NDPERS BOARD MEETING
Agenda

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

September 16, 2010 **Time: 8:30 AM**

I. MINUTES
A. August 26, 2010 and September 8, 2010

II. RETIREMENT
A. RIO Update – LeRoy Gilbertson (Information)
B. Defined Contribution Analysis Update – Sparb (information)
C. Legislation – Technical Reviews (Board Action)

III. GROUP INSURANCE
A. Wellness Update – BCBS (Information)
B. Diabetes Project Update – Jayme (Information)
C. Life Insurance Report –Sparb (Information)
D. Health Plan – Sparb (Board Action)
E. Vision Plan – Sparb (Board Action)
F. 2009 Active Health Report – Bryan (Information)
G. Part D Renewal – Sparb (Board Action)
H. Legislation – Technical Reviews – Sparb (Board Action)
I. Early Retiree Subsidy Application – Sparb (Information)

IV. DEFERRED COMPENSATION
A. 457 Companion Plan & 401(a) Plan 2nd Quarter report – Bryan (Information)

V. FLEX COMP
A. Flex Payments – Kathy (Board Action)

VI. MISCELLANEOUS
A. 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.

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Public Employees Retirement System
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Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: SIB Update

LeRoy Gilbertson will be at the next meeting to provide an update on the SIB.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: Defined Contribution Analysis

Attached is the most recent update to the DC Plan analysis. As you will note this analysis shows that:

1. DC Plan participants are projected to have a retirement benefit that is on average 50% less than what they would have had if they stayed in the DB Plan.

2. If contributions were increased to 20%, many DC Plan participants would continue to have a lower benefit.

3. For those individuals that are age 55 and above, the effect of the recent market downturn on their portfolios make it extremely difficult for them to recover even if contributions are increased dramatically. Without significant contribution increases or favorable asset returns, these individuals will likely have to work well past age 65 in order to receive satisfactory benefits.

4. The benefit provided in the existing DC Plan is not adequate in providing a comparable benefit to the DB Plan at the existing contribution levels.

Note the last graph which was added since the last analysis based upon years of service. The assessment clearly shows the effect of time on someone’s ability to recover from the recent market downturn.

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

September 3, 2010

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

Re: North Dakota Public Employees Retirement System – Updated Analysis of Defined Contribution Plan

Dear Sparb,

At your request, the Segal Company has performed a revised analysis of the NDPERS Defined Contribution Plan.

Background

The North Dakota Public Employees Retirement System Defined Contribution Plan (DC Plan) requires participants to contribute 4% of compensation to the DC Plan. Employers contribute 4.12% of compensation on each participant's behalf. Benefits grow with investment earnings and are distributed upon termination.

The objective of the DC plan is to provide a comparable benefit to the benefits provided under the North Dakota Public Employees Retirement System Defined Benefit Plan (DB Plan). In March 2010, Segal provided an analysis to evaluate whether or not the DC Plan is meeting that goal by comparing hypothetical benefit amounts under both plans. The purpose of this letter is to update that analysis using demographic data as of June 30, 2010 and asset information as of August 16, 2010.

Methodology/Assumptions

The March 2010 analysis was based upon individual data for 240 participants. The June 30, 2010 demographic data shows there have been three terminations and four new members resulting in 241 active members. The August 2010 data includes asset information for those 241 participants. This analysis is based upon the data for those 241 participants. We projected each participant’s expected DC balance to their assumed retirement age. This amount was annuitized and compared to the PERS DB benefit that the participant would have received had they been a member of that program. This yielded a DC/DB percentage for each participant. For illustrative purposes, we

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then varied the employer and employee contribution rates to the DC Plan as detailed in the assumptions below.

The assumptions we used for this analysis are:

- Employer contributions: 4.12% of annual pay
- Employee contributions: 4.00% of annual pay
- For illustrative pusposes, we also ran scenarios that assume total contributions of 16.50% and 20.00% of annual pay
- Retirement is assumed to occur at the earlier of age 65 or eligibility for the Rule of 85
- Salary increases: Same as the assumption adopted by the Board for the July 1, 2010 actuarial valuation
- DC balance rate of return: 8.00%* per year
- Conversion of DC account balance at retirement to annuity: 5% interest / 1994 GAM mortality**

* *The 8% return assumption was recommended by PERS. Please keep in mind that there are studies that indicate that individually managed DC accounts earn less than 8%.*

** *This assumption is intended to approximate the annuity that could be purchased by a retiring DC member from an insurance company. The 5% interest rate is for illustrative purposes only and is likely higher than what is currently available from an insurance company.*

Note that while the demographic data used in this analysis is as of June 30, 2010, the account balances of the 241 members are as of August 16, 2010 to reflect the latest information available.

Results

- Exhibit I: Shows the age and service of the 241 active members included in this analysis.
- Exhibit II: Shows a distribution of the 241 members by age and account balance.
- Exhibit III: Shows the comparison of the DC and DB benefits by age under the current contribution rate of 8.12%.
- Exhibit IV: Shows the comparison of the DC and DB benefits by age under contribution rates of 8.12%, 16.50% and 20.00%.

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- Exhibit V: Shows the comparison of the DC and DB benefits by service under the current contribution rate of 8.12%.

- Exhibit VI: Shows the comparison of the DC and DB benefits by service under contribution rates of 8.12%, 16.50% and 20.00%.

The results are summarized below:

	Future Contribution Rate		
	Current Plan		
Ratio of DC to DB	8.12%	16.50%	20.00%
Less than 50%	227	59	39
50% - 75%	10	129	107
75% - 100%	3	51	71
100% and Over	1	2	24
Total	241	241	241

Conclusions

The DB Plan and the DC Plan are fundamentally different, and as a result, it is difficult to compare the value of one type of benefit to the other. The DC Plan, for example, is more portable than the DB Plan, and it is difficult to quantify the value of that feature. However, when comparing the retirement income that the ND PERS DC Plan is projected to provide current members versus that which the ND PERS DB Plan would provide, this analysis shows that the majority of the current, active DC Plan members would receive significantly less retirement income under the DC Plan than they would under the DB Plan without an increase in the contribution rate or significant future favorable investment experience above the assumed 8% per annum.

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

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These calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

Sincerely,

Brad Ramirez

KS/kek
Enclosures

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Exhibit I

Census of DC Plan Members in Active Service on July 1, 2010
by Attained Age and Years of Service

		Years of Service							
Attained Age	Totals	Under 5	5-9	10-14	15-19	20-24	25-29	30-34	35-39
Totals	241	42	60	74	31	18	8	5	3
20-29	7	7	-	-	-	-	-	-	-
30-34	14	7	5	2	-	-	-	-	-
35-39	37	5	15	14	3	-	-	-	-
40-44	58	6	13	24	13	2	-	-	-
45-49	37	6	10	7	4	8	2	-	-
50-54	48	7	6	18	5	7	1	4	-
55-59	22	1	7	7	2	1	2	1	1
60-64	13	3	2	2	3	-	2	-	1
65 & Over	5	-	2	-	1	-	1	-	1

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Exhibit II

Census of DC Plan Members in Active Service on July 1, 2010
by Attained Age and Account Balance on August 16, 2010

	Totals	Less than $20,000	$20,000-$39,999	$40,000-$59,999	$60,000-$79,999	$80,000-$99,999	$100,000-$149,999	$150,000-$199,999	$200,000-& Over
Totals	241	36	64	61	36	12	15	9	8
20-29	7	7	-	-	-	-	-	-	-
30-34	14	7	7	-	-	-	-	-	-
35-39	37	9	18	8	2	-	-	-	-
40-44	58	7	13	22	12	-	4	-	-
45-49	37	4	8	11	7	2	5	-	-
50-54	48	1	12	10	8	7	4	5	1
55-59	22	-	5	6	3	1	1	2	4
60-64	13	1	-	3	4	1	1	1	2
65 & Over	5	-	1	1	-	1	-	1	1

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Exhibit III
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Attained Age as of July 1, 2010
With 8.12% Future Contribution Rate

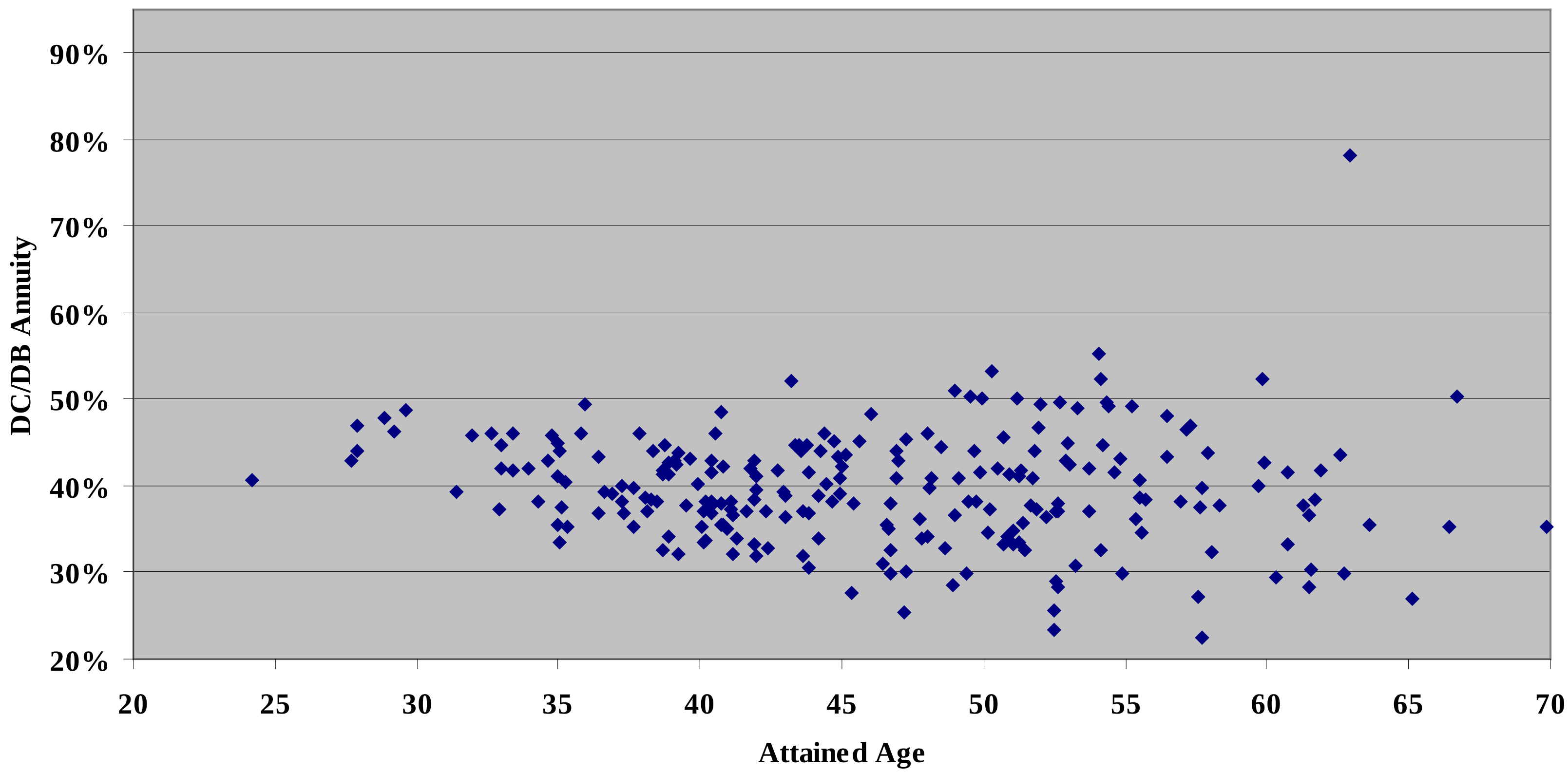


Exhibit IV
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Attained Age as of July 1, 2010

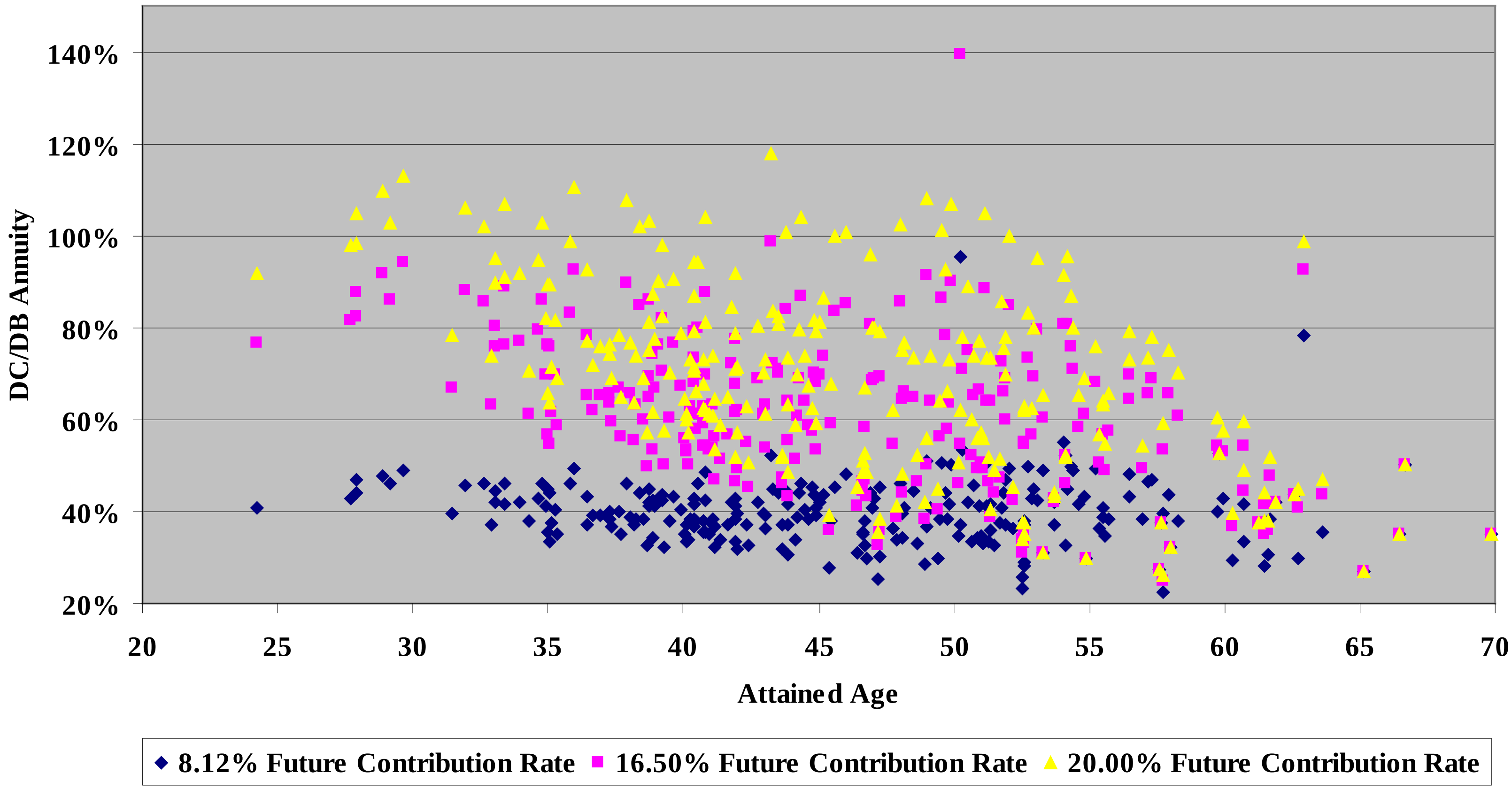


Exhibit V
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Years of Service as of July 1, 2010
With 8.12% Future Contribution Rate

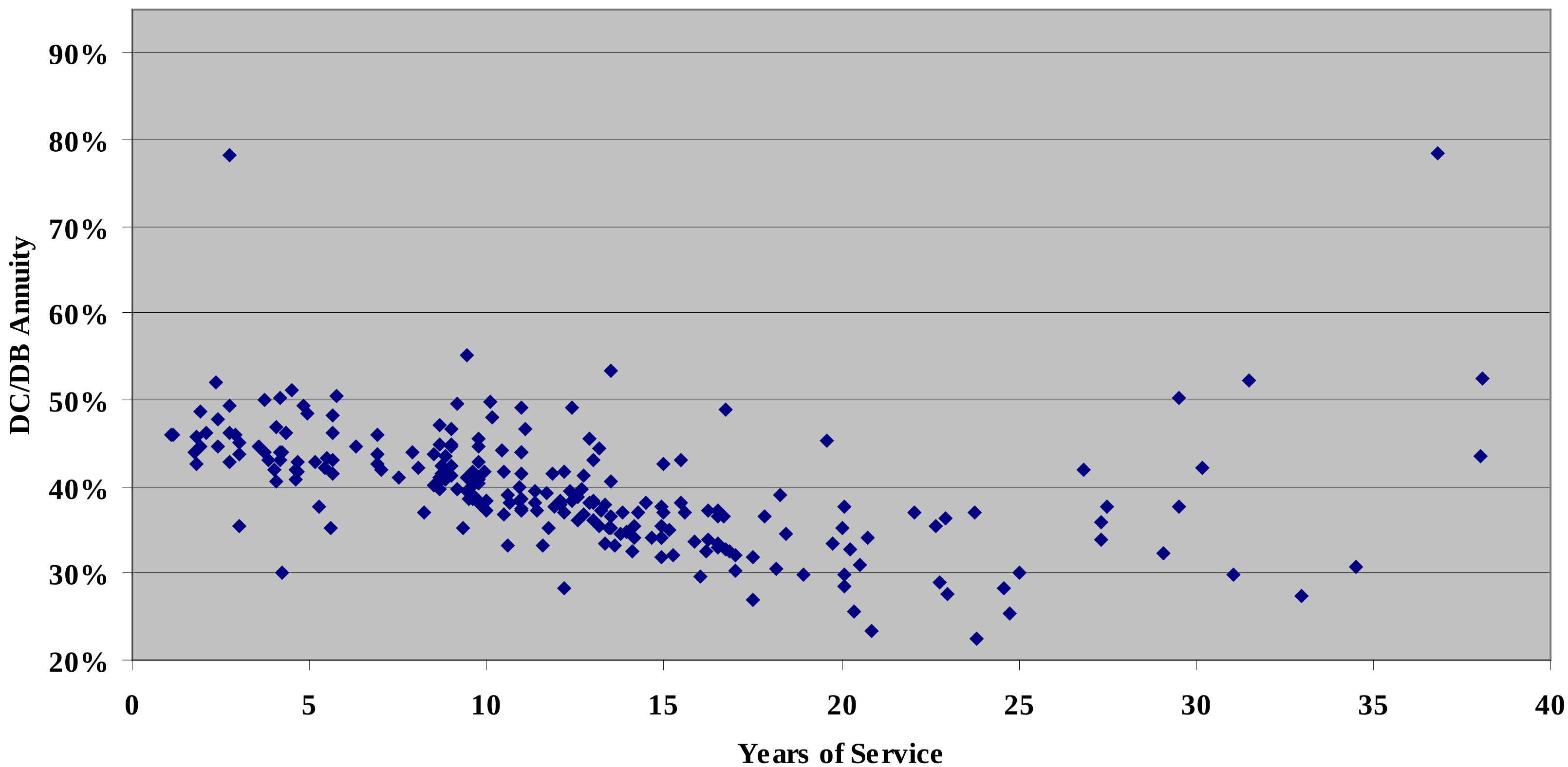
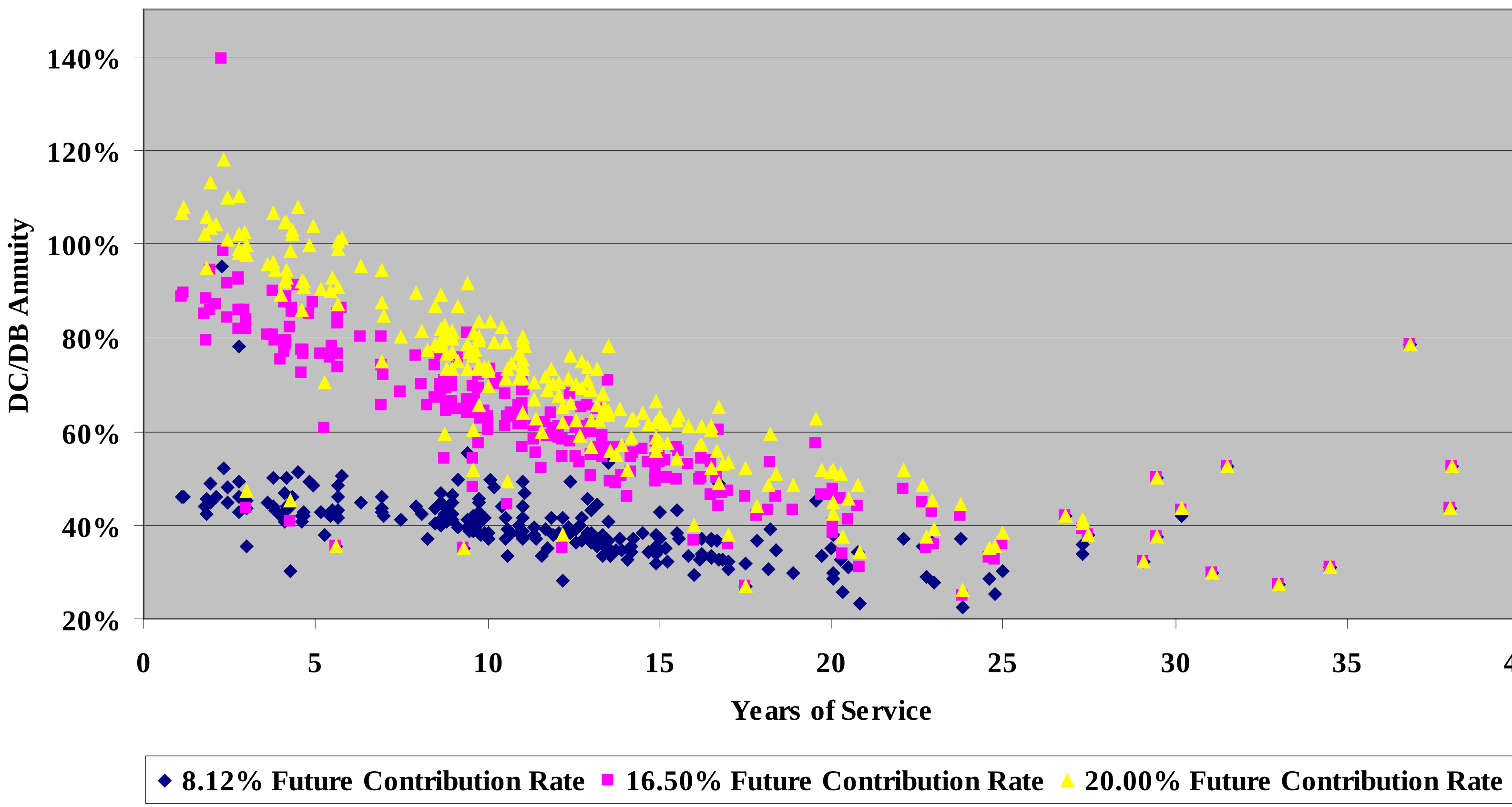


Exhibit VI
Ratio of Projected DC Account (Converted to an Annuity) to DB Benefit
by Years of Service as of July 1, 2010



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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: Legislation

Attached are the Technical Reviews for our proposed legislation. The reviews for the other bills that we submitted by legislators will be in the October Board book.

Retirement Bills - PERS

Attachment #1 is the technical reviews for our retirement legislation. Our bills include the following:

LC Bill Number	Sponsor	Bill Summary
10051.0100	PERS	A BILL for an Act to amend and reenact sections 39-03.1-09, 54-52-02.9, 54-52-05, 54-52-06.1, and 54-52-06.3, subsection 6 of section 54-52.6-02, and section 54-52.6-09 of the North Dakota Century Code, relating to increased employee contributions under the highway patrolmen's retirement plan and public employees retirement system.
10052.0100	PERS	A BILL for an Act to amend and reenact sections 39-03.1-10, 54-52-02.9, 54-52-06, and 54-52-06.1, subsection 6 of section 54-52.6-02, and section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and temporary employee contributions under the highway patrolmen's retirement plan and public employees retirement system.
10053.0100	PERS	A BILL for an Act to amend and reenact sections 39-03.1-09, 39-03.1-10, 54-52-02.9, 54-52-05, 54-52-06, 54-52-06.1, and 54-52-06.3, subsection 6 of section 54-52.6-02, and section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the highway patrolmen's retirement plan and public employees retirement system.
10059.0100	PERS	A BILL for an Act to amend and reenact section 15-10-17, Subsection 6 of Section 39-03.1-11, Subsection 1 of Section 39-03.1-11.2, 39-03.1-14.1, 54-52-03, Subsections 3 and 6 of Section 54-52-17, 54-52-27, 54-52-28, Subsection 3 of Section 54-52.1-03 and Subsection 3 of Section 54-52.6-09 of the North Dakota Century Code, relating to special annuity purchases in the alternate retirement program for university system employees, surviving spouse payment options under the highway patrolmen's retirement plan, calculation of member service credit under the highway patrolmen's retirement plan, election of members to public employees retirement system board, calculation of normal retirement date for a peace officer or correctional officer under the public employees retirement system, payment of member account balance under the public employees retirement system, purchase of sick leave credit under public employees retirement system, spousal election to participate in uniform group insurance program, reporting of employer pick-ups under the defined contribution retirement plan, and Internal Revenue Code compliance under the highway patrolmen's retirement plan and public employees retirement system.

The technical review for Bill numbers 51 and 53 note that we did not include an increase for the BCI employees in the law enforcement plan as we did with the others. In reviewing this, we note this was an oversight and therefore that should be added to keep them at the same level as the other law enforcement members.

Concerning Bill 59, we would suggest adding to this bill the changes that we discussed at a previous meeting concerning our request for a letter determination from the IRS. Specifically, as Aaron has discussed, the IRS reviewer has requested the following for the HP plan:

SECTION 1. AMENDMENT. Section 39-03.1-11.2 of the North Dakota Century Code is amended and reenacted as follows:

39-03.1-11.2. Internal Revenue Code compliance.

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

~~2.~~ 1. The defined benefit dollar limitation under section 415(b)(1)(A) of the Internal Revenue Code.

a. The defined benefit dollar limitation under section 415(b)(1)(A) of the Internal Revenue Code, as approved by the legislative assembly, must be adjusted under section 415(d) of the Internal Revenue Code, effective January first of each year following a regular legislative session. The adjustment of the defined benefit dollar limitation under section 415(d) applies to participating members who have had a separation from employment, but that member's benefit payments may not reflect the adjusted limit prior to January first of the calendar year in which the adjustment applies.

~~3.~~ b. If a participating member's benefit is increased by plan amendment after the commencement of benefit payments, the member's annual benefit may not exceed the defined benefit dollar limitation under section 415(b)(1)(A) of the Internal Revenue Code, as adjusted under section 415(d) for the calendar year in which the increased benefit is payable.

~~4.~~ c. If a participating member is, or ever has been, a participant in another defined benefit plan maintained by the employer, the sum of the participant's annual benefits from all the plans may not exceed the defined benefit dollar limitation under section 415(b)(1)(A) of the Internal Revenue Code. If the participating member's employer-provided benefits under all such defined benefit plans would exceed the defined benefit dollar limitation, the benefit must be reduced to comply with section 415 of the Internal Revenue Code. The reduction must be made pro rata between the plans, in proportion to the participating member's service in each plan.

2. The minimum distribution rules under section 401(a)(9) of the Internal Revenue Code, including the incidental death benefit requirements under section 401(a)(9)(G), and the regulations issued thereunder to the extent applicable to governmental plans. Accordingly, benefits shall be distributed or begin to be distributed no later than a member's required beginning date, and such required minimum distribution rules shall override any inconsistent provisions of this Chapter. A member's required beginning date is April 1 of the calendar year following the later of the calendar year in which the member attains age seventy and one-half or terminates employment.

3. The annual compensation limitation under section 401(a)(17) of the Internal Revenue Code, as adjusted for cost-of-living increases under section 401(a)(17)(B).

We would also suggest making the above changes to the PERS plan as well. To accommodate this request we are proposing that we amend our Bill #59.

At the last meeting I mentioned that we should consider removing from the PERS retirement statute the option for new political subdivisions to join PERS. Since our existing contributions do not cover our normal cost, each time a political subdivision joins it increases our funding challenge. Therefore, I am suggesting that we propose an amendment to our bill removing this option for new political subdivisions and when our contributions cover our normal cost, we can propose adding again.

Staff Recommendation

1. Amend Bill #51 and Bill #53 to add the employee contribution increase for BCI.
2. Amend Bill #59 to accommodate the IRS request.
3. Approve requesting an amendment to not allow new political subdivisions to join the PERS retirement plan.

Retirement Bills – Submitted by Legislators

The following are those bills that have been submitted by legislators.

10080.0200	Rep. Wald	A BILL for an Act to amend and reenact sections 39-03.1-02 and 39-03.1-07, subsection 4 of section 54-52-01, and sections 54-52-02.3, 54-52-02.5, 54-52-02.9, 54-52.6-01, 54-52.6-02, and 54-52.6-09 of the North Dakota Century Code, relating to a defined contribution retirement plan for state employees; and to provide a penalty.

