NDPERS BOARD MEETING
Agenda

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

October 25, 2012 **Time: 8:30 AM**

I. MINUTES
   A. September 19, 2012
   B. September 20, 2012
   C. October 11, 2012

II. RETIREMENT AND RETIREE HEALTH INSURANCE CREDIT
   A. Actuarial Valuations – Segal (Board Action)
   B. Retirement Legislation – Sparb (Board Action)
   C. GASB/Moody's – Segal (Information)
   D. Deferred Normal Retirement Option – Sparb (Board Action)
   E. Job Service COLA – Kathy (Board Action)
   F. Job Service Asset Liability Study – Sparb (Board Action)

III. GROUP INSURANCE
   A. Legislation – Sparb (Board Action)
   B. Wellness Initiative Update – Rebecca/Tara (Information)

IV. DEFERRED COMPENSATION
   A. Hartford Update – Sparb (Board Action)

V. MISCELLANEOUS
   A. Personnel Policies – Kathy (Board Action)
   B. SIB Agenda

VI. FLEXCOMP
   A. ADP Update - Sparb (Information)
   B. Flexcomp Appeal – Case ID 97

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 18, 2012

SUBJECT: 2012 Actuarial Valuations

Brad Ramirez from the Segal Company will be at the next Board meeting to review the results of the 2011 actuarial valuations. He will be reviewing the attached PowerPoint presentation highlighting the valuations. We will be emailing you the electronic valuation reports for your reference as the final printed actuarial valuation reports won't be available until the end of the month.

This information is going to be presented to the Legislative Employee Benefits Committee on October 30th.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Actuarial Valuation as of July 1, 2012

Discussion of Valuation Results and Projections

October 25, 2012

Brad Ramirez, FSA, MAAA, EA, FCA

Tammy Dixon, FSA, MAAA, EA

#5296284




SEGAL

Discussion Topics

Segal

- **Overview of Valuation Process**
- **Summary of Valuation Highlights**
- **Membership and Demographics**
- **Valuation Results and Projections**

Purposes of the Actuarial Valuation

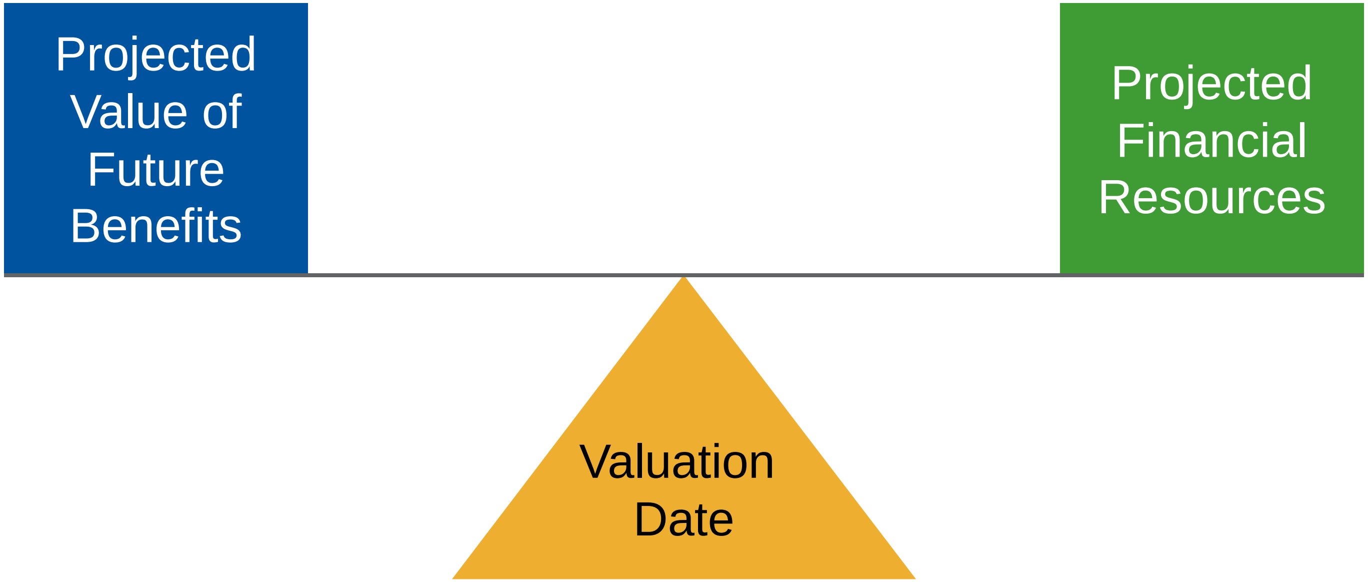
- Report the Fund's assets
- Estimate the Fund's liabilities
- Determine the Actuarially Recommended Contribution for 2012/2013
- Provide information for annual financial statements
- Identify emerging trends

How is an Actuarial Valuation Performed?

The actuaries will:

- Gather data as of the valuation date
  - Participant data
  - Financial data
- Project a benefit for each member, for each possible benefit
- Apply assumptions about:
  - Economics (investment return, inflation, salary raises)
  - People or demographics (death, disability, retirement, turnover)
- Apply assumptions to benefits to determine a total liability and assign liabilities to service
- Apply the funding policy to determine Actuarially Recommended Contribution
  - Based on actuarial cost method and asset valuation method

Actuarial Balance



Over the life of a pension system,

Benefits + Expenses = Contributions + Investment Return

Contributions = Benefits + Expenses - Investment Return

Actuarial Assumptions

Two types:

Demographic	Economic
• Retirement • Disability • Death in active service • Withdrawal • Death after retirement	• Inflation • Interest rate (return on assets) • Salary increases • Payroll growth

Actuaries make assumptions as to when and why a member will leave active service, and estimate the amount and duration of the pension benefits paid.

Economic Assumptions

Interest Rate

- 8%

Salary Increase Rates

- Based on service
- Ranges from 8.25% for new members to 4.86% for members with 5 or more years of service (5.0% for all years for Judges)

Payroll Growth

- 4.5% (4.0% for Judges)

Actuarial Methods

➢ Asset valuation method (actuarial value of assets)

- Smoothing of investment gains or losses
- PERS uses a five-year smoothing method
  - Investment returns above or below the expected return are recognized over five years
- No market value corridor is applied (e.g., actuarial value must fall within 80% to 120% of market value)

➢ Cost method

- Allocation of liability between past service and future service
  - PERS uses the entry age normal cost method
  - Retiree Health Insurance Credit Fund uses the projected unit credit cost method
  - Most retirement systems use the entry age normal cost method

➢ Amortization method

- 20-year "open" period to pay off unfunded actuarial accrued liability
- Based on level percentage of payroll
- Governmental Accounting Standards Board requires 30-year maximum period to determine the Annual Required Contribution
- An open amortization period will yield contributions that reduce the unfunded actuarial accrued liability, but will not pay it off

Entry Age Normal Cost Method

Allocates Cost Between Past and Future service

- Entry Age Normal Cost Method
  - **Normal Cost:** Cost of annual benefit accrual as a level percent of salary
  - **Actuarial Accrued Liability:** Represents accumulated value of past normal costs (or difference between total cost and future normal costs)
  - **Unfunded Actuarial Accrued Liability:** Actuarial accrued liability minus actuarial value of assets
  - **Actuarially Recommended Contribution:**
    - Normal cost plus
    - Amortization payment of unfunded accrued liability over a 20-year period as a percent of payroll
- Projected Unit Cost Method (Retiree Health Fund)
  - **Normal Cost:** Actuarial present value of benefits earned in the current year
  - **Actuarial Accrued Liability:** Actuarial present value of benefits earned in all prior years

Actuarial Accrued Liability and Normal Cost

The **actuarial accrued liability** is the portion of the total liability that is allocated to members' past years of service

Retirees and beneficiaries:

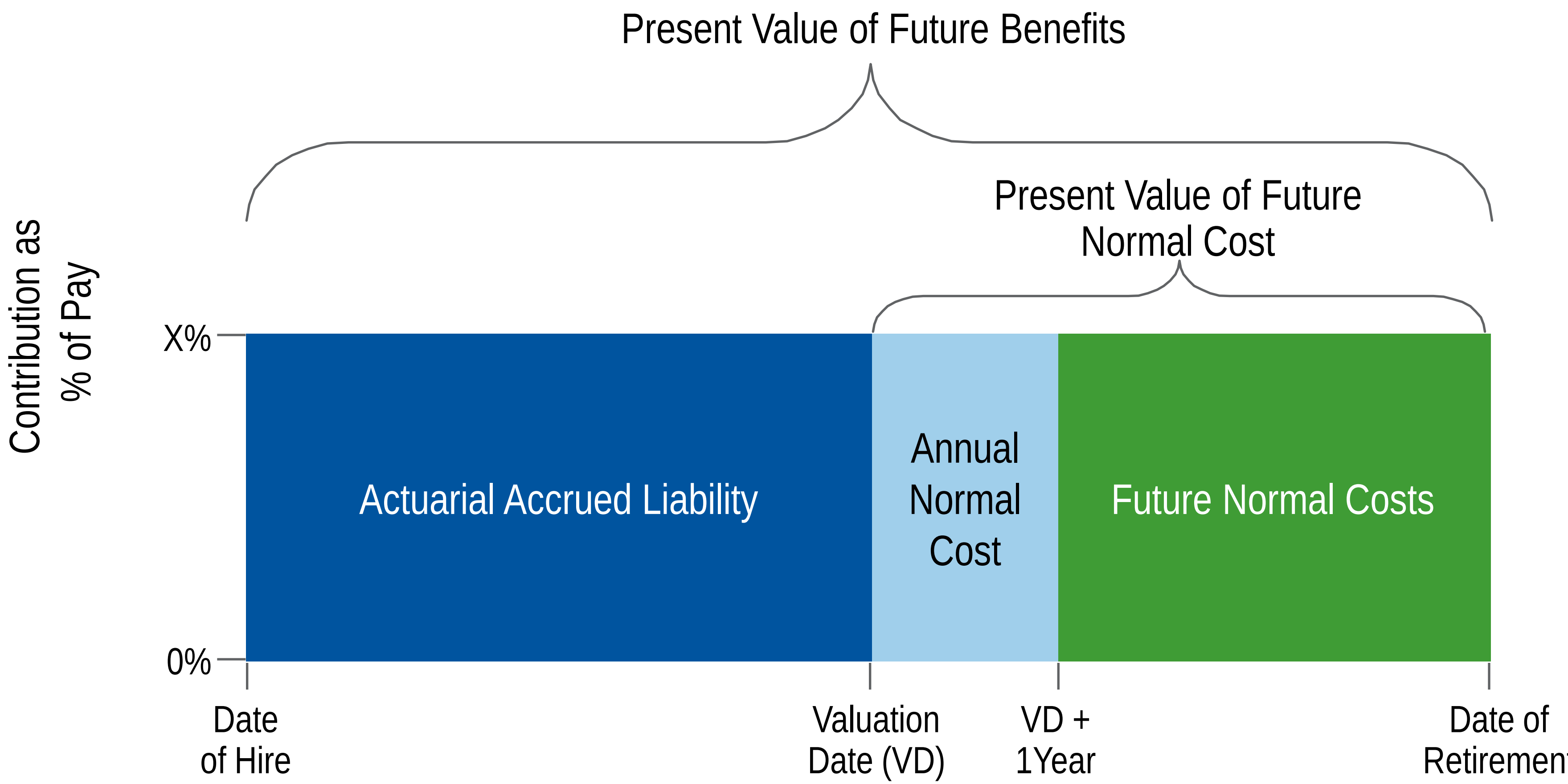
- All years of service are in the past, so the **actuarial accrued liability** is equal to the total liability

Active members:

- The **actuarial accrued liability** represents the portion of the total liability that is attributable to the years of service that the members have already worked
- The **normal cost** represents the anticipated growth in the accrued liability in the coming year

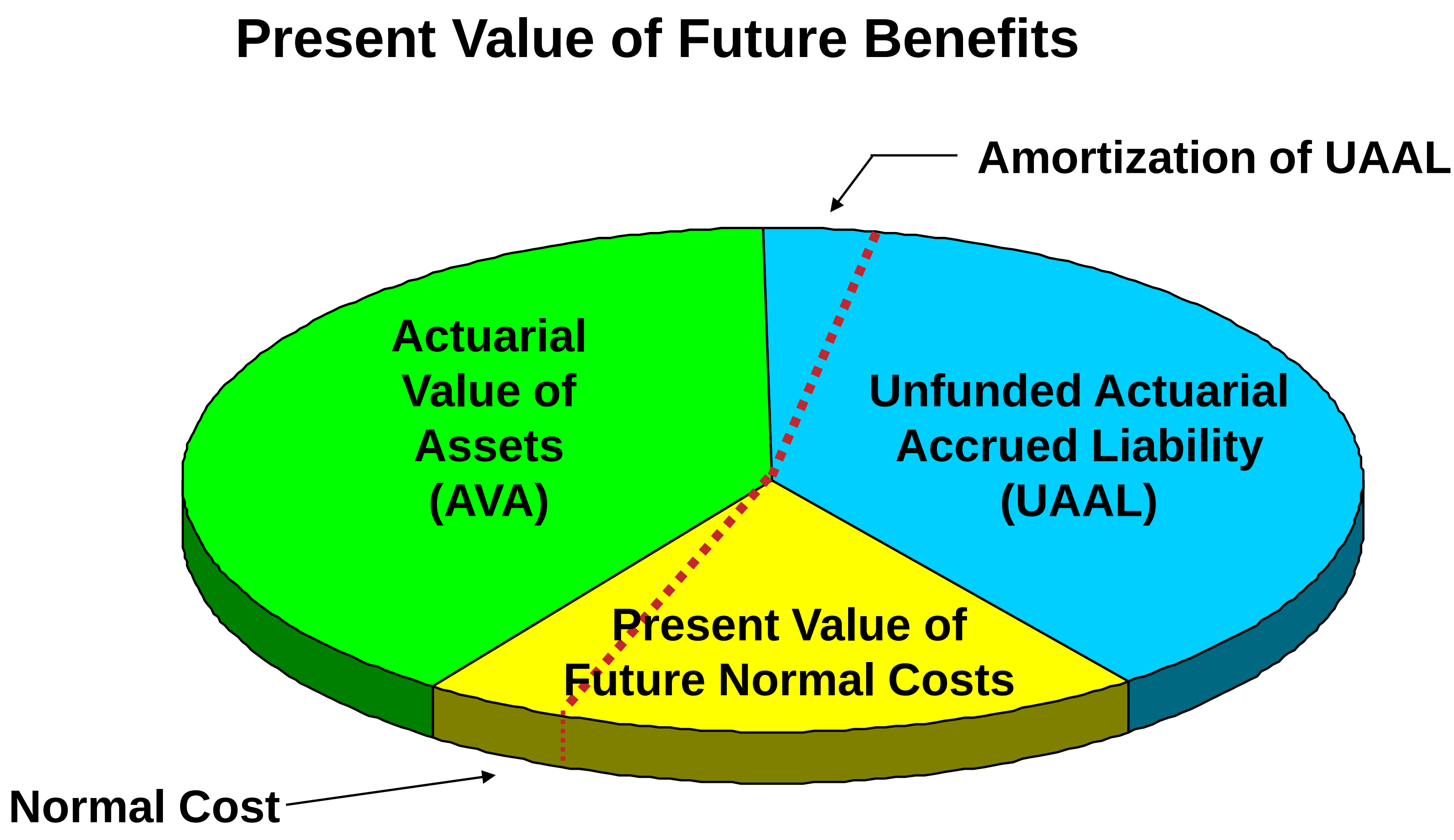
The actuarial accrued liability is compared to the assets as a measure of funding progress.

