

MINUTES

North Dakota Public Employees Retirement System

Bank of North Dakota, Bismarck

Thursday, August 27, 2015

8:30 A.M.

Members Present: Representative Pamela K. Anderson
Senator Dick Dever
Mr. Mike Sandal
Ms. Arvy Smith
Ms. Yvonne Smith
Mr. Thomas Trenbeath
Ms. Kim Wassim

Members Absent: Ms. Casey Goodhouse
Chairman Strinden

Others Present: Mr. Sparb Collins, NDPERS
Ms. Cheryl Stockert, NDPERS
Ms. Sharon Schiermeister, NDPERS
Ms. Kathy Allen, NDPERS
Ms. Rebecca Fricke, NDPERS
Ms. MaryJo Steffes, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Jan Murtha, Attorney General's Office
Mr. David Hunter, NDRIO
Mr. Michael Klepatz, Sanford Health Plan
Ms. Katie Nermoe, Sanford Health Plan
Mr. Jason Hubers, Sanford Health Plan
Dr. Michael Crandell, Sanford Health Plan
Mr. Jeff Sandene, Sanford Health Plan
Mr. Tim Rave, Sanford Health Plan
Mr. Kevin Schoenborn, BCBSND
Mr. Mike Schwab, ND Pharmacy Association
Mr. Brad Ramirez, Segal
Mr. Dan Churchill, Churchill Pharmacy

Via Teleconference: Ms. Lisa Carlson, Sanford Health Plan

Chairman Strinden was not in attendance. Mr. Sandal chaired the meeting and called the meeting to order at 8:40 a.m.

Mr. Sandal welcomed Representative Pamela Anderson to the PERS Board.

Mr. Sandal asked for approval of the agenda.

SENATOR DEVER APPROVED THE AGENDA AS PRESENTED. THE MOTION WAS SECONDED BY MS. WASSIM AND CARRIED BY VOICE VOTE. THE AGENDA WAS APPROVED.

Mr. Sandal called for any questions or comments regarding the minutes of the July 16, 2015 Board meeting.

MR. TRENBEATH MOVED APPROVAL OF THE JULY 16, 2015 NDPERS BOARD MEETING MINUTES. THE MOTION WAS SECONDED BY MS. WASSIM AND CARRIED BY VOICE VOTE. THE MINUTES WERE APPROVED.

RETIREMENT

Investment Update

Mr. David Hunter, Executive Director and Chief Investment Officer for ND the Retirement and Investment Office, reviewed the PERS Interim Investment Report with the Board. For the fiscal year ended June 30, 2015 the PERS main plan generated a net investment return of 3.5% versus a policy benchmark of 2.2%. PERS generated a net return of 10.6% for 5 years ending June 30, 2015 which exceeded the policy benchmark by 0.6%. Mr. Hunter reported that the PERS main plan generated an actual return of 3.86% for the year. Every asset class exceeded their performance benchmark except for Timber. Mr. Hunter also reviewed the long term return expectations with the Board. He explained that during the past year the median long term expected investment return for U.S. public pension plans had declined to 7.75%. Segal has proposed a 7.75% rate versus the current 8% assumption. Mr. Hunter further explained that the expected return assumptions drive what goals are to be met to obtain a consistent return. The expected return assumption will drive how asset allocation strategies are developed. The Board had questions and discussed with Mr. Hunter.

Experience Study

Mr. Collins reported that PERS is required to conduct an experience study every five years. Mr. Ramirez will provide an update on the experience study and will provide follow-up to the Board's questions. The goal is to review this information and then at the September special meeting make final the decisions. Once this is accomplished, the next actuarial valuation will be based on the new assumption. Staff recommendation, given the history, is not to change the growth assumption and not to change the long term return assumption at this time.

