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October 23, 2012

Mr. Sparb Collins
Executive Director
State of North Dakota Public Employees' Retirement System
400 East Broadway, Suite 505
P.O. Box 1657
Bismarck, ND 58502

Re: **Technical Comments – Bill Draft No. 13.0103.02000**

Dear Sparb:

The following presents our analysis of the proposed changes found in draft Bill No. 13.0103.02000:

Systems Affected: North Dakota Public Employees Retirement System (PERS) Hybrid Plan, Defined Contribution Plan and Highway Patrol Retirement System (HPRS)

Summary: The proposed legislation would increase both the employer contribution rates and the member contribution rates that are mandated by statute in the HPRS, Hybrid Plan (Main and Judges only) and Defined Contribution Plan by 1% of the member's monthly salary beginning January 2014, plus an additional increase in both employer and member contribution rates of 1% of the member's monthly salary beginning January 2015. The bill would also increase member contribution rates for the following groups:

- Peace officers and correctional officers in the Hybrid Plan employed by political subdivisions, for which only member contributions would increase 0.5% annually, instead of 1%, over the same time period. While not part of the Draft Bill, we have assumed the employer increases will be identical to the member increases as approved by the PERS board; and

- Peace officers in the Hybrid Plan employed by the State Bureau of Criminal Investigation, for which only member contributions would increase 1.0% annually over the same time period. While not part of the Draft Bill, we have assumed the employer increases will be identical to the member increases as approved by the PERS board; and

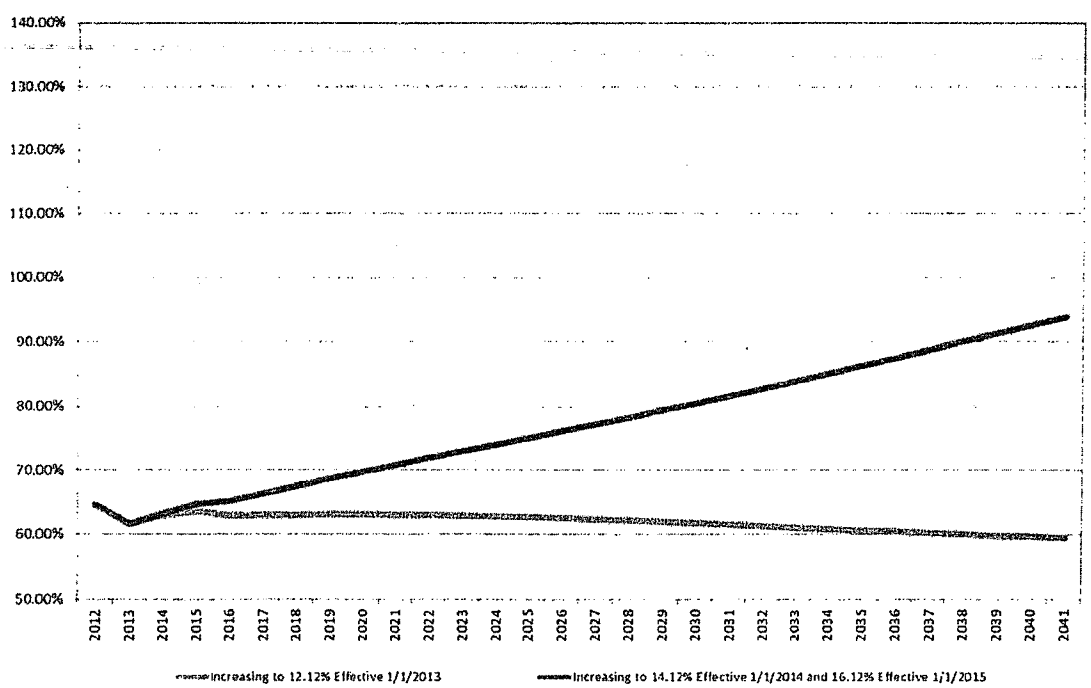
- National Guard, for which only member contributions would increase 0.5%, instead of 1%, over the same time period. While not part of the Draft Bill, we have assumed the employer increases will be identical to the member increases as approved by the PERS board; and

- Temporary employees in the Hybrid Plan and Defined Contribution Plan, for which the member contribution rate would increase by 2% annually, instead of 1%, over the same period.

