year project and all related activities undertaken to implement a new Business Applications System.

Business Applications System shall mean the business processes and automated solutions needed to provide employee benefit administration by NDPERS to its members, retirees and employers.

A. Scope of Work

The project will be conducted in four phases.

1. Phase I - Project Assessment
    a. Conduct initial feasibility study and cost benefit analysis.
    b. Define the project scope and system requirements.
2. Phase II - Develop an RFI to help determine costs of potential system solutions.
3. Phase III - Develop an RFP, (if the Board decides to proceed) and assist the Board in reviewing responses from vendors. Assist the Board in the selection process of a system solution.
4. Phase IV - Project Management. (Optional phase) Once the software vendor is selected, provide project management throughout the project, and help insure that project deliverables are completed timely, on budget and as specified.

B. Fees

NDPERS is requesting bids on a time incurred basis up to a not to exceed amount for Phases I, II and III of the project. Phases II and III will be completed only if the Board decides to proceed based upon the information from the preceding phase. We are further requesting hourly rates for Phase IV of the project. However, before the contractor would be authorized to proceed with Phase IV of the project, NDPERS would ask for a project plan with estimated costs for its review and approval assuming NDPERS decides to move forward with this Phase and the Contractor's performance and other factors are acceptable.

C. Rating Methodology

All proposals will be rated by a review team and results will be forwarded to the NDPERS Board. NDPERS will decide which firms to interview and will make the final decision on what firm to hire. The rating methodology used to evaluate the proposal described here will be just one of the factors the NDPERS Board will use in making its final decision. The rating used by the review team will be as follows:

1. The review team will review Attachment #4 first of all to determine that the Contractor meets the minimum qualifications.
2. The second step will be to review the technical proposal as follows:
    a. Statement of Understanding (Section IV, B, 4) — 5 Points
    b. Deliverables (Section IV, B, 5) — 5 Points
    c. Scope of Work — 20 Points
        i. Detailed Work Plan (Section IV, B, 6)
        ii. Quality Assurance (Section IV, B, 7)
        iii. Assumptions (Section IV, B, 8)
        iv. Exceptions (Section IV, B, 9)
    d. Examples of Other Work (Attachment #5) — 10 Points
    e. Staffing (Section IV, B, 10) — 20 Points
    f. Corporate Background (Attachment #1) — 5 Points
    g. Experience (Attachment #2) — 5 Points
3. The third step will be to rate the cost proposal — 30 Points
4. The final step will be the reference check (Attachment #3). While points are not specifically assigned to this step, it can significantly affect the final analysis of the proposals and whether or not a Contractor is considered.

II. Background

A. The Agency

The North Dakota Public Employees Retirement System is responsible for the administration of the State's retirement, health, life, dental, vision, deferred compensation, flex comp, retiree health insurance credit, long term care and EAP programs.

NDPERS is managed by a Board comprised of seven members:

1-Chairman appointed by the Governor
1-Member appointed by the Attorney General
1-Member elected by retirees
3-Members elected by active employees
1-State Health Officer

NDPERS is a separate agency created under North Dakota state statute.

B. Programs

1. Defined Benefit Retirement Plans

NDPERS administers 7 defined benefit retirement plans. The NDPERS system includes the main, judges, air guard, and law enforcement plans and is administered in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). The Highway Patrolmen Retirement Plan is administered in accordance with NDCC 39-03.1. The Job Service Retirement Plan is established under NDCC 52-11-01 with its benefit provisions established through the plan document. Each retirement system has different contribution rates and different benefit formulas. A summary of the plan provisions for all plans is found on the NDPERS web site at http://www.state.nd.us/ndpers/active-members/index.html . Table 2 provides statistics for each plan showing the number of employers, members, contributions and assets.

a) <u>Main System for Public Employees</u>
The NDPERS Main System covers substantially all employees of the state of North Dakota, its agencies and various participating political subdivisions. It does not cover employees of the Board of Higher Education eligible for TIAA/CREF or teachers covered by the North Dakota Teachers Fund for Retirement. This is the largest plan administered by NDPERS with the greatest number of active and retired members.

b) <u>Judges</u>
The NDPERS Judges Retirement System covers Supreme and District Court Judges in North Dakota.

c) <u>Air Guard</u>
The NDPERS Air Guard System covers National Guard Security Officers and Firefighters.

d) **Law enforcement**

The NDPERS Law Enforcement Plan covers peace officers and correctional officers employed by political subdivisions who have elected to offer this plan. There are two plans: one plan for participants with previous main system service and another plan for participants without main system service.

e) **Highway Patrol**

The Highway Patrolmen's Retirement plan covers substantially all sworn officers of the North Dakota Highway Patrol.

f) **Job Service Retirement Plan**

The Job Service Retirement Plan is limited to employees of Job Service North Dakota who were participating in the plan as of September 30, 1980. This is a closed retirement plan.

2. Defined Contribution Plans

The NDPERS system administers two defined contribution plans. The optional Defined Contribution Retirement Plan is established under NDCC 54-52.6. This plan is available to nonclassified state employees as an alternate plan to the defined benefit plan discussed above. The recordkeeper for this plan is Fidelity Investments. Table 2 provides statistics on the defined contribution plan relating to participation, contributions and assets. Additional information on the plan is available at http://www.state.nd.us/ndpers/retirement-plans/dc-plan.html .

The Deferred Compensation Plan is established under NDCC 54-52.2. This is a voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code. This plan is available to employees of the state of North Dakota and participating political subdivisions. There are currently sixteen companies providing investment services for this plan. Table 1 provides statistics on the Deferred Compensation Plan relating to participation, contributions and assets. Additional information on this plan is available at http://www.state.nd.us/ndpers/deferred-comp/index.html .

3. Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Program is designed to provide members with a benefit that can be used to offset the cost of their health insurance premiums during their retirement years. It is available to all members of the above retirement plans who purchase their insurance through the NDPERS Group Insurance Plan. Table 1 provides statistics on the plan relating to participation, contributions and assets. Additional information on the plan is available at http://www.state.nd.us/ndpers/health-credit/index.html .

4. Group Insurance

The NDPERS administers the health, life, dental, vision, long term care, and employee assistance plans for the State of North Dakota and participating political subdivisions. The Group Insurance plans are administered according to NDCC 54-52.1.

a) **Group Health**

The Uniform Group Health Insurance Plan is a fully insured plan with BCBSND, effective July 1, 2005 and ending June 30, 2007. All state employees are covered under the plan, including the professional staff at colleges and universities. In addition, retirees of the above retirement plans and the Teachers Fund for Retirement and TIAA/CREF can participate in the group health plan. Political subdivisions may also participate in the health plan at their option. Table 1 provides statistics on the plan relating to participation and premiums. Additional information on the plan is available at http://www.state.nd.us/ndpers/insurance-plans/group-health.html

b) **Group Life**
The Uniform Group Life Insurance Plan is a fully insured plan underwritten by Prudential effective July 1, 2005 and ending June 30, 2007. All state employees are covered under the plan, including the professional staff at colleges and universities. In addition, retirees of the above retirement plans and the Teachers Fund for Retirement and TIAA/CREF can participate in the group life plan. Political subdivisions may participate in the life plan at their option. Table 1 provides statistics on the plan relating to participation and premiums. Additional information on the plan is available at http://www.state.nd.us/ndpers/insurance-plans/group-life.html .

c) **Dental**
The Uniform Group Dental Plan is fully insured by Reliastar effective January 1, 2006 and ending December 31, 2006. This plan is available to employees of state agencies and higher education, and retirees. Table 1 provides statistics on the plan relating to participation and premiums. Additional information on the plan is available at http://www.state.nd.us/ndpers/insurance-plans/dental-plan.html .

d) **Vision Plan**
The Uniform Group Vision Plan is fully insured by Ameritas effective January 1, 2006 and ending December 31, 2006. This plan is available to employees of state agencies and higher education, and retirees. Table 1 provides statistics on the plan relating to participation and premiums. Additional information on the plan is available at http://www.state.nd.us/ndpers/insurance-plans/vision-plan.html .

e) **Long Term Care Plan**
The Uniform Long Term Care Plan is fully insured by UNUM. There are approximately 50 participants in this plan. This plan is available to employees of state agencies and higher education, and retirees. Additional information on the plan is available at http://w3acp.unumprovident.com/enroll/ndpers/index.htm .

f) **Employee Assistance Plan**
The Employee Assistance Program, or EAP, covers employees of state agencies and higher education. This program allows employees to receive confidential assistance in many areas without accessing the health care system. NDPERS has contracted with three EAP vendors to provide services to employees and their families. Table 1 provides statistics on the plan relating to participation and premiums. Additional information on the plan is available at http://www.state.nd.us/ndpers/eap/index.html .

5. **Flexible Benefits (FlexComp) Plan**
The FlexComp plan is established under NDCC 54-52.3. This plan is available to state employees. It allows eligible employees to elect to reduce their salaries to pay for qualified insurance premiums,

medical expenses, and dependent care expenses on a pretax basis. Table 1 provides statistics on the plan relating to participation and deferrals. Additional information on the plan is available at http://www.state.nd.us/ndpers/flexcomp/index.html .

C. Existing IT System

NDPERS has a number of systems maintained on the state's mainframe at Information Technology Department (ITD). The Information Technology Department is responsible for all wide area network services, planning, selection, and implementation for all state agencies, including institutions under the control of the State Board of Higher Education, counties, cities, and school districts. ITD is also responsible for computer support services, software development, statewide communications services, standards for providing information to other state agencies and the public through the internet, technology planning, process redesign and quality assurance.

NDPERS largest systems residing on the mainframe consist of the database and major business applications for the retirement, group insurance, retiree health credit, and deferred compensation programs. These programs include the online system as well as batch jobs and have been developed using the COBOL and NATURAL programming languages. Software AG's Adabase is used as the data store. Batch job setup and scheduling is also performed via the mainframe in the TSO environment. NDPERS IT staff utilizes the mainframe for development of ad-hoc reports and queries using the NATURAL programming language.

The agency uses the statewide PeopleSoft financials system for its general ledger. The mainframe business application systems are not integrated with the general ledger.

In addition, the agency has several in-house developed, PC-based applications along with numerous spreadsheets that support the benefit programs administered by NDPERS but are not integrated with the mainframe system. These in-house applications include but are not limited to:

Application Name/Function	Programming Language/Tool
Service Purchase System	dBase (DOS)
Dental ACH Tracking	dBase (DOS)
Vision ACH Tracking	dBase (DOS)
Deferred Comp Provider Reporting	Microsoft Access
Defined Contribution Provider Reporting	Microsoft Visual Basic
Data Entry for Batch Processing of Retirement contributions, Deferred Comp contributions and Group Insurance payments (IBS)	dBase (DOS)
Print Monthly 1099s	Microsoft Visual Basic
Job Service Retirement System	Microsoft Excel
FlexComp Reporting	Microsoft Access
Monthly Zero Beneficiary Reporting	NATURAL/dBase(DOS)
Internal Audit Test of Benefits	NATURAL/dBase(DOS)

III. Scope of Work

A. Background

The North Dakota Public Employees Retirement System Board met in late 2005 and determined NDPERS needs to replace its business application systems. The initial steps of that endeavor are now underway. Time is of the essence with this project as NDPERS must have adequate information for the upcoming budgeting process and the subsequent legislative session in January 2007.

B. Phases

The project will consist of four phases. The selected contractor will assist NDPERS.

1. **Project Assessment**
   Define the project scope and system requirements.
   Conduct initial feasibility study and cost benefit analysis.
2. **RFI** - Develop an RFI to help determine costs of potential system solutions.
3. **RFP** - Develop an RFP, (if the Board decides to proceed) and assist the Board in reviewing responses from vendors. Assist the Board in the selection process of a system solution.
4. **Project Management.** (Optional phase) Once vendor is selected, provide project management throughout the project, and help insure that project deliverables are completed timely, on budget and as specified.

C. Timeline

Estimated Project timelines

1. **Project Assessment** – April through June 2006
2. **RFI** – June through August 2006
3. **RFP** – September 2006 through January 2007
4. **Project Management** – February 2007 through completion

D. Project Scope

The overall contractor responsibilities for the four parts of the project include the following:

- The Contractor will be responsible for the timely completion of all contract tasks and deliverables and delivery of these services within the budget
- The Contractor will review and assess studies conducted over the last five years identifying NDPERS issues; shortcomings and opportunities related to this project and provide a summary document for issues, shortcomings and opportunities. The reviewed documents will include the following:
  - NDPERS Business Plan
  - NDPERS IT Plan
  - Current system documentation

- Conduct initial group meetings with NDPERS management and interested parties for the purposes of defining project roles and responsibilities, reviewing project goals and objectives, and identifying stakeholders and required NDPERS resources.
- Coordinate activities with the NDPERS Project Manager regarding planning, time management, budget management, resource planning, resource management.
- Maintain a focus on the delivery of customer value in the form of implementing technology that meets or exceeds the customer's business needs.
- Provide monthly status reports on activities, issues, and problems if any.
- Provide project related information that may be needed for budgetary purposes.
- Attend IT Steering Committee Meetings, when invited, to report progress and facilitate discussions and resolution of issues to be addressed by the committee.

The Contractor's scope of work for each phase of the project is as follows:

1. Project Assessment

In Phase, I, the Contractor will define the project scope and system requirements and conduct initial feasibility study and cost benefit analysis.

The Contractor will conduct a feasibility analysis to determine critical success factors and associated metrics for daily business operations. A written assessment relative to whether a new business applications system is a viable solution for current business challenges will be produced in which the contractor will assess NDPERS organizational dynamics (people, processes and technologies). Interviews with management/employees will be conducted to understand NDPERS vision, baseline business issues and challenges, and a determination of reasonable options available to NDPERS for both software and hardware will be made. Factors that will be considered include: costs – hard dollar and life cycle, NDPERS staff size and expertise, implementation timeframe, integration with existing applications, available technologies and other miscellaneous factors as determined with the project team.

The Contractor will provide an estimation of costs associated with each option presented including, but not limited to, initial software, annual maintenance, hardware, implementation services, project management and oversight, and test case development. A benefit analysis and risk assessment of each option will be provided to NDPERS.

The Contractor shall provide advice and expertise on systems analysis and design based upon industry best practices. These documents will serve as the basis for the RFP to be issued for a Software Vendor. The Contractor shall be responsible for insuring the final design requirements are agreed upon and documented properly.

The Contractor will conduct a complete review of the current data model and data management framework as well as NDPERS current and projected information usage. The Contractor will meet with NDPERS staff to determine their requirements for data query, retrieval and reporting. This phase of the project will identify all opportunities for eliminating storage of redundant information and defining single points of entry with multiple file updates. Information that is exchanged with external entities within and outside NDPERS must also be considered. The Contractor will design and provide a high level data model in a manner that combines the data requirements resulting from the identified management information needs and fully utilizes database management system strategies.

The Contractor will review NDPERS current technical infrastructure and future strategic direction regarding its technological environment and infrastructure. The Contractor will make recommendations regarding the technical infrastructure that will support the applications software implementation. The Contractor will work with IT staff to insure that all recommendations by the Contractor will fit into NDPERS current and future technical infrastructure.

The Contractor will review NDPERS current application environment and strategic direction as well as the IT system needs to support the new system. This phase of the project will identify all system integration points with other applications or entities. In accordance with NDPERS strategic direction with regard to imaging, CRM, telephony and web services and NDPERS strategic direction regarding its technological environment, including database management systems, web services, etc., specific recommendations will be made by the Contractor for an integrated applications software environment implementation.

A review of the Commercial-Off-The-Shelf (COTS) software market will also take place.

In summary, the deliverables in Phase I include the following:

Conduct initial feasibility study and cost benefit analysis. Define the project scope and system requirements.

a. Feasibility analysis
    1) Determine critical success factors and associated metrics for daily business operations
    2) Produce a written assessment relative to whether a new business applications system is a viable solution for current business challenges
    3) Assess NDPERS organizational dynamics (people, processes and technologies)
    4) Conduct interviews with management/employees to understand NDPERS vision baseline business issues and challenges
b. Determination of reasonable options available to NDPERS for both software and hardware: factors for consideration
    1) Costs – hard dollar and life cycle
    2) NDPERS staff size and expertise
    3) Implementation timeframe
    4) Integration with existing systems
    5) Available technologies
    6) Build vs. Buy analysis
    7) Miscellaneous
c. Estimation of costs associated with each option presented including, but not limited to the following:
    1) Initial software
    2) Annual maintenance

3) Hardware
4) Implementation services
5) Project management and oversight
6) Test case development.

d. Benefit analysis and risk assessment of each option
e. Advice and expertise on systems analysis and design based upon industry best practices
f. Review of the current data model and data management framework
g. Review of NDPERS current and projected information usage
h. Review NDPERS current technical infrastructure and future strategic direction regarding its technological environment and infrastructure and make recommendations regarding the technical infrastructure that will support the applications software implementation.
i. Review NDPERS current application environment and strategic direction as well as the IT system needs to support the new system. Make specific recommendations for an integrated applications software environment implementation.
j. Review of the Commercial-Off-The-Shelf (COTS) software market

2. RFI Development

Phase II is to develop an RFI to determine potential implementation providers and system options.

The Contractor will develop a long list of potential software vendors to which the RFI will be sent.

The RFI will include a list of key information to be collected in this phase. That list will be reviewed by the project team and final approval will be given by the Project Team.

The Project Team will review a draft RFI and approval of the final RFI will be granted by the Board prior to being sent out to potential software vendors.

The software vendor responses will be evaluated and documented. Those results given to the project team and the information gleaned will be incorporated into the ensuing RFP and will be the basis for NDPERS to request the necessary funding for the project. It is important the RFI process develops comprehensive and accurate cost data, since it will be the foundation for requesting the necessary funding. Since the North Dakota Legislature meets only every two years, the proposed funding for this project must be projected precisely since there will be no opportunity during the project to request or receive additional funds.

In summary, the deliverables in Phase II include the following:

Develop an RFI to determine potential software vendors and system options

a. Develop list of key information to be collected
b. Create long list of potential software vendors
c. Create draft RFI
d. Review with project team

e. Create final RFI
f. Send out RFI's to potential software vendors
g. Evaluate responses to RFI
h. Report results to project team

3. RFP Development

In Phase III, based on Board approval, the Contractor will be responsible for developing an RFP to select a Software Vendor. The Contractor will be responsible for producing all detailed system documentation needed to issue an RFP for implementation of the new Business Applications System. This includes, but is not limited to, business process documentation, detailed system design requirements, acceptance test criteria, test scripts, etc.

The Contractor will propose a procurement strategy with the primary goals of minimizing development time and implementation risk, phasing the development and implementation into manageable modules in order to reduce cost, schedule and performance risks and integrating all applications and technologies, both internal and external to NDPERS.

The Contractor will create a draft RFP to be reviewed by the Project Team. The final RFP will be approved by the Board. NDPERS will distribute the RFP to the list developed in the RFI phase (with any additional firms added).

A pre-bid conference will be held and managed by the Contractor with questions answered and posted to the project web site for review by all vendors, as the Contractor will be the primary point of contact on the RFP for the vendors.

RFP responses will be reviewed by the Contractor and NDPERS staff. The Contractor will document the evaluation results and prepare an analysis of the responses received from the vendors and submit it to the NDPERS Evaluation Committee. The analysis must include an assessment of the proposed solution including an analysis of the project plan submitted with regard to completeness and detail, its ability to meet NDPERS needs, the cost relative to the other proposals, the likely difficulty in implementing the proposed solution compared to the other proposals submitted, the estimated effort by the NDPERS staff/consultant in implementing the proposed solution compared to the other proposals submitted, the reasonableness and accuracy of the proposed solution, identification of major assumptions, caveats or other unique aspects of the proposal, analysis of the submitted staffing structure and balance between skill categories; review of resumes and analysis of actual experience versus required experience; financial analysis of the proposals; an assessment of the firm, its experience relative to similar projects, its stability, previous project experiences, general reputation and interviews with previous clients.

Reference checks will be conducted and documented by the Contractor. Interviews with the final candidates will be conducted by the NDPERS Board and the contractor will take the lead in coordinating the vendors' attendance, assisting in the interviews and assisting the Board in its final decision.

The Contractor will make a selection recommendation to the NDPERS Project Team and Board and assist in final contract negotiations and provide NDPERS with estimated implementation timeframes and NDPERS staffing requirements. Information will be presented to the Board as requested.

NDPERS will:

- Provide stakeholder and business group/system use documentation
- Provide scheduling and logistical support for meetings
- Review, comment and give final approval to all documents, plans, deliverables, etc.
- Conduct oral interviews and presentations
- Negotiate with responsive bidders, if necessary
- Prepare the Software Vendor contract award recommendation
- Provide an Executive Project Sponsor and a Project Manager
- Provide IT and business staff experienced in their respective areas

In summary, the deliverables in Phase III include the following:

a. Develop criteria to be included in the RFP
b. Develop a procurement strategy
c. Create draft RFP
d. Create final RFP
e. Manage pre-bid conferences
f. Evaluate RFP responses and provide an analysis to NDPERS
g. Manage post-bid sessions with finalists
h. Recommend top implementation vendors to NDPERS
i. Reference checks on vendor finalists
j. Assist in final contract negotiations
k. Provide NDPERS with estimated implementation timeframes and NDPERS staffing requirements
l. Present information to the Board as requested by the Executive Director

4. Optional Services – PROJECT MANAGEMENT

The Contractor may, at NDPERS discretion, be selected to provide Project Management for the System Replacement Project to help insure that project deliverables are completed timely, on budget and as specified. This section outlines responsibilities between the Contractor, Software Vendor and NDPERS. The following services would be provided beginning approximately February 2007.

The Contractor will monitor and report on the timely completion of all contract tasks and deliverables by the Software Vendor and NDPERS during the implementation phase, and the budget activities by the Software Vendor and NDPERS during the implementation phase. This will include working with the NDPERS project team to produce a work plan, project management procedures and communications plan; documenting all change control issues raised by NDPERS or the Software Vendor and assist in resolving differences of opinion relating to project scope, costs, approach, etc.; reviewing and reporting on all Change Requests/Statements of Work related to the implementation effort and recommend ways to avoid/minimize cost or schedule increases or trade off against other requirements.

The Contractor will participate in and facilitate problem resolution matters and provide issues analysis as necessary to support NDPERS decision making related to the project; provide ongoing evaluation of the Software Vendor's proposed methodology and its applicability to the project, suggesting refinements as appropriate; provide ongoing review of the Software Vendor's project work plan and all updates; provide review of the Software Vendor's status reports, alerting NDPERS to any potential issues; provide independent review and written critique of all appropriate Software Vendor's written deliverables; provide assistance in the review of the Software Vendor hardware and software recommendations for NDPERS' environment and provide assistance in the review, acceptance/rejection of Software Vendor deliverables.

Change Management

The Contractor will prepare NDPERS staff for the changes in daily workflow resulting from the reengineering of major business processes and the planned implementation of the technology and system applications. Change Management will identify and resolve potential problems, encourage communications and help staff focus on the benefits of the redesigned business processes and supporting systems. An Organizational Change Management Plan will be produced and maintained by the Contractor.

The Contractor will analyze the work flows, eliminate redundancies where appropriate, identify organizational structures, staffing requirements and skill sets, standards and measurement techniques, and technologies needed to support NDPERS mission more effectively. This will include reviewing and commenting on the Software Vendor's Change Management Plan and assisting NDPERS and the Software Vendor in identifying, documenting and planning for change management.

In summary, the deliverables in Phase IV (Project Management) include the following:

a. Project scope
b. Project work plan
c. Project management procedures
d. Communications plan
e. Document change control issues
f. Document and track change requests
g. Document and track change orders
h. Facilitate problem resolution matters
i. Issues analysis
j. Evaluation of the vendors methodology
k. Status reports
l. Independent review of vendors deliverables
m. Change management

IV. Technical Proposal – Information Requests

A. General Background

The Contracting Firm (Contractor) must meet all of the following minimum qualifications. Failure to do so may result in rejection of the proposal. The Contractor shall certify that the primary or principal consultant performing the work and any supporting consultant who may assist the primary consultant meet the minimum qualifications. The proposing firm shall discuss how they meet each of the following requirements in Attachment #4 of the proposal.

1. The Contractor must be a professional business entity that provides services and maintains expertise in the following areas:
    - Feasibility studies, including cost benefit analysis
    - Business process reengineering (BPR) utilizing best business practices
    - Information technology implementation strategies and solutions
    - Quality assurance for large-scale public employee benefits administration systems, including pension and group insurance administration projects
    - Request for proposal development for complex, multi-phase projects
    - Integration services provider industry expertise
    - Application software package industry expertise
    - Change management strategies
2. The Contractor and/or the project team must have proven experience in performing such services for a minimum of three (3) years.
3. The Contractor must have all legal permits and licenses. Liability, workers compensation and automobile insurance must be in full force at the time the proposal is submitted and throughout the term of the contract.
4. The primary or principal consultant performing the work must have a minimum of three (3) years of similar project experience as a consultant.
5. The Contractor must provide services and staff on-site as requested by NDPERS to perform the required services.

B. Required Proposal Format

The organization and content of the Contractors' Technical Proposal must conform to the outline set forth below. Following the outline number is a description of the information that must be included in each section and subsection of the proposal.

1. Title Page: The Title Page must include the date, subject, Contractor name, address, phone number, contact name, title, and contact phone number.
2. Proposal Cover Letter: The Proposal Cover Letter must be included and signed by a person authorized to legally bind the company. The letter must include a statement affirming the Contractor's commitment to provide all of the services requested in the Statement of Work section of the RFP. It must also include counter signatures by authorized representatives of all subcontractors stating their commitment to the effort.

3. Executive Summary: An Executive summary of not more than three pages identifying and substantiating the basis of your contention that you are the best qualified Contractor to provide the requested services for NDPERS. Please address specifically what your firm offers to NDPERS that competing firms cannot offer.
4. Statement of Understanding and Affirmation: In this section, the Contractor must acknowledge and affirm its responsibility for the life of the contract, for all contractual activities, products, and deliverables offered in the proposal whether or not that contractor directly performs or provides them. The Contractor must also affirm its understanding that all requirements expressed in this RFP must be met by the Contractor unless a written agreement to delete one or more of the RFP's provisions is signed by both NDPERS and the Contractor.
5. Deliverables: The Deliverables for this project are as specified in Section III, Scope of Work. In this section of the proposal, the Contractor must identify and briefly describe the deliverables to be provided to NDPERS over the course of the project. The Contractor must make the commitment to include all of the deliverables. The Contractor is encouraged to identify additional deliverables, as it deems appropriate. Note that, in the cost proposal, the Contractor will be required to allocate project costs against the project deliverables identified in this section.
6. Detailed Work Plan: The Contractor shall address each Phase in the Scope of Work section of this RFP (Phases 1 through 3). The Contractor should detail how it intends to complete Phases 1 through 3. The detailed description should be organized to reflect the sequence in which the work will be performed and address the strategies that the Contractor will utilize to insure that the proper level of detail will be met. The Contractor should also detail the extent of involvement that will be needed by NDPERS staff, outlining the amount of time, skills and knowledge needed in order for the Contractor to meet the deliverables.
7. Quality Assurance: In this section, the Contractor must identify and discuss how it controls cost, quality, timeliness and confidentiality for service(s), as well as for services performed by the subcontractor(s).
8. Assumptions: In this section, the Contractor must identify and discuss all assumptions it has made in preparing its technical and cost proposals. Further, the Contractor must state that there are no other assumptions related to meeting requirements of the RFP other than those enumerated in this section of the proposal. The Contractor must identify and discuss any assumptions it has made with regard to facilities to be provided by NDPERS for office space and meeting / training rooms. Note that any assumptions mentioned elsewhere in the Contractor's proposal will not be valid unless they are also listed in this section.
9. Exceptions: In this section of the proposal, the Contractor must affirm that is has read and understood the RFP and the terms and conditions included in the RFP. The Contractor must state in this section of the proposal any and all exceptions it takes with the technical/functional requirements set forth in the RFP and/or with any terms and conditions contained in the RFP relating to the ensuing contract. Only the exceptions identified in this section of the proposal will be considered by NDPERS; any others exceptions "distributed" across the proposal will be superseded by the provisions of this RFP and will not be considered or honored by NDPERS.
10. Staffing: In this section, the Contractor must provide detailed descriptions of how the Contractor's team experience will meet the project requirements.
    a) Project Manager: Contractor must designate a single full-time Project Manager to represent and oversee the project. This person will serve as the focal and contact point for all business matters relating to the project. An individual resume, a list of their qualifications, current work assignments (client name) and home office location must be included.
    Additionally, in this section, confirm that the Project Manager will:

- Be responsible for timely completion of all phases of the project.
- Be responsible for meeting all contractual requirements for the duration of the project.
- Attend status, quality review and acceptance meetings as required and present status and progress reports on the project; and
- Remain assigned to the project full time through completion of the project as determined by NDPERS.

b) Other Key Personnel: The Contractor must provide a list of all key personnel to be assigned to any part of the project. The following disciplines should be considered:

- Experience with conducting feasibility studies including cost benefit analysis
- Request for information (RFI) for complex, multi phase projects
- Request for proposal development for complex, multi phase projects
- Information technology implementation strategies
- Change management strategies
- Business process reengineering (BPR)
- Organizational design and change
- Procurement and contract negotiation strategies for governments
- Project management
- Retirement and employee benefits industry expertise
- Integration Services industry expertise
- Application software package industry expertise
- Multi-agency experience for large-scale government projects
- Quality Assurance for large-scale government projects

Each key person shall be identified by title and by relationship to the Contractor (identify any independent/subcontractor personnel specifically), as well as, by project responsibilities and job functions and current office location.

