NDPERS BOARD MEETING
Agenda

Bismarck Location:
WSI
1600 East Century Ave
Fargo Location:
WSI
4165 30th Ave South, Suite 104

September 19, 2014 **Time: 8:30 AM**

I. MINUTES
A. August 21, 2014

II. PRESENTATIONS
A. Gallagher Valuation Update – Sparb (Information)
B. BCBS Quarterly Executive Summary (Information)
C. Silver Sneakers Program – Sparb (Information)

III. RETIREMENT
A. Actuarial Audit – Sparb (Information)
B. DC 401(a) Reporting – Bryan (Information)

IV. GROUP INSURANCE
A. Medicare Blue Rx Rate Renewal – Sparb (Board Action)
B. Health Insurance Bid Update – Sparb (Information) *Executive Session
C. 2013 Active Health Report – Bryan (Information)
D. Wellness Renewal & Lt Governor's Award – Rebecca & Stacy (Information)

V. FLEX COMP
A. Other Employer-Sponsored Voluntary Insurance Products – Kathy (Board Action)

VI. MISCELLANEOUS
A. Audit Committee Minutes – (Information)

*Executive Session pursuant to NDCC §44-04-19.1(9) and §44-04-19.2 to discuss negotiating strategy or provide negotiating instructions to its attorney or other negotiator.

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

North Dakota
Public Employees Retirement System
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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 11, 2014

SUBJECT: Gallagher Presentation

Mr. Doug Anderson with Arthur J Gallagher & Co will be at the next Board meeting to review with you the work they have done for the Legislative Government Finance Committee. Attached are the following:

1. Summary of Findings of the Actuarial Audit of PERS (Attachment #1).
2. Defined Contribution Benefits vs NDPERS Defined Benefits presentation (Attachment #2).
3. Final Report (Attachment #3).

Doug will review the above with you and answer questions.

Actuarial Audit of NDPERS Plan Design Study Summary of Findings

DOUG ANDERSON | SEPTEMBER 19, 2014

Table of Contents

This report is intended for use by the North Dakota Public Employees Retirement System Board of Directors. The purpose of the report is to summarize results of an independent review by Gallagher Benefit Services, Inc. of information originally prepared by The Segal Company for the NDPERS relative to the cost of potential NDPERS changes.

Participant data for this review was provided by both NDPERS and The Segal Company and the results included herein are dependent on the accuracy of that data. Results were based on an attempted match of the July 1, 2013 actuarial valuation report, the plan provisions in effect at that time, and except as noted, the assumptions used for that valuation.

Gallagher Benefit Services, Inc. expresses no opinion on the proposed plan design changes other than providing a range of reasonable cost forecasts as noted in this report. The actuary preparing this report is a member of the American Academy of Actuaries and meets the Qualification Standards to provide the actuarial opinions contained in this report.

Participant Data Review

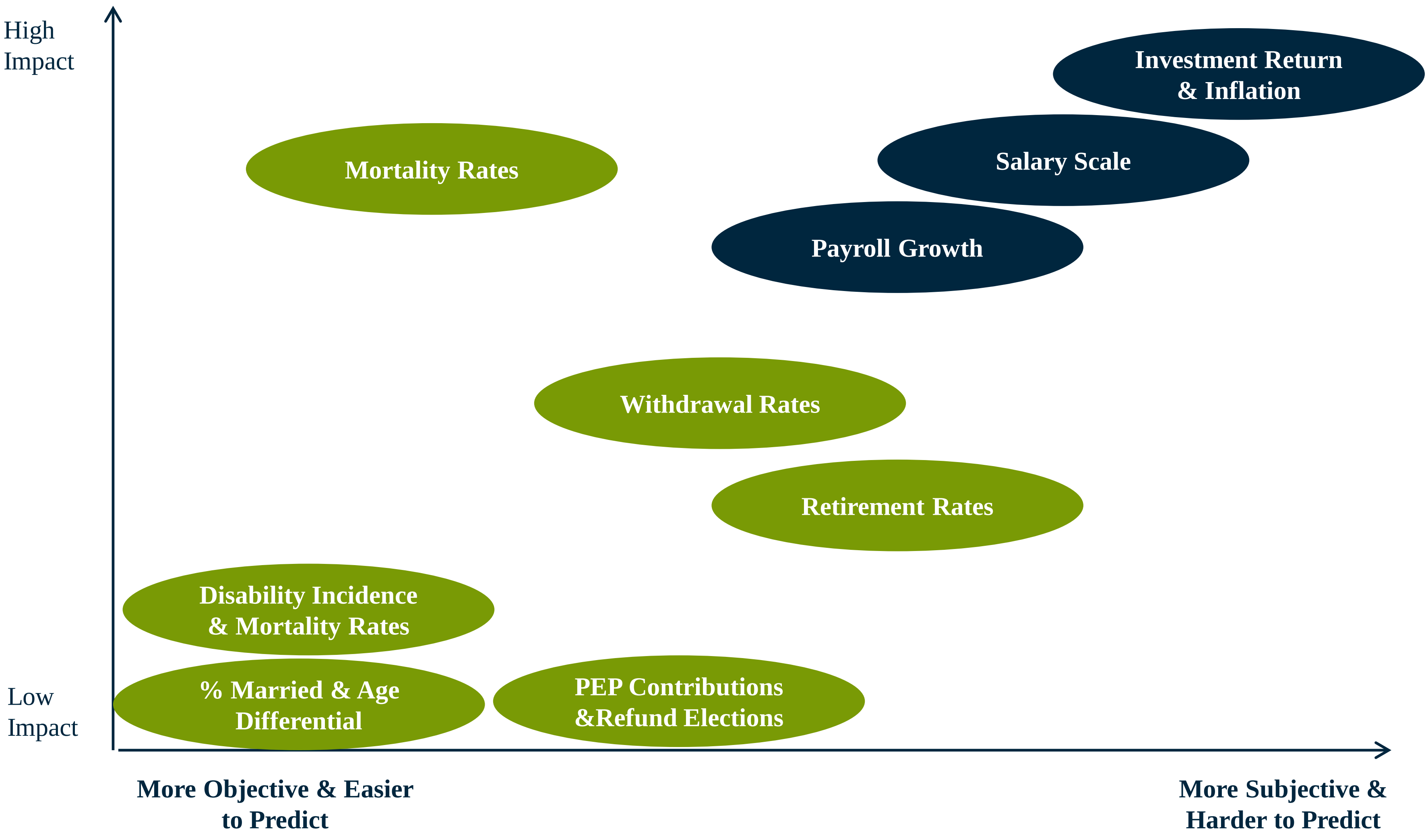
Participant Data Review

Gallagher found that the data file provided by NDPERS and the data file used by Segal in their valuation matched and had reasonable field values for over 99% of the records. The remaining less than 1% had issues as noted here.

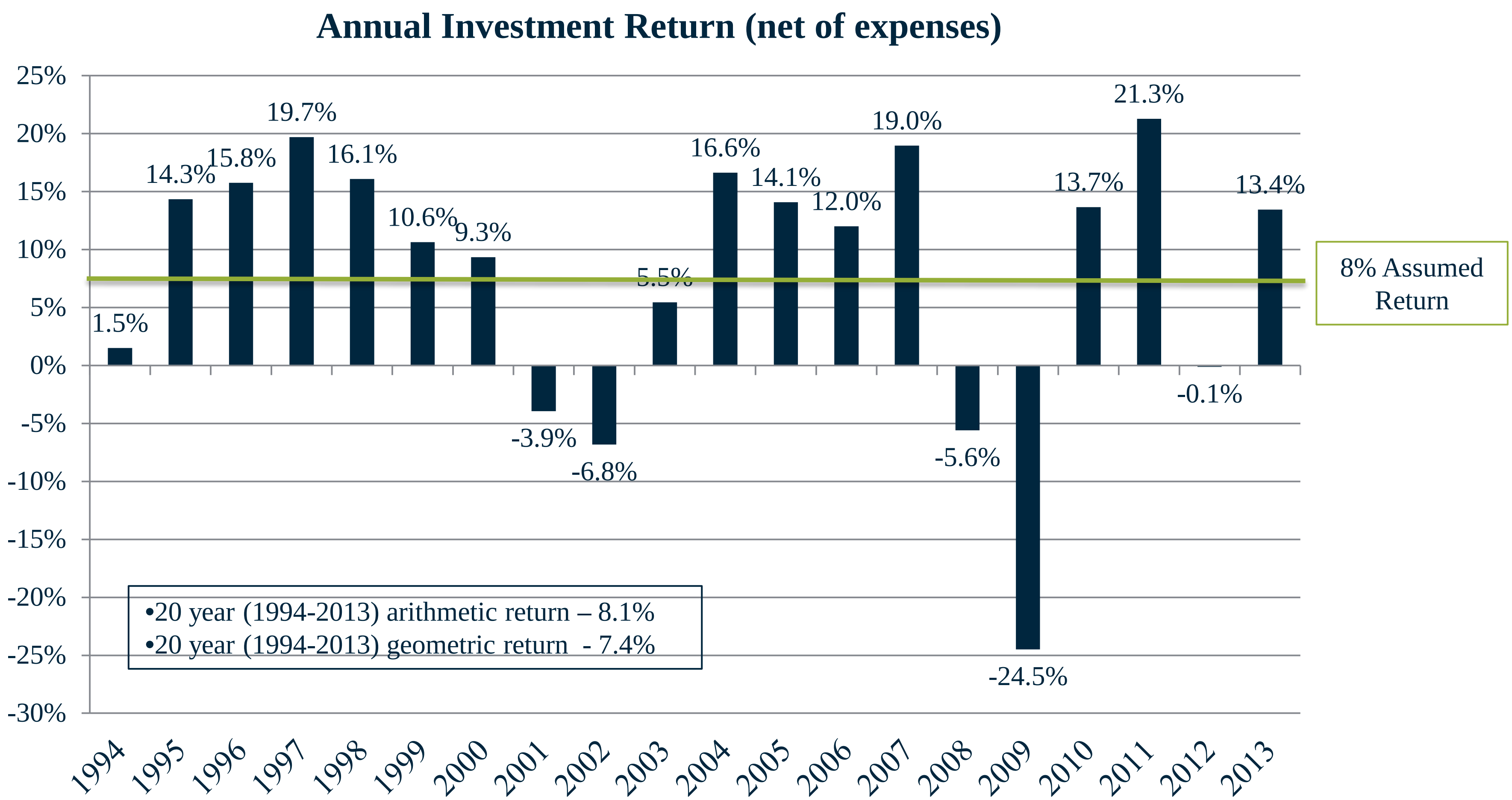
Issue	Count	Comments
Missing Records	63	Based on EEID, 60 records (mostly retirees) from NDPERS don't appear in Segal's file; 3 records from Segal don't appear in NDPERS file.
Spouse DOB	1	NDPERS reported year as 2080; Segal appeared to correct to 1980
Benefit Amount	6	Benefit amount differs for 6 retirees; differences range from 5.6% high to 15.3% high.
Deferred Benefit Amount	138	NDPERS reports benefit amount for vested terminated participants as $0; Segal shows benefit as >$0.
Employee Contributions	38	NDPERS reports employee account balance as $0; Segal shows balance as >$0. 36 of 38 are new hires; 2 are retirees.
Benefit Service	37	NDPERS reports benefit service as 0; Segal shows service as >0. 36 of 37 are new hires; 1 is terminated vested.

Assumption Review

Assumptions by Impact & Predictability

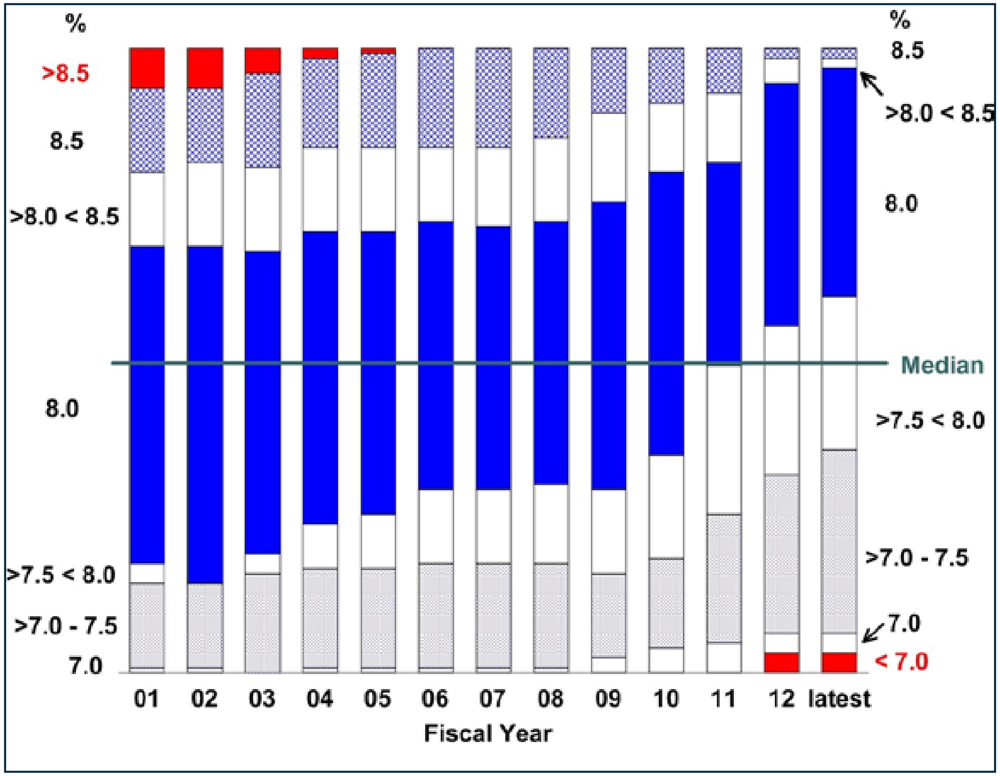


NDPERS Actual Investment Returns

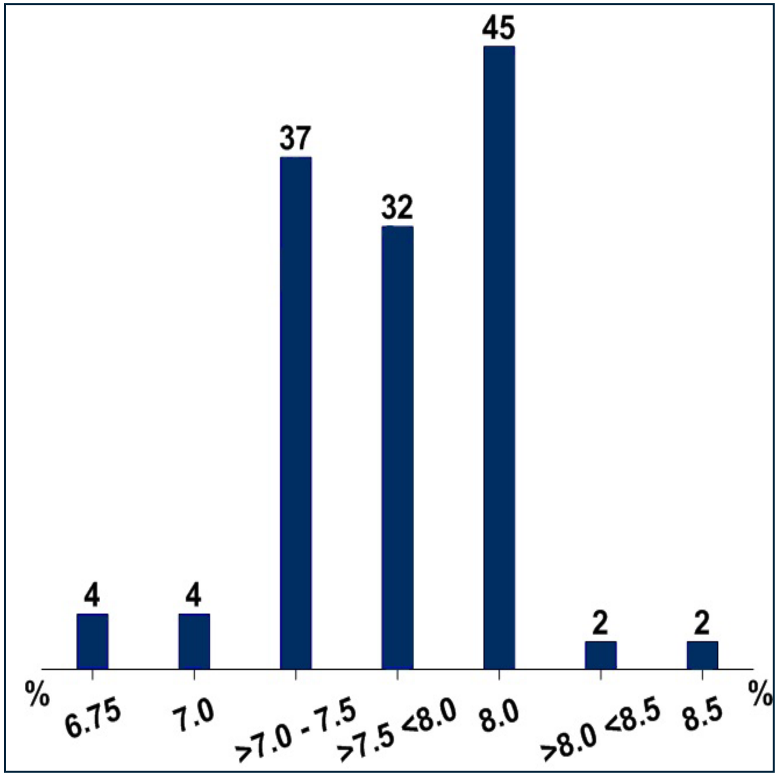


Economic Assumptions - Investment Return

Investment return assumptions for Public Sector Plans have been trending down over the past 12 years.



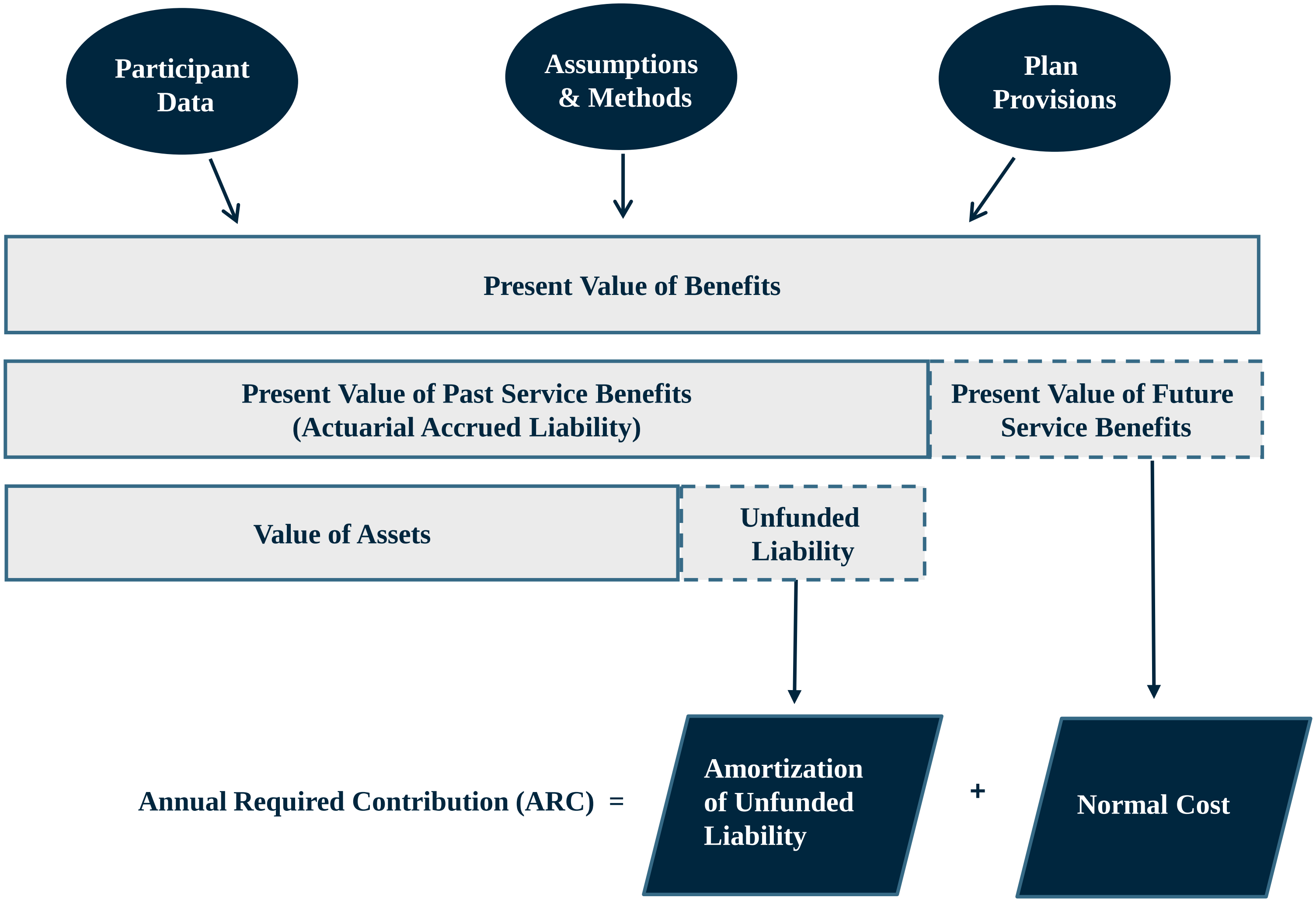
Investment return assumptions for most Public Sector Plans range from 7.5% to 8.0%.



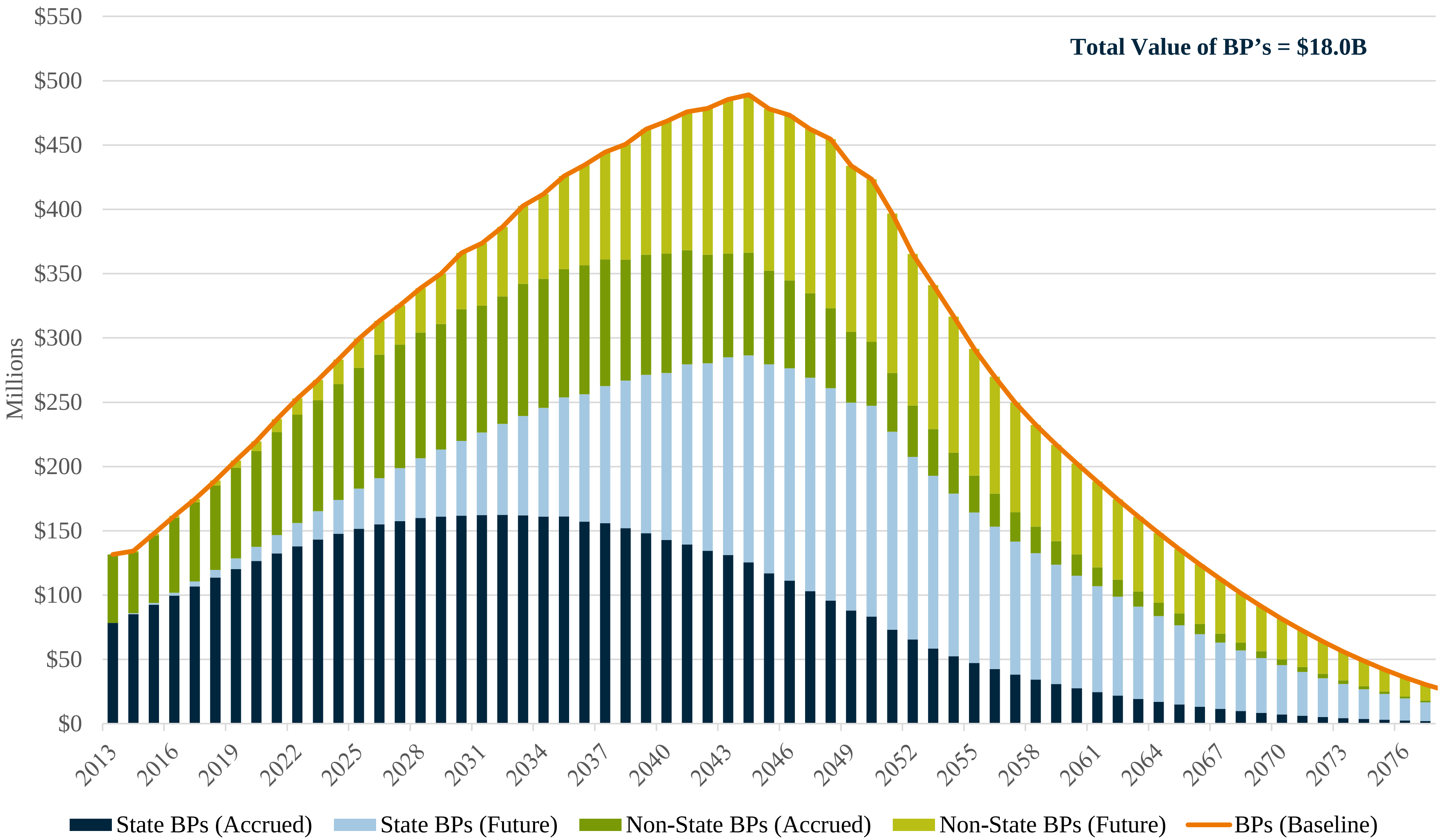
Source: NASRA Issue Brief: Public Pension Plan investment Return Assumption, Updated April 2014

2013 Actuarial Valuation Replication Audit

Actuarial Valuation Process

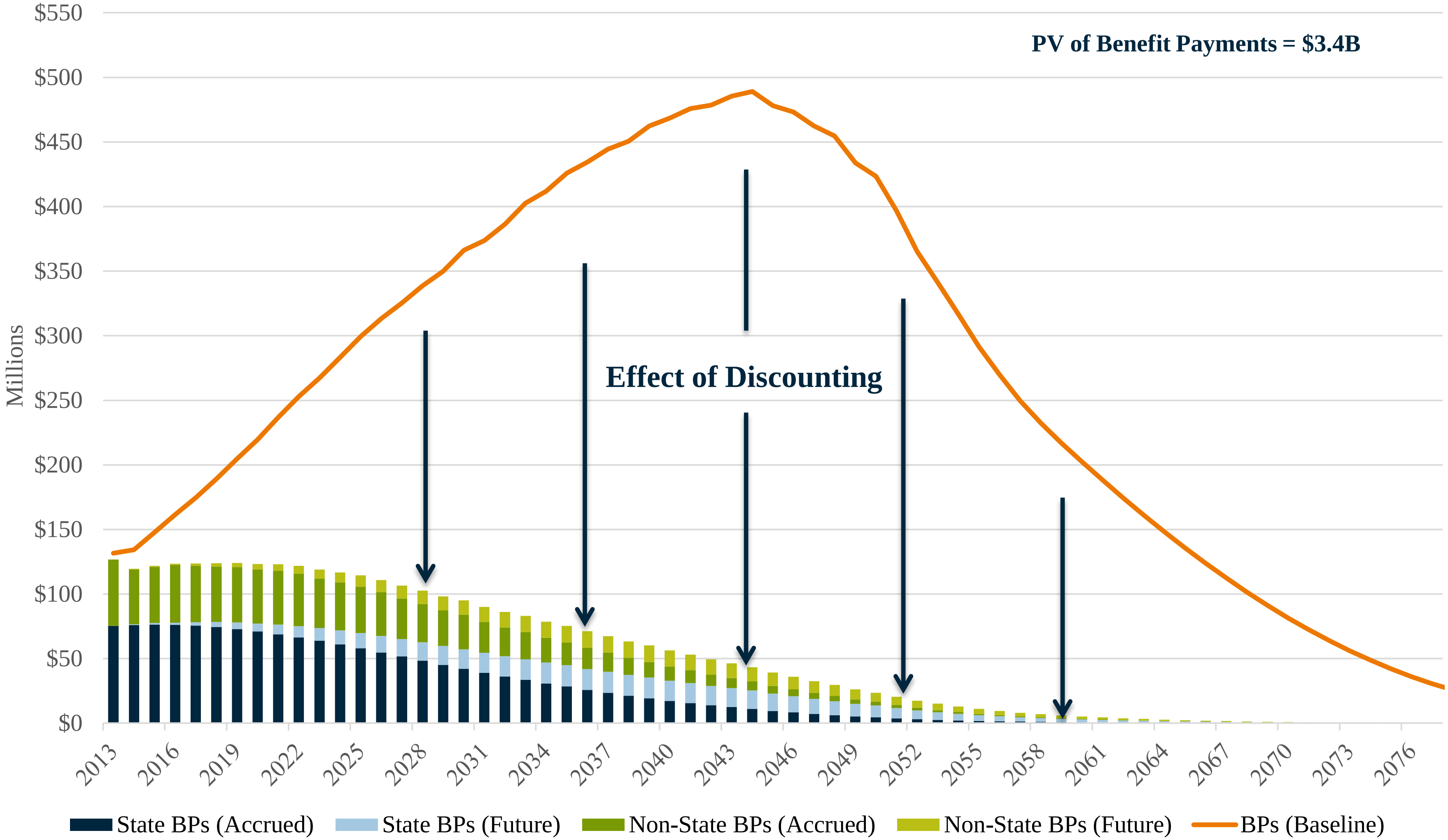


Projected Benefit Payments



Projected benefit payments are primarily determined by demographic assumptions.

Discounted Benefit Payments



Discounted values are determined by the investment return assumption.

