Perspectives

FOR ACTIVE MEMBERS OF THE NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

FALL 2010 • VOLUME 32, NUMBER 2

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This newsletter is published by the North Dakota Public Employees Retirement System
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PERS Retirement Plan Financial Update Part 3

This is installment three of a series of educational updates that are intended to keep you informed about the financial status of the NDPERS retirement system. This series addresses the current status and future funding issues confronting the plan since the downturn in the financial markets that resulted in a negative 24.5% return for fiscal year ending June 30, 2009. This article will address the challenges we face as we assess the future funded status of the retirement system, the effect of various benefit reductions, the options under consideration and the PERS Board's proposal to address the issue through legislation.

The graph on page 5 shows the funded ratio of the system on the left ranging from 0 to 100% and the bottom shows the years going forward. The funded ratio is the comparison of plan assets to the actuarial accrued value of assets. As an example, if the plan assets are $10.00 and the accrued value is $10.00, the plan would be 100% funded. If the plan assets are $5.00 and the accrued value is $10.00 the plan would be 50% funded. The lines show what the trend would be at various return levels for the year ending June 30, 2010 and if we had 8% returns every year thereafter. At this time, we know that the return for the fiscal year ending June 30 is approximately 13.5%, which is closest to the 16% return estimate.

Starting in the upper left hand and selecting one of the assumed investment returns listed on the right, you can see that the funded status of the plan will deteriorate over time. The challenge we face is how to reverse this trend.

In addition, according to the results of our recent experience study, two plan assumptions based on mortality and salary are trending higher than assumed. The good news is we are living longer and salaries are rising at a higher rate than projected. However, these two factors will result in an increase in plan costs since we must recognize that pension payments will be paid out over a longer period of time, and, because salary is one of the factors used to calculate pension benefits, higher salaries means a higher average salary, and thus a higher benefit. This increase in assumptions will accelerate the downward trend.

A study of the Judges', Highway Patrol, Law Enforcement and Defined Contribution plans indicate the same challenges as those for the Main Retirement System.

The Board focused on three areas to address the funding status of the plans; benefit reductions, investment returns, and change in contribution rates.

Benefit Reductions

The following benefit reductions were modeled and the effects reviewed if they were to be applied (1) prospectively, to only new members joining the system after a specific date, and (2) to all members in the system as of a specific date:

- Change Rule of 85 to Rule of 90
- Reduce multiplier from 2.0% to 1.9%
- Eliminate PEP
- Change crediting rate from 7.5% to 5.0%
- No more service purchases
- Increase vesting from 3 years to 5 years

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FlexComp Plan Amended

The FlexComp plan has been amended to include two new requirements contained in the Patient Protection and Affordable Care Act (PPACA). The following is a summary of the two provisions:

• Dependent eligibility rules for employees participating in a medical spending account have been extended to allow you to cover your adult children that no longer meet the requirements of dependent. The extension of coverage applies to your son, daughter, stepson, stepdaughter, legally adopted and eligible foster children. It is not necessary that your child be a student, be financially supported by you, or that he or she reside with you. Both married and unmarried children can now qualify as a dependent, but coverage does not extend to any spouse of your child or to grandchildren. You may now be reimbursed for qualified health care expenses for these individuals through age 26. Eligibility ceases January 1st of the calendar year in which the family member will turn age 27.

• Currently over-the-counter (OTC) drugs and medicines are eligible for reimbursement. Effective January 1, 2011, OTC drugs/medicines will not be reimbursable as a health care expense unless the participant, spouse or dependent child has a prescription for the OTC drug/medicine.

More information on both of the above will be included with the annual enrollment materials that will be distributed in late October.

Deferred Compensation Companion & Defined Contribution Plans

Fund Changes

Effective on August 30, 2010, 7 new investment options were added to the Mutual Fund Window available through Fidelity Investments.

