NDPERS BOARD MEETING
Agenda

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

October 18, 2007 **Time: 8:30 AM**

I. MINUTES
A. September 20, 2007

II. RETIREMENT
A. Annual Valuations – Segal (Information)
B. Job Service Cost of Living Adjustment – Kathy (Board Action)
C. SB 2044 – Judges – Sparb (Information)
D. HB 1078 – Career & Tech Participation – Sparb & Sharmain
E. PREP, Bismarck – Sparb (Information)
F. Cost of Living Adjustments, Implications for Retirement Plans – Segal (Information)

III. GROUP INSURANCE
A. Wellness Pilot Project – Nancy Vogeltanz-Holm (Information)
B. GASB 45 Report – Sharon (Information)
C. Wellness Forum – Rebecca (Information)
D. BCBS Schedules – Sparb (Board Action)
E. Surplus/Affordability Update – Bryan (Information)
F. 2005 NDPERS Comparison – Bryan (Information)

IV. DEFINED CONTRIBUTION
A. Deferred Compensation & Companion Plan Documents – Kathy (Board Action)
B. Defined Contribution Plan Document – Kathy (Board Action)
C. Hardship Withdrawals – Sparb (Information)

V. FLEX COMP
A. Flex Comp Plan Grace Period Review – Kathy (Board Action)

VI. LASR
A. Post Implementation Report – Deb (Information)

VII. MISCELLANEOUS
A. Quarterly Consultant Fees – Jim (Information)
B. SIB Agenda

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

North Dakota
Public Employees Retirement System
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

DATE: October 11, 2007

SUBJECT: Actuarial Valuations

Mike Moehle, our actuary from Segal, will be at the next board meeting to review with you the annual valuations. Attached is a copy of his presentation. We will also delivery to you under separate cover a copy of the annual valuation for your reference. The following is a summary of the results:

System	Actuarial Rate for 2007	Statutory Rate	2007 Margin	2006 Margin
Main	6.08	4.12	(1.96)	(2.78)
Judges	9.31	14.52	5.21	2.16
Guard	3.53	6.50	2.97	2.48
HP	15.08	16.70	1.62	(2.33)
Law Enf (w serv)	12.39	8.31	(4.08)	(3.76)
Law Enf (n serv)	8.50	6.43	(2.07)	(1.00)
Retiree Hlth Credit	0.95	1.00	0.05	0.00

Also attached is an analysis of the trends in margins if certain rates of return are achieved in future years. Mike will review this at the meeting as well.

SEGAL

North Dakota Public Employees Retirement System

2007 Actuarial Valuation

Michael Moehle, FSA, MAAA, EA

Vice President

October, 2007

4027131

HIGHLIGHTS

- The Judges, National Guard, Highway Patrol and Retiree Health Insurance Credit Fund have positive contribution margins. Main, Law Enforcement with prior Main service, Law Enforcement without prior Main service have negative contribution margins. The Job Service has no contribution margin.

- The funded ratio is above 100% for Judges, National Guard and Job Service but below 100% for Main, Retiree Health Insurance Credit Fund, Law Enforcement with prior Main service, Law Enforcement without prior Main service, and the Highway Patrol Fund.

- The ratio of the actuarial value of assets to the market value of assets for PERS and HPRS combined has decreased from 83% to 80%. The market value exceeds the actuarial value by $388 million.

HIGHLIGHTS (continued)

- There were no changes in the actuarial assumptions.
- Other than the investment experience gain, there were no other significant gains or losses.
- For Main, National Guard and Law Enforcement with prior Main service, the employer normal cost is in excess of the statutory rate. This means these systems will be relying on an actuarial surplus for the statutory rates to cover the actuarial cost of the plan.

2007 Actuarial Valuation - Main System

	2007	2006	Change
Total Number of Active Members	18,299	17,887	2.3% increase
Average Age of Active Members	47.0 years	46.8 years	increase
Average Annual Salary	$31,169	$29,998	3.9% increase
Total Payroll	$570 million	$537 million	6.1% increase

2007 Actuarial Valuation - Judges

	2007	2006	Change
Total Number of Active Members	47	47	No change
Average Age of Active Members	55.0 years	55.1 years	decrease
Average Annual Salary	$103,700	$95,500	8.6% increase
Total Payroll	$4.9 million	$4.7 million	4.2% increase

2007 Actuarial Valuation - National Guard

	2007	2006	Change
Total Number of Active Members	40	41	1 member decrease
Average Age of Active Members	34.1 years	33.1 years	increase
Average Annual Salary	$36,983	$33,451	10.6% increase
Total Payroll	$1,479,300	$1,371,485	7.9% increase

SEGAL

2007 Actuarial Valuation - Law Enforcement with prior Main service

	2007	2006	Change
Total Number of Active Members	138	113	22.1% increase
Average Age of Active Members	41.6 years	42.7 years	decrease
Average Annual Salary	$35,292	$35,168	0.4% increase
Total Payroll	$4.9 million	$4.0 million	22.5% increase

2007 Actuarial Valuation - Law Enforcement without prior Main service

	2007	2006	Change
Total Number of Active Members	28	14	14 member increase
Average Age of Active Members	36.7 years	36.0 years	increase
Average Annual Salary	$25,327	$29,264	13.5% decrease
Total Payroll	$709,167	$409,698	73.1% increase

2007 Actuarial Valuation - PERS and HPRS

- Assets, at Market Value, total $1.94 billion (19.6% rate of return)
- Assets, at Actuarial Value, total $1.55 billion (80% of Market Value)
- Rate of return on Actuarial Value was 15.8% (7.8% higher than the 8.00% assumed)
- 10 year average rate of return on an actuarial value basis equals 8.79%

SEGAL

Main System - 2006 to 2007

Employer Cost Rate, 2006	6.90%
Employer Cost Rate, 2007	6.08%
Total Change in Contribution Rate	(0.82)%
Statutory Rate, 2007	4.12%
Contribution Margin, 2007	(1.96)%

Judges - 2006 to 2007

Employer Cost Rate, 2006	12.36%
Plan Experience	(3.24)%
Effect of maintaining 20-year amortization	0.19%
Change in Actuarial Assumptions	0.00%
Employer Cost Rate, 2007	9.31%
Statutory Rate, 2007	14.52%
Contribution Margin	5.21%

SEGAL

National Guard - 2006 to 2007

Employer Cost Rate, 2006	4.02%
Plan Experience	(0.50)%
Effect of maintaining 20-year amortization	0.01%
Change in Actuarial Assumptions	0.00%
Employer Cost Rate, 2007	3.53%
Statutory Rate, 2007	6.50%
Contribution Margin	2.97%

Law Enforcement with prior Main service - 2006 to 2007

Employer Cost Rate, 2006	12.07%
Plan Experience	0.61%
Effect of maintaining 20-year amortization	(0.29)%
Change in Actuarial Assumptions	0.00%
Employer Cost Rate, 2007	12.39%
Statutory Rate, 2007	8.31%
Contribution Margin	(4.08)%

Law Enforcement without prior Main service - 2006 to 2007

Employer Cost Rate, 2006	7.43%
Plan Experience	1.12%
Effect of maintaining 20-year amortization	(0.05)%
Change in Actuarial Assumptions	0.00%
Employer Cost Rate, 2007	8.50%
Statutory Rate, 2007	6.43%
Contribution Margin	(2.07)%

Main - Funded Ratio

Year	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	$710	$788	111%
1999	831	901	109%
2000	879	1,010	115%
2001	994	1,096	110%
2002	1,087	1,130	104%
2003	1,170	1,145	98%
2004	1,251	1,172	94%
2005	1,333	1,210	91%
2006	1,450	1,286	89%
2007	1,576	1,470	93%

Judges - Funded Ratio

Year	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	$9	$12	130%
1999	10	14	134%
2000	12	16	136%
2001	14	18	130%
2002	16	19	122%
2003	17	20	115%
2004	18	21	113%
2005	20	22	109%
2006	22	23	105%
2007	23	27	118%

National Guard - Funded Ratio

Year	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	$1.34	$1.51	113%
1999	1.61	1.81	112%
2000	0.85	1.16	135%
2001	1.02	1.27	125%
2002	0.94	1.31	139%
2003	1.05	1.32	126%
2004	1.15	1.38	120%
2005	1.36	1.46	108%
2006	1.56	1.58	101%
2007	1.73	1.89	109%

Law Enforcement with prior Main service

Year	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
2004	$2.43	$2.11	87%
2005	6.40	2.62	41%
2006	7.00	3.12	45%
2007	9.28	3.97	43%

Law Enforcement without prior Main service

Year	Actuarial Accrued Liabilities	Actuarial Value of Assets	Funded Ratio
2004	$10,430	$11,388	109%
2005	$86,899	$42,018	48%
2006	$123,034	$73,167	59%
2007	$367,263	$127,450	35%

Main, Judges, National Guard and Law Enforcement - Funded Ratio

Year	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	$720	$801	111%
1999	843	917	109%
2000	892	1,027	115%
2001	1,009	1,115	111%
2002	1,103	1,150	104%
2003	1,189	1,166	98%
2004	1,273	1,197	94%
2005	1,361	1,236	91%
2006	1,480	1,315	89%
2007	1,610	1,503	93%

SEGAL

2007 Actuarial Valuation - Retiree Health Insurance Credit Fund

	2007	2006	Change
Total Number of Active Members	18,929	18,465	2.5% increase
Average Age of Active Members	46.8 years	46.7 years	increase
Average Annual Salary	$31,848	$30,761	3.5% increase
Total Payroll	$603 million	$568 million	6.2% increase

SEGAL

Retiree Health Insurance Credit Fund

- Assets, at Market Value, total $45.3 million
- Assets, at Actuarial Value, total $38.9 million (85.9% of Market Value)
- Market Value rate of return was 15.91%
- Actuarial Value rate of return was 10.44%, 2.44% more than the 8.00% investment return assumption

Retiree Health Insurance Credit Fund 2006 to 2007

Employer Cost Rate, 2006	1.00%
Plan Experience	(0.05)%
Assumption Changes	0.00%
Employer Cost Rate, 2007	0.95%
Statutory Rate, 2007	1.00%
Contribution Margin	0.05%

Retiree Health Insurance Credit Fund - Funded Ratio

Year	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	$54.7	$16.3	29.7%
1999	57.6	19.4	33.7%
2000	61.9	22.6	36.5%
2001	65.5	24.8	37.8%
2002	69.0	26.4	38.3%
2003	72.0	27.5	38.2%
2004	74.6	28.9	38.8%
2005	78.1	30.9	39.6%
2006	82.6	34.0	41.2%
2007	85.3	38.9	45.6%

2007 Actuarial Valuation - Highway Patrol Retirement System

	2007	2006	Change
Total Number of Active Members	133	127	6 member increase
Average Age of Active Members	37.2 years	37.7 years	decrease
Average Annual Salary	$46,082	$44,789	2.9% increase
Total Payroll	$6.13 million	$5.69 million	7.7% increase

Highway Patrol Retirement System 2006 to 2007

Employer Cost Rate, 2006	19.03%
Plan Experience	(3.81)%
Effect of maintaining 20-year amortization	(0.14)%
Change in Actuarial Assumptions	0.00%
Employer Cost Rate, 2007	15.08%
Statutory Rate, 2007	16.70%
Contribution Margin	1.62%

Highway Patrol Retirement System - Funded Ratio

Year	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	$28.9	$28.1	97%
1999	32.2	32.0	99%
2000	34.0	35.9	105%
2001	38.1	38.8	102%
2002	40.5	39.5	97%
2003	42.4	39.6	93%
2004	44.5	40.0	90%
2005	46.3	40.7	88%
2006	49.1	42.8	87%
2007	51.5	48.2	93%

2007 Actuarial Valuation - Job Service

- Frozen plan; declining membership
- Losses this year from salary increases (5.5% vs. 5.0% assumed)
- Gains this year from COLA (3.3% vs. 5.0% assumed)
- Gains from investment return (12.1% vs. 7.5% assumed)

2007 Actuarial Valuation - Job Service

	2007	2006	Change
Total Number of Active Members	40	44	4 member decrease
Average Age of Active Members	55.5 years	55.1 years	increase
Average Annual Salary	$46,079	$43,697	5.5% increase
Total Payroll	$1.8M	$1.9M	4.1% decrease

Job Service - Funded Ratio

Year	Present Value of Projected Benefits (millions)	Actuarial Value of Assets (millions)	Funded Ratio
2000	$57	$71	125%
2001	59	71	121%
2002	60	68	113%
2003	61	66	109%
2004	62	68	109%
2005	63	69	109%
2006	70	71	101%
2007	72	76	106%

North Dakota Public Employees Retirement System

2007 Projections

Michael Moehle, FSA, MAAA, EA
Vice President
October, 2007

North Dakota Main System
Projected Margins
(Market Return After FY 2008 Always 8%)

If Market Return for FY 2008 Is	June 30, 2008	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012
18%	-0.23%	0.66%	1.78%	2.71%	3.24%
15%	-0.74%	0.39%	1.38%	2.17%	2.58%
12%	-0.94%	0.12%	0.97%	1.63%	1.91%
9%	-1.07%	-0.15%	0.56%	1.09%	1.24%
0%	-1.45%	-0.96%	-0.66%	-0.53%	-0.77%

Note: Projection reflects only investment return effects.
Assumes constant normal cost rate of 8.67% for Main.
The 2007 valuation margin is -1.96%.

North Dakota Main System
Projected Funded Ratio
(Greater of Actuarial or Market Value of Assets to the Actuarial Accrued Liability)
(Market Return After FY 2008 Always 8%)

If Market Return for FY 2008 Is	June 30, 2008	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012
18%	127.82%	128.32%	128.88%	129.52%	130.24%
15%	124.55%	125.00%	125.51%	126.08%	126.72%
12%	121.29%	121.68%	122.13%	122.63%	123.19%
9%	118.02%	118.36%	118.75%	119.18%	119.67%
0%	108.22%	108.41%	108.61%	108.84%	109.09%

Note: Projection reflects only investment return effects.
The 2007 funded ratio is 93.3% at Actuarial Value.

North Dakota Main System
Projected Margins
(Market Return After FY 2008 Always 9.3%)

If Market Return for FY 2008 Is	June 30, 2008	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012
18%	-0.23%	0.73%	1.98%	3.11%	3.92%
15%	-0.74%	0.45%	1.57%	2.56%	3.23%
12%	-0.94%	0.18%	1.15%	2.01%	2.54%
9%	-1.07%	-0.09%	0.74%	1.46%	1.86%
0%	-1.45%	-0.90%	-0.50%	-0.19%	-0.20%

Note: Projection reflects only investment return effects.
Assumes constant normal cost rate of 8.67% for Main.
The 2007 valuation margin is -1.96%.

North Dakota Main System

Projected Funded Ratio

(Greater of Actuarial or Market Value of Assets to the Actuarial Accrued Liability)

(Market Return After FY 2008 Always 9.3%)

If Market Return for FY 2008 Is	June 30, 2008	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012
18%	127.82%	129.87%	132.05%	134.36%	136.83%
15%	124.55%	126.51%	128.59%	130.79%	133.13%
12%	121.29%	123.16%	125.13%	127.21%	129.43%
9%	118.02%	119.80%	121.67%	123.64%	125.74%
0%	108.22%	109.72%	111.29%	112.92%	114.64%

Note: Projection reflects only investment return effects.
The 2007 funded ratio is 93.3% at Actuarial Value.

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

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

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

Memorandum

DATE: **October 11, 2007**

TO: **NDPERS Board**

FROM: **Kathy**

SUBJECT: **Job Service COLA**

According to Article VII(3) of the plan document for the Retirement Plan for Employees of Job Service North Dakota, "effective each December 1 of any year, the monthly amount of each retirement annuity, death benefit, or disability benefit then payable shall be increased by the percent increase, if any, in the Consumer Price Index." It further states…"no increase in retirement allowance granted under the Plan, or the date for commencement of such increase, will become effective unless the same increase has been authorized for the Civil Service Retirement System, and unless the increase has been authorized by the NDPERS Board." This provision for a COLA increase was authorized by the United States Department of Labor as part of a larger agreement reached with the USDOL in the late 1970's. Since that time the Plan practice has been to provide COLA's consistent with the Federal Civil Service Plan. The plan assumes a post-retirement COLA of 5%.

The annual COLA percentage adjustment for the Federal Civil Service Plan is not available until October 15th. Therefore, the increase and its effect on the system will be provided at the meeting.

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 & Kathy**

DATE: **October 10, 2007**

SUBJECT: **SB 2044**

Senate Bill 2044 states:

SECTION 2. AMENDMENT. Section 54-52-17.11 of the North Dakota Century Code is amended and reenacted as follows:

54-52-17.11. Judges postretirement adjustments. A supreme or district court judge or that person's beneficiary who, on December 31, ~~2001~~ 2007, is receiving retirement benefits under subdivision b of subsection 4 of section 54-52-17, is entitled to receive an increase in benefits equal to two percent of the individual's present benefits with the increase payable beginning January 1, ~~2002~~ 2008. A supreme or district court judge or that person's beneficiary who, on December 31, ~~2002~~ 2008, is receiving retirement benefits under subdivision b of subsection 4 of section 54-52-17, is entitled to receive an increase in benefits equal to two percent of the individual's present benefits with the increase payable beginning January 1, ~~2003~~ 2009. The increases allowed by this section may only be given if the public employees retirement board determines there is actuarial margin sufficient to pay the increases.

The actuarial report indicates that the Judges retirement system has an actuarial margin of ***5.21%.*** Segal indicates the cost of the 2% increase is ***4.06% of active payroll***. Also attachment #1 is letter from Segal indicating the system has sufficient actuarial margins to provide this increase.

Staff Recommendation

Based upon the actuarial margin and the letter from Segal the Board should authorize this increase.

Board Action Requested

To approve the increase for the Judges as authorized in SB 2044 for this upcoming January

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

MEMORANDUM

To: Sparb Collins
North Dakota Public Employees Retirement System

From: Michael Moehle, FSA, MAAA, EA

Date: October 9, 2007

Re: SB 2044 – Judges Postretirement Adjustments

SB 2044 provides for a 2% increase in the benefits for Judges or their beneficiaries, effective January 1, 2008. The liability for this increase is approximately $198,000 as of July 1, 2007, based on the actuarial assumptions used for the July 1, 2007 North Dakota Public Employees Retirement System actuarial valuation.

The contribution margin for the Judges plan as of July 1, 2007 is 5.21% of payroll and the annual active payroll as of that date is $4,873,080, resulting in an annual dollar margin of $253,887. The margin required to pay for the cost of the 2% increase in benefits is 4.06%.

4027422v1/01640.001

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@nd.gov ● nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sharmain & Sparb

DATE: October 11, 2007

SUBJECT: **STATE BOARD FOR CAREER & TECHNICAL EDUCATION**

Background

House Bill 1078 provides that employees of the State Board for Career and Technical Education may elect to transfer from the Teachers Fund for Retirement (TFFR) to PERS. This affects 16 people. TFFR and PERS have met with all of the affected employees and reviewed with them their options. All of the 16 members elected to transfer. Based upon these elections, in September the TFFR actuary calculated the actuarial value of the amount of funds to be transferred from TRRF to PERS for the affected individuals. In October/November the following additional events will occur relating to this legislation:

October 5th:	Individual accounts will be setup at NDPERS
October:	The transfer of funds will take place.
November 1:	The transferring individuals' October wages will be reported to NDPERS under the new retirement contribution rates.

Fund transfer:

As noted above and pursuant to the legislation TFFR will transfer funds from their trust fund to the PERS trust fund that is the actuarial equivalent of the benefit being transferred. TFFR and PERS are using the same method that used for the DPI transfer in 2003. Specifically, the TFFR actuary does the calculation of the transfer amount and it is then reviewed by the PERS actuary. Attachment #1 is the calculation from GRS of the actuarial amount to transfer. Attachment #2 is a letter from Segal with the results of their review of the transfer amount. Based upon Segal's concurrence and the work done by GRS, the attached amount will be transferred to PERS in October to pay the past service liability of our new members.

Board Action:

Informational only.

North Dakota Teachers' Fund for Retirement

Exhibit 1 - Preliminary Transfer Amounts for Department of Career and Technical Education Members Transferring from ND TFFR to ND PERS

Member's Name	Actuarial Present Value of Accrued Benefit as of June 30, 2007	Actuarial Present Value of Accrued Benefit, with 7.5% Interest to Sept. 30, 2007	Estimated Account Value as of Sept. 30, 2007, Provided by TFFR	Preliminary Transfer Amount: Larger of Col. (3) and Col. (4)
Totals	**$3,134,854**	**$3,192,048**	**$1,636,312**	**$3,208,999**

As noted above the transfer amount would be $3,208,999

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

MEMORANDUM

To: Sparb Collins
North Dakota Public Employees Retirement System

From: Michael Moehle, FSA, MAAA, EA

Date: October 9, 2007

Re: CTE Transfers

We have reviewed the calculations prepared by Gabriel, Roeder, Smith & Company for the 16 transfers from TFFR to PERS. The methodology used by Gabriel, Roeder, Smith and Company is consistent with the methodology used for the DPI transfers in October 2003.

Based on the data provided, which we have not audited, we concur with the results of these calculations, which determine the amount to be transferred as the larger of (1) the member's estimated account value as of September 30, 2007 and (2) the present value of the benefits earned using TFFR service, final three year average salary, assumed to be payable at the first age at which a member will receive unreduced benefits. The present value calculations use the 8% interest assumption and the mortality table used by TFFR, adjusted by 7.5% interest from June 30, 2007 to September 30, 2007.

If you have any questions, please don't hesitate to call us.

4027500v1/01640.001

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 & Kathy

DATE: October 10, 2007

SUBJECT: PRE RETIREMENT EDUCATION PROGRAM (PREP)

Pursuant to our business plan and as an update to you I wanted to let you know the results of the Pre Retirement Education Program that was conducted on October 10 at the North Dakota Heritage Center. There were 209 members who signed up to attend, including 68 spouses registered for this seminar.

The following is the agenda for that meeting:

NDPERS Pre-Retirement Education Program

Agenda

Sponsored By:

NDPERS
Heritage Center, Auditorium
612 E Boulevard Ave
Bismarck, ND

7:15 – 8:00	REGISTRATION
8:00 – 8:15	INTRODUCTION *Barbara Dammen, NDPERS*
8:15 – 9:30	SOCIAL SECURITY BENEFITS *Tana Pomplun, Social Security Administration*
9:30 – 10:45	PLANNING FOR YOUR FINANCIAL WELL BEING AT RETIREMENT *Bruce Ostrum, UBS*
10:45 – 11:00	BREAK
11:00 – 11:45	NDPERS DEFERRED COMPENSATION (457 PLAN) *Diane Heck, NDPERS*
11:45 – 12:45	LUNCH (ON YOUR OWN)
12:45 – 2:00	NDPERS RETIREMENT BENEFITS *Barbara Dammen, NDPERS*
2:00 – 3:15	LEGAL CONCERNS RELATING TO RETIREMENT *Gregory C. Larson, Larson Latham Huettl Law Firm*
3:15 – 3:30	BREAK
3:30 – 4:45	NDPERS HEALTH, HEALTH CREDIT, LIFE, DENTAL, VISION & LONG TERM CARE INSURANCE *Barbara Dammen, NDPERS*
4:45 – 5:00	CLOSING REMARKS & EVALUATION OF PROGRAM

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

DATE: October 10, 2007

SUBJECT: COLA

Attached is a memo from Mike Moehle of The Segal Co. concerning cost of living adjustments. He will be at the board meeting and will review the memo with you. This memo is pursuant to the board action last summer asking for information on what other states do (which was provided at the last meeting) and a review of the topic from Segal. At the board planning meeting in December this topic can be explored further and this information will provide background for those discussions.

SEGAL

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

MEMORANDUM

To: Sparb Collins
North Dakota Public Employees Retirement System

From: Michael Moehle, FSA, MAAA, EA
Melanie Walker, JD

Date: August 30, 2007

Re: Options for Providing Cost-of-Living Adjustments (COLAs)

The purpose of this memorandum is to provide discussion points in considering options for cost-of-living adjustments (COLAs) for members of the System. Historically PERS has used a combination of percentage increases and 13th checks to provide adjustments for retirees. The following table is the chronology of changes

Date	Multiplier	Retiree Adjustment	1980 Retiree with $500 Benefit
7/77	1.04%	1.04%	$500
7/83	1.20%	15.38%	$577
7/85	1.30%	8.33%	$625
7/87	1.50%	15.38%	$721
7/89	1.65%	15.76%	$835
7/91	1.69%	2.42%	$855
8/93	1.725%	2.00%	$872
1/94	1.74%	1.00%	$881
8/97	1.77%	5.00%	$925
8/99	1.89%	8.00%	$999
8/01	2.00%	6.00%	$1,059

As the above shows until the market downturn in 2001 the system had provided regular percentage adjustments to its retirees. Since 2001 the system has not been able to give percentage adjustments since the actuarial margins have been negative and therefore the system has given 13th checks. The following is the history of those payments:

January 2006 – a 13th check equal to 50% of a members annuity. This is the equivalent to a 4% adjustment during the 2 year period

January of 2008 – a 13th check equal to 75% of a members annuity. This maintained the equivalent of the 4% from the previous biennium and added 2% more.

The above increases have been funded by the system through investment earinings that have exceeded the 8% return assumption. NDPERS has also formalized this method of funding in its investment strategy by designating an asset allocation mix designed to return a 9.3% annual return.

Please note cost of living adjustments in its broadest sense includes percentage adjustments and 13th checks. Also percentage adjustments can be ad hoc or guaranteed in the plan design.

This memo discusses concepts to provide COLA's including the strategy presently employed. First, we included an outline of overall objectives for the Board to consider. Then, we describe five alternative approaches for providing a COLA to members, including analysis of the feasibility of each alternative. While additional concepts will be discussed in this memo it does appear that the existing method has provided adjustments to PERS retirees at least every two years except for 2003.

Objectives

It is important for the Board to consider the overall objectives of a COLA, including whether or not certain elements of funding a COLA are acceptable or desirable. Following is a list of important objectives for the Board's consideration:

1. **How will the COLA be funded?** The structure and amount of any COLA depends on whether the plan is willing to accept a funding method with the ongoing obligation to contribute additional employer monies to pay for the cost of the COLA or is willing to have COLA's funded on an ad hoc basis. In considering funding for COLA's there are two basic sources; investment earning or contributions. When considering contributions two sources are available which are employer contributions or employee contributions. It also needs to be recognized that ad hoc COLA's provide the plan sponsor greater control over the growth of plan liablities which means the plan faces less chance of developing an unmanageable unfunded status. By contrast guaranteed COLA's can contribute to a larger undfunded status in periods of low investment performance. Oher indirect methods can be used to provide a COLA through the use of purchases and benefits options.

In addition, the Board should consider the impact of implementing a COLA on the underlying pension plan to determine whether or not aggregate actuarial gains of the pension plan are available for funding a COLA (in contrast to funding through rate increases).

2. **Who will be eligible to receive the COLA?** The Board should consider whether or not the COLA must be funded entirely by the group benefiting from the COLA. If the COLA is made available to some extent to retirees or members near retirement age, an intergenerational transfer of liabilities will need to occur. The present method used by PERS is an intergenerational transfer since the base benefit for many existing retirees did not fund a COLA

3. **How will the amount of the COLA be determined?** First, the Board would develop the criteria to determine whether a COLA can be paid (the “trigger”). Next, the Board would determine the aggregate amount of a COLA available. Finally, the Board would develop a methodology for allocating the COLA among the pay-status members. Please refer to the attached 2003 survey of large Public Retirement Systems for a description of the various methods in place that are used to determine COLA amounts.

Alternative Approaches and Analysis

We identified five general approaches for providing a COLA to members of the System. Following is an analysis of each approach:

1. **Ad-hoc COLA – One Time Payment.** An ad-hoc COLA would be payable directly from the existing trust fund assets of the System.

North Dakota PERS has been providing an ad-hoc COLA payable as a percentage of the existing monthly benefits, as a one-time thirteenth check.

A thirteenth check ad-hoc COLA would be fully funded at the time of payment, and thus would require no ongoing employer contributions to fund these liabilities, nor would there be any actuarial gains or losses associated with this benefit.

2. **Ad-hoc COLA – One-Time Permanent Increase.** An ad-hoc COLA would be payable directly from the existing trust fund assets of the System. Generally, an ad-hoc COLA is payable as a percentage increase in existing monthly benefits, either a constant percentage or a variable percentage based on a consumer price index, at regular intervals (such as annually or biannually) with or without a cap. An ad-hoc COLA could also be based on a flat dollar amount per year of service. (refer to the attached survey)

An ad-hoc COLA with a one-time permanent increase would add permanent liability to the trust fund of the System, and thus require ongoing employer contributions to fund these liabilities and/or cause an actuarial loss to the defined benefit plan.

Another possibility would be to allow members to pay for the cost of this COLA with either a cash contribution, a 457 Plan transfer or some combination of both. Technically, a cash contribution or a 457 Plan transfer can only be used to purchase service in accordance with rules under Code section 415(n), so we would have to prepare a conversion table that converts the 457 transfer dollars to service credit amounts that offset the amount of a one-time permanent increase in the benefit.

A third possibility would be to allow members to use either a cash contribution, a 457 Plan transfer or some combination of both in order to purchase service in the form of an enhanced benefit formula that provides for the COLA amount. This is a benefit using an increased benefit percentage applied to current service. We would have to prepare a conversion table that converts the cash contribution or 457 transfer dollars to service credits to a one-time permanent increase in the benefit via an increased benefit percentage.

If funded solely by elective employee contributions, the COLA would become a voluntary benefit, which could lead to adverse selection by members.

3. **Automatic COLA.** An automatic COLA would normally be payable directly from the existing trust fund assets of the System. Generally, an automatic COLA is payable as a percentage increase in existing monthly benefits, either a constant percentage or a variable percentage based on a consumer price index, at regular intervals (such as annually or biannually) with or without a cap. An automatic COLA could also be based on a flat dollar amount per year of service. (refer to the attached survey)

An automatic COLA would add permanent liability to the trust fund of the System, and thus require ongoing employer contributions to fund these liabilities and/or cause an actuarial loss to the defined benefit plan.

Another possibility would be to allow members to pay for the cost of this COLA with either a cash contribution, a 457 Plan transfer or some combination of both. Technically, a cash contribution or a 457 Plan transfer can only be used to purchase service in accordance with rules under Code section 415(n), so we would have to prepare a conversion table that converts the 457 transfer dollars to service credit amounts that offset the amount of an automatic annual increase in the benefit. Note that this conversion is only feasible for fixed, automatic annual COLA increases, such as an automatic 1% per year COLA. If funded solely by elective employee contributions, the COLA would become a voluntary benefit, which could lead to adverse selection by members.

A third possibility would be to allow members to pay for the cost of this COLA with a reduction in their current benefit as an optional form of payment with a built-in periodic COLA. For example, a retiree's $1,000 monthly benefit would be reduced to approximately $900 in order to provide a 1% automatic annual COLA. The $900 would increase to $909 in the 2nd year, $918 in the 3rd year and so on. We would have to prepare a table of reduction factors which would depend on the age of the retiree and the option chosen. This option would be made available only at the time a member elects his/her form of benefit payments.

An automatic COLA must comply with the required minimum distribution rules applicable to governmental plans under Code section 401(a)(9). Please note that Section 823 of the Pension Protection Act of 2006 relaxed the required minimum distribution rules applicable to governmental plans so that such plans may comply with a reasonable, good faith interpretation of the Code provisions, rather than the detailed rules under related Treasury Regulations. Thus, it appears that the restrictions on COLAs under those Treasury Regulations no longer apply.

However, final regulations under Code section 415(b) indicate that the value of an automatic COLA feature must be included in annual benefits when testing Code section 415(b) dollar limits, unless specific requirements are met.[1] Thus, the existence of an automatic COLA could limit annual benefits payable at retirement.

[1] Under final Treasury Regulations for Code section 415(b), an automatic COLA must meet all of the following requirements in order for its value to not be counted against the dollar limitation at retirement: (1) the COLA is based on a specific percentage or objective index (e.g., CPI) or a share of favorable investment returns of the plan; (2) the benefit is not payable in a form subject to Code section 417(e)(3) (e.g., a lump sum); and (3) the straight life

4. **Separate defined contribution plan.** A COLA could be provided for by contributing additional funds to a separate defined contribution plan trust (such as a section 401(a), 457 or 403(b) plan) that are annuitized at retirement or paid in periodic intervals of increasing amounts. Funding for a separate defined contribution plan could come from additional employer contributions or elective employee contributions. If funded solely by elective employee contributions, the COLA would become a voluntary benefit, which could lead to adverse selection by members.

Providing for a COLA with a separate defined contribution plan has a number of disadvantages, and thus is not common in the public sector. Any contributions made to a defined contribution plan for purposes of a COLA may limit the amount of contributions an employee can elect to make to the same or different defined contribution plan on their own behalf for retirement. In addition, if the COLA is provided for by purchasing an annuity with the member's account balance, a significant loss of assets can occur due to commissions taken by the insurance company and the mortality rates used to determine the annuity amount.

5. **Segregation of assets within PERS.** A COLA could also be provided for by segregating assets within the trust fund of the System that are attributable only to the retiree population. First, the plan would measure the gains/losses of such segregated assets over a specified period of time. Second, the plan would determine whether any gains exceeded a certain threshold, and if so, the total amount of monies available for a COLA. Third, the plan would develop a formula for allocating these funds to individual retirees. This formula could be based on, for example, years of service, current monthly benefit amount, or historical inflation and loss of purchasing power of pension benefits (refer to the attached survey). The Minnesota COLA is based on this approach.