Plan Liability Audit Results

	Segal July 1, 2013 Actuarial Valuation	Gallagher Results	Difference
Present Value of Benefits			
Active Members:			
▪ Retirement	$ 1,976,691,333	$ 1,975,840,698	0.0%
▪ Disability	51,346,152	49,765,185	(3.1%)
▪ Withdrawal	198,418,550	184,731,918	(6.9%)
▪ Death	59,213,630	58,586,035	(1.1%)
Actives Total:	$ 2,285,669,665	$ 2,268,923,836	(0.7%)
Retired Members and Beneficiaries*	943,671,725	940,013,710	(0.4%)
Inactive Non-retired Members	154,900,691	159,939,147	3.3%
Total PVB	$ 3,384,242,081	$ 3,368,876,693	(0.5%)
Development of Unfunded Actuarial Accrued Liability			
Actuarial Accrued Liability:			
▪ Active Members	$ 1,551,952,602	$ 1,617,869,073	4.2%
▪ Retired Members and Beneficiaries*	943,671,725	940,013,710	(0.4%)
▪ Inactive Non-retired Members	154,900,691	159,939,147	3.3%
▪ Total AAL	$ 2,650,525,018	$ 2,717,821,930	2.5%
Actuarial Value of Assets	1,632,915,720	1,632,915,720	0.0%
Unfunded Actuarial Accrued Liability	$ 1,017,609,298	$ 1,084,906,210	6.6%

**Includes Special Prior Service Pensions*

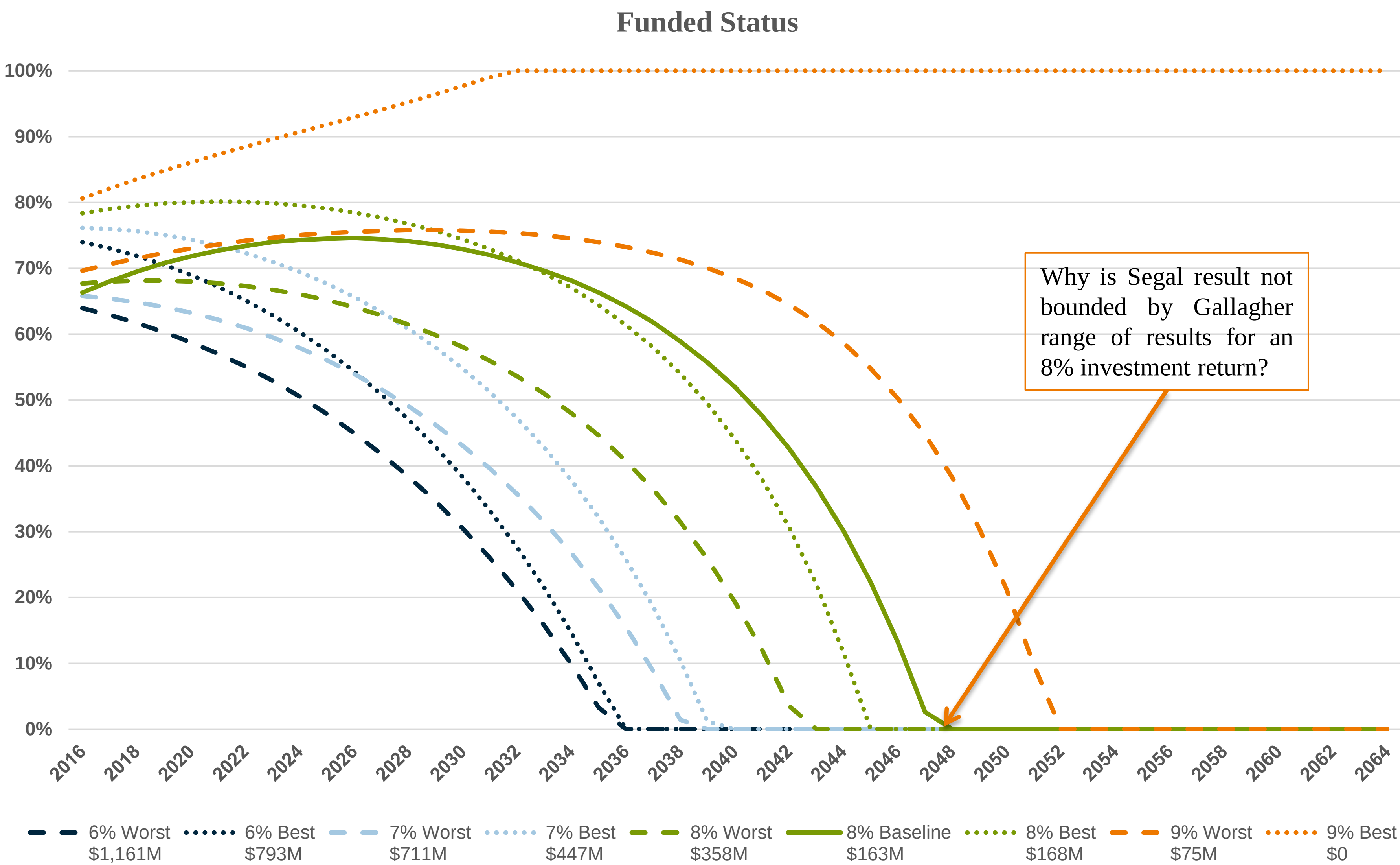
ARC and Amortization Period Audit Results

	Segal July 1, 2013 Actuarial Valuation	Gallagher Results	Difference
Development of Annual Required Contribution (ARC)			
Normal Cost	$ 89,254,673	$ 88,160,907	(1.2%)
Member Contributions (6.5%)	(56,281,437)	(56,360,431)	0.1%
Net Employer Normal Cost	$ 32,973,236	$ 31,800,476	(3.6%)
Administrative Expense	1,100,000	1,100,000	0.0%
Amortization of UAAL	71,019,268	75,715,897	6.6%
Annual Required Contribution	$ 105,092,504	$ 108,616,373	3.4%
Total Payroll	$ 865,868,265	$ 867,083,551	0.1%
Total ARC Percentage	12.14%	12.53%	3.2%
Development of Amortization Period			
Annual Required Contribution	12.14%	12.53%	3.2%
Member Contribution Increase	(0.50%)	(0.50%)	0.0%
Total Scheduled Contribution	(7.12%)	(7.12%)	0.0%
Contribution (Surplus)/Deficit	4.52%	4.91%	8.6%
Amortization Period	Infinite	Infinite	

Plan Closure Study
Audit Findings

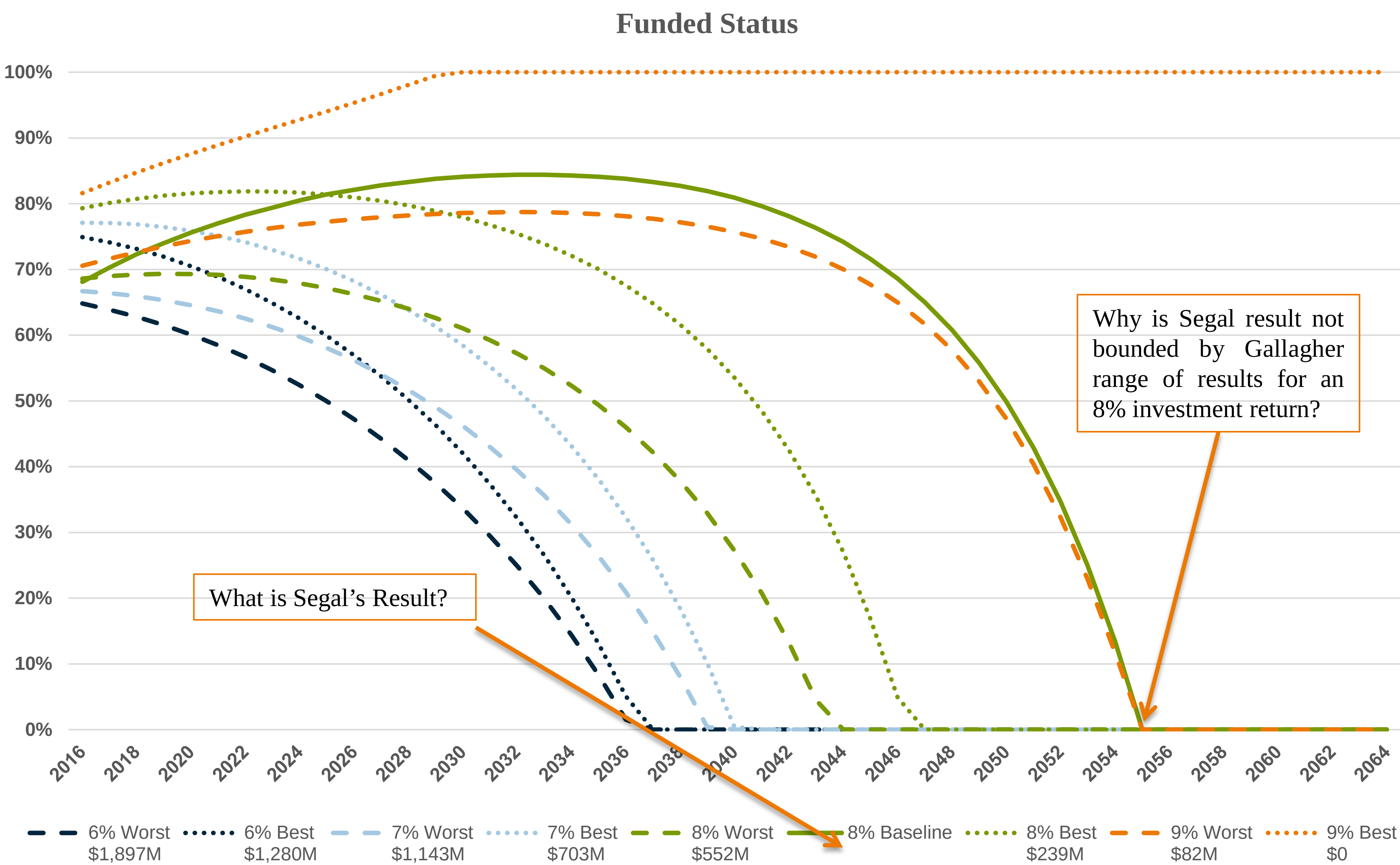
Plan Options Evaluation Summary (Preliminary)

Main Systems – State Plan Closed (separated from Poli Sub)



Plan Options Evaluation Summary (Preliminary)

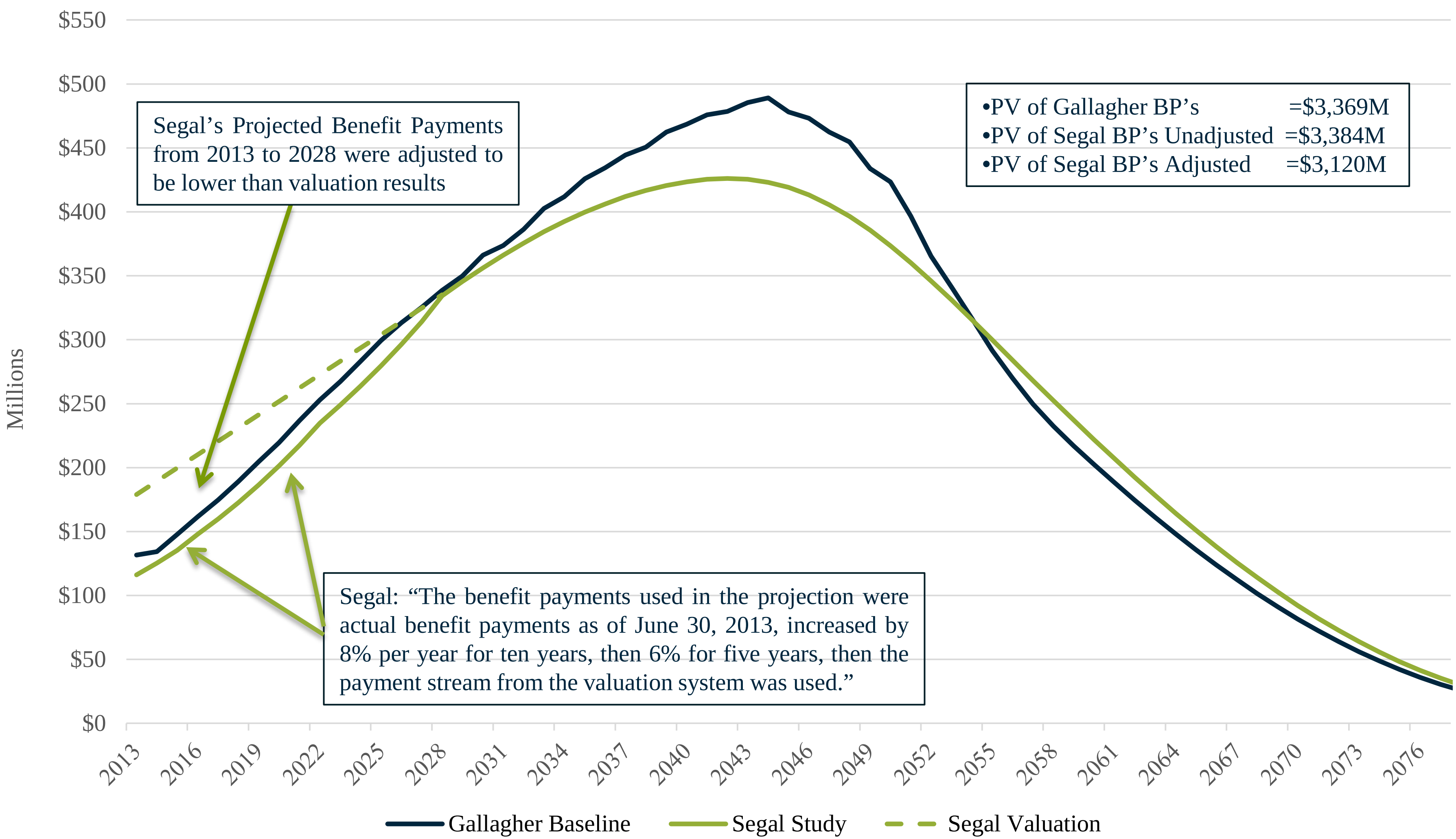
Main Systems – Existing Plan with No New Entrants as of 1/1/2016



Plan Closure Study Actuarial Audit Findings

	Gallagher Finding	Gallagher Comments
Issue #1 Disclosure	• Segal's March 6, 2014 Study results are not consistent with their July 1, 2013 Actuarial Valuation results. • Segal made adjustments to the July 1, 2013 valuation outputs to reduce projected benefit payments from years 2014 through 2028 without disclosing in their report the reason for the change or the magnitude of the cost impact. • The adjustments reduced estimated plan costs by $264M.	• Segal's March 6, 2014 study states that "cost estimates are based on the July 1, 2013 actuarial valuation results." • Actuarial Standards of Practice (ASOP) No. 41 states that an actuarial report should "identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."
Issue #2 Methodology	• The reason provided for the adjustment, fewer observed retirements than expected, was identified in the July 1, 2013 Actuarial Valuation as ***increasing*** costs. This contradicts the reductions in the Study. • Segal said no other adjustments were made, implying no offsetting increases for increased benefits at later retirements or higher contributions due to later retirements.	• Segal explained the reduction in projected benefit payments was due to "The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed." • Gallagher results (see July 1 presentation) have shown that adjustments due to retirement assumptions do not significantly impact present values. A $264M present value adjustment due to retirement differences seems disproportionately large.
Issue #3 Omission	• Segal excluded from the Study the impact of Participants entering after 7/1/2013 and before the assumed closure date of 1/1/16.	• The inclusion of Participants during this period adds significant benefit payments to the Plan. However, additional assumed Member and Employer contributions are nearly offsetting.

Comparison of Project Benefit Payments



Comparison of Values

Estimated Present Value as of July 1, 2013 for:	Segal	Gallagher	Difference
July 1, 2013 Actuarial Valuation Result	$3,384M	$3,369M	($15M)
Segal Adjustments for Study	(264M)	0M	264M
All Participants as of 7/1/13	$3,120M	$3,369M	$249M
New Participants entering between 7/1/13 and 1/1/16	0M	112M	112M
All Participants entering before 1/1/16	$3,120M	$3,481M	$361M
Estimated Future Contributions for:			
New Participants entering between 7/1/13 and 1/1/16	$0M	$155M	$155M
Projected Values for Closed State Employee Only			
Years to insolvency	35 Years	30 Years	5 Years
One-time contribution to fully fund	$163M	$301M	$138M
Projected Values if Both Groups are Closed			
Years to insolvency	42 Years	32 Years	10 Years
One-time contribution to fully fund	$99M	$445M	$346M

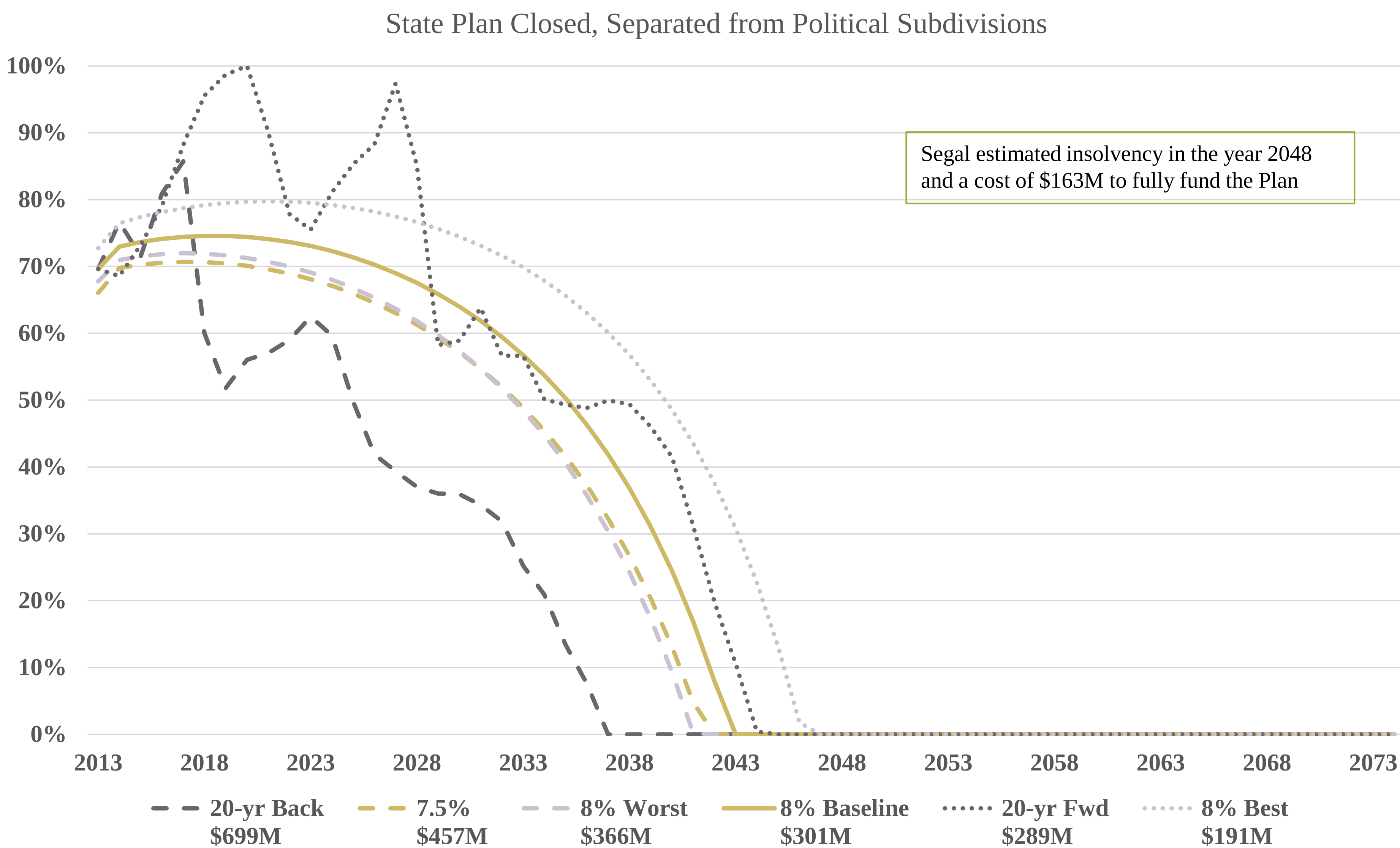
Investment Return Sensitivity Analysis

Summary of Significant Assumptions

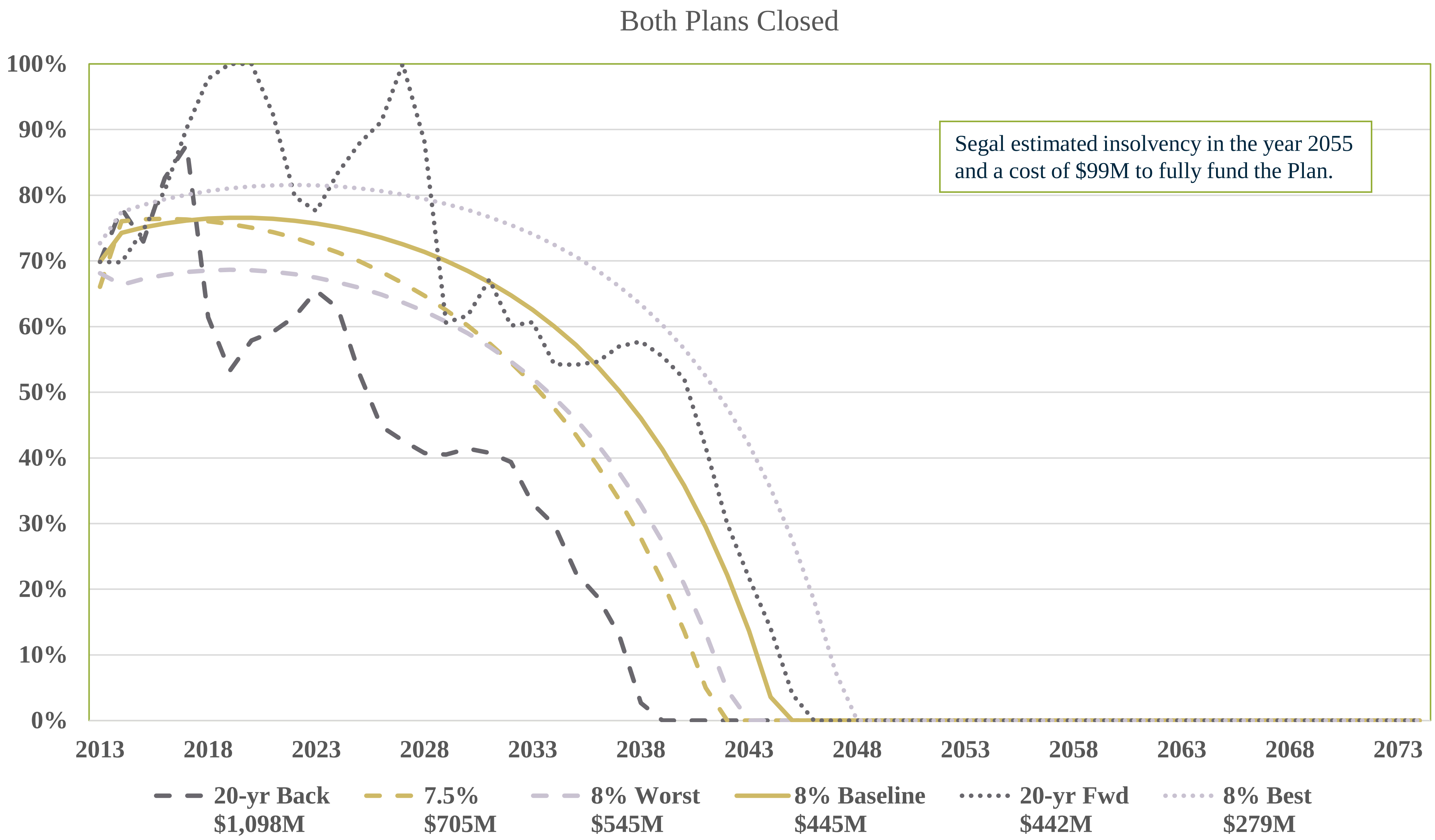
Actuarial projection results will vary based on assumptions for future expectations. The sensitivity of results to different assumptions can help provide a better understanding of a reasonable range of outputs. The projections on the following pages include results under Segal's assumptions as well as under two sets of assumptions developed by Gallagher representing a cost favorable set of assumptions and cost unfavorable set of assumptions.

	NDPERS July 1, 2013 Valuation	Gallagher Recommended Assumption Sets for Sensitivity Analysis	
		Cost Favorable (8% Best)	**Cost Unfavorable (8% Worst)**
Salary Increases	Rates based on Experience Study	10% lower	10% higher
Mortality Rates	Rates based on Experience Study	Study rates without Male margin	RP 2000 Table with projected improvements
Withdrawal Rates	Rates based on Experience Study	10% lower	10% higher
Retirement Rates	Rates based on Experience Study	Shifted later	Shifted earlier

Plan Options Evaluation Summary



Plan Options Evaluation Summary



Summary of Results

		Segal Result	Gallagher Result
State Plan Closed (separated from Political Subdivisions)	Baseline Result	$163M	$301M
	Results Reflecting 7.5% Investment Return		$457M
	Results Reflecting Alternative Demographic Assumptions		$191M to $366M
	Results Reflecting Investment Volatility (Repeating the past 20 years)		$289M to $699M
		Segal Result	**Gallagher Result**
Plan Closed for State and Political Subdivisions	Baseline Result	$99M	$445M
	Results Reflecting 7.5% Investment Return		$705M
	Results Reflecting Alternative Demographic Assumptions		$279M to $545M
	Results Reflecting Investment Volatility (Repeating the past 20 years)		$442M to $1,098M

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Thank You

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Comparison of Defined Contribution Benefits vs. NDPERS Defined Benefits

DOUG ANDERSON | AUGUST 5, 2014

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Defined Benefit vs. Defined Contribution

Benefits = **Contributions** + **Investment Earnings** - **Administrative Costs**

Defined Benefit plans provide a fixed monthly benefit. Contributions will increase if investment earnings are less than an assumed amount and will decrease if earnings exceed an assumed amount.

Defined Contribution plans provide benefits that will vary with investment earnings. The contribution amount is fixed.

Regardless of the type of retirement program, benefits will be based on contributions plus investment earnings less administrative costs.

Comparison of DB & DC Features

	Defined Benefit Plans	Defined Contribution Plans
Investment Risk	Maintained by Sponsor	Maintained by Employee
Participant's Retirement Benefit	Fixed Benefit	Variable Benefit
Employee Cost	Fixed Rate	Fixed Rate
Employer Cost	Variable Cost	Fixed Rate
Benefit Accrual Pattern	Accruals are relatively small early and relatively large near retirement	Accruals are more consistent throughout career
Advantaged Participants	Employees closer to retirement	Employees further from retirement
Retention & Portability	Greater retention of employees (due to valuable accruals near retirement)	Greater portability for employees (due to more valuable early accruals)
Subsidized Early Retirement	Available	Not Available
Understandability	Generally considered difficult for employees to understand	Generally considered easy for employees to understand
Post Retirement Risk	Participant can't outlive benefits	Participant must manage post-retirement mortality risk

Defined Contribution vs. NDPERS Defined Benefit Plan

Current Contribution Rate

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

Age at Hire	Service at Termination: 5	10	15	20	25	30	35
20	1765%	1256%	904%	660%	306%	145%	**108%**
25	1201%	863%	629%	462%	214%	**102%**	**118%**
30	818%	591%	434%	320%	149%	**110%**	130%
35	556%	404%	298%	220%	**102%**	121%	147%
40	379%	276%	204%	151%	**112%**	136%	170%
45	258%	188%	139%	**103%**	125%	156%	-
50	175%	128%	**95%**	**115%**	144%	-	-
55	**119%**	**87%**	**106%**	132%	-	-	-
60	**81%**	**97%**	121%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	**8.00%**
Post-retirement return	**8.00%**
Total EE + ER contribution	**14.12%**
Valuation salary scale	
Valuation mortality (blended 50/50)	

Defined Contribution vs. NDPERS Defined Benefit Plan

Contributions Equal Normal Cost

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

Age at Hire	Service at Termination: 5	10	15	20	25	30	35
20	1289%	917%	660%	482%	223%	**106%**	**79%**
25	877%	630%	459%	337%	157%	**74%**	**86%**
30	597%	432%	317%	234%	**108%**	**80%**	**95%**
35	406%	295%	218%	161%	**75%**	**88%**	**107%**
40	277%	201%	149%	**110%**	**82%**	**99%**	124%
45	188%	137%	**102%**	**75%**	**91%**	**114%**	-
50	128%	**94%**	**70%**	**84%**	**105%**	-	-
55	**87%**	**64%**	**77%**	**96%**	-	-	-
60	**59%**	**71%**	**88%**	-	-	-	-

DC Plan Inputs	
Pre-retirement return	**8.00%**
Post-retirement return	**8.00%**
Total EE + ER contribution	**10.31%**
Valuation salary scale	
Valuation mortality (blended 50/50)	

Defined Contribution vs. NDPERS Defined Benefit Plan
Post-retirement Longevity Risk Transfer

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

Age at Hire	Service at Termination: 5	10	15	20	25	30	35
20	919%	654%	471%	344%	153%	70%	52%
25	626%	449%	328%	241%	107%	49%	59%
30	426%	308%	226%	167%	74%	55%	68%
35	290%	211%	155%	114%	51%	63%	80%
40	197%	144%	106%	78%	58%	74%	96%
45	134%	98%	73%	54%	68%	89%	-
50	91%	67%	50%	63%	81%	-	-
55	62%	46%	58%	75%	-	-	-
60	42%	53%	69%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	**8.00%**
Post-retirement return	**4.00%**
Total EE + ER contribution	**10.31%**
Valuation salary scale	
Valuation mortality (blended 50/50)	

Defined Contribution vs. NDPERS Defined Benefit Plan

Unfavorable Investment Performance

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

		Service at Termination						
		5	10	15	20	25	30	35
Age at Hire	20	415%	309%	233%	178%	91%	47%	37%
	25	310%	233%	178%	136%	69%	36%	41%
	30	232%	176%	135%	103%	53%	41%	47%
	35	173%	132%	101%	78%	40%	46%	56%
	40	129%	99%	76%	59%	45%	54%	67%
	45	97%	74%	57%	44%	53%	65%	-
	50	72%	55%	43%	51%	63%	-	-
	55	54%	41%	50%	61%	-	-	-
	60	40%	48%	59%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	6.00%
Post-retirement return	4.00%
Total EE + ER contribution	10.31%
Valuation salary scale	
Valuation mortality (blended 50/50)	

Defined Contribution vs. NDPERS Defined Benefit Plan
Favorable Investment Performance

Ratio of DC to DB benefits at later of Termination or Normal Retirement Age

Age at Hire	Service at Termination: 5	10	15	20	25	30	35
20	2814%	1918%	1325%	932%	381%	160%	115%
25	1747%	1202%	842%	596%	244%	102%	126%
30	1085%	752%	531%	377%	154%	111%	140%
35	674%	469%	332%	236%	97%	122%	158%
40	418%	292%	207%	148%	106%	137%	183%
45	260%	182%	129%	93%	119%	158%	-
50	161%	113%	81%	103%	137%	-	-
55	100%	70%	90%	118%	-	-	-
60	62%	78%	103%	-	-	-	-

DC Plan Inputs	
Pre-retirement return	10.00%
Post-retirement return	8.00%
Total EE + ER contribution	10.31%
Valuation salary scale	
Valuation mortality (blended 50/50)	

Thank You

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Independent Study of Actuarial Costs to Close NDPERS

August 14, 2014

Arthur J. Gallagher & Co.

Table of Contents

This report is intended for use by the North Dakota Legislative Management Government Finance Committee. The purpose of the report is to summarize results of an independent review by Gallagher Benefit Services, Inc., a division of Arthur J. Gallagher & Co. (Gallagher) of information originally prepared by The Segal Company for the NDPERS relative to the costs if NDPERS is closed to new employees.

Participant data for this review was provided by both NDPERS and The Segal Company and the results included herein are dependent on the accuracy of that data. Results were based on an attempted match of the July 1, 2013 actuarial valuation report, the Plan provisions in effect at that time, and except as noted, the assumptions used for that valuation.

Gallagher expresses no opinion on the proposed plan design changes other than providing a range of reasonable cost forecasts as noted in this report. The actuaries preparing this report are members of the American Academy of Actuaries and meet the Qualification Standards to provide the actuarial opinions contained in this report.

Executive Summary

August 14, 2014

Representative Jeff Delzer & Legislative Management Government Finance Committee Members
State Capitol
Bismarck, ND

Chairman Delzer & Committee Members:

Gallagher Benefit Services, Inc., a division of Arthur J. Gallagher & Co. (Gallagher) is pleased to provide an independent study of the actuarial costs of the North Dakota Public Employees Retirement System (NDPERS) Main System if it is closed to new state employees.

