M I N U T E S

North Dakota Public Employees Retirement System

Harold Schafer Leadership Center
University of Mary, Bismarck
Wednesday, January 22, 2014
9:30 A.M.

Members Present:	Ms. Joan Ehrhardt Mr. Howard Sage Mr. Mike Sandal Ms. Arvy Smith Mr. Thomas Trenbeath Ms. Kim Wassim Chairman Jon Strinden
Others Present:	Mr. Sparb Collins, NDPERS Ms. Cheryl Stockert, NDPERS Ms. Sharon Schiermeister, NDPERS Ms. Kathy Allen, NDPERS Ms. Deb Knudsen, NDPERS Mr. Bryan Reinhardt, 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 planning meeting is to review the PERS programs, consider issues that may be undertaken and review PERS administrative operations and initiatives.

RETIREMENT

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. Note 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 for all plans has been to stop the downward trend in the funded status, stabilize the plans, and put the plans on a track back to 100%.

Mr. Collins reviewed the following information with the Board:

Job Service: In the near term funding is not a challenge since funding for the plan is at 115%. The challenge in this plan relates to the Department of Labor (DOL) support and asset allocation. DOL had indicated that the unfunded liability payments would be reactivated and resumed by them at any time when the actuarial valuation indicates the plan is in an under funded status. DOL has written to us stating that the 30 year agreement is done and they would not make any future payments. PERS wrote back disagreeing with DOL stating there was another agreement that says these would resume if there is an unfunded liability and DOL has since wrote back where they maintain that they are not obligated to assist in funding any unfunded liabilities. PERS will continue to work with the DOL to better understand their position and obtain reassurances going into the future. If that cannot be accomplished Mr. Collins noted this may mean going to our congressional delegation to seek alternative remedies.

Concerning the Job Service asset allocation, that task has been assigned to the PERS Investment Subcommittee and they are working on it at this time.

Judges: In this plan, the three goals have been met with the fund on track back to 100%. No changes recommended at this time.

National Guard: The goal to get this fund back on track has not been met as the funding ratio is at 78.2% and projected to go to 90% with the additional contribution increases. Staff will be meeting with the National Guard staff concerning future actions. The Guard is also undergoing some changes where their mission is being readjusted which relates to the fire and security positions located in Fargo. Depending on the decisions of the Department of Defense, additional considerations may need to be put forward concerning the long term status of the fund.

Law Enforcement: Both plans with and without prior service funding status are doing well and are on track to 100% funded status. No changes recommended at this time.

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

Main Plan: This is the largest system, with approximately 50% state and 50% political subdivision employees. Contribution rates are at 14.12% with three years of the recovery plan in place, with funding at 72% market value and 62% at actuarial value. The unfunded liability is currently $1 billion. The decision environment surrounding the retirement issues at this time includes: GASB changes, the legislative interim study on retirement, health care benefits, the defined contribution retirement plan option, state bond rating, rising health insurance premiums, and the funded status. In addition, during this last legislative session provisions were enacted to have PERS offer the defined contribution retirement plan as an option for state employees until 2017.

Mr. Collins reviewed each of these items with the Board and noted that the decision environment relating to retirement is different than in the past. With this in mind, Mr. Collins reviewed three options for going forward relating to the main retirement plan and its remaining challenge.

- Option 1 would be for PERS to submit a bill to request contributions for the fourth year of the recovery plan, which would be about $20 million from the employers and $20 million from the employees.

- Option 2 would be to submit a bill to enact some of the changes made by TFFR plan design, except it would apply to new employees only. They are:
    - Match the interest on member accounts to 6% as that offered to TFFR members.
    - Change the early retirement reduction from 6% per year to 8% per year.
    - Change the final average salary to the high five years instead of three years.
    - Change rule of 85 to rule of 90 with minimum retirement age at 60.

- Option 3 would be to submit bills for both Options 1 and 2.

- Option 4 would be to make no changes and rely on investment returns.

These options were further discussed and the legal considerations were explained. Any changes made to new employees are clearly legal, but if changes are made to those already vested, there may be issues. Staff recommends presenting Option 2 to the Employee Benefits Committee for consideration.

Other issues relating to retirement were discussed:

1. Whether PERS renews with Segal as the retirement consultant. If so, we can ask for a renewal quote.
2. The need to conduct an experience study every five years.
3. That an actuarial audit every ten years is a recommended best practice.
4. Reviewed the implications of de-risking the plan by reducing the interest return assumption which is currently at 8%.
5. Discussed an issue relating to calculating the final average salary which, if the Board decides to go to the second tier (Option 2), we would have to address. Specifically, this issue relates to those employees receiving bi-weekly paychecks or 26 pay periods (2 months with 3 paychecks) or non-salaried employees paid an hourly rate, in 4 months out of the year, there will be 5 pay periods. PERS chooses the highest 36 months out of the last 180 months. In these cases there are months where there are 3 paychecks or 5 pay periods.