USAA Cornerstone Strategy Fund (USCRX)
USAA GNMA Trust (USGNX)
USAA Growth Fund (USAAX)
USAA Income Fund (USAIX)
USAA Income Stock Fund (USISX)
USAA Nasdaq-100 Index Fund (USNQX)
USAA World Growth Fund (USAWX)

To request changes to your account, obtain additional information, or if you have any questions, log on to Fidelity NetBenefits® at www.fidelity.com/atwork or call Fidelity Investments toll-free at 1-800-343-0860, Monday through Friday (excluding New York Stock Exchange holidays) between 7:00 am and 11:00 pm Central Time to speak with a Customer Service Associate.

Funds Removed From Watch List
The Fidelity Dividend Growth (FDGFX) and Fidelity Blue Chip Growth (FBGRX) have been removed from‘Under Review’ status. Both of these funds have been on watch for the past three years, but performed well the last year and now have returns above their benchmarks and peer funds across all time periods.

Board Selects BCBS

At its September meeting, the NDPERS Board selected Blue Cross Blue Shield of North Dakota to continue to underwrite the Dakota and Dakota Retiree group health insurance plans. The term of the contract will be from July 1, 2011 through June 30, 2013.

New Vision Plan Carrier Chosen

Earlier this year, NDPERS went out to bid for its voluntary vision plan. We received bids from the following companies:

- **Ameritas (incumbent)**
- **Avesis**
- **Superior Vision**

At its September meeting, the NDPERS Board selected Superior Vision as our new carrier. The Superior plan combines the features of a PPO network and out-of-network benefit option. If you use in-network providers, you will have a higher benefit. The following is a comparison of the current premiums to the premiums that will be in effect January 1, 2011 for the new Superior Vision plan:

	Current	**Superior 1/1/2011**
Employee	$ 5.16	$ 4.92
Employee + spouse	$10.32	$ 9.84
Employee plus child(ren)	$ 9.40	$ 8.96
Employee + family	$14.56	$13.88

Details about the plan and will be distributed in conjunction with our annual open enrollment materials and will also be posted on our web site by October 18th. If you are currently enrolled in the Ameritas vision plan, you will be sent information about the Superior plan and the procedures required to change your coverage to the new carrier.

The vision plan is available to employees of state agencies, the university system, and district health units. It is not available to participating political subdivisions.

AccordantCare Program

Blue Cross Blue Shield of North Dakota (BCBSND) has a new service available to active and retired members and their eligible dependents that participate in the NDPERS group health plan. The program is called Blue Cross Blue Shield of North Dakota AccordantCare™ and is a valuable service that provides members with chronic conditions a personal health care support system. It is made available through Accordant Health Services, a CVS Caremark company that pioneered health management and provides specialized education and support to members with the following conditions:

Seizure Disorders	Rheumatoid Arthritis	Multiple Sclerosis
Crohn's Disease	Parkinson's Disease	Myasthenia Gravis
Sickle Cell Disease	Cystic Fibrosis	Hemophilia
Scleroderma	Polymyositis	Gaucher Disease
Systemic Lupus Erythematosus (SLE)		Dermatomyositis
Amyotrophic Lateral Sclerosis (ALS)		
Chronic Inflammatory Demyelinating Polyradiculoneuropathy (CIDP)		

If you are eligible for the program, you will have the services of a nurse case manager from Accordant that will work with your physicians and other members of your health care team to support your treatment plan. In addition to health management services, and depending on your specific health care needs, a nurse case manager will also be available to assist you in the coordination of your care by working with you, any family members you designate, your doctors, and health plan in an effort to obtain the best possible care in the most efficient manner. The nurses do ongoing risk assessments quarterly or as needed. Some of the key factors of the program include:

- This program is effective 08/01/2010.
- Letters are sent to you and your provider.
- No additional cost to the member.
- It's your own personal health care support system.
- You may opt out of the program at your discretion.

Specially trained Accordant nurses are available 24-hours a day, 7 days a week, to answer your questions.