Mr. Ramirez, Segal, reviewed the summary of assumptions with the Board. He indicated that it is always good practice to look back at five years of history and use that to project forward. He discussed the return assumptions proposed recommendations with the Board. He indicated that other state retirement systems are using between 7.75% and 8%

return assumptions consistently. The trend has been to lower the assumptions over the last couple of years. When the rate of return is lowered, there are higher liabilities. The projected funded ratio at actuarial value of assets indicates that the main fund will be at 100% funded by 2059 with no change in assumptions. The Board had questions relating to the experience review.

Mr. Collins indicated that if the Board wants additional information to let him know within a week, and that once the experience study is completed, and the Board has set the assumptions, including the return assumption, the next step in that process is to complete the asset liability study. We will then need to hire a consultant to work with RIO to review the asset allocation.

Highway Patrol Indexing

Ms. Allen stated that it is necessary for the Board to determine the rate to be used in establishing the index factor for deferred members of the Highway Patrol pursuant to the NDCC. During this last legislative session, agency budgets were increased by an average of 3% for salary increases for the first year of the 2015-17 biennium. The North Dakota Highway Patrol leadership is recommending that deferred members in its system have their final average salary indexed by 3%.

MS. ARVY SMITH MOVED APPROVAL OF A THREE PERCENT INCREASE IN THE FINAL AVERAGE SALARY INDEXING FOR HIGHWAY PATROL MEMBERS WHO PARTICIPATE IN THE DEFERRED VESTED BENEFIT PROVISION EFFECTIVE JULY 1, 2015. THE MOTION WAS SECONDED BY MS. YVONNE SMITH.

Ayes: Ms. A. Smith, Mr. Trenbeath, Representative Anderson, Ms. Wassim, Ms. Y. Smith, Senator Dever, and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

IRS Cycle E Filing

Ms. Allen reported that at the August 2014 meeting, it was indicated that PERS had an option to submit a Cycle E filing using the IRS Voluntary Compliance Program for the main and Highway Patrol plans. This filing was necessary in order to amend our plans to address a deficiency referenced by the IRS related to the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act). To address this deficiency, House Bill 1062 was introduced and passed. Staff can now proceed and is requesting Board approval to use Segal's services to complete the required paperwork and provide the documentation to prepare a filing to the IRS. Total fees for both the IRS and Segal totals approximately \$21,750. Ms. Murtha explained that in the future the IRS will no longer be in the business of IRS determination letters, so this will be the last opportunity for the plans.

REPRESENTATIVE ANDERSON MOVED APPROVAL TO OBTAIN SEGAL'S SERVICES TO COMPLETE THE REQUIRED PAPERWORK FOR THE IRS CYCLE E FILING FOR THE MAIN AND HIGHWAY PATROL PLANS. THE MOTION WAS SECONDED BY MS. WASSIM.

Ayes: Senator Dever, Ms. Y. Smith, Ms. A. Smith, Ms. Wassim, Mr. Trenbeath, Representative Anderson, and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

Retiree Health Insurance Credit (RHIC) Implementation Update

Mr. Reinhardt reported that staff and ASIFlex believe we have successfully implemented the new RHIC program and are now into normal operations. Direct deposits are increasing with 5,435 retirees signed up. Claims have been paid out to 6,213 retirees. The implementation team continues to work on administrative processes and incoming call volume has returned to a more normal level. Mr. Collins indicated that members remain unsettled about this process and asked the Board to let staff know if any members contact them.

Retiree Health Insurance Credit (RHIC) Repeal of Rules

Ms. Steffes reported that with passage of House Bill 1058, making the RHIC portable, there are inconsistencies with references in the North Dakota Administrative Code and Board policy. Sections of NDAC are no longer applicable and Board policy was established in December 2014 on how to allow for over/under payments with the third party administrator. Staff recommends doing an expedited process of immediate repeal of these rules which is allowed by NDCC 28-32-18.1 and the Administrative Rules Committee.

