

NDPERS BOARD MEETING

Agenda

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

March 25, 2010

Time: 8:30 AM

I. MINUTES

- A. February 25, 2010

II. LEGISLATION – Sparb (Board Action)

- A. Retirement/Administrative
- B. Group Insurance

III. AUDIT REPORT – Brady Martz

IV. DEFERRED COMPENSATION

- A. Provider Training Compliance – Kathy (Board Action)
- B. 457 and 401(a) 4th Quarter 2009 Reports – Bryan (Information)

V. RETIREMENT

- A. Investment Update – Board Members (Information)
- B. Segal – (Information)

VI. GROUP INSURANCE

- A. Preferred One – (Information)
- B. Health Care Reform – Sparb (Information)
- C. BCBS
 - 1. Quarterly report – BCBS (Information)
 - 2. Tobacco Program Update – BCBS (Information)
 - 3. Wellness Program and Benefits Update – BCBS (Information)
- D. BCBS Update – Sparb (Information)
- E. Quarterly Health Graphs – Bryan (Information)
- F. BCBS Claims Review – Bryan (Information)
- G. 2009 EAP Utilization – Bryan (Information)
- H. PPO Update – Kathy (Information)

VII. MISCELLANEOUS

- A. IRS Letter Ruling – Deb (Information)
- B. Audit Committee – (Information)
- C. SIB Agenda and Board Meeting Schedule

VIII. HEALTH BID – Sparb (Board Action)

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



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Public Employees Retirement System**
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Memorandum

TO: PERS Board

FROM: Sparb Collins

DATE: February 16, 2010

SUBJECT: Proposed Retirement/Administrative Legislation

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

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

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

The attached bills incorporate splitting the employee increase 50/50. The bill drafts also include a provision for the law enforcement plans. As we previously discussed, the Board has the authority to increase employer contributions. However, the Board does not have the authority to increase employee contributions. At the last meeting Segal shared with Board the projections for both law enforcement (LE) plans (Attachment #2). As noted in those projections, these systems will need an approximate increase of about 4%. The projections use the same method for phasing them as with the Main retirement plan. If we are to treat the LE plans the same as we are proposing for the other retirement systems, then we would request in our bill drafts providing for an employee contribution the same

authority for the member to pay it in the LE plans. Therefore, staff is recommending the following relating to the LE plan:

1. To include an increase of 4% of contributions to be paid by the members in our member paid bill.
2. To include a 2% increase in contributions to be paid by the member in our split bill.

Since the Board has the authority to increase employer contributions we do not need to request that in the proposed bills.

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

Proposed Provision/Change	Reason
Relating to TIAA/CREF transfers	The provisions of the defined benefit plan have allowed members who leave covered employment with PERS and move to covered employment in Higher Ed with TIAA/CREF the opportunity to elect to transfer their funds from PERS to TIAA/CREF. When the defined contribution plan was enacted, it did not include this provision. We are proposing that it be added to the DC plan in a like manner as exists in the Main PERS plan.
Edit 54-52-27	Remove the last sentence regarding payment timeframe of 60 days.
Edit 39-03.1-11(6)(b) relating to the HP	Remove the 5 year pre-retirement death benefit. This was removed in the main plan last year and therefore we are suggesting changing for the HP this time.
Edit 39-03-1-14.1	Remove "consecutive" from 3a and 3b. Last time we changed the final average salary provision for the HP from consecutive months to highest months. This change is reflective of the change made last session
Edit 54-52-17(6)	Revise the language to specify that method for distributing the funds when a member passes away and one of the beneficiaries also passes away prior to PERS distributing the funds.
Edit 54-52.6-09	<p>Revise the language to remove election timeframes. This is to be consistent with the Defined Benefit plan.</p> <p>54-52.6-09. Contributions - Penalty.</p> <p>.....3. Each employer, at its option, may pay the employee contributions required by this section for all compensation earned after December 31, 1999. The amount paid must be paid by the employer in lieu of contributions by the employee. If the employer decides not to pay the contributions, the amount that would have been paid will continue to be deducted from the employee's compensation. If contributions are paid by the employer, they must be treated as employer contributions in determining tax treatment under this code and the federal Internal Revenue Code. Contributions paid by the employer may not be included as gross income of the employee in determining tax treatment under this code and the federal Internal Revenue Code until they are distributed or made available. The employer shall pay these employee contributions from the same source of funds used in paying compensation to the employee. The employer shall pay these contributions by effecting an equal cash reduction in the gross salary of the employee or by an offset against future salary increases or by a combination of a reduction in gross salary and offset against future salary increases. Employee contributions paid by the employer must be treated for the purposes of this chapter in the same manner and to the same extent as employee contributions made before the date on which employee contributions were assumed by the employer. An employer shall exercise its option under this subsection by December 1, 1999, and shall report its choice to the board in writing. The option chosen may not be revoked for the remainder of the biennium. Thereafter, the option choice must be forwarded to the board, in writing, by June fifteenth of each odd-numbered year......</p>
Law Enforcement Plan	The plan presently provides that the normal retirement date is when they "attain the age of fifty-

Proposed Provision/Change	Reason
	five years and has completed at least three consecutive years of employment as a peace officer or correctional officer immediately preceding retirement". We are suggesting that we remove the wording "immediately preceding retirement".
Deferred vested members ability to be candidates for the Board	In the last review of the Board's election process, it was suggested that deferred vested members not be allowed to run for the Board.
54-52.1-03	<p>We are proposing the following change to this section to put into statute our administrative practice of allowing the spouse to stay on the plan after the member passes:</p> <p>54-52.1-03. Employee participation in plan - Employee to furnish information - Benefits to continue upon retirement or termination.</p> <p>.....3. A retiree who has accepted a periodic distribution from the defined contribution retirement plan pursuant to section 54-52.6-13 who the board determines is eligible for participation in the uniform group insurance program or has accepted a retirement allowance from the public employees retirement system, the highway patrolmen's retirement system, the teachers' insurance and annuity association of America - college retirement equities fund for service credit earned while employed by North Dakota institutions of higher education, the retirement system established by job service North Dakota under section 52-11-01, the judges' retirement system established under chapter 27-17, or the teachers' fund for retirement may elect to participate in the uniform group under this chapter without meeting minimum requirements at age sixty-five, when the member's spouse reaches age sixty-five, upon the receipt of a benefit, or when the spouse terminates employment. If a retiree or surviving spouse does not elect to participate at the times specified in this subsection, the retiree or surviving spouse must meet the minimum requirements established by the board. Subject to sections 54-52.1-03.2 and 54-52.1-03.3, each retiree or surviving spouse shall pay directly to the board the premiums in effect for the coverage then being provided. A retiree or surviving spouse who has met the initial eligibility requirements of this subsection to begin participation in the uniform group insurance program remains eligible as long as the retiree maintains the retiree's participation in the program by paying the required premium pursuant to rules adopted by the board.....</p>
Updating our federal compliance provisions	We do this every session to insure we are compliant with the most recent federal requirements.

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

Board Action Requested

1. To approve or disapprove staff recommendations
 - a. To split the employer/employee contribution increase 50/50
 - b. To treat LE members the same as the other retirement plans
2. To authorize submitting the four bill drafts.

Introduced by

1 A BILL for an Act to amend and reenact section 15-10-17, Subsection 6 of Section 39-
2 03.1-11, Subsection 1 of Section 39-03.1-11.2, 39-03.1-14.1, 54-52-03, Subsections 3
3 and 6 of Section 54-52-17, 54-52-27, 54-52-28, Subsection 3 of Section 54-52.1-03 and
4 Subsection 3 of Section 54-52.6-09 of the North Dakota Century Code, relating to
5 special annuity purchases in the alternate retirement program for university system
6 employees, surviving spouse payment options under the highway patrolmen's
7 retirement plan, calculation of member service credit under the highway patrolmen's
8 retirement plan, election of members to public employees retirement system board,
9 calculation of normal retirement date for a peace officer or correctional officer under the
10 public employees retirement system, payment of member account balance under the
11 public employees retirement system, purchase of sick leave credit under public
12 employees retirement system, spousal election to participate in uniform group insurance
13 program, reporting of employer pick-ups under the defined contribution retirement plan,
14 and Internal Revenue Code compliance under the highway patrolmen's retirement plan
15 and public employees retirement system.

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

17 **SECTION 1. AMENDMENT.** Section 15-10-17 of the North Dakota Century
18 Code is amended and reenacted as follows:

19 **15-10-17. Specific powers and duties of the state board of higher education.**

20 The state board of higher education has all the powers and shall perform all the duties
21 necessary to the control and management of the institutions described in this chapter. In
22 addition to the powers and duties specified in section 6 of article VIII of the Constitution
23 of North Dakota, the board may:

- 1 1.
- 2 a. Appoint and remove the president or other faculty head, and the
- 3 professors, instructors, teachers, officers, and other employees of
- 4 the several institutions under its control, and to fix their salaries
- 5 within the limits of legislative appropriations therefor, and to fix the
- 6 terms of office and to prescribe the duties thereof, provided that the
- 7 consideration of the appointment or removal of any such personnel
- 8 shall be in executive session if the board chooses unless the
- 9 individual involved requests that the meeting be open to other
- 10 individuals or to the public.
- 11 b. Appoint and remove the commissioner of higher education, fix the
- 12 commissioner's salary within the limits of legislative appropriations,
- 13 and prescribe the commissioner's duties.
- 14 c. Appoint and remove all university system office personnel, fix their
- 15 salaries within the limits of legislative appropriations, fix their terms
- 16 of office, and prescribe their duties.
- 17 2. Authorize the employment of law enforcement officers having concurrent
- 18 jurisdiction with other law enforcement officers to enforce laws and
- 19 regulations at its institutions.
- 20 3. Set tuition and fees.
- 21 4.
- 22 a. Establish a retirement program as an alternative to chapter 15-39.1
- 23 for university system employees subject to the following guidelines:
- 24 (1) Benefits under the program must be provided through
- 25 annuity contracts purchased by the board but which become
- 26 the property of the participants;

1 under the public employees retirement fund. However,
2 before the employer's contribution may be used for an
3 annuity purchase, the employee's combined years of service
4 with the public employees retirement system and the
5 alternate retirement program must equal or exceed the years
6 of service necessary to be eligible for retirement benefits
7 under the public employees retirement system. An employee
8 who transferred from the public employees retirement
9 system before March 30, 1987, and who received a refund of
10 that employee's contribution is entitled to have the
11 employer's contribution, with interest, used to purchase an
12 annuity even if that employee did not purchase an annuity in
13 the alternate employee program with the employee's
14 contribution. If an employee makes the election allowed
15 under this subdivision, that employee relinquishes all rights
16 the employee or any of the employee's beneficiaries may
17 have had to benefits provided under ~~chapter~~ chapters 54-52
18 and 54-52.6.

19 b. Provide for the administration of the alternate retirement program
20 and establish rules for the program consistent with this subsection.
21 This subsection does not derogate any existing retirement
22 programs approved by the board.

23 5. Determine policy for purchasing by the university system in coordination
24 with the office of management and budget as provided by law.

25 6. Establish by rule an early retirement program for faculty and officers of the
26 board as defined by the board. The limitations on severance pay pursuant
27 to section 54-14-04.3 and on requiring the employee to pay contributions

1 to continue on the state uniform group insurance program upon retirement
2 or upon termination of employment pursuant to section 54-52.1-03 do not
3 apply to the early retirement program.

4 7. Adopt rules to protect the confidentiality of student records, medical
5 records, and, consistent with section 44-04-18.4, trade secret, proprietary,
6 commercial, and financial information.

7 8. Authorize and encourage university system entities to enter into
8 partnerships, limited liability companies, joint ventures, or other
9 contractual arrangements with private business and industry for the
10 purpose of business or industrial development or fostering basic and
11 applied research or technology transfer.

12 9. Adopt rules promoting research, encouraging development of intellectual
13 property and other inventions and discoveries by university system
14 employees, and protecting and marketing the inventions and discoveries.
15 The rules must govern ownership or transfer of ownership rights and
16 distribution of income that may be derived from an invention or discovery
17 resulting from research or employment in the university system. The rules
18 may provide for transfer of ownership rights or distribution of income to a
19 private, nonprofit entity created for the support of the university system or
20 one of its institutions.

21

22 **SECTION 2. AMENDMENT.** Subsection 6 of Section 39-03.1-11 of the North
23 Dakota Century Code is amended and reenacted as follows:

24 6. If before retiring a contributor dies after completing ten years of eligible
25 employment, the board shall pay the contributor's accumulated deductions
26 to the contributor's designated beneficiary as provided in this subsection. If
27 the contributor has designated an alternate beneficiary with the surviving

1 spouse's written consent, the board shall pay the contributor's account
2 balance to the named beneficiary. If the contributor has named more than
3 one primary beneficiary, the board shall pay the contributor's account
4 balance to the named primary beneficiaries in the percentages designated
5 by the contributor or, if the contributor has not designated a percentage for
6 the beneficiaries, in equal percentages. If one or more of the primary
7 beneficiaries has predeceased the contributor, the board shall pay the
8 predeceased beneficiary's share to the remaining primary beneficiaries. If
9 there are no remaining primary beneficiaries, the board shall pay the
10 contributor's account balance to the contingent beneficiaries in the same
11 manner. If there are no remaining designated beneficiaries, the board
12 shall pay the contributor's account balance to the contributor's estate. If
13 the contributor has not designated an alternate beneficiary under this
14 section or the surviving spouse is the beneficiary, the surviving spouse of
15 the contributor may select one of the following optional forms of payment:
16 a. A lump sum payment of the contributor's accumulated deductions
17 as of the date of death.
18 b. ~~Payments for sixty months as calculated for the deceased~~
19 ~~contributor as if the contributor were age fifty five at the date of~~
20 ~~death.~~
21 e. Payment of a monthly retirement benefit equal to fifty percent of the
22 deceased contributor's accrued normal retirement benefits until the
23 spouse dies.

24
25 **SECTION 3. AMENDMENT.** Subsection 1 of section 39-03.1-11.2 of the North
26 Dakota Century Code is amended and reenacted as follows:

1 1. The board shall administer the plan in compliance with section 415,
2 section 401(a)(9), section 401(a)(17), and section 401(a)(31) of the
3 Internal Revenue Code in effect on August 1, ~~2009~~ 2011, as it applies for
4 governmental plans.

5

6 **SECTION 4. AMENDMENT.** Section 39-03.1-14.1 of the North Dakota Century
7 Code is amended and reenacted as follows:

8 **39-03.1-14.1. Multiple plan membership - Eligibility for benefits - Amount of**
9 **benefits.**

10 1. For the purpose of determining eligibility for benefits under this chapter, a
11 member's years of service is the total of the years of service earned under
12 this chapter and the years of service employment or years of service credit
13 earned in any number of the following, the total of which may not exceed
14 twelve months of credit per year:

- 15 a. The public employees retirement system.
16 b. The teachers' fund for retirement.
17 c. The teachers' insurance and annuity association of America –
18 college retirement equities fund (TIAA-CREF), for service credit
19 earned while employed by North Dakota institutions of higher
20 education.

21 2. If a member terminates eligible employment under this chapter, if that
22 member has not received a refund of the member's accumulated
23 deductions, and if that member begins eligible employment in a plan
24 described in subdivision a or b of subsection 1, that member may elect to
25 remain an inactive member of the system without refund of the member's
26 accumulated deductions. The election must be made within ninety days
27 after beginning the eligible employment. The board shall terminate the

1 inactive status of a member under this subsection if the member gains
2 eligible employment under this chapter or if the member terminates
3 eligible employment under a plan described in subdivision a or b of
4 subsection 1.

5 3. Pursuant to rules adopted by the board, a member who has service credit
6 in the system and in any of the alternate plans described in subdivision a
7 or b of subsection 1 is entitled to benefits under this chapter. The
8 employee may elect to have benefits calculated using the benefit formula
9 in section 39-03.1-11 under either of the following calculation methods:

10 a. By using the average of the highest salary received by the member
11 for any ~~consecutive~~ thirty-six months employed during the last one
12 hundred twenty months of employment in the highway patrolmen's
13 retirement system. If the participating member has worked for less
14 than thirty-six months at retirement, the final average salary is the
15 average salary for the total months of employment.

16 b. Using the average of the highest salary received by the member for
17 any thirty-six ~~consecutive~~ months during the last one hundred
18 twenty months of employment, with service credit not to exceed
19 one month in any month when combined with the service credit
20 earned in the alternate retirement system.

21 The board shall calculate benefits for an employee under this subsection
22 by using only those years of service employment earned under this
23 chapter.

24
25 **SECTION 5. AMENDMENT.** Section 54-52-03 of the North Dakota Century
26 Code is amended and reenacted as follows:

1 **54-52-03. Governing authority.** A state agency is hereby created to constitute
2 the governing authority of the system to consist of a board of seven persons known as
3 the retirement board. No more than one elected member of the board may be in the
4 employ of a single department, institution, or agency of the state or in the employ of a
5 political subdivision. No employee of the public employees retirement system or the
6 state retirement and investment office may serve on the board.

- 7 1. One member of the board must be appointed by the governor to serve a
8 term of five years. The appointee must be a North Dakota citizen who is
9 not a state or political subdivision employee and who by experience is
10 familiar with money management. The citizen member is chairman of the
11 board.
- 12 2. One member of the board must be appointed by the attorney general from
13 the attorney general's legal staff and shall serve a term of five years.
- 14 3. The state health officer appointed under section 23-01-05 is a member of
15 the board.
- 16 4. Three board members must be elected by and from among the active
17 participating members, members of the retirement plan established under
18 chapter 54-52.6, members of the retirement plan established under
19 chapter 39-03.1, and members of the job service North Dakota retirement
20 plan. Employees who have terminated their employment for whatever
21 reason are not eligible to serve as elected members of the board under
22 this subsection. Board members must be elected to a five-year term
23 pursuant to an election called by the board. Notice of board elections must
24 be given to all active participating members. The time spent in performing
25 duties as a board member may not be charged against any employee's
26 accumulated annual or any other type of leave.

- 1 5. One board member must be elected by and from among those persons
2 who are receiving retirement benefits ~~or who are eligible to receive~~
3 ~~deferred vested retirement benefits~~ under this chapter. The board shall
4 call the election and must give prior notice of the election to the persons
5 eligible to participate in the election pursuant to this subsection. The board
6 member shall serve a term of five years.
- 7 6. The members of the board are entitled to receive sixty-two dollars and fifty
8 cents per day compensation and necessary mileage and travel expenses
9 as provided in sections 44-08-04 and 54-06-09. This is in addition to any
10 other pay or allowance due the chairman or a member, plus an allowance
11 for expenses they may incur through service on the board.
- 12 7. A board member shall serve a five-year term and until the board member's
13 successor qualifies. Each board member is entitled to one vote, and four
14 of the seven board members constitute a quorum. Four votes are
15 necessary for resolution or action by the board at any meeting.

16

17 **SECTION 6. AMENDMENT.** Subsections 3 and 6 of section 54-52-17 of the
18 North Dakota Century Code is amended and reenacted as follows:

- 19 3. Retirement dates are defined as follows:
- 20 a. Normal retirement date, except for a national guard security officer
21 or firefighter or a peace officer or correctional officer employed by
22 the bureau of criminal investigation or by a political subdivision, is:
- 23 (1) The first day of the month next following the month in which
24 the member attains the age of sixty-five years; or
- 25 (2) When the member has a combined total of years of service
26 credit and years of age equal to eighty-five and has not
27 received a retirement benefit under this chapter.

- 1 b. Normal retirement date for a national guard security officer or
2 firefighter is the first day of the month next following the month in
3 which the national guard security officer or firefighter attains the
4 age of fifty-five years and has completed at least three consecutive
5 years of employment as a national guard security officer or
6 firefighter immediately preceding retirement.
- 7 c. Normal retirement date for a peace officer or correctional officer
8 employed by a political subdivision is:
- 9 (1) The first day of the month next following the month in which
10 the peace officer or correctional officer attains the age of
11 fifty-five years and has completed at least three consecutive
12 years of employment as a peace officer or correctional
13 officer ~~immediately preceding retirement~~; or
- 14 (2) When the peace officer or correctional officer has a
15 combined total of years of service credit and years of age
16 equal to eighty-five and has not received a retirement benefit
17 under this chapter.
- 18 d. Normal retirement date for a peace officer employed by the bureau
19 of criminal investigation is:
- 20 (1) The first day of the month next following the month in which
21 the peace officer attains the age of fifty-five years and has
22 completed at least three consecutive years of employment
23 as a peace officer immediately preceding retirement; or
- 24 (2) When the peace officer has a combined total of years of
25 service credit and years of age equal to eighty-five and has
26 not received a retirement benefit under this chapter.

- 1 e. Postponed retirement date is the first day of the month next
2 following the month in which the member, on or after July 1, 1977,
3 actually severs or has severed the member's employment after
4 reaching the normal retirement date.
- 5 f. Early retirement date, except for a national guard security officer or
6 firefighter or a peace officer or correctional officer employed by the
7 bureau of criminal investigation or by a political subdivision, is the
8 first day of the month next following the month in which the member
9 attains the age of fifty-five years and has completed three years of
10 eligible employment. For a national guard security officer or
11 firefighter, early retirement date is the first day of the month next
12 following the month in which the national guard security officer or
13 firefighter attains the age of fifty years and has completed at least
14 three years of eligible employment. For a peace officer or
15 correctional officer employed by the bureau of criminal investigation
16 or by a political subdivision, early retirement date is the first day of
17 the month next following the month in which the peace officer or
18 correctional officer attains the age of fifty years and has completed
19 at least three years of eligible employment.
- 20 g. Disability retirement date is the first day of the month after a
21 member becomes permanently and totally disabled, according to
22 medical evidence called for under the rules of the board, and has
23 completed at least one hundred eighty days of eligible employment.
24 For supreme and district court judges, permanent and total
25 disability is based solely on a judge's inability to perform judicial
26 duties arising out of physical or mental impairment, as determined
27 pursuant to rules adopted by the board or as provided by

1 subdivision a of subsection 3 of section 27-23-03. A member is
2 eligible to receive disability retirement benefits only if the member:

3 (1) Became disabled during the period of eligible employment;

4 and

5 (2) Applies for disability retirement benefits within twelve months
6 of the date the member terminates employment.

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

18

19 6. If before retiring a member dies after completing three years of eligible
20 employment, except for supreme and district court judges, who must have
21 completed five years of eligible employment, the board shall pay the
22 member's account balance to the member's designated beneficiary as
23 provided in this subsection. If the member has designated an alternate
24 beneficiary with the surviving spouse's written consent, the board shall pay
25 the member's account balance to the named beneficiary. If the member
26 has named more than one primary beneficiary, the board shall pay the
27 member's account balance to the named primary beneficiaries in the

1 percentages designated by the member or, if the member has not
2 designated a percentage for the beneficiaries, in equal percentages. If one
3 or more of the primary beneficiaries has predeceased the member, the
4 board shall pay the predeceased beneficiary's share to the remaining
5 primary beneficiaries. If any beneficiary survives the member, yet dies
6 prior to distribution of the beneficiary's share, beneficiary shall be treated
7 as if they predeceased the member. If there are no remaining primary
8 beneficiaries, the board shall pay the member's account balance to the
9 contingent beneficiaries in the same manner. If there are no remaining
10 designated beneficiaries, the board shall pay the member's account
11 balance to the member's estate. If the member has not designated an
12 alternate beneficiary or the surviving spouse is the beneficiary, the
13 surviving spouse of the member may select a form of payment as follows:
14 a. If the member was a supreme or district court judge, the surviving
15 spouse may select one of the following optional forms of payment:
16 (1) A lump sum payment of the member's retirement account as
17 of the date of death.
18 (2) Payments as calculated for the deceased member as if the
19 member was of normal retirement age at the date of death,
20 payable until the spouse dies.
21 b. The surviving spouse of all other members may select one of the
22 following options:
23 (1) A lump sum payment of the member's retirement account as
24 of the date of death.
25 (2) Payment of a monthly retirement benefit equal to fifty
26 percent of the deceased member's accrued single life
27 retirement benefits until the spouse dies.

1 (3) If the member dies on or after the member's normal
2 retirement date, the payment of a monthly retirement benefit
3 equal to an amount that would have been paid to the
4 surviving spouse if the member had retired on the day of the
5 member's death and had selected a one hundred percent
6 joint and survivor annuity, payable until the spouse dies. A
7 surviving spouse who received a benefit under this
8 subsection as of July 31, 1995, is entitled to the higher of
9 that person's existing benefit or the equivalent of the accrued
10 benefit available under the one hundred percent joint and
11 survivor provision as if the deceased member were of
12 normal retirement age, with the increase payable beginning
13 August 1, 1995.

14
15 **SECTION 7. AMENDMENT.** Section 54-52-27 of the North Dakota Century
16 Code is amended and reenacted as follows:

17 **54-52-27. Purchase of sick leave credit.** A member is entitled to credit in the
18 retirement system for each month of unused sick leave, as certified by the member's
19 employer, if the member or the member's employer pays an amount equal to the
20 member's final average salary, times the number of months of sick leave converted,
21 times the percent of employer and employee contributions to the retirement program of
22 the member, plus the required contribution for the retiree health benefits program.
23 Hours of sick leave equal to a fraction of a month are deemed to be a full month for
24 purposes of conversion to service credit. A member may convert all of the member's
25 certified sick leave or a part of the member's certified sick leave. ~~All conversion~~
26 ~~payments must be made within sixty days of termination of employment and before~~

1 ~~the member receives a retirement annuity unless the member has submitted an~~
2 ~~approved payment plan to the board.~~

3

4 **SECTION 8. AMENDMENT.** Subsection 1 of section 54-52-28 of the North
5 Dakota Century Code is amended and reenacted as follows:

6 1. The board shall administer the plan in compliance with section 415,
7 section 401(a)(9), section 401(a)(17), and section 401(a)(31) of the
8 Internal Revenue Code in effect on August 1, ~~2009~~ 2011, as it applies for
9 governmental plans.

10

11 **SECTION 9. AMENDMENT.** Subsection 3 of section 54-52.1-03 of the North
12 Dakota Century Code is amended and reenacted as follows:

13

14 3. A retiree who has accepted a periodic distribution from the defined
15 contribution retirement plan pursuant to section 54-52.6-13 who the board
16 determines is eligible for participation in the uniform group insurance
17 program or has accepted a retirement allowance from the public
18 employees retirement system, the highway patrolmen's retirement system,
19 the teachers' insurance and annuity association of America - college
20 retirement equities fund for service credit earned while employed by North
21 Dakota institutions of higher education, the retirement system established
22 by job service North Dakota under section 52-11-01, the judges' retirement
23 system established under chapter 27-17, or the teachers' fund for
24 retirement may elect to participate in the uniform group under this chapter
25 without meeting minimum requirements at age sixty-five, when the
26 member's spouse reaches age sixty-five, upon the receipt of a benefit, or
27 when the spouse terminates employment. If a retiree or surviving spouse

1 does not elect to participate at the times specified in this subsection, the
2 retiree or surviving spouse must meet the minimum requirements
3 established by the board. Subject to sections 54-52.1-03.2 and 54-52.1-
4 03.3, each retiree or surviving spouse shall pay directly to the board the
5 premiums in effect for the coverage then being provided. A retiree or
6 surviving spouse who has met the initial eligibility requirements of this
7 subsection to begin participation in the uniform group insurance program
8 remains eligible as long as the retiree maintains the retiree's participation
9 in the program by paying the required premium pursuant to rules adopted
10 by the board.