Provide a table that identifies the following information for each team member to be assigned to the NDPERS project:

- Name
- Title
- Job responsibilities. If a person has multiple responsibilities, indicate the percentage of time spent on each function in a footnote to the table.
- Years with the Contractor
- Degrees and/or professional designations
- Institution awarding the degree or designation

Include team members' resumes, tailored to highlight experience and skills specifically relevant to their role on this effort.

Please respond to the following:

- How long has the current team been together?
- Does the Contractor have a transition plan to deal with the possible sudden departure of key professionals within the team? Describe the plan.

- A description of all work to be subcontracted to third parties.
- A description of the nature and duration of the previous relationship of all subcontractors and/or third parties with the prime contractor
- Explanation of any existing contractual relationships between the prime and subcontractors, or among subcontractors

c) Staffing Plan: This section of the proposal should contain the Contractor's Staffing Plan by Phase in response to requirements set forth in the RFP. Contractors must also confirm in this section of the proposal their understanding that:

- Personnel whose names and resumes are submitted in the proposal shall not be removed from this project without prior approval of NDPERS. Substitute or additional personnel shall not be used for this project until a resume is received and approved by NDPERS.

- NDPERS shall have the right to request the removal of any Contractor staff member from all work on this project, and the contractor will comply with any such request immediately.

- The replacement for any staff member who is removed from or leaves the project for any reason must match or exceed the replaced staff member in terms of skill level and experience. Such replacements are subject to NDPERS approval at the time of the assignment and again ninety (90) days later.

C. Additional Information Requested - Attachments.

The following information shall be provided as attachments to the above proposal.

1. Corporate Background: This shall be Attachment #1 and will describe the background and ownership of the firm. Describe any material changes in organizational structure or ownership that have occurred in the past five (5) years.
    - Year firm was formed and began providing employee benefits administration consulting services to institutional clients.
    - The ownership structure. Indicate all entities that have an ownership stake in the firm (name and percentage).
    - Affiliated companies or joint ventures.
    - Recent or planned changes to the ownership or organization structure.
    - Where incorporated or otherwise legally established.
    - Indicate the location by country and percentage within each country where services are performed.
    - The location of the Contractors' principal place of business, including the location of the office which will perform work on behalf of NDPERS.
    - The average number of employees over the past five years, including full time employees, contract employees, and total employees (state explicitly the number of professional employees).
    - Importance of employee benefits administration consulting services to your parent company's (if applicable) or your firm's overall business strategy.

- Provide an organizational chart that diagrams the ownership of your firm and any interrelationships between the parent-subsidiary, affiliate, and joint venture entities.
- Provide another organizational chart that depicts the structure of the employee benefits administration consulting group and that identifies this groups' key people and the people that will be involved in providing direct services to NDPERS.
- Over the past five (5) years, has your organization or any officer or principal been involved in any business litigation or other legal proceedings related to any consulting activities? If so, provide a brief explanation and indicate the current status.
- Has your firm, within the last ten (10) years, been investigated or fined by any regulatory body? If so, please indicate the dates and describe the situation.
- Has your firm filed for bankruptcy within the last seven (7) years?
- Is the Contractor affiliated with any other firm(s) offering services that could represent conflicts of interest? If yes, briefly describe your firm's policies and procedures for doing business with these affiliates while safeguarding against conflicts of interest.

2. Relevant Experience will be discussed in Attachment #2 and shall provide details of Contractor's experience relevant to implementing employee benefit administration services for multi-employer, defined contribution, defined benefit, public or private employee retirement systems and experience in implementing benefit administration services for group insurance, including health, life, dental, and vision plans.

AS OF:	06/01/01	06/01/02	06/01/03	06/01/04	06/01/05
Total number of pension plan consulting clients					
Total number of public pension plan consulting clients					
Total number of group insurance plan consulting clients					
Total number of public group insurance plan consulting clients					

3. References must be included in Attachment #3 and Contractor must submit a list of at least three (3) current and former clients showing related work performed for each, together with an analysis of the degree of similarity in the scope of the project. References must be for at least three (3) different projects, as similar as possible to the NDPERS project, and three (3) different individuals with knowledge of the Contractor's performance on those respective projects. One (1) person with knowledge of several projects qualifies as only a single reference.

   Please include in your references as many of the following categories as possible:
   - The client that most recently hired your firm for employee benefits administration consulting.
   - The client for which you most recently completed an employee benefits administration consulting project.
   - A multi-employer public pension plan client for whom your firm has provided employee benefits administration consulting.
   - An employee benefits administration consulting client that has the same engagement team proposed for the NDPERS account.

For all references, include the site name, address, contact name, contact phone, type of business, address, and start and end dates of the contract. Provide a brief summary of the project (including but not limited to business problem, approach, resources applied, and timeline), description of the scope of work requested by the client and the initial and final cost, including all change orders.

Contractors are encouraged to include more than three references, if they wish. Preference will be given to Contractors who can cite multiple projects on which the prime contractor/subcontractor team being proposed to NDPERS previously collaborated.

The Contractor must report any references that have a financial relationship with the Contractor whereby the client may receive any sort of compensation, including but not limited to reduction in fees, commission, and/or credits based on references leading to sales of Contractor's products or services.

All references may be contacted by NDPERS to verify the Contractor's claims. Contractors are advised to insure that the contact person's information is current.

4. Attachment #4 shall include the information requested in Section IV, A, relating to minimum requirements.

5. Provide as Attachment #5 one electronic copy of a previous feasibility study for employee benefit organizations, an RFI, and an RFP including analysis that most closely matches the work effort requested in this proposal (please provide a single copy of this Attachment #5 electronically).

V. Cost Proposal – Fees

Not-to-Exceed Fee Proposal

The Contractor is to submit a "not to exceed" cost proposal for the Phase I - Project Assessment; Phase II –RFI; and Phase III - RFP sections. The Project Management section is to be proposed on an hourly rate basis. Expenses for travel, lodging, meals and other out-of-pocket expenses will be paid on an incurred basis if the Executive Director of NDPERS has given prior approval for each individual to incur such expenses and should not be included in the "not to exceed amount". NDPERS is under no obligation to reimburse the Contractor if no approval was given.

Each Contractor is solely responsible for the accuracy and completeness of its cost proposal.

NDPERS is not liable for any cost incurred by the contractors prior to execution of a contract.
The selected Contractor shall be required to assume responsibility for all items offered in its' proposal whether or not it provides them. Further, NDPERS shall consider the selected contractor to be the sole point of contact with regard to contractual matters, including payment of any and all charges resulting from the contract.

Contingent upon the Board's decision to move forward with Phase IV of the project and the Contractor's performance during the first 3 phases of this project, NDPERS may ask the successful Contractor to submit a detailed project plan with cost estimates for Phase IV. During this final phase of the project, the Contractor will need to submit to NDPERS, at least five business days prior to the start of each month, an activity plan to the NDPERS Project Manager for the next month. Such activity plan shall detail the Contract Task(s) that the Contractor anticipates working on during the next month. For each Contract Task identified, the Contractor shall set forth an estimate of the total anticipated hours to be worked during the next month, broken down by employee, employee skill category, and the total anticipated hours for each employee. The Contractor shall also detail the anticipated progress to be made during the next month for each Task identified.

For the Cost Proposal, the following tables shall be completed. The Cost Proposal shall be bound separately from the Technical Proposal. In addition to the attached tables, the Cost Proposal shall discuss any assumptions, caveats or other factors relating to the Cost Proposal. The Cost Proposal shall also discuss the firm's billing policy relating to travel time.

A. Phase I - Project Assessment

Detail:

Staff	Hours	Rate	Subtotal
TOTAL COST (not to exceed):			

B. Phase II - RFI

Detail:

Staff	Hours	Rate	Subtotal
TOTAL COST (not to exceed):			

C. Phase III - RFP

Detail:

Staff	Hours	Rate	Subtotal
TOTAL COST (not to exceed):			

D. Phase IV - Project Management

Staff	Hourly Rate

VI. Submission of Proposal

A. Proposals should be prepared in a straightforward manner to satisfy the requirements of this RFP. Emphasis should be on completeness and clarity of content. Costs for developing proposals are entirely the responsibility of the proposer and shall not be chargeable to NDPERS.

B. Section VII – Contract Offer, must be signed by a partner or principal of the firm and included with your proposal.

C. Address or deliver the RFP to: Mr. Sparb Collins, Executive Director
North Dakota Public Employees Retirement System
400 E. Broadway, Suite 505
PO Box 1657
Bismarck, ND 58502-1657

Questions concerning the RFP shall be directed, in writing or by e-mail scollins@state.nd.us, to the above individual by February 13, 2006. Responses will be posted on the NDPERS web site (www.state.nd.us/ndpers) by February 17, 2006 under "Request for Proposals". If you would like a copy e-mailed to you, please e-mail cstocker@state.nd.us.

D Eight (8) copies of the Technical and Cost Proposals must be received at the above listed location by **5:00 p.m. on February 24, 2006**. The package the proposal is delivered in must be plainly marked "PROPOSAL TO PROVIDE IT CONSULTING SERVICES".
A proposal shall be considered late and may be rejected if received at any time after the exact time specified for return of proposals.

E. The policy of the NDPERS Board is to solicit proposals with a bona fide intent to award a contract. This policy will not affect the right of the NDPERS Board to reject any or all proposals.

F. The NDPERS Board may request that representatives of your organization appear before them for interviewing purposes. Such interviews will likely occur on March 16, 2006. Travel expenses and related costs will be the responsibility of the organization being interviewed.

G. The NDPERS Board will award the contract for services no later than April 2006.

H. In evaluating the proposals, price will not be the sole factor. The Board may consider any factors it deems necessary and proper, including but not limited to, price; quality of service; response to this request; experience; staffing and general reputation.

I. The failure to meet all procurement policy requirements shall not automatically invalidate a proposal or procurement. The final decision rests with the Board.

J. The consultant must sign and submit the contract offer in Section VII, which will constitute the contract between NDPERS and the consultant if your proposal is accepted.

VII. Contract Offer

The parties to this contract are the State of North Dakota, acting through the North Dakota Public Employees Retirement System (STATE) and (CONTRACTOR);

1. SCOPE OF SERVICE

CONTRACTOR, in exchange for the compensation paid by STATE under this contract, agrees to provide services identified in this proposal.

2. TERM OF CONTRACT

The term of this contract shall commence beginning April 2006 and continue as determined by the Board.

3. COMPENSATION

STATE shall pay all reasonable charges billed by the CONTRACTOR, not to exceed the amounts identified in SECTION V, FEES of this proposal for work performed, and STATE shall pay such invoice amount within sixty (60) days following receipt of invoice. CONTRACTOR shall bill STATE quarterly for the work performed and STATE shall pay such invoice amount within sixty (60) days following receipt of invoice.

4. TERMINATION OF CONTRACT

a. **Termination without cause.** This contract may be terminated by mutual consent of both parties, or by either party upon 30-days written notice.

i. **Termination for lack of funding or authority.** STATE may terminate this contract effective upon delivery of written notice to CONTRACTOR, or on any later date stated in the notice, under any of the following conditions:

(1) If funding from federal, state, or other sources is not obtained and continued at levels sufficient to allow for purchase of the services or supplies in the indicated quantities or term. The contract may be modified by agreement of the parties in writing to accommodate a reduction in funds.

(2) If federal or state laws or rules are modified or interpreted in a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract.

(3) If any license, permit or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended or not renewed.

Termination of this contract under this subsection is without prejudice to any obligations or liabilities of either party already accrued prior to termination.

b. **Termination for cause.** STATE by written notice of default to CONTRACTOR may terminate the whole or any part of this contract:

i. If CONTRACTOR fails to provide services required by this contract within the time specified or any extension agreed to by STATE; or

ii. If CONTRACTOR fails to perform any of the other provisions of this contract, or so fails to pursue the work as to endanger performance of this contract in accordance with its terms.

iii. The rights and remedies of STATE provided in the above clause related to defaults by CONTRACTOR are not exclusive and are in addition to any other rights and remedies provided by law or under this contract.

5. FORCE MAJEURE

CONTRACTOR will not be held responsible for delay or default caused by fire, riot, acts of God or war if the event is beyond CONTRACTOR'S reasonable control and CONTRACTOR gives notice to STATE immediately upon occurrence of the event causing the delay or default or that is reasonably expected to cause a delay or default.

6. RENEWAL

This contract will not automatically renew. STATE will provide written notice to CONTRACTOR of its intent to renew this contract at least 60 days before the scheduled termination date.

7. MERGER AND MODIFICATION

This contract constitutes the entire agreement between the parties. There are no understandings, agreements, or representations, oral or written, not specified within this contract. This contract may not be modified, supplemented or amended, in any manner, except by written agreement signed by both parties.

8. SEVERABILITY

If any term of this contract is declared by a court having jurisdiction to be illegal or unenforceable, the validity of the remaining terms must not be affected, and, if possible, the rights and obligations of the parties are to be construed and enforced as if the contract did not contain that term.

9. ASSIGNMENT AND SUBCONTRACTS

CONTRACTOR may not assign or otherwise transfer or delegate any right or duty without STATE'S express written consent. However, CONTRACTOR may enter into subcontracts provided that any subcontract acknowledges the binding nature of this contract and incorporates this contract, including any attachments. CONTRACTOR is solely responsible for the performance of any subcontractor. CONTRACTOR has no the authority to contract for or incur obligations on behalf of STATE.

10. NOTICE

All notices or other communications required under this contract must be given by registered or certified mail and are complete on the date mailed when addressed to the parties at the following addresses:

______________________		______________________
______________________	or	______________________
______________________		______________________

Notice provided under this provision does not meet the notice requirements at N.D.C.C. § 33-12.2-04(1).

11. APPLICABLE LAW AND VENUE

This contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action to enforce this contract must be brought in the District Court of Burleigh County, North Dakota.

12. SPOLIATION – NOTICE OF POTENTIAL CLAIMS

CONTRACTOR agrees to promptly notify STATE of all potential claims that arise or result from this contract. CONTRACTOR shall also take all reasonable steps to preserve all physical evidence and information that may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to STATE the opportunity to review and inspect the evidence, including the scene of an accident.

13. INDEMNITY

CONTRACTOR agrees to defend, indemnify, and hold harmless the state of North Dakota, its agencies, officers and employees (State), from claims resulting from the performance of the CONTRACTOR or its agent, including all costs, expenses and attorneys' fees, which may in any manner result from or arise out of this agreement. This obligation to defend, indemnify, and hold harmless does not extend to professional liability claims arising from professional errors and omissions. The legal defense provided by CONTRACTOR to the State under this provision must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary. CONTRACTOR also agrees to defend, indemnify, and hold the State harmless for all costs, expenses and attorneys' fees incurred in establishing and litigating the indemnification coverage provided herein. This obligation shall continue after the termination of this agreement.

14. INSURANCE

a. CONTRACTOR shall secure and keep in force during the term of this agreement, from insurance companies, government self-insurance pools or government self-retention funds, authorized to do business in North Dakota, the following insurance coverages:

i. Commercial general liability, including premises or operations, contractual, and products or completed operations coverages, with minimum liability limits of $250,000 per person and $1,000,000 per occurrence.

ii. Professional errors and omissions, including a three year "tail coverage endorsement" with minimum liability limits of $1,000,000 per occurrence and in the aggregate.

iii. Automobile liability, including owned (if any), hired, and non-owned automobiles, with minimum liability limits of $250,000 per person and $1,000,000 per occurrence.

iv. Workers compensation coverage meeting all statutory requirements. The policy shall provide coverage for all states of operation that apply to the performance of this contract.

v. Employer's liability or "stop gap" insurance of not less than $1,000,000 as an endorsement on the workers compensation or commercial general liability insurance.

b. The insurance coverages listed above must meet the following additional requirements:

i. Any deductible or self insured retention amount or other similar obligation under the policies is the sole responsibility of CONTRACTOR. The amount of any deductible or self retention is subject to approval by State.

ii. This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A-" or better by A.M. Best Company, Inc., provided any excess policy follows form for coverage. Less than an "A-" rating must be approved by State. The policies shall be in form and terms approved by State.

iii. State will be defended, indemnified, and held harmless to the full extent of any coverage actually secured by CONTRACTOR in excess of the minimum requirements set forth above. The duty to indemnify State under this agreement must not be limited by the insurance required in this agreement.

iv. The State of North Dakota and its agencies, officers, and employees (State) must be endorsed on the commercial general liability policy, including any excess policies (to the extent applicable), as additional insured. State must have all the rights and coverages as CONTRACTOR under the policies.

v. The insurance required in this agreement, through a policy or endorsement, shall include:

(1) a "Waiver of Subrogation" waiving any right to recovery the insurance company may have against State;

(2) a provision that the policy and endorsements may not be canceled or modified without 30-days prior written notice to the undersigned State representative;

(3) a provision that any attorney who represents State under this policy must first qualify as, and be appointed by, the North Dakota Attorney General as a special assistant attorney general as required under N.D.C.C. § 54-12-08;

(4) a provision that CONTRACTOR's insurance coverage will be primary (i.e., pay first) as respects any insurance, self-insurance or self-retention maintained by the state and that any insurance, self-insurance or self-retention maintained by State must be in excess of CONTRACTOR's insurance and must not contribute with it;

(5) cross liability/severability of interest for all policies and endorsements;

vi. The legal defense provided to State under the policy and any endorsements must be free of any conflicts of interest, even if retention of separate legal counsel for State is necessary.

vii. CONTRACTOR shall furnish a certificate of insurance to the undersigned State representative prior to commencement of this agreement. All endorsements must be provided as soon as practicable.

viii. Failure to provide insurance as required in this agreement is a material breach of contract entitling State to terminate this agreement immediately.

15. ATTORNEY FEES

In the event a lawsuit is instituted by STATE to obtain performance due of any kind under this contract, and STATE is the prevailing party, CONTRACTOR shall, except when prohibited by N.D.C.C. § 28-26-04, pay STATE'S reasonable attorney fees and costs in connection with the lawsuit.

16. ALTERNATIVE DISPUTE RESOLUTION – JURY TRIAL

STATE does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolution. The parties have the right to enforce their rights and remedies in judicial proceedings. STATE does not waive any right to a jury trial.

17. CONFIDENTIALITY

CONTRACTOR agrees not to use or disclose any information it receives from STATE under this contract that STATE has previously identified as confidential or exempt from mandatory public disclosure except as necessary to carry out the purposes of this contract or as authorized in advance by STATE. STATE agrees not to disclose any information it receives from CONTRACTOR that CONTRACTOR has previously identified as confidential and that STATE determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, N.D.C.C. § 44-04-18. The duty of STATE and CONTRACTOR to maintain confidentiality of information under this section continues beyond the term of this contract, or any extensions or renewals of it.

18. COMPLIANCE WITH PUBLIC RECORDS LAW

CONTRACTOR understands that, except for disclosures prohibited in Section 17, STATE must disclose to the public upon request any records it receives from CONTRACTOR. CONTRACTOR further understands that any records that are obtained or generated by CONTRACTOR under this contract, except for records that are confidential under Section 17 may, under certain circumstances, be open to the public upon request under the North Dakota open records law. CONTRACTOR agrees to contact STATE immediately upon receiving a request for information under the open records law and to comply with STATE'S instructions on how to respond to the request.

19. WORK PRODUCT, EQUIPMENT AND MATERIALS

All work product, equipment or materials created or purchased under this contract belong to STATE and must be delivered to STATE at STATE'S request upon termination of this contract. CONTRACTOR agrees that all materials prepared under this contract are "works for hire" within the meaning of the copyright laws of the United States and assigns to STATE all rights and interests CONTRACTOR may have in the materials it prepares under this contract, including any right to derivative use of the material. CONTRACTOR shall execute all necessary documents to enable STATE to protect its rights under this section.

20. INDEPENDENT ENTITY

CONTRACTOR is an independent entity under this contract and is not a STATE employee for any purpose, including the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workers' Compensation Act. CONTRACTOR retains sole and absolute discretion in the manner and means of carrying out CONTRACTOR'S activities and responsibilities under this contract, except to the extent specified in this contract.

21. NONDISCRIMINATION AND COMPLIANCE WITH LAWS

CONTRACTOR agrees to comply with all applicable laws, rules, regulations and policies, including those relating to nondiscrimination, accessibility and civil rights. CONTRACTOR agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including sales and use taxes and unemployment compensation and workers' compensation premiums. CONTRACTOR shall have and keep current at all times during the term of this contract all licenses and permits required by law.

22. STATE AUDIT

All records, regardless of physical form, and the accounting practices and procedures of CONTRACTOR relevant to this contract are subject to examination by the North Dakota State Auditor or the Auditor's designee. CONTRACTOR will maintain all such records for at least three years following completion of this contract.

23. REPAYMENT

STATE will not make any advance payments before performance by CONTRACTOR under this contract.

24. TAXPAYER ID

CONTRACTOR'S federal employer ID number is: ______________________.

25. PAYMENT OF TAXES BY STATE.

State is not responsible for and will not pay local, state, or federal taxes. State sales tax exemption number is E-2001, and certificates will be furnished upon request by the purchasing agency.

26. EFFECTIVENESS OF CONTRACT

This contract is not effective until fully executed by both parties.

CONTRACTOR

____

BY:__________________________________

ITS:__________________________________

DATE:________________________________

STATE OF NORTH DAKOTA

____

BY:__________________________________

ITS:__________________________________

DATE:________________________________

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

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

FAX: (701) 328-3920 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: SIB Alternate Member

Last meeting we selected the members for the PERS standing committees:

Audit Committee

Jon Strinden
Ron Leingang

Benefits Committee

Sandi Tabor
Joan Ehrhardt
Arvy Smith

Wellness Committee

Arvy Smith

Investment Committee (including SIB)

Ron Leingang
Rosey Sand
Howard Sage

We also need to select an alternate member for the SIB. The statute provides the following:

> The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend.

The Board needs to determine if it would like to appoint an alternate and if so who?

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

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

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

MEMORANDUM

TO: NDPERS Board

FROM: Jamie Kinsella, Internal Auditor Jamie

DATE: February 15, 2006

SUBJECT: **November 30, 2005 PERS Audit Committee Minutes**

Attached are the approved minutes from the November 30, 2005 meeting. Those who attended the meeting are available to answer any questions you may have.

These minutes may also be viewed on the NDPERS web site at www.state.nd.us/ndpers.

The next audit committee meeting is scheduled for May 17, 2006, 10:30 a.m., in the NDPERS Conference Room.

Attachment

U:\Internal Audit\Administration\Audit Committee\AC Agendas\FYE June 2006\200602 February\200602 Memos to Audit Committee.doc

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

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

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

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor Jamie

DATE: December 9, 2005

SUBJECT: **November 30, 2005 Audit Committee Meeting**

In Attendance:
Jon Strinden via conference call
Ron Leingang
Jamie Kinsella
Sparb Collins
Sharon Schiermeister
Leon Heick
Tony Hauck, Eide Bailly

The meeting was called to order at 10:30 a.m.

IV. Miscellaneous

B. Eide Bailly's Audit Report – Tony Hauck, Audit Manager, Eide Bailly presented the audit report. The audit report will also be presented to the Board at the December board meeting.

I. August 24, 2005 Audit Committee Minutes

The audit committee minutes were examined and approved by the Audit Committee.

II. Internal Audit Quarterly Report

A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. In addition, an updated Goals and Objectives Report summarizing the status as of the end of the last quarter was also included. This report is also submitted to the Executive Director after the end of the year to be included in the NDPERS Business Plan report to the Board early the next year. There were three audits in the flex comp area that were scheduled for fiscal year end June 30, 2005 that the internal audit division will be unable to complete due to staff shortages and training. The external auditors conducted an audit on flex comp for the fiscal year ending June 30, 2005. Staff requested audit committee approval to cancel the three flex comp audits so staff can focus on other audits/projects. By general consensus, the audit committee approved staff's request.

B. Quarterly Audit Finding Status Report - As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2005 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials.

C. Annual Internal Audit Plan – A copy of the Internal Audit Plan for the 2006 calendar year was included with the audit committee materials for review and approval. After discussion, since Mr. Collins was out of the office and could not provide input prior to writing the audit plan, Ms. Kinsella will meet with Mr. Collins to review the risk assessment and then determine if the audit plan adequately meets the needs of the agency. The plan will be presented again at the February meeting.

III. Administrative

A. Conflict of Interest Policy Review – A policy that requires employees to notify management of employment they may have outside NDPERS has been developed and approved by the NDPERS Board in September.

B. Audit Committee Charter Revision – At the last meeting a revised draft of the internal audit charter was reviewed. Following discussion at the last meeting, it was recommended to research and determine whether the audit committee had authority to approve the charter or if it should go to the Board for approval. Ms. Kinsella indicated it appears that the audit committee reviews the documents with management and the internal audit division. Ms. Kinsella pointed out nothing is said regarding approval of these documents. Ms. Kinsella conveyed the charter should go to the Board for their approval. A copy of the charter and memo will be included in the next Board meeting agenda.

IV. Miscellaneous

A. 2006 Audit Committee Meeting Dates and Times – Included with the audit committee materials were the 2006 proposed audit committee meeting dates and times. A date change was recommended for the August 2006 meeting. By general consensus, the audit committee approved the revised 2006 audit committee meeting dates and times.

C. Association of Public Pension Fund Auditors (APPFA) Professional Development Conference – Ms. Kinsella provided an overview of the conference she attended in November.

B. Publications – A copy of the September 2005 issue of Tone at the Top was included in the audit committee materials. In addition, a copy of a paper put out by The Institute of Internal Auditors titled: "Audit Committee Briefing...Internal Audit Standards: Why They Matter" was included with the audit committee materials. The items were informational only.