The technical and actuarial review of this bill will be available at the next meeting. It will be reviewed with the LEBC committee at the next meeting. Essentially, this bill provides the following:

The proposed legislation would close participation in PERS Hybrid Plan (including Main, Judges, Law Enforcement and National Guard) and in HPRS, which are defined benefit (DB) plans to new State employees first hired (or elected/appointed for judges) after July 31, 2011. New State employees would participate in the Defined Contribution (DC) Plan.

- *New employees of political subdivisions would still be eligible to participate in the Hybrid Plan. Currently, political subdivisions represent approximately 47% of the active population of the Main System.*

- *Temporary State employees hired after July 31, 2011 would only be able to elect to participate in the Defined Contribution Plan.*

- *Contribution rates for new State employees in the Defined Contribution Plan would be the same contribution rate as statutorily required under* the defined benefit plans applicable to the appropriate employee group.

At this point staff has identified the following issues (Attachment #2) with the Bill and would suggest that we discuss them with the LEBC at the next meeting and share with them committee along with our suggestions.

Staff Recommendation

That PERS share with LEBC Attachment #2.

SEGAL

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September 13, 2010

Representative Bette Grande, Chair
Legislative Employee Benefits Committee
State Capital
600 East Boulevard
Bismarck, ND 58505-0360

Re: **Technical Comments – Bill Draft No. 10051.0100**

Dear Representative Grande:

The following presents our analysis of the proposed changes found in Bill Draft No. 10051.0100:

Systems Affected: North Dakota Public Employees Retirement System (PERS) Hybrid Plan, Defined Contribution Plan and Highway Patrolmen's Retirement System (HPRS)

Summary: The proposed legislation would increase the member contribution rate mandated by statute in the HPRS, Hybrid Plan (Main and Judges only) and Defined Contribution Plan by 2% of the member's monthly salary beginning January 2012, plus an additional 2% increase in member contribution rates each calendar year thereafter through January 2015. The member contributions for peace officers and correctional officers in the Hybrid Plan employed by political subdivisions would increase 1%, instead of 2%, over the same time period. The challenges facing the PERS system are shown in the following graph:

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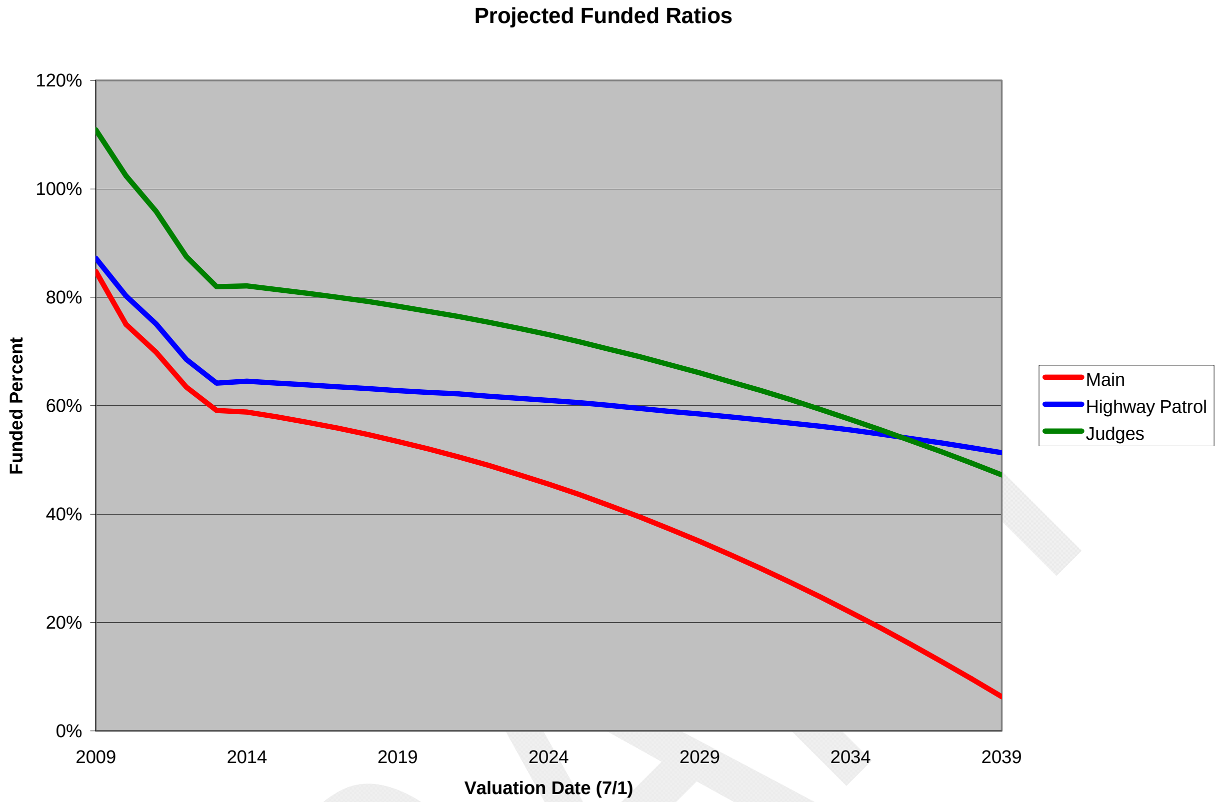

Actuarial Cost Analysis: This bill would not have an actuarial impact on the liabilities of either the Hybrid Plan and Highway Patrolmen's Retirement System. Exhibits I and II show the current funding level and how the current funding levels would be positively affected by this increased contribution rate.

As of July 1, 2009, the Main plan had a funding deficit of 3.62% of covered payroll based upon a 20-year open amortization method. This means the statutory contributions are less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the Main plan will become insolvent in approximately 2040. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the Main plan would no longer be expected to become insolvent in the next 30 years under the assumed 8.0% investment return scenarios.

As of July 1, 2009, the HPRS plan had a funding deficit of 2.03% of covered payroll based upon a 20-year open amortization method. This means that the amount of statutory contributions is less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the HPRS plan will not become insolvent in the next 30 years but the funding ratio will drop from 87% to 51%. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the HPRS plan would have a drop in the funded ratio from 87% to 81% over the next 30 years under the assumed 8.0% investment return scenarios.

Exhibits I, II, and the following charts illustrate the results of these projections.

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

General

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

Benefits Policy Issues

- Adequacy of Retirement Benefits

  No impact on the defined benefit plans. The additional contributions to the DC plan will provide additional retirement income.

- Benefits Equity and Group Integrity

  To the extent increased member contributions reduce the take-home pay of members, this bill may create salary inequity between peace officers/correctional officers employed by political subdivisions (1% annual increase) and other employees of political subdivisions (2% annual increase). Note that the Bill does not increase the contribution requirement for peace officers/correctional officers employed by the State Bureau of Criminal Investigation nor does it increase it for National Guard security officers or firefighters.

- Competitiveness

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

- Purchasing Power Retention

  No impact.

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- Preservation of Benefits

  Increased funding to the Systems in the form of additional member contributions provides additional funds to pay down the unfunded actuarial accrued liability of the Systems at a faster rate. This in turn will free up additional funds that may be used to increase retirement and/or post-retirement benefits in future years. By setting up this additional funding mechanism it will help preserve the value of benefits from the Systems for several years.

- Portability

  The additional employee contributions would be fully portable as are the existing member contributions.

- Ancillary Benefits

  - No impact.

  - Social Security: No impact.

Funding Policy Issues

- Actuarial Impacts

  As previously noted, the bill will have a positive impact on the funding levels of the Hybrid Plan and the HPRS.

- Investment Impacts

  - *Cash Flow*: The bill would have a substantial, positive impact on cash flow.

  - *Asset Allocation:* The bill does not create new investment asset allocation issues.

Administration Issues

- Implementation Issues

  While this bill would have minimal impact on administrative costs of the PERS, it would have an effect on the members of the Systems, since their required contributions would increase substantially.

- Administrative Costs

  No impact.

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- Needed Authority

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

- Integration

No impact.

- Employee Communications

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

- Miscellaneous and Drafting Issues

It is our understanding that the State of North Dakota currently pays member contributions via pick-up arrangement pursuant to Internal Revenue Code section 414(h), so that members' salary is not reduced for the payment of required member contributions. This is known as a noncontributory approach for payment of member contributions to a defined benefit plan, which results in member contributions being made to the Systems on a pre-tax basis. In this way, member contributions are designated as employer contributions under federal income tax rules, and therefore are not subject to FICA taxes. Other participating employers in the Systems are permitted to elect to make member contributions using the same noncontributory approach, or may make member contributions by reducing members' salary (known as a contributory approach). Member contributions made from salary reductions are subject to FICA taxes. While the State's noncontributory approach may have been an acceptable method for paying member contributions not subject to FICA taxes at the time it was implemented, more recent IRS guidance on employer pick up of member contributions appears to make it more difficult for employers to pay member contributions in a manner that is not subject to FICA taxes.

The IRS addressed the treatment of pick up contributions for FICA tax purposes in CCA 200714018. In this guidance, the IRS explained that pick up contributions would not be subject to FICA only if paid by the employer as a "salary supplement" in a manner that does not reduce current salary or offset future salary increases. Since this bill would increase the member contribution rate, the participating employers would need to determine whether they can pay for the increased member contributions from their own funds as a salary supplement or would reduce members' current or future salary. Any participating employer that decides to reduce members' salary to pay for the increased level of member contributions must begin paying and reporting FICA taxes on the salary reduction amount. Such decision may create a two-tiered member contribution methodology whereby the current rate of member contributions is not subject to FICA taxes, but the increased member contribution amount (e.g., 2% of pay) is subject to FICA taxes. This two-tiered methodology would add to the administrative burden of participating employers and the PERS.

The projections were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2009 and asset returns through July 1, 2010 and use assumptions adopted by the Board for the July 1, 2010 valuation. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

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

Please call if you have any questions or comments.

Sincerely,

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

/cz

Attachments

5099475V1/01640.004

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Exhibit I
Current Contribution Levels
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

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	Main	Highway Patrol	Judges
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	63%	69%	88%
07/01/2013	59%	64%	82%
07/01/2014	59%	65%	82%
07/01/2015	58%	64%	81%
07/01/2016	57%	64%	81%
07/01/2017	56%	63%	80%
07/01/2018	55%	63%	79%
07/01/2019	53%	63%	78%
07/01/2020	52%	62%	77%
07/01/2021	51%	62%	76%
07/01/2022	49%	62%	75%
07/01/2023	47%	61%	74%
07/01/2024	46%	61%	73%
07/01/2025	44%	61%	72%
07/01/2026	42%	60%	70%
07/01/2027	40%	60%	69%
07/01/2028	37%	59%	68%
07/01/2029	35%	58%	66%
07/01/2030	33%	58%	64%
07/01/2031	30%	57%	63%
07/01/2032	27%	57%	61%
07/01/2033	25%	56%	59%
07/01/2034	22%	56%	57%
07/01/2035	19%	55%	55%
07/01/2036	16%	54%	54%
07/01/2037	13%	53%	52%
07/01/2038	10%	52%	49%
07/01/2039	6%	51%	47%

Exhibit II
Bill 51 – 2% additional member contributions
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

	Main	Highway Patrol	Judges
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	64%	69%	88%
07/01/2013	60%	65%	83%
07/01/2014	62%	65%	84%
07/01/2015	63%	66%	84%
07/01/2016	64%	66%	85%
07/01/2017	65%	67%	86%
07/01/2018	66%	67%	86%
07/01/2019	67%	68%	87%
07/01/2020	68%	69%	88%
07/01/2021	69%	69%	88%
07/01/2022	70%	70%	89%
07/01/2023	71%	70%	90%
07/01/2024	72%	71%	90%
07/01/2025	73%	72%	91%
07/01/2026	74%	72%	92%
07/01/2027	75%	73%	93%
07/01/2028	76%	73%	93%
07/01/2029	78%	74%	94%
07/01/2030	79%	74%	95%
07/01/2031	80%	75%	96%
07/01/2032	81%	76%	96%
07/01/2033	83%	77%	97%
07/01/2034	84%	77%	98%
07/01/2035	85%	78%	99%
07/01/2036	87%	79%	100%
07/01/2037	88%	80%	101%
07/01/2038	90%	80%	102%
07/01/2039	92%	81%	103%

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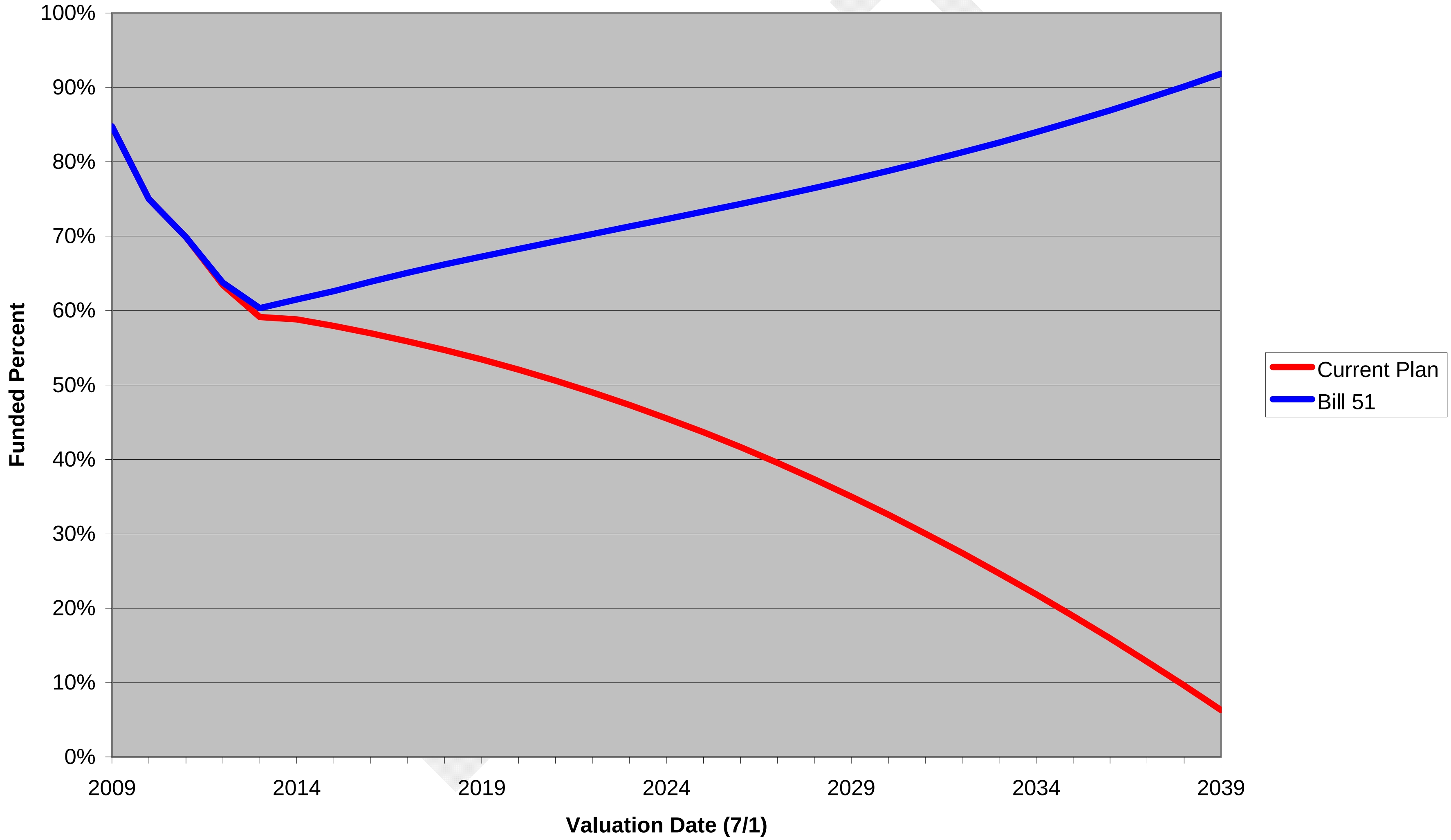
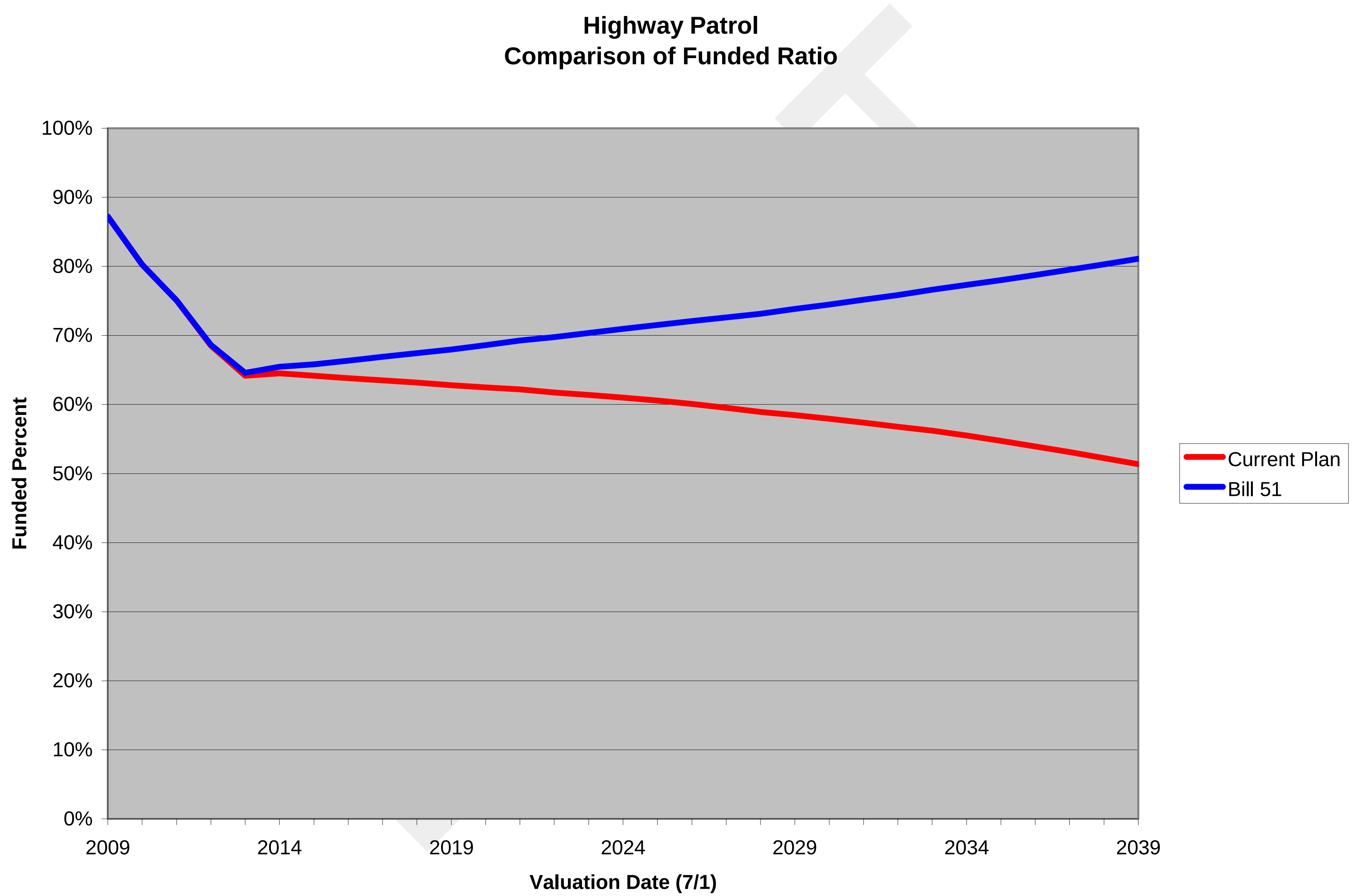
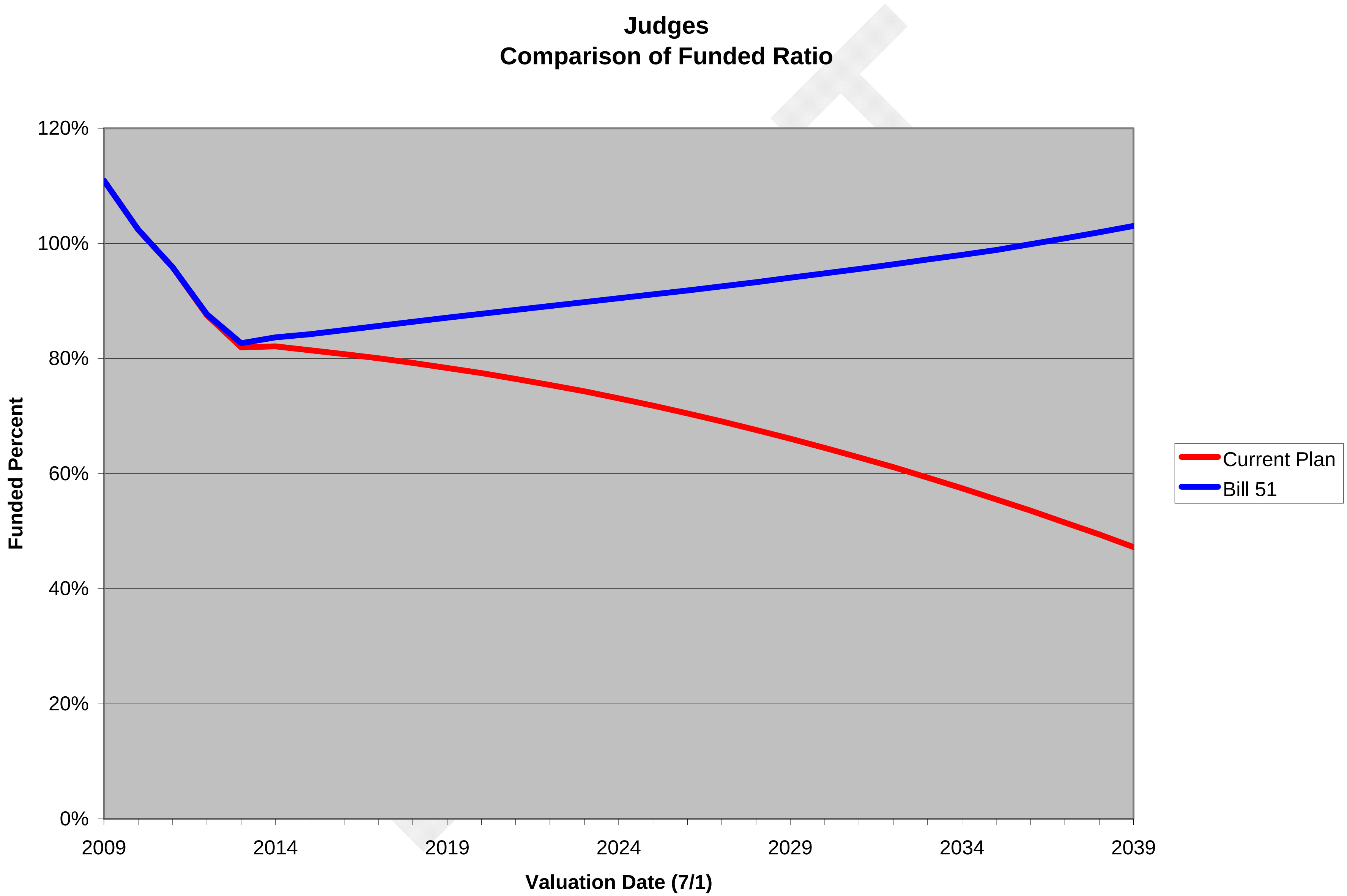
PERS (Main System)
Comparison of Funded Ratio




Highway Patrol
Comparison of Funded Ratio
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 51


Judges
Comparison of Funded Ratio
120%
100%
80%
60%
40%
20%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 51

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September 13, 2010

Representative Better Grande, Chair
Legislative Employee Benefits Committee
State Capital
600 East Boulevard
Bismarck, ND 58505-0360

Re: **Technical Comments – Bill Draft No. 10052.0100**

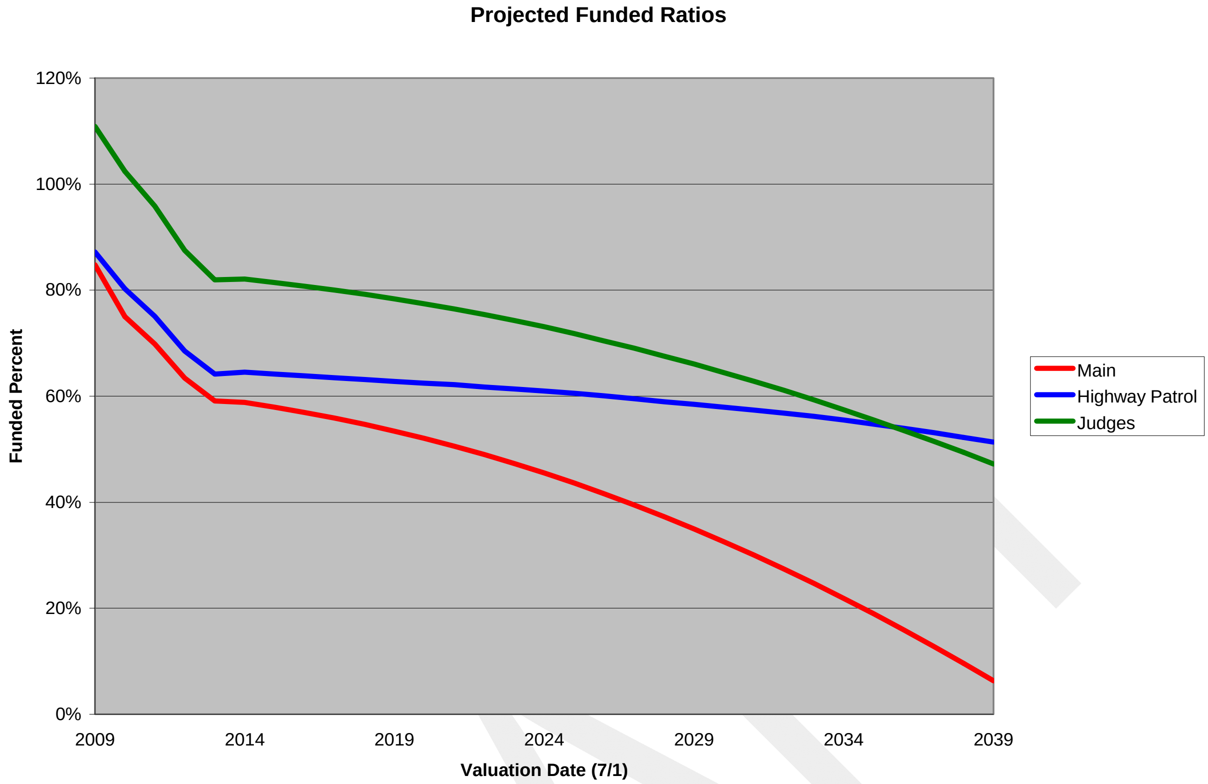
Dear Representative Grande:

The following presents our analysis of the proposed changes found in Bill Draft No. 10052.0100:

Systems Affected: North Dakota Public Employees Retirement System (PERS) Hybrid Plan, Defined Contribution Plan and Highway Patrolmen's Retirement System (HPRS)

Summary: The proposed legislation would increase the employer contribution rate mandated by statute in the HPRS, Hybrid Plan (Main and Judges only) and Defined Contribution Plan by 2% of the member's monthly salary beginning January 2012, plus an additional 2% increase in employer contribution rates each calendar year thereafter through January 2015. The board sets the rate for the law enforcement plans and has indicated that it would increase those rates in a manner consistent with the statutory rate changes.

In addition, the proposed legislation would increase the member contribution rate mandated by statute only for temporary employees in the Hybrid Plan and Defined Contribution Plan by 2% of the member's monthly salary beginning January 2012, plus an additional 2% increase in member contribution rates each calendar year thereafter through January 2015. The challenges facing the PERS system are shown in the following graph:



Actuarial Cost Analysis: This bill would not have an actuarial impact on the liabilities of either the Hybrid Plan and Highway Patrolmen's Retirement System. Exhibits I and II show the current funding level and how the current funding levels would be positively affected by this increased contribution rate

As of July 1, 2009, the Main plan had a funding deficit of 3.62% of covered payroll based upon a 20-year open amortization method. This means the statutory contributions are less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the Main plan will become insolvent in approximately 2040. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the Main plan would no longer be expected to become insolvent in the next 30 years under the assumed 8.0% investment return scenarios.

As of July 1, 2009, the HPRS plan had a funding deficit of 2.03% of covered payroll based upon a 20-year open amortization method. This means that the amount of statutory contributions is less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the HPRS plan will not become insolvent in the next 30 years but the funding ratio will drop from 87% to 51%. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the HPRS plan would have a drop in the funded ratio from 87% to 81% over the next 30 years under the assumed 8.0% investment return scenarios.