11
12 **SECTION 10. AMENDMENT.** Subsection 3 of section 54-52.6-09 of the North
13 Dakota Century Code is amended and reenacted as follows:

- 14
15 3. Each employer, at its option, may pay the employee contributions required
16 by this section for all compensation earned after December 31, 1999. The
17 amount paid must be paid by the employer in lieu of contributions by the
18 employee. If the employer decides not to pay the contributions, the
19 amount that would have been paid will continue to be deducted from the
20 employee's compensation. If contributions are paid by the employer, they
21 must be treated as employer contributions in determining tax treatment
22 under this code and the federal Internal Revenue Code. Contributions paid
23 by the employer may not be included as gross income of the employee in
24 determining tax treatment under this code and the federal Internal
25 Revenue Code until they are distributed or made available. The employer
26 shall pay these employee contributions from the same source of funds
27 used in paying compensation to the employee. The employer shall pay

1 these contributions by effecting an equal cash reduction in the gross
2 salary of the employee or by an offset against future salary increases or
3 by a combination of a reduction in gross salary and offset against future
4 salary increases. Employee contributions paid by the employer must be
5 treated for the purposes of this chapter in the same manner and to the
6 same extent as employee contributions made before the date on which
7 employee contributions were assumed by the employer. An employer shall
8 exercise its option under this subsection by ~~December 1, 1999,~~ and shall
9 ~~report~~ reporting its choice to the board in writing. ~~The option chosen may~~
10 ~~not be revoked for the remainder of the biennium. Thereafter, the option~~
11 ~~choice must be forwarded to the board, in writing, by June fifteenth of~~
12 ~~each odd-numbered year.~~

13

Introduced by

1 A BILL for an Act to amend and reenact section 39-03.1-09, 54-52-02.9, 54-52-05, 54-
2 52-06.1, 54-52-06.3, subsection 6 of section 54-52.6-02, and 54-52.6-09 of the North
3 Dakota Century Code, relating to increased employee contributions under the highway
4 patrolmen's retirement plan and public employees retirement system.

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

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

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

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

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

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

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

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

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

1 employees retirement system until termination of employment or reclassification of the
2 temporary employee as a permanent employee. A temporary employee may not
3 purchase any additional credit, including additional credit under section 54-52-17.4 or
4 past service under section 54-52-02.6.

5

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

8 **54-52-05. Membership and assessments - Employer payment of employee**
9 **contributions.**

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

- 1 2. Each member must be assessed and required to pay monthly four percent
2 of the monthly salary or wage paid to the member, and such assessment
3 must be deducted and retained out of such salary in equal monthly
4 installments commencing with the first month of employment. Member
5 contributions shall be increased by two percent of the monthly salary or
6 wage paid to the member beginning with the monthly reporting period of
7 January, 2012, and shall be increased annually thereafter by an additional
8 two percent, with the final increase taking place for the reporting period of
9 January, 2015.
- 10 3. Each employer, at its option, may pay all or a portion of the employee
11 contributions required by subsection 2 and sections 54-52-06.1, 54-52-
12 06.2, 54-52-06.3, and 54-52-06.4 or the employee contributions required
13 to purchase service credit on a pretax basis pursuant to subsection 5 of
14 section 54-52-17.4. Employees may not receive the contributed amounts
15 directly once the employer has elected to pay the employee contributions.
16 The amount paid must be paid by the employer in lieu of contributions by
17 the employee. If the state determines not to pay the contributions, the
18 amount that would have been paid must continue to be deducted from the
19 employee's compensation. If contributions are paid by the employer, they
20 must be treated as employer contributions in determining tax treatment
21 under this code and the federal Internal Revenue Code. If contributions
22 are paid by the employer, they may not be included as gross income of
23 the employee in determining tax treatment under this code and the
24 Internal Revenue Code until they are distributed or made available. The
25 employer shall pay these employee contributions from the same source of
26 funds used in paying compensation to the employee or from the levy
27 authorized by subsection 5 of section 57-15-28.1. The employer shall pay

1 these contributions by effecting an equal cash reduction in the gross
2 salary of the employee or by an offset against future salary increases or
3 by a contribution of a reduction in gross salary and offset against future
4 salary increases. If employee contributions are paid by the employer, they
5 must be treated for the purposes of this chapter in the same manner and
6 to the same extent as employee contributions made prior to the date on
7 which employee contributions were assumed by the employer. An
8 employer exercising its option under this subsection shall report its choice
9 to the board in writing.

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

1 otherwise specifically provided for under the agency's biennial
2 appropriation or by amendment to law.

3

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

6 **54-52-06.1. Contribution by supreme and district court judges - Employer**

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

20

21 **SECTION 5. AMENDMENT.** Section 54-52-06.3 of the North Dakota Century
22 Code is amended and reenacted as follows:

23 **54-52-06.3. Contribution by peace officers and correctional officers**

24 **employed by political subdivisions - Employer contribution.** Each peace officer or
25 correctional officer employed by a political subdivision that enters into an agreement
26 with the retirement board on behalf of its peace officers and correctional officers
27 separately from its other employees and who is a member of the public employees

1 retirement system is assessed and shall pay monthly four percent of the employee's
2 monthly salary. Peace officer or correctional officer contributions shall be increased by
3 one percent of the member's monthly salary beginning with the monthly reporting period
4 of January, 2012, and shall be increased annually thereafter by an additional one
5 percent, with the final increase taking place for the reporting period of January, 2015.
6 The assessment must be deducted and retained out of the employee's salary in equal
7 monthly installments. The peace officer's or correctional officer's employer shall
8 contribute an amount determined by the board to be actuarially required to support the
9 level of benefits specified in section 54-52-17. If the peace officer's or correctional
10 officer's assessment is paid by the employer under subsection 3 of section 54-52-05,
11 the employer shall contribute, in addition, an amount equal to the required peace
12 officer's or correctional officer's assessment.

13

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

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

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

10
11 **SECTION 7. AMENDMENT.** Section 54-52.6-09 of the North Dakota Century
12 Code is amended and reenacted as follows:

13 **54-52.6-09. Contributions - Penalty.**

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

24 2. The employer shall contribute an amount equal to four and twelve-
25 hundredths percent of the monthly salary or wage of a participating
26 member. If the employee's contribution is paid by the employer under
27 subsection 3, the employer shall contribute, in addition, an amount equal

1 to the required employee's contribution. The employer shall pay monthly
2 such contribution into the participating member's account from its funds
3 appropriated for payroll and salary or any other funds available for such
4 purposes. If the employer fails to pay the contributions monthly, it is
5 subject to a civil penalty of fifty dollars and, as interest, one percent of the
6 amount due for each month of delay or fraction thereof after the payment
7 became due.

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

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1 exercise its option under this subsection by December 1, 1999, and shall
2 report its choice to the board in writing. The option chosen may not be
3 revoked for the remainder of the biennium. Thereafter, the option choice
4 must be forwarded to the board, in writing, by June fifteenth of each odd-
5 numbered year.

Introduced by

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

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

7

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

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

20

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

1 **54-52-02.9. Participation by temporary employees.** A temporary employee
2 may elect, within one hundred eighty days of beginning employment, to participate in
3 the public employees retirement system and receive credit for service after enrollment.
4 The temporary employee shall pay monthly to the fund an amount equal to eight and
5 twelve-hundredths percent times the temporary employee's present monthly salary. The
6 amount required to be paid by a temporary employee shall be increased by two percent
7 times the temporary employee's present monthly salary beginning with the monthly
8 reporting period of January, 2012, and shall be increased annually thereafter by an
9 additional two percent, with the final increase taking place for the reporting period of
10 January, 2015. The temporary employee shall also pay the required monthly
11 contribution to the retiree health benefit fund established under section 54-52.1-03.2.
12 This contribution must be recorded as a member contribution pursuant to section 54-
13 52.1-03.2. An employer may not pay the temporary employee's contributions. A
14 temporary employee may continue to participate as a temporary employee in the public
15 employees retirement system until termination of employment or reclassification of the
16 temporary employee as a permanent employee. A temporary employee may not
17 purchase any additional credit, including additional credit under section 54-52-17.4 or
18 past service under section 54-52-02.6.

19
20 **SECTION 3. AMENDMENT.** Section 54-52-06 of the North Dakota Century
21 Code is amended and reenacted as follows:

22 **54-52-06. Employer's contribution to retirement plan.** Each governmental
23 unit shall contribute an amount equal to four and twelve-hundredths percent of the
24 monthly salary or wage of a participating member. Governmental unit contributions shall
25 be increased by two percent of the monthly salary or wage of a participating member
26 beginning with the monthly reporting period of January, 2012, and shall be increased
27 annually thereafter by an additional two percent, with the final increase taking place for

1 the reporting period of January, 2015. For those members who elect to exercise their
2 rights under section 54-52-17.14, the employing governmental unit, or in the case of a
3 member not presently under covered employment the most recent employing
4 governmental unit, shall pay the associated employer contribution. If the employee's
5 contribution is paid by the governmental unit under subsection 3 of section 54-52-05,
6 the employer unit shall contribute, in addition, an amount equal to the required
7 employee's contribution. Each governmental unit shall pay the contribution monthly, or
8 in the case of an election made pursuant to section 54-52-17.14 a lump sum, into the
9 retirement fund from its funds appropriated for payroll and salary or any other funds
10 available for these purposes. Any governmental unit failing to pay the contributions
11 monthly, or in the case of an election made pursuant to section 54-52-17.14 a lump
12 sum, is subject to a civil penalty of fifty dollars and, as interest, one percent of the
13 amount due for each month of delay or fraction thereof after the payment became due.
14 In lieu of assessing a civil penalty or one percent per month, or both, interest at the
15 actuarial rate of return may be assessed for each month the contributions are
16 delinquent. If contributions are paid within ninety days of the date they became due,
17 penalty and interest to be paid on delinquent contributions may be waived. An employer
18 is required to submit contributions for any past eligible employee who was employed
19 after July 1, 1977, for which contributions were not made if the employee would have
20 been eligible to become vested had the employee participated and if the employee
21 elects to join the public employees retirement system. Employer contributions may not
22 be assessed for eligible service that an employee has waived pursuant to subsection 1
23 of section 54-52-05. The board shall report to each session of the legislative assembly
24 the contributions necessary, as determined by the actuarial study, to maintain the fund's
25 actuarial soundness.
26

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

3 **54-52-06.1. Contribution by supreme and district court judges - Employer**
4 **contribution.** Each judge of the supreme or district court who is a member of the
5 public employees retirement system must be assessed and required to pay monthly five
6 percent of the judge's monthly salary. The assessment must be deducted and retained
7 out of the judge's salary in equal monthly installments. The state shall contribute an
8 amount equal to fourteen and fifty-two one-hundredths percent of the monthly salary of
9 a supreme or district court judge who is a participating member of the system, which
10 matching contribution must be paid from its funds appropriated for salary, or from any
11 other funds available for such purposes. State contributions shall be increased by two
12 percent of the monthly salary of a supreme or district court judge who is a participating
13 member of the system beginning with the monthly reporting period of January, 2012,
14 and shall be increased annually thereafter by an additional two percent, with the final
15 increase taking place for the reporting period of January, 2015. If the judge's
16 contribution is paid by the state under subsection 3 of section 54-52-05, the state shall
17 contribute, in addition, an amount equal to the required judge's contribution.

18
19 **SECTION 5. AMENDMENT.** Subsection 6 of section 54-52.6-02 of the North
20 Dakota Century Code is amended and reenacted as follows:

21 6. A participating member who becomes a temporary employee may still
22 participate in the defined contribution retirement plan upon filing an
23 election with the board within one hundred eighty days of transferring to
24 temporary employee status. The participating member may not become a
25 member of the defined benefit plan as a temporary employee. The
26 temporary employee electing to participate in the defined contribution
27 retirement plan shall pay monthly to the fund an amount equal to eight and

1 twelve-hundredths percent times the temporary employee's present
2 monthly salary. The amount required to be paid by a temporary employee
3 shall be increased by two percent times the temporary employee's present
4 monthly salary beginning with the monthly reporting period of January,
5 2012, and shall be increased annually thereafter by an additional two
6 percent, with the final increase taking place for the reporting period of
7 January, 2015. The temporary employee shall also pay the required
8 monthly contribution to the retiree health benefit fund established under
9 section 54-52.1-03.2. This contribution must be recorded as a member
10 contribution pursuant to section 54-52.1-03.2. An employer may not pay
11 the temporary employee's contributions. A temporary employee may
12 continue to participate as a temporary employee until termination of
13 employment or reclassification of the temporary employee as a permanent
14 employee.

15
16 **SECTION 6. AMENDMENT.** Section 54-52.6-09 of the North Dakota Century
17 Code is amended and reenacted as follows:

18 **54-52.6-09. Contributions - Penalty.**

- 19 1. Each participating member shall contribute monthly four percent of the
20 monthly salary or wage paid to the participant, and this assessment must
21 be deducted from the participant's salary in equal monthly installments
22 commencing with the first month of participation in the defined contribution
23 retirement plan established under this chapter.
- 24 2. The employer shall contribute an amount equal to four and twelve-
25 hundredths percent of the monthly salary or wage of a participating
26 member. Employer contributions shall be increased by two percent of the
27 monthly salary or wage of a participating member beginning with the

1 monthly reporting period of January, 2012, and shall be increased
2 annually thereafter by an additional two percent, with the final increase
3 taking place for the reporting period of January, 2015. If the employee's
4 contribution is paid by the employer under subsection 3, the employer
5 shall contribute, in addition, an amount equal to the required employee's
6 contribution. The employer shall pay monthly such contribution into the
7 participating member's account from its funds appropriated for payroll and
8 salary or any other funds available for such purposes. If the employer fails
9 to pay the contributions monthly, it is subject to a civil penalty of fifty
10 dollars and, as interest, one percent of the amount due for each month of
11 delay or fraction thereof after the payment became due.

12 3. Each employer, at its option, may pay the employee contributions required
13 by this section for all compensation earned after December 31, 1999. The
14 amount paid must be paid by the employer in lieu of contributions by the
15 employee. If the employer decides not to pay the contributions, the
16 amount that would have been paid will continue to be deducted from the
17 employee's compensation. If contributions are paid by the employer, they
18 must be treated as employer contributions in determining tax treatment
19 under this code and the federal Internal Revenue Code. Contributions paid
20 by the employer may not be included as gross income of the employee in
21 determining tax treatment under this code and the federal Internal
22 Revenue Code until they are distributed or made available. The employer
23 shall pay these employee contributions from the same source of funds
24 used in paying compensation to the employee. The employer shall pay
25 these contributions by effecting an equal cash reduction in the gross
26 salary of the employee or by an offset against future salary increases or
27 by a combination of a reduction in gross salary and offset against future

1 salary increases. Employee contributions paid by the employer must be
2 treated for the purposes of this chapter in the same manner and to the
3 same extent as employee contributions made before the date on which
4 employee contributions were assumed by the employer. An employer shall
5 exercise its option under this subsection by December 1, 1999, and shall
6 report its choice to the board in writing. The option chosen may not be
7 revoked for the remainder of the biennium. Thereafter, the option choice
8 must be forwarded to the board, in writing, by June fifteenth of each odd-
9 numbered year.

Introduced by

1 A BILL for an Act to amend and reenact section 39-03.1-09, 39-03.1-10, 54-52-02.9, 54-
2 52-05, 54-52-06, 54-52-06.1, 54-52-06.3, subsection 6 of section 54-52.6-02, and 54-
3 52.6-09 of the North Dakota Century Code, relating to increased employer and
4 employee contributions under the highway patrolmen's retirement plan and public
5 employees retirement system.

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

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

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

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

19 2. The state of North Dakota, at its option, may pay the member
20 contributions required by subsection 1 for all compensation earned after
21 June 30, 1983, and may pay the member contributions required to
22 purchase service credit on a pretax basis pursuant to subsection 8 of
23 section 39-03.1-08.2. The amount paid must be paid by the state in lieu of

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

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

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

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

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

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

1 **54-52-02.9. Participation by temporary employees.** A temporary employee
2 may elect, within one hundred eighty days of beginning employment, to participate in
3 the public employees retirement system and receive credit for service after enrollment.
4 The temporary employee shall pay monthly to the fund an amount equal to eight and
5 twelve-hundredths percent times the temporary employee's present monthly salary. The
6 amount required to be paid by a temporary employee shall be increased by two percent
7 times the temporary employee's present monthly salary beginning with the monthly
8 reporting period of January, 2012, and shall be increased annually thereafter by an
9 additional two percent, with the final increase taking place for the reporting period of
10 January, 2015. The temporary employee shall also pay the required monthly
11 contribution to the retiree health benefit fund established under section 54-52.1-03.2.
12 This contribution must be recorded as a member contribution pursuant to section 54-
13 52.1-03.2. An employer may not pay the temporary employee's contributions. A
14 temporary employee may continue to participate as a temporary employee in the public
15 employees retirement system until termination of employment or reclassification of the
16 temporary employee as a permanent employee. A temporary employee may not
17 purchase any additional credit, including additional credit under section 54-52-17.4 or
18 past service under section 54-52-02.6.

19

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

22 **54-52-05. Membership and assessments - Employer payment of employee**
23 **contributions.**

24 1. Every eligible governmental unit employee concurring in the plan must so
25 state in writing and all future eligible employees are participating
26 members. An employee who was not enrolled in the retirement system
27 when eligible to participate must be enrolled immediately upon notice of

1 the employee's eligibility, unless the employee waives in writing the
2 employee's right to participate for the previous time of eligibility, to avoid
3 contributing to the fund for past service. An employee who is eligible for
4 normal retirement who accepts a retirement benefit under this chapter and
5 who subsequently becomes employed with a participating employer other
6 than the employer with which the employee was employed at the time the
7 employee retired under this chapter may, before reenrolling in the
8 retirement plan, elect to permanently waive future participation in the
9 retirement plan and the retiree health program and maintain that
10 employee's retirement status. An employee making this election is not
11 required to make any future employee contributions to the public
12 employees retirement system nor is the employee's employer required to
13 make any further contributions on behalf of that employee.

14 2. Each member must be assessed and required to pay monthly four percent
15 of the monthly salary or wage paid to the member, and such assessment
16 must be deducted and retained out of such salary in equal monthly
17 installments commencing with the first month of employment. Member
18 contributions shall be increased by one percent of the monthly salary or
19 wage paid to the member beginning with the monthly reporting period of
20 January, 2012, and shall be increased annually thereafter by an additional
21 one percent, with the final increase taking place for the reporting period of
22 January, 2015.

23 3. Each employer, at its option, may pay all or a portion of the employee
24 contributions required by subsection 2 and sections 54-52-06.1, 54-52-
25 06.2, 54-52-06.3, and 54-52-06.4 or the employee contributions required
26 to purchase service credit on a pretax basis pursuant to subsection 5 of
27 section 54-52-17.4. Employees may not receive the contributed amounts

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

23 4. For compensation earned after August 1, 2009, all employee contributions
24 required under section 54-52-06.1 and the job service North Dakota
25 retirement plan, and not otherwise paid under subsection 3, must be paid
26 by the employer in lieu of contributions by the member. All contributions
27 paid by the employer under this subsection must be treated as employer

1 contributions in determining tax treatment under this code and the Internal
2 Revenue Code. Contributions paid by the employer under this subsection
3 may not be included as gross income of the member in determining tax
4 treatment under this code and the Internal Revenue Code until the
5 contributions are distributed or made available. Contributions paid by the
6 employer in accordance with this subsection must be treated for the
7 purposes of this chapter in the same manner and to the same extent as
8 member contributions made before the date the contributions were
9 assumed by the employer. The employer shall pay these member
10 contributions from the same source of funds used in paying compensation
11 to the employee. The employer shall pay these contributions by effecting
12 an equal cash reduction in the gross salary of the employee. The
13 employer shall continue making payments under this section unless
14 otherwise specifically provided for under the agency's biennial
15 appropriation or by amendment to law.

16
17 **SECTION 5. AMENDMENT.** Section 54-52-06 of the North Dakota Century
18 Code is amended and reenacted as follows:

19 **54-52-06. Employer's contribution to retirement plan.** Each governmental
20 unit shall contribute an amount equal to four and twelve-hundredths percent of the
21 monthly salary or wage of a participating member. Governmental unit contributions shall
22 be increased by one percent of the monthly salary or wage of a participating member
23 beginning with the monthly reporting period of January, 2012, and shall be increased
24 annually thereafter by an additional one percent, with the final increase taking place for
25 the reporting period of January, 2015. For those members who elect to exercise their
26 rights under section 54-52-17.14, the employing governmental unit, or in the case of a
27 member not presently under covered employment the most recent employing

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

23

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

26 **54-52-06.1. Contribution by supreme and district court judges - Employer**

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

19

20 **SECTION 7. AMENDMENT.** Section 54-52-06.3 of the North Dakota Century
21 Code is amended and reenacted as follows:

22 **54-52-06.3. Contribution by peace officers and correctional officers**
23 **employed by political subdivisions - Employer contribution.** Each peace officer or
24 correctional officer employed by a political subdivision that enters into an agreement
25 with the retirement board on behalf of its peace officers and correctional officers
26 separately from its other employees and who is a member of the public employees
27 retirement system is assessed and shall pay monthly four percent of the employee's

1 monthly salary. Peace officer or correctional officer contributions shall be increased by
2 one-half of one percent of the member's monthly salary beginning with the monthly
3 reporting period of January, 2012, and shall be increased annually thereafter by an
4 additional one-half of one percent, with the final increase taking place for the reporting
5 period of January, 2015. The assessment must be deducted and retained out of the
6 employee's salary in equal monthly installments. The peace officer's or correctional
7 officer's employer shall contribute an amount determined by the board to be actuarially
8 required to support the level of benefits specified in section 54-52-17. If the peace
9 officer's or correctional officer's assessment is paid by the employer under subsection 3
10 of section 54-52-05, the employer shall contribute, in addition, an amount equal to the
11 required peace officer's or correctional officer's assessment.

12

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

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

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

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

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

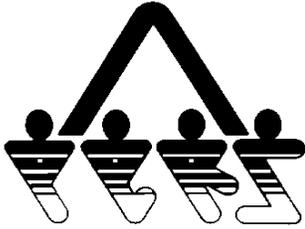
13 1. Each participating member shall contribute monthly four percent of the
14 monthly salary or wage paid to the participant, and this assessment must
15 be deducted from the participant's salary in equal monthly installments
16 commencing with the first month of participation in the defined contribution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

23 2. The employer shall contribute an amount equal to four and twelve-
24 hundredths percent of the monthly salary or wage of a participating
25 member. Employer contributions shall be increased by one percent of the
26 monthly salary or wage of a participating member beginning with the
27 monthly reporting period of January, 2012, and shall be increased

1 annually thereafter by an additional one percent, with the final increase
2 taking place for the reporting period of January, 2015. If the employee's
3 contribution is paid by the employer under subsection 3, the employer
4 shall contribute, in addition, an amount equal to the required employee's
5 contribution. The employer shall pay monthly such contribution into the
6 participating member's account from its funds appropriated for payroll and
7 salary or any other funds available for such purposes. If the employer fails
8 to pay the contributions monthly, it is subject to a civil penalty of fifty
9 dollars and, as interest, one percent of the amount due for each month of
10 delay or fraction thereof after the payment became due.

- 11 3. Each employer, at its option, may pay the employee contributions required
12 by this section for all compensation earned after December 31, 1999. The
13 amount paid must be paid by the employer in lieu of contributions by the
14 employee. If the employer decides not to pay the contributions, the
15 amount that would have been paid will continue to be deducted from the
16 employee's compensation. If contributions are paid by the employer, they
17 must be treated as employer contributions in determining tax treatment
18 under this code and the federal Internal Revenue Code. Contributions paid
19 by the employer may not be included as gross income of the employee in
20 determining tax treatment under this code and the federal Internal
21 Revenue Code until they are distributed or made available. The employer
22 shall pay these employee contributions from the same source of funds
23 used in paying compensation to the employee. The employer shall pay
24 these contributions by effecting an equal cash reduction in the gross
25 salary of the employee or by an offset against future salary increases or
26 by a combination of a reduction in gross salary and offset against future
27 salary increases. Employee contributions paid by the employer must be

1 treated for the purposes of this chapter in the same manner and to the
2 same extent as employee contributions made before the date on which
3 employee contributions were assumed by the employer. An employer shall
4 exercise its option under this subsection by December 1, 1999, and shall
5 report its choice to the board in writing. The option chosen may not be
6 revoked for the remainder of the biennium. Thereafter, the option choice
7 must be forwarded to the board, in writing, by June fifteenth of each odd-
8 numbered year.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: March 18, 2010
SUBJECT: Pre-Medicare Health Plan

At the December meeting we discussed the possibility of allowing retired members to use the retiree health credit program credit for not only the PERS health insurance plan but also other non-PERS health products. In January we reviewed the cost of that change and modified the concept to allow only pre-Medicare retirees the opportunity to use the health credit for any plan. In February we reviewed a memo from Segal assessing the cost of that change. At that time it was decided to further modify the idea to offer pre-Medicare retirees one additional health plan option that would be eligible for the health credit. Attached, for your review and information, is a memo from Segal discussing the concept and the cost affect on the retiree health credit program. The attached analysis determined the cost of this offering would be .02% of payroll, ½ the cost of the concept we reviewed in February. Please note that the attached memo states that the cost of the current plan is .94%, this assumes we adopt the experience study recommendations. The cost of the current plan in the last valuation was 1%.

If you decide to submit legislation to offer the above change, staff would need your guidance on two other issues:

1. Enrollment – Would the present enrollment process apply to this additional product? Presently a member can enroll upon termination or specific other life events.
2. GASB 45 OPEB liability – recently we completed a new evaluation of this liability for our present product. The results showed a \$53.7 million liability. To insure that this would not increase, should we have a statement in the proposed statute saying that any additional product offering should not increase this liability?

Board Action Requested

Approve/disapprove submitting a bill and if so, provide direction on the above questions.



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March 17, 2010

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

Re: Cost Analysis of Potential Retiree Health Credit Changes

Dear Sparb:

In our letter dated February 16, 2010, we calculated the effect of extending eligibility for the credit that is paid from the Retiree Health Insurance Credit Fund to all pre-Medicare retirees for use with any retiree health coverage. That calculation was made using the participant data and actuarial assumptions on which the July 1, 2009 valuation was based. In this letter we have recalculated the cost of the same change based on the assumptions proposed in our Actuarial Experience Study also dated February 16, 2010.

In addition to the above proposed change we have also calculated the effect of a second proposed change. The second proposal would allow pre-medicare retirees the option to select a second health coverage option (like a high deductible health plan) rather than the PERS Group Health Insurance Plan and still qualify for the Retiree Health Credit.

The first proposed change was valued as it was in our earlier letter, namely that everyone not assumed to elect the PERS Group Health Insurance Plan would be assumed to be eligible for the Retiree Health Credit until they become eligible for Medicare (totally and permanently disabled or age 65). The resulting cost increase is approximately 0.04% of pay.

Since the second proposed change would result in a smaller number of pre-Medicare eligible participants receiving the benefit than the first proposed change, the cost increase would be no more than the cost of the first proposed change. Based upon the assumptions and methods used in the previous analysis, the cost of the second proposed change would be less than 0.04% of pay.

Benefits, Compensation and HR Consulting ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
MINNEAPOLIS MONTREAL NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, DC



Multinational Group of Actuaries and Consultants BARCELONA BRUSSELS DUBLIN GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE
MEXICO CITY OSLO PARIS

The actual cost would be affected by the number of participants electing participation in the new plan, as well as the demographic makeup of those that elect it. According to information provided by PERS, the percentage of pre-Medicare retirees with PERS group health coverage has been declining. As recently as 2006, 70% of PERS retirees were covered, but that percentage has declined to 57% in 2009. If we assume that approximately one-half of non-covered participants elect the new plan, the associated cost increase would be approximately one-half of the cost increase for the first proposed change, or approximately 0.02% of pay.

The participation rate assumptions for the valuation and the experience study are summarized below.