Funding Process



Actuarial Accrued Liability - Assets = Unfunded Actuarial Accrued Liability

Annual Required Contribution



Summary of Valuation Highlights – PERS and HPRS

- Market value of assets returned -0.20% for year ending 6/30/12 (Segal calculation)
  - Gradual recognition of deferred losses resulted in -0.15% return on actuarial assets
  - Unrecognized investment losses represent about 6% of market assets
- Net impact on funded ratio was a decrease from 70.5% (as of 7/1/2011) to 65.1% (as of 7/1/2012)
- Market value of combined assets for PERS and HPRS was $1.785 billion vs. $1.811 billion last year
- Combined actuarial value of assets for PERS and HPRS was $1.675 billion vs. $1.700 billion last year
- Total actuarial value of assets is 93.9% of market value of assets
- Unrecognized appreciation or depreciation will be recognized in subsequent valuations

Summary of Valuation Highlights

	Changes in Statutory Contribution Rates Due to Senate Bill 2108	
	Member	Employer
Main System Full-Time Employees	5.00%	5.12%
Effective January 2013	6.00	6.12
Main System Part-Time Employees	10.12	0.00
Effective January 2013	12.12	0.00
Judges	6.00	15.52
Effective January 2013	7.00	16.52
Highway Patrol	11.30	17.70
Effective January 2013	12.30	18.70
Law Enforcement (without Prior Service)	4.50	N/A
Effective January 2013	5.00	
	Member Rate for Employees of Political Subdivisions	**Member Rate for Employees of the BCI**
Law Enforcement (with Prior Service)	4.50%	5.00%
Effective January 2013	5.00	6.00

Summary of Valuation Highlights

- Some employer rates are determined by the Board of Retirement rather than set in statute

	Employer Contribution Rates Determined by the Board of Retirement
Law Enforcement without Prior Service	6.93%
Effective January 2013	7.43
Law Enforcement with Prior Service (Employees of Political Subdivisions)	8.81
Effective January 2013	9.31
Law Enforcement with Prior Service (Employees of the BCI)	9.31
Effective January 2013	10.31

Summary of Valuation Highlights

- Recommended contribution as a percent of payroll

	2012-2013	2011-2012	Statutory/ Approved 2012-2013
Main	12.24%	11.36%	5.12%-6.12%
Judges	16.33%	15.96%	15.52%-16.52%
National Guard	7.40%	7.08%	6.50%
Law Enforcement (with Prior Service)	10.69%	10.96%	8.81%-9.31%*
Law Enforcement (without Prior Service)	7.33%	7.56%	6.93%-7.43%
Highway Patrol	26.83%	27.13%	17.70%-18.70%
Retiree Health	0.90%	0.88%	1.14%
Job Service	0.00%	0.00%	0.00%

*Rates shown are for employees of Political Subdivisions. Rates for employees of BCI is 9.31-10.31%

- Funded Ratio (AVA)

	July 1, 2012	July 1, 2011
PERS	65.1%	70.5%
HPRS	70.3%	73.7%
Retiree Health	51.9%	49.6%
Job Service	104.3%	108.7%

Membership – Main System

	2012	2011	Change
Active:			
• Number	20,738	20,359	+1.9%
• Payroll	$781.6 mil	$785.4 mil	-0.5%
• Average Age	47.1 years	47.3 years	- 0.2 years
• Average Service	10.5 years	10.6 years	- 0.1 years
Retirees and Beneficiaries			
• Number	8,222	7,746	+6.1%
• Total Monthly Benefits	$7.9 mil	$ 7.0 mill	+13.1%
• Average Monthly Benefit	$965	$906	+6.5%

Membership – Judges

	2012	2011	Change
Active:			
• Number	49	49	+0.0%
• Payroll	$6.1 mil	$6.2 mil	-1.5%
• Average Age	58.1 years	57.1 years	+ 1.0 years
• Average Service	17.6 years	16.5 years	+ 1.1 years
Retirees and Beneficiaries			
• Number	34	34	+0.0%
• Total Monthly Benefits	$122,548	$122,602	+0.0%
• Average Monthly Benefit	$3,604	$3,606	+0.0%

Membership – National Guard

	2012	2011	Change
Active:			
• Number	32	30	+6.7%
• Payroll	$1.3 mil	$1.3 mil	-1.4%
• Average Age	36.2 years	36.3 years	-0.1 years
• Average Service	5.4 years	5.7 years	-0.3 years
Retirees and Beneficiaries			
• Number	10	9	+11.1%
• Total Monthly Benefits	$10,441	$10,019	+4.2%
• Average Monthly Benefit	$1,044	$1,113	-6.2%

Membership – Law Enforcement with Prior Main System Service

	2012	2011	Change
Active:			
• Number	207	196	+5.6%
• Payroll	$9.5 mil	$8.8 mil	+7.3%
• Average Age	39.7 years	40.0 years	-0.3 years
• Average Service	8.0 years	8.3 years	-0.3 years
Retirees and Beneficiaries			
• Number	37	32	+15.6%
• Total Monthly Benefits	$61,160	$52,781	+15.9%
• Average Monthly Benefit	$1,653	$1,649	+0.2%

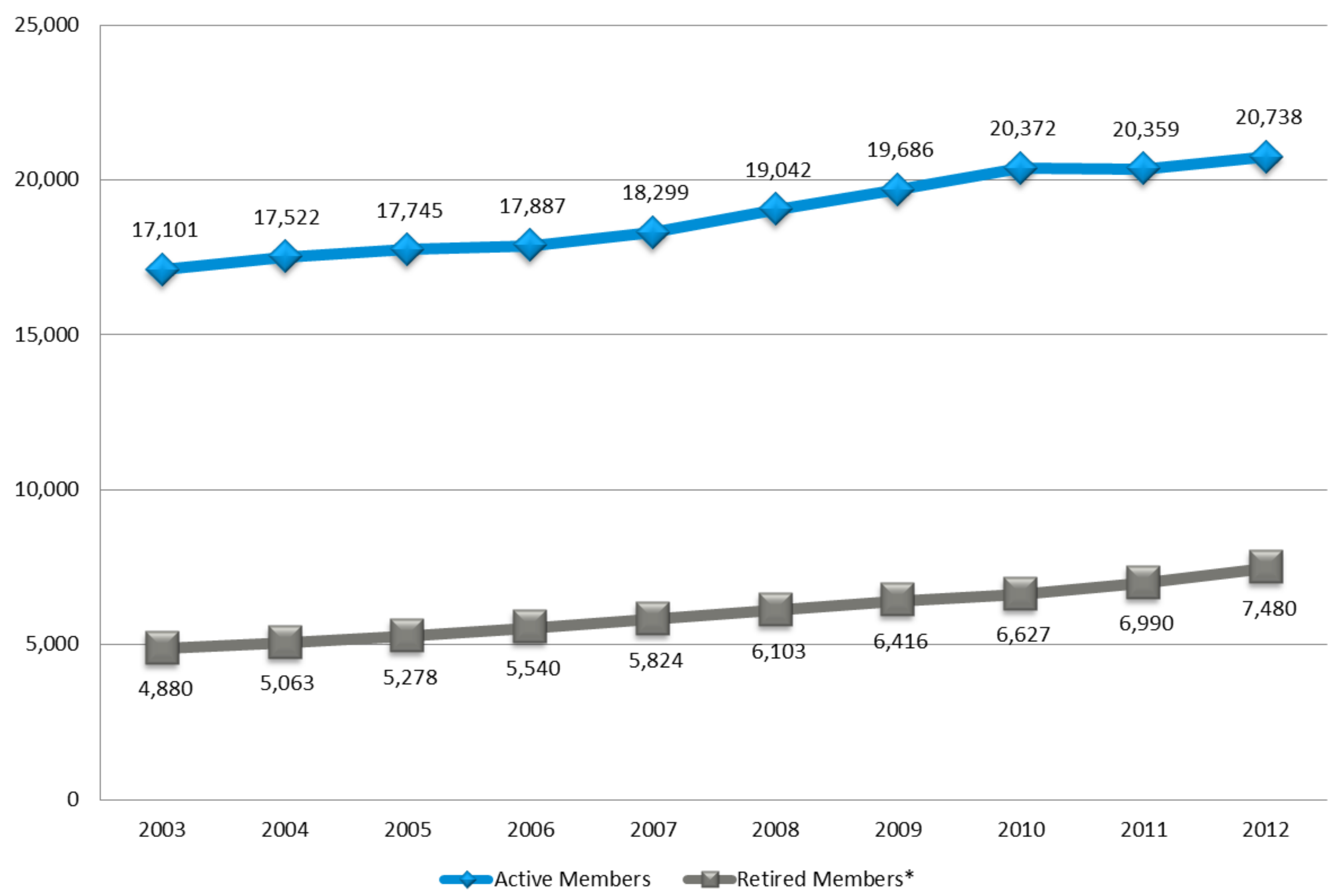
Membership – Law Enforcement Without Prior Main System Service

	2012	2011	Change
Active:			
• Number	65	61	+6.6%
• Payroll	$2.4 mil	$2.4 mil	-2.3%
• Average Age	38.0 years	37.7 years	+0.3 years
• Average Service	3.3 years	2.5 years	+0.8 years
Retirees and Beneficiaries			
• Number	0	0	N/A
• Total Monthly Benefits	N/A	N/A	N/A
• Average Monthly Benefit	N/A	N/A	N/A

Membership – PERS

	2012	2011	Change
Active:			
• Number	21,091	20,695	+1.9%
• Payroll	$800.9 mil	$804.2 mil	-0.4%
• Average Age	47.0 years	47.2 years	-0.2 years
• Average Service	10.3 years	10.6 years	-0.3 years
Retirees and Beneficiaries			
• Number	8,303	7,821	+6.2%
• Total Monthly Benefits	$8.1 mil	$7.2 mil	+12.8%
• Average Monthly Benefit	$979	$921	+6.3%

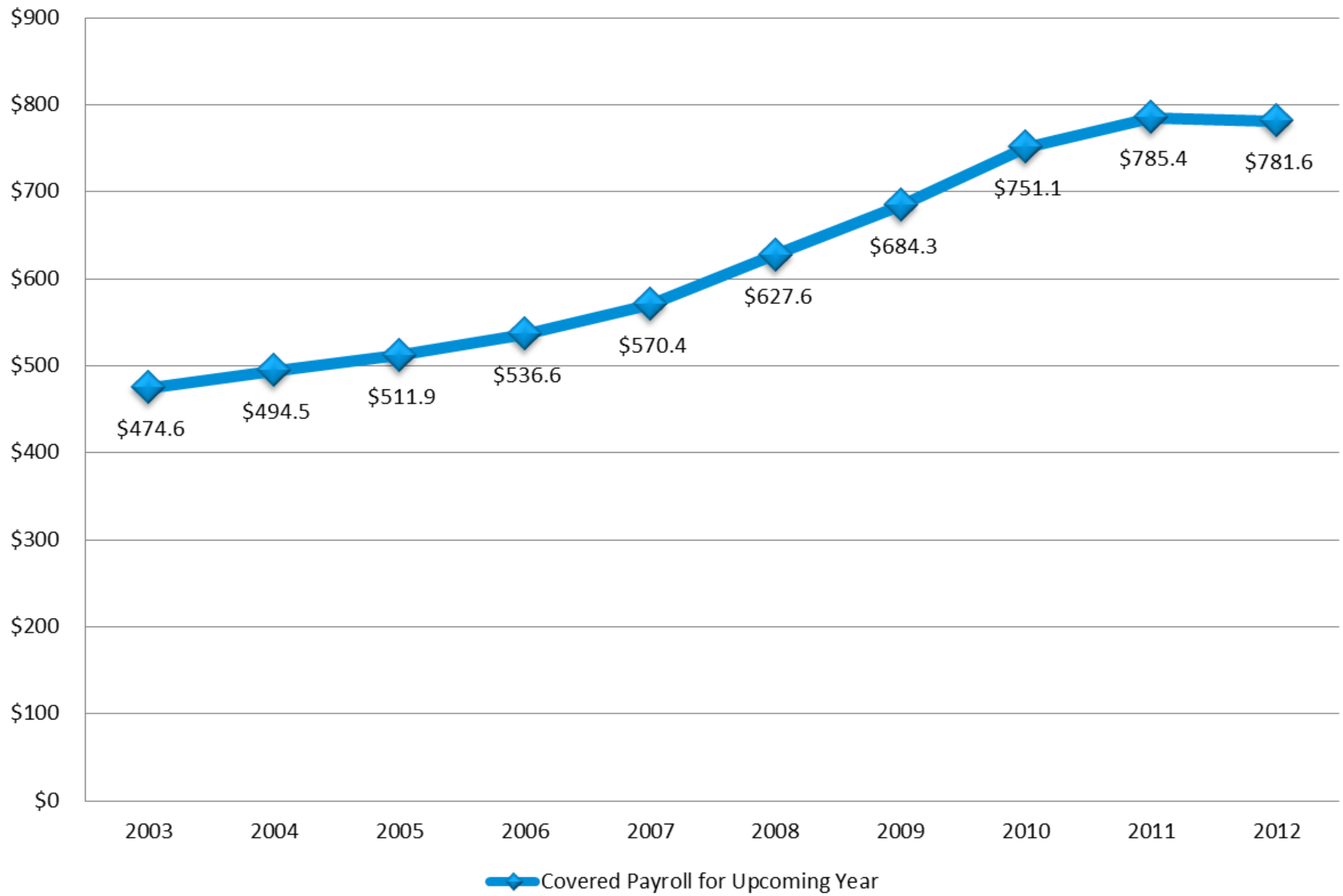
Active and Retired Membership – Main System



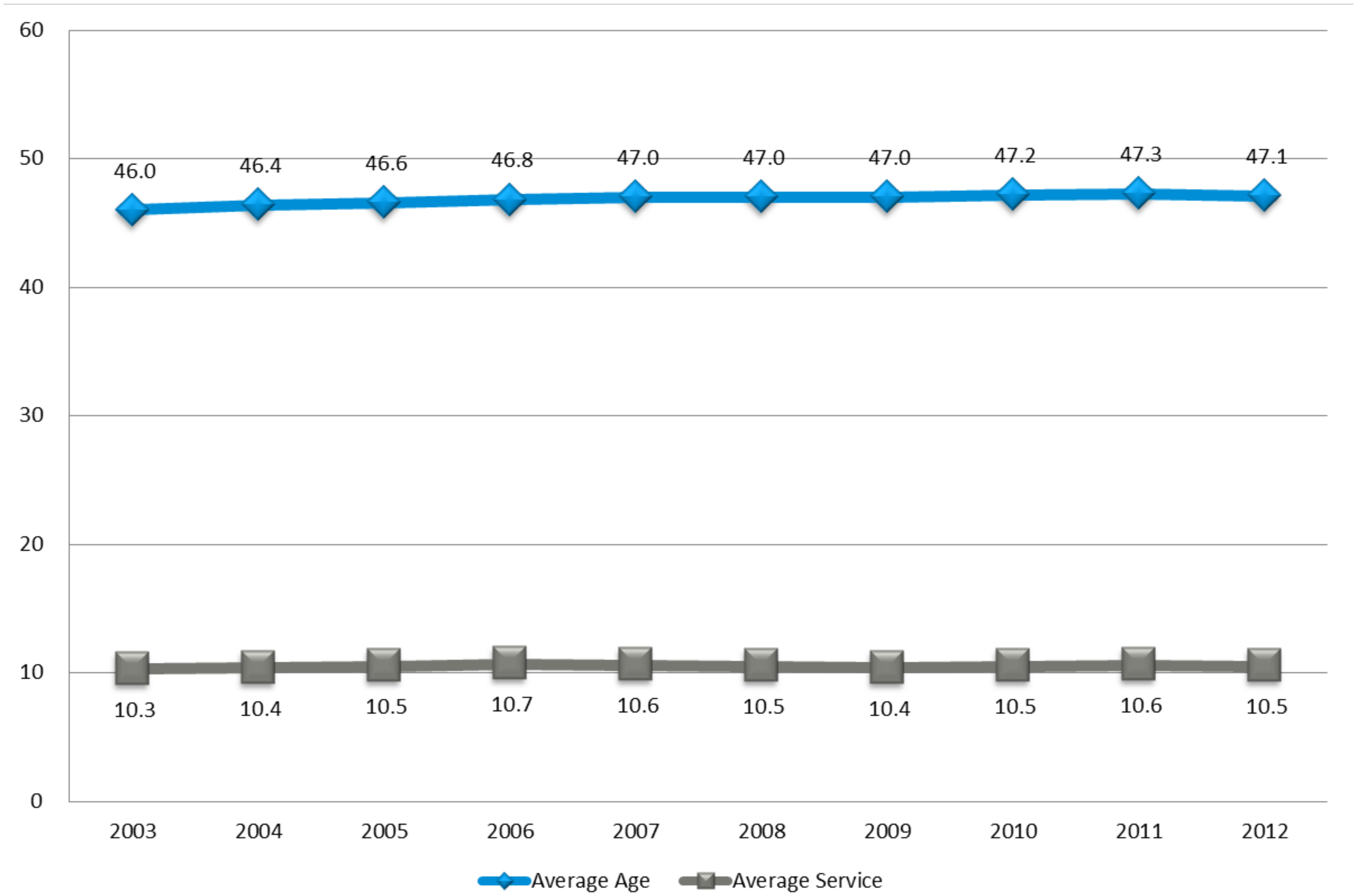
*Retired Members excludes beneficiaries.