This bill would also increase the employer contributions for the judges retirement plan. The employer contributions for the law enforcement plans and national guard plans are set by the PERS Board and they have indicated that those contributions will rise as well based upon the legislative action for the other systems.

Exhibits I, II, and the following charts illustrate the results of these projections.

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

General

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

Benefits Policy Issues

- Adequacy of Retirement Benefits

  No impact on the defined benefit plans. The additional contributions to the DC plan will provide additional retirement income.

- Benefits Equity and Group Integrity

  No impact.

- Competitiveness

  No impact.

- Purchasing Power Retention

  No impact.

- Preservation of Benefits

Increased funding to the Systems in the form of additional employer and member contributions by temporary employees provides additional funds to pay down the unfunded actuarial accrued liability of the Systems at a faster rate. This in turn will free up additional funds that may be used to increase retirement and/or post-retirement benefits in future years. By setting up this additional funding mechanism it will help preserve the value of benefits from the Systems for several years.

- Portability

No impact.

- Ancillary Benefits

  - No impact.
  - Social Security: No impact.

Funding Policy Issues

- Actuarial Impacts

As previously noted, the bill will have an actuarial impact on the Hybrid Plan and the HPRS.

- Investment Impacts

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

Administration Issues

- Implementation Issues

While this bill would have minimal impact on administrative costs of the PERS, it would have an effect on the participating employers and temporary employees, since their required contributions would increase substantially.

- Administrative Costs

No impact.

- Needed Authority

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

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➤ Integration

No impact.

➤ Employee Communications

Communications to temporary employees will be necessary to describe the impact of increased member contributions on their pay.

➤ Miscellaneous and Drafting Issues

This bill does not present any drafting issues.

The projections were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2009 and asset returns through July 1, 2010 and use assumptions adopted by the Board for the July 1, 2010 valuation. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

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

Please call if you have any questions or comments.

Sincerely,

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

/cz

Attachments

DRAFT

Exhibit I
Current Contribution Levels
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

	Main	Highway Patrol	Judges
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	63%	69%	88%
07/01/2013	59%	64%	82%
07/01/2014	59%	65%	82%
07/01/2015	58%	64%	81%
07/01/2016	57%	64%	81%
07/01/2017	56%	63%	80%
07/01/2018	55%	63%	79%
07/01/2019	53%	63%	78%
07/01/2020	52%	62%	77%
07/01/2021	51%	62%	76%
07/01/2022	49%	62%	75%
07/01/2023	47%	61%	74%
07/01/2024	46%	61%	73%
07/01/2025	44%	61%	72%
07/01/2026	42%	60%	70%
07/01/2027	40%	60%	69%
07/01/2028	37%	59%	68%
07/01/2029	35%	58%	66%
07/01/2030	33%	58%	64%
07/01/2031	30%	57%	63%
07/01/2032	27%	57%	61%
07/01/2033	25%	56%	59%
07/01/2034	22%	56%	57%
07/01/2035	19%	55%	55%
07/01/2036	16%	54%	54%
07/01/2037	13%	53%	52%
07/01/2038	10%	52%	49%
07/01/2039	6%	51%	47%

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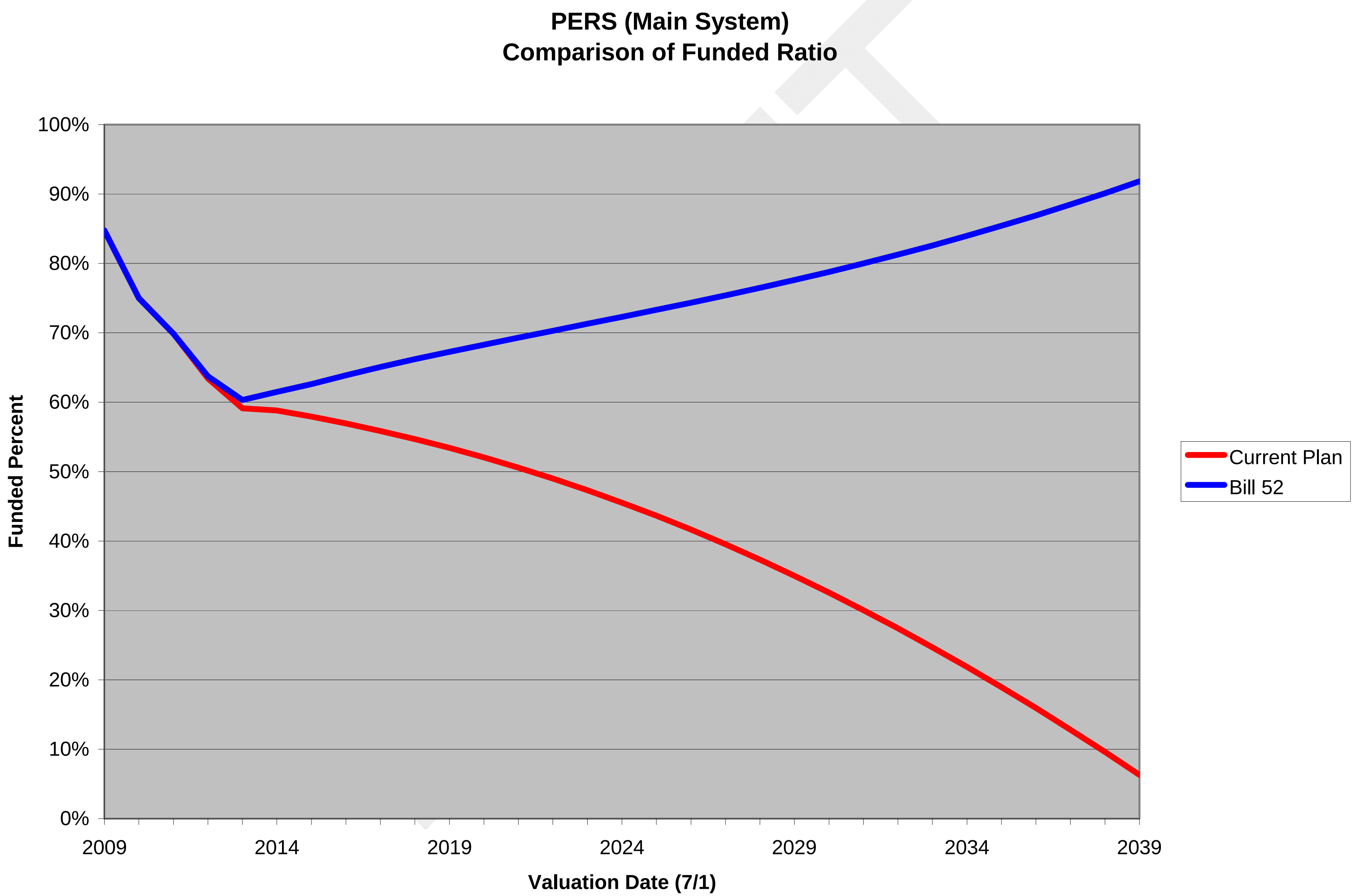
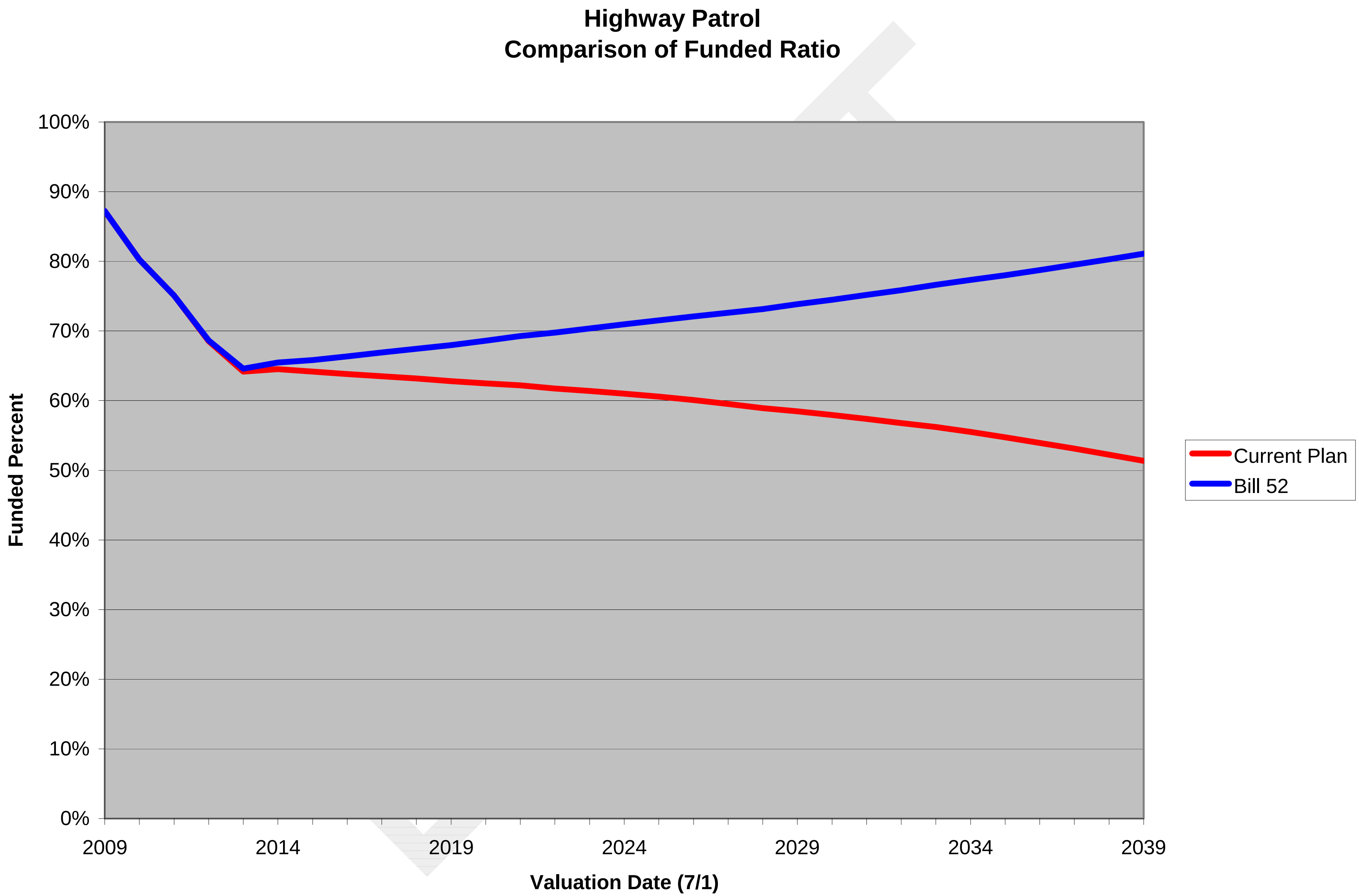
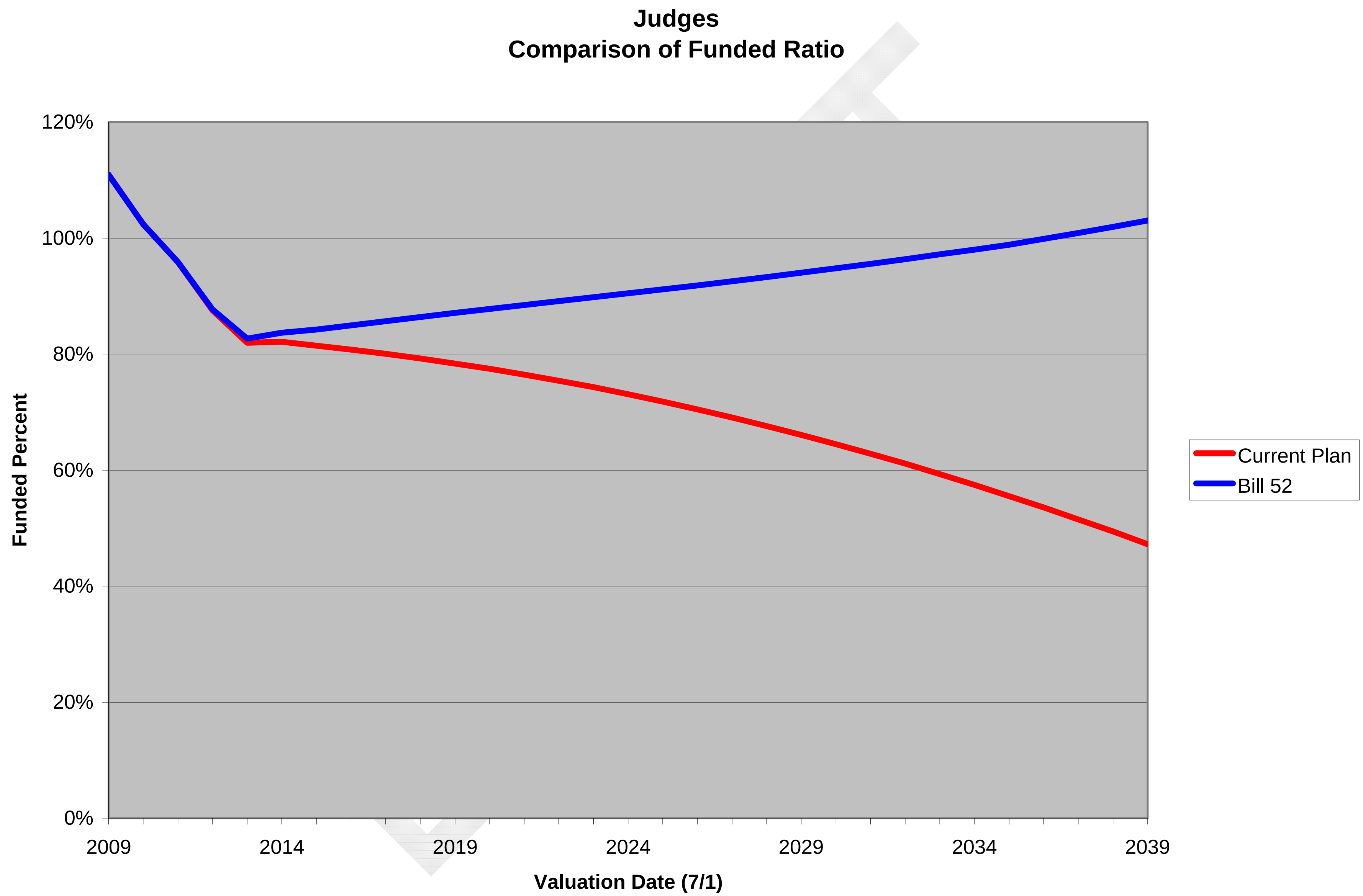
Exhibit II
Bill 52 – 2% additional employer contributions
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

DRAFT

	Main	**Highway Patrol**	**Judges**
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	64%	69%	88%
07/01/2013	60%	65%	83%
07/01/2014	62%	65%	84%
07/01/2015	63%	66%	84%
07/01/2016	64%	66%	85%
07/01/2017	65%	67%	86%
07/01/2018	66%	67%	86%
07/01/2019	67%	68%	87%
07/01/2020	68%	69%	88%
07/01/2021	69%	69%	88%
07/01/2022	70%	70%	89%
07/01/2023	71%	70%	90%
07/01/2024	72%	71%	90%
07/01/2025	73%	72%	91%
07/01/2026	74%	72%	92%
07/01/2027	75%	73%	93%
07/01/2028	76%	73%	93%
07/01/2029	78%	74%	94%
07/01/2030	79%	74%	95%
07/01/2031	80%	75%	96%
07/01/2032	81%	76%	96%
07/01/2033	83%	77%	97%
07/01/2034	84%	77%	98%
07/01/2035	85%	78%	99%
07/01/2036	87%	79%	100%
07/01/2037	88%	80%	101%
07/01/2038	90%	80%	102%
07/01/2039	92%	81%	103%


PERS (Main System)
Comparison of Funded Ratio
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 52


Highway Patrol
Comparison of Funded Ratio
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 52


Judges
Comparison of Funded Ratio
120%
100%
80%
60%
40%
20%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 52

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September 13, 2010

Representative Bette Grande, Chair
Legislative Employee Benefits Committee
State Capital
600 East Boulevard
Bismarck, ND 58505-0360

Re: **Technical Comments – Bill Draft No. 10053.0100**

Dear Representative Grande:

The following presents our analysis of the proposed changes found in Bill Draft No. 10053.0100:

Systems Affected: North Dakota Public Employees Retirement System (PERS) Hybrid Plan, Defined Contribution Plan and Highway Patrolmen's Retirement System (HPRS)

Summary: The proposed legislation would increase both the employer contribution rates and the member contribution rates that are mandated by statute in the HPRS, Hybrid Plan (Main and Judges only) and Defined Contribution Plan by 1% of the member's monthly salary beginning January 2012, plus an additional 1% increase in both employer and member contribution rates each calendar year thereafter through January 2015. The Bill also would increase the member contribution rates for the following two groups:

- Peace officers and correctional officers in the Hybrid Plan employed by political subdivisions, for which the member contribution rate would increase by 0.5% annually, instead of 1%, over the same time period; and

- Temporary employees in the Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% annually, instead of 1%, over the same period.

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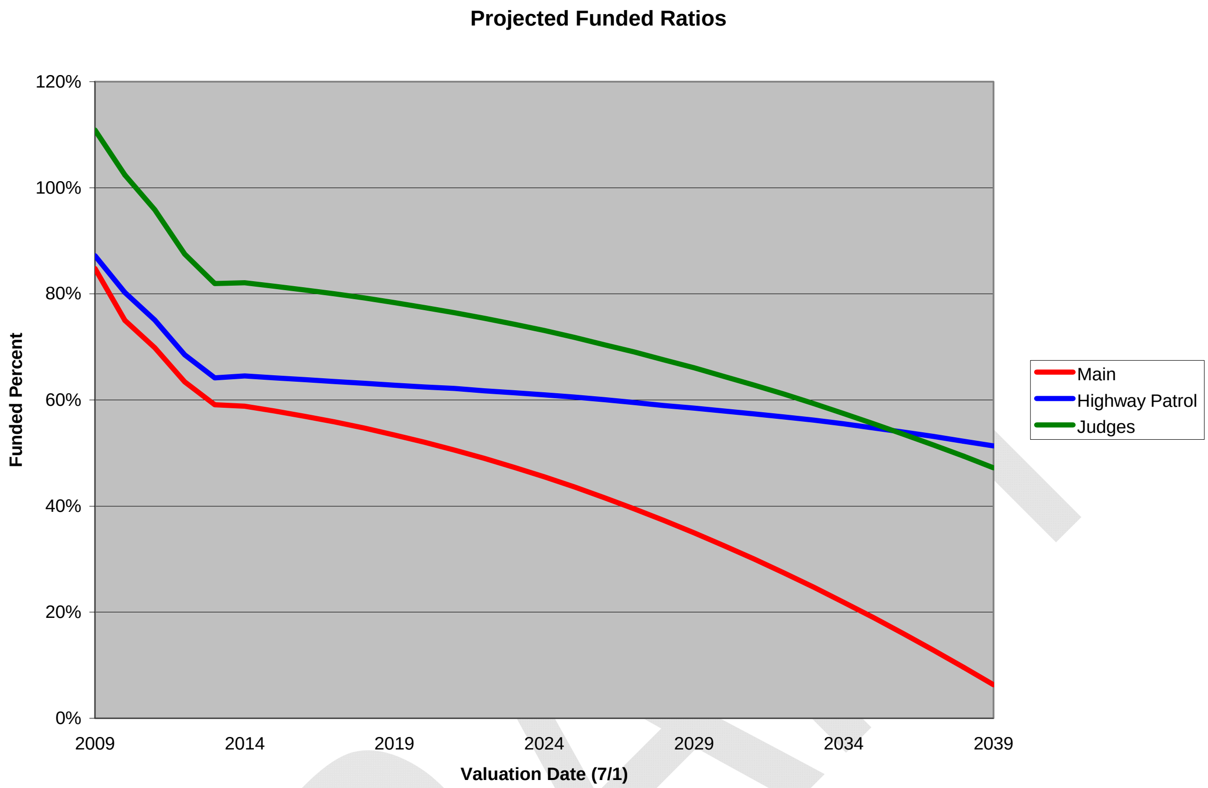

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Actuarial Cost Analysis: This bill would not have an actuarial impact on the liabilities of either the Hybrid Plan and Highway Patrolmen's Retirement System. Exhibits I and II show the current funding level and how the current funding levels would be positively affected by this increased contribution rate.

As of July 1, 2009, the Main plan had a funding deficit of 3.62% of covered payroll based upon a 20-year open amortization method. This means the statutory contributions are less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the Main plan will become insolvent in approximately 2040. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the Main plan would no longer be expected to become insolvent in the next 30 years under the assumed 8.0% investment return scenarios.

As of July 1, 2009, the HPRS plan had a funding deficit of 2.03% of covered payroll based upon a 20-year open amortization method. This means that the amount of statutory contributions is less than the actuarially required contributions by that amount. This deficit is projected to increase over the next few years as investment losses experienced in 2008 are recognized in the calculation of the Actuarial Value of Assets. Projections of future funded status have indicated that unless this gap is addressed, the HPRS plan will not become insolvent in the next 30 years but the funding ratio will drop from 87% to 51%. Increasing the member contributions by 8% over the period from January 2012 to January 2015 is projected to close this funding deficit. Furthermore, projections indicate that the HPRS plan would have a drop in the funded ratio from 87% to 81% over the next 30 years under the assumed 8.0% investment return scenarios.

This bill would also increase the employer contributions for the judges retirement plan. The employer contributions for the law enforcement plans and national guard plans are set by the PERS Board and they have indicated that those contributions will rise as well based upon the legislative action for the other systems.

Exhibits I, II, and the following charts illustrate the results of these projections.

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

General

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

Benefits Policy Issues

- Adequacy of Retirement Benefits

  No impact on the defined benefit plans. The additional contributions to the DC plan will provide additional retirement income.

- Benefits Equity and Group Integrity

  To the extent increased member contributions reduce the take-home pay of members, this bill may create salary inequity between peace officers/correctional officers employed by political subdivisions (0.5% annual increase) and other employees of political subdivisions (1% annual increase). Note that the Bill does not increase the contribution requirement for peace officers/correctional officers employed by the State Bureau of Criminal Investigation nor does it increase it for National Guard security officers or firefighters.

- Competitiveness

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

- Purchasing Power Retention

  No impact.

- Preservation of Benefits

  Increased funding to the Systems in the form of additional employer and member contributions provides additional funds to pay down the unfunded actuarial accrued liability of the Systems at a faster rate. This in turn will free up additional funds that may be used to increase retirement and/or post-retirement benefits in future years. By setting up this additional funding mechanism it will help preserve the value of benefits from the Systems for several years.

- Portability

  No impact.

- Ancillary Benefits

  - No impact.
  - Social Security: No impact.

Funding Policy Issues

- Actuarial Impacts

  As previously noted, the bill will have an actuarial impact on the Hybrid Plan and the HPRS.

- Investment Impacts

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

Administration Issues

- Implementation Issues

  While this bill would have minimal impact on administrative costs of the PERS, it would have an effect on the members and participating employers, since their required contributions would increase substantially.

- Administrative Costs

  No impact.

DRAFT

- Needed Authority

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

- Integration

No impact.

- Employee Communications

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

- Miscellaneous and Drafting Issues

It is our understanding that the State of North Dakota currently pays member contributions via pick-up arrangement pursuant to Internal Revenue Code section 414(h), so that members' salary is not reduced for the payment of required member contributions. This is known as a noncontributory approach for payment of member contributions to a defined benefit plan, which results in member contributions being made to the Systems on a pre-tax basis. In this way, member contributions are designated as employer contributions under federal income tax rules, and therefore are not subject to FICA taxes. Other participating employers in the Systems are permitted to elect to make member contributions using the same noncontributory approach, or may make member contributions by reducing members' salary (known as a contributory approach). Member contributions made from salary reductions are subject to FICA taxes. While the State's noncontributory approach may have been an acceptable method for paying member contributions not subject to FICA taxes at the time it was implemented, more recent IRS guidance on employer pick up of member contributions appears to make it more difficult for employers to pay member contributions in a manner than is not subject to FICA taxes.

The IRS addressed the treatment of pick up contributions for FICA tax purposes in CCA 200714018. In this guidance, the IRS explained that pick up contributions would not be subject to FICA only if paid by the employer as a "salary supplement" in a manner that does not reduce current salary or offset future salary increases. Since this bill would increase the member contribution rate, participating employers would need to determine whether they can pay for the increased member contributions from their own funds as a salary supplement or would reduce members' current or future salary, while also paying an increased employer contribution rate. Any participating employer that decides to reduce members' salary to pay for the increased level of member contributions must begin paying and reporting FICA taxes on the salary reduction amount. Such decision may create a two-tiered member contribution methodology whereby the current rate of member contributions is not subject to FICA taxes, but the increased member contribution amount (e.g., 2% of pay) is subject to FICA taxes. This two-tiered methodology would add to the administrative burden of participating employers and the PERS.

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The projections were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2009 and asset returns through July 1, 2010 and use assumptions adopted by the Board for the July 1, 2010 valuation. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

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

Please call if you have any questions or comments.