In establishing such a COLA structure, the Board would have to decide who to include in the eligible retiree group (e.g., minimum years of service at retirement required, minimum years of receiving pension benefits before eligible).

This type of COLA also must comply with the required minimum distribution rules applicable to governmental plans under Code section 401(a)(9). Please note that Section 823 of the Pension Protection Act of 2006 relaxed the required minimum distribution rules applicable to governmental plans so that such plans may comply with a reasonable, good faith interpretation of the Code provisions, rather than the detailed rules under related Treasury Regulations. Thus, it appears that the restrictions on COLAs based on a gain sharing approach under those Treasury Regulations no longer apply.

We hope this discussion is helpful. If you have any questions, please contact either of us.

4027355v2/01640.001

---

annuity amount does not exceed the dollar limitation at retirement or any subsequent year (as indexed), taking into account the increase payment amount due to a COLA only in the limitation year it is actually paid.

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

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

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

Memorandum

TO: PERS Board

FROM: Sparb

DATE: October 18, 2007

SUBJECT: Wellness Pilot Project

Nancy Vogeltanz-Holm will be with us here in Bismarck to give you an update on the Pilot Project. Attached is the information she will be going over.

Progress Report for the North Dakota Worksite Health Promotion Program
October 2007

Center for Health Promotion and Prevention Research
University of North Dakota School of Medicine & Health Sciences

The ND worksite health promotion program is a 3-year pilot program sponsored by the North Dakota Public Employees Retirement System. The purpose of this program is to determine the effectiveness of varying levels of worksite wellness services in improving state employees' health, productivity, and satisfaction; and in decreasing employees' healthcare utilization and costs. The program is directed by health professionals at the UND School of Medicine and Health Sciences.

Overview of the Program

The pilot program involves approximately 380 employees from four state agencies:

Office of Management and Budget
State Historical Society
Department of Commerce
Department of Tax

Employers/Health Councils at all four worksites receive the following services:

- Worksite environment and employee needs assessment
- Assistance to health councils
- HP toolkits and monthly planners for implementing worksite-wide activities
- Evaluation of HP program effectiveness

Employees at all four agencies receive the following services:

- Employee health risk assessment & feedback (Personal Behavioral Health Profile)
- $25 stipend for completing the health assessment
- Self-help materials for modifying health risks
- Comprehensive list of local healthy lifestyle services
- Worksite Tobacco Cessation classes
- Worksite-initiated programs, activities, and materials

Employees at two of the worksites receive additional services:

- Individualized health coaching (brief counseling for decreasing behavioral health risks)
- Worksite health screenings for cholesterol (full panel); blood pressure; blood glucose; body mass & waist circumference; and stress

Chronology of the Program Services & Activities to Date

May-June 2005

- ✓ Potential worksites selected based on gender balance, #employees, initial costs
- ✓ Discussions with worksite employers; recruitment into the program
- ✓ Random assignment to conditions (Medium level for OMB & Historical Society; High level for Tax & Commerce)

July-December 2005

- ✓ Assisted worksites in setting up health councils
- ✓ Worksite surveys and baseline health data collected
- ✓ Employer meetings to review program
- ✓ Employer toolkits provided
- ✓ Employee letters announcing program
- ✓ Employee "live" kick-off meetings
- ✓ Employee interests survey and results to employers
- ✓ Personal Behavioral Health Profile (PBHP) available to employees
- ✓ PBHP results and self-help materials mailed to employees

January-April 2006

- ✓ Continued to provide PBHP results/feedback to employees
- ✓ Identified employees with 2+ behavioral risks
- ✓ Began health coaching for high-risk employees at 2 worksites
- ✓ Provided assistance to health councils for employer-initiated programs/activities
- ✓ Began tobacco cessation classes
- ✓ Provided health screenings and results to employees from 2 worksites
- ✓ Provided revised toolkits to health councils

May-December 2006

- ✓ Provided assistance to health councils for employer-initiated programs/activities
- ✓ Face-to-face meetings with health councils to discuss Year 2 of the program
- ✓ Provided a new monthly planner toolkit to worksites
- ✓ Provided a baseline evaluation report of employee health (PBHP) to worksites
- ✓ Continued to provide tobacco cessation booster sessions
- ✓ Updated the PBHP and feedback materials
- ✓ Completed design of the new PBHP online assessment and feedback module

January-October 2007

- ✓ Employees completed Year 2 PBHPs January-March 2007
- ✓ Designed and implemented the Fruit & Vegetable (F&V) Program January-April 2007
- ✓ Worksite meetings with health councils to present Year 2 PBHP results July 2007
- ✓ F&V program results sent to worksites August 2007
- ✓ Began fiscal final year of program in September 2007
- ✓ Worksite health councils completed surveys to guide October 2007 final meetings
- ✓ Health council worksite meetings scheduled for October 18 and 19, 2007
- ✓ Final year health screenings for two worksites scheduled for October 30 and 31, 2007

Participation Data

Employees Completing the PBHP:

- Years 1 and 2 Overall Rates: 68% to 73%
- Specific worksite rates for Years 1 and 2:
  - 58% to 68%
  - 64% to 81%
  - 76% to 77%
  - 77% to 68%

Health Coaching for the Two High-Level Programs Employees Only:

- Year 1: 64% of employees had 2 or more health risks/54% of these asked for HC
- Year 2: 35% of employees had 2 or more health risks/25% of these asked for HC

Tobacco Cessation Classes (all worksites):

- Year 1: 10 employees attended Smoking Cessation Class
  At 3 month follow-up, 5 of the 9 participants that completed were tobacco-free
- Year 2: 3 employees attended, but only 1 completed; reports still being tobacco-free

Worksite Initiatives

Health councils have reported various worksite-wide activities including

- Walking/physical activity clubs, weight loss clubs, outside presentations, healthy snacks, physical activity opportunities
- All worksites reporting at least moderate levels of activities with moderate-to-high employee interest/participation

Baseline Findings: November 2005 to May 2006

Personal Behavioral Health Profile

As part of the North Dakota Worksite Health Promotion Program, employees at four North Dakota state worksites (Department of Commerce, Office of Management and Budget, State Historical Society, and the Tax Department) were invited to complete the Personal Behavioral Health Profile (PBHP). The PBHP is an online assessment of an employee's health status and behavioral health risks. Employees received $25 for completing the PBHP, a personalized report describing their disease risks, and materials to help them make healthy changes in their lives.

This report summarizes the findings for the 256 employees who completed the PBHP between November 2005 and May 2006 (68% of all employees). It shows the percent of employees reporting health and well-being indicators in several different categories including behavioral risk factors, stress and emotional health, life and work satisfaction, health indicators, disease risks, and preventive care.

The purpose of the North Dakota Worksite Health Promotion Program is to improve employees' health by increasing health awareness, providing resources and services to assist employees in improving their health, and providing a worksite environment that is conducive to healthy lifestyle choices. This summary report does not contain any information that could be used to identify any of the participating employees.

Table of Contents

Behavioral Risk Factors

Tobacco Use	Percent of All Employees
Do not smoke cigarettes	88.7%
Do not smoke a pipe or cigars	98.0%
Do not use smokeless tobacco	98.4%

Physical Activity	Percent of All Employees
Moderate activity ≥ 5 times/week	19.5%
Vigorous activity ≥ 3 times a week	20.0%
Strength building ≥ 3 times a week	16.5%
Any weekly physical activity	62.5%

Nutrition	Percent of All Employees
Whole grains ≥ 3 servings/day	39.1%
Red meat < 3 servings/week	25.8%
Do not regularly eat salty meals	37.1%

Losing 10 pounds could lower blood pressure by about 4 to 5 points

Journal of Hypertension, Volume 42, 2003

Alcohol Use	Percent of All Employees
Have not had ≥ 5 alcoholic drinks on 1 occasion in the past month	77.7%
Do not drink ≥ 2 alcoholic drinks per day (Women)	90.1%
Do not drink ≥ 3 alcoholic drinks per day (Men)	99.0%

Driving Behavior	Percent of All Employees
Always use seat belt	57.8%
Do not drive > 5 mph above speed limit	63.7%
Always use helmet when on motorcycle	37.0%

Environmental Hazards	Percent of All Employees
Do not have frequent exposure to sun	90.6%
Are not regularly exposed to tobacco smoke	80.9%
Are not regularly exposed to pesticides	97.3%
Are not regularly exposed to noxious gases	98.4%
Are not regularly exposed to asbestos	98.0%
Are not regularly exposed to radiation	99.6%

Stress, Satisfaction, and Emotional Health

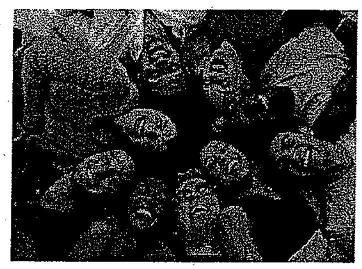
Life, Job, and Health Satisfaction	Percent of All Employees
High life satisfaction	86.7%
High job satisfaction	78.9%
High overall physical health satisfaction	80.0%
High overall mental health satisfaction	79.6%

Stress	Percent of All Employees
Have not felt "very stressed" in past pear	74.2%
<3 major stressful events in past year	79.6%
> 6 hours of sleep per night	58.9%

Emotional Health	Percent of All Employees
Did Not Endorse:	
Generally nervous or anxious person	68.0%
Feelings of depression past month	91.4%
Little interest in things past month	93.4%
Little or no sexual desire past month	92.6%
Sudden anxiety or panic past month	95.7%
Health worries past month	94.1%
Weight/looks concerns past month	78.9%
Caregiver worries past month	93.4%
Spouse/partner difficulties past month	94.9%

It takes a real storm in the average person's life to make her realize how much worrying she has done over the squalls.

-- Unknown



Work and Health

In the past 2 weeks, I had no difficulty:	Percent of All Employees[a]
Working the required number of hours at my job	78.1%
Starting on my job as soon as I arrived at work	78.5%
Repeating the same hand motions at my job	84.4%
Using equipment necessary for my job	85.5%
Concentrating on my work	52.0%
Helping others to get their work done	82.7%
Doing the required amount of work at my job	74.6%
Doing what I am capable of doing at my job	66.4%

[a] Data were generated only for those that indicated the task applied to their job.

A man cannot be comfortable without his own approval.

- Mark Twain

Health Indicators

Body Mass Index (BMI)	Percent of All Employees
BMI in healthy range	31.6%
BMI underweight	1.6%
BMI overweight	39.5%
BMI obese	27.3%
Waist size known	86.7%
Waist size healthy	73.9% of above

Blood Pressure	Percent of All Employees
Blood pressure known	76.6%
Normal blood pressure	53.1% of above

Both heart disease and cancer can be reduced by:

- *Not smoking*
- *Getting at least 30 minutes of physical activity most days of the week*
- *Eating more fruits and vegetables and whole grains.*

Cholesterol	Percent of All Employees
Cholesterol known	61.3%
Normal total cholesterol	58.6% of above
HDL known	36.7%
Healthy HDL cholesterol	75.5% of above

Specific Disease Risks

Average or Lower Risk	Percent of All Employees
Diabetes	63.2%
Heart Disease	76.5%
Stroke	83.3%
Lung Cancer	88.4%
Prostate Cancer	69.0%
Breast Cancer	56.0%

Adults who regularly visit the same doctor are most likely to get preventive care such as flu shots and have fewer hospitalizations and E.R. visits.

Journal of General Internal Medicine

Preventive Care

Meets Recommendations	Percent of All Employees
Blood pressure screening	95.3%
Cholesterol screening	75.8%
Colon cancer screening	76.2%
Glucose screening	91.4%
Glaucoma screening	88.7%
Dental checkup	75.8%
Flu shot	76.6%
Prostate screening	86.5%
Monthly self-testicular exam	9.6%
Monthly self-breast exam	21.8%
Clinical breast exam	94.7%
Mammogram	90.1%
Pap smear test	89.5%

About Our Organization . . . The Center for Health Promotion and Prevention Research's mission is to work with local, state, and tribal organizations to develop a comprehensive, state-wide effort for promoting health, reducing disease, and eliminating health disparities for all youth and adults in North Dakota.

First-Year Findings: January 2007 to April 2007

Personal Behavioral Health Profile

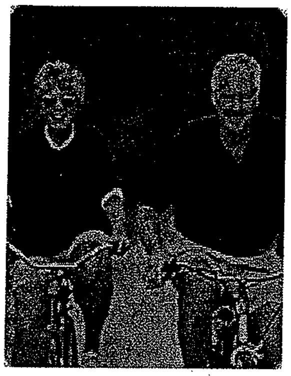
As part of the North Dakota Worksite Health Promotion Program, employees at four North Dakota state worksites (Department of Commerce, Office of Management and Budget, State Historical Society, and the Tax Department) were invited to complete the Personal Behavioral Health Profile (PBHP). The PBHP is an online assessment of an employee's health status and behavioral risk factors. Employees received $25 for completing the PBHP, a personalized report describing their disease risks, and materials to help them make healthy changes in their lives.

This report summarizes the findings for the 278 employees who completed the PBHP between January 2007 and April 2007 (73% of all employees). It shows the percent of employees reporting health and well-being indicators in several different categories including behavioral risk factors, stress and emotional health, life and work satisfaction, health indicators, disease risks, and preventive care.

The purpose of the North Dakota Worksite Health Promotion Program is to improve employees' health by increasing health awareness, providing resources and services to assist employees in improving their health, and providing a worksite environment that is conducive to healthy lifestyle choices. This summary report does not contain any information that could be used to identify any of the participating employees.

Table of Contents

Behavioral Risk Factors



Tobacco Use	Percent of All Employees
Do not smoke cigarettes	91.3%
Do not smoke a pipe or cigars	98.6%
Do not use smokeless tobacco	99.3%

Physical Activity	Percent of All Employees
Moderate activity ≥ 5 times/week	37.9%
Vigorous activity ≥ 3 times a week	29.8%
Strength building ≥ 3 times a week	20.3%
Any weekly physical activity	69.0%

Nutrition	Percent of All Employees
Fruits ≥ 3 servings/day	26.4%
Vegetables ≥ 3 servings/day	22.4%
Whole grains ≥ 3 servings/day	53.4%
Red meat < 3 servings/week	39.4%
Do not regularly eat salty meals	59.2%

Eating a whole-grain breakfast cereal at least 2 times per week decreases the risk of heart failure by 22%.

-- Cardiovascular Disease Epidemiology and Prevention - 2007

Alcohol Use	Percent of All Employees
Have not had ≥ 5 alcoholic drinks on 1 occasion in the past month	79.1%
Do not drink ≥ 2 alcoholic drinks per day (Women)	93.1%
Do not drink ≥ 3 alcoholic drinks per day (Men)	98.3%

Driving Behavior	Percent of All Employees
Always use seat belt	65.2%
Do not drive > 5 mph above speed limit	72.6%
Always use helmet when on motorcycle	62.9%

Environmental Hazards	Percent of All Employees
Do not have frequent exposure to sun	94.6%
Are not regularly exposed to tobacco smoke	85.6%
Are not regularly exposed to pesticides	98.9%
Are not regularly exposed to noxious gases	98.2%
Are not regularly exposed to asbestos	97.5%
Are not regularly exposed to radiation	98.6%

Stress, Satisfaction, and Emotional Health

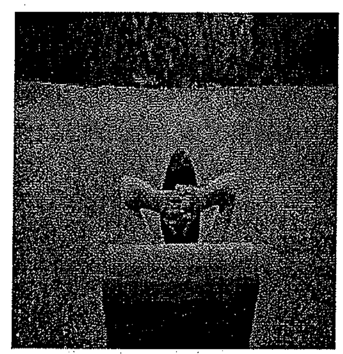
Life, Job, and Health Satisfaction	Percent of All Employees
High life satisfaction	89.5%
High job satisfaction	76.9%
High overall physical health satisfaction	80.5%
High overall mental health satisfaction	83.4%

Stress	Percent of All Employees
Have not felt "very stressed" in past pear	79.8%
<3 major stressful events in past year	80.1%
> 6 hours sleep per night	56.7%

Emotional Health	Percent of All Employees
Did Not Endorse:	
Generally nervous or anxious person	72.6%
Feelings of depression past month	94.9%
Little interest in things past month	95.7%
Little or no sexual desire past month	95.7%
Sudden anxiety or panic past month	96.0%
Health worries past month	96.4%
Weight/looks concerns past month	81.9%
Caregiver worries past month	94.9%
Spouse/partner difficulties past month	95.3%

Studies show that just 10 to 20 minutes of quiet reflection or meditation a day can bring relief from chronic stress and increase your tolerance to it.

-- National Mental Health Association



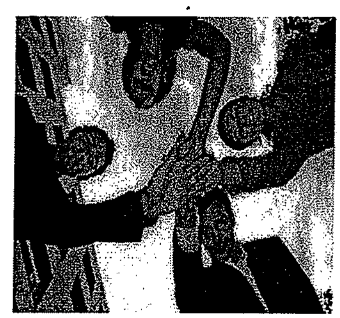
Work and Health

In the past 2 weeks I had no difficulty:	Percent of All Employees [a]
Working the required number of hours at my job	80.9%
Starting on my job as soon as I arrived at work	87.7%
Repeating the same hand motions at my job	86.6%
Using equipment necessary for my job	89.9%
Concentrating on my work	57.8%
Helping others to get their work done	84.5%
Doing the required amount of work at my job	80.1%
Doing what I am capable of doing at my job	77.6%

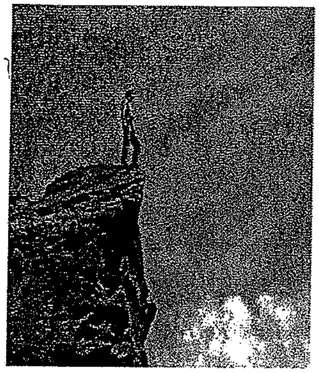
[a] Data were generated only for those that indicated the task applied to their job.

Evidence shows that employees benefit from workplace interventions designed to reduce occupational stress.

-- American Journal of Public Health, 2001



Health Indicators



Body Mass Index (BMI)	Percent of All Employees
BMI in healthy range	32.6%
BMI underweight	1.1%
BMI overweight	37.3%
BMI obese	29.0%
Waist size known	98.6%
Waist size healthy	80.6% of above

Blood Pressure	Percent of All Employees
Blood pressure known	81.9%
Normal blood pressure	59.0% of above

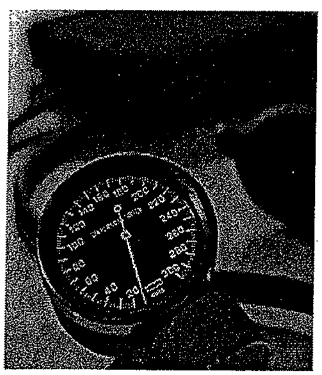
33% of all deaths in the United States are caused by tobacco use, poor diet, and physical inactivity.

-- Journal of American Medical Association, 2004, 2005

Cholesterol	Percent of All Employees
Cholesterol known	67.1%
Normal total cholesterol	65.6% of above
HDL known	46.2%
Healthy HDL cholesterol	82.0% of above

Specific Disease Risks

Average or Below Risk	Percent of All Employees
Diabetes	74.4%
Heart Disease	84.2%
Stroke	89.9%
Lung Cancer	94.2%
Prostate Cancer	70.5%
Breast Cancer	71.6%



Preventive Care

Meets Recommendations	Percent of All Employees
Blood pressure screening	97.8%
Cholesterol screening	84.5%
Colon cancer screening	78.3%
Glucose screening	92.4%
Glaucoma screening	89.9%
Dental checkup	77.3%
Flu shot	83.4%
Prostate screening	86.3%
Monthly self-testicular exam	12.8%
Monthly self-breast exam	29.4%
Clinical breast exam	97.6%
Mammogram	95.9%
Pap smear test	95.0%

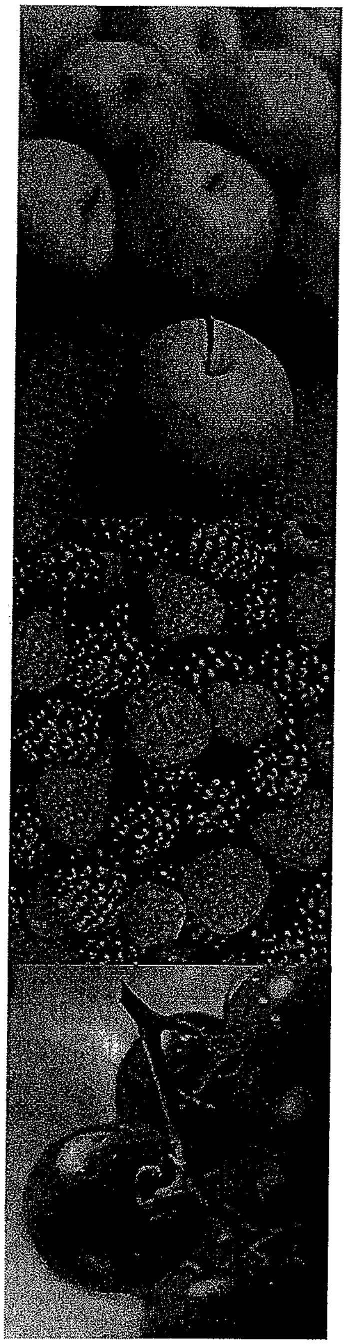
Blood pressure screenings, colon cancer screenings, and annual flu shots are three of the most cost-effective and beneficial preventive health measures.

-- American Journal of Preventive Medicine

About Our Organization . . . The Center for Health Promotion and Prevention Research's mission is to work with local, state, and tribal organizations to develop a comprehensive, state-wide effort for promoting health, reducing disease, and eliminating health disparities for all youth and adults in North Dakota.

North Dakota Worksite Health Promotion Program
Fruit and Vegetable Program

Employee-Reported Health Improvements and Satisfaction



This report summarizes information from 175 employees (46% response rate) who evaluated the Fruit and Vegetable Program (FVP) implemented at the Department of Commerce, Office of Management and Budget, State Historical Society, and Tax Department from January 22, 2007 to April 25, 2007. Employees who completed the survey were entered into a drawing to win one of four $25 gift certificates to Dan's Supermarket.

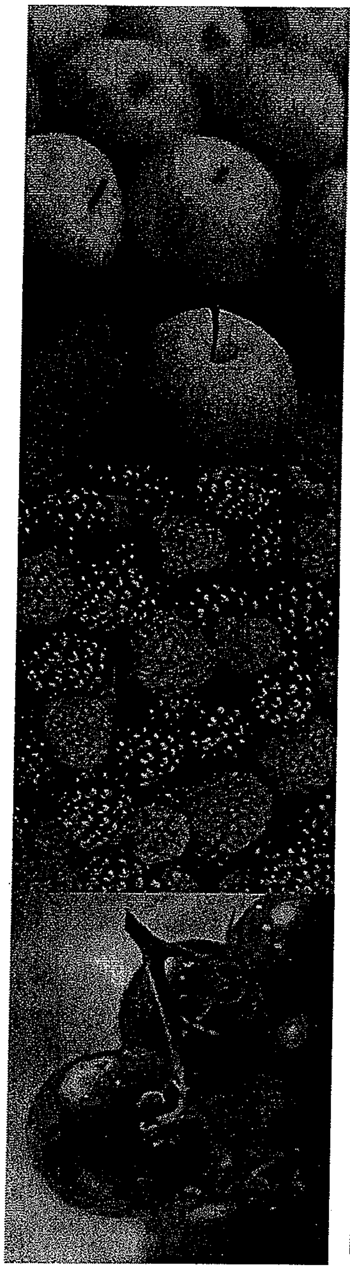
During the FVP, Dan's Supermarket of Bismarck delivered a variety of fruits and vegetables to the four state agencies twice per week for 14 weeks. The overall program was administered by staff from the UNDSMHS Center for Health Promotion and Prevention Research as part of your worksite's North Dakota Worksite Health Promotion Program. Funding was provided by NDPERS.

This summary report includes employee responses about the following components of the FVP:

- Awareness and participation in the FVP.
- Satisfaction with the FVP.
- Effects of the FVP on work-related health behaviors.
- Effects of the FVP on at-home health behaviors.
- Interest in contributing funds for a worksite FVP.

For more information about the FVP or this report, please contact:

Dr. Nancy Vogeltanz-Holm
Director, Center for Health Promotion & Prevention Research
University of North Dakota School of Medicine and Health Sciences
Grand Forks, ND 58202-9037
Phone: 701.777.3148
Email: vogeltan@medicine.nodak.edu

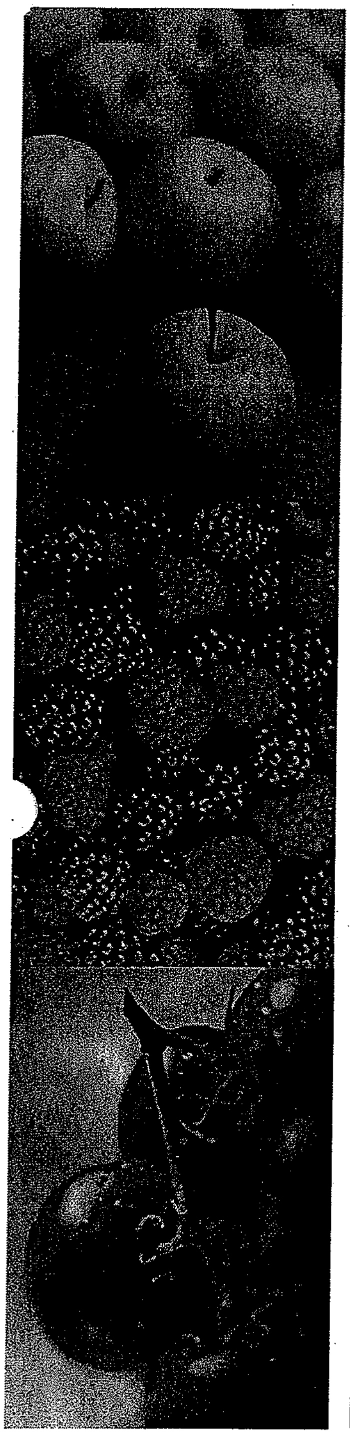


Q2. Fruits and/or vegetables were delivered 2 days per week for 14 weeks. On average, how many days per week did you consume the fruit and/or vegetables provided?	Combined Worksites
Average days per week fruits and vegetables	1.74
0 Days	1.7%
1 Day	22.9%
2 Days	75.4%

Q3. On the days you took fruits and vegetables, how many servings did you take each time?	Combined Worksites
Average # of servings	1.08
Less than 1	5.1%
1 serving	81.7%
More than 1	13.1%

Q5. How many servings of fruits and vegetables (combined) did you consume per day before the program?	Combined Worksites
Average # of servings/day	1.07
Less than 1	20.0%
1-2	57.7%
3-4	17.7%
5 or more	4.6%

Q6. How many servings of fruits and vegetables (combined) did you consume per day during the program?	Combined Worksites
Average # of servings/day	1.79
Less than 1	4.0%
1-2	29.7%
3-4	49.1%
5 or more	17.1%



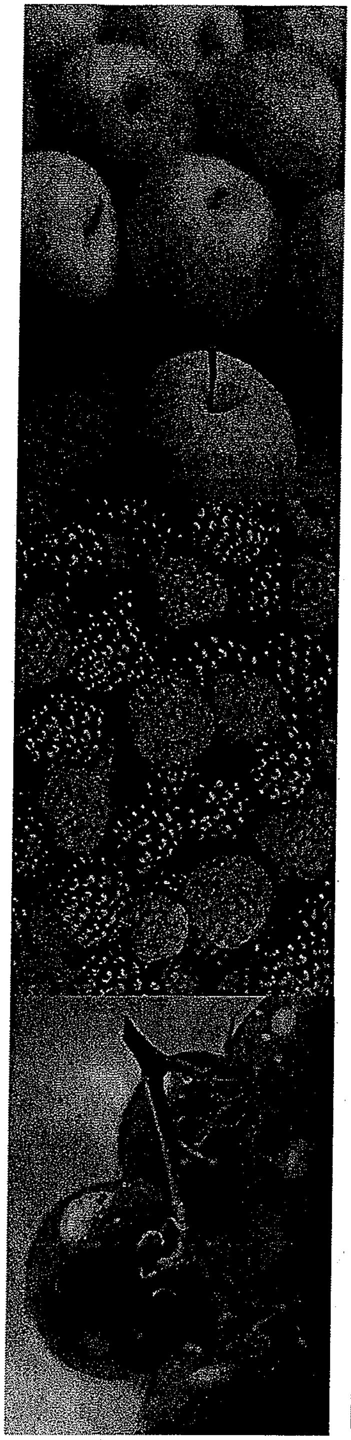
Q7. How many servings of fruits and vegetables (combined) do you consume now that the program has ended?	
	Combined Worksites
Average # of servings/day	1.44
Less than 1	8.6%
1-2	47.4%
3-4	35.4%
5 or more	8.6%

Q8. I have learned from this program that fruit and vegetable consumption is beneficial to my health.	
	Combined Worksites
Strongly Agree	51.1%
Partly Agree	44.3%
Disagree	4.6%
Strongly Disagree	0.0%

Q9. The availability of fruits and vegetables at work helped me to eat better at work.	
	Combined Worksites
Strongly Agree	60%
Partly Agree	37.1%
Disagree	2.3%
Strongly Disagree	0.6%

Q10. The availability of fruits and vegetables at work helped me to make healthier food choices at home.	
	Combined Worksites
Strongly Agree	30.1%
Partly Agree	56.1%
Disagree	13.3%
Strongly Disagree	.6%

Q11. I believe I am healthier when I eat fruits and veggies.	
	Combined Worksites
Strongly Agree	68.6%
Partly Agree	30.3%
Disagree	1.1%
Strongly Disagree	0.0%



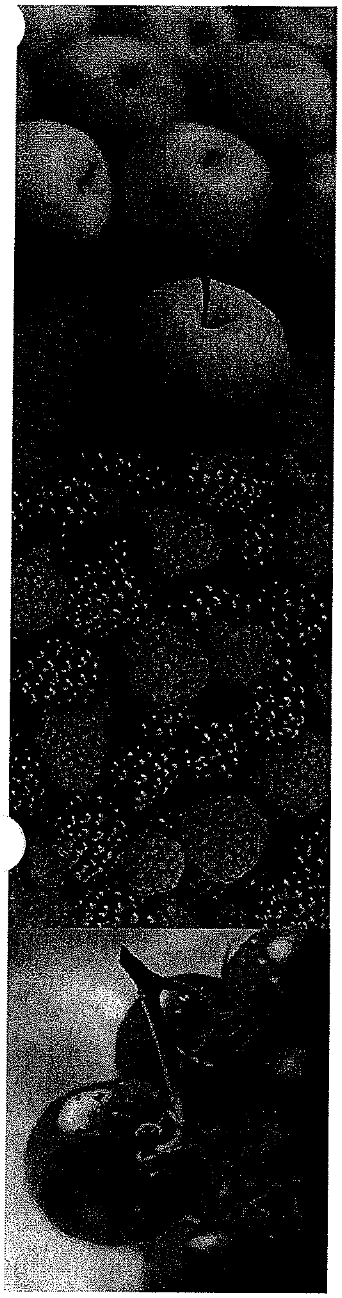
Q12. As a result of the program, I am now more likely to serve fruits and veggies to family and friends.	
	Combined Worksites
Strongly Agree	23.7%
Partly Agree	61.3%
Disagree	15.0%
Strongly Disagree	0.0%

Q13. As a result of the program, I am more likely to buy fruits and vegetables when I shop.	
	Combined Worksites
Strongly Agree	32.0%
Partly Agree	56.6%
Disagree	10.9%
Strongly Disagree	.6%

Q14. Now that the pilot program has ended, I will bring my own fruits and/or vegetables to work.	
	Combined Worksites
Strongly Agree	15.5%
Partly Agree	57.5%
Disagree	26.4%
Strongly Disagree	0.6%

Q15. Health-related activities at work make me feel more appreciated as an employee.	
	Combined Worksites
Strongly Agree	36.2%
Partly Agree	50.6%
Disagree	13.2%
Strongly Disagree	0.0%

Q16. Health related activities at work show that my employer cares about my health.	
	Combined Worksites
Strongly Agree	39.4%
Partly Agree	53.1%
Disagree	7.4%
Strongly Disagree	0.0%



Q17. I would like to see the Fruit and Vegetable program continue.	Combined Worksites
Strongly Agree	67.8%
Partly Agree	31.0%
Disagree	0.6%
Strongly Disagree	0.6%

Q18. I believe that the Fruit and Vegetable program would be beneficial to other North Dakota worksites.	Combined Worksites
Strongly Agree	62.9%
Partly Agree	35.4%
Disagree	1.7%
Strongly Disagree	0.0%

Q19. How many days per week would you prefer to have fruits and vegetables at your worksite?	Combined Worksites
0 days	.6%
1 day	5.7%
2 days	41.7%
3 days	34.9%
4 days	2.3%
5 days	14.9%

Q20. How much would you be willing to pay for fruits and vegetables at your worksite all year long?	Combined Worksites
Nothing	18.6%
1 day/week = $15/yr.	20.3%
2 days/week = $25/yr.	38.4%
3 days/week = $38/yr.	15.7%
4 days/week = $50/yr.	1.2%
5 days/week = $63/yr.	5.8%

Changes from 2006 to 2007

Personal Behavioral Health Profile

This report summarizes the findings for the 208 employees (60% response) participating in the North Dakota Worksite Health Promotion Program who completed the Personal Behavioral Health Profile (PBHP) at the baseline assessment (2006) and following the program's first year (2007). The PBHP is an online assessment of an employee's health status and behavioral health risks. Each time employees completed the PBHP they received $25, a personalized report describing their disease risks, and materials to help them make healthy changes in their lives.