Active Payroll – Main System

$ Millions

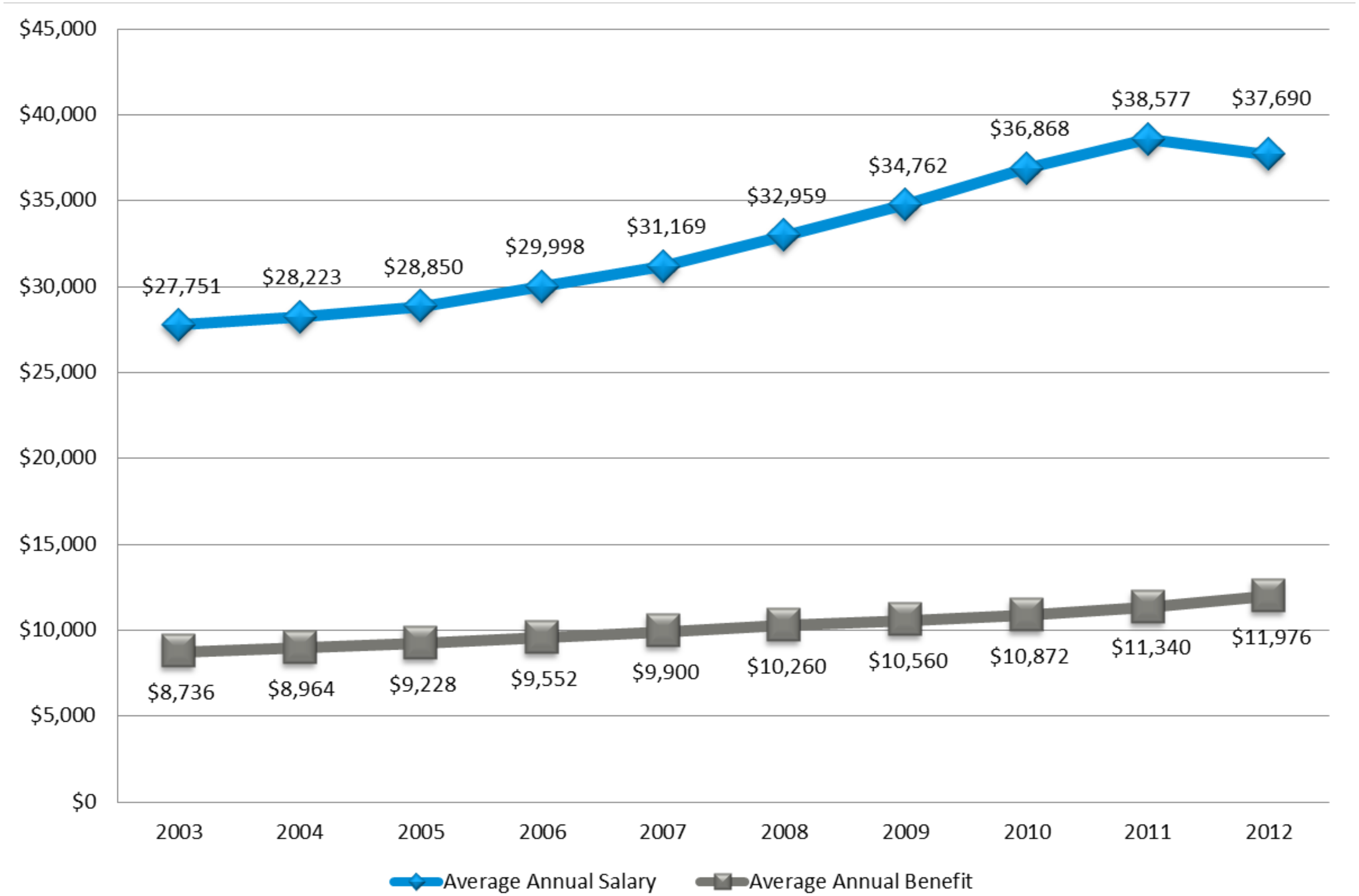


Average Age and Service of Active Members – Main System



SEGAL

Average Salary and Average Benefit – Main System



SEGAL

Assets – PERS and HPRS

- The market value of assets decreased from $1.811 billion (as of June 30, 2011) to $1.785 billion (as of June 30, 2012)
  - Segal determined the investment return was -0.20%, net of investment expenses
- The actuarial value of assets – which smoothes investment gains and losses over five years – decreased from $1.700 billion (as of June 30, 2011) to $1.675 billion (as of June 30, 2012)
  - Investment return of -0.15%, net of investment expenses
  - Actuarial value is 93.9% of market
  - There is a total of $110 million of deferred investment losses that will be recognized in future years
- The average annual return on market assets over the past 10 years is 6.4%
- The average annual return on actuarial assets over the past 10 years is 4.7%

Market Value of Assets ($ in billions) – PERS and HPRS

Fiscal Year Ending June 30, 2012	
Beginning of Year	$1.811
Contributions:	
• Employer	0.039
• Member	0.037
• Service Purchases	0.007
• Total	0.083
Benefits, Expenses and Refunds	(0.105)
Investment Income (net)	(0.004)
End of Year	$1.785
Rate of Return	-0.20%

SEGAL

Actuarial Value of Assets ($ in billions) – PERS and HPRS

1. Market Value of Assets as of June 30, 2011	$1.811
2. Contribution, Interest, Dividends, Benefits and Expenses	0.014
3. Preliminary Market Value as of June 30, 2012	$1.825
4. Actual Market Value as of June 30, 2012	1.785
5. Excess/(Shortfall) Return for Year Ended June 30, 2012	$(0.040)

Excess/(Shortfall) Returns:

Year	Initial Amount	Deferral %	Unrecognized Amount
2012	$(0.040)	80%	($0.032)
2011	0.289	60%	0.173
2010	0.153	40%	0.061
2009	(0.464)	20%	(0.092)
2008	(0.133)	0%	0.000
6. Total			$0.110

7. Actuarial Value of Assets as of June 30, 2012 (4) - (6)	$1.675
8. Actuarial Value of Assets as a % of Market Value of Assets	94%

Market Value of Assets ($ in billions) – Main System

Fiscal Year Ending June 30, 2012	
Beginning of Year	$1.708
Contributions:	
• Employer	0.035
• Member	0.036
• Service Purchases	0.006
• Total	0.077
Benefits and Refunds	(0.099)
Investment Income (net)	(0.003)
End of Year	$1.683
Rate of Return	-0.20%

Market Value of Assets ($ in millions) – Judges

Fiscal Year Ending June 30, 2012	
Beginning of Year	$32.369
Contributions	1.363
Benefits and Refunds	(1.449)
Investment Income (net)	(0.065)
End of Year	$32.218
Rate of Return	-0.20%

Market Value of Assets ($ in millions) – National Guard

Fiscal Year Ending June 30, 2012	
Beginning of Year	$2.315
Contributions	0.198
Benefits and Refunds	(0.153)
Investment Income (net)	(0.005)
End of Year	$2.355
Rate of Return	-0.20%

Market Value of Assets ($ in millions) – Law Enforcement with Prior Main System Service

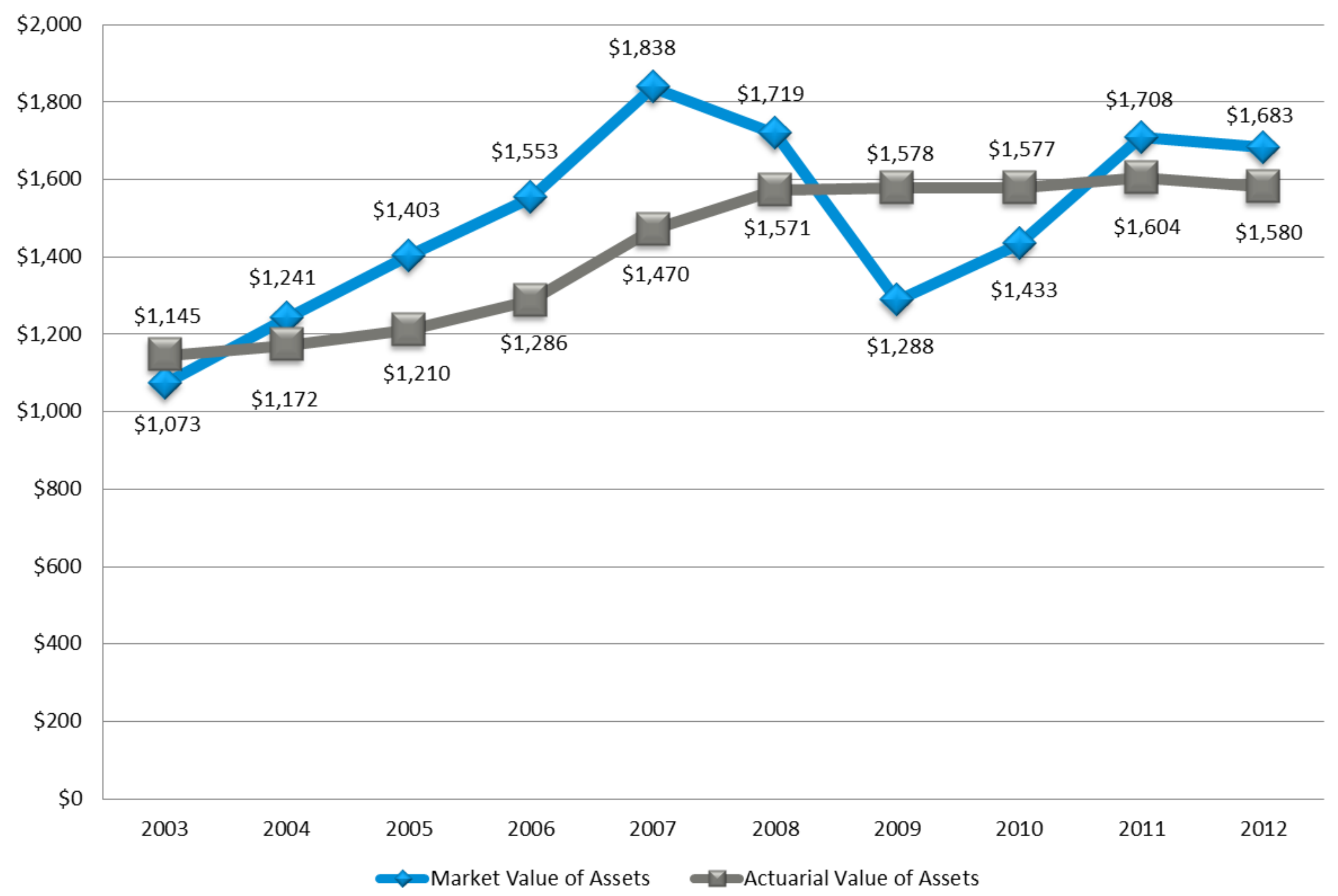
Fiscal Year Ending June 30, 2012	
Beginning of Year	$14.590
Contributions	1.402
Benefits and Refunds	(0.744)
Investment Income (net)	(0.029)
End of Year	$15.219
Rate of Return	-0.20%

Market Value of Assets ($ in millions) – Law Enforcement Without Prior Main System Service

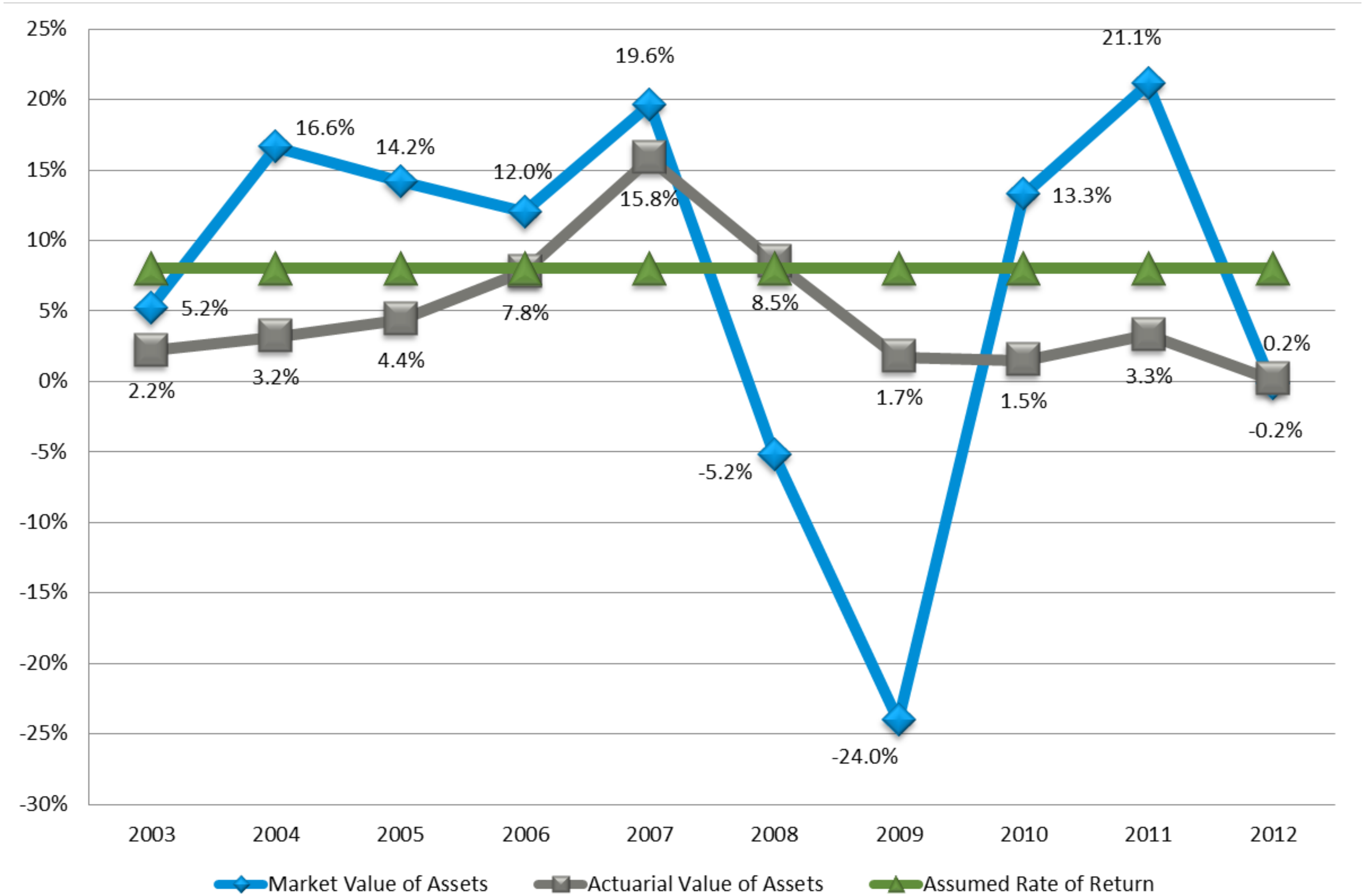
Fiscal Year Ending June 30, 2012	
Beginning of Year	0.518
Contributions	0.281
Benefits and Refunds	(0.020)
Investment Income (net)	(0.001)
End of Year	0.778
Rate of Return	-0.20%