Sincerely,

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

/cz

Attachments

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Exhibit I
Current Contribution Levels
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

	Main	**Highway Patrol**	**Judges**
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	63%	69%	88%
07/01/2013	59%	64%	82%
07/01/2014	59%	65%	82%
07/01/2015	58%	64%	81%
07/01/2016	57%	64%	81%
07/01/2017	56%	63%	80%
07/01/2018	55%	63%	79%
07/01/2019	53%	63%	78%
07/01/2020	52%	62%	77%
07/01/2021	51%	62%	76%
07/01/2022	49%	62%	75%
07/01/2023	47%	61%	74%
07/01/2024	46%	61%	73%
07/01/2025	44%	61%	72%
07/01/2026	42%	60%	70%
07/01/2027	40%	60%	69%
07/01/2028	37%	59%	68%
07/01/2029	35%	58%	66%
07/01/2030	33%	58%	64%
07/01/2031	30%	57%	63%
07/01/2032	27%	57%	61%
07/01/2033	25%	56%	59%
07/01/2034	22%	56%	57%
07/01/2035	19%	55%	55%
07/01/2036	16%	54%	54%
07/01/2037	13%	53%	52%
07/01/2038	10%	52%	49%
07/01/2039	6%	51%	47%

DRAFT

Exhibit II
Bill 53 – 1% additional member & employer contributions
Projection of funding ratios by plan
Based on 7/1/2009 Valuation and estimated return for 2009/2010 and assumptions used in the 2010 valuation

	Main	Highway Patrol	Judges
07/01/2009	85%	87%	111%
07/01/2010	75%	80%	102%
07/01/2011	70%	75%	96%
07/01/2012	64%	69%	88%
07/01/2013	60%	65%	83%
07/01/2014	62%	65%	84%
07/01/2015	63%	66%	84%
07/01/2016	64%	66%	85%
07/01/2017	65%	67%	86%
07/01/2018	66%	67%	86%
07/01/2019	67%	68%	87%
07/01/2020	68%	69%	88%
07/01/2021	69%	69%	88%
07/01/2022	70%	70%	89%
07/01/2023	71%	70%	90%
07/01/2024	72%	71%	90%
07/01/2025	73%	72%	91%
07/01/2026	74%	72%	92%
07/01/2027	75%	73%	93%
07/01/2028	76%	73%	93%
07/01/2029	78%	74%	94%
07/01/2030	79%	74%	95%
07/01/2031	80%	75%	96%
07/01/2032	81%	76%	96%
07/01/2033	83%	77%	97%
07/01/2034	84%	77%	98%
07/01/2035	85%	78%	99%
07/01/2036	87%	79%	100%
07/01/2037	88%	80%	101%
07/01/2038	90%	80%	102%
07/01/2039	92%	81%	103%

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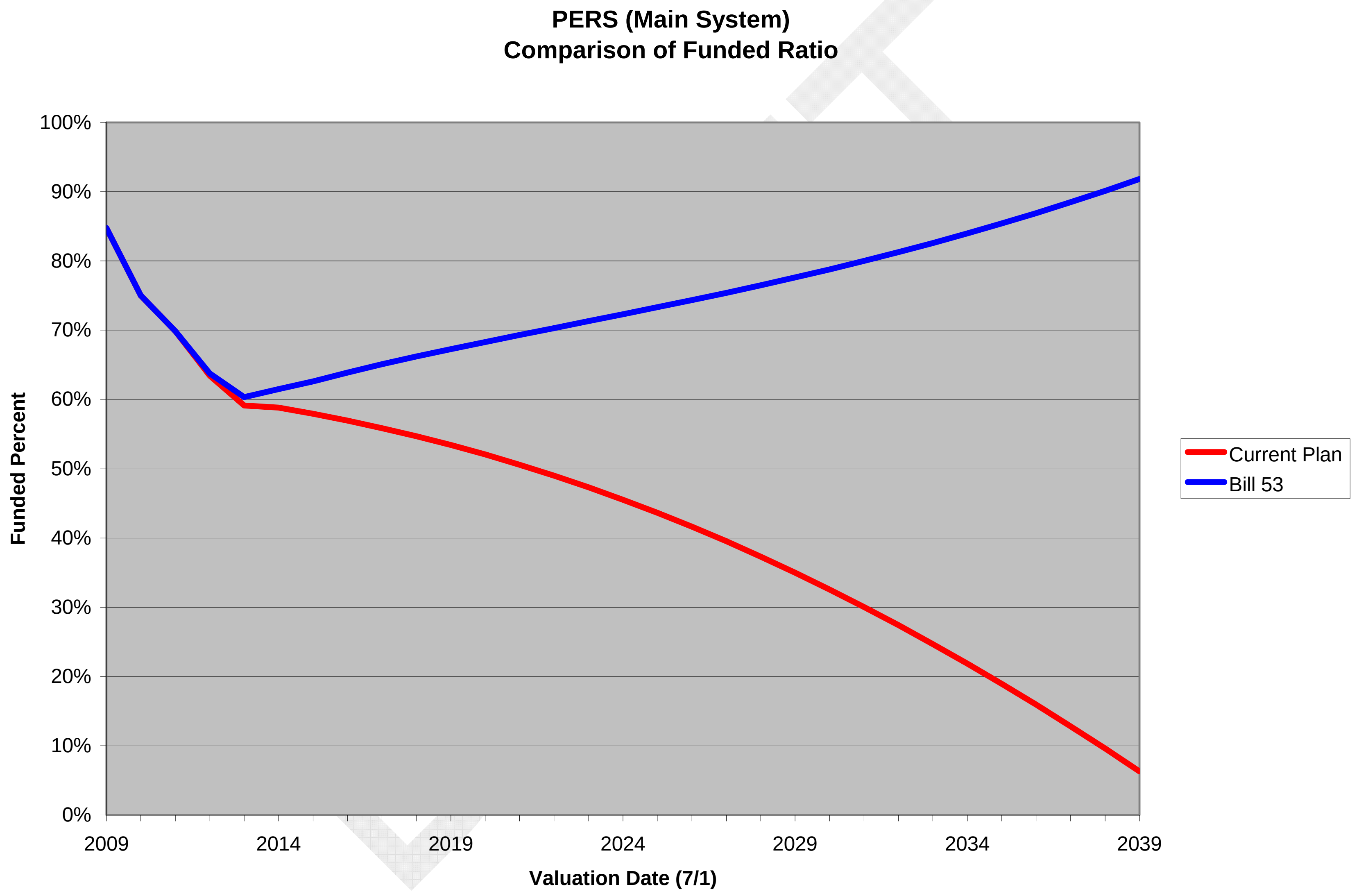
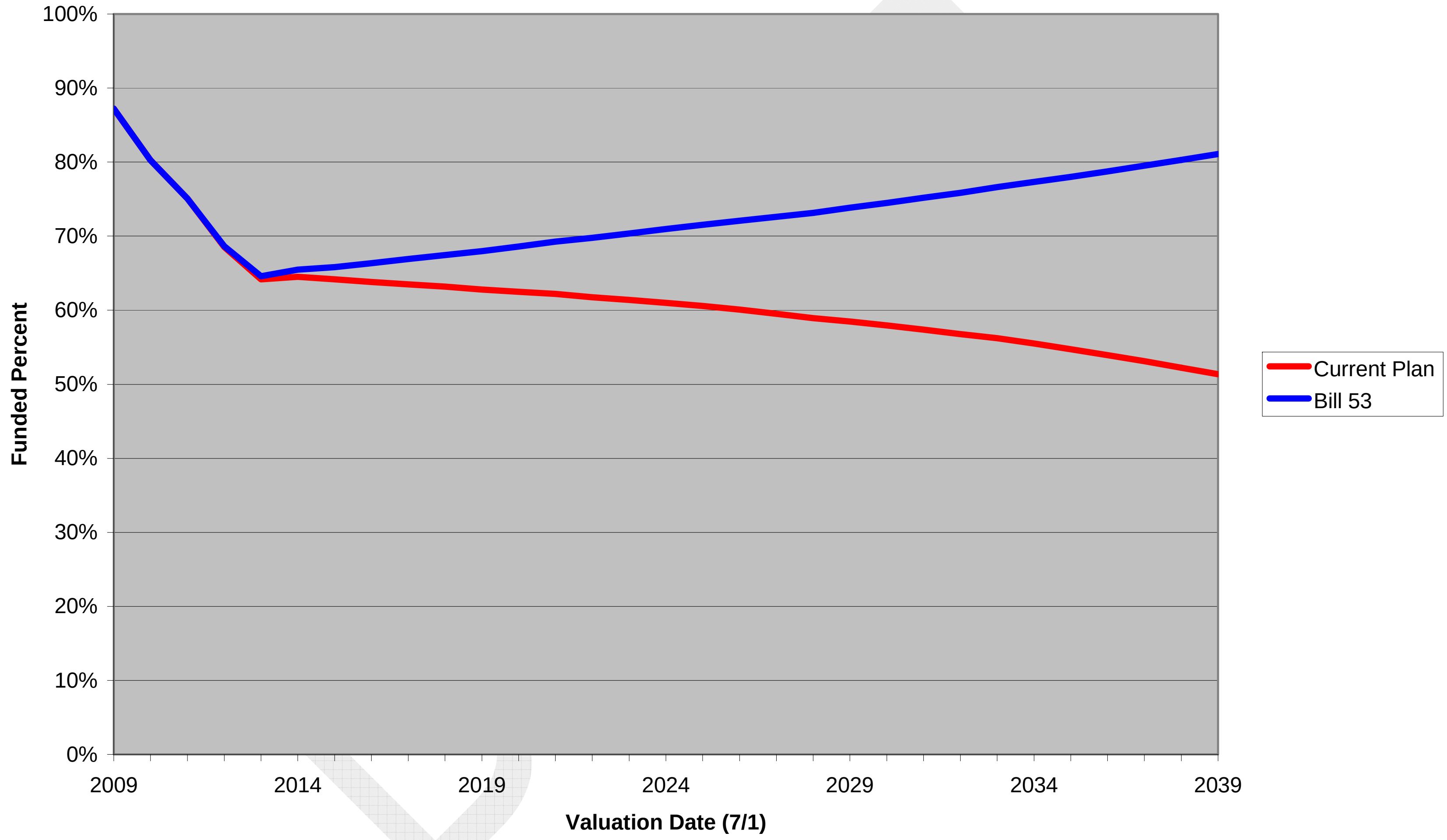
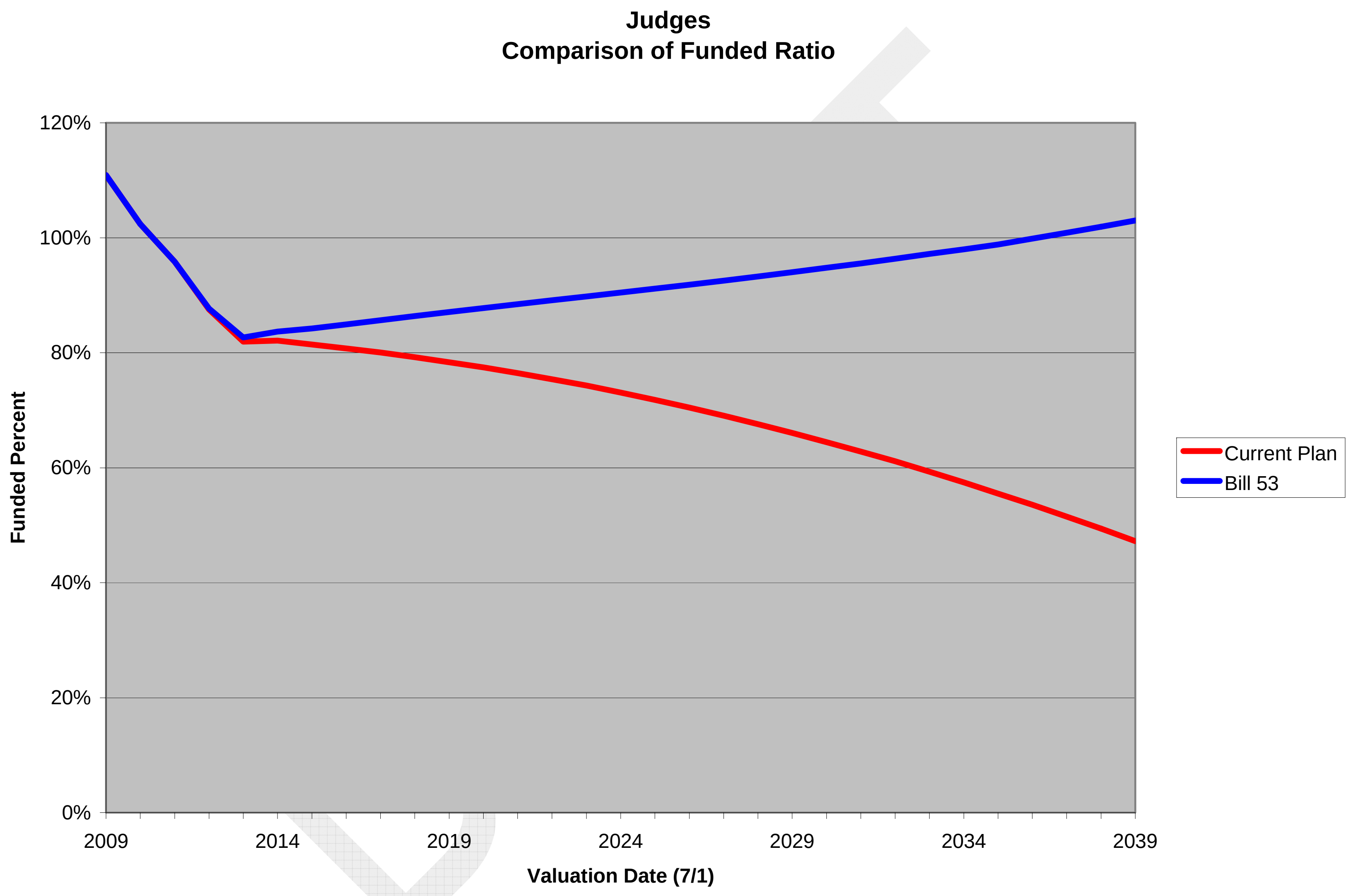

PERS (Main System)
Comparison of Funded Ratio
Funded Percent
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 53

Highway Patrol
Comparison of Funded Ratio





Judges
Comparison of Funded Ratio
120%
100%
80%
60%
40%
20%
0%
Funded Percent
2009
2014
2019
2024
2029
2034
2039
Valuation Date (7/1)
Current Plan
Bill 53

SEGAL

THE SEGAL COMPANY
5670 Greenwood Plaza Boulevard Suite 425 Greenwood Village, CO 80111-2499
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DRAFT

September 13, 2010

Representative Bette Grande, Chair
Legislative Employee Benefits Committee
State Capital
600 East Boulevard
Bismarck, ND 58505-0360

Re: **Technical Comments – Bill Draft No. 10059.0100**

Dear Representative Grande:

The following presents our analysis of the proposed changes found in Bill Draft No. 10059.0100:

Systems Affected: North Dakota Public Employees Retirement System (PERS) Hybrid Plan, Defined Contribution Plan, Highway Patrolmen's Retirement System (HPRS) and Retiree Health Benefit Fund

Summary: The proposed legislation would make the following important changes:

- Clarifies that employees of the university system who are members of the PERS, including members of the Defined Contribution Plan, and are entitled to participate in the alternate retirement programs, may make a special annuity purchase in such alternate retirement program. (Section 1)

- Eliminates the 60-month certain option as a form of payment for surviving spouses in the HPRS. Under current law, surviving spouses in HPRS get to elect either this benefit or a refund of member contributions or monthly payments of 50% of the normal retirement benefit for the surviving spouses lifetime. (Section 2)

- Calculates benefits for members of the HPRS who have membership in more than one retirement system using the highest salary received for 36 months, regardless of whether such months are consecutive, within the last 120 months of employment. This change was previously approved for the calculation of HPRS retirement benefits (Section 4)

Benefits, Compensation and HR Consulting   Offices throughout the United States and Canada

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Founding Member of the Multinational Group of Actuaries and Consultants, a global affiliation of independent firms

- Changes the pool of candidates for a board member that is elected by retirees to exclude those individuals who are eligible for a deferred vested benefit but not yet retired. (Section 5)

- Changes the normal retirement date for peace officers and correctional officers in the Hybrid Plan to age 55 and three years of employment in such officer positions, regardless of whether employment in such officer positions immediately precedes retirement. Currently the normal retirement date is age 55 and currently working in the retirement plan for the last three years.

- For purposes of payment of a member's account balance at death, clarifies that any surviving beneficiary who dies before receiving a distribution of such account balance is treated as predeceasing the member. (Section 6)

- Permits conversion of sick leave to retirement credit under the Hybrid Plan at any time, rather than within 60 days of termination of employment only. (Section 7)

- Clarifies that a surviving spouse of a retiree may continue to participate in the uniform group insurance program by paying the required premium. (Section 9)

- Updates federal compliance provisions of the Hybrid Plan and HPRS. (Sections 3 and 8)

- Updates the employer contribution pick up process. (Section 10)

Actuarial Cost Analysis: This bill would not have a significant actuarial cost impact on the Hybrid Plan or the Highway Patrolmen's Retirement System.

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

General

The bill generally clarifies existing statutory provisions to more accurately reflect actual operations of the Systems or to make the terms of various plans under the Systems more consistent with each other.

Benefits Policy Issues

➢ Adequacy of Retirement Benefits

Providing peace officers and correctional officers with unreduced normal retirement benefits even where retiring from other positions enhances retirement benefits for this limited group of members.

➢ Benefits Equity and Group Integrity

The bill enhances benefit equity between the HPRS and the Hybrid Plan by eliminating the 60-month certain option as a form of payment for surviving spouses in the HPRS and by no longer requiring the highest 36 months of salary to be consecutive for benefits purposes in the HPRS. Similar changes have already been made in the Hybrid Plan.

The proposed defined contribution plan change in Section 1 provides improved equity between the defined contribution plan and the Hybrid plan. The Hybrid plan currently allows members who leave covered employment with PERS and move to covered employment in Higher Education with benefits provided by TIAA/CREF the opportunity to elect to transfer their fund from PERS to TIAA/CREF. When the defined contribution plan was enacted, it did not include this provision. This bill would add that option to the defined contribution plan.

Competitiveness

No impact.

- Purchasing Power Retention

No impact.

- Preservation of Benefits

By no longer requiring peace officers and correctional officers in the Hybrid Plan to complete the required three years of employment in such officer positions immediately before retirement, this bill preserves the level of accrued benefits for this limited group of members.

- Portability

No impact.

- Ancillary Benefits

  - No impact.
  - Social Security: No impact.

Funding Policy Issues

- Actuarial Impacts

As previously noted, this bill would not have a significant actuarial impact on the Hybrid Plan and the Highway Patrolmen's Retirement System.

- Investment Impacts

- *Cash Flow*: No impact.

- *Asset Allocation:* The bill does not create new investment asset allocation issues.

Administration Issues

- Implementation Issues

  This bill does not present any significant implementation issues for the PERS.

- Administrative Costs

  The bill will have only a minimal impact on the adminstrative resources of the PERS. If the 60-month certain option for surviving spouses is eliminated, the HPRS will no longer be required to offer a direct rollover for each of the 60 payments made under this form of benefit. Calculating the 36 highest non-consecutive final average salary for HPRS members will require some additional programming and review time.

- Needed Authority

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

- Integration

  No impact.

- Employee Communications

  The PERS may need to update employee communications material to accurately reflect the following proposed changes in the bill:

  - Eliminating the 60-month certain option as a form of payment for surviving spouses in the HPRS;

  - Calculating benefits for members of the HPRS who have membership in more than one retirement system by using the highest salary received for 36 months, regardless of whether such months are consecutive; and

  - Allowing peace officers and correctional officers in the Hybrid Plan to reach normal retirement date at age 55 by completing the three years of employment in such officer positions, regardless of whether employment in such officer positions immediately precedes retirement.

  - Permitting conversion of sick leave to retirement credit under the Hybrid Plan at any time, rather than within 60 days of termination of employment only.

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- Miscellaneous and Drafting Issues

  This bill may need to be amended to include changes to the federal compliance provisions of the HPRS that have been requested by the IRS as part of the HPRS' favorable determination letter application.

The cost of the plan changes indicated in Bill 10059.0100 were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2009. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

Please call if you have any questions or comments.

Sincerely,

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

5099477V1/01640.004

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PERS Analysis of Comparability and Equity Issues Related to LC #80 and Suggested Changes

September 9, 2010

Issues	Description	Suggestions	Cost Estimate[3]
Survivor Benefit	The DB plan provides for survivor benefits. Four options are provided including a lifetime benefit of 50% of the accrued benefit payable to the spouse for the remainder of their life. The DC spouse benefit is the account balance. Consequently the DC plan does not provide as sound of a benefit for spouses for employees without a significant account balance. For many employers that is offset since they provide their employees employer paid life insurance that will help the spouse. In North Dakota we provide $1,300 in coverage but since the DB plan had a sound spouse benefit this was not as critical	If the state moves to a DC plan it should enhance the employer paid life insurance to a minimum of $50,000 of employer paid coverage to offset the reduction of spouse benefit	$5.1 Million[1]
Disability	The PERS DB plan has a disability retirement benefit of 25% of final average salary. The DC plan only benefit is that account balance which for many members unless they are older with many years of service would not be adequate. Some employers have employer paid disability that insures against this contingency	If the state moves to a DC plan it should add an employer paid disability insurance as a benefit for state employees to offset the reduction in the disability retirement benefit	$1.6 Million[1]
Adequacy & Equity	1. PERS had Segal do a study of the adequacy of the retirement benefit in the existing PERS defined contribution plan. The finding was that for most of the DC members the projected benefit was less then 50% of the PERS DB benefit. To make the systems comparable it was noted that contribution needed to more then doubled. 2. PERS and TFFR have provided essentially the same level of benefits to their members, that is both system have a "2%" multiplier. If the plans are	To provide and adequate benefit and equity with TFFR the PERS DC contribution needs to be increased to equal the contributions to TFFR.	$74 million to $157 Million[2]

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Issues	Description	Suggestions	Cost Estimate[3]
	changed to a DC plan the benefit will largely be passed on contributions. The existing TFFR contribution is about 17% and the existing PERS contribution is about 8%. To maintain equity in benefits between the two systems PERS DC contribution need to be increased		
Investor Education	In a DC plan the individual member is responsible for setting up their investment plan. In the DB plan that responsibility is with the PERS Board and the SIB. In the DC plan the members ability to retiree and the type of retirement they will be afford is directly related to how effective they are in establishing and maintaining their investment strategy in and age appropriate manner.	The bill should add a provision allowing DC plan members up to 4 hours per year of employer work time to meet with their investment advisor, participate in investment education meetings and view on line education video's	$1.9 Million[2]
Savings Incentive	The PERS plan added the PEP program to its plan design in the late 90's. This provision enhances the portability of the plan and also provides an incentive for members to engage in supplemental retirement savings in the deferred comp program by matching their contribution in the DB plan with increased vesting in the employer contribution. This program has been very successful and since its initiation supplemental retirement savings has increased. The proposed DC plan does not have a similar incentive.	If the DC plan is adopted the state should replicate the incentive presently provided by directly matching deferred comp contributions. This would mean a potential additional 4% contribution to the supplemental retirement savings program	$37 Million[1]
Retiree Increases	The states present process for providing retiree increases is Ad Hoc adjustments. That is if the fund can support an increase it is considered by the Legislature and Governor and if passed will then take effect. Given the retirement plans existing funded status it is unlikely that it will be	If the DC plan is passed a new method for considering and funding retiree increases should be enacted. PERS would suggest setting up a 1% contribution off of	$9.3 Million

Issues	Description	Suggestions	Cost Estimate[3]
	able to support any increases for many years. However if new employees are moved to a DC Plan it will insure that the fund will likely never to able to give retiree a retiree increase due to the continued decline in covered payroll.	all covered payroll into the plan for such increases	
Administration and plan design	1. The PERS Business system will need to be modified to provide for the different eligibility procedures 2. The implementation is early and may be a challenge 3. Not clear what should happen to a member of the DB plan who returns to service as a new employee after the DC bill would be implemented	1. Update the business system code 2. The implementation date should be moved to Jan 2012 3. Have a returning member stay in the Hybrid Plan to maintain continuity of retirement plan	1. $40,500 general fund appropriation required 2. No Cost 3. Minimal cost
Judges Retirement Plan	According to the Report of the Legislative Councils Retirement Committee that did the initial study establishing the system "The deescalating multiplier was adopted by the committee because it both encourages mid-career attorneys to assume positions on the bench because of its high benefit accrual rate and it encourages older judges to retiree because of its low benefit Accrual rate after 20 years of service.". This policy that is reflected in the plan design cannot be implemented in the DC plan as proposed	Do not include the Judges in the DC plan proposal if the original goal is to be continued.	Would be the cost of maintaining the existing plan
Law Enforcement plans (Highway	The plan design for law enforcement provides for retirement at age 55. It was noted in testimony provided over the last several biennium's that it is important for the public interest and safety to allow	Do not include the HP in the DC plan proposal if the original goal is to be continued.	Would be the cost of maintaining the existing plan

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Issues	Description	Suggestions	Cost Estimate[3]
patrol, Law Enforcement and National Guard	this transition out of the profession at this age due to the physical capabilities necessary to successful meet the job requirements. A DC plan was considered but it was felt the DB was the best method for assuring this transition. Also it should be noted that for the Highway Patrol members that: • They are not in Social Security and this is their only retirement plan. • They have a mandatory retirement age set in statute. • The "presumption clause" for WSI. The effect of having older troopers as a result of a change to the DB plan could effect this cost. • They have a higher disability benefit and special consideration would need to be given to providing a disability insurance for them. • It should be reviewed if a change to the retirement plan would effect their exemption from social security and if so if it would require them to start participating. If it did this would an additional cost to the state for FICA payments and to the trooper The DB format is the optimum method to provide for an age 55 retirement		

Assumptions: 10,800 State FTE & $926,151,000 biennium payroll

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1. Assumes the benefit is provided to all PERS members at the same time. If only applied to DC plan members it would start lower and then grow
2. Would be the full cost at full implementation, that is when all employees are in the DC system.
3. All cost estimates are very preliminary and are only provided to give a very general estimate.

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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: September 9, 2010

SUBJECT: NDPERS Wellness Summary

Marissa Parmer with BCBS will give an update on wellness activities.

NDPERS Wellness
building healthy members

NDPERS Wellness Specialist Summary
September 2010 NDPERS Board Meeting

Marissa Parmer conducted 4 workshops each month May-July for a total of 16 workshops across the state. There were 158 of 187 Wellness Coordinators that attended these workshops. A post survey was conducted and 115 responded with 82.3% that agreed the workshops were informative and helpful.

Active implementation based on Wellness Coordinators feedback on survey and at workshops:

Monthly Conference Calls Implemented

- September 15th Pete Seljevold, Healthy North Dakota Worksite Wellness Director. Pete will speak on Worksite Wellness Summit, Healthy North Dakota Website and Chat Board. The chat board was created based on 56.6% of Wellness Coordinators request to have access to a chat board.
- October 15th Joan Enderle of American Heart Association will speak on new two point program Available to Wellness Coordinators
- November Lori Howard, LRD of Blue Cross Blue Shield of North Dakota on weight management, nutrition programs and implementing them into worksite wellness
- December Marissa Parmer, Wellness Specialist NDPERS/BCBSND on 2011 Employer challenge announcement and how to ease stress over Holidays with being active
- 2011 Conference calls will be developed based on feedback of 2010

Monthly email provides listing of state wide walks, runs and events that can be distributed to their employees to participate in and further their wellness and fitness goals

Monthly Newsletter Implemented for Wellness Coordinators

- Various fitness and wellness topics will be addressed, along with any announcements Wellness Coordinators need to be aware of from BCBSND/NDPERS
- September Newsletter provided as sample

Member Education has created new programs based on feedback

- The RX program will be announced to Wellness Coordinators on the October newsletter and details provided by Jessica Petrick and Milissa Van Eps on October conference call
- A Nutrition Member Education program is also in process of being developed

Onsite evaluation and assistance to Wellness Coordinators is being scheduled per request .

NDPERS Wellness Logo is now being actively utilized

Small Wellness Coordinator workshops will continue for 2011 based on survey response of 71.2% of the Wellness Coordinators preference of small over a large forum. Post online forum will also be available.

Data is actively being collected and analyzed for further advancement with Wellness Coordinators' programming

Retiree Wellness Fair Updates

The retiree fair on October 7th at Bismarck State College currently has 20 vendors, and will also include speakers from BCBSND, Sparb Collins and Fay Kop. Discussion is in progress with NDPERS for other possible Retiree Wellness Fairs in Grand Forks, Fargo and Minot pending response. Please see postcard for advertisement of retiree wellness fair.

NORTH DAKOTA
PUBLIC EMPLOYEES
RETIREMENT SYSTEM

NDPERS Wellness
building healthy members

Coordinator Newsletter

Volume 1, Issue 1
September 2010

Wellness Conference Calls And Webex Available

Starting this month, all NDPERS wellness coordinators can participate in monthly wellness conference calls or take part through WebEx. Guest speakers will host the calls, which cover a variety of topics.

The calls and WebEx will be a great way to learn about various worksite wellness possibilities and to assist each other with our current worksite wellness programs. You will receive e-mail reminders of the upcoming dates, and the dates will also be posted on the NDPERS website at www.nd.gov/ndpers.

We will provide these calls and/or WebEx at various times. Based on feedback from you, we will adjust the schedule for 2011. If there are topics that interest you, please e-mail Marissa Parmer, wellness specialist, at marissa.parmer@bcbsnd.com, or call 701-277-2852.

For each wellness conference call or WebEx session, please call this number:
877-455-8688
Participant number: 641163

Healthy North Dakota Worksite Wellness Initiative

Speaker: Pete Seljevold September 15 | 11:30 a.m. CST

Pete Seljevold is the director of Healthy North Dakota Worksite Wellness. He will discuss the Healthy North Dakota initiative. Its goal is to provide support, guidance and resources to North Dakota businesses wanting to offer wellness programs and health promotion activities at their worksites.

Pete is a graduate of Concordia College, Moorhead, Minn., with a bachelor's degree in psychology. He also earned a master of science degree in exercise science from St. Cloud (Minn.) State University and a master of business management from the University of Mary. Pete has more than 25 years of experience in the fitness and wellness arena, including exercise physiology, strength and conditioning, YMCA community programming and worksite wellness.

Pete will also discuss the upcoming Worksite Wellness Summit scheduled for September 28 in Fargo. Pete has also launched the North Dakota Worksite Wellness website. You can have a sneak peek at www.NDworksitewellness.org.

Call in: 877-455-8688
Participant number: 641163

BlueCross BlueShield of North Dakota

American Heart Association (AHA)'s New Two-Point Program

Speaker: Joan Enderle October 15 | 11:30 a.m. CST

Joan Enderle is the director of the AHA's Go Red for Women North Dakota Initiative. She is passionate about the mission of "building healthier lives, free of cardiovascular disease" by providing individuals and worksites with the tools needed to make healthy lifestyle changes.

Joan is a graduate of North Dakota State University, Fargo, with a bachelor of science degree in dietetics. She received a master of business administration degree from the University of Mary. As a licensed registered dietitian and certified diabetes educator, Joan worked for 24 years in the health care industry before joining the AHA in 2006.

She will talk about My Life Check, a new online health assessment tool based on the knowledge and experience of AHA medical experts. My Life Check assesses the state of your heart health, provides an overall health score and answers the question: How healthy are you? No matter what the score, individuals can live a longer, better life with seven small steps. They're known as "Life's Simple 7." You can learn more by visiting http://mylifecheck.heart.org/.

Call in: 877-455-8688
Participant number: 641163

Future Speakers and Topics

In November, licensed registered dietitian Lori Howard from Blue Cross Blue Shield of North Dakota (BCBSND) will address weight management and nutrition counseling. Look for more details on the call in next month's newsletter. Lori has a bachelor of science degree with a double major in dietetics and corporate and community fitness from North Dakota State University.

Marissa Parmer will speak in December about the launch of a new competition for NDPERS employers in 2011. She'll also address how to relieve holiday stress through fitness. She has a bachelor of science degree in physical education wellness from Eastern Kentucky University, Richmond, and a master of kinesiology degree from the University of North Dakota, Grand Forks.

Send your ideas for future topics to Marissa Parmer at marissa.parmer@bcbsnd.com or Rebecca Fricke at rfricke@nd.gov.

Free BCBSND Member Education Programs

If you are looking for ways to get more out of your health care dollar, BCBSND's Member Education Program can help. A Member Education consultant can meet with your employees and provide concise, easy-to-understand information about how insurance works, what drives costs and what employees can do to reduce their health care costs.

A Member Education presentation takes approximately 30 minutes. Your Member Education consultant can tailor a presentation by including your group's utilization statistics and information about how your group compares to statewide averages and peer groups. The consultant also provides a tool that participants can use to maintain or improve their health.

Call today to set up a presentation.
Jessica Petrick, western North Dakota, 701-255-5575
Milissa Van Eps, eastern North Dakota, 701-795-5360

Marissa Parmer
BCBSND/NDPERS Wellness Specialist
Phone: 701-277-2852
Fax: 701-277-2253
E-mail:
marissa.parmer@bcbsnd.com

How to Read a Nutrition Label

Nutrition labels provide lots of good information, but many people don't know how to read them.