If you or any family members are interested in the program, you may call toll free at 1-866-398-8762, (TDDL 1-800-735-2962), and ask to speak to a nurse. You can also go to Accordant's web site at www.accordant.com to enroll for the service.

Dental Plan Renewed for 2011

The NDPERS Board has approved the renewal of the group dental plan through CIGNA. The renewal was for a 6% across the board increase in premiums. The following are the new premiums that will be effective January 1, 2011:

Individual Only	$37.56	$39.82
Individual and Spouse	$72.50	$76.88
Individual and Child(ren)	$84.14	$89.22
Family	$119.08	$127.04

Seasonal Flu Vaccine Coverage

The NDPERS health insurance plan covers the cost of a seasonal flu vaccine.

For active employees and non-Medicare retirees, the administration and single dose of the vaccine is covered under your benefit plan at 100% and the deductible is waived. If an office visit is billed, it will be subject to your office visit copay.

For the least out-of pocket expense, you can receive your immunization through schools or community health centers who do not generally charge for an office visit. If you go to a clinic, ask if you can bypass an office visit and just be immunized.

Coverage under Medicare Part B: Medicare Part B will pay 100% of the cost for a single dose of the seasonal flu vaccine and its administration.

For more information, visit the CDC website at http://www.cdc.gov/flu/protect/keyfacts.htm or call 1-800-CDC-INFO (800-232-4636, TTY: (888)232-6348, 24-hours a day, 7 days a week. For information regarding coverage or claims processing, please contact BCBS at (800)223-1704.

Confidentiality Law

When you call NDPERS for personal information about your benefit accounts, you are subjected to a series of questions to verify that you are a member. Because NDPERS records are confidential and not public records, staff may only disclose information to the member or under the following circumstances:

- A person to whom a member/beneficiary has given written consent.
- A person legally representing the member/beneficiary upon proper proof of representation, unless member/beneficiary withholds consent.
- A person authorized by court order.
- A member's spouse or former spouse, that individual's legal representative, and the judge presiding over the member's dissolution of marriage proceedings for the purpose of drafting a Qualified Domestics Relations Order (QDRO).
- A member's participating employer's authorized agent, under limited circumstances.
- A member's designated beneficiaries after the member's death. Information relating to beneficiaries may be disclosed to other beneficiaries of the same member.
- The general public, but only after the board has been unable to locate the member for a period in excess of two years, and limited to the member's name and the fact that NDPERS has been unable to locate the member.
- Any person whom the NDPERS board determines disclosure is necessary for treatment, operational, or payment purposes, including the completion of necessary documents.

Staff must be very diligent in protecting the confidentiality of our member records. A penalty for disclosure of confidential information is a Class C felony, which includes a five-(5) year prison term and a $5,000 fine (N.D.C.C. 12.1-13-01).

New Business System to be Launched

In October 2007, NDPERS began its work on replacing our current business system with a new system – PERSLink – "Your Online Guide to Benefits Administered by NDPERS." Our new system will include functionality for each of the plans administered by NDPERS and will include web-enabled, self-service functionality for members, retirees, beneficiaries and employers. The new systemis scheduled for implementation October 4, 2010.

One of the features of our new system will be the ability to assign each member a unique NDPERS Member ID. This ID will be the primary identifier to access your personal and confidential information. As a member, all documents you receive from NDPERS in the future will have this unique Member ID. Later this month, you will be receiving a letter from NDPERS providing you with your NDPERS Member ID.

You will be using your Member ID for accessing your account via web self-service, telephone, or written communication. Web self-service will be available in the first quarter of 2011. You will be notified when this service becomes available.

We have been told by other retirement systems who have implemented a new computer system to expect an initial drop in our productivity as the NDPERS staff becomes familiar with how to do our work on the new system. Once we have overcome that learning curve, we feel confident that we will be able to serve you more efficiently. We ask for your patience during this learning period.