This summary report shows the improvements that employees have reported in several different health and well-being categories including behavioral risk factors, stress and emotional health, life and work satisfaction, health indicators, disease risks, and preventive care. Employees reported being healthier in 63 of 76 areas (green text); in 4 areas they reported no change (black text); and in 9 areas they reported being less healthy (red text). Statistically significant changes are indicated by an asterisk.

The purpose of the North Dakota Worksite Health Promotion Program is to improve employees' health by increasing health awareness, providing resources and services to assist employees in improving their health, and providing a worksite environment that is conducive to healthy lifestyle choices. This summary report does not contain information that could be used to identify any of the participating employees.

Table of Contents

Behavioral Risk Factors

Tobacco Use	Baseline	Year 1	Change
Do not smoke cigarettes	86.4%	90.7%	+4.3%
Do not smoke a pipe or cigars	98.1%	99.0%	+0.9%
Do not use smokeless tobacco	98.6%	99.0%	+0.4%

Physical Activity	Baseline	Year 1	Change
Moderate activity ≥ 5 times/week	18.8%	34.2%	+15.4% *
Vigorous activity ≥ 3 times a week	20.7%	31.9%	+11.2% *
Strength Building ≥ 3 times a week	14.4%	21.1%	+6.7% *
Any weekly physical activity	80.3%	87.0%	+6.7% *

Nutrition	Baseline	Year 1	Change
Whole grains ≥ 3 servings/day	38.5%	52.9%	+14.4% *
Red meat ≤ 2 servings/week	26.0%	40.9%	+14.9% *
Do not regularly eat salty meals	63.0%	58.7%	-4.3%

Losing 10 pounds could lower blood pressure by about 4 to 5 points

Journal of Hypertension, Volume 42, 2003

Alcohol Use	Baseline	Year 1	Change
Have not had ≥ 5 alcoholic drinks on 1 occasion in the past month	80.3%	82.7%	+2.4%
Drink < 2 alcoholic drinks per day (Women)	91.7%	92.2%	+0.5%
Drink < 3 alcoholic drinks per day (Men)	98.9%	98.7%	-0.2%

Driving Behavior	Baseline	Year 1	Change
Always use seat belt	75.5%	79.3%	+3.8%
Do not drive > 5 mph above speed limit	81.3%	86.5%	+5.2% *
Always use helmet when on motorcycle	40.9%	62.5%	+21.6%

Environmental Hazards	Baseline	Year 1	Change
Do not have frequent exposure to sun	90.9%	95.7%	+4.8% *
Not regularly exposed to tobacco smoke	81.3%	86.5%	+5.2% *
Not regularly exposed to pesticides	97.6%	99.5%	+1.9%
Not regularly exposed to noxious gases	99.5%	99.0%	-0.5%
Not regularly exposed to asbestos	98.1%	98.6%	+0.5%
Not regularly exposed to radiation	99.5%	99.5%	±0.0%

Satisfaction, Stress, and Emotional Health

Satisfaction	Baseline	Year 1	Change
High life satisfaction	88.0%	90.9%	+2.9%
High job satisfaction	79.3%	77.4%	-1.9%
High overall physical health satisfaction	80.8%	80.3%	-0.5%
High overall mental health satisfaction	78.8%	81.3%	+2.5%

Stress	Baseline	Year 1	Change
Have not felt "Very Stressed" in past pear	73.6%	80.3%	+6.7% *
<3 major stressful events in past year	81.2%	83.7%	+2.5%
> 6 hours sleep per night	58.7%	58.7%	0.0%

Emotional Health	Baseline	Year 1	Change
Did Not Endorse:			
Generally nervous or anxious person	64.9%	71.6%	+6.7% *
Feelings of depression past month	91.8%	96.2%	+4.4% *
Little interest in things past month	93.3%	96.6%	+3.3%
Little or no sexual desire past month	91.3%	96.2%	+4.9% *
Sudden anxiety or panic past month	95.2%	96.2%	+1.0%
Health worries past month	94.2%	95.7%	+1.5%
Weight/looks concerns past month	80.8%	80.8%	±0.0%
Caregiver worries past month	92.3%	94.7%	+2.4%

It takes a real storm in the average person's life to make her realize how much worrying she has done over the squalls.

-- Unknown

Work and Health

In the past 2 weeks I had no difficulty: a	Baseline	Year 1	Change
Working the required number of hours at my job	77.4%	82.7%	+5.3%
Starting on my job as soon as I arrived at work	77.9%	88.0%	+10.1% *
Repeating the same hand motions at my job	83.2%	86.1%	+2.9%
Using equipment necessary for my job	84.6%	88.9%	+4.3%
Concentrating on my work	52.4%	58.2%	+5.8%
Helping others to get their work done	82.7%	84.6%	+1.9%
Doing the required amount of work at my job	73.6%	78.8%	+5.2%
Doing what I am capable of doing at my job	63.9%	76.0%	+12.1% *

a Data were generated only for those that indicated the task applied to their job.

A man cannot be comfortable without his own approval.

- Mark Twain

Health Indicators

Body Mass Index (BMI)	Baseline	Year 1	Change
BMI in healthy range	33.7%	34.1%	+0.4%
BMI underweight	1.9%	1.4%	-0.5%
BMI overweight	37.5%	37.0%	-0.5%
BMI obese	26.9%	27.4%	+0.5%
Waist size known	86.5%	98.1%	+11.6% *
Waist size healthy [a]	73.9%	79.9%	+6.0% *

Blood Pressure	Baseline	Year 1	Change
Blood pressure known	77.4%	84.6%	+7.2% *
Normal blood pressure [a]	52.2%	58.0%	+5.8%

Cholesterol	Baseline	Year 1	Change
Cholesterol known	62.5%	69.7%	+7.2% *
Normal Cholesterol [a]	57.7%	64.8%	+7.1%
HDL known	38.0%	48.6%	+10.6% *
Healthy HDL cholesterol [a]	74.7%	83.2%	+8.5% *

[a] Data were generated only for individuals with known values.

Both heart disease and cancer can be reduced by:

- *Not smoking*
- *Getting at least 30 minutes of physical activity most days of the week*
- *Eating more fruits and vegetables and whole grains.*

Specific Disease Risks

Average or Below Risk	Baseline	Year 1	Change
Diabetes	63.0%	74.1%	+11.1% *
Heart Disease	76.7%	84.1%	+7.4% *
Stroke	84.3%	89.9%	+5.6% *
Lung Cancer	89.3%	94.9%	+5.6% *
Prostate Cancer	71.8%	71.8%	±0.0%
Breast Cancer	57.1%	67.0%	+9.9%

Preventive Care

Meets Recommendations	Baseline	Year 1	Change
Blood pressure screening	95.7%	97.6%	+1.9%
Cholesterol screening	76.9%	88.0%	+11.1% *
Colon cancer screening	76.4%	77.9%	+1.5%
Glucose screening	92.3%	94.8%	+1.9%
Glaucoma screening	88.5%	89.9%	+1.4%
Dental checkup	78.4%	77.9%	-0.5%
Flu shot	77.9%	84.6%	+6.7% *
Prostate screening	88.4%	87.2%	-1.2%
Monthly self-testicular exam	8.0%	14.0%	+6.0%
Monthly self-breast exam	19.8%	27.9%	+8.1% *
Clinical breast exam	95.9%	97.8%	+1.9%
Mammogram	90.9%	96.2%	+5.3%
Pap smear test	91.8%	95.9%	+4.1%

Adults who regularly visit the same doctor are most likely to get preventive care such as flu shots and have fewer hospitalizations and E.R. visits.

Journal of General Internal Medicine

About Our Organization...

The Center for Health Promotion and Prevention Research's mission is to work with local, state, and tribal organizations to develop a comprehensive, state-wide effort for promoting health, reducing disease, and eliminating health disparities for all youth and adults in North Dakota.

MEMORANDUM

TO: NDPERS Board

FROM: Sharon Schiermeister

DATE: October 10, 2007

SUBJECT: **GASB 45 Valuation**

The Government Accounting Standards Board (GASB) released Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 43) in April 2004 which establishes uniform accounting and financial reporting standards for plans such as the Retiree Health Insurance Credit Plan administered by NDPERS. The reporting standards under GASB 43 have been implemented for the Retiree Health Insurance Credit Plan for fiscal year ending June 30, 2007, as required.

GASB also issued Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans (GASB 45) in June 2004 which establishes uniform accounting and financial reporting standards for employers who offer postemployment benefits other than pensions (OPEB). Under GASB 45, an actuarial valuation is required to determine the implicit subsidy applicable to our pre-Medicare retirees who are participating in our health plan.

In August, the Board awarded the contract for this actuarial valuation to Gallagher Benefit Services. The valuation report is included with your Board materials. Bill Robinson from GBS will be attending the meeting via conference call to present the report.

The reporting standards under GASB 45 are required to be implemented for the fiscal year ending June 30, 2008. This valuation report will provide us with the required information for fiscal year 08 and 09, as GASB only requires a valuation every 2 years. At this time, we are working with Brady Martz, the State Auditor's Office and the Office of Management and Budget to determine how these reporting requirements will be implemented.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

ACTUARIAL VALUATION OF RETIREE HEALTH PLANS AS OF JULY 1, 2007

October 1, 2007

TABLE OF CONTENTS

Introduction

Scope

This report presents the results of the actuarial valuation of the North Dakota Public Employee Retirement System ("NDPERS") post–retirement benefit plan (other than pensions) as of July 1, 2007. The purpose of the report is to:

- Develop the expected plan liability and annual expense assuming implementation on July 1, 2007; and
- Document actuarial assumptions and plan provisions.

Plans Valued

The retiree benefits included in this actuarial valuation are the fully-insured Dakota Plan for early retirees and Dakota Retiree Plan for Medicare-eligible retirees. These plans cover both medical services and prescription drugs.

Applicability of Accounting Standards

The Governmental Accounting Standards Board (GASB) released Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans ("GASB 43") in April 2004 and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans ("GASB 45") in June 2004. These two statements establish uniform accounting and financial reporting standards for state and local governmental entities related to post-employment benefits other than pensions ("OPEB").

The required effective dates for implementation of the standards by an employer varies depending on their total annual revenue. For the purposes of defining the effective date of the standards, GASB 43 and 45 use the terms *phase 1 government, phase 2 government, and phase 3 government.* The following table shows the definition of the three phases for plans and employers and their respective effective dates. The employer is required to report under the standards no later than the first fiscal year beginning after the date shown.

Phase	Total Annual Revenues	Plans	Employers
1	$100,000,000 or more	12/15/05	12/15/06
2	$10,000,000 - $100,000,000	12/15/06	12/15/07
3	Less than $10,000,000	12/15/07	12/15/08

Data

We relied on the accuracy of the data supplied to APEX by NDPERS for this project. We have assumed the census provided to APEX represents all potential retirees and their dependents who can receive post-retirement medical benefits with the exception of future retirees under TIAA-CREF or NDTFFR. Please note we may have adjusted some of the underlying census data records to correct duplicate records or to correct what "appeared" to be inconsistent or illogical dates. In our opinion, the changes we made are not material in the aggregate and, for purposes of this report, did not warrant a delay in the release of these results.

Summary of Results

GASB allows the use of one of the following actuarial cost methods for the valuation: Unit Credit, Entry Age Normal, Attained Age, Aggregate, Frozen Entry Age, or Frozen Attained Age. These methods can be amortized on either a level dollar or a level percentage of earnings basis. The results in this report assume the use of the Unit Credit method with amortization on a level percentage basis because we believe the Unit Credit method provides the most logical correlation between accruing and expensing of retiree benefits. (Note: The Unit Credit method is the only method allowed under the Financial Accounting Standards Board's ("FASB") corresponding statement, *Statement of Financial Accounting Standards No. 106* ("FAS106")).

The valuation results were developed assuming two different discount rates. Each discount rate is determined based on the expected rate of return for investments used to finance the payment of benefits. For an unfunded plan, the investment return assumption is based on the expected return on employer assets which generally consist of short-term liquid investments. For a funded plan, the investment return assumes benefits are provided through a trust or similar arrangement; contributions are consistently greater than or equal to the Annual Required Contribution, and the plan's assets are the sole source for the payment of benefits. The investment return for the funded plan is based on the expected return on the plan's assets which generally consist of long-term, less liquid investments. Overall, the long-term investment return for a funded plan will be greater than an unfunded plan. Currently, the NDPERS is considered to be an unfunded plan since there are no assets and retiree benefits are paid annually on a cash basis.

Actuarial Accrued Liability

The Actuarial Accrued Liability ("AAL") is the present value of all future expected postretirement medical payments and administrative costs which are attributable to past service. Depending on how they fund the retiree benefit, we have determined the AAL as of July 1, 2007 to be:

	Unfunded	Funded
Accrued Actuarial Liability	$30,733,000	$23,771,000

Annual Required Contribution
The Annual Required Contribution ("ARC") is the annual expense recognition of the post-retirement benefit plan cost for the fiscal year. For the year ending June 30, 2008, we have projected the following ARC values:

	Unfunded	Funded
Normal Cost	$2,656,000	$1,864,000
Interest on Normal Cost	$133,000	$149,000
Amortization	$1,172,000	$1,299,000
Interest on Amortization	$59,000	$104,000
Total ARC	$4,020,000	$3,416,000

Pay-As-You-Go Expense
The Pay-As-You-Go Expense is the net expected cost of providing retiree benefits. This expense reflects the expected cost of providing the medical/Rx benefit to retirees less retiree contributions. The expected Pay-As-You-Go Expense for the period July 1, 2007 – June 30, 2008 is $1,542,000.

Net OPEB Obligation
The Net OPEB Obligation ("NOO") is the cumulative difference between the ARC and the employer's contributions to the plan. Since this is considered to be the transition period, the NOO is equal to zero.

However, we have estimated that if NDPERS continues paying benefits on a pay-as-you-go basis (Unfunded) or contributes an amount up to the ARC (Funded), the NOO at June 30, 2008 will be:

	Unfunded	Funded
NOO – Beginning of Year	$0	$0
Annual OPEB Cost	$4,020,000	$3,416,000
Employer Contributions	$1,542,000	$3,416,000
Increase in NOO	$2,478,000	$0
NOO – End of Year	$2,478,000	$0

Caveat
The results of this analysis are based on assumptions related to current and future retiree benefit costs. Actual results may differ from expected. In some cases, these differences may be material. Therefore, we recommend continued monitoring of actual versus expected results for the purpose of determining whether any or all of the assumptions should be modified.

Actuarial Certification

North Dakota Public Employees Retirement System retained the APEX Management Group, a division of Gallagher Benefit Services, Inc., to perform a valuation of its required disclosure information under Statement No. 45 of the Governmental Accounting Standards Board ("GASB 45"). The calculations derived for this report have been made on a basis consistent with our understanding of GASB 45. The valuation has been conducted in accordance with generally accepted actuarial principles and practices. The results of this report are to be used solely for the purpose of meeting employer financial accounting requirements.

In preparing the results of this report, we have relied on employee data, plan information and claims data provided by the North Dakota Public Employees Retirement System. While the scope of the engagement did not call for us to perform an audit or independent verification of this information, we reviewed it for reasonableness. The accuracy of the results presented in the report is dependent upon the accuracy and completeness of the underlying information.

____

Thomas M. Skurat, FSA, MAAA
Consulting Actuary
October 1, 2007

Actuarial Cost Methods
One of the following actuarial cost methods can be used: Unit Credit, Entry Age Normal, Attained Age, Aggregate, Frozen Entry Age, or Frozen Attained Age. These methods can be used on a service (level dollar) or earnings (level percentage) basis.

Calculation Definitions
- Actuarial Accrued Liability ("AAL") – The AAL is the portion of the actuarial present value of the total projected benefits allocated to years of employment prior to the measurement date.
- Unfunded Actuarial Accrued Liability ("UAAL") – The UAAL is the difference between the AAL and the actuarial value of plan assets.

Reporting Requirements
- Annual Required Contribution ("ARC") – The ARC is equal to the normal cost and the amortization of the Unfunded Actuarial Accrued Liability plus interest. The normal cost is equal to the actuarial present value ("APV") allocated to one year of service.
- Net OPEB Obligation ("NOO") – The NOO is the cumulative difference between the ARC and employer's contributions to the plan. For unfunded plans, the employer's contribution would be equal to the annual benefit payments less employee contributions. At transition, the NOO may be set at zero.
- Required Supplementary Information ("RSI") – The RSI will require historical trend information from the last three valuations, including disclosure information about the UAAL and the progress in funding the plan. At transition, the RSI may include only the first year of information.

Disclosures
The following information is required to be disclosed:

- Plan description, including:
  - Type of employer – single employer, multiple-employer, etc.
  - Classes of employees covered and the number of plan members
  - Brief description of benefit provisions
- Summary of significant accounting policies, including a brief description of how fair value of investments is determined.
- Contributions and reserves, including:
  - Authority under which the obligations of plan members, employer(s), and other contributing entities who contribute to the plan are established or may be amended.
  - Funding policy
  - Required contribution rates of actives and retirees in accordance with the funding policy.

  - Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date.
  - The balance in the plan's legally required reserves at the reporting date.
- Funded status and progress
  - Information about the funded status as of the most recent valuation date, including:
    - Actuarial Valuation Date
    - Actuarial Value of Assets
    - Actuarial Accrued Liability ("AAL")
    - Total Unfunded Actuarial Accrued Liability ("UAAL")
    - Funded ratio – actuarial value of assets as a percentage of the actuarial accrued liability
    - Annual Covered Payroll
    - Ratio of Unfunded Actuarial Liability to Annual Covered Payroll
- Disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress of OPEB plans are based.

The following tables provide a summary of participant information and the Present Value of Future Benefits for NDPERS.

NUMBER OF PARTICIPANTS	
Actives (Fully Eligible)	5,328
Actives (Not Fully Eligible)	18,797
Retirees	5,650
TOTAL	**29,775**

	UNFUNDED PLAN	**FUNDED PLAN**
PRESENT VALUE OF FUTURE BENEFITS (PVFB)		
BY EMPLOYEE TYPE		
Actives (Fully Eligible)	$11,908,000	$10,351,000
Actives (Not Fully Eligible)	$49,011,000	$30,431,000
TOTAL ACTIVES	**$60,919,000**	**$40,782,000**
Retirees	$5,415,000	$4,904,000
TOTAL	**$66,334,000**	**$45,686,000**
BY BENEFIT		
Expected Retiree Premiums	$2,120,039,000	$1,201,688,000
Retiree Contributions	($2,053,705,000)	($1,156,002,000)
TOTAL	**$66,334,000**	**$45,686,000**
BY SUBSIDY TYPE		
Explicit Subsidy	$0	$0
Implicit Subsidy	$66,334,000	$45,686,000
TOTAL	**$66,334,000**	**$45,686,000**
BY AGE		
Actives (<65)	$60,919,000	$40,782,000
Actives (65+)	$0	$0
TOTAL ACTIVES	**$60,919,000**	**$40,782,000**
Retirees (<65)	$5,415,000	$4,904,000
Retirees (65+)	$0	$0
TOTAL RETIREES	**$5,415,000**	**$4,904,000**
TOTAL	**$66,334,000**	**$45,686,000**

The following tables provide the Actuarial Accrued Liability using the Projected Unit Credit cost method on an unfunded and funded basis.

	UNFUNDED PLAN	FUNDED PLAN
ACTUARIAL ACCRUED LIABILITY (AAL)		
BY EMPLOYEE TYPE		
Actives (Fully Eligible)	$8,772,000	$7,655,000
Actives (Not Fully Eligible)	$16,546,000	$11,212,000
TOTAL ACTIVES	**$25,318,000**	**$18,867,000**
Retirees	$5,415,000	$4,904,000
TOTAL	**$30,733,000**	**$23,771,000**
BY BENEFIT		
Expected Retiree Premiums	$1,179,103,000	$756,557,000
Retiree Contributions	($1,148,370,000)	($732,786,000)
TOTAL	**$30,733,000**	**$23,771,000**
BY SUBSIDY TYPE		
Explicit Subsidy	$0	$0
Implicit Subsidy	$30,733,000	$23,771,000
TOTAL	**$30,733,000**	**$23,771,000**
BY AGE		
Actives (<65)	$25,318,000	$18,867,000
Actives (65+)	$0	$0
TOTAL ACTIVES	**$25,318,000**	**$18,867,000**
Retirees (<65)	$5,415,000	$4,904,000
Retirees (65+)	$0	$0
TOTAL RETIREES	**$5,415,000**	**$4,904,000**
TOTAL	**$30,733,000**	**$23,771,000**

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)		
TOTAL	**$30,733,000**	**$23,771,000**

The following tables provide the Annual Required Contribution ("ARC") and Net OPEB Obligation for the Projected Unit Credit cost method on an unfunded and funded basis. The ARC is calculated on a level percentage of earnings assuming an amortization period of 30 years (maximum allowed by GASB 45).

	UNFUNDED PLAN	FUNDED PLAN
ANNUAL REQUIRED CONTRIBUTION (ARC)		
Normal Cost	$2,656,000	$1,864,000
Interest on Normal Cost	$133,000	$149,000
Amortization Payment	$1,172,000	$1,299,000
Interest on Amortization Payment	$59,000	$104,000
TOTAL	**$4,020,000**	**$3,416,000**

NET OPEB OBLIGATION *		
Net OPEB Obligation - Beginning of Year	$0	$0
ARC	$4,020,000	$3,416,000
Interest on prior year NOO	$0	$0
Adjustment to ARC	$0	$0
Annual OPEB Cost	**$4,020,000**	**$3,416,000**
Employer Contributions *	$1,542,000	$3,416,000
Increase in Net OPEB Obligation	**$2,478,000**	**$0**
Net OPEB Obligation – End of Year	**$2,478,000**	**$0**
Percentage of OPEB Cost Contributed	**38.4%**	**100.0%**

* For illustrative purposes, we have assumed that contributions are equal to the expected pay-as-you-go cost in the Unfunded scenario and contributions are equal to the ARC in the Funded scenario.

The following exhibit illustrates the impact of a 1% change in the health care trend rates:

	UNFUNDED PLAN		FUNDED PLAN	
	Plus 1%	Minus 1%	Plus 1%	Minus 1%
VALUATION RESULTS				
ACTUARIAL ACCRUED LIABILITY (AAL)				
TOTAL	$33,528,000	$28,274,000	$25,617,000	$22,125,000
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)				
TOTAL	$33,528,000	$28,274,000	$25,617,000	$22,125,000
ANNUAL REQUIRED CONTRIBUTION (ARC)				
Normal Cost	$3,003,000	$2,360,000	$2,072,000	$1,685,000
Interest on Normal Cost	$150,000	$118,000	$165,000	$135,000
Amortization Payment	$1,280,000	$1,079,000	$1,400,000	$1,209,000
Interest on Amortization Payment	$64,000	$54,000	$112,000	$96,000
TOTAL	$4,497,000	$3,611,000	$3,749,000	$3,125,000
IMPACT OF TREND CHANGE				
ACTUARIAL ACCRUED LIABILITY (AAL)				
TOTAL	$2,795,000	($2,459,000)	$1,846,000	($1,646,000)
% CHANGE	9.1%	-8.0%	7.8%	-6.9%
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)				
TOTAL	$2,795,000	($2,459,000)	$1,846,000	($1,646,000)
% CHANGE	9.1%	-8.0%	7.8%	-6.9%
ANNUAL REQUIRED CONTRIBUTION (ARC)				
Normal Cost	$347,000	($296,000)	$208,000	($179,000)
Interest on Normal Cost	$17,000	($15,000)	$16,000	($14,000)
Amortization Payment	$108,000	($93,000)	$101,000	($90,000)
Interest on Amortization Payment	$5,000	($5,000)	$8,000	($8,000)
TOTAL	$477,000	($409,000)	$333,000	($291,000)
% CHANGE	11.9%	-10.2%	9.7%	-8.5%

The following exhibit provides the expected cash flow for the NDPERS retiree benefit based on the current population:

Year	Retiree Premiums	Retiree Contributions	Net Benefit Payments
7/2007 - 6/2008	$29,596,000	($28,054,000)	$1,542,000
7/2008 - 6/2009	$34,273,000	($31,136,000)	$3,137,000
7/2009 - 6/2010	$39,617,000	($37,360,000)	$2,257,000
7/2010 - 6/2011	$45,727,000	($43,041,000)	$2,686,000
7/2011 - 6/2012	$52,504,000	($49,375,000)	$3,129,000
7/2012 - 6/2013	$58,962,000	($55,531,000)	$3,431,000
7/2013 - 6/2014	$65,523,000	($61,823,000)	$3,700,000
7/2014 - 6/2015	$72,322,000	($68,349,000)	$3,973,000
7/2015 - 6/2016	$79,244,000	($74,958,000)	$4,286,000
7/2016 - 6/2017	$86,530,000	($81,901,000)	$4,629,000

The following table provides the Actuarial Accrued Liability and Annual Required Contribution ("ARC") for each allowable cost method under GASB 45. The ARC is calculated assuming an amortization period of 30 years (maximum allowed by GASB 45). The results are presented using discount rate assumptions for both unfunded and funded plans.

UNFUNDED PLAN

	COST METHOD				
	UNIT CREDIT	ENTRY AGE NORMAL	AGGREGATE	FROZEN ENTRY AGE	FROZEN ATTAINED AGE
ACTUARIAL ACCRUED LIABILITY (AAL)					
TOTAL	$30,733,000	$37,450,000	$0	$37,450,000	$30,733,000
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)					
TOTAL	$30,733,000	$37,450,000	$0	$37,450,000	$30,733,000
ANNUAL REQUIRED CONTRIBUTION (ARC)					
1. LEVEL PERCENTAGE OF PROJECTED PAYROLL					
Normal Cost	$2,656,000	$2,813,000	$6,587,000	$2,870,000	$3,535,000
Interest on Normal Cost	$133,000	$141,000	$329,000	$143,000	$177,000
Amortization Payment	$1,172,000	$1,429,000	$0	$1,429,000	$1,172,000
Interest on Amortization	$59,000	$71,000	$0	$71,000	$59,000
TOTAL	$4,020,000	$4,454,000	$6,916,000	$4,513,000	$4,943,000
2. LEVEL DOLLAR					
Normal Cost	$2,656,000	$2,813,000	$6,587,000	$2,870,000	$3,535,000
Interest on Normal Cost	$133,000	$141,000	$329,000	$143,000	$177,000
Amortization Payment	$1,903,000	$2,320,000	$0	$2,320,000	$1,903,000
Interest on Amortization	$96,000	$115,000	$0	$115,000	$96,000
TOTAL	$4,788,000	$5,389,000	$6,916,000	$5,448,000	$5,711,000

FUNDED PLAN

	COST METHOD				
	UNIT CREDIT	ENTRY AGE NORMAL	AGGREGATE	FROZEN ENTRY AGE	FROZEN ATTAINED AGE
ACTUARIAL ACCRUED LIABILITY (AAL)					
TOTAL	$23,771,000	$28,119,000	$0	$28,119,000	$23,771,000
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)					
TOTAL	$23,771,000	$28,119,000	$0	$28,119,000	$23,771,000
ANNUAL REQUIRED CONTRIBUTION (ARC)					
1. LEVEL PERCENTAGE OF PROJECTED PAYROLL					
Normal Cost	$1,864,000	$1,857,000	$4,538,000	$1,746,000	$2,177,000
Interest on Normal Cost	$149,000	$148,000	$363,000	$140,000	$175,000
Amortization Payment	$1,299,000	$1,536,000	$0	$1,536,000	$1,299,000
Interest on Amortization	$104,000	$123,000	$0	$123,000	$104,000
TOTAL	$3,416,000	$3,664,000	$4,901,000	$3,545,000	$3,755,000
2. LEVEL DOLLAR					
Normal Cost	$1,864,000	$1,857,000	$4,538,000	$1,746,000	$2,177,000
Interest on Normal Cost	$149,000	$148,000	$363,000	$140,000	$175,000
Amortization Payment	$1,955,000	$2,313,000	$0	$2,313,000	$1,955,000
Interest on Amortization	$156,000	$185,000	$0	$185,000	$156,000
TOTAL	$4,124,000	$4,503,000	$4,901,000	$4,384,000	$4,463,000

Eligibility
A member must be receiving a retirement allowance from NDPERS to be eligible for the retiree health benefit. The eligibility for a retirement allowance varies depending on the type of employee. The earliest eligibility by employee is as follows:

Main System
Employee must be a minimum of age 55 with 3 years of service.

Judges
Employee must be a minimum of age 55 with 5 years of service.

National Guard and Law Enforcement
Employee must be a minimum of age 50 with 3 years of service.

Highway Patrol
Employee must be a minimum of age 50 with 10 years of service.

A member receiving a retirement allowance from NDTFFR or TIAA-CREF is also eligible for the retiree health benefit.

Plan Design
Eligible retirees receive health care coverage through one of two medical plans: the Dakota Plan or the Dakota Retiree Plan. The Dakota Plan is available until retired employees or covered dependent(s) become eligible for Medicare. Upon attaining Medicare eligibility, a member can enroll in the Dakota Retiree Plan.

A summary of the key plan design features for each plan is provided in the tables below:

<u>Dakota Plan</u>

Benefit	EPO	PPO	Basic
Deductible (3X Family)	$200	$400	$400
Coinsurance	85%	80%	75%
Coins. Max. (2X Family)	$500	$750	$1,250
E.R. Copayment	$50	$50	$50
Office Visit Copayment	$20	$25	$30
Rx Drug Copay			
Generic *	$5 and 15% Coinsurance		
Preferred Brand *	$20 and 25% Coinsurance		
Non-Preferred Brand	$25 and 50% Coinsurance		
*** OOP Maximum**	* Covered at 100% after $1,000		

Dakota Retiree Plan

Benefit	In-Network	Out-of-Network
Hospital Deductible	$400	$400
Hospital Coinsurance	80%	75%
Physician Coinsurance	80% of Medicare's Balance	75% of Medicare's Balance
Rx Drug Copay		
Generic	$5 and 15% Coinsurance	
Preferred Brand	$15 and 25% Coinsurance	
Non-Preferred Brand	$25 and 50% Coinsurance	
OOP Maximum	$3,850, after which claimants pay the greater of a 5% coinsurance or a copay of $2.15 for generic or $5.35 for brand drugs	

Required Monthly Retiree Contributions
Contributions are required for both retiree and dependent coverage. These contributions reflect the actual fully insured premiums and are dependent on family size and Medicare eligibility for a retiree/dependent.

The current monthly contribution amounts are provided in the table below.

Dakota Plan (Non-Medicare Retiree)	
Rate Tier	**Monthly Contribution***
Single	$475.34
Family	$946.44
Family (3+)	$1,181.98

Dakota Retiree Plan (Medicare Retiree)		
Rate Tier	**Enrolled Prior 7/1/07***	**Enrolled On or After 7/1/07**
Single	$214.20	$207.22
Family	$418.46	$404.94
Family (One Medicare/One Non-Medicare)	$621.88	$596.42

* These rates remain in effect until June 30, 2009. After this date, we have assumed retiree contributions increase with medical trend.

In addition, a member is eligible for COBRA continuation if enrolled in the Dakota plan as an active employee and is not eligible for Medicare, whichever occurs first. A member receiving a retiree allowance from NDPERS is eligible for 18 months of COBRA continuation.

The current monthly contribution COBRA amounts are provided in the table below.

Employee Type	Single	Family
State Agencies	$324.58	$779.22
Political Subdivisions, enrolled prior to 7/1/07*	$346.27	$833.85
Political Subdivisions, enrolled after 6/30/07	$330.76	$796.23
EPO Only Groups, prior to 7/1/07*	$322.54	$775.99
EPO Only Groups, enrolled after 6/30/07	$308.12	$741.01

* These rates remain in effect until June 30, 2009. After this date, we have assumed retiree contributions increase with medical trend.

Valuation Date
July 1, 2007

Discount Rate
The analysis assumes two discount rates for comparison purposes. A 5.0% annual discount rate is used assuming NDPERS will fund the retirement benefit on a pay-as-you-go basis. An 8.0% annual discount rate is used assuming NDPERS will fund the plan and consistently contribute an amount equal to or greater than the ARC.

Attribution Method
Projected Unit Credit. The results for all other cost methods (Entry Age, Aggregate, Frozen Entry Age, and Frozen Attained Age) are presented in Section 6.

Amortization Method
The Unfunded Actuarial Accrued Liability is amortized over the maximum acceptable period of 30 years. It is calculated assuming a level percentage of projected payroll.

Expected Monthly Costs
North Dakota state law establishes the rate for Pre-Medicare retirees as:

- Single Rate – 150% of the state active single rate
- Family Rate – 2 times the Pre-Medicare single rate

Since the premiums for non-Medicare retirees are based on a combined active/retiree population, there is an implicit subsidy associated with the non-Medicare population. Based on an analysis of NDPERS non-Medicare retiree experience, we have developed the expected fully-insured premiums if the non-Medicare retirees were rated on their own and were self-supporting.

Based on this analysis, the projected monthly premiums for non-Medicare retirees are:

Rate Tier	Non-Medicare Monthly Premium
Single	$522
Family	$1,010

This results in a monthly implicit subsidy for pre-Medicare retirees of approximately:

Rate Tier	Approximate Monthly Implicit Subsidy
Single	$47
Family	$64

For Medicare retirees, we believe the current premiums being charged by BCBS are self-supporting. For this reason, there is no implicit subsidy associated with this benefit.