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

- In the Job Service plan, work through the process with the Department of Labor (DOL) to obtain the 30 year agreement and obtain a full understanding of their funding position.
- Relating to the Job Service plan, go into a policy phase with DOL and, if necessary, share the information with the North Dakota congressional delegation, indicating that PERS has exhausted all of the administrative aspects of this with the DOL and needs assistance to determine if DOL is required to have an ongoing obligation to the North Dakota Job Service retirement plan.
- Work with the National Guard to develop a plan for going forward.
- Review at the February meeting the four options to determine what recommendation to give the Employee Benefits Committee relating to possible retirement legislation. The decision has to be made in February or March with legislation submitted to Legislative Council by March.
- The Board directed staff to ensure that the Legislature understands the issues associated with the defined benefit plan and the implications of eliminating this benefit.
- Staff should obtain renewal quotes from Segal as a retirement consultant and for the experience study to be reviewed by the Board, and then decide whether to go out to bid on these efforts.

Retiree Health Credit Program and Pre-Medicare Health

Mr. Collins indicated that the retiree health credit (RHIC) program continues on a positive course. No changes are recommended at this time. Relating to the pre-Medicare health plan which is offered to retirees, the rate is set by statute. This last session, House Bill 1058 was passed, which terminated the pre-Medicare retiree health plan and made the retiree health credit portable. Based on this law, the plan will be closed in July of 2015 with the advantage to the state of helping to eliminate the OPEB liability. It has been suggested that the Board may want to move back the implementation from July of 2015 to July of 2017 because of the slow start of the ACA.

The Board discussed the pre-Medicare retiree health plan and the RHIC program and possible areas for consideration going forward. Based upon discussion, the Board decided to consider the following items at future meetings:

- Submit legislation to move the termination of the pre-Medicare retiree plan and making the RHIC portable back to July 2017.

Defined Contribution Plans

Mr. Collins reviewed with the Board information relating to the challenges facing the funded status of the defined contribution retirement plans. Some of the considerations discussed included plan administration, what members should be covered, pension adequacy, and plan features/design. A survey was conducted this past year on member satisfaction with the DC plan, and it showed there was not a high level of satisfaction.

Plan feature considerations for the DC plan include adding a disability benefit, allowing leave time for financial planning, adding a death benefit and increasing contributions to insure a better retirement. The defined benefit retirement plan includes these features.

The Board discussed the defined contribution retirement plan and some possible areas for consideration going forward. Based upon this discussion, the Board decided to consider the following items at future meetings:

- Discuss the possibly of submitting legislation on the defined contribution plan to increase the contribution rate, add a disability benefit, death benefit, and allowing leave time for financial planning for those enrolled in the DC plan.

Deferred Compensation
Mr. Collins reported that this plan is doing well, assets continue to grow, and membership continues to increase. The same survey was conducted this past year on member satisfaction with the Companion Plan administered by TIAA-CREF, and it showed there was a high level of satisfaction. No changes recommended at this time.

GROUP INSURANCE PROGRAMS

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. Regarding the trend analysis, it is presently between 7% to 8% which would produce a premium increase of between 14% to 16%. A legislative management study will be conducted on the feasibility and desirability of establishing a maximum state contribution to the cost of state employee health insurance premiums. Every biennium PERS prepares several plan options for the Legislature and the Governor which include cost information. Changes to the deductibles, coinsurance, and office calls can be made within the plan without losing grandfathered status. It was noted that the Affordable Care Act requires that the smaller political subdivisions (approximately 15) must leave the PERS plan. House Bill 1059, which was passed last session, allows political subdivisions to leave the plan if required by federal law and PERS will be assisting with this effort. Mr. Collins indicated a decision has to be made to continue with Deloitte as a health consultant and whether or not to go to bid on the health plan. Regarding HIPAA, the PERS documents are a collection of others and PERS, and as a result, the document will need to be redesigned to be specific to PERS.

Long Term Care Insurance
Mr. Collins reviewed what has been discussed relating to long term care insurance with the Board. The key points that were discovered are: that long term care planning is an important consideration in planning for retirement; purchasing a long term care plan that is partnership qualified is key to accessing the tax credit; information from our consultant indicated that it would be unlikely that anyone would bid on an entirely voluntary plan; and that if employer paid a part of the premium and with the tax credit, that a group plan could draw a significant level of participation from our membership. This was brought before the

Benefits Committee and they recommended, as an alternative to offering a long term care insurance product, that PERS facilitate the flow of information to members regarding the importance of this product, how to purchase it in the marketplace, and the significance of having a partnership product. The Board concurred on this approach and asked staff to prepare options for consideration.

Dental Insurance Plan
Mr. Collins reviewed the dental insurance plan information with the Board including enrollment, plan history and current rates. There is an issue where members enroll during open enrollment, receive their dental work, and then subsequently cancel the plan. This is allowed in our plan design and the Board may want to review and consider the cancellation options.

Life Insurance Plan
Mr. Collins reviewed the coverage information with the Board. The changes to the dependent care provisions were completed and went into effect January 1, 2014. No changes recommended at this time.