This report will discuss several findings related to the cost estimates provided by The Segal Company (Segal) to NDPERS. The findings are mainly related to adjustments made by Segal that result in inconsistencies between their valuation results and their closed plan study results. The adjustments are concerning for several reasons: (1) the adjustments were not disclosed to NDPERS, (2) the adjustments were made to valuation outputs that had been carefully calculated based on reasonable Board approved assumptions, (3) the adjustments do not appear to be based on the results of an actuarial software calculation system, but rather reflect an arbitrary adjustment methodology, and (4) the magnitude of the adjustment ($264M) is significant.

The adjustments made by Segal significantly impacted the cost estimates provided by Segal to NDPERS for the estimated one-time contribution needed to fully fund the Plan if closed for either State or both State and Political Subdivision employees. This report will provide detail to support and to summarize the above findings. The report will also provide additional information that will be helpful to understand the impact of other assumptions on the cost estimates.

Background

This report is in response to a request by the Legislative Management Council for an independent study of the actuarial costs of the North Dakota state employee main defined plan if it is closed to new state employees. Also, in accordance with the Personal Service Contract, an independent valuation using raw census data was to be performed. The report also addresses requests by the Council to review and comment on Plan assumptions. Requests were also made to demonstrate how defined contribution benefit amounts would differ from the defined benefits provided by this Plan. That information is provided separately as it does not specifically fall under the scope of the audit. This report attempts to meet the scope of requested services as well as provide the Committee with other information that we believe is important to fully understand the potential cost impact of closing the Plan.

Our work includes a review of the Participant data, the Plan's assumptions, and the Plan's provisions. We have also reviewed the July 1, 2013 Actuarial Valuation report, the March 6, 2014 Study, and Segal's 2010 Actuarial Experience Study for the period from July 1, 2004 through June 30, 2009. Collectively we believe that all of the information provided to us for our review allows us to perform a complete analysis of Segal's plan closure cost estimates.

We presented preliminary findings to the Committee on July 1st and August 5th. Due to the preliminary nature of those reports, some adjustments to our results have been made and final results are reflected in this report. These changes are primarily related to the sensitivity analysis results. We also present results in a different order within this report to help clarify the information and make findings clearer to understand.

Key Findings

Our key findings all relate to the March 6, 2014 Study. A review of the Participant data, actuarial assumptions, and July 1, 2013 actuarial valuation did not result in any significant findings related to those items. Relatively less significant comments resulting from our review for those components of the audit are noted in Sections One and Two of this report. The more significant findings related to the March 6, 2014 Study are summarized below:

	Gallagher Finding	Gallagher Comments
Issue #1 Disclosure	• Segal's March 6, 2014 Study results are not consistent with their July 1, 2013 Actuarial Valuation results. • Segal made adjustments to the July 1, 2013 valuation outputs to reduce projected benefit payments from years 2014 through 2028 without disclosing in their report the reason for the change or the magnitude of the cost impact. • The adjustments reduced estimated plan costs by $264M.	• Segal's March 6, 2014 study states that "cost estimates are based on the July 1, 2013 actuarial valuation results." • Actuarial Standards of Practice (ASOP) No. 41 states that an actuarial report should "identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."
Issue #2 Methodology	• The reason provided for the adjustment, fewer observed retirements than expected, was identified in the July 1, 2013 Actuarial Valuation as ***increasing*** costs. This contradicts the reductions in the Study. • Segal said no other adjustments were made, implying no offsetting increases for increased benefits at later retirements or higher contributions due to later retirements.	• Segal explained the reduction in projected benefit payments was due to "The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed." • Gallagher results (see July 1 presentation) have shown that adjustments due to retirement assumptions do not significantly impact present values. A $264M present value adjustment due to retirement differences seems disproportionately large.
Issue #3 Omission	• Segal excluded from the Study the impact of Participants entering after 7/1/2013 and before the assumed closure date of 1/1/16.	• The inclusion of Participants during this period adds significant benefit payments to the Plan. However, additional assumed Member and Employer contributions are nearly offsetting.

The above findings were all a result of noting inconsistencies between Segal's July 1, 2013 Actuarial Valuation results, which were matched closely by Gallagher, and Segal's March 6, 2014 Study results. Generally speaking, our opinion is that Segal's Actuarial Valuation results are reasonable based on the Participant data, plan provisions, and assumptions provided. Our concerns entirely relate to the adjustments made in the March 6, 2014 Study.

The adjustments made for purposes of the Study have a significant impact on the results communicated as either the date of insolvency if the Plan is closed or the cost to fully fund the Plan if it is closed. The cost impact can be summarized as follows:

	Segal March 6, 2014 Letter Results Based on Adjusted Benefit Payments	Gallagher's Estimate Based on Unadjusted Benefit Payments	Difference
Projected Values if Plan is Closed for State Employees Only			
Years to insolvency	35 Years	30 Years	5 Years
One-time contribution to fully fund	$163M	$301M	$138M
Projected Values if Plan is Closed for State and Political Subdivision Employees			
Years to insolvency	42 Years	32 Years	10 Years
One-time contribution to fully fund	$99M	$445M	$346M

We believe it is very important to note that the differences stated above are almost entirely due to adjustments Segal made to their July 1, 2013 Actuarial Valuation outputs. Very little is due to differences between Segal's July 1, 2013 Actuarial Valuation and Gallagher's replication of those results. The differences are not due to the difference of opinion between two actuaries, rather the difference is primarily due to two different methodologies employed by Segal. Further detail of these results is provided in Section Three of this report.

Understanding that even the best developed assumptions will not be met, our report includes a sensitivity analysis that demonstrates the potential cost impact under different sets of economic and demographic assumptions. This information was not part of the audit of Segal's results, but rather is information we believe is valuable when considering the potential cost of these closed Plan scenarios. The sensitivity analysis is provided in Section Five of this report.

Report Contents

This report consists of the following components:

- A ***Participant Data Review*** to verify that the Participant data provided by NDPERS to The Segal Company (Segal), the Plan's actuary, was consistent with the Participant data that was used by Segal for purposes of their July 1, 2013 Actuarial Valuation and their March 6, 2014 letter to NDPERS summarizing the cost of closing the Plan to future State and Political Subdivision employees (the March 6, 2014 Study).

- A ***July 1, 2013 Actuarial Valuation Audit*** to verify the accuracy of the July 1, 2013 Actuarial Valuation.
- A ***Closed Plan Cost Study Audit*** to verify the accuracy of Segal's March 6, 2014 Study results that provided estimates of projected dates of insolvency and required contributions to fully fund the Plan if the Plan is closed to future State employees only or State and Political Subdivision employees.
- An ***Actuarial Assumption Review*** to provide a thorough analysis of the economic and demographic assumptions and the actuarial cost methods used to determine the results presented by the Plan's actuary.
- A ***Sensitivity Analysis*** to demonstrate the potential range of costs and insolvency dates if the Plan's current assumptions are not precisely met.
- A ***Summary of Conclusions*** to state the significant findings of the previous five sections.

Conclusion

The role of an actuary is to use the best information available from past experience to estimate future outcomes. In our opinion, Segal performed that role well when recommending assumptions and performing the July 1, 2013 Actuarial Valuation. Our concern lies entirely with their variance from the valuation results when performing the March 6, 2014 Study. In particular, Segal adjusted outputs, rather than relying on results based on well thought through assumptions.

While lack of disclosure of the changes is concerning, the larger concern is the magnitude of the change and that the adjustments do not appear to be consistent with the reasoning provided. If Segal believes an adjustment to the assumptions was prudent, a better approach would have been to adjust the assumption and then rely on the outputs from their valuation process. The absence of that approach creates the appearance that the adjustment was arbitrary as well as being inconsistent with some findings within the Actuarial Valuation report. Based on our experience and calculations, fewer retirements than observed would not create such a significant liability reduction.

For those reasons, it is our opinion that Segal's estimates of the contributions to fully fund the closed plan scenarios are significantly understated. At a minimum, we believe they are inconsistent with the outputs generated from the Board approved assumptions. Alternatively, if the adjustments made for the Study are considered to be reasonable, the implication would be that the Actuarial Valuation results are significantly overstating the actual cost of the Plan.

Gallagher appreciates the opportunity to provide services to the Committee. If you have any questions regarding our report, or if you would like additional information, please contact us.

Sincerely,

Douglas A. Anderson, M.A.A.A., E.A., A.S.A.
Senior Vice President, Actuarial & Retirement Services
Arthur J. Gallagher & Co.

Jen Turk, M.A.A.A, E.A., F.S.A.
Actuarial Consultant
Arthur J. Gallagher & Co.

Section One – Participant Data Review

Gallagher received two Participant data files. One file was a duplicate of the data provided by NDPERS to Segal for purposes of performing the July 1, 2013 Actuarial Valuation. The other file was provided by Segal and represented their adjusted Participant data file as used for the July 1, 2013 Actuarial Valuation. The file provided by Segal was used for the validation audit described in Section Two without any adjustments. This is to ensure that the valuation audit result differences are not due to Participant data differences.

The two files were compared with the intention of determining whether any significant data issues resulted from the transmission from NDPERS to Segal. The data was also reviewed for general reasonableness. Specifically this means checking each data field for potential data outliers (excessive salaries, service, dates of birth, dates of hire, etc.).

Gallagher found that the two files matched and had reasonable field values for over 99% of the records. The remaining less than 1% had issues as noted here:

Issue	Count	Comments
Missing Records	63	Based on EEID, 60 records (mostly retirees) from NDPERS don't appear in Segal's file; 3 records from Segal don't appear in NDPERS file.
Spouse DOB	1	NDPERS reported year as 2080; Segal appeared to correct to 1980
Benefit Amount	6	Benefit amount differs for 6 retirees; differences range from 5.6% high to 15.3% high.
Deferred Benefit Amount	138	NDPERS reports benefit amount for vested terminated participants as $0; Segal shows benefit as >$0.
Employee Contributions	38	NDPERS reports employee account balance as $0; Segal shows balance as >$0. 36 of 38 are new hires; 2 are retirees.
Benefit Service	37	NDPERS reports benefit service as 0; Segal shows service as >0. 36 of 37 are new hires; 1 is terminated vested.

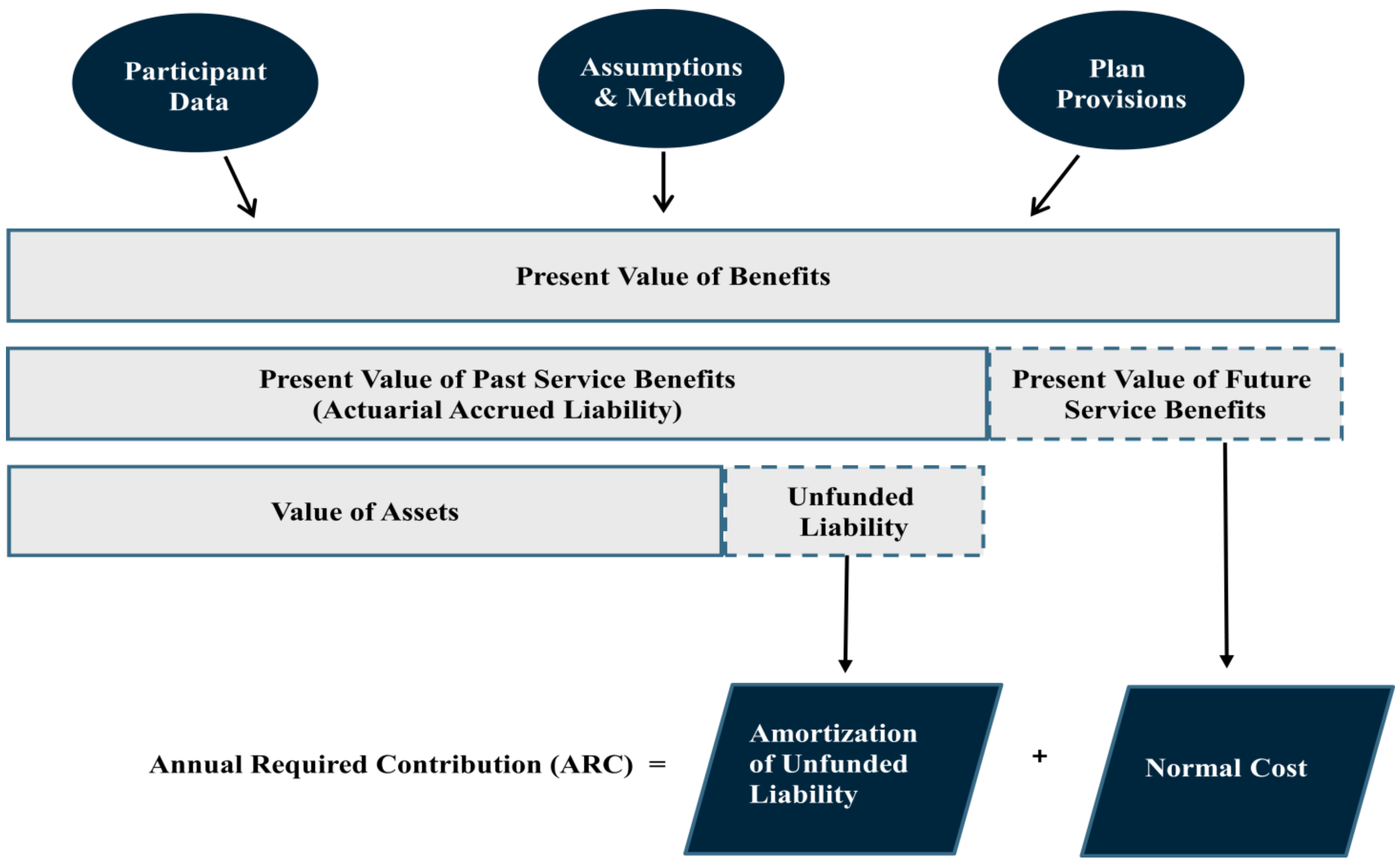
Although the above data questions were raised, the significance of these items is not of concern. It is common during the data review process for the actuary to review and question data. The adjustments noted above by Segal may either have been a result of clarifying questions to NDPERS or reasonable adjustments to conservatively estimate missing data fields. The adjustments made by Segal generally appear reasonable.

In our opinion, the impact of any inaccurate changes by Segal would not significantly impact the calculations within the July 1, 2013 Actuarial Valuation or the March 6, 2014 Study. The goal was to ensure no significant systemic errors occurred during data transition. None were observed; as a result, we did not request further clarification from NDPERS or Segal.

Section Two – July 1, 2013 Actuarial Valuation Audit

An actuarial valuation audit is an attempt to duplicate results obtained by the Plan's actuary using the same Participant data, assumptions, and plan provisions. If a reasonable match is obtained, it provides evidence that the actuary is correctly interpreting provisions, applying assumptions, and performing calculations. Since the March 6, 2014 Study was based on the July 1, 2013 actuarial valuation (except as noted by our audit findings), the performance of an actuarial audit is a very important step to complete prior to reviewing the March 6, 2014 Study results.

The actuarial validation audit attempts to replicate the calculation of all future benefit payments, the discounting of those benefit payments to determine a Present Value of Benefits, the allocation of those present values to past and future service, and finally the determination of the Annual Required Contribution (ARC). The valuation process is demonstrated below:



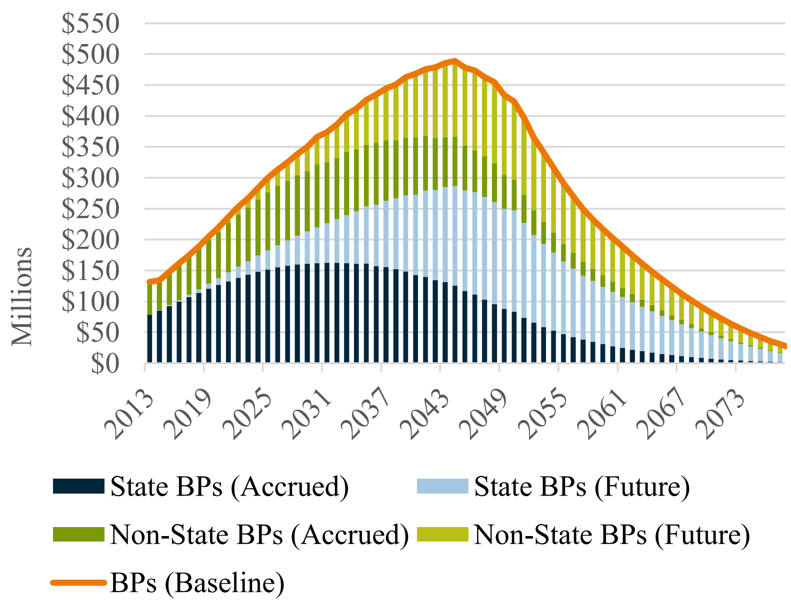
The first step of the actuarial valuation audit is to develop the projected expected benefit payments for each participant over the course of their entire possible lifetime. Since mortality tables extend to age 120, there is a chance, although small, of payments being made all the way up to that age for each Participant. The first figure below shows Gallagher's estimates of future benefit payments for both State and Non-State (Political Subdivision) employees. It also breaks those expected payments into those that have been earned to date and those that are expected to be earned prospectively. The expected benefit payments are anticipated to rise rapidly as a large number of employees reach retirement in the near future.

After benefit payments are projected for all current employees, each payment is discounted back to the valuation date at the same rate of interest that assets are assumed to earn. The Plan currently uses an 8% investment return assumption, net of expenses. As a result, all projected benefit payments are discounted to the valuation date at the rate of 8% per year. If the investment return assumption is lowered, the effect of discounting is less and the cost of the Plan will be higher.

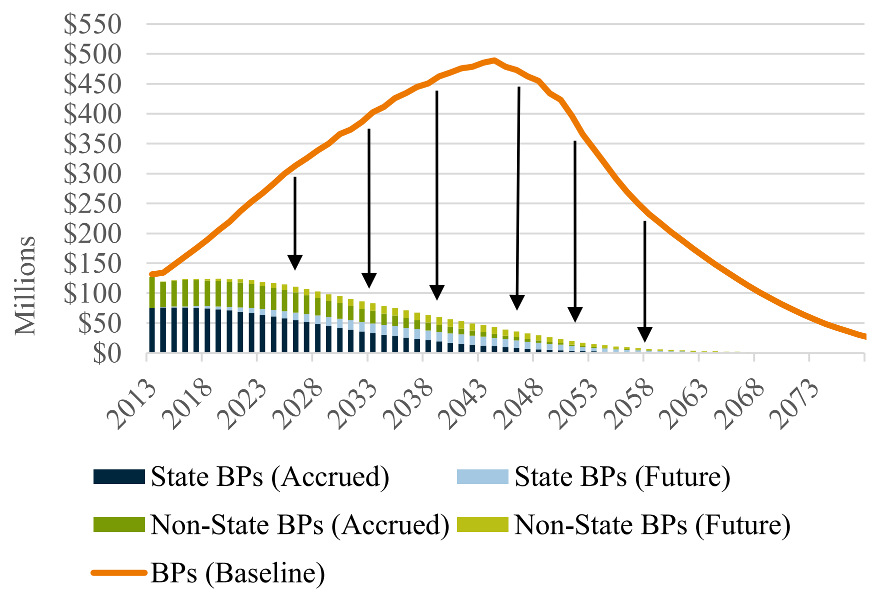
The Present Value of Benefits (PVB) provided by Segal was \$3.4B. Gallagher's results also rounded to \$3.4B. The actual difference was only \$15M, which is a difference of less than 1%.

While the Present Value of Benefits may be closely matched, there is the possibility that projected benefit amounts may follow different patterns. These differences are a factor in the audit findings and will be explained in detail in Section Three.

Projected Benefit Payments



Discounted Benefit Payments



The following is a summary of the differences between Segal's July 1, 2013 Actuarial Valuation and the results calculated by Gallagher:

	Segal July 1, 2013 Actuarial Valuation	Gallagher Results	Difference	Comments
Present Value of Benefits (PVB)				
Active Members:				The Actuarial Valuation Audit indicates that the Present Value of Benefits and the Actuarial Accrued Liability estimates by Gallagher are reasonably close to estimates by the Plan's actuary. Differences less than 5% are generally considered to be a reasonable match. Gallagher's PVB estimate is less than 1% different than the amount determined by the Plan's actuary.
▪ ***Retirement***	***$ 1,976,691,333***	***$ 1,975,840,698***	***0.0%***	
▪ ***Disability***	***51,346,152***	***49,765,185***	***(3.1%)***	
▪ ***Withdrawal***	***198,418,550***	***184,731,918***	***(6.9%)***	
▪ ***Death***	***59,213,630***	***58,586,035***	***(1.1%)***	
Actives Total:	***$ 2,285,669,665***	***$ 2,268,923,836***	***(0.7%)***	
Retired Members and Beneficiaries*	***943,671,725***	***940,013,710***	***(0.4%)***	
Inactive Non-retired Members	***154,900,691***	***159,939,147***	***3.3%***	
Total PVB	***$ 3,384,242,081***	***$ 3,368,876,693***	***(0.5%)***	
Development of Unfunded Actuarial Accrued Liability				
Actuarial Accrued Liability:				
▪ ***Active Members***	***$ 1,551,952,602***	***$ 1,617,869,073***	***4.2%***	
▪ ***Retired Members and Beneficiaries****	***943,671,725***	***940,013,710***	***(0.4%)***	
▪ ***Inactive Non-retired Members***	***154,900,691***	***159,939,147***	***3.3%***	
▪ ***Total AAL***	***$ 2,650,525,018***	***$ 2,717,821,930***	***2.5%***	
Actuarial Value of Assets	***1,632,915,720***	***1,632,915,720***	***0.0%***	
Unfunded Actuarial Accrued Liability	***$ 1,017,609,298***	***$ 1,084,906,210***	***6.6%***	

**Includes Special Prior Service Pensions*

	Segal July 1, 2013 Actuarial Valuation	Gallagher Results	Difference	Comments
Development of Annual Required Contribution (ARC)				
Normal Cost	***$ 89,254,673***	***$ 88,160,907***	***(1.2%)***	Normal Cost differences are also very small with a result matching within 1.2%. Larger percentage differences appear in the UAAL and ARC due to the leveraging effect of taking differences to calculate these values. The amortization period is very sensitive to small results, particularly when the amortization period is high, or measured as infinite as in this case. The success of the audit of the March 6, 2014 Study is dependent on the ability to accurately capture all future benefit payments. We believe the 0.5% difference in the Present Value of Benefits is an indication that Gallagher's valuation results are reasonably aligned with Segal's results. In our opinion, the closeness of the actuarial valuation audit allows us to thoroughly assess the March 6, 2014 results.
Member Contributions (6.5%)	***(56,281,437)***	***(56,360,431)***	***0.1%***	
Net Employer Normal Cost	***$ 32,973,236***	***$ 31,800,476***	***(3.6%)***	
Administrative Expense	***1,100,000***	***1,100,000***	***0.0%***	
Amortization of UAAL	***71,019,268***	***75,715,897***	***6.6%***	
Annual Required Contribution	***$ 105,092,504***	***$ 108,616,373***	***3.4%***	
Total Payroll	***$ 865,868,265***	***$ 867,083,551***	***0.1%***	
Total ARC Percentage	***12.14%***	***12.53%***	***3.2%***	
Development of Amortization Period				
Annual Required Contribution	***12.14%***	***12.53%***	***3.2%***	
Member Contribution Increase	***(0.50%)***	***(0.50%)***	***0.0%***	
Total Scheduled Contribution	***(7.12%)***	***(7.12%)***	***0.0%***	
Contribution (Surplus)/Deficit	***4.52%***	***4.91%***	***8.6%***	
Amortization Period	***Infinite***	***Infinite***		

Section Three – Closed Plan Cost Study Audit

Upon completing the July 1, 2013 Actuarial Valuation Audit, Gallagher was able to use the obtained projected benefit payments to independently project future dates of insolvency and required contribution amounts to fully fund the closed plan options as were developed by Segal in their March 6, 2014 Study. Upon completing these calculations, the difference in results was very surprising for the closed plan scenarios given how close the July 1, 2013 Actuarial Valuation was matched. This led to a more thorough inspection of projected benefit payments as provided by Segal in their March 6, 2014 Study. A review of Segal's projected benefit payments from their study showed that after discounting the projected benefits back to July 1, 2013, the present value of the Study benefit payment stream ($3,120M) was significantly less than the Present Value of Benefits as provided by Segal to Gallagher for match purposes ($3,384M).

The work to demonstrate this difference is included as an Attachment to this report. Segal was requested to respond to our inquiry about the $264M difference and provided the following response on July 16th: *"With respect to item 5, for the purposes of the closed group projection, we adjusted the benefit payments projected in the valuation to be closer to the actual benefit payments from the Main system. For example, in 2013, the unadjusted projected benefit payment amount was $179 million and the actual benefit payments from the Main system were $106 million."*

Seeking further clarification, Gallagher posed additional questions to Segal on July 23rd, and received the following responses on July 29th. The following are Gallagher's questions and Segal's answers, presented in their entirety:

Q. You note an adjustment for FYE 2014 benefit payments from an unadjusted amount of $179M to an amount more in alignment with $106M actual payments in FYE 2013. What is the reason for the overstatement of the FYE 2014 unadjusted amount?
A. The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed.

Q. How many other years were adjusted in a similar manner?
A. The adjustment was made for years prior to 2028.

Q. Were any adjustments made to benefit payments from the years 2030 to 2055. As shown on the attachment, these years show the largest differences between a BP stream discounting to $3,369 (Gallagher result) and $3,120M.
A. No adjustments were made in the years 2030 to 2055.

Q. What was the methodology for adjusting the benefit payments?
A. The benefit payments used in the projection were actual benefit payments as of June 30, 2013, increased by 8% per year for ten years, then 6% for five years, then the payment stream from the valuation system was used.

Q. Were adjustments made in a similar manner for State and Political Subdivision participants?
A. The adjustment was made for all PERS Main System benefit payments.

Q. Do all of these adjustments account for the $264M difference that I have calculated in the attached spreadsheet?
A. Our analysis indicates that the difference is mostly due to the adjustments in benefit payments and the difference in timing of payments between our valuation systems.

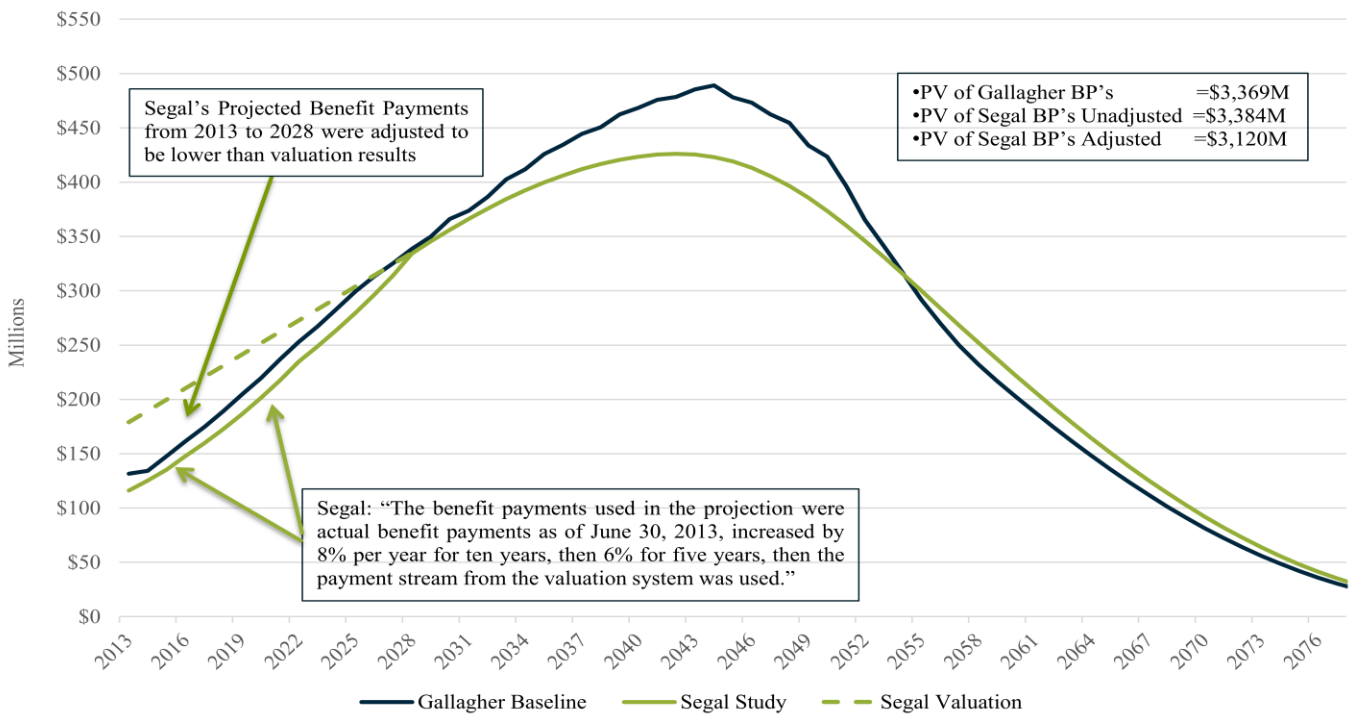
Q. Were any other adjustments made?
A. No.

Q. Should the adjustments made for the study also have been made for the July 1, 2013 actuarial valuation? Will they be considered for the 2014 actuarial valuation?
A. The July 1, 2013 actuarial valuation was based on the assumptions approved by the board, based on the most recent experience study. We will continue to monitor gains and losses in this area and will recommend changes, if necessary.

Q. Were the adjustments communicated either in writing or verbally to NDPERS?
A. The details of the adjustments were not communicated.

Q. Did the projections in the March 6th Study include benefit payments for employees that were expected to be hired after July 1, 2013 and before the assumed January 1, 2016 plan closure dates (for scenarios that assume plan closure)?
A. We did not include these employees in the plan closure projection.

The following graph summarizes how the adjustments made by Segal affect expected benefit payments and the Present Value of Benefits.