Years of Service at Retirement	Current Participation Rate July 1, 2009 Valuation	Proposed Participation Rate February 2010 Experience Study
3 – 4	25.00%	30.00%
5 – 9	50.00	50.00
10 – 14	70.00	65.00
15 – 19	80.00	80.00
20 – 24	95.00	85.00
25+	100.00	95.00

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

Plan Provision	Current Plan	Proposal 1	Proposal 2
Normal Cost	0.44%	0.46%	0.45%
Amortization Cost	0.50%	0.52%	0.51%
Total Cost	0.94%	0.98%	0.96%

These cost estimates are based on the July 1, 2009 actuarial valuation results for the Retiree Health Insurance Credit Fund, including the participant data. The actuarial assumptions used are from the actuarial experience study unless otherwise noted. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

Mr. Sparb Collins
North Dakota Public Employees Retirement System
March 17, 2010
Page 3

Please call if you have any questions or comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "BRAD RAMIREZ", with a long horizontal flourish extending to the right.

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

KS/

5073701v1/01640.001

Memorandum

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

Included in last month's Board book was the 2009 audit report for the PERS agency. Please bring this report with you to the Board meeting (will have a few available at the meeting).

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



**North Dakota
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Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: March 8, 2010

SUBJECT: Provider Training Compliance Update

At the February meeting, the Board was informed that Chase, Symetra, and The Hartford were out of compliance with our training requirements. Each of the providers had been sent a letter informing them of what actions they must take to bring their companies back in to compliance. As directed by the Board, a second notice was sent to The Hartford by certified mail on February 25th informing them the Board had reviewed the situation and was considering action to implement a “loss of active provider status” suspension. The Hartford has since contacted us to verify its intent to remain an active provider in our plan and to take the action necessary to comply with our training requirements as follows:

- Directed us to remove three agents that have no clients enrolled, and
- Sent letters to the remaining 12 notifying them that they are suspended and are prohibited from enrolling any new participants until they meet our mandatory training requirements.

The above actions are consistent with the provisions of Section II-A of the Provider Administrative Agreement; therefore, The Hartford has met our requirements and is in compliance.

Because Chase and Symetra are already on a “loss of active provider status” suspension, the Board requested staff to review the applicable rules and update the Board at the March meeting regarding our actions. Chase and Symetra were sent certified letters on March 8, 2010 notifying them that the Board has reviewed the situation and does have the option to impose a “loss of provider status” which means they could no longer receive any contributions from existing members. We requested both companies to respond as to what specific implications this action would have on their existing participants and provide any other information they felt the Board should consider in making its determination. The deadline for response is March 31, 2010. Staff will provide an update at the April Board meeting.



Memo

To: NDPERS Board
From: ^{BTR} Bryan T. Reinhardt
Date: 3/8/2010
Re: 457 Companion Plan & 401(a) plan 4th Quarter 2009 Reports

Here is the 4th quarter 2009 investment report for the 401(a) & 457 Companion Plan. The reports are available separately on the NDPERS web site. The NDPERS Investment Sub-committee reviewed the 4th quarter report.

Assets in the 401(a) plan increased to \$16.9 million as of Dec 31, 2009. The number of participants is at 293, about the same as when the plan started. The largest fund is the Fidelity Managed Income Portfolio with 14% of the assets.

Assets in the 457 Companion Plan increased to \$27.2 million as of Dec 31, 2009. The number of participants is increasing and is now at 2,920. The largest funds are the Fidelity Freedom 2020 Fund (13% of assets), Allianz Small Cap Fund and Fidelity Diversified International (each 9% of assets).

Benchmarks:

Fund returns for the quarter were all positive. These returns along with the 3rd quarter were enough to get very good 1-year averages, but 3-year returns are still negative due to the market downturn in 2008. All the core funds performed well compared to their benchmarks and peer funds. Note that index funds are expected to slightly underperform their benchmarks because of fund administration fees.

Fund / Investment News:

The NDPERS Investment Sub-Committee reviewed a 4th quarter market overview with Fidelity and plan statistics. The Investment Sub-Committee did not mark any funds as underperforming for the quarter. The next Investment Sub-Committee meeting is scheduled for May 18th to review the 1st quarter 2010.

NDPERS
Quarterly Investment Report
4th Quarter
10/1/2009 – 12/31/2009



North Dakota Public Employees Retirement System
400 E Bdwy, Suite 505
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NDPERS 401(a) Defined Contribution Plan & 457 Companion Plan - Fidelity

INITIAL OFFERING:

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

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 2015	Fidelity Freedom 2030
Fidelity Freedom 2000	Fidelity Freedom 2020	Fidelity Freedom 2035
Fidelity Freedom 2005	Fidelity Freedom 2025	Fidelity Freedom 2040, 2045 & 2050
Fidelity Freedom 2010		

FUND STYLE CHANGES:

			LARGE
	Fidelity Mid Cap Stock ←		MEDIUM
			SMALL
VALUE	BLEND	GROWTH	

INCOME FUNDS:
 BOND FUNDS:
 INTERNATIONAL FUNDS:
 BALANCED FUNDS:
 LIFESTYLE FUNDS:

CURRENT LINEUP:

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

BALANCED FUND: Fidelity Puritan Fund
 INCOME FUNDS: Fidelity Managed Income Portfolio
 BOND FUNDS: PIMCO Total Return Bond Fund
 INTERNATIONAL FUNDS: Fidelity Diversified International

LIFESTYLE FUNDS:

Fidelity Freedom Income	Fidelity Freedom 2015	Fidelity Freedom 2030
Fidelity Freedom 2000	Fidelity Freedom 2020	Fidelity Freedom 2035
Fidelity Freedom 2005	Fidelity Freedom 2025	Fidelity Freedom 2040, 2045 & 2050
Fidelity Freedom 2010		

NDPERS Investment Benchmarks - 4th Quarter 2009

	<u>Quarter</u>	<u>Y-T-D</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
<u>Stable Value Fund</u>					
Fidelity Managed Income Portfolio	0.28%	1.65%	1.65%	3.25%	3.52%
GIC Index	0.16%	0.66%	0.66%	2.11%	3.10%
<u>Fixed Income Fund</u>					
PIMCO Total Return Bond Fund - PTRAX	0.93%	13.55%	13.55%	8.91%	6.58%
Barclays Aggregate Bond Index	0.20%	5.93%	5.93%	6.04%	4.97%
Taxable Bond Fund Universe	1.86%	19.04%	19.04%	4.19%	3.98%
<u>Balanced Fund</u>					
Fidelity Puritan - FPURX	4.73%	26.69%	26.69%	-1.60%	2.74%
60% Large Cap Value Univ & 40% Taxable Bond Universe	3.64%	22.09%	22.09%	-2.72%	1.60%
60% Russell 3000 Value & 40% Lehman Agg Bond Index	2.58%	14.23%	14.23%	-2.93%	1.84%
<u>Large Cap Equities - Value</u>					
Fidelity Equity-Income - FEQIX	3.62%	29.54%	29.54%	-8.48%	-0.59%
Franklin Mutual Shares A - TESIX	-4.80%	27.84%	27.84%	-6.60%	1.12%
Russell 1000 Value Index	4.22%	19.69%	19.69%	-8.96%	-0.25%
Large Cap Value Fund Universe	4.83%	24.13%	24.13%	-7.32%	0.02%
<u>Large Cap Equities - Blend</u>					
Fidelity Spartan US Equity Index - FUSEX	6.03%	26.55%	26.55%	-5.62%	0.40%
Fidelity Dividend Growth - FDGFX < Under Review 3/2007 >	5.46%	51.00%	51.00%	-4.50%	0.66%
S&P 500 Index	6.04%	26.46%	26.46%	-5.63%	0.42%
Large Cap Blend Fund Universe	5.49%	28.17%	28.17%	-5.53%	0.46%
<u>Large Cap Equities - Growth</u>					
Fidelity Growth Company - FDGRX	7.29%	41.15%	41.15%	0.01%	4.46%
Russell 3000 Growth Index	7.65%	37.01%	37.01%	-2.06%	1.58%
Fidelity Blue Chip Growth - FBGRX < Under Review 3/2007 >	8.58%	44.96%	44.96%	-0.16%	1.79%
Russell 1000 Growth Index	7.94%	37.21%	37.21%	-1.89%	1.63%
Large Cap Growth Fund Universe	6.68%	35.68%	35.68%	-2.89%	1.21%
<u>Mid Cap Equities - Value</u>					
Goldman Sachs Mid Cap Value - GCMAX	5.72%	32.70%	32.70%	-4.76%	2.35%
Russell Mid Cap Value	5.21%	34.21%	34.21%	-6.62%	1.98%
Mid Cap Value Fund Universe	5.21%	35.41%	35.41%	-5.35%	1.36%
<u>Mid Cap Equities - Blend</u>					
Dreyfus Mid Cap Index - PESPX	5.47%	37.04%	37.04%	-2.15%	2.89%
S&P Mid Cap 400	5.56%	37.38%	37.38%	-1.83%	3.27%
Fidelity Spartan Extended Mkt Index - FSEM X	4.95%	36.65%	36.65%	-3.94%	2.38%
Wilshire 4500 Index	4.75%	36.99%	36.99%	-4.16%	2.23%
Mid Cap Blend Fund Universe	5.08%	37.39%	37.39%	-4.62%	1.43%
<u>Mid Cap Equities - Growth</u>					
Fidelity Mid Cap Stock - FMCSX	4.38%	50.39%	50.39%	-4.19%	3.22%
Russell Mid Cap Growth	6.69%	46.29%	46.29%	-3.18%	2.40%
Mid Cap Growth Fund Universe	5.67%	39.11%	39.11%	-3.09%	1.76%

Fund Returns in RED do not meet both benchmarks.

Fund Returns in BLACK meet both benchmarks.

NDPERS Investment Benchmarks - 4th Quarter 2009

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Small Cap Equities - Value					
Allianz NFJ Small Cap Value - PVADX	5.89%	24.12%	24.12%	-0.95%	4.97%
Russell 2000 Value Index	3.63%	20.58%	20.58%	-8.22%	-0.01%
Small Value Fund Universe	4.00%	31.32%	31.32%	-6.13%	0.67%
Small Cap Equities - Blend					
Dreyfus Small Cap Index - DISSX	4.99%	25.22%	25.22%	-4.85%	1.18%
Russell 2000 Index	3.87%	27.17%	27.17%	-6.07%	0.51%
S & P 600 Index	5.12%	25.57%	25.57%	-4.79%	1.36%
Small Blend Fund Universe	4.64%	31.80%	31.80%	-6.11%	0.47%
Small Cap Equities - Growth					
MSI Small Co Growth P - MSSMX	3.81%	47.41%	47.41%	-4.19%	2.15%
Russell 2000 Growth Index	4.14%	34.47%	34.47%	-4.00%	0.87%
Small Growth Fund Universe	4.79%	35.46%	35.46%	-4.89%	0.37%
International Equity Funds					
Fidelity Diversified International - FDIVX	3.34%	31.78%	31.78%	-5.73%	3.77%
MSCI EAFE	2.18%	31.93%	31.93%	-5.91%	3.69%
International Stock Fund Universe	4.05%	40.84%	40.84%	-4.64%	5.01%
Asset Allocation Funds:					
Fidelity Freedom Income - FFFAX	2.35%	16.12%	16.12%	2.27%	3.38%
Income Benchmark	1.54%	10.70%	10.70%	2.26%	3.40%
Fidelity Freedom 2000 - FFBX	2.37%	16.49%	16.49%	1.81%	3.22%
2000 Benchmark	1.71%	11.38%	11.38%	1.92%	3.28%
Fidelity Freedom 2005 - FFFVX	3.15%	23.40%	23.40%	0.00%	2.91%
2005 Benchmark	2.81%	18.54%	18.54%	0.15%	3.07%
Fidelity Freedom 2010 - FFFCX	3.37%	24.82%	24.82%	0.04%	3.03%
2010 Benchmark	2.91%	19.51%	19.51%	-0.05%	3.09%
Fidelity Freedom 2015 - FFFVX	3.43%	25.62%	25.62%	-0.45%	3.10%
2015 Benchmark	3.10%	20.56%	20.56%	-0.43%	3.00%
Fidelity Freedom 2020 - FFFDX	3.94%	28.86%	28.86%	-1.72%	2.69%
2020 Benchmark	3.83%	25.06%	25.06%	-1.41%	2.80%
Fidelity Freedom 2025 - FFTWX	4.13%	30.03%	30.03%	-2.14%	2.55%
2025 Benchmark	4.07%	26.27%	26.27%	-1.94%	2.64%
Fidelity Freedom 2030 - FFFEX	4.38%	30.57%	30.57%	-3.46%	2.03%
2030 Benchmark	4.50%	28.36%	28.36%	-2.97%	2.33%
Fidelity Freedom 2035 - FFFHX	4.56%	31.26%	31.26%	-3.71%	1.91%
2035 Benchmark	4.67%	29.03%	29.03%	-3.31%	2.21%
Fidelity Freedom 2040 - FFFF	4.47%	31.65%	31.65%	-4.15%	1.74%
2040 Benchmark	4.86%	30.55%	30.55%	-3.54%	2.19%
Fidelity Freedom 2045 - FFFGX	4.69%	32.04%	32.04%	-4.18%	N/A
2040 Benchmark	4.86%	30.55%	30.55%	-3.54%	2.19%
Fidelity Freedom 2050 - FFFHX	4.64%	32.47%	32.47%	-4.77%	N/A
2040 Benchmark	5.04%	31.78%	31.78%	-4.12%	2.07%

Income Benchmark is comprised of 20% Wilshire 5000, 35% LB Agg, 5% ML HY Bond, 40% 3 Month T-Bill

2000 Benchmark is comprised of 23% Wilshire 5000, 32% LB Agg, 5% ML HY Bond, 40% 3 Month T-Bill

2005 Benchmark is comprised of 39% Wilshire 5000, 8% MSCI EAFE, 34% LB Agg, 5% ML HY Bond, 14% 3 Month T-Bill

2010 Benchmark is comprised of 40% Wilshire 5000, 10% MSCI EAFE, 35% LB Agg, 5% ML HY Bond, 10% 3 Month T-Bill

2015 Benchmark is comprised of 43% Wilshire 5000, 11% MSCI EAFE, 33% LB Agg, 5% ML HY Bond, 8% 3 Month T-Bill

2020 Benchmark is comprised of 52% Wilshire 5000, 13% MSCI EAFE, 26% LB Agg, 8% ML HY Bond, 1% 3 Month T-Bill

2025 Benchmark is comprised of 56% Wilshire 5000, 14% MSCI EAFE, 22% LB Agg, 8% ML HY Bond

2030 Benchmark is comprised of 63% Wilshire 5000, 16% MSCI EAFE, 13% LB Agg, 8% ML HY Bond

2035 Benchmark is comprised of 66% Wilshire 5000, 16% MSCI EAFE, 10% LB Agg, 8% ML HY Bond

2040 Benchmark is comprised of 67% Wilshire 5000, 17% MSCI EAFE, 6% LB Agg, 10% ML HY Bond

2045 Benchmark is comprised of 67% Wilshire 5000, 17% MSCI EAFE, 6% LB Agg, 10% ML HY Bond

2050 Benchmark is comprised of 69% Wilshire 5000, 20% MSCI EAFE, 1% LB Agg, 10% ML HY Bond

Wilshire 5000 Index	5.79%	28.30%	28.30%	-5.25%	0.93%
MSCI EAFE	2.18%	31.93%	31.93%	-5.91%	3.69%
Lehman Aggregate Bond Index	0.20%	5.93%	5.93%	6.04%	4.97%
ML High Yield Bond Fund Index	6.03%	58.10%	58.10%	6.20%	6.40%
3 Month T-Bill Index	0.03%	0.16%	0.16%	2.22%	2.88%
Russell 3000 Value Index	4.17%	19.76%	19.76%	-8.91%	-0.24%

Fund Returns in RED do not meet both benchmarks.

Fund Returns in BLACK meet both benchmarks.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN INVESTMENT OPTIONS

PERFORMANCE UPDATE

AS OF DECEMBER 31, 2009

UNDERSTANDING INVESTMENT PERFORMANCE

As you review this update, please remember that the performance 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 performance may be higher or lower than the performance stated. To learn more or to obtain the most recent month-end performance, call Fidelity at 1-800-343-0860 or visit <https://www.mysavingsatwork.com> (log in, choose plan, select "Investment Choices & Research," and then pick investment option).

Fund ID	Fund Name	Cumulative Total Returns %		Average Annual Total Returns %			Life of Fund	Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio↔
		3 Month	YTD	1 Year	5 Year	10 Year				
LIFE-CYCLE FUNDS ▶▶▶										
FFFBX	Fidelity Freedom 2000	2.37	16.49	16.49	3.22	3.15	5.70	10/17/96	n/a	0.49
FFVFX	Fidelity Freedom 2005	3.15	23.40	23.40	2.91	n/a	3.98	11/06/03	n/a	0.63
FFFCX	Fidelity Freedom 2010	3.37	24.82	24.82	3.03	2.72	6.45	10/17/96	n/a	0.64
FFVFX	Fidelity Freedom 2015	3.43	25.62	25.62	3.10	n/a	4.50	11/06/03	n/a	0.67
FFFDX	Fidelity Freedom 2020	3.94	28.86	28.86	2.69	1.74	6.40	10/17/96	n/a	0.72
FFTWX	Fidelity Freedom 2025	4.13	30.03	30.03	2.55	n/a	4.37	11/06/03	n/a	0.74
FFEX	Fidelity Freedom 2030	4.38	30.57	30.57	2.03	0.84	5.92	10/17/96	n/a	0.76
FFTHX	Fidelity Freedom 2035	4.56	31.26	31.26	1.91	n/a	4.06	11/06/03	n/a	0.78
FFFFX	Fidelity Freedom 2040	4.47	31.65	31.65	1.74	n/a	-0.28	9/06/00	n/a	0.79
FFFGX	Fidelity Freedom 2045	4.69	32.04	32.04	n/a	n/a	-1.16	6/01/06	n/a	0.80
FFFHX	Fidelity Freedom 2050	4.64	32.47	32.47	n/a	n/a	-1.67	6/01/06	n/a	0.82
FFFAX	Fidelity Freedom Income	2.35	16.12	16.12	3.38	3.62	5.05	10/17/96	n/a	0.48
MANAGED INCOME / ANNUITIES / STABLE VALUE Ⓞ										
00632	Managed Income Portfolio	0.28	1.65	1.65	3.52	4.30	5.36	9/07/89	n/a	n/a
BOND FUNDS >										
PTRAX	PIMCO Total Return - Administrative Class	0.93	13.55	13.55	6.58	7.38	7.46	9/08/94	n/a	0.89
BALANCED/HYBRID FUNDS										
FPURX	Fidelity Puritan®	4.73	26.69	26.69	2.74	4.15	11.07	4/16/47	n/a	0.67
DOMESTIC EQUITY FUNDS - LARGE-CAP VALUE										
FEQIX	Fidelity Equity-Income	3.62	29.54	29.54	-0.59	1.83	11.52	5/16/66	n/a	0.71
TESIX	Mutual Shares - A Class	4.80	27.84	27.84	1.12	4.91	7.17	11/01/96	n/a	1.08

For explanations of symbols and important disclosures, please see last page(s) of this report.

continued

Turn here™



AS OF DECEMBER 31, 2009

Fund ID	Name	Cumulative Total Returns %		Average Annual Total Returns %			Life of Fund	Fund Inception	Short-Term Trading Fee (%/Days)	Expense Ratio
		3 Month	YTD	1 Year	5 Year	10 Year				
DOMESTIC EQUITY FUNDS - LARGE-CAP BLEND										
FDGFX	Fidelity Dividend Growth	5.46	51.00	51.00	0.66	1.49	10.10	4/27/93	n/a	0.62
FUSEX	Spartan® U.S. Equity Index - Investor Class	6.01	26.51	26.51	0.38	-1.04	9.13	2/17/88	n/a	0.10
DOMESTIC EQUITY FUNDS - LARGE-CAP GROWTH										
FBGRX	Fidelity Blue Chip Growth	8.58	44.96	44.96	1.79	-2.11	10.24	12/31/87	n/a	0.76
FDGRX	Fidelity Growth Company	7.29	41.15	41.15	4.46	-0.85	12.55	1/17/83	n/a	0.97
DOMESTIC EQUITY FUNDS - MID-CAP VALUE Ⓢ										
GCMAX	Goldman Sachs Mid Cap Value - Class A	5.72	32.70	32.70	2.35	9.65	7.37	8/15/97	n/a	1.19
DOMESTIC EQUITY FUNDS - MID-CAP BLEND Ⓢ										
PESPX	Dreyfus Mid Cap Index	5.47	37.04	37.04	2.89	5.89	11.08	6/19/91	n/a	0.51
FSEMXX	Spartan® Extended Market Index - Investor Class	4.95	36.65	36.65	2.38	1.75	4.71	11/05/97	0.75/90	0.10
DOMESTIC EQUITY FUNDS - MID-CAP GROWTH Ⓢ										
FMCSX	Fidelity Mid-Cap Stock	4.38	50.39	50.39	3.22	3.57	10.72	3/29/94	0.75/30	0.73
DOMESTIC EQUITY FUNDS - SMALL-CAP VALUE ◆										
PVADX	Allianz NFJ Small Cap Value - Administrative Class	5.89	24.12	24.12	4.97	11.64	11.28	11/01/95	n/a	1.14
DOMESTIC EQUITY FUNDS - SMALL-CAP BLEND ◆										
DISSX	Dreyfus Small Cap Stock Index	4.99	25.22	25.22	1.18	6.02	6.61	6/30/97	n/a	0.51
DOMESTIC EQUITY FUNDS - SMALL-CAP GROWTH ◆										
MSSMX	MSIF Small Company Growth - P Class	3.81	47.41	47.41	2.15	1.86	9.36	1/02/96	2.00/30	1.30
INTERNATIONAL/GLOBAL FUNDS ††										
FDIVX	Fidelity Diversified International	3.34	31.78	31.78	3.77	3.94	9.21	12/27/91	1.00/30	1.01

MARKET INDICATORS^^

For comparison purposes only. It is not possible to invest directly in these indicators.

Barclays Capital U.S. Intermediate Government/ Credit Bond Index	0.31	5.24	5.24	4.66	5.93
Dow Jones Industrial Average	8.10	22.68	22.68	1.95	1.30
MSCI EAFE® Index (Net MA)	2.18	31.93	31.93	3.69	1.42
Standard & Poor's 500 SM Index	6.04	26.46	26.46	0.42	-0.95

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. These 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.

◆ For a mutual fund, the expense ratio is the total annual fund or class operating expenses (before waivers or reimbursements) paid by the fund and stated as a percent of the fund's total net assets. Where the investment option is not a mutual fund, the figure displayed in the expense ratio field is intended to reflect similar information. However, it may have been calculated using methodologies that differ from those used for mutual funds. Mutual fund data has been drawn from the most recent prospectus. For non-mutual fund investment options, the information has been provided by the trustee or plan sponsor. When no ratio is shown for these options it is due to the fact that none was available. Nevertheless, there may be fees and expenses associated with the investment option.

Ⓢ These investment options are not mutual funds.

AS OF DECEMBER 31, 2009

MARKET INDICATORS

^^ Indices are unmanaged and you cannot invest directly in an index.

Barclays Capital U.S. Intermediate Government/Credit Bond Index is a market value-weighted index of investment-grade fixed-rate debt securities with maturities from one up to (but not including) ten years from the U.S. Treasury, U.S. Government-Related, and U.S. Corporate Indices.

Dow Jones Industrial Average, published by Dow Jones & Company, is a price-weighted index that serves as a measure of the entire U.S. market. The index comprises 30 actively traded stocks, covering such diverse industries as financial services, retail, entertainment, and consumer goods.

Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE®) Index (Net MA) is a market capitalization index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the US & Canada. Index returns for periods after January 1, 1997, are adjusted for tax withholding rates applicable to U.S.-based mutual funds organized as Massachusetts business trusts.

The S&P 500® Index 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 that includes the reinvestment of dividends.

INVESTMENT RISK

- ✦ These target date funds are designed for investors expecting to retire around the year indicated in each target date fund. The target date funds are managed to gradually become more conservative over time. The investment risks of each target date fund changes over time as its asset allocation changes. They are subject to the volatility of the financial markets, including equity and fixed income investments in the U.S. and abroad and may be subject to risks associated with investing in high yield, small cap and foreign securities. Principal invested is not guaranteed at any time, including at or after their target dates.
- Although bonds generally present less short-term risk and volatility than stocks, the bond market is volatile and bond funds do entail interest rate risk (as interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities. Bond funds also entail issuer credit risk, and the risk of default, or the risk that an issuer will be unable to make income or principal payments. Additionally, bond funds and short-term investments entail greater inflation risk, or the risk that the return of an investment will not keep up with increases in the prices of goods and services, than stocks. The fund may invest in lower-quality debt securities that generally offer higher yields, but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.
- ⚡ 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.
- ◆ Investments in smaller companies may involve greater risks than those of larger, more well-known 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.



North Dakota
Public Employees Retirement System
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Memorandum

TO: PERS Board
FROM: Sparb
DATE: March 18, 2010
SUBJECT: Investment Update

At the PERS planning meeting it was decided that each quarter the Investment Committee would report on the actions of the SIB. A part of this discussion the following points were identified:

- Implications for PERS Costs
 - Will the action increase or decrease our costs
- Implications for Plan Risk
 - Will the action increase or decrease our risk
- Implications for Return
 - How will the action increase possible returns

Also discussed at the planning meeting was a discussion of the fiduciary due diligence process.



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Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: March 17, 2010
SUBJECT: Segal Follow-up

At the last meeting several questions were asked of Segal that they needed to follow-up on and attached is their responses.

Attachment #1 responds to the question relating to what the actuary effect would be if PERS was to reduce the interest on member accounts from 7.5% (it is presently set in rules as $\frac{1}{2}\%$ less than our actuarial rate of return) to 4%.

Attachment #2 is a memo from Segal relating to the amortization method used by PERS and possible options. Segal will discuss this in more detail at the April meeting.



DIRECT DIAL NUMBER
303-714-9952

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VIA EMAIL AND USPS

March 17, 2010

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

**Re: North Dakota Public Employees Retirement System
Amortization Policy Review**

Dear Sparb:

In this letter, we have summarized the amortization policy of North Dakota PERS. We have also included a discussion of several alternative policies that may be considered by the Board for future actuarial valuations. Numerical examples are provided at the end of the letter and refer to the Main System unless noted.

The amortization policy determines the length of time and the structure of the payments for the contributions required to systemically pay off the Plan's Unfunded Actuarial Accrued Liability (UAAL). For governmental or public defined benefit plans, like NDPERS, there are no specific external funding or funding policy requirements such as those established for single employer (corporate) and multiemployer (Taft-Hartley) defined benefit pension plans under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC). The accounting standards promulgated by the Governmental Accounting Standards Board (GASB) define an Annual Required Contribution (ARC) that, despite its name, is actually the amount of expense that the employer must recognize each year. Also, the GASB accounting standards provide considerable policy latitude when determining the ARC.

Even though this leaves governmental or public plans relatively free to set funding policy, it is worth noting that all long term funding policy structures – corporate, multiemployer and GASB – take the same form, at least for underfunded plans (plans with a UAAL):

1. Contribute the Normal Cost for the year, and

Benefits, Compensation and HR Consulting ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, D.C.



Multinational Group of Actuaries and Consultants BARCELONA BRUSSELS DUBLIN GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE
MEXICO CITY OSLO PARIS

2. Contribute an additional amount that will fully fund (“amortize”) any UAAL over a period of years.

Implicit in this form of policy is *a funding target of 100 percent*, since at the end of the amortization period the plan will be fully funded provided contributions are made equal to the actuarially required contribution rate. This is in contrast to “corridor” methods that allow contributions equal to only the Normal Cost as long as the plan is within, for example, 5 percent of being fully funded. The funding policy discussed here is based on the UAAL amortization method because it is well established for all types of pension plans as it targets 100 percent funding of the AAL.