The meeting adjourned at 11:25 a.m.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: Legislative Employee Benefits Committee

Attachment #1 is the agenda from the last Legislative Employee Benefits Committee and the meeting minutes from the previous meeting. Attachment #2 is a copy of the presentations I went over with the committee. Attachment #3 is a copy of the testimony relating to TFFR presented by Fay Kopp. Attachment #4 is a copy of proposed bill that Representative Carlson submitted to the Committee.

Attachment 1

NORTH DAKOTA LEGISLATIVE COUNCIL

Tentative Agenda

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Wednesday, February 22, 2006
Harvest Room, State Capitol
Bismarck, North Dakota

9:00 a.m.	Call to order Roll call Consideration of minutes of previous meeting

RETIREMENT PROGRAMS

9:05 a.m.	Presentation by representatives of the Public Employees Retirement System regarding: • Number of state employees currently eligible for retirement and projections for the next five years and information on the number of actual retirements for each of the last five years • Loss ratios of the Public Employees Retirement System health insurance plan compared to other health insurance groups • Projected cost to the Public Employees Retirement System of allowing certain employee groups currently participating in the Teachers' Fund for Retirement to participate in the Public Employees Retirement System • Status of implementation of the Medicare Part D prescription drug program
9:45 a.m.	Presentation by representatives of the Teachers' Fund for Retirement regarding the current number of school district employees receiving retirement benefits from the Teachers' Fund for Retirement
10:00 a.m.	Presentation by representatives of the Department of Public Instruction regarding the number of first-year teachers currently employed by school districts
10:15 a.m.	Presentation by representatives of the Teachers' Fund for Retirement regarding proposals for addressing the fund's unfunded liability
10:30 a.m.	Presentation by representatives of the Attorney General's office on legal issues relating to retirement benefit changes for current employees and retirees
11:00 a.m.	Comments by other interested persons regarding state retirement programs
11:10 a.m.	Committee discussion regarding retirement programs

STATE EMPLOYEE COMPENSATION STUDY

11:15 a.m.	Presentation by representatives of Human Resource Management Services regarding: • An overview of the class evaluation system • Updated information on the 10-state salary comparison survey • Issues relating to recruiting and retaining state employees, including a comparison of current employee turnover rates to previous years
12:00 noon	Luncheon recess
1:00 p.m.	Presentation by representatives of Human Resource Management Services of agency efforts to recruit and retain employees using nontraditional or nonmonetary benefits, such as compensatory time, flextime, or paying for educational classes

1:30 p.m.	Presentation by representatives of the Department of Human Services regarding issues relating to recruiting and retaining employees
1:45 p.m.	Presentation by representatives of the Department of Corrections and Rehabilitation regarding issues relating to the recruitment and retention of employees
2:00 p.m.	Presentation by representatives of the following agencies regarding their systems of providing salary increases for their employees: • Judicial branch • State Board for Career and Technical Education • Workforce Safety and Insurance • Highway Patrol • Adjutant General
3:00 p.m.	Presentation by representatives of Human Resource Management Services regarding the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs, pursuant to North Dakota Century Code Section 54-06-31
3:30 p.m.	Comments by other interested persons regarding the state employee compensation study
4:00 p.m.	Committee discussion and staff directives
4:30 p.m.	Adjourn

Committee Members

Representatives Matthew M. Klein (Chairman), Al Carlson, Joe Kroeber, Ken Svedjan, Francis J. Wald
Senators Ray Holmberg, Ralph L. Kilzer, Karen K. Krebsbach, Carolyn Nelson

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, October 25, 2005
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Matthew M. Klein, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Matthew M. Klein, Joe Kroeber, Francis J. Wald; Senators Ray Holmberg, Ralph L. Kilzer, Karen K. Krebsbach, Carolyn Nelson

Members absent: Representatives Al Carlson, Ken Svedjan

Others present: Chris Conradi, Gabriel, Roeder, Smith and Company, Dallas, Texas

Steve Cochrane, Fay Kopp; Retirement and Investment Office, Bismarck

Sparb Collins, Public Employees Retirement System, Bismarck

Wayne Kutzer, Board for Career and Technical Education, Bismarck

Leslie Thompson, The Segal Company, Englewood, Colorado

Laurie Sterioti Hammeren, Ken Purdy; Human Resource Management Services, Bismarck

Sheila Vetter, Duane Broschat; Job Service North Dakota, Bismarck

Ardyth Pfaff, Information Technology Department, Bismarck

Tom Freier, Department of Transportation, Bismarck

Irish Linnertz, Department of Public Instruction, Bismarck

Kerry Olson, State Department of Health, Bismarck

Jeff Weispfenning, Agriculture Department, Bismarck

Dorothy Streyle, Parks and Recreation Department, Bismarck

RETIREMENT PROGRAMS

Mr. Chris Conradi, Enrolled Actuary and Senior Consultant, Gabriel, Roeder, Smith and Company, Dallas, Texas, presented the July 1, 2005, actuarial valuation of the Teachers' Fund for Retirement. Mr. Conradi said the benefit and contribution provisions of the Teachers' Fund for Retirement have not been materially changed since 2001. He said the following changes to actuarial assumptions were made this year:

1. Changed salary increase assumptions to reflect previous experience - Over the last 10 years, actual salary increases have been greater than previous actuarial assumptions; therefore, the assumptions for salary increases have increased.
2. Modified mortality rates to more closely match longer life expectancies.
3. Modified retirement rates to reflect earlier retirement rates - Approximately one-half of male teachers and two-thirds of female teachers retire when they reach the Rule of 85.
4. Decreased termination rates for causes other than retirement, death, and disability because turnover has been less than expected.

Mr. Conradi said the board overseeing the Teachers' Fund for Retirement has changed the factors included in the annual required retirement contribution calculation based on the Governmental Accounting Standards Board (GASB) Statement No. 25. He said the annual required contribution provides a guide for determining what the actual contribution to the retirement fund should be. Mr. Conradi said the board had been amortizing the unfunded liability of the plan using a level payroll over 20 years. This year, he said, the board is assuming a payroll increase of 2 percent per year and has increased the amortization period for the unfunded liability from 20 to 30 years.

Mr. Conradi said the actual employer retirement contribution to the fund is 7.75 percent. When calculating the annual required employer contribution based on the GASB statement, he said, the contribution for fiscal year 2005 should have been 11.34 percent. For fiscal year 2006, he said, the actual employer contribution of 7.75 percent is 63.9 percent of the annual required contribution calculated using the GASB statement of 12.12 percent.

From 2004 to 2005, Mr. Conradi said the number of active members in the Teachers' Fund for Retirement decreased by 25, from 9,826 to 9,801. For the same period, he said, payroll increased by 2.7 percent, from $376.5 million to $386.6 million. During this year, he said, the number of retirees increased by 213, or 4 percent, from 5,373 to 5,586. Over the last 10 years, he said, the number of retirees has increased by an average of 2.3 percent per year. He said the average annual retiree benefit is $15,710 and there are currently 1.8 active members for each retiree.

Regarding the fund's assets, Mr. Conradi said the fair market value of the fund's assets increased from $1.375 billion in fiscal year 2004 to $1.530 billion in fiscal year 2005. He said total contributions were $64.1 million for fiscal year 2005 compared to $63.7 million for fiscal year 2004. He said total distributions were $89.3 million. He said investment returns for recent years have been fiscal year 2003 - 2.1 percent, fiscal year 2004 - 18.9 percent, and fiscal year 2005 - 13.3 percent. He said the average return over the last 10 years has been 8.4 percent which is .4 percent over the assumed investment return rate of 8 percent. He said investment returns are averaged over a five-year period when determining actuarial asset value.

Mr. Conradi said the unfunded actuarial accrued liability of the fund increased from $354.8 million in 2004 to $495.5 million in 2005. Over the same time period, he said, the funding ratio decreased from 80.3 to 74.8 percent. Mr. Conradi said that assuming the fund earns 8 percent in future years, the unfunded liability will increase from its current level of $495.5 million to approximately $530 million but thereafter will level off.

In response to a question from Representative Wald, Mr. Conradi said that assuming 8 percent investment returns in future years, in 20 years, the fund could have an unfunded liability of $1 billion. However, Mr. Conradi said that if an assumption of 8.45 percent annual market returns is assumed in future years, the fund's financial condition will improve from the current funding ratio of 74.8 percent to a funding ratio of 89 percent by 2035.

Mr. Conradi said the major reasons the fund's financial condition has decreased from having a 102 percent funding ratio in 2000 to its 75 percent funding ratio for 2005 is the result of:

- Lower investment returns over the last five years which averaged 3 percent rather than the assumed 8 percent.
- Changes in actuarial assumptions relating to higher salary increases, fewer members leaving before retirement, and members retiring earlier.
- Benefit improvements occurring in 2001 when the formula multiplier increased from 1.8 to 2 percent.

Mr. Conradi said the board is considering options to address the long-term financial concerns of the fund.

Regarding the long-term stability of the fund, Mr. Conradi said that projections indicate that the fund will be able to pay all of its promised benefits for the next 30 years. Even in 2035, he said, assuming 8 percent future earnings, assets are still projected to be more than 10 times annual distributions.

A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Wald, Mr. Conradi said the board has discussed a number of options for addressing the financial concerns of the fund, including increasing contribution rates, reducing benefits, and making asset allocation changes.

Ms. Fay Kopp, Deputy Executive Director, Retirement and Investment Office, presented information regarding the types of employee groups allowed to participate in the Teachers' Fund for Retirement and the possibility of allowing certain employee groups to participate in either the Teachers' Fund for Retirement or the Public Employees Retirement System.

Ms. Kopp said state statute defines teachers for Teachers' Fund for Retirement membership purposes. She said the definition includes superintendents, assistant superintendents, business managers, directors, coordinators, principals, classroom teachers, and special teachers.

Ms. Kopp presented the following schedule showing the number of employers and members by category:

	Employers	Members
School districts	207	9,250
Special education units	18	345
Counties	15	16
Vocational centers	4	64
State institutions	3	62
State agencies	3	46
Other	10	18
Total	260	9,801

Ms. Kopp presented the following schedule showing the number of members by state agency and institution:

Department of Public Instruction	0 (previously 22)
Department of Career and Technical Education	16
Division of Independent Study	30
North Dakota Vision Services - School for the Blind	15
School for the Deaf	20
Youth Correctional Center	27
Total	108

Ms. Kopp said in 1999 the Legislative Assembly approved Senate Bill No. 2204 which allowed new employees of the Department of Public Instruction hired after January 6, 2001, to join the Public Employees Retirement System rather than the Teachers' Fund for Retirement. As a result, she said, five new Department of Public Instruction employees elected to join the Public Employees Retirement System. In 2003, she said, the Legislative Assembly, in Senate Bill No. 2013, allowed 22 nonteaching Department of Public Instruction employees to transfer their retirement accounts to the Public Employees Retirement System. She said the actuarial analysis indicated that this was not a material change.

Ms. Kopp said the 2005 Legislative Assembly considered Senate Bill No. 2413 to allow new employees of the Board for Career and Technical Education to elect to join the Public Employees Retirement System and to allow current employees to transfer their retirement accounts and future participation to the Public Employees Retirement System. She said the bill was not approved.

Ms. Kopp said any future legislative changes made to the Teachers' Fund for Retirement membership provisions in allowing state agency or institution employees to transfer membership to the Public Employees Retirement System is likely to have a minimal actuarial impact on the fund.

A copy of the report is on file in the Legislative Council office.

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, presented information on the effect on the Public Employees Retirement System fund of allowing certain employee groups currently participating in the Teachers' Fund for Retirement to participate in the Public Employees Retirement System. Mr. Collins said the retirement fund's actuary has analyzed the potential impact to the fund of transferring 16 Department of Career and Technical Education employees from the Teachers' Fund for Retirement to the Public Employees Retirement System. He said there would not be any impact to the Public Employees Retirement System main system because the actuaries would calculate the appropriate amount to transfer from the Teachers' Fund for Retirement to the Public Employees Retirement System fund.

Mr. Collins said these employees would also be eligible to receive the retiree health insurance credit when they retire. He said the actuary calculated the present value of the benefits for the 16 potential transferring members at $102,154. He said the approach previously used by the fund to provide for this increased liability was to amortize the liability over the average working lifetime of the transferring group. As a result, he said, the actuary has calculated the effect as an increase in the required employer contribution to the retiree health insurance credit fund of 2.34 percent, from 1 to 3.34 percent for these transferring employees for a period of eight years. He said after the amortization period, the required contribution would return to the rate in effect at that time for all other participating employers. A copy of the report is on file in the Legislative Council office.

Mr. Wayne Kutzer, State Director, Board for Career and Technical Education, commented on the possibility of allowing certain employees of the Board for Career and Technical Education to participate in the Public Employees Retirement System. He said although the board has not taken formal action on the proposal, he believes the board will support it. He encouraged the committee to authorize this change.

Senator Holmberg asked whether employees of the Division of Independent Study are also interested in changing to the Public Employees Retirement System. Chairman Klein suggested the Division of Independent Study be asked to provide their comments regarding this issue at the next committee meeting.

Ms. Leslie Thompson, Senior Vice President, The Segal Company, Englewood, Colorado, presented the July 1, 2005, actuarial valuation of the Public Employees Retirement System main system, judges' retirement system, National Guard retirement system, law enforcement retirement systems, Highway Patrolmen's retirement system, Job Service North Dakota retirement system, and the retiree health benefits fund. Ms. Thompson presented the following information regarding the number of active members in each of the retirement systems:

Retirement Program	2004	2005
Main system	17,522	17,745
Highway Patrolmen's	132	125
Judges'	46	46
National Guard	17	14
Job Service North Dakota	60	52
Law enforcement with prior service	39	113
Law enforcement without prior service	12	13
Retiree health insurance credit fund	18,017	18,302

Ms. Thompson said the main system and the Highway Patrolmen's retirement system in 2005 had a 14.17 percent return on investment. She said the 10-year average rate of return has been 8.91 percent.

Ms. Thompson presented the following schedule showing the contribution cost rates, statutory contribution rates, and margins for 2005:

Retirement Program	Cost Rate	Statutory Rate	Margin
Main system	6.03%	4.12%	(1.91%)
Highway Patrolmen's	17.61%	16.70%	(.91%)
Judges'	11.62%	14.52%	2.9%
National Guard	1.58%	8.33%	6.75%
Job Service North Dakota	N/A	N/A	N/A
Law enforcement with prior service	12.03%	8.31%	(3.72%)
Law enforcement without prior service	7.61%	6.43%	(1.18%)
Retiree health insurance credit fund	1.00%	1.00%	0%

Ms. Thompson presented the following schedule showing the funding ratios for each of the retirement programs for recent years:

Retirement Program	2001	2002	2003	2004	2005
Main system	110%	104%	98%	94%	91%
Highway Patrolmen's	102%	97%	93%	90%	88%
Judges'	130%	122%	115%	113%	109%
National Guard	125%	139%	126%	120%	108%
Job Service North	121%	113%	109%	109%	109%

Retirement Program	2001	2002	2003	2004	2005
Dakota					
Law enforcement with prior service				87%	41%
Law enforcement without prior service				109%	48%
Retiree health insurance credit fund	37.8%	38.3%	38.2%	38.8%	39.6%

Ms. Thompson presented projections for the main retirement system based on various market returns. She said if the system experiences a 12 percent market investment return for fiscal year 2006 and 8 percent thereafter, by 2010 the funding ratio for the main system will increase from 91 percent in 2005 to 111 percent in 2010.

A copy of the report is on file in the Legislative Council office.

Representative Klein asked how the financial condition of North Dakota's retirement program compares to other states. Ms. Thompson said that North Dakota's is one of the more positive presentations she has made this year. She said the North Dakota system has recovered more quickly from the marked downturn than most other states' systems. She said the Retirement Board has adopted conservative risk management policies for administering the fund.

Mr. Collins presented a schedule showing other states' age and service requirements for retirement benefits and information on recent benefit changes from other states. In summary, Mr. Collins said nine states have only an age requirement, 28 states have only a years of service requirement, and 13 states have a rule requirement considering age and years of service. He said five states have a Rule of 80, six states a Rule of 85, one state a Rule of 88, and one state a Rule of 90.

A copy of the report is on file in the Legislative Council office.

Senator Nelson asked whether there are concerns with increasing North Dakota's Rule of 85 to a Rule of 86 or higher. Mr. Collins said the committee may wish to ask the Attorney General for additional information but it is his understanding that once a retirement benefit is provided to an employee it becomes a contractual obligation for the employer to continue to provide that benefit. He said it may be permissible for a change to affect only new employees.

The committee recessed for lunch at 11:30 a.m. and reconvened at 12:30 p.m.

Mr. Collins presented information regarding prescription drug coverage for retirees of the Public Employees Retirement System after implementation of the Medicare Part D prescription drug benefit. Mr. Collins said the board has chosen, effective January 1, 2006, to provide prescription drug coverage for its retirees through a prescription drug plan offered by Blue Cross Blue Shield of North Dakota. He said this option will maximize the federal support for the prescription drug coverage for these retirees. He said the formulary offered by Blue Cross Blue Shield will be slightly more restrictive than the current formulary.

Mr. Collins said the out-of-pocket maximum for prescription drugs will increase from $1,000 to $3,000 per year; however, the monthly health insurance premium will decrease by 10 to 20 percent effective January 1, 2006. He said the board intends to continue to monitor and assess its options for providing prescription drug coverage to its retirees. A copy of the report is on file in the Legislative Council office.

The Legislative Council staff presented a memorandum entitled *Alaska Public Employees Pension Plan - Current Issues*. The Legislative Council staff said the Alaska pension plan provides retirement benefits based on an employee's average monthly salary of the highest 36 months of salary multiplied by 2 percent for the first 10 years of service, by 2.25 percent for the next 10 years of service, and by 2.5 percent for additional years of service. In addition, the Legislative Council staff said retirees receive full health insurance coverage as part of their retirement benefits.

The Legislative Council staff said the 2005 Alaska Legislature learned that the plan had an actuarial valuation of 75.2 percent and an unfunded liability of $5.7 billion. The Legislative Council staff said the Alaska Legislature learned that in order to address the unfunded liability, the employer contribution would need to increase from 11 percent to over 30 percent. As a result, the Legislative Council staff said the 2005 Alaska Legislature changed the retirement plan for employees hired on or after July 1, 2006, to a defined contribution plan and increased the employer contribution for current employees to 16 percent of salary. The Legislative Council staff said the employer and employee contribution rates have not yet been determined for the defined contribution plan. The Legislative Council staff said Alaska has a task force studying the development of this plan and how to address the unfunded liability of the defined benefits plan.

Representative Klein distributed a copy of a news article discussing concerns regarding state and local pension plans across the country. A copy of the article is on file in the Legislative Council office.

Ms. Kopp provided information on retired teachers returning to work. She said North Dakota law has, for many years, allowed retired teachers to return to work on a half-time or less basis. Although a few teachers have chosen this option in the past, in recent years, she said, more retired teachers are returning to work. She said the number of retired teachers returning to work has increased from 24 in the 1999-2000 school year to 138 in the 2004-05 school year. She said a 30-year teacher can receive a retirement benefit of 60 percent of average salary plus 50 percent of salary for working half time, for a total income of 110 percent of preretirement income.

Ms. Kopp said beginning in the 2001-02 school year, retired teachers were allowed to return to work full time in critical shortage areas after being out of the workforce for one full year. She said for the 2004-05 school year, six teachers filled these types of positions.

Ms. Kopp said for the 2004-05 school year, a total of 146 retirees under the Teachers' Fund for Retirement returned to work, including 105 teachers, 19 administrators, and 22 superintendents.

In response to a question from Senator Nelson, Ms. Kopp said that for the 2004-05 school year, 89 employers employed 146 retirees, including 7 in Bismarck, 8 in Fargo, 1 in Grand Forks, and 3 in Mandan.

Senator Nelson asked for the number of first-year teachers hired across the state. Chairman Klein said the Department of Public Instruction will be asked to provide that information to the committee at its next meeting.

STATE EMPLOYEE COMPENSATION STUDY

Mr. Collins provided information regarding the state health insurance program. Mr. Collins said the North Dakota Century Code authorizes the Public Employees Retirement System to administer either a fully insured or a self-insured health insurance program. The Century Code also requires that if the Public Employees Retirement System administers a self-insured plan, that it have stop-loss coverage and that it maintain a contingency reserve fund of approximately three and one-half months of claims. He said based on current claims, the reserve fund would need to be approximately $30 million.

Mr. Collins reviewed the components of fully insured and self-insured health plans. He said the current Public Employees Retirement System health plan with Blue Cross Blue Shield of North Dakota could be considered a modified fully insured plan because the Public Employees Retirement System determines the plan design; losses are limited to the amount of premiums paid; the Public Employees Retirement System receives interest on plan holdings; and if expenses are less than premiums, the Public Employees Retirement System receives 50 percent of the first $3 million of gains and 100 percent of any excess.

For the 2003-05 biennium, Mr. Collins said premiums totaled $161.2 million while expenses are projected to total $152.8 million, resulting in a gain of $8.4 million.

Mr. Collins said any gains that are realized when claims are lower than premiums are used to reduce health insurance premiums for the subsequent biennium. For the 2005-07 biennium, Mr. Collins said realized gains reduced premiums by approximately $25 per month per contract.

Mr. Collins reviewed high-deductible health plans and health savings accounts. Mr. Collins said the following states have implemented high-deductible health plans or health savings accounts--Arkansas, South Carolina, South Dakota, Colorado, Wyoming, and Florida.

Mr. Collins said for the 2005 fiscal year, 20 percent of the Public Employees Retirement System health contracts accounted for 72 percent of claims costs. He said the average out-of-pocket payment for each of these contracts was $2,136. He said 80 percent of the health insurance contracts accounted for 28 percent of claims costs with the average out-of-pocket cost per contract being $758.

A copy of the report is on file in the Legislative Council office.

Mr. Ken Purdy, Compensation Manager, Human Resource Management Services, Office of Management and Budget, provided information on the average salary of North Dakota employees and health insurance premiums and employer contributions to health insurance premiums. Mr. Purdy said the current average salary of all state employees, excluding temporary employees, board and commission members, University System employees, and employees of the Mill and Elevator, is $36,332 per year. He said the average wage for all North Dakota workers for 2004 as reported by Job Service North Dakota was $28,987 per year. Mr. Purdy said reasons for the difference include Job Service North Dakota information includes part-time employees which lowers the average wage and the Job Service North Dakota information is for 2004, while the state employee information is for 2005. Mr. Purdy said the average classified employee wage in 2004 was $32,604. In addition, he said, 84 percent of North Dakota workers have completed high school compared to 99 percent of state employees having completed high school. He said 22 percent of North Dakota workers have bachelor's degrees or higher while 54 percent of state employees have bachelor's degrees or higher.

Mr. Purdy said that of the 50 states, six states, including North Dakota, pay 100 percent of employees' health insurance premium. He said the monthly cost to the state of these plans ranges from $280 to $1,683 per month. He said North Dakota's monthly cost is $554 per contract.

Mr. Purdy said that based on information provided by Job Service North Dakota, 73.8 percent of employers in North Dakota provide a health plan for full-time salaried employees. He said 21.9 percent of employers pay 76 to 100 percent of the premium, 12.2 percent pay 51 to 75 percent, 14.1 percent pay 26 to 50 percent, 5.9 percent pay 1 to 25 percent, and 17.4 percent pay nothing.

Mr. Purdy said Basin Electric Power Cooperative conducted a survey in July 2004 of 20 major North Dakota employers and found that family health insurance premiums ranged from $450 to $1,043 per month. He said that of the 20 employers, 7 paid 100 percent of the single premium and 5 paid 100 percent of the family premium.

A copy of the report is on file in the Legislative Council office.

Ms. Sheila Vetter, Human Resources Director, Job Service North Dakota, presented information on North Dakota's labor market. Ms. Vetter provided a 2005 report on salaries and fringe benefits provided by North Dakota employers. She said the information indicates that North Dakota employers provided a 5.2 percent average salary increase for salaried employees in 2005 and anticipate providing a 4.8 percent salary increase for 2006.

Ms. Vetter provided information on the average annual wage by county. She said the statewide average for 2004 was $28,987.

Ms. Vetter also provided a report showing North Dakota wages by occupation. She said the survey had an 81 percent participation rate by North Dakota employers. Copies of the reports are on file in the Legislative Council office.

The Legislative Council staff presented a memorandum entitled *State Agency Salary Increases - April Through September 2005*. The report summarizes state agency responses to a survey regarding salary increases provided to state employees during the April through September 2005 time period, excluding entities under the control of the State Board of Higher Education, except for the University System office.

The Legislative Council staff said that for the six-month period, 1,190 full-time equivalent positions received a salary increase in addition to the July 2005, 4 percent salary increase authorized by the Legislative Assembly. The cost to continue the additional salary increases for the 2005-07 biennium totals $2.7 million, $1.2 million of which is from the general fund. The Legislative Council staff said the total cost of these additional increases is approximately three-tenths of 1 percent of statewide salaries expenditures for the 2005-07 biennium.

The Legislative Council staff said that while funding for some of the additional increases was authorized specifically by the Legislative Assembly, the majority of the funding for the salary increases is being made available from vacant positions and anticipated employee turnover savings.

The Legislative Council staff said that some agencies have developed systems for providing salary increases separate from general legislatively authorized increases. Agencies with formalized systems of providing salary increases include the judicial branch, Board for Career and Technical Education, Workforce Safety and Insurance, Highway Patrol, and Adjutant General.

Senator Nelson commented that while large agencies have funding available from vacant positions and turnover, it is difficult for small agencies to generate any savings to provide additional salary increases.

Ms. Ardyth Pfaff, Human Resources Director, Information Technology Department, discussed the various types of positions of the Information Technology Department and whether the positions are recruited for from the public or private sector.

Representative Klein asked for the number of vacant positions of the Information Technology Department. Ms. Pfaff said currently 9 of the 265 authorized positions in the department are vacant. Recently, she said, the department is experiencing approximately 25 percent fewer applicants for job openings.

In response to a question from Senator Krebsbach, Ms. Pfaff said the turnover rate in the department is fairly stable.

Mr. Tom Freier, Department of Transportation, commented on workforce issues of the department. Mr. Freier said that younger workers are seeking jobs that pay high salaries, have an opportunity for advancement, are challenging, and utilize up-to-date technology. He said the department has the most difficulty retaining employees with five to six years of experience. He said within the next five years, 31 percent of the department's workforce will be eligible for retirement. He said the state retirement and health insurance benefits are no longer as attractive for recruiting and retaining employees because other employers are providing similar benefits. Mr. Freier suggested the Legislative Assembly allow agencies the flexibility to use salaries funding to reward high-quality employees; to respond to the hiring environment; and to adjust salaries of lower-paid workers, such as equipment operators and driver's license examiners to a more appropriate level.

A copy of the report is on file in the Legislative Council office.

Ms. Irish Linnertz, Human Resources Director, Department of Public Instruction, commented on hiring issues of the Department of Public Instruction. Ms. Linnertz said the position of superintendent of the School for the Deaf has been vacant since July 2005. She said the department has had no applicants for the position even after lowering the qualifications for the position and increasing the salary. She said the department also has difficulty filling special education positions and those that require master's degrees. Ms. Linnertz provided a comparison of 2003 salaries of selected positions in North Dakota school districts to Department of Public Instruction personnel, identifying the concerns related to department salaries.

Mr. Kerry Olson, Human Resources Director, State Department of Health, commented on the recruitment and retention challenges of the State Department of Health. Mr. Olson said approximately two-thirds of State Department of Health employees leaving state employment leave for other jobs providing a higher salary. He said in many cases state employees' salaries are less than those in city and county governments. In at least four classifications, he said, department salaries are as much as $1,000 per month less than positions in other states in the region. Based on an April 2004 survey of State Department of Health employees, although employees were satisfied with the state's benefits package, he said, their primary concern was the salary level.