The adjustments made to the outputs by Segal were concerning for several reasons: (1) the adjustments were not disclosed to NDPERS, (2) the adjustments were made to valuation outputs that had been carefully calculated based on reasonable Board approved assumptions, (3) the adjustments do not appear to be based on the results of an actuarial software calculation system, but rather reflect on arbitrary adjustment methodology, and (4) the magnitude of the adjustment ($264M) is significant. In addition to these adjustments, as noted in their final answer on July 29th, Segal did not include the impact of Participants entering after July 1, 2013 and before the assumed January 1, 2016 plan closure date.

The most significant of these concerns is the methodology and magnitude of the adjustment. When retirement assumptions are not met, it often does not have a significant impact on present value results. It may change the timing of benefit payments, but the present value often does not change. This is a result of the trade-off of either paying less for longer, or more for a shorter period. When Gallagher was evaluating the impact of retirement assumption changes, we noted a common result which is that retirement assumption changes do not have a very significant impact on present values. This leads us to question the magnitude of benefit reductions by Segal in that they appear to be one-sided.

The following is summary of the findings resulting from the Closed Plan Audit:

	Gallagher Finding	Gallagher Comments
Issue #1 Disclosure	• Segal's March 6, 2014 Study results are not consistent with their July 1, 2013 Actuarial Valuation results. • Segal made adjustments to the July 1, 2013 valuation outputs to reduce projected benefit payments from years 2014 through 2028 without disclosing in their report the reason for the change or the magnitude of the cost impact. • The adjustments reduced estimated plan costs by $264M.	• Segal's March 6, 2014 study states that "cost estimates are based on the July 1, 2013 actuarial valuation results." • Actuarial Standards of Practice (ASOP) No. 41 states that an actuarial report should "identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."
Issue #2 Methodology	• The reason provided for the adjustment, fewer observed retirements than expected, was identified in the July 1, 2013 Actuarial Valuation as ***increasing*** costs. This contradicts the reductions in the Study. • Segal said no other adjustments were made, implying no offsetting increases for increased benefits at later retirements or higher contributions due to later retirements.	• Segal explained the reduction in projected benefit payments was due to "The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed." • Gallagher results (see July 1 presentation) have shown that adjustments due to retirement assumptions do not significantly impact present values. A $264M present value adjustment due to retirement differences seems disproportionately large.
Issue #3 Omission	• Segal excluded from the Study the impact of Participants entering after 7/1/2013 and before the assumed closure date of 1/1/16.	• The inclusion of Participants during this period adds significant benefit payments to the Plan. However, additional assumed Member and Employer contributions are nearly offsetting.

In addition to the above findings we observed that Segal's cost to close and fully fund both groups (State Employees and Political Subdivision) was lower than the State employees only. We would expect, and our results showed, that the combined group, if closed, would require a higher one-time contribution to fully fund the Plan than if only the State employees group was closed and separated.

Finally, we observed some differences in the projections for the open group scenarios, both when the entire Plan is assumed to remain open and for just the Political Subdivision group. In general, our projections resulted in more favorable funding than Segal's results. This likely is due to different methodology as our results were based on total active headcounts remaining constant, whereas Segal assumed 4.5% total payroll growth.

The following quantifies the impact of the previously stated findings:

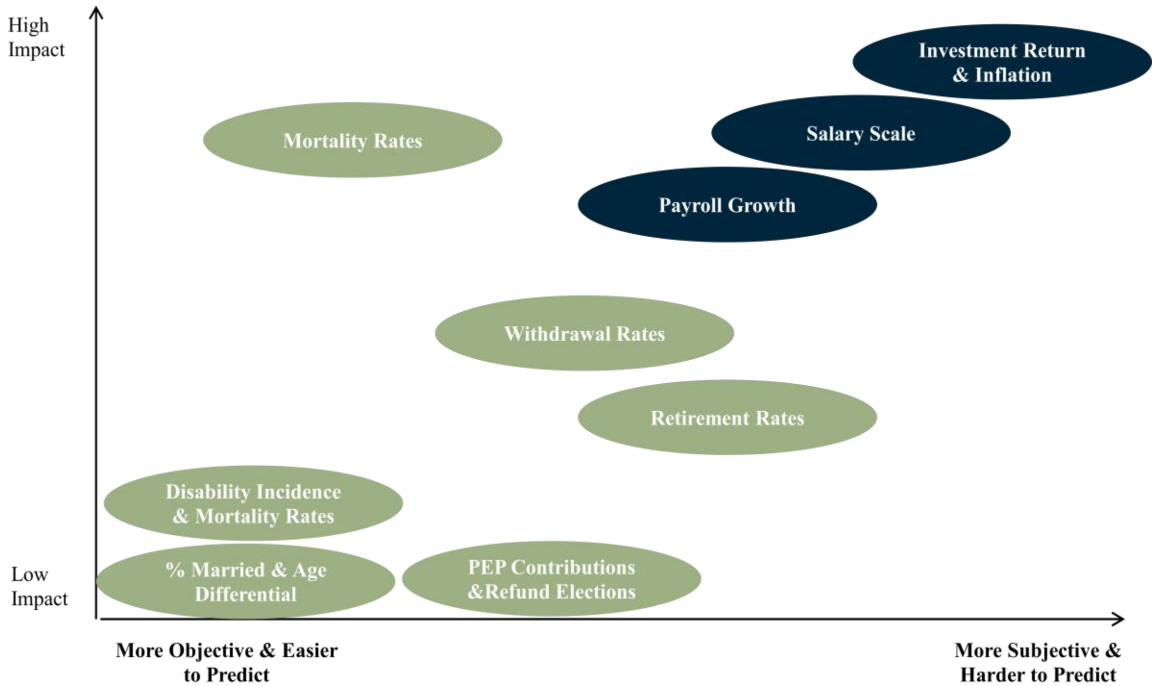
	Segal	Gallagher	Difference
Estimated Present Values as of July 1, 2013 for:			
July 1, 2013 Actuarial Valuation Result	$3,384M	$3,369M	($15M)
Segal Adjustments for Study	(264M)	0M	264M
All Participants as of 7/1/13	$3,120M	$3,369M	$249M
New Participants entering between 7/1/13 and 1/1/16	0M	112M	112M
All Participants entering before 1/1/16	$3,120M	$3,481M	$361M
Estimated Future Contributions for:			
New Participants entering between 7/1/13 and 1/1/16	$0M	$155M	$155M
Main System – Existing Plan No Change (entire group)			
Years to reach fully funded status	63 Years	38 Years	25 Years
One-time contribution to fully fund	$0M	$0M	$0M
Main System – Existing Plan No Change (Political Subdivision)			
Years to reach fully funded status	45 Years	26 Years	19 Years
One-time contribution to fully fund	$0M	$0M	$0M
Projected Values for Closed State Employee Only			
Years to insolvency	35 Years	30 Years	5 Years
One-time contribution to fully fund	$163M	$301M	$138M
Projected Values if Both Groups are Closed			
Years to insolvency	42 Years	32 Years	10 Years
One-time contribution to fully fund	$99M	$445M	$346M

Section Four – Actuarial Assumption Review

In the July 1, 2013 Actuarial Valuation Audit section of this report, the assumptions and methods used by the Plan's actuary to calculate liabilities were applied to determine the accuracy of the estimated liabilities. In this Actuarial Assumption Review section, the assumptions and methods are examined for reasonableness. In Section Five, the impact of changes to the assumptions and methods are explored. The key assumptions consist of ***economic assumptions*** regarding investment returns, salary increases, and inflation and ***demographic assumptions*** related primarily to individual participant expectations for turnover, disability, retirement, and death.

From time to time, assumption changes are warranted. The most effective way to study and update assumptions is to perform an experience study to evaluate actual plan experience versus expectations. Experience studies are common for public sector plans and are typically done in five-year intervals. The results of the most recent Experience Study prepared by Segal were provided to us. The study covered the period from July 1, 2004 through June 30, 2009. The Plan's actuary determines the value of liabilities and assets using ***actuarial cost methods***. An actuarial cost method is used to separate the total liability into past service and future service components and convert current liability estimates into recommended funding requirements. An Actuarial Asset Value is used to determine how asset values should be determined each year. Other cost methods are used to determine how assumptions should be applied to value liabilities.

The following is a guide to the impact of each assumption on valuation results from high to low. Also shown is the relative difficulty to develop an assumption. For example, the investment return assumption has a very high impact on the liability estimate, but is also the most subjective and difficult to predict. Economic assumptions are shown in blue. Demographic assumptions are shown in green.



I. Economic Assumptions	
Actuarial Valuation Assumption	**Gallagher Analysis**
Inflation Rate:	***Inflation Rate:***
3.5% per year	The inflation assumption should reflect long-term future expected inflation. The inflation assumption is only implicitly used in the actuarial valuation as a component of the investment return assumption, salary increase assumption, and total payroll growth assumption. Segal relied primarily on historical data as well as on a survey by the National Association of Retirement Plan Administrators (NASRA) for their recommendation. Their experience study includes data from 1930 to 2009 which supports that over any given 15 year period, the median inflation rate has been 3.5%. Since this assumption is only implicitly used within other assumptions, we are only concerned that it is reasonable and consistent with those assumptions.

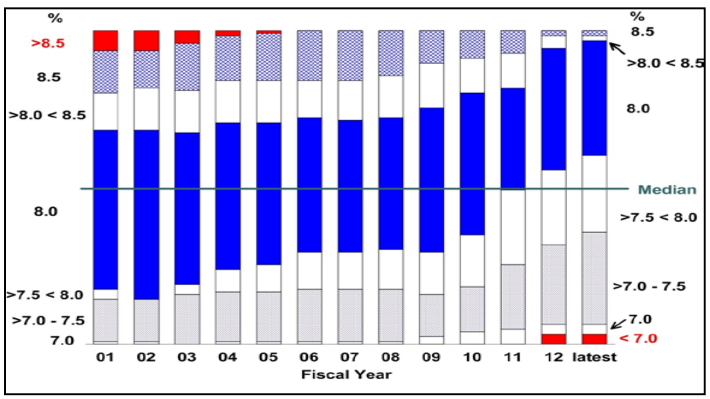
I. Economic Assumptions (continued)

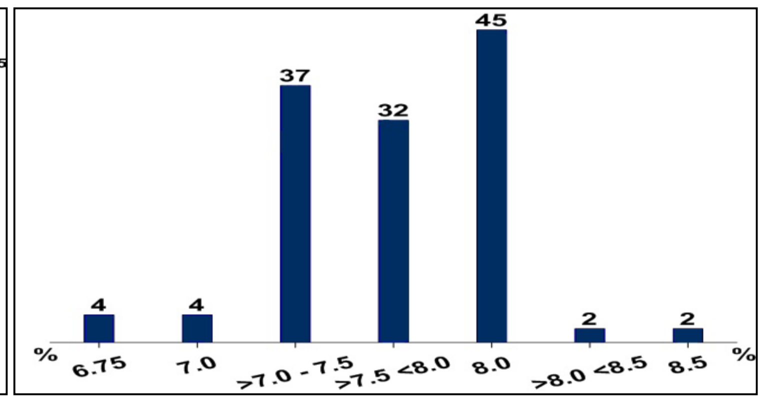
Actuarial Valuation Assumption	Gallagher Analysis
Investment Return:	***Investment Return:***
8.00% per year after investment expenses	The investment return assumption should reflect long-term future expected investment returns based on the Plan's investment policy. Segal evaluated the future expected investment returns of SEI, the Plan's investment consultant as well as the returns obtained from a survey from 11 California Counties. The expected returns, including the weighted averages were as follows:

Asset Class	2009 Asset Allocation	SEI's Assumed ROR	Segal sample ROR	June 30, 2013 Allocation
Domestic Large Cap Equity	30%	8.40%	7.19%	16.6%
Domestic Small Cap Equity	10%	10.30%	7.89%	4.8%
Developed International Equity	10%	9.20%	7.63%	11.1%
Global Equity	0%	--%	--%	16.0%
Emerging Market Equity	5%	13.60%	10.49%	3.5%
Domestic Fixed Income	24%	3.90%	2.74%	12.0%
High Yield Fixed Income	5%	6.20%	5.62%	5.0%
International Fixed Income	5%	2.80%	2.50%	5.0%
Real Estate	5%	5.10%	4.80%	10.0%
Private Equity	5%	10.40%	10.40%	5.0%
Infrastructure	0%	--%	--%	5.0%
Commodities (Timber)	0%	--%	--%	5.0%
Cash and Equivalents	1%	0.10%	0.66%	1.0%
Total Portfolio	100%	7.31%	6.06%	100%
Inflation		2.30%	3.50%	
Expenses		(0.60%)	(0.60%)	
Total Portfolio		9.01%	8.96%	
Risk Adjustment			(0.96%)	
Recommended Assumption			8.00%	

I. Economic Assumptions (continued)

Actuarial Valuation Assumption	Gallagher Analysis
Investment Return (continued)	***Investment Return (continued)***
8.00% per year after investment expenses	The SEI forecast was discounted by Segal in favor of the results from the survey of the 11 California Counties. Segal stated that this allows for "… a broader range of capital market information…." The investment consultants for the 11 California Counties were not listed, so it is difficult to tell whether this is a broader range of information. Also, it would seem as though SEI may have a better understanding of some of the specific investments held by NDPERS. Nevertheless, the methodology used by Segal is reasonable and reflects that differences of opinion can exist for the same investment allocation, Both methods shown by Segal resulted in a Total Portfolio expected return close to 9% before expenses. Segal adjusted the Total Portfolio expected return to reflect (1) assumed expenses of 0.60%, and (2) a Risk Adjustment of 0.96%. The Risk Adjustment accounts for the impact of investment volatility. The net result was an 8.0% recommendation. The recommended assumption was consistent with other large public sector plans back in 2010. However, as noted below, there has been a 10 year trend towards more conservative assumptions. Where 8% used to be the median assumption, the median is now below 8%. The majority of plans now use an assumption of less than 8%.





Source: NASRA Issue Brief: Public Pension Plan investment Return Assumption, Updated April 2014

Our conclusion is that Segal used a reasonable approach to recommend a reasonable assumption. However, a trend has been towards the use of more conservative assumptions in large public sector plans. As a result, we will demonstrate the impact of a more conservative assumption of 7.5% in our Sensitivity Analysis section of this report.

I. Economic Assumptions (continued)	
Actuarial Valuation Assumption	**Gallagher Analysis**
Salary Increases:	***Salary Increases:***
Various rates based on service and age, ranging from 8.25% at hire down to 4.86%	This assumption is based on inflation (3.5%) plus productivity (1.0%) plus merit (various). The merit component is based on 5 year historical data over and above inflation and productivity. Segal provided detailed calculations of the merit component. However, when developing their recommended assumption, they subjectively recommended assumptions up to almost 1% lower than the observed rates. The use of an assumption lower than observed values would seem to be an aggressive assumption (an assumption that results in lower liabilities). The subjective adjustment may have reflected the view that recently higher increases will not be sustained over a longer period of time. Our opinion is that it is reasonable and appropriate to use some subjectivity in setting assumptions. However, that reasoning was not disclosed. The assumption used by Segal does not seem unreasonable and future salary increases are very challenging to predict. We believe it is valuable for the Committee to understand the impact of alternative assumptions. Accordingly, our sensitivity analysis section of this report will include results based on salary increases both 10% higher and 10% lower than the current assumption.
Total Payroll Growth:	***Total Payroll Growth:***
Total payroll is assumed to increase 4.5% per year.	The total payroll growth assumption does not affect liability calculations, but does influence the Annual Required Contribution (ARC) and the expected future contributions to the Plan. Thus it will impact the open group projections, but not the closed group projections. Segal states that the assumption is based on 3.5% inflation plus 1.0% productivity growth. Other Segal reports we have reviewed do not necessarily use inflation plus productivity as the assumption. We believe it is possible that the inflation plus productivity approach may not appropriately capture shifts in demographics and the resulting pay adjustments that occur when an entry level hire replaces an experienced hire. The assumption could be supported by projecting results that reflect actual turnover, retirements, and individual salary increase rate increases. It is uncertain to us whether this analysis would justify the 4.5% assumption. Despite the above reservation, the closed group projections which are the primary focus of this audit are not dependant on this assumption. Instead, future benefit payments and contributions will be a function of all the other individual assumptions. As a result, we are not concerned with this assumption for closed group audit purposes.

II. Demographic Assumptions	
Actuarial Valuation Assumption	**Gallagher Analysis**
Mortality Rates:	***Mortality Rates:***
RP-2000 Combined Healthy Mortality Table setback 3 years for both males and females.	The mortality assumption was changed for the July 1, 2010 Actuarial Valuation and likely was a cause of the significant increase in required contribution resulting from the 2010 assumption changes. The table was based on actual experience, with a 10% margin for future mortality improvements (i.e. lower mortality rates are used than past results would seem to indicate). Segal indicated that the data from the study period showed that the proposed mortality table was close to observed rates for females. Since the proposed mortality table predicts total male and female mortality occurrences to be 11% higher than expected, the implication is that the proposed mortality rates for males would result in actual male deaths more than 11% higher than expected. In other words, the proposed table reflects observed female death rates, but would appear to be very conservative for males since it predicts significantly fewer deaths for males than past data observations would seem to indicate. Based on the above, it would seem that the 3-year setback for males may not have been necessary to create a margin for future mortality improvements. Segal acknowledged that this experience was not consistent with the experience of the prior study and noted that they will closely monitor this assumption in future studies. For purposes of understanding the sensitivity of results, we propose that the sensitivity analysis later in this report reflect the elimination of the 3-year setback for males. This would reduce the conservatism of the current assumption. We also suggest evaluating another assumption that is more conservative. We propose to evaluate the impact of using RP-2000 with Scale BB projected future mortality improvements.
Disability Incidence & Mortality Rates:	***Disability Incidence & Mortality Rates:***
• 33% (males) and 20% (females) of OASDI disability incidence rates • RP-2000 Disabled Retiree Mortality Table set back one year for males	Disability rates were lowered at all ages as a result of the 2010 Experience Study. The new assumption was still higher than the observed actual rates. The assumption may be conservative, but the low rates of incidence minimize the impact of this assumption. Disability benefits comprise less than 2% of total plan costs. This assumption does not seem unreasonable. We do not suggest considering alternative assumptions for the sensitivity analysis part of this study as resulting changes would not be significant.

II. Demographic Assumptions (continued)	
Actuarial Valuation Assumption	**Gallagher Analysis**
Withdrawal Rates:	***Withdrawal Rates:***
Current rates are as high as 22% in the first year of employment, dropping to 14% in the fourth year. Thereafter rates are based on age, decreasing from about 9% down to about 3% at age 55, and very small after age 55. Rates are the same for males and females.	Segal increased the withdrawal rates at each year of service under 5 years, but not as high as the observed rates. When service exceeds 5 years, recommended rates were close to the observed rates. Our experience within the State indicates withdrawal rates in the past five years have been increasing as alternative employment options have been increasing. We believe the current assumption is not unreasonable. Predicting long term future withdrawal rates can be very challenging. As a result, we recommend evaluating the impact of higher and lower withdrawal rates in the sensitivity analysis of section five. For demonstration purposes, we will evaluate if rates are either 10% higher and 10% lower at each age (e.g., currently 5.0%, would be evaluated at 4.5% and 5.5%)
PEP Election Rates and Refund Election Rates:	***PEP Election Rates and Refund Election Rates:***
• Members that contributed to PEP last year are assumed to continue each year prospectively • Members that contribute to PEP are assumed to contribute the maximum amount • Terminated members are assumed to elect the more valuable benefit between a Refund of contributions (including the PEP balance) and a deferred annuity	The form of benefit assumption is the most conservative approach that is possible. Segal indicates that few new participants start making elections. We recommend using this assumption and not looking at alternatives for purposes of the sensitivity analysis study in this report. Alternatives are difficult to assess without more data.

II. Demographic Assumptions (continued)	
Actuarial Valuation Assumption	**Gallagher Analysis**
Retirement Rates:	***Retirement Rates:***
Rates vary from age 55 to 75 and depend on eligibility for early retirement and unreduced retirement (age 65 and rule of 85)	The 2010 Experience Study changed the assumption to shift to earlier retirements. The recommended rates are consistent with observed data for unreduced benefit retirements. Recommended rates are generally higher than observed data for reduced benefit retirements. Periods of low rates are often followed by periods of higher rates and vice versa. Economic conditions are in flux and trends are difficult to predict. The current assumption is reasonable. For sensitivity analysis in section five, we believe it would be prudent to consider results if rates from age 55 to 59 are either increased or decreased by 5% per year. For example, the assumed retirement assumption of 10% at a certain age would be evaluated at 5% and 15%. This will have the effect of evaluating results if retirements shift earlier or later. Retirement rates are difficult to estimate, but often have minimal impact on valuation results as either a smaller benefit is assumed payable for a longer period or a larger benefit is assumed payable for a shorter period. The sensitivity analysis can help demonstrate that the net present value impact will be minimal.
Marriage & Spouse Age:	***Marriage & Spouse Age:***
• 80% males and 65% females assumed married at retirement • Male spouses are assumed 3 years older than female spouses	Segal stated that actual data indicated 84% of recently retired males were married and 70% of recently retired females were married. No explanation was given for why the assumption was not changed to be closer to the observed data. No data was included in the Experience Study for spouse age differences, but the age difference was changed from 4 to 3 years based on studies done for other systems. Gallagher's review of the 2013 data indicates that 85% of recently retired males and 75% of females are married. While there may be some evidence to support higher marriage rates, the current assumptions are not unreasonable. Since the assumption has little impact on valuation results, we do not suggest looking at different assumptions for sensitivity analysis reasons.

III. Cost Methods	
Actuarial Valuation Assumption	**Gallagher Analysis**
Actuarial Cost Method:	***Actuarial Cost Method:***
Entry Age Normal Actuarial Cost Method	This cost method is one of the cost methods permitted by GASB and is the most commonly used in large public sector pension valuations. We support continued use of this cost method.
Actuarial Asset Method:	***Actuarial Asset Method:***
The actuarial value of assets is a smoothed market value. Calculation of the actuarial value of assets begins with the market value of assets as of the valuation date. The expected amount of return over each of the last five years is calculated and subtracted from the actual amount of return for each year. The difference for each year is phased in to the valuation assets at a rate of 20 percent per year until it is fully recognized.	This assumption smoothes potential volatility in future funding requirements. It does not affect long-term funding of the plan. Any smoothing method is reasonable provided that it is consistently used and is not created with the intent to bias results. This method is reasonable.

Section Five – Sensitivity Analysis

Actuarial projection results will vary based on assumptions for future expectations. The sensitivity of results to different assumptions can help provide a better understanding of a reasonable range of outputs. In this section, we show the effect of different assumptions, as well as the impact of investment volatility.

Demographic Assumptions

The projections on the pages 26 and 27 include results under the baseline valuation assumption set as well as under two sets developed by Gallagher representing cost favorable and cost unfavorable sets of demographic assumptions.

	NDPERS July 1, 2013 Valuation	Gallagher Recommended Assumption Sets for Sensitivity Analysis	
		Cost Favorable (8% Best)	Cost Unfavorable (8% Worst)
Salary Increases	Rates based on Experience Study	10% lower	10% higher
Mortality Rates	Rates based on Experience Study	Study rates without Male margin	RP 2000 Table with projected improvements
Withdrawal Rates	Rates based on Experience Study	10% lower	10% higher
Retirement Rates	Rates based on Experience Study	Shifted later	Shifted earlier

The following graphs compare projected funding ratios for the two closed plan scenarios under the three sets of assumptions above. The Baseline results are based on Segal's valuation assumptions. The "8% Worst" results represent the Cost Unfavorable set of assumptions while the "8% Best" represent the Cost Favorable assumptions. The estimated cost to fully fund the Plan in each case is shown below the title in the legend.

7.5% Investment Return

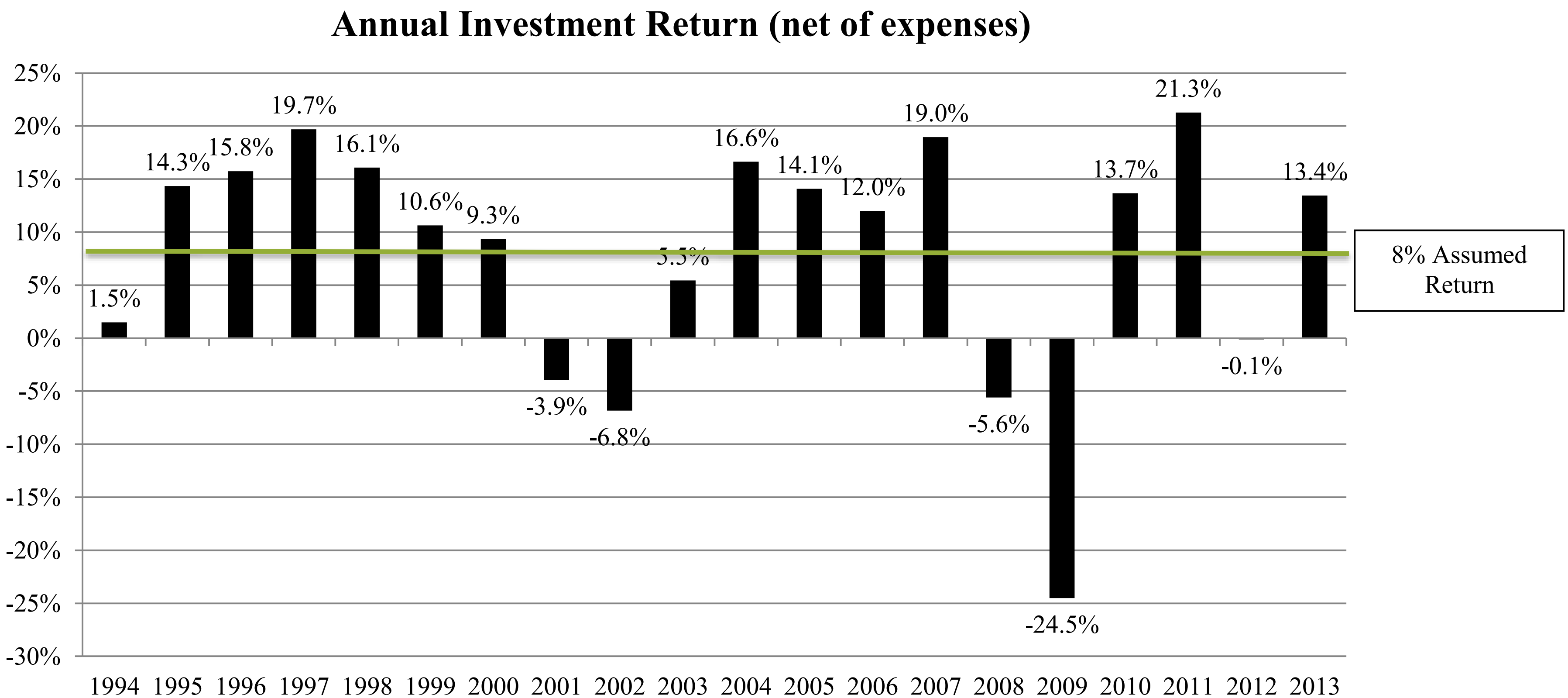
In addition to showing the effect of more or less conservative demographic assumptions, the following graphs show results if the plan's investment return is 7.5% per year. Because this assumption has the largest impact, this change has been shown in isolation (i.e., only the investment return was changed, all other assumptions are the same as the baseline valuation).

Investment Volatility

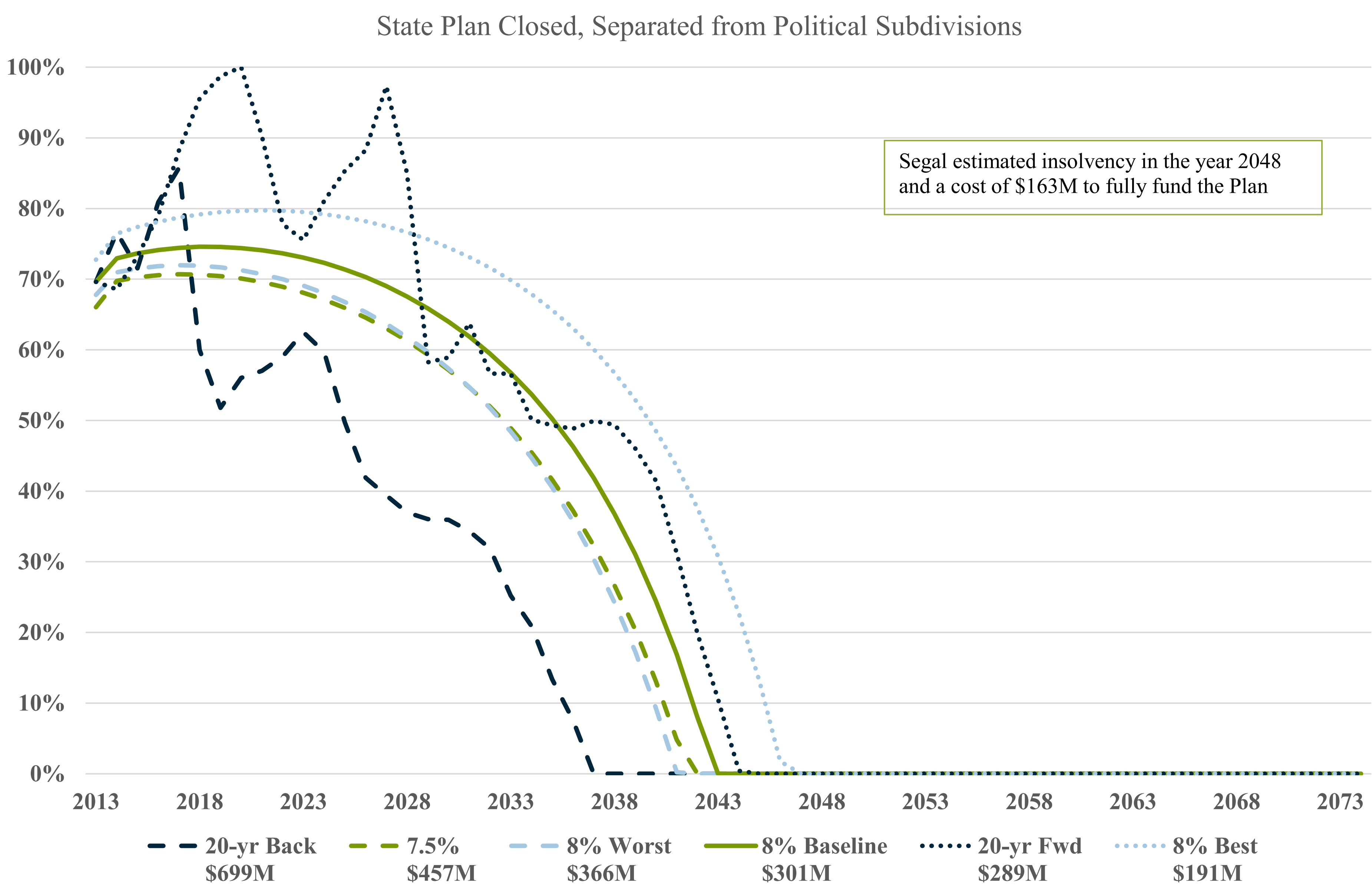
The graph at the bottom of this page shows actual annual investment return rates for NDPERS for the 20 years ending June 30, 2013. Note that the average arithmetic and annually compounded returns over the past 20 years have been close to the assumed return of 8%.