Note that, for the UAAL, longer amortization periods result in lower current contributions and a longer period before the contribution reverts to the Normal Cost. Longer periods also produce lower contribution volatility. Shorter amortization periods get to full funding more rapidly but at the price of higher current contributions and higher contribution volatility.

AMORTIZATION POLICY

Amortization Policy: Selection of Amortization Structure and Methods

Setting an amortization policy involves a few choices in addition to selecting the amortization periods. Here is a brief description of the alternatives, followed by the current NDPERS policy and some possible modifications that may be considered by the Board.

- Single amortization layer for the entire UAAL or surplus, or separate amortization layers for each source of UAAL or surplus.
- Closed (fixed) period amortization or open (rolling) period amortization.
- Level dollar or level percent of pay amortization payments.

The current NDPERS policy uses a single, 20-year, open amortization period for the total UAAL.

Level Dollar vs. Level Percent of Pay Amortization

The amortization payments may be patterned in one of two ways: as a level dollar amount or as a level percentage of pay. The ERISA/IRC rules for corporate and multiemployer plans require level dollar amortization, similar to a typical home mortgage. However, the overwhelming majority of public plans use level percent of pay amortization where the payments increase each year in proportion to the assumed payroll growth. That means they start lower than the corresponding level dollar payments, but then increase until they are higher.

The level dollar method is more conservative in that it funds the UAAL faster in the early years. For the same reason it also incurs less interest cost over the amortization period.

The current NDPERS policy uses level percentage of pay amortization. Using level percent of pay payments for amortization is consistent with the Normal Cost (which for pay related plans is always determined as a percentage of pay) and provides a total cost that remains level as a percentage of pay. In contrast, level dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period.

Negative Amortization

Unlike a level dollar amortization, under level percent of pay amortization the UAAL may increase during the early years of the amortization period even though contributions are being made to amortize the UAAL. This happens because with level percent of pay amortization, the lower early payments can actually be less than the annual interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plan assumptions (including NDPERS), this happens whenever the amortization period is longer than about 17 years. This means that the outstanding balance of the UAAL does not decrease until there are 17 or fewer years left in the amortization period. It also means that the outstanding balance will not fall below the original amount until some years after that time.

Attachment 2 shows this effect for a sample UAAL layer of \$404 million under various level percent of pay amortization periods. While there is nothing inherently wrong with negative amortization, the Board should be aware of its consequences, especially for amortization periods substantially longer than 17 years.

Selection of Amortization Periods

The UAAL amortization periods for public plans typically range from 15 to 30 years, with 30 years being the maximum allowable period under the GASB accounting standards. The length of the amortization period should not be set so short that it creates too much volatility in the contributions yet it should not be so long that it contributes a shift of cost to future funding sources.

In the past some plans used an amortization period of 30 years; however, recent actuarial practice has evolved to use a shorter period. Some of the arguments for using a period less than 30 years include:

- Matching the amortization period to the average future working lifetime of the active members
- Matching the amortization period to the average life expectancy of the retired members
- Considering any special circumstances that may apply to a specific benefit improvement

The first two considerations would usually lead to at most a 15- to 20-year amortization period.

Improvements covered by the last consideration would include things like an early retirement window. The cost of the enhanced retirement benefit is offset by savings in salary. The salary

savings are realized over a short period of time, that is, the time until the member would have retired without the window, so it stands to reason that the cost should be amortized an equally short period of time. That could be as short as five years.

Plans that amortize the UAAL in layers by source sometimes use different amortization periods for different sources of UAAL. Generally such plans amortize actuarial gains or losses over shorter periods (15 to 20 years or less) and UAAL changes due to assumption or method changes and plan amendments over longer periods (often the 30-year GASB limit).

NDPERS currently uses a 20 year amortization period regardless of the source of the change in UAAL.

Open Versus Closed Amortization Periods

Using an open amortization period assists in managing contribution rate volatility by spreading the amortization payment of the UAAL over a non-decreasing amortization period. While GASB permits amortization periods up to 30 years, any open amortization period longer than about 17 years will result in permanent negative amortization. If the contributions were equal to the actuarially determined contribution rate, and if all actuarial assumptions were met, the UAAL would increase each year rather than be amortized. Therefore, it can be concluded that the use of the current 20-year open amortization period does not result in any amortization at all.

Using a closed amortization period usually solves the problem of long-term negative amortization. However, note that under a 30-year amortization period, since the UAAL does not start to decrease until there are 17 years left in the amortization period, the UAAL actually increases for the first 13 years. Even though it starts to decrease after 13 years, it does not decrease below the initial UAAL balance until 23 years have elapsed. The UAAL is then actually amortized in the final 7 years of the 30-year amortization period. Ultimately, the practical problem with using a closed amortization period is that this method produces increasingly more volatile rates as the remaining amortization period becomes very short.

A common alternative to these two methods is to use multiple amortization layers. One can think of multiple amortization layers as a hybrid between open and closed single layers. The method starts with one initial layer amortized over a closed period, but each year actuarial gains/losses, plan changes, or assumption changes create a new layer. Since each layer is closed, negative amortization is only temporary. Since new gains and losses are always amortized over the initial period for each layer, contribution rate volatility is managed. This method has the advantage of tracking separately each new portion of underfunding and identifying a date certain by which each will be funded. This is the structure required by the ERISA/IRC rules for corporate and multiemployer plans, and is increasingly common for public pension plans. No matter what amortization period the Board decides to adopt, we recommend that the layered approach be used.

Cost Impact

It is not possible to quantify in advance the full future cost impact associated with adopting an alternative amortization method simply because the System's future changes in UAAL are not yet identified. However, we can measure the effect that a change in the amortization period would have for the \$404 million in UAAL that the Main System would have had as of July 1, 2009 after reflecting proposed assumptions.

For example, a change from the 20-year to the 30-year amortization period for the UAAL as of July 1, 2009 using the assumptions proposed by Segal in the experience study presented to the Board in February 2010 would have reduced the 4.11% payroll cost required to amortize the Main System's \$404 million UAAL to 3.16% of payroll. However, the 30-year amortization cost would be paid for 10 additional years beyond that of the 20-year amortization. The charts in Attachments #1 and #2 compare the annual UAAL payments and the outstanding balance of the UAAL for a sample UAAL of \$404 million under different amortization periods.

Please note that with the above alternatives, we are continuing to recommend that the Board maintain its current level percent of pay amortization.

We look forward to discussing this with you and your Board.

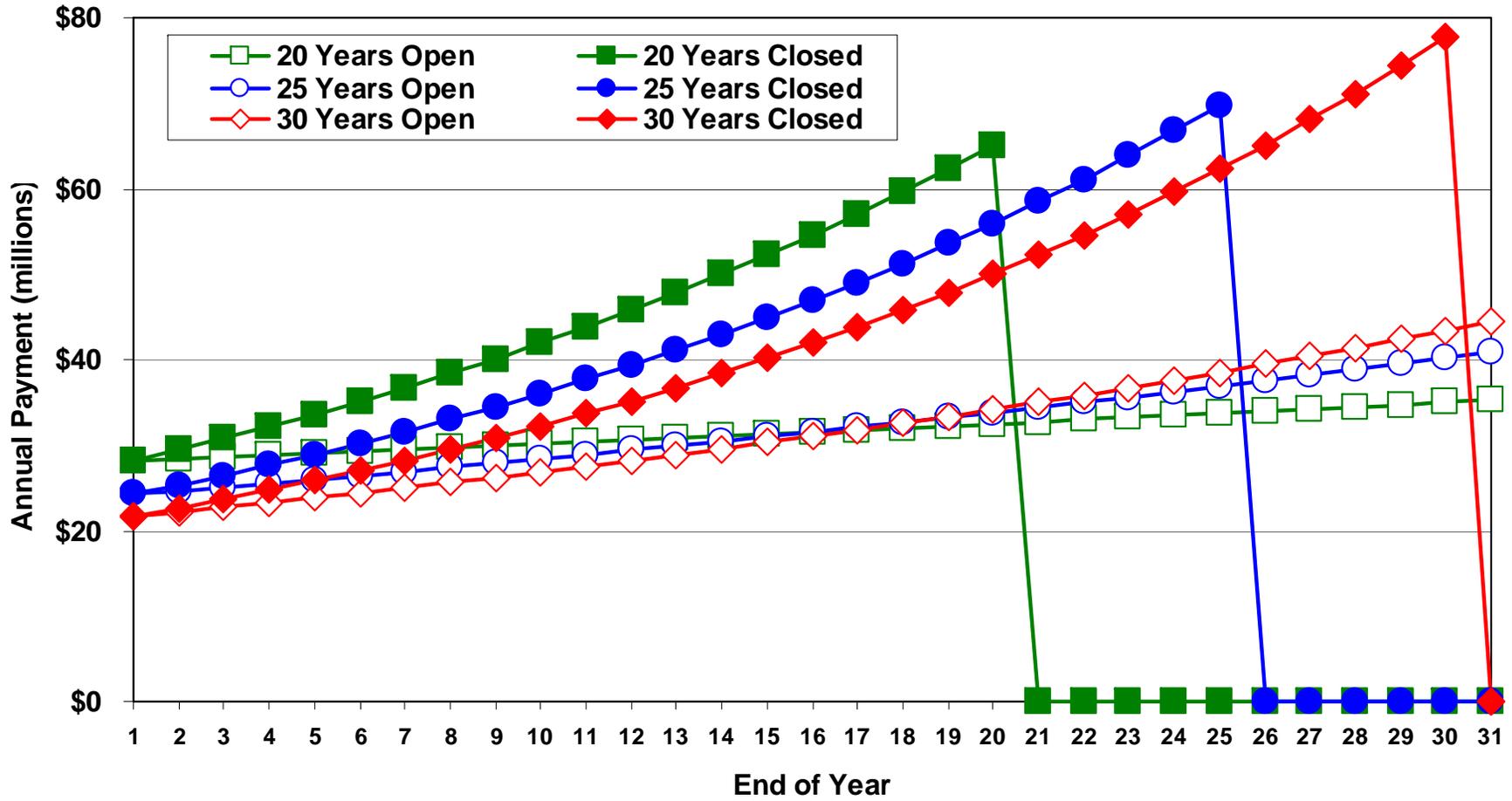
Sincerely,

A handwritten signature in blue ink, appearing to read "BRAMIREZ", is written over a light blue horizontal line.

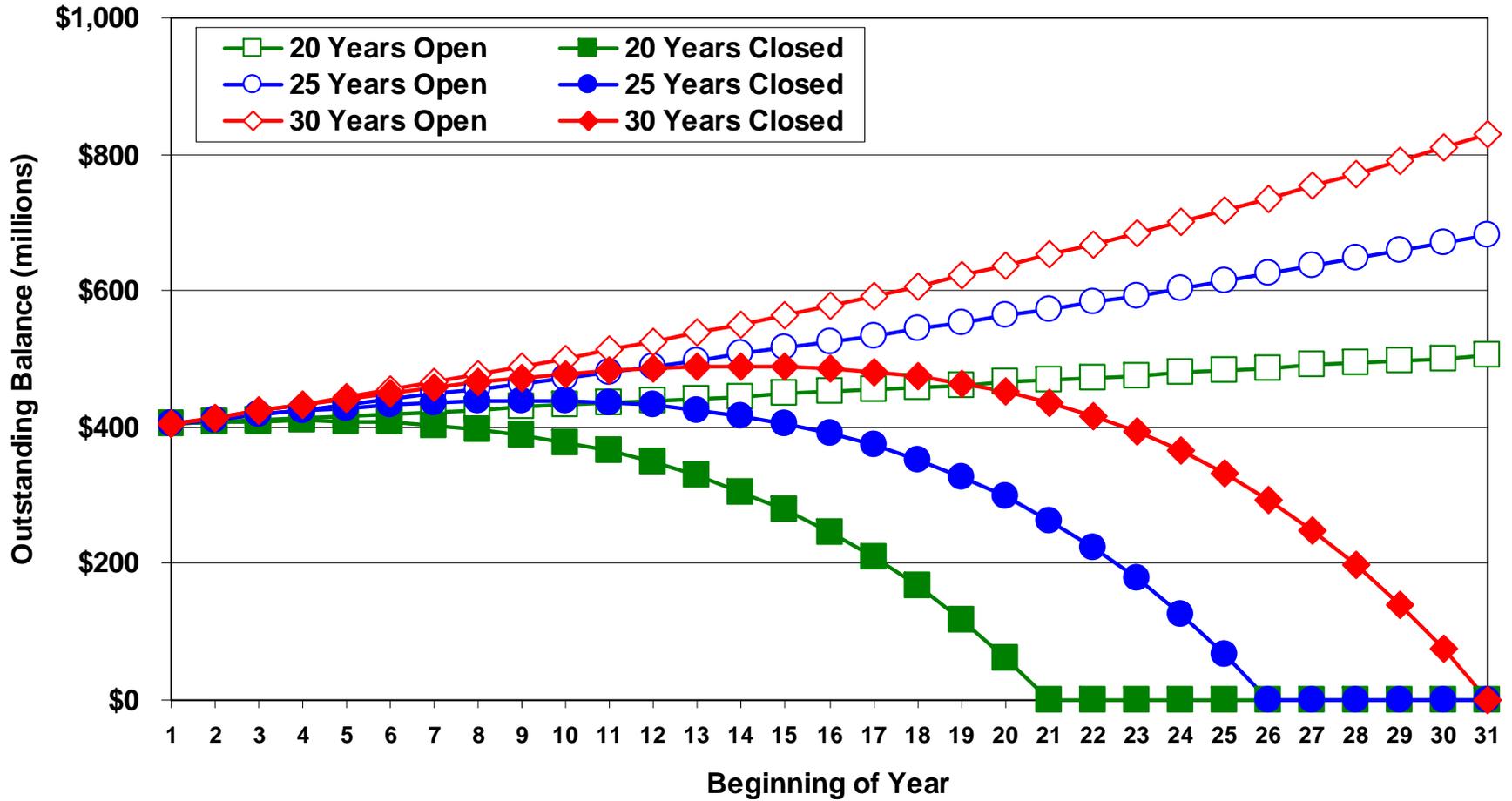
Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

KS/
Enclosures

**Attachment #1 - Illustration of Payments Under Different Amortization Periods
(On \$404 million UAAL as a Level Percent of Payroll)**



Attachment #2 - Illustration of Outstanding UAAL Balance Under Different Amortization Periods
 (On \$404 million UAAL as a Level Percent of Payroll)





DIRECT DIAL NUMBER
(303) 714-9952

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

E-MAIL ADDRESS
bramirez@segalco.com

March 17, 2010

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

Re: Cost Analysis of Potential Change to Employee Contribution Crediting Rate

Dear Sparb:

Per your request, we have calculated the effect of prospectively reducing the interest rate credited to employee contribution account balances. Currently, North Dakota PERS credits member account balances with interest at 7.50% per annum compounded monthly. Under the proposal, the future crediting rate would be reduced to 4.00% per annum compounded monthly. We have assumed that this lower future crediting rate would apply to both statutory employee contributions and any employer contributions that are vested under the Portability Enhancement Provision (PEP).

The table on the following page shows the impact of this potential change on the actuarial contributions requirement of the Main System.

These cost estimates are based on the July 1, 2009 actuarial valuation results for North Dakota PERS, including the participant data and asset information as of that date. The actuarial assumptions used are from the actuarial experience study of February 2010. In particular, note that we have continued to use the proposed assumption for members assumed to contribute to a deferred compensation plan. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.



The employer actuarial contribution requirements for the Main System are shown below as a percentage of payroll:

	7.50% Crediting Rate (Current Plan)	4.00% Crediting Rate	Change
Normal Cost	5.31%	5.13%	(0.18%)
UAAL Amortization*	<u>4.11%</u>	<u>4.06%</u>	<u>(0.05%)</u>
Total	9.42%	9.19%	(0.23%)

* Amortized over 20 years as a level percent of payroll.

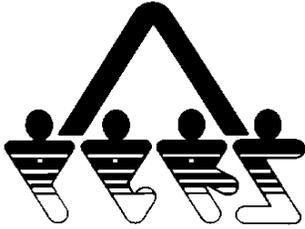
Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

KS/



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

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

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

Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: March 17, 2010
SUBJECT: Preferred One

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

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

PreferredOne[®]

North Dakota Public Employees Retirement System

March 25, 2010

At Your Service

PreferredOne®

ABOUT PREFERREDONE...

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



History

PreferredOne[®]
PREFERRED PROVIDER ORGANIZATION

Introduced 1984

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

Introduced 1995

Provides insured HMO products for large and small employer groups

PreferredOne[®]
COMMUNITY HEALTH PLAN

PreferredOne[®]
ADMINISTRATIVE SERVICES

Introduced 1997

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

Introduced 2005

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

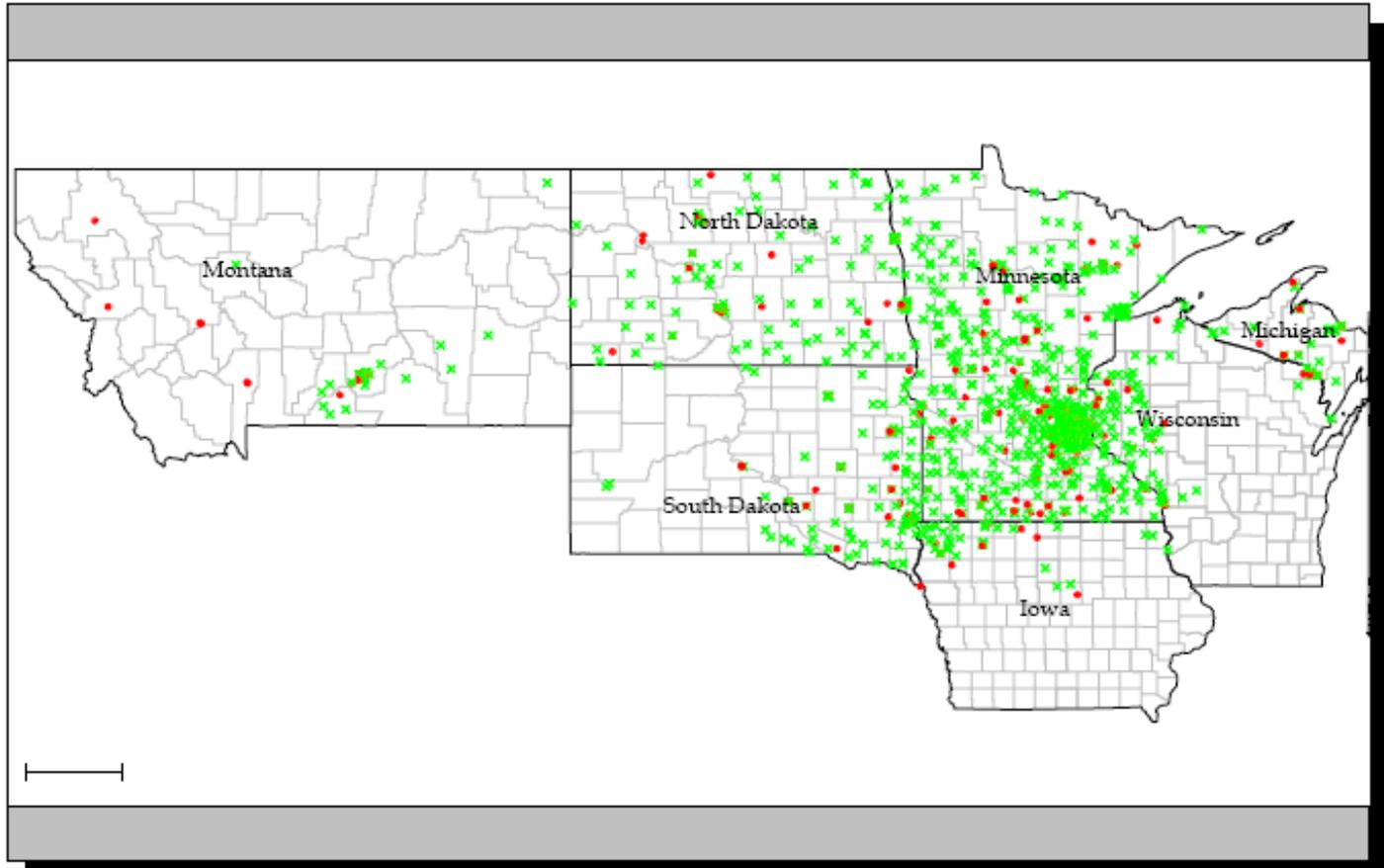
PreferredOne[®]
INSURANCE COMPANY

Network Coverage – Primary Care

PreferredOne Open Access 200 Network

Provider locations

7,700 Primary Care Providers



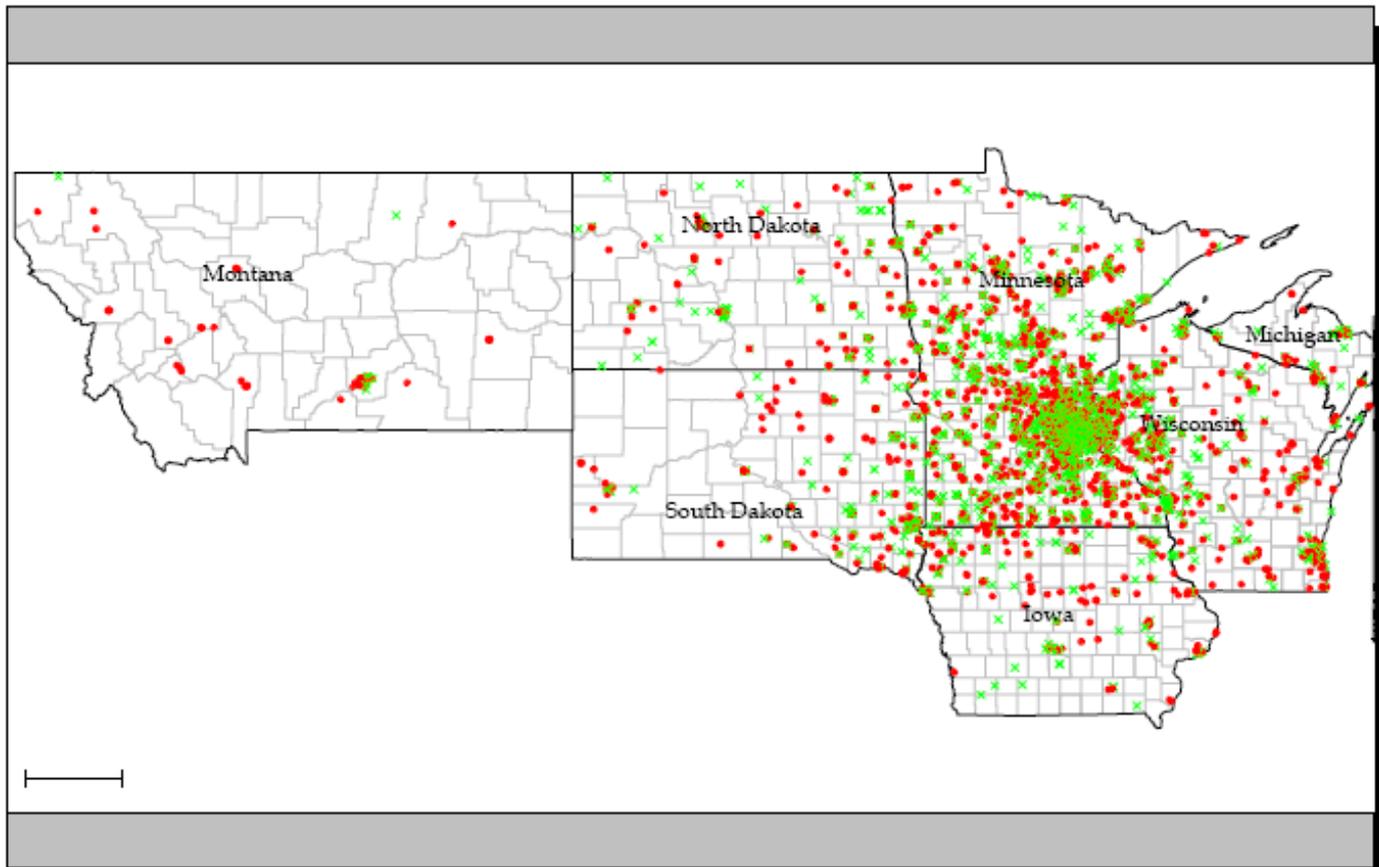
- Single provider locations
- ✕ Multiple provider locations

Network Coverage – Specialty Care

PreferredOne Open Access 200 Network

Provider locations

7,800 Specialty Providers



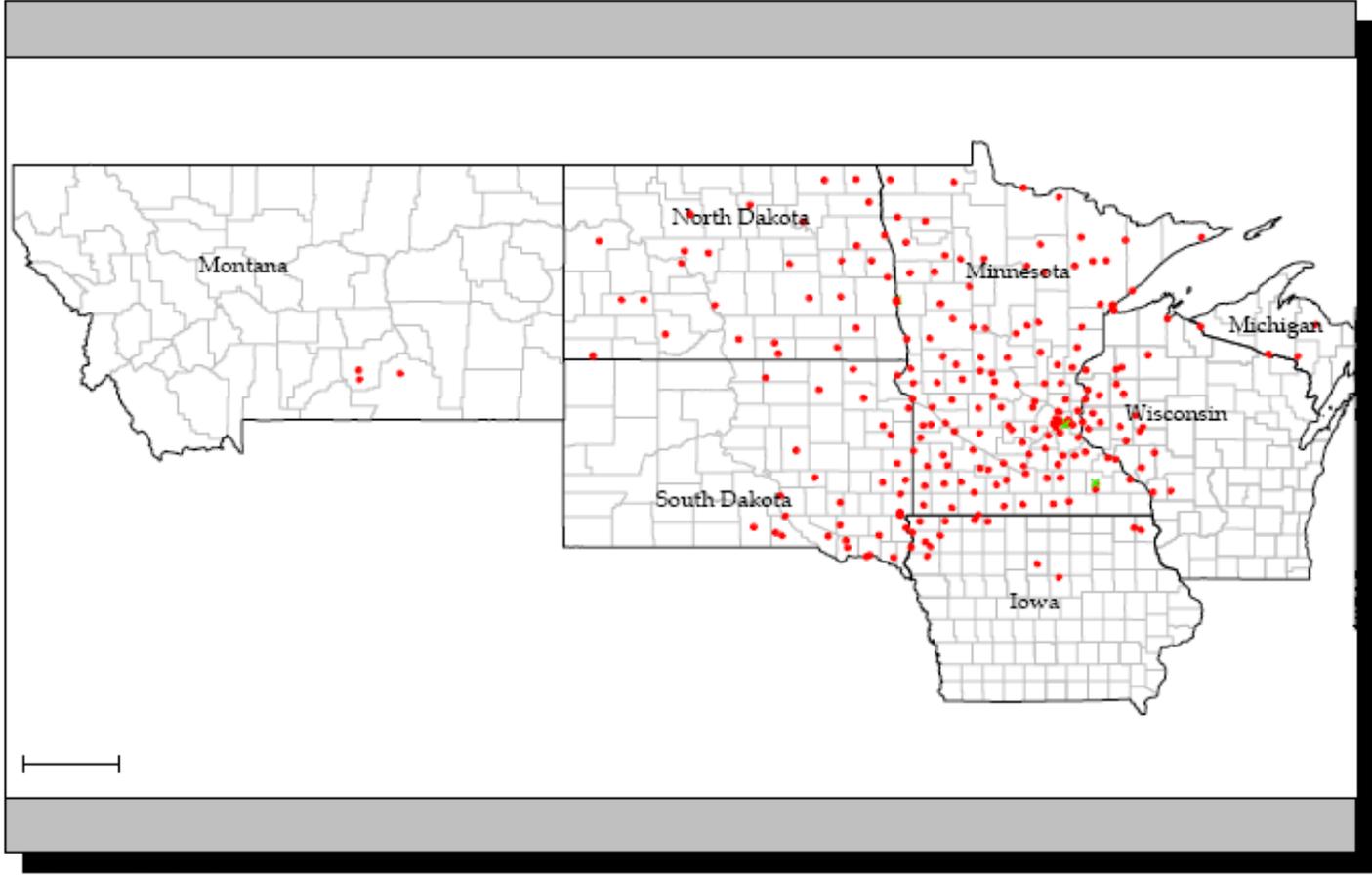
- Single provider locations
- × Multiple provider locations