Serving Size. The nutrition label always lists a serving size, such as one cup of cereal or two crackers. See the label. Serving sizes help people understand how much they're eating. If you ate six crackers, that would be three servings.

Servings Per Container. The label also tells you how many servings are contained in that package of food.

Calories. The label tells you the total number of calories in a single serving.

Calories from Fat. Another important part of the label is the number of calories that come from fat.

The calories in food come from fat, protein or carbohydrates. When stocking healthy snacks, sweets or side dishes, consider foods that have 30 percent or less of their total calories from fat and 10 percent or less of their total calories from saturated fat.

Nutrition Facts

Serving Size 2 crackers (14 g)

Servings Per Container About 21

Amount Per Serving	
Calories 60	Calories from Fat 15
Total Fat 1.5g	2%
Saturated Fat 0g	0%
Trans Fat 0g	
Cholesterol 0mg	0%
Sodium 70mg	3%
Total Carbohydrate 10g	3%
Dietary Fiber Less than 1g	3%
Sugars 0g	
Protein 2g	
Vitamin A 0%	• Vitamin C 0 %
Calcium 0%	• Iron 2%

* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.

	Calories	2,000	1,000
Total Fat	Less than	65g	90g
Sat Fat	Less than	20g	25g
Cholesterol	Less than	300mg	300mg
Sodium	Less than	2400mg	2400mg
Total Carbohydrate		300g	375g
Dietary Fiber		25g	30g

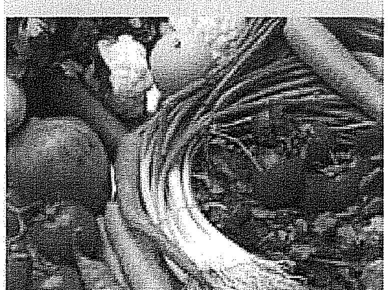
To determine the percent of total calories from fat, divide fat calories by the total calories and multiply by 100. For example, this label indicates 15 calories are from fat. Divide 15 by 60 (total calories) to get .25. Next, multiply .25 by 100 to get 25 percent of total calories from fat.

Total Fat. Total fat is the number of fat grams (g) contained in one serving of the food. The different kinds of fat—such as saturated, unsaturated and trans fat—may be listed separately on the label. High fat, saturated fat and trans fat intake have been linked to chronic diseases.

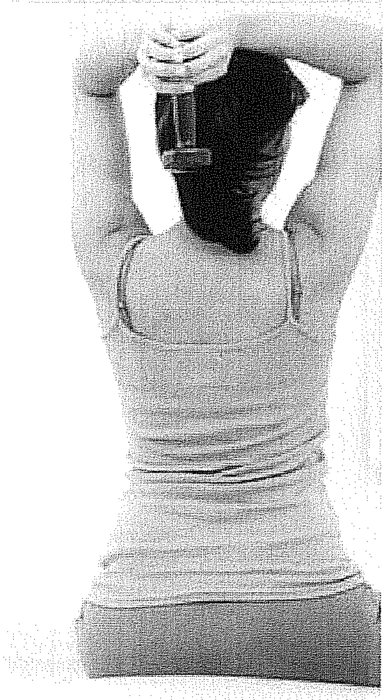
When stocking healthful snacks, sweets or side dishes, a good rule of thumb is to choose foods with less than three to seven grams of fat per serving. Trans fat should be less than two grams per serving and saturated fat should be less than one gram per serving (low fat is considered less than three grams per serving)

Total Carbohydrate. Total carbohydrate listed on the food represents the number of grams of carbohydrates per serving. This total is broken down into grams of sugar and grams of dietary fiber. Added sugars have no nutritional value other than extra calories that can lead to weight gain. Sugar has also been linked to tooth decay. The U.S. Department of Agriculture recommends limiting added sugar to six percent to 10 percent of total calories. Choose foods with less than five grams of sugar per serving or less than one-third total carbohydrate from sugar per serving most of the time.

If you have more nutrition questions, don't miss our November Conference Call with licensed registered dietitian Lori Howard of BCBSND.



Did you have five servings of fruit today?



Heart disease is the No. 1 cause of death in North Dakota, yet 80 percent of those deaths could be prevented with lifestyle changes.

12 Exercise-at-Work Tips

1. Wear a pedometer at work. Because every step counts, wearing a pedometer is a wonderful motivator to walk more during your workday.
2. Walk around the office. There's no need to sit still while you talk on the phone or think. Pacing and fidgeting are physical activity.
3. Walk around the building. Sometimes a face-to-face talk is the best way to communicate, and it gets you up and moving around.
4. Walk up and down stairs. If you have a choice, always take the stairs. If you have stairs, take as many trips up and down as possible.
5. Walk around the block. Got a coffee break? Got a few free minutes? Take a walk outside and get some fresh air and extra steps.
6. Walk and talk. Need to discuss something with a coworker? A walking meeting can be more productive and healthier too.
7. Lift weights while you talk. Keep a free weight near the telephone; pick it up when you get a call and pump your arms while you talk.
8. Take a weight break. Feeling tired and bogged down? Take five to 10 minutes to lift your hand weights and get your blood flowing.
9. Work your abs. You can strengthen tummy muscles while sitting in a chair. Sit straight, tighten muscles and release. Repeat.
10. Stretch your arms and legs. Stuck at your desk? Use a resistance band for a five to 10 minute stretch.
11. Stretch your stress away. Tension in your shoulders, neck and back is easy to release with standing stretches and a resistance band.
12. Check your pedometer. Find out how many steps you take during a typical workday.Why worksite wellness is a must

North Dakota Top Health Risks

According to the U.S. Department of Health and Human Services, in a typical worksite of 25 North Dakota employees you will find:

- 16 are overweight or obese
- 13 have two or more risk factors for heart disease
- 7 have high cholesterol
- 6 binge-drink
- 5 smoke
- 4 have high blood pressure
- 4 get no leisure-time physical activity
- 3 have had a heart attack or stroke or have been diagnosed with heart disease
- 1 has diabetes

Meditation can reduce stress.

A Partnership For Worksite Wellness

NDPERS and BCBSND are working together to support and provide you and your fellow employees the opportunity to have a healthier and more engaged worksite through Worksite Wellness tools. We appreciate feedback on all our wellness tools to serve your worksite better and welcome your suggestions.

Please take time to fill out surveys we may submit to you from time to time to evaluate these programs.

Here is a list of contacts that will be useful to you as a Wellness Coordinator:

Marissa Parmer
BCBSND/NDPERS
701-277-2852
marissa.parmer@bcbsnd.com
Main resource contact.
Direct any general wellness program questions and or assistance with developing your worksite wellness programs to the next level to Marissa.

Rebecca Fricke
NDPERS
rfricke@nd.gov
Direct 1% premium questions, points on programs, updating coordinator information, status or questions on application process or forms to Rebecca.

Kathy Allen
NDPERS
kallen@nd.gov
Direct funding program questions to Kathy.

Onalee Sellheim
BCBSND
onalee.sellheim@bcbsnd.com
Direct questions on benefit plans or schedule Member Education programs through Onalee.

Jodi Crouse
BCBSND
jodi.crouse@bcbsnd.com
To collect aggregate data on your employer from the HRA, MHC and HCC contact Jodi.

Milissa Van Eps
BCBSND
701-795-5360
Contact Milissa if you are located in eastern North Dakota to set up a Member Education program.

Jessica Petrick
BCBSND
701-255-5575
Contact Jessica if you are located in western North Dakota to set up a Member Education program.

29314039 (3035) 09/10

NDPERS Wellness Retiree Fair

October 7, 2010|8:30–11:30 a.m.
Bismarck State College National Energy Center of Excellence

8:30–10:30 a.m. | Biometric Screenings Package ($35 paid on-site)
* For accurate results, fast for 10 hours prior to screenings.

- total cholesterol
- LDL
- HDL
- triglycerides
- glucose
- height
- weight
- BMI calculation
- blood pressure

Presentations:
9:30–10 a.m. | Retirement Benefit changes
10–10:30 a.m.| Benefits and Health Reform Overview
10:30–11 a.m.| My Health Center and Health Club Credit Education
11–11:30 a.m. | Health and Fitness Fun

Come enjoy a complimentary continental breakfast.
Vendors' booths will feature giveaways. Booths open 8:30–11:30 a.m.

Please contact Marissa Parmer, BCBSND/NDPERS Wellness Specialist, with questions at marissa.parmer@bcbsnd.com or 701-277-2852.

BlueCross BlueShield of North Dakota

An independent licensee of the Blue Cross & Blue Shield Association

Health and Wellness

Noridian Mutual Insurance Company

NDPERS Wellness
building healthy members

NDPERS Wellness Retiree Fair

October 7, 2010 | 8:30–11:30 a.m.
Bismarck State College National
Energy Center of Excellence

Blue Cross Blue Shield of North Dakota
4510 13th Ave S • Fargo, ND 58121

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North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
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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: September 9, 2010

SUBJECT: Diabetes Management Program Update

Jayme Steig with Frontier Pharmacy Services will give an update to the Board on the Diabetes Management Program.

In November we will get the report from UND on the program and by January the Board will need to determine if we will continue this program in the 2011-13 biennium.

About the Patient

www.aboutthepatient.net

NDPERS Diabetes Management Program Update

Data through 6/30/2010

Jayme Steig, PharmD, RPh

Frontier Pharmacy Services, Inc

Clinical Coordinator Provider

1-877-364-3932

jsteig@froniterRx.com

Program Overview

- Diabetes care services are provided by a network of pharmacists and other providers who have completed an accredited diabetes certification program

- Providers “coach” eligible participants on how to self-manage their diabetes

- Modeled after “Asheville Project”
  - Some variations

About the Patient
www.aboutthepatient.net

Program Overview Continued...

- Providers complete an assessment, develop a care plan and provide follow-up services and referrals
- Clinical, humanistic, and economic measures are recorded for analysis
- Foster Collaboration with health care providers
- Initially 6 visits over 12 month period
  - 7th and 8th visits added for 24 month program

Pharmacist - Provider Network

- Over 70 provider sites in North Dakota
- Over 125 individual providers
- Urban & Rural Providers
- Clinical Coordinator – network oversight
- Provider Network Agreements – roles & responsibilities
- Peer Review Committee
  - Continuing education requirements
- Centralized clinical documentation software
- Communication Hub - website

Program Promotion

- Program launch
  - Mailings to all eligible members with follow up postcards 1 month later
- PERS website – link to program website
- Wellness newsletters
- Annual Wellness Forum presentation
- Monthly mailing to newly identified eligible members

About the Patient
www.aboutthepatient.net

Patient Enrollment

- Majority of patients enrolled during initial promotion and mailings at program launch (July 2008)
  - Many will be completing 24 month program by the end of 2010
- 2,871 eligible members in Aug 2008 according to eligibility file
  - Approximately 30-40 letters mailed by NDPERS each month to newly identified eligible members

About the Patient
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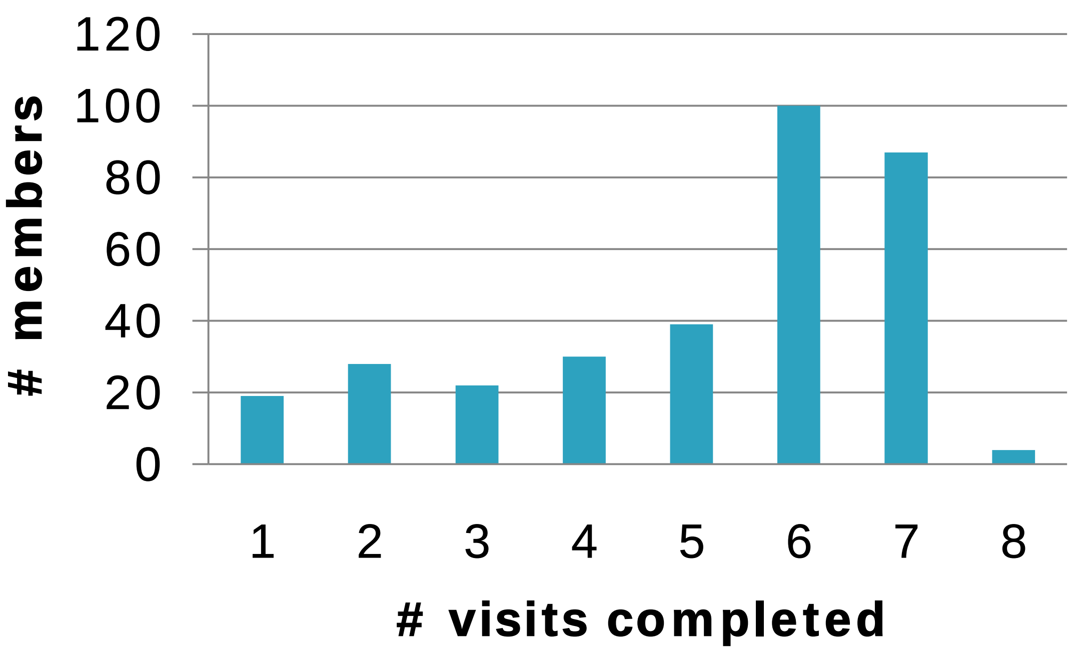
Patient Enrollment

- 346 members have completed at least 1 visit
  - 1756 total visits



Patient Incentives

- Patients receive financial incentives for participating
  - Copay on formulary diabetic medications, ACE inhibitors, and ARBs ($5 generic, $20 brand)
  - Coinsurance on diabetic testing supplies
  - Issued quarterly
  - 2010 costs/quarter
    - $20,799 total ($83.85/member)
    - $4,444 supplies ($17.92/member)
    - $16,355 medications ($65.93/member)
    - Range - $5 to $330 quarterly

About the Patient
www.aboutthepatient.net

Program Costs

- 2008 (July – Dec)
  - Visits - $140,320
  - Incentives - $14,290.89
- 2009 (Full year)
  - Visits - $87,680
  - Incentives - $60,946.25
  - Admin fee - $3500
- 2010 (Jan – June)
  - Visits - $21,568
  - Incentives – $41,599.53
  - Admin Fee - $3500
- Total - $373,404.67

Program Costs

- Next biennium estimates (July 2011-June 2013)
  - Visits - $38,400
  - Incentives - $29,000
  - Admin Fee - $10,000
  - Total - $77,400

About the Patient
www.aboutthepatient.net

Data Overview

- Data from program launch to June 30, 2010
- Data is taken from that entered by providers into the clinical software system
- Broad, inclusive overview
  - Overcomes some challenges in collecting data

Patient Profile

- 346 patients with documentation
  - 1,756 encounters
- 52% female
- Average age = 53.7
- 6.1 medical conditions
- 10.3 medications
  - 25% were OTC/CAM medications
- 3.4 drug therapy problems

About the Patient
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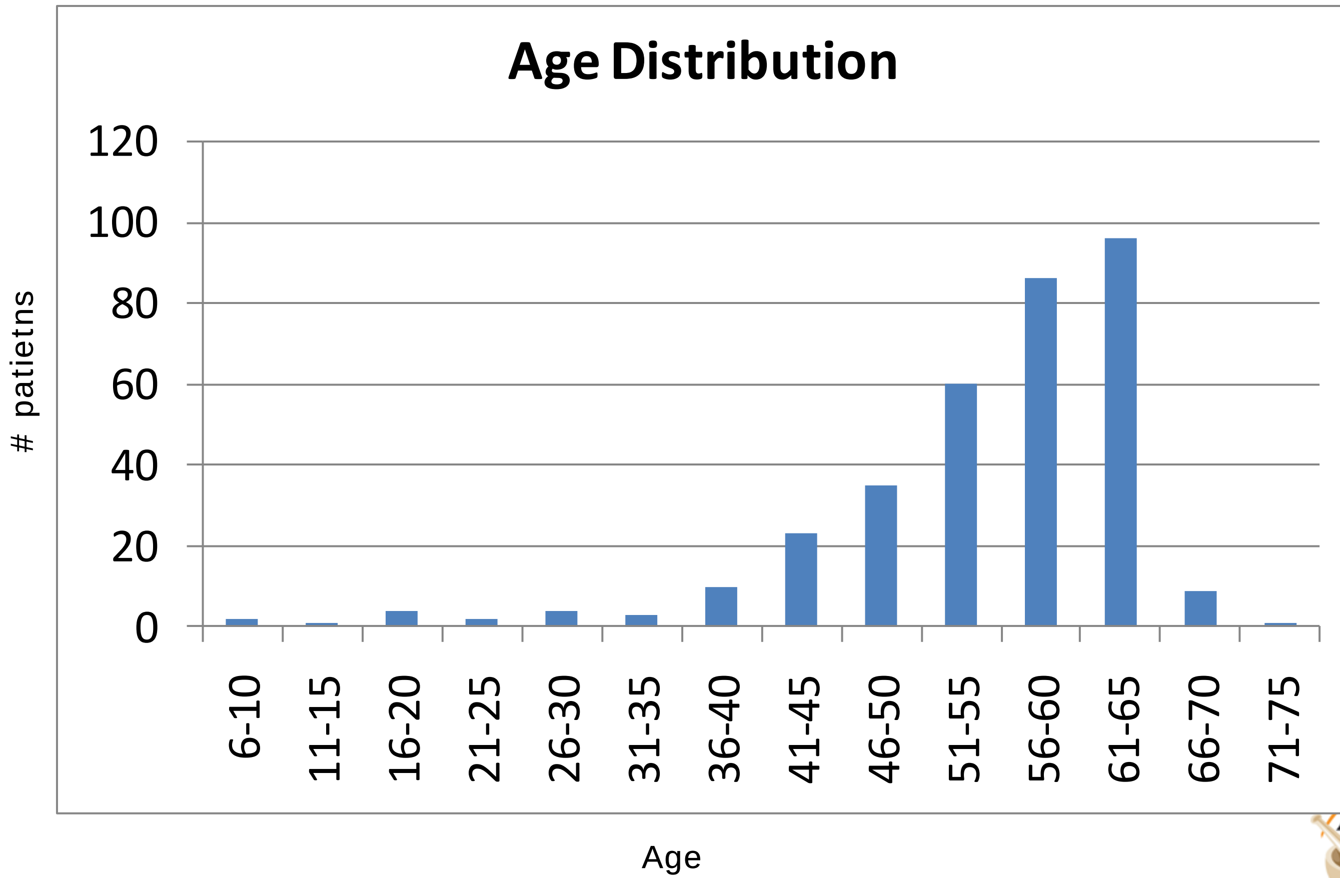
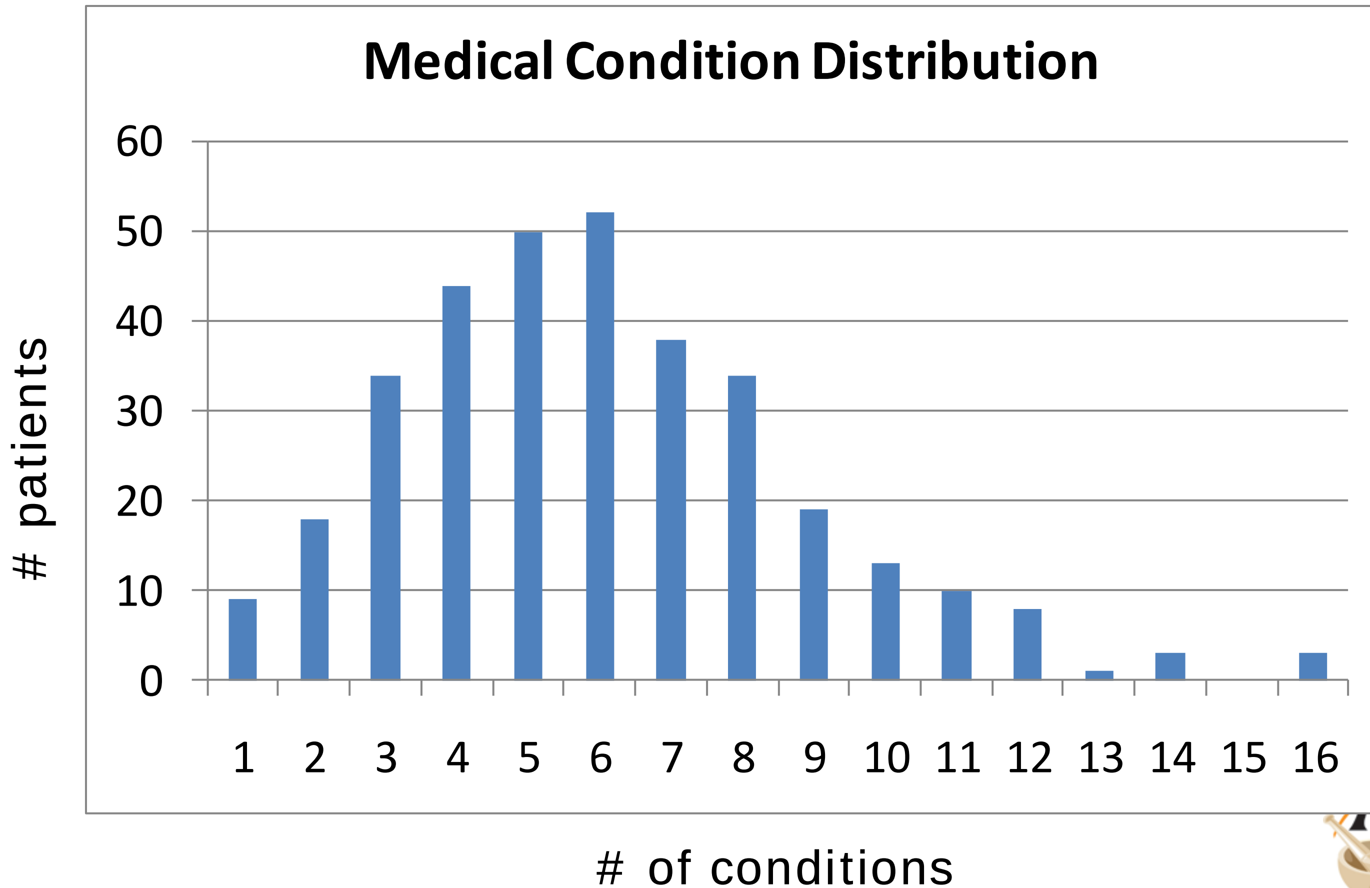
Patient Age

- Range 6 to 75 yrs, Std Dev 10.1



Medical Conditions

- Range 1-16, 2033 total



Most Frequent Co-morbidities

1. Hyperlipidemia
2. Hypertension
3. General Health – Vitamins
4. Immunization
5. Depression
6. Hypothyroidism
7. GERD
8. Prevent MI/Stroke
9. Osteoporosis
10. Pain
11. Allergic Rhinitis
12. Insomnia

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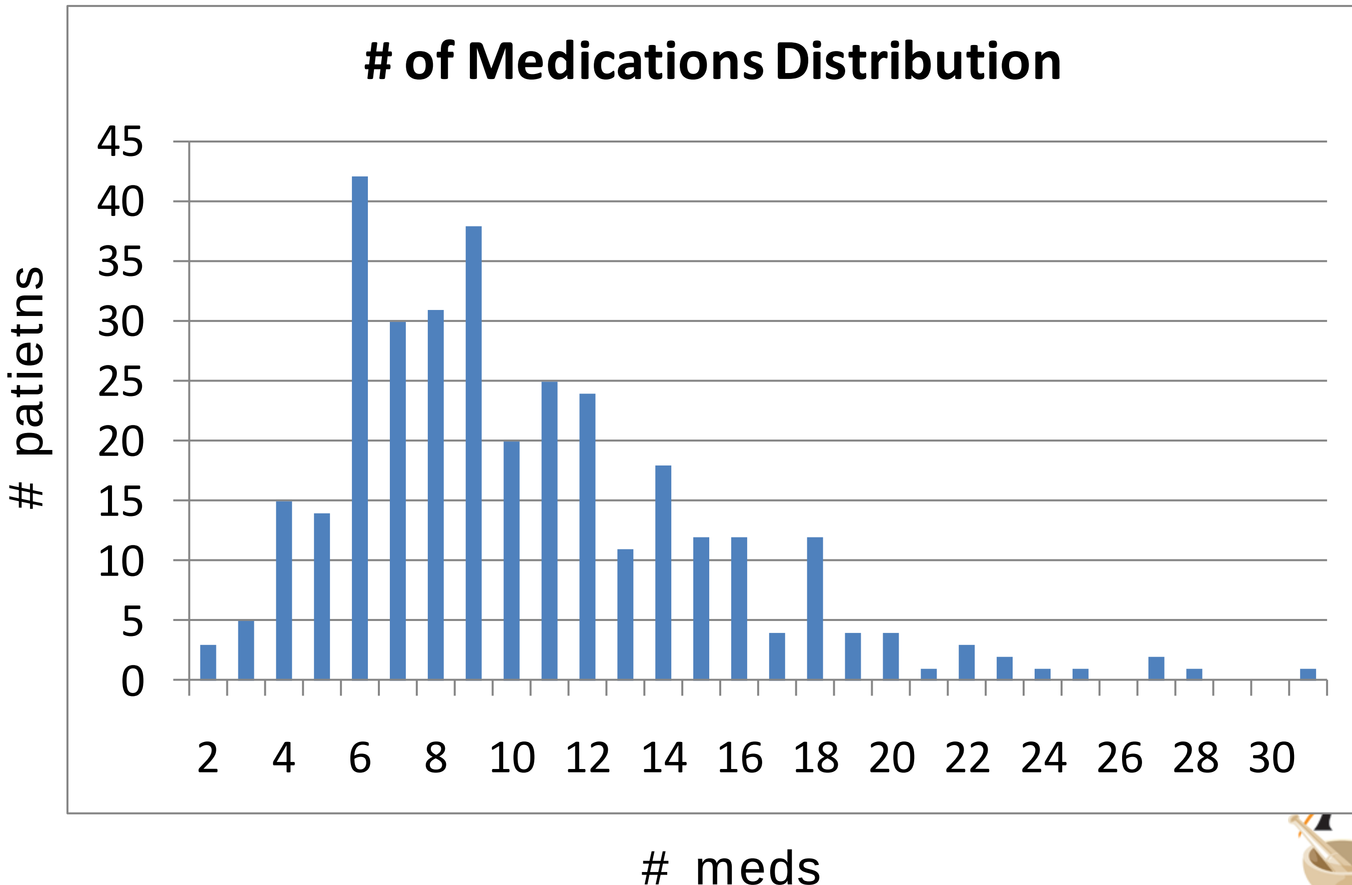
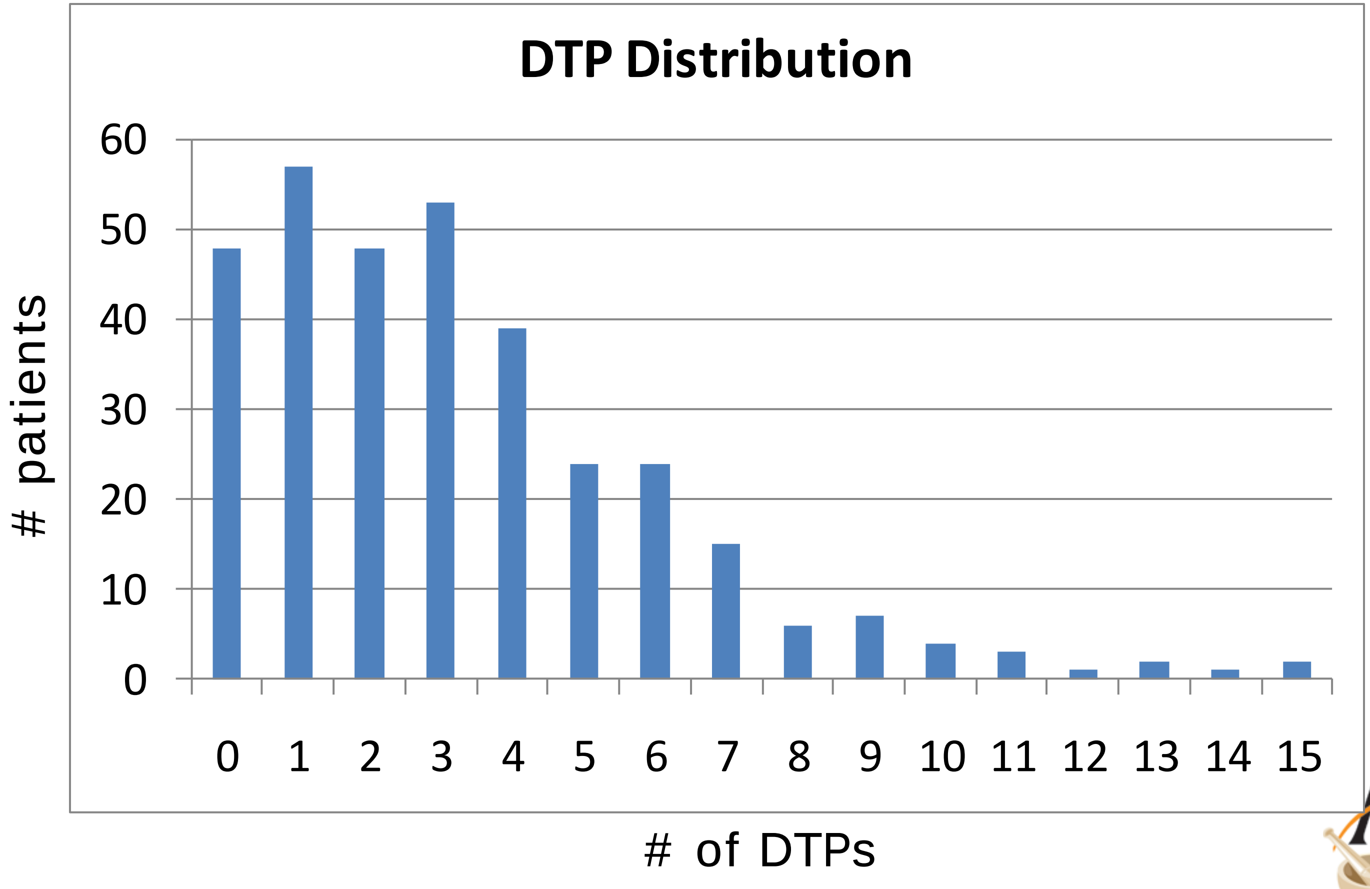
Medications