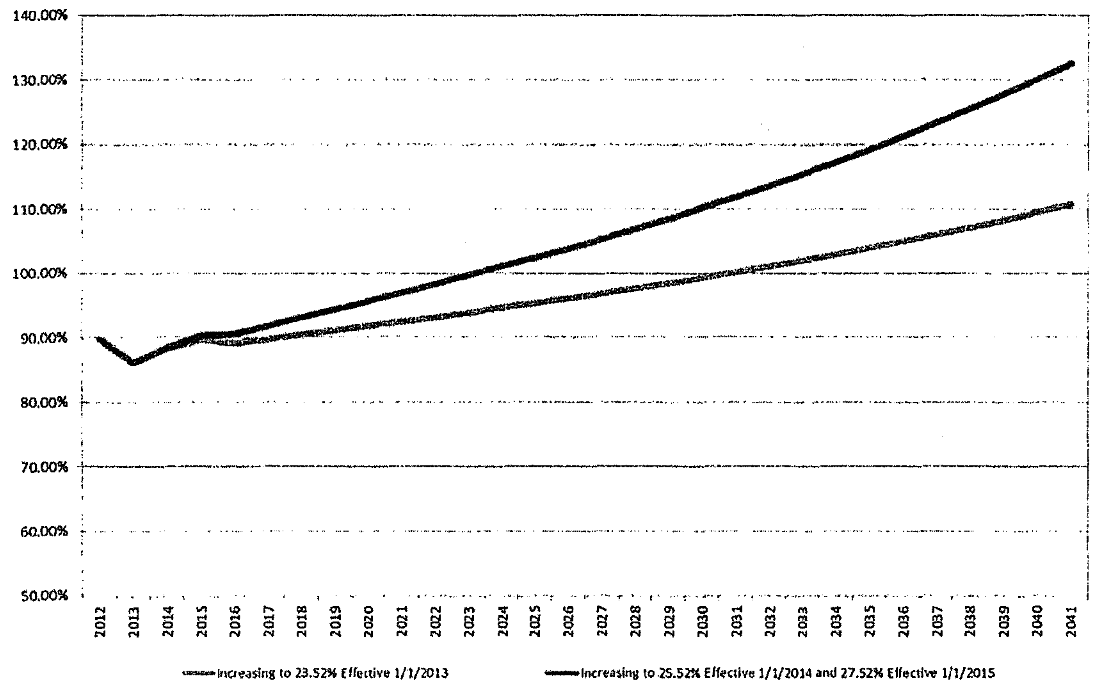
Actuarial Cost Analysis: This bill would not have a material actuarial impact on the liabilities of either the Hybrid Plan or Highway Patrolmen's Retirement System. The bill would positively affect the current funding levels of both Systems, as follows:

The Actuarial Value of Assets is compared to the Actuarial Accrued Liability for the Main, Judges, Law Enforcement with Prior Service, Law Enforcement without Prior Service, National Guard, and Highway Patrol groups in the graphs below for the currently scheduled increases (green line) and the proposed increases (blue line). We have assumed an 8% market value return for all years.