Network Coverage – Hospitals

PreferredOne Open Access 200 Network

Provider locations

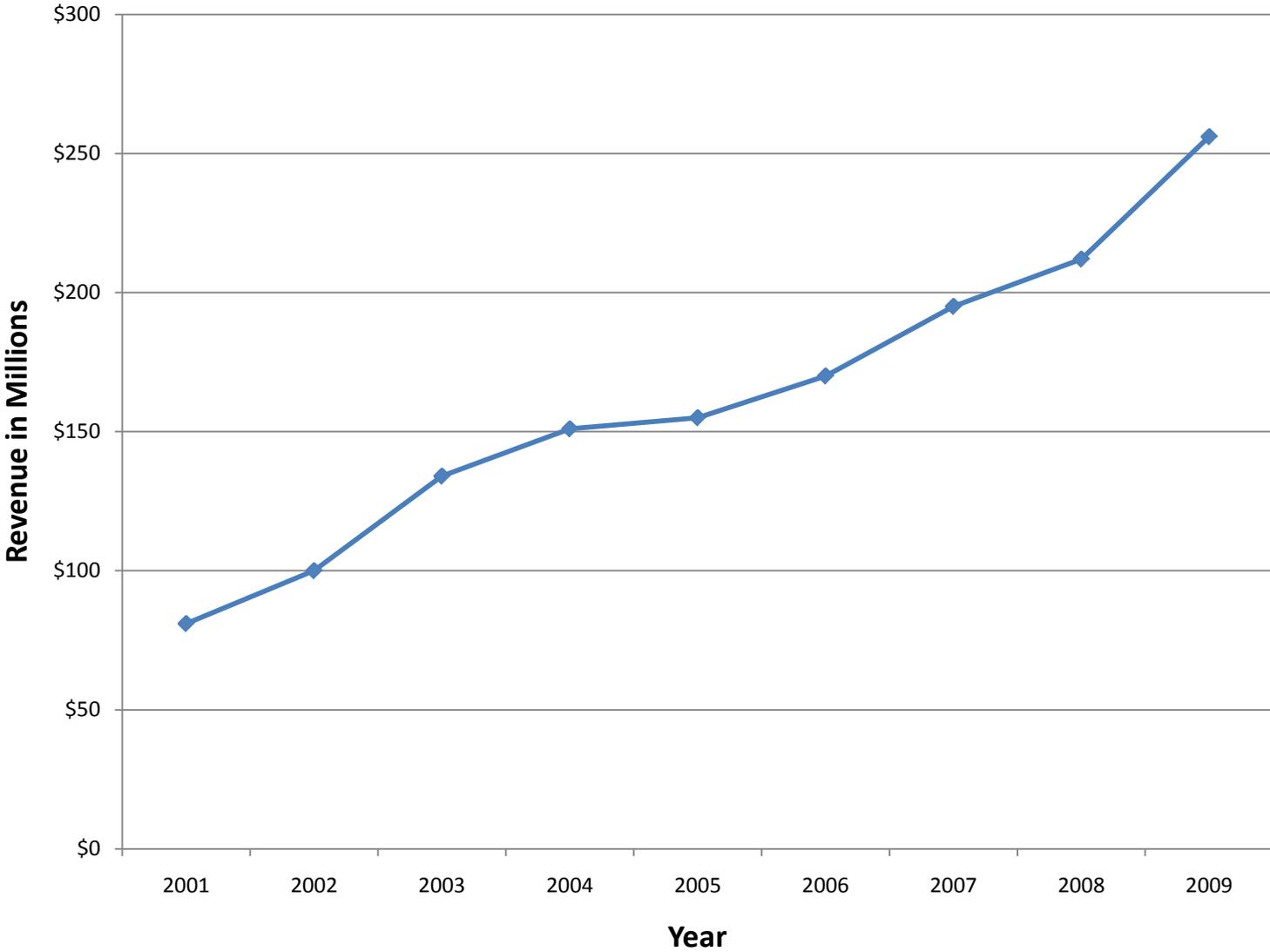
267 Hospitals



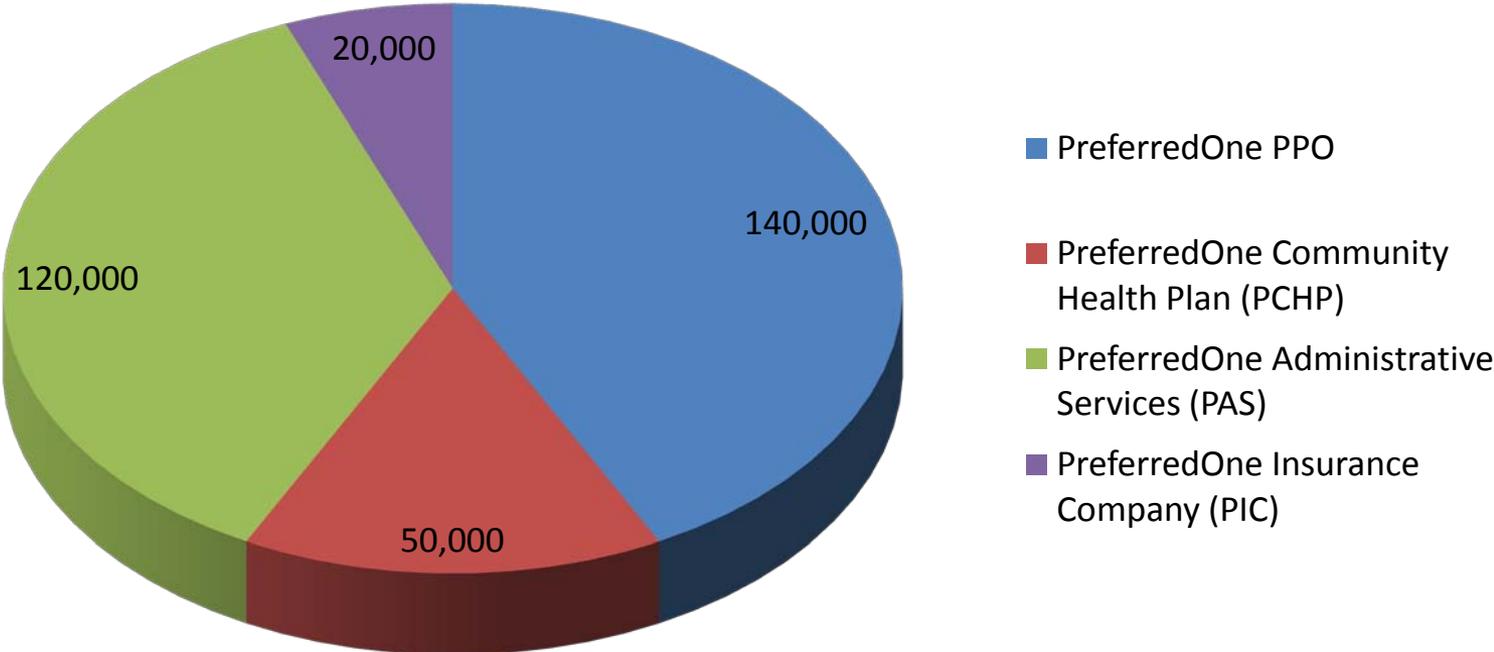
- Single provider locations
- × Multiple provider locations

Esri/arcgis.com

Revenue



Membership

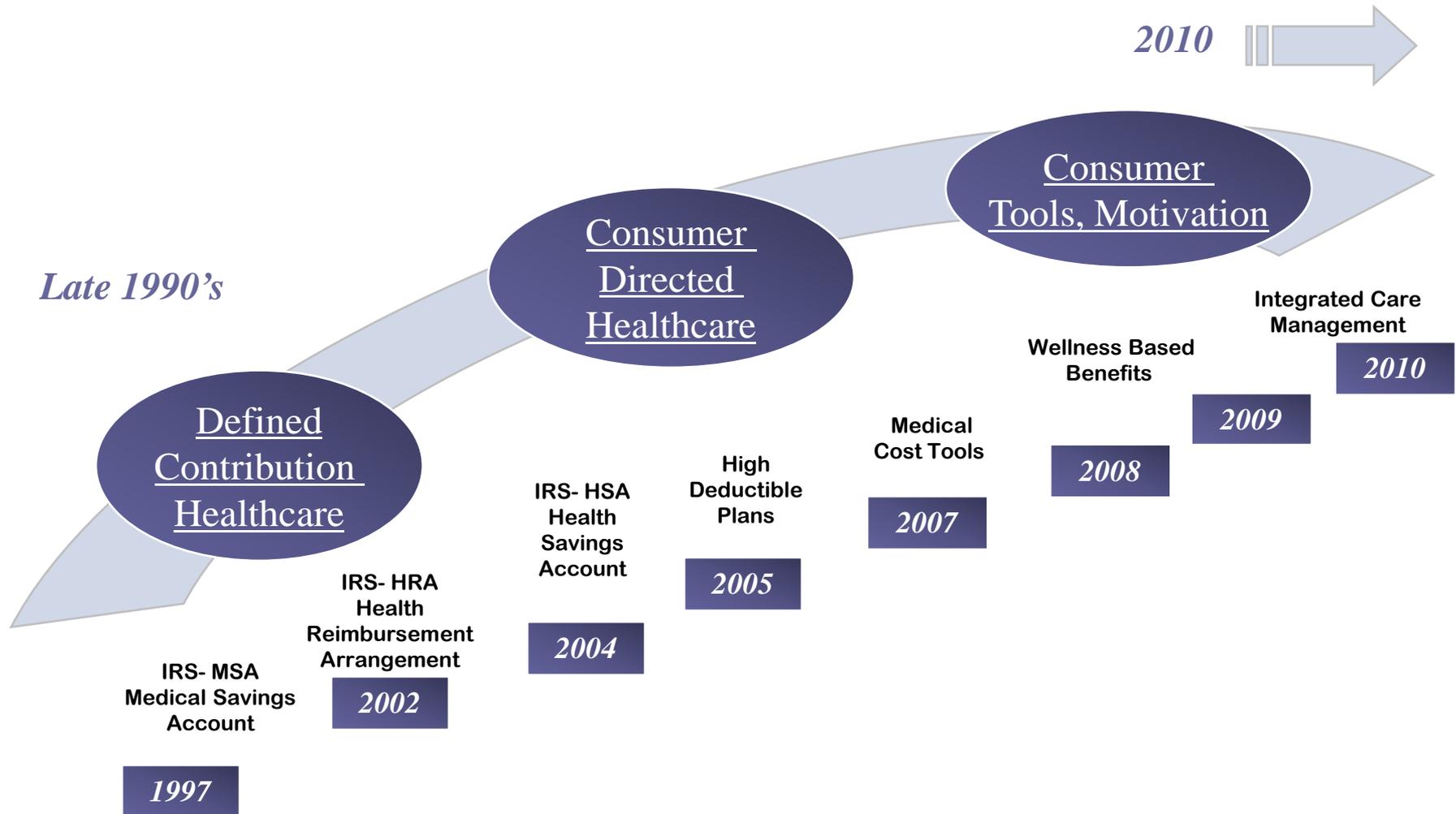


TOTAL MEMBERS: 330,000

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

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

The Market Path



Core Programs (Cost Control)

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

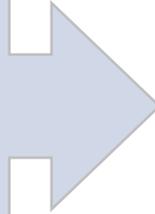
Provider Focus = ■ Member Focus = ■

Support Programs

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

Member Web Site

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



PreferredOne

WELCOME, ACME SUPPLIES.

- **Reports**
 - FSA Contribution Report
 - FSA Summary Report
- **Inquiries**
 - Eligibility
 - Eligibility Summary Report
 - Termination Summary Report
 - Claims
 - Deductible & Out Of Pocket Balances
- **Summary Plan Descriptions**
- **Enrollment Maintenance**
 - Create Employee/Dependent Coverage
 - Change Employee Coverage
 - Add Dependent Coverage
 - Terminate
 - Change Demographic Information
 - Id Card Request
- **View Logs**
 - New Coverage
 - Changed Coverage
 - Dependent Additions
 - Terminations
- **Change Password**
- **Change EMail Address**

Address: https://secure.preferredone.com/memberapps/main.asp

WELCOME JOHN SMITH
Last Login Time: 11/5/2009 1:49:08 PM

- Account Inquiry**
 - Claims/Explanation of Benefits Inquiry
 - Deductible and Out-Of-Pocket Balances
 - Certificate of Coverage
 - Flexible Spending Account
 - Pharmacy Information
 - Member Information
 - ID Card Request
 - Coordination of Benefits (COB)
 - Health Account Statement
 - Dependent Forms/Student Status
- Medical Cost Tools**
 - Do you have medical cost questions?
- Search for a Provider**
 - PreferredOne Open Access Network 200
- Other**
 - PIC Annual Member Mailing (PDF)
- My Account Settings**
 - Address
 - Password
 - EMail Address / EOB Delivery Settings
 - Change Login ID
- Health Resources**
 - PreferredOne Sponsored Programs
 - **Wellness**
 - HealthCare Related Links
 - Health Risk Assessment
 - Member Discount Programs
 - Walking Program
 - Nutrition Guidelines for Healthy Eating
 - Preventive Services Guidelines
 - Medical Policy
 - Quality Management Program
 - Case Management Services
 - Midwest EAP
 - Emergency and Community Health Outreach (ECHO)
- Health Education**
 - Healthwise® Knowledgebase
 - Healthwise® Drug Interaction Checker

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Employer Web Site

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



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

healthwise® Knowledgebase:

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

Drug Interaction Checker:

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



Clinic comparison Pre-set services



PreferredOne®

Select the clinics to be compared

Comparison of Frequently Performed Services

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

Return

Costs Displayed

Clinic comparison – Selected services

Ask a Question

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[Legal Disclaimer](#)

Search Criteria:

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

Condition
Selected

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

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

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

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

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

Cost Guide – Reprice My Claim

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

PreferredOne

Home | Logout

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

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

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Click and Compare Claim cost at other Network providers

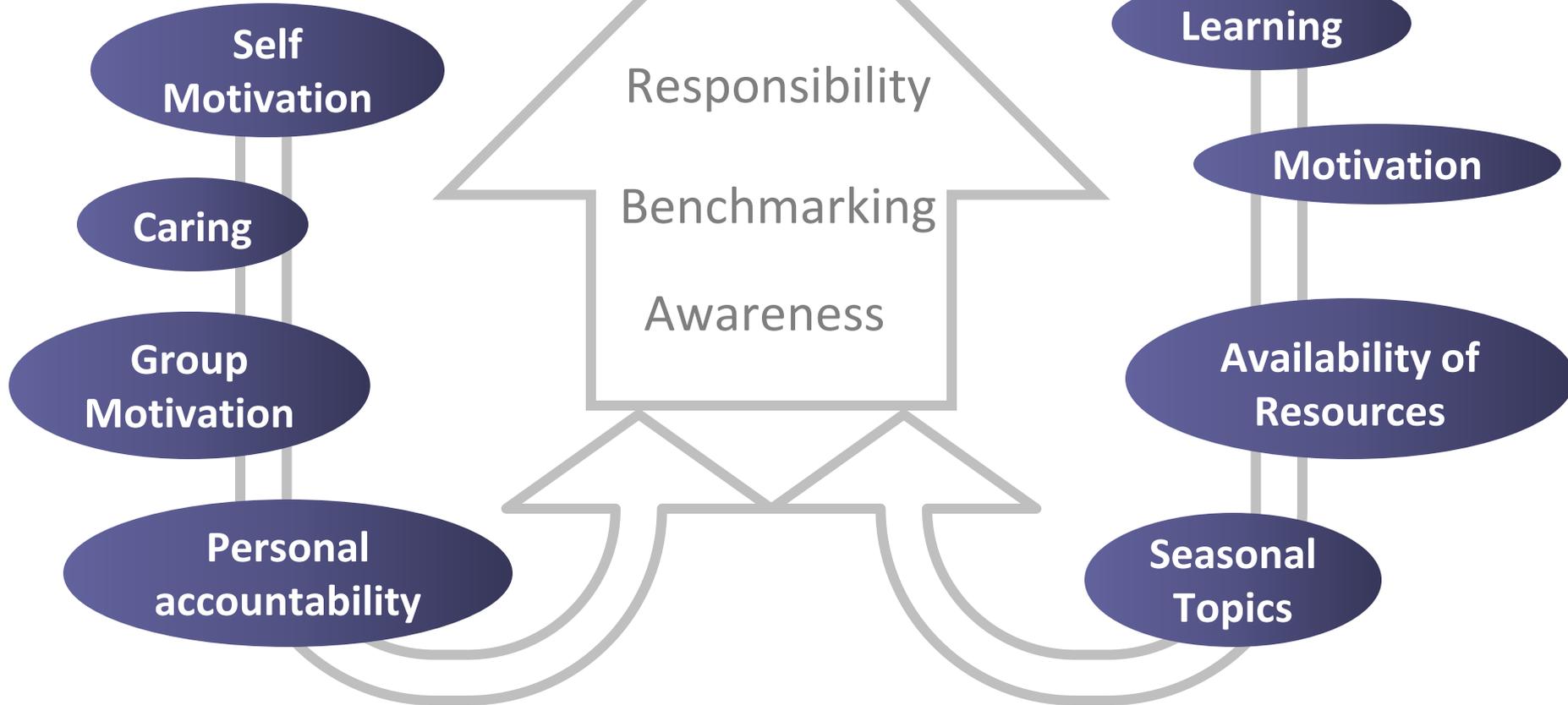
Results:
Reprice My \$260 Claim
(Member Responsibility \$212.85 with contracted discount)

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

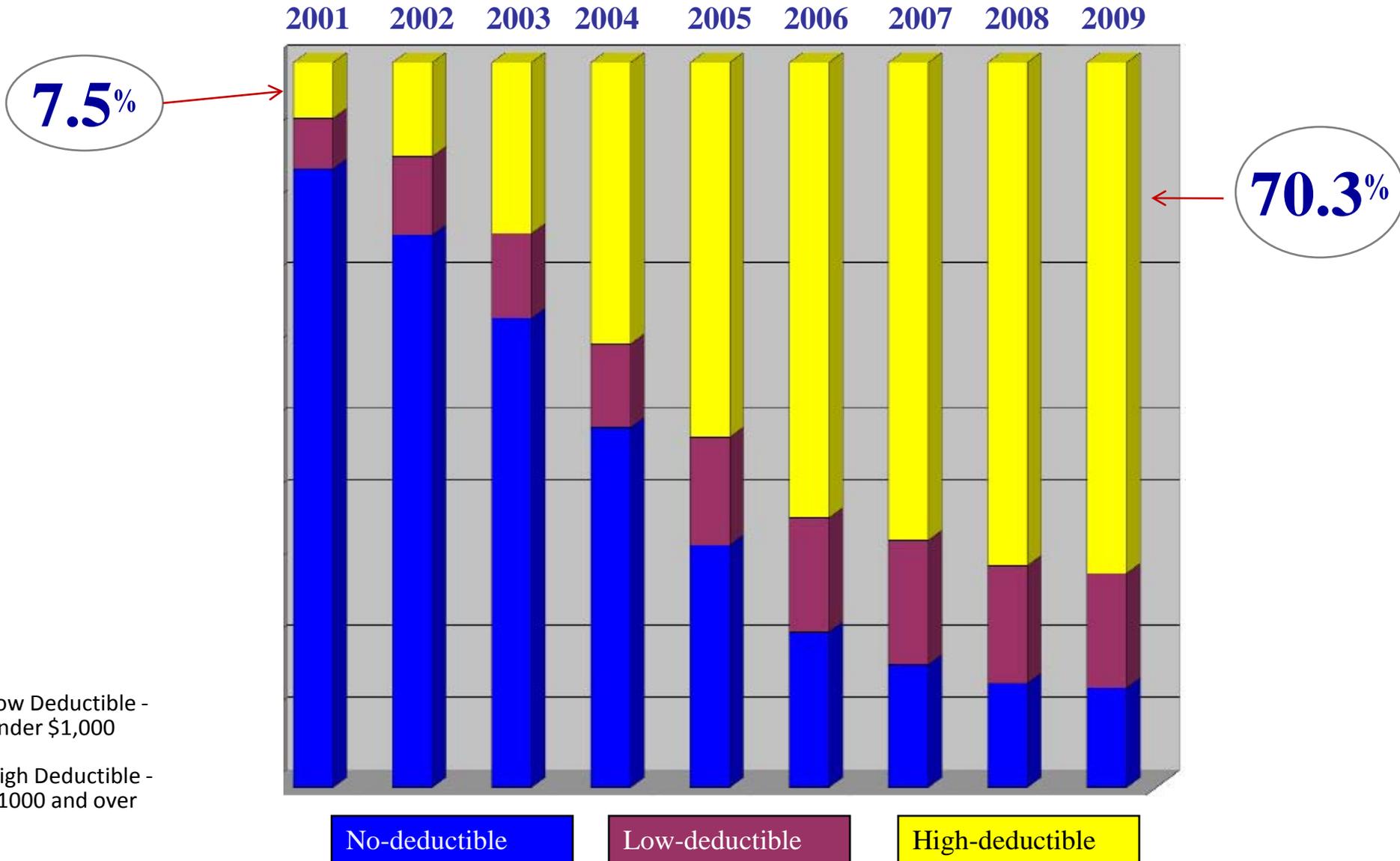
Developing
Cultures
of:

Action

Maintaining



Product Enrollment Shift





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

Widgets, Inc.
Reinsurance Summary

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

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



True Transparency

- Administrative Fees
- Provider Discounts
- Claims Data



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

Memorandum

TO: PERS Board
FROM: Sparb Collins
DATE: March 17, 2010
SUBJECT: Health Care Reform

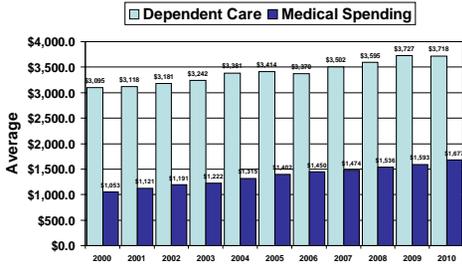
I was asked to appear before the Industry, Business and Labor Committee on March 17 to discuss the implications of health care reform on PERS. Attached, for your information and reference, is the handout I provided to the committee.

PERS – Health Care Reform

Reform Provision	Subject Area (Kaiser Foundation)	PERS Observation	PERS Implications
1. Automatic Enrollment	Require employers with more than 200 employees to automatically enroll employees into health insurance plans offered by the employer. Employees may opt out of coverage.	Would change our enrollment process and possible number enrolled.	There are 14,682 State health contracts and another 473 duals where the spouse also works for the State. This totals to 15,155 and since there are 15,358 employees with basic life insurance that equates to 98.7% of the State employees on the NDPERS Health Plan. The remaining 1.3% must have waived coverage. Based upon the above, it is unlikely that this provision will dramatically change the state enrollment. However, political subdivisions premium payment policies vary and it could alter enrollment patterns for those entities.
2. Plan Design	Grandfather existing individual and group plans with respect to new benefit standards, but require these grandfathered plans to extend dependent coverage to age 26, prohibit rescissions of coverage, and strengthen appeals processes. Beginning in 2014, prohibit grandfathered plans from imposing annual or lifetime limits on coverage, including pre-existing condition exclusions, or discriminating in favor of highly compensated individuals. Beginning in 2018, require grandfathered plans to cover proven preventive services with no cost-sharing.	<ol style="list-style-type: none"> 1. PERS presently covers dependents until age 23 and to age 26 for full time students that are financially dependent. This would broaden our coverage. 2. We have a lifetime max of \$2 million dollars. This appears to eliminate this provision. 3. Some of our wellness coverage is subject to plan sharing provisions. This could change for some. 	<ol style="list-style-type: none"> 1. This provision will increase our cost for adding these additional members to our family contracts. (\$4-\$6 pcm) 2. The NDPERS Health plan moved from a \$1 million lifetime maximum to a \$2 million lifetime max at the start of the 1997 biennium. The projected cost at that time was \$.35 per contract per month. Note that after that first biennium the cost is actual claims experience (no adjustments for someone going over the max). We currently have 5 members over \$1

Reform Provision	Subject Area (Kaiser Foundation)	PERS Observation	PERS Implications
			<p>million and 3 of these are over \$1.5 million. Two of these members are over \$1.8 and will likely go over \$2 million sometime in the next 5 years. We have had two members go over the \$2 million max. Retaining these members will increase plan costs. (<i>\$.50 pcpm</i>)</p> <p>3. Presently our plan pays the first \$200 of wellness related eliminating out of pocket cost on these services will increase plan costs. (<i>\$.2-\$4 pcpm</i>)</p>
<p>3. Pre-Medicare Group</p>	<p>Create a temporary reinsurance program for employers providing health insurance coverage to retirees over age 55 who are not eligible for Medicare. Program will reimburse employers or insurers for 80% of retiree claims between \$15,000 and \$90,000. Payments from the reinsurance program will be used to lower the costs for enrollees in the employer plan. Appropriate \$5 billion to finance the program. (Effective 90 days following enactment through January 1, 2014).</p>	<p>PERS will need to follow this provision if implemented to determine any available opportunities for our plan.</p>	<p>For the Non-Medicare members on the NDPERS Health Plan for the entire 2009 year:</p> <p>90.5% had plan paid < \$15,000 8.2% had costs \$15,000 - \$90,000 And 1.3% had costs \$90,000+</p> <p>There was \$1,659,000 paid in the \$15,000 - \$90,000 corridor</p>
<p>4. "Cadillac Plan"</p>	<p>Impose an excise tax on insurers of employer-sponsored health plans with aggregate values that exceed \$10,200 for individual coverage and \$27,500 for family coverage (these threshold values will be indexed to the consumer price index for urban consumers (CPI-U) plus one percentage point). The threshold amounts will be increased for retired individuals age 55 and older who</p>	<p>PERS Premium – State is a flat rate per contract of \$825.66, converted estimate is a single rate of \$400.06 and family rate of \$962.84.</p>	<p>Should have no immediate affect on PERS or participating employers.</p>

Reform Provision	Subject Area (Kaiser Foundation)	PERS Observation	PERS Implications												
	<p>are not eligible for Medicare and for employees engaged in high-risk professions by \$1,350 for individual coverage and \$3,000 for family coverage. The threshold amounts may be adjusted upwards if health care costs rise unexpectedly quickly prior to implementation of the tax in 2018. In the 17 states with the highest health care costs, the threshold amount is increased by 20% initially; this increase is subsequently reduced by half each year until it is phased out in 2015. Adjustments will also be made for firms with higher health care costs because of the age or gender of their workers. The tax is equal to 40% of the value of the plan that exceeds the threshold amounts and is imposed on the issuer of the health insurance policy, which in the case of a self-insured plan is the plan administrator or, in some cases, the employer. The aggregate value of the health insurance plan includes reimbursements under a flexible spending account for medical expenses (health FSA) or health reimbursement arrangement (HRA), employer contributions to a health savings account (HSA), and coverage for supplementary health insurance coverage, excluding dental and vision coverage. (Effective January 1, 2018)</p>	<table border="1"> <thead> <tr> <th></th> <th>ND (est)</th> <th>Fed</th> </tr> </thead> <tbody> <tr> <td>Single</td> <td>\$ 4,800.72</td> <td>\$10,200.00</td> </tr> <tr> <td>Family</td> <td>\$11,554.08</td> <td>\$27,500.00</td> </tr> <tr> <td colspan="3">*FSA, dental, vision, supp hlth</td> </tr> </tbody> </table>		ND (est)	Fed	Single	\$ 4,800.72	\$10,200.00	Family	\$11,554.08	\$27,500.00	*FSA, dental, vision, supp hlth			
	ND (est)	Fed													
Single	\$ 4,800.72	\$10,200.00													
Family	\$11,554.08	\$27,500.00													
*FSA, dental, vision, supp hlth															
5. Part D	Provide a \$250 rebate to Medicare beneficiaries who reach the Part D coverage gap in 2010 and eventually eliminate the Medicare	Would reduce PERS Medicare retiree premiums	Our present premium is \$63.70 for Rx coverage (Part D). The PERS coverage does not have a “doughnut hole” so our retirees												

Reform Provision	Subject Area (Kaiser Foundation)	PERS Observation	PERS Implications																																				
	Part D coverage gap by phasing down the coinsurance to the January 1, 2010); standard 25% by 2020 (Effective		pay for this coverage in their premium. Additional federal funds to pay coverage in the “doughnut hole” will reduce the premium required from our retirees. (\$17 pcpm phased in over time)																																				
6. Flex – Annual limit	Limit the amount of contributions to a flexible spending account for medical expenses to \$2,500 per year increased annually by the cost of living adjustment. (Effective January 1, 2011)	<p>Presently \$6,000</p> <p>NDPERS Flexcomp Participation</p>  <table border="1"> <caption>NDPERS Flexcomp Participation Data (2000-2010)</caption> <thead> <tr> <th>Year</th> <th>Dependent Care</th> <th>Medical Spending</th> </tr> </thead> <tbody> <tr><td>2000</td><td>\$3,095</td><td>\$1,083</td></tr> <tr><td>2001</td><td>\$3,118</td><td>\$1,121</td></tr> <tr><td>2002</td><td>\$3,189</td><td>\$1,191</td></tr> <tr><td>2003</td><td>\$3,242</td><td>\$1,222</td></tr> <tr><td>2004</td><td>\$3,381</td><td>\$1,333</td></tr> <tr><td>2005</td><td>\$3,414</td><td>\$1,402</td></tr> <tr><td>2006</td><td>\$3,390</td><td>\$1,450</td></tr> <tr><td>2007</td><td>\$3,502</td><td>\$1,474</td></tr> <tr><td>2008</td><td>\$3,595</td><td>\$1,536</td></tr> <tr><td>2009</td><td>\$3,727</td><td>\$1,593</td></tr> <tr><td>2010</td><td>\$3,718</td><td>\$1,874</td></tr> </tbody> </table>	Year	Dependent Care	Medical Spending	2000	\$3,095	\$1,083	2001	\$3,118	\$1,121	2002	\$3,189	\$1,191	2003	\$3,242	\$1,222	2004	\$3,381	\$1,333	2005	\$3,414	\$1,402	2006	\$3,390	\$1,450	2007	\$3,502	\$1,474	2008	\$3,595	\$1,536	2009	\$3,727	\$1,593	2010	\$3,718	\$1,874	505 out of the 2,786 2010 medical spending Flex comp members flexed over \$2,500. This accounted for \$653,070 of the \$4,673,821 total (14%).
Year	Dependent Care	Medical Spending																																					
2000	\$3,095	\$1,083																																					
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7. Flex - Scope	Exclude the costs for over-the-counter drugs not prescribed by a doctor from being reimbursed through an HRA or health FSA and from being reimbursed on a tax-free basis through an HSA or Archer Medical Savings Account. (Effective January 1, 2011).	Reduce scope of coverage	Could encourage members to replace this loss by getting prescriptions and will likely reduce flex comp deferrals.																																				