- Range 2-31, Std Dev 4.9, 3468 total



Drug Therapy Problems

- Range 0-15, 1,150 total



About the Patient
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Drug Therapy Problem Type

- Indication
  - Unnecessary Drug Therapy – 3%
  - Needs Additional Therapy – 37%
- Effectiveness
  - Ineffective drug – 6%
  - Dosage too low – 23%
- Safety
  - Adverse drug reaction – 11%
  - Dosage too high – 4%
- Compliance
  - Noncompliance – 16%
- TOTAL = 100%

About the Patient
www.aboutthepatient.net

Most common DTPs associated by medication condition

- Needs additional therapy – diabetes
- Dose too low – diabetes
- Need additional therapy – immunization
- Noncompliance – diabetes
- Dose too low – hypertension
- Noncompliance – hyperlipidemia
- Needs additional therapy – hyperlipidemia
- Adverse drug reaction – hyperlipidemia
- Adverse drug reaction – hypertension

- Accounted for 60% of all DTP

Most common DTPs associated by medication

- Needs additional therapy – vaccine
- Need additional therapy – ACE inhibitor
- Dose too low – insulin
- Noncompliance – glucometer testing
- Dose too low - biguanides
- Needs additional testing– glucometer testing
- Noncompliance – Statins
- Compliance - biguanides

- Accounted for 27% of all DTP

About the Patient
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Clinical Outcomes

- Hemoglobin A1C (goal<7%)
- Systolic (goal 90-130)
- Diastolic (goal 60-80)
- Total cholesterol (goal 50-200)
- LDL (goal 60-100)
- HDL (goal 40-100)
- Triglycerides (goal 50-150)

About the Patient
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Hemoglobin A1C

- 249 with multiple values
  - 1st value avg = 7.25
  - Last value avg = 6.98
    - $P<0.0005$, Std Dev 1.32, 1.03
- 46.6% of patients with multiple values had their initial result >7%
  - Avg A1C of these patients = 8.21
  - 32.8% of those patients are now within range
  - Avg A1C of all out of range patients on most recent result = 7.54
    - $P<0.0005$, Std Dev 1.28, 1.10

Systolic

- 282 have multiple values
  - 1st visit avg = 132
  - Most recent avg = 130
    - $P<0.0005$, Std dev 16.5, 15.4
- 47.5% did not initially meet goal
  - 32% now meet goal
  - 1st value avg = 146
  - Most recent avg = 138
    - $P<0.0005$, Std dev 11.35, 15.03

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Diastolic

- 279 have multiple values
  - 1st visit avg = 78
  - Most recent avg = 77
    - $P<0.0005$, Std dev 9.93, 9.09
- 41% did not initially meet goal
  - 47% now meet goal
  - 1st value avg = 84.88
  - Most recent avg = 80.3
    - $P<0.0005$, Std dev 10.13, 9.22

Total Cholesterol

- 180 have multiple values
  - 1st visit avg = 171.97
  - Most recent avg = 168.87
    - $P<0.0005$, Std dev 39.47,36.76
- 22.2% did not initially meet goal
  - 70% now meet goal
  - 1st value avg = 228
  - Most recent avg = 184
    - $P<0.0005$, Std dev 25.34, 33.68

About the Patient
www.aboutthepatient.net

LDL

- 172 have multiple values
  - 1st visit avg = 94.7
  - Most recent avg = 93.47
    - P<0.0005, Std dev 29.84, 29.38
- 46% did not initially meet goal
  - 46.8% now meet goal
  - 1st value avg = 108.87
  - Most recent avg = 98.56
    - P<0.0005, Std dev 37.8,31.61

HDL

- 181 have multiple values
  - 1^{st} visit avg = 45
  - Most recent avg = 44
    - Std dev 17,12
- 42.5% did not initially meet goal
  - 26% now meet goal
  - 1^{st} value avg = 36
  - Most recent avg = 36
    - Std dev 19,9

Triglycerides

- 170 have multiple values
  - 1st visit avg = 189.53
  - Most recent avg = 166.36
    - P<0.0005, Std dev 181,132
- 53% did not initially meet goal
  - 26.7% now meet goal
  - 1st value avg = 265
  - Most recent avg = 207
    - P<0.0005, Std dev 222,161

Other Indicators

- Weight – 284 w/multiple values
  - 1st value avg = 223
  - Last value avg = 223
- BMI – 175 w/multiple values
  - 1st value avg = 34.8
  - Last value avg = 34.8
- Activity level – 73 w/multiple values
  - 1st value avg = 1.92
  - 2nd value avg = 2.16
    - $P<0.0005$
- Caffeine– 35 w/multiple values
  - 1st value avg = 2.46
  - 2nd value avg = 2.29
    - $P<0.0005$

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Surveys

- Diabetes Awareness and Quality of Life surveys administered at baseline, 6 months, 12 months, 24 months
  - Results indicate that patients are entering program believing they have a good awareness of their diabetes and an acceptable quality of life
- Program satisfaction survey administered at 6, 12 & 24 months
  - Show high patient satisfaction
  - >90% of responses are 4 or 5 on a 5 point scale

About the Patient
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How do we compare?

Outcome	About the Patient	Asheville	10 City Challenge
Hemoglobin A1C (base/~1 yr)	7.25/6.98 N=249	7.7/6.7 N=81	7.5/7.1 N=554
LDL	95/93 N=172	115/108.5 N=70	97.5/94.1 N=528
HDL	45/44 N=181	46/47.5 N=72	Not reported
SBP	132/130 N=282	Not reported	132.5/130.1 N=551
DBP	78/77 N=279	Not reported	80.8/77.6 N=550
Annual healthcare spending reduction	?????	$1079/patient	$1200-1872/patient
Patient Satisfaction	90+%	90+%	90+%

About the Patient
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Summary

- Program has had successes and challenges
- Challenges
  - Enrollment figures
  - Data collection
- Successes
  - Clinical outcomes
  - Broad network
  - Sound structure
  - Patient satisfaction
- Successes outweigh challenges
  - Can improve in some areas

About the Patient
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Thank you

- Questions/Discussion

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

Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: Life Insurance Plan

In the next couple of months we will be bringing to you the RFP for the life plan. We need to conduct our bid and retain a vendor for the plan starting next July 1, 2011. By way of background, the attached is the report we received from our existing carrier about the plan and its performance.

PERFORMANCE AT ITS PEAK

Pru Analyzer Report Package

North Dakota PERS #44374

Group Life Benefit Programs

July 2010

Prudential

In this report, we are providing an analysis of key performance measures under North Dakota PERS's Life benefit plans. The experience period included in the analysis is from January 1, 2007 through December 31, 2009 for Life. Please note that data is unaudited and may include estimates.

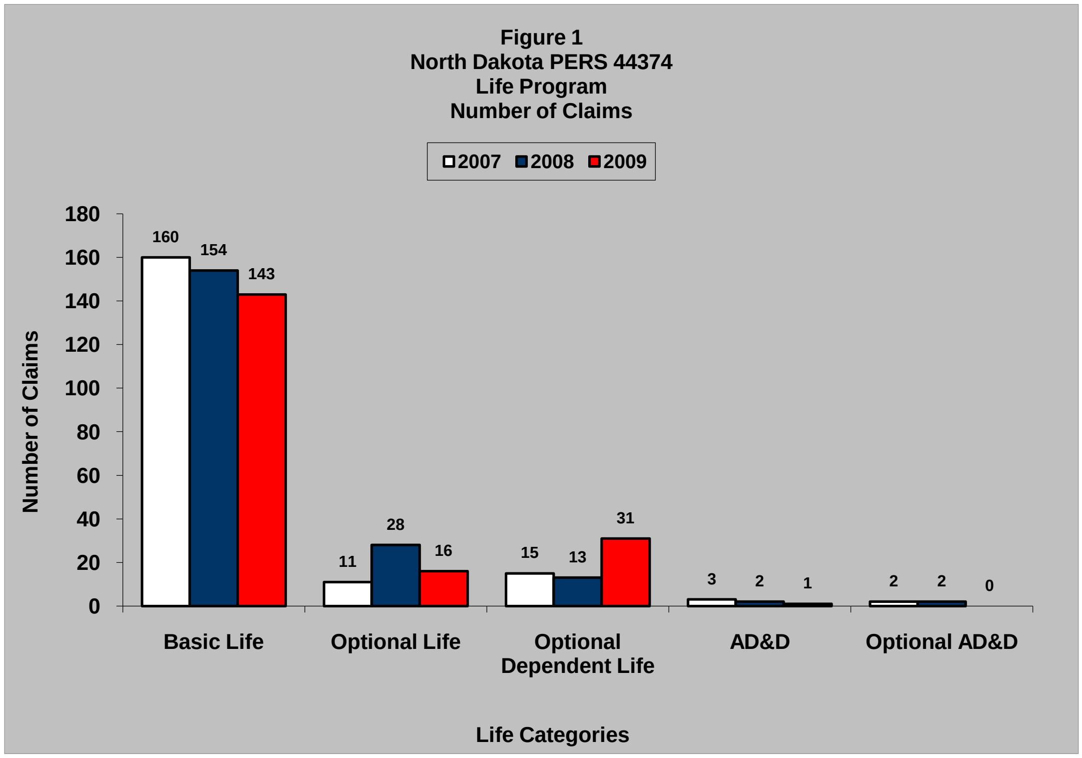
PERFORMANCE
AT ITS PEAK

Prudential

Life Insurance Programs

Number of Claims

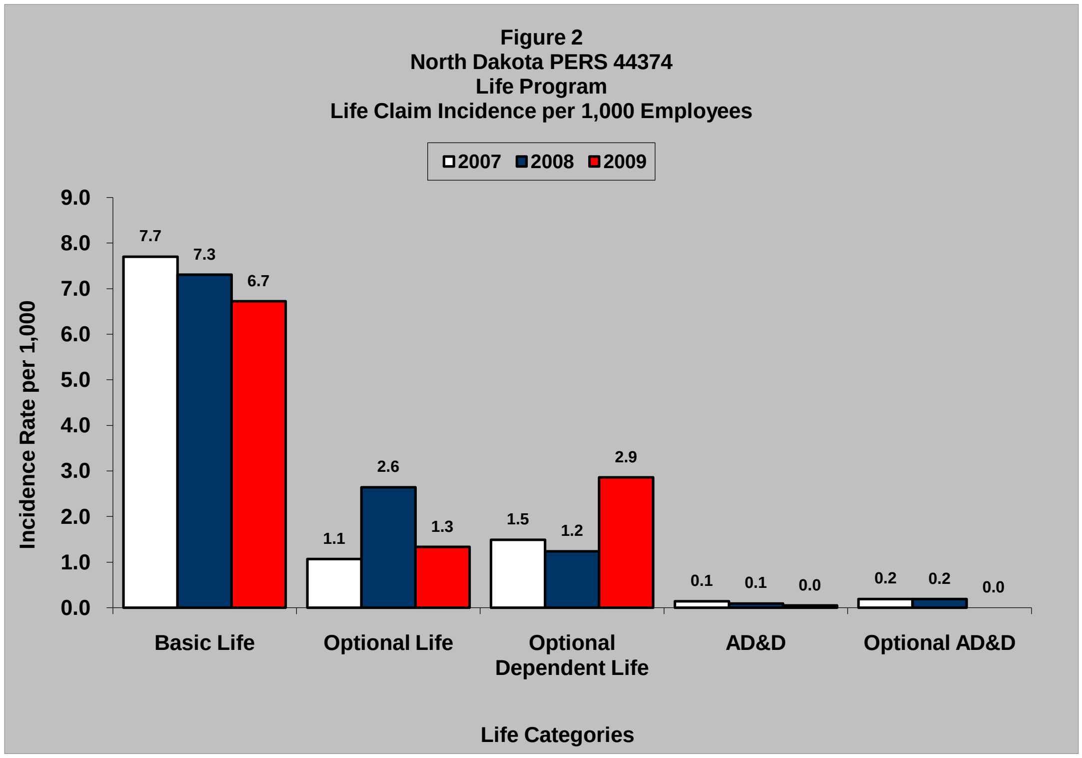
The number of Life claims with dates in 2007, 2008, and 2009 is shown in the chart below.



- The average number of Basic Life claims for the three periods is 152. The average number of Optional Life claims for the three periods is 18. The average number of Optional Dependent Life claims for the three periods is 20. The average number of AD&D claims for the three periods is 2. The average number of Optional AD&D claims for the three periods is 1.
- For Basic Life, the variance between 2007 and 2008 is -4%. The variance between 2008 and 2009 is -7%. For Optional Life, the variance between 2007 and 2008 is 155%. The variance between 2008 and 2009 is -43%. For Optional Dependent Life, the variance between 2007 and 2008 is -13%. The variance between 2008 and 2009 is 138%. For AD&D, the variance between 2007 and 2008 is -33%. The variance between 2008 and 2009 is -50%. For Optional AD&D, the variance between 2007 and 2008 is 0%. The variance between 2008 and 2009 is -100%.

Life Claim Incidence

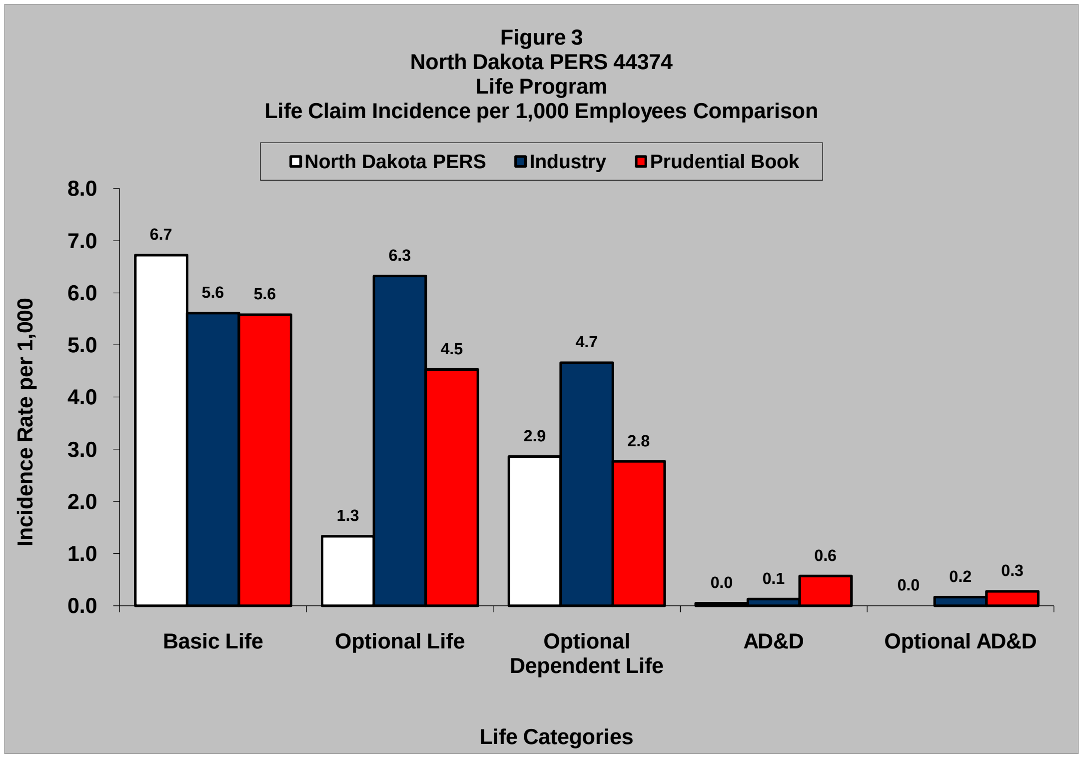
Claim incidence rates for 2007, 2008, and 2009 are shown in the following chart. The claim incidence rate is calculated by dividing the total number of claims by the average number of covered lives for the period being measured by product.



- The average incidence rate for Basic Life for the three periods defined is 7.2. The average incidence rate for Optional Life for the three periods defined is 1.7. The average incidence rate for Optional Dependent Life for the three periods defined is 1.9. The average incidence rate for AD&D for the three periods defined is 0.1. The average incidence rate for Optional AD&D for the three periods defined is 0.1.
- The claim incidence rate for Basic Life was lower from 2007 to 2008, and lower from 2008 to 2009. The claim incidence rate for Optional Life was higher from 2007 to 2008, and lower from 2008 to 2009. The claim incidence rate for Optional Dependent Life was lower from 2007 to 2008, and higher from 2008 to 2009. The claim incidence rate for AD&D was relatively consistent from 2007 to 2008, and lower from 2008 to 2009. The claim incidence rate for Optional AD&D was relatively consistent from 2007 to 2008, and lower from 2008 to 2009. The claim incidence rate for all other products was relatively consistent.

Claim Incidence Comparison to Benchmarks

The chart below shows how claim incidence rates for North Dakota PERS's Life plan for the most recent period compare to claim incidence rates for other Prudential customers in the Public Administration industry and to Prudential's book of business.

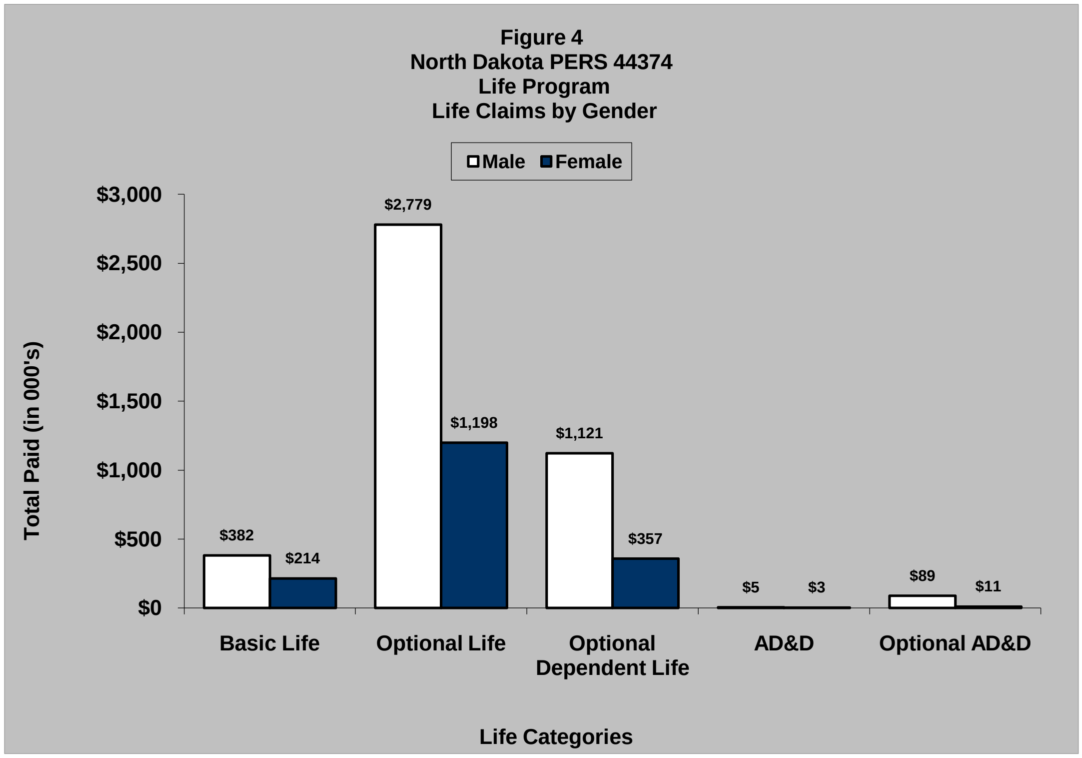


- The Basic Life claim incidence rate for North Dakota PERS was higher than for other Prudential similar industry clients and higher than for Prudential's book of business. The Optional Life claim incidence rate for North Dakota PERS was lower than for other Prudential similar industry clients and lower than for Prudential's book of business. The Optional Dependent Life claim incidence rate for North Dakota PERS was lower than for other Prudential similar industry clients and higher than for Prudential's book of business. The AD&D claim incidence rate for North Dakota PERS was lower than for other Prudential similar industry clients and lower than for Prudential's book of business. The Optional AD&D claim incidence rate for North Dakota PERS was lower than for other Prudential similar industry clients and lower than for Prudential's book of business.

Prudential

Life Claims by Gender

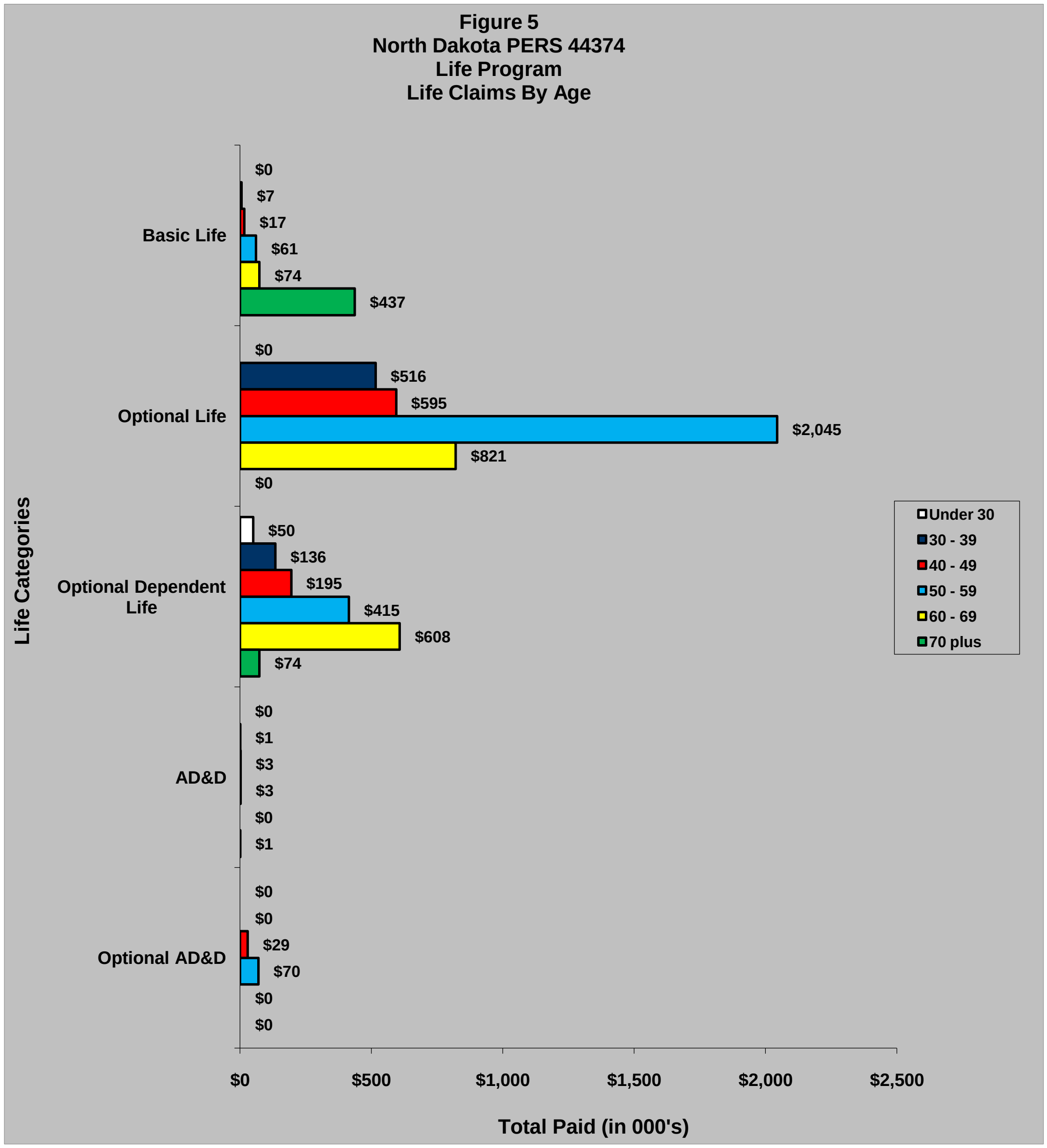
Life Claims by Gender combined for 2007, 2008, and 2009 are shown in the following chart.



- The claims for males were 71% of the total claims and females were 29%.
- The highest amount of claims is for males in the Optional Life category.
- According to a 2008 census, the split of male to female is 47.5% male and 52.4% female.

Life Claims by Age

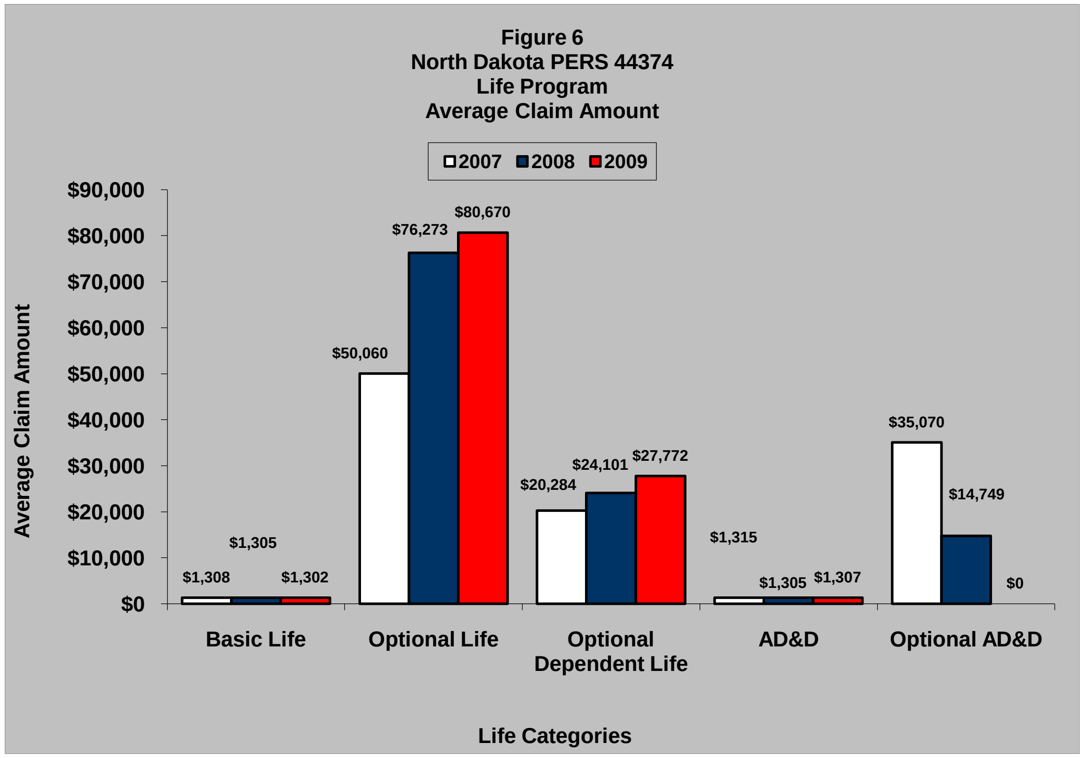
The chart below shows the life claims by age for North Dakota PERS combined for 2007, 2008, and 2009.



- The highest amount of claims is in the age 50 - 59 bracket.