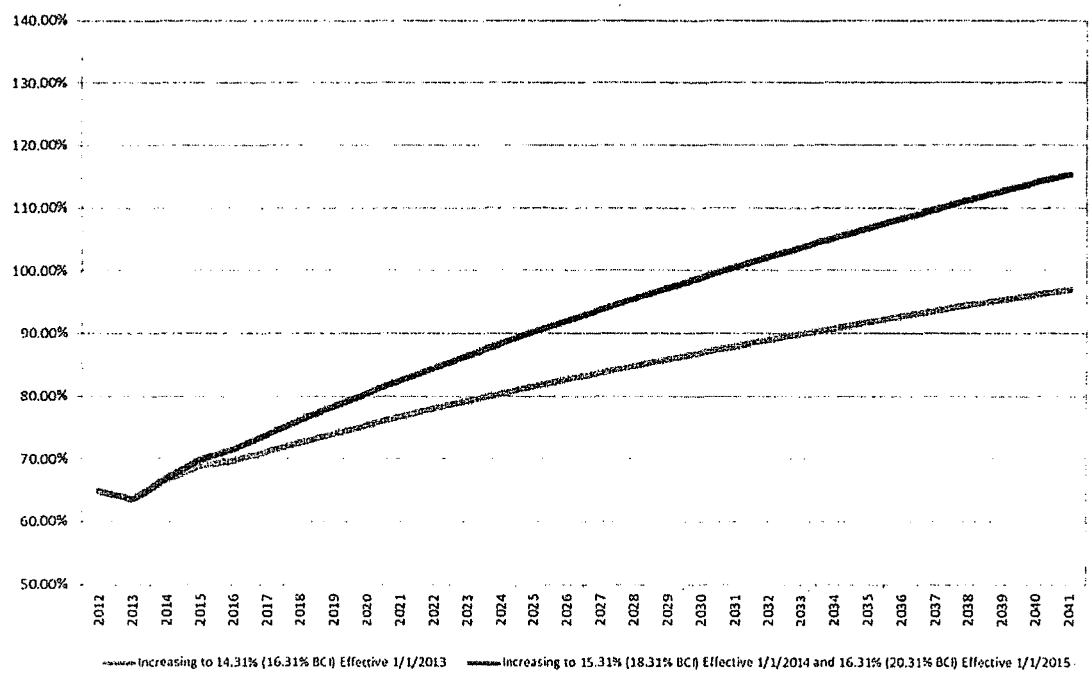
Main System



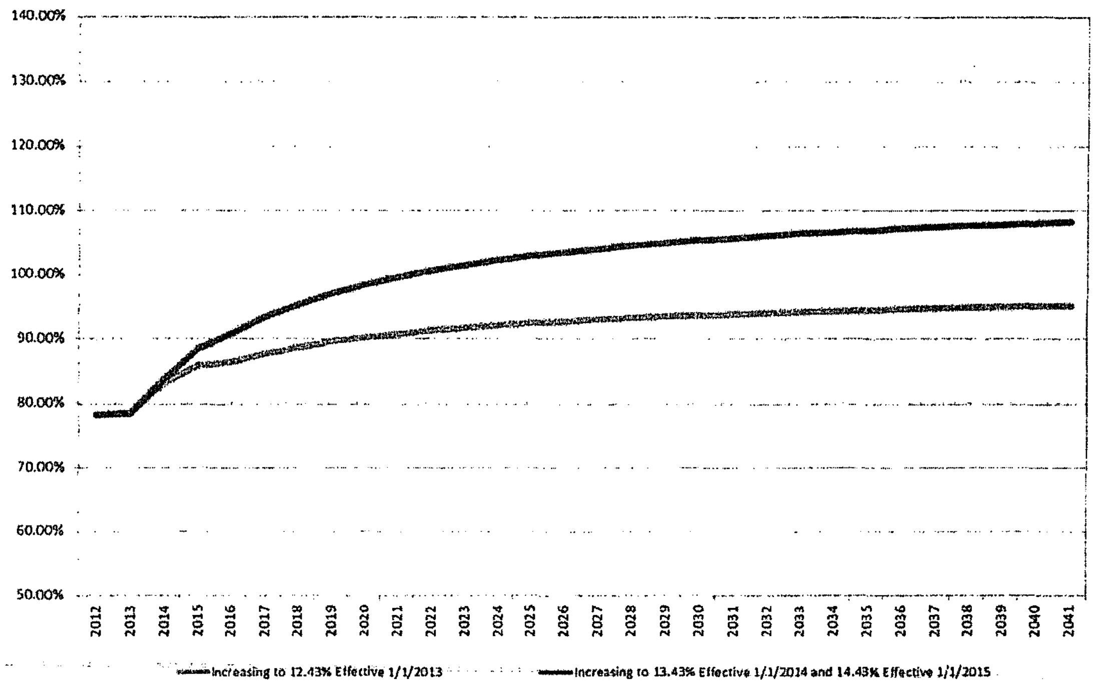
Judges System



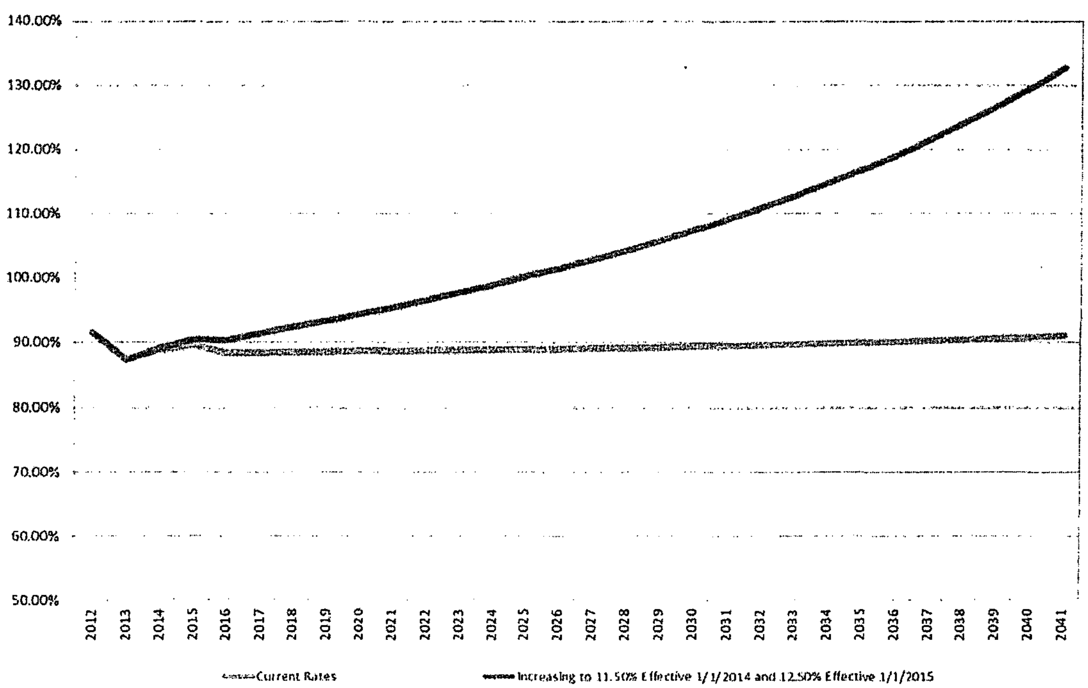
Law Enforcement (with Prior Service) System