Market and Actuarial Values of Assets – Main System

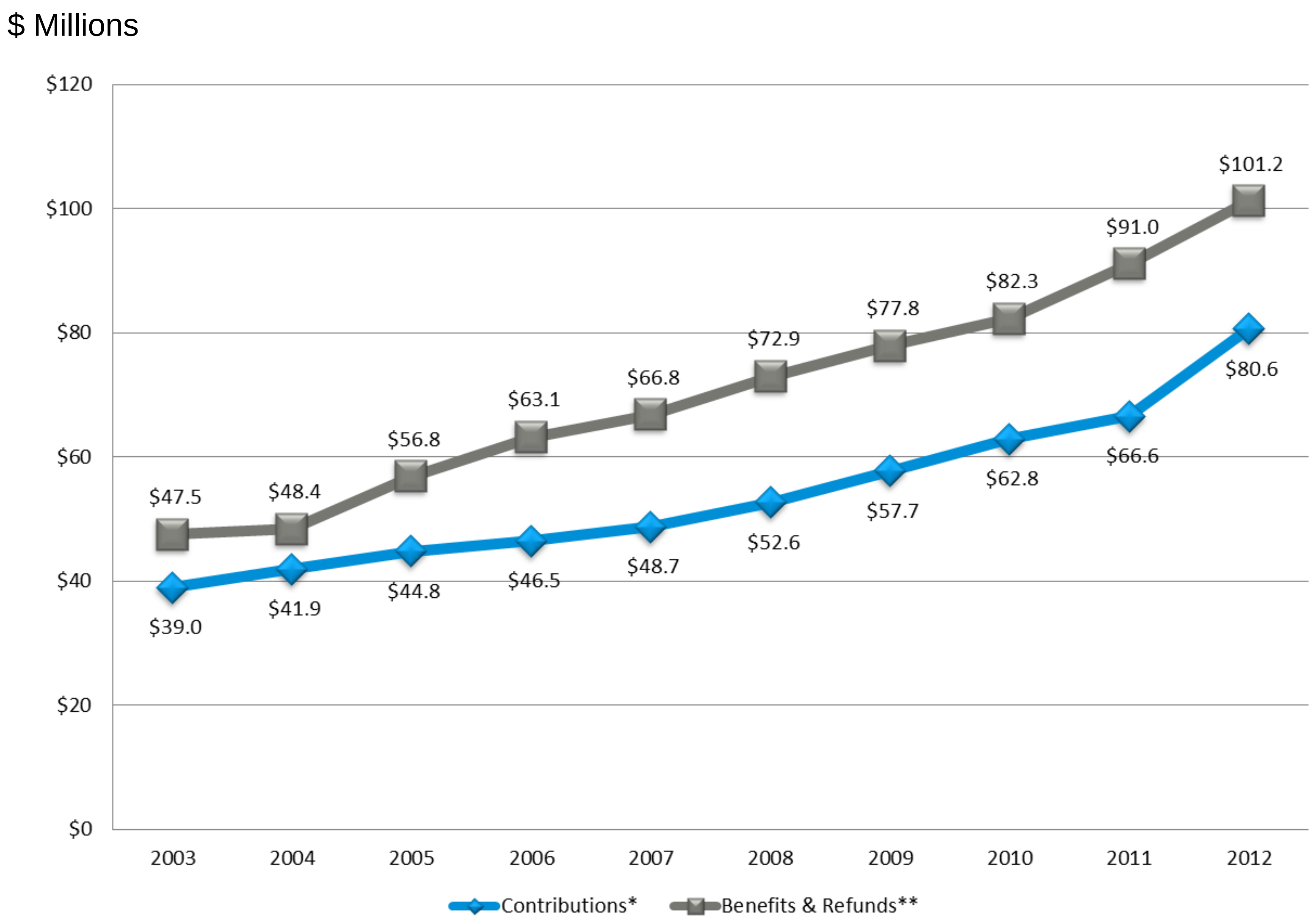
$ Millions



Asset Returns – PERS and HPRS



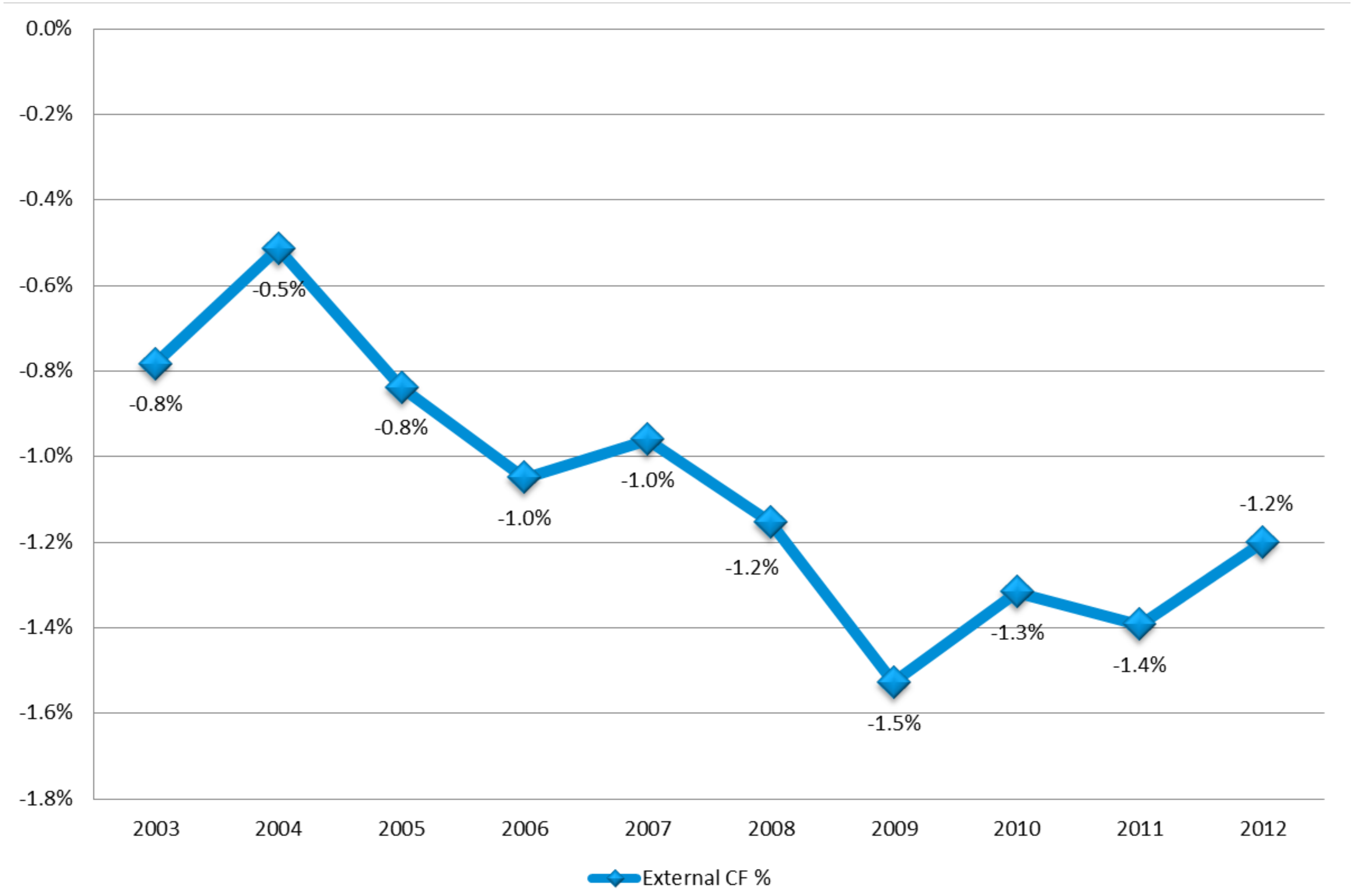
Contributions vs Benefits and Refunds – PERS



* Includes member and employer contributions, and service purchases

** Includes administrative expenses

External Cash Flow as a % of Market Value – PERS



Valuation Results ($ in millions) – Main System

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$1,396	$1,399
• Inactive Members	171	116
• Retirees and Beneficiaries	875	769
Total	**$2,442**	**$2,284**
Actuarial Assets	1,580	1,604
Unfunded Accrued Liability	$862	$680
Funded Ratio	64.7%	70.2%

Actuarially Recommended Contribution – Main System

	July 1, 2012	July 1, 2011
Normal Cost Rate	10.04%	9.81%
Member Rate	5.50%	4.50%
Employer Normal Cost Rate	4.54%	5.31%
Amortization of UAAL	7.70%	6.05%
Actuarially Recommended Contribution	12.24%	11.36%
Employer Rate	5.12-6.12%	4.12-6.12%
Contribution Sufficiency/(Deficiency)	(5.62%)	(3.74%)

Valuation Results ($ in millions) – Judges

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$19.455	$17.762
• Inactive Members	0.355	0.343
• Retirees and Beneficiaries	13.873	13.953
Total	**$33.683**	**$32.058**
Actuarial Assets	30.238	30.388
Unfunded Accrued Liability	$3.445	$1.670
Funded Ratio	89.8%	94.8%

Actuarially Recommended Contribution – Judges

	July 1, 2012	July 1, 2011
Normal Cost Rate	18.73%	19.50%
Member Rate	6.50%	5.50%
Employer Normal Cost Rate	12.23%	14.00%
Amortization of UAAL	4.10%	1.96%
Actuarially Recommended Contribution	16.33%	15.96%
Employer Rate	15.52-16.52%	14.52-16.52%
Contribution Sufficiency/(Deficiency)	0.69%	2.06%

Valuation Results ($ in millions) – National Guard

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$1.073	$1.137
• Inactive Members	0.369	0.283
• Retirees and Beneficiaries	0.973	0.952
Total	**$2.415**	**$2.372**
Actuarial Assets	2.211	2.174
Unfunded Accrued Liability	$0.204	$0.198
Funded Ratio	91.6%	91.6%

Actuarially Recommended Contribution – National Guard

	July 1, 2012	July 1, 2011
Normal Cost Rate	10.31%	10.03%
Member Rate	4.00%	4.00%
Employer Normal Cost Rate	6.31%	6.03%
Amortization of UAAL	1.09%	1.05%
Actuarially Recommended Contribution	7.40%	7.08%
Employer Rate	6.50%	6.50%
Contribution Sufficiency/(Deficiency)	(0.90%)	(0.58%)

Valuation Results ($ in millions) – Law Enforcement with Prior Main System Service

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$13.134	$13.071
• Inactive Members	1.037	0.597
• Retirees and Beneficiaries	7.831	6.871
Total	**$22.002**	**$20.539**
Actuarial Assets	14.284	13.698
Unfunded Accrued Liability	$7.718	$6.841
Funded Ratio	64.9%	66.7%

Actuarially Recommended Contribution Law Enforcement with Prior Main System Service

	July 1, 2012	July 1, 2011
Normal Cost Rate	9.92%	9.85%
Member Rate	4.92%	4.30%
Employer Normal Cost Rate	5.00%	5.55%
Amortization of UAAL	5.69%	5.41%
Actuarially Recommended Contribution	10.69%	10.96%
Employer Rate*	8.81-9.31%	8.31-9.31%
Contribution Sufficiency/(Deficiency)	(0.85%)	(2.65%)

*Rates shown are for employees of Political Subdivisions.
Rates for BCI employees are 9.31-10.31% as of July 1, 2012 and 8.31-9.31% as of July 1, 2011.

Valuation Results ($ in millions) – Law Enforcement without Prior Main System Service

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$0.830	$0.586
• Inactive Members	0.103	0.079
• Retirees and Beneficiaries	0.000	0.000
Total	**$0.933**	**$0.665**
Actuarial Assets	0.730	0.486
Unfunded Accrued Liability	$0.203	$0.179
Funded Ratio	78.3%	73.1%

Actuarially Recommended Contribution – Law Enforcement without Prior Main System Service

	July 1, 2012	July 1, 2011
Normal Cost Rate	11.49%	11.30%
Member Rate	4.75%	4.25%
Employer Normal Cost Rate	6.74%	7.05%
Amortization of UAAL	0.59%	0.51%
Actuarially Recommended Contribution	7.33%	7.56%
Employer Rate	6.93-7.43%	6.43-7.43%
Contribution Sufficiency/(Deficiency)	0.35%	0.62%

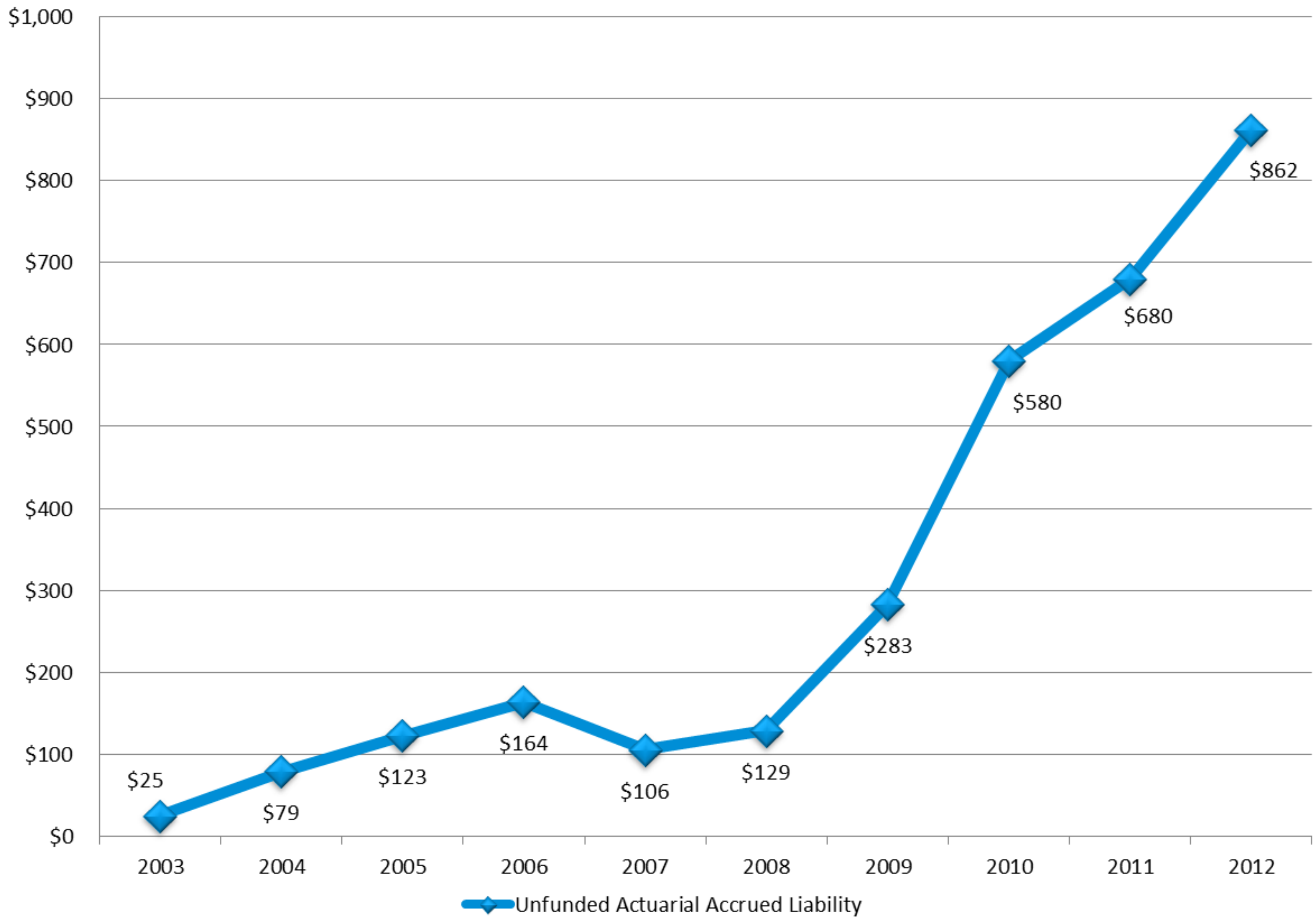
Valuation Results ($ in millions) – PERS

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$1,430	$1,431
• Inactive Members	173	117
• Retirees and Beneficiaries	898	791
Total	**$2,501**	**$2,339**
Actuarial Assets	1,627	1,650
Unfunded Accrued Liability	$874	$689
Funded Ratio	65.1%	70.5%

