

MINUTES

North Dakota Public Employees Retirement System

Harold Schafer Leadership Center

University of Mary, Bismarck

Thursday, February 18, 2016

9:30 A.M.

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

Others Present: Mr. Sparb Collins, NDPERS
Ms. Cheryl Stockert, NDPERS
Ms. Sharon Schiermeister, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Aime Miller, NDPERS
Ms. Rebecca Fricke, NDPERS
Ms. MaryJo Steffes, NDPERS
Ms. Jan Murtha, Attorney General's Office

Chairman Strinden called the meeting to order at 9:30 a.m.

Mr. Collins reviewed with the Board a presentation discussing NDPERS retirement plans, group insurance plans, and administration during the past two years (presentation is available at the PERS office). He explained that the purpose of this meeting is to review the PERS programs, administrative operations and consider issues, initiatives and possible actions for future considerations.

NDPERS OVERVIEW

External Review

Mr. Collins reviewed external considerations relating to PERS. It was noted that during the last interim two interim studies had been conducted – one related to closing the PERS defined benefit plan and going to a defined contribution plan, and the other was reviewing the health insurance benefit. As part of the retirement interim study, the legislative committee hired a consultant to conduct an actuarial audit of the PERS retirement plan. The audit confirmed the actuarial numbers relating to PERS. Mr. Collins also reviewed external considerations relating to PERS this interim. These included, but are not limited to, the GASB changes, DC plan election and expiration, interim health study, state

revenues, new administration, state bond rating, perception of PERS, health issues (premiums, vendors and providers) and funded status. The current legislative interim study relates to the study of state contributions for employee health insurance premiums (assigned to the Health Care Reform Committee). Mr. Collins reviewed information relating to the Health Care Reform Committee activities and said that at this time there is no indication of what action or recommendation may come out of that committee.

PERS ADMINISTRATION

Mr. Collins reviewed information relating to the NDPERS organization with the Board. He reviewed PERS committee activity with the Board which included Benefits, Investment, Audit, Retiree and Election Committees.

Mr. Collins provided a staffing update to the Board indicating there is more dispersion of responsibilities, more depth in each area, increased agency controls and external communication.

Mr. Collins reported that the office security remodel is on hold because PERS was approached by WSI about moving into vacant space in their building in the future.

He also indicated that data security is of utmost concern amongst staff. The Board also indicated its concern. Ms. Schiermeister reviewed with the Board data security policies and practices that are used by PERS and ITD to mitigate unauthorized access to the systems.

Mr. Collins reviewed the communications strategy with the Board. He reported staff is working with MABU on updating the website. He reviewed an updated website concept with the Board. Currently, staff is reviewing what type of social media to incorporate. Staff will continue to share new website concepts with the Board as the project progresses. Progress on the mobile app project was shared with the Board.

Mr. Collins reviewed the 2014 and 2015 educational programs with the Board. He also went over the attendance and comments.

Ms. Schiermeister provided the Board an update regarding the PERSLink business system including the background on how the new system was developed, initiatives since the system went live in 2010, current concerns relating to the backlog of defects and system performance issues. She explained that in the next year, because there are no new vendor changes or new legislation to implement, staff is hoping to catch up on the necessary business system changes and updates. Ms. Schiermeister concluded that process improvements for testing and releasing changes into production have been implemented and produced positive results. Also, approximately 68% of the system support hours were used during the first six months of the fiscal year which was primarily due to the system changes in the Medicare Part D program and staff will continue to manage the work that is needed.

The Board discussed the administrative issues and possible areas for consideration going forward. Based upon discussion, the Board decided to consider the following at future meetings:

1. Review data security policies, practices and action plan with the Board or the Audit Committee on a yearly basis.
2. Review Audit Committee findings and recommendations with the Board on a yearly basis.
3. Update the Board on the website project and have MABU attend Board meeting(s) to explain new concepts.

REVIEW OF NDPERS PROGRAMS AND LEGISLATIVE CONSIDERATIONS

RETIREMENT PLANS

Retiree Health Credit Program

Mr. Collins indicated that the retiree health credit (RHIC) program continues to be on a positive course. Mr. Collins explained that the contribution sufficiency is .42% which is very good. He discussed recent action which included the PERS pre-Medicare coverage closing in 2015. Changes effective July 1, 2015 were that the RHIC became portable which means credit may be for any health insurance and/or prescription drug premium expense, and for the NDPERS administered dental, vision and long term care plan.