Mr. Olson said the department experiences difficulty in recruiting and retaining health facilities surveyors, environmental engineers, public health nurse consultants, microbiologists, and epidemiologists. Mr. Olson said the State Department of Health has most difficulty retaining employees during their first five years of employment. He said approximately one-third of the department's employees have five or fewer years of service.

Mr. Olson suggested that the Legislative Assembly continue the current benefits package but allow agencies the flexibility to provide salary adjustments to attract and retain employees.

A copy of the report is on file in the Legislative Council office.

Mr. Jeff Weispfenning, Deputy Commissioner, Agriculture Department, commented on workforce issues of the Department of Agriculture. Mr. Weispfenning said during the 2003-05 biennium, the department lost 11 of its 61 authorized employees. Mr. Weispfenning expressed a concern regarding the cost of recruiting new employees and the related training costs incurred by the department when turnover occurs. Mr. Weispfenning suggested the committee provide funding for equity increases for positions that are no longer competitive in the marketplace and provide funding for merit increases for high-quality employees.

Ms. Dorothy Streyle, Parks and Recreation Department, commented on workforce issues of the Parks and Recreation Department. She said the department has experienced a 50 percent turnover rate in the past five years. She said 98 percent of the Parks and Recreation Department staff are below the midpoint of their salary range. She also commented regarding the difficulty the department has in recruiting seasonal staff due to competition, particularly from oil-related companies.

Representative Wald said during the 2005 legislative session, legislators were being encouraged to provide an across-the-board 4 percent per year salary increase. He said testimony received today has expressed the need for merit increases rather than across-the-board increases. Mr. Purdy said the 4 percent per year increase was needed to provide an adequate base salary since state employees were not authorized increases for the two previous years. He said once the base salary is adequate, then it is appropriate to provide funding for merit increases.

Senator Holmberg said during the legislative session, certain agencies expressed a concern with the level of salaries and wages funding approved by the Legislative Assembly; however, as reported in the Legislative Council's survey of state employee salary increases, he said, the same agencies have provided salary increases in addition to those approved by the Legislative Assembly.

In response to a question from Representative Wald, Mr. Collins distributed a schedule identifying the number of employees in the various groups served by the Public Employees Retirement System as of January 1, 2005. The information indicates a total of 24,484 employees are participating in the retirement program and 23,544 in the health insurance program.

A copy of the report is on file in the Legislative Council office.

For the next meeting, Chairman Klein said that the committee will receive additional information on retired teachers returning to work, an overview of the class evaluation system of Human Resource Management Services, and updated information from Human Resource Management Services on the 10 states' salary comparison survey.

Senator Nelson asked that the Public Employees Retirement System provide additional information at the next meeting on the status of the Medicare Part D prescription drug program implementation.

Senator Holmberg asked that for the next meeting, the Attorney General's office provide testimony on legal issues related to changing retirement benefits for current employees.

Representative Wald asked that at the next meeting the Public Employees Retirement System provide information on loss ratios of the Public Employees Retirement System health plan compared to other groups.

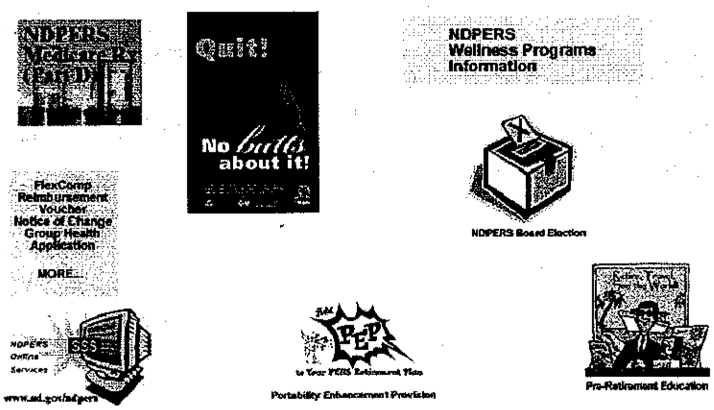
The committee adjourned subject to the call of the chair at 3:30 p.m.

Allen H. Knudson
Assistant Legislative Budget Analyst
and Auditor

Jim W. Smith
Legislative Budget Analyst and Auditor

Attachment 2

Medicare Rx



NDPERS Medicare Rx (Part D)

MedicareBlue Rx Summary of Benefits
Opt Out Notice
Opt Out Letter
Medicare Part D Questions & Answers
Who Should You Contact?
Formulary Listing & Participating Pharmacies List
Medicare Rx Factsheet

Medicare Rx

Medical Plan

Prescription Drug Plan (PDP)

Medicare Rx

- Begin January 2006
- Rates went down

  - Single $49
  - Family(2) $98
  - Family (1/1) $49

Other rates for 3 and 4 Medicare - $49 per person

Medicare Rx

- Same Plan Design
- Formulary more restrictive
  - Previously about 78% of drugs on Formulary
  - Now about 67% on Formulary
- Not all drugs covered including – 9 categories: including:
  - Anorexia
  - Barbiturates
  - Benzodiazepines
  - Cough and cold

Issues

- Information
- Final enrollment by Medicare
- Quick enrollment
- PERS plan design
- Formulary
- Medicaid
- Call centers
- Integration of administrative procedures
- Billings (low income, penalties)
- Rating (calender year vs fiscal year)

Medicare Part D Utilization Report

NDPERS

December Utilization for members that had claims in January

December 2005 - January 2006

Claims in Dec 2005 - Commercial Rx		
Tier	# of Claims	% of Claims
Tier 1	5,919	51.7%
Tier 2	4,394	38.4%
Tier 3	1,141	10.0%
	11,454	100.0%

Tier 1 -Formulary Generic

Tier 2 - Formulary Brand

Tier 3 - Nonformulary Brand/Generic

Claims in Jan 2006 - Medicare Group PDP		
Tier	# of Claims	% of Claims
Tier 1	6,279	52.7%
Tier 2	3,974	33.3%
Tier 3	1,669	14.0%
	11,922	100.0%

Tier 1 - Formulary Generics

Tier 2 - Formulary Preferred Drugs

Tier 3 - Formulary Brand Drugs (plus drugs that paid in the transition period)

NDPERS
Main System Retirement Experience & Projections

NDPERS Main System (Analysis does not include non-retirement turnover)

Retirements	7/1/2001	7/1/2002	7/1/2003	7/1/2004	7/1/2005	7/1/2006 Projected	7/1/2007 Projected	7/1/2008 Projected	7/1/2009 Projected	7/1/2010 Projected
Normal	92	89	114	110	91	117	127	132	155	188
Rule of 85	95	92	145	122	143	168	192	216	236	238
Early	109	100	106	82	116	118	122	133	143	153
Disability	23	24	34	25	24	27	27	26	26	25
Total	319	305	399	339	374	430	468	507	560	604

Active Members	7/1/2001	7/1/2002	7/1/2003	7/1/2004	7/1/2005	1/1/2006	1/1/2007 Projected	1/1/2008 Projected	1/1/2009 Projected	1/1/2010 Projected
Normal Eligible	336	426	466	442	481	523	542	637	772	922
Rule 85 Eligible	361	470	484	532	619	708	797	870	879	894
Early Eligible	1945	2281	2452	2511	2662	2745	3000	3228	3456	3431
Vested	9599	9441	9527	9840	9850	9795	10198	10763	11493	10793
Non-Vested	4453	4421	4172	4197	4133	4234	3468	2507	1405	1965
Total Members	16694	17039	17101	17522	17745	18005	18005	18005	18005	18005
% Eligible Retired		11.54%	12.56%	9.96%	10.73%	11.20%				
Normal		26.49%	26.76%	23.61%	20.59%	24.36%				
Rule		25.48%	30.85%	25.21%	26.88%	27.11%				
Early		5.14%	4.65%	3.34%	4.62%	4.44%				
Disability		0.17%	0.25%	0.18%	0.17%	0.19%				

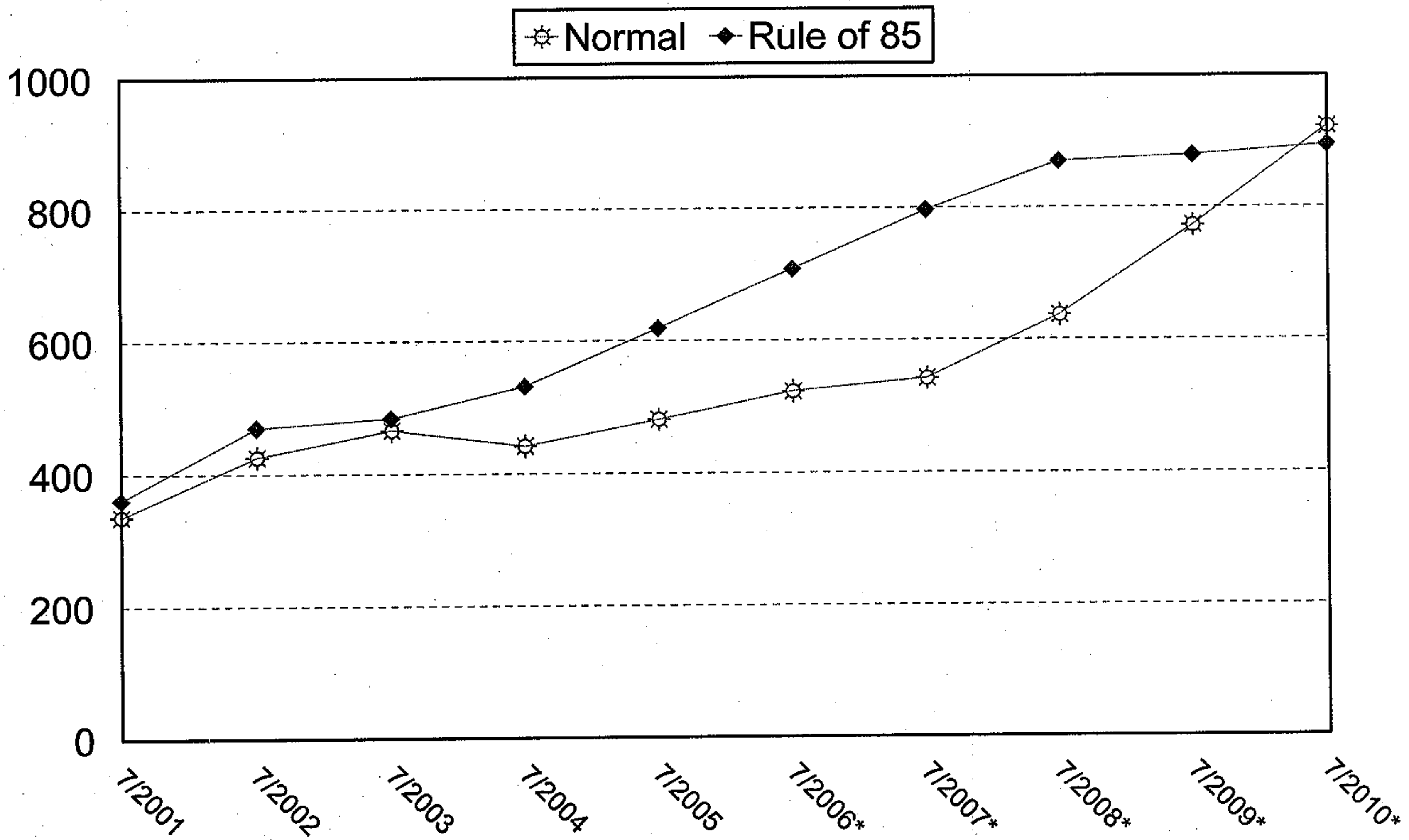
State Employees Only

Retirements	7/1/2006 Projected	7/1/2007 Projected	7/1/2008 Projected	7/1/2009 Projected	7/1/2010 Projected
Normal	39	47	54	67	87
Rule of 85	118	144	156	165	169
Early	61	65	70	74	77
Disability	15	15	14	14	13
Total	233	271	294	320	346

Active Members		1/1/2006	1/1/2007 Projected	1/1/2008 Projected	1/1/2009 Projected	1/1/2010 Projected
Normal Eligible	162	194	221	277	358	448
Rule 85 Eligible	437	533	574	610	625	635
Early Eligible	1374	1464	1586	1670	1741	1705
Vested	5655	5666	5733	5938	6210	5826
Non-Vested	2104	1875	1618	1237	798	1118
Total Members	9732	9732	9732	9732	9732	9732

NDPERS

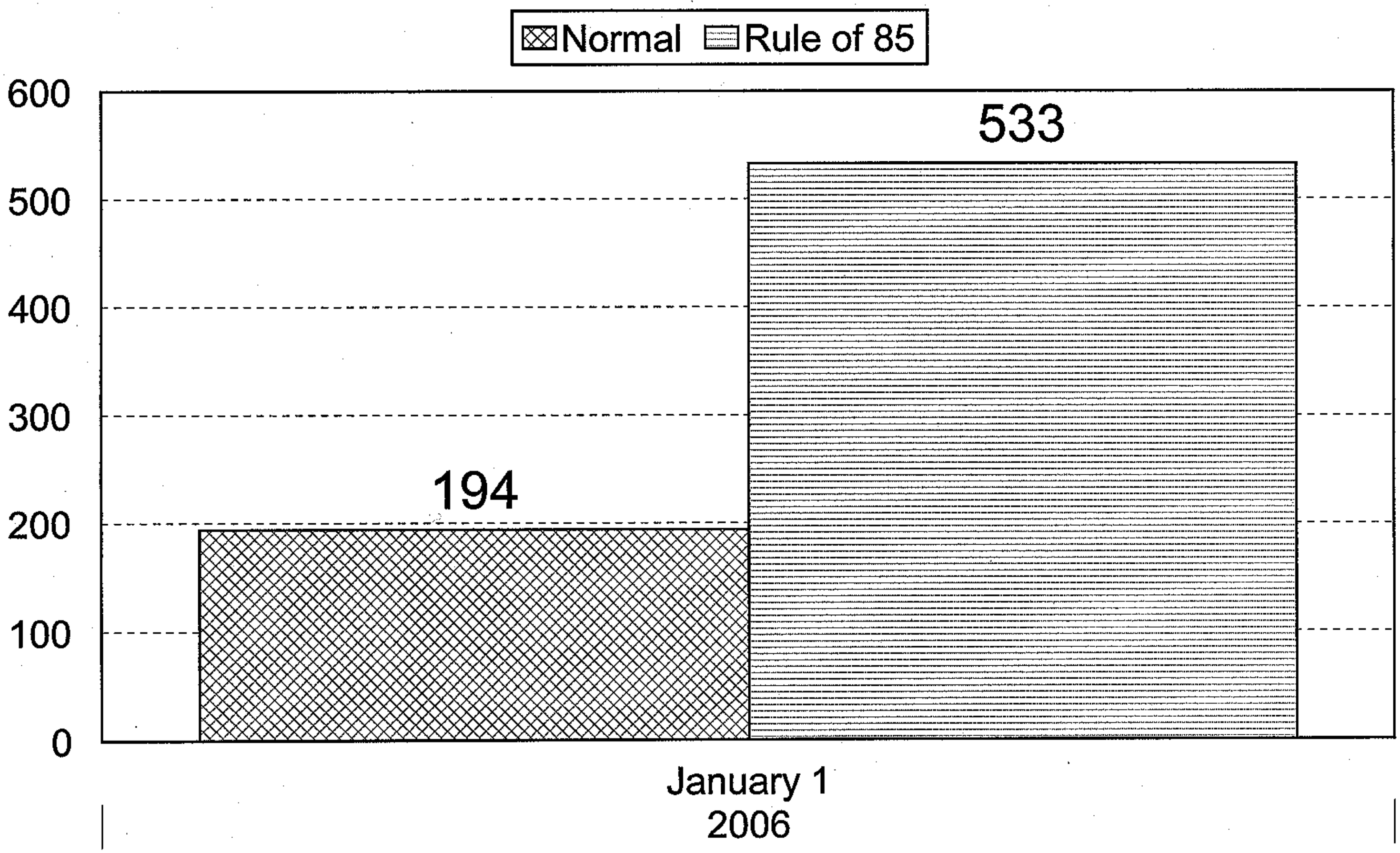
Main System Retirement Eligibles



* - Projected

NDPERS Main System

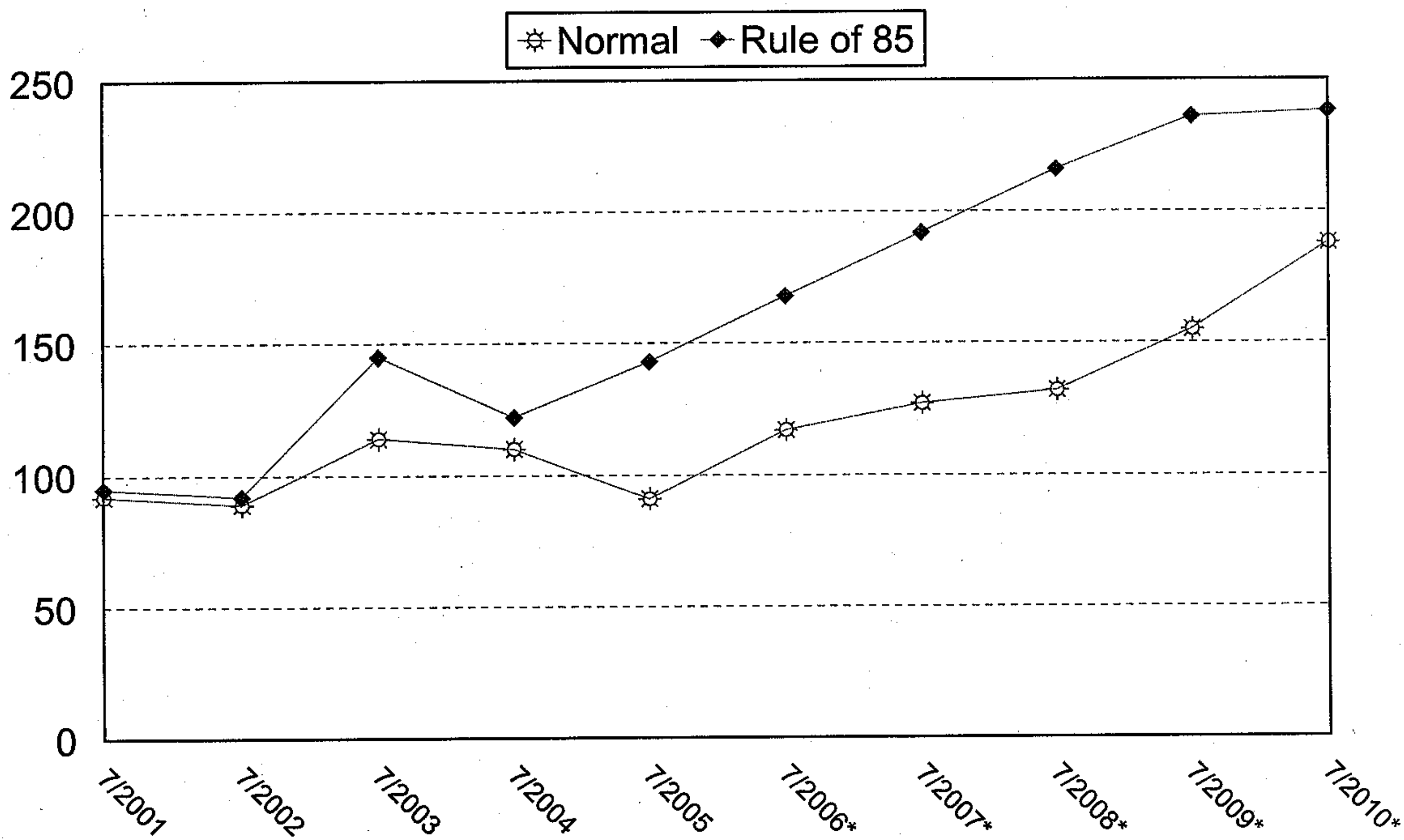
State Employees Retirement Eligible



There are 727 State employee eligible for full retirement benefits.

NDPERS

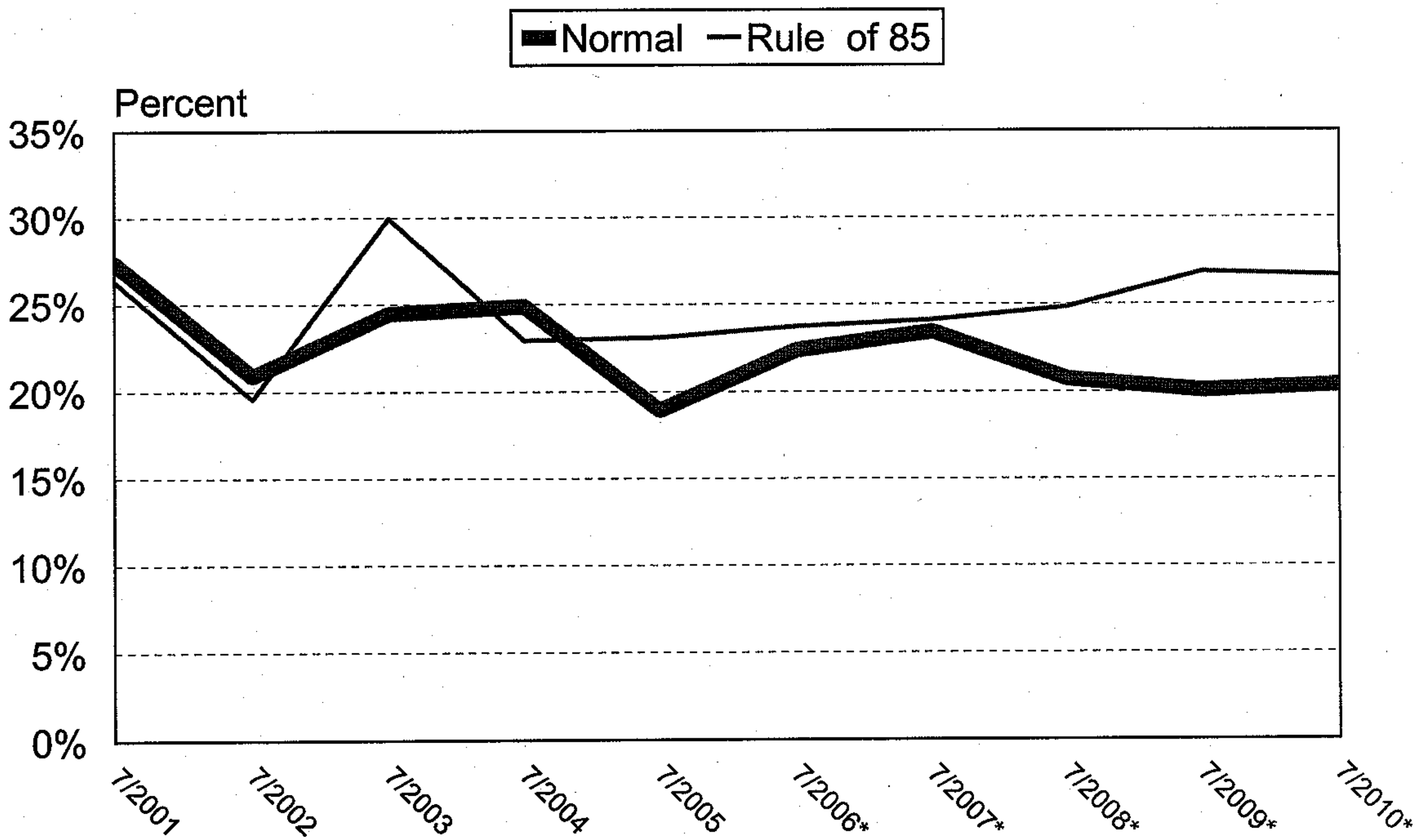
Main System Retirements



* - Projected

NDPERS

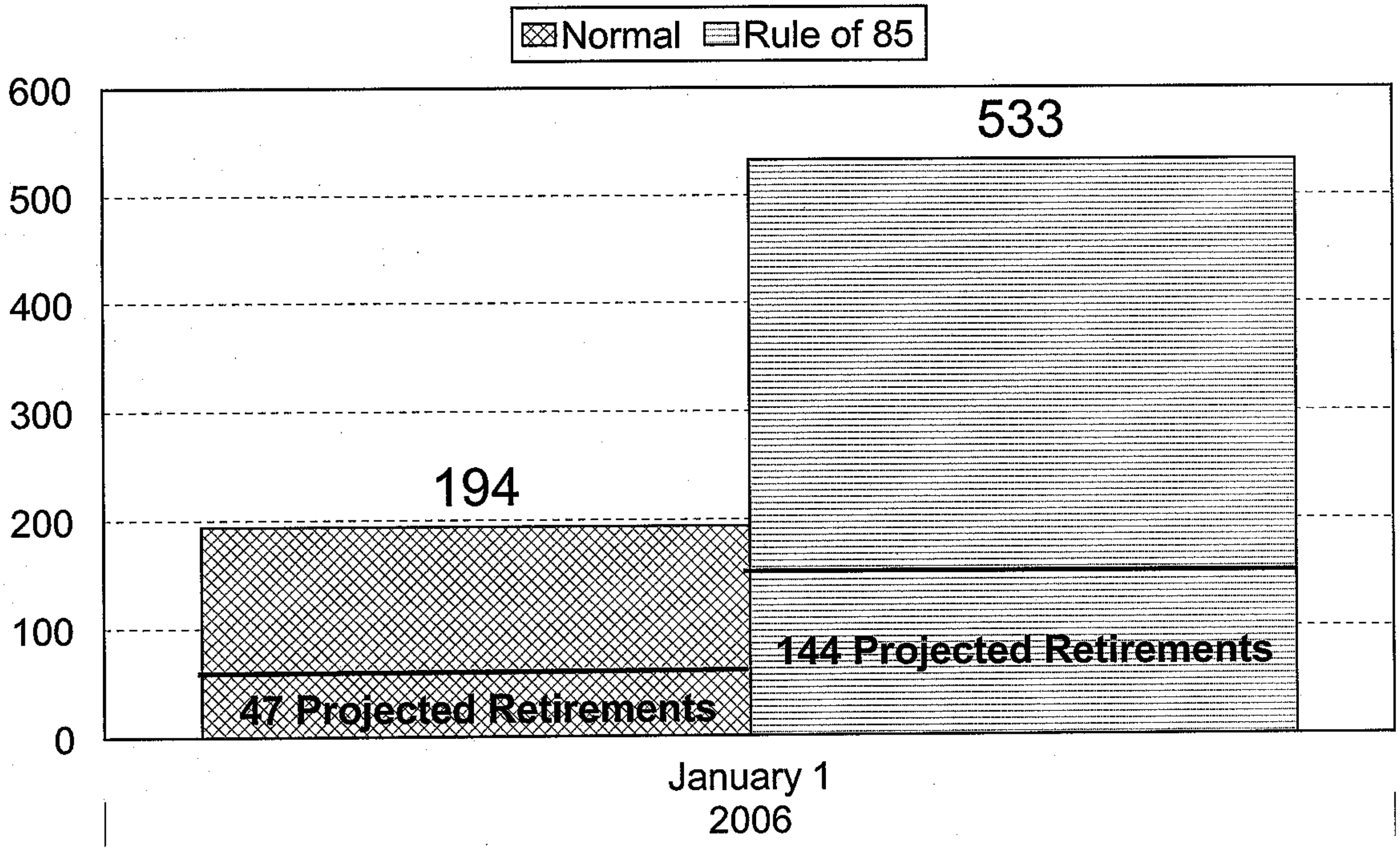
Main System Retirement Experience



* - Projected

NDPERS Main System

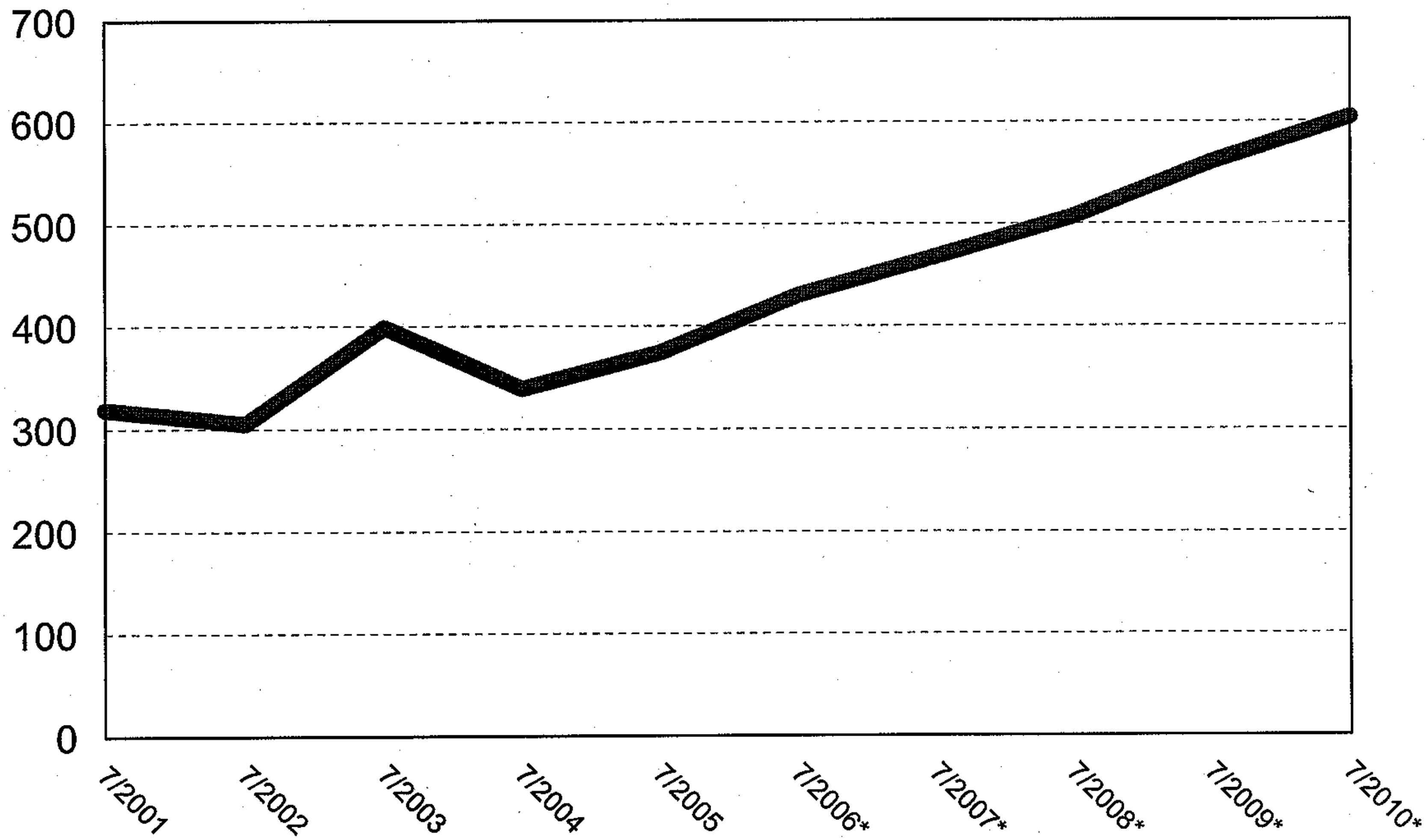
State Employees Retirement Eligible



There are 727 State employee eligible for full retirement benefits.