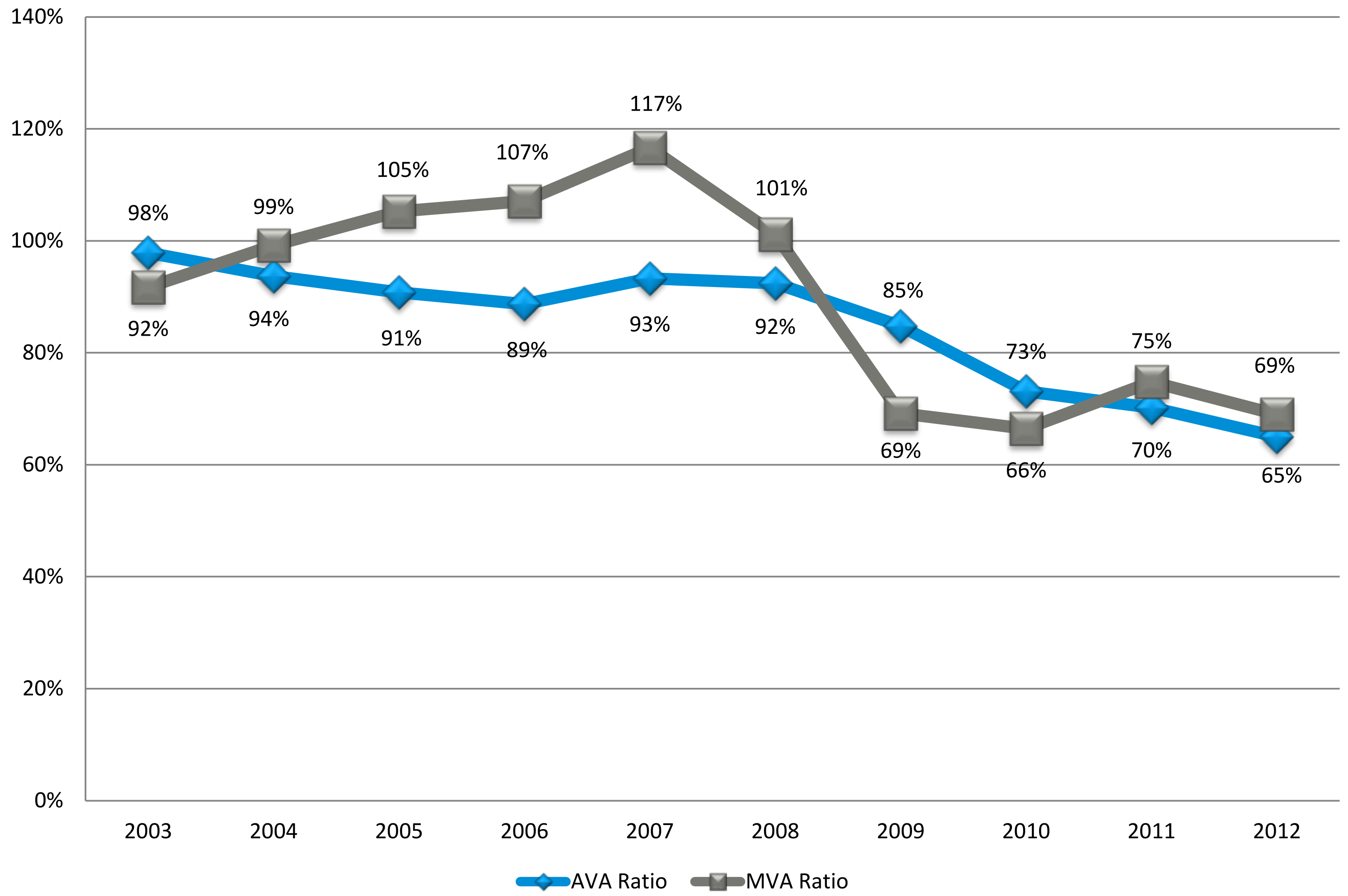
SEGAL

Unfunded Actuarial Accrued Liability – Main System

$ Millions

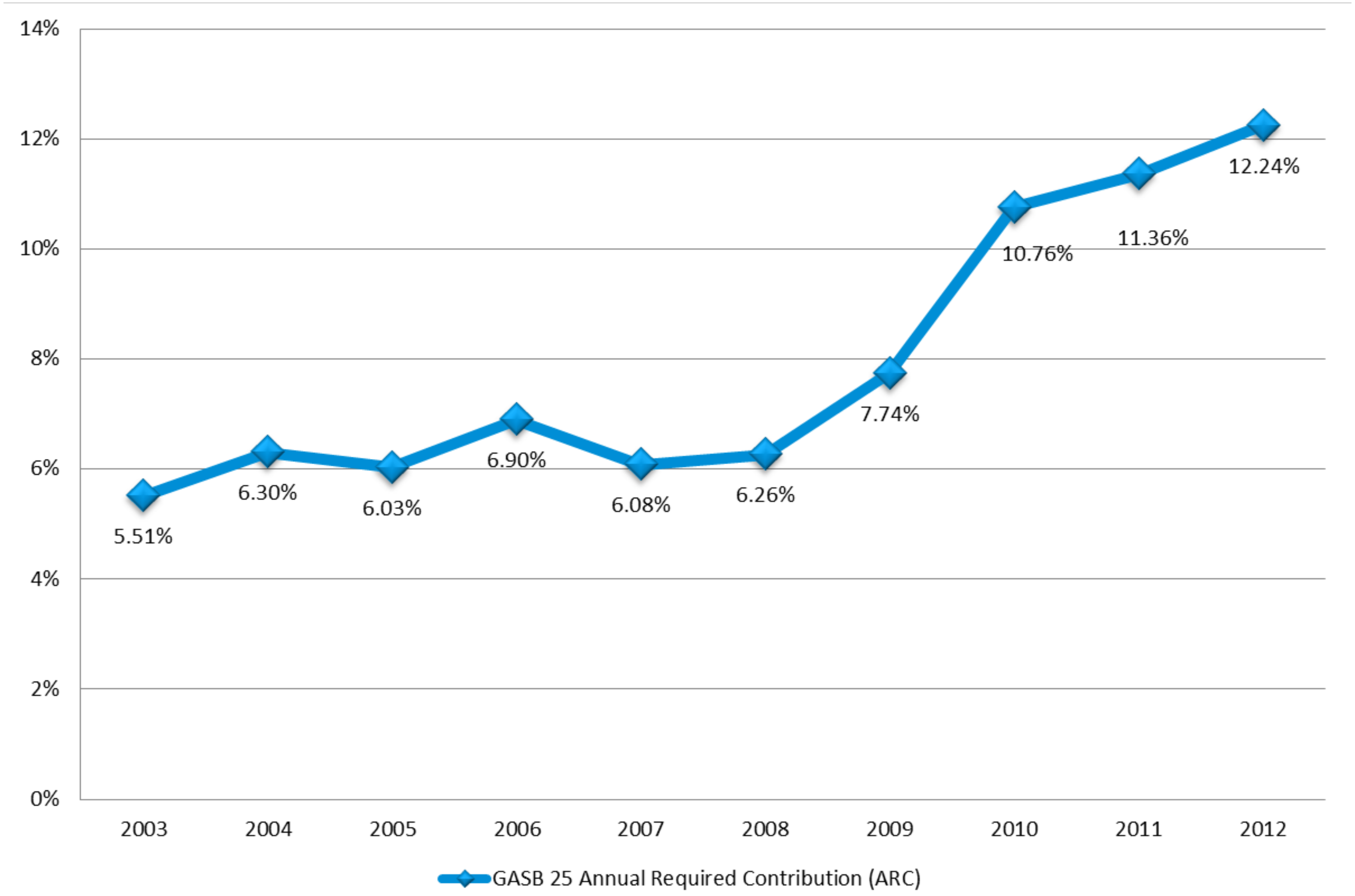


Funded Ratios – Main System



SEGAL

GASB 25 Annual Required Contribution (ARC) – Main System



Membership – Highway Patrol

	2012	2011	Change
Active:			
• Number	145	133	+9.0%
• Payroll	$8.2 mil	$8.0 mil	+2.1%
• Average Age	36.8 years	37.7 years	- 0.9 years
• Average Service	10.5 years	11.3 years	- 0.8 years
Retirees and Beneficiaries			
• Number	116	115	+0.9%
• Total Annual Benefits	$3.7 mil	$3.6 mill	+3.8%
• Average Monthly Benefit	$2,654	$2,580	+2.9%

Assets – Highway Patrol

- The market value of assets decreased from $52.7 million (as of June 30, 2011) to $51.2 million (as of June 30, 2012)
  - Segal determined the investment return was -0.20%, net of investment expenses
- The actuarial value of assets – which smoothes investment gains and losses over five years – decreased from $49.5 million (as of June 30, 2011) to $48.1 million (as of June 30, 2012)
  - Investment return of -0.15%, net of investment expenses
  - Actuarial value is 93.9% of market
  - There is a total of $3.2 million of deferred investment losses that will be recognized in future years
- The average annual return on market assets for PERS and HPRS over the past 10 years is 6.4%
- The average annual return on actuarial assets for PERS and HPRS over the past 10 years is 4.7%

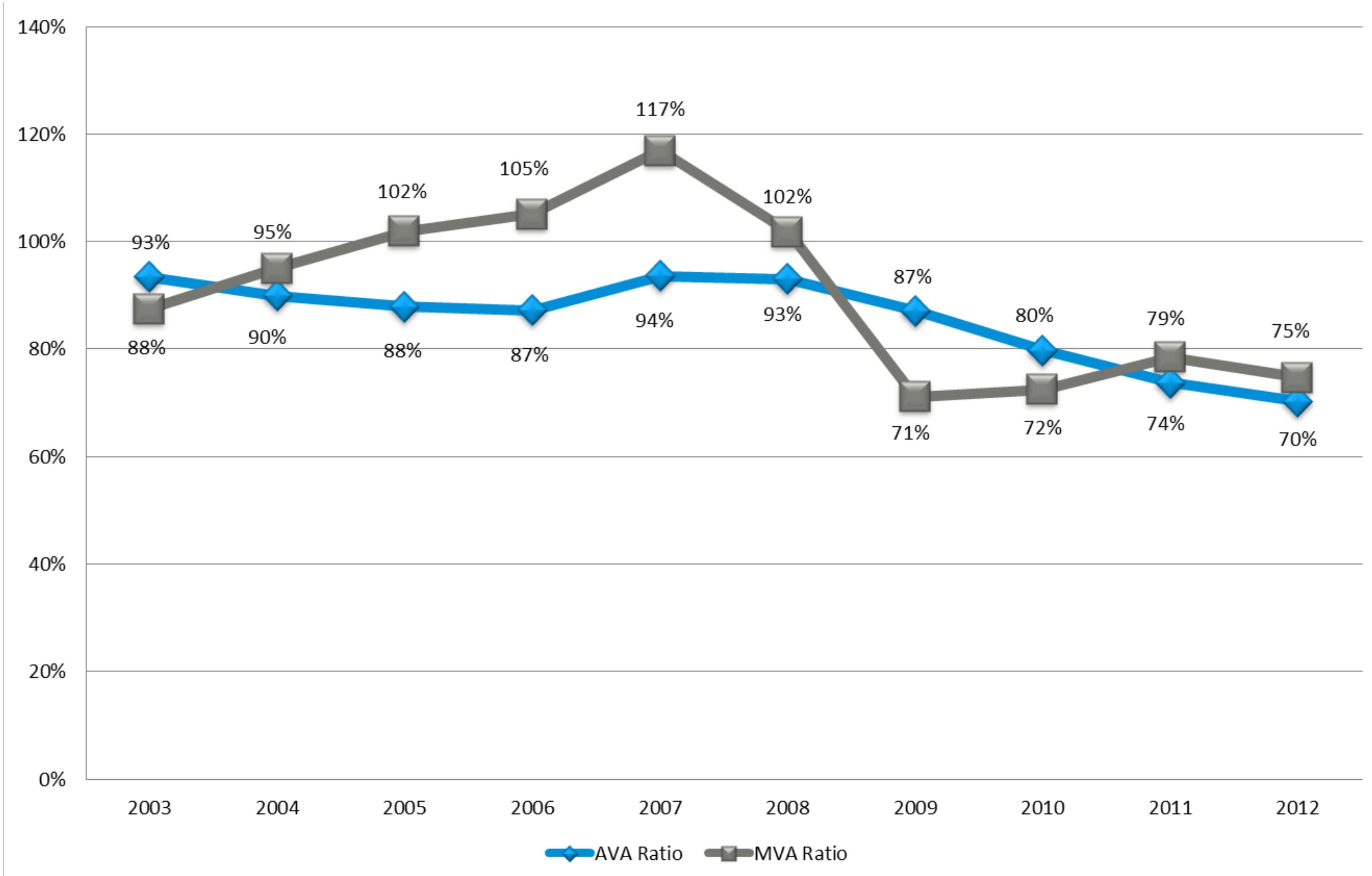
Valuation Results ($ in millions) – Highway Patrol

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$29.187	$29.741
• Inactive Members	1.847	1.373
• Retirees and Beneficiaries	37.422	36.031
Total	**$68.456**	**$67.145**
Actuarial Assets	48.094	49.480
Unfunded Accrued Liability	$20.362	$17.665
Funded Ratio	70.3%	73.7%

Actuarially Recommended Contribution – Highway Patrol

	July 1, 2012	July 1, 2011
Normal Cost Rate	21.23%	22.52%
Member Rate	11.80%	10.80%
Employer Normal Cost Rate	9.43%	11.72%
Amortization of UAAL	17.40%	15.41%
Actuarially Recommended Contribution	26.83%	27.13%
Employer Rate	17.7-18.7%	16.7-18.7%
Contribution Sufficiency/(Deficiency)	(7.63%)	(6.93%)

Funded Ratios – Highway Patrol



Membership – Job Service

	2012	2011	Change
Active:			
• Number	19	23	-17.4%
• Payroll	$1.0 mil	$1.2 mil	-13.1%
• Average Age	58.6 years	58.1 years	+0.5 years
• Average Service	35.7 years	35.3 years	+0.4 years
Retirees and Beneficiaries			
Non Travelers			
• Number	133	128	+3.9%
• Total Monthly Benefits	$311,193	$280,849	+10.8%
• Average Monthly Benefit	$2,340	$2,194	+6.6%
Travelers			
• Number	79	85	-7.1%
• Total Monthly Benefits	$54,571	$52,460	+4.0%
• Average Monthly Benefit	$691	$617	+11.9%

Assets – Job Service

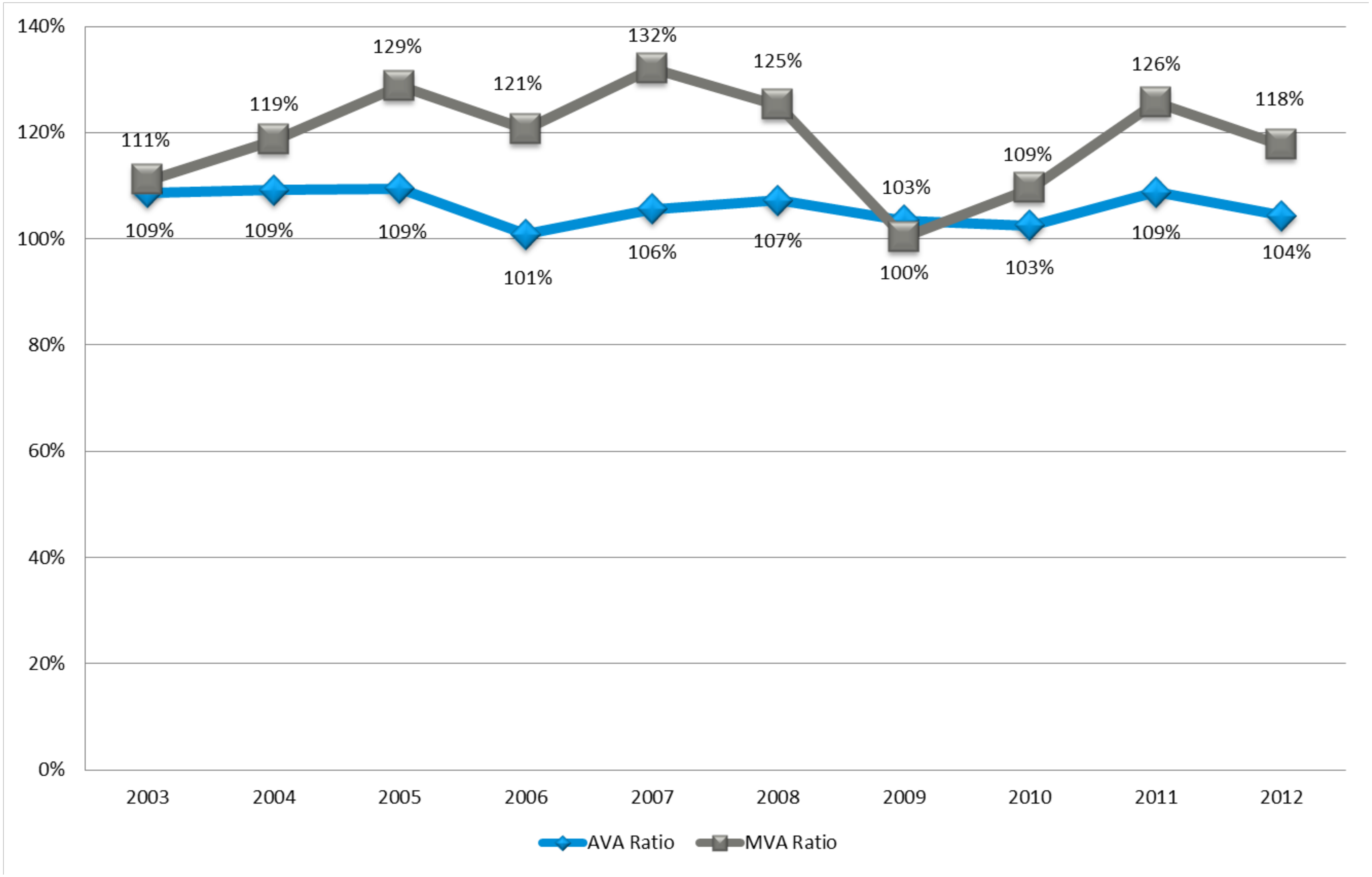
- The market value of assets decreased from $85.7 million (as of June 30, 2011) to $84.7 million (as of June 30, 2012)
  - Segal determined the investment return was 3.67%, net of investment expenses
- The actuarial value of assets – which smoothes investment gains and losses over five years – increased from $74.2 million (as of June 30, 2011) to $75.1 million (as of June 30, 2012)
  - Investment return of 6.95%, net of investment expenses
  - Actuarial value is 88.7% of market
  - There is a total of $9.6 million of deferred investment losses that will be recognized in future years

Valuation Results ($ in millions) – Job Service

	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$10.197	$11.573
• Inactive Members	0.661	0.958
• Retirees and Beneficiaries	61.184	55.704
Total	**$72.042**	**$68.235**
Actuarial Assets	75.118	74.190
Unfunded/(Overfunded) Accrued Liability	$(3.076)	$(5.955)
Funded Ratio*	104.3%	108.7%

*No contributions are scheduled as long as the funded ratio exceeds 100%.

Funded Ratios – Job Service



Based on PVB.