Generic Drugs are Worth Talking About

What is a generic drug? How are they made? Do I have a choice? Why do they cost so much less than brand-name drugs?

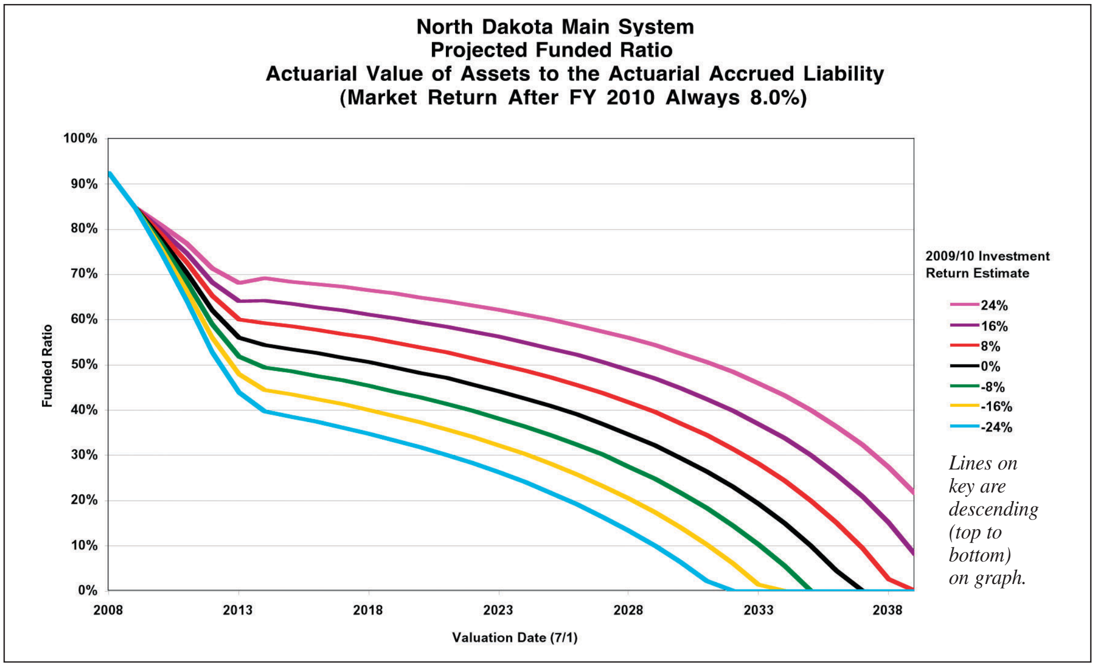
These are all good questions to ask. Generic drugs are worth talking about. They deliver a better value than brand-name drugs because they work the same but cost less.

Even though generic drugs may look different from brand-name drugs in color, size or shape, the U.S. Food and Drug Administration (FDA) strictly requires that the active ingredients in generic drugs are the same as in their brand-name counterparts. What this means is that generic drugs deliver the same quality, strength, purity and stability as brand-name drugs – you're just not paying for expensive marketing and research that went into the creation and advertising of the brand-name drug.

Generic drugs are widely available and more generics will continue to be introduced. The FDA's Orange Book of approved drug products lists more than 11,000 drugs; over 8,700 of them have generic equivalents.

Most common medical conditions have several effective drug treatment options. Drugs that work in a similar manner to treat a specific condition are grouped into a drug class. A drug class can include brand-name drugs and generic drugs. Even though not all brand-name drugs have a generic equivalent, there may be a generic therapeutic alternative available. You'll have to talk with your doctor to determine what would work best for you.

To learn more about generics, log on to MyPrime.com. Once you're logged in, you'll be able to compare costs of brand-name and generic drugs for your conditions that are available under your specific health plan.



• Eliminate retiree health credit (divert Normal Cost contributions to pension plan)

In both scenarios, the downward trend was not reversed, the plan was not stabilized, nor did it put the plan on the path to a 100% funded status.