Health Care Cost Trend
The following annual trend rates are applied to the expected monthly premiums and contributions on a select and ultimate basis:

Benefit	Select	Ultimate
Medical/Rx	11.0%	6.0%

Select trends are reduced 0.5% each year until reaching the ultimate trend.

Retirement Age
Retirement probabilities have been developed from the North Dakota Public Employee Retirement System Actuarial Valuation as of July 1, 2006.

Retirement probabilities for Main System members are based on the age of the employee. Sample retirement ages and the associated annual probabilities of retirement are as follows:

Age	Annual Probability
55	4.0%
57	6.0%
60	8.0%
62	35.0%
65	40.0%
67	20.0%
70	100.0%

Retirement probabilities for Judges begin at age 65. Thirty-five percent of Judges are assumed to retire at each age from 62 to 64, 50% at each age from 65 to 69, and 100% at age 70.

Retirement for members of the National Guard and Law Enforcement is assumed to occur at age 60 or initial eligibility date, whichever comes later.

Retirement for members of the Highway Patrol is assumed to occur at age 50 or initial eligibility date, whichever comes later.

Mortality
1983 Group Annuity Mortality Table, applied on a gender-specific basis

Termination
Probabilities of withdrawal for reasons other than death and retirement have been developed from the North Dakota Public Employee Retirement System Actuarial Valuation as of July 1, 2006.

Main System Employees
In the first five years of services, the assumed termination rates are as follows:

	Entry Age		
Years of Service	**Less than 30**	**30-39**	**40 & Over**
1	23%	17%	15%
2	20%	15%	12%
3	17%	13%	10%
4	16%	12%	8%
5	15%	11%	6%

After five years of services, the assumed withdrawal rates are as follows:

Age	Male	Female
20-24	12.0%	12.0%
25-29	8.0%	10.0%
30-34	5.0%	8.0%
35-39	3.5%	5.0%
40-44	3.0%	4.0%
45-49	2.5%	3.5%
50+	2.0%	3.0%

National Guard and Law Enforcement Employees
In the first five years of services, the assumed termination rates are as follows:

	Entry Age		
Years of Service	**Less than 30**	**30-39**	**40 & Over**
1	23%	17%	15%
2	20%	15%	12%
3	17%	13%	10%
4	16%	12%	8%
5	15%	11%	6%

After five years of services, the assumed termination rates are as follows:

Age	Male	Female
20-24	12.0%	12.0%
25-29	8.0%	10.0%
30-34	5.0%	8.0%
35-39	4.0%	6.0%
40-44	3.0%	5.0%
45-49	3.0%	4.0%
50+	2.0%	3.0%

Judges
Withdrawal rates at each age are 50% of the rate for members of the National Guard and Law Enforcement with at least five years of service.

Highway Patrol
Withdrawal rates are 2% per year under age 35 and 1% per year for age 35 and older.

Plan Participation Percentage
Plan participation probabilities have been developed from the North Dakota Public Employee Retirement System NDPERS Retiree Health Insurance Credit Valuation as of July 1, 2006. The percentage of eligible employees and their spouses who participate in the retiree health plan is dependent on the years of service at retirement.

The expected participation rates are as follows:

Years of Service	Main System, National Guard and Law Enforcement	Judges and Highway Patrol
Less than 3	0%	0%
3-4	25%	0%
5-9	50%	50%
10-14	70%	70%
15-19	80%	80%
20-24	95%	95%
25+	100%	100%

Dependent Composition at Retirement
For retired employees, the assumed number of eligible dependents is based on the current proportions of single and family contracts. For active employees, the percentage of employees with spouses is based on the current retiree population. We have assumed that 55% of male employees and 34% of female employees will have spouses at retirement.

Salary Increase Assumption
4.0% per Annum

Medicare Part D Prescription Drug Subsidy
Based on GASB Technical Bulletin No. 2006-1, an employer should apply the measurement requirements of GASB Statement 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost *without reduction* for RDS payments. For this reason, we have excluded the Medicare Part D employer subsidy from this valuation.

A summary of the current active employee and retired population for NDPERS is provided in the tables below:

	ACTIVE POPULATION			
Age Group	**Fully Eligible**	**Not Fully Eligible**	**Total**	**RETIRED EMPLOYEES**
<40	0	6,873	**6,873**	**0**
40-44	0	2,954	**2,954**	**4**
45-49	0	3,993	**3,993**	**19**
50-54	33	4,197	**4,230**	**76**
55-59	2,944	457	**3,401**	**327**
60-64	1,675	226	**1,901**	**838**
65-69	475	59	**534**	**1,153**
70-74	144	26	**170**	**1,228**
75-79	53	10	**63**	**926**
80-84	4	2	**6**	**614**
85+	0	0	**0**	**465**
Total	**5,328**	**18,797**	**24,125**	**5,650**

A summary of the current active employees based on years of service is provided in the table below:

Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
<40	4,664	1,589	474	141	5	0	0	**6,873**
40-44	1,146	776	441	413	170	8	0	**2,954**
45-49	1,189	973	559	572	393	285	22	**3,993**
50-54	1,000	903	608	720	401	368	230	**4,230**
55-59	763	629	437	647	384	309	232	**3,401**
60-64	375	342	256	426	226	137	139	**1,901**
65-69	106	127	73	133	44	31	20	**534**
70-74	43	37	33	30	12	6	9	**170**
75-79	18	12	14	8	6	1	4	**63**
80-84	3	0	0	1	0	2	0	**6**
85+	0	0	0	0	0	0	0	**0**
Total	**9,307**	**5,388**	**2,895**	**3,091**	**1,641**	**1,147**	**656**	**24,125**

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

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

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

Memorandum

TO: NDPERS Board

FROM: Rebecca

DATE: October 10, 2007

SUBJECT: 2007 Wellness Forum

The 2007 NDPERS Wellness Forum will be held on Wednesday, November 14, at the Heritage Center Auditorium. The wellness forum is designed for all Wellness Coordinators who are responsible for creating the wellness programming for their employers. For those employers currently not participating in the wellness program, the forum is an opportunity to learn more about the program and to consider participation for the July 1, 2008-June 30, 2009 plan year. The forum is web cast for those that can not attend in person. Also, the web cast is archived and posted to our website for viewing after the forum.

The following are some of the items that will be covered:

- Overview of what needs to be done for the 2008-2009 plan year wellness programming in order to receive the 1% discount for health insurance
- Changes related to Wellness Benefit Fund and the application process
- NDSU Extension Service, American Heart Association/Go Red, BCBS Member Education & Healthy ND resources
- Wellness Pilot Program update
- Assessment of 2006-2007 wellness programs
- Examples of different types of wellness programs that can be used

We have also invited the Governor to speak at this year's forum in support of the wellness initiatives being done by our employers. At this time, we are unsure if his schedule will allow his attendance.

This year's forum will also feature break-out sessions. Our goal through these break-out sessions is to promote the exchange of information between employers regarding programs being administered and their successes. Attached for your information is the tentative forum agenda. This item is informational only and requires no action by the board.

2007 Wellness Forum Agenda
November 14, 2007

8:15 – 8:25	**Opening remarks by Sparb Collins, NDPERS Executive Director**
8:25 – 8:40	**Administrative Issues by Rebecca Fricke, NDPERS Benefit Programs Administrator**
8:40 – 8:55	**Wellness Benefit Program Funding & Application Process by Kathy Allen, NDPERS Benefit Programs Manager**
8:55 – 9:05	**Tobacco Cessation Program by Rebecca Fricke, NDPERS Benefit Programs Administrator**
9:05 – 9:25	**Assessment of Program by Gary Liguori, NDSU Health, Nutrition and Exercise Science**
9:25 – 9:45	**Components of a Comprehensive Wellness Program by Nancy Vogeltanz-Holm**
9:45 – 10:00	**Break**
10:00 – 10:20	**Healthy ND Resources by TBD**
10:20 – 10:40	**Go Red/American Heart Association Programs by Joan Enderle**
10:40 – 11:00	**Interactive segment by Michael Carlson, BCBS Director of Corporate Wellness**
11:00 – 11:20	**BCBS Member Education Programs by Milissa Van Eps, BCBS Member Education Consultant**

11:20 – 11:40	**NDSU Extension Service Resources by Julie Garden-Robinson**
11:40 – 12:00	**Open Microphone for Comments & Questions**
12:00 – 1:10	**Lunch – on your own**
1:10 – 1:15	**Welcome back**
1:15 – 2:00	**Break-out Sessions***
2:00 – 2:45	**Break-out Sessions***
2:45 – 3:00	**Break**
3:00 – 3:45	**Break-out Sessions***
3:45 – 4:00	**Closing Comments**

*** Break-out sessions will be conducted to provide an opportunity for participants to hear an overview of various types of programs based upon the program point system (1 point programs, 2 point programs and 4 point comprehensive programs). The sessions will also allow participants an opportunity to visit with other employers about programs that have been conducted.**

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 & Kathy

DATE: October 10, 2007

SUBJECT: BCBS Efforts

As discussed at the August meeting with this renewal we are proposing to add several attachments that outline the understanding between BCBS and PERS relating to:

- Tobacco Cessation
- Wellness Benefit Program
- Wellness Pilot Project
- Case Management Service Agreement

At that time we reviewed the first draft of those attachments. Based upon suggestions from the board and staff the attached draft shows proposed modifications.

Attached for your review is the second draft. If this is acceptable we will forward to BCBS. Please note we are also awaiting a proposal from BCBS on Rx attachment.

Board Action Requested

Approve or disapprove developing the above attachments to the BCBS contract.

ATTACHMENT A

TABACCO CESSATION PROGRAM AGREEMENT

Deleted: SMOKING

THIS TABACCO CESSATION PROGRAM AGREEMENT (TCP Agreement), is entered into this ___ day of __________________, 2007, by and between the North Dakota Public Employees Retirement System (NDPERS), a public agency created under North Dakota state law, and Blue Cross Blue Shield of North Dakota (BCBSND), a North Dakota nonprofit mutual insurance company, located at 4510 13th Avenue South, Fargo, North Dakota.

Deleted: SMOKING

Deleted: S

RECITATIONS:

WHEREAS, the state of North Dakota, acting through the Department of Health, has received an appropriation from the state legislature in the amount of $150,000 for the purpose of funding employee tobacco education and cessation programs for state employees; and

Deleted: 3

WHEREAS, as it relates to this appropriation, the Department of Health has determined that NDPERS is to sponsor this tobacco cessation program based on its responsibilities related to the management of the group health plan and the program objectives for monitoring and containing health care; and

Deleted: smoking

WHEREAS, because BCBSND is contracted with NDPERS to provide health care benefits to NDPERS Members (as defined by the Administrative Services Agreement between NDPERS and BCBSND) (ASA Agreement), NDPERS has determined that BCBSND is to act as the administrator of the smoking cessation program.

NOW, WHEREFORE, in recognition of the mutual promises herein contained and for other good and valuable consideration hereby acknowledged by the parties hereto, NDPERS and BCBSND agree to the following:

I. RECOGNIZING THE TOBACCO CESSATION PROGRAM.

Deleted: UND WELLNESS

BCBSND acknowledges and agrees that it has reviewed the smoking cessation program contained in the [ADD NAME OF TABACCO CESSATION PROPOSAL BETWEEN PARTIES] and that the program as outlined in this [PROPOSAL] provides services consistent with the wellness initiative reflected in the Administrative Services Agreement between BCBSND and NDPERS.

Deleted: SMOKING

II. TERM.

This SCP Agreement shall begin on July 1, 2007, and shall extend to June 30, 2009.

III. SCOPE OF PROGRAM.

The tobacco cessation program as outlined in this TCP Agreement shall be made available to state employees and their eligible family members that are at least 18 years of age. An estimate of the total number of eligible employees and family members and those anticipated will participate are outlined in the [PROPOSAL].

Deleted: smoking

Deleted: S

IV. BENEFITS AVAILABLE.

Tabacco Cessation Benefits pursuant to this TCP Agreement are as follows:

Deleted: Smoking

Deleted: S

- $200.00 per Member/per Benefit Period for counseling services.

- $500.00 per Member/per Benefit Period for office visit, prescription drugs and over-the-counter drugs prescribed for tobacco cessation.

- $700.00 is the total amount of expenses available per Member/per Benefit Period under the program.

Each participant is eligible to participate in the smoking cessation program for a maximum benefit of $700.00 for each 6-month period under the term of this TCP Agreement.

Deleted: S

All funds shall be billed by and paid directly to BCBSND. NDPERS will not charge any fees to the smoking cessation program nor will it administer any funds for the program.

BCBSND shall reimburse providers monthly based on the paper billings submitted by those providers participating in the program. BCBSND will then submit the total claims received for reimbursement to the Department of Health on a monthly basis. The final invoice for services shall be submitted to the Department of Health no later than July 15, 2009. Funds shall be allocated on a first come first serve basis until all available funds are exhausted. Reimbursement shall be made to BCBSND on a monthly basis based on actual costs accrued by local providers participating in the smoking cessation program for services provided to eligible state employees and family members plus the administrative fee paid to BCBSND up to a total maximum amount of $150,000.00.

Deleted: 3

A Member is eligible to participate in the smoking cessation program during each of four separate benefit periods as follows:

07/01/2007 through 12/31/2007
01/01/2008 through 06/30/2008
07/01/2008 through 12/31/2008
01/01/2009 through 06/30/2009

The tobacco cessation program shall provide a combination of counseling to include initial assessment, physician office visit, nicotine replacement therapy, and prescription medication, if indicated, and follow-up support counseling as necessary by individual, group or telephone. Follow-up support must be conducted at 3-, 6-, 9- and 12-month intervals after the Member's "quit date." Local cessation programs will be strongly encouraged to develop incentives to complete counseling.

Deleted: smoking

Re-treatment shall be made available within 6 months and will be the responsibility of the counseling program with reimbursement available on the same basis as during any initial treatment phase.

V. PROVIDERS PARTICIPATING IN THE SMOKING CESSATION PROGRAM.

BCBSND is required to contact with providers interested in providing smoking cessation services pursuant to the program outlined in this TCP Agreement. Providers of health care services under the tobacco cessation program shall participate in the program pursuant to a contract as established between BCBSND and each provider.

Deleted: S

Deleted: smoking

Providers participating in the tobacco cessation program shall be responsible for providing the following to BCBSND.

Deleted: smoking

- Reporting admission and follow-up to BCBSND as well as medication recommendations and prescriptions.
- Reporting the number of counseling sessions and whether the sessions are group or individual.
- Reporting outgoing telephone call results as well as any telephone counseling sessions.
- Arrange for the physician office visit, if necessary, and collect receipts.
- Reporting prescriptions and receipts collected.
- Producing and submitting a monthly paper roster bill to BCBSND.
- Submitting encounter and follow-up data monthly to BCBSND.
- Verifying participant eligibility through BCBSND.
- Disburse reimbursement funds for nicotine replacement therapy, prescription drugs and physician visits based on receipts from the Member.
- Reporting over the counter recommendations and receipts collected

Formatted: Bullets and Numbering

VI. FEES.

As a result of the responsibilities assigned to BCBSND under the terms of the [PROPOSAL] and this TCP Agreement, BCBSND shall be paid an administrative fee for administering the smoking cessation program that shall be equal to ten percent (10%) of claims paid to providers to pay costs incurred by BCBSND as program administrator and granting entity. For example, if total claims submitted by the providers are $60,000.00, BCBSND will add a 10% administration fee for a total of $6,000.00. This administration fee shall not include any amounts payable to BCBSND for preparing promotional materials supporting the smoking cessation program as set forth in this TCP Agreement.

Deleted: S

Deleted: S

VII. REPORTING.

BCBSND agrees to provide the following reports:

- Track each patient receiving therapy and level of therapy.
- Develop a database to track the program and have the database format available to counseling programs for tracking.
- Report quit rates by counseling program at 3, 6, 9 and 12 months.

- Report every six months to the NDPERS and Department of Health program results and participation rates.

VIII. PROMOTION.

BCBSND shall develop and implement a plan to promote the smoking cessation services including but not limited to agency notes, paycheck stuffers, e-mail notices, posters, and notices to home addresses to be distributed at periodic intervals throughout the term of this TCP Agreement. The proposed promotion schedule for the term of this TCP Agreement is set forth in detail in the [PROPOSAL]. BCBSND shall be reimbursed $20,000 for the costs of these promotional activities.

Deleted: S
Deleted: S

IV. OTHER TERMS AND CONDITIONS.

The parties to this TCP Agreement acknowledge, understand and agree that the terms of the [PROPOSAL] in place between the Department of Health, NDPERS and BCBSND, including but not limited to terms that specifically relate to the administration, cancellation, termination and payment terms, are hereby incorporated into this TCP Agreement and applicable to this TCP Agreement related to the tobacco cessation program as if fully incorporated herein.

Deleted: S
Deleted: S
Deleted: S
Deleted: smoking

V. GENERAL PROVISIONS.

The following general conditions, covenants and obligations apply equally to both NDPERS and BCBSND under the terms of this TCP Agreement.

Deleted: S

Time is of the Essence. Time is of the essence of each provision of this entire TCP Agreement and all of its terms and conditions.

Deleted: S

Notice. Any notice required or permitted under the terms of this TCP Agreement shall, in all cases, be construed under the notice provision in the Health Dialogue Agreement.

Deleted: S

Assignment. No party may assign this TCP Agreement, or any of the obligations or duties mandated under the terms of this TCP Agreement, without the prior written consent of the other parties hereto.

Deleted: S
Deleted: S

Waiver. No delay or omission by any party to exercise any right or power under the terms of this TCP Agreement shall preclude the exercise of such right or power in subsequent instances or be construed to be a waiver thereof. A waiver by any party hereto of any of the covenants to be performed by any other party shall not be construed to be a waiver of any covenant herein contained, and the waiver of any breach of covenant shall not be construed to be a waiver of any succeeding breach thereof.

Deleted: S

Entire Agreement. To the extent this TCP Agreement affects the ASA Agreement between NDPERS and BCBSND, this TCP Agreement shall constitute the entire agreement between the parties, and any prior understandings or representations of any kind preceding the date of this TCP Agreement shall not be binding upon either party except to the extent expressly set forth in this TCP Agreement. In any case, the administration of any services under the terms of this TCP Agreement shall not be considered in the final accounting and reconciliation of the NDPERS health plan as administered by BCBDND pursuant to Article 7 of the Administrative Service Agreement between the parties.

Deleted: S
Deleted: S
Deleted: S
Deleted: S
Deleted: S

Modification. Any modification of this TCP Agreement or additional obligations assumed by any party in connection with this TCP Agreement shall be binding only if evidenced in writing and signed by each party or an authorized representative of each party hereto.

Counterparts. This TCP Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

Recitals and Paragraph Headings. The recitals to this TCP Agreement are deemed to be an expression of the intent of the parties hereto, and to the extent the recitals create any duties for or obligations on the parties to this TCP Agreement, such recitals are deemed to be a part of the TCP Agreement. The titles to the paragraphs of this TCP Agreement are solely for the convenience of the parties and shall not be used to explain, modify, simplify or aid in the interpretation of this TCP Agreement.

Binding Effect. This TCP Agreement is binding on the parties hereto, and to their successors and assigns, including any parent or subsidiary corporation.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this TCP Agreement as of the date first written above.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS) PO Box 1657 Bismarck, ND 55416	BLUE CROSS BLUE SHIELD OF NORTH DAKOTA (BCBSND) 4510 13^{th} Avenue South Fargo, ND 58121-0001
____________________ Name Date	____________________ Michael B. Unhjem Date
____________________ Title	President and CEO

Deleted: S
Deleted: S
Deleted: S
Deleted: S
Deleted: S
Deleted: S
Deleted: S
Deleted: S
Deleted: S
Deleted: S

ATTACHMENT B

NDPERS WELLNESS BENEFIT PROGRAM AGREEMENT

THIS NDPERS WELLNESS BENEFIT PROGRAM AGREEMENT (Wellness Agreement), is entered into this ___ day of __________________, 2007, by and between the North Dakota Public Employees Retirement System (NDPERS), a public agency created under North Dakota state law, and Blue Cross Blue Shield of North Dakota (BCBSND), a North Dakota nonprofit mutual insurance company, located at 4510 13th Avenue South, Fargo, North Dakota.

RECITATIONS:

WHEREAS, the state of North Dakota, acting through NDPERS, and BCBSND, in an effort to create healthier lifestyles for NDPERS Members (as defined by the Administrative Services Agreement between the parties) (ASA Agreement) and to help contain health care costs desire to promote, support and sponsor health and wellness initiatives; and

WHEREAS, pursuant to this Wellness Agreement, NDPERS and BCBSND have agreed to establish a Wellness Benefit Program related to health and wellness promotion for NDPERS Members subject to this Wellness Agreement; and

WHEREAS, the Wellness Benefit Program created through this Wellness Agreement between BCBS and NDPERS anticipates there will be costs and fees associated with supporting such health and wellness programs provided to NDPERS Members and to be administered through this agreement with BCBSND.

Deleted: UND

NOW, WHEREFORE, in recognition of the mutual promises herein contained and for other good and valuable consideration hereby acknowledged by the parties hereto, NDPERS and BCBSND agree to the following.

I. TERM.

The Wellness Benefit Program shall be effective from July 1, 2007 through June 30, 2009.

II. FEES.

NDPERS has approximately 51,000 non-Medicare lives **[?]** and this Wellness Agreement requires that a fee be imposed in the amount of $.12 per contract**[ADD FEE AMOUNT]** per month, not including medicare contracts, which monies shall be deposited into a separate account in support of the Wellness Benefit Program. Interest will not be paid on this account.

NDPERS agrees to pay this Wellness Agreement fee to BCBSND, on or before the last day of each month, as a part of the premium payment established in the ASA Agreement in place between the parties.

IV. OTHER TERMS AND CONDITIONS.

The Wellness Benefit Program is available to employer groups that participate in the NDPERS group health plan and participate in the Employer Based Wellness Program.

Applications for approval in the Wellness Benefit Program shall be submitted to the Bismarck NDPERS office to the attention of the Wellness Benefit Program Manager by each agency interested in establishing such a program.

A Wellness Committee shall be established to review any such applications submitted. The Wellness Committee shall be comprised of: one (1) NDPERS staff member, one (1) NDPERS board member and one (1) BCBSND staff member. Upon appointment, the Wellness Committee shall establish criteria to ensure a uniform basis upon which it may grant or deny each agency application. Wellness benefits or healthy lifestyle programs, such as smoking cessation, nutrition, exercise, stress management, weight control, wellness education and the number of people affected by each program will be taken into consideration and shall be part of the criteria established by the Wellness Committee.

The applying agency will be notified by the Wellness Committee within ~~thirty (30)~~ <u>sixty (60)</u> days of application of the approval or denial of the proposed program.

Funds may either be distributed directly to the applying agency or, preferably, paid directly to the vendor providing said service or facilitating said Wellness Benefit Program.

All funds distributed shall be for Wellness Benefit Programs completed within the current 2007-2009 biennium budget.

~~Funds are available for agency group activities only and will not be available to specific individuals or to fund specific individual memberships in diet programs or health, athletic or fitness clubs~~. <u>The program funds wellness benefits for healthy lifestyle programs. Individual memberships in diet programs, health, athletic or fitness clubs are not eligible for reimbursement. Also, the program will not fund the expense of incentives, prizes or gift certificates, services for massages, food items or services, bottled water or water dispenses, exercise equipment or health monitoring equipment or printing expenses. In addition, funds cannot be used for the benefit of dependents, the general public, or in the case of a campus or school, for students.</u>

~~Applying agencies that receive funds for a Wellness Benefit Program are required to submit to the Wellness Committee an evaluation of the sponsored program after its completion. The Wellness Committee will communicate an outline of the program funded and an evaluation of said program to all state agencies and encourage participation in those programs showing positive results in wellness and healthy lifestyle habits.~~

V. GENERAL PROVISIONS.

The following general conditions, covenants and obligations apply equally to both NDPERS and BCBSND under the terms of this Wellness Agreement.

Time is of the Essence. Time is of the essence of each provision of this entire Wellness Agreement and all of its terms and conditions.

Notice. Any notice required or permitted under the terms of this Wellness Agreement shall, in all cases, be construed under the notice provision in the Health Dialogue Agreement.

Assignment. No party may assign this Wellness Agreement, or any of the obligations or duties mandated under the terms of this Wellness Agreement, without the prior written consent of the other parties hereto.

Waiver. No delay or omission by any party to exercise any right or power under the terms of this Wellness Agreement shall preclude the exercise of such right or power in subsequent instances or be construed to be a waiver thereof. A waiver by any party hereto of any of the covenants to be performed by any other party shall not be construed to be a waiver of any covenant herein contained, and the waiver of any breach of covenant shall not be construed to be a waiver of any succeeding breach thereof.

Entire Agreement. To the extent this Wellness Agreement affects the ASA Agreement between NDPERS and BCBSND, this Wellness Agreement shall constitute the entire agreement between the parties, and any prior understandings or representations of any kind preceding the date of this Wellness Agreement shall not be binding upon either party except to the extent expressly set forth in this Wellness Agreement. In any case, the administration of any services under the terms of this Wellness Agreement shall not be considered in the final accounting and reconciliation of the NDPERS health plan as administered by BCB~~D~~SND pursuant to Article 7 of the Administrative Service Agreement between the parties.

Modification. Any modification of this Wellness Agreement or additional obligations assumed by any party in connection with this Wellness Agreement shall be binding only if evidenced in writing and signed by each party or an authorized representative of each party hereto.

Counterparts. This Wellness Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

Recitals and Paragraph Headings. The recitals to this Wellness Agreement are deemed to be an expression of the intent of the parties hereto, and to the extent the recitals create any duties for or obligations on the parties to this Wellness Agreement, such recitals are deemed to be a part of the Wellness Agreement. The titles to the paragraphs of this Wellness Agreement are solely for the convenience of the parties and shall not be used to explain, modify, simplify or aid in the interpretation of this Wellness Agreement.

Binding Effect. This Wellness Agreement is binding on the parties hereto, and to their successors and assigns, including any parent or subsidiary corporation.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this Wellness Agreement as of the date first written above.

NORTH DAKOTA PUBLIC EMPLOYEES
RETIREMENT SYSTEM (NDPERS)
PO Box 1657
Bismarck, ND 55416

BLUE CROSS BLUE SHIELD OF NORTH
DAKOTA (BCBSND)
4510 13th Avenue South
Fargo, ND 58121-0001

____
Name Date

____
Michael B. Unhjem Date

President and CEO

Title

ATTACHMENT C

UNIVERSITY OF NORTH DAKOTA (UND) WELLNESS CENTER PROGRAM AGREEMENT

THIS UNIVERSITY OF NORTH DAKOTA WELLNESS CENTER PROGRAM AGREEMENT (UND Agreement), is entered into this ___ day of __________________, 2007, by and between the North Dakota Public Employees Retirement System (NDPERS), a public agency created under North Dakota state law, and Blue Cross Blue Shield of North Dakota (BCBSND), a North Dakota nonprofit mutual insurance company, located at 4510 13th Avenue South, Fargo, North Dakota.

RECITATIONS:

WHEREAS, the state of North Dakota, acting through NDPERS, has entered into an agreement (Interagency Agreement) with the University of North Dakota School of Medicine & Health Sciences Center for Health Promotion (UND) dated June 9, 2005, to offer to certain NDPERS Members (as defined by the Administrative Services Agreement between the parties) (ASA Agreement) certain employee health promotion and wellness programs at various worksites in and around the state of North Dakota; and

WHEREAS, pursuant to this UND Agreement, BCBSND has agreed to assist in providing certain administrative services related to the health promotion and wellness program subject to the Interagency Agreement; and

WHEREAS, the Interagency Agreement between UND and NDPERS reflects a fee for the services UND is providing to NDPERS Members to be administered through an arrangement with BCBSND.

NOW, WHEREFORE, in recognition of the mutual promises herein contained and for other good and valuable consideration hereby acknowledged by the parties hereto, NDPERS and BCBSND agree to the following.

I. RECOGNIZING THE UND WELLNESS PROGRAM.

BCBSND acknowledges and agrees that it has reviewed the health promotion and wellness initiative program contained in the Interagency Agreement and that the program outlined in the Interagency Agreement provides services consistent with the wellness initiative reflected in the Administrative Services Agreement between BCBSND and NDPERS.

II. FEES.

BCBSND agrees that monies made available for wellness services pursuant to the ASA Agreement in place between NDPERS and BCBSND are appropriate for the costs of services anticipated in the Interagency Agreement, and that BCBSND will pay these costs as appropriate as directed by NDPERS pursuant to this Interagency Agreement up to the amount reflected and made available through the Interagency Agreement.

IV. GENERAL PROVISIONS.

Deleted: IV. OTHER TERMS AND CONDITIONS.

NDPERS acknowledges, understands and agrees that the terms of the Health Dialogue Agreement and NDPERS Work Order IN PLACE BETWEEN Health Dialog and BCBSND, including but not limited to terms that specifically relate to the administration, cancellation, termination and payment terms, are hereby incorporated into this DMS Agreement and applicable to this DMS Agreement related to the Disease Management Program as if fully incorporated herein.

Deleted: V

The following general conditions, covenants and obligations apply equally to both NDPERS and BCBSND under the terms of this UND Agreement.

Time is of the Essence. Time is of the essence of each provision of this entire UND Agreement and all of its terms and conditions.

Notice. Any notice required or permitted under the terms of this UND Agreement shall, in all cases, be construed under the notice provision in the Health Dialogue Agreement.

Assignment. No party may assign this UND Agreement, or any of the obligations or duties mandated under the terms of this UND Agreement, without the prior written consent of the other parties hereto.

Waiver. No delay or omission by any party to exercise any right or power under the terms of this UND Agreement shall preclude the exercise of such right or power in subsequent instances or be construed to be a waiver thereof. A waiver by any party hereto of any of the covenants to be performed by any other party shall not be construed to be a waiver of any covenant herein contained, and the waiver of any breach of covenant shall not be construed to be a waiver of any succeeding breach thereof.

Entire Agreement. To the extent this UND Agreement affects the ASA Agreement between NDPERS and BCBSND, this UND Agreement shall constitute the entire agreement between the parties, and any prior understandings or representations of any kind preceding the date of this UND Agreement shall not be binding upon either party except to the extent expressly set forth in this UND Agreement. In any case, the administration of any services under the terms of this UND Agreement shall not be considered in the final accounting and reconciliation of the NDPERS health plan as administered by BCBDND pursuant to Article 7 of the Administrative Service Agreement between the parties.

Modification. Any modification of this UND Agreement or additional obligations assumed by any party in connection with this UND Agreement shall be binding only if evidenced in writing and signed by each party or an authorized representative of each party hereto.

Counterparts. This UND Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

Recitals and Paragraph Headings. The recitals to this UND Agreement are deemed to be an expression of the intent of the parties hereto, and to the extent the recitals create any duties for or obligations on the parties to this UND Agreement, such recitals are deemed to be a part of the UND Agreement. The titles to the paragraphs of this UND Agreement are solely for the convenience of the parties and shall not be used to explain, modify, simplify or aid in the interpretation of this UND Agreement.

Binding Effect. This UND Agreement is binding on the parties hereto, and to their successors and assigns, including any parent or subsidiary corporation.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this UND Agreement as of the date first written above.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)	BLUE CROSS BLUE SHIELD OF NORTH DAKOTA (BCBSND)

PO Box 1657 Bismarck, ND 55416	4510 13th Avenue South Fargo, ND 58121-0001
________________________ Name Date	________________________ Michael B. Unhjem Date
________________________ Title	President and CEO

ATTACHMENT D

DISEASE MANAGEMENT SERVICES AGREEMENT

THIS DISEASE MANAGEMENT SERVICES AGREEMENT (DMS Agreement), is entered into this ___ day of ___________________, 2007, by and between the North Dakota Public Employees Retirement System (NDPERS), a public agency created under North Dakota state law, and Blue Cross Blue Shield of North Dakota (BCBSND), a North Dakota nonprofit mutual insurance company, located at 4510 13th Avenue South, Fargo, North Dakota.

RECITATIONS:

WHEREAS, BCBSND has entered into an agreement with NDPERS to offer to NDPERS Members (as defined by the Administrative Services Agreement between the parties) (ASA Agreement) an integrated approach to care management services, including tools and capabilities to identify, reach, and engage Members and populations of Members who have, or are at risk of having, chronic or other preference sensitive medical conditions, and to provide medical decision support services and to disseminate medical decision support content to these Members and Member populations (hereinafter referred to as a "Disease Management Program"); and

WHEREAS, pursuant to this DMS Agreement, BCBSND has entered into a Shared Decision-Making and Collaborative Care Support Services Agreement (Health Dialog Agreement), dated August 6, 2004, as amended through Health Dialog Work Order **[NOTE: ADD UPDATED WORK ORDER NUMBER]** (NDPERS Work Order), dated **[ADD NEW DATE]**, with an outside vendor, Health Dialog, to assist in providing these services and administering the Disease Management Program, and which contains certain provisions related to the Disease Management Program, and

WHEREAS, the Health Dialog Agreement reflects a fee for these services for NDPERS Members to be administered through an arrangement with BCBSND pursuant to certain performance guarantees and premium at risk as set forth below.

NOW, WHEREFORE, in recognition of the mutual promises herein contained and for other good and valuable consideration hereby acknowledged by the parties hereto, NDPERS and BCBSND agree to the following.

I. BENEFITS AND SAVINGS RESULTING FROM THE DISEASE MANAGEMENT PROGRAM.

BCBSND acknowledges, understands and agrees that any benefits or monetary savings resulting from the administration of the Disease Management Program, as this program relates to NDPERS Members as determined by BCBSND, are to be passed directly through to NDPERS.