NDPERS

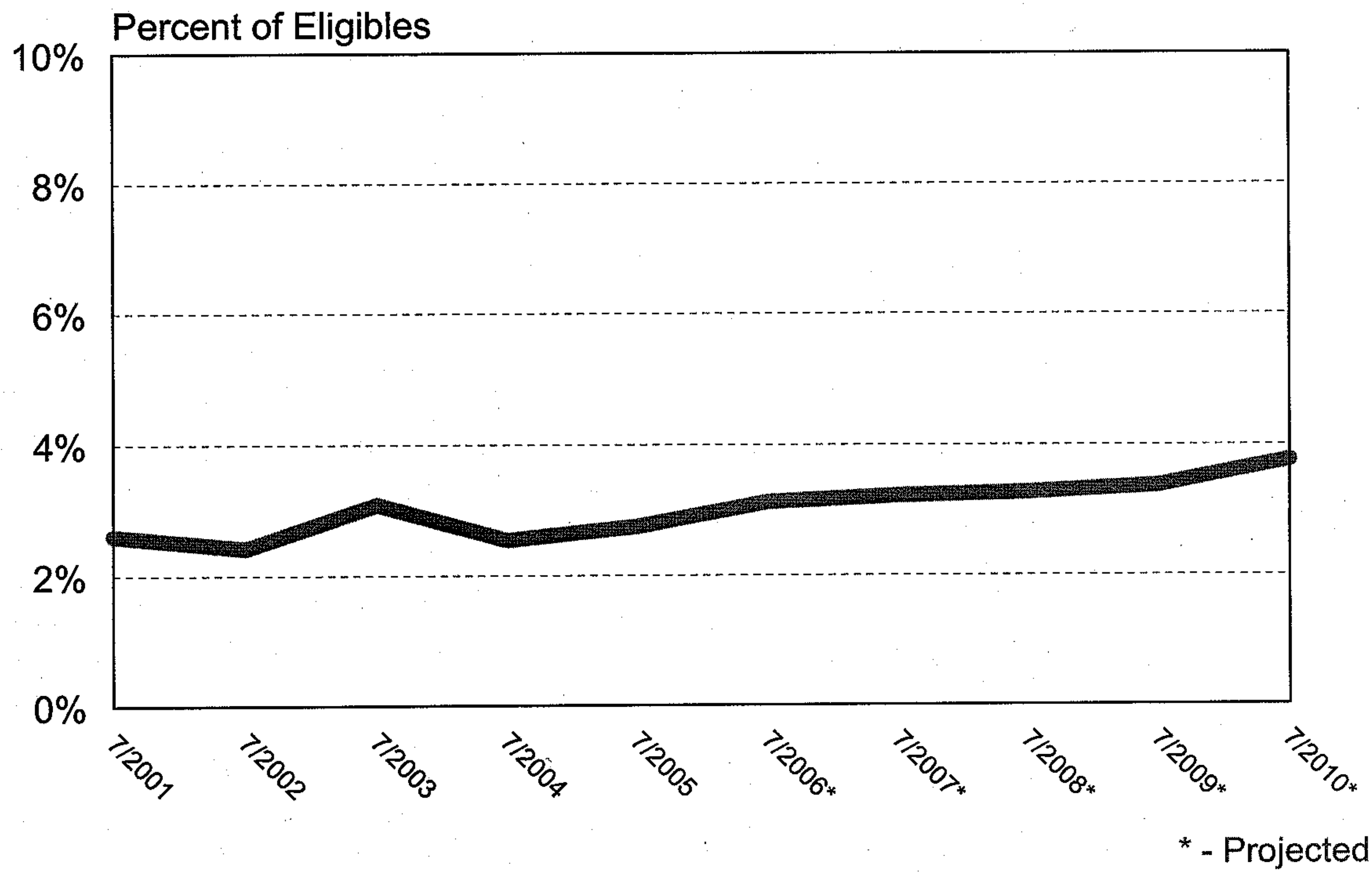
Main System Total Retirements



* - Projected

NDPERS

Main System Total Retirement Experience



GALLAGHER BENEFIT SERVICES, INC.≈≈Memo

To: Sparb Collins, NDPERS

From: Bill Robinson, Denver Office

Date: February 15, 2006

Re: Medical Loss Ratios

Sparb,

As requested, we have prepared this brief memo on the subject of medical loss ratios and their applicability to the NDPERS group medical insurance plan.

Definitions

There are three operational definitions of loss ratio that are used interchangeably. Actually each one has a slightly different meaning. [1]

- **"Incurred Loss Ratio"**: "Incurred claims divided by premiums"
- **"Paid Loss Ratio"**: "Paid claims divided by premiums"
- **"Total Loss Ratio"**: "Incurred claims plus expenses divided by paid premiums." None of the comparable data provided in this memo contain total loss ratios. All are paid or incurred loss ratios without expenses.

Medical loss ratios do vary by the type of group medical insurance plan offered by the insurance carrier. More "managed" plans, such as HMOs, tend to have lower medical loss ratios due to the higher administrative costs necessary to support medical network and management functions. Therefore, an acceptable (from the perspective of the consumer) loss ratio for an HMO might be 80%. Conversely, for a less managed PPO type plan, a reasonable loss ratio may be greater than 90%. It is important to note also that only "total loss ratio" includes expenses. The other two ratios do not.

PERS Medical Loss Ratios

According to information provided by BCBSND on February 3, 2006, the "percent loss ratios for NDPERS for the 2005-07 are projected to be 94.2%." We have confirmed that the projections or estimates provided for PERS are for its "incurred loss ratio" (expected incurred claims divided by expected premiums), which

[1] Managed Care Terms: www.pohly.com/terms

corresponds with the first definition cited above. The projected loss ration includes the $3.00 PEPM NDPERS administration fee, which is an expense not likely to appear with other BCBSND clients.

From the information provided, BCBSND expects to pay out approximately $.94 in incurred claims and direct NDPERS administration fees for every $1.00 in premium collected for the current biennium

Actual PERS experience for the prior biennium (July 2003 through June 2005)[2] indicated:

Total Retained Premium Income*	Total Incurred Claims	Incurred Claim Loss Ratio
$237,237,733	$223,655,189	94.3%

* Total paid premium less PERS portion of reserves held by BCBSND

BCBSND Medical Loss Ratios

When asked about its loss ratios, BCBSND provided the following information on February 3, 2006.

- BCBSND all business (November, 2005 YTD): 89.6%
- BCBS Association system wide (June 2005 YTD): 87.0%

BCBSND has confirmed that these are "incurred loss ratios," which is the measure used by the Department of Insurance below.

Information provided by the North Dakota Insurance Department revealed the following BCBSND reported incurred loss ratios for the year ending December 2004:

- Large group: 91.1%
- Small group: 84.1%
- Individual: 88.2%

[2] NDPERS Board Group Medial Plan- Surplus/Affordability Update, 1/24/06

It is a source of debate within the benefit industry whether non-profit health plans have inherently different loss ratios than for-profit plans. One opinion found during our research indicated, "not for-profit health plans use a significantly higher percentage of the customers' premium dollar to pay health claims. A lower percentage goes for administrative expenses." [3]

Comparative Information

As mentioned above, comparing loss ratios without more detailed information about a carrier's product and client mix can lead to misleading conclusions. With this statement in mind, the information contain in the enclosed table may be useful in assessing PERS and BCBSND loss ratios. The states and companies listed vary as to whether they report medical loss ratios or incurred loss ratios.

Conclusion

There are three terms containing the words "loss ratio" that are frequently used in the benefits industry. One must be careful to be sure that like terms are being used for any comparisons among states, companies and insurance products.

BCBSND indicates that PERS projected "[incurred] loss ratio" for the current biennium is 94.2%. They have also confirmed that their most current "[incurred] loss ratio" for their entire book of business is 89.6%. Compared to the other state and plan data provided, BCBSND appears to pay out a higher percentage of premiums for claim expenses than most. Whether this is a result of lower operating expenses, less administration costs due to the mix of business in North Dakota or both would require additional research. It appears that the expected incurred loss ratio for NDPERS (92.4%) is even more favorable (to NDPERS) than BCBSND's entire book of business. Actual incurred loss ratio results for the prior biennium appear to support BCBSND's projections for the current period.

[3] Inquiry: Vol. 40, No. 4, pp. 318-322

LOSS RATIO COMPARISON INFORMATION

State	Plans	Type*	Loss Ratio
North Dakota(1)	Large Groups	Incurred	91.00%
	Small Groups	Incurred	82.70%
	Individual	Incurred	82.90%
Colorado(2)	Non-profit Corps.	Incurred	80.56%
	HMOs	Incurred	82.50%
	Total A&H	Incurred	78.30%
Washington(3)	Premera	Incurred or Paid	84.00%
	Regence (BCBS)	Incurred or Paid	78.00%
	Group Health	Incurred or Paid	86.00%
	Other Top 12	Incurred or Paid	84.00%
Wellpoint(4)	Includes BCBS CA	Incurred or Paid	81.50%
North Carolina(5)	BCBSNC 2003	Incurred or Paid	77.90%
	BCBSNC 2004	Incurred or Paid	83.00%

* If "Incurred or Paid", data did not specify which ratio used

(1)ND Insurance Dept. 2004
(2)Colorado Division of Insurance, 2003 Year End Report
(3)Washington Office of Insurance Commissioner, 2004
(4)Forbes.com, February 7, 2005
(5)BCBSNC.com/news/press-release

SEGAL

THE SEGAL COMPANY
6300 South Syracuse Way, Suite 750 Englewood, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

MEMORANDUM

To: Sparb Collins, Executive Director

From: Brad Ramirez, ASA, MAAA, EA

Date: February 13, 2006

Re: Department of Career and Technical Education Employees TFFR Transfers and Funding Analysis for the Retiree Health Insurance Credit Fund

---

As you requested, we have provided our analysis of the cost impact to Retiree Health Insurance Credit Fund (RHICF) related to the transfer of the TFFR employees and the granting of past service credit in the RHICF. The present value of the benefits accrued to the 18 transferees in the RHICF totals $114,621.

The 18 Department of Career and Technical Education employees have an average working lifetime of approximately eight years. Amortizing the present value of benefits accrued to the 18 transfers results in an increase to the required employer contribution of 1.85% of transferring employees' payroll for eight years. After the eight-year amortization period, the required contribution would then decrease to the rate in effect at that time for all other participating employers.

If the amount is amortized on an individual basis, the participants would contribute between 0.04% and 6.68% of pay over their future lifetimes. Those currently eligible for retirement would owe a one-time payment of up to 34.67% of pay.

In 2003, the approach used for DPI employees to fund the transfer liability was to amortize the liability over eight years, the average working lifetime of the transferring group. An analysis of this group shows that of the 22 transferring participants, 18 were still active two years later. Since this is a normal number of withdrawals, we feel that the average future service method for amortization is a reasonable approach to funding the liability.

Please let me know if you have any further questions.

cc: Leslie Thompson, FSA, MAAA, EA

/kls

144846/01640.001

Attachment 3

Legislative Employee Benefits Programs Committee

February 22, 2006

Fay Kopp, Deputy Executive Director
ND Retirement and Investment Office

2005 Actuarial Report Summary and Projections

In November, TFFR's actuarial consultant, Chris Conradi, of Gabriel, Roeder, and Smith (GRS) delivered the annual actuarial report to the Teachers' Fund for Retirement (TFFR) Board and to this Employee Benefits Programs Committee.

Key findings from the July 1, 2005, report: TFFR's funded ratio is about 75%; negative contribution margin is -4.37%; infinite funding period; unfunded actuarial accrued liability is about $495 million; and market value of TFFR assets is $1.5 billion. Attachments A, B, and C provide summary information.

TFFR's actuary also provided this Committee with information from a recent Experience Study and Asset Liability Modeling Study that was conducted to analyze what's happened to TFFR in the past, measure where TFFR is today, and anticipate where TFFR will be in the future. All results, of course, are based on assumptions about future investment returns, teacher salary increases, how soon teachers will retire, how long they will live, and other important events.

Future projections show if investment returns are greater than the 8% assumed rate over a long period if time, TFFR's funding condition could slowly improve. However, if investment returns average 8% (or less) over a long period of time, TFFR's funding condition would gradually decline in the absence of modifications to contribution rates or benefits. Also, the continued trend of early retirements and longer life expectancy, and declining number of active teachers contributing into the plan reduces the likelihood of future long term improvement.

Funding Options Outlined by Actuary

The TFFR Board and actuarial consultant have been exploring ways to improve TFFR's funding situation. Discussions have centered around two general categories:

- **More money coming in**

  Higher investment returns - assume 8%
  Increase employer contribution rates - currently 7.75%
  Increase employee contribution rates - currently 7.75%
  Require contributions on reemployed retirees - currently 0
  More members - currently 9,801 active members
  Other funding sources

- **Less money going out**

  Reduce benefits and liabilities

  No ad hoc retiree increases - none in 2003 and 2005
  Early retirement eligibility - currently Rule of 85
  Final average salary calculation - currently high 3 annual salaries
  Vesting period - currently 3 years
  Benefit multiplier - currently 2.0%
  Modify other benefit features like interest earned on member accounts, disability benefits, survivor benefits, etc.

  Reduce investment and administrative expenses - currently about 46 basis points (less than ½ of 1% of net asset value)

As part of their overall review, the Board also discussed and received advice from their legal counsel at the ND Attorney General's Office on issues relating to possible retirement plan changes for TFFR active and retired members. This advice impacts available options. The Attorney General's Office is presenting information on legally protected contractual benefits in a separate agenda item.

Proposals Under TFFR Board Consideration

The TFFR Board has not yet formally approved a legislative package to be submitted to this Committee for study. However, they are carefully studying potential changes that, along with positive investment results, should improve the funding level and overall financial health of TFFR. A proposal could include the following contribution and benefit changes:

- Increase employer contribution rate from 7.75% to 8.75%
- Collect employer contributions at rate of 8.75% on reemployed retirees
- Change early retirement eligibility from Rule of 85 to Rule of 90 for new hires
- Increase vesting requirement for retirement benefits from 3 years to 5 years for new hires
- Change final average salary calculation from high 3 years to high 5 years for new hires

Depending on investment returns (estimate 8.0% – 8.45%), the Board anticipates that by 2035, this type of proposal would have the following estimated impact on TFFR (assuming no other plan changes or actuarial gains or losses):

	Current (2005)	30 years (2035) 8% avg return	30 years (2035) 8.45% avg return
Funded ratio	75%	82%	105%
Margin	-4.37%	-0.50%	8.14%
Funding period	Infinite	38 years	0 years
UAAL	$ 495 million	$ 931 million	$($263) million
Asset Value (MVA)	$1,530 million	$4,281 million	$5,519 million

Should the Board submit such a proposal, we will provide detailed actuarial and technical information to this Committee at a future meeting.

Summary

The proposal that the TFFR Board is considering addresses TFFR's funded status without impairing legally protected contractual pension benefits for current active and retired members. If this proposal, or a variation of this proposal, is submitted and approved by the Legislature, a new "tier" of TFFR benefits will be created for new teachers and administrators joining TFFR after July 1, 2007. The new tier of member benefits acknowledges that the pension environment has undergone major changes over the past decade.

The Board believes that both members and employers should share the responsibility of future changes to the TFFR plan. Undoubtedly, increases in contributions and/or reductions in benefits may be difficult for teachers, administrators, and employers to manage. However, the Board believes that such changes may be necessary to maintain solid retirement benefits for current and future TFFR members, while preserving the long-term financial stability of the TFFR trust fund.

70052.0100

Sixtieth
Legislative Assembly
of North Dakota

FIRST DRAFT:
Prepared by the Legislative Council staff for Representative Carlson
February 2006

Attachment 4

Introduced by

A BILL for an Act to create and enact two new sections to chapter 54-52.1 of the North Dakota Century Code, relating to a healthy lifestyle program and an incentive for not participating in the state health insurance program; to amend and reenact sections 54-44.1-04, 54-52.1-06, and 54-52.1-07 of the North Dakota Century Code, relating to agency budget requests and state and employee health insurance contributions; to provide for application; and to declare an emergency.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 54-44.1-04 of the North Dakota Century Code is amended and reenacted as follows:

54-44.1-04. (Effective through June 30, 2007) Budget estimates of budget units filed with the office of the budget - Deadline. The head of each budget unit, not later than July fifteenth of each year next preceding the session of the legislative assembly, shall submit to the office of the budget, estimates of financial requirements of the person's budget unit for the next two fiscal years, on the forms and in the manner prescribed by the office of the budget, with such explanatory data as is required by the office of the budget and such additional data as the head of the budget unit wishes to submit. The budget estimates for the North Dakota university system must include block grants for the university system for a base funding component and for an initiative funding component for specific strategies or initiatives and a budget estimate for an asset funding component for renewal and replacement of physical plant assets at the institutions of higher education. The estimates so submitted must bear the approval of the board or commission of each budget unit for which a board or commission is constituted. The director of the budget in the director's discretion may extend the filing date for any budget unit if the director finds there is some circumstance that makes it advantageous to authorize the extension. If a budget unit has not submitted its estimate of financial requirements by the required date or within a period of extension set by the director of the budget, the director of the budget shall prepare the budget unit's estimate of financial requirements except the estimate may not exceed ninety percent of the budget unit's previous biennial appropriation. The director of the budget or a subordinate officer as the director designates shall examine the estimates and shall afford to the heads of budget units reasonable opportunity for explanation in regard thereto and, when requested, shall grant to the heads of budget units a hearing thereon which must be open to the public.

(Effective after June 30, 2007) Budget estimates of budget units filed with the office of the budget - Deadline. The head of each budget unit, not later than July fifteenth of each year next preceding the session of the legislative assembly, shall submit to the office of the budget, estimates of financial requirements of the person's budget unit for the next two fiscal years, on the forms and in the manner prescribed by the office of the budget, with such explanatory data as is required by the office of the budget and such additional data as the head of the budget unit wishes to submit. <u>The head of a budget unit may not include in its budget estimates funding for health insurance premiums for employees who are not enrolled in the uniform group insurance program.</u> The estimates so submitted must bear the approval of the board or commission of each budget unit for which a board or commission is constituted. The director of the budget may extend the filing date for any budget unit if the director finds there is some circumstance that makes it advantageous to authorize the extension. If a budget unit has not submitted its estimate of financial requirements by the required date or within a period of extension set by the director of the budget, the director of the budget shall prepare the budget unit's estimate of financial requirements except the estimate may not exceed ninety percent of the budget unit's previous biennial appropriation. The director of the budget or a subordinate officer as the director shall designate shall examine the estimates and shall afford to the heads of budget units reasonable opportunity for explanation in regard thereto and, when requested, shall grant to the heads of budget units a hearing thereon which must be open to the public.

SECTION 2. Two new sections to chapter 54-52.1 of the North Dakota Century Code are created and enacted as follows:

<u>**Healthy lifestyle program.**</u> <u>The board shall develop, by July 1, 2007, a healthy lifestyle program for eligible employees. The program must allow an eligible employee to earn up to</u>

seventy-five dollars per month of additional compensation as a reward for living a healthy lifestyle.

Incentive for nonparticipation in the uniform group insurance program. A permanent employee as defined in section 54-52-01 who fills a full-time equivalent position, who is not covered by the uniform group insurance program under the employee's spouse's enrollment in the program, and who does not participate in the program created by this chapter after June 30, 2007, is eligible to receive additional monthly compensation of up to one hundred dollars from the employing department, board, or agency at the discretion of the employing department, board, or agency.

SECTION 3. AMENDMENT. Section 54-52.1-06 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-06. State contribution - State employee contribution. Each department, board, or agency shall pay to the board each month from its funds appropriated for payroll and salary amounts a state contribution in the amount as determined by the primary carrier of the group contract less employee contributions as required by this section for the full single rate monthly premium for each of its eligible employees filling a full-time equivalent position and enrolled in the uniform group insurance program ~~and~~. For eligible employees filling less than a full-time equivalent position, the state contribution must be reduced proportionately to equal the employee's full-time equivalent percentage and the employee must be assessed any additional contributions required for the full single rate monthly premium. For each of its eligible employees filling a full-time equivalent position and enrolled in the program on June 30, 2007, each department, board, or agency shall pay to the board each month from its funds appropriated for payroll and salary amounts a state contribution rate for the full rate monthly premium, in an amount equal to that contributed under the alternate family contract less employee contributions as required by this section, including major medical coverage, for hospital and medical benefits coverage for eligible employees and their spouses and dependent children ~~of its eligible employees~~ enrolled in the uniform group insurance program pursuant to section 54-52.1-07. For eligible employees filling less than a full-time equivalent position and enrolled in the program on June 30, 2007, the state contribution must be reduced proportionately to equal the employee's full-time equivalent percentage and the employee must be assessed any additional contributions required for the alternate family contract. An eligible employee employed by a state department, board, or agency who is participating in the uniform group insurance program and for whom that eligible employee is paying a premium must be assessed and required to pay seventy-five dollars monthly for uniform group insurance program coverage under this section. This assessment must be deducted and retained out of the eligible employee's salary. The board shall then pay the necessary and proper premium amount for the uniform group insurance program to the proper carrier or carriers on a monthly basis. Any refund, rebate, dividend, experience rating allowance, discount, or other reduction of premium amount must be credited at least annually to a separate fund of the uniform group insurance program to be used by the board to reimburse the administrative expense and benefit fund of the public employees retirement program for the costs of administration of the uniform group insurance program. In the event an enrolled eligible employee is not entitled to receive salary, wages, or other compensation for a particular calendar month, that employee may make direct payment of the required premium to the board to continue the employee's coverage, and the employing department, board, or agency shall provide for the giving of a timely notice to the employee of that person's right to make such payment at the time the right arises.

SECTION 4. AMENDMENT. Section 54-52.1-07 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-07. Optional coverage for employee's family. Each eligible employee enrolled in the uniform group insurance program on June 30, 2007, may elect to include that person's spouse and all qualified dependents, as provided for in the plan, within the hospital benefits coverage and medical benefits coverage, and the state ~~to~~ shall pay the cost of such coverage as provided in section 54-52.1-06. For each eligible employee enrolling in the uniform group insurance program after June 30, 2007, the employee shall pay the cost of such coverage.

SECTION 5. APPLICATION OF ACT. Section 3 of this Act applies to health insurance premiums paid for health insurance coverage after June 30, 2007.

SECTION 6. EMERGENCY. This Act is declared to be an emergency measure.

AGENDA

NORTH DAKOTA STATE INVESTMENT BOARD MEETING

FRIDAY, MARCH 17, 2006, 8:30 AM
FT. UNION ROOM, STATE CAPITOL

I. CALL TO ORDER.

II. MINUTES.

III. BOARD EDUCATION.

A. Wells Capital Alpha Capture Portfolio -
Mr. Bob Bissell, Mr. Jeff Mellas, Mr. Jim Robertson (1.5 hours)

IV. GOVERNANCE.

A. Investments
1. Work on Domestic Large Cap Equity - Wells / Strong - Mr. Cochrane (to follow) (1 hour)

B. Monitoring
1. CEO Performance Evaluation - SIB, Mr. Mason (enclosed) (10 minutes)
2. SIB Workplan Calendar Update - Mr. Cochrane (enclosed) (5 minutes)

V. OTHER.

SIB meeting - April 21, 2006, 8:30 a.m. - Ft. Union Room, State Capitol

VI. ADJOURNMENT.

Any individual requiring an auxiliary aid or service must contact the Executive Director of the Retirement and Investment Office (701) 328-9885 at least three (3) days prior to the scheduled meeting.

STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 20, 2006, BOARD MEETING

BOARD MEMBERS PRESENT:	Lt. Governor Jack Dalrymple, Chair Howard Sage, Vice Chair Sandy Blunt, Workforce Safety & Insurance Clarence Corneil, TFFR Board (Via teleconference) Barb Evanson, TFFR Board Ron Leingang, PERS Board Jim Poolman, Insurance Commissioner Gary Preszler, Land Commissioner Mark Sanford, TFFR Board
ABSENT:	Rosey Sand, PERS Board Kelly Schmidt, State Treasurer
STAFF PRESENT:	Steve Cochrane, Executive Director Fay Kopp, Deputy Executive Director Connie Flanagan, Fiscal & Investment Officer Susan Gefroh, Investment Accountant Bonnie Heit, Office Manager Les Mason, Supervisor Internal Audit
OTHERS PRESENT:	Weldee Baetsch, former SIB trustee David Brett, Adams Street Joseph Carieri, Western Asset Management Miguel Gonzalo, Adams Street Eric Hardmeyer, Bank of North Dakota Bob Humann, Bank of North Dakota Bill Kalanek, AFPE/NDRTA Lowell Latimer, TFFR/NDRTA George Matthews, Wells Capital Management Scott Miller, Attorney General's Office James Paulsen, Wells Capital Management Donald Plotsky, Western Asset Management Gary Rath, NDEA James Robertson, Wells Capital Management David Sandy, Workforce Safety & Insurance Howard Snortland, AFPE/NDRTA

CALL TO ORDER:

Lt. Governor Dalrymple, Chair of the State Investment Board (SIB), called the meeting to order at 8:30 a.m. on Friday, January 20, 2006, at the State Capitol, Ft. Union Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: COMMISSIONER POOLMAN, MR. SANFORD, MR. BLUNT, COMMISSIONER PRESZLER, MRS. EVANSON, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. SAGE, AND MR. CORNEIL.

MINUTES:

The Board considered the minutes of the November 18, 2005, meeting,

DR. SANFORD MOVED AND MR. SAGE SECONDED TO APPROVE THE MINUTES OF THE NOVEMBER 18, 2005, MEETING.

AYES: COMMISSIONER POOLMAN, DR. SANFORD, MR. BLUNT, COMMISSIONER PRESZLER, MRS. EVANSON, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. SAGE, AND MR. CORNEIL
NAYS: NONE

MOTION CARRIED

BOARD EDUCATION:

Adams Street - Mr. Miguel Gonzalo and Mr. David Brett, Adams Street, reviewed an investment opportunity in Adams Street's Direct Co-Investment Fund for the SIB's consideration.

A copy of their report is on file at the Retirement and Investment Office (RIO).

Economic Forecast - Mr. Jim Paulsen, Wells Capital Management economist, presented an economic status report to the board.

Mr. Sage left the meeting.

Enhanced TIPs Management (Insurance Trust) - Mr. Joe Carieri and Mr. Donald Plotsky, Western Asset Management, presented an opportunity for the SIB to improve returns while reducing risk in the Insurance Trust's existing Treasury Inflation Protected securities (TIPs) mandate.

A copy of their presentation is on file at RIO.

BND Match Loan Program - Mr. Eric Hardmeyer and Mr. Bob Humann, Bank of North Dakota (BND), requested an additional $50 million commitment to BND's Match Loan Program.

A copy of their presentation is on file at the RIO.

GOVERNANCE:

INVESTMENTS

Domestic Fixed Income (Insurance Trust) - Discussion was held on giving additional discretion to Western Asset Management to enhance the return but at the same time control risk in the Insurance Trust's TIPs fund. After discussion,

DR. SANFORD MOVED AND COMMISSIONER POOLMAN SECONDED TO GIVE WESTERN ASSET MANAGEMENT THE AUTHORITY TO EXPAND TO AN ENHANCED TIPS FUND. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: DR. SANFORD, MR. BLUNT, MR. LEINGANG, COMMISSIONER PRESZLER, MRS. EVANSON, COMMISSIONER POOLMAN, MR. CORNEIL, AND LT. GOVERNOR DALRYMPLE
NAYS: NONE
MOTION CARRIED

Adams Street Investment Opportunity - Discussion was held on allocating $20 million to Adams Street's Direct Co-Investment Fund. After discussion,

DR. SANFORD MOVED AND MRS. EVANSON SECONDED TO ACCEPT STAFF RECOMMENDATION AND ALLOCATE $20 MILLION TO ADAMS STREET'S DIRECT CO-INVESTMENT FUND. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MR. BLUNT, MRS. EVANSON, MR. CORNEIL, COMMISSIONER POOLMAN, COMMISSIONER PRESZLER, DR. SANFORD, AND LT. GOVERNOR DALRYMPLE
NAYS: MR. LEINGANG
MOTION CARRIED

BND Match Loan Program - Discussion was held on BND's request of the SIB to allocate an additional $50 million to their Match Loan Program. After discussion,

COMMISSIONER POOLMAN MOVED AND MR. BLUNT SECONDED TO COMMIT AN ADDITIONAL $50 MILLION TO THE BND MATCH LOAN PROGRAM. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: COMMISSIONER POOLMAN, MR. BLUNT, COMMISSIONER PRESZLER, MRS. EVANSON, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, DR. SANFORD, AND MR. CORNEIL
NAYS: NONE
MOTION CARRIED

PERS Guidelines - Mrs. Connie Flanagan, Fiscal and Investment Officer, presented revised guidelines for the Public Employees Retirement System (PERS).

MR. LEINGANG MOVED AND MR. BLUNT SECONDED TO ACCEPT THE PERS REVISED GUIDELINES AS PRESENTED.

AYES: LT. GOVERNOR DALRYMPLE, COMMISSIONER POOLMAN, MR. BLUNT, COMMISSIONER PRESZLER, MR. LEINGANG, DR. SANFORD, MR. CORNEIL, AND MRS. EVANSON
NAYS: NONE
MOTION CARRIED

Securities Litigation - Mr. Cochrane informed the Board representatives from the Vogel Law Firm recently contacted the SIB to discuss their securities litigation services and how they may be of service to the SIB. Commissioner Poolman, Mr. Scott Miller, SIB Counsel, and Mr. Cochrane met with the Vogel Law Firm representatives. After meeting with firm representatives, Mr. Cochrane and Mr. Miller felt the current SIB policy is still meeting the fiduciary responsibilities for the Board. After discussion, the Board concurred to have the Vogel Law Firm representatives come in and partake in discussions if a securities litigation issue would arise in the future.

Lt. Governor Dalrymple left the meeting and Dr. Sanford chaired for the remainder of the meeting.

SIB Policy for Adoption - As a result of the emerging equity allocation to WestLB and Panogora, Mr. Miller composed the following resolution for the Board's consideration and adoption.

WHEREAS, the qualified Funds managed by the State Investment Board, including any funds managed by the State Investment Board pursuant to N.D.C.C. §21-10-06, may be commingled for investment purposes; and

WHEREAS, the State Investment Board wishes to invest a portion of the qualified funds it manages in one or more group trusts described in Revenue Ruling 81-100, as modified from time to time and any successor revenue ruling thereto, and/or Code Section 401(a)(24); and

WHEREAS, Revenue Ruling 81-100 requires in relevant part that the group trust be adopted as part of each employer's plan.

NOW THEREFORE, it is hereby

RESOLVED, that if the State Investment Board directs that qualified assets of a Fund or Funds are to be invested in a group trust fund that is intended to satisfy Revenue Ruling 81-100, as modified from time to time, or any successor revenue ruling thereto, by so investing the Board, on behalf of the Funds, intends, subject to applicable law and to the extent the Funds remain invested in such trust, to adopt, comply with, and be bound by the terms of such trust; provided however, that if the Internal Revenue Service issues published guidance that relieves government plans such as the Funds from the requirement of Revenue Ruling 81-100, as modified from time to time, or any successor revenue ruling thereto, that the group trust be adopted as part of the Fund, this resolution will cease to be effective without further modification.

COMMISSIONER PRESZLER MOVED AND MR. BLUNT SECONDED TO ADOPT REVENUE RULING 81-100 AND THE RESOLUTION AS PRESENTED BY MR. MILLER.

AYES: MR. LEINGANG, MR. CORNEIL, MRS. EVANSON, DR. SANFORD, MR. BLUNT, COMMISSIONER POOLMAN, AND COMMISSIONER PRESZLER
NAYS: NONE
MOTION CARRIED

MONITORING:

Included in the Board member's packets were the following monitoring reports for the quarter ending December 31, 2005 – Executive Limitations/Staff Relations, Budget and Financial Conditions, Retirement, and Investment Reports.

COMMISSIONER POOLMAN MOVED AND MR. LEINGANG SECONDED TO APPROVE THE MONITORING REPORTS FOR THE QUARTER ENDING DECEMBER 31, 2005.

AYES: MR. CORNEIL, COMMISSIONER PRESZLER, DR. SANFORD, COMMISSIONER POOLMAN, MRS. EVANSON, MR. LEINGANG, AND MR. BLUNT
NAYS: NONE
MOTION CARRIED

OTHER:

The next meeting of the SIB will be held on Friday, February 17, 2006, at 8:30 a.m., at the State Capitol's Ft. Union Room, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the Board, Dr. Sanford adjourned the meeting at 12:25 p.m.

Respectfully Submitted:

John S. Dalrymple III
Lt. Governor Dalrymple
Chair, State Investment Board

Bonnie Heit
Bonnie Heit
Reporting Secretary

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

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

FAX: (701) 328-3920 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: Job Service

At the last several meetings we have addressed the Job Service investment strategy relating to the timber investment and the unique character of the JSND plan being a closed plan (refer to Attachment #1). We have heard from Segal, Steve Cochrane our state investment officer, Callan and TIR. The following is a summary of the presentations relating to the issues discussed previously.

Issues	Segal	State Investment Officer	Callan	TIR
Prudent		It is a prudent investment which reduces the risk while providing an opportunity for increased returns.	The 20% timber investment is prudent from a diversification perspective. The Job Service portfolio is invested in other classes to a greater degree such as equities.	Discussed how the timber investment draws income in several ways including growth, land management, miscellaneous income (hunting licenses, etc) and HBU (Higher and Better Uses).
Diversification		The addition of timber to the fixed income class adds to the diversification of that asset class in a positive manner and to the diversification of the entire portfolio.	The timber program is well diversified at the manager and asset levels; it provides beneficial diversification benefits. The two timber portfolios comprise over 360 individual tracts, roughly equivalent--from an investment perspective--to a well diversified set of individual holding in either an equity or a fixed-income manager's portfolio.	Reviewed the various holdings to show how sites are selected to reduce risk through site selection.

Liquidity	Felt that our liquidity requirements could be met in the near term.	The SIB can meet any liquidity requirement that should arise by making the necessary adjustment in the fixed income investments. This is one of the strengths of the SIB managing the portfolios of the various funds in a commingled format.	This may be an issue that will need to review with the PERS actuary. PERS should work through the SIB to monitor both projected and actual cash flow generated by the Timber portfolio relative JSND's projected benefit schedule. Ideally, cash flows should be comparable or superior to the Lehman Aggregate Bond Index.	
Risk		The board was advised that the overall risk in the JSND portfolio is one of the lowest when compared to other public funds. The addition of timber to the fixed income strategy contributed to this risk reduction.	JSND's fixed-income allocation contains a variety of both investment strategies and managers. The incremental diversity present at both the manager and investment strategy levels results in risk reduction.	Reviewed the systematic risk factors and the nonsystematic risk factor.
Volatility		Volatility of the overall portfolio is low when measured by Standard Deviation.	This investment reduces the overall volatility of the portfolio.	
Assumed return assumption	The fund should consider reducing the return assumption to 7 or 7.5%.			
Other comments		This is sound investment that enhances the overall portfolio, reduces risk and is prudent at the level in the JSND plan.	The expected remaining life of the timber portfolios is less than 12 years with a gradual reduction in size as the portfolio enters its liquidation phase in the outlying years.	

As noted from the above, all of our presenters felt the present mix was prudent, reduced risk/volatility and that our liquidity requirements could be met in the near term. In recognition of these findings staff is recommending the following:

Based upon the Segal recommendation and their memo of January 31 (Attachment #1) we should drop our assumed rate of return to 7% in this plan.

- Make no changes at this point in the investment strategy.
- At the next opportunity we should drop our return to 6.5% and at that time initiate an asset liability study for this plan to continue moving the portfolio to conservative mix and to review the benefits of an immunization strategy.
- That we write a letter to the SIB discussing the unique nature of the Job Service Retirement (that it is a closed end fund), that we have revised our assumed rate of return and that our goal is to continue to reduce risk and increase the predictability of returns for the fund.

Board Action Requested:

To approve a plan of action for the JSND retirement plan.

Attachment 1

SEGAL

THE SEGAL COMPANY - DENVER

MEMORANDUM

To: Sparb Collins (NDPERS)

From: Brad Ramirez, ASA, MAAA, EA

Date: January 31, 2006

Re: Job Service Plan Interest Rate Studies

We have calculated the present value of benefits as of July 1, 2005 for the Retirement Plan for Employees of Job Service North Dakota under various rate of return assumptions. The results are highlighted in the table below.

Rate of Return	Present Value of Benefits	Funded Ratio (% of Market Value)	Funded Ratio (% of Actuarial Value)
8.00%	$63,324,714	128.7%	109.4%
7.00%	71,316,251	114.3%	97.2%
6.50%	75,928,039	107.4%	91.3%

The break-even rate of return for the fund on an actuarial value basis is 7.24%; meaning that a fund yielding an actuarial rate of return of 7.24% would be expected to fully fund the benefits over the long term. The break-even rate of return on a market value basis is 5.96%.

Given that the plan is closed to new participants, it may be prudent to discuss options (cash flow matching, immunization, etc.) to make certain that the assets of the plan are sufficient to satisfy the plan's liabilities while minimizing the volatility of funding levels.

Please let me know if you have any questions.

144597/01640.004

Constitutionality of Benefit Changes

Scott A. Miller
Assistant Attorney General

Constitutionality of Benefit Changes

- Contract Clause
  - Both Federal and State Constitution
  - State cannot pass a law impairing a contractual obligation – "A contract is an agreement, in which a party undertakes to do, or not to do, a particular thing. The law binds him to perform his undertaking, and this is . . . the obligation of his contract." Sturges v. Crowninshield, 4 Wheat. 197
- Public pension obligations in North Dakota are contractual obligations
  - Payne v. Board of Trustees, 35 N.W.2d 553 (N.D. 1948)

Payne

- "[P]ension payments are added compensation for service that has been rendered."
- "The relation thus established [between the teacher and the school district regarding pension assessments] is in the nature of a contract, the terms of which are contained in the law so accepted by the teacher."

Le Pire v. Workmen's Comp.

- 111 N.W.2d 355 (N.D. 1961).
- "In the absence of a specific provision that employees affected by such plan [(OASIS)] shall have a vested right in it from the beginning of its operation," the Legislative Assembly can modify the plan for nonvested members.
- This would support an argument that the benefit structure can be changed.

Current State of the Law

- However, there have been many changes since that time.
- Statutory contract recognition:
  - N.D.C.C. section 54-52-14.3: "Any provision of law relating to the use and investment of public employee retirement funds must be deemed a part of the employment contracts of the employees participating in any public employee retirement system."

The California Rule

- The "California Rule" – The governing body may make plan changes, but any changes that disadvantage an employee must be accompanied by comparable advantageous changes.
- Given the current statutory scheme, I think the ND Supreme Court would follow the California Rule.

Membership Cohorts

- Four Membership Designations:
  - Retirees
  - Inactives
  - Actives
  - Future Actives

Retirees

- Under the Current Multiplier – can't change anything
- Under a Previous Multiplier – can't change anything

Inactives

- Vested inactives under current multiplier
- Vested inactives under previous multiplier
  - Accrued benefits cannot be changed, but any future benefit accruals may be different
- Nonvested inactives under current multiplier
- Nonvested inactives under previous multiplier
  - Cannot take away earned credit, but can modify benefit structure

Actives

- Vested and nonvested
- Under the California Rule, the commencement of employment creates a contract
- Thus, the state cannot change the terms of the contract without a corresponding benefit.
- Rule of 85, vesting, interest, multiplier, employee contribution

Future Actives

- No rights whatsoever – you could change everything

Oregon Case

- Strunk v. Public Employees Retirement Board, 108 P.3d 1058 (OR. 2005)
- Oregon legislature made significant changes to the PERS plan
- Members challenged the constitutionality of those changes

Oregon Case

- The Oregon Supreme Court held that two of the changes violated the contract clause:
  - Modification of how interest accrues to employee accounts (change resulted in a 12-20% reduction in benefits)
  - Removal of automatic COLA
- Several other changes were OK because they did not affect contract rights

What if . . .?

- What would happen if changes were passed that were, arguably, unconstitutional
- I'm just a lawyer – I could be wrong
  - S.Ct. may find the changes acceptable
- But I could be right (probably, in fact)
  - If the S.Ct. found the changes unconstitutional, it could void the changes, and would probably return everyone to where they were

Questions?

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

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

FAX: (701) 328-3920 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 8, 2006

SUBJECT: Addendum to Group Health Care Insurance Policy

Attached is the Addendum to Group Health Care Insurance Policy for the Group MedicareBlue RX Prescription Drug Plan. Scott Miller has reviewed and approved the contract.

We are seeking Board approval authorizing the Chairman to sign the contract.

BlueCross BlueShield of North Dakota

An independent licensee of the Blue Cross & Blue Shield Association

Consulting Services Unit
4510 13th Avenue South
Fargo, North Dakota 58121-0001

(701) 282-1444

RECEIVED JAN 24 06 ND PERS

January 23, 2006

Mr. Sparb Collins
Executive Director
North Dakota Public Employees Retirement System
400 East Broadway – Suite 505
P.O. Box 1214
Bismarck, ND 58501

Dear Sparb,

Attached you will find three (3) copies of the Addendum to Group Health Care Insurance Policy for the Group MedicareBlue Rx Prescription Drug Plan. As stated in the addendum, the plan year is January 1, 2006 through December 31, 2006. Per enrollee premium is $53.82.

Please review the documents, sign and return 2 copies to me in the attached self-addressed envelope.

If you have any questions, please feel free to call me at (701)282-1259.

Sincerely,

Larry Brooks

Larry Brooks, Manager
Marketing Consulting Services
Blue Cross Blue Shield of ND

JAN 2 4 '06

Group MedicareBlue Rx Retiree Prescription Drug Plan
Addendum to Group Health Care Insurance Policy

Issued by: Blue Cross Blue Shield of North Dakota hereinafter, "BCBS"

Issued to: North Dakota Public Employees Retirement System (NDPERS), hereinafter "Group."

Plan Year Effective Dates: January 1, 2006 through December 31, 2006.

Total Per Enrollee Per Month Premium: $53.82

RECITALS

WHEREAS Group MedicareBlue Rx is a Medicare Prescription Drug Plan providing prescription drug coverage through only one of the following plans: Wellmark Blue Cross and Blue Shield of Iowa*, Blue Cross and Blue Shield of Minnesota*, Blue Cross and Blue Shield of Montana*, Blue Cross and Blue Shield of Nebraska*, Blue Cross Blue Shield of North Dakota*, Wellmark Blue Cross and Blue Shield of South Dakota*, and Blue Cross Blue Shield of Wyoming;* and

WHEREAS BCBS provides group health insurance coverage to Group's employees, retirees, and their beneficiaries through the Administrative Service Agreement dated July 1, 2005, hereinafter "Group Contract;" and

WHEREAS Group wants to supplement coverage provided in the Group Contract by providing Medicare Part D prescription drug coverage to its retirees and their eligible beneficiaries under the terms of this Group MedicareBlue Rx Retiree Prescription Drug Plan Addendum to Group Health Care Insurance Policy ("Addendum"), and

WHEREAS Group must comply with Medicare restrictions in order to obtain Medicare Part D group prescription drug coverage for its retirees; and

WHEREAS BCBS offers Medicare Part D prescription drug coverage through Group MedicareBlue Rx and is willing to provide Group's retirees Part D coverage;

NOW THEREFORE it is hereby agreed as follows:

ARTICLE I
DEFINITIONS

1.1 <u>Defined Terms</u>. Capitalized terms used in this Addendum are defined herein or have the meaning set forth in the Medicare Part D Rules (42 C.F.R. Part 423). Capitalized terms in this Addendum are not defined in the Group Contract.

1.2 "**BCBS**" is the independent licensee of the Blue Cross and Blue Shield Association, named above, that insurance coverage under this Addendum is **Issued by**.

1.3 "**CMS**" is the Centers for Medicare and Medicaid Services, the Federal Agency responsible for the Medicare program.

1.4 "**CMS Contract**" is the contract between BCBS and CMS pursuant to which BCBS offers Group MedicareBlue Rx coverage.

1.5 "**Enrollee**" is a retired person (not an active employee) who (a) is eligible for Group's retiree benefit plan, (b) is entitled to Medicare benefits under Medicare Part A or enrolled in Medicare Part B, (c) lives in the United States, and (d) is enrolled in MedicareBlue Rx under the procedures established in the Group Contract. "Enrollee" may also be a dependent of an Enrollee described above, provided that the dependent (a) is eligible for Group's retiree benefit plan, (b) is entitled to Medicare benefits under Medicare Part A or enrolled in Medicare Part B, (c) lives in the United States, and (d) is enrolled in MedicareBlue Rx under the procedures established in the Group Contract.

1.6 "**Group**" is the employer (or other plan sponsor), named above, that insurance coverage under this Addendum is **Issued to**.

1.7 "**Group Contract**" is the contract between BCBS and Group, identified above, by which BCBS provides group health insurance coverage to Group's employees, retirees, and their beneficiaries.

1.8 "**Medicare Low Income Subsidy**" is the Medicare Part D subsidy for which low-income Medicare beneficiaries are eligible under Subpart P of 42 C.F.R. Part 423.

ARTICLE II

PROVISION OF PRESCRIPTION DRUG COVERAGE

2.1 **Insurance Coverage.** BCBS shall provide Enrollees insurance coverage for prescription drugs in accordance with the Evidence of Coverage and Schedule of Benefits, attached hereto as Exhibit A. Group and BCBS shall comply with the terms of the Group Contract with respect to this coverage, except as otherwise provided in this Addendum, as otherwise required by rules or guidance issued by CMS, or as otherwise required by the CMS Contract.

2.2 **Evidence of Coverage.** BCBS shall provide Enrollees an evidence of coverage describing benefits, exclusions, and appeal rights.

ARTICLE III

GROUP RESPONSIBILITIES

3.1 **Payment of Premiums.** Group agrees to pay the total premium for each Enrollee under the terms and conditions established in the Group Contract. BCBS may terminate this Addendum in accordance with the termination provisions of the Group Contract for Group's failure to pay Premium in accordance with the Group Contract.

3.2 Notification of Enrollment. At least thirty (30) days prior to enrollment, Group agrees to notify all prospective Enrollees that Group intends to enroll them into Group MedicareBlue Rx, unless the prospective Enrollee opts out. The notification must include a Group MedicareBlue Rx Summary of Benefits, information on how to obtain more information about Group MedicareBlue Rx, and an explanation of how to contact Medicare for more information on alternative options.

3.3 Uniform Premium Requirement. Group may determine how much, if any, of an Enrollee's premium it will subsidize. Group may subsidize different amounts for different classes of Enrollees, provided that classes are reasonable and based on objective business criteria, such as years of service, business location, job category, and nature of compensation (e.g. salaried versus hourly). Classes may not be based on eligibility for the Medicare Low Income Subsidy. Group's subsidy may not vary for Enrollees within a class of Enrollees. Group may not require any Enrollee to pay more each month than the Total Per Enrollee Per Month Premium listed above.

3.4 Benefit of Medicare Low Income Subsidy Premium. Any premium received through the Medicare Low Income Subsidy must be applied first to the eligible Enrollee's Per Enrollee Per Month, Enrollee Share. Group may not benefit from any premium received through the Medicare Low Income Subsidy until the eligible Enrollee's premium is reduced to zero ($0.00).

3.5 Disclosure Standards. Group shall provide Enrollees information about its prescription drug benefit plan such that Group complies with all applicable disclosure standards and requirements under Federal and State laws, including, if applicable to Group, the Employee Retirement Income Security Act ("ERISA"). At a minimum, Group shall ensure that Enrollees receive an evidence of coverage describing benefits, exclusions, and appeal rights.

3.6 Determination of Service Area. So that BCBS may comply with CMS requirements, Group shall provide BCBS information necessary for BCBS to determine whether the most substantial portion of Group's employees reside in MedicareBlue Rx's service area.

ARTICLE IV

MISCELLANEOUS PROVISIONS

4.1 Term and Termination. The term of this Addendum is the Plan Year Effective Dates, set out above, unless terminated earlier in accordance with the termination provisions of the Group Contract or the termination provision in Article 4.2, below.

4.2 Termination of CMS Contract. CMS requires Group MedicareBlue Rx to terminate this Addendum upon termination or non-renewal of the CMS Contract. Group MedicareBlue Rx shall provide Group ninety (90) days notice before Group MedicareBlue Rx non-renews the CMS Contract and thereby terminates this Addendum. Group MedicareBlue Rx shall provide Group as much notice as reasonably practical of CMS's termination or non-renewal of the CMS Contract. Such notice shall include the termination date for this Addendum.

4.3 Application of State Insurance Law. State Insurance laws, such as laws guaranteeing renewability of insurance contracts, generally do not apply to this Addendum. Such laws are preempted by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. 108-173, 117 Stat. 2066. *See* Social Security Act § 1860D-12(g) (42 U.S.C. § 1395w-112(g)); *accord*, 42 C.F.R. § 423.440(a). The terms of this Addendum are therefore regulated primarily by Federal law.

4.3 **Medicare Secondary Payer.** Federal law requires BCBS to identify other payers that are responsible for Enrollees' prescription drug costs and that are primary to Medicare, identify amounts payable by those payers, and coordinate benefits with those payers. BCBS may bill these payers or authorize providers to bill these payers and, to the extent an Enrollee has been paid for MedicareBlue Rx-covered prescription drug costs by another payer, BCBS may bill the Enrollee. Upon request, Group shall provide BCBS and CMS information that Group has on Enrollees' other insurance coverage, for purposes of this coordination of benefits. Federal law preempts State laws and contractual provisions that interfere with Group MedicareBlue Rx's ability to coordinate benefits in accordance with CMS guidelines. *See* 42 C.F.R. §§ 422.108(f), 422.402, 423.462, 423.440(a).

IN WITNESS WHEREOF:

For Blue Cross Blue Shield of North Dakota 4510 13th Avenue S Fargo North Dakota, 58121-0001	For North Dakota Public Employee Retirement System PO Box 1657 Bismarck, North Dakota 58502
Michael B. Unhjem	______________________
	Signature
Its President and CEO	______________________
Title	Title
January 19, 2006	______________________
Date	Date

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

Sparb Collins
Executive Director
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1-800-803-7377

FAX: (701) 328-3920 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

Memorandum

TO: PERS Board

FROM: Kathy

DATE: March 8, 2006

SUBJECT: Dental and LTC RFP

At the December meeting, the board approved preparing a request for proposals (RFP) for consulting services to bid out the dental and LTC programs. The RFP was issued on January 20, 2006 with responses due by February 21, 2006. We sent out 13 requests and received four proposals from the following:

The Segal Company
Gallagher Benefit Services (GBS)
Deloitte Consulting
Buck Consultants

Staff evaluated the proposals. Included for your information are the evaluation results. As they indicate, the scores on the technical elements were close among all firms. GBS received the most points in terms of price and when combined with the technical score gave them the highest overall score of 85.3. Deloitte was second with 82.6; however its price is $40,000 compared to GBS at $24,000.

Based on the analysis, staff recommends that GBS be awarded the bid for consulting services.

BOARD ACTION REQUESTED

Accept staff recommendation to award the consultant services for the dental and LTC RFP to Gallagher Benefit Services.