MR. TRENBEATH MOVED APPROVAL OF THE EXPEDITED PROCESS TO REPEAL CERTAIN SECTIONS OF THE NORTH DAKOTA ADMINISTRATIVE CODE THAT ARE NO LONGER APPLICABLE TO THE RETIREE HEALTH INSURANCE CREDIT PROGRAM. THE MOTION WAS SECONDED BY MS. A. SMITH.

Ayes: Mr. Trenbeath, Ms. A. Smith, Ms. Y. Smith, Representative Anderson, Senator Dever, Ms. Wassim, and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

Asset Transfers

Ms. Schiermeister reported to the Board that retirement assets are currently subdivided into five groups – main, Judges, National Guard, law enforcement without prior main service and law enforcement with prior main service (LEW). Whenever an employer who is in the main plan elects to participate in the LEW plan, there is a transfer of liability for the prior main service which requires a corresponding transfer of assets. The last time assets were transferred was in 2008. Since that time, six employers have elected to participate in the LEW plan and the liability for prior main service was not transferred to the LEW plan consistently for all participants and the asset transfer did not occur. Staff is working with Segal on correcting the participant accounts to accurately reflect their service credit in the LEW plan and to develop and implement a consistent process for the transfers. Segal provided staff and the Board with information regarding transfer options. The corrected information will be provided to Segal for them to use in the 2015 actuarial valuation. Mr. Collins reviewed the options with the Board, explaining that we would transfer the assets based on the funded percentage as of the valuation date prior to the transfer. The Board concurred with this method.

GROUP INSURANCE

Medicare Part D Premiums & Options

Mr. Collins presented an overview of this program. He reviewed various options with the Board and indicated that the goal would be to make a final determination at the special meeting scheduled for September 16. These options are possible now because of the implementation of the retiree health insurance credit portability changes. Mr. Collins indicated that staff met with the Retiree Subcommittee and another meeting is scheduled before the special Board meeting. Their preliminary recommendation is to unbundle the Part D plan from the retiree medical plan. Mr. Collins reviewed various options with the Board.

Member Rebate Accounts

Ms. Allen reported that at the April meeting it was acknowledged that BCBS had discontinued the member rebate program as of January 2015 and as a result, this program was included in the group health request for proposal. The Board made the determination to retain this program and reinstate it effective July 1, 2015. Staff has been working with BCBS to make arrangements for the transfer of the rebate funds to be able to continue this program. The total is \$321,116 which BCBS will provide PERS a check to re-establish the accounts with Sanford Health Plan. The sum of the positive balances, excluding the negative balances, is \$692,641 which is a \$371,525 funding shortfall. Ms. Allen reviewed various options for consideration. The Board had concerns regarding who has liability for the funding shortfall. Ms. Murtha explained she would need to review the contract before making any recommendations. The Board requested additional information relating to the member rebate account program and this will be included on the regular September meeting agenda.

Health Plan Notices

Mr. Allen shared the notices that were sent to active and retired employees relating to the U.S. Supreme Court ruling on same-gender marriage in Obergefell v. Hodges. The notices included information on eligibility requirements, open enrollment period, and procedures to add eligible dependents to the group insurance plans.

Health Plan Implementation Update

Ms. Schiermeister updated the Board on the health plan implementation with Sanford Health Plan (SHP), reviewing the specific efforts in each area. Staff continues to meet weekly with the SHP team and BCBS transition team. Internal transition teams meet weekly or more often as necessary to discuss business processes and operational issues. Ms. Fricke reported on the marketing/communication efforts, COI finalization, wellness, pharmacy and care management, and Medicare Part D program.

Mr. Klepatz, Sanford Health Plan, provided the Board with a pharmacy update. The major issues related to: members are experiencing increases in drug costs, members not being able to obtain drugs but were prescribed prior to July 1, 2015, and pharmacy reimbursement. Dr. Crandell and Mr. Sandene further explained that they have communicated with those members who contacted them with prescription drug coverage concerns and continue to work to resolve the issues. The Board thanked Sanford Health Plan and PERS staff for their efforts with this transition.