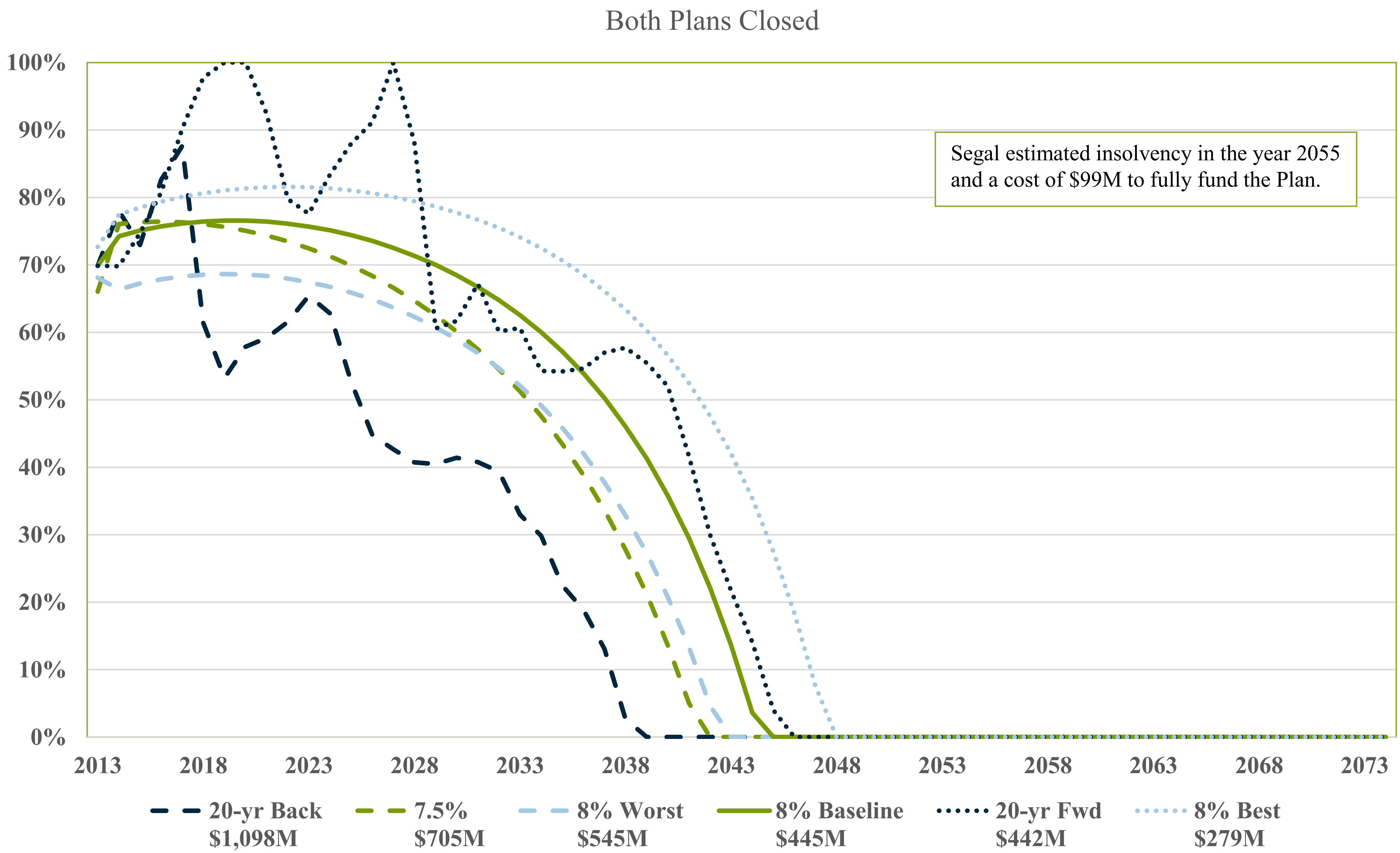
- Average arithmetic return from 1994 – 2013 (20 Years): 8.1%
- Average annual compounded return from 1994 – 2013 (20 Years): 7.4%

The Plan, like most pension plans, has experienced a significant amount of volatility over the past 20 years. This volatility explains the difference between the arithmetic average rate of return which is simply the sum of the annual returns divided by the number of years included in the sample as compared to the annual compounded average, which tracks the value of a fixed amount over that time period on an annually compounded method.



The following graphs demonstrate the effect of investment volatility by showing the effect if historical returns for the prior 20 year period are repeated in the future. Results are shown both if returns are repeated in the same order forward (Fwd), or backward (Back).


State Plan Closed, Separated from Political Subdivisions
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2013
2018
2023
2028
2033
2038
2043
2048
2053
2058
2063
2068
2073
Segal estimated insolvency in the year 2048 and a cost of $163M to fully fund the Plan
20-yr Back $699M
7.5% $457M
8% Worst $366M
8% Baseline $301M
20-yr Fwd $289M
8% Best $191M


Both Plans Closed
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2013
2018
2023
2028
2033
2038
2043
2048
2053
2058
2063
2068
2073
Segal estimated insolvency in the year 2055 and a cost of $99M to fully fund the Plan.
20-yr Back $1,098M
7.5% $705M
8% Worst $545M
8% Baseline $445M
20-yr Fwd $442M
8% Best $279M

The following chart shows a summary comparison of Segal's estimated one-time cost to fully fund the closed plan scenarios with Gallagher's results. The Baseline result differences are primarily due to Segal's output adjustments as noted in Section Three. Also shown is a summary of the range in results when demographic assumptions are different than expected, as well as the impact of both investment volatility (with an 8% average return), or no investment volatility with a fixed 7.5% rate of return.

		Segal Result	Gallagher Result
State Plan Closed (separated from Political Subdivisions)	Baseline Result	$163M	$301M
	Results Reflecting 7.5% Investment Return		$457M
	Results Reflecting Alternative Demographic Assumptions		$191M to $366M
	Results Reflecting Investment Volatility (Repeating the past 20 years)		$289M to $699M
		Segal Result	**Gallagher Result**
Plan Closed for State and Political Subdivisions	Baseline Result	$99M	$445M
	Results Reflecting 7.5% Investment Return		$705M
	Results Reflecting Alternative Demographic Assumptions		$279M to $545M
	Results Reflecting Investment Volatility (Repeating the past 20 years)		$442M to $1,098M

The results are shown independently by category. The compounded effect of multiple factors is not shown. For example, if demographic experience was unfavorable and a 7.5% return with high volatility occurred, the result variances would be compounded.

Section Six – Summary of Conclusions

The following summarizes all conclusions from this report:

Conclusions

• Segal's Plan closure study was not based on the same outputs as the July 1, 2013 actuarial valuation.
• Segal adjusted costs downward to reflect fewer retirements. This contradicts the actuarial valuation which noted that fewer retirements increased plan costs.
• Segal's adjustments reduced the present value of projected benefit payments by about $264M.
• No other adjustments were made to reflect increased benefits or increased contributions due to deferred retirements.
• Segal did not include post 7/1/13 hires in their study.
• Gallagher estimates if no adjustments were made and post 7/1/13 hires were included:
    • If only the State employees group was closed and separated from the Non-State
        • The insolvency date would be in 30 years, not 35 years
        • The one-time contribution would be $301M instead of $163M
    • If the entire plan is closed
        • The insolvency date would be in 32 years, not 42 years
        • The one-time contribution would be $445M instead of $99M
• In addition to the above, alternative assumptions or actual investment returns with volatility may significantly affect the one time funding costs.
• If the adjustments to the closed plan study made by Segal are considered reasonable, then the Actuarial Valuation results significantly overstate the contribution required to fund the Plan.

Attachments

Laura Hafermann

From: Ramirez, Brad <bramirez@segalco.com>
Sent: Tuesday, July 29, 2014 2:14 PM
To: Doug Anderson
Cc: Sparb Collins (scollins@nd.gov); Dixon, Tammy; Mitchell, Laura; Larson, Brady A. (bradylarson@nd.gov); Knudson, Allen H. (aknudson@nd.gov)
Subject: RE: North Dakota Legislative Committee Audit

Doug,

Our responses are below. Please contact me if you have any further questions.

I'm out of the office this afternoon but will be back tomorrow.

Thanks,
Brad

From: Doug Anderson [mailto:Doug_Anderson@ajg.com]
Sent: Wednesday, July 23, 2014 10:06 AM
To: Ramirez, Brad
Cc: Sparb Collins (scollins@nd.gov); Dixon, Tammy; Mitchell, Laura; Larson, Brady A.; Knudson, Allen H.
Subject: RE: North Dakota Legislative Committee Audit

Brad,

Thank you for your response. After visiting with some representatives of the Legislative Committee, I do want to submit some follow-up questions so I can fully explain this situation to the Legislative Committee. I am primarily interested in understanding differences between your July 1, 2013 actuarial valuation results and the results in your March 6, 2014 letter to NDPERS.

On August 5th I will provide another update to the Legislative Committee. I would appreciate if you could provide answers to the following questions prior to that date.

1. You note an adjustment for FYE 2014 benefit payments from an unadjusted amount of $179M to an amount more in alignment with $106M actual payments in FYE 2013. What is the reason for the overstatement of the FYE 2014 unadjusted amount?

The current valuation assumptions (as approved by the Board of Trustees) appear to have higher rates of assumed retirement than are currently being observed.

2. How many other years were adjusted in a similar manner?

The adjustment was made for years prior to 2028.

3. Were any adjustments made to benefit payments from the years 2030 to 2055. As shown on the attachment, these years show the largest differences between a BP stream discounting to $3,369 (Gallagher result) and $3,120M.

No adjustments were made in the years 2030 to 2055.

4. What was the methodology for adjusting the benefit payments?

The benefit payments used in the projection were actual benefit payments as of June 30, 2013, increased by 8% per year for ten years, then 6% for five years, then the payment stream from the valuation system was used.

5. Were adjustments made in a similar manner for State and Political Subdivision participants?

The adjustment was made for all PERS Main System benefit payments.

6. Do all of these adjustments account for the $264M difference that I have calculated in the attached spreadsheet?

Our analysis indicates that the difference is mostly due to the adjustments in benefit payments and the difference in timing of payments between our valuation systems.

7. Were any other adjustments made?

No.

8. Should the adjustments made for the study also have been made for the July 1, 2013 actuarial valuation? Will they be considered for the 2014 actuarial valuation?

The July 1, 2013 actuarial valuation was based on the assumptions approved by the board, based on the most recent experience study. We will continue to monitor gains and losses in this area and will recommend changes, if necessary.

9. Were the adjustments communicated either in writing or verbally to NDPERS?

The details of the adjustments were not communicated.

10. Did the projections in the March 6th Study include benefit payments for employees that were expected to be hired after July 1, 2013 and before the assumed January 1, 2016 plan closure dates (for scenarios that assume plan closure)?

We did not include these employees in the plan closure projection.

Using scenario No. 5 from your March 6th letter, I am attempting to reconcile the $3,384M PVB you provided to us as a valuation result, with the $3,120M in the attached spreadsheet. Further to that end, we had matched your PVB for the valuation rather closely (we had $3,369M). As an estimate, we have valued the PVB as of July 1, 2013 for participants that had been hired in the past two and half years and obtain a PVB of roughly $150M. When combining that result with our match results, we have a PVB for this scenario of about $3,500M. Here is a summary:

	Segal Valuation	Segal Letter	Gallagher
Est. PVB @ 7/1/13 for Participants as of 7/1/13	$3,384		$3,369
Est. PVB @ 7/1/13 for New Participants entering between 7/1/13 and 1/1/16			150
Est. PVB @ 7/1/13 for all pre 1/1/16 Participants		$3,120	$3,519
Scenario 5 – Both Groups Closed- years to insolvency		42	30
Scenario 5 – Both Groups Closed - cost to fully fund		Approximately $100M (PV of unfunded BPs)	Approximately $350M ($100M - $15M + $264M + net effect of new hires)

The adjustments to the benefit payments and the timing of the benefit payments are responsible for the change in PVB.

As noted above, the difference between your results and ours leads to some more significant differences when evaluating insolvency periods and amounts needed to fully fund the plan. It is these differences that I wish to explain to the Committee.

Thank you for considering these questions as well as your past prompt responses to our requests.

Doug

Doug Anderson
Area Senior Vice President
Retirement Plan Consulting | Actuarial

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www.ajg.com
Gallagher Benefit Services, Inc.

-----Original Message-----
From: Ramirez, Brad [mailto:bramirez@segalco.com]
Sent: Wednesday, July 16, 2014 6:26 PM
To: Doug Anderson
Cc: Sparb Collins (scollins@nd.gov); Dixon, Tammy; Mitchell, Laura
Subject: FW: North Dakota Legislative Committee Audit

Doug,

See our response below. Please let me know if you have any questions.

Thanks,
Brad

From: Collins, J. Sparb [scollins@nd.gov]
Sent: Wednesday, July 16, 2014 5:20 PM
To: Ramirez, Brad
Subject: Re: North Dakota Legislative Committee Audit

Yes please forward and we can discuss

sparb

On Jul 16, 2014, at 4:13 PM, "Ramirez, Brad" <bramirez@segalco.com<mailto:bramirez@segalco.com>> wrote:

Sparb,

With respect to item 5, for the purposes of the closed group projection, we adjusted the benefit payments projected in the valuation to be closer to the actual benefit payments from the Main system. For example, in 2013, the unadjusted projected benefit payment amount was $179 million and the actual benefit payments from the Main system were $106 million. The benefits Gallagher used were higher therefore their projected date of insolvency was sooner.

This results in a different outlay of projected payments as Doug pointed out below. We believe that this adjustment provides a more accurate projection for when the fund will become insolvent.

As always, 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.

If you would like, I will forward this explanation to Doug and see if he has any questions.

Thanks,
Brad

From: Doug Anderson [mailto:Doug_Anderson@ajg.com]
Sent: Wednesday, July 09, 2014 3:37 PM
To: Ramirez, Brad; Mitchell, Laura; Tanji, Hiroko
Cc: Collins, J. Sparb; Anthony Pluth
Subject: North Dakota Legislative Committee Audit

Hello Brad,

The purpose of this email is to update you on our work for the North Dakota Legislative Management Committee related to the NDPERS audit. On July 1st I presented an update to the Committee. Sparb may have provided you with a copy of our presentation. They key points were as follows:

1. We had no significant findings with respect to the participant data. We may have a few minor questions later, but it’s not a high priority.

2. We were able to obtain a reasonable match of the July 1, 2013 actuarial valuation results (< 1.0% in total).

3. We had no significant issues with the assumptions recommended by Segal and adopted by NDPERS in 2010.

4. We had some recommendations for alternative assumptions that should be considered as they deliberate on plan design changes. This primarily is intended to recognize that no single assumption will be accurate and understanding the sensitivity of results to various assumptions is valuable.

5. We did identify some differences in projection results for the plan design options which in our opinion should be investigated and reconciled.

With regard to item #5 above, based on the close valuation match, we expected that our projections for the date of insolvency under good and bad assumptions should bracket the results from your March 6, 2014 letter to NDPERS. For example, the final scenario in that letter titled “Main Systems – Existing Plan with No New Entrants as of 1/1/2016” shows insolvency in the year 2055. Our results, which we expected to bracket the year 2055, instead ranged from 2045 to 2048.

While looking at this closer, we note a difference between the present value of projected benefit payments shown in that letter for that scenario and the present value of benefits as of the valuation date that you provided to us in June. Specifically, the PV of benefit payments in the letter appears to be about $264M less than the PVB you provided to us for purposes of matching the valuation. This difference may explain why we had unexpected insolvency dates.

Can you review the attached Excel document where we attempt to reconcile your PV of BP's from the March 6th letter with the PVB provided to us for the valuation match? My expectation is that the PV of BP's for the scenario in the letter should actually be higher than the PVB for the valuation, rather than $264M lower, due to the inclusion of an additional two and half years of new hires.

I would appreciate any insight you have to help me understand this difference. I've also demonstrated the difference between your benefit payments in the exhibit and what we have calculated for our close match results. You can see that most of the difference in benefit payments appears from about 2030 to 2050.

My next update for the Committee is on August 5th and I hope to report on this issue at that time.

Please let me know if you have questions or would like to discuss this directly. I am out of the office until July 15th.

Thank you,
Doug

Doug Anderson
Area Senior Vice President
Retirement Plan Consulting | Actuarial

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<PVFB Reconciliation.xlsx>

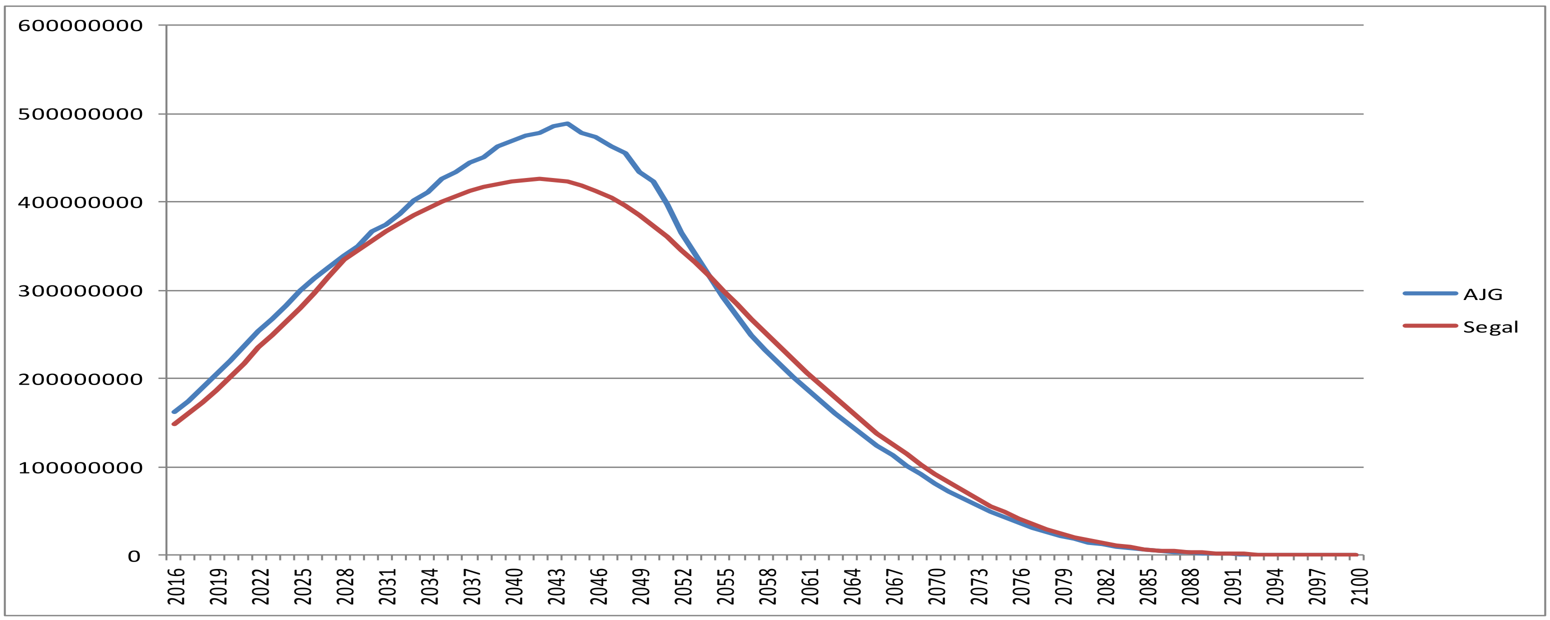
Segal July 1, 2013 Implied Total Present Value from Study	Segal July 1, 2013 Present Value Provided to Gallagher	Difference
$ 2,784,903,140		
335,339,266		
$ 3,120,242,406	$ 3,384,242,081	$ (263,999,675)

Attempt to obtain 7/1/2013 Benefit Payments via asset reconciliation

	Segal Provided Values
Actives	$ 2,285,669,665
Prior Service	10,275
Retirees & Bens	943,661,450
Inactive	154,900,691
	$ 3,384,242,081

Market Value of Assets (BOY)	Contributions	Earnings	Benefit Payments	Market Value of Assets (EOY)
1,899,500,000	113,600,000	151,900,000	116,300,000	2,048,700,000
2,048,700,000	127,000,000	164,000,000	125,400,000	2,214,300,000

Graph Comparison of Segal vs Gallagher Benefit Payments



March 6, 2014 Letter to NDPERS (pages 12-14) Results for Main Systems - Existing Plan with no New Entrants as of 1/1/2016. Discounted by Gallagher to July 1, 2013			
Total:	$ 16,785,300,000	Total:	$ 2,784,903,140

Plan Year Beginning	Benefit Payments	Discount Factor	PV of Benefit Payment
7/1/2013	N/A		N/A
7/1/2014	N/A		N/A
7/1/2015	N/A		N/A
7/1/2016	147,900,000	0.7639	112,975,697
7/1/2017	159,800,000	0.7073	113,023,792
7/1/2018	172,600,000	0.6549	113,034,271
7/1/2019	186,400,000	0.6064	113,029,420
7/1/2020	201,300,000	0.5615	113,022,682
7/1/2021	217,400,000	0.5199	113,020,602
7/1/2022	234,800,000	0.4814	113,024,453
7/1/2023	248,800,000	0.4457	110,892,186
7/1/2024	263,800,000	0.4127	108,868,341
7/1/2025	279,600,000	0.3821	106,841,561
7/1/2026	296,400,000	0.3538	104,871,505
7/1/2027	314,200,000	0.3276	102,934,682
7/1/2028	334,300,000	0.3033	101,407,054
7/1/2029	345,500,000	0.2809	97,041,184
7/1/2030	356,200,000	0.2601	92,635,659
7/1/2031	366,100,000	0.2408	88,157,700
7/1/2032	375,500,000	0.2230	83,723,372
7/1/2033	384,400,000	0.2064	79,359,037
7/1/2034	392,500,000	0.1912	75,028,959
7/1/2035	399,800,000	0.1770	70,763,335
7/1/2036	406,200,000	0.1639	66,570,476
7/1/2037	412,000,000	0.1517	62,519,458
7/1/2038	416,800,000	0.1405	58,562,815
7/1/2039	420,600,000	0.1301	54,719,201

Assumed Additional Amounts From Other Sources	
Total:	$ 335,339,266

Plan Year Beginning	Benefit Payments	Discount Factor	PV of Benefit Payment
7/1/2013	116,300,000	0.9623	111,909,727
7/1/2014	125,400,000	0.8910	111,727,969
7/1/2015	135,400,000	0.8250	111,701,570

Notes:

1. 7/1/2013 value determined as plug value to reconcile 7/1/2013 assets with 7/1/2014 assets (see calculation to the right)
2. 7/1/2014 and 7/1/2014 values obtained from March 6, Letter to NDPERS (pages 1-3) Results for Main Systems - Existing Plan No Change (entire group)

7/1/2040	423,500,000	0.1205	51,015,264
7/1/2041	425,500,000	0.1115	47,459,432
7/1/2042	426,100,000	0.1033	44,005,884
7/1/2043	425,400,000	0.0956	40,679,251
7/1/2044	423,100,000	0.0885	37,462,325
7/1/2045	419,100,000	0.0820	34,359,403
7/1/2046	413,200,000	0.0759	31,366,388
7/1/2047	405,600,000	0.0703	28,508,764
7/1/2048	396,500,000	0.0651	25,804,763
7/1/2049	385,700,000	0.0603	23,242,485
7/1/2050	373,500,000	0.0558	20,840,099
7/1/2051	360,200,000	0.0517	18,609,261
7/1/2052	346,000,000	0.0478	16,551,515
7/1/2053	331,000,000	0.0443	14,661,078
7/1/2054	315,600,000	0.0410	12,943,483
7/1/2055	299,900,000	0.0380	11,388,509
7/1/2056	284,000,000	0.0352	9,985,849
7/1/2057	268,100,000	0.0326	8,728,502
7/1/2058	252,400,000	0.0301	7,608,665
7/1/2059	237,000,000	0.0279	6,615,211
7/1/2060	221,800,000	0.0258	5,732,356
7/1/2061	207,000,000	0.0239	4,953,569
7/1/2062	192,400,000	0.0222	4,263,136
7/1/2063	178,200,000	0.0205	3,656,016
7/1/2064	164,300,000	0.0190	3,121,147
7/1/2065	151,000,000	0.0176	2,656,010
7/1/2066	138,100,000	0.0163	2,249,172
7/1/2067	125,800,000	0.0151	1,897,081
7/1/2068	114,000,000	0.0140	1,591,792
7/1/2069	102,800,000	0.0129	1,329,079
7/1/2070	92,100,000	0.0120	1,102,538
7/1/2071	82,100,000	0.0111	910,025
7/1/2072	72,700,000	0.0103	746,141
7/1/2073	63,900,000	0.0095	607,245
7/1/2074	55,800,000	0.0088	490,991
7/1/2075	48,300,000	0.0081	393,516
7/1/2076	41,500,000	0.0075	313,069
7/1/2077	35,400,000	0.0070	247,270
7/1/2078	29,800,000	0.0065	192,735
7/1/2079	24,900,000	0.0060	149,114

7/1/2080	20,600,000	0.0055	114,226
7/1/2081	16,900,000	0.0051	86,768
7/1/2082	13,700,000	0.0048	65,128
7/1/2083	11,000,000	0.0044	48,419
7/1/2084	8,700,000	0.0041	35,459
7/1/2085	6,800,000	0.0038	25,662
7/1/2086	5,300,000	0.0035	18,520
7/1/2087	4,100,000	0.0032	13,265
7/1/2088	3,100,000	0.0030	9,287
7/1/2089	2,400,000	0.0028	6,657
7/1/2090	1,800,000	0.0026	4,623
7/1/2091	1,300,000	0.0024	3,092
7/1/2092	1,000,000	0.0022	2,202
7/1/2093	700,000	0.0020	1,427
7/1/2094	500,000	0.0019	944
7/1/2095	400,000	0.0017	699
7/1/2096	300,000	0.0016	486
7/1/2097	200,000	0.0015	300
7/1/2098	200,000	0.0014	278
7/1/2099	100,000	0.0013	128
7/1/2100	-	0.0012	-

North Dakota
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Memorandum

TO: NDPERS Board

FROM: Sparb

DATE: September 11, 2014

SUBJECT: BCBS Quarterly Executive Summary

BCBS staff will review the Quarterly Executive Summary with the Board and staff. Refer to the attached presentation.