RFP SCORING SHEET

RFP for Dental and Long Term Care Insurance

RFP for Dental / LTC

Possible Points	Item to Score	Points Scored - Segal AVG SCORE	Points Scored - GBS AVG SCORE	Points Scored - Deloitte AVG SCORE	Points Scored - Buck AVG SCORE
1	1. Provide a brief description of the size, structure and services provided by your organization.	1.0	1.0	1.0	1.0
4	2. Provide your understanding of the services PERS is requesting.	4.0	3.5	3.3	3.5
2	3. Describe your organization's approach to consulting for dental and long term care insurance programs.	1.8	1.5	1.5	1.5
3	4. Indicate your organization's depth of experience in each of the following areas:	3.0	2.8	2.5	2.6
	< Dental & LTC Benefit Design				
	< Preparation of Plan Documents				
	< Preparation of Member Booklets				
	< Contract Negotiations				
	< Actuarial Analysis and Reporting				
	< Preparation of Contracts, Bid Specifications and RFPs				
	< Analysis of self insured versus fully insured for dental plans.				
6	5. Detail your understanding of the renewal work effort and the time frames for its accomplishment. In addition, provide a flow	5.1	4.5	5.5	5.0
3	6. Discuss your approach to marketing the proposals. How would you insure that PERS gets responses from quality/cost effective	2.5	2.3	2.5	3.0
6	7. Describe the method used by your firm in examining the feasibility of self insuring a dental plan. Also, provide specific details of	3.8	5.3	4.8	5.0
7	8. Please discuss your approach to analyzing bids. What factors do you consider and how do you present you analysis. Please provide a	5.0	4.5	5.0	3.8
3	9. Describe in detail your experience with assisting clients with self funded dental plans. Include your approach for analyzing self	2.5	2.3	2.0	2.3
5	10. Provide a listing of similar projects your firm has worked on (specifically identify dental and LTC), names of clients and contact	2.5	4.5	3.8	4.3
0	11. Has your firm ever accepted contingent commissions from vendors? Do you presently receive contingent commissions?				
5	12. Provide a listing and the experience your firm has with public sector clients.	3.3	4.3	4.8	4.5
2	13. Provide a list and resume of staff assigned to this project.	2.0	2.0	2.0	2.0
9	14. Estimate the number of hours each staff will work on the project. Please do not provide any resumes for staff that will not be working	5.8	5.8	7.0	7.8
9	15. For each staff member identified, please indicate if they have worked on any of the projects listed under the firm's experience. If	5.5	6.3	6.5	6.5
Total Possible Points is 65	**Points Scored:**	**47.6**	**50.3**	**52.0**	**52.6**
Price:		Dental - $32,750 LTC - $32,750	Dental - $12,000 LTC - $12,000	Dental - $42,743 LTC - $36,620	Dental - $25,000 LTC - $15,000
Total Possible Points is 35	**Price Score:**	25.0	35.0	20.0	30.0
TOTAL POINTS		72.6	85.3	72.0	82.6

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Memorandum

TO: PERS Board

FROM: Kathy

DATE: March 8, 2006

SUBJECT: Smoking Cessation Program

There are now two new nicotine replacement therapies (NRTs) available; Nicotrol NS which is a nasal spray and Nicotrol Inhaler. BCBS has requested our direction regarding coverage for these two new smoking deterrents as they have had requests from the smoking cessation providers and also have two claims pending reimbursement.

Staff requested input from Kathy Mangskau of the Health Department and Dr. Rice with BCBS regarding the effectiveness of the spray and inhaler. Dr. Rice indicated that both products are FDA approved for the same indication as the other NRTs covered. Kathy indicated that while the patch and gum are most commonly used, the inhaler and spray offer options for those individuals that are allergic to or unable for some other reason to use other products. Both products require a prescription for purchase.

Our current grant proposal references coverage for NRTs under the Program Services and Reimbursement sections as follows:

- $500 per Member/ per Benefit Period for office visit, prescription drugs and over-the-counter drugs prescribed for tobacco cessation.

Attachment 1 is a list of all over-the-counter and prescription NRTs currently available which includes a comparison of the average wholesale price (AWP), daily dose and cost, recommended duration and approximate cost based on an 8-week treatment program. The cost for these products is somewhat higher than for other NRTs, but falls within the reimbursement guidelines in our proposal. As the proposal does not specify product names, it is staff's interpretation that these new products are eligible for coverage under the plan and BCBS should be instructed to reimburse them accordingly. Staff is requesting whether the Board agrees with this interpretation and staff recommendation.

Board Action Requested

Accept or reject staff's recommendation that Nicotrol spray and inhaler are eligible for coverage under the smoking cessation program.

Product	AWP/Pkg	Dose/Pkg	Daily Dose	Daily Cost	Duration	Estimated Cost of TX*	Est. 8-week Treatment Cost
(RX Only) Nicotine inhalers	$133.20	168	12	$9.51	Up to 6 mo.	$1,712.57	**$304.46**
(RX Only) Nicotine nasal spray	$133.20	200	12	$7.99	3 to 6 mo	$1,438.56	**$255.74**
Prescription Nicotine patches(7mg/24hr)	$188.37	30	1	$6.28	6 to 10 wks	$439.53	**$200.93**
(RX) Prescription Nicotine patches(14mg/24hr)	$188.72	30	1	$6.29	6 to 10 wks	$440.35	**$201.30**
(RX) Prescription Nicotine patches(21mg/24hr)	$198.58	30	1	$6.62	6 to 10 wks	$463.35	**$211.82**
OTC nicotine patches(7mg/16hr)	$47.41	14	1	$3.39	6 to 10 wks	$237.05	**$108.37**
OTC nicotine patches(14mg/16hr)	$47.41	14	1	$3.39	6 to 10 wks	$237.05	**$108.37**
OTC nicotine patches(21mg/16hr)	$47.41	14	1	$3.39	6 to 10 wks	$237.05	**$108.37**
OTC Nicotine gum (2mg)	$27.51	48	6	$3.44	Up to 12 wks	$288.86	**$110.04**
OTC Nicotine gum (4mg)	$30.96	48	6	$3.87	Up to 12 wks	$325.08	**$123.84**
*** prices based on AWP of RX and OTC products and maximum recommended duration of therapy**							

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M E M O R A N D U M

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

BTR

FROM: BRYAN T. REINHARDT

DATE: February 28, 2006

SUBJECT: GROUP MEDICAL PLAN - SURPLUS/AFFORDABILITY UPDATE

Here is the January surplus projection and affordability analysis for the NDPERS group medical plan. The plan made it through the 2003-2005 biennium and is over a quarter through 2005-2007.

Net premium sent to BCBS in July 2005 was $10,853,370. For comparison, net premium sent to BCBS in June 2005 was $9,821,731. The NDPERS health plan ended up with 23,580 contracts in June, 2005. There were 22,947 contracts in June, 2003, and 21,792 in July 2001. There are now 23,880 contracts.

The projection for the 2003 - 2005 biennium shows an ending balance of $15.8 million. The amount we are targeting for the 2005-2007 buydown is $14.3 million. BCBS has the IBNR amount at $104,000 for this estimate. The $14.3 million deposit date is July 1, 2006, after the first settlement.

The early projection for the 2005 - 2007 biennium shows a June 30, 2007 ending balance of $2.1 million. Note that this is a very early estimate and likely to change.

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

NDPERS - ESTIMATED SURPLUS PROJECTION: 2003-2005 BIENNIUM

January, 2006

The following exhibit summarizes the estimated surplus for the NDPERS group medical plan at the end of the 2003-2005 biennium. The estimate has been updated to include account activity through January, 2006.

1) Preliminary Underwriting Gain/Loss for the 2003-2005 Biennium	$9,483,700
2) Wellness Program Expenses	$0
3) Estimated Underwriting Gain/Loss for the 2003-2005 Biennium	$9,483,700
4) Projected Interest Accumulation (adjusted for usage in buydown)	$0
5) Refunds and Settlements	
07/08/03 Perform Rebate (Included as claim rebates)	$305,403
10/07/03 Perform Rebate (Included as claim rebates)	$303,930
01/07/04 Perform Rebate (Included as claim rebates)	$263,748
04/01/04 Perform Rebate (Included as claim rebates)	$336,833
07/01/04 Perform Rebate (Included as claim rebates)	$302,417
10/03/04 Perform Rebate (Included as claim rebates)	$372,605
01/04/05 Perform Rebate (Included as claim rebates)	$382,606
04/10/05 Perform Rebate (Included as claim rebates)	$413,428
EPO Settlement Payments 7/03 - 6/04	($205,840)
EPO Settlement Payments 7/04 - 6/05	($66,536)
6) Total Estimated Surplus Held by BCBS	$9,483,700
7) BCBS Portion of Surplus (Half upto $500,000)	$500,000
8) PERS Portion of Surplus Held by BCBS	$8,983,700
9) Cash Reserve Account Balance	$6,697,457
Future Contributions:	$0
NDPERS Wellness Account ($136,199.25)	$0
Future Interest:	$130,645
Total	$6,828,102
10) NDPERS Wellness Account (Transferred to Cash Reserve Account)	
Deposited with BCBS	$0
Future Contributions:	$0
Future Interest: (BCBS Not Crediting Interest)	$0
Total	$0
11) Total Estimated Funds Available to PERS on June 30, 2006	$15,811,802

NDPERS - Projected Underwritten Experience for the 2003-2005 Biennium
January, 2006

MONTH	PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE $23.42/Con	NET PREMIUM	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS(1)	ESTIMATED GAIN / LOSS
Jul-03	$10,144,634	$0	$10,144,634	$536,950	$9,607,684	$8,871,866	$0	$8,871,866	$735,818
Aug-03	$10,096,492	($37,688)	$10,058,805	$535,779	$9,523,026	$8,351,002	$0	$8,351,002	$1,172,024
Sep-03	$10,166,143	($466)	$10,165,677	$539,316	$9,626,361	$8,605,126	$0	$8,605,126	$1,021,235
Oct-03	$10,156,648	($6,936)	$10,149,713	$538,964	$9,610,749	$8,533,928	$0	$8,533,928	$1,076,821
Nov-03	$10,140,350	($7,647)	$10,132,703	$538,637	$9,594,066	$8,007,249	$0	$8,007,249	$1,586,817
Dec-03	$10,153,229	$8,249	$10,161,478	$539,199	$9,622,279	$9,168,493	$0	$9,168,493	$453,786
Jan-04	$10,195,909	$2,933	$10,198,842	$541,166	$9,657,676	$7,719,099	$0	$7,719,099	$1,938,577
Feb-04	$10,189,055	($2,412)	$10,186,643	$541,260	$9,645,383	$8,289,549	$0	$8,289,549	$1,355,834
Mar-04	$10,188,083	$3,251	$10,191,334	$541,330	$9,650,004	$10,118,346	$0	$10,118,346	($468,342)
Apr-04	$10,202,087	$3,173	$10,205,260	$542,196	$9,663,064	$8,283,928	$0	$8,283,928	$1,379,136
May-04	$10,209,972	($2,139)	$10,207,834	$542,876	$9,664,958	$8,688,337	$0	$8,688,337	$976,621
Jun-04	$10,212,599	$0	$10,212,599	$543,227	$9,669,372	$9,607,464	$0	$9,607,464	$61,908
Jul-04	$10,228,435	($9,327)	$10,219,107	$544,000	$9,675,108	$8,469,831	$0	$8,469,831	$1,205,276
Aug-04	$10,246,117	$613	$10,246,731	$544,843	$9,701,888	$9,577,038	$0	$9,577,038	$124,850
Sep-04	$10,336,650	$3,585	$10,340,235	$549,667	$9,790,568	$9,733,729	$0	$9,733,729	$56,840
Oct-04	$10,321,282	($812)	$10,320,470	$549,340	$9,771,130	$9,515,369	$0	$9,515,369	$255,760
Nov-04	$10,329,408	$7,048	$10,336,456	$550,300	$9,786,157	$11,321,861	$0	$11,321,861	($1,535,704)
Dec-04	$10,325,101	$0	$10,325,101	$549,363	$9,775,738	$10,078,595	$0	$10,078,595	($302,857)
Jan-05	$10,354,962	$0	$10,354,962	$550,628	$9,804,334	$9,884,903	$0	$9,884,903	($80,569)
Feb-05	$10,372,350	$2,062	$10,374,412	$552,618	$9,821,794	$9,889,432	$0	$9,889,432	($67,638)
Mar-05	$10,393,117	$479	$10,393,595	$552,876	$9,840,719	$10,707,589	$0	$10,707,589	($866,869)
Apr-05	$10,398,561	($11,554)	$10,387,007	$552,993	$9,834,014	$9,708,283	$0	$9,708,283	$125,732
May-05	$10,387,815	$0	$10,387,815	$552,689	$9,835,126	$9,910,701	$0	$9,910,701	($75,575)
Jun-05	$10,374,022	$0	$10,374,022	$552,290	$9,821,731	$10,363,462	$104,000	$10,467,462	($645,731)
BIENNIAL TOTAL	$246,123,020	($47,587)	$246,075,433	$13,082,506	$232,992,927	$223,405,177	$104,000	$223,509,177	$9,483,750

NDPERS - ESTIMATED SURPLUS PROJECTION: 2005-2007 BIENNIUM

January, 2006

The following exhibit summarizes the estimated surplus for the NDPERS group medical plan at the end of the 2005-2007 biennium. The estimate has been updated to include account activity through January, 2006.

1) Preliminary Underwriting Gain for the 2005-2007 Biennium	($15,571,900)
2) Cash Balance Interest Accumulation	$597,987
3) Estimated Underwriting Gain for the 2005-2007 Biennium	($14,973,913)
5) Refunds and Settlements	
07/05/05 Perform Rebate (Included as claim rebates)	$418,453
10/04/05 Perform Rebate (Included as claim rebates)	$425,316
12/01/05 Perform Rebate (Included as claim rebates)	$8,716
01/01/06 Perform Rebate (Included as claim rebates)	$350,907
04/01/06 Perform Rebate	$425,000
07/01/06 Perform Rebate	$425,000
10/01/06 Perform Rebate	$425,000
01/01/07 Perform Rebate	$425,000
04/01/07 Perform Rebate	$425,000
EPO Settlement Payments 7/05 - 6/06 (Included as rebates & paid)	$0
EPO Settlement Payments 7/06 - 6/07 (Included as rebates & paid)	$0
6) Cash Reserve Account Balance	$15,811,802
Future Contributions:	$0
Future Interest:	$622,888
Total	$16,434,690
7) Total Estimated Surplus Held by BCBS	$3,585,777
8) BCBS Portion of Surplus (50% upto $1,500,000)	$1,500,000
9) PERS Portion of Surplus Held by BCBS	$2,085,777
10) NDPERS Wellness Accounts	
My Health Connection	$151,743
Employer Based Wellness	$46,942
Wellness Benefit Program	$6,990
SubTotal	$205,674
Total Adjusted for Usage	$0
11) Total Estimated Funds Available to PERS on June 30, 2007	$2,085,777

NDPERS - Projected Underwritten Experience for the 2005-2007 Biennium
January, 2006

MONTH	NET PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE $26.98/CON	NET PREMIUM	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS (1)	ESTIMATED GAIN / LOSS
Jul-01	$11,491,070	($2,387)	$11,488,683	$637,699	$10,850,984	$10,876,826	$159,000	$11,035,826	($184,842)
Aug-01	$11,486,984	$0	$11,486,984	$635,676	$10,851,308	$10,617,146	$258,000	$10,875,146	($23,838)
Sep-01	$11,592,130	$0	$11,592,130	$641,396	$10,950,735	$9,397,628	$564,000	$9,961,628	$989,107
Oct-01	$11,564,639	($995)	$11,563,644	$640,748	$10,922,896	$9,339,232	$785,000	$10,124,232	$798,664
Nov-01	$11,565,139	$1,417	$11,566,556	$640,478	$10,926,078	$10,156,078	$1,399,000	$11,555,078	($629,000)
Dec-01	$11,575,731	($7,675)	$11,568,055	$640,829	$10,927,226	$9,763,607	$2,980,000	$12,743,607	($1,816,381)
Jan-02	$11,053,969	$332	$11,054,300	$644,606	$10,409,694	$3,307,861	$7,751,000	$11,058,861	($649,167)
Feb-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$10,632,670	($223,308)
Mar-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$10,708,113	($298,750)
Apr-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$10,783,555	($374,193)
May-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$10,858,998	($449,635)
Jun-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$10,934,441	($525,078)
Jul-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,009,883	($600,521)
Aug-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,085,326	($675,963)
Sep-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,160,769	($751,406)
Oct-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,236,211	($826,849)
Nov-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,311,654	($902,291)
Dec-02	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,387,097	($977,734)
Jan-03	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,462,539	($1,053,177)
Feb-03	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,537,982	($1,128,619)
Mar-03	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,613,425	($1,204,062)
Apr-03	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,688,867	($1,279,505)
May-03	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,764,310	($1,354,947)
Jun-03	$11,053,969	$0	$11,053,969	$644,606	$10,409,362	$0	$0	$11,839,753	($1,430,390)
BIENNIAL TOTAL	$268,247,127	($9,308)	$268,237,819	$15,439,737	$252,798,082	$63,458,378	$13,896,000	$268,369,969	($15,571,887)

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

MONTHLY FINANCIAL SPREADSHEET

2003-2005 BIENNIUM

ESTIMATED SURPLUS PROJECTION **AS1..AZ50**

UNDERWRITTEN EXPERIENCE FOR THE 03-05 BIENNIUM **AD27..AM60**
Fill in ALL CLAIMS INCURRED AND PAID TO DATE and ALL ESTIMATED IBNR CLAIMS from BCBS Analysis of State Group Experience.

2005-2007 BIENNIUM

ESTIMATED SURPLUS PROJECTION **A1..H50**
Change the date in cell A2 & A6.
Add the Perform rebate or any other adjustments and change summation formula.
Update NDPERS Wellness Accounts.
Update Cash Reserve Account Balance, # months for future contributions, and future interest rate and months.

UNDERWRITTEN EXPERIENCE FOR THE 05-07 BIENNIUM **AD70..AM104**
Fill in PREMIUM COLLECTED, PREMIUM ADJUSTMENT, BCBS ADMINISTRATION, ALL CLAIMS INCURRED AND PAID TO DATE, add ALL ESTIMATED IBNR CLAIMS from BCBS Analysis of State Group Experience.

Fill in CLAIMS PAID IN MONTH in column AO from BCBS calculation of interest report (CLAIMS PAID - REFUNDS). Add perform rebate or other adjustment to TOTAL CASH (AQ) and ESTIMATED SURPLUS PROJECTION (A16..H27). Change # of ACTIVES & RETIREES in cells BP2 & BQ2.

PRINTING

WYSIWYG

RANGE	ORIENT	LEFT MARGIN	RIGHT MARGIN	TOP MARGIN	BOT MARGIN
A1..H47	P	.75	0	0	0
AD70..AM104	L	0	0	.5	0
AS1..AZ50	P	.5	0	.5	0
AD27..AM60	L	0	0	.5	0

Memo

To: **NDPERS Board**

From: Bryan T. Reinhardt BTR

CC: Sparb, Kathy

Date: 2/21/2006

Re: 2005 BCBS Claims Review

Each year we conduct a claims review to check the accuracy of BCBS claims processing. In late January, I traveled to the BCBS corporate office in Fargo to review a sample of 100 NDPERS claims. The request list is attached. Note that this is not a random sample of all claims, but a select sample from specific areas that we felt needed to be looked at. I focused on claims incurred in the year 2005. BCBS did a good job of having everything ready for me and having staff available to answer my questions and explain the claims payment process. The BCBS claim selection process is also attached.

<u>Review Findings:</u>

Mammograms are processed so the first occurrence is treated as preventative (paid 100%) and the rest are treated as medical, regardless of the diagnosis codes. The other preventative screenings are not processed in this manner. All five Fecal Occult tests were paid 100%, all five cholesterol tests were paid at 100%, and one of the five Blood Sugar tests were paid at 100%. These tests are not covered in full under the wellness benefit unless there is a 'routine' or 'preventative' diagnosis. Note that if there is a 'routine' diagnosis, other tests are not covered at all. If a member does go to a doctor for an annual physical or some other service that is 'not allowed', they do not receive the benefits of any BCBS or NDPERS fee schedule or discounts. This is true even if the provider is a PPO or EPO provider.

A review claim for a preventative tetanus shot was not covered for a member over age 18. This service needs a medical diagnosis to be covered.

When a member has other insurance in addition to NDPERS, there is a coordination of benefits. The member can actually get a credit to their copayments, deductible and coinsurance. These can offset future out-of-pocket expenses incurred during the plan year. One claim in the review had a wrong amount credited to their coinsurance.

One paid claim in the review should have been held and coordinated with Medicare.

One review claim was paid twice, a refund was later initiated and the correction made.

All review claims with Workforce Safety & Insurance were paid in full by BCBS and later refunded based on payments from WSI.

A manipulation was performed and billed by a doctor. There was no copayment applied because it was an MD instead of a chiropractor. This is a very rare out-of-state case.

An out-of-network deductible was not applied to a review claim. This resulted in an overpayment that should have been the member's responsibility.

There were two PSA tests in the claims review that were not allowed, but should have been based on a family history diagnosis. BCBS will be doing a project to identify these claims and make corrections.

Prime Therapeutics can not tell if a member has Prenatal Plus. They have been waiving the deductible for all prenatal vitamin prescriptions and applying 15% coinsurance since all were generic. There are now some non-formulary prenatal vitamins available. Should these be processed at 50% non-formulary coinsurance? All the SPD says is: The Copayment Amount for prenatal vitamins is waived when the Member is enrolled under the prenatal plus program.

A general observation is that a lot of the claims resulted in no plan payment because the amount went toward the member's deductible or coinsurance. BCBS appears to have the current biennium's plan design changes in place and being properly applied.

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

NDPERS 2005 Audit of 1/2005 – present BCBS Claims Processing

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

Total 100 Claims

NDPERS Annual Claims Focus Review

Claim Selection Process Overview

A project is submitted to Information Services Department to have all NDPERS claims for the audit time period extracted. Tables are set up on an Access file, and the files are then linked to the tables.

Verification of the criteria necessary for each query is made to insure the claim samples are accurate. For example certain procedure codes, RNA's, Diagnosis Codes etc. are used in determining the types of claims needed for each desired category, such as BC Psych or BS Mammograms. Changes may be necessary if, for example, a new RNA code, or procedure code has been added or removed.

After all criteria has been verified, the queries are run. This determines the total number of claims within each query. Once this has been determined, claims are randomly selected.

Web site **http://www.randomizer.org** is used in randomly selecting the claim samples. We input how many claims are in each query, and the number of claims needed. It then gives us the number of the claim to be selected. For example, if there are 150 claims for a specific query, and we need 5, it may randomly select claim 7, 45, 101, 113, 147. Then going back into the corresponding Access table, we select the claims that match the selected random numbers. This is done for each query or sample.

NDPERS

Memo

To: **NDPERS Board**

From: Bryan T. Reinhardt BTR

Date: 3/3/2006

Re: 457 Companion Plan & 401(a) plan 4th Quarter 2005 Reports

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Here is the 4th quarter 2005 investment report for the 401(a) & 457 Companion Plan. The reports are available separately on the NDPERS web site. The NDPERS Investment Sub-committee has reviewed the 4th quarter report and has no recommended Board action.

Assets in the 401(a) plan increased to over $14.1 million as of Dec 31, 2005. The number of participants is at 294, about the same as when the plan started. The largest fund is the Fidelity Managed Income Portfolio with 18% of the assets.

Assets in the 457 Companion Plan increased to about $16.5 million as of Dec 31, 2005. This is up from $12.1 million on 12/31/03 (36% increase). The number of participants dropped from 1,319 after the transition to Fidelity, but is increasing and is now at 1,130. The largest fund is the Spartan U.S. Equity Index with 12% of the assets. About 10% of the assets are in the Fidelity and VALIC cash accounts.

Benchmarks:

All of the fund returns for the quarter were positive except for a small loss in the **Allianz Small Cap Value (PVADX). Fidelity Diversified International (FDIVX), Fidelity Managed Income, and three of the index funds** performed lower than their benchmarks for all periods (QTR, Y-T-D, 1-year, 3-year, and 5-year). Note that index funds are expected to slightly underperform their benchmarks because of fund administration fees.

Fund News:

Mutual Shares A (TESIX) continues to display a drifted style from a mid cap value fund to a large cap blend fund. The **Fidelity Spartan Extended Mkt Index (FSEMX)** drifted toward growth this quarter. The Investment Sub-Committee marked **Fidelity Equity-Income (FEQIX)** and **Mutual Shares A (TESIX)** as underperforming for the quarter. Representatives from Fidelity attended the Investment Sub-Committee meeting via conference call and reviewed 2005 performance, a market overview, and a 5-year up/down fund analysis. They thought the plan performance was positive and had no recommended changes. They noted that the Equity-Income, Blue Chip Growth, Mutual Shares A and Dividend Growth funds need to be monitored closely. The investment Sub-Committee will review these funds at the next quarterly meeting.