Mr. Collins indicated that when we contracted with ASIFlex to administer the RHIC program, the Board recommended that staff develop a proposal to incorporate the process into the PERSLink business system. Since this will be a large project, staff has not had the ability to accomplish this because of other competing priorities. He also indicated that it will be difficult to do this project in the near term without reordering some priorities and said this is something that should be discussed in more detail at a future meeting.

No changes are recommended to this program at this time and until the total cost of making the plan portable can be fully verified.

Defined Benefit Plans

Mr. Collins presented background information on the Main, Judges, National Guard, Law Enforcement, Highway Patrol and Job Service plans, including fund balances, membership statistics (both active and retiree), annual benefits, retirement system assets, and number of pensions in force. He noted that the Highway Patrol and Job Service plans are separate trusts. All others are a trust under the PERS plan. The challenge the Board has been addressing since 2009 are for all plans to meet the following three goals: 1) to stop the downward trend in the funded status, 2) to stabilize the plans, and 3) to put the plans on a track back to 100%.

Mr. Collins reviewed the following information with the Board:

Job Service: This is a closed plan with 11 active members participating. Funded ratio is at 124.5%, market value of assets is approximately \$96 million and funded ratio at market is 152%. It was noted the Department of Labor has taken the position that they have no further responsibility for this plan. No changes are recommended for this plan at this time.

Judges: In this plan, the three goals have been met with the fund on track back to 100%. There are 51 active members participating in this plan. No changes recommended at this time.

National Guard: The National Guard plan was merged with the Law Enforcement plan.

Law Enforcement: The plan with prior service funding status is doing well and is on track to 100% funded status. The plan without prior service is tracking at almost 100% funded status. The employee contribution rate is 5.5% and the employer contribution is 9.81%, while BCI is in this plan and their members are paying 6%. It is recommended that legislation be proposed to bring BCI down to the same employee contribution rate at 5.5%. BCI is paying 10.31% employer contribution and it is recommended that the Board consider decreasing it to the same contribution rate of 9.81%.

Highway Patrol: This plan is at 83% funded status. In this plan, the three goals have been met with the plan which is on track to 100% funded status. No changes recommended at this time.

Main Plan: Mr. Collins reviewed the membership data, the actuarial market value of assets and benefit payments. He noted that as of today the year to date returns is negative 6.6%. He also discussed that the plan is 5% below the actuarially recommended contribution and the state has not met the actuarial required contribution level in many years. It was also indicated the market value funded ratio is 77% while the actuarial funded ratio is 68%. The goals remain the same for this system which are to stop the downward trend, stabilize the plans and put them on a track back to 100% funded status. The Board had proposed a 4 year recovery plan to accomplish these goals. In the 2011 session, the legislature approved 2 years of the requested 4 year contribution recovery plan. In the 2013 session, the legislature approved 1 year of the requested 2 years remaining in the recovery plan. In the 2015 session, the legislature approved a retirement benefit reduction, but did not approve the last year of the contribution recovery plan. Currently, the main plan is not on track to 100% funded status.

Mr. Collins also reviewed the implications of the recent experience study which has been completed and the asset liability study which will be done in the next few months. As a result of the experience study, several assumptions were changed and the most significant was the mortality assumptions which resulted in an increase in liabilities as a result of members projected to live longer. He also indicated that the asset liability study consultants have indicated a pessimistic projection on investment returns in the near term and do not expect significant gains.

Mr. Collins referred back to the decision environment around PERS as discussed at the beginning of the presentation and implications for the needs of the retirement plan. Mr. Collins reviewed various options to get to 100% funded status and other benefit requests with the above in mind which are as follows:

Option 1: Submit 4th year of recovery plan only.

Option 2: Submit a bill to enact some of the changes made by TFFR except have them apply to new employees only:

- Decrease interest on member accounts to 6%.
- Change FAS to high 5 years instead of 3 years.

Option 3: Make no changes and rely on investment returns to return the plan to 100%.

Option 4: Transfer funds from the health plan to the retirement plan.

Option 5: Give retirees a cost of living adjustment.