NDPERS
Executive Summary

Q2 | Presented September 2014

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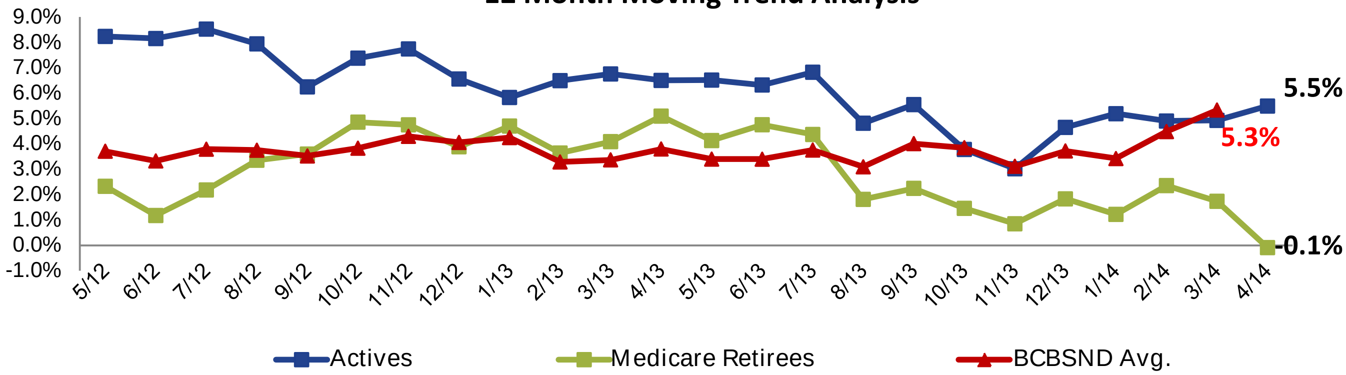
NORTH DAKOTA
PUBLIC EMPLOYEES
RETIREMENT SYSTEM

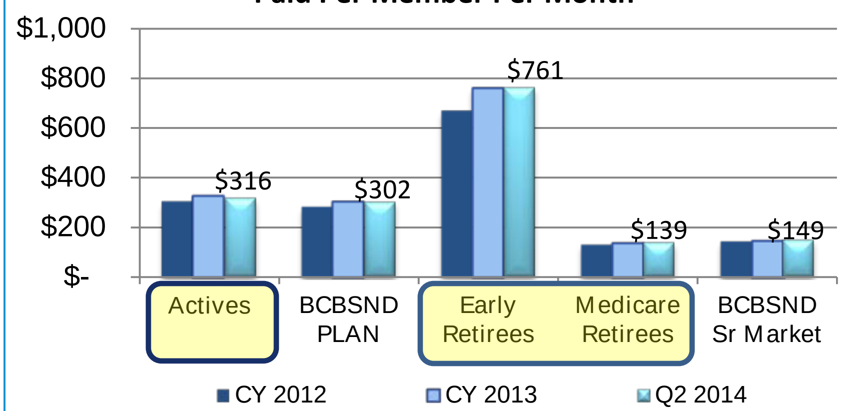
ND

12 Month Moving Trend Analysis

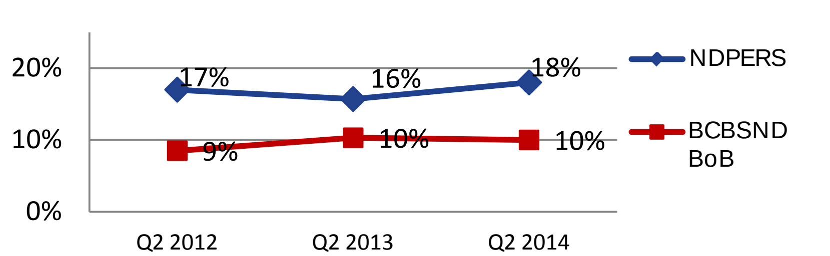


Membership Comparison	CY 2013	Q2 2014
Actives	54,813	55,727
Early Retirees	1,242	1,203
Medicare Retirees	7,854	8,183

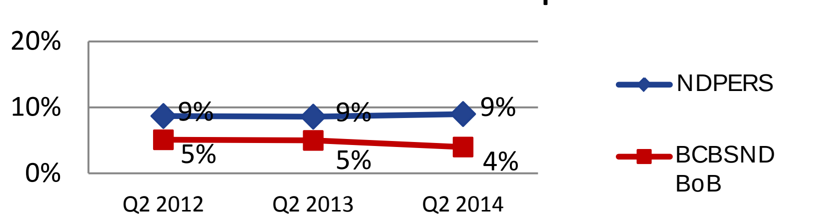
Paid Per Member Per Month



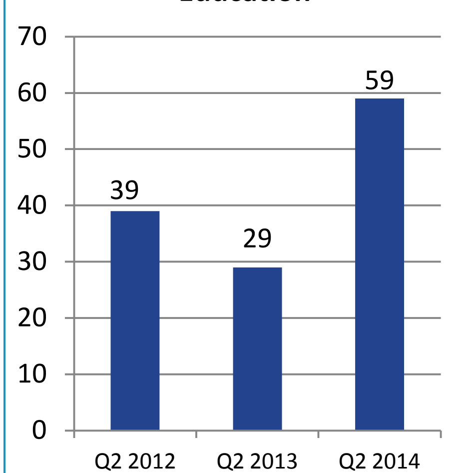
Healthy Blue Participation



Health Club Credit Participation



Number of Unique Employers by Year Participating in Member Education



Actives include Political Subs and State Employees

NDPERS Biennium Comparison

Paid through June 30, 2014

Incurred	Premium	Admin Fee	Interest on Surplus	Estimated Incurred Claims	Gain (Loss)	Gain (Loss) as % of Premium	Biennium Gain (loss)	% of Premium
July 09 - Jan 10	174,681	9,234	137	144,497	21,087	12.1%	38,094	9.0%
July 11 - Jan 12	193,011	10,255	35	172,155	10,636	5.5%	10,562	2.2%
July 13 - Jan 14	226,133	17,197	48	201,485	7,500	3.3%	N/A	N/A

Note: Reported in thousands

The July 11 - June 13 biennium is reporting a gain of $10.5 million with twelve months of claims run out. Biennium gain(losses) are prior to risk sharing. It is important to note that the biennium beginning with July 13 includes estimated claim reserves. Actual claims run-out may vary from original reserve estimates.

It is expected that premiums will exceed claims in the first few months of the biennium. This is due to stable premium levels throughout the entire biennium and increasing claims during the biennium. At the mid-point of the biennium claims would be expected to be equal to premiums less admin fees and during the last months of the biennium, claims would be expected to exceed premiums.

NDPERS Quarterly Trend Analysis

Paid through June 30, 2014

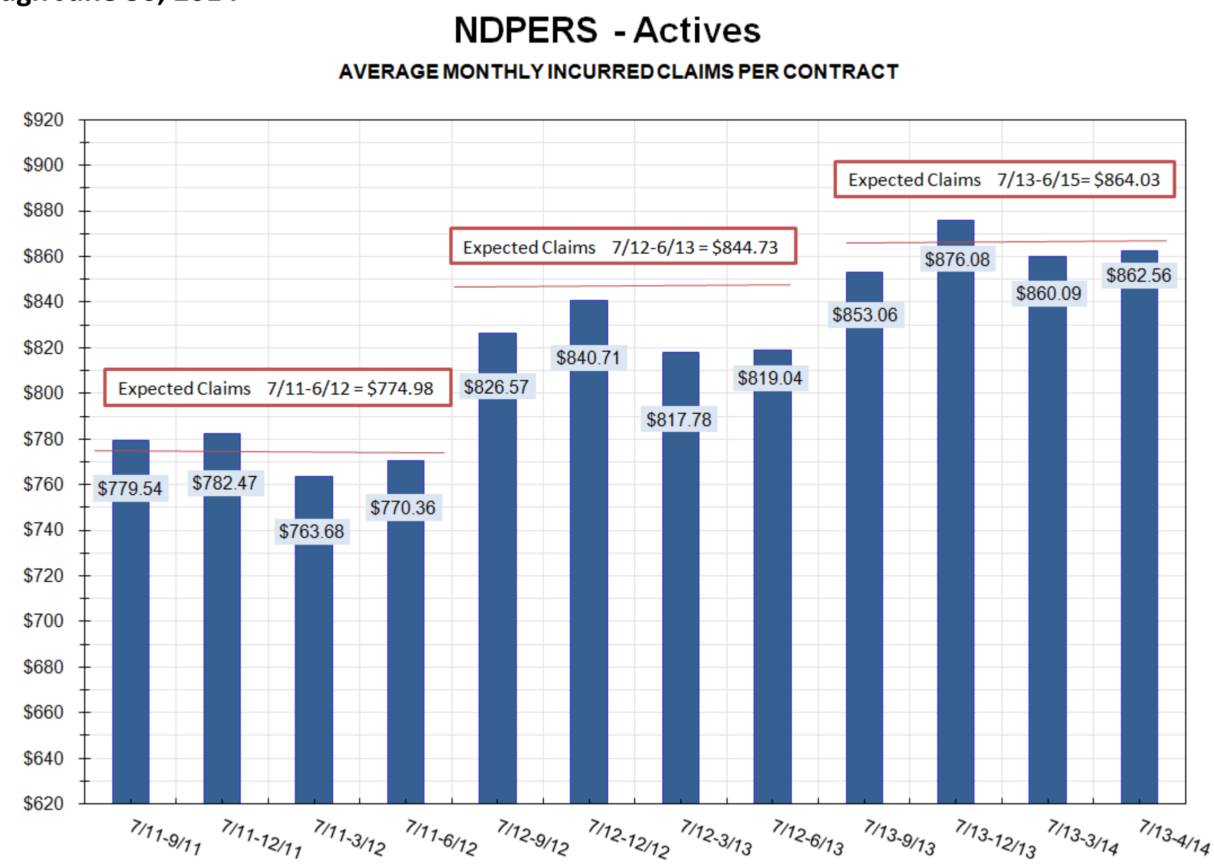
Twelve Month Moving Average				
Incurred Month	Est. Incurred Claim/Contract		Annual Trend	
	Actives	Med Retirees	Actives	Med Retirees
6/12	$770.36	$173.50	8.1%	1.2%
7/12	774.58	175.05	8.5%	2.2%
8/12	783.57	177.38	7.9%	3.4%
9/12	782.32	177.81	6.2%	3.6%
10/12	794.18	179.80	7.4%	4.9%
11/12	801.72	179.68	7.7%	4.7%
12/12	799.75	178.99	6.6%	3.9%
1/13	800.59	179.81	5.8%	4.7%
2/13	807.23	178.55	6.5%	3.6%
3/13	810.83	178.91	6.8%	4.1%
4/13	812.84	180.98	6.5%	5.1%
5/13	817.01	181.36	6.5%	4.1%
6/13	819.04	181.75	6.3%	4.8%
7/13	827.42	182.70	6.8%	4.4%
8/13	821.28	180.59	4.8%	1.8%
9/13	825.71	181.80	5.5%	2.2%
10/13	824.19	182.42	3.8%	1.5%
11/13	825.91	181.21	3.0%	0.8%
12/13	836.93	182.26	4.6%	1.8%
1/14	842.12	182.01	5.2%	1.2%
2/14	846.77	182.76	4.9%	2.4%
3/14	850.75	182.01	4.9%	1.7%
4/14	857.45	180.81	5.5%	-0.1%

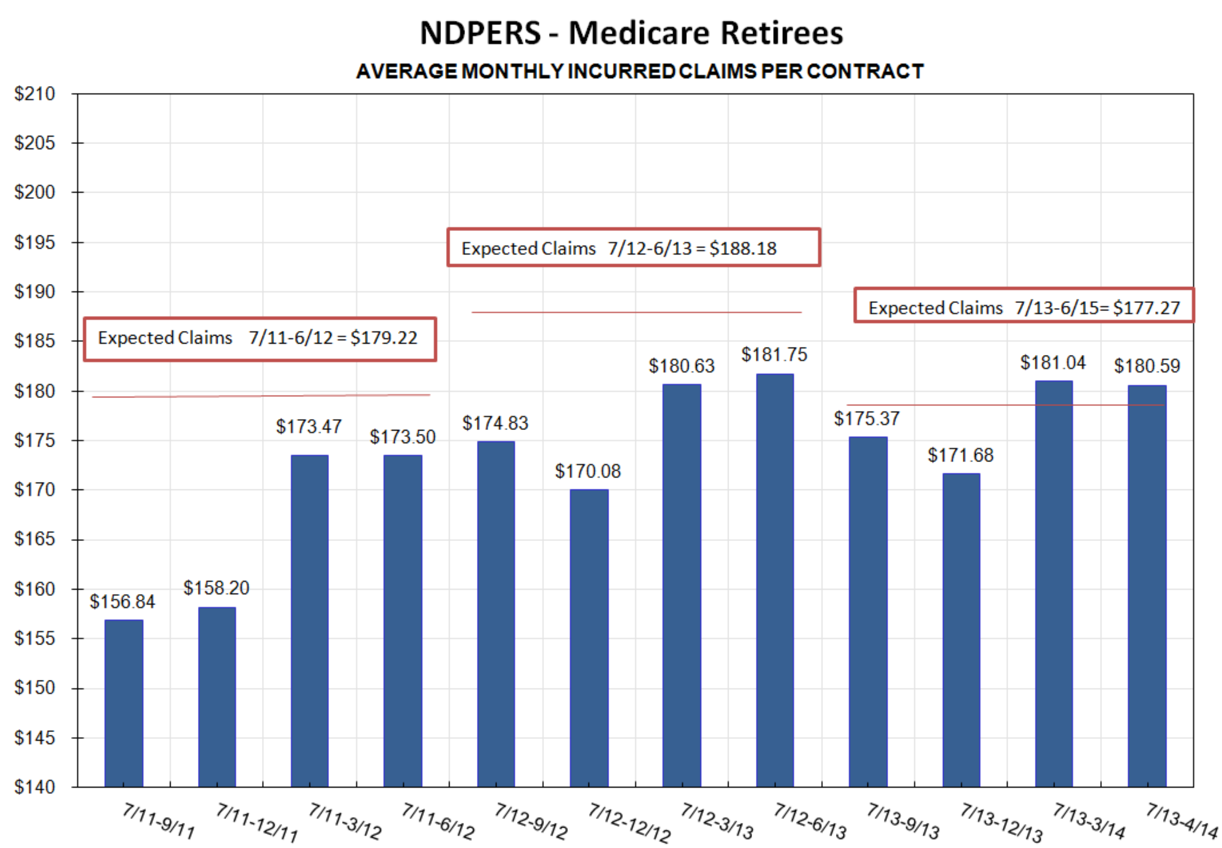
The 4.9% twelve month rolling trend for NDPERS Actives through March 2014 is less than the Blue Cross Blue Shield overall trend of 5.3%.

A 6.68% trend was used in rating the first year of the biennium beginning July 2013.

NDPERS Quarterly Trend Analysis

Paid through June 30, 2014

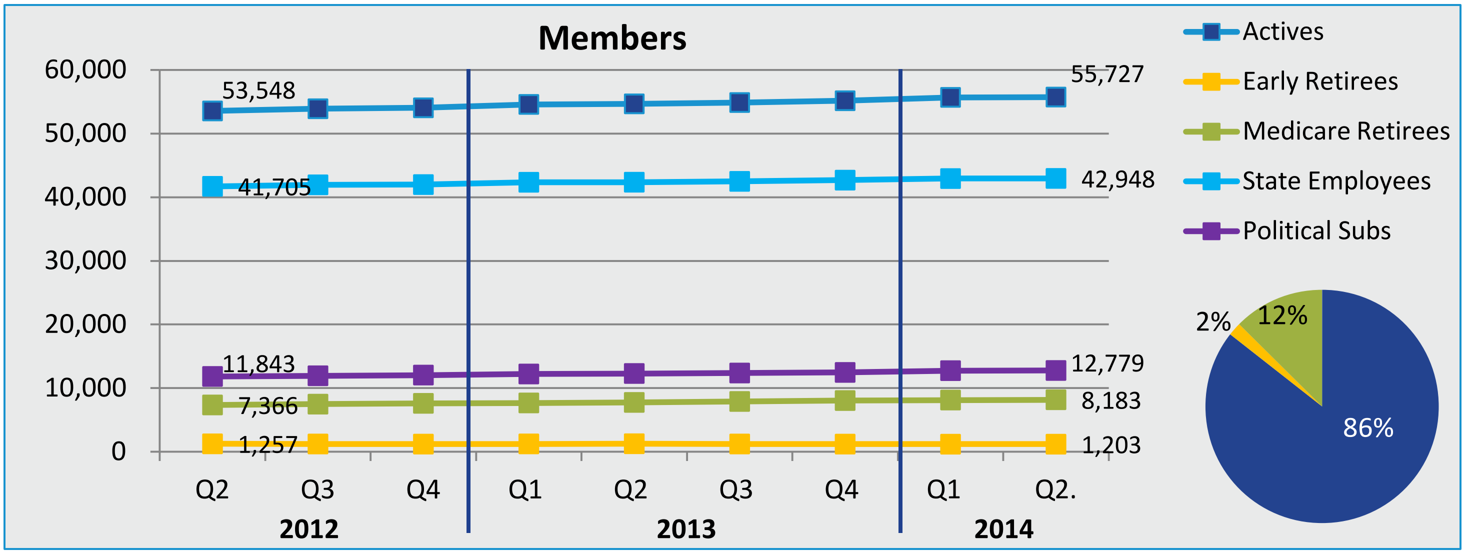




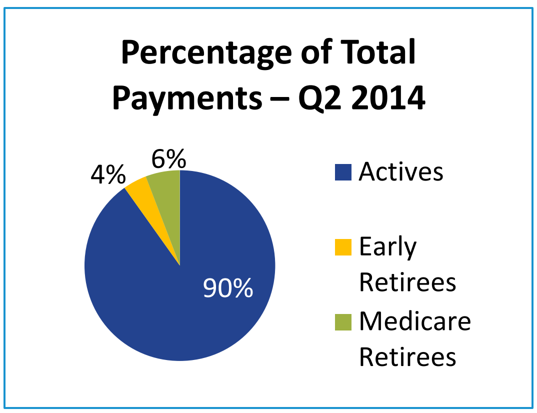
Membership & Health Utilization Summary

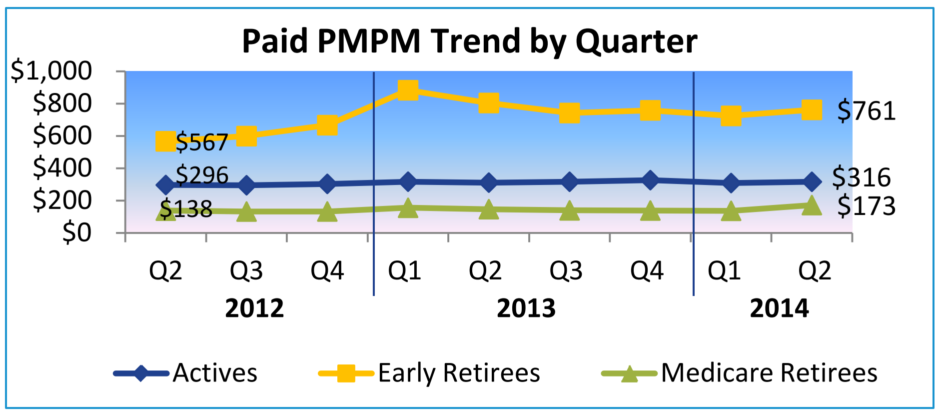
Paid each Calendar Year (Q1 through 3/31/2014)

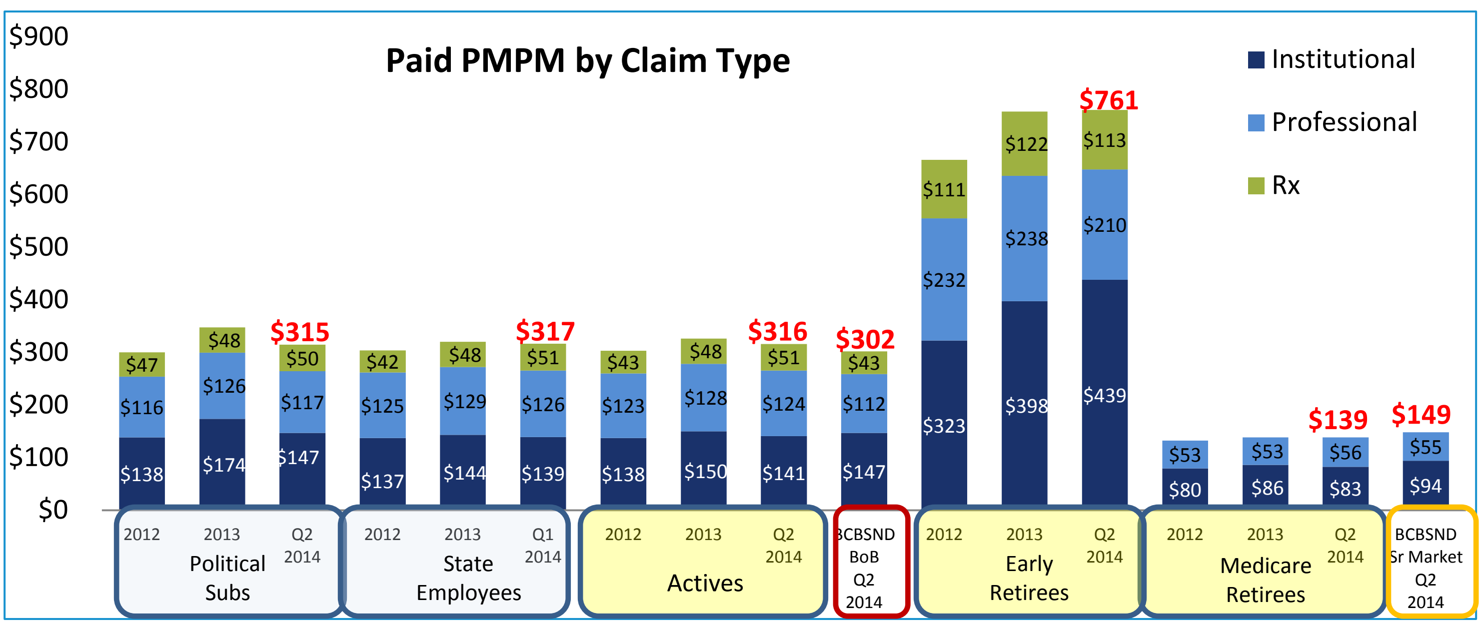
Membership



Claims Paid Per Member Per Month (PMPM)





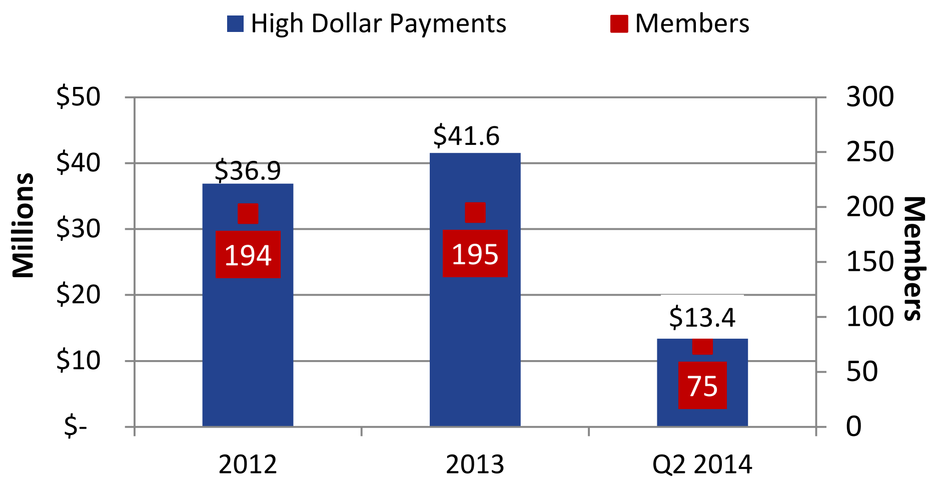


Actives include Political Subs and State Employees

Quarters are cumulative to calendar year end

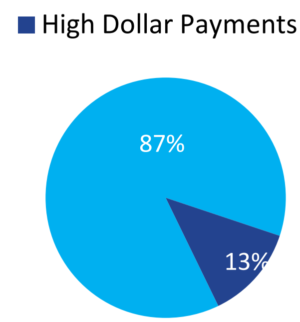
High Dollar Cases

Actives
High Dollar Cases over $100,000/member



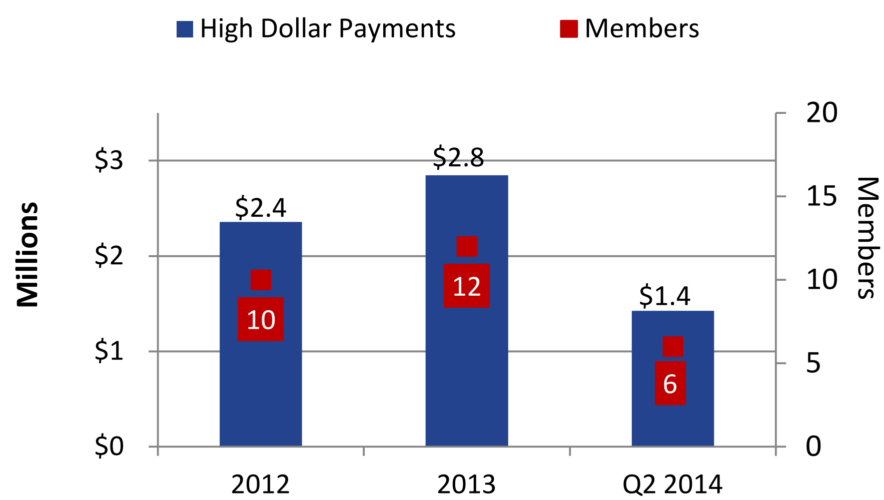
	2012	2013	Q2 2014
Avg. Paid/Case	**$190,129**	**$213,099**	**$178,458**
% of Total Payments	**19%**	**19%**	**13%**
BCBSND % of Tot. Payments	17%	18%	20%

Q2 2014
as a % of Total Payments



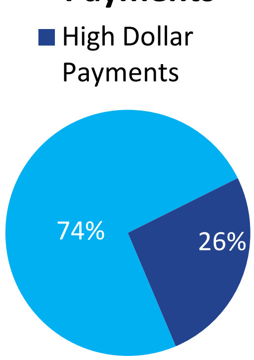
BCBSND Avg. 20%

Early Retirees
High Dollar Cases over $100,000/member

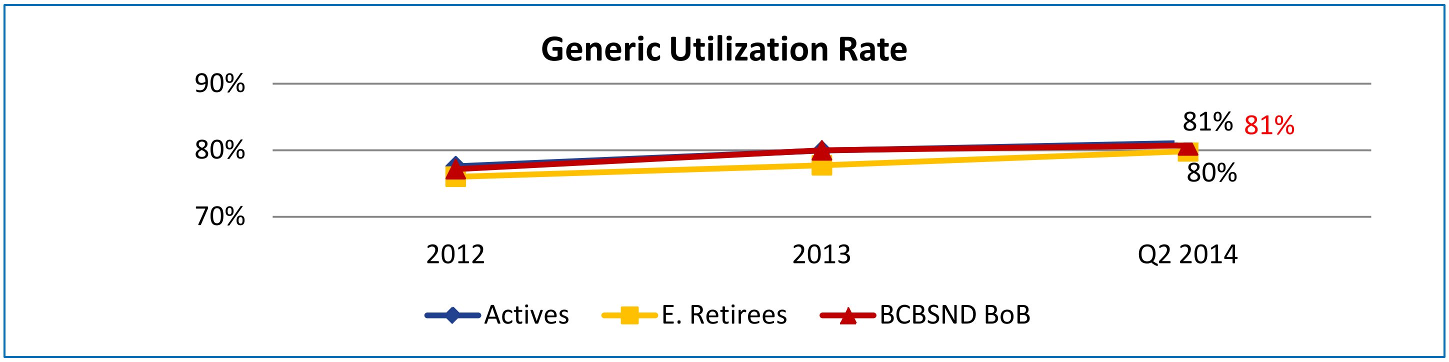


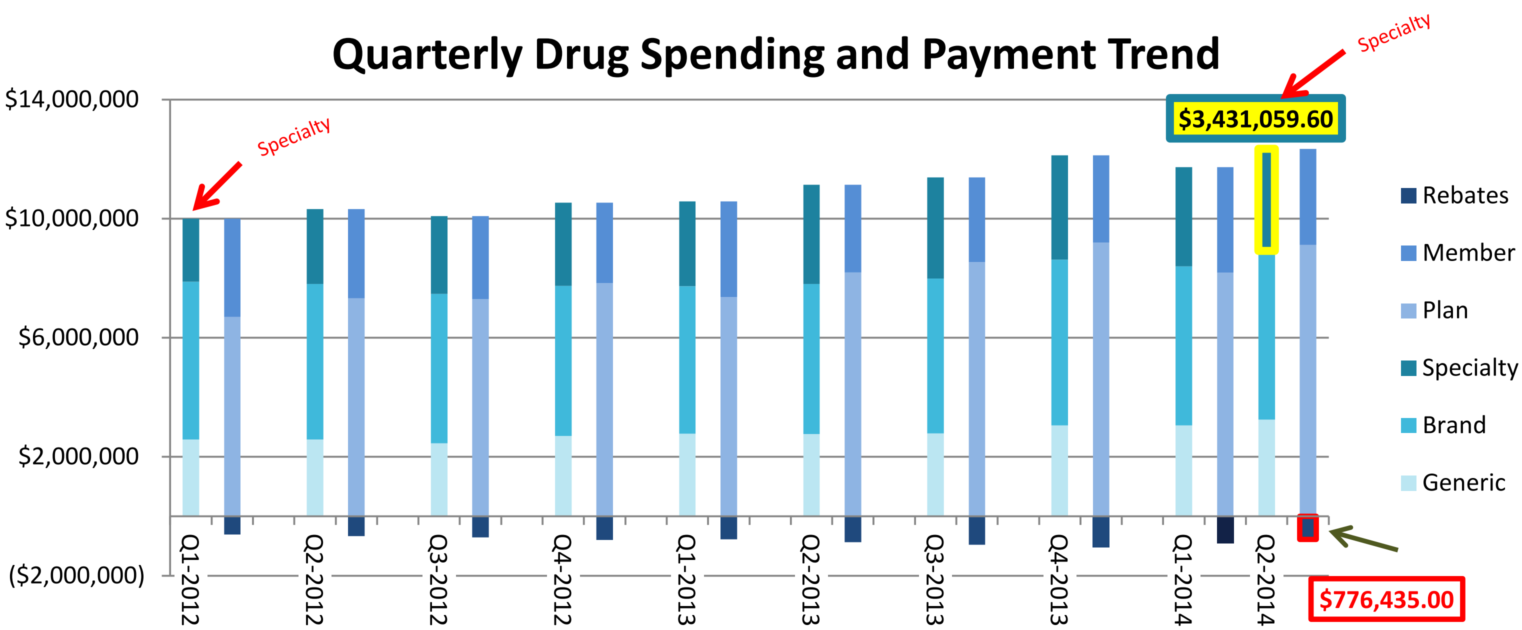
	2012	2013	Q2 2014
Avg. Paid/Case	**$235,754**	**$237,265**	**$237,525**
% of Total Payments	**24%**	**25%**	**26%**