Vision Insurance Plan
Mr. Collins reviewed the vision insurance plan information with the Board. The same issue is in this plan as is in the dental plan relating to members enrolling and cancelling their enrollment upon completion of their services.

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

- Review and determine the plan design options for the next group health insurance.
- Review and determine when the small non-grandfathered political subdivisions will have to leave the PERS plan.
- Review and determine how to bid or renew the health plan, as fully insured or fully insured/self insured for 2015-2017.
- Review and determine if we continue with Deloitte or go to bid. The Board requested staff to request a cost estimate from Deloitte on this effort.
- Review and determine how to develop a program where PERS educates members on long term care insurance.
- Review and determine how to deal with the enrollment and cancellation process for dental and vision insurances.
- Consider having the dental, vision and life insurance vendors meet with the Board at separate meetings to obtain an update, receive any suggestions for program improvements or to determine if any new provisions might be considered.

EMPLOYEE ASSISTANCE PROGRAM

Mr. Collins gave an update on the current EAP providers. No changes recommended at this time.

FLEXCOMP PROGRAM

Mr. Collins reviewed with the Board the situations relating to the transition to ADP. Staff continues to meet with ADP on process improvements and they will be coming before the Board at the February or March meeting to review their plan and progress to date. Also reviewed were the flex comp participation statistics.

PERS ADMINISTRATION

Mr. Collins reviewed with the Board information relating to the NDPERS organization.

Ms. Schiermeister reviewed the PERSLink business system challenges with the Board. She indicated there have been many accomplishments and efforts since go live in 2010, some of these have resulted in challenges for PERSLink. These include: the backlog of changes (warranty and framework upgrade); new enhancements/changes lead to more improvements; system performance issues; and user confidence relating to both PERS staff and participating employers. She indicated staff has been working closely with the vendor Sagitec on these issues and they have been very responsive. Issues have been escalated however we just do not seem to be getting ahead with our backlog of required system changes. Sagitec has indicated they will make additional efforts to review and fix the needed changes and they were asked to assess this situation. She explained that we currently contract with Sagitec for production support on a fixed fee basis for a specified number of hours of service.

The analysis of these issues conducted by Sagitec indicated that there is a high volume of enhancements in a short period of time which has restricted the amount of time available to review and test as thoroughly as possible. The impact analysis and testing have not been adequate to identify and prevent these issues resulting in new challenges, and team size is inadequate to manage the workload. Ms. Schiermeister reviewed the next steps to resolving the PERSLink issues. The areas PERS will be working on will be revamping the Employer Self Service portal which has never been very user friendly. Usability testing will be performed as was done with the Member Self Service portal. Sagitec indicated they will provide an additional team of three developers and one business analyst to work on the backlog with this effort to take approximately eight months at an approximate cost of $244,000. There is an advantage to do this now rather than wait until next biennium as PERS will have access to the same development team.

Mr. Collins reviewed with the Board ideas and future vision relating to redesign of the PERS website and external communications. It is recommended to modernize and enhance the site's look, feel and organization to ensure our members and employers find the information they seek and can easily conduct business with PERS. Members actively use social media and mobile devices. Mr. Collins reviewed the timeline for this project as well as possible budget requirements. The potential cost could be approximately $123,000.

The Board discussed the idea of issuing iPads or some other electronic device for the Board, thus eliminating the Board materials in paper format. Besides the Board materials, other information such as the actuarial valuations, audit, CAFR could be downloaded to the device for Board reference.

Mr. Collins presented information to the Board relating to the compression and equity issues that have arisen with the PERS staff as a result of implementing the Hay Group salary ranges in 2012. The Board noted that all agencies have similar issues relating to salaries, but the comp ratio is among the lowest in state government. Mr. Collins indicated as we plan for the next biennium, we develop and submit an equity package or go to the contingency fund in 2015-17 and prepare a statement of legislative intent.

Mr. Collins indicated that we will be bringing next biennium's budget to the Board in the future. It was also noted that staff is considering a request for approval to hire a Content Coordinator for the agency.

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

- Staff should present a plan for the Board to review and determine what additional resources will be necessary to resolve the problem areas in the PERSLink business system, either utilizing the contingency for 2013-15 or to include this effort in the 2015-17 budget request.
- Staff should present a website redesign initiative (content management) plan for the Board to review with possible considerations to utilize outside consulting and development resources.
- Staff should present a plan for the Board review to determine the feasibility of obtaining electronic devices to utilize for the Board materials.
- Staff should present a plan for an equity package, either utilizing contingency funds or presentation to the legislature for 2015-17. The Board requested information relating to the staff's years of service and the comp ratio.
- Staff should present any additional new staffing requests such as a Content Coordinator type position to the March or April Board meetings for consideration.

Chairman Strinden thanked Mr. Collins and staff for their efforts in preparing the information for this Board planning meeting. Chairman Strinden called for any other business or comments. Hearing none, the meeting adjourned at 2:10 p.m.

Prepared by,

Cheryl Stockert
Assistant to the Board