Concerning Option #2, it was noted that last session two of the four changes were made and the remaining two would not move the plan toward to 100%. Concerning Option #3, it was noted the pessimistic projections for returns being sufficient in the near term to accomplish this goal. Option #4 would present fiduciary issues since the membership of both plans are not the same. Option #5, while providing retirees a COLA, is clearly needed but would increase the funded gap at this time. Option #1 remained since it meets the goal. Staff reviewed the considerations of the Retiree Committee and Benefits Committee and their consensus was Option #1.

Mr. Collins also reviewed the other retirement activity which is presently ongoing which is the retirement consultant bid, and that as part of that effort, one task is to adjust the mortality tables. This could affect the number of retirements in the coming years if the tables result in decreasing actuarial reduced benefits. A communication effort to our members will be necessary and we will need to determine when and how to implement the table changes.

The Board discussed the retirement plans and possible areas for consideration going forward. Based upon discussion, the Board decided to consider the following at future meetings:

1. Submit legislation to include the 4th year of the recovery plan.
2. Update retirement mortality tables.

Defined Contribution Plans

Mr. Collins reviewed the Companion Plan activities and member engagement efforts with the Board. New elections into the defined contribution plan are at 2.8% since 2013. He provided an update on the special defined benefit election where 76.23% changed from the defined contribution to the defined benefit plan. Also, it was noted that the DC option for classified employees expires in the near future. No changes recommended at this time. Based upon discussion, the Board decided to consider the following at future meetings:

1. Go out to bid on the defined contribution plan, PERS Companion Plan and 457 Deferred Compensation Plan.
2. Consider having TIAA present an update to the Board.
3. Review ways to encourage these members to engage in supplemental retirement.
4. Continue to include them in the recovery plan.

Deferred Compensation

Mr. Collins reported that this plan is doing well, assets continue to grow, and membership increased by 14% last year. No changes recommended at this time. Based upon discussion, the Board decided to consider the following at future meetings:

1. Go out to bid on PERS Companion Plan and 457 Deferred Compensation Plan.
2. Consider having TIAA present an update to the Board.
3. Review ways to get members more involved in the program.

GROUP INSURANCE PROGRAMS

Long Term Care Insurance

Mr. Collins indicated that, because of the nature of this business and based on the study of the plan over the last two years, no new enrollments are being offered at this time. Members can go out to the market to find a wide selection of competitively priced plans. No changes recommended at this time.

Dental Insurance Plan

Mr. Collins reviewed the dental insurance plan information with the Board including enrollment, plan history and current rates. The contract with Delta Dental expires December 31, 2016 so will have to go to bid. No changes recommended at this time.

Based upon discussion, the Board decided to consider the following at future meetings:

1. Begin the bid process for a renewal of the dental plan summer of 2016.
2. Request an annual update from Delta Dental.

Life Insurance Plan

Mr. Collins reviewed the coverage information with the Board. With the last bid, the basic increased to \$3,500 at no additional cost. The contract with Voya expires June 30, 2017 so will have to go to bid. No changes recommended at this time.

Based upon discussion, the Board decided to consider the following at future meetings:

1. Begin the bid process for a renewal of the life insurance plan summer of 2016.
2. Request an annual update from Voya.

Vision Insurance Plan

Mr. Collins reviewed the vision insurance plan information with the Board. The contract with Superior Vision expires December 31, 2017.

Based upon discussion, the Board decided to consider the following at future meetings:

1. Begin the bid process for a renewal of the vision insurance plan January of 2017.
2. Request an annual update from Superior Vision.

EMPLOYEE ASSISTANCE PROGRAM

Mr. Collins gave an update on the current EAP providers. The pricing has been \$1.54 per employee per month for the last three bienniums. Prior to that it was \$1.45 since the 2005-2007 biennium.

Based upon discussion, the Board decided to consider the following at future meetings:

1. Determine whether to increase the employee per month amount for the next biennium.
2. Include in the executive budget summer of 2016.
3. Request an annual update from the providers.
4. Begin the bid process for a renewal of the EAP's spring of 2017.

FLEXCOMP PROGRAM

Mr. Collins reviewed the flexcomp program plan activities, member engagement efforts, and key performance measures with the Board. PERS continues to partner with ADP. Staff reported there have been no major issues or complaints from members relating to claims processing; however, some members continue to have problems with how to use the debit card. The contract with ADP expires June 30, 2018.