Prescription Drug Coverage

Mr. Collins indicated that members have expressed concerns relating to having to pay higher out of pocket payments for their prescriptions under the SHP. Some members have experienced small changes and some larger changes in their out of pocket costs. Some members have reported lower pricing. Another concern relates to pharmacies receiving lower reimbursements from ESI than what they had been reimbursed through Prime Therapeutics with BCBS. Dr. Crandell reported information to the Board relating to those member calls they have received regarding prescription drug pricing and reimbursement issues. He indicated they have been responding back to members to resolve the issues. SHP has worked with ESI and four rural pharmacies on reimbursement rates.

Mr. Schwab, ND Pharmacy Association, indicated to the Board that pharmacy issues have been addressed from a rural pharmacy perspective. The biggest issue remaining is there is a big difference in MAC (maximum allowable cost) listing. MAC is used to price generics and is supposed to cover the cost of buying the product for the pharmacy. Many claims are under what it actually cost the pharmacy to purchase the drug. The MAC list that ESI uses is different than what Prime used. Mr. Schwab further explained that North Dakota was one of the first states to pass MAC legislation in 2013. Mr. Churchill, with Churchill Pharmacy, expressed concerns to the Board relating to pharmacy reimbursement. Specifically, he stated that their gross income per prescription has been cut in half. He suggested that ESI could move to a more reasonable MAC list and

suggested the PERS Board intervene in this issue. He believes there is unfair reimbursement at this time. Mr. Sandene indicated SHP is in the process of renegotiating their three year contract with ESI. The Board requested SHP to continue to work with ESI on reimbursement and requested an update at the October meeting.

2014 Health Report

Mr. Reinhardt reviewed the 2014 active health report with the Board. Costs and trends are increasing with the 2014 active charges increasing 9.6% over 2013.

2016 Annual Enrollment

Ms. Fricke shared the 2016 annual enrollment plans with the Board. She also indicated that last year the IRS increased the medical spending account annual limit from \$2,500 to \$2,550 and was asking if the Board wished to increase the limit for the 2016 annual enrollment.

MS. ARVY SMITH MOVED TO INCREASE THE MEDICAL SPENDING ACCOUNT ANNUAL LIMITS AND TO ADOPT THE APPROVED IRS INCREASES EACH YEAR FOR MEDICAL AND DEPENDENT CARE SPENDING ACCOUNTS TO BE EFFECTIVE FOR THE FOLLOWING PLAN YEAR. THE MOTION WAS SECONDED BY MS. WASSIM.

Ayes: Representative Anderson, Senator Dever, Ms. A. Smith, Ms. Y. Smith, Mr. Trenbeath, Ms. Wassim, and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

MISCELLANEOUS

Flex Comp Plan Documents

Ms. Allen presented the draft flex comp plan document to the Board for review to be approved at a future meeting.

Board Committee Assignments

Mr. Collins indicated this can be deferred to the next Board meeting. The Board concurred.

Telemedicine Study, HB 1038

Mr. Collins provided information relating to the Telemedicine Study that will be required as passed in House Bill 1038 this last legislative session.

Administrative Rules

Mr. Collins provided information relating to the proposed draft rules and the rule revision schedule. Final drafted rules will be shared with the Board at the September meeting. The Board discussed rule changes. The Board concurred with the rule changes and staff will move forward with the process.

PERS Operations

Mr. Collins updated the Board on the PERS office building elevator modernization project and also provided an update relating to the salary equity package that was implemented.

Sagitec Agreement

Ms. Schiermeister reviewed the 2015-17 biennium software maintenance and support contract with Sagitec Solutions with the Board. The contract is for licensing fees and application development services and the fees were included in PERS biennium budget.

MR. TRENBEATH MOVED APPROVAL OF THE CONTRACT WITH SAGITEC SOLUTIONS FOR THE 2015-17 BIENNIUM. THE MOTION WAS SECONDED BY MS. YVONNE SMITH.