Membership – Retiree Health Insurance Credit Fund

	2012	2011	Change
Active:			
• Number	21,462	21,062	+1.9%
• Payroll	$824.9 mil	$829.0 mil	-0.5%
• Average Age	47.0 years	47.1 years	-0.1 years
• Average Service	10.3 years	10.5 years	-0.2 years
Retirees and Beneficiaries			
• Number	4,442	4,242	+4.7%
• Total Annual Benefits	$6.3 mil	$5.9 mil	+6.8%
• Average Monthly Benefit	$118	$116	+1.7%

Assets – Retiree Health Insurance Credit Fund

- The market value of assets increased from $58.7 million (as of June 30, 2011) to $63.9 million (as of June 30, 2012)
  - Segal determined the investment return was 2.65%, net of investment expenses
- The actuarial value of assets – which smoothes investment gains and losses over five years – increased from $53.7 million (as of June 30, 2011) to $58.3 million (as of June 30, 2012)
  - Investment return of 1.83%, net of investment expenses
  - Actuarial value is 91.2% of market
  - There is a total of $5.6 million of deferred investment losses that will be recognized in future years

Valuation Results ($ in millions) – Retiree Health Insurance Credit Fund

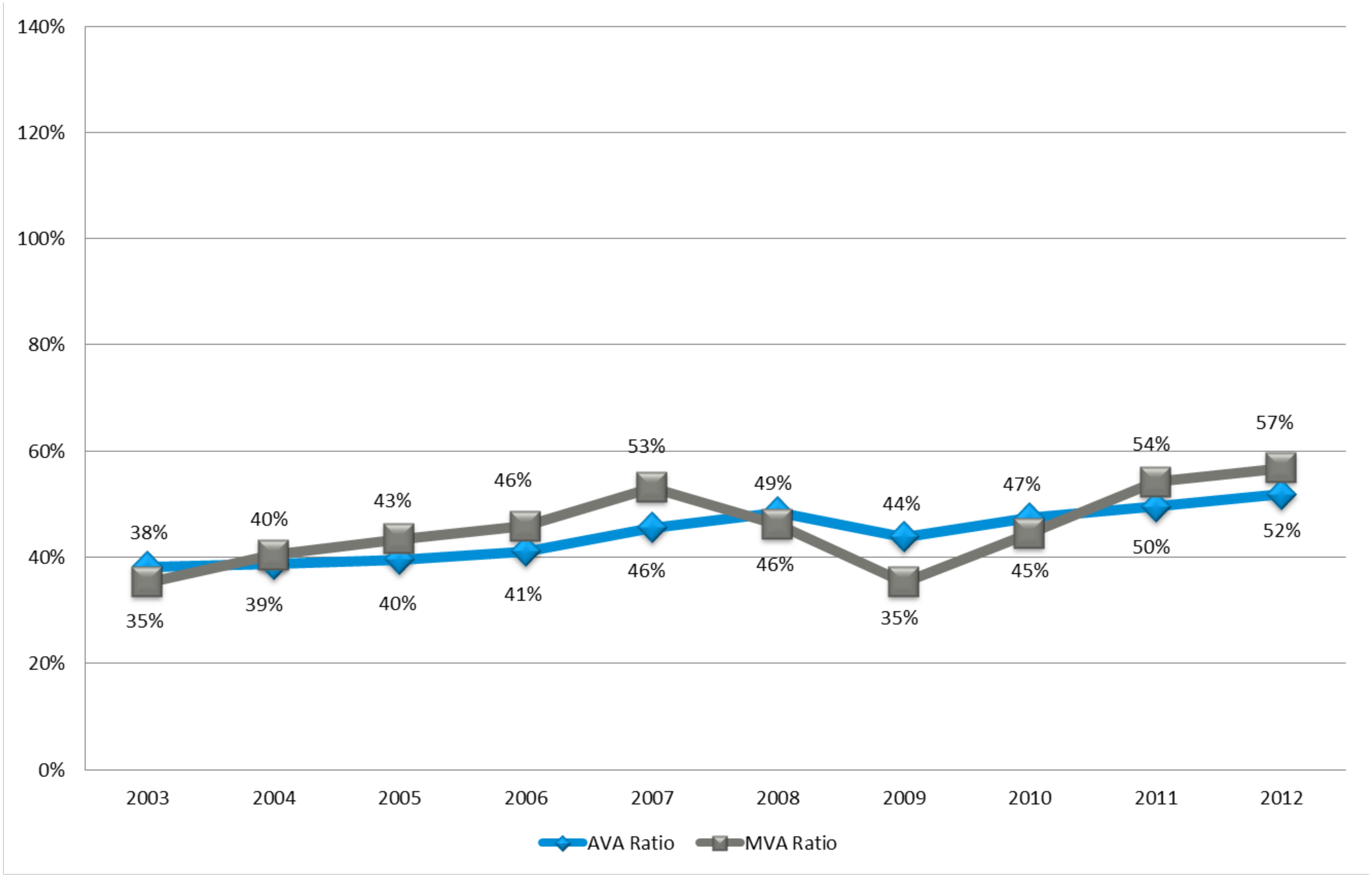
	July 1, 2012	July 1, 2011
Actuarial Accrued Liability:		
• Active Members	$58.337	$57.478
• Retirees and Beneficiaries	54.036	50.907
Total	**$112.373**	**$108.385**
Actuarial Assets	58.307	53.730
Unfunded Accrued Liability	$54.066	$54.655
Funded Ratio	51.9%	49.6%

SEGAL

Actuarially Recommended Contribution – Retiree Health Insurance Credit Fund

	July 1, 2012	July 1, 2011
Normal Cost Rate	0.40%	0.40%
Amortization of UAAL	**0.50%**	0.48%
Actuarially Recommended Contribution	0.90%	0.88%
Employer Rate	1.14%	1.14%
Contribution Sufficiency/(Deficiency)	0.24%	0.26%

Funded Ratios – Retiree Health Insurance Credit Fund



Valuation Results - Comments

- Potential risks to the system:
  - Continued aging of population
  - Unforeseen demographic “shocks”
  - Change in asset return environment
- Board should consider projections, studies, etc., to help quantify these risks, and make changes to the system, if appropriate
- The asset valuation and amortization methods should be reviewed to make sure that they are in line with the Board’s funding objectives
- Contributions are being made in accordance with the funding policy but the Plans remain unfunded. A change in the policy could accelerate an improvement of the funded ratios.

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 18, 2012

SUBJECT: Retirement Legislation

Our proposed Bill #103 is the PERS Recovery Bill. Section 8 of the bill relates to contribution by members from the Bureau of Criminal Investigation (BCI) at the Attorney Generals Office. Several sessions ago the legislature passed a bill to provide them the same benefits as the law enforcement plan members (age 55 retirement date). When passed, we included them in the law enforcement plan with prior service. When we developed our recovery plan prior to last session for our retirement plans, we decided that the main state retirement plan needed an annual increase in employee contributions of 1% and the law enforcement plans needed an annual increase of ½%. However, when we put our bill in, we set the BCI member contributions at 1% (since they were state employees) which was higher than needed for the law enforcement plan and higher than what the other members were paying. After the bill passed and after reviewing this, we decided that we would break the law enforcement plan with prior service into two plans – state and non-state. In August we reviewed the attached memo. At that time we decided to wait to implement that for one more year in order to allow us the opportunity to review this after hearing the 2012 actuarial valuations.

Our options in addressing this situation are:

1. Leave everyone in the same system. However, in order to balance the employee contributions so everyone in that plan is paying an equal amount going forward we would not ask for anymore increases in employee contributions for BCI members. Segal will review what this means for the long recovery of this system.
2. To continue with the BCI contributions being the same as state employees and break the system in two next year. Segal will review at this meeting what the long term implications of this would be for the existing law enforcement plan with prior service and the new BCI plan.

3. Leave everyone in the same system but allow the BCI members to pay a higher employee contribution than the political subdivision members. review with you what this means for the long recovery of this system.

At this meeting we will need to decide how we want to proceed. If we elect option #1 we would need to amend our recovery bill to eliminate Section 8 relating to BCI contributions which would result in their total employee contribution being the same as the political subdivision members after two years.

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: August 14, 2012

SUBJECT: BCI Law Enforcement Plan/Law Enforcement Plan

Attached is a memo from July 2011 regarding the contribution increases for the law enforcement plan. Please note the law enforcement plan with past service presently has membership from political subdivisions and the state Bureau of Criminal Investigation (BCI) with the Attorney Generals Office. We noted in the attached memo that the rate increase for the political subdivision employers/members was ½% of payroll each in January of 2013 and 2014, whereas the BCI employer/member contribution increase was the same as other state employees which was 1% of payroll each in January of 2013 and 2014. At that time I recommended, and the Board agreed, to separate the law enforcement plan with past service into two plans (one for political sub members and one for BCI). That would have separate actuarial reports starting this year due to the differing contributions.

Attached is a memo from Segal discussing two options for dividing the assets of the existing law enforcement plan to implement the above action and their implications. Staff would recommend option #2.

A third option is for us not to move forward with this segregation of assets and maintain the single plan. We could address the difference in contributions in our proposed legislation.

<u>Board Action Requested:</u>

Select how to proceed with the Law Enforcement plan.

SEGAL

5670 Greenwood Plaza Boulevard Suite 425 Greenwood Village, CO 80111-2499
T 303.714.9900 F 303.714.9990 www.segalco.com

August 14, 2012

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

Re: **Bureau of Criminal Investigation Cost Group**

Dear Sparb,

North Dakota SB 2108 scheduled increases in contributions to the North Dakota PERS plan on behalf of employees for participating employers. The increases are based upon employment group and are scheduled in equal amounts for January 1, 2012 and January 1, 2013.

Before the January 1, 2012 increases took effect, the statutory member contribution for Law Enforcement with Prior Service members was 4.00% of payroll. The scheduled increases are 1.00% of payroll annually for members employed by the Bureau of Criminal Investigation (BCI) but only 0.50% of payroll annually for all other members of this group. No increases in employer contribution rate are scheduled for either group of employees.

Because these contribution increases will result in different statutory contribution rates for BCI employees and current Law Enforcement with prior Main service employees, it is recommended that a new actuarial cost group be established to represent BCI employees. This group would first appear in the July 1, 2012 actuarial valuation. In order to establish this group, an initial asset allocation will be made based upon the BCI liability as of the date of the allocation.

Using the July 1, 2011 valuation results for the 39 active BCI participants, the actuarial accrued liability (AAL) for this group is $5,102,239. This amount would then be adjusted to the date of the allocation (January 1, 2012). Past administrative practice for the adjustment of liabilities has been to use the valuation rate of return, or 8% per year. Using this rate to roll forward the liability would result in an AAL of $5,426,075 as of January 1, 2012.

In establishing new valuation groups in the past, asset allocations have been made for the full amount of the AAL. However, these allocations were made in years when the funded percentage was much closer to 100%. Since the funded ratio of the Law Enforcement plan is lower (66.7%

as of July 1, 2011), a transfer of the full liability would result in a lower funded percentage for the remaining group. This would result in an actuarial cost rate increase for the remaining Law Enforcement with Prior Service members, even though these employees are not part of the BCI group.

Given this result, we recommend that the Board consider two options for the initial allocation of the BCI group.

1. Allocate an asset amount equal to the full BCI AAL of $5,426,075 as of January 1, 2012. This methodology would be consistent with past practice, but would result in an actuarial cost increase for the remaining Law Enforcement group members. This increase would be approximately 1.7% of payroll as of January 1, 2012.

2. Allocate an asset amount equal to the funded portion of the BCI AAL. Based upon the July 1, 2011 Law Enforcement actuarial value funded percentage of 66.7%, the transfer amount would be $3,619,192 as of January 1, 2012. While not completely consistent with past practice, this would not result in an actuarial cost increase for the remaining Law Enforcement group members.

In order that the allocation be made in time to perform the July 1, 2012 valuations, we recommend that the Board decide on one of these options as soon as possible.

Sincerely,

Brad Ramirez, FSA, MAAA, FCA, EA
Consulting Actuary

cc: Tammy Dixon
Melanie Walker

/cz

5204830V1/01640.001

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

DATE: October 18, 2012

SUBJECT: GASB/Moody's

Brad Ramirez from the Segal Company will be at the next Board meeting to review the implications of the actions of the Governmental Standard Board and Moody's on retirement plan reporting. Attached is a copy of their presentation.

North Dakota PERS

GASB Statements 67 and 68

Moody’s Proposed Pension Adjustments

Changes to Pension Accounting and Financial Reporting Standards for Employers and Pension Plans

October 25, 2012

Brad Ramirez, FSA, MAAA, EA, FCA

Tammy Dixon, FSA, MAAA, EA




SEGAL

GASB Statements 67 and 68

Governmental Accounting Standards Board

Financial Reporting Focus

- GASB establishes accounting and financial reporting, *not funding policies*
- Focus is on pension obligation, changes in obligation, and attribution of expense

Long-Term Nature of Governments

- Cost of services to long-term operation
- “Interperiod equity” matches current period resources and costs

Employer-Employee Exchange

- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship

GASB Statements 67 and 68

GASB Statement 67: Financial Reporting for Pension Plans (revises GASB Statement No. 25)

GASB Statement 68: Employer Accounting & Financial Reporting for Pensions (revises GASB Statement No. 27)

- Effective dates
  - For plan reporting: effective for all plan years beginning after June 15, 2013
    - Years beginning July 1, 2013 or January 1, 2014
  - For employer reporting: effective for all fiscal years beginning after June 15, 2014
    - Years beginning July 1, 2014 or January 1, 2015
- GASB "Implementation Guide"
  - Will address outstanding technical issues in accordance with final Statements

While this presentation focuses on employer reporting changes (No. 68), similar changes also apply to plan reporting (No. 67).

Net Pension Liability

- Net Pension Liability (NPL)
  - Total pension liability (TPL) minus market value of assets
- NPL is required to be reported on the employer's balance sheet
- Under current standards, the Net Pension Obligation (NPO) is reported on the balance sheet
  - Cumulative difference between annual required contribution (ARC) and actual contributions
  - Unfunded liabilities are reported in the Notes to Financial Statements

NPL is a snapshot of unfunded liabilities as of a point in time.

Net Pension Liability

- NPL is calculated using:
  - Projected future benefits
    - Includes projected future service and salary increases
    - Includes the cost of ad hoc COLAs if “substantially automatic”
  - A new blended discount rate
    - Determined using projections of contributions and benefit payments
  - “Entry age” actuarial cost method
    - Most commonly used method
  - Market value of assets
    - AKA “Fiduciary Net Position”
    - No actuarial smoothing

Accounting NPL will be more volatile than the current unfunded accrued liability (which will still be used for funding).

Discount Rate

- Discount rate used to determine NPL is based on projected benefits, projected assets, including projected contributions for current members
  - Projected assets include contributions intended to fund benefits for current members
  - Projected assets do **not** include employer or employee contributions intended to fund the service cost for future employees
- For projected benefits that are covered by projected assets
  - Discount using the long-term expected rate of return on assets
- For projected benefits that are **not** covered by projected assets (i.e., after the "cross-over date")
  - Discount using yield on 20-year AA/Aa tax-exempt municipal bond index
- Solve for a single rate that gives the same total present value
  - Use that single equivalent rate to calculate the Total Pension Liability (TPL)

The TPL reflects a standardized actuarial cost method and an adjusted discount rate based on future funding.

Discount Rate

How are contributions projected in determining the discount rate?

- This depends upon how employer contributions are determined
  - Is one of the following true?
    - Contributions are subject to statutory or contractual requirements, or
    - A formal, written policy related to contributions exists
  - If so, then use professional judgment to project contributions
    - Consider the employer's 5-year history as indicator for future contributions
    - Reflect all known events and conditions
  - If neither is true, projected contributions are based on average of contributions for past 5 years
    - Average can be percentage of pay, percentage of actuarially determined contribution, or percentage of Annual Required Contribution
    - Potentially modified for subsequent events

The new methodology underscores the need for a formal funding policy if none currently exists.

Discount Rate

- Projection of benefits and assets
  - No safe harbor to avoid performing the projection of benefits and contributions
  - Systematic projection of the long term cash flow of the pension plan
    - Benefit payment stream until last current member is projected to die
    - Projected assets include only future contributions that fund benefits for current members
    - Mechanics not difficult but significant interpretation issues exist
  - Final statement states that sufficiency of projected plan assets to pay projected benefits “might be determined through other methods”
    - Not clear what this will allow
    - Implementation Guide will address this and other issues

The derivation of the discount rate will require significant additional calculations by the actuary.

Discount Rate

What rates are used in the projection?

- **Long-term rate of return**
  - "Long-term" is period between time employees are hired until when they retire
  - Rate is based on investment strategy
  - Should be net of investment expense, but <u>not</u> net of administrative expense
    - Administrative expenses are a separate, future cash flow
- **Municipal bond index rate**
  - Modified from 30 year to 20 year based on availability of rate information
  - Can be a yield or an index rate
  - Must have average rating of AA/Aa or higher
  - Current estimate: 3.50%-3.75%

Based upon current interest rates, this projection will result in higher liabilities than those currently reported for plans where assets are not projected to cover all future benefit payments.