Average Claim Amount

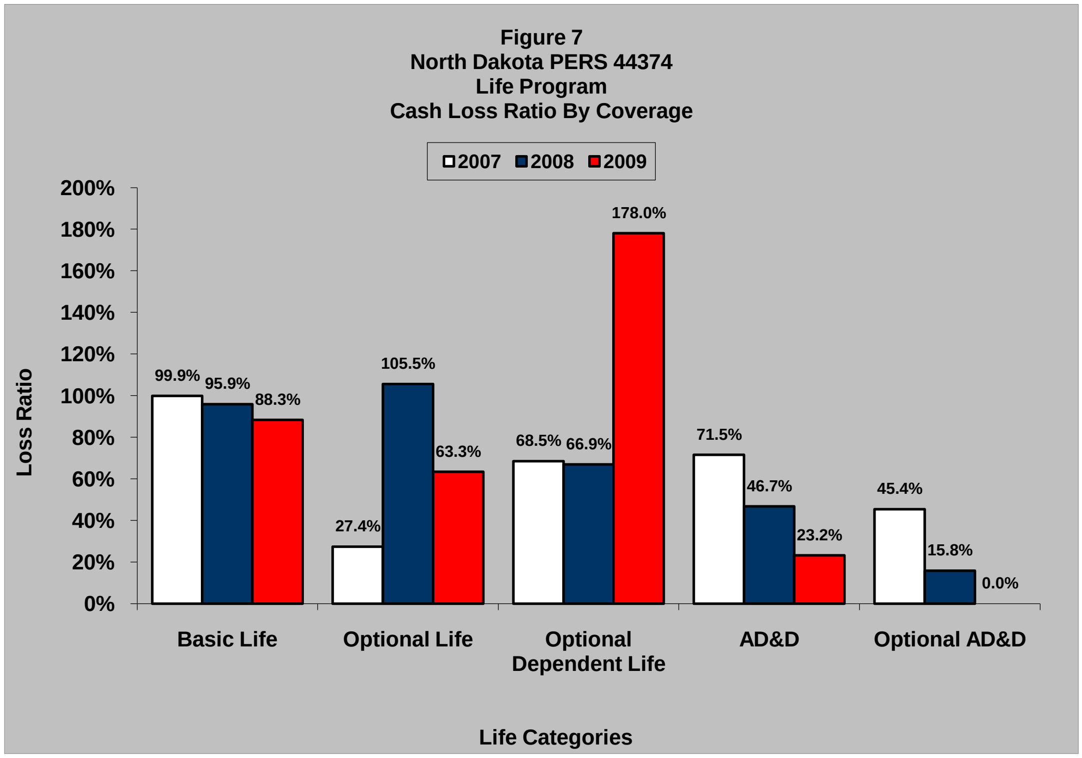
The average dollar value of benefits paid to claimants for 2007, 2008, and 2009 are shown in the chart below.



- For the three time periods measured, the average is highest for Optional Life.
- The average certificate per the 2008 census for defined coverage is Basic Life - $1,300, Optional Life - $79,007 and Dependent Life - $41,155.

Cash Loss Ratio by Coverage

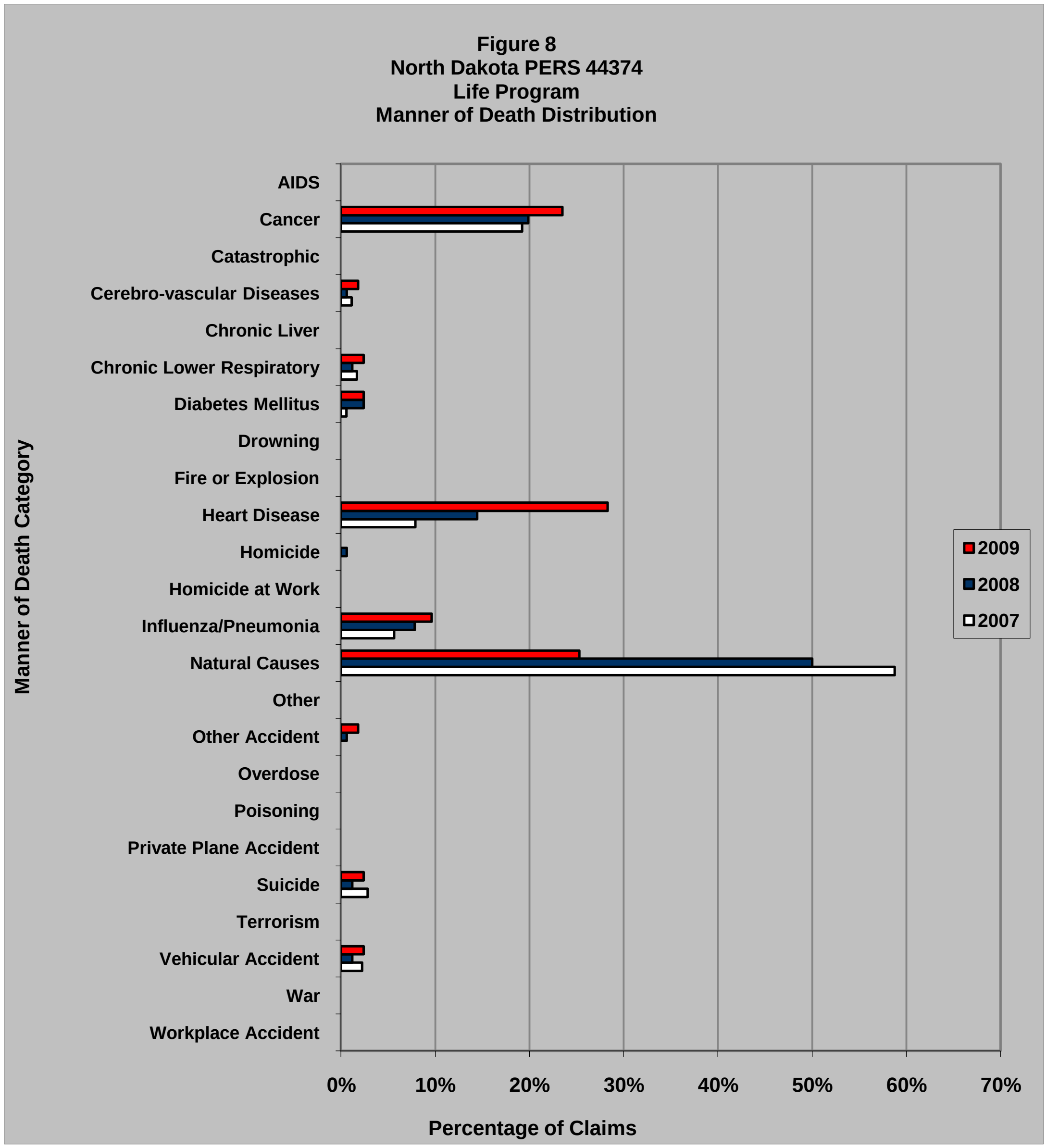
The chart below shows the loss ratio by coverage for 2007, 2008, and 2009.



- The loss ratio does not include incurred but not reported claims, pending claims or waiver of premium reserves.

Distribution of Claims by Manner of Death

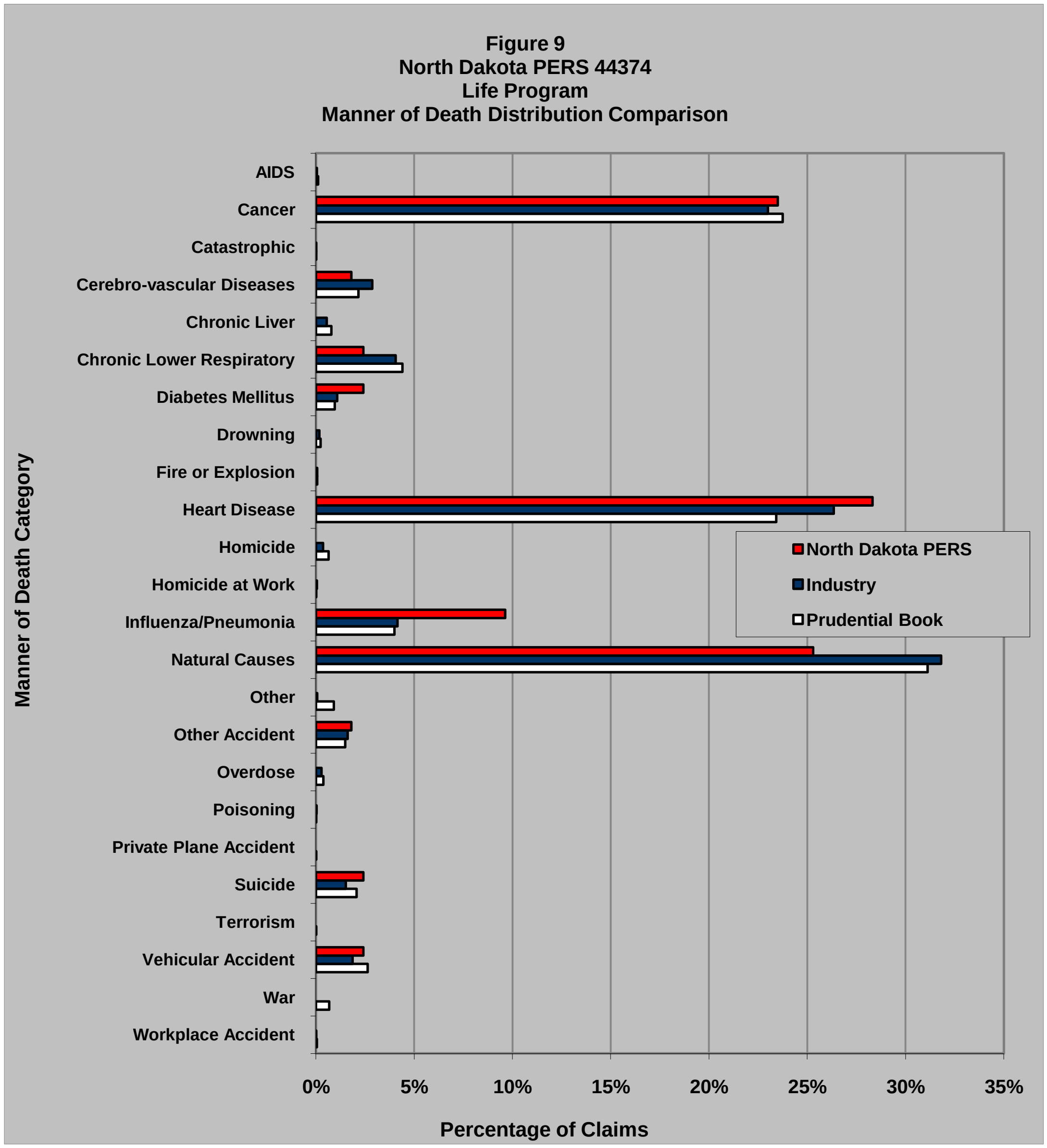
The distribution of claims by manner of death, for both employees and dependents, is shown below for claims with incurred dates in 2007, 2008, and 2009.



- Claims in the Natural Causes category comprise the highest percentage of total claims in 2007 and 2008. Claims in the Heart Disease category comprise the highest percentage of total claims in 2009.

Comparative Distribution of Claims by Manner of Death

The chart below shows how the manner of death distribution of claims for North Dakota PERS for the most recent period compares to that of other Prudential accounts in the Public Administration industry and to Prudential's overall book of business.



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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: Health Plan

Health Plan 2011-13

At the last meeting it was decided to award the bid to BCBS. We also noted that BCBS offered to us several options. One was to reproject the bid in February, and if the rates would be lower to pass that savings along or if they would be higher, not to pass that along. We also discussed at that last meeting the projected gain we will have this biennium. Since it is likely that the gain will be used to reduce premiums staff is suggesting that we may not want to have premium reprojection since the Governor and Legislature will already have the option to reduce rates using the gain.

Secondly, we need to decide that if the gain is to be used to buy down, who should that apply to since we need to be able to communicate that information to political subdivisions that are thinking about joining PERS. Staff would suggest that any buy down would only apply to employer groups and members on the plan in September of 2010. Any new group or new member on the plan after that date would get the full rate without a buy down.

Board Action Requested

1. To approve not having rates reprojected in February of 2011
2. To approve having any buy down only apply to groups and members on the plan in September of 2010.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: Vision Plan

GRS is working with Superior to follow up on the following questions from the last meeting:

1. To get a full understanding of their plan of benefits including the copay.
2. To verify if the following tests are covered or not:
    a. Color vision
    b. Depth Perception
    c. Cover Test
3. To insure that they could interface with our business system
4. To get a better understanding of what efforts they would pursue to enhance their network in North Dakota.

Attached is the GRS report on these items.

During the interview, Ameritas also offered us the opportunity to offer not only their indemnity plan but also the network product to our members. We did review the RFP to determine it this was within the scope of our request. The following is what we found:

> RFP pg. 14:
>
> **16 Modification**
> No proposal may be changed after the deadline for submissions of proposals unless language within the proposal is clarified at NDPER's request.

Since this was not requested in the RFP, this offer appears to be outside of the scope.

At this point we are focusing on the existing indemnity product offered by Ameritas and the network product offered by Superior. The premiums are:

	Current	Amertias Proposed	Superior Proposed
Employee	$5.16	$4.80	$4.92
Employee + spouse	$10.32	$9.60	$9.74
Employee plus child(ren)	$9.40	$8.76	$9.54
Employee + family	$14.56	$13.52	$14.52

Administrative Issue

If we do elect to change carriers we will need to decide if during the open enrollment we will:

a. Automatically transfer our existing vision members to the new coverage.
b. Require our existing vision enrolled members to elect the new coverage in order to be enrolled.

Board Action Requested

To determine which plan to offer and how the enrollment process will work.

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Memorandum

TO: PERS Board

FROM: Bryan Reinhardt

DATE: August 19, 2010

SUBJECT: 2009 Active Health Report

Attached is the NDPERS Active Health Report for 2009. Both average charge and average paid amounts increased only slightly from 2008. The increase was 10% last year. The volume of services shows a slight increase. Generic drug use is up from previous reports and the drug trend has leveled off.

We produce a similar report for each active group with over 100 employees and send it to the director and wellness coordinator.

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

NDPERS Health Care Analysis

2009

North Dakota Public Employees Retirement System

For January - December 2009, there were 19,124 active NDPERS employees. This is about 75% of the NDPERS contracts. The average age for all NDPERS active employees was 46 years. There were 29,588 dependents of NDPERS employees on the NDPERS health plan.

HOSPITAL

NDPERS health plan members had 57,111 hospital claims from January to December 2009. These claims had $121,727,284.78 in total charges. The NDPERS health plan paid $67,017,521.74 toward these charges.

HOSPITAL UTILIZATION
ADMISSION: 01/2009 - 12/2009

	CLAIMS	%	DAYS	CHARGES	PAID
CLAIM TYPE: IP=Inpatient OP=Outpatient					
IP NEWBORN	665	1	2405	$4,545,223	$3,086,963
IP MEDICAL	1059	2	3768	$13,629,237	$9,581,852
IP MATERNITY	617	1	1565	$3,727,073	$2,035,390
IP SURGICAL	1365	2	3897	$34,445,466	$22,282,627
IP PSYCH	164	0	1272	$1,781,719	$1,205,370
IP CHEM DEP	53	0	249	$305,337	$227,059
OP MATERNITY	1317	2	0	$667,730	$289,830
OP SURGICAL	6531	11	0	$24,660,230	$10,402,138
OP PSYCH	801	1	0	$1,235,147	$763,628
OP CHEM DEP	609	1	0	$1,659,956	$1,276,434
OP MEDICAL	43610	76	0	$33,291,330	$15,108,214
SNF & SWING BED	82	0	625	$582,427	$349,231
HOME HEALTH AG	132	0	0	$175,464	$147,881
HOSPICE	106	0	0	$1,020,947	$260,904
TOTAL	57111	100	13781	$121,727,285	$67,017,522

PHYSICIAN/CLINIC

NDPERS health plan members had 891,447 physician/clinic services from January to December 2009. These services had $124,644,584.05 in total charges. The NDPERS health plan paid $59,130,200.66 toward these charges.

PHYSICIAN/CLINIC UTILIZATION
SERVICE DATE: 01/2009 - 12/2009

TYPE OF SERVICE	SERVICES	%	CHARGES	PAID
SURGERY-IP	4005	0	$6,366,521	$3,166,520
SURGERY-OP	8219	1	$6,940,894	$2,681,753
SURGERY-OFFICE	20266	2	$7,182,407	$2,569,083
ANESTHESIA	10874	1	$6,587,898	$2,851,952
MATERNITY	7646	1	$2,974,452	$1,457,324
ANCILLARY ROOMS	3161	0	$4,698,097	$2,345,255
IP VISITS	11812	1	$2,585,908	$1,774,659
OP / ER VISITS	13314	1	$2,526,497	$1,236,052
OFFICE CALLS	154662	17	$20,451,847	$12,065,422
OPTICAL	12856	1	$1,194,607	$484,101
CHEM/PSYCH	30647	3	$4,834,033	$2,927,365
THERAPIES	124461	14	$14,944,884	$7,086,869
EKG/EEG	21981	2	$3,912,480	$1,610,714
DIAGNOSTIC LAB	197874	23	$12,615,682	$4,672,014
DIAGNOSTIC X-RAY	79372	9	$10,841,209	$4,842,218
RX/INJECTIBLES	115494	13	$9,092,136	$3,996,043
SPECIAL SERVICES	54994	6	$3,791,746	$1,817,415
SUPPLIES	5309	1	$477,956	$194,414
HME	14500	2	$2,625,331	$1,351,028
TOTAL	891447	100	$124,644,584	$59,130,201

PRESCRIPTION DRUGS

NDPERS health plan members had 442,723 pharmacy claims from January to December 2009. These claims had $47,700,149.24 in total charges. The NDPERS health plan paid $21,916,672.25 toward these charges.

PRESCRIPTION DRUG UTILIZATION
FILL DATE: 01/2009 - 12/2009

	CLAIMS	%	CHARGES	PAID
PRESCRIPTION DRUGS				
NON-GENERIC	140059	32	$30,720,984	$16,759,744
GENERIC	302664	68	$16,979,165	$5,156,928
TOTAL	442723	100	$47,700,149	$21,916,672

Generic drug use is at 68%, higher than the 65% reported in 2008, 60% reported in 2007, 56% reported in 2006, 52% reported in 2005, 48% reported in 2004, 44% reported in 2003, 41% reported in 2002, 40% in 2001 and 2000, 41% reported in 1999, 43% reported in 1998 and 44% 1997.

PERCENTAGES

EMPLOYEES, SPOUSES, & CHILDREN
BY MEMBERSHIP & CLAIM TYPE
01/2009 - 12/2009

	MEMBERSHIP		HOSPITAL CLAIMS		PHYSICIAN SERVICES		PHARMACY CLAIMS	
	Sum	%	Sum	%	Sum	%	Sum	%
CHILDREN	18164	37	14450	25	231707	26	79825	18
EMPLOYEE	19124	39	25508	45	398136	45	234870	53
SPOUSE	11425	23	17153	30	261604	29	128028	29
TOTAL	48712	100	57111	100	891447	100	442723	100

SUMMARY

Diagnostic x-ray and lab services make up 32% of the professional services for 1/2009 - 12/2009 (31% in 2008 & 2007, 32% in 2006 & 2005, 33% in 2004, 32% in 2003 & 2002, 31% in 2001 & 2000). Employees made up 39% of the active membership, but were responsible for 45 - 53 percent of the claims / services in 2009. This is the same as in 2008 & 2007.

The following graph shows that per capita charges increased 3.9% and per capita costs increased about 1.6% from 2008 to 2009. The average charge per active member per month was $124 in 1994, $134 in 1995, $143 in 1996, $155 in 1997, $171 in 1998, $189 in 1999, $207 in 2000, $224 in 2001, $256 in 2002, $300 in 2003, $318 in 2004, $363 in 2005, $396 in 2006, $437 in 2007, $484 in 2008 and $503 in 2009. The average amount paid by the NDPERS health plan per capita was $84 in 1994, $92 in 1995, $96 in 1996, $100 in 1997, $110 in 1998, $114 in 1999, $117 in 2000, $122 in 2001, $134 in 2002, $153 in 2003, $163 in 2004, $185 in 2005, $206 in 2006, $226 in 2007, $249 in 2008, and $253 in 2009.

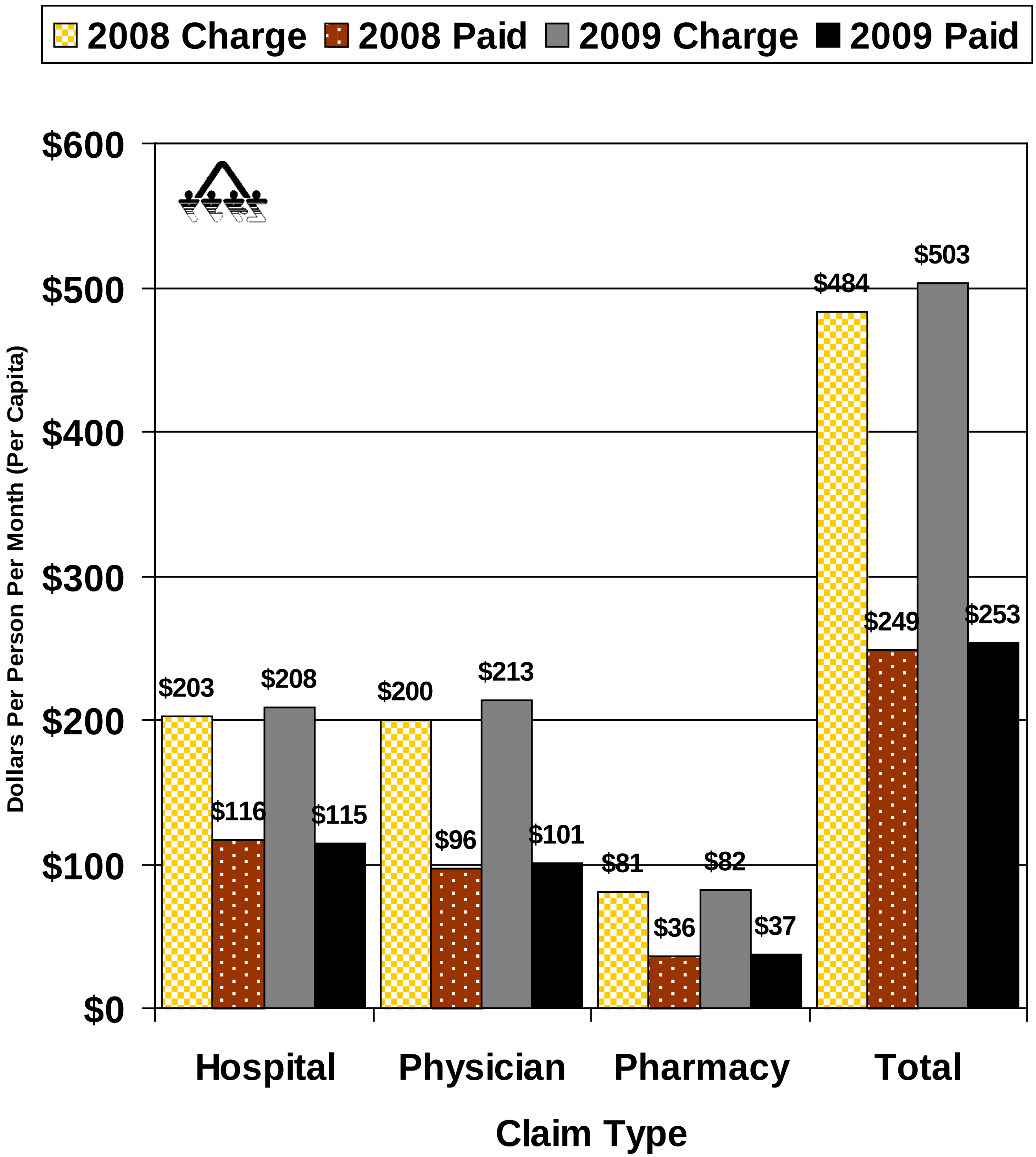
The second graph shows that the number of active claims per month increased slightly throughout 2009.

The last page shows that 2009 overall per capita costs increased for the NDPERS health plan, but the trend line appears to be leveling out.

NDPERS Health Plan

Active Contracts

2008-2009



North Dakota Public Employees Retirement System

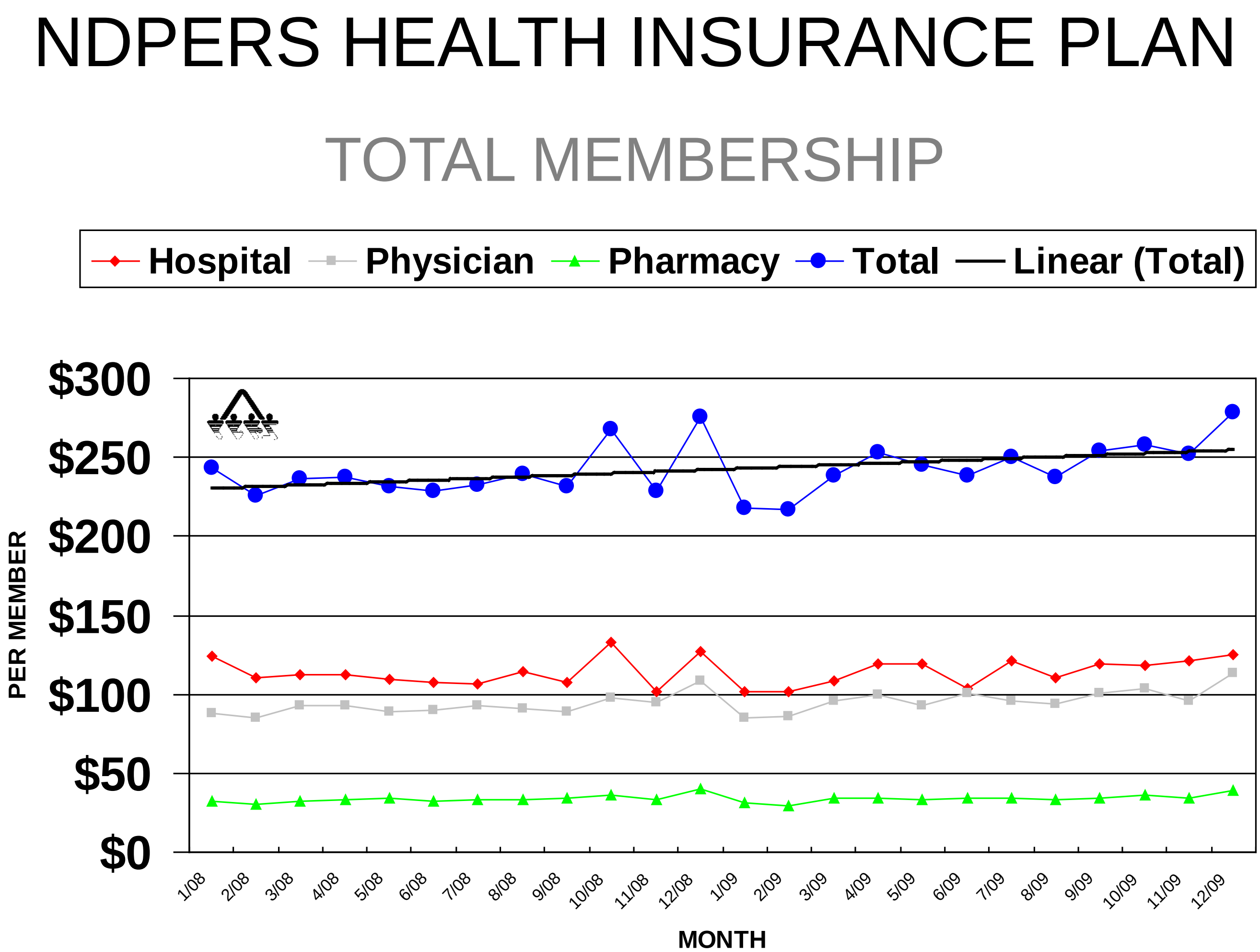
Health Insurance Claims

Jan-Dec 2009

TOTAL NDPERS HEALTH PLAN

The graph below is for the total NDPERS health plan. It shows the average amount the NDPERS health plan paid per member per month (per capita). The graph depicts the latest two years of NDPERS data.

The active employees are at the $315 per capita level. Their dependents cost the plan around $230 per person per month. The retired membership's per capita costs are around $200 per member. As the graph below shows, overall, the NDPERS health plan is just over $250 per person per month in medical claims. This is only slightly higher than the 2008 report when costs were just under $250. Costs were $225 in the 2007 report, $205 in the 2006 report, $200 in the 2005 report, $175 in the 2004 report, $160 in the 2003 report and $140 in the 2002 report. In addition to this, the NDPERS health plan currently pays $38.74 per month per contract in administration costs.



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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: PDP Renewal

Attachment #1 is the PDP renewal for 2011. As you will note, the increase for Rx coverage is $5.80 per month or about 9.1%. The increase is based upon the following:

- A 3.5% annual trend factor was used for 2011 (18 months @ 3.5% annual)
- For the 2010 rating, a 15.0% retention was used and for the 2011 rating, a 12.5% retention was used.
- For the 2010 rating, the CMS Payments were $51.20 and for the 2011 rating, the CMS Payments are $54.30. The CMS Payment is calculated from the national average monthly bid amount for standard Part D individual coverage, the Part D base beneficiary premium and the projected average risk score.
- For the 2010 rating, the estimated drug rebate was $22.40 and for the 2011 rating, the estimated drug rebate is $17.59. The estimated drug rebate is expected to decrease in 2011 due to changes in the rebate distribution and donut hole.

Attachment #2 is a letter from Deloitte concerning the renewal.

Board Action Requested

To approve or disapprove the attached renewal.

Staff Recommendation

Approve the renewal.