Q2 2014
as a % of Total Payments

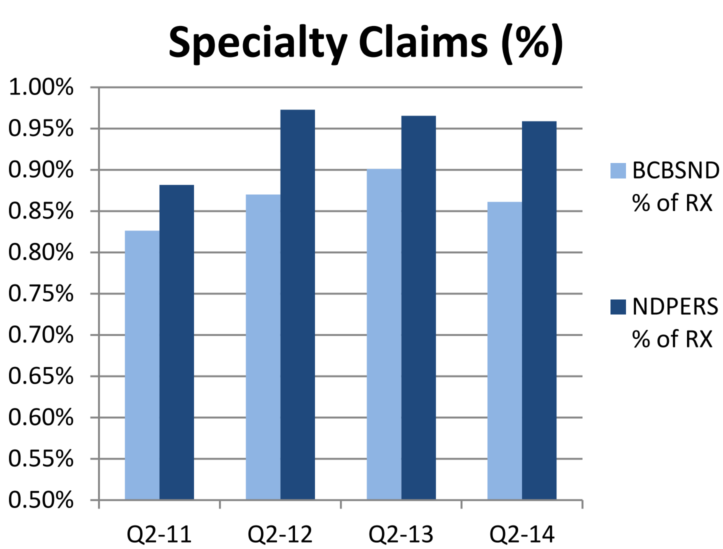


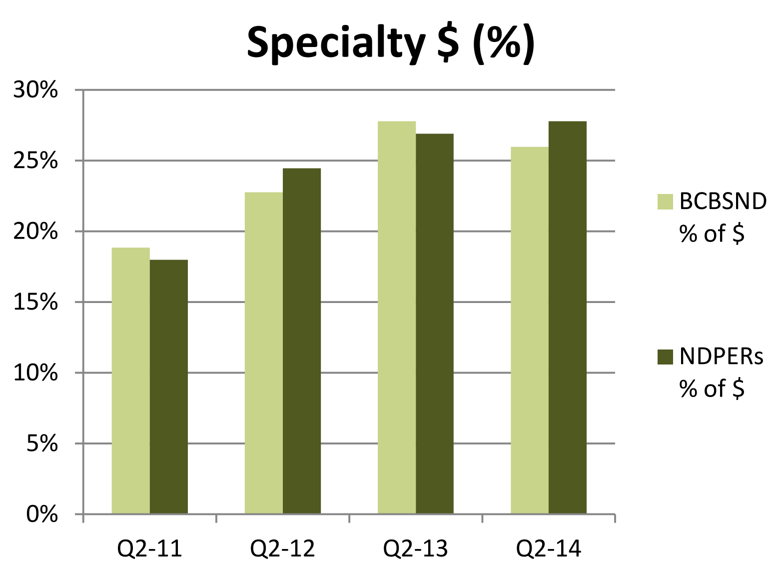
Prescription Drugs



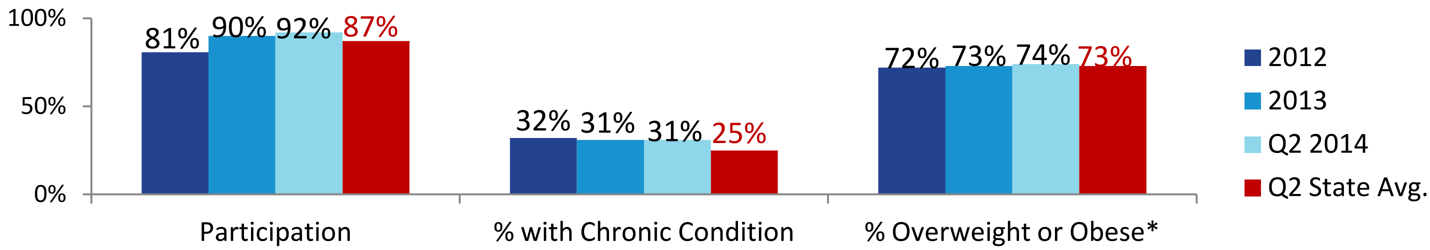


- Specialty spend continues to increase
- NDPERs costs are increasing – benefit design may not be keeping up with inflation
- Rebates have also increased

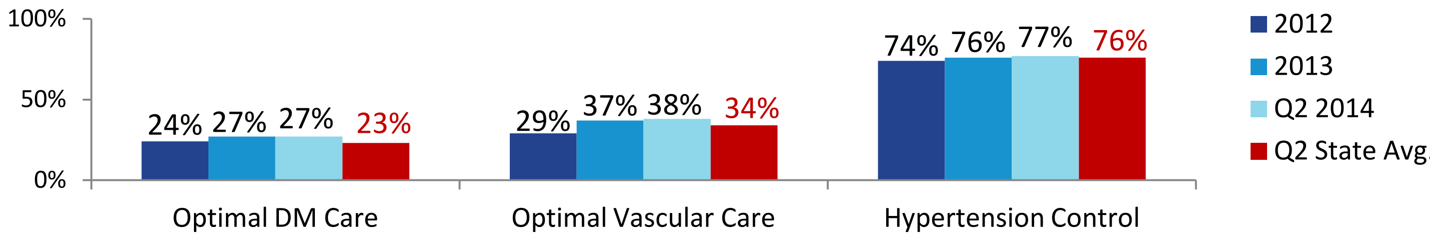




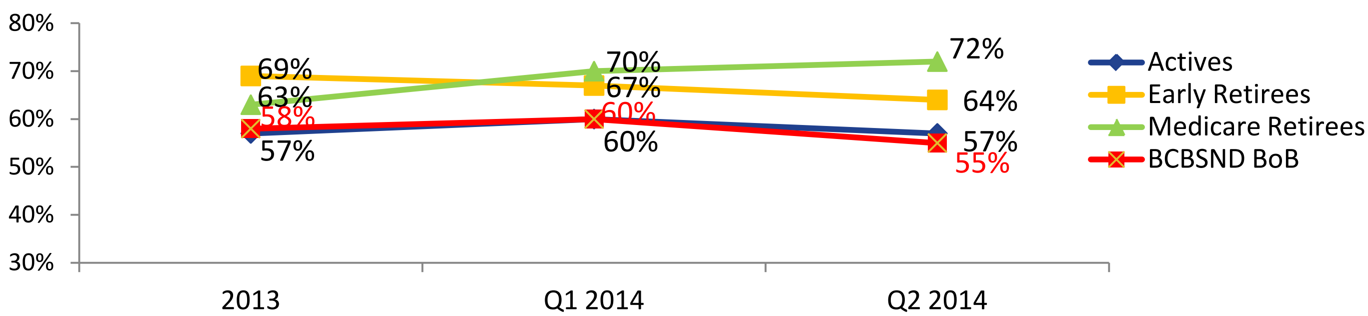
MediQHome Key Measures



MediQHome Outcome Measures



AccordantCare Participation – Rare and Complex Disease Management



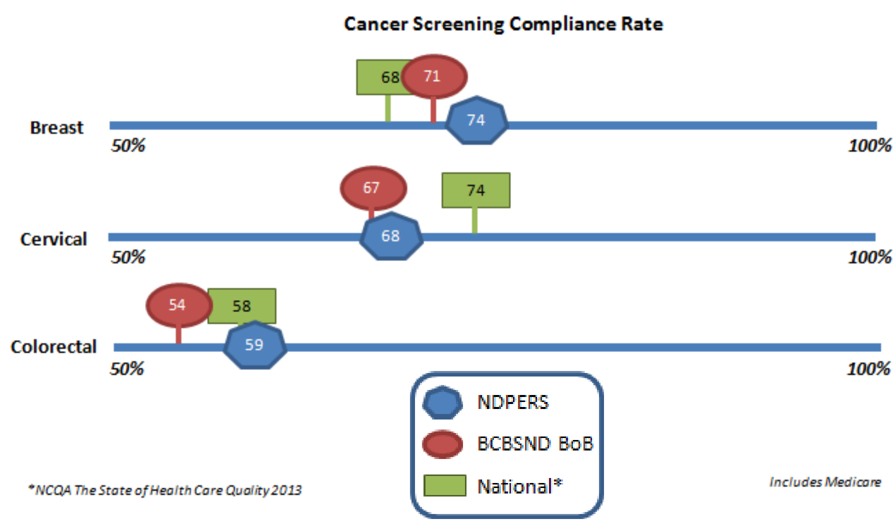
- **544 eligible, 320 participating (overall average participation 59%)**
- 2013 to Q2 2014 shows an overall increase in participation
  - *Due to small population of the retirees, addition or decline of a few members could change participation percentage significantly*

Preventive Cancer Screenings

•NDPERS **breast** cancer screening compliance is higher than both National and BCBSND book of business (BoB)

•NDPERS **cervical** cancer screening compliance is lower than National avg. but slightly higher than BCBSND BoB

•NDPERS **colorectal** cancer screening compliance is higher than both National and BCBSND BoB



Tobacco Cessation - Biennium Program Highlights (July 2013 – June 2014)

- 101 members with 126 start dates
- 85 members submitted a claim for payment – these claim payments totaled $25,753
    - About half of claim payments were for Chantix
- Average Paid per Member - $303

Biennium	Unique Members	Members with Payments	Biennium Program Expenditures*	Payments Per Member
July 1, 2009 – June 30, 2011	319	207	$82,171	$397
July 1, 2011 – June 30, 2013	264	151	$72,263	$479
July 1, 2013 – June 30, 2014	101	85	$28,072	$278

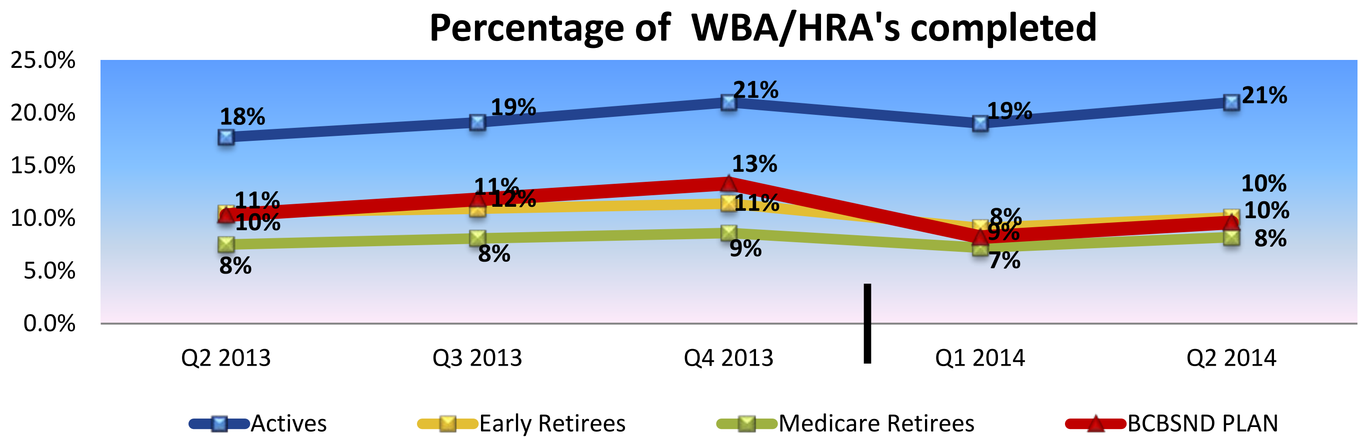
**Expenditures include promotional costs, administrative costs and claims*

Wellness Programs

Through Q2 2014 (Jan-Jun), there was a total of 44,344 members eligible for the wellness programs, HealthyBlue and Health Club Credit. NDPERS member participation in both wellness programs is higher than the BCBSND Plan average.

HealthyBlue

- 18% (up slightly from 17% Q1) of total eligible members have completed a Health Risk Assessment (8,150 members).
  - BCBSND Plan HRA completion rate was 10% (up from 8% in Q1)
- Point redemption through Q2 2014 - $155,137 in redeemed prizes

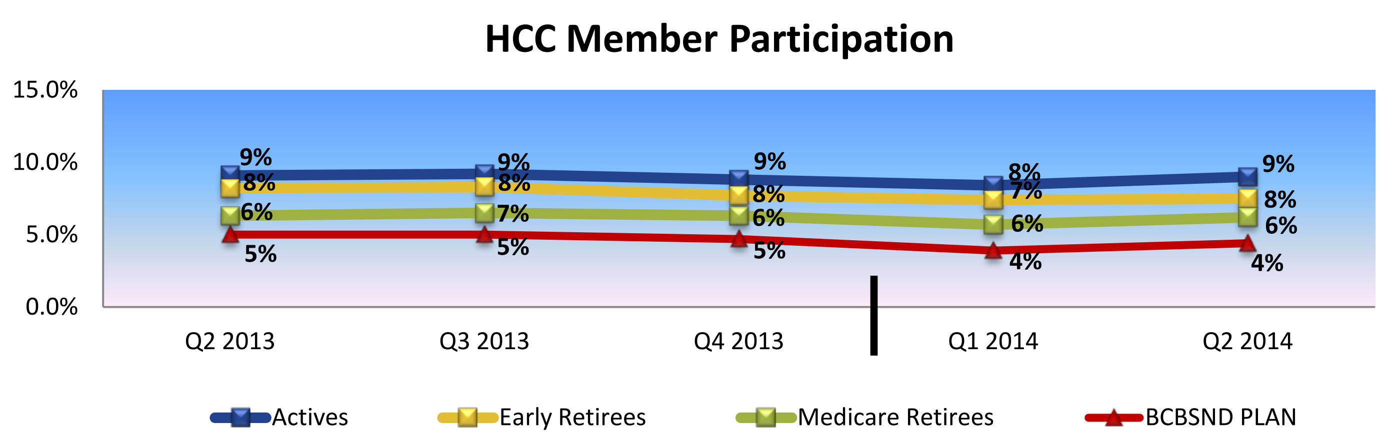


Q1 2014 begins over due to annual HRA completion requirement.

Quarters are cumulative to calendar year end

Health Club Credit

- 9% (up 1% from Q1) participate in the Health Club Credit Program (3,749 members)
  - BCBSND Plan average is 4% (same as Q1)
- Members receiving credit 57% (down from 61% Q1) - those participating in HCC exercise 12 or more days per month (2,142 members)
  - BCBSND Plan average is 57% (also down from 63% Q1)
- Health club credits paid through Q2 2014 - $253,454



Quarters are cumulative to calendar year end

Member Engagement

Member Education Representatives introduce programs that provide employees with valuable information and engages them in their health care. Along with making more informed health care decisions, these programs include valuable life skills.

Presentations are available for the following programs:

- Take Care of Yourself
- Walking Works
- Strength Training
- Beat The Bug
- Summer Safety
- Stress Management
- Medication Education
- Tobacco Cessation
- Wellness Programs (HealthyBlue/Health Club Credit)
- Nutrition Basics for a Healthier You
- **NEW!** "CPR and First Aid Basics"

2014 through Q1, 59 employer groups have held these educational programs and 17 employer groups have had a benefit overview meeting.

	Number of Employers	Member Education Programs & Benefit Overview	Member Attendance
Q2 2014	12	HealthyBlue /HCC	269
	22	Other	793
	7	Benefit Overview	

NDPERS Wellness Specialist

- PreNatal Plus promotion on HealthyBlue Image Rotator.

- A fruit & veggie challenge is currently underway.

- National Walk at Lunch Day (NW@L Day) with the First Lady Betsy Dalrymple and Kathleen Wrigley – 75 attendees; both first ladies spoke at event.

- Additional functionality added to HealthyBlue to log community event participation. NDPERS members now can receive HealthyBlue points for participating in any community event – up to 5 events per calendar year.

- Lt. Governor's Award was rolled out – applications were due August 1st. We received 31 applications. Gold, Silver, & Bronze levels will be awarded at the Worksite Wellness Summit in Fargo on October 6th.
    - 1 Gold
    - 6 Silver
    - 17 Bronze

- High blood pressure targeted messaging through HealthyBlue for - encourages members to view the hypertention workshop and provides helpful hints on lowering blood pressure.

- Wellness Coordinator Workshops in Bismarck, Williston and Minot – 44 Coordinators attended.

- Duncan's Digest (online health topic presentation in HealthyBlue) – had 203 views in Q2

Measure	Goal	6/30/2014
Cost Management *(goal completion of 12/31/14)*		
HRA Completions	17%	18%
HRA Score	5% point increase in the 2013 NDPERS group aggregate HRA wellness score Goal = 55	68
HealthyBlue – incentives paid	10% increase over 2013 incentives paid Goal = $581,798	$155,137
Health Club Credit – members receiving credit	10% increase over 2013 members receiving credit Goal = 2,177	2,133
Health Outcomes:		
Members enrolled in a Medical Home	80%	91%
Breast Cancer Screening Rates*	80%	74%
Cervical Cancer Screening Rates*	85%	68%
Colorectal Cancer Screening Rates*	60%	59%
Operational Performance:		
Claims Financial Accuracy	99%	99.9%
Payment Incident Accuracy	97%	99.5%
Claim Timeliness	99%	99.5%
Average Speed of Answer (in seconds)	30 seconds or less	13
Call Abandonment Rate	5% or less	1%
Provider Network Management:		
NDPERS PPO network	92% (or more) participation	99.6%
Provider Discount (non-Medicare contracts)	30% or more	53%

Green – meeting goal
Red – below goal

**Cancer screening rate calculation changed to use data from Health Intelligence tool only*

Opportunities and Activities

Completed

- Completed "Spring into Action" physical activity challenge May 1 – 1083 members registered for the challenge.
- NW@L Day at Capitol
- HealthyBlue – enhanced functionality to log community event participation
- Hypertension targeted messaging on HealthyBlue
- Wellness Coordinator Workshops in Bismarck, Williston and Minot
- Prenatal Plus promotion on HealthyBlue image rotator

Ongoing Activities

- There are currently 9 members in the Member Advocacy Program (MAP)
- Review of applications received for Lt. Governor's award - will be awarded October
- Summer Fruits & Veggie Challenge
- Bi-monthly HealthyBlue Highlights
- Monthly NDPERS Wellness Coordinator calls and newsletters
- Monthly NDPERS Wellness Star
- Quarterly Duncan's Digest
- Case Management proactive outreach to members/providers
- Specialty Pharmacy
    - NDPERS enrollment in Prime Specialty Pharmacy Care Management
    - Targeted mailings continue to identify new specialty users
- Accordant Care – continue to identify newly eligibly members

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 11, 2014

SUBJECT: Silver Sneakers Program

The Silver Sneakers Program is part of the BCBS Medicare Supplement Plans. Our retirees have become aware of the program and some have requested having it as a part of our plan. Attached is recent letter I received from one of our members. Another member will be available by phone with us to share his thoughts with the Board. He has been interested in PERS adding this program for several years. If we were to add this program, it is something we would consider for the 2015-17 Biennium. In presenting this to you today, staff is seeking your direction on how to go forward. If you would like to consider this later this year or early next, we can get some additional information. If you would like us to survey the membership, we could do that as well.

Also Mike Carlson, BCBSND Manager of Wellness Services, will be at the September 19 Board meeting to provide an overview of the BCBSND Silver Sneakers program. The presentation will provide an overview of the over 65 program and how it compares to the NDPERS Health Club Credit program for their over 65 population.

BACKGROUND

Concerning the Silver Sneakers program, we have discussed the program at the staff level as a result of member inquiries about the program that has caused us to do some background research. What we have found is:

- The Silver Sneaker's program is traditionally tied to a Medicare supplement policy and the only way to access the program is by being a part of an insurance plan that offers the program.
- Currently BCBS offers the program only in their individual Medicare Supplement lines of business.
- No other employer groups with BCBS offer the Silver Sneakers program and instead offer wellness programs similar to what PERS has in its plan today.
- PERS could offer the Silver Sneakers program to its Medicare Retirees if the Board would elect to do so.
- It is estimated that the cost of adding this provision to our plan is about $3.25 per member per member month. This is an increase of about $3.25 to a single contract and $6.50 to a family contract per month. Depending on actual utilization of the program, the price could go up or down.
- We were unable to determine that the program is uniformly available in all parts of the state to all our retirees (PERS has about 8,250 retired members in the plan in every county in the state and outside the state).
- Since the PERS plan retiree premium is paid entirely by the retiree, this would be an increase to the retiree's out of pocket premium payment.

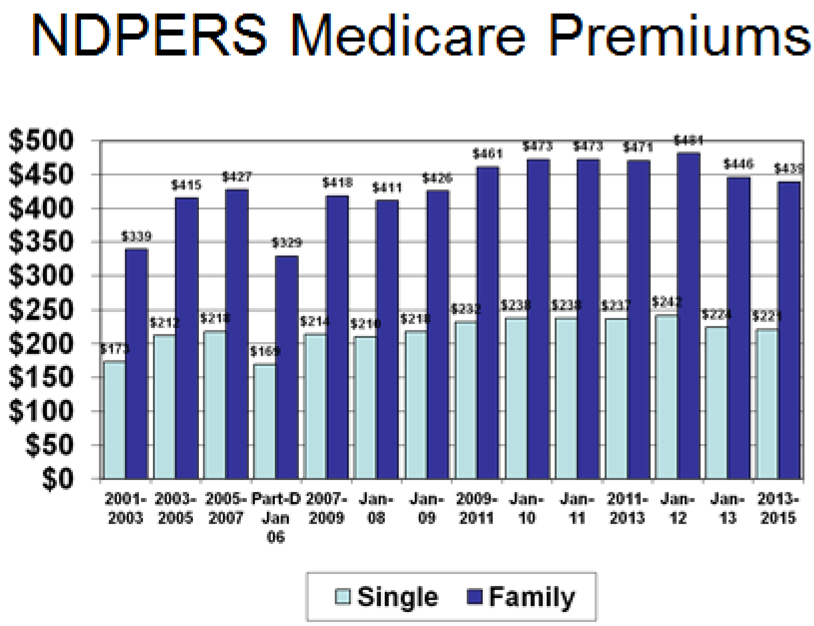
With the above in mind, staff has discussed the following:

1. Add the program and increase premiums accordingly.
2. Consider dropping the existing program and replacing it with this program.
3. Consider using plan gains when they occur to pay for the program instead of providing a premium reduction as we did this biennium.

As staff here has considered each of these individually, the following are some of the points relating to each.

1. Add the program and increase premiums accordingly

The following chart shows a history of our retiree premiums and our existing rates:



The addition of this cost to the premiums would increase rates by about 1.5%. The estimated total cost payment to the vendor for this program would be about $27,000 dollars per month or $322,000 per year (based upon around 8300 members). This would be assessed to all contracts and we are not sure that if would be equally available to all retirees (in close geographical proximity). We do know that premium costs are a significant concern to our members since many are on a fixed payment from a Defined Benefit plan that has no COLA provision or are on a Defined Contribution plan that has experienced a downturn as a result of the financial markets.

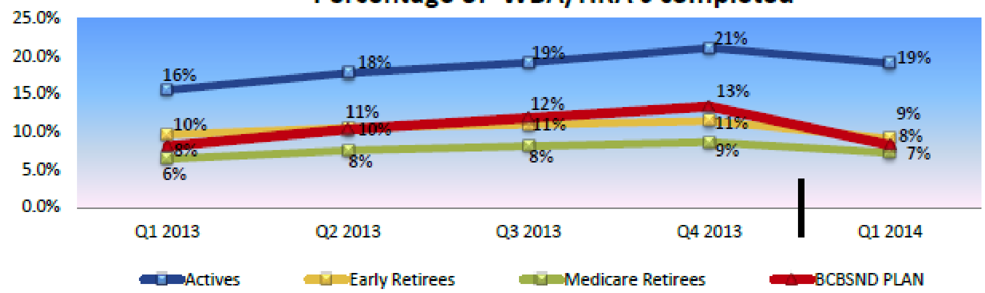
2. Consider dropping the existing program and replacing it with this program

The following numbers relate to participation in the existing wellness program from our most recent quarterly report:

HealthyBlue

- 17% (slightly down from 19% Q4) of <u>total</u> eligible members have completed a Health Risk Assessment (7,329 members).
  - BCBSND Plan HRA completion rate was 8% (also down from 13% in Q4)
- Point redemption through Q1 2014 - $48,086 in redeemed prizes

Percentage of WBA/HRA's completed



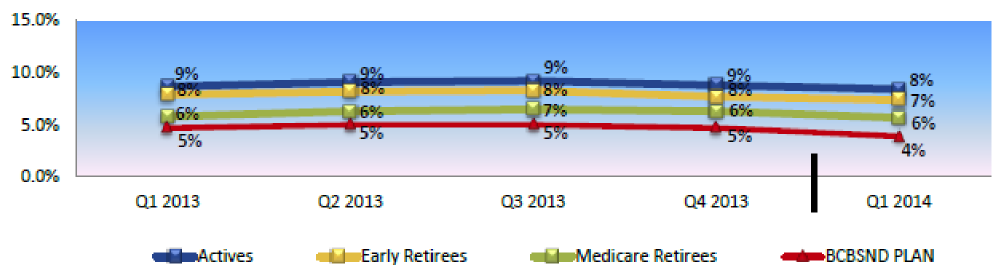
Q1 2014 begins over due to annual HRA completion requirement.

Quarters are cumulative to calendar year end

Health Club Credit

- 8% (same as Q4) participate in the Health Club Credit Program (3,478 members)
  - BCBSND Plan average is 4% (down from 5% Q4)
- Members receiving credit 61% (up from 55% Q4) - those participating in HCC exercise 12 or more days per month (2,137 members)
  - BCBSND Plan average is 63% (also up from 53% Q4)
- Health club credits paid through Q1 2014 - $114,661

HCC Member Participation



Quarters are cumulative to calendar year end

The numbers for the 2nd quarter are up to 8.2% (672) who have done the HRA and 6.2% (506) in the HCC. This program is available to all retirees in all parts of the state since they can do the on-line version if a health club is not geographically close by. This program costs about $3.95 per contract. In addition in 2013, retirees received about $106,000 in incentive payments. Given the level of usage, payments and the availability to all members, it would be difficult to close this program

3. **Consider using plan gains when they occur to pay for the program instead of providing a premium reduction as we did this biennium.**

Under our contract with BCBS if our premiums exceed our expenses, the difference is returned to the plan. This last biennium we had a gain and the retiree rates we pay to BCBS were reduced by 2% and paid by reserves. Instead of returning that premium to our members, it could be used to add programs such as the Silver Sneakers. The dilemma is that this is just one time funds and once exhausted, the program would need to be stopped or added on to premiums going forward.

Member emails regarding Silver Sneakers Program

Dear Mr. Collins,

I am writing to ask that you offer the Silver Sneakers program to NDPERS retirees.

We have been utilizing the program whereby we receive $20/month if we visit our wellness center 12 times in the month. This does not cover our costs of membership, but it is a big help.

Sometimes, however, it is difficult to get the 12 visits completed during some months, but I realize that the 12- visit requirement is an incentive for better health. My husband and I are 80 and 69 respectively. As we continue to age, we are concerned that we may not be able to keep up to the 12-visit/month requirement for that program.

I understand that changes are reviewed every two years and that the addition of Silver Sneakers would not be reviewed until 2015. If it were adopted, it would not be available until 2016.

Thank you,

Memorandum

TO: Sparb Collins, NDPERS

FROM: Kevin Schoenborn, BCBSND

DATE: September 19, 2014

SUBJECT: Discussion on the BCBSND Silver Sneakers program

Mike Carlson, BCBSND Manager of Wellness Services, will be at the September 19th Board meeting to provide an overview of the BCBSND Silver Sneakers program. The presentation will provide an overview of the over 65 program and how it compares to the NDPERS Health Club Credit program for their over 65 population.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 11, 2014

SUBJECT: Actuarial Audit

It has been the policy of NDPERS to do an actuarial audit about every ten years. The purpose of the audit is to have an outside actuarial firm review the work of your existing actuary to verify the integrity of the valuation. Since Gallagher has just completed a similar work effort for the legislature and since they will be at the Board meeting, this is an opportunity for us to ask them if their work would fulfill the requirements of an actuarial audit. If so, the Board could adopt this as our audit.

Therefore, at this meeting you may want to explore this with Doug Anderson from Gallagher.

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Memorandum

TO: PERS Board

FROM: Bryan

DATE: September 10, 2014

SUBJECT: Defined Contribution Plan Reporting

Attached is a summary of the DC 401(a) enrollments. The plan opened up to all new State employees in October 2013. Employees are initially enrolled in the DB plan and have 180 days to make an irrevocable election to transfer to the DC plan.

The first table shows that 424 members have elected the DC plan since it started in 2000. Of these, the second table shows that 224 are still active (53%). With the DC plan now open to all new employees, the graph shows a big increase in the number eligible for the plan. The bottom table shows only 22 members (out of 1105 since 10/2013) have elected the DC 401(a) plan through August 2014.

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

Defined Contribution Reporting - August 2014

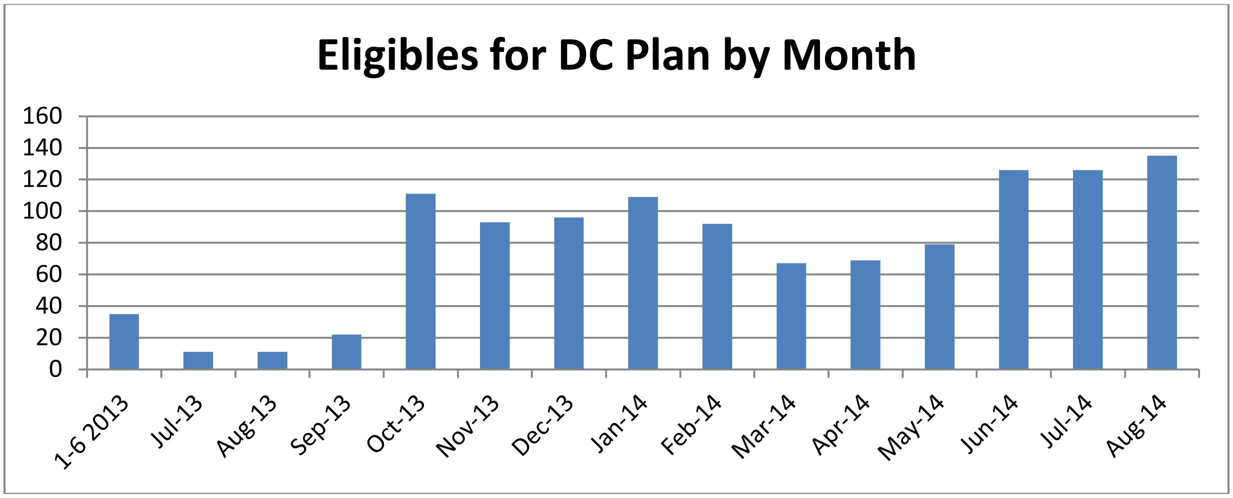
DC Enrollment Start Date	Frequency	Percent
Before 2013/07	399	94.10
2013/08	1	0.24
2013/09	2	0.47
2013/10	2	0.47
2013/11	1	0.24
2014/01	1	0.24
2014/02	1	0.24
2014/03	2	0.47
2014/05	5	1.18
2014/06	2	0.47
2014/07	6	1.42
2014/08	2	0.47
Total	424	100

Current Status	Frequency	Percent	Cumulative Frequency	Cumulative Percent
Enrolled	224	52.83	224	52.83
Retired	15	3.54	239	56.37
Suspended	61	14.39	300	70.75
Withdrawn	124	29.25	424	100.00

52.83% of those electing the DC 401(a) plan are still active.

NDPERS DC 401(a) Active MEMBERS – August 2014

Agency	Frequency	Percent	Cumulative Frequency	Cumulative Percent
Workforce Safety & Insurance	82	36.12	82	36.12
Adjutant General ND National Guard	17	7.49	99	43.61
Legislative Council	12	5.29	111	48.90
Department Of Commerce	9	3.96	120	52.86
Information Technology Dept	9	3.96	129	56.83
Others (47 groups)	95	42.41	224	100.00



New employee DB/DC estimates sent out	Eligible	Elections to Date (180 days to elect)
2013 October - 110	111	1
2013 November - 75	93	6
2013 December - 53	96	1
2014 January - 84	109	2
2014 February - 81	92	4
2014 March - 53	67	2
2014 April - 57	69	2
2014 May - 67	79	2
2014 June - 99	126	2
2014 July - 103	126	0
2014 August - 89	135	0

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 11, 2014

SUBJECT: Medicare Blue Rx Rate Renewal

At this meeting we will follow-up on any issues that were not resolved at the special Board meeting of September 12 relating to the Medicare Blue Rx rate renewal.