Other Observations:

- Annual Limits
- Other Plan Design Provisions
- Indirect Effects



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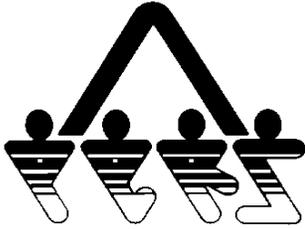
Memorandum

TO: PERS Board
FROM: Sparb
DATE: March 18, 2010
SUBJECT: BCBS

At this meeting BCBS will review the following information with the Board:

1. They will go over the quarterly report. As mentioned at a previous meeting, BCBS has develop a quarterly report to review with the Board that will give you an update on financial trends in the plan, utilization and plan administration.
2. Wellness Benefit. In follow-up to a previous meeting, BCBS will review with the Board information on participation in the new wellness program and wellness benefits. In addition, the new wellness coordinator will be at the meeting to introduce herself to the Board.
3. Tobacco Cessation Program. BCBS will review information on program participation and some issues on reporting.

The above information will be handed out at the Board meeting.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: March 18, 2010
SUBJECT: BCBS Update

Attached is a letter from Mr. Von Ebers in follow-up to our recent discussion and letter relating to BCBS incentives.

Also at that meeting we discussed with him how we may be able to improve communication between the BCBS Board and the PERS Board. In response he has forwarded two ideas for your review and consideration:

1. He indicated that he and the BCBS Board chair would welcome the opportunity to meet with you at a PERS board meeting.
2. He also indicated that if we would desire a similar meeting for the PERS chair and Executive Director could take place with the BCBS Board at one of their meetings.

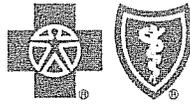
He also indicated that he would be open to any other ideas the PERS Board would like to suggest.

Board Action Requested

Would the PERS Board like to pursue either of the above options or offer any other ideas for consideration?

BlueCross BlueShield of North Dakota

An independent licensee of the
Blue Cross & Blue Shield Association



4510 13th Avenue South
Fargo, North Dakota 58121

PAUL VON EBERS
President and
Chief Executive Officer

(701) 282-1327
FAX (701) 282-1866
paul.vonebers@bcbsnd.com

RECEIVED

MAR 04 2010

ND PERS

March 3, 2010

Mr. Sparb Collins
Executive Director
North Dakota Public Employee Retirement System
400 East Broadway, Suite 505
PO Box 1657
Bismarck, ND 58502-1657

Dear Mr. Collins:

I appreciated the opportunity to meet with you and your board on January 21, and since that meeting we have continued our work to analyze every aspect of our business for ongoing administrative efficiencies.

Also, I am pleased to provide you with the information I promised regarding our executive compensation philosophy and processes. We recently met with the North Dakota Department of Insurance to present the same information, and I've enclosed a detailed summary of actions taken by our Board of Directors and management staff.

The document highlights work done over the past 10 years to determine appropriate executive compensation levels, as well as recent research comparing BCBSND executive compensation to other North Dakota companies. The information confirms that BCBSND executive compensation has been in line with like-size companies.

Regarding the determination of incentives for executives, BCBSND has implemented transitional goals for 2010 aligned with member expectations and financial stability. Additionally, 2011 executive incentives will include new operational/productivity improvements, and innovative efforts to affect increasing medical inflation rates.

I look forward to your comments, and please let me know when we can meet again to discuss this information or any other issues.

Thank you,

Paul von Ebers
President and CEO

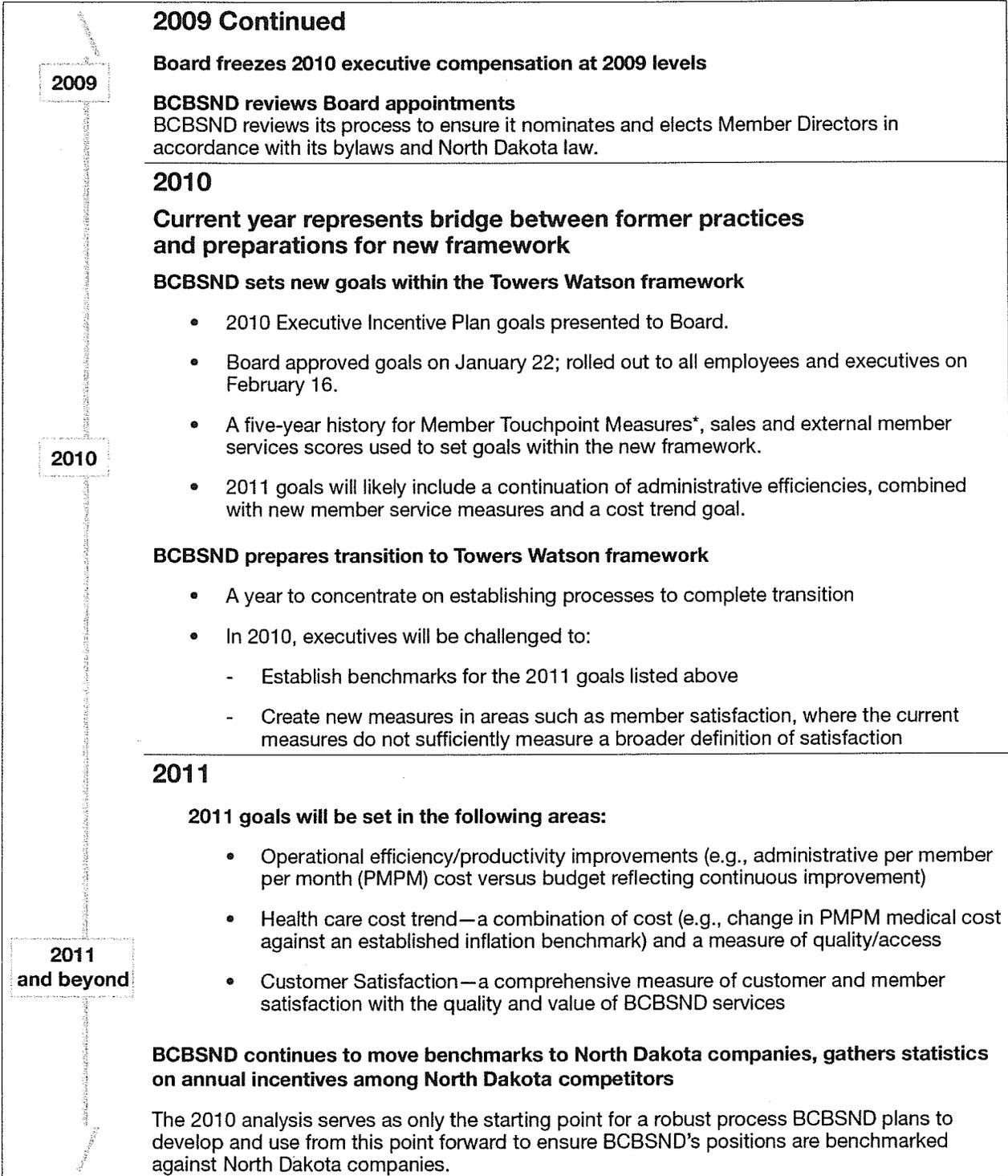
Attachment



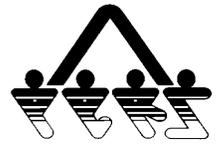
Executive Compensation and PAR timeline

Below are a timeline and supporting documentation of past Blue Cross Blue Shield of North Dakota (BCBSND) executive compensation and pay-at-risk (PAR) programs and a look into the company's future approach.

<p>Early to mid-2000s</p>	<p>Early to mid-2000s Three organizations help BCBSND design and develop PAR</p> <ul style="list-style-type: none"> • Board hires Hewitt Associates for annual evaluation of non-executive compensation levels against national and regional benchmarks in the health care industry • Board hires William H. Mercer Company for similar evaluation of executive compensation • Watson Wyatt Consulting was involved in developing PAR in the early 2000s and more recently provided an up-to-date analysis of BCBSND's annual incentive levels.
<p>2009</p>	<p>2009 ND Department of Insurance conducts auditor's examination Compensation, PAR, employee benefits and fringe benefits are cited as concerns.</p> <p>BCBSND responds with immediate changes and plans analysis BCBSND implements changes and promises to conduct further analyses in areas of concern. The Board unveils its Seven Point Plan for Oversight.</p> <p>BCBSND seeks help from others to address executive compensation and PAR concerns BCBSND relies on several sources to gauge how other entities approach executive compensation</p> <ul style="list-style-type: none"> • IRS Code section 4958 advises using an independent decision-making authority, combined with comparability data from industry surveys to ensure reasonable executive compensation levels. <ul style="list-style-type: none"> - Used in Vermont, Pennsylvania and Florida in response to insurance commissioners' inquiries. <p>BCBSND conducts its own research on MN, ND executive compensation Through IRS Form 990 filings, U.S. Securities and Exchange Commission filings and a survey of Agassiz Valley Human Resource Association members, BCBSND gathered data on executive pay in North Dakota and western Minnesota companies including Medica, Sanford and several other large health systems. Analysis confirms that BCBSND's executive compensation is in line with like-size companies.</p> <p>BCBSND engages consultant to review executive incentive program In October 2009, the Board engaged Towers Watson (formerly Watson Wyatt) to help develop and implement a new program for executive incentive. Their analysis provides a formula to ensure future goals are set at appropriate levels and include targets that are meaningful to members and consider the financial stability of the company.</p> <p>Towers Watson recommends BCBSND:</p> <ol style="list-style-type: none"> 1. Establish meaningful, member-focused measurement categories 2. Use historical data to set challenging goals 3. Apply threshold, target and maximum performance measures and corresponding probabilities for achievement <ol style="list-style-type: none"> a. Threshold levels—80-90% chance of achievement b. Target goals—50-60% chance of achievement c. Maximum goals—10-15% chance of achievement, based on historical performance 4. The addition of another financial trigger to ensure the BCBSND plan is stable before making PAR payments



* The Member Touchpoint Measures scores provide a broader assessment of how the company is serving members. Each of the 10 scores measures the timeliness, accuracy and general accessibility of various member-related activities, including enrollment, claims processing and inquiry processing.



Memo

To: NDPERS Board
From: Bryan T. Reinhardt
Date: 3/19/2010
Re: Quarterly Graphs

Here are the quarterly health graphs through September, 2009. The claims appear to be leveling off. We were running over a 10% trend a year ago and that recently dropped to 7.5%. It now appears the trend is almost flat. Remember that BCBS increased the fee schedules about 5% on Jan 1, 2010 (overall about 4% when drug costs are included). It will take a few more months to see how this affects the trend.

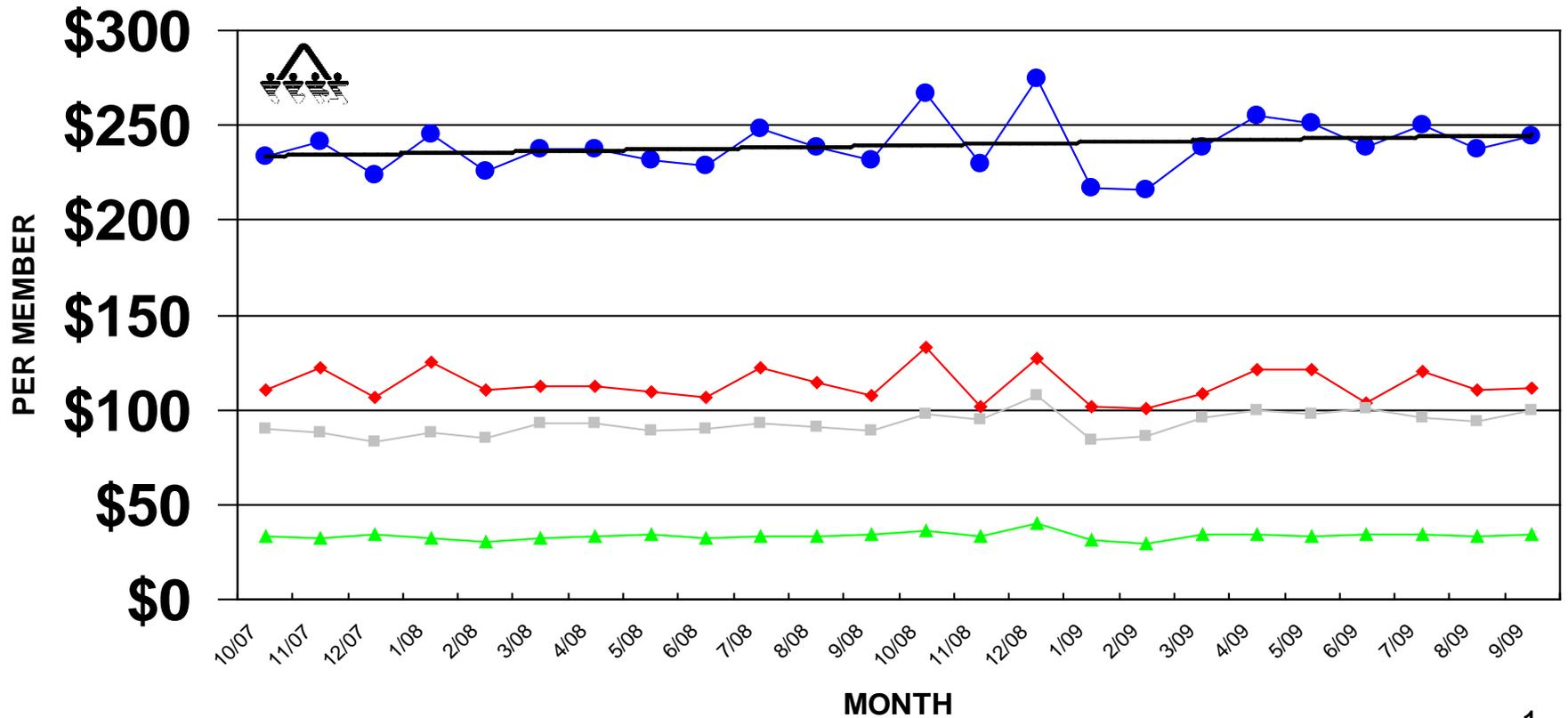
The overall plan cost (excluding administration) is just under \$250 per member per month. The active employees are at about \$300 and their dependents about \$225. Notice the jump for the last three months on the graphs (7/09-9/09) for the retirees. Remember that starting 7/1/2009 the retiree plan has lower cost sharing than the prior plan.

If you have any questions or need anymore information, I will be available at the board meeting.

NDPERS HEALTH INSURANCE PLAN

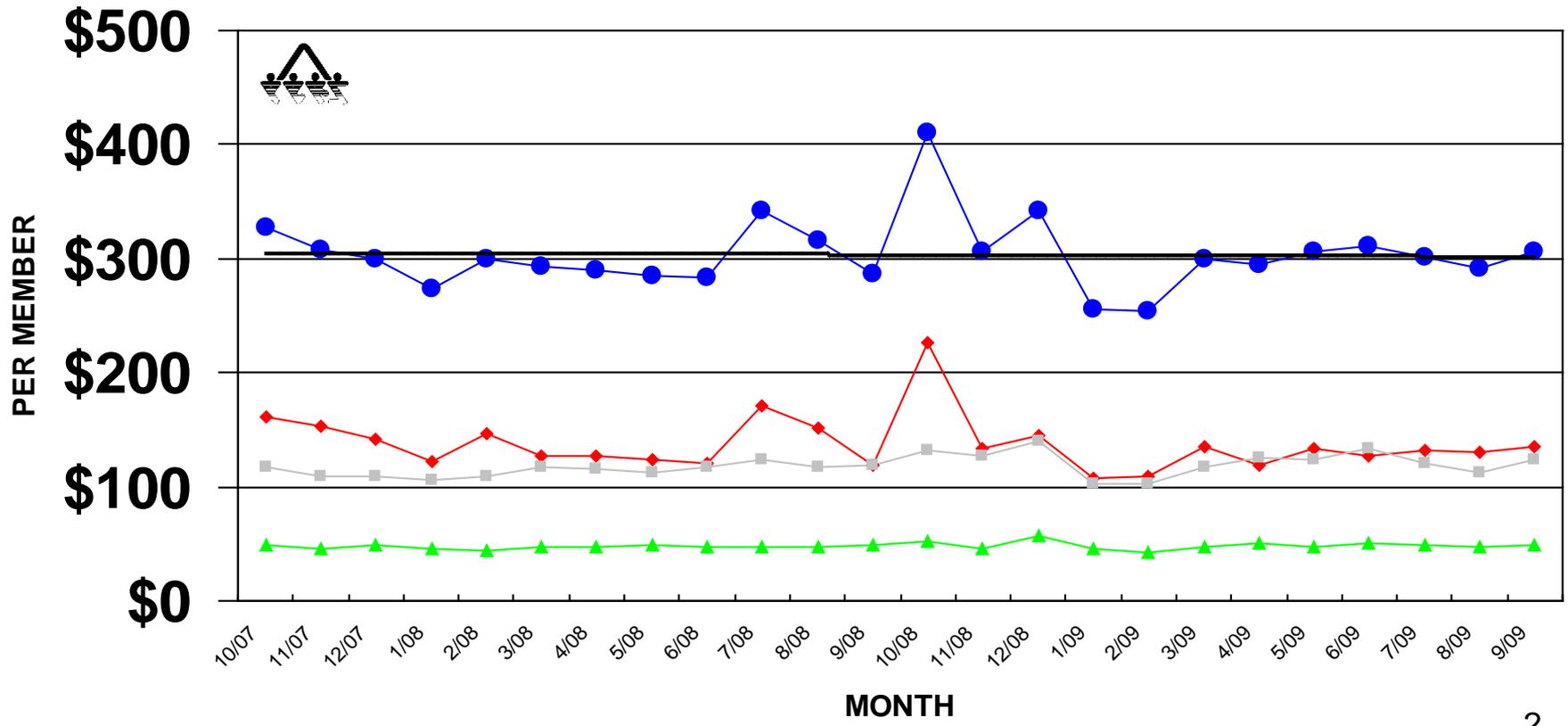
TOTAL MEMBERSHIP

—◆— Hospital —■— Physician —▲— Pharmacy —●— Total — Linear (Total)