II. FEES.

NDPERS has approximately 51,000 non-Medicare lives and this DMS Agreement requires that the fee be increased to $3.88**[ADD NEW FEE]** per member per month not including medicare contracts.

III. PARAMETERS OF THE PROGRAM.

If the following criteria are not met for the NDPERS population, Health Dialogue will refund to BCBSND the percentage of dollars as set forth in the parentheticals below of dollars received for the purchase of services from Health Dialogue.

During the initial twelve (12) months of the program at the call center:

1. Average telephone answer time is less than or equal to forty (40) seconds [three percent (3%) of fee].

2. Average telephone hold time is less than or equal to thirty (30) seconds [three percent (3%) of fee].

3. Average blockage rate on telephone is less than or equal to three percent (3%) [three percent (3%) of fee].

By the end of the initial twelve (12) months of the program:

The savings achieved by the program (measured using the standard Health Dialogue methodology for computing savings for both Preference Sensitive Conditions and Chronic Conditions) will equal the fees paid during the previous twelve (12) months [eleven percent (11%) of the fee].

A total of twenty percent (20%) of the program fee is at risk.

The second year of the contract will be guaranteed and measured ion the same criteria for the call center, and the savings will increase to 1.3 times the fees paid during the second twelve (12) months.

BCBSND will pass the entire amount of this guarantee through to the NDPERS plan.

IV. GENERAL PROVISIONS.

The following general conditions, covenants and obligations apply equally to both NDPERS and BCBSND under the terms of this DMS Agreement.

Time is of the Essence. Time is of the essence of each provision of this entire DMS Agreement and all of its terms and conditions.

Notice. Any notice required or permitted under the terms of this DMS Agreement shall, in all cases, be construed under the notice provision in the Health Dialogue Agreement.

Assignment. No party may assign this DMS Agreement, or any of the obligations or duties mandated under the terms of this DMS Agreement, without the prior written consent of the other parties hereto.

Waiver. No delay or omission by any party to exercise any right or power under the terms of this DMS Agreement shall preclude the exercise of such right or power in subsequent instances or be construed to be a waiver thereof. A waiver by any party hereto of any of the covenants to be

Deleted: IV. OTHER TERMS AND CONDITIONS.¶
¶
NDPERS acknowledges, understands and agrees that the terms of the Health Dialogue Agreement and NDPERS Work Order IN PLACE BETWEEN Health Dialog and BCBSND, including but not limited to terms that specifically relate to the administration, cancellation, termination and payment terms, are hereby incorporated into this DMS Agreement and applicable to this DMS Agreement related to the Disease Management Program as if fully incorporated herein

Deleted: V

performed by any other party shall not be construed to be a waiver of any covenant herein contained, and the waiver of any breach of covenant shall not be construed to be a waiver of any succeeding breach thereof.

Entire Agreement. To the extent this DMS Agreement affects the ASA Agreement between NDPERS and BCBSND, this DMS Agreement shall constitute the entire agreement between the parties, and any prior understandings or representations of any kind preceding the date of this DMS Agreement shall not be binding upon either party except to the extent expressly set forth in this DMS Agreement. In any case, the administration of any services under the terms of this DMS Agreement shall not be considered in the final accounting and reconciliation of the NDPERS health plan as administered by BCBDND pursuant to Article 7 of the Administrative Service Agreement between the parties.

Modification. Any modification of this DMS Agreement or additional obligations assumed by any party in connection with this DMS Agreement shall be binding only if evidenced in writing and signed by each party or an authorized representative of each party hereto.

Counterparts. This DMS Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

Recitals and Paragraph Headings. The recitals to this DMS Agreement are deemed to be an expression of the intent of the parties hereto, and to the extent the recitals create any duties for or obligations on the parties to this DMS Agreement, such recitals are deemed to be a part of the DMS Agreement. The titles to the paragraphs of this DMS Agreement are solely for the convenience of the parties and shall not be used to explain, modify, simplify or aid in the interpretation of this DMS Agreement.

Binding Effect. This DMS Agreement is binding on the parties hereto, and to their successors and assigns, including any parent or subsidiary corporation.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this DMS Agreement as of the date first written above.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)
PO Box 1657
Bismarck, ND 55416

____
Name Date

____
Title

BLUE CROSS BLUE SHIELD OF NORTH DAKOTA (BCBSND)
4510 13th Avenue South
Fargo, ND 58121-0001

____
Michael B. Unhjem Date

President and CEO

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

M E M O R A N D U M

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

FROM: BRYAN T. REINHARDT BTR

DATE: September 26, 2007

SUBJECT: GROUP MEDICAL PLAN - SURPLUS/AFFORDABILITY UPDATE

Here is the August surplus projection and affordability analysis for the NDPERS group medical plan. The plan made it through the 2005-2007 biennium. We will start to analyze the 07-09 period after about six months of experience.

Net premium sent to BCBS in July 2007 was $13,406,858. In July 2005 it was $10,853,370. There are now 24,358 contracts on the NDPERS Health Plan. The NDPERS health plan ended up with 23,580 contracts in June, 2005. There were 22,947 contracts in June, 2003, and 21,792 in July 2001.

The 2003 - 2005 biennium settlement is on account at BCBS with a balance of $2 million. The remaining $14.3 million was used to buy down premiums for the 05-07 biennium. These amounts are at BCBS and receiving interest.

The projection for the 2005 - 2007 biennium shows a June 30, 2007 ending gain of $1.5 million. Since we share 50/50 in the first $3.0 million surplus with BCBS, future growth in this surplus will be difficult. BCBS has the IBNR estimate for this projection at $3,050,000.

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

NDPERS - ESTIMATED SURPLUS PROJECTION: 2005-2007 BIENNIUM

August, 2007

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

1) Preliminary Underwriting Gain for the 2005-2007 Biennium		($12,502,100)
2) Cash Balance Interest Accumulation		$1,297,069
3) Estimated Underwriting Gain for the 2005-2007 Biennium		($11,205,031)
5) Refunds and Settlements		
07/01/05 - 6/30/07 Perform Rebates	(Included as claim rebates)	$3,334,945
EPO Settlement Payments 7/05 - 6/06	(Included as rebates & paid)	$1,277,000
EPO Settlement Payments 7/06 - 6/07	(Included as rebates & paid)	$0
6) Cash Reserve Account Balance		$15,666,912
2003-2005 Settlement Cash Out:		($1,439,151)
Future Interest:		$0
Total		$14,227,761
7) Total Estimated Surplus Held by BCBS		$3,022,730
8) BCBS Portion of Surplus (50% upto $1,500,000)		$1,500,000
9) PERS Portion of Surplus Held by BCBS		$1,522,730
10) NDPERS Wellness Accounts		
My Health Connection		$0
Employer Based Wellness		$0
Wellness Benefit Program		$0
SubTotal		$0
Total Adjusted for Usage		$0
11) Total Estimated Funds Available to PERS on June 30, 2007		$1,522,730

NDPERS - Projected Underwritten Experience for the 2005-2007 Biennium

August, 2007

MONTH	NET PREMIUM COLLECTED	PREMIUM ADJUSTMENT	TOTAL PREMIUM INCOME	ADMIN EXPENSE $26.98/CON	NET PREMIUM	CLAIMS INCURRED & PAID TO DATE	ESTIMATED IBNR CLAIMS	TOTAL INCURRED CLAIMS (1)	ESTIMATED GAIN / LOSS
Jul-05	$11,491,070	($2,387)	$11,488,683	$637,699	$10,850,984	$10,943,538	$0	$10,943,538	($92,554)
Aug-05	$11,486,984	$0	$11,486,984	$635,676	$10,851,308	$10,794,411	$0	$10,794,411	$56,897
Sep-05	$11,592,130	$0	$11,592,130	$641,396	$10,950,735	$9,706,347	$0	$9,706,347	$1,244,388
Oct-05	$11,564,639	($995)	$11,563,644	$640,748	$10,922,896	$10,054,277	$0	$10,054,277	$868,619
Nov-05	$11,565,139	$1,417	$11,566,556	$640,478	$10,926,078	$11,389,254	$0	$11,389,254	($463,176)
Dec-05	$11,575,731	$7,675	$11,583,406	$640,829	$10,942,577	$11,776,618	$0	$11,776,618	($834,041)
Jan-06	$11,053,969	$332	$11,054,300	$644,606	$10,409,694	$10,015,286	$0	$10,015,286	$394,408
Feb-06	$11,053,628	$0	$11,053,628	$645,308	$10,408,320	$9,720,734	$0	$9,720,734	$687,586
Mar-06	$11,049,994	($26,775)	$11,023,218	$645,146	$10,378,073	$12,280,400	$0	$12,280,400	($1,902,327)
Apr-06	$11,066,004	($36,321)	$11,029,683	$645,820	$10,383,862	$10,970,886	$0	$10,970,886	($587,024)
May-06	$11,064,390	$3,501	$11,067,891	$646,198	$10,421,693	$11,062,567	$0	$11,062,567	($640,874)
Jun-06	$11,076,821	$0	$11,076,821	$647,385	$10,429,436	$11,677,285	$0	$11,677,285	($1,247,849)
Jul-06	$11,056,557	$0	$11,056,557	$646,495	$10,410,063	$10,385,413	$0	$10,385,413	$24,650
Aug-06	$11,052,995	$0	$11,052,995	$646,414	$10,406,581	$11,491,028	$0	$11,491,028	($1,084,447)
Sep-06	$11,153,014	$0	$11,153,014	$650,785	$10,502,229	$10,104,405	$0	$10,104,405	$397,824
Oct-06	$11,116,487	$6,351	$11,122,838	$650,515	$10,472,323	$11,332,043	$0	$11,332,043	($859,720)
Nov-06	$11,146,017	($8,222)	$11,137,795	$652,916	$10,484,879	$11,258,826	$0	$11,258,826	($773,947)
Dec-06	$11,130,343	($12,813)	$11,117,530	$651,972	$10,465,558	$11,500,112	$30,000	$11,530,112	($1,064,554)
Jan-07	$11,173,395	($5,016)	$11,168,379	$654,643	$10,513,737	$11,666,747	$80,000	$11,746,747	($1,233,010)
Feb-07	$11,192,661	$1,098	$11,193,759	$658,177	$10,535,582	$9,790,717	$90,000	$9,880,717	$654,865
Mar-07	$11,192,066	$4,290	$11,196,356	$656,154	$10,540,202	$11,975,708	$200,000	$12,175,708	($1,635,506)
Apr-07	$11,212,566	$6,117	$11,218,683	$657,017	$10,561,666	$11,084,212	$350,000	$11,434,212	($872,546)
May-07	$11,213,832	$6,568	$11,220,400	$656,909	$10,563,491	$11,711,003	$800,000	$12,511,003	($1,947,512)
Jun-07	$11,210,872	$4,950	$11,215,822	$657,125	$10,558,697	$10,650,991	$1,500,000	$12,150,991	($1,592,294)
BIENNIAL TOTAL	$269,491,302	($50,231)	$269,441,072	$15,550,409	$253,890,663	$263,342,808	$3,050,000	$266,392,808	($12,502,145)

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

NDPERS

Memo

To: NDPERS Board

From: Bryan T. Reinhardt

CC: Sparb, Kathy, Deb

Date: 10/15/2007

Re: 2005 NDPERS Inpatient Comparison

Here is the 2005 comparison of NDPERS inpatient claims with the National Hospital Discharge Survey. Overall, NDPERS has about 68% of the 2005 national average inpatient hospital episodes. The percentages since 1990 were:

1990 – 67.4%	1991 – 63.3%	1992 – 62.9%	1993 – 63.5%
1994 – 63.3%	1995 – 66.4%	1996 – 63.6%	1997 – 63.9%
1998 – 63.9%	1999 – 65.9%	2000 – 71.6%	2001 – 71.4%
2002 – 67.9%	2003 – 69.2%	2004 – 65.8%	2005 – 67.8%

The shaded areas are where the NDPERS rates are higher than the national figures.

Compared to the 2005 results, NDPERS was higher than the national rate in:

-Benign Neoplasms

-Coronary Atherosclerosis

-Diseases of the Musculoskeletal System & Connective Tissue

    -Osteoarthrosis and Allied Disorders

    -Intervertebral Disc Disorders

-Symptoms, Signs, and Ill-defined Conditions

-Complications of Surgical and Medical Care

These categories are similar to the ones where the NDPERS Health Plan was higher in previous studies.

If you have any questions, let me know.

2005 INPATIENTS DISCHARGED PER 10,000 POPULATION BY CATEGORY OF FIRST-LISTED ICD-9 DIAGNOSIS, EXCLUDES NEWBORN CARE

Category of first-listed diagnosis and ICD-9 code		UNITED STATES TOTAL	NDPERS TOTAL	UNITED STATES MALE	UNITED STATES FEMALE	NDPERS MALE	NDPERS FEMALE	UNITED STATES UNDER 15 YEARS	UNITED STATES 15-44 YEARS	UNITED STATES 45-64 YEARS	UNITED STATES 65 YEARS & OVER	NDPERS UNDER 15 YEARS	NDPERS 15-44 YEARS	NDPERS 45-64 YEARS	NDPERS 65 YEARS & OVER
All conditions		1174.4	795.7	959.0	1382.2	698.0	888.4	400.5	853.3	1147.0	3595.6	223.1	610.7	828.2	2115.9
Infectious and parasitic diseases	001-139	35.4	16.5	34.4	36.4	19.1	14.2	23.4	14.1	33.6	131.2	10.7	7.4	21.3	40.3
Septicemia	038	16.6	9.5	16.6	16.6	10.8	8.1	1.0	3.0	15.4	90.8	3.2	3.9	12.2	27.9
Neoplasms	140-239	54.7	52.5	45.1	63.9	43.3	61.3	4.5	21.6	86.0	188.1	2.1	12.8	84.5	158.0
Malignant neoplasms	140-208,230-234	40.5	37.3	40.0	41.0	38.9	35.8	3.3	9.5	61.7	165.3	1.1	5.4	56.3	134.8
Malignant neoplasm of large intestine and rectum	153-154,197.5	5.0	4.7	4.9	5.1	6.4	3.2	*	0.4	6.5	26.1	0.0	1.0	4.8	23.2
Malignant neoplasm of trachea, bronchus, and lung	162,176.4,197.0,197.3	5.2	3.6	5.5	5.0	6.0	1.4	*	0.6	7.4	25.2	0.0	0.0	4.8	17.0
Benign neoplasms	210-229	12.5	14.2	3.5	21.1	3.0	24.8	0.7	11.3	22.5	16.0	1.1	7.4	27.6	15.5
Benign neoplasm of uterus	218-219	6.8	7.6	-	13.4	0.0	14.9	*	8.3	13.2	*	0.0	5.4	16.5	0.0
Endocrine, nutritional and metabolic diseases, and immunity disorders	240-279	57.9	33.8	49.2	66.2	28.8	38.6	33.5	28.8	67.8	177.1	28.8	21.1	44.1	51.1
Diabetes mellitus	250	19.8	7.5	19.5	20.1	10.5	4.6	4.5	12.6	28.7	52.0	3.2	2.5	11.7	17.0
Volume depletion	276.5	16.9	8.4	14.2	19.6	5.6	11.0	24.3	3.9	10.4	61.8	19.2	2.9	6.4	15.5
Diseases of the blood and blood-forming organs	280-289	15.4	6.0	12.0	18.7	7.5	4.6	9.4	9.2	13.7	49.7	4.3	2.5	8.5	12.4
Anemias	280-285	11.0	3.3	8.3	13.6	4.1	2.5	4.6	7.5	9.2	37.2	2.1	1.5	4.3	7.7
Mental disorders	290-319	81.2	46.2	82.8	79.8	44.1	48.2	20.4	108.0	93.5	66.9	34.2	63.8	37.2	34.1
Psychoses	290-299	59.2	26.4	57.4	60.9	22.4	30.1	*	77.6	67.9	56.7	11.7	34.9	25.0	24.8
Schizophrenic disorders	295	11.9	1.1	13.3	10.5	1.1	1.1	*	15.7	17.8	6.3	0.0	2.5	0.5	0.0
Major depressive disorder	296.2-296.3	15.9	12.0	12.4	19.4	7.1	16.6	*	21.1	18.8	13.6	2.1	18.2	12.2	6.2
Diseases of the nervous system and sense organs	320-389	19.1	12.5	16.4	21.8	10.1	14.9	13.9	11.0	17.1	59.4	5.3	10.3	13.8	26.3
Diseases of the circulatory system	390-459	208.7	131.6	216.3	201.2	184.2	81.8	4.7	34.9	249.1	1055.1	0.0	10.8	188.2	539.0
Essential hypertension	401	10.2	0.5	8.7	11.7	1.1	0.0	*	3.3	18.9	33.0	0.0	0.0	1.1	1.5
Heart Disease	391-392.0,393-398,402, 404,410-416,420-429	143.3	101.4	153.3	133.7	149.1	56.3	2.5	21.3	170.6	735.8	0.0	8.3	148.3	405.8
Acute myocardial infarction	410	23.1	20.2	28.0	18.4	32.5	8.5	*	3.1	29.5	116.8	0.0	1.0	31.4	77.4
Coronary atherosclerosis	414.0	33.2	39.8	43.4	23.4	63.9	17.0	*	3.2	54.0	148.4	0.0	2.0	71.2	125.5
Other ischemic heart disease	411-413,414.1-414.9	5.6	3.3	5.7	5.5	4.5	2.1	*	1.8	9.4	20.3	0.0	0.0	5.3	12.4
Cardiac dysrhythmias	427	26.2	14.4	25.2	27.2	18.7	10.3	0.8	3.9	25.0	146.1	0.0	1.5	17.5	66.6
Congestive heart failure	428.0,428.2-428.4	36.6	13.6	33.9	39.1	18.3	9.2	*	3.3	32.3	217.4	0.0	0.5	13.3	75.9
Cerebrovascular disease	430-438	30.3	17.1	28.9	31.7	19.4	14.9	*	3.8	30.4	169.8	0.0	0.0	21.3	83.6
Diseases of the respiratory system	460-519	126.9	61.8	121.7	132.0	68.0	55.9	103.7	29.6	113.4	522.3	49.1	20.1	44.7	261.8
Acute bronchitis and bronchiolitis	466	7.8	2.5	8.1	7.5	3.0	2.1	25.6	1.1	2.5	11.7	7.5	2.0	0.0	4.6
Pneumonia	480-486	46.3	28.5	44.9	47.7	32.1	25.1	31.9	8.8	34.5	221.3	21.3	6.9	22.3	125.5
Chronic bronchitis	491	19.3	5.8	18.0	20.5	7.1	4.6	*	1.3	22.8	104.9	0.0	0.0	2.1	43.4
Asthma	493	16.6	3.6	13.3	19.7	2.6	4.6	26.2	7.8	16.4	30.5	4.3	1.0	2.7	13.9
Diseases of the digestive system	520-579	115.9	76.5	106.6	124.9	68.4	84.3	35.6	66.6	144.6	359.2	19.2	52.0	78.7	230.8
Appendicitis	540-543	10.9	8.2	12.4	9.4	9.3	7.1	12.9	13.0	8.2	5.8	8.5	12.3	4.3	6.2
Noninfectious enteritis and colitis	555-558	10.8	6.7	8.2	13.2	4.5	8.9	6.7	7.5	10.3	29.4	0.0	4.9	8.5	17.0
Intestinal obstruction	560	10.3	10.2	9.3	11.3	8.6	11.7	1.7	3.2	12.2	44.6	2.1	3.9	13.8	31.0
Diverticula of intestine	562	10.4	8.5	8.7	12.1	7.8	9.2	*	3.0	14.5	44.6	0.0	3.9	11.2	27.9
Cholelithiasis	574	11.0	7.5	8.0	14.0	5.2	9.6	*	8.5	13.0	33.7	0.0	4.9	9.0	21.7
Acute pancreatitis	577	8.0	4.0	8.9	7.2	3.7	4.2	*	6.6	12.1	17.2	1.1	2.5	3.7	13.9
Diseases of the genitourinary system	580-629	67.2	52.5	44.3	89.3	28.4	75.4	15.0	42.9	68.1	234.0	7.5	40.7	59.0	136.3
Calculus of kidney and ureter	592	6.2	4.2	6.5	6.0	5.2	3.2	*	6.0	9.4	10.1	0.0	2.5	6.9	7.7
Urinary tract infection	599	16.3	7.1	10.8	21.6	3.0	11.0	4.6	3.4	9.1	93.5	1.1	3.9	4.3	34.1
Complications of pregnancy, childbirth, and the puerperium	630-677	18.1	5.5	-	35.6	-	10.6	*	42.7	*	-	0.0	14.7	0.0	0.0
Diseases of the skin and subcutaneous tissue	680-709	25.4	10.2	27.6	23.4	10.8	9.6	*	15.1	30.9	61.5	2.1	4.9	13.3	29.4
Cellulitis and abscess	681-682	18.7	7.8	20.7	16.7	8.6	7.1	10.3	11.5	24.1	45.9	2.1	3.9	10.1	21.7
Diseases of the musculoskeletal system and connective tissue	710-739	65.9	80.5	57.3	74.2	76.2	84.6	6.5	24.3	94.2	248.9	2.1	23.6	105.8	300.5
Osteoarthrosis and allied disorders	715	25.8	41.1	20.1	31.2	35.9	46.0	*	1.3	36.5	129.8	0.0	2.0	48.9	201.4
Intervertebral disc disorders	722	10.6	14.5	10.6	10.6	16.4	12.7	*	8.9	19.2	16.7	0.0	13.7	22.3	15.5
Congenital anomalies	740-759	6.2	4.7	6.8	5.5	4.5	5.0	21.3	2.2	2.4	2.1	17.1	1.5	2.7	3.1
Certain conditions originating in the perinatal period	760-779	6.8	2.5	8.3	5.4	3.4	1.8	33.1	*	*	*	14.9	0.0	0.0	0.0
Symptoms, signs, and ill-defined conditions	780-799	6.7	21.3	6.1	7.3	18.7	23.7	7.7	5.0	7.0	10.4	4.3	6.9	22.9	86.7
Injury and poisoning	800-999	95.7	61.6	96.7	94.8	59.4	63.7	36.8	64.6	96.8	296.5	18.1	35.3	72.8	175.0
Fractures, all sites	800-829	34.2	20.2	30.0	38.2	14.9	25.1	11.0	18.8	24.9	142.9	6.4	13.7	11.7	85.2
Fracture of neck of femur	820	10.2	6.0	6.0	14.4	1.1	10.6	*	0.6	3.8	72.3	0.0	0.0	2.1	44.9
Poisonings	960-989	8.8	1.1	8.4	9.1	1.1	1.1	2.4	12.4	9.1	6.2	1.1	2.0	0.5	0.0
Complications of surgical and medical care	996-999	29.2	30.2	28.4	30.0	30.6	29.7	7.0	14.0	41.6	93.3	2.1	11.8	53.7	60.4
Supplementary classifications	V01-V84	167.1	119.3	27.3	302.0	23.2	210.3	12.6	332.9	28.8	132.9	3.2	282.3	30.8	31.0
Female with deliveries	V27	136.8	102.2	-	268.8	-	199.0	1.0	322.2	1.0	-	0.0	274.9	1.1	0.0

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

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

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

Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **October 10, 2007**

SUBJECT: **Deferred Compensation Plan and Companion Plan Restated Plan Documents**

Included for your review are the restated plan documents for the 457 Deferred Compensation Plan and the Deferred Compensation Companion Plan. The plan documents were revised to incorporate provisions of the Pension Protection Act of 2006 which allows non-spouse beneficiaries the option to rollover eligible amounts to inherited IRAs. This is an optional changed allowed by the act. The affected sections in each plan document are as follows:

- 457 Deferred Comp Plan, Section 9.7 b & c, Direct Rollovers
- Deferred Comp Companion Plan, Section 10.7 b & c, Direct Rollovers

Currently, the only distribution option for a non-spouse beneficiary is a lump sum. Adopting this change will permit them the option of the rollover which is a non-taxable event.

Staff recommends that this provision be adopted for both plans.

Board Action Requested

Approve plan document revision to allow the rollover option for non-spouse beneficiaries.

NORTH DAKOTA STATE DEFERRED COMPENSATION PROGRAM

SECTION 457 DEFERRED COMPENSATION PLAN

Amended and Restated

Effective July 1, 2007

Deleted: 5

Adoption Resolution

Resolved, that effective July 1, 2007, the State of North Dakota has adopted the attached amended and restated Section 457 Plan. The Plan is intended to satisfy the requirements of Section 457(b) of the Internal Revenue Code of 1986, as amended, and its associated regulations.

Deleted: 5

_________________________________ _________________________________

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SECTION 457 DEFERRED COMPENSATION PLAN

ARTICLE 1
DEFINITIONS

1.1 **Administrative Service Provider**

"Administrative Service Provider" means any entity or individual designated by the Board to provide contractual administrative services to the Plan.

1.2 **Administrator**

"Administrator" means the North Dakota Public Employees Retirement System.

1.3 **Beneficiary**

"Beneficiary" means a beneficiary designated by the Participant. If no beneficiary has been designated or if the designated beneficiary(ies) predeceases the Participant, "Beneficiary" means the estate of the Participant.

1.4 **Board**

"Board" means the North Dakota Public Employees State Retirement Board.

1.5 **Code**

"Code" means the federal Internal Revenue Code of 1986, as amended.

1.6 **Deferred Compensation**

"Deferred Compensation" means amounts deferred under Article 4, including unused annual leave, sick leave and back pay. It does not include any amount payable under any bona fide vacation leave, sick leave, compensation time, severance pay, disability pay or death benefit plans of the Employer.

1.7 **Employee**

"Employee" means an individual who works a minimum average of 20 hours per week for 20 or more weeks per year, is at least 18 years of age, and fills a permanent position that is regularly funded and not of limited duration. "Employee" does not include independent contractors.

1.8 **Employer**

"Employer" means the State of North Dakota, and any of its departments, divisions, agencies or institutions. Employer also means any city, county or other political subdivision of the State of North Dakota that enters into an agreement with the Board to extend this Plan to its Employees.

1.9 **Gross Compensation**

"Gross Compensation" means the gross salary which would be paid to the Participant by the Employer for the calendar year, before payroll taxes or any other deductions are withheld, if a Deferred Compensation Agreement had not been entered into between the Participant and the Employer. "Gross Compensation" does not include retirement or severance incentive payments.

1.10 **Includible Compensation**

"Includible Compensation" means compensation for services performed for the Employer for the calendar and shall include any elective deferral (as defined in Section 402(g) of the Code) and amounts contributed or deferred by the Employer at the election of the Employee and which, by reason of Section 125, 132(f)(4) or 457 of the Code are not includible in the Participant's gross income. Includible Compensation is determined without regard to any community property laws.

1.11 **Investment Provider**

"Investment Provider" means an individual or entity designated by the Board to provide investment management services to the Plan.

1.12 **Normal Retirement Age**

"Normal Retirement Age" means the date chosen by the Participant not beginning before the earliest date (but not later than age 70 1/2) on which the Participant has the right to retire under the retirement plan of the Employer in which the Participant is enrolled and to receive immediate retirement benefits without actuarial reduction. If a Participant continues eligible employment after age 70 1/2, Normal Retirement Age is the date the Participant incurs a Separation from Service under the Plan.

1.13 **Participant**

"Participant" means an Employee who meets the eligibility requirements of Article 3 and applies for membership in accordance with the provisions of Article 4.

1.14 **Plan**

"Plan" means the Section 457 Deferred Compensation Plan described and established in this document by the Board.

1.15 **Separation From Service**

"Separation from service" means 31 days after the Participant's death, retirement, or severance of the entire employment relationship with the Employer.

1.16 **Unforeseeable Emergency**

"Unforeseeable Emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of the Participant's dependent (as defined in Section 152(a) of the Code), loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control, or as is determined by IRS regulations.

ARTICLE 2
PURPOSE

The purpose of the Plan is two-fold:

2.1 **For the Employer**

To retain present Employees and attract additional qualified Employees for the benefit of the Employer, by providing increased retirement benefits to its Employees.

2.2 **For the Employees**

To increase retirement benefits for Employees by providing them with a deferred compensation program not available except through the Employer.

ARTICLE 3
ELIGIBILITY TO PARTICIPATE

3.1 **Eligibility**

Every Employee is eligible for membership under this Plan. Such eligibility, however, shall terminate at any time employment with the Employer is terminated. All deferred compensation paid under this Plan shall be paid pursuant to Article 9.

ARTICLE 4
PARTICIPATION

4.1 **Deferred Compensation Agreement**

An Employee may become a Participant by executing with the Employer, a Deferred Compensation agreement that will set aside from the Employee's current Gross Compensation, a separate and additional amount as Deferred Compensation. Subject to the limits of Article 7, at the time of entering into a Deferred Compensation agreement, a Participant must agree to defer a minimum of $25 per month.

4.2 **Deferral Eligibility**

Compensation may be deferred and credited to the Participant's Deferred Compensation account for any calendar month only if an agreement providing for such deferral has been entered into before the beginning of such calendar month and the Employee is receiving a paycheck in that month. Lump sum payments of unused annual leave, sick leave and back pay may be deferred and credited to the Participant's Deferred Compensation account, subject to the requirements set forth in the preceding sentence and the deferral limitations set forth in Article 7.

4.3 **Leave of Absence**

(a) If a Participant is on an approved leave of absence without pay from the Employer, participation in the Plan will continue. If a separation is determined to have occurred, the benefits of the Participant shall be paid as provided in Article 10.

(b) Notwithstanding any other provision of this Plan, a Participant returning from qualified military service protected under the Uniformed Services Employment and Reemployment Rights Act (Chapter 43 of Title 38, United States Code) shall be provided all participation, contribution and benefit rights required under that Act and Section 414(u) of the Code.

ARTICLE 5
DEFERRED COMPENSATION ACCOUNTS

5.1 **Ownership**

All property and rights purchased with Deferred Compensation contribution amounts under this Plan and all income, including gains from the disposition of property attributable to such compensation, property or rights, shall remain until made available to the Participant or other Beneficiary, solely the property and rights of the Employer subject only to the claims of the Employer's general creditors. This Section 5.1 does not apply to any assets of the Plan held in trust or in exclusive benefit investment contracts under Section 5.3 and does not apply to any asset of the Plan after December 31, 1998.

5.2 **Investment Contracts**

The assets of the Plan, including all Employee Deferred Compensation contributions, property, rights purchased with Deferred Compensation, and all income attributable to such assets, shall be held by the Board in insurance annuity contracts or custodial account contracts that have been entered into with one or more Investment Providers by the Board.

5.3 **Exclusive Benefit Requirements**

(a) Effective January 1, 1999, or on such earlier date as determined by the Board, and except as provided in paragraph (b) of this Section 5.3, assets of the plan must be held in insurance annuity and custodial account contracts that meet the exclusive benefit and other requirements of Sections 457(g) and 401(f) of the Code. The terms of the insurance annuity and custodial account contracts under this paragraph must make it impossible, prior to the satisfaction of all liabilities with respect to the Participant's and Beneficiaries, for any part of the assets and income of the contracts to be used for, or diverted to, any purpose other than for the exclusive benefit of the Participant's or Beneficiaries.

(b) Assets of the plan held in insurance annuity contracts or custodial accounts that do not meet the exclusive benefit and other requirements of paragraph (a) of this Section 5.3, shall be held in trust by the Board for the exclusive benefit of participating Employees and their Beneficiaries. The trust is intended to be exempt from taxation under Sections 457(g) and

501(a) of the Internal Revenue Code of 1986 as amended. The Board shall be the trustee for the Plan.

5.4 **Credits and Debits**

The Participant's Deferred Compensation account with an Investment Provider shall be credited or debited from time to time to reflect Deferred Compensation contributions, investment earnings or gains or losses and any expenses.

5.5 **Alienation of Benefits Prohibited**

Neither the Participant nor the Participant's designated beneficiary, or any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments or assets under this Plan. Such payments or assets are non-assignable and non-transferable. The Participant's rights under this Plan are not subject to the rights of creditors of the Participant, any Beneficiary, the Board or the Employer and shall be exempt from execution, attachment, prior assignment, or any other judicial relief or order for the benefit of creditors or other third persons.

Notwithstanding the foregoing, payments or assets under this Plan may be paid to an alternate payee in accordance with a qualified domestic relations order, as defined in Code Section 414(p) (as such applies to governmental plans), and in accordance with Code Section 401(a)(13). Distributions to alternate payees shall be made in a lump sum within 120 days after the later of the date the order is deemed to be qualified pursuant to the Plan’s policies and procedures or the date the order is entered by the court.

ARTICLE 6
ADMINISTRATION OF THE PLAN

6.1 **Administration**

The Board shall supervise the operation of the Plan, maintain records and supply information to the Participants or others. In administering this Plan, the Board shall have any applicable rights, powers and duties granted to it by law for the administration of the North Dakota Public Employees Retirement System.

6.2 **Specific Powers and Duties**

The Board shall:

(a) Permit Participants to direct and control the investment of their contributions, together with accumulated earnings, among the Investment Providers approved by the Board.

(b) Establish an administrative budget sufficient to perform the duties under the Plan and to draw upon authorized sources to fund the budget.

(c) Pay Plan benefits and related taxes from the assets of the Plan.

(d) Obtain by employment or contract all the services necessary or appropriate to administer the Plan, including actuarial, auditing, custodial, investment, legal and record keeping services.

(e) Procure and dispose of the goods and property of the Plan necessary for its proper administration.

(f) Represent the Employers in all matters concerning the administration of the Plan.

(g) Have full power and authority to adopt rules and regulations for the administration of the Plan and to interpret, alter, amend, or revoke any rules and rules and regulations so adopted.