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: September 11, 2014

SUBJECT: Health Insurance Bid Update

Self Insured Bids

The self insured bids are due on October 10 at 5 p.m. Section 54-52.1-04.2 requires "All bids under this section must be opened at a public meeting of the board." Consequently, we will need to set a meeting of the Board for October 13 or so to open the bids. Last time we had self insured bids they were opened at the PERS office and Board members were on the phone.

Fully Insured Bids

Since we have two fully insured bids, we need to set a meeting of the Board to do finalist interviews. Please check your calendars and we can discuss dates in October. Our regular meeting is scheduled for October 23. We could try and do the interviews the day before or the day after if everyone is available (Deloitte and the vendors).

At this point in the meeting a motion is needed to go into Executive Session to review information on the two bids we received. We will share this information at the Board meeting.

The Executive Session is pursuant to NDCC §44-04-19.1(9) and §44-04-19.2 to discuss negotiating strategy or provide negotiating instructions to its attorney or other negotiator.

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Memorandum

TO: PERS Board

FROM: Bryan Reinhardt

DATE: September 11, 2014

SUBJECT: 2013 Active Health Care Report

Attached is the 2013 NDPERS Active health care report. Costs and trends are increasing slightly. A similar agency-specific report is developed for all 43 large groups on the health plan (over 100 employees).

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

NDPERS Health Care Analysis

2013

North Dakota Public Employees Retirement System

For January - December 2013, there were 20,767 active NDPERS employees. This is about 74% of the NDPERS contracts. The average age for all NDPERS active employees was 46 years. There were 33,426 dependents of NDPERS employees on the NDPERS health plan.

HOSPITAL

NDPERS health plan members had 72530 hospital claims from January to December 2013. These claims had $181,863,039.16 in total charges. The NDPERS health plan paid $93,713,617.13 toward these charges.

HOSPITAL UTILIZATION
ADMISSION: 01/2013 - 12/2013

	CLAIMS	%	DAYS	CHARGES	PAID
CLAIM TYPE: IP=Inpatient OP=Outpatient **IP NEWBORN**	700	1	2322	$5,196,854	$3,395,392
IP MEDICAL	1053	1	4259	$19,053,776	$13,036,675
IP MATERNITY	812	1	1757	$5,632,768	$2,866,790
IP SURGICAL	1226	2	3961	$47,165,638	$28,852,987
IP PSYCH	181	0	1152	$2,046,151	$1,409,311
IP CHEM DEP	48	0	169	$297,566	$194,217
OP MATERNITY	2420	3	0	$1,293,651	$583,684
OP SURGICAL	8449	12	0	$39,426,790	$17,442,052
OP PSYCH	996	1	0	$2,234,731	$1,247,517
OP CHEM DEP	978	1	0	$1,456,107	$938,517
OP MEDICAL	55235	76	0	$55,401,984	$22,781,025
SNF & SWING BED	107	0	1060	$773,602	$523,149
HOME HEALTH AG	166	0	0	$107,436	$81,999
HOSPICE	159	0	0	$1,775,984	$360,302
TOTAL	72530	100	14680	$181,863,039	$93,713,617

PHYSICIAN/CLINIC

NDPERS health plan members had 1,016,861 physician/clinic services from January to December 2013. These services had $167,828,122.01 in total charges. The NDPERS health plan paid $81,263,671.93 toward these charges.

PHYSICIAN/CLINIC UTILIZATION

SERVICE DATE: 01/2013 - 12/2013

	SERVICES	%	CHARGES	PAID
TYPE OF SERVICE	3319	0	$6,508,095	$3,406,319
SURGERY-IP				
SURGERY-OP	9313	1	$9,686,178	$3,803,804
SURGERY-OFFICE	21202	2	$9,167,386	$3,243,075
ANESTHESIA	12418	1	$8,296,747	$3,690,324
MATERNITY	9081	1	$5,201,640	$2,470,274
ANCILLARY ROOMS	2386	0	$5,350,578	$2,433,633
IP VISITS	13597	1	$3,195,228	$2,157,774
OP / ER VISITS	15633	2	$3,313,914	$1,626,037
OFFICE CALLS	171893	17	$29,189,134	$18,104,631
OPTICAL	13185	1	$1,565,268	$692,098
CHEM/PSYCH	41001	4	$6,880,331	$3,998,515
THERAPIES	165201	15	$18,133,659	$9,139,653
EKG/EEG	39801	4	$5,263,940	$1,809,196
DIAGNOSTIC LAB	190493	19	$15,568,523	$5,543,438
DIAGNOSTIC X-RAY	83224	8	$13,553,434	$5,706,059
RX/INJECTIBLES	133740	13	$13,532,275	$6,359,561
SPECIAL SERVICES	66277	7	$9,044,725	$4,763,215
SUPPLIES	6268	1	$700,486	$338,441
HME	18829	2	$3,676,583	$1,977,625
TOTAL	1016861	100	$167,828,122	$81,263,672

PRESCRIPTION DRUGS

NDPERS health plan members had 506,360 pharmacy claims from January to December 2013. These claims had $83,484,980.14 in total charges. The NDPERS health plan paid $32,580,410.16 toward these charges.

PRESCRIPTION DRUG UTILIZATION
FILL DATE: 01/2013 - 12/2013

	CLAIMS	%	CHARGES	PAID
PRESCRIPTION DRUGS NON-GENERIC	102904	20	$47,952,121	$25,026,210
GENERIC	403456	80	$35,532,859	$7,554,200
TOTAL	506360	100	$83,484,980	$32,580,410

Generic drug use is at 80%, higher than the 77% reported in 2012, 74% reported in 2011, 71% reported in 2010, 68% reported in 2009, 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
01/2013 - 12/2013

	MEMBERSHIP		HOSPITAL CLAIMS		PHYSICIAN SERVICES		PHARMACY CLAIMS	
	Sum	%	Sum	%	Sum	%	Sum	%
CHILDREN	21179	39	18820	26	287871	28	99598	20
EMPLOYEE	20767	38	32576	45	447667	44	261380	52
SPOUSE	12248	23	21134	29	281323	28	145382	29
TOTAL	54193	100	72530	100	1.02E6	100	506360	100

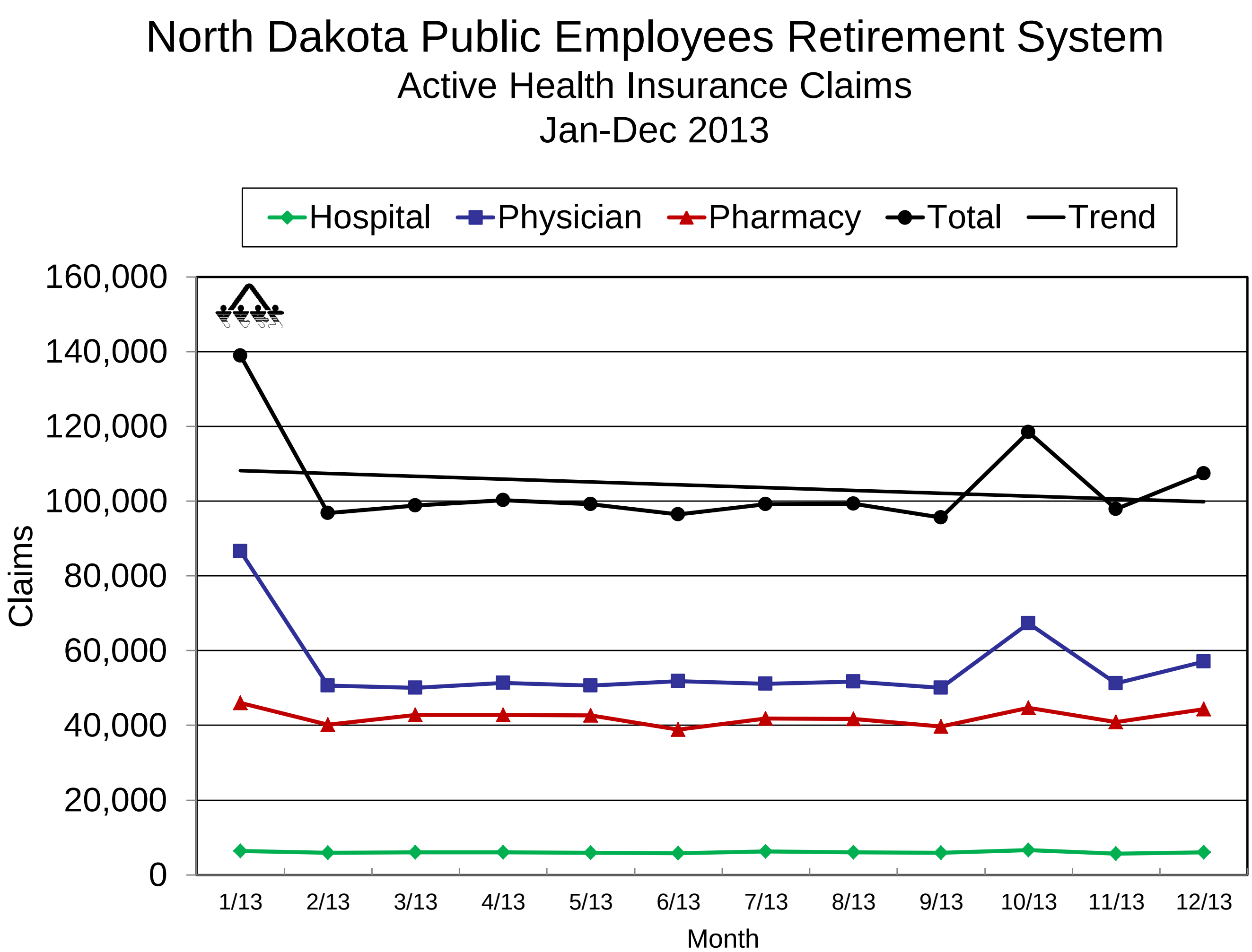
SUMMARY

Diagnostic x-ray and lab services make up 27% of the professional services for 1/2013 - 12/2013 (29% in 2012, 30% in 2011, 29% in 2010, 32% in 2009, 31% in 2008 & 2007, 32% in 2006 & 2005, 33% in 2004, 32% in 2003 & 2002, 31% in 2001 & 2000). Employees made up 38% of the active membership, but were responsible for 44 - 52 percent of the claims / services in 2013. This is similar to the 2007-2012 percentages.

The following graph shows that the number of active claims per month was fairly even throughout 2013.

The second graph shows that per capita charges increased 10.4% and per capita costs increased about 6.7% from 2012 to 2013. 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, $503 in 2009, $531 in 2010, $579 in 2011, $603 in 2012, and $666 in 2013. 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, $253 in 2009, $267 in 2010, $290 in 2011, $299 in 2012, and $319 in 2013.

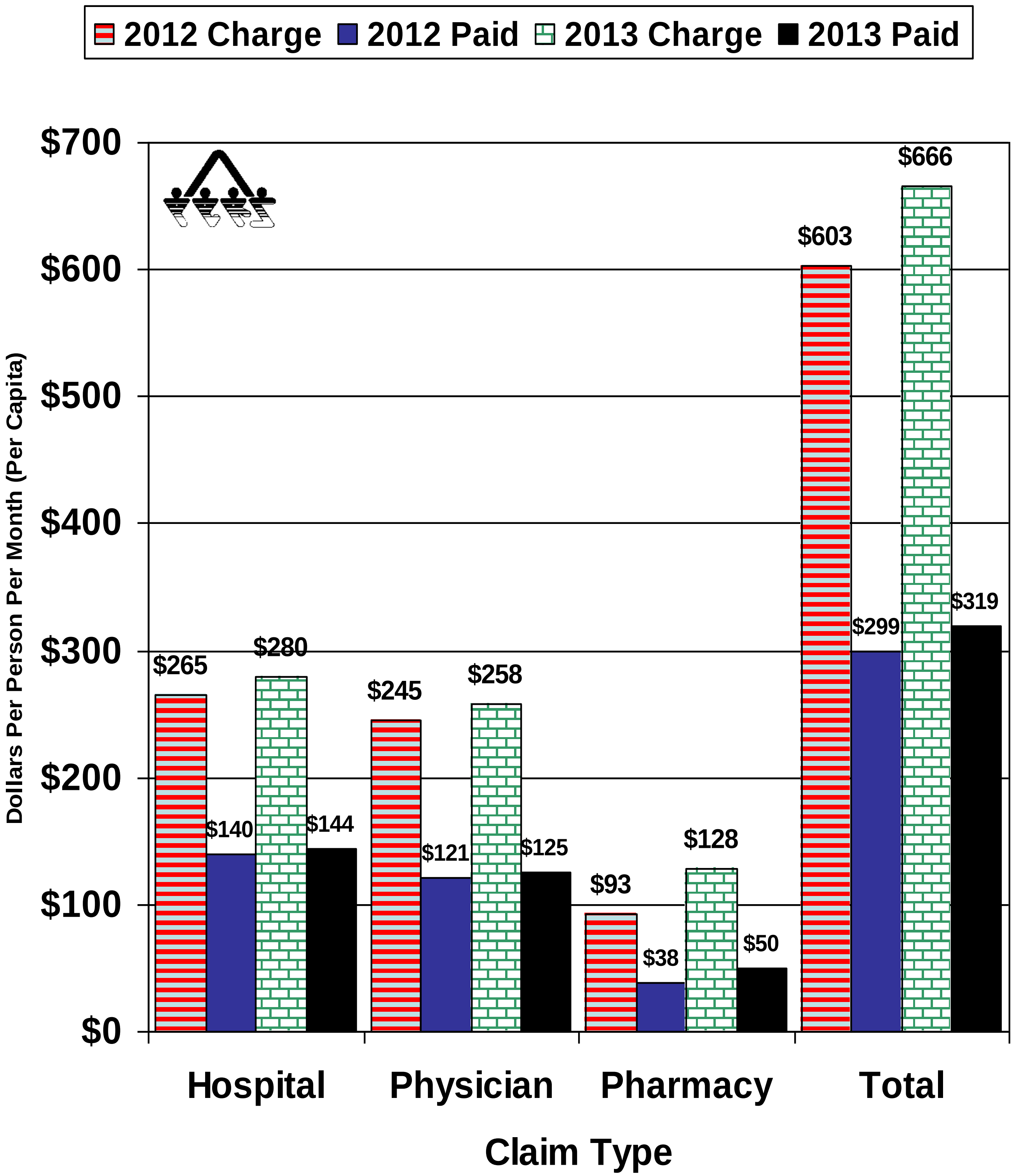
The last page shows that 2011-2012 overall per capita costs increased for the NDPERS health plan.



NDPERS Health Plan

Active Contracts

2012-2013



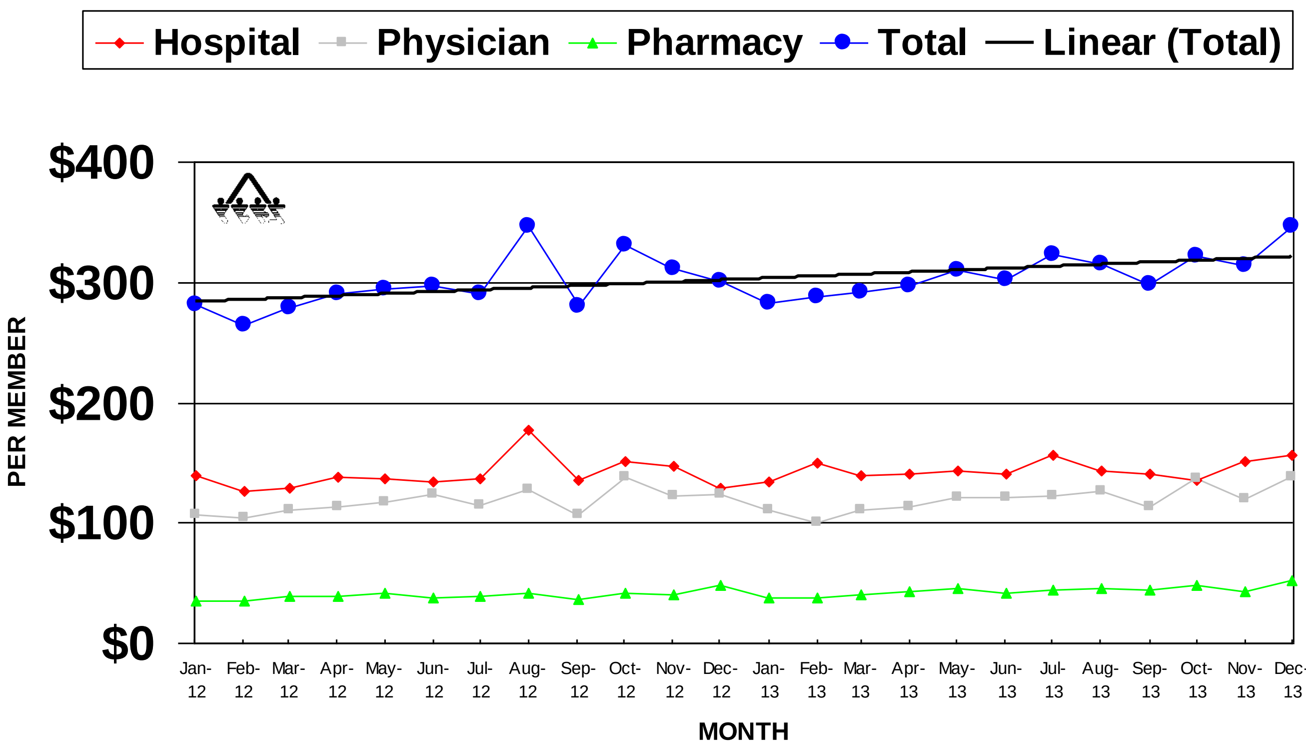
TOTAL NDPERS HEALTH PLAN

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 $430 per capita level. Their dependents cost the plan around $290 per person per month. The retired membership's per capita costs are around $240 per former employee and $150 per dependent. As the graph below shows, overall, the NDPERS health plan is at $325 per person per month in medical claims. This is slightly higher than the 2012 report when costs were at $300 and the 2011 report when costs were just under $300. Costs were $275 in the 2010 report, $250 in the 2009 report, $245 in the 2008 report, $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 paid $39.82 per month per active contract in administration costs.

NDPERS HEALTH INSURANCE PLAN

TOTAL MEMBERSHIP



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Memorandum

TO: PERS Board

FROM: Rebecca & Stacy

DATE: September 8, 2014

SUBJECT: Wellness Renewal & Lt. Governor's Award

WELLNESS RENEWAL

NDPERS staff has completed the renewal of the Employer Based Wellness Program for the plan year July 1, 2014 to June 30, 2015. This renewal determines those employers that will qualify for the 1% health insurance premium discount during the plan year. Employers are given the opportunity to combine efforts with another NDPERS employer in order to qualify.

At this time, there are a total of 192 out of 269 employers electing to participate in the wellness program. This is an employer participation rate of 71%. However, approximately 97% of employees covered on the insurance plan are working for employers that are offering wellness programs and activities to their employees.

The break-down of the participating employers is as follows:

- 101 state agencies, universities and district health units
- 38 counties
- 17 schools
- 16 cities
- 20 political subdivisions

Rebecca will be available at the Board meeting to answer any questions that you may have regarding the wellness program renewal process.

LT. GOVERNOR’S AWARD

The Healthy North Dakota Worksite Wellness Lt. Governor’s Award was created to recognize NDPERS agencies that demonstrate a commitment to creating a healthy worksite. Award levels (Gold, Silver, or Bronze) were granted based on meeting minimal baseline requirements. This being the first year, applications were received from 34 agencies, of that the following were distributed:

- 17 Bronze
- 6 Silver
- 1 Gold

Award winners were notified mid August with the level announced at the 5th Annual Worksite Wellness Summit in Fargo on October 6, 2014.

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Memorandum

TO: **NDPERS Board**

FROM: **Kathy**

DATE: **September 16, 2014**

SUBJECT: **FlexComp Vendors – Voluntary Products**

We have conducted our annual review of our vendors for the voluntary insurance products approved for pretax premiums under our Section 125 FlexComp Plan. We sent all current vendors a request to confirm the products they wished to offer, provide a brief product description, and verify whether it is eligible to be a pretax product. Following is a list of the respondents:

Total Dental Administrators (TDA)	Colonial Life
Central United	Conseco
AFLAC	USABLE

Included for your information is a grid for each vendor that outlines the products available for payroll deduction, a summary description, and certification by the vendor that it is or is not eligible to be pretaxed. No new products are being proposed by any of the participating companies.

Staff recommends that the vendors and their eligible products be approved for inclusion as pretax benefits under the FlexComp program for the 2015 plan year.

Board Action Requested

Approve the inclusion of the products eligible to be pre-taxed for the FlexComp 2015 plan year.

AFLAC Product Name	Company Representative – Carrie Palczewski 1100 College Drive Ste 215 Bismarck ND 58501 701-258-6040 E-Mail: carrie_palczewski@us.aflac.com Product Description	Pretax Eligibility
Cancer	Cancer indemnity policies providing benefits for diagnosis of skin cancer, internal cancer as well as annual screening benefits.	Yes
Hospital Confinement	Indemnity benefits whether hospitalized days or weeks.	Yes
Hospital Intensive Care	Provides coverage in the event of a sickness or injury and is admitted to the ICU unit.	Yes
Accident	Accident indemnity policies providing benefits for accident/injury.	Yes
Lump Sum Critical Illness	Pays a lump sum benefit for code red major critical illness event. (Heart attack, stroke, coma, paralysis, major organ transplant, end stage renal failure. Riders available for cancer, sudden cardiac death.)	Yes
Personal Sickness Indemnity	Indemnity policy for sickness related hospital confinement, major diagnostic exams, in & out-patient surgeries.	No
Specified Health Event	Critical care, recovery indemnity policies for major critical illness.	Yes
Disability	All disability policies that are specific replacement of income benefits.	No
Dental	Voluntary dental. No networks, no deductibles, no pre-certifications.	No
Vision Now	Vision indemnity policy providing vision insurance, vision correction benefits.	No
Life	All life policies.	No
Central United **Product Name**	**Company Representative – James M Kasper** **C/O Asset Management Group Inc.** **PO Box 9016** **Fargo ND 58103--9016** **701-232-6250** **E-Mail: jmkasper@amg-nd.com**	**Pretax Eligibility**

	Product Description	
Cancer Insurance	Provides cash benefits to covered persons for treatment of cancer.	Yes
Colonial Life & Accident **Product Name**	**Company Representative – David Ryden** **2950 Bent Tree Hills Dr.** **New Brighton, MN 55112** **651-633-7500** **E-Mail: david.ryden@coloniallife.com** **Product Description**	**Pretax Eligibility**
Accident	Composite rated, guaranteed renewable accident product with choice of plan levels and optional riders. It provides indemnity benefits for on and off the job accidents.	Yes
Cancer	Composite rated, guaranteed renewable specified disease product with choice of plan levels and optional riders. Provides benefits for expenses related to cancer.	Yes
Disability	Age banded, guaranteed renewable short-term disability income product. **(Disability insurance premium paid with pre-tax dollars – Please note: A benefit paid to an employee that becomes disabled will be subject to income taxes.)**	Yes
Medical Bridge	Age banded, guaranteed renewable hospital confinement indemnity product. Choice of plans, levels. Includes confinement, rehab unit, surgical and diagnostic procedures.	Yes
Critical Illness	Specified disease product with a lump sum benefit upon diagnosis of a covered specified disease with a choice of plan options for reoccurrence, cancer, face amounts, and optional riders.	No
Life	All life insurance policies.	No

Conseco Product Name	Company Representative –Odell Braaten PO Box 591 West Fargo ND 58078-0591 701-367-3604 E-Mail: ombraaten@gmail.com Product Description	Pretax Eligibility
Cancer Insurance	Cancer Benefits/ICU	Yes

Total Dental Administrators Product Name	Company Representative – Logan Stucki 2111 E Highland Ave Ste 250 Phoenix AZ 85016 801-268-9740 Ext 306 E-Mail: lstucki@TDAdental.com Product Description	Pretax Eligibility
Elite Choice	Fully insured dental program.	Yes

USABLE Product Name	Company Representative – Peg Dickelman Noridian Insurance Services Inc. 4510 13 Ave S Fargo ND 58121 701-277-2319 E-Mail: peggy.dickelman@noridian.com Product Description	Pretax Eligibility
Accident Elite	Employees can get help prevent financial hardship due to medical/travel expenses caused from an accident. Payments direct to employee.	Yes
Cancer Care Elite	Payments direct to employee for new and experimental treatment, travel, lodging, out of pocket medical costs, deductibles, co-pay amounts.	Yes
Hospital Confinement Plan	Payment direct to employee for costs related to intensive care, hospitalization, birth of a child, accidents.	Yes

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

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

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

MEMORANDUM

TO: NDPERS Board

FROM: Jamie Kinsella Jamie

DATE: August 20, 2014

SUBJECT: **May 21, 2014 PERS Audit Committee Minutes**

Attached are the approved minutes from the May 21, 2014 meeting. Those who attended the meeting are available to answer any questions you may have.

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

The next audit committee meeting is tentatively scheduled for November 19, 2014 10:00 a.m., in the NDPERS Conference Room.

Attachment

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

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MEMORANDUM

TO: Audit Committee
Jon Strinden
Arvy Smith
Rebecca Dorwart

FROM: Jamie Kinsella, Internal Auditor Jamie

DATE: May 30, 2014

SUBJECT: **May 21, 2014 Audit Committee Meeting**

In Attendance:
Jon Strinden
Arvy Smith
Rebecca Dorwart
Jamie Kinsella
Julie McCabe
Sparb Collins
Sharon Schiermeister

The meeting was called to order at 11:05 a.m.

I. February 19, 2014 Audit Committee Minutes

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

II. Internal Audit Reports

A. Quarterly Audit Plan Status Report – A summary of the internal audit staff time spent for the past quarter was included with the audit committee materials.

B. Audit Recommendations Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit recommendations of the external auditors, as well as any found by the internal auditor. Two were completed, progress was made on seven, and no change on eight recommendations.

C. Benefit/Premium Adjustments Report – The quarterly benefit adjustment report was provided to the audit committee. The report is in two sections, Retirement and Insurance. This report has four retirement and 35 health adjustments.

III. Administrative

A. Audit Committee Meeting Date & Time – The next audit committee meeting is scheduled for August 20, 2014 at 10:00 a.m.

B. Audit Committee Charter Revision Proposal – At the last audit committee meeting it was noted during the review of the Audit Committee 2013 activities that there had been significant updates to the Audit Committee Charters examples provided by both the Association of Public Pension Fund Auditors and the Institute of Internal Auditors. The last time our charter was updated was September 2008 so a comparison was made between the revised versions and our current charter to determine whether our charter should be updated. A copy of the original document, a copy with the tracked changes, as well as a copy of the final result was provided to the audit committee. There was discussion as to whether the charter should be updated and how often. The Audit Committee requested that a word document be sent to them with the track changes and comments to what was changed and why. This will carry over to the August meeting.

C. Annual Performance Evaluation – Annual reviews are being done and the goal is to have them all completed by June 20th. Mr. Collins would like to use the same approach for Ms. Kinsella's review as has been done in past. The audit committee agreed to this methodology.

D. Job Service Update – At the December 2013 audit committee meeting the audit committee was given an update on the COLA review conducted last October, and as a result of that review, there was a 1st year COLA calculation error for a few retirees. At that time the audit committee was asked whether Internal Audit should pursue looking into the matter further, and the audit committee agreed that they should. In February Internal Audit reported to the audit committee that there were additional members with the 1st year COLA calculation error, but that there were retirees who had continuing COLA increases on Uniform Income that had ended, which was not consistent with Job Service practices prior to PERSLink.

In April the Board approved a motion to make adjustments to the Job Service members' benefits effective June 1, 2014 due to COLA increases on Uniform Income benefits. When reviewing the adjustments, it was discovered the COLA was not increased for future benefit payments for group of retirees refunded on April 1st for incorrect 1st year COLA calculations. With discovery of this error, it was recommended to the board that more time be provided to thoroughly examine each group of adjustment types so we can ensure that the adjustments are done correctly, and we are following through with all aspects of the adjustments.

IV. Miscellaneous

A. External Audit Update – In March Ron Tolstad, State Auditor's Office, Connie Flanagan, RIO, Rachel Ridl, Office of Management & Budget, John Mongeon, Brady Martz, Thomas Rey, Clifton Larson Allen, and Jason Ostroski, Katie Moch and Holly Engelhart came to NDPERS to discuss the GASB 68 changes and how it will impact the external auditors and employer reporting.

Brady Martz is scheduled to visit the NDPERS office the week of June 16th to conduct their preliminary audit work. They will return on August 25th through September 5th to complete their fieldwork.

B. Travel Expenditures Update – There were no travel expenditures incurred by the Board and/or Executive Director for out-of-state travel submitted from February 1, 2014 through April 30, 2014.

B. Risk Management Report – The Loss Control Committee will provide quarterly to the Audit Committee a copy of the Loss Control Committee's agenda from their last meeting as well as the approved minutes. Copies of the December 3, 2013 meeting and the agenda for the March 24, 2014 meeting were provided to the audit committee.

C. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should "Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." A copy of the report showing the actuary/consulting audit, legal, investment and administrative fees paid during the quarter ended December 2013 and March 2014 were provided to the audit committee.

D. Publications – The February and April 2014 publications of the Tone at the Top were provided to the Audit Committee for their perusal.

E. Webinars and CPE's – Ms. Kinsella and Ms. McCabe have been participating in the free Webinars that the Institute of Internal Auditors provides for their members. Each 1 hour webinar provides 1 hour of continuing professional education credits. The internal auditors have attended eight webinars from February 1, 2014 through April 30, 2014. These webinars are held during the lunch hour so the internal auditors remain available to staff during normal business hours.

Meeting adjourned at 11:47 a.m.