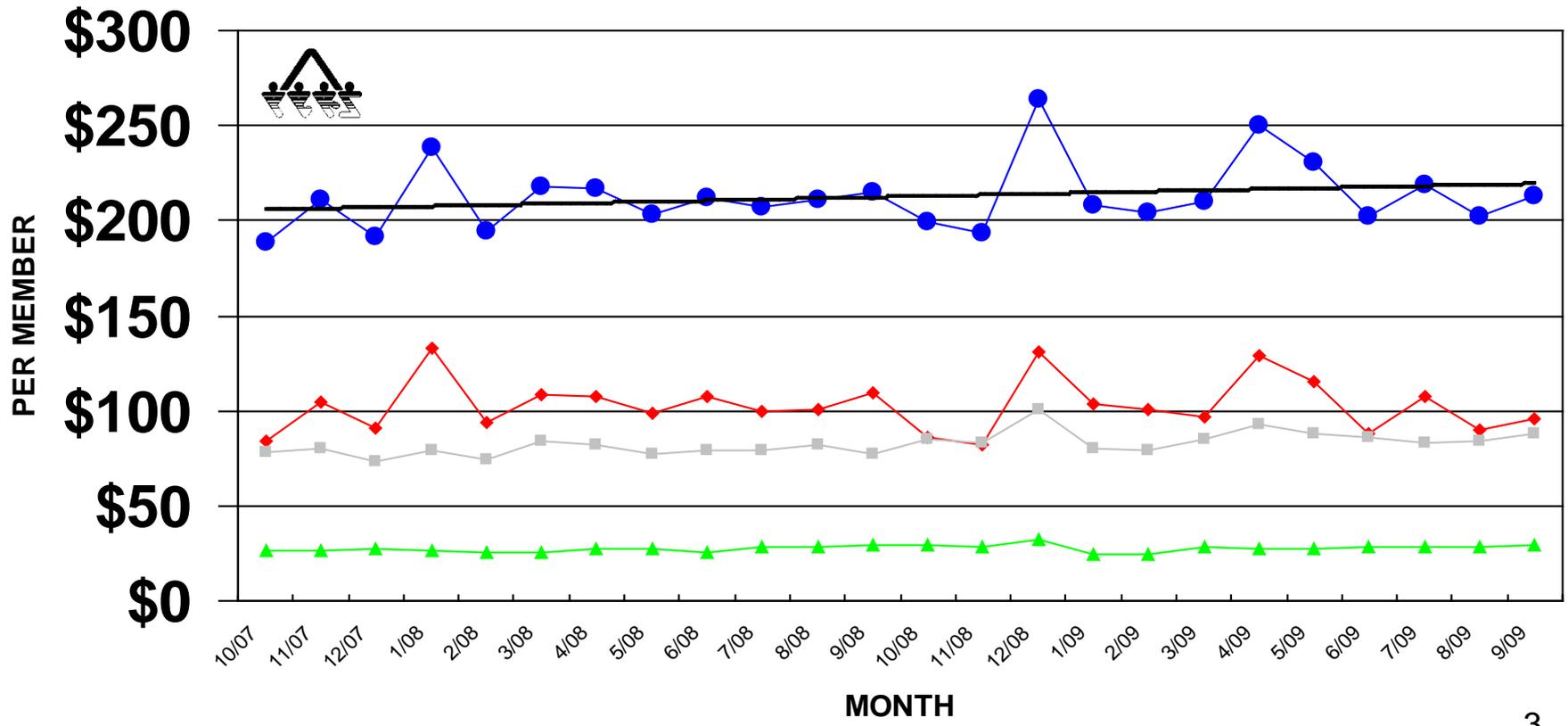
NDPERS HEALTH INSURANCE PLAN

ACTIVE EMPLOYEES



NDPERS HEALTH INSURANCE PLAN

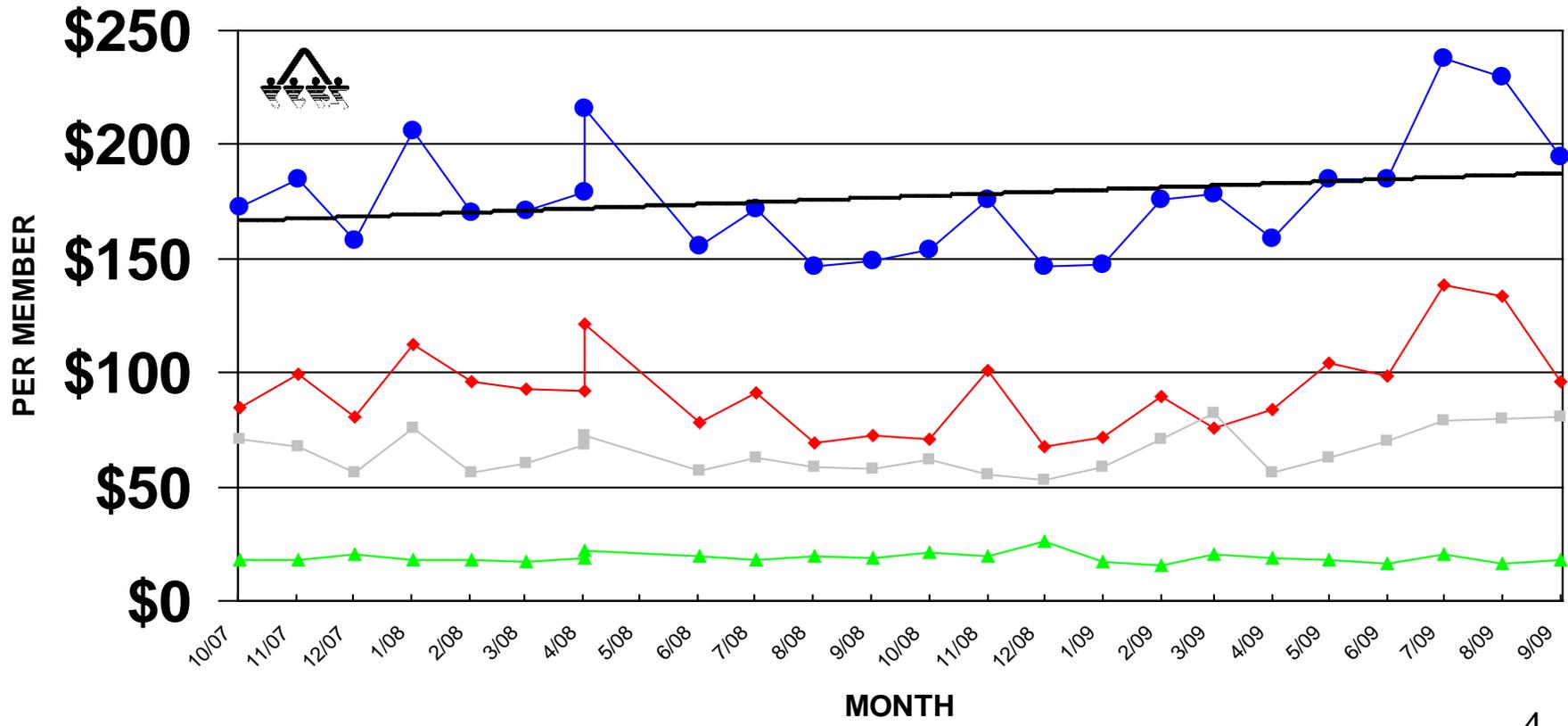
ACTIVE DEPENDENTS



NDPERS HEALTH INSURANCE PLAN

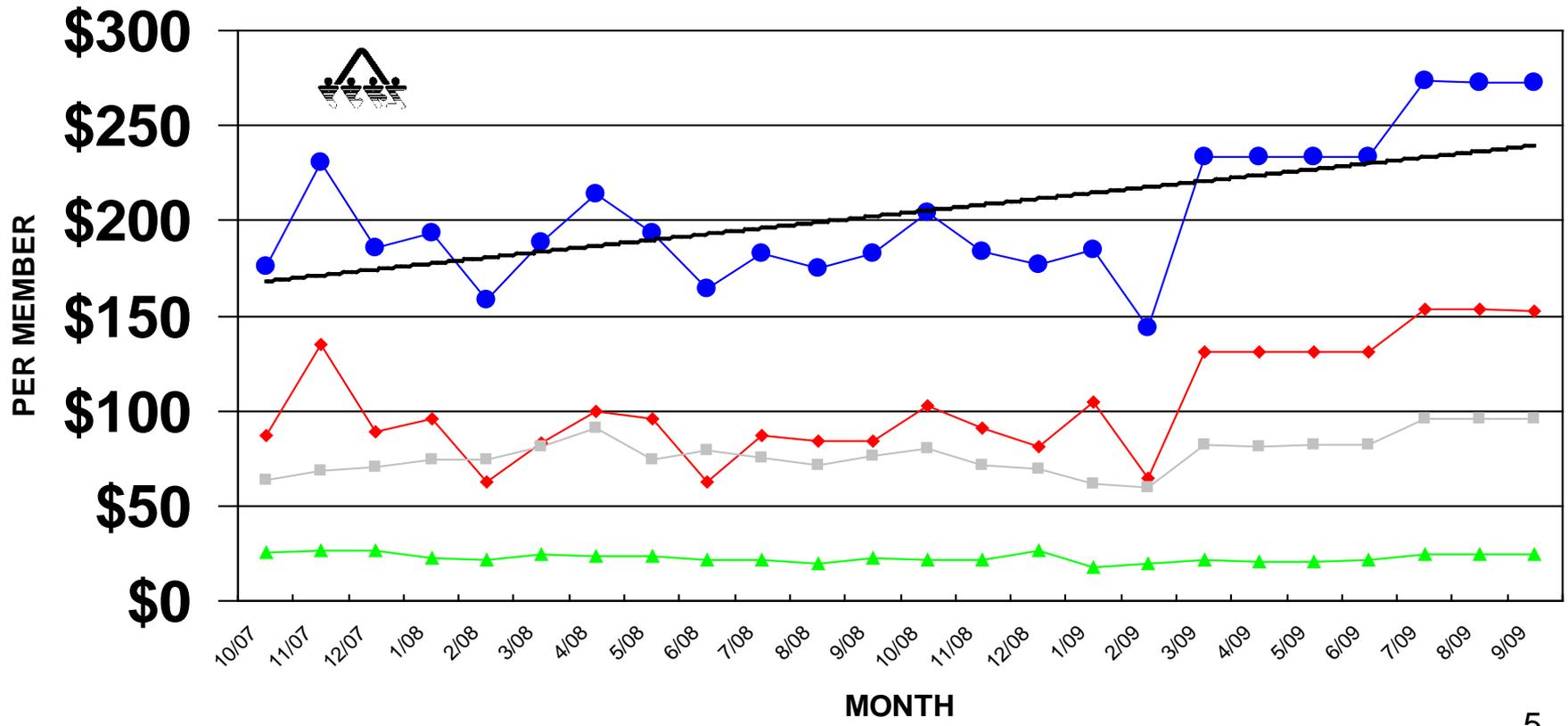
RETIRED EMPLOYEES

◆ Hospital
 ■ Physician
 ▲ Pharmacy
 ● Total
 — Linear (Total)



NDPERS HEALTH INSURANCE PLAN

RETIRED DEPENDENTS





Memo

To: NDPERS Board
From: Bryan T. Reinhardt
Date: 2/18/2009
Re: 2009 BCBS Claims Review

Each year we conduct a claims review to check the accuracy of BCBS claims processing. In February, I traveled to the BCBS corporate office in Fargo to review a sample of 100 NDPERS claims. A list of the claim specifications 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 2009. 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 2009 BCBS audit resulted in fewer errors than the other recent reviews. These findings are detailed below:

Review Findings:

1. A WSI claim should have been denied with a duplicate code, but was processed as fully paid by WSI. This was a coding error and resulted in no processing errors.
2. A wrong code was used showing the amount paid by WSI as \$0. This was a coding error and resulted in no processing errors.
3. A minimal rounding error (\$.01) resulted in an incorrect deductible amount.
4. A minimal discount rounding error (\$.03) resulted in an incorrect payment.
5. There is an \$8 minimum allowed for prescription drugs.

Four of the five mammograms, five of the five PAP tests, four of the five fecal occult tests, two of the five cholesterol tests, zero of the five blood sugar tests, five of the five PSA tests, and four of the HPV vaccine claims for Gardasil were paid at 100% under the screening benefits. These tests are not covered in full under the wellness benefit unless there is a 'routine' or 'preventative' diagnosis. Note that before 7/1/09 if there was a 'routine' diagnosis, other tests were not covered at all. If a member went to a doctor for an annual physical or some other service that was 'not allowed', they did not receive the benefits of any BCBS or NDPERS fee schedule or discounts. This was true even if the provider was a PPO or EPO provider. The new screening benefits effective 7/1/09 will also need the 'routine' or 'preventative' diagnosis, but after the \$200 allowance diagnostic procedures will be covered subject to member cost sharing.

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

NDPERS 2009 Audit of 1/2009 – present BCBS Claims Processing

1. Blue Cross PPO (3 claims)
2. Blue Shield PPO (3 claims)
3. Blue Shield EPO (3 claims)
4. Blue Shield Copayment (1 claim)
5. Blue Shield Chiropractic (3 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 (2 claims)
26. Prescription Drug Non-Formulary (2 claims)
27. Prescription Drug for "Gardasil" (HPV drug) (5 claims)
28. Prescription Drug Medicare Part-D claims (5 claims)
27. Blue Cross Ambulance (1 claim)
28. Blue Cross C-Sections (1 claim)
29. Blue Shield Physical Therapy (1 claim)
30. Blue Cross 'Denied Experimental' (2 claims)

Total 100 Claims



Memo

To: NDPERS Board
 From: Bryan T. Reinhardt
 CC: Sparb, Kathy
 Date: 3/19/2010
 Re: 2009 EAP Utilization

The following table shows the self-reported 2009 utilization from the NDPERS Employee Assistance Program (EAP) providers. The overall EAP utilization rate is about 9%. This is about the same rate as in prior years.

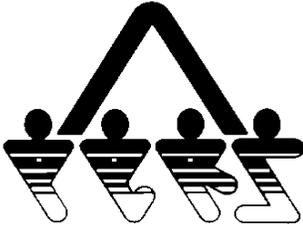
NDPERS Employee Assistance Program – 2008

	NDPERS TOTAL	Medcenter One	Deer Oaks	The Village	St. Alexius
Contracts	15424	1288	62	3238	10836
Cases*	1353	104	3	405	841
%	8.8%	8.1%	4.8%	12.5%	7.8%
Sessions**	2072	104	16	1111	841
%	13.4%	8.1%	25.8%	34.3%	7.8%
Case Types:					
Psychiatric	517	27	0	106	384
Family/Personal	574	38	8	156	372
Work Problems	70	6	0	37	27
Financial/Legal	73	1	0	59	13
Drugs/Alcohol	35	4	0	11	20
Other/Unknown	97	28	8	36	25

* - Note that family members are also eligible for the EAP.

** - Per Session information was not available from St. Alexius.

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



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

Memorandum

TO: NDPERS Board

FROM: Kathy & Bryan

DATE: March 10, 2010

SUBJECT: PPO Participation/Discounts

Annually, PERS requests BCBS to provide us with an update regarding the activity relative to additions to our PPO network. In 2009, 544 professional pins were issued and 38 facilities and 23 institutional providers were added to our directory.

The total PPO discount for last year was \$2.93 million. The discount is only for the professional providers. The following report from BCBS breaks down the discounts based on PPO utilization.

- \$36,518,594 (PPO members)
- ~ \$11,924,573 (institutional)
- ~ \$18,506,396 (professional) of this PPO Discount = \$1,616,876
- ~ \$ 6,087,625 (Rx drugs)

We are available to answer any 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-info@nd.gov • www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Deb Knudsen

DATE: March 17, 2010

SUBJECT: Update on IRS Letter Ruling Request

We were recently contacted by the IRS with regard to the requested letter ruling that was submitted on behalf of the NDPERS Main System. Attached is the information that was requested and also attached is the response that was provided. Staff continues to work with the Segal Company and Aaron Webb on this endeavor and will continue to update you when there is new information.

FAX COVER SHEET

EP TECHNICAL GROUPS
SE:T:EP:RA:T1, 2, 3, & 4
1750 Pennsylvania Avenue, N. W.
Washington, DC 20006

Internal Revenue Service (IRS)



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

FAX Transmittal
FAX No. (202) 283-9598

To: Aaron Webb From: M-DVA

FAX: 701-328-2226 Phone: 202-283-9603

Phone: 701-328-2210 Date: 3-8-10

Re: North Dakota Public EEs Retirement System Hybrid Plan
002

Urgent For Review Draft Please Reply Please Comment

Number of Pages 3 (including cover page)

THIS DOCUMENT IS INTENDED ONLY FOR THE NAMED ADDRESSEE.

This communication is intended for the sole use of the individual to whom it is addressed, and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this communication is not the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication may be strictly prohibited. If you have received this communication in error, please notify the sender immediately by telephone, and return the communication to the address above or by United States Postal Service. Thank You.

CONFIDENTIAL

COMMENTS:

Office of Attorney General
RECEIVED

MAR 08 2010

BISMARCK, NORTH DAKOTA



**Department of the Treasury
Internal Revenue Service**

Date: March 4, 2010

**Name of Plan: North Dakota
Public Employees Retirement
System Hybrid Plan**

Plan Number: 002

Aaron Webb
600 E. Blvd. Ave. Dept. 125
Bismarck, ND 58505

**Employer Identification Number:
450309764
Person to Contact:
Madan Dua
Telephone Number:
202-283-9603
Response Due Date:
March 15, 2010**

Dear Mr. Webb:

We are considering your request for a determination on the above plan. However, we need more information before we can continue processing your request. The enclosed checksheet(s) show the information we need and, if applicable, amendments to be submitted.

Please reply by the response date and attach this letter to your reply. If we do not hear from you within that time, we may process your application on the basis of the information you have already supplied us. This could result in a determination that your plan is not qualified for favorable tax treatment.

If you have any questions concerning this matter or cannot meet the response date, please contact the person whose name and telephone number are shown above.

Sincerely,

A handwritten signature in black ink, appearing to read "M. D.", followed by a horizontal line.

Madan Dua
Tax Law Specialist

Enclosure:
Checksheet

CHECKSHEET

Sponsor's Name: North Dakota Public Employees Retirement System Hybrid Plan
EIN: 450309764

Information Needed

1. Definition of Compensation that complies with sections 415 and 414(s) of the Code.
2. Limitations on contributions: (a) Does the plan define annual additions in accordance with IRC and regulations? (b) Does the plan utilize individual account features? See Code section 415(c) (1). (c) Does the Plan satisfy the final 415 regulations published 4/15/07? If so, give reference to the Plan sections.
3. Plan must state that it intends to satisfy Code section 401(a) by meeting the requirements of section 414(d) of the Code.
4. Does the Plan prohibit the reversion of trust funds' or a return of employer contributions except for those permitted by the Statute or Rev. Rul.91-4?
5. If the plan provides for a retirement benefit which is payable in a form other than a straight life annuity, is the benefit adjusted to an actuarially equivalent straight life annuity for purposes of applying the limitation, using an interest assumption no less than the greater of 5.5 percent or the rate specified in the plan?
6. If the plan provides for a retirement benefit which is payable in a form other than a straight life annuity, for optional forms subject to IRC section 417(e) (3), is the benefit adjusted to an actuarially equivalent straight life annuity that is equal to the greater of the equivalent annual benefit computed using the interest rate and mortality table specified in the plan and applicable mortality table under Rev. Rul. 2001-62.
7. Does the Plan comply with limitations on contributions and limitations on benefits under section 415 of the Code?
8. If any employee made TEFRA transitional rule distribution elections, do the methods of distribution satisfy the requirements of section 401(a) (9) as in effect on December 31, 1983, and also satisfy 401(a) (11) and 417?
9. If the plan includes an IRC section 401(h) account for retiree medical benefits, does the plan limit the amount of contributions to such account, when added to actual contributions for life insurance, to 25% of the total actual contributions made to the plan after the later of the adoption or effective date of section 401(h) arrangement?
10. Does the plan satisfy the requirement of section 401(a) (17) of the Code regarding compensation limit.
11. Distribution provisions before death and after death must satisfy section 401(a)(9) of the Code.
12. Does the Plan provide for definitely determinable benefits?
13. Does the Plan provide that it is maintained for the exclusive benefit of employees or their beneficiaries?
14. Is the annual benefit to which any participant is entitled, during the limitation year, limited to \$160,000 as adjusted for cost of living increases pursuant to section 415(d) of the Code?
15. Please submit a plan material in an organized manner so that we can readily determine the applicable plan language or submit a restated plan document.
16. Please verify if the Plan has received a GUST determination letter. If not, submit a copy of the GUST document(s).
17. Does the Plan has a private letter ruling on "pick up" provisions under section 414(h) of the Code?

March 17, 2010

Madan Dua
Internal Revenue Service
EP Technical Groups
SE:T:EP:RA:T1, 2, 3 & 4
1750 Pennsylvania Avenue, N.W.
Washington, DC 20006

Re: **North Dakota Public Employees Retirement System Hybrid Plan
EIN 450309764, Plan number 002
Form 5300**

Dear Mr. Dua:

This letter is sent in response to your correspondence dated March 4, 2010 requesting additional information on the above referenced Plan in connection with a request for a favorable determination letter.

In responding to your specific questions and/or requests for information, please note that we have attached the most recent version of the Plan's governing statutes and administrative code sections. These documents have the force and effect of law and serve as the formal Plan document. Specific references to statutory provisions in our responses relate to the numbered sections of these attached documents.

The information you requested, as well as our responses, are indicated below:

1. *Definition of Compensation that complies with sections 415 and 414(s) of the Code.*

North Dakota Century Code §54-52-28 incorporates the limitations of Code section 415 by reference, which includes the required definition of compensation under Code section 415(c)(3). The definition of compensation under Code section 414(s) merely references Code section 415(c)(3), and therefore the Plan complies with that Code section as well. In addition, the definition of "wages" and "salaries" in North Dakota Century Code §54-52-01, subsection 22, complies with Code sections 415 and 414(s) to the extent required.

2. *Limitations on contributions: (a) Does the plan define annual additions in accordance with IRC and regulations? (b) Does the plan utilize individual account features? See Code section 415(c)(1). (c) Does the Plan satisfy final 415 regulations published 4/15/07? If so, give reference to the Plan sections.*

- (a) No, the Plan does not specifically define “annual additions” in its terms, but rather incorporates the rules and regulations of Code section 415 by reference in North Dakota Century Code §54-52-28, as noted above.
 - (b) Yes, the Plan provides for a certain level of minimum benefits based on employee contributions to an account balance under certain circumstances. See North Dakota Century Code §54-52-01, subsection 1 (definition of “account balance”) and North Dakota Century Code §54-52-17, subsections 6, 7 and 8. These individual accounts satisfy Code section 415(c), as referenced in North Dakota Century Code §54-52-28.
 - (c) Yes, via reference to Code section 415 rules and regulations in North Dakota Century Code §54-52-28. The 415 regulations published 4/15/07 specifically permit qualified plans to incorporate Code section 415 provisions by reference (See Treas. Reg. section 1.415(a)-1(d)).
3. *Plan must state that it intends to satisfy Code section 401(a) by meeting the requirements of section 414(d) of the Code.*

The Plan document indicates that the Plan will comply with applicable provisions for qualified plans, as such apply to governmental plans, in numerous provisions. For example, North Dakota Century Code §54-52-28 states that the Plan will comply with applicable provisions of the Code under 401(a) and indicates that the Plan is a governmental plan. In addition, the definitions of “eligible employee” (in North Dakota Century Code §54-52-01, subsections 4 and 5) and “employer” (in North Dakota Century Code §54-52-01, subsection 6) specifically state that the Plan is sponsored by governmental entities and covers public employees.

4. *Does the Plan prohibit the reversion of the trust funds’ or return of employer contributions except for those permitted by the Statute or Rev. Rul. 91-4?*

The Plan document provisions do not permit the reversion of Plan assets to the employer nor the return of employer contributions for any purpose. In addition, North Dakota Century Code §54-52-14.3 specifically states that Plan assets held in trust may be used and invested only for the exclusive benefit of members, retirees, and beneficiaries.

5. *If the plan provides for a retirement benefit which is payable in a form other than a straight life annuity, is the benefit adjusted to an actuarially equivalent straight life annuity for purposes of applying the limitation, using an interest assumption no less than the greater of 5.5 percent or the rate specified in the plan?*

The actuarial equivalence rules stated in item 5 apply only for purpose of limitations under Code section 415. Those limitations are complied with in the Plan by reference to Code section 415 in North Dakota Century Code §54-52-28.

6. *If the plan provides for a retirement benefit which is payable in a form other than a straight life annuity, for optional forms subject to IRC section 417(e)(3), is the benefit adjusted to an actuarially equivalent straight life annuity that is equal to the greater of the equivalent annual benefit computed using the interest rate and mortality table specified in the plan and applicable mortality table under Rev. Rul. 2001-62.*

As a governmental plan, this Plan is not required to comply with the provisions of Code section 417, and therefore does not have any optional forms subject to Code section 417(e)(3).

Governmental plans are exempt from Code section 401(a)(11), including the related provisions of Code section 417, through the last sentence of Code section 401(a), which reads: “*Paragraphs (11), (12), (13), (14), (15), (19) and (20) shall only apply in the case of a plan to which section 411 (relating to minimum vesting standards) applies without regard to subsection (e)(2) of such section.*”

Governmental plans are exempt from Code section 411 through the language in Code section 411(e)(1)(A), which reads: “*(1) The provisions of this section (other than paragraph (2)) shall not apply to – (A) A governmental plan (within the meaning of section 414(d)),*”

7. *Does the Plan comply with limitations on contributions and limitations on benefits under section 415 of the Code?*

Yes, the Plan complies with limitations on contributions and benefits under Code section 415 via reference to this Code section in North Dakota Century Code §54-52-28. Treas. Reg. section 1.415(a)-1(d) specifically permits qualified plans to incorporate Code section 415 provisions by reference.

8. *If any employee made TEFRA transitional rule distribution elections, do the methods of distribution satisfy the requirements of section 401(a)(9) as in effect on December 31, 1983, and also satisfy 401(a)(11) and 417?*

The Plan did not permit employees to make TEFRA elections under changes to federal law effective in 1983.

9. *If the plan includes an IRC section 401(h) account for retiree medical benefits, does the plan limit the amount of contributions to such account, when added to actual contributions for life insurance, to 25% of the total actual contributions made to the plan after the later of the adoption or effective date of section 401(h) arrangement?*

The Plan does not include any Code section 401(h) retiree medical accounts.

10. *Does the Plan satisfy the requirement of section 401(a)(17) of the Code regarding compensation limit.*

Yes, the Plan satisfies the requirements of Code section 401(a)(17) compensation limitations via reference to this Code section in North Dakota Century Code §54-52-28.

11. *Distribution provisions before death and after death must satisfy section 401(a)(9) of the Code.*

North Dakota Century Code §54-52-28 incorporates the minimum distribution rules of Code section 401(a)(9) by reference. Pursuant to Treas. Reg. section 1.401(a)(9)-1, Q&A-2(d), governmental plans are only required to comply with a reasonable and good faith interpretation of Code section 401(a)(9) for all years this section applies to the Plan.

12. *Does the Plan provide for definitely determinable benefits?*

Yes, the Plan provides for definitely determinable benefits as described in Treas. Reg. section 1.401-1(b) since the written plan provisions generally describe who is eligible to participate in the Plan, how benefits become vested and how benefits are calculated without regard to employer discretion. The Plan also does not contain any provisions that are specifically prohibited under these Regulations (e.g., benefits that are conditioned upon receipt of contributions).

13. *Does the Plan provide that it is maintained for the exclusive benefit of employees or their beneficiaries?*

Yes, North Dakota Century Code §54-52-14.3 specifically describes the exclusive benefit rules set forth in Code section 401(a)(2).

14. *Is the annual benefit to which any participant is entitled, during the limitation year, limited to \$160,000 as adjusted for cost of living increases pursuant to section 415(d) of the Code?*

Yes, the Plan limits benefits in accordance with Code section 415 via reference in North Dakota Century Code §54-52-28.

15. *Please submit a plan material in an organized manner so that we can readily determine the applicable plan language or submit a restated plan document.*

As indicated above, we attached the most recent version of the Plan's governing statutes and administrative code sections. These documents have the force and effect of law and serve as the formal Plan document. A version of these Plan documents was also submitted with our initial filing to the IRS.

16. *Please verify if the Plan has received a GUST determination letter. If not, submit a copy of the GUST document(s).*

The Plan did not seek a determination letter prior to Cycle C, and therefore did not receive a GUST determination letter. However, the GUST changes applicable to a qualified, defined benefit governmental plan under Code section 401(a)(9), 401(a)(31) and 415 were incorporated by reference in existing North Dakota Century Code §54-52-28. This Plan document provision is updated for changes in the Code and other applicable federal laws at each biannual legislative session to the extent applicable. The GUST changes for qualified military service under Code section 414(u) are included in the Plan provisions at North Dakota Century Code §54-52-17.14.

17. *Does the Plan has a private letter ruling on "pick up" provisions under section 414(h) of the Code?*

The Plan does not have a private letter ruling on pick up provisions under Code section 414(h) related to mandatory employee contributions described in North Dakota Century Code §§54-52-05 through -06.4. However, North Dakota Century Code §54-52-05, subsection 3 contains language satisfying the requirements for pick up contributions as set forth in Rev. Rul. 2006-43. In addition, the Plan received a private letter ruling on pick up contributions under Code section

414(h) related to pre-tax contributions to purchase service credit in accordance with North Dakota Century Code §54-52-17.4, subsection 5.

If our responses and Plan documents do not, in your opinion, satisfy the information needed for a favorable determination letter from the IRS, we would appreciate a description of any deficiencies noted by the Service and an additional opportunity to correct any such deficiencies before a final determination is made.

If you would like to discuss any of our responses in greater detail, please do not hesitate to contact me.

Sincerely,

Aaron Webb

Attachments

5072772v1/01640.001



North Dakota
Public Employees Retirement System
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MEMORANDUM

TO: NDPERS Board
FROM: Jamie Kinsella *Jamie*
DATE: February 17, 2010
SUBJECT: August 19, 2009 PERS Audit Committee Minutes

Attached are the approved minutes from the August 19, 2009 meeting. Those who attended the meeting are available to answer any questions you may have. The meeting for November was scheduled, but only one audit committee member came so we did not go through the agenda electing to move it to the February meeting. Therefore no minutes were kept.

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

The next audit committee meeting is tentatively scheduled for May 19, 2010, 10:00 a.m., in the NDPERS Conference Room.

Attachment

-
- | | | |
|------------------------------------|----------------------------------|-----------------------------------|
| • FlexComp Program | • Retirement Programs | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees | • Deferred Compensation Program |
| • Dental | - Highway Patrol | • Long Term Care Program |
| • Vision | - National Guard/Law Enforcement | |
| | - Judges | |
| | - Prior Service | |
| | - Job Service | |



MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor *Jamie*

DATE: August 21, 2009

SUBJECT: August 19, 2009 Audit Committee Meeting

In Attendance:

Jon Strinden, via conference call
Arvy Smith, via conference call
Rebecca Dorwart
Jamie Kinsella
Sparb Collins
Sharon Schiermeister
Leon Heick
Deb Knudsen

The meeting was called to order at 10:05 a.m.

I. May 20, 2009 Audit Committee Minutes

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

II. Internal Audit Quarterly Report

- A. Internal Audit Quarterly Report – The Internal Audit quarterly report listed all of the projects that are in active status as of July 31, 2009. There was 1 audit project and 3 consulting and other services that were completed this quarter. Discussion followed. Report design will be reviewed and revised for the next meeting.
- B. Quarterly Audit Recommendation 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 recommendations of the external auditors, as well as any found by the internal auditor. In the past quarter no recommendations were completed, progress made on six, and no change for one of the recommendations. The recommendations will be a priority for the internal audit division to complete before Brady Martz completes their audit.
- C. Employer Audits – There was discussion at the May audit committee meeting about why NDPERS internal audit division does not conduct employer audits when the Retirement and Investment Office does. Staff explained that this topic had been discussed a few years after the internal audit division was formed, and

a determination was made by the Attorney General. Included in the audit committee materials was a copy of the Attorney General's letter. Staff also polled the audit firms and the State Auditor's office to find out if they included in their audits of governmental agencies tests to determine if eligible employees are properly enrolled in the NDPERS retirement system. Their responses were included in the audit committee materials. Discussion followed, with the determination that no further action is required.

- D. Final Average Salary Review – A few meetings ago it was mentioned that staff was conducting a review of final average salary after having found some employees with unusual salary fluctuations in their final average salary calculations. During that review staff found that there were three types of payroll methods used by employers enrolled in the retirement plan: monthly payroll, twice monthly payroll and every two weeks payroll (26 payrolls in a year). NDPERS requires the employers to report their payroll to NDPERS monthly for retirement contributions. When an employer is using the every two weeks payroll method it results in salary fluctuations. Staff conducted a survey of employers to determine what type of payroll methods they use and approximately the number of employers in each category. Included with the audit committee materials were the results received to date from that survey. At the next meeting staff will review this information and discuss some options. No later than the February 2010 meeting it will need to be determined if it will be necessary to recommend action on this issue to the NDPERS Board. Any action on this issue will likely require a change in statutes which means it would be necessary to submit legislation which must be approved by the Board no later than March of 2010 to be considered by the next legislative session. Discussion followed. The audit committee requested that staff provide options regarding this issue at the next audit committee meeting.

III. Administrative

- A. Audit Committee Meeting Date & Time – The November audit committee meeting is scheduled for November 18, 2009 at 10:00am.
- B. New Audit Committee Member – Ms. Kinsella indicated Mr. Leingang decided not to run for the NDPERS Board when his term as a retiree representative expired. Ms. Arvy Smith has graciously volunteered to serve on the NDPERS audit committee. Ms. Smith is the Health Department appointee on the Board.
- C. Summary of Proposed Rule Changes – Per the audit committee charter, the audit committee is to monitor changes and proposed changes in laws, regulations and rules affecting the organization. Included with the audit committee materials was a draft of the summary of rule changes that will be used in the promulgation of the rules. This was provided for information only.