We also modeled the following benefit changes:
• Eliminate the Rule of 85.
• All members would work to age 65 to get full retirement benefits, and
• Reduce benefits going forward by 25%.

The above scenario would not reverse the trend, but, when combined with the previous list of benefit reductions, the plan could be stabilized; however, only if these changes were applied to all plan members. The Board assessed the legal ramifications of making such broad comprehensive benefit changes. Our legal counsel indicated that generally, the more comprehensive and dramatic the benefit changes, the greater the legal considerations.

Investment Returns
The potential of investment returns for recovery was considered. It was projected that it would require returns of 11% to 12% over a 20-year period to get back to a 100% funded status. Historically, since the plan's inception, returns have averaged 8 1/2%, therefore, investment returns cannot be relied on to stabilize the plan.

Contribution Rates
Increasing the contributions by various percentages was also reviewed. The results indicated that an increase of 8% did affect the downward trend and would return the plans to 100% funded status over approximately 30 years.

Based on the outcome of the studies on benefit reductions, investment returns and contribution rates, the Board focused on contributions as the option that would meet all the objectives and put the plans back on a positive course towards a 100% funded status.

In March, the Board submitted three bill drafts to the Legislative Employee Benefits Committee (LEBC) proposing an 8% increase in contributions and three funding scenarios. The following is a summary of these bills:

LC #51: An 8% increase in employee contributions phased in over 4 years at 2% each year beginning in January of 2012 and ending in January of 2015. The bill provides that the employee contribution increase would be pre-taxed pursuant to section 404(h).

LC #52: An 8% increase in employer contributions phased in over 4 years at 2% each year beginning in January of 2012 and ending in January of 2015.

LC #53: A 4% increase in employee contributions and a 4% increase in employer contributions phased in over 4 years with a 1% increase for the employer and employee beginning in January of 2012 and ending in January of 2015. Similar to #51, the state employee contribution increase would be pre-taxed pursuant to section 404(h).

The above bills have been submitted on behalf of the Main, Judges, Highway Patrol, and Defined Contribution retirement systems. The Law Enforcement plan has the same bill proposals; however, the percent increase is for 4%. The bills can be viewed in their entirety on our web site at www.nd.gov/ndpers under the Proposed Legislation icon.

For further information, we have the following video presentations available on our web site:

Retirement Plan Update Webcast
• Part One: The Challenge
• Part Two: The Considerations
• Part Three: Experience Study & Considerations
Proposed Legislation

We encourage you to view the webcasts for a more detailed explanation of the PERS retirement system funds. Each presentation is approximately 15 minutes in duration and requires Windows Media Player.® This site will be updated as additional information becomes available.

Deferred Compensation Plan Amendments

The Deferred Compensation Plan documents have been amended in order to incorporate the provisions of the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA), the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART), and the Pension Protection Act (PPA) of 2006.

Following is a summary of the requirements of each act:
WRERA – The Act suspends the required minimum distribution (RMD) from retirement accounts in 2009 and waives the penalty.

HEART Act – Applies to 457(b) accounts and provides that an individual shall be treated as having severed employment while in USERRA covered service and, therefore, may take a distribution from the plan.

PPA of 2006 – This is a required change and it allows a direct rollover of a 457(b) deferred compensation account to a Roth IRA.

Loss of Provider Status for 457 Provider – Symetra

Effective August 1, 2010, Symetra is no longer an authorized provider for the NDPERS 457 Deferred Compensation Plan. This was approved by the NDPERS Board at its April meeting and was the result of Symetra not complying with plan requirements and not responding to related requests for corrective action. The Board applied a "loss of provider status" which prohibits Symetra from enrolling any new participants and from accepting any further contributions from existing members. Participants have the option to rollover any account balance with Symetra to one of the other eligible providers for the deferred compensation plan. Any questions may be directed to the NDPERS office.

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