NDPERS
Quarterly Investment Report
4th Quarter
9/30/2005 – 12/31/2005

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

NDPERS 401(a) Defined Contribution Plan & 457 Companion Plan - Fidelity

INITIAL OFFERING:

	VALUE	BLEND	GROWTH
LARGE	Fidelity Equity-Income	Fidelity Spartan US Equity Index Fidelity Dividend Growth	Fidelity Growth Company Fidelity Blue Chip Growth
MEDIUM	Mutual Shares A	Dreyfus Mid Cap Index Fidelity Spartan Ext Mkt Index	Fidelity Mid Cap Stock
SMALL	PIMCO Small Cap Value	Dreyfus Small Cap Index	MSIF Small Co Growth B

BALANCED FUND: Fidelity Puritan Fund

INCOME FUNDS: Fidelity Managed Income Portfolio

BOND FUNDS: PIMCO Total Return Bond Fund

INTERNATIONAL FUNDS: Fidelity Diversified International (Blend Bias)

LIFESTYLE FUNDS:

Fidelity Freedom Income		
Fidelity Freedom 2000	Fidelity Freedom 2015	Fidelity Freedom 2030
Fidelity Freedom 2005	Fidelity Freedom 2020	Fidelity Freedom 2035
Fidelity Freedom 2010	Fidelity Freedom 2025	Fidelity Freedom 2040

FUND STYLE CHANGES:

	VALUE	BLEND	GROWTH
LARGE		Mutual Shares A	
MEDIUM			Fidelity Spartan Ext Mkt Index
SMALL			

INCOME FUNDS:
BOND FUNDS:
INTERNATIONAL FUNDS: Fidelity Diversified International (Growth Bias)
BALANCED FUNDS:
LIFESTYLE FUNDS:

CURRENT LINEUP:

	VALUE	BLEND	GROWTH
LARGE	Fidelity Equity-Income	Fidelity Spartan US Equity Index Fidelity Dividend Growth Mutual Shares A	Fidelity Growth Company Fidelity Blue Chip Growth
MEDIUM		Dreyfus Mid Cap Index	Fidelity Mid Cap Stock Fidelity Spartan Ext Mkt Index
SMALL	PIMCO Small Cap Value	Dreyfus Small Cap Index	MSIF Small Co Growth B

BALANCED FUND: Fidelity Puritan Fund

INCOME FUNDS: Fidelity Managed Income Portfolio

BOND FUNDS: PIMCO Total Return Bond Fund

INTERNATIONAL FUNDS: Fidelity Diversified International (Growth Bias)

LIFESTYLE FUNDS:

Fidelity Freedom Income		
Fidelity Freedom 2000	Fidelity Freedom 2015	Fidelity Freedom 2030
Fidelity Freedom 2005	Fidelity Freedom 2020	Fidelity Freedom 2035
Fidelity Freedom 2010	Fidelity Freedom 2025	Fidelity Freedom 2040

NDPERS Investment Benchmarks - 4th Quarter 2005

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Stable Value Fund					
Fidelity Managed Income Portfolio	**0.93%**	**3.80%**	**3.80%**	**4.10%**	**4.65%**
GIC 5 Year	1.17%	4.67%	4.67%	4.70%	4.83%
Fixed Income Fund					
PIMCO Total Return Bond Fund - PTRAX	**0.42%**	**2.63%**	**2.63%**	**4.27%**	**6.35%**
Lehman Aggregate Bond Index	0.59%	2.43%	2.43%	3.62%	5.87%
Taxable Bond Fund Universe	0.48%	2.66%	2.66%	6.17%	6.34%
Balanced Fund					
Fidelity Puritan - FPURX	**2.17%**	**4.67%**	**4.67%**	**11.81%**	**4.95%**
60% Large Cap Value Univ & 40% Taxable Bond Universe	1.18%	4.59%	4.59%	11.81%	4.91%
60% Russell 3000 Value & 40% Lehman Agg Bond Index	0.96%	5.08%	5.08%	12.18%	5.86%
Large Cap Equities - Value					
Fidelity Equity-Income - FEQIX	**3.04%**	**5.74%**	**5.74%**	**15.21%**	**3.77%**
Russell 1000 Value Index	1.27%	7.05%	7.05%	17.49%	5.28%
Large Cap Value Fund Universe	1.64%	5.88%	5.88%	15.57%	3.96%
Large Cap Equities - Blend					
Fidelity Spartan US Equity Index - FUSEX	**2.07%**	**4.85%**	**4.85%**	**14.26%**	**0.41%**
Fidelity Dividend Growth - FDGFX	**3.36%**	**3.50%**	**3.50%**	**10.55%**	**0.69%**
S&P 500 Index	2.09%	4.91%	4.91%	14.39%	0.54%
Large Cap Blend Fund Universe	2.23%	5.77%	5.77%	14.00%	0.50%
Large Cap Equities - Growth					
Fidelity Growth Company - FDGRX	**6.10%**	**13.50%**	**13.50%**	**21.62%**	**-2.21%**
Russell 3000 Growth Index	2.86%	5.17%	5.17%	13.78%	-3.15%
Fidelity Blue Chip Growth - FBGRX	**2.80%**	**4.03%**	**4.03%**	**11.32%**	**-2.98%**
Russell 1000 Growth Index	2.98%	5.26%	5.26%	13.23%	-3.58%
Large Cap Growth Fund Universe	3.33%	6.46%	6.46%	13.88%	-3.36%
Mid Cap Equities - Value					
Franklin Mutual Shares A - TESIX	**2.72%**	**9.98%**	**9.98%**	**16.35%**	**8.18%**
Russell Mid Cap Value	1.34%	12.65%	12.65%	24.38%	12.21%
Mid Cap Value Fund Universe	1.64%	8.41%	8.41%	20.46%	9.36%
Mid Cap Equities - Blend					
Dreyfus Mid Cap Index - PESPX	**3.21%**	**12.05%**	**12.05%**	**20.57%**	**8.08%**
S&P Mid Cap 400	3.34%	12.56%	12.56%	21.15%	8.60%
Fidelity Spartan Extended Mkt Index - FSEMX	**2.67%**	**10.01%**	**10.01%**	**22.81%**	**6.72%**
Wilshire 4500 Index	2.70%	10.03%	10.03%	23.18%	6.86%
Mid Cap Blend Fund Universe	2.32%	9.21%	9.21%	20.10%	8.14%
Mid Cap Equities - Growth					
Fidelity Mid Cap Stock - FMCSX	**4.87%**	**16.07%**	**16.07%**	**19.04%**	**1.27%**
Russell Mid Cap Growth	3.44%	12.10%	12.10%	22.70%	1.38%
Mid Cap Growth Fund Universe	3.19%	9.70%	9.70%	19.13%	0.01%

Fund Returns in RED do not meet both benchmarks. **Fund Returns in BLACK meet both benchmarks.**

NDPERS Investment Benchmarks - 4th Quarter 2005

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Small Cap Equities - Value					
Allianz NFJ Small Cap Value - PVADX	**-1.84%**	**10.47%**	**10.47%**	**20.75%**	**16.52%**
Russell 2000 Value Index	0.66%	4.71%	4.71%	23.18%	13.55%
Small Value Fund Universe	0.66%	6.13%	6.13%	22.30%	13.50%
Small Cap Equities - Blend					
Dreyfus Small Cap Index - DISSX	**0.24%**	**7.31%**	**7.31%**	**21.79%**	**10.29%**
Russell 2000 Index	1.13%	4.55%	4.55%	22.13%	8.22%
S & P 600 Index	0.39%	7.68%	7.68%	22.38%	10.76%
Small Blend Fund Universe	1.24%	6.62%	6.62%	21.72%	9.89%
Small Cap Equities - Growth					
MSI Small Co Growth B - MSSMX	**4.57%**	**13.35%**	**13.35%**	**24.64%**	**5.65%**
Russell 2000 Growth Index	1.61%	4.15%	4.15%	20.93%	2.28%
Small Growth Fund Universe	1.73%	5.74%	5.74%	19.76%	2.17%
International Equity Funds					
Fidelity Diversified International - FDIVX	**5.18%**	**17.23%**	**17.23%**	**25.93%**	**9.51%**
MSCI EAFE	4.10%	13.72%	13.72%	23.92%	4.77%
International Stock Fund Universe	6.63%	22.66%	22.66%	27.55%	10.72%
Asset Allocation Funds:					
Fidelity Freedom Income - FFFAX	**1.33%**	**3.78%**	**3.78%**	**4.98%**	**3.36%**
Income Benchmark	1.18%	2.58%	2.58%	6.28%	2.80%
Fidelity Freedom 2000 - FFFBX	**1.46%**	**4.00%**	**4.00%**	**5.88%**	**3.09%**
2000 Benchmark	1.26%	2.65%	2.65%	7.15%	2.80%
Fidelity Freedom 2005 - FFFVX	**2.16%**	**5.68%**	**5.68%**	**N/A**	**N/A**
2005 Benchmark	1.66%	2.95%	2.95%	11.05%	2.52%
Fidelity Freedom 2010 - FFFCX	**2.21%**	**5.92%**	**5.92%**	**9.98%**	**3.46%**
2010 Benchmark	1.73%	3.05%	3.05%	11.58%	2.39%
Fidelity Freedom 2015 - FFVFX	**2.70%**	**7.01%**	**7.01%**	**N/A**	**N/A**
2015 Benchmark	2.04%	3.33%	3.33%	13.90%	1.80%
Fidelity Freedom 2020 - FFFDX	**3.02%**	**7.75%**	**7.75%**	**13.82%**	**2.96%**
2020 Benchmark	2.27%	3.52%	3.52%	15.80%	1.37%
Fidelity Freedom 2025 - FFTWX	**3.22%**	**8.19%**	**8.19%**	**N/A**	**N/A**
2025 Benchmark	2.43%	3.61%	3.61%	16.82%	0.87%
Fidelity Freedom 2030 - FFFEX	**3.45%**	**8.82%**	**8.82%**	**15.57%**	**2.42%**
2030 Benchmark	2.55%	3.71%	3.71%	17.73%	0.58%
Fidelity Freedom 2035 - FFTHX	**3.58%**	**9.04%**	**9.04%**	**N/A**	**N/A**
2035 Benchmark	2.64%	4.06%	4.06%	18.39%	0.67%
Fidelity Freedom 2040 - FFFFX	**3.57%**	**9.06%**	**9.06%**	**16.77%**	**2.05%**
2040 Benchmark	2.74%	4.05%	4.05%	19.15%	0.29%

Income Benchmark is comprised of 22% Wilshire 5000, 40% LB Agg, 38% 3 Month T-Bill
2000 Benchmark is comprised of 25% Wilshire 5000, 1% MSCI EAFE, 41% LB Agg, 1% LB HY Bond, 32% 3 Month T-Bill
2005 Benchmark is comprised of 40% Wilshire 5000, 5% MSCI EAFE, 40% LB Agg, 5% LB HY Bond, 10% 3 Month T-Bill
2010 Benchmark is comprised of 42% Wilshire 5000, 6% MSCI EAFE, 38% LB Agg, 5% LB HY Bond, 9% 3 Month T-Bill
2015 Benchmark is comprised of 52% Wilshire 5000, 9% MSCI EAFE, 29% LB Agg, 6% LB HY Bond, 4% 3 Month T-Bill
2020 Benchmark is comprised of 60% Wilshire 5000, 11% MSCI EAFE, 21% LB Agg, 8% LB HY Bond
2025 Benchmark is comprised of 66% Wilshire 5000, 12% MSCI EAFE, 15% LB Agg, 7% LB HY Bond
2030 Benchmark is comprised of 70% Wilshire 5000, 13% MSCI EAFE, 9% LB Agg, 8% LB HY Bond
2035 Benchmark is comprised of 69% Wilshire 5000, 16% MSCI EAFE, 5% LB Agg, 10% LB HY Bond
2040 Benchmark is comprised of 74% Wilshire 5000, 16% MSCI EAFE, 10% LB HY Bond

Wilshire 5000 Index	2.73%	2.13%	2.13%	18.89%	-1.77%
MSCI EAFE	4.10%	13.72%	13.72%	23.92%	4.77%
Lehman Aggregate Bond Index	0.59%	2.43%	2.43%	3.62%	5.87%
ML High Yield Bond Fund Index	0.66%	2.74%	2.74%	13.44%	8.39%
3 Month T-Bill Index	0.91%	3.00%	3.00%	1.77%	2.21%
Russell 3000 Value Index	1.21%	6.85%	6.85%	17.89%	5.86%

Fund Returns in RED do not meet both benchmarks. **Fund Returns in BLACK meet both benchmarks.**

NDPERS Mutual Fund Research - 12/31/2005

Large Value

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Fidelity Puritan	FPURX	24.1 Billion	4/16/1947	5 Years	0.62%	1096	75%	N/A	38.0 Bil	4-Stars	38	16	2.17	4.67	11.81	4.95	8.78	91	0.74	0.70	7.08	1.34
Fidelity Equity-Income	FEQIX	26.1 Billion	5/16/1966	12 Years	0.69%	239	19%	14.5	41.5 Bil	3-Stars	48	51	3.04	5.74	15.21	3.77	9.50	95	1.10	-0.38	10.37	1.23

Large Blend

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Fidelity Spartan US Equity Index	FUSEX	23.2 Billion	3/6/1990	Team	0.14%	504	5%	15.7	46.2 Bil	3-Stars	42	47	2.07	4.85	14.26	0.41	8.90	100	1.00	-0.11	9.16	1.29
Fidelity Dividend Growth	FDGFX	16.5 Billion	4/27/1993	8 Years	0.66%	128	26%	15.7	64.1 Bil	4-Stars	92	41	3.36	3.50	10.55	0.69	11.07	90	0.99	-3.28	9.60	0.89
Fidelity Diversified International	FDIVX	33.1 Billion	12/27/1991	4 Years	1.07%	343	55%	15.6	18.2 Bil	5-Stars	16	2	5.18	17.23	25.93	9.51	12.93	94	0.94	3.09	11.14	1.97

Large Growth

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Fidelity Growth Company	FDGRX	27.4 Billion	1/17/1983	8 Years	0.82%	261	49%	24.1	14.9 Bil	3-Stars	2	27	6.10	13.50	21.62	-2.21	10.27	74	1.22	3.99	13.03	1.43
Fidelity Blue Chip Growth	FBGRX	22.3 Billion	12/31/1987	9 Years	0.64%	174	29%	19.0	46.9 Bil	3-Stars	75	47	2.80	4.03	11.32	-2.98	6.56	95	0.95	-2.17	8.97	1.03

Medium Value

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Franklin Mutual Shares A	TESIX	15.7 Billion	11/11/1996	3 Years	1.16%	263	33%	16.2	15.8 Bil	4-Stars	27	11	2.72	9.98	16.35	8.18	N/A	83	0.72	4.96	7.22	1.87

Medium Blend

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Dreyfus Mid Cap Index	PESPX	2.2 Billion	6/19/1991	Team	0.50%	405	20%	18.0	3.4 Bil	3-Stars	35	35	3.21	12.05	20.57	8.08	13.74	82	1.15	3.78	11.66	1.50
Fidelity Spartan Extended Mkt Index	FSEMX	1.9 Billion	11/5/1997	Team	0.23%	3635	17%	18.4	2.3 Bil	3-Stars	16	59	2.67	10.01	22.81	6.72	N/A	82	1.26	4.46	12.76	1.53

Medium Growth

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Fidelity Mid-Cap Stock	FMCSX	9.9 Billion	3/29/1994	0 Years	0.62%	402	186%	21.0	6.0 Bil	4-Stars	50	38	4.87	16.07	19.04	1.27	13.02	72	1.24	1.59	13.54	1.22

Small Value

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Allianz NFJ Small Cap Value Admin	PVADX	3.8 Billion	11/1/1995	13 Years	1.11%	112	20%	13.3	1.6 Bil	4-Stars	62	19	-1.84	10.47	20.75	16.52	14.23	73	1.07	4.90	11.47	1.54

Small Blend

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Dreyfus Small Cap Index	DISSX	768 Million	6/30/1997	Team	0.50%	603	14%	16.8	1.2 Bil	3-Stars	46	45	0.24	7.31	21.79	10.29	N/A	75	1.31	3.12	13.93	1.35

Small Growth

				Manager	Expense				Median	Morn-Star	Category Rank			Average Return				Standard=S&P 500 Index			Standard	Sharpe
Fund	Symbol	Assets	Inception	Tenure	Ratio	Stocks	Turnover	P/E	Mkt Cap	Rating	3 - Year	5 - Year	3-month	1-Year	3-Year	5-Year	10-Year	R-Squared	Beta	Alpha	Deviation	Ratio
Morgan Stanley Small Cap Growth B	MSSMX	1.7 Billion	1/2/1996	Team	1.35%	111	111%	26.9	1.2 Bil	3-Stars	14	29	4.57	13.35	24.64	5.65	N/A	67	1.27	6.05	14.20	1.50

Lifestyle / Others

Fund	Symbol	Assets	Inception	Manager Tenure	Expense Ratio	Stocks	Turnover	P/E	Median Mkt Cap	Morn-Star Rating	Category Rank 3 - Year	Category Rank 5 - Year	3-month	Average Return 1-Year	Average Return 3-Year	Average Return 5-Year	Average Return 10-Year	Standard=S&P 500 Index R-Squared	Standard=S&P 500 Index Beta	Standard=S&P 500 Index Alpha	Standard Deviation	Sharpe Ratio
Fidelity Managed Income Portfolio		8.1 Billion	9/7/1989	15 Years	0.55%								0.94	3.80	4.10	4.65	5.27					
PIMCO Total Return Bond Fund	PTRAX	88.8 Billion	9/8/1994	18 Years	0.68%		470%		70.7 Bil	5-Stars	25	11	0.42	2.63	4.27	6.35	6.65				4.16	0.56
Fidelity Freedom Income	FFFAX	2.1 Billion	10/17/1996	9 Years	0.56%	19	7%		42.7 Bil	3-Stars	80	59	1.33	3.78	4.98	3.36	N/A	59	0.21	0.46	2.52	1.18
Fidelity Freedom 2000	FFFBX	1.6 Billion	10/17/1996	9 Years	0.58%	20	11%		37.7 Bil	3-Stars	71	64	1.46	4.00	5.88	3.09	N/A	65	0.26	0.74	2.93	1.30
Fidelity Freedom 2005	FFFVX	0.4 Billion	11/6/2003	9 Years	0.68%	20	7%		35.1 Bil	N/A	N/A	N/A	2.16	5.68	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2010	FFFCX	9.9 Billion	10/17/1996	9 Years	0.69%	20	1%		35.1 Bil	3-Stars	13	43	2.21	5.92	9.98	3.46	N/A	85	0.50	1.72	4.98	1.55
Fidelity Freedom 2015	FFVFX	1.9 Billion	11/6/2003	9 Years	0.71%	20	0%		35.1 Bil	N/A	N/A	N/A	2.70	7.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2020	FFFDX	12.3 Billion	10/17/1996	9 Years	0.75%	19	0%		25.4 Bil	3-Stars	14	38	3.02	7.75	13.82	2.96	N/A	94	0.76	2.27	7.16	1.58
Fidelity Freedom 2025	FFTWX	1.5 Billion	11/6/2003	9 Years	0.75%	20	0%		35.1 Bil	N/A	N/A	N/A	3.22	8.19	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2030	FFFEX	7.4 Billion	10/17/1996	9 Years	0.77%	19	0%		25.2 Bil	3-Stars	6	48	3.45	8.82	15.57	2.42	N/A	95	0.88	2.37	8.30	1.56
Fidelity Freedom 2035	FFTHX	0.8 Billion	11/6/2003	9 Years	0.78%	20	0%		35.1 Bil	N/A	N/A	N/A	3.58	9.04	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2040	FFFFX	3.1 Billion	9/6/2000	3 Years	0.79%	17	1%		26.8 Bil	4-Stars	13	21	3.57	9.06	16.77	2.05	N/A	96	0.97	2.49	9.07	1.55

R-squared - This compares a fund's performance to a given index. If R-squared is 100, the fund moves in lockstep with the index to which it is being compared. Generally, a higher R-squared will indicate a more useful beta figure. If the R-squared is lower, then the beta is less relevant to the fund's performance.

Beta - This compares a fund's volatility to a given index. If beta is greater than 1, the fund is more volatile than the index to which it is being compared. If beta is lower than 1, the fund is less volatile than the index. If a fund's R-squared is low, beta is less reliable as a predictor of volatility.

Alpha - This is a measure of risk-adjusted performance. The higher a fund's alpha, the better it has done. A fund's alpha is only reliable when its R-squared is relatively high.

Standard Deviation - The higher this number is, the more volatile the fund's returns have been. It indicates how much the fund has deviated from its mean total return over the past three years.

Sharpe Ratio - This measure combines standard deviation and mean total return to show a risk-adjusted measure of the fund's performance. The higher this number is, the better. As a rule of thumb, a Sharpe ratio of more than 1.00 is very good.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN INVESTMENT OPTIONS

PERFORMANCE UPDATE

AS OF DECEMBER 31, 2005

Understanding investment performance
As you review this update, please remember that the data stated represents past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current investment performance may be higher or lower than quoted in this table. To learn more or obtain the most recent month-end performance figures, call Fidelity at **1-800-343-0860** or visit **www.fidelity.com.**

		Cumulative Total Returns % Period Ending December 31, 2005		Average Annual Total Returns % Period Ending December 31, 2005						
Fund No.	Name	3 Month	YTD	1 Year	5 Year	10 Year	Life of Fund	Short-Term Trading Fee (%/Days)	Fund Inception	Expense Ratio✧
LIFE-CYCLE➠										
00370	Fidelity Freedom 2000++	1.46	4.00	4.00	3.09	n/a	6.89	n/a	10/17/96	0.58○
01312	Fidelity Freedom 2005++	2.16	5.68	5.68	n/a	n/a	7.32	n/a	11/06/03	0.68○
00371	Fidelity Freedom 2010++	2.21	5.92	5.92	3.46	n/a	8.30	n/a	10/17/96	0.69○
01313	Fidelity Freedom 2015++	2.70	7.01	7.01	n/a	n/a	9.01	n/a	11/06/03	0.71○
00372	Fidelity Freedom 2020++	3.02	7.75	7.75	2.96	n/a	8.62	n/a	10/17/96	0.75○
01314	Fidelity Freedom 2025++	3.22	8.19	8.19	n/a	n/a	10.57	n/a	11/06/03	0.75○
00373	Fidelity Freedom 2030++	3.45	8.82	8.82	2.42	n/a	8.42	n/a	10/17/96	0.77○
01315	Fidelity Freedom 2035++	3.58	9.04	9.04	n/a	n/a	11.64	n/a	11/06/03	0.78○
00718	Fidelity Freedom 2040++	3.57	9.06	9.06	2.05	n/a	-0.48	n/a	9/06/00	0.79○
00369	Fidelity Freedom Income++	1.33	3.78	3.78	3.36	n/a	5.83	n/a	10/17/96	0.56○
STABLE VALUE OPTIONS										
00632	Managed Income Portfolio⇛	0.93	3.80	3.80	4.65	5.27	5.83	n/a	9/07/89	n/a
BOND										
99474	PIMCO Total Return - Administrative Class	0.42	2.63	2.63	6.35	6.65	7.41	2.00/7	9/08/94	0.68
BALANCED/HYBRID										
00004	Fidelity *Puritan*®	2.17	4.67	4.67	4.95	8.78	11.69	n/a	4/16/47	0.63
DOMESTIC EQUITY - LARGE VALUE										
00023	Fidelity Equity-Income	3.04	5.74	5.74	3.77	9.50	13.00	n/a	5/16/66	0.69
93202	Mutual Shares - A Class	2.72	9.98	9.98	8.18	n/a	10.94	2.00/7	11/01/96	1.16
DOMESTIC EQUITY - SMALL VALUE**										
46224	Allianz NFJ Small Cap Value - Administrative Class	-1.84	10.47	10.47	16.52	14.23	14.44	n/a	11/01/95	1.11

Please see important disclosures on the last page(s).

continued

AS OF DECEMBER 31, 2005

Fund No.	Name	3 Month	YTD	1 Year	5 Year	10 Year	Life of Fund	Short-Term Trading Fee (%/Days)	Fund Inception	Expense Ratio✧
		Cumulative Total Returns % Period Ending December 31, 2005		Average Annual Total Returns % Period Ending December 31, 2005						
	DOMESTIC EQUITY - LARGE BLEND									
00330	Fidelity Dividend Growth	3.36	3.50	3.50	0.69	11.07	13.50	n/a	4/27/93	0.68
00650	Spartan® U.S. Equity Index++	2.07	4.85	4.85	0.41	8.90	11.46	n/a	2/17/88	0.10
	DOMESTIC EQUITY - MID BLEND■									
45668	Dreyfus Mid Cap Index	3.21	12.05	12.05	8.08	13.74	14.11	n/a	6/19/91	0.50
00316	Fidelity Low-Priced Stock†	1.83	8.65	8.65	17.33	16.20	17.45	1.50/90	12/27/89	0.95
	DOMESTIC EQUITY - SMALL BLEND**									
93982	Dreyfus Small Cap Stock Index Fund	0.24	7.31	7.31	10.29	n/a	10.03	n/a	6/30/97	0.50
	DOMESTIC EQUITY - LARGE GROWTH									
00312	Fidelity Blue Chip Growth	2.80	4.03	4.03	-2.98	6.56	12.35	n/a	12/31/87	0.66
00025	Fidelity Growth Company	6.10	13.50	13.50	-2.21	10.27	14.43	n/a	1/17/83	0.95
	DOMESTIC EQUITY - MID GROWTH■									
00337	Fidelity Mid-Cap Stock	4.87	16.07	16.07	1.27	13.02	14.54	0.75/30	3/29/94	0.70
	DOMESTIC EQUITY - SMALL GROWTH**									
93098	MSIF Small Company Growth - B Class	4.57	13.35	13.35	5.65	n/a	13.56	n/a	1/02/96	1.35
	INTERNATIONAL/GLOBAL††									
00325	Fidelity Diversified International	5.18	17.23	17.23	9.51	12.93	11.78	1.00/30	12/27/91	1.10
	MARKET INDICES^^ For comparison only. These are not Fidelity funds.									
	Dow Jones Industrial Average	1.99	1.78	1.78	2.02	9.77				
	Lehman Brothers Intermediate Gov't/Credit Bond Index	0.51	1.58	1.58	5.50	5.80				
	Morgan Stanley EAFE® Index	4.10	13.72	13.72	4.77	6.03				
	Standard & Poor's 500SM Index	2.09	4.91	4.91	0.54	9.07				

Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated. Life of fund figures are reported as of the inception date to the period indicated. The figures do not include the effects of sales charges, if any, as these charges are waived for contributions made through your company's employee benefit plan. If sales charges were included, returns would have been lower.

With the exception of domestic equity mutual funds, investment options have been assigned to investment categories based on Fidelity's analysis. Fidelity has verified the accuracy of the placement of certain third party non-mutual funds with either the plan sponsor or the plan sponsor's consultant. Within Domestic Equities, mutual funds are listed according to their actual Morningstar categories as of the date indicated. Morningstar categories are based on a fund's style as measured by its underlying portfolio holdings over the past 3 years and may change at any time. These style calculations do not represent the funds' objectives and do not predict the funds' future styles.

SPECIFIC FUNDS

Morningstar, Inc., provided data on the non-Fidelity mutual funds. Although the data is gathered from reliable sources, accuracy and completeness cannot be guaranteed by Morningstar.

✧ Mutual funds report expense ratios semi-annually in their shareholder reports. The expense ratios quoted here are from the most current fund shareholder reports that were available as of 12/31/05. The non-mutual fund expense ratios quoted here are from the most current investment option fact sheets that were available as of 12/31/05.

++ Fidelity is temporarily reimbursing a portion of the fund's expenses. Absent such reimbursement, returns and yield would have been lower and the expense ratio would have been higher. A fund's expense limitation may be terminated at any time, unless otherwise stated.

○ The combined total expense ratio reflects expense reimbursements and reductions and is based on the total operating expense ratio of the fund plus a weighted average of the total operating expense ratios of the underlying Fidelity funds in which it was invested. This ratio may be higher or lower depending on the allocation of the fund's assets among the underlying Fidelity funds and the actual expenses of the underlying Fidelity funds. The expense cap may be terminated or revised at any time.

⇛ Managed Income Portfolio is not a mutual fund but is a commingled pool of the Fidelity Group Trust for Employee Benefit plans. It is managed by Fidelity Management Trust Company.

† Effective July 30, 2004, the Fidelity Low-Priced Stock Fund was closed to new accounts. Participants who have a balance in Low-Priced Stock in their retirement plan account on or after that date will be able to continue making and changing contributions, and they will also be able to make exchanges into the Fund. Participants who do not have a balance in Low-Priced Stock in their retirement plan account on or after July 30, 2004, will not be able to make contributions or exchanges into the fund.

Please see important disclosures on the last page(s).

continued

INDICES

^^ Performance of an index is not illustrative of any particular investment and an investment cannot be made directly in an index.

Dow Jones Industrial Average (DJIA), published by Dow Jones and Company, is an unmanaged average of 30 actively traded stocks (primarily industrial) and assumes reinvestment of dividends. It is not offered as a comparison for any investment option but rather as a general stock market indicator.

Lehman Brothers Intermediate Government/Credit Bond Index is an unmanaged, market-value weighted index of government and investment-grade corporate fixed-rate debt issues with maturities between one and ten years.

EAFE® Index (Morgan Stanley Capital International Europe, Australasia, Far East Index) is an unmanaged index of over 1,000 foreign common stock prices and includes the reinvestment of dividends. The EAFE® Index is a registered service mark of Morgan Stanley and has been licensed for use by FMR Corp. The investment options offered through the plan are neither sponsored by nor affiliated with Morgan Stanley.

The Standard & Poor's 500℠ Index (S&P 500®) is a registered service mark of the McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is an unmanaged index of the common stock prices of 500 widely held U.S. stocks.

INVESTMENT RISK

➡ These funds are subject to the volatility of the financial markets in the U.S. and abroad and may be subject to the additional risks associated with investing in high yield, small cap and foreign securities.

** Investments in smaller companies may involve greater risks than those of larger, more well-known companies.

■ Investments in mid-sized companies may involve greater risks than those of larger, more well-known companies, but may be less volatile than investments in smaller companies.

†† Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.

Before investing in any investment option, please carefully consider the investment objectives, risks, charges and expenses. For this and other information, call Fidelity at 1-800-343-0860 or visit www.fidelity.com for a free mutual fund prospectus or variable annuity prospectus. For information on fixed annuities, contact Fidelity to request a fact sheet. Read them carefully before you invest.