Components of Pension Expense

New GASB 67/68 pension expense

- Simple definition is change in NPL each year, with deferred recognition of certain elements

- Components of the new pension expense include:
  - Service cost (i.e., normal cost)
  - Interest on the total pension liability as of the beginning of the year
  - Changes in total pension liability over the year (with certain deferrals)
  - Differences between actual and projected earnings over the year (with certain deferrals)
  - Projected investment returns over the year
  - Employee contributions
  - Other changes in plan net position (i.e., market value of assets)

Components of Pension Expense

Changes in Total Pension Liability that are recognized immediately

- These changes in total pension liability are recognized in the year in which they occur with no deferrals:
  - Service cost
  - Annual interest on the Total Pension Liability
  - Projected investment returns over the year
  - All plan amendments
- Unchanged from Exposure Draft: Immediate recognition of plan amendments for all members (actives and retirees)

Components of Pension Expense

Changes in Total Pension Liability where some deferrals are allowed

- These annual changes in total pension liability are recognized over a period of years:
  - Changes in actuarial assumptions
  - Actuarial gains and losses
- Length of the deferral period is the average expected remaining service lives of active **and** inactive members (including retirees)
  - Changed from ED, where active and retired TPL changes were amortized separately
  - Resulting amortization periods will still be very short
  - Method must be systematic and rational, using closed periods

Simpler calculation than was outlined in the ED, but similar impact on expense.

Cost-Sharing Plans

New GASB 67/68 standards

- Recognize "proportionate share" of collective Net Pension Liability and pension expense
- Proportionate share determination
  - Should be consistent with the way required contributions are determined
  - Use of the projected long-term contribution effort of the employers is encouraged
  - If different contribution rates are assessed for different groups the allocation should reflect these relationships
    - For example: different rates calculated within a single fund for different classes or tiers of employees
- This share of liability is allocated regardless of the terms of liability assignment in the employer/employee contribution agreement

Employers in "pooled" plans will now have a portion of the NPL assigned to their balance sheet.

Expansion of Disclosure Information

- Applies to Notes to Financial Statements and Required Supplementary Information (RSI)
- ***Greatly*** expanded employer disclosures, including:
  - Description of the plan and assumptions
  - Policy for determining contributions
  - Sensitivity analysis of the impact on NPL of changes in liability discount rate
    - One percentage point increase
    - One percentage point decrease
  - Changes in the NPL for the past 10 years
  - Development of long-term earnings assumption
- Preparation of disclosures for cost-sharing employers
  - New and challenging questions for application
    - Who is responsible for developing this information?
    - Who pays for it?
    - Who has final say on the assumptions?

Key Implications

- The faster recognition of net pension liability changes will introduce much greater volatility in the reported expense.
- This volatility will be reflected directly on the income statements of plan sponsors.
- The new expense amount will most likely be too volatile to serve as a funding policy for most entities

By applying the new standards, GASB is effectively decoupling plan funding and plan expense.

What's Next?

- Education and communication
- Assessment by employers of the magnitude of the NPL that will be required to be reported when the Statements take effect
- Staff/Actuary preparation for calcuations and increased disclosure requirements
- Examination of the actuarial funding policy of the plan in light of the new requirements
- Coordination with contributing employers on preparation of disclosures
- GASB will publish Implementation Guide (no timeline given)

Moody's Adjustments to Reported Pension Data

Proposing Standard Adjustments in Evaluating Pension Plans for Public Sector Entities

- Goals of adjustments
  - Improve transparency and comparability
  - Facilitate measurement of pension obligations as a balance sheet liability
  - Use consistent financial assumptions
- Areas of adjustment
  - Cost-sharing liabilities allocated to employers based on share of contributions
  - Liabilities calculated using "high-grade corporate bond index rate" (5.5% in 2011)
  - Asset smoothing replaced with market value
  - Annual contributions adjusted to reflect common amortization period (17 years)

These numbers will be used in bond rating decisions and in survey reporting.

Moody's Adjustments - PERS

2012 Valuation Results			Reflecting Moody's Adjustments	
Long-term discount rate	8.00%		Short-term discount rate	5.50%
Actuarial Accrued Liability	$2.501 bil		Actuarial Accrued Liability	$3.392 bil
Actuarial Value of Assets	1.627 bil		Market Value of Assets	1.734 bil
Unfunded Liability	$0.874 bil		Unfunded Liability	$1.658 bil
Funded Percentage	65.1%		Funded Percentage	51.1%
Employer Normal Cost	$ 35.9 mil		Employer Normal Cost	$ 53.4 mil
Amortization Payment	61.0 mil		Amortization Payment	144.6 mil
Annual Contribution*	$ 98.0 mil		Annual Contribution*	$ 199.1 mil

*Includes administrative expenses of $1.1 million

Thank You!

SEGAL

5670 Greenwood Plaza Blvd, Ste 425
Greenwood Village, CO 80111
T 303.714.9952

Brad Ramirez, FSA, MAAA, EA, FCA
bramirez@segalco.com

SEGAL

330 North Brand, Ste 1100
Glendale, CA 91505
T 818.95636767

Tammy Dixon, FSA, MAAA, EA
tdixon@segalco.com

www.segalco.com

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 18, 2012

SUBJECT: Deferred Normal Retirement Option (DNRO)

Subject for Board Consideration

It has recently come to the attention of the PERS staff that the administrative process for the Deferred Normal Retirement Option results in a retirement benefit, for members who utilized this option, that is higher than if they had stayed under covered employment. The process that is utilized is correct based upon the actuarial method provided by Segal. The purpose of this memo is to review the situation with the Board and to determine if you would like to adjust the actuarial methodology going forward.

Background

In the 2007 legislative session we added the Deferred Normal Retirement Option to the PERS plan. The following is the provision that was added to our statute in our proposed legislation and subsequently it was enacted:

Upon termination of employment after completing three years of eligible employment, except for supreme and district court judges, who must complete five years of eligible employment, but before normal retirement date, a member who does not elect to receive early retirement benefits is eligible to receive deferred vested retirement benefits payable commencing on the member's normal retirement date in one of the optional forms provided in subsection 9. Members who have delayed or inadvertently failed to apply for retirement benefits to commence on their normal retirement date may choose to receive either a lump sum payment equal to the amount of missed payments, or an actuarial increase to the form of benefit the member has selected, which increase must reflect the missed payments.

After the legislation was approved, the following administrative rule was adopted to implement the above:

NDAC 71-02-04-04.1 provides:

> **Deferred normal retirement option**. *The deferred normal retirement option will only be available to members who retire after reaching normal retirement date. This option is an irrevocable election and made at initial application for retirement. The payment is in lieu of a lump sum equal to the amount of missed payments, without interest, retroactive to the member's normal retirement date. The member is permitted to choose one of the optional forms of payment as defined in section 71-02-04-04. The ongoing benefits will be actuarially increased to reflect the lump sum.*

This option was added to the plan in the 2007 Session in SB 2048. The situation it addresses is the rare instance when a member retires after their normal retirement date (age 65 or the Rule of 85) and was no longer under covered employment for a period of time from their normal retirement age until their retirement. For example, if a member was eligible to draw a retirement benefit at age 65, was no longer under covered employment (that is they were no longer an active member in the retirement plan) but elected not to draw their retirement until the mandatory retirement age of 70½, then under the plan provisions in effect before adding the above, the member would have been paid a lump sum amount equal to the amount they had deferred by not drawing a retirement benefit at retirement. In this example it would be the retirement benefits from age 65 to 70½. When paid in a lump sum amount it is all taxable in the year it was paid out. We had a member that generally fit this circumstance and received a lump sum payment. This did happen to one of our members and they had requested that we pay the lump sum amount in some other manner than a lump sum. At the time, we did not have the authority to do it but it became the reason we proposed the above. What we developed as an option was that instead of having to take these funds as a lump sum the member could elect to have the lump sum amortized into their retirement benefit over their projected lifetime as an additional amount.

As noted above, the bill was passed with this provision, administrative rules were adopted and we received from Segal the actuarial tables to implement this provision.

Issue

The attached memo from Segal provides an example of the issue to be considered in the memo. In that example a member is age 57 and they have met their normal retirement age, in this case the rule of 85. Let's assume this member has a choice to make at this point in their life. Let's further assume they are not ready to retire. The choice they have to make is whether they should continue to work for the state or maybe take a job with another employer that is not a part of PERS. They plan to retire either way at age 60. If they continue to work for the state, their retirement benefit at age 60 will be $2,914 per month.

However, if they elect to leave employment with the state and take the deferred normal retirement benefit at age 60, their retirement benefit will be $3,112 per month or about $200 more. Consequently, the member is better off from a retirement perspective by leaving employment with the state and going to work for a non-covered employer until they finally retire.

In addition, the following table that Bryan developed also analyzed this situation. The "Earliest Normal Retirement" columns identify the amount someone will get if they retire at their normal retirement date (age 65 or the Rule of 85). The "Continue Working" columns show what happens if they continue to work past their normal retirement date to a later "age" and they get salary "inc" of 3%, 4% or 5% each year after their normal retirement age. The "Deferred Retirement" columns show what the member would get if they left covered employment at the normal retirement age (Earliest Normal Retirement) and did not start to draw until the age identified in the table that is if the elected the DNRO.

Earliest Normal Retirement				Continue Working				Deferred Retirement			
Age	Rule	FAS	Benefit	Age	Inc	FAS	Benefit	Age	Delay	Benefit	Working Inc
52.25	85	$5,867	**$3,843**	60	3%	$ 7,359	**$ 5,948**	60	7.75	**$ 6,715**	12.90%
52.67	85	$8,052	**$5,220**	65	3%	$11,810	**$10,570**	65	12.33	**$12,219**	15.60%
59.09	85	$6,029	**$3,125**	65	3%	$ 7,284	**$ 4,638**	65	5.91	**$ 5,152**	11.08%
63	85	$2,737	**$1,254**	65	3%	$ 2,946	**$ 1,468**	65	2.00	**$ 1,527**	4.02%
63	85	$2,737	**$1,254**	70	3%	$ 3,415	**$ 2,043**	70	7.00	**$ 2,333**	14.19%
57.42	85	$3,688	**$2,041**	60	3%	$ 3,981	**$ 2,408**	60	2.58	**$ 2,563**	6.44%
57.42	85	$3,688	**$2,041**	61	3%	$ 4,100	**$ 2,562**	61	3.58	**$ 2,777**	8.39%
57.42	85	$3,688	**$2,041**	62	3%	$ 4,223	**$ 2,724**	62	4.58	**$ 2,999**	10.10%
57.42	85	$3,688	**$2,041**	63	3%	$ 4,350	**$ 2,893**	63	5.58	**$ 3,230**	11.65%
57.42	85	$3,688	**$2,041**	64	3%	$ 4,480	**$ 3,069**	64	6.58	**$ 3,471**	13.10%
57.42	85	$3,688	**$2,041**	65	3%	$ 4,615	**$ 3,253**	65	7.58	**$ 3,723**	14.45%
57.42	85	$3,688	**$2,041**	60	4%	$ 4,396	**$ 2,660**	60	2.58	**$ 2,563**	-3.65%
57.42	85	$3,688	**$2,041**	61	4%	$ 4,572	**$ 2,858**	61	3.58	**$ 2,777**	-2.83%
57.42	85	$3,688	**$2,041**	62	4%	$ 4,755	**$ 3,067**	62	4.58	**$ 2,999**	-2.22%
57.42	85	$3,688	**$2,041**	63	4%	$ 4,945	**$ 3,289**	63	5.58	**$ 3,230**	-1.79%
57.42	85	$3,688	**$2,041**	64	4%	$ 5,143	**$ 3,523**	64	6.58	**$ 3,471**	-1.48%
57.42	85	$3,688	**$2,041**	65	4%	$ 5,349	**$ 3,771**	65	7.58	**$ 3,723**	-1.27%
57.42	85	$3,688	**$2,041**	60	5%	$ 4,851	**$ 2,935**	60	2.58	**$ 2,563**	-12.67%
57.42	85	$3,688	**$2,041**	61	5%	$ 5,094	**$ 3,183**	61	3.58	**$ 2,777**	-12.76%
57.42	85	$3,688	**$2,041**	62	5%	$ 5,348	**$ 3,450**	62	4.58	**$ 2,999**	-13.07%
57.42	85	$3,688	**$2,041**	63	5%	$ 5,616	**$ 3,734**	63	5.58	**$ 3,230**	-13.50%
57.42	85	$3,688	**$2,041**	64	5%	$ 5,896	**$ 4,039**	64	6.58	**$ 3,471**	-14.06%
57.42	85	$3,688	**$2,041**	65	5%	$ 6,191	**$ 4,365**	65	7.58	**$ 3,723**	-14.71%

The first row shows a member who meets their normal retirement date at age "52.25" and they would be eligible for a retirement benefit of "$3,843. If they continue to work to age "60" and get a 3% annual salary increase they would then get a retirement benefit of "$5,948" on that retirement date. However, if they left covered employment at their normal retirement date "52.25" and didn't start to draw retirement until that same later age, they would get a benefit of $6,715 or 12.9% higher due to the method we use to calculate the DNRO. In this case the retirement plan creates an incentive for members to leave covered employment rather than stay.

The table also shows that if a member gets an annual increase of around "4%" each year they would do better staying and working rather then leaving and deferring.

Method for Determining the Deferred Normal Retirement Benefit and Alternative Options

Attached is a memo from Segal discussing the existing method for determining this retirement benefit. As you will note in that memo, the reason the DNRO amount is higher is because the existing method amortizes that deferred amount over the member's lifetime using an 8% rate. In their memo they also describe some other options for determining this benefit.

Staff Recommendation

Staff is recommending that we ask Segal to develop new tables to calculate this benefit. While the existing method is correct, the result provides for some unintended incentives. Staff recommendation is that new tables be developed that will result in a Deferred Normal Retirement Benefit that is equal to or slightly less then the benefit the member would have received if they had stayed under covered employment.

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

September 11, 2012

Mr. Sparb Collins, Executive Director
North Dakota Public Employees
Retirement System
400 East Broadway, Suite 505
Bismarck, ND 58502

RE: Deferred Retirement Option Factors

Dear Sparb:

At your request, we have reviewed the factors used to calculate benefits under the NDPERS deferred retirement payment options.

Under NDPERS provisions, members who delay retirement benefits past their normal retirement date may choose either a lump sum payment of missed payments or an actuarially increased benefit to reflect the missed payments. Currently, the factors used in the actuarial increase of benefits are the same as those used for the partial lump sum option calculation and reflect an 8.0% interest rate assumption and the 1983 GAM unisex mortality table with margins.

Because of the interest and mortality assumptions used, in many cases where the accrued benefit is large relative to the benefits that would have been earned during the deferral period, the participant would receive a larger benefit under the deferral option than the benefit that would have been earned through further service. This may have the unintended effect of encouraging participants to leave active service. This is illustrated by the example below.

Monthly Benefit at age 57 (27 years of service): $2,400 per month
Deferred Payments (3 years): $86,400
Adjusted Deferred Benefit Payable at age 60: $3,112 per month
Monthly Benefit at age 60 (30 years of service): $2,914 per month*
*assumes 3% pay increases

In this example, the participant earns a larger retirement benefit by leaving active service at age 57 and electing the deferred benefit than the benefit that would have been earned with three more years of service. While other considerations would affect the participant's decision to remain working, this may have the effect of encouraging participants to leave service when first eligible for the deferred benefit.

The use of interest in these factors is a policy choice that credits the participant for deferring the benefits and leaving the payments in the System. Using this methodology increases the benefits at the System's assumed rate of return for the duration of the participant's life expectancy. The actuarial effects of these factors are approximately neutral from a valuation standpoint and the System is not expected to undergo any large experience gains or losses as a result. However, the mortality table used in determining the factors is different from the table used in the actuarial valuations, so these conversions are not completely cost neutral to the System. Furthermore, the System also assumes the risk of gains or losses based upon the actual investment returns over the payment period.

The use of an 8% rate of return on the conversion of missed payments presents some risk to the System. In essence, the System guarantees that the missed payments will produce a return of 8% for the lifetime of the employee after the deferral period. Had the benefits been paid under a non-deferred option, the System's guarantee of return would have ended upon payment of the benefits. While this is a reasonable method for determining the factors, other options are available. For example, the amount of interest granted for missed payments could be reduced to adjust the amount of risk taken by the System in the deferral of payments.

Option 1: Convert the missed payments to an adjusted benefit using a lower interest rate (4% per year).

Using a lower interest rate for the conversion of missed payments would reduce the amount of increases for missed payments. This would reduce the asset return risk to the System for the payments that are deferred.

This would reduce the factors by approximately 30%-35%. In the example above, the amount of the adjusted benefit would be approximately $2,800.

Option 2: Convert the missed payments to an adjusted benefit using no interest.

Using a 0% interest rate in the conversion of missed payments would further reduce the amount of increases for missed payment, and reduce the asset return risk to the System for the payments that are deferred.

This would reduce the factors by approximately 55%-60%. In the example above, the amount of the adjusted benefit would be approximately $2,600.

Regardless of any changes made to the interest rate, we recommend that the mortality table used in determining the factors be changed to be consistent with the mortality used in the annual actuarial valuations. This will help to reduce the magnitude of actuarial gains and losses for participants who elect this benefit.