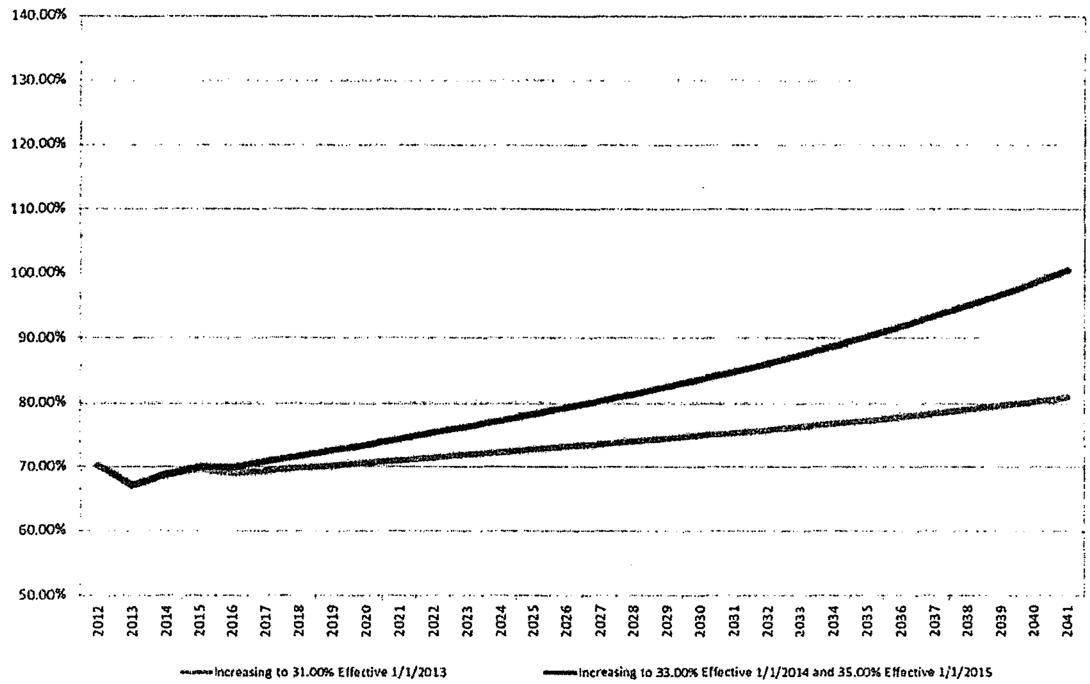
Law Enforcement (without Prior Service) System



National Guard System



Highway Patrol System



Technical Comments: Our comments on the bill are as follows:

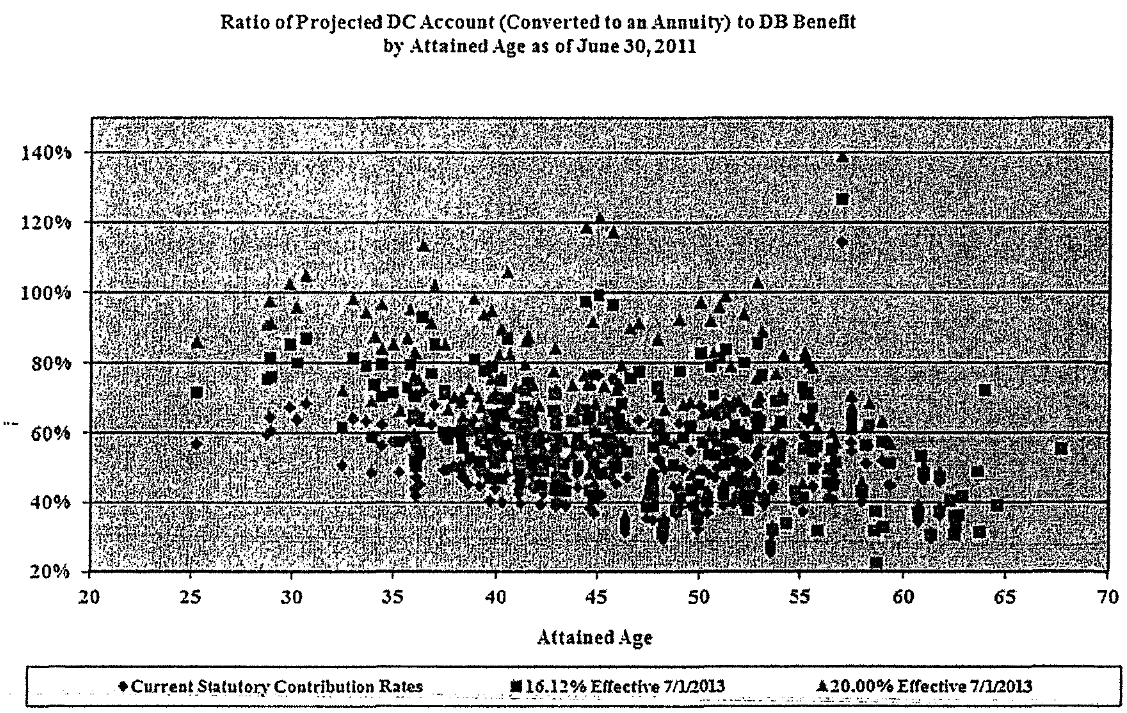
General

The bill would significantly increase funding to the Systems in the form of additional employer and member contributions.

Benefits Policy Issues

> Adequacy of Retirement Benefits

No impact on the defined benefit plans. The additional contributions to the Defined Contribution Plan will provide additional retirement income. A previous analysis of the Defined Contribution Plan indicated that an increase to the future contribution rate of 16.12% effective July 1, 2013 would increase the number of participants receiving 50% or more of the comparable Hybrid Plan benefit from 45% to 68%. The annual increases proposed in this Bill would be expected to have a similar impact. The table below shows the comparison of the DC and DB benefits by age under current schedule of contribution rates as well as future increases to 16.12% and 20.00% starting July 1, 2013.



> Benefits Equity and Group Integrity

To the extent increased member contributions reduce take-home pay of members, this bill may create salary inequity between peace officers/correctional officers employed by political subdivisions (0.5% annual increase) and peace officers employed by the State Bureau of Criminal Investigation, as well as other employees of political subdivisions, (1.0% annual increase). Future amendments to the legislation would be needed to increase contribution requirements for National Guard security officers or firefighters.

> Competitiveness

To the extent increased member contributions reduce the take-home pay of members without a resulting increase in pension benefits, this bill may diminish the total compensation package offered by participating employers in the Systems.

> Purchasing Power Retention

No impact.

> Preservation of Benefits

Increased funding to the Systems in the form of additional employer and member contributions provides additional funds to pay down the unfunded actuarial accrued liability of the Systems at a faster rate. By setting up this additional funding mechanism it will help preserve the value of benefits from the Systems for several years.

➢ Portability

The additional member contributions to the Defined Contribution plan would be fully portable as are the existing member contributions.

➢ Ancillary Benefits

- No impact.
- Social Security: No impact.

Funding Policy Issues

➢ Actuarial Impacts

As previously noted, the bill will have a positive actuarial impact on the Hybrid Plan and the HPRS.

➢ Investment Impacts

- Cash Flow: The bill would have a substantial, positive impact on cash flow.
- Asset Allocation: The bill does not create new investment asset allocation issues.

Administration Issues

➢ Implementation Issues

While this bill would have minimal impact on administrative costs of the PERS, it would have an effect on the members and participating employers, since their required contributions would increase substantially.

In addition, pursuant to rules under Internal Revenue Code section 414(h), participating employers (including the State) would be