6.3 **Accounting**

For accounting purposes, the Board will maintain a summary of the individual Deferred Compensation accounts of all Participants of the Plan whose benefits have not been annuitized. The accounting summary shall be identified as the General 457 Deferred Compensation Account and will reflect from time to time the total deferred liability of the Plan as well as the individual balances for all Participants of the Plan.

6.4 **Delegation of Responsibilities**

The Board may delegate the duties and responsibilities established under the Plan in a manner consistent with its responsibilities as established under this Article.

6.5 **Compliance Authority**

The Board may administratively alter the terms of the Plan as it determines to be necessary or appropriate to maintain the status of the Plan as an eligible deferred compensation plan under Section 457 of the Code.

ARTICLE 7
LIMITATION OF DEFERRAL

7.1 **Maximum Deferral**

(a) Regular Deferral Limit

Except as provided in Section 7.2 and subject to rules adopted by the Board, the maximum amount that may be deferred under the Plan for the calendar year shall not exceed the lesser of:

1. the applicable dollar limit determined under Section 457(e)(15) of the Code, or
2. 100 percent of the Participant's Includible Compensation.

(b) Older Worker Deferral Limit

The applicable dollar limit for deferrals established under paragraph (a) of this Section 7.1 is increased for eligible participants who have attained the age of 50 before the close of the calendar year by the amounts permitted under Section 414(v) of the Code.

7.2 **Catch-up Provision**

For one or more of the Participant's last three calendar years ending before the Participant attains Normal Retirement Age under the Plan, the maximum that may be deferred under the Plan for the calendar year shall be the lesser of:

(a) twice the applicable dollar limit established under paragraph (a) of Section 7.1 for the calendar year, or

(b) so much of the maximum deferral established under paragraph (a) of Section 7.1 for calendar years beginning after December 31, 1978 and before the current calendar year as has not been used.

For any calendar year, if a Participant is eligible to make deferrals in excess of the regular deferral limit under both the Older Worker Deferral Limit in Section 7.1(b) and the catch-up provision of this Section 7.2, the Participant may make additional deferrals equal to either the Older Worker Deferral Limit under Section 7.1(b) or the catch-up provision of this Section 7.2, whichever amount is greater.

7.3 **The Deferral Limitation**

The maximum deferral of any individual who is a participant in another deferred compensation plan under Section 457 of the Code sponsored by the Employer shall be reduced by the amount of deferred compensation of any other plan so that the limitations set forth in Sections 7.1 and 7.2 above are not exceeded. The Participant will be responsible for the proper tax reporting for any contributions in excess of the maximum deferral limitation in Sections 7.1 and 7.2.

ARTICLE 8
ELIGIBILITY FOR BENEFITS

8.1 **Eligibility For Benefits**

Each Participant or Beneficiary shall be entitled to benefits under the Plan upon the date Separation from Service of the Participant with the Employer or upon the occurrence of an Unforeseeable Emergency.

8.2 **Unforeseeable Emergency**

Benefits to a Participant or Beneficiary are distributable in the event of an Unforeseeable Emergency. The circumstances that constitute an Unforeseeable Emergency depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's or Beneficiary's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or by cessation of deferrals under the Plan. The amount distributed because of an Unforeseeable Emergency may not exceed that reasonably needed to satisfy the emergency.

8.3 **Small Benefit Cashouts**

Notwithstanding any other provision of this Plan, the Board, upon request by the Participant, may elect to distribute benefits to a Participant if:

(a) the total amount of the accrued benefit under the Plan is less than or equal to $5,000;

(b) no amount has been deferred by the Participant under the Plan for the most recent two-year period ending on the distribution date; and

(c) there has been no prior distribution under this Article 8 to the Participant, not including distribution under Section 8.2.

8.4 **Plan to Plan Transfers**

(a) Upon Separation from Service, a Participant shall be entitled to benefits. If such Participant separates from service with the Employer for the purpose of accepting or taking employment with any other employer having an Internal Revenue Code Section 457 deferred compensation plan, the Board, after consulting with the Employee, may transfer the Employee's Deferred Compensation account to the Section 457 plan of the Employee's new employer.

(b) The Board may, upon receiving a written request from a Participant, receive the transfer of monies from a Section 457 deferred compensation plan of another employer for and on behalf of the Participant. The transferred contributions shall be subject to the provisions of this Plan; however, such contributions shall not be treated as contributions for the purposes of the limits of Article 7.

(c) Subject to the rules established by the Board and as permitted under Section 457(e)(17) of the Code, an Employee may elect at any time to transfer all or a portion of the Employee’s Deferred Compensation account to a defined benefit governmental plan (as defined in Section 414(d) of the Code) for the purchase of permissive service credit (as defined in Section 415(n) of the Code) or for repayments under Section 415(k)(3) of the Code.

ARTICLE 9
PAYMENT OF BENEFITS

9.1 **Distribution Election**

Upon proper application in a manner approved by the Board, a Participant or Beneficiary who is eligible to receive benefits under Article 8 shall receive benefits at the time and manner elected by the Participant or Beneficiary. This election must be made consistent with the other distribution requirements of this Article 9.

9.2 **Required Distribution Date**

Distributions to Participants or their Beneficiaries must commence no later than April 1 of the calendar year following the later of the calendar year in which the Participant reaches age 70 1/2 or retires.

9.3 **Distribution Over Life Expectancy**

The Participant's entire interest in the Plan must be distributed over the life of the Participant or the lives of the Participant and a designated Beneficiary, over a period not extending beyond the life expectancy of the Participant or the life expectancy of the Participant and designated Beneficiary.

When a Participant dies **after** distribution of benefits has begun, the remaining portion of the Participant's interest shall be distributed at least as rapidly as under the method of distribution prior to the Participant's death.

When a Participant dies **before** distribution of benefits has begun, the entire interest of the Participant shall be distributed within five years of the Participant's death. The five-year payment rule does not apply to any portion of the Participant's interest which is payable to a designated Beneficiary over the life or life expectancy of the Beneficiary and which begins within one year after the date of the Participant's death. The five year payment rule does not apply to any portion of the Participant's interest which is payable to a surviving spouse payable over the life or life expectancy of the spouse and which begins no later than the date the Participant would have reached age 70 1/2.

9.4 **Additional Distribution Requirements**

Notwithstanding any other provision of this Plan, distributions under the Plan shall comply with the limits set forth in Section 401(a)(9) of the Code, including the minimum distribution incidental benefit requirements under Code Section 401(a)(9)(G), and the Treasury Regulations prescribed thereunder. The requirements of this Section 9.5 shall override any inconsistent provisions of the Plan.

9.5 **Payable Benefits**

Benefits under this Article shall be determined and paid taking into account the entire value of all of the investments of the Participant under the Plan. The benefit shall be payable in a lump sum or in equal monthly, quarterly, semiannual or annual installments over a period of one or more years.

9.6 **Death Benefit Payments**

In the event of the Participant's death prior to receiving payment in full of his benefits under the Plan, the Administrative Service Provider shall pay directly to the Participant's named Beneficiary the amount otherwise payable to the Participant on the date of the Participant's death. If the Beneficiary of the Participant is the Participant's estate, the benefit will be paid in lump sum.

9.7 **Direct Rollovers**

A Distributee may elect, in a manner consistent with Section 457(e)(16) of the Code and at the time and in the manner prescribed by the Board, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover, except that a Distributee may not elect a Direct Rollover of a distribution or series of distributions of less than $200 in a single calendar year. For purposes of applying this Section 9.7, the following definitions shall apply:

(a) **Eligible Rollover Distribution.** An Eligible Rollover Distribution is any distribution of all or any portion of the balance of a participating member's account to the credit of the Distributee except that an Eligible Rollover Distribution does not include:

1. Any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and his designated beneficiary, or for a specified period of ten years or more;

2. Any distribution to the extent such distribution is required under Code Section 401(a)(9);

3. The portion of any distribution that is not includable in a Distributee's gross income (determined without regard to the exclusion for net unrealized unappreciation with respect to Employer securities); or

4. Any corrective distribution of excess contributions and any corrective distribution of excess aggregate contributions and income allowable to such corrective distributions.

(b) **Eligible Retirement Plan.** An Eligible Retirement Plan as described in Section 402(c)(8)(B) is an individual retirement account described in Code Section 408(a), an annuity plan described in Code Section 408(b), an annuity plan described in Code Section 403(a), a qualified trust described in Code Section 401(a), an eligible deferred compensation plan described in Code Section 457(b) that is maintained by a governmental entity described in Code Section 457(e)(1)(A), an annuity contract described in Code Section 403(b) that accepts the Distributee's Eligible Rollover Distribution. In the case of an Eligible Rollover Distribution to a designated beneficiary other than a spouse or former spouse, an Eligible Retirement Plan is only an individual retirement account described in Code Section 408(a) or an annuity plan described in Code Section 408(b) that is treated as an inherited IRA in accordance with the provisions of Code Section 402(c)(11).

(c) **Distributee.** A Distributee includes an employee or former employee. In addition, the employee's or former employee's designated beneficiary or the employee's or former employee's spouse or former spouse and the employee's or former employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), with regard to the interest of the spouse or former spouse, are Distributees.

Deleted: are Distributees

(d). **Direct Rollover.** A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

9.8 **Eligible Rollover Contributions to the Plan**

(a) A Participant who is an Employee and who is entitled to receive an Eligible Rollover Distribution from another Eligible Retirement Plan may request to have all or a portion of the Eligible Rollover Distribution paid to the Plan. The Administrator may require such documentation from the distributing plan as it deems necessary to effectuate the rollover in accordance with Code Section 402 and to confirm that such plan is an eligible retirement plan within the meaning of Code Section 402(c)(8)(B).

(b) For purposes of this Section 9.8, "Eligible Rollover Distribution" has the meaning as set forth in Section 9.7 (a), and excludes after-tax employee contributions, and "Eligible Retirement Plan" has the meaning as set forth in Section 9.7 (b).

(c) The Plan shall establish and maintain for the Participant a separate account for any Eligible Rollover Distribution paid to the Plan from any Eligible Retirement Plan that is not an eligible deferred compensation plan described in Code Section 457(b) that is maintained by a governmental entity described in Code Section 457 (e)(1)(A). In addition, the Plan shall establish and maintain for the Participant a separate account for any Eligible Rollover Distribution paid to the Plan from any Eligible Retirement Plan that is an eligible deferred compensation plan described in Code Section 457(b) that is maintained by a governmental entity described in Code Section 457 (e)(1)(A). For purposes of small benefit cashouts under Section 8.3, amounts held in a separate rollover account shall be disregarded in determining the total amount of a Participant's accrued benefit under the Plan.

ARTICLE 10
MISCELLANEOUS PROVISIONS

10.1 **Tax Benefits**

The Employer and the Board do not and will not warrant any tax benefits or advantages under the Plan.

10.2 **Employer Rights**

Nothing in the document shall in any way affect the rights of the Employer or the Employee to terminate the employment relationship between them.

10.3 **Employee Rights**

Each Employee, upon having elected to become a Participant, shall be deemed to have assented to the terms and conditions of the Plan. Each Participant shall at all reasonable times be allowed to examine his particular Deferred Compensation account to determine its status and condition, and the Administrative Service Provider shall submit to the Participant periodic reports of the progress of the Participant's account.

ARTICLE 11
TERMINATION

11.1 **Right to Freeze or Terminate Plan**

(a) The Board may, within 60 days notice to the Employer and the Participants and Beneficiaries, terminate the Plan at any time as to new participants and contributions. Upon such termination, the Plan will continue in operation but without any further crediting of Deferred Compensation.

(b) The Board may, within 60 days notice to the Employer and the Participants and Beneficiaries, terminate this Plan in its entirety. In the event of a complete termination of the Plan, the Participants will be deemed to have separated from service as of the date of the plan termination, deferrals shall cease, and benefits shall be payable as otherwise provided in the Plan.

(c) An Employer who has entered into an agreement with the Board to extend the Plan to their eligible Employees may, within 60 days notice to the Board and their Participants and Beneficiaries, terminate their participation agreement in a manner consistent with and in the same manner as provided in paragraph (b) above.

11.2 **Right to Amend Plan**

The Board has the right to amend the Plan at any time and from time to time; provided, however, that no such amendment shall, with respect to any Participant, reduce the benefits provided under the plan as derived from Deferred Compensation credited to the Participant before the effective date of any such amendment.

11.3 **Interpretation of the Plan**

This Plan shall be construed under the law of the State of North Dakota.

NORTH DAKOTA STATE DEFERRED COMPENSATION PROGRAM

SECTION 457 COMPANION PLAN DOCUMENT

Amended and Restated

Effective July 1, 2007

Deleted: 5

Adoption Resolution

Resolved, that effective July 1, 2007, the State of North Dakota has adopted the attached amended and restated Section 457 Companion Plan. The Plan is intended to satisfy the requirements of Section 457(b) of the Internal Revenue Code of 1986, as amended, and its associated regulations.

Deleted: 5

______________________________ _________________________________

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SECTION 457 COMPANION PLAN

ARTICLE 1
DEFINITIONS

1.1 **Administrative Service Provider**

"Administrative Service Provider" means any entity or individual designated by the Board to provide contractual administrative services to the Plan.

1.2 **Administrator**

"Administrator" means the North Dakota Public Employees Retirement System.

1.3 **Beneficiary**

"Beneficiary" means a beneficiary designated by the Participant. If no beneficiary has been designated or if the designated beneficiary(ies) predeceases the Participant, "Beneficiary" means the estate of the Participant.

1.4 **Board**

"Board" means the North Dakota Public Employees State Retirement Board.

1.5 **Code**

"Code" means the federal Internal Revenue Code of 1986, as amended.

1.6 **Deferred Compensation**

"Deferred Compensation" means amounts deferred under Article 4, including unused annual leave, sick leave and back pay. It does not include any amount payable under any bona fide vacation leave, sick leave, compensation time, severance pay, disability pay or death benefit plans of the Employer.

1.7 **Employee**

"Employee" means an individual who works a minimum average of 20 hours per week for 20 or more weeks per year, is at least 18 years of age, and fills a permanent position that is regularly funded and not of limited duration. "Employee" does not include independent contractors.

1.8 **Employer**

"Employer" means the State of North Dakota, and any of its departments, divisions, agencies or institutions. Employer also means any city, county or other political subdivision of the State of North Dakota that enters into an agreement with the Board to extend this Plan to its Employees.

1.9 **Gross Compensation**

"Gross Compensation" means the gross salary which would be paid to the Participant by the Employer for the calendar year, before payroll taxes or any other deductions are withheld, if a Deferred Compensation Agreement had not been entered into between the Participant and the Employer. "Gross Compensation" does not include retirement or severance incentive payments.

1.10 **Includible Compensation**

"Includible Compensation" means compensation for services performed for the Employer for the calendar year and shall include any elective deferral (as defined in Section 402(g) of the Code) and amounts contributed or deferred by the Employer at the election of the Employee and which, by reason of Section 125, 132(f)(4) or 457 of the Code are not includible in the Participant's gross income. Includible Compensation is determined without regard to any community property laws.

1.11 **Investment Provider**

"Investment Provider" means an individual or entity designated by the Board to provide investment management services to the Plan.

1.12 **Normal Retirement Age**

"Normal Retirement Age" means the date chosen by the Participant not beginning before the earliest date (but not later than age 70 1/2) on which the Participant has the right to retire under the retirement plan of the Employer in which the Participant is enrolled and to receive immediate retirement benefits without actuarial reduction. If a Participant continues eligible employment after age 7 1/2, Normal Retirement Age is the date the Participant incurs a Separation from Service under the Plan.

1.13 **Participant**

"Participant" means an Employee who meets the eligibility requirements of Article 3 and applies for membership in accordance with the provisions of Article 4.

1.14 **Plan**

"Plan" means the Section 457 Companion Plan described and established in this document by the Board.

1.15 **Separation From Service**

"Separation from Service" means 31 days after the Participant's death, retirement, or severance of the entire employment relationship with the Employer.

1.16 **Unforeseeable Emergency**

"Unforeseeable Emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of the Participant's dependent (as defined in Code Sec. 152(a)), loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control, or as is determined by IRS regulations.

ARTICLE 2
PURPOSE

The purpose of the Plan is two-fold:

2.1 **For the Employer**

To retain present Employees and attract additional qualified Employees for the benefit of the Employer, by providing the opportunity for additional investment opportunities to Employees that are not otherwise available under the separate North Dakota State Deferred Compensation Plan, and to allow increased retirement benefits to its Employees.

2.2 **For the Employees**

To increase retirement benefits for Employees by providing them with an alternative deferred compensation program not available except through the Employer.

ARTICLE 3
ELIGIBILITY TO PARTICIPATE

3.1 **Eligibility**

Every Employee is eligible for membership under this Plan. Such eligibility, however, shall terminate at any time employment with the Employer is terminated. All deferred compensation paid under this Plan shall be paid pursuant to Article 10.

ARTICLE 4
PARTICIPATION

4.1 **Deferred Compensation Agreement**

An Employee may become a Participant by executing with the Employer, a Deferred Compensation agreement that will set aside from the Employee's current Gross Compensation, a separate and additional amount as Deferred Compensation. Subject to the limits of Article 8, at the time of entering into a Deferred Compensation agreement, a Participant must agree to defer a minimum of $25 per month.

4.2 **Deferral Eligibility**

Compensation may be deferred and credited to the Participant's Deferred Compensation account for any calendar month only if an agreement providing for such deferral has been entered into before the beginning of such calendar month and the Employee is receiving a paycheck in that month. Lump sum payments of unused annual leave, sick leave and back pay may be deferred and credited to the Participant’s Deferred Compensation account, subject to the requirements set forth in the preceding sentence and the deferral limitations set forth in Article 8.

4.3 **Leave of Absence**

(a) If a Participant is on an approved leave of absence without pay from the Employer, participation in the Plan will continue. If a separation is determined to have occurred, the benefits of the Participant shall be paid as provided in Article 10.

(b) Notwithstanding any other provision of this Plan, a Participant returning from qualified military service protected under the Uniformed Services Employment and Reemployment Rights Act (Chapter 43 of Title 38, United States Code) shall be provided all participation, contribution and benefit rights required under that Act and Section 414(u) of the Code.

ARTICLE 5
ALLOCATION OF DEFERRED COMPENSATION

5.1 **Separate Account**

A separate bookkeeping account shall be maintained under the Plan for each Participant of the Plan, to which shall be credited during the year, at such times as shall be prescribed by the Board, an amount equal to the Participant's Deferred Compensation with respect to that year. Such account shall be known as the Participant's Section 457 Deferred Compensation account.

5.2 **Credits and Debits**

The Participant's Deferred Compensation account shall be credited or debited from time to time to reflect investment earnings and administrative expenses.

ARTICLE 6
ESTABLISHMENT OF TRUST

6.1 **Establishment of Trust**

The assets of the Plan, including all Employee Deferred Compensation contributions, property, rights purchased with Deferred Compensation, and all income attributable to such assets, are held in trust by the Board for the exclusive benefit of participating Employees and their Beneficiaries. The trust is intended to be exempt from taxation under Sections 457(g) and 501(a) of the Internal Revenue Code of 1986 as amended.

6.2 **Trustee**

The Board shall be the trustee for the Plan.

6.3 **Alienation of Benefits Prohibited**

Neither the Participant nor the Participant's designated Beneficiary, or any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments or assets under this Plan. Such payments or assets are non-assignable and non-transferable. The Participant's rights under this Plan are not subject to the rights of creditors of the Participant, any Beneficiary, the Board or the Employer and shall be exempt from execution, attachment, prior assignment, or any other judicial relief or order for the benefit of creditors or other third persons.

Notwithstanding the foregoing, payments or assets under this Plan may be paid to an alternate payee in accordance with a qualified domestic relations order, as defined in Code Section 414(p) (as such applies to governmental plans), and in accordance with Code Section 401(a)(13). Distributions to alternate payees shall be made in a lump sum within 120 days after the later of the date the order is deemed to be qualified pursuant to the Plan's policies and procedures or the date the order is entered by the court.

ARTICLE 7
ADMINISTRATION OF THE PLAN

7.1 **Administration**

The Board shall supervise the operation of the Plan, maintain records and supply information to the Participants or others. In administering this Plan, the Board shall have any applicable rights, powers and duties granted to it by law for the administration of the North Dakota Public Employees Retirement System.

7.2 **Specific Powers and Duties**

The Board shall:

(a) Exercise exclusive authority to invest and manage assets of the Plan. However, the Board may permit Participants to direct and control the investment of their contributions, together with accumulated earnings, among the investment options established by the Board.

(b) Establish and adopt a statement of investment objectives and policies setting forth the manner and parameters of the investment of the assets of the Plan. The statement of investment objectives and policies shall be established in a manner consistent with the purposes of the Plan. The Board shall monitor the performance of the investments of the Plan to ensure such remain consistent with the investment policy established by the Board.

(c) Establish an administrative budget sufficient to perform the duties under the Plan and to draw upon authorized sources to fund the budget.

(d) Pay Plan benefits and related taxes from the assets of the Plan.

(e) Obtain by employment or contract all the services necessary or appropriate to administer the Plan, including actuarial, auditing, custodial, investment, legal and record keeping services.

(f) Procure and dispose of the goods and property of the Plan necessary for its proper administration.

(g) Represent the Employers in all matters concerning the administration of the Plan.

(h) Have full power and authority to adopt rules and regulations for the administration of the Plan and to interpret, alter, amend, or revoke any rules and rules and regulations so adopted.

7.3 **Accounting**

For accounting purposes, the Board will maintain a summary of the individual Deferred Compensation accounts of all Participants of the Plan whose benefits have not been annuitized. The accounting summary shall be identified as the General 457 Deferred Compensation Account and will reflect from time to time the total deferred liability of the Plan as well as the individual balances for all Participants of the Plan.

7.4 **Delegation of Responsibilities**

The Board may delegate the duties and responsibilities established under the Plan in a manner consistent with its fiduciary responsibilities as established under this Article.

7.5 **Compliance Authority**

The Board may administratively alter the terms of the Plan as it determines to be necessary or appropriate to maintain the status of the Plan as an eligible deferred compensation plan under Section 457 of the Code.

ARTICLE 8

LIMITATION OF DEFERRAL

8.1 **Maximum Deferral**

(a) Regular Deferral Limit

Except as provided in Section 8.2 and subject to rules adopted by the Board, the maximum amount that may be deferred under the Plan for the calendar year shall not exceed the lesser of:

1. the applicable dollar limit determined under Section 457(e)(15) of the Code, or
2. 100 percent of the Participant's Includible Compensation.

(b) Older Worker Deferral Limit

The applicable dollar limit for deferrals established under paragraph (a) of this Section 8.1 is increased for eligible participants who have attained the age of 50 before the close of the calendar year by the amounts permitted under Section 414(v) of the Code.

8.2 **Catch-up Provision**

For one or more of the Participant's last three calendar years ending before the Participant attains Normal Retirement Age under the Plan, the maximum that may be deferred under the Plan for the calendar year shall be the lesser of:

(a) twice the applicable dollar limit established under paragraph (a) of Section 8.1 for the calendar year, or

(b) so much of the maximum deferral established under paragraph (a) of Section 8.1 for calendar years beginning after December 31, 1978 and before the current calendar year as has not been used.

8.3 **The Deferral Limitation**

The maximum deferral of any individual who is a participant in another deferred compensation plan under Section 457 of the Code sponsored by the Employer shall be reduced by the amount of deferred compensation of any other plan so that the limitations set forth in Sections 8.1 and 8.2 above are not exceeded. The Participant will be responsible for the proper tax reporting for any contributions in excess of the maximum deferral limitation in Sections 8.1 and 8.2.

For any calendar year, if a Participant is eligible to make deferrals in excess of the regular deferral limit under both the Older Worker Deferral Limit in Section 8.1(b) and the catch-up provision of this Section 8.2, the Participant may make additional deferrals equal to either the Older Worker Deferral Limit under Section 8.1(b) or the catch-up provision of this Section 8.2, whichever amount is greater.

ARTICLE 9
ELIGIBILITY FOR BENEFITS

9.1 **Eligibility For Benefits**

Each Participant or Beneficiary shall be entitled to benefits under the Plan upon the date of Separation from Service of the Participant with the Employer or upon the occurrence of an Unforeseeable Emergency.

9.2 **Unforeseeable Emergency**

Benefits to a Participant or Beneficiary are distributable in the event of an Unforeseeable Emergency. The circumstances that constitute an Unforeseeable Emergency depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's or Beneficiary's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or by cessation of deferrals under the Plan. The amount distributed because of an Unforeseeable Emergency may not exceed that reasonably needed to satisfy the emergency.

9.3 **Small Benefit Cashouts**

Notwithstanding any other provision of this Plan, the Board, upon request by the Participant, may elect to distribute benefits of to a Participant if:

(a) the total amount of the accrued benefit under the Plan is less than or equal to $5,000;

(b) no amount has been deferred by the Participant under the Plan for the most recent two-year period ending on the distribution date; and

(c) there has been no prior distribution under this Article 9 to the Participant, not including distribution under Section 9.2.

9.4 **Plan to Plan Transfers**

(a) Upon Separation from Service, a Participant shall be entitled to benefits. If such Participant Separates from Service with the Employer for the purpose of accepting or taking employment with any other employer having an Internal Revenue Code Section 457 deferred compensation plan, the Board, after consulting with the Employee, may transfer the Employee's Deferred Compensation account to the Section 457 plan of the Employee's new employer.

(b) The Board may, upon receiving a written request from a Participant, receive the transfer of monies from a Section 457 deferred compensation plan of another employer for and on behalf of the Participant. The transferred contributions shall be subject to the provisions of this Plan; however, such contributions shall not be treated as contributions for the purposes of the limits of Article 8.

(c) Subject to the rules established by the Board and as permitted under Section 457(e)(17) of the Code, an Employee may elect at any time to transfer all or a portion of the Employee’s Deferred Compensation account to a defined benefit governmental plan (as defined in Section 414(d) of the Code) for the purchase of permissive service credit (as defined in Section 415(n) of the Code) or for repayments under Section 415(k)(3) of the Code.

ARTICLE 10
PAYMENT OF BENEFITS

10.1 **Distribution Election**

Upon proper application in a manner approved by the Board, a Participant or Beneficiary who is eligible to receive benefits under Article 9 shall receive benefits at the time and manner elected by the Participant or Beneficiary. This election must be made consistent with the other distribution requirements of this Article 10.

10.2 **Required Distribution Date**

Distributions to Participants or their Beneficiaries must commence no later than April 1 of the calendar year following the later of the calendar year in which the Participant reaches age 70 1/2 or retires.

10.3 **Distribution Over Life Expectancy**

The Participant's entire interest in the Plan must be distributed over the life of the Participant or the lives of the Participant and a designated Beneficiary, over a period not extending beyond the life expectancy of the Participant or the life expectancy of the Participant and designated Beneficiary.

When a Participant dies **after** distribution of benefits has begun, the remaining portion of the Participant's interest shall be distributed at least as rapidly as under the method of distribution prior to the Participant's death.

When a Participant dies **before** distribution of benefits has begun, the entire interest of the Participant shall be distributed within five years of the Participant's death. The five-year payment rule does not apply to any portion of the Participant's interest which is payable to a designated Beneficiary over the life or life expectancy of the Beneficiary and which begins within one year after the date of the Participant's death. The five year payment rule does not apply to any portion of the Participant's interest which is payable to a surviving spouse payable over the life or life expectancy of the spouse and which begins no later than the date the Participant would have reached age 70 1/2.

10.4 **Additional Distribution Requirements**

Notwithstanding any other provision of this Plan, distributions under the Plan shall comply with the limits set forth in Section 401(a)(9) of the Code, including the minimum distribution incidental benefit requirements under Code Section 401(a)(9)(G), and the Treasury Regulations prescribed thereunder. The requirements of this Section 10.4 shall override any inconsistent provisions of the Plan.

10.5 **Payable Benefits**

Benefits under this Article shall be measured by the credits in the Participant's Deferred Compensation account on the date or dates the benefits are payable under the Plan and shall be payable in a lump sum or in equal monthly, quarterly, semiannual or annual installments over a period of one or more years.

10.6 **Death Benefit Payments**

In the event of the Participant's death prior to receiving payment in full of his benefits under the Plan, the Board shall pay directly to the Participant's named Beneficiary the amount otherwise payable to the Participant on the date of the Participant's death. If the Beneficiary of the Participant is the Participant's estate, the benefit will be paid in lump sum.

10.7 **Direct Rollovers**

A Distributee may elect, in a manner consistent with Section 457(e)(16) of the Code and at the time and in the manner prescribed by the Board, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover, except that a Distributee may not elect a Direct Rollover of a distribution or series of distributions of less than $200 in a single calendar year. For purposes of applying this Section 10.7, the following definitions shall apply:

(a) **Eligible Rollover Distribution.** An Eligible Rollover Distribution is any distribution of all or any portion of the balance of a participating member's account to the credit of the Distributee except that an Eligible Rollover Distribution does not include:

1. Any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the

Distributee or the joint lives (or joint life expectancies) of the Distributee and his designated beneficiary, or for a specified period of ten years or more;

2. Any distribution to the extent such distribution is required under Code Section 401(a)(9);

3. The portion of any distribution that is not includable in a Distributee's gross income (determined without regard to the exclusion for net unrealized unappreciation with respect to Employer securities); or

4. Any corrective distribution of excess contributions and any corrective distribution of excess aggregate contributions and income allowable to such corrective distributions.

(b) **Eligible Retirement Plan.** An Eligible Retirement Plan as described in Section 402(c)(8)(B) is an individual retirement account described in Code Section 408(a), an annuity plan described in Code Section 408(b), an annuity plan described in Code Section 403(a), a qualified trust described in Code Section 401(a), an eligible deferred compensation plan described in Code Section 457(b) that is maintained by a governmental entity described in Code Section 457 (e)(1)(A), an annuity contract described in Code Section 403(b) that accepts the Distributee's Eligible Rollover Distribution. In the case of an Eligible Rollover Distribution to a designated beneficiary other than a spouse or former spouse, an Eligible Retirement Plan is only an individual retirement account described in Code Section 408(a) or an annuity plan described in Code Section 408(b) that is treated as an inherited IRA in accordance with the provisions of Code Section 402(c)(11).

(c) **Distributee.** A Distributee includes an employee or former employee. In addition, the employee's or former employee's designated beneficiary or the employee's or former employee's spouse or former spouse and the employee's or former employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), with regard to the interest of the spouse or former spouse, are Distributees.

Deleted: are Distributees

(d) **Direct Rollover.** A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

10.8 **Eligible Rollover Contributions to the Plan**

(a) A Participant who is an Employee and who is entitled to receive an Eligible Rollover Distribution from another Eligible Retirement Plan may request to have all or a portion of the Eligible Rollover Distribution paid to the Plan. The Administrator may require such documentation from the distributing plan as it deems necessary to effectuate the rollover in accordance with Code Section 402 and to confirm that such plan is an eligible retirement plan within the meaning of Code Section 402(c)(8)(B).

(b) For purposes of this Section 10.8, “Eligible Rollover Distribution” has the meaning as set forth in Section 10.7 (a), and excludes after-tax employee contributions, and “Eligible Retirement Plan” has the meaning as set forth in Section 10.7 (b).

(c) The Plan shall establish and maintain for the Participant a separate account for any Eligible Rollover Distribution paid to the Plan from any Eligible Retirement Plan that is not an eligible deferred compensation plan described in Code Section 457(b) that is maintained by a governmental entity described in Code Section 457 (e)(1)(A). In addition, the Plan shall establish and maintain for the Participant a separate account for any Eligible Rollover Distribution paid to the Plan from any Eligible Retirement Plan that is an eligible deferred compensation plan described in Code Section 457(b) that is maintained by a governmental entity described in Code Section 457 (e)(1)(A). For purposes of small benefit cashouts under Section 9.3, amounts held in a separate rollover account shall be disregarded in determining the total amount of a Participant’s accrued benefit under the Plan.

ARTICLE 11
MISCELLANEOUS PROVISIONS

11.1 **Tax Benefits**

The Employer and the Board do not and will not warrant any tax benefits or advantages under the Plan.

11.2 **Employer Rights**

Nothing in the document shall in any way affect the rights of the Employer or the Employee to terminate the employment relationship between them.

11.3 **Employee Rights**

Each Employee, upon having elected to become a Participant, shall be deemed to have assented to the terms and conditions of the Plan. Each Participant shall at all reasonable times be allowed to examine his particular Deferred Compensation account to determine its status and condition, and the Administrative Service Provider shall submit to the Participant periodic reports of the progress of the Participant's account.

ARTICLE 12
TERMINATION

12.1 **Right to Freeze or Terminate Plan**

(a) The Board may, within 60 days notice to the Employer and the Participants and Beneficiaries, terminate the Plan at any time as to new participants and contributions. Upon such termination, the Plan will continue in operation but without any further crediting of Deferred Compensation.

(b) The Board may, within 60 days notice to the Employer and the Participants and Beneficiaries, terminate this Plan in its entirety. In the event of a complete termination of the Plan, the Participants will be deemed to have separated from service as of the date of the Plan termination, deferrals shall cease, and benefits shall be payable as otherwise provided in the Plan.

(c) An Employer who has entered into an agreement with the Board to extend the Plan to their eligible Employees may, within 60 days notice to the Board and their Participants and Beneficiaries, terminate their participation agreement in a manner consistent with and in the same manner as provided in paragraph (b) above.

12.2 **Right to Amend Plan**

The Board has the right to amend the Plan at any time and from time to time; provided, however, that no such amendment shall, with respect to any Participant, reduce the benefits provided under the plan as derived from Deferred Compensation credited to the Participant before the effective date of any such amendment.