We look forward to discussing this with you in more detail. Please contact me if you have any questions.

Sincerely,

Brad Ramirez, FSA, MAAA, EA, FCA
Consulting Actuary

cc: Tammy Dixon, FSA, MAAA, EA

/cz

5193448V1/01640.001

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@state.nd.us ● discovernd.com/NDPERS

Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **October 18, 2012**

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%.

This year the COLA index for the Federal Civil Service Plan is 1.7%. Therefore, a 1.7% COLA increase is indicated for the Job Service retirees paid by NDPERS as well as for the Job Service retirees paid by The Travelers. The last increase for annuitants in this system was 3.6% effective December 1, 2011.

The actuarial assumption used in the annual valuation for the COLA is 5.0% per year and Segal has confirmed that the 1.7% increase represents a gain to the system.

Board Action Requested

Approve or reject the COLA increase for Job Service annuitants.

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

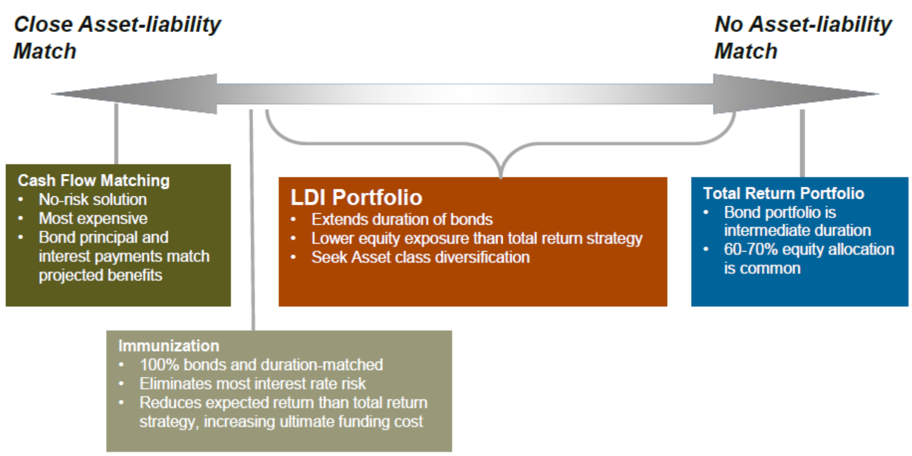
DATE: October 18, 2012

SUBJECT: Job Service Retirement Plan – LDI Study

At our January planning meeting and at the June meeting we discussed doing a LDI study for the Job Service Retirement plan. At the June meeting Callan discussed the concept, its applicability to closed plans and how they can be constructed. The following is one of the slides they presented relating to the concept.

The Spectrum of Liability Driven Investing Approaches

- The term “Liability Driven Investing” refers to strategies that partially hedge interest rate risk while seeking excess return



- Most plan sponsors have historically considered liabilities in setting asset allocation, but choose to assume asset-liability mismatch risk in order improve return
- New regulation and changes in retirement plans have already led many plans sponsors to alter their view of risk and consider strategies that at least partially match assets and liabilities

In July we reviewed a proposal from Callan (Attachment #1) to do this effort for the Job Service Retirement Plan. Their proposal was $62,000 for the study. At that time the Board requested that the Retirement and Investment office asks SEI if they would consider doing the study for us. SEI is one of the firms hired by the State Investment Board and they have done asset liability studies for us in the past for the retirement plan and the retiree health program. SEI has indicated that they would be willing to undertake this effort for PERS and their would be no charge for it since we are an existing client.

Board Action Requested:

To determine if PERS should accept the attached proposal from Callan or utilize SEI.

Callan

Callan Associates Inc.
1660 Wynkoop Street
Suite 950
Denver, CO 80202

Main 303.861.1900
Fax 303.832.8230

www.callan.com

July 11, 2012

Mr. Sparb Collins
Executive Director
North Dakota Public Employees Retirement System
400 E. Broadway
Suite 505
Bismarck, ND 58502

Via email: scollins@nd.gov

Dear Sparb,

This letter outlines a proposal to the North Dakota Public Employees Retirement System ("PERS") from Callan Associates Inc. ("Callan") to conduct an asset/liability study of the North Dakota Job Service Pension Plan ("Plan"). The objective of the study will be to model Plan liabilities and alternative asset mixes that have the primary goal of minimizing the Plan's funded status volatility. The study will examine the potential to de-risk the Plan's current asset allocation (which seeks to maximize risk-adjusted returns) and move along a pathway that leads to a Liability Driven Investing ("LDI") approach. An LDI approach will more closely align the characteristics of the assets and liabilities by reducing the allocation to "risky" assets that may cause greater volatility in the Plan's funding ratio.

Callan will evaluate the Plan's projected financial condition versus relevant decision variables so that the PERS trustees can select a strategic asset allocation policy. The asset allocation policy ultimately selected by PERS will be intended to meet the Plan's overall objectives in light of projected investment, benefit, and funding scenarios.

The study will explore potential asset allocation policies that maintain fully funded status through time. The objective of the study is to determine if an asset allocation policy can be established that reacts similarly to the Plan's liabilities relative to changes in interest rates while meeting projected benefit and expense payments. It may be reasonable to expect that our study will outline a "glide path" that gradually adjusts the Plan's asset allocation through time in order to ultimately reach the desired LDI framework.

Overview of the project

At the outset, Callan will work with PERS and RIO staff to customize the work product and final presentation to meet your informational needs and requirements. We anticipate that Callan will meet with the PERS staff and Board on multiple occasions prior to and including the presentation of our written findings and recommendations. The first of these meetings occurred at the June 28, 2012 PERS Board meeting in Bismarck with Paul Erlendson and Gene Podkaminer of Callan. Paul and Gene will be Callan's representatives in the conduct of this project with PERS. Paul will be the primary contact; Gene will be the project's lead investigator.

The project will commence upon receipt of detailed actuarial data from the Plan's actuary. We will also need to establish a set of assumptions with PERS regarding the amount and timing of potential supplemental funding to the Plan from the Federal government. Callan will build a model of the future behavior of the Plan's participant population using the actuarial and funding assumptions. The study will quantify the risk/return tradeoffs from various degrees of de-risking based on a reasonable set of capital market, liability, and funding assumptions. Our modeling will examine PERS's ability to prudently change the Plan's asset allocation in phases over time in scenarios that both include and exclude possible supplemental Federal funding.

We anticipate a gradual approach to the implementation of a de-risking strategy. Callan will assist PERS in obtaining a clear understanding of the costs and benefits inherent in a de-risking approach. We will help PERS select a liability-relative benchmark to manage the Plan and evaluate its performance. While the asset/liability study we propose for the Plan shares many attributes with the study we recently conducted for the PERS plan, this project differs in a few critical areas. Specifically, the Job Service Plan evaluation introduces several critical factors that are unique to the specific circumstances and characteristics of the Plan that complicate the analysis. Among these complications are:

- Modeling and incorporating the potential "call" on the supplemental contribution from the Federal government.

- Understanding and presenting the complex inflation and COLA calculations.

- Modeling multiple various “glide paths” to move from the current Total Return-oriented asset allocation to an LDI-oriented asset allocation, including defining prudent “trigger” points for interim adjustments in the Plan’s asset allocation as it moves toward the LDI allocation solution.

- Developing a meaningful benchmark for performance evaluation purposes that is consistent with an LDI investment program.

The entire project will be reviewed by Callan’s Client Policy Review Committee, a peer group of senior Callan consulting professionals. We will also review interim results with PERS and RIO staff.

Project Timing and Deliverables
Once Callan receives the detailed actuarial valuation data from the Plan’s actuary, as well as information from PERS about potential supplemental Federal funding, we estimate that Callan will deliver a final report in about eight to ten weeks. Callan will deliver a written due diligence report as well as make a presentation to the PERS Board. In addition to the final written report, Callan will produce an educational document that contrasts Total Return and LDI investment solutions. This supplemental document will describe the characteristics that must be in place for a given pension plan to realistically adopt one or the other investment approach.

Fees
The project fee to complete the asset/liability study for the Plan as described above is $62,000. Reasonable travel expenses incurred by Callan professionals to attend meetings with PERS and RIO staff relative to this project will be reimbursed outside of the project fee.

I will be happy to respond to any questions about this proposal. Please contact me via telephone at (303) 861-1851 or via email at erlendson@callan.com. We look forward to assisting PERS in your evaluation of alternative asset allocation policies to de-risk the Plan’s investment program and meet the investment needs and funding obligations of the Plan and its beneficiaries.

Cordially,

Paul Erlendson

cc: Darren Schulz, NDRIO Interim Chief Investment Officer
Jay Kloepfer, Callan

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 17, 2012

SUBJECT: Proposed Legislation

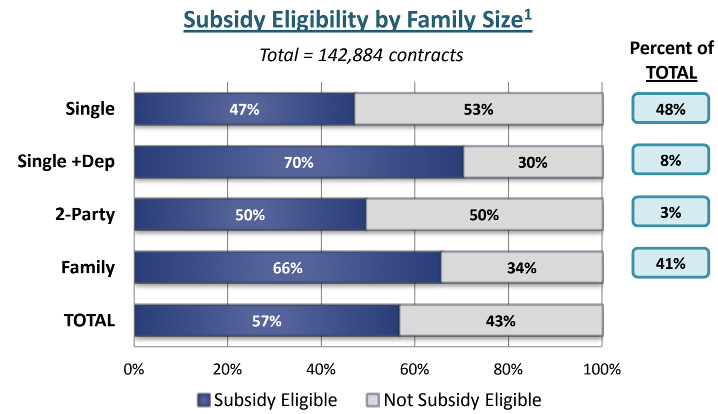
Our proposed legislation for the health plan includes a provision updating our definition of employees eligible for employer paid premiums support for the health plan to include one of the requirements of the Health Care Reform Bill. Specifically, section one of Bill #101 changes the definition of temporary employee to provide that those employees that work an average of 30 hours per week or more would only be required to pay 9.5% of their income for single health plan coverage.

We have also become aware that the Health Care Reform Bill only requires that those employees meet certain income requirements be eligible for this provision. Our bill as presently proposed does this not include this “income requirement” provision, and therefore would extend the above employer premium payment provision to more temporary employees than required by the Health Care Reform Bill, thereby increases the cost to our participating employers. The following table from BCBS gives us a perspective of what that additional cost may be by identifying the number of individuals that would be covered under the federal provision and the number that would not.

Group Overall

Family Class Distribution

Over half of all group subscribers are subsidy eligible



Single individuals are typically the least likely to be subsidy eligible due to higher FPL levels on equivalent household incomes

0

(1) Results based on 100% make whole payment

Strategic Consulting Services

As the above shows, about 57% of those on the plan would be eligible under the Health Care Reform Bill by meeting the income requirement and about 43% would not.

Staff is recommending that we add the income requirement to our proposed legislation so that our definition fully matches the Health Care Reform Bill requirement and we do not leave it as presently written since it would establish a state requirement for employer payment of premiums for the PERS plan that would go substantially beyond the requirements of the Health Care Reform Bill. Please note that our existing legislation does allow an employee to unilaterally elect to expand its premiums payment to temporary employees if they so elect.

<u>Board Action Requested</u>

To authorize updating our definition in Bill #101 to match the Health Care Reform Bill requirements.

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: Tara & Rebecca

DATE: October 15, 2012

SUBJECT: Lt. Governor Wellness Initiative Update

At the June 28 Board meeting, we provided an overview of the NDPERS Wellness Engagement Project and our collaboration with the Lt. Governor. We are pleased to share some exciting updates:

- **Daily Dose of Wellness Member Webinars**
  - The Daily Dose of Wellness **Topic 1: Introduction** video was placed in the image rotator on HealthyBlue the afternoon of Friday, October 5th. The Introduction is also being placed on the NDPERS website.
  - A scripted email announcement will be sent to NDPERS designated Wellness Coordinators for distribution to their employees prior to the board meeting
  - Daily Dose **Topic 2: Physical Activity** is scheduled to be posted to HealthyBlue the week of October 22nd.
  - Daily Dose **Topic 3: Nutrition** and **Topic 4: Disease Prevention** are scheduled for the month of November.
  - Daily Dose **Topic 5: Personal Safety** and **Topic 6: How to be a Wise Health Consumer** are scheduled for the month of December.
  - Topics 2-5 will each be broken up into 5 short videos with one video posted per day for the scheduled weeks.

- **Wellness Leadership Webinar**
  - The Wellness Leadership Webinar is finished and the link to view the video has been placed in an article invitation from the Lt. Governor to be featured in the October Edition of the PERSonnel Newsletter.
  - The Lt. Governor has been provided letters that he wanted to personally sign inviting all agency heads and political subdivisions to view the video. The letter will be mailed once they are returned from the Lt. Governor's office.

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 18, 2012

SUBJECT: Hartford Update

On Monday October 15 Doug Anderson and I had a conference call with Kirsten Steiert of Hartford. We reviewed with her the Board's position which included the following:

1. That both MassMutual and Hartford must have a signed provider agreement for the product.
2. In addition to the provider agreement there must be a separate administrative memorandum detailing which party has lead responsibilities for each item in the provider agreement.
3. That once MassMutual assumes the lead responsibility a transition period must be established to allow members to leave the plan without penalty.
4. That the above issues must be resolved by November 12.

In our conversation Kirsten indicated that she would discuss the items internally. However, she noted they had discussed the transition period and the initial reaction was that was something they could not do. She did note that they did not use a rolling period for contributions but instead did it based upon the sign up date. I asked her to look at our members and determine how many had already past exhausted their period where exit penalties would apply. She agreed to getting us that information if it was available. This could change the need for such a provision.

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 15, 2012

SUBJECT: Personnel Policy Manual

Due to a recent review of the OMB Human Resource Policy Manual, it was noted they have added a new chapter that includes an 'Infants at Work' policy which outlines the procedures and employee responsibilities required to administer the policy. NDPERS is proposing that this policy be adopted for inclusion in its policy manual as Chapter 27. A copy of the policy is provided for your review.

We are also proposing an adjustment to our FMLA policy in Chapter 12 with regard to the order in which an employee must use accrued leave/time. Following are the items we would like to address:

Present Policy	Proposed Change
Leave to care for a newborn or for own health condition: • Sick leave • Annual leave • Comp time.	• Sick leave • Comp time • Annual leave.
Leave to care for spouse, child or parent: • Family sick leave hours • Annual leave • Comp time.	• Family sick leave hours • Comp time • Annual leave.

Board Action Requested

Approve the addition of the "Infants at Work" policy to the NDPERS Personnel Policy Manual.
Approve the proposed changes to the FMLA policy.

CHAPTER 27

INFANTS AT WORK

27.1 Infant at Work Approval - An employee may submit a request, SFN 54321, Infant at Work Request, to the division manager to care for his or her infant child by birth, adoption, or foster care, under the age of four months, at work during normal work hours. The division director shall consider and approve or deny such request.

If the division manager approves an employee's request, the employee and other parent of the infant are required to sign a waiver of liability, indemnification, and medical release SFN 59429, Infant at Work Waiver of Liability, Indemnification, & Medical Release.

If the infant becomes ill or fussy for a prolonged period of time causing a distraction or preventing the employee or other employees from accomplishing work, the infant must be removed from the workplace. If in the opinion of the employee's supervisor or division director the infant's presence is excessively disruptive in the work environment or negatively affects the productivity of the employee or other employees, the infant at work arrangement will be terminated.

At the conclusion of the infant at work duration, the supervisor shall complete SFN 54320, Supervisors' Infant at Work Review.

27.2 Employee Responsibilities - The employee must keep the infant in the employee's workspace. For short periods of time, such as restroom breaks, the infant may be in another employee's workspace if the arrangement is mutually agreed upon. The work environment must be safe for the infant at all times.

An employee's child may not accompany an employee traveling in a State vehicle. If the employee's job includes travel, he or she must make alternative childcare arrangements for travel days or must travel in the employee's personal vehicle. Travel must be approved by the division director prior to the travel.

The employee must provide appropriate furniture for the infant's care, i.e. crib, playpen, swing, etc.

The employee must use discretion as to when and where the infant's diapers are changed. Used cloth diapers must be stored in a closed container and taken home daily. Used disposable diapers must be wrapped appropriately and discarded in an appropriate container outside of office or meeting space.

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 18, 2012

SUBJECT: ADP Update

The contract with ADP has been signed and we are moving forward with implementation. At the last meeting we discussed Section 8.5 "Early Termination Fee". This provides that if this contract is terminated before the end of the term, we must pay them an early termination fee. This would not apply should the termination be for cause, lack of funding or other state or federal actions. ADP requires such a provision in its contract in order to recover some of their costs if such an event would occur. At that meeting we discussed that if ADP has such a provision in the contract then PERS should also have such a provision. We forwarded that contract amendment to ADP after the meeting. After consideration they decided to withdraw their request for an "Early Termination Fee" and they made the Termination without Cause provision unilateral in favor of the State. With that, we moved forward with the contract.