Based upon discussion, the Board decided to consider the following at future meetings:

1. Conduct a survey of members summer of 2016.
2. Consider if we should continue the use of the debit card.
3. Continue efforts to inform members of the benefits of participation in the program.
4. Begin the bid process for a renewal of the flexcomp vendor January of 2018.
5. Request an annual update from ADP.

Health Plan

Mr. Collins reviewed with the Board background information on the group insurance plan, statistics on health plan contracts and membership, premium history and health plan appropriations.

Mr. Collins explained that the basic health equation is: (units of service multiplied by cost per unit minus out of pocket plus administrative expenses) divided by (number of contracts) plus administrative expenses which will equal premium. He reviewed health

cost breakdown, general health plan administration, performance standards and guarantees, PERS reserves, preliminary data, PPO network, specialty programs, and those services that still need to be initiated. The bid for the next biennium is due in August.

Mr. Collins reviewed with the Board the recent financial reporting of Sanford on the plan. He indicated that at this time Sanford is showing a loss for the first several months. The implications of this were discussed and it was suggested that Mr. Collins review this with Deloitte and Sanford, continue to monitor this situation and report back to the Board this summer as part of the renewal considerations.

Mr. Collins reviewed the status of wellness program efforts, including the short term and long term strategies for wellness with the Board (BWell, Health Club Credit, Employer Based wellness, Member Education, Flu shots, Wellness Clinics, Healthy Pregnancy Program and Smoking Cessation). It was agreed that these programs should continue to be monitored as part of their ongoing implementation as part of the transition.

The Board also discussed the disease management programs (medical home, specialty Rx, About the Patient, Accordant, case management, etc.

The Board also discussed the ongoing pharmacy issues and noted that ESI will be coming to May meeting to provide an update.

Based upon discussion, the Board decided to consider the following items at future meetings:

- Review the health insurance discounts and plan performance.
 - Review with Deloitte.
 - Review the numbers with Sanford to determine the implications in order to get a perspective on the effect for the 2019-2021 biennium.
 - Continue to work with Sanford to get the remaining providers on the PPO network.
- Continue to work on implementation of the wellness programs, chronic condition programs and high cost programs.
- Review incorporating more outcome oriented employer based activities (partner with UND, Health Department).
- Continue to investigate informational programs for the active and retiree members.
- Enhance intermediate efforts by adding more medical home activities and investigate establishing provider based programs such as the EPO.
- Consider a pharmacy benefit audit to ensure we are getting 100% of rebates.
- Continue working with ND pharmacies on pricing issues with the next renewal.
- Study specialty drug programs, pricing and growth.

Mr. Collins also noted that the Judges will be submitting legislation to add a provision for a judge to remain on the health insurance plan through their term if they would become disabled or until they turn age 65, whichever comes first.

Mr. Collins reviewed the renewal steps with the Board, including legislative direction, for the group health insurance renewal. If it is necessary to go to bid, the consultant will begin this effort in June or July of this year. Renewal steps include:

1. The consultant will be required to estimate the required premiums for the group health insurance program for a twenty-four (24) month period beginning July 1, 2017 and ending June 30, 2019. The consultant will be supplied the proposed plan of benefits by July 2016. The consultant must have completed the estimates by August 1, 2016. The purpose of this effort is to provide the Board an estimate to be used in analyzing the merits of renewing with the existing carrier.
2. Solicit a renewal from the existing vendor.
3. Review the carrier's performance measures, including payment accuracy, claims processing time, member service center metrics, wellness or other special program participation levels, and any other measures the Board determines relevant in making the determination and shall consider these measures in determining the Board's satisfaction with the carrier's performance.
4. If the Board determines the carrier's performance under the existing contract does not meet the Board's expectations or the proposed premium renewal amount exceeds the Board's expectations and the Board determines to solicit a bid under section 54-52.1-04, the Board shall specify its reasons for the determination to solicit a bid.

Chairman Strinden and the Board thanked Mr. Collins and staff for their efforts this past year with the transition to the new health insurance carrier and for preparing the information for this Board planning meeting. Chairman Strinden called for any other business or comments. Hearing none, the meeting adjourned at 3:00 p.m.

Prepared by,

Cheryl Stockert
Assistant to the Board