12.3 **Interpretation of the Plan**

This Plan shall be construed under the law of the State of North Dakota.

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

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

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

Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: October 10, 2007

SUBJECT: Defined Contribution Plan Document

Included for your review is the restated plan document for the 401(a) Defined Contribution Plan. The plan document was revised as follows:

Section 4.2(d), Vesting of Employer Contributions – to allow participants who attain age 65 while employed to become 100% vested in their employer contributions. This change mirrors a provision already allowed in the defined benefit plan.

Section 7.5, Small Benefit Cashouts – to reduce mandatory cashout amount from $5,000 to $1,000 in order to comply with Code Section 401(a)(31)(b). This was a change mandated by the final EGTRRA regulations that were effective March 28, 2005. The provision related to small benefit cashouts is included in statute. Therefore, at the January 2005 meeting, the Board approved staff's recommendation that we change our communication materials to allow for the automatic cash outs in compliance with the mandate and to submit an amendment to the statute in our proposed legislation for the 2007 session. The amendment was submitted and approved.

Section 7.7(b) & (c), Direct Rollovers – revised to permit non-spouse beneficiaries to rollover eligible amount to inherited IRAs. This is an optional change allowed by the provisions of the Pension Protection Act of 2006. Currently, the only distribution option for a non-spouse beneficiary is a lump sum. Adopting this change will permit them the option of the rollover which is a non-taxable event.

Staff recommends that the above provisions be adopted for the plans.

Board Action Requested

Approve plan document revisions per staff recommendation.

NORTH DAKOTA DEFINED CONTRIBUTION RETIREMENT PLAN

Plan Document

Amended and Restated Effective July 1, 2007

Deleted: 8

Deleted: 3

ADOPTION RESOLUTION

Resolved, that effective July 1, 2007, the State of North Dakota has adopted the attached amended and restated Defined Contribution Retirement Plan. The Plan is a profit sharing plan that is intended to satisfy the requirements of Sections 401 and 501 of the Internal Revenue Code of 1986, as amended, and its associated regulations.

Deleted: 8

Deleted: 2

___________________________________ _____________________________________

Table of Contents

ARTICLE 1.

DEFINITIONS

The following words and phrases shall, when used in this Plan, have the following meanings unless the context clearly indicates otherwise.

1.1 "Account balance" means the total contributions made by the employee, vested employer contributions, any transferred amounts under Section 3.4 and any investment gains or losses.

1.2 "Administrator" means any entity or individual designated by the Board to provide contractual administrative services to the Plan.

1.3 "Beneficiary" means any person designated by a participating member to receive a benefit provided by this Plan after the death of the member.

1.4 "Board" means the public employees retirement system board.

1.5 "Code" means the federal Internal Revenue Code of 1986, as amended from time to time, and as interpreted by applicable regulations and rulings.

1.6 "Deferred member" means a vested member of the public employees retirement system who has not elected to receive a refund and is eligible to receive deferred vested retirement benefits under the system.

1.7 "Effective date" means January 1, 2000.

1.8 "Eligible employee" means a permanent state employee who is eighteen years or more of age and who is in a position not classified by the central personnel division. "Eligible employee" does not include an employee of the judicial branch or an employee of the board of higher education and state institutions under the jurisdiction of the board.

1.9 "Employee" means any person employed by a governmental unit, whose compensation is paid out of the governmental unit's funds, or funds controlled or administered by the governmental unit, or paid by the federal government through any of its executive or administrative officials.

1.10 "Employer" means the State of North Dakota.

1.11 "Participating member" or "participant" means an eligible employee who elects to participate in the North Dakota Defined Contribution Retirement Plan. For purposes of investment and payment of benefits under the Plan, the terms "participating member" or "participant" also includes individuals who have separated from employment with the Employer and beneficiaries, but who have retained benefit rights under the Plan.

1.12 "Permanent employee" means a governmental unit employee whose services are not limited in duration and who is filling an approved and regularly funded position and is employed twenty hours or more per week and at least five months each year.

1.13 "Plan" means the North Dakota Defined Contribution Retirement Plan, as stated herein, and as amended from time to time. This Plan shall be a profit sharing plan.

1.14 "Plan Year" means a twelve consecutive month period beginning any July 1 and ending the following June 30, with a short initial Plan Year beginning January 1, 2000 and ending June 30, 2000.

1.15 “Profit Sharing Contribution” means a discretionary contribution to the Plan made by the Employer. Profit Sharing Contributions under this Plan shall be made in accordance with Section 3.2, subsection b. and without regard to whether the Employer earns any profits.

1.16 “Public employees retirement system” or “system” means the defined benefit retirement plans established under North Dakota Century Code Chapter 54-52.

1.17 “Required Beginning Date” means April 1 of the calendar year following the later of the calendar year in which the member retires or reaches age seventy and one-half.

1.18 “Service” means periods of active employment with the employer, determined in the same fashion as service and prior service under North Dakota Century Code §§ 54-52-11 and 54-52-17.

1.19 “Trust Fund” means the assets of the Plan held in trust by the trustee.

1.20 "Trustee" means the public employees retirement system board, which shall serve as the Board of Trustees for this Plan.

1.21 “Wages” and “salaries” means earnings in eligible employment under this Plan reported as salary on a federal income tax withholding statement plus any salary reduction or salary deferral amounts under Code Sections 125, 401(k), 403(b), 414(h) or 457. “Salary” does not include fringe benefits such as payments for unused sick leave, personal leave, vacation leave paid in a lump sum, overtime, housing allowances, transportation expenses, early retirement, incentive pay, severance pay, medical insurance, workers’ compensation benefits, disability insurance premiums or benefits, or salary received by a member in lieu of previously employer-provided fringe benefits under an agreement between the member and participating employer. Bonuses may be considered as salary under this Section if reported and annualized pursuant to rules adopted by the Board.

Notwithstanding any other provision of the law, the amount of wages or salary used to determine the retirement benefits of a participating member in this Plan must not exceed the amount of compensation permitted to be taken into account under Code Section 401(a)(17).

ARTICLE 2.

PARTICIPATION

2.1 **Eligibility.** Every eligible employee is eligible for membership under this Plan at the later of the first day of employment or the effective date of this Plan. Such eligibility, however, shall terminate at any time employment with the employer is terminated.

2.2 **Election to participate.** In order to participate in this Plan, a member must make a valid election pursuant to Chapter 54-52.6 of the North Dakota Century Code and the rules and policies of the Board.

2.3 **Participation in other plans.** A participating member may not participate in any other public sector retirement benefits plan for simultaneous services rendered to the same public sector employer. However, this Section does not prohibit a participant from participating in a retirement plan established by this state or other public sector employer under the Code.

ARTICLE 3.

CONTRIBUTIONS

3.1 **Mandatory employee contributions.** Each participating member shall contribute monthly four percent of the monthly salary or wage paid to such participant, and this assessment must be deducted and retained out of such salary in equal monthly installments commencing with the first month of participation in this Plan.

3.2 **Employer contributions.**

a. Each employer shall contribute an amount equal to four and twelve-hundredths percent of the monthly salary or wage of a participating member. If the employee's contribution is paid by the employer under Section 3.3, the employer shall contribute, in addition, an amount equal to the required employee contributions. The employer shall pay such contribution monthly into the participating member's account from funds appropriated for payroll and salary or any other funds available for such purposes. If the employer fails to pay the contributions monthly, it is subject to a civil penalty of fifty dollars and, as interest, one percent of the amount due for each month of delay or fraction thereof after the payment became due.

b. Each employer, at its sole discretion, may elect to make a profit sharing contribution to the Plan. The profit sharing contribution shall be allocated among all or any part of the participating members of the Plan for such plan year in proportion to the salary or wage of the participating member. For purposes of this Section 3.2, subsection b. only, participating members include only those individuals who are eligible employees on the date the profit sharing contribution is declared by the employer. Each participating member's share of the profit sharing contribution will be allocated to his or her account balance. Profit sharing contributions shall be subject to the rules regarding vesting of employer contributions as set forth in Section 4.2.

3.3 **Employer pick up of employee contributions.** Each employer, at its option, may pay the employee contributions required by Section 3.1, in accordance with Code Section 414(h), for all compensation earned after December 31, 1999. The amount paid must be paid by the employer in lieu of contributions by the employee. Employee contributions paid by the employer must be treated as employer contributions in determining tax treatment under state tax law and the federal Code. Such contributions may not be included as gross income of the employee in determining tax treatment until they are distributed or made available. The employer shall pay these employee contributions by effecting an equal cash reduction in the gross salary of the employee or by an offset against future salary increases. 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.

3.4 **Transfer of contributions.**

a. For an individual who elects to terminate membership in the public employees retirement system and become a participating member in this Plan, the Board shall transfer a lump sum amount from the retirement fund to the participating member's account under this Plan. However, if the individual terminates employment prior to receiving the lump sum transfer under this Section, the election made under Section 2.2 is ineffective and the member remains a member of the public employees retirement system and retains all rights and benefits under that plan.

b. The Board shall calculate the amount to be transferred for employees electing to transfer in accordance with North Dakota Century Code Section 54-52.6-03.

For purposes of this Section 3.4 b., the term "actuarial present value of the individual's accumulated benefit obligation" means the present value of the individual's accrued benefit based on an interest rate of 8%, the 1983 Group Annuity Mortality Table weighted 71% male and 29% female, and any relevant market value adjustment and other procedures adopted and consistently applied to all participating members by the Board.

3.5 **Employee after-tax contributions.** This Plan does not allow voluntary after-tax employee contributions, except as may be attributable to transferred contributions under Section 3.4.

3.6 **Rollover contributions from other eligible plans**.

a. Subject to limitations and conditions adopted by the Board and in accordance with North Dakota Century Code Section 54-52.6-09.1, a Participant may make and the Plan will accept a direct rollover or regular rollover of an Eligible Rollover Distribution from an Eligible Retirement Plan as such terms are defined in §7.7 and as permitted by §408(d)(3) of the Code.

b. Upon receipt of a rollover contribution, the Board shall credit the amount of any rollover contribution to the contributing Participant's Account in the Plan and shall invest such amount in accordance with the provisions of this Plan.

c. The Participant shall establish to the satisfaction of the Board that the amount tendered as a rollover contribution represents a qualified distribution of the Participant from an Eligible Retirement Plan maintained by the former employer(s) of the Participant. The Board shall have the authority to determine whether or not a contribution proposed by a Participant constitutes a rollover contribution eligible for rollover treatment in accordance with this Section 3.6 and Code Section 402. In making such determination, the Board may require reasonable proof of demonstration by the Participant of the eligibility of the proposed contribution for rollover treatment.

d. The Board shall maintain the rollover contributions for each Participant in a separate rollover account that will consist solely of the rollover contributions made by the Participant, plus any adjustments for investment gains or losses.

e. The rollover contribution account under this Section shall be fully vested at all times, and shall be administered and distributed according to the same terms and conditions of this Plan applicable to other Participant accounts; provided, however, that it may distributed at any time without the occurrence of a distribution event under Section 6.1.

ARTICLE 4.

VESTING

4.1 **Vesting of employee contributions.** A participating member is immediately one hundred percent vested in that member's contributions made to that member's account under Section 3.1 or paid by the employer under Section 3.3.

4.2 **Vesting of employer contributions.** A participating member vests in the employer contributions made on the member's behalf according to the following schedule:

a. Upon completion of two years of service, fifty percent.

b. Upon completion of three years of service, seventy-five percent.

c. Upon completion of four years of service, one hundred percent.

d. Upon attainment of age 65 while an employee, one hundred percent.

A participating member who was a member or deferred member of the public employees retirement system and who makes an election to participate in this Plan must be credited with years of service accrued under the public employees retirement system on the effective date of participation in this Plan for the purpose of meeting vesting requirements under this Section. Any forfeiture as a result of a participating member to vest in the employer contributions must be used to defray administrative expenses.

4.3 **Reemployment.** If a participating member terminates employment, is paid a distribution from his account, and then becomes reemployed as an eligible employee, years of service completed before termination will not be counted for vesting. Otherwise, for purposes of vesting under the Plan, this Plan does not apply any break in service rule.

ARTICLE 5.

ACCOUNT VALUATION

5.1 **Separate accounts.** A separate bookkeeping account shall be established and maintained under this Plan for each participating member to which shall be credited, at times prescribed by the Board, all employee contributions and all employer contributions.

5.2 **Credits and debits**. Each participating member's account shall be credited or debited from time to time, under rules established by the Board, to reflect investment earnings and administrative expenses.

5.3 **Limited rights to assets.** The fact that separate accounts are established for each participating member shall not give any employee or others any right, title or interest in the Fund or its assets, or in any account except at the time and upon the terms and conditions provided in this Plan.

ARTICLE 6.

DISTRIBUTIONS

6.1 **Distribution eligibility.** A participating member's vested account balance is distributable upon the occurrence of one of the following events:

a. The participating member has terminated employment with the employer. Termination of employment means a severance of employment by not being on the payroll of the employer for a minimum of one month. An approved leave of absence does not constitute termination of employment.

b. The participating member has become totally and permanently disabled according to medical evidence called for under the rules of the Board.

c. The participating member dies.

d. The participating member has reached the Required Beginning Date. In no event shall the distribution a member's account balance commence later than the Required Beginning Date, whether or not they apply for benefits.

ARTICLE 7.

FORM OF DISTRIBUTION

7.1 **Distribution election.** A participating member or his beneficiary who is eligible to receive benefits under Article 6 shall receive benefits upon proper application in a manner approved by the Board as to the date benefit distributions under the Plan will begin. This election must be made consistent with the other distribution requirements of Section 6.1 and this Article 7.

7.2 **Payable benefits.** Benefits under this Article 7 shall be measured by participating member's vested account balance on the date or dates the benefits are payable under this Plan and shall be payable in lump sum or in equal monthly, quarterly, semiannual or annual installments over a period of one or more years.

7.3 **Distribution over life expectancy.** A participating member's form of distribution election under Section 7.2 must be expected to result in the distribution of the member's entire interest in this Plan within a period not exceeding the life of the member or the lives of the member and the member's beneficiary, or over a period not extending beyond the life expectancy of the participating member or the life expectancy of the member and the member's designated beneficiary.

When a participating member dies after distribution of benefits has begun, the remaining portion of the member's interest shall be distributed at least as rapidly as under the method of distribution prior to the participating member's death.

When a participating member dies before distribution of benefits has begun, the entire interest of the member shall be distributed within five years of the member's death. The five year payment rule does not apply to any portion of the member's interest which is payable to a designated beneficiary over the life or life expectancy of the beneficiary and which begins within one year after the date of the participating member's death. The five year payment rule does not apply to any portion of the participating member's interest which is payable to a surviving spouse over the life or life expectancy of the spouse and which begins no later than the date the member would have reached age seventy and one-half.

7.4 **Additional distribution requirements.** In the case of distributions beginning before the death of a participating member, any amounts not distributed before the member's death shall be distributed at times specified by the Secretary of the Treasury which are not later than the time determined under Code Section 401(a)(9)(G), relating to incidental death benefits and at least as rapidly as under the method being used on the date of the participating member's death.

7.5 **Small benefit cashouts.** Notwithstanding any other provision of the Plan to the contrary, the Board shall automatically distribute the benefits of a participating member in a lump sum as soon as administratively feasible after the member becomes eligible for a distribution in accordance with Section 6.1 if the total amount of the participating member's vested account balance and any amounts held in a rollover contribution account established under Section 3.6 is less than or equal to $1,000. A participating member may waive the lump sum cashout if the member submits a written statement to the Board, within sixty days after termination of employment, requesting that the member's account balance remain in the Trust Fund.

Deleted: $5,000

7.6 **Death benefit payments.** In the event of the participating member's death prior to receiving payment in full of his benefits under this Plan, the Board shall pay the account balance of the participating member, as of the date the Plan receives an application for benefits from the member's designated beneficiary, directly to the member's designated beneficiary.

7.7 **Direct rollovers.** A Distributee may elect, at the time and in the manner prescribed by the Board, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement

Plan specified by the Distributee in a Direct Rollover, except that a Distributee may not elect a Direct Rollover of a distribution or series of distributions of less than $200 in a single calendar year. For purposes of applying this Section 7.7, the following definitions shall apply:

a. **Eligible Rollover Distribution.** An Eligible Rollover Distribution is any distribution of all or any portion of the balance of a participating member's account to the credit of the Distributee, including any after-tax employee contributions that are not includible in gross income except that an Eligible Rollover Distribution does not include:

1. Any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and his designated beneficiary, or for a specified period of ten (10) years or more;

2. Any distribution to the extent such distribution is required under Code Section 401(a)(9);

3. The portion of any distribution that is not includable in a Distributee's gross income (determined without regard to the exclusion for net unrealized unappreciation with respect to Employer securities); or

4. Any corrective distribution of excess contributions and any corrective distribution of excess aggregate contributions and income allowable to such corrective distributions.

An Eligible Rollover Distribution also includes any portion of a distribution that consists of after-tax employee contributions that are not includible in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Code section 408(a) or (b), or to a qualified defined contribution plan described in Code section 401(a) or 403(a) that agrees to separately account for the after-tax employee contribution amounts so transferred.

b. **Eligible Retirement Plan.** An Eligible Retirement Plan is an individual retirement account described in Code Section 408(a), an annuity plan described in Code Section 408 (b), an annuity plan described in Code Section 403(a), an eligible deferred compensation plan described in Code section 457(e)((1)(A), an annuity contract described in Code section 403(b) or a qualified trust described in Code Section 401(a) that accepts the Distributee's Eligible Rollover Distribution. In the case of an Eligible Rollover Distribution to a designated beneficiary other than a spouse or former spouse, an Eligible Retirement Plan is only a individual retirement account described in Code Section 408(a) or an annuity plan described in Code Section 408(b) that is treated as an inherited IRA in accordance with the provisions of Code Section 402(c)(11).

c. **Distributee.** A Distributee includes an employee or former employee. In addition, the employee's or former employee's designated beneficiary or the employee's or former employee's spouse or former spouse, with regard to the interest of the spouse or former spouse, are Distributees.

Deleted: are Distributees

d. **Direct Rollover.** A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

7.8 **Benefits payable to alternate payee under qualified domestic relations order.**

a. The Board shall pay retirement benefits in accordance with the applicable requirements of any qualified domestic relations order. The Board shall review a domestic relations order submitted to it to determine if the domestic relations order is qualified under this

Section 7.8 and under rules established by the Board for determining the qualified status of domestic relations orders and administering distributions under the qualified orders. Upon determination that a domestic relations order is qualified, the Board shall notify the participating member and the named alternate payee of its receipt of the qualified domestic relations order.

b. A "qualified domestic relations order" for purposes of this Section 7.8 means any judgment, decree or order, including approval of a property settlement, which relates to a provision of child support, spousal support or marital property rights to a spouse, former spouse, child or other dependent of a participating member, is made pursuant to a North Dakota domestic relations law, and which creates or recognizes the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a part of the benefits payable to the participating member. A qualified domestic relations order may not require the Board to provide any type of benefit, or any option, not otherwise provided under this Plan, or to provide increased benefits as determined on the basis of actuarial value. However, payment of benefits to the alternate payee under a qualified domestic relations order shall be made as soon as administratively feasible after the order is determined to be qualified, notwithstanding that the participating member has not terminated eligible employment. A qualified domestic relations order must be in a form as may be required by the Board.

7.9 **Benefit limitations.** Contributions with respect to a member of this Plan may not exceed the maximum annual amounts specified under Code Section 415 for governmental plans.

a. The annual addition to a participating member's account for any calendar year shall not exceed the lesser of:

1. $40,000, as adjusted for increases in the cost-of-living under Code section 415(d); or

2. 100% of the compensation or wages paid or made available to the participating member in such year.

b. The "annual addition" shall mean the sum allocated to a participating member's account for any year of contributions or forfeitures, if any, pursuant to this Plan and allocated to the member's benefit pursuant to all other defined contribution plans maintained by the employer for the calendar year, including employee contributions.

The annual addition shall not include the allocation of investment income to a participating member's account balance pursuant to Section 5.2.

c. "Compensation" for purposes of this Section 7.9 shall mean compensation as defined under Code Section 415(c)(3), including salary reduction amounts under Code Sections 125, 132(f)(4), 402(g) or 457.

Deleted: and 403(b)

d. The Board shall reallocate the excess of a participating member's annual addition over the limits stated above to the accounts of the participating members in the Plan who have not exceeded the limits stated above. If the reallocation causes the limits stated above to be exceeded with respect to each participant for the calendar year, then these amounts shall be held unallocated in a suspense account and reallocated to participants' accounts in the next (or succeeding, if necessary) calendar year before the allocation of employer or employee contributions.

If the Plan terminates before the allocation of such excess, the excess shall revert to the employer, to the extent that it may not be allocated to any participant's account.

ARTICLE 8.

ESTABLISHMENT AND ADMINISTRATION OF THE TRUST

8.1 **Establishment of trust.** There is hereby established a Trust Fund to be known as the North Dakota Defined Contribution Retirement Fund. This Trust Fund is intended to be a tax-exempt trust under Code Sections 401 and 501. The assets of this Plan, and all income attributable to such assets, are held in trust by the Board for the exclusive benefit of participating members and their beneficiaries.

8.2 **Acceptance of trust.** The Board consents to act as Trustee for this Trust Fund.

8.3 **Administration.** The Board shall supervise the operation of the Plan, maintain records and supply information to participating members and others. In administering this Plan, the Board shall have any applicable rights, powers and duties granted to it by law for the administration of the public employees retirement system.

8.4 **Specific powers and duties.** The Board shall:

a. Exercise exclusive authority to invest and manage assets of the Plan. However, the Board shall permit each participating member to direct the investment of the individual's employer and employee contributions and earnings to one or more investment options within available categories of investment as established by the Board.

b. Establish and adopt a statement of investment objectives and policies setting forth the manner and parameters of the investment of the assets of the Plan. The statement of investment objectives and policies shall be established in a manner consistent with the purposes of the Plan. The Board shall monitor the performance of the investments of the Plan to ensure such remain consistent with the investment policy established by the Board.

c. Provide information to employees who are eligible to elect to become participating members in this Plan. The information must include at a minimum the employee's current account balance, the assumption of investment risk under a defined contribution retirement plan, administrative and investment costs, coordination of benefits information, and a comparison of projected retirement benefits under the public employees retirement system and this Plan. Notwithstanding any other provision of law, the Board is not liable for any election or investment decision made by an employee based upon information provided to an employee under this Plan.

d. Establish an administrative budget sufficient to perform the duties under the Plan and to draw upon authorized sources to fund the budget.

e. Pay Plan benefits and related taxes from the assets of the Plan.

f. Obtain by employment or contract all the services necessary or appropriate to administer the Plan, including actuarial, auditing, custodial, investment, legal and record keeping services.

g. Procure and dispose of the goods and property of the Plan necessary for its proper administration.

h. Have full power and authority to adopt rules and regulations for the administration of the Plan and to interpret, alter, amend or revoke any rules and regulations so adopted.

8.5 **Expenses.** The expenses incurred by the Board in the proper administration of the Plan shall be paid from sources made available under applicable state law, including the Trust Fund.

8.6 **Accounting.** For accounting purposes, the Board will maintain a summary of the account balances of each participating member whose benefits have not begun to be distributed. This accounting summary will reflect from time to time the total deferred liability of the Plan as well as the account balance for each participating member in the Plan.

8.7 **Compliance authority.** The Board may administratively alter the terms of the Plan as it determines to be necessary or appropriate to maintain the status of the Plan as a qualified defined contribution retirement plan under the Code.

8.8 **Delegation of responsibilities.** The Board may delegate the duties and authorities established under the Plan in a manner consistent with its fiduciary responsibilities as established under this Article 8.

8.9 **Fiduciary responsibilities.** The Board, the Administrator, and any agent or designee thereof with discretionary authority for the Plan, are fiduciaries under the Plan as to the discharge of their duties under the Plan and shall act as to their duties:

a. Solely in the interest of the Plan's participating members and their beneficiaries;

b. For the exclusive purpose of providing benefits to participating members and their beneficiaries and paying reasonable expenses of administering the Plan;

c. With the care, skill, prudence and diligence under the circumstances then prevailing that a person acting a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose;

d. Incurring only costs that are appropriate and reasonable; and

e. In accordance with good faith interpretation of the law governing the Plan.

ARTICLE 9.

RIGHT OF APPEAL AND DETERMINATION OF DISPUTES

9.1 **Claim to benefits.** No participating member, beneficiary or other person shall have any right or claim to benefits under this Plan, or any right or claim to payment from the Trust Fund, other than as specified herein and under all applicable sections of North Dakota Century Code Chapter 54-52. Any dispute as to eligibility, type, amount or duration of benefits or any right or claim to payment from the Trust Fund shall be resolved pursuant to the terms of the Plan, under appeal procedures adopted by the Board.

ARTICLE 10.

AMENDMENT AND TERMINATION

10.1 **Right to amend plan.** The Board has the right to amend the Plan, in whole or in part, at any time and from time to time. However, no amendment shall, with respect to any participating member, reduce such benefits provided hereunder as are derived from vested contributions credited to the participating member before the effective date of any such amendment.

10.2 **Exclusive benefit.** Except as permitted specifically by law, it shall be impossible by operation of this Plan, by termination or amendment or by the happening of any contingency, for any part of the principle or income of the Trust Fund or any fund contributed thereto to be used for, or diverted to, purposes other than the exclusive benefit of participating members or their beneficiaries.

10.3 **Severability.** If any provision of the Plan or any step in the administration of the Plan is held to be illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan, unless such illegality or invalidity prevents accomplishment of the purposes and objectives of the Plan. In the event of any such holding, the Board will immediately amend the Plan to remedy the defect.

10.4 **Nonforfeitable benefits upon termination.** In the event of a termination of the Plan, the rights of each participating member to all benefits accrued to date of such termination, which is the vested account balance of each participating member, shall be one hundred percent nonforfeitable and fully vested in each participating member.

ARTICLE 11.

GENERAL PROVISIONS

11.1 **Plan not employment contract.** The adoption of or participation in this Plan may not be deemed to give an employee the right to be retained in the employ of an employer or to interfere with the right of the employer to discharge any employee at any time.

11.2 **Alienation of benefits prohibited.** Neither the participating member nor his designated beneficiary, or any other designee, has any right to commute, sell, assign, transfer or otherwise convey the right to receive any payments or assets under this Plan. Such payments or assets are non-assignable and non-transferable. The participating member's rights under the Plan are not subject to the rights of creditors of the participating member, any beneficiary, the Board or the employer and shall be exempt from execution, attachment, prior assignment or any other judicial relief or order for the benefit of creditors or other third persons. This Section shall not apply to a qualified domestic relations order, as defined in Section 7.8.

11.3 **Beneficiary designation.** A participant or former participant in the Plan may nominate one or more individuals as a beneficiary by filing written notice of nomination with the Board. If the participating member or former member is married at the time of the nomination and the participant's spouse is not the beneficiary for one hundred percent of his account balance, the nomination is not effective unless it is signed by the participant's spouse. However, the Board may waive this requirement if the spouse's signature cannot be obtained because of extenuating circumstances.

11.4 **Overpayments.** The Board has the right of setoff to recover overpayments made under this Plan and to satisfy any claims arising from embezzlement or fraud committed by a participating member, deferred member, beneficiary or other person who has a claim to a distribution or any other benefit from this Plan.

11.5 **Plan qualification.** If the Board receives notice from the Internal Revenue Service that this Plan is not qualified for tax purposes under the Code, then the portion that will cause the disqualification does not apply.

11.6 **Construction**. The laws of the state of North Dakota, as amended from time to time, shall govern the construction and application of this Plan. Words used in the masculine gender shall include the feminine and words in the singular shall include the plural, as appropriate. The headings and subheadings of this Plan have been inserted for convenience of reference only and are to be ignored in any construction of the provisions hereof.

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

DATE: October 10, 2007

SUBJECT: Hardship Withdrawals

Attached is an article from NAGDA titled "Section 457(b) Plan Administrator's Guide to Unforeseeable Emergency Withdrawals". It is included for information and reference.

Section 457(b) Plan Administrator's Guide To Unforeseeable Emergency Withdrawals

Gay Lynn Bath, Deferred Compensation Manager of the Oregon Savings Growth Plan
Roderick Crane, Director of Institutional Business Development for TIAA-CREF Individual & Institutional Services, LLC

Section 457(b) Plans may (but are not required to) offer participants the ability to take an in-service withdrawal in the event of an "unforeseeable emergency." While 457(b) plans typically offer an unforeseeable emergency withdrawal option, most plan sponsors would agree that this feature is one of the most difficult to administer.

Why is unforeseeable emergency administration so difficult?

The source of the difficulty in administering 457(b) unforeseeable emergency provisions lies primarily with the law and related regulations. Unforeseeable emergency withdrawal provisions are difficult to administer because so many of the legal requirements are not well defined.

Regulations under Section 457(b) of the Code define an unforeseeable emergency as a severe financial hardship resulting from:

- an illness or accident,
- the loss of property due to casualty loss (including the need to rebuild a home following damage to a home not otherwise covered by homeowner's insurance, e.g., as a result of a natural disaster), or
- any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the individual's control.

The IRS has not provided much guidance on the key parts of this definition. In particular, no substantial guidance on what is meant by the terms "severe" or "unforeseeable" has been issued. Plan administrators have been left with what amounts to a subjective facts and circumstances test for adjudicating unforeseeable emergency withdrawal requests.

Many plan administrators have tried to streamline and simplify administration by creating lists of events and expenses that are eligible or ineligible. While helpful, it is also clear that making such lists is an endless proposition because of the myriad of circumstances and situations the participants present when making withdrawal requests.

This Guide is intended to help plan sponsors understand the basic requirements and some best practices for the design and sound administration of this common but difficult to administer 457(b) plan feature.

Does the unforeseeable emergency withdrawal option need to be part of the plan document?

Yes. The 457(b) regulations make it clear that the unforeseeable emergency option must be a written provision in the plan document before it can be offered.

What are some common best practices for designing and administering 457(b) unforeseeable emergency withdrawal provisions?

As with other aspects of plan administration, consistency is important. Realize that plan sponsors set a precedent of sorts with each granted request, and that participants will expect similar treatment from their perspective for their situation. While consistency of administration is not a guarantee that each and every decision will satisfy IRS scrutiny, it is evidence of good faith compliance that may be helpful.

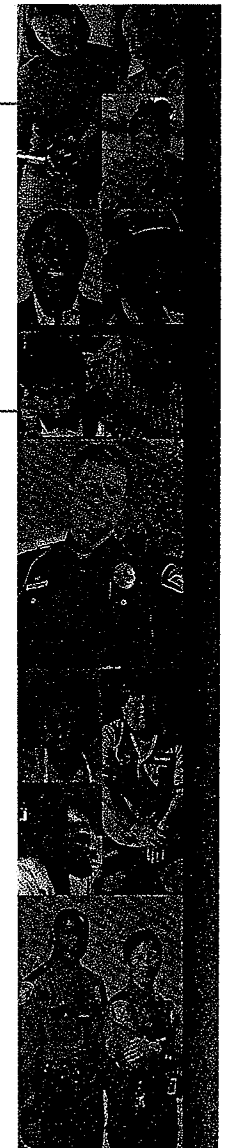
A written policy detailing the established procedures and objective standards for administering unforeseeable emergency withdrawal features is also advisable. Written policies need not (nor could such be expected to) address all the possible circumstances that may arise. However, a written policy that 1) identifies the process to be followed, 2) the standards to be applied and 3) circumstances that clearly qualify or do not qualify as eligible unforeseeable emergencies can help streamline administration.

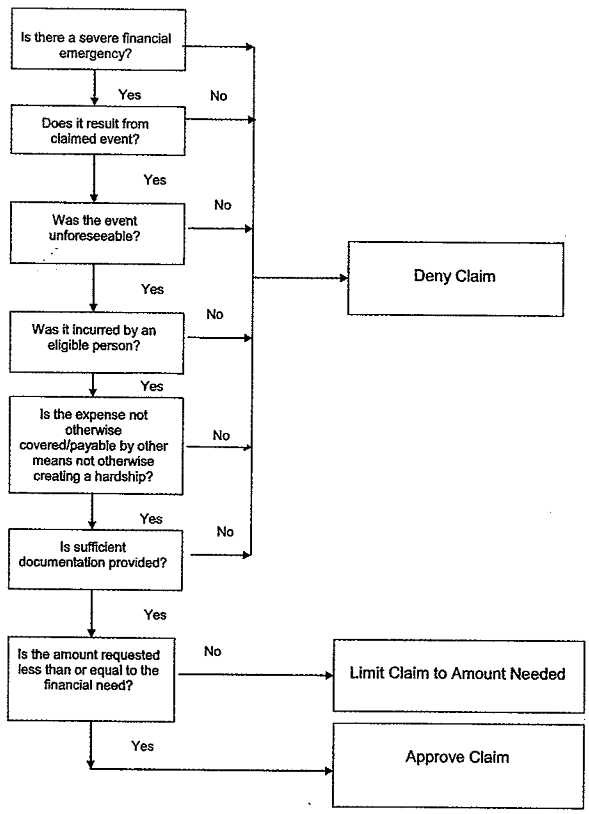
Having a written unforeseeable emergency withdrawal policy also helps demonstrate good faith compliance to the IRS.

The written policy should be adopted by the plan fiduciaries and should clearly identify responsibilities that have been delegated to committees, staff or to third-party service providers and appeal procedures.

What are the requirements for reviewing unforeseeable emergency requests?