IV. Miscellaneous

- A. External Audit – The auditor's were in the office starting June 22 and wrapped up their preliminary work June 30. They will conclude with their field work August 24 through September 4, 2009. Staff has been assisting them with their field

work by sending out confirmation letters for various retirement groups and testing the data therein, as well as testing Flex Comp claims and deposits. It is staff's hope to have this testing done by August 24 when the auditors return.

- B. Pharmacy Benefits Manager (PBM) Project – A draft of the RFP compiled by staff was distributed at the audit committee meeting. The audit committee decided to go forward with the RFP. We will have our consultant review the RFP and then present it to the Board in September for their approval.
- C. Travel Expenditures – A discussion came up recently regarding how other public pension systems review and approve the expenses of Board Members/Trustees and the Executive Director with the Association of Public Pension Fund Auditors (APPFA). The current practice is that Sparb Collins, NDPERS Executive Director, reviews the travel expenditures of Board members to ensure they meet state guidelines and the internal auditor reviews and approves Sparb's travel expenditures. The question staff had for the audit committee was whether they would like to continue this practice or would they want to restructure this in a different way. Mr. Strinden recommended reporting to the audit committee semi-annually a list of travel reimbursements for the Board members and the Executive Director. Also, the audit committee recommended reporting any questionable items by Board members to the audit committee if they arise
- D. Risk Management Report – At the May audit committee meeting, it was determined that a Risk Management Policy for PERS would not be necessary since a Loss Control Committee is in place to manage risk for the agency. At that time It was suggested that the Loss Control Committee provide a copy of the last meeting agenda and the approved minutes. Deb Knudsen, who oversees the Loss Control Committee, presented an overview of the committee's activities from the past year. Included with the audit committee materials was a copy of the approved meeting minutes from the April 2009 meeting and the agenda for the June 2009 meeting.
- E. PERSLink Quarterly Report – Included with the audit committee minutes was the PERSLink quarterly status report. NDPERS is required to file this report with ITD throughout the duration of the system replacement project. This was for information only.
- F. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should "Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." Included with the audit committee materials was a copy of the report showing the consulting, investment and administrative fees paid during the quarter ended June 30, 2009.
- G. Continuing Professional Education – Ms. Kinsella indicated she and Mr. Leon Heick attended the State Auditor's office seminar on June 15-16, 2009. This seminar provided 16 continuing professional education credits and the topics were New Audit Sampling Guide and Related Risk Assessment Standards.

H. Publications – Included with the materials were articles from the Institute of Internal Auditors for the audit committee's education.

The meeting adjourned at 11:15 a.m.



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Public Employees Retirement System
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MEMORANDUM

TO: NDPERS Board

FROM: Jamie Kinsella

DATE: February 17, 2010

SUBJECT: Audit Committee Charter Activity Review

The Audit Committee Charter states that it will "17. Confirm annually that all responsibilities outlined in this charter have been carried out. Report annually to the Board, members, retirees and beneficiaries, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services."

To meet this requirement a matrix was developed to review against current practices to ensure that the audit committee is meeting its responsibilities. The attached copy of this matrix was provided to the audit committee at their February meeting for review. This is for your information.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
 Audit Committee Charter Review Matrix
 For Year Ending December 31, 2009

J. Kinsella
 02/17/2010
 12:43 PM

Audit Committee Charter Objective	Steps to Accomplish the Objective	Deliverable	Achieve (Frequency Due Date)	Date Completed
1. The audit committee (AC) will consist of two to five members with the majority of the members selected from the Board of Directors, and one may be selected from outside the organization. The Board or its nominating committee will appoint committee members and the committee chair.	The Board of Directors determines who will serve on the AC when they are assigning committees.	Indicate in AC meeting minutes whenever a new member is appointed.	Whenever there is a change in AC members.	No change in audit committee since 2006.
2. The Board should attempt to appoint committee members who are knowledgeable and experienced in financial matters, including the review of financial statements.	Ascertain that at least one member of the AC is knowledgeable and experienced in financial matters, including the review of financial statements.	Indicate in AC meeting minutes which member of the AC is knowledgeable and experienced in financial matters, including the review of financial statements.	Whenever there is a change in board members.	At the February 20, 2008 audit committee meeting Jon Strinden and Rebecca Dorwart were noted in the minutes as knowledgeable and experienced in financial matters.
3. The AC will meet as often as it determines is appropriate, but not less frequently than quarterly.	Hold meetings at least once each quarter.	Prepare minutes that document decisions made and action steps following meetings and review for approval. Meeting minutes should be filed with the board of directors.	Quarterly, or more often if necessary, but no later than prior to the next meeting.	Meeting minutes for 2/18/09, 5/20/09, and 8/19/09 were prepared and presented for approval at the next quarterly meeting. These minutes are made available on the NDPERS web site after approval. The November meeting was not held as there was not a quorum. The approved minutes are filed with the board at the next board meeting.
4. All committee members are expected to attend each meeting, in person or via tele- or video-conference.	Accommodations should be made available to committee members to encourage attendance.	Note in the AC meeting minutes the members who were in attendance at the meeting.	Quarterly, or more often if necessary, but no later than prior to the next meeting.	All AC members were in attendance at the quarterly meetings that were held (February, August, and November) and are noted in the minutes.
5. The committee periodically will hold individual meetings with management, the internal auditor and the external auditor.	Establish these sessions in conjunction with quarterly meetings or as necessary.	Contact appropriate people to arrange time for meetings.	Annually, or more often if necessary.	An individual meeting with the Internal Auditor was held 5/20/09. The AC did not meet individually with the external auditors or management, but the external auditors presented the audit report to the AC in November 2009. However, only one AC member attended the meeting. The external

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
 Audit Committee Charter Review Matrix
 For Year Ending December 31, 2009

J. Kinsella
 02/17/2010
 12:43 PM

Audit Committee Charter Objective	Steps to Accomplish the Objective	Deliverable	Achieve (Frequency Due Date)	Date Completed
				auditors will present the audit report to the full board on February 25, 2010.
6. The AC may invite any officer or employee of the agency, the external auditor, the agency's outside counsel, or others to attend meetings and provide pertinent information.	Establish these sessions in conjunction with quarterly meetings or as necessary	Contact appropriate people to arrange time for meetings.	Annually, or more often if necessary.	The external auditors were invited to present the audit report to the AC in November 2009.
7. Meeting agendas will be prepared by the Chief Audit Executive (CAE) and provided in advance to members, along with appropriate briefing materials.	The agendas for meetings should be prepared and provided to members in advance, along with appropriate briefing materials.	Prepare and provide meeting agenda, previous meeting minutes, and appropriate briefing materials to members in advance.	Quarterly, or more often if necessary	Meeting agendas were mailed to the AC on 2/11/09, 5/13/09, 8/12/09, and 11/10/09.
8. Minutes will be kept by a member of the AC or a person designated by the AC.	Designate the appropriate person to keep the minutes of meetings.	Prepare minutes documenting decisions made and future action steps and review for approval at the next meeting.	Quarterly, or following each meeting.	The Internal Audit Manager provides meeting minutes to the administrative assistant to prepare for the next quarterly meeting. These minutes were provided to the AC at the next quarterly meeting. See #7.
9. The AC will: <ul style="list-style-type: none"> • Obtain information and/or training to enhance the committee members' expertise in financial reporting standards and processes so that the committee may adequately oversee financial reporting. • Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements. • Review with management, the external auditors, and the internal auditors the results of 	Provide information related to financial reporting standards and processes to the AC. Bring external auditors to explain new changes to accounting reporting and how they impact NDPERS. Invite the external auditors to present the financial statements upon	Articles, publications, external auditors, speakers with information regarding changes to accounting rules. Report to the board on issues relating to internal controls, with emphasis on management's ability to override and related monitoring and testing. Submit reports of audit findings and their status at each AC meeting.	Quarterly, or as they become available.	Articles from the Institute of Internal Auditors are provided as they become available. External auditors discussed with the AC significant accounting and reporting issues as they develop. External auditors presented the FY 2009 audit report to the AC in November 2009, however only one audit committee member was present therefore a quorum was not met. The other two members are board members and Brady Martz will present the report to the Board in February 2010. External and internal audit findings were presented to the AC at each

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<p>the audit, including any difficulties encountered.</p> <ul style="list-style-type: none"> • Review all significant adjustments proposed by the external financial statement auditor and by the internal auditor. • Review all significant suggestions for improved financial reporting made by the external financial statement auditor and by the internal auditor. • Review with the General Counsel the status of legal matters that may have an effect on the financial statements. • Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles. • Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing <i>Standards</i>. • Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement. • Review the statement of management responsibility for and the assessment of the effectiveness of the internal 	<p>completion of their audit.</p> <p>Review with management and AC any proposed significant adjustments.</p> <p>Review management letter with management and AC.</p> <p>Bring to the General Counsel's attention any legal matters that may have an effect on the financial statements. AC should ask of management if the annual financial statements are complete.</p> <p>Inquire of management and external auditors if there are any matters required to be communicated to the committee under GAAS. Inquire of management their system of developing interim financial information and if the internal or external auditors were involved.</p> <p>Ascertain that the external auditors provided the statement of management responsibility and review</p>	<p>Audited Financial Statements, including the Independent Auditor's Report, management Discussion and Analysis, financial Statements, Required Supplementary Information, Supplementary Information, Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards, and Special Comments Requested by the Legislative Audit and Fiscal Review Committee.</p>		<p>quarterly meeting with a status update.</p> <p>External auditors provided the statement of management responsibility and reviewed with staff prior to commencement of audit.</p> <p>There were no legal matters relating to financial statements.</p> <p>Staff reviewed the annual statements for completeness, consistency of information and accounting principles.</p> <p>External auditors were unable to present all matters required to be communicated to AC at the November 2009 meeting as only one member attended. However, there were no outstanding issues, and the report will be presented to the Audit Committee members at the February Board meeting.</p> <p>A system for interim financial information is not in place at this time.</p> <p>External audit discussed with CAE and management the effectiveness of internal controls.</p>

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control structure and procedures of the organization for financial reporting. Review the attestation on this management assertion by the financial statement auditor as part of the financial statement audit engagement.	with them. Review key internal controls with the CAE, and understand how these controls will be tested during the year.			
<p>10. The AC will:</p> <ul style="list-style-type: none"> • Obtain information about, training in and an understanding of risk management in order to acquire the knowledge necessary to adequately oversee the risk management process. • Periodically review that the organization has a comprehensive policy on risk management. • Consider the effectiveness of the organization's risk management system, including risks of information technology systems. • Consider the risks of business relationships with significant vendors and consultants. • Review management's reports on management's self-assessment of risks and the mitigations of these risks. • Understand the scope of internal auditor's and external auditor's review of risk management over financial reporting. • Understand the scope of internal auditor's review of risk 	<p>Provide the AC members with information regarding risk management.</p> <p>Review risk management policy periodically.</p> <p>Create a portfolio that documents the material risks that the agency faces. Update as events occur. Review with management and the CAE periodically to make sure it is up-to-date.</p> <p>Provide AC a summary of results of self-assessment of risks, and how these risks are handled.</p> <p>Provide the AC information on how external and internal audit review risk management over financial reporting.</p> <p>Provide AC a summary of results of self-assessment of risks, and how these risks are handled.</p>	<p>Articles, publications, etc. relating to risk management.</p> <p>Current risk management policy and most recent information relating to risk management.</p> <p>Submit a risk report including mitigation strategies and quantifiable risks and insurance to cover such risks, e.g., loss of business.</p>	<p>Quarterly.</p> <p>As necessary.</p>	<p>Articles, publications, etc. relating to risk management are provided as they become available.</p> <p>It is required by Risk Management of OMB to have a Loss Control Committee. The Chairperson presented an overview of the committee at the August 2009 meeting. This will be done every year in August, providing an update annually. In addition, quarterly agendas and minutes of the Loss Control Committee will be provided to the Audit Committee.</p> <p>Enterprise Risk Management assessment questionnaires will be developed with management's input. This assessment is conducted once every four years. The next scheduled assessment is 2012.</p> <p>The NDPERS self- assessment questionnaire is developed and in use specifically for benefit programs, business processes and accounting functions. This assessment is</p>

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<p>management over all other processes, and obtain reports on significant findings and recommendations, together with management's responses.</p> <ul style="list-style-type: none"> • Understand the scope of any other external auditor's or consultant's review of risk management. • Hire outside experts and consultants in risk management as necessary subject to full board approval. 	<p>Provide the AC an explanation of other external auditor's review of risk management.</p> <p>Develop a request for proposal if an outside expert is deemed necessary.</p>			<p>conducted every two years, following the legislative session, to include any legislative changes to the programs as part of the assessment process. None was conducted due to time constraints from PERSLink project.</p> <p>In addition to the above risk assessments, a separate assessment is made at the beginning of each audit, to ensure the audit focus is on high risk areas.</p>
<p>11. The AC will:</p> <ul style="list-style-type: none"> • Obtain information about, training in and an understanding of internal control in order to acquire the knowledge necessary to adequately oversee the internal control process. • Ensure that the organization has a comprehensive policy on internal control and compliance. • Review periodically the policy on ethics, code of conduct and fraud policy. • Consider the effectiveness of the organization's internal control system, including information technology security and control. • Consider any internal controls required because of business relationships with significant vendors and consultants. • Understand the scope of internal auditor's and external auditor's review of internal 	<p>Provide the AC members with information regarding internal control process.</p> <p>Review periodically the policy on internal controls, ethics, code of conduct and fraud.</p> <p>Review the reports of the internal audit team for all audits completed since the prior AC meeting.</p> <p>Review key internal controls with the CAE, and understand how these controls will be tested during the year.</p> <p>Review with the CAE the plans for audits of other</p>	<p>Report to the board on issues relating to internal controls, with emphasis on management's ability to override and related monitoring and testing.</p>	<p>Quarterly.</p> <p>Update on anything new, or any changes to the internal control system, at every meeting.</p>	<p>Information relating to internal control is provided as they become available.</p> <p>Internal periodic reviews on ethics, code of conduct and fraud have not been conducted consistently. These issues are addressed during the benefit programs, business processes, accounting functions and enterprise risk management assessments. Internal controls are reviewed as part of each audit project and/or special examinations.</p> <p>External auditors conduct a review of internal accounting controls annually. There have been no areas of concern as a result of these reviews.</p>

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<p>control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.</p> <ul style="list-style-type: none"> • Understand the scope of internal auditor's review of internal control over all other processes, and obtain reports on significant findings and recommendations, together with management's responses. • Review the role of the internal auditor's involvement in the corporate governance process, including corporate governance documentation and training. • Periodically review contracts with external service providers which should contain appropriate record-keeping and audit language. 	<p>elements of the control environment.</p> <p>Determine that all internal control weaknesses are quantified, reviewed, and addressed.</p> <p>Review these plans with the independent auditor to understand their scope with respect to key controls</p>			<p>Internal audit includes a review of internal controls as part of each audit and/or special examinations.</p> <p>At this time the role is to assist in the development of the enterprise risk management questionnaire. The results will be summarized into a report, and this will discuss corporate governance.</p> <p>System is not in place to review contracts specifically for appropriate record-keeping and audit language with the exception of BCBS. BCBS's contracts are examined as part of determining what should be verified upon reconciling their reports.</p>
<p>12. The AC will:</p> <ul style="list-style-type: none"> • Obtain the information and training needed to enhance the committee members' understanding of the role of internal audits so that the committee may adequately oversee the internal audit function. • Oversee the selection process for the Chief Audit Executive. • Assure and maintain, through the organizational structure of the organization and by other means, the independence of 	<p>Review reports of all internal auditors from the preceding 12 months and planned for the upcoming six months along with the status of each planned audit.</p> <p>Hold special meetings as necessary to address appointment, reassignment, or dismissal of CAE.</p>	<p>Report on the status of all current internal audits and audits planned for the next quarter and/or year.</p> <p>Report to the full board on the performance of the CAE including the effectiveness of the internal audit function.</p>	<p>Review at each meeting.</p> <p>Conduct ongoing reviews, as changes can be made at any time during the year.</p>	<p>An updated quarterly status report is provided to the AC at each meeting.</p> <p>No change in internal auditors this period. Special meetings have not been necessary. No change in reporting structure this period. Structure is in accordance with best practices.</p>

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<p>the internal audit process.</p> <ul style="list-style-type: none"> • Review any difficulties encountered in the course of audit work, including any restrictions on the scope of activities or access to required information • Review with management and the Chief Audit Executive the charter, objectives, plans, activities, staffing, budget, qualifications, and organizational structure of the internal audit function. • Receive and review all internal audit reports and management letters. • Review the responsiveness and timeliness of management's follow-up activities pertaining to any reported findings and recommendations. • Receive periodic notices of advisory and consulting activities by internal auditors. • Review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive. • Review the performance of the Chief Audit Executive periodically. • Review the effectiveness of the internal audit function, including compliance with The Institute of 	<p>Discuss internal audit division's budget and staffing with CAE.</p> <p>Maintain workload project management worksheet, audit recommendation worksheets Review and discuss the findings for each audit completed since the prior meeting, and management's response to the report.</p> <p>Meet periodically with other members of executive management and the external auditors to discuss the performance of CAE.</p> <p>Discuss internal audit's compliance with IIA Standards, including the</p>	<p>Internal Audit Activities Report</p> <p>Audit Recommendation Report</p> <p>Annual Internal Audit Report</p> <p>Performance evaluation worksheet</p> <p>Quality Assurance Review report</p>	<p>Quarterly</p> <p>Quarterly</p> <p>Annually</p> <p>As needed</p> <p>As needed</p> <p>Annually</p> <p>QAR every five years.</p> <p>Annual Internal Audit</p>	<p>No difficulties encountered.</p> <p>A revised Internal Audit Charter was approved by the Board 9/18/2008. No changes were made since.</p> <p>The Internal Audit Activities report is presented at each audit committee meeting. A report of all audit recommendations is provided to the AC quarterly, with a progress update for each audit. An annual report of the Internal Audit Division was presented in February 2009.</p> <p>A quarterly report of audit activities is provided to the AC, which includes advisory and consulting activities. No change in internal audit staff this year.</p> <p>A performance review is written by the Executive Director and approved by the AC. Nothing is reported to the full board at this time.</p> <p>A Quality Assurance Review was not completed in 2009 to review the effectiveness of the internal audit</p>

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<p>Internal Auditors' <i>Standards for the Professional Practice of Internal Auditing</i>.</p> <ul style="list-style-type: none"> • On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the committee or internal audit believes should be discussed privately (subject to open meeting laws). • Designate the Chief Audit Executive as the lead coordinator for handling all matters related to audits, examinations, investigations or inquiries of the State Auditor and other appropriate State or Federal agencies. 	<p>requirement for a peer review once every five years.</p> <p>Review the internal audit charter periodically. Assess the appropriateness of each point in the charter from past experience (since the last review). Assess the completeness of the charter against new best practices and new legal or regulatory requirement.</p> <p>The AC chair should be available if any unforeseen issues arise between meetings relating to the CAE.</p> <p>Discuss job satisfaction and other employment issues with the CAE.</p>	<p>Internal Audit Charter</p>	<p>report</p> <p>Annually</p> <p>Periodically</p>	<p>function. AC approved delaying this process to 2012 due to the PERSLink project.</p> <p>Private meeting with the Internal Audit Manager was held in May 2009.</p> <p>Internal Audit Charter was reviewed and noted in the February minutes that no changes were necessary.</p> <p>AC Chair is available at all times if needed.</p> <p>The Internal Audit Division is the primary contact for the external auditors, and coordinated all matters relating to the 2009 financial audits.</p>
<p>13. The AC will:</p> <ul style="list-style-type: none"> • Obtain the information and training needed to enhance the committee members' understanding of the purpose of the financial statements audit and the role of external financial statement auditor so that the committee may adequately oversee the financial statement audit function. • Review the external auditor's proposed audit scope and approach, including coordination of audit effort with 	<p>Provide information and/or training.</p> <p>Meet with independent audit partner, the controller and CAE to discuss scope of the previous year's audit,</p>	<p>Document the meeting in the AC meeting minutes.</p>	<p>Meet with new audit firm at the beginning of a new contract to review the scope of the upcoming audit; discuss audit results, lessons learned and scope for current year at the exit conference.</p> <p>As requested</p>	<p>The contract is for the period 2009 through 2011; a meeting was not held because there was no change in the external audit firm.</p> <p>Nothing to review at this time.</p>

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<p>internal audit.</p> <ul style="list-style-type: none"> Review the performance of the external financial statement audit firm, and review the State Auditor's recommendation for the final approval on the request for proposal for, and the appointment, retention or discharge of the audit firm. Obtain input from the Chief Audit Executive, management and other parties as appropriate. Review the independence of the external financial statement audit firm by obtaining statements from the auditors on relationships between the audit firm and the organization, including any non-audit services, and discussing these relationships with the audit firm. Obtain from management a listing of all services provided by the external audit firm. Obtain information from the Chief Audit Executive and other sources as necessary. Review the audited financial statements, associated management letter, attestation on the effectiveness of the internal control structure and procedures for financial reporting, other required auditor communications, and all other auditor reports and 	<p>and lessons learned. Later, discuss planned scope for audit of current year. Provide input on the external audit performance to the State Auditor's Office.</p> <p>Provide input to the State Auditors Office on the request for proposal for the appointment of the next audit firm.</p> <p>Obtain from external audit firm and/or management any documentation of any activity or issues between the audit firm and organization if information should be provided to the AC.</p> <p>Review at the exit conference with management, and again with the AC.</p>		<p>Every three years</p>	<p>No comments were requested by the State Auditor's Office.</p> <p>This was not an issue for 2009.</p> <p>External audit firm presented the financial statements and associated reports to the one AC member in attendance at the November meeting. The report will be presented to the other two audit committee members at the February 2010 Board meeting.</p>

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<p>that the committee may adequately oversee their function(s).</p> <ul style="list-style-type: none"> • Confirm coordination of efficient and effective audit activities between the internal and external auditors. • Review the performance of the other external audit firm(s), • Review the scope all services to be performed by the other external auditor. • Review the reports of the audits and/or agreed-upon-procedures. • Provide a forum for follow up of findings from the audit reports or agreed-upon-procedures. • Meet separately with the other external audit firm(s) on a regular basis to discuss any matters that the committee or staff of the audit firm(s) believes should be discussed • Review a report of all costs of and payments to other external audit firm(s). The listing should separately disclose the costs of any audit, other attest projects, agreed-upon-procedures and any non-audit services provided. 	<p>Meet with independent audit partner, the accounting manager and CAE to discuss scope of the previous year's audit, and lessons learned. Later, discuss planned scope for audit of current year.</p>			
<p>15. The AC will:</p> <ul style="list-style-type: none"> • Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including 	<p>Review the reports of compliance with laws and regulations.</p> <p>Discuss compliance issues and resolutions.</p>	<p>Record discussion and any action steps in the AC meeting minutes.</p>	<p>Review as necessary.</p>	<p>Compliance with laws and regulations are reviewed for each specific audit by both the external auditors and internal auditors. Any concerns will be brought before management, the AC and/or board as necessary.</p>

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<p>disciplinary action) of any instances of noncompliance.</p> <ul style="list-style-type: none"> • Review the findings of any examinations by regulatory agencies, and any auditor observations, including investigations of misconduct and fraud. • Review the process for communicating to all affected parties the ethics policy, code of conduct and fraud policy to organization personnel, and for monitoring compliance therewith. • Obtain regular updates from management and organization legal counsel regarding compliance matters. • Monitor changes and proposed changes in laws, regulations and rules affecting the organization. 	<p>Require staff to sign off on ethics/code of conduct and fraud policy annually during their performance reviews.</p> <p>Report to AC as necessary.</p> <p>Report to AC as needed.</p>	<p>Review signed form stating the employee read the policies.</p> <p>Report to AC at meeting, if matters arise.</p> <p>Report to AC of changes in laws, regulations and rules.</p>	<p>Annually.</p> <p>As they occur.</p> <p>As they occur.</p>	<p>An audit was not conducted on Human Resources this year due to shortage of staff. Therefore this process was not reviewed.</p> <p>There were no compliance matters this year to report.</p> <p>During legislative years changes in laws, regulations and rules were monitored by management and reported to the board, but not to the Audit Committee. Rules are currently going through the proper process for changes. This information should be provided to the AC since there is one member not on the board. The information on the rule changes will be provided at the November meeting.</p>
<p>16. The AC will:</p> <ul style="list-style-type: none"> • Institute and oversee special investigations as needed. • Provide an appropriate confidential mechanism for whistleblowers to provide information on potentially fraudulent financial reporting or 	<p>Review procedures with CAE and the general counsel.</p> <p>Review all complaints that have been received and the status of resolution.</p>	<p>Review an original of each complaint received, no matter the media used to submit. Discuss the status or resolution of each complaint.</p> <p>Review a cumulative list of</p>	<p>Review at each meeting.</p>	<p>None during 2009.</p>

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breaches of internal control to the AC.	Ensure proper steps are taken to investigate and resolve complaints timely.	complaints submitted to date to review for patterns or other observations.		
<p>17. The AC will:</p> <ul style="list-style-type: none"> Regularly report to the Board of Directors about all committee activities, issues, and related recommendations. Perform other activities related to this charter as requested by the Board of Directors, and report to the Board Provide an open avenue of communication between internal audit, the external financial statement auditors, other external auditors, management and the Board of Directors. Review any other reports that the organization issues that relates to AC responsibilities. Confirm annually that all responsibilities outlined in this charter have been carried out. Report annually to the Board, members, retirees and beneficiaries, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services. Review and assess the adequacy of the committee charter periodically, requesting Board approval for proposed changes, and ensure appropriate disclosure as may 	<p>Submit AC meeting minutes to the board after AC approval.</p> <p>Have at minimum annual meeting with internal auditor, external auditor, management, and Board of Directors to discuss issues.</p> <p>Utilize a matrix to determine if all responsibilities outlined in the charter are carried out.</p> <p>Review charter periodically. Assess the suitability of each point in the charter based on past experiences (since the last review). Evaluate completeness of</p>	<p>Submit AC meeting minutes after AC approval to the board for their next meeting.</p> <p>An AC Charter review matrix will be updated each year and presented to the AC to present a report to the Board for approval.</p> <p>Report to the board on the appropriateness of the AC charter and any revisions recommended.</p>	<p>Following each AC meeting provide the approved AC minutes to the Administrative Services Manager to include in the next board meeting materials.</p> <p>Annually.</p> <p>As needed.</p>	<p>Copies of the AC minutes are provided to the board after the AC's approval of the minutes.</p> <p>An annual meeting was held with the Internal Audit Manager in 5/2009. The external auditors provided an overview of the financial statements during the November 2009 meeting to one AC member in attendance. The report will be presented to the full Board in February 2010, which includes the two AC members who were not at the November meeting.</p> <p>An updated AC review matrix was provided to the AC at the February 2009 meeting.</p> <p>AC Charter was reviewed, updated,</p>

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be required by law or regulation.	the charter against best practices and legal or regulatory requirements. Revise charter as needed and obtain AC and Board approval for changes.			and approved by the board September 2008. No change has been required since then.



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Memorandum

TO: PERS Board

FROM: Sparb

DATE: March 17, 2010

SUBJECT: Board Meeting Schedule

The 2010 Board meeting calendar includes a special meeting for Wednesday, April 7. This meeting will take no more than 4 hours. The next Board meeting is scheduled for Thursday, April 15.

Please note that the Board meetings for April will be held at the ND Association of Counties and the WSI meeting room in Fargo.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: March 28, 2010
SUBJECT: Health Bid

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

This will start the first of two meetings discussing this topic. The next will be on April 7th. At that point Deloitte will be looking to you for direction on what strategies to implement in our bid document. After our April meeting they will prepare the RFP for your approval and then it will be released.