Ayes: Mr. Trenbeath, Ms. A. Smith, Representative Anderson, Ms. Wassim, Senator Dever, Ms. Y. Smith, and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

Quarterly Consultant Fees

The consultant fees for the quarter ending June 2015 was shared with the Board

Audit Committee Minutes

The approved May 20, 2015 PERS Audit Committee minutes were shared with the Board.

APPEALS

Appeal #275

Ms. Allen reported to the Board that the member was appealing the election to participate in the defined contribution plan and is requesting to be allowed to transfer back to the defined benefit plan and that the member is present at the meeting. Ms. Murtha indicated that since the member was present at the meeting, it would be appropriate to enter into executive session to discuss confidential member information.

SENATOR DEVER MOVED THAT THE BOARD ENTER INTO EXECUTIVE SESSION PURSUANT TO NDCC 44-04-19.2(1) AND 54-52-26 TO DISCUSS CONFIDENTIAL MEMBER INFORMATION. THE MOTION WAS SECONDED BY MS. ARVY SMITH.

Ayes: Representative Anderson, Senator Dever, Ms. A. Smith, Ms. Y. Smith, Mr. Trenbeath, Ms. Wassim, and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

All members named above were in attendance for the Executive Session (closed meeting, electronically recorded) which began at 12:00 p.m.

The Board returned to open session at 12:25 p.m.

MR. TRENBEATH MOVED THAT THE APPEAL BE ACCEPTED TO ALLOW THE MEMBER TO RE-ELECT THE DEFINED BENEFIT PLAN PURSUANT TO RECENTLY PASSED LEGISLATION AND THAT THE DATE OF RECEIPT BE JUNE 26, 2015 IN ACCORDANCE WITH THE MAIL BOX RULE. THE MOTION WAS SECONDED BY SENATOR DEVER.

Ayes: Ms. A. Smith, Mr. Trenbeath, Ms. Wassim, Ms. Y. Smith, Senator Dever, Representative Anderson, and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

Member Issue

Ms. Allen indicated that at the July meeting the Board was presented with an issue regarding the use of an incorrect date of birth for a spouse which resulted in an error in the calculation of the joint and survivor option. At the time of the member's retirement in 1988 PERS did not require validation of date of birth for the spouse. Current policy requires documentation at the time of retirement in the form of a birth certificate for both the member and spouse. At that meeting the Board requested staff research where the incorrect date of birth originated. Staff could not find any documents conflicting with the spouse's date of birth. The Board discussed this issue.

MS. WASSIM MOVED THAT PERS MAINTAIN THE CURRENT BENEFIT PAYMENT AND NOT COLLECT OVERPAYMENT. THE MOTION WAS SECONDED BY REPRESENTATIVE ANDERSON.

Ayes: Representative Anderson, Ms. Y. Smith, Senator Dever, Ms. A. Smith, Mr. Trenbeath, Ms. Wassim and Mr. Sandal

Nays: None

Absent: Ms. Goodhouse and Chairman Strinden

MOTION PASSED

Medicare Part D Contract

Mr. Collins indicated that the Board will decide in September how to proceed with the Medicare Part D program. The ESI rates for Medicare Part D plan are coming in high. Staff will continue to work with ESI to negotiate a lower rate. With the health and Rx currently bundled, we are exploring whether to unbundle these products, resulting in the retirees being able to go to the marketplace to select another product if they wish. Mr. Collins indicated that the Retiree Subcommittee will be meeting before the special September meeting to finalize their recommendation. Ms. Schiermeister reported that staff is moving forward with system development to separate the health and Part D plan enrollments to be able to handle issues for the upcoming year. The Board concurred with this plan.

Mr. Sandal called for any other business or comments. Hearing none, the meeting adjourned at 1:00 p.m.

Prepared by,

Cheryl Stockert
Assistant to the Board