There are seven basic requirements that an individual must meet in order to be eligible for an unforeseeable emergency withdrawal under 457(b). The accompanying flow chart identifies each of these requirements and provides a process that administrators may wish to consider for reviewing unforeseeable emergency requests.





What does severe financial hardship mean?

The 457(b) regulations do not define what constitutes a "severe financial hardship". Because IRS guidance has been limited in this area, administrative practices vary rather widely. Some practices have evolved that may be helpful to plan administrators. One of the clearer and more understandable approaches is to adopt something similar to the "immediate and heavy" standard used for administering the hardship distribution provisions under 401(k) and 403(b) plans. Under this standard, a 457(b) plan participant would have to show that the financial hardship is

- Immediate – The requested withdrawal is needed currently and not at some later date, and
- Heavy – The size of the resulting financial burden must be large enough to create a hardship to the individual. This is a subjective test and will depend on the facts and circumstances of each case. For example, a $1,000 uninsured medical bill for a person with family income of $15,000 per year is more likely be judged to be a heavy financial burden, while it may not be for an individual with family income of $150,000.

Some plan sponsors have used other standards, including requiring the financial hardship to be "catastrophic", "sudden, or "unexpected". These are all permitted under federal law. Regardless of what standard a plan uses to define what a "severe" financial hardship is, it will mean applying a facts and circumstances test.

Does the severe financial hardship have to be directly caused by the unforeseen event?

The 457(b) regulations state that the financial hardship must be the result of the events in question. There has been no further IRS guidance as to how connected the event has to be to the claimed financial hardship. Plan administrators should require, however, that the individual identify the emergency event and explain how the event contributed to the financial hardship. Some causal connection between the event and the financial hardship must be shown.

What does "unforeseeable" mean?

The regulations identify the following as events that will be considered unforeseeable:

- Illness
- Accident
- Casualty loss

Illness and accidents are generally understandable and recognizable events. Casualty is not further explained by the IRS, but is commonly understood to include other sudden, unexpected or unusual events, such as fires, storms, lightning, earthquakes and other natural or weather related disasters.

Unfortunately, except for the three events noted above, there really is no easy test or clear standard to determine the existence of an unforeseeable emergency. The 457 regulations state that the existence of an unforeseeable emergency is "to be determined based on the relevant facts and circumstances of each case" – in other words by your interpretation and best judgment. Some questions to ask in every case include:

- Were events beyond the individual's control?
- Could the situation have been anticipated, avoided or budgeted?

While applicable federal law and related regulations do not identify any formal "reasonableness" standard for determining whether an emergency was unforeseeable, it is clear that the IRS expects unforeseeable emergency withdrawal provisions to be administered under objective standards that are consistently applied. Plan sponsors should establish policies that determine unforeseeability from the perspective of a reasonable and prudent person.

Whose emergency does it have to be?

The illness, loss, or other unforeseeable emergency can be that of:

- the participant
- the participant's spouse
- the participant's dependent for Code Section 152 tax purposes (e.g. a minor child, relative or other individual who lives with the participant full time and receives over half of his or her support from the participant) or
- the participant's beneficiary under the Plan. (The Pension Protection Act of 2006 added this optional category.)

Has the IRS provided any other guidance or examples of what is or may be an unforeseeable emergency?

The IRS has specifically ruled out the elective purchase of a home or college tuition as unforeseeable emergencies. (Note that these two events are probably eligible as "financial hardship" in-service distribution events for a 401(k) or 403(b) plan.)

The IRS has also said that foreclosure or eviction, medical expenses, and funeral payments may be, but are not necessarily always, unforeseeable emergencies.

What are some examples of events that are generally considered not to be unforeseeable emergencies?

The following are examples of expenses that, standing on their own, ordinarily would not qualify as a severe financial hardship because there is no unforeseeable emergency involved. These are situations where the individual 1) had significant control or 2) could have reasonably and prudently anticipated, avoided or budgeted for the event.

- Cost of education/tuition
- Normal monthly expenses – e.g., utility bills, mortgage or rent payments
- Payment on credit cards or loans
- Payment of federal, state, local or property taxes
- Elective purchase, maintenance or remodeling of a home or other real estate
- Costs associated with divorce or separation
- Purchase of automobile other transportation expenses
- Automobile or appliance maintenance
- Elective or cosmetic surgery
- Routine medical, dental or orthodontic services
- Bankruptcy
- Legal judgments and legal fees
- Investment losses
- Gambling losses
- Wage garnishment
- Costs of adoption
- Child support payments

It is important to note, however, that where there is a demonstrated unforeseeable emergency, some of these expenses may be considered as a severe financial hardship. For example, if a natural disaster strikes an area and an individual loses their house and their job, they could ask for an unforeseeable emergency distribution. The basis for this unforeseeable emergency distribution would be a loss of income that the participant could use to cover ordinary expenses, including credit card payments. The unforeseeable emergency distribution could not exceed the participant's income loss. An unforeseeable emergency distribution could also be granted in this example to buy a new primary residence. However, the unforeseeable emergency distribution would have to be reduced by any insurance and other benefits the participant receives from other sources related to the housing loss. This illustrates why it is so difficult to develop comprehensive lists of situations and expenses that will be eligible under the unforeseeable emergency rules and why it is so important to develop clear and consistent standards and processes for making decisions in this area.

Does an individual need to use other financial resources first before seeking an unforeseeable emergency withdrawal?

Yes, the regulations provide that the individual should only withdraw assets intended as retirement savings in the Plan as a last resort. To that end, the following requirements must typically be met:

- Insurance coverage is either not available or is insufficient to cover the financial need caused by the unforeseeable emergency.
- The need cannot be satisfied by taking a loan from the Plan, from other plans of the employer, or from commercial lenders.
- The need cannot be met by stopping contributions under the Plan and/or any other plan of the employer with elective deferrals.
- The need wouldn't be satisfied through the liquidation of the participant's assets, as long as the liquidation itself doesn't impose further unreasonable hardship.

What kind of documentation is generally required with an unforeseeable emergency withdrawal request?

The decision to grant or deny an unforeseeable emergency withdrawal request must be based on sufficient evidence indicating the emergency is extraordinary and unforeseeable. The participant must file a written request and provide all necessary and requested supporting proof and documentation. (On their website listing of top 403(b)/457(b) compliance issues, the IRS lists inadequate documentation, lack of proper internal controls, and distributions that exceed the amount needed as common violations in unforeseeable emergency withdrawal administration.)

While the IRS has not provided guidance as to how much evidence is necessary, it is relatively clear that the mere statement by an applicant without an offer of proof is likely insufficient. Some examples of commonly required documentation include:

- A written explanation of the circumstances giving rise to the withdrawal request
- Explanation of Benefits (EOB) for medical bills.
- Written notice of eviction/foreclosure
- Pay stubs
- Worker's compensation or disability payments
- Bills, receipts, or statements for funeral, repairs to home, attorneys' fees, etc.
- Personal financial statements
- Loan denial letters from commercial lenders
- Foreclosure or eviction notices/documents

Other documentation or proof may be necessary depending on the nature of the emergency event and the financial hardship.

Can adding a plan loan feature decrease the burdens of administering an unforeseeable emergency feature?

Yes. Plan loans can be offered by 457(b) plans and are being increasingly considered as an alternative way for participants to gain access to their accounts when needed. Federal law and regulations allow loan features to be offered without requiring participants to meet the "extraordinary and unforeseeable emergency" standard that is so difficult to administer.

Plan sponsors concerned about making participant retirement savings too available can impose limitations on the availability of plan loans. For example, a plan sponsor could require that plan loans can be made available only for "hardships" permitted for 401(k) and 403(b) plans.

Adding a plan loan feature may lessen the time and effort spent administering unforeseeable emergency withdrawal requests. However, plan loans add their own complexities that should be assessed carefully before being added, including administering loan repayments and defaults.

What taxation and reporting rules apply to unforeseeable emergency distributions?

Unforeseeable emergency withdrawals are taxable to the participant as ordinary income. Under IRS Notice 2003-20, unforeseeable emergency withdrawals are non-periodic payments that are reported on Form 1099R for federal and state income tax purposes. Unforeseeable emergency distributions are not eligible rollover distributions and are subject to withholding under § 3405(b) at a 10-percent rate, unless the recipient elects not to have withholding apply.

Can an unforeseeable emergency withdrawal be paid back?

No. An unforeseeable emergency withdrawal is not a loan. Further, because the participant may not be allowed to contribute for up to 12 months, the participant will likely miss out on the opportunity to make even regular contributions until the plan allows contributions to begin again. However, subject to the regular annual deferral limits, once the participant is again eligible to contribute, additional contributions could be made at that time to make up for the amounts withdrawn.

Does an unforeseeable emergency withdrawal affect the amount that can be deferred in the year of the hardship?

No. A participant may still contribute up to the regular deferral limit for that year. Again, however, because the plan may prohibit participant to make contributions for up to 12 months, the participant most likely will not reach the limit for that year.

Does an unforeseeable emergency withdrawal affect the amount a participant can contribute under the Age 50 or 3-year catch up feature?

No. The unforeseeable emergency withdrawal does not reduce the amount of a participant's Age 50 or 3-year catch-up calculation.

About NAGDCA

The National Association of Government Defined Contribution Plan Administrators is composed of deferred compensation and defined contribution plan administrators from the 50 states and over 100 local governments and entities, as well as the private industry plan providers. NAGDCA is an organization in which the members work together to improve government 457 plans through a sharing of information on investments, marketing, administration and laws relating to public sector deferred compensation/defined contribution plans.

For more information visit www.nagdca.org.

About the Authors

Gay Lynn Bath is the Deferred Compensation Manager for the Oregon Savings Growth Plan in Salem, Oregon. In that capacity, she administers a $1 billion 457 plan for the benefit of state and local government employees in Oregon. Prior to moving to Oregon in 2004, she was the 401(k) Plan Administrator for the Public Retirement System of Idaho (PERSI) for three years. Before working in the public realm, Gay Lynn was a 401(k) Plan Administrator for two years at a technology manufacturing company in Nampa, Idaho.

Roderick Crane is a national authority on public sector retirement plans and is responsible for developing and executing strategies for the state and local government 401(a), 457, 401(k) and 403(b) markets for TIAA-CREF. Before joining TIAA-CREF, Mr. Crane was a senior consultant with The Segal Company and Mercer Human Resources Consulting. During this 22-year period, he worked primarily with large state and local governments on the design and administration of their defined benefit and defined contribution retirement programs as well as their deferred compensation and retiree health savings plans. Prior to entering the benefits consulting arena, he served as staff legal counsel for the North Dakota Legislative Assembly and its public employee retirement oversight committee.

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

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

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

Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **October 11, 2007**

SUBJECT: **FlexComp Plan Grace Period Review**

At the September meeting, the Board requested that staff provide additional information with regard to the administrative policy applied to reimbursement of health care expenses incurred during the "grace period." The NDPERS Board moved to amend the FlexComp Plan document to incorporate the provisions of IRS notice 2005-42 at its March 2006 meeting. A copy of the memo is included for your information. The last paragraph of the memo references section 7.06((c) of the plan document which provides that health care expenses will be charged against any current plan year account balances unless the participant instructs that claims be reimbursed from any available prior plan year health care expenses.

In developing the administrative policy, consideration was given to using an automatic default policy for grace period claims or having the participant make the election. The decision to implement the latter policy was based on the following observations:

1. Participants have until April 30 of the new plan year to submit claims incurred during the previous plan year. Therefore, using a default in which we automatically apply grace period expenses to a remaining account balance could result in depleting an account balance in the previous plan year for which claims have not yet been submitted.

   For example, a member has a remaining balance of $500 in their medical spending account. In late December of 2007 they incur medical expenses and the claim is submitted to insurance. In early January they have a dental procedure and incur out-of-pocket expenses of $500 and immediately submit the claim for reimbursement. If our procedure was to automatically apply a grace period claim back to the previous plan year, we would reimburse the participant $500 thereby depleting the previous year's account balance. Thereafter, the EOB for the medical claim is received and submitted for reimbursement. We would not be able to pay it which may be a disadvantage to the participant because they may have planned their care so this expense would be paid out of their 2007 account. Using an automatic default policy would override their planning, thus causing them to lose eligibility for reimbursement of 2007 claims and it could also have an adverse affect on the planning they did in determining their contribution amount for the 2008 plan year.

2. In instances where claims may have been denied during the plan year, using an automatic default could result in depleting an account balance before the participant has had the opportunity to respond to our request and resubmit the denied claim for reimbursement.

Based on the above, and the board's approval of the amendment, the claims processing software and reimbursement form were modified to process grace period claims based on the participant's direction.

To change to an automatic default policy will require modifying the system and it will be necessary to get a cost estimate from ITD. In addition, this software is also used by the University System to administer its flexcomp plan. As they adopted the state's current policy with regard to grace period claims processing in order to use the same software, it will be necessary to advise them of any modifications because it will also result in a change to their processing policy for these claims and an additional expense for reprogramming.

To provide the Board with some additional plan information; PERS processes approximately 18,000 claims annually; about 7,000 or 40% of these claims are processed between January 1 and April 30, which is the claim run-out period. During these four months, we process claims for the previous plan year, current plan and the grace period. At this point, we have had one appeal relating to the procedure you previously adopted for processing grace period claims. Staff believes we would have more appeals if we modify the current procedure since we would not be allowing the member the option to direct how their claims should be processed. Therefore, staff recommends not making a change to the procedure at this time.

Board Action Requested

To determine if the present procedure should be modified.

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

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

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

Memorandum

TO: **PERS Board**

FROM: **Kathy**

DATE: **March 6, 2006**

SUBJECT: **FlexComp Program – Grace Period**

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

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

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

Board Action Requested

Approve the amended FlexComp Plan Document

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: October 11, 2007

SUBJECT: **Post-Implementation Report**

Attached is the Post-Implementation Report that was submitted to ITD at the end of Phase III of the LASR project. This report was compiled with the assistance of the Steering Committee and represents the consensus of the group. Phase III of the project was completed successfully and under budget. Staff has been very pleased with the results of this effort and looks forward to completing the next phase which began officially on Monday, October 1st.

NDPERS LASR Project - Phase 3 Post Implementation Report

PROJECT IDENTIFICATION

Project Name: NDPERS LASR (Legacy Application System Replacement) Date: 09/30/2007

Project Sponsor: Sparb Collins Project Manager: Deb Knudsen

Report Prepared By: Deb Knudsen

Post-Implementation Report

CATEGORIES: For each category, the Overall Rating has been supplied based upon an evaluation/lessons learned meeting conducted with the NDPERS Steering Committee and represents the Project Manager's interpretation of the groups comments for that category (1=Not at All, or Poor, 2=Adequately, or Satisfactory, 3=To a great extent, or Excellent)

A. PRODUCT EFFECTIVENESS

As this project's purpose was to procure a vendor for our Legacy Application System Replacement Project, and we procured a vendor that stakeholders are very pleased with, product effectiveness appears to be excellent. As our goal was to obtain three to five vendor proposals for evaluation to allow us to ultimately choose the best vendor from the process, and in actuality, we received only one eligible response, everything did not go according to plan. More detail is provided below.

Specifically, our objectives were to:

1. Develop criteria to be included in the RFP.
2. Develop a procurement strategy.
3. Create a draft RFP.
4. Create a final RFP.
5. Manage pre-bid conferences
6. Evaluate responses to RFPs and provide an analysis to the NDPERS Board.
7. Manage post bid sessions with finalists.
8. Participate in and conduct on-site visits of finalists
9. Recommend top implementation vendors to the NDPERS Board.
10. Conduct reference checks on vendor finalists.
11. Participate in final contract negotiations
12. Establish NDPERS estimated implementation timeframes and staffing requirements.
13. Keep NDPERS Board informed as requested by the Executive Director.

A fulfillment of the objectives was successful for the most part and are discussed below.

1. By using the consultant's workbook technique, we were able to develop a very specific requirements section, covering both functional and technical areas.
2. At the beginning of the project, a timeline and procurement strategy was developed and provided to both the steering committee and the NDPERS Board. A Gantt chart was used to lay out the timeframes and included a Bidders Conference, a deadline for submittal of the RFP as well as a schedule for reviewing RFP's, evaluation of them, product demonstrations, site visits and reference checks was established and approved.
3. A draft RFP was presented within the deadline established.
4. The final draft of the RFP was approved in enough time to allow for release of the RFP a week earlier than originally planned.
5. A bidder's conference was held and attended by approximately 6 potential vendors. Follow-up questions were allowed and posted to the NDPERS website and the procurement website for interested vendors.
6. One proposal was received within the deadline, was evaluated and found to meet criteria of the RFP. One proposal was received late and returned.
7. The proposal was evaluated by the review team and found to meet all minimum requirements, receiving an overall high rating.
8. Vendor came in and made a successful presentation to all NDPERS Staff, as well as selected ITD staff.

9. Steering committee recommended continuing to work with sole respondent, as all interaction and research has been positive.
10. Reference checks were conducted, contacting three former or existing clients of the vendor. Very good positive and enthusiastic responses were provided.
11. Final negotiations were conducted and a signed contract was the result.
12. The project start date has been established as October 1, 2007, back filling of staff is nearly complete and a draft requirements traceability matrix has been initiated.
13. Monthly information was provided to the NDPERS Board at each board meeting.

Something that was not included in our original charter, but what was also done is that the process we followed above was conducted to meet state procurement office rules and best practices. The State Procurement Office's (SPO) template was used and NDPERS staff worked closely with the SPO staff, the Attorney General's Office, and ITD procurement staff to ensure all rules and best practices were applied.

Overall Rating: 2 Adequate or Satisfactory

B. CSSQ MANAGEMENT

Overall CSSQ management was effective throughout the project. Cost management was effective, using a maximum price contract on a "not to exceed" basis. Contract was also deliverable based and broken down into phases with applicable deliverables. The monthly sign off process for expenses worked well for all parties. The project came in under budget. Staff time that was estimated for the project was also less then projected due partly to fewer proposals received than originally projected. Original budget was proposed at $590,326.00 and as of September 30, 2007 actual dollars spent equaled $480,421.33 *. As only one proposal was received, there was less cost in several areas. Staff only had to review one proposal, consultant only had to review one proposal and fewer site visits were required, as a result as well. ***Does not include the LRWL billing or NDPERS staff time for the month of September.***

Regarding scope management, the Request for Information (RFI) portion of the RFP was removed, resulting in a reduced scope. The process worked well, with effective use of consultant. In hindsight, inclusion of a performance bond requirement and a price band may have impacted our ability to draw a larger pool of vendors. This is discussed later in the Lessons Learned portion of this report. Time was also an issue and it was suggested that perhaps it would have been of value to have started this project earlier. However, with the timing of the legislature and budget cycles, it was noted that it wouldn't have been possible to start much sooner. Contract negotiation and closure took longer than anticipated. Several items contributed to this, including a change in a planned migration from the mainframe. This postponed the implementation start from July 1 to Oct 1. The single repercussion associated with this change was replacement of the consultant originally proposed by LRWL with another from the same firm, as the original had been assigned to other projects in the interim. In addition, in the RFP a model contract was included as a sample. In the final negotiations, NDPERS worked with Attorney General's office and an Attorney General's appointee to draft a final contract. The final contract looked considerably different than the sample contract and resulted in more time being required by both parties to work through the expectations. On a positive note, the state now has a template to use as a sample in future projects of a similar nature. This should save considerable time in the future as the vendor will have more time to view the contract prior to having to execute it.

The project generally ran ahead of schedule for much of the time. This was due to staff's willingness to give this project priority and to the Executive Director's leadership and support. Consulting staff and the project manager worked well together keeping the aggressive schedule moving. The Request for Proposal was released ahead of schedule, allowing vendors more time to respond. The coordination of the project was intentionally parallel to the legislative and executive process to ensure that additional funding and support could be sought if necessary after the proposal(s) were evaluated. This became necessary and contingent support was solicited and received from the legislature pertaining to optional components of this project. Even though the RFP was released early to provide a greater amount of response time, staff feels it would be advisable to avoid the holidays whenever possible when issuing RFP's in the future. The LASR steering committee expressed their gratitude for staff's cooperation and diligence.

The quality of Phase IV of the LASR project is contingent upon the success of the previous phases. To this point, NDPERS believes that it has received what was sought. The vendor appears to staff to be the best vendor in the market for what NDPERS wanted. There have been no complaints or appeals in the procurement process and the NDPERS Board has been accepting of the vendor and status reports.

Overall Rating: 2 Adequate or Satisfactory

C. RISK MANAGEMENT

Risk management was effective throughout the project. As indicated in the project plan, a risk management log was kept by the project manager and this was reviewed and reported during the quarterly reporting cycles for large projects and after that, to the NDPERS Board. Initially the project plan called for weekly updates on this topic at the status meeting and this topic was on the agenda each week. However, it was not necessary to discuss this as frequently, as very few topics arose that needed attention. The only issue that individuals were dissatisfied or disappointed with was the fact that NDPERS received fewer proposals than expected or desired. While this was previously identified as a potential risk, it was not expected as an outcome. However, the solution proposed by the selected vendor appears to provide the functionality and services NDPERS sought throughout the RFP.

Overall Rating: 2 Adequate or Satisfactory

D. COMMUNICATIONS MANAGEMENT

The communications plan was closely followed and provided ongoing information to the NDPERS Board and staff representatives. This was good for conveying our progress as well as communicating expectations for the upcoming tasks. In retrospect, staff felt it could have been more proactive in communicating with staff that was not immediately part of the team working on the RFP. They received monthly updates, but such could have been provided more frequently, perhaps in the form of a weekly department meeting. Email updates could also have worked, but would probably have become a burden to project staff as the schedule was quite aggressive. In addition, communications tended to focus on issues that arose and not the project's many successes. Incorporating the projects success in future communication will be kept in mind.

Overall Survey Rating: 3 to a great extent

E. ACCEPTANCE MANAGEMENT

Acceptance management ran smoothly throughout the project. The most significant deliverable for this phase aside from the vendor proposals was the Request for Proposal. This was compiled using a series of "workbooks" which addressed both business functionality and implementation services sought in the procurement. The workbooks were tied to a Gantt chart for scheduling purposes and billings were approved monthly. In addition to the monthly billings, the vendor was responsible for submitting weekly status reports as well as a monthly status report. This process worked well for both NDPERS and the vendor.

Overall Survey Rating: 3 to a great extent

F. ORGANIZATIONAL CHANGE MANAGEMENT

There was no organizational change management required during this phase of the project.

Overall Survey Rating: N/A

G. ISSUES MANAGEMENT

When drafting the RFP, it was recommended that we put in a requirement for a performance bond and subsequently the requirement for an 80% performance bond for the duration of the project was inserted into the RFP. Following the bidders conference, it was requested that NDPERS consider dropping the performance bond requirement by two different vendor companies. A decision was made to reduce the performance bond requirement from 80% of the project to 20% of the project. This is the most significant issue that was experienced in this procurement process. NDPERS staff wrestled with whether they should require the performance bond at all or whether to allow alternatives to a performance bond. Ultimately, it was determined that NDPERS had indicated a performance bond was necessary in the RFP and supporting documents, and that we would reduce the bond requirement from 80% to 20%. Further research found that requiring a performance bond was not a uniform or consistent requirement in North Dakota state procurements and was a requirement in approximately half of similar procurements by other states. NDPERS' purpose for having the bond from the start was to transfer *some* of the risk for the project to the vendor to create an incentive for them to assure a positive outcome for the project and was not to insure the entire cost of the project. In retrospect, given the information we have now, we either would not require a performance bond or we would seek other alternatives, such as a letter of credit, to mitigate the risk. It should also be noted that NDPERS has holdback provisions in the contract that provide for 20% holdback of costs related to services to be released at the completion of the project.

Procurement process for a large project such as this was also an ongoing issue. Although procurement staff was very helpful whenever contacted, we needed to consult them regularly to ensure compliance with required procurement practices and would not have been comfortable proceeding without their assistance. Although the procurement website allowed us to access a significant group of pre-registered vendors, there was not a way to exclude vendors who wished to be taken off the mailing list as we sent out additional information. A user's manual of some sort would have been useful. We believe we have effectively completed all the necessary steps regarding procurement and required documentation, so ultimately the management of this issue was successful, due largely to the assistance we received.

Overall Survey Rating: 2 Adequate or Satisfactory

H. PROJECT IMPLEMENTATION AND TRANSITION

Project will not be implemented until next phase. See Project Plan for Phase IV.

Overall Survey Rating: N/C

I. PERFORMANCE OF VENDOR

Performance of the vendor (LRWL) overall was very good. Vendor's responsibility was to lead the NDPERS staff successfully through the procurement process of a Legacy Application System. NDPERS staff had no experience in this area and was required to rely heavily on LRWL staff for much of the project. For the bulk of the project, LRWL's Project Manager was Andrew Flewelling. Mr. Flewelling expertly worked with NDPERS staff going through LRWL workbooks to establish highly detailed requirements definitions for use in the RFP. He called in other LRWL staff as needed and ensured adequate expertise was provided in all benefit areas. As the NDPERS Project Manager was not a full time employee, Mr. Flewelling was required to be very schedule oriented and timely. He was very good in communicating with staff and patient when more information was required. He was also very responsive via email and telephone when he was not working on-site. Mr. Flewelling was a good match for the NDPERS staff and was very conscientious of budget requirements of the project and worked very well with SME's outside of the NDPERS office, such as ITD, SPO and AG representatives. Mr. Flewelling conducted status meetings on a weekly basis for approximately the first four months of the project and as needed for the remaining portion of the project. In addition to drafting the written RFP, he provided written weekly and monthly status updates, assisted in developing questions for reference checks as well as script scenarios for product demonstration. He was able to provide almost any information we asked for and was responsible for recommending NDPERS pursue additional counsel on the vendor contract. Overall we were very satisfied with Mr. Flewelling's, as well as LRWL's performance.

An "outlier" issue would be that LRWL was initially hired to conduct a Feasibility Study for NDPERS to determine whether a system replacement was necessary as well as a Request for Information (RFI). With the results of the two efforts in hand, NDPERS would have an idea of what funding to seek for the project, should it elect to proceed. LRWL suggested that NDPERS did not need to perform a RFI as they proposed they had enough experience in the industry and information to provide NDPERS with valid costs. They also noted that RFI responses were not binding so would not necessarily be accurate. Regarding the Feasibility study, NDPERS quickly realized that in order to be successful, staff needed to be more involved than originally anticipated. Ultimately the deadline for the feasibility study was met and it was presented to the NDPERS Board and accepted. In hindsight, perhaps an RFI could have been useful, even though information solicited in this manner is not binding.

Overall Survey Rating: 3 to a great extent, or Excellent

J. PERFORMANCE OF PROJECT TEAM

Performance of project team overall was very good. The consulting firm hired to assist in this effort provided excellent guidance and leadership and the lead consultant was a very good match for working with NDPERS staff. Subject matter experts were used as needed and were provided from other areas such as ITD and Procurement in a very timely and professional manner, even though timeframes were often very aggressive. NDPERS staff was very cooperative in this effort and very committed to achieving a good outcome. There was good representation of staff requirements and therefore staff buy-in was very successful. There was good communication of expectations all through the project and good preparation before meetings. LRWL Project Manager met with NDPERS Project Manager weekly to assess scheduling, what was needed for materials, set deadlines, etc. Meetings and materials were distributed the week prior to meeting attendees. NDPERS staff and outside SME's excelled in responding to all that was requested by both project managers. If a conflict arose, all parties took responsibility to ensure that the necessary work got addressed. Use of available tools was good; tracking of comments was very helpful and aided group discussions. Although scheduling was challenging with outside SME's especially, excellent team work was exhibited by all involved in the project.

Overall Rating: 3 to a great extent, or Excellent

K. KEY PROJECT METRICS

COST

Final Cost	Final Approved Baseline Cost Estimate	Difference from Final Cost	Original Cost Estimate	Difference from Final Cost
$480,421.33	$590,326.00	$	$590,326.00	$
		%		%
Number of approved changes made to the original budget.				0
Number of "re-baselined" budget estimates performed.				0

Post-Implementation Report

SCHEDULE

Number of milestones in baseline schedule.	9
Number of baseline milestones delivered on time (according to last baselined schedule).	8
Difference in elapsed time of original schedule and final actual schedule.	2 months
Difference in elapsed time of final baseline and final actual schedule.	2 months

Milestones include: Draft rfp, final rfp, bidders conference, release of rfp, analysis of rfp, vendor on site demonstration, reference checks, site visits to other clients, decision

The RFP was released a week early and project and contract signing was moved to July 31st from June 1.

SCOPE

Number of baseline deliverables.	9
Number of deliverables delivered at project completion.	10
Number of scope changes in the post-planning phases.	2

NDPERS had planned to review 3 – 5 proposals but only received one. In addition, the requirements traceability matrix was completed earlier than originally anticipated, but did not result in a budget change.

QUALITY

Number of defects/quality issues identified after delivery.	0
Number of success measures identified in the Business Case that were satisfied or achieved at project completion.	225 pages of requirements

pp. 2-8, 14 -24, 41-249 in the RFP

H. Lessons Learned

At the end of this phase, the steering committee got together and we collected everyone's input regarding the project. Much of it is reflected in the previous pages of this report. We specifically collected input on what lessons were learned from this group and they are listed below:

Things we would do again: All agreed that weekly steering committee meetings were a good thing for this project. In addition, broad based participation from staff in the requirements gathering sessions was identified as a real plus. We definitely would hire the same consultants (L.R. Wechsler, Ltd) to help us manage the process and would also continue to utilize the ITD Planning services as a resource, both really added value to our project. In addition, site visits were very helpful and talking to other states about their solutions was also.

Things we would not do again: We would have built in more flexibility in our solicitation regarding performance bonds and similar instruments. We have learned that performance bonds are generally renewed annually with no guarantee of renewal. As a non-renewal could occur for reasons unrelated to our project, it is doubtful we would have a straight performance bond requirement for any future projects. Although we did end up with a successful bid, several vendors informed us that they would have responded to the RFP if the pricing band had been higher. It was also stated that we should have had fewer optional components to avoid confusing the scope of the project for responsive vendors.

Things learned include: We learned that the procurement rules should be reviewed and incorporated into the detailed timeline for requirements. In addition, in the future, we would also put the exact proposed contract language into the RFP rather than a rough draft. Although we did work with the Attorney General's office to provide draft contract language for the RFP, we ended up hiring an outside firm and rewriting the contract, adding much more specific language than previously provided in the RFP draft version. In this particular case, we would have been better off to engage the outside firm to have the contract drafted before we entered into the negotiations phase. It was also expressed that staff should have done more upfront research on back file conversion and workflow documentation prior to putting out the RFP by interviewing other states.

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

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

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

MEMORANDUM

TO: NDPERS Board

FROM: Jim Smrcka

DATE: October 4, 2007

SUBJECT: **Consultant Fees**

Attached is a report showing the consulting, investment and administrative fees paid during the quarter ended September 30, 2007 Please let me know if you have any questions on the report.

Attachment

North Dakota Public Employees Retirement System
Consulting/Investment/Administrative Fees
For the Quarter Ended Sept 30, 2007

	Program/Project	Fee Type	Jul-07	Aug-07	Sep-07	Fees Paid During The Quarter	Fees Paid Year-To-Date
Actuary/Consulting Fees:							
Gallagher Benefit Services, Inc	Insurance	Fixed Fee				-	-
Gallagher Benefit Services, Inc	Ongoing consulting	Time charges		1,094		1,094	18,724
Gallagher Benefit Services, Inc	Travel Expenses	Actual				-	-
LR Wechsler, LTD	IT Project	Fixed Fee	4,290	1,480	3,400	9,170	137,210
LR Wechsler, LTD	Travel Expenses	Actual			2,436	2,436	14,150
Mid Dakota Clinic	Retirement Disability	Time charges			560	560	4,000
The Segal Company	Retirement (DB)	Fixed Fee	5,769	18,525		24,294	49,944
The Segal Company	Ret Health Credit	Fixed Fee	1,100	3,575		4,675	9,625
The Segal Company	FlexComp	Fixed Fee		2,900		2,900	7,400
The Segal Company	Job Service	Fixed Fee		5,200		5,200	12,400
The Segal Company	QDRO/Compliance	Time charges				-	7,530
The Segal Company	Legislation	Time charges				-	34,031
The Segal Company	Retirement (DC)	Time charges				-	-
The Segal Company	Deferred Comp	Time charges	2,338			2,338	4,951
The Segal Company	Travel Expenses	Actual				-	-
			$ 13,497	$ 32,774	$ 6,396	$ 52,667	$ 299,965
`udit Fees:							
͵rady Martz	Annual audit	Fixed Fee	$ 8,500		$ 16,500	$ 25,000	34,250
Legal Fees:							
ICEMILLER llp	IT Project	Time charges	$ 2,590	$ 945		$ 3,535	7,700
ND Attorney General	Administrative	Time charges				$ -	13,734
Calhoun Law Group	Administrative	Time charges				$ -	-
Investment Fees:							
SIB - Investment Fees	Retirement (DB)	% Allocation	1,969,163	896,123	*	2,865,286	7,313,921
SIB - Investment Fees	Ret Health Credit	% Allocation	21,500	240	*	21,740	110,924
SIB - Investment Fees	Insurance	% Allocation	201	22	*	223	742
SIB - Administrative Fees	Retirement (DB)	% Allocation	28,081	11,700	*	39,781	114,862
						$ 2,927,030	$ 7,540,449
Administrative Fee:							
Blue Cross Blue Shield	Health Plan	Fixed fee	$ 657,125	$ 725,404	$ 657,206	$ 2,039,735	5,974,607

*** September figure not yet available**

State Investment Board

Agenda and Minutes

will be distributed

at the Board meeting