North Dakota Public Employees Retirement System

2011 Renewal for Group Prescription Drug Plan
Based on Current Plan Design

	2010		2011		
Enrollment on 6/30/2010	Monthly Premium	Annual Income	Monthly Premium	Annual Income	Rate Increase
6,658	63.70	$5,089,375	69.50	$5,552,772	9.1%

Notes for 2011 Renewal:

- The Centers for Medicare and Medicaid Services (CMS) reported on August 18, 2010 the national average monthly bid amount for standard Part D individual coverage of $87.05 and the Part D base beneficiary premium for 2011 (average individual premium) of $32.34. These amounts are decreases from those used in 2010, which were $88.33 and $31.94 respectively.

  Further information on this topic can be found at the CMS website:
  http://www.cms.gov/MedicareAdvtgSpecRateStats/Downloads/PartDandMABenchmarks2011.pdf

- Direct CMS subsidy payments, which account for more than half of expected claim costs for the NDPERS GPDP, are derived from bidding averages discussed above. For the 2011 NDPERS GPDP rating estimated total CMS payments are expected to increase by 6% from that assumed in the 2010 GPDP rating.

- The NDPERS Group Prescription Drug Plan (GPDP) has been rated for 2011 based on prior claim experience from the last half of 2009 and the first half of 2010.

Deloitte.

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Memo

Date: September 13, 2010

To: PERS Board

From: Pat Pechacek and Pete Roverud

Subject: 2011 PDP Renewal

PERS staff asked that Deloitte Consulting LLP, review the Blue Cross Blue Shield of North Dakota (BCBSND) 2011 PDP renewal calculation for reasonableness and appropriateness.

On August 18, 2010, the Centers for Medicare and Medicaid Services (CMS) released the national average monthly bid amount for Standard Part D and the Base Beneficiary Premium for 2011. BCBSND receives payments from CMS based on these bidding averages. CMS payments to BCBSND account for a large percentage of the overall needed premium and factor into the overall renewal.

The national average monthly bid amount for Part D coverage decreased to $87.05 ($88.33 in 2010), and the Part D base beneficiary premium increased to $32.34 ($31.94 in 2010).

Deloitte Consulting LLP reviewed the following factors in the renewal and found them reasonable:

- Experience Allowed and Paid Claim amounts
- Annual trend assumption (3.5%)
- Estimated drug rebate amounts
- Anticipated Loss Ratios (87.5%)
- CMS Payment estimates

Overall the monthly premium rates for 2011 will be increasing 9.1% from $63.70 to $69.50.

For the 2012 renewal, we recommend that PERS request that BCBSND provide the following supporting information:

USA Official Professional Services Sponsor

Professional Services means audit, tax, consulting and financial advisory services.

Member of Deloitte Touche Tohmatsu

- Historical drug rebates by quarter

- Historical and Assumed overall Part D beneficiary risk score

- Actual allowed and paid claims experience by month

Overall we find the renewal rate calculation reasonable and appropriate. However, in future years we would recommend working with BCBSND to try and get more historical data to monitor changes in experience and assumptions.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 13, 2010

SUBJECT: Health Legislation

Health Legislation – PERS

PERS has submitted one bill relating to the health plan. Attachment #1 is the technical review by Deloitte. No issues were identified in the review requiring changes.

Attachment #2 is a memo from Deloitte relating to maintaining our grandfathered status as a health plan. You will note on page 1 question #2 they indicate that a plan could lose its grandfathered status if a political subdivision decreases its contribution to health coverage. Consequently, if one of our political subdivisions changes its contributions by more than allowed, our entire plan could lose its grandfathered status. I have asked Aaron to review what authority the Board has to prevent such a change and he will report to you at the meeting. We may also need to consider requesting additional authority for the Board in this bill.

Health Legislation – Legislators

The following bills have been submitted by legislators and the reviews will be in the next Board book.

LC Bill Number	Sponsor	Bill Summary
10001.0200	Senator Mathern	A BILL for an Act to amend and reenact sections 54-52.1-03.2 and 54-52.1-03.3 of the North Dakota Century Code, relating to retiree health benefits for members of the legislative assembly.
10009.0100	Senators Nelson, Wardner	A BILL for an Act to require health insurance coverage for autism spectrum disorders; and to create and enact a new section to chapter 54-52.1 of the North Dakota Century Code, relating to public employees retirement system medical benefits coverage for autism spectrum disorders.
10036.0200	Senator Mathern	A BILL for an Act to create and enact a new subsection to section 54-52-04, five new sections to chapter 54-52.1, and a new subsection to section 54-52.1-01 of the North Dakota Century Code, relating to the expansion of the uniform group insurance program to allow participation by permanent and temporary employees of private sector employers and by certain other individuals who are otherwise without health insurance coverage; to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to subgroups under the uniform group insurance program; to provide an appropriation; to provide a continuing appropriation; and to provide an effective date.
10038.0100	Senator Mathern	A BILL for an Act to create and enact a new subsection to section 50-06-05.1 of the North Dakota Century Code, relating to the powers and duties of the department of human services.
10060.0200	PERS	A BILL for an Act to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to subgroups under the uniform group insurance program.
10068.0100	Senator Mathern	A BILL for an Act to enable the establishment and operation of member-run nonprofit health insurance issuers.
10103.0100	Rep. Carlson	A BILL for an Act to create and enact a new section to chapter 54-52.1 of the North Dakota Century Code, relating to health savings accounts under the uniform group insurance program.

The HSA bill submitted by Rep Carlson would allow for the implementation and administration of a consumer-directed health savings account as well as allow the Board to adopt incentives to encourage participation in this option. In order to have an HAS, it must be tied to a High Deductible Health Plan. Federal law authorizes the establishment of High Deductible Health Plans (HDHP), under which individuals may establish Health Savings Accounts (HSA) into which they and their employers can make federal tax-exempt contributions that can be used for the payment of certain qualified medical expenses. Annual contribution limits are established under federal law and are based on the individual's status, eligibility, and health plan coverage. The specific requirements of high-deductible health plans are provided in federal law, but generally require the payment of a certain minimum deductible and the expenditure of certain out-of-pocket expenses before an individual's medical services are covered under the plan. For 2010 the federal law states that in order to be eligible to establish a health savings account the qualified high deductible health plan must have deductible limits of at least $1,200 single and $2,400 family and the maximum out-of-pocket expenses must be no more than $5,950 single and $11,900 family.

The following is a comparison of the HDHP to our existing plan:

Plan Design	NDPERS PPO/Basic	High Deductible Health Plan
Single Deductible	$400	At least $1,200
Family Deductible	$1,200	At least $2,400
Single Out-of-pocket maximum	$1,150	No more than $5,950
Family Out-of-pocket maximum	$2,700	No more than $11,900
Copayments (office visits, therapy)	$20/25/30	Subject to Deductible and Out-of-pocket maximum
Prescription Drugs (generic, brand, non-formulary)	$5/20/25	Subject to Deductible and Out-of-pocket maximum

As presently drafted, the bill needs to provide additional guidance or clarification on the following points:

- While the bill provides authorization to set up an HSA it does not provide authorization to develop a high deductible health plan,
- The bill should clarify if PERS will contract with a HSA administrator to hold, invest and distribute health savings account assets, also guidance should be provided on how such a vendor would be selected,
- The bill should clarify if the HDHP is an additional offering or total replacement,
- In 54-52.1-06 it indicates the state will pay the full cost of the health premium. If an HDHP is added will that cost be for the HDHP or for the existing plan. Statutory clarification is needed. If the HDHP is an option it should state that the premium difference between the HDHP and the regular plan is available to the HSA.
- Will the state be responsible for HSA administrative and account charges, if so an additional appropriation may be required?
- Define if the HDHP is intended to cover political subdivisions and the state? Will it be optional, mandatory and can both be offered?
- If the HSA premium is not the difference between the high plan and the HDHP then how is the HSA contribution to be developed and paid?
- How will this apply to pre Medicare retirees and the rate process identified statute?
- Clarify the effective date for implementation.
- Depending on the guidance provided above an appropriation will need to be provided to NDPERS to make the necessary modifications to its business system

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September 13, 2010
Representative Bette Grande, Chair
Legislative Employee Benefits Committee
State Capital
600 East Boulevard
Bismarck, North Dakota 58505-0360

Dear Representative Grande:

RE: REVIEW OF PROPOSED BILL 10060.0200 AMENDMENT RELATING TO SUBGROUPS, RECEIVING BIDS FOR PRESCRIPTION DRUG COVERAGE, SELF-INSURANCE FOR PRESCRIPTION DRUG COVERAGE AND CONTINGENCY RESERVE FUND REQUIREMENTS

The following summarizes the proposed legislation as well as our assessment of the financial and technical impacts of the bill.

OVERVIEW OF PROPOSED BILL

As proposed, this bill would amend the North Dakota Century Code relating to the uniform group insurance program as follows:

- Allow another lower cost coverage option for retired employees not eligible for Medicare.
- Allow the board to receive separate bids for prescription drug coverage
- Allow the board to consider self insurance of the health insurance benefits as well as part or all of the prescription drug coverage.
- Establishes a target range of contingency reserve funds and a timeline to meet the reserve requirement

EXPECTED FINANCIAL IMPACT

The bill expands the options made available to the NDPERS Board and should not have any financial impact and will allow for exploration of plan and funding alternatives that could save costs in the future.

Lower Cost Option for Non-Medicare Eligible Retirees

Currently Non-Medicare retiree's rates are set at 150% of the active rate. The board is interested in offering a lower cost plan that does not increase the implicit subsidy as determined by the governmental accounting standards board's other postemployment benefit reporting procedure.

This bill would allow the board to consider offering a lower cost plan that is more affordable for premedicare retirees. The plan would be offered with a one-time open enrollment and then subject to

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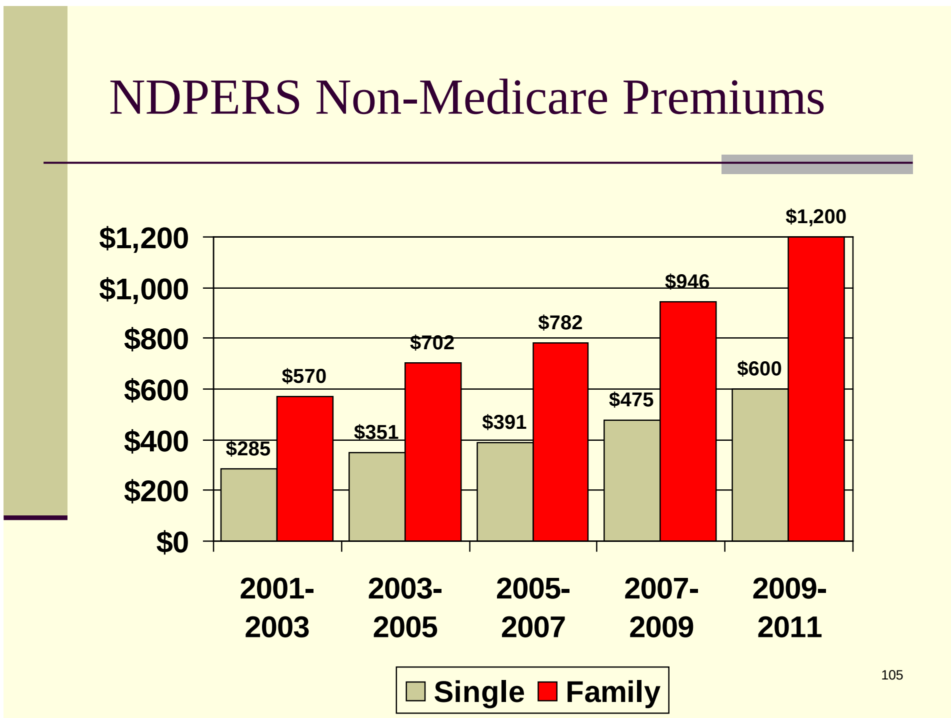
continuation as specified in section 54-52.1-03. As this is a lower cost option and is intended to be priced based on its true actuarial value, we anticipate no financial impact to the plan.

The challenge the premedicare group has had with rates under the existing structure can be viewed in the following graph from PERS;



As the above shows premiums have become very high. The proposed change would allow PERS to offer another lower cost plan. This additional plan would likely be a High Deductible Plan (HDHP) which would allow those eligible retirees to contribute to a Health Savings Account (HSA) as long as they are not Medicare eligible. There are many administrative and policy issues to consider which were addressed previously in a memo from Gallagher Benefit Services to Sparb Collins (December 28, 2007).

As another coverage option may be offered, provided the option does not increase the implicit subsidy as determined by the governmental accounting standards board's other post employment benefit reporting procedure. This option will need to be priced on a true actuarial value or higher. Much work has begun on exploring additional options for premedicare retirees and no new plan will be offered if it increases costs to PERS and its retirees.

Stand Alone Prescription Drug Plan and Self Insurance of Benefits

By allowing the board to receive separate fully insured and self insured bids for prescription drug coverage and health benefits separately, the board can consider additional vendors beyond those that currently administer the medical and hospital benefits. Stand alone pharmacy benefit managers have the potential to negotiate more advantageous arrangements as well as creating increased competition and advantageous pricing. The board would only consider a self insured plan if determined as less costly than an insured bid with equivalent contract benefits.

Contingency Reserve Fund

The proposed bill also changes the contingency reserve requirements of NDCC 54-52.1-04.3 for a self insured plan. The statute states:

> **54-52.1-04.3. Contingency reserve fund – Continuing appropriation.** The board shall establish under a self-insurance plan a contingency reserve fund to provide for adverse fluctuations in future charges, claims, costs, or expenses of the uniform group insurance program. *The board shall determine the amount necessary to provide a balance in the contingency reserve fund equal to three and one-half months of claims paid based on the average monthly claims paid during the twelve-month period immediately preceding March first of each year.* The board may arrange for the services of an actuarial consultant to assist the board in making the determination. All moneys in the contingency reserve fund, not otherwise appropriated, are appropriated for the payment of claims and other costs of the uniform group insurance program during periods of adverse claims or cost fluctuations. (emphasis added)

The italic and underlined section requires the board to establish a contingency reserve fund equal to 3.5 month of claims which would be currently be about $60 million. The Attorney General Office indicated this should be funded over a reasonable period of time. They also indicated that Incurred but Not Reported Claims (IBNR) can not be counted as part of the contingency reserve funds. The present statutory requirements::

1. Creates a significant disadvantage to a self insured option.
2. Changing its provision would help to make it more competitive and would enhance the bidding process cost

A market assessment was conducted and found that prudent and conservative recommendation of reserve levels would be 1.1 to 1.6 months for incurred but not paid (IBNP) claims and 2.0 to 3.2 months for Contingency Reserves. Based upon this review the proposed bill draft would now be to require a target of 1 - 1.5 month incurred but not paid reserve and a 1.5 – 3 month contingency reserve within 60 months of becoming self insured. This change will permit the board to implement an RFP strategy that considers self insured option and will provide a more competitive and enhanced bidding process that may reduce overall premium costs.

Sincerely,

Patrick L. Pechacek, CEBS Director	Peter Roverud Senior Manager

CC: Sparb Collins, NDPERS

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September 1, 2010

Sparb Collins
NDPERS
400 E. Broadway Ave., #505
Bismarck, ND 58501

Subject: PPACA "Grandfathering" Provisions

Dear Sparb:

This is an update to the memorandum dated May 11, 2010, which discussed the effect of grandfathered health plan status under Section 1251 of the Pension Protection and Affordable Care Act ("PPACA") (as modified by Section 2301 of the Health Care Education and Reconciliation Act) and the types of changes that could be made to a plan without causing it to lose grandfathered status. This update is based on Interim Final Regulations issued pursuant to Section 1251 on June 17, 2010.[i]

Of particular concern are certain issues relating to participation in the North Dakota Public Employees Retirement System's (NDPERS) Group Health Plan ("Plan"). Specifically –

1. ***Can the Plan lose its grandfathered status as a result of political subdivisions entering and leaving the NDPERS Plan?***

   The Interim Final Regulations provide, as a general rule, that a grandfathered health plan may allow new employees and their families to enroll without compromising the plan's grandfathered status. This rule encompasses both newly hired and newly enrolled employees. As a result, political subdivisions can enter the NDPERS Plan without causing it to lose grandfathered status. Likewise political subdivisions leaving the NDPERS Plan should not cause it to lose grandfathered status. As noted in the preamble to the Interim Final Regulations, "a group health plan … does not cease to be grandfathered health plan coverage merely because one (or even all) individuals enrolled on March 23, 2010 cease to be covered, provided that the plan … has continuously covered someone since March 23, 2010 (not necessarily the same person, but at all times at least one person)."

2. ***Can the Plan lose grandfathered status as a result of political subdivisions reducing their employee premium subsidy?***

   Yes. One of the enumerated changes that will cause a loss of grandfathered status is a reduction of employer's "contribution rate." The specific rule is as follows: "A group health plan … ceases to be a grandfathered health plan if the employer or employee organization decreases its contribution rate based on cost of coverage … towards the cost of any tier of coverage for any class of similarly situated individuals … by more than 5 percentage points below the contribution rate for the period of coverage that includes March 23, 2010." In order to avoid a loss of grandfathered status under this rule the NDPERS Plan might want to consider adopting a rule preventing political subdivisions from reducing their premium contribution rate by more than 5 percentage points from the contribution rate for the period of coverage including March 23, 2010.

Additionally, NDPERS should be aware of specific anti-abuse rules that should be considered anytime employees are being transferred into or out of the Plan.

Specifically, these anti-abuse rules provide a group health plan (including a benefit package under a group health plan) ceases to be a grandfathered health plan if –

- Employees are transferred into the plan or health insurance coverage (the transferee plan) from a plan under which the employees were covered on March 23, 2010 (the transferor plan);
- Comparing the terms of the transferee plan with those of the transferor plan (as in effect on March 23, 2010) and treating the transferee plan as if it were an amendment of the transferor plan would cause a loss of grandfather status under the Interim Final Regulations; and
- There was no bona fide employment-based reason to transfer the employees into the transferee plan. (Note that, for this purpose, changing the terms or cost of coverage is <u>not</u> a bona fide employment-based reason.)

Note also that, in order to maintain grandfathered status the Plan must disclose that it believes it is a grandfathered health plan and provide contact information for questions and complaints in any materials given to participants and beneficiaries that describe the plan's benefits. The Interim Final Regulations provide model language that can be used to satisfy this requirement. The Plan also must maintain sufficient records to verify its status as a grandfathered plan. These records must be available for examination by participants, beneficiaries, and government officials.

Following is a more detailed summary of the Interim Final regulations and other changes that will cause the Plan to lose grandfathered status.

What changes will cause plans to lose grandfathered status?

According to the Interim Final Regulations the following changes will cause a plan to lose grandfathered status:

Obtaining a new insurance contract

If the plan sponsor enters into a new policy, certificate, or contract of insurance after March 23, 2010, then the new policy, certificate, or contract of insurance is not a grandfathered health plan. Sponsors of fully-insured plans must renew the insurance contract in effect on March 23, 2010, to maintain grandfathered status. Self-insured plans cannot be converted to insured plans without losing grandfathered status even if no other changes are made to the plan's benefits, cost-sharing requirements, and other terms and conditions.

Eliminating benefits

A plan will lose its grandfathered status if all or substantially all benefits to diagnose or treat a particular condition are eliminated. This includes eliminating benefits for any necessary element to diagnosing or treating a condition.

> *Example*
>
> *A grandfathered group health plan stops paying for counseling, a necessary treatment for a covered mental health condition. The change causes the plan to lose its grandfathered status because counseling is an element necessary to treat the covered condition.*

Increasing employee cost-sharing requirements

A plan will lose its grandfathered status if there is any increase to an individual's coinsurance percentage requirement (or other percentage cost-sharing requirement) measured from March 23, 2010. For example, if the coinsurance percentage is increased from 10% to 20%, even if all other plan parameters remain unchanged (including out-of-pocket limits), the plan will lose its grandfathered status. Other cost-sharing increases may cause a plan to lose grandfathered status if the increase exceeds certain specific thresholds.

- In the case of *fixed-amount cost-sharing requirements other than copayments* – such as deductibles or out-of-pocket maximums – grandfathered status will be lost if the total percentage increase (measured from March 23, 2010) exceeds the "maximum percentage increase" (the increase in the overall medical care component of CPI-U since March 2010, plus 15 percentage points).
- In the case of *copayments*, grandfathered status will be lost if the total increase in the copayment (measured from March 23, 2010) exceeds the greater of $5 (increased by medical inflation) or the "maximum percentage increase."

Example

A grandfathered health plan increases its copayment for specialist office visits to $40. The copayment on March 23, 2010 was $30. Assuming the maximum percentage increase is 18%, the 33.33% increase in the copayment requirement will cause the plan to lose its grandfathered status.

Decreasing employer premium contributions

A plan will lose its grandfathered status if –

- The employer's contribution is based on the cost of coverage, and the employer decreases its contribution rate for any tier of coverage for any class of similarly situated individuals by more than 5 percentage points below the contribution rate for the coverage period including March 23, 2010.
- The employer's contribution is based on a formula (e.g., hours worked) and the employer decreases its contribution rate for any class of similarly situated individuals by more than 5 percentage points below the contribution rate for the coverage period including March 23, 2010.

Example

The sponsor of a grandfathered group health plan pays 80% of the total cost of self-only coverage and 60% of the total cost of family coverage. The sponsor reduces its contribution for family coverage to 50% of the total cost, but does not change its contribution for self-only coverage. The 10 percentage point reduction in the sponsor's contribution for family coverage causes the plan to lose its grandfathered status even though there is no change to the sponsor's contribution for self-only coverage.

The contribution rate is the employer's contribution compared with the total cost of coverage, expressed as a percentage. (For self-insured plans the total cost of coverage is the plan's COBRA premium.) Note that the dollar amount of employer and employee contributions may increase as the total cost of coverage increases without changing the employer's contribution rate. However, freezing the dollar amount of employer contributions will lead to a reduction in the employer's contribution rate as the total cost of coverage increases.

Adding new annual limits or reducing existing ones

A plan will lose its grandfathered status if –

- It did not impose an overall annual or lifetime limit on the dollar value of benefits on March 23, 2010, but subsequently imposes an overall annual limit on the dollar value of benefits.
- It imposed an overall lifetime limit, but no overall annual limit, on the dollar value of benefits on March 23, 2010, and subsequently imposes an overall annual limit at a dollar limit that is below the lifetime limit on March 23, 2010.
- It imposed an overall annual limit on the dollar value of benefits on March 23, 2010, and subsequently decreases the dollar value of the annual limit.

In addition to the potential consequences for grandfathered status, any changes with respect to overall lifetime or annual limits also must comply with the PPACA's new restrictions on such limits. No overall lifetime limits are permitted for plan years beginning on or after September 23, 2010, and overall annual limits are banned for plan years beginning on or after January 1, 2014. (Future regulations will address "restricted annual limits," which are permitted until the ban on overall annual limits takes effect.) These restrictions apply to all group health plans, including grandfathered plans.

Sincerely,

Patrick L. Pechacek

Patrick L. Pechacek, CEBS

Robert Davis, JD

cc Pete Roverud

[i] 75 FR 34538 (June 17, 2010).

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
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Memorandum

TO: PERS Board

FROM: Sparb and Kathy

DATE: September 13, 2010

SUBJECT: Early Retiree Subsidy

We received the following notice from HHS indicating that we have been approved for the early retiree subsidy. We have gotten some calls from retirees asking what we are going to do with the money. Based upon the Board's action several months ago, we are letting them know that the funds will be used to help reduce future premium increases.

Re: Plan Sponsor Name: North Dakota Public Employees Retirement System
Plan Name: North Dakota Public Employees Retirement System Da

Dear Kathleen Allen:

The U.S. Department of Health & Human Services (HHS) has approved the application referenced in this email for participation in the Early Retiree Reinsurance Program (ERRP). The sponsor and employment-based plan identified in the application and noted above are certified for participation in the ERRP.

HHS' ERRP Center will soon send, to the Account Manager and Authorized Representative identified in the application, an email inviting them to register for the ERRP Secure Website, which will allow the Plan Sponsor to begin preparations for the reimbursement process. Please be aware that, as part of these preparations and prior to requesting reimbursement, the Authorized Representative will be required to login to the ERRP Secure Website and certify, among other requirements, that the Plan Sponsor:

- Will use any and all ERRP reimbursement proceeds to: (A) Reduce the sponsor's health benefit premiums or health benefit costs, (B) Reduce health benefit premium contributions, copayments, deductibles, coinsurance, or other out of pocket costs, or any combination of these costs, for plan participants, or (C) Reduce any combination of the costs in (A) or (B).

- Will maintain its level of contribution to supporting the plan, if the sponsor is using any portion of ERRP reimbursement funds to reduce its own health benefit premiums or health benefit costs.

- Will not use any ERRP reimbursement as general revenue.

- Will provide a form notice to plan participants notifying them that, because the plan is participating in the Affordable Care Act's Early Retiree Reinsurance Program, the plan may use the payments to reduce premium contributions, co-payments, deductibles, co-insurance, or other out-of-pocket costs, and therefore that plan participants may experience such changes in the terms and conditions of their plan participation.(The form notice will be provided to plan sponsors in September.)

- Will submit claims only for items and services that Medicare would cover. (Guidance regarding the submission of Medicare-eligible claims will be provided in September).

- Will not submit claims associated with plan participants who are not U.S. citizens or lawfully present in the U.S.

In the near future, HHS will also provide further guidance about the reimbursement process, including guidance related to when certified Plan Sponsors may begin to submit reimbursement requests. We anticipate payments beginning in October. We encourage you to regularly monitor the ERRP website at http://www.errp.gov for this and other program information.

If you have any questions about this notice, please reply to this email. Please be certain that any such reply contains the Application ID provided in this email. For additional information about ERRP, please refer to http://www.errp.gov or contact us toll-free at 1-877-574-3777.

Sincerely,
HHS' ERRP Center

Earlier estimates are that this could result in approximately $1-1.5 million a year. We are awaiting instructions on how to file for the subsidy.

The following entities were also approved in North Dakota:

- Border States Industries, Inc.
- City of Fargo Health Trust
- MDU Resources Group, Inc. Health and Welfare Benefits Program
- Noridian Mutual Insurance Company

In addition, the following release was issued concerning the initial approvals:

Tuesday, HHS announced it approved 2,000 employers and unions to participate in the $5 billion early retiree reinsurance program created in PPACA (Section 1102). The program to be operated by HHS' new Office of Consumer Information and Insurance Oversight targets retirees age 55 and older not eligible for Medicare. The list of eligible employers (from public and private organizations) includes manufacturers, hospitals, health plans, unions, states (7), local governments and educational institutions, among others. Employers get up to 80 percent reimbursement for medical claims for early retirees and their spouses, surviving spouses and dependents. Funds are to be used to reduce future employee health care costs via premium relief to workers and families, or both. The program ends January 1, 2014, when state health insurance exchanges begin operating

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Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: September 14, 2010

SUBJECT: FlexComp Payment Issue - Update

At the February meeting we provided the Board an update regarding the progress made in correcting the error we discovered in May 2009 that occurred due an upgrade to the PeopleSoft FlexComp claim processing system. Of the 106 accounts affected, we reported that there were three accounts unresolved which totaled $546.72 in adjustments. The Board was advised that, based on information from our consultant and OMB, we had the option to write off these account balances and issue individual amended 2009 W-2 forms. The Board approved this course of action.

Staff made a request to OMB to amend the W-2 forms and OMB provided us with an outline of the actions they would have to take to accomplish our request as follows:

1) Adjust the gross wages, social security wages, Medicare wages, social security taxes withheld, and Medicare taxes withheld for the three employees in the PeopleSoft payroll tables for tax year 2009.
2) Rerun the W-2 creation process within PeopleSoft for each of the three employees.
3) Print and mail the updated 2009 W-2 forms to each employee.
4) Report the updated W-2 information for each employee to the Social Security Administration.
5) Prepare and file a 941X with the IRS to update the gross wages, social security wages, Medicare wages, social security taxes withheld, and Medicare taxes withheld for the 4th quarter of 2009.
6) Prepare a voucher for payment to the IRS for the amount of employee and employer share of Medicare and social security taxes on these employees. This payment accompanies the 941X filed with the IRS. <u>NOTE: This presents the biggest question of who pays these taxes. OMB cannot bill the associated agencies for this amount or use general fund dollars.</u>
7) Contact the State of North Dakota Tax Department and update the gross wages, social security wages, Medicare wages, social security taxes withheld, and Medicare taxes withheld for each of the three employees.

Overall, OMB would spend about three to four hours performing the above tasks.

Based on the response, staff requested the assistance from the Attorney General's to send a final collection letter to the three individuals. The letter was sent on July 15 with a response date of August 31st. None of the individuals responded to our request by the requested date.

Upon further consideration by staff, it was determined that due to the number of hours it would require to perform the tasks as outlined, the cost to OMB to take the corrective action, the expense incurred for the full FICA tax liability, and dollar amount involved that the cost to comply with the action previously approved by the Board would likely exceed the value of making the adjustments to the W-2 forms for these individuals.

It is staff's recommendation that the balance of each of the accounts be written off and that we not request OMB to recalculate taxable earnings and reissue W-2s for these individuals.

Board Action Request

- Approve staff recommendation.
- Direct OMB to proceed with the corrective tasks as previously approved including authority for NDPERS to pay the full FICA tax of $83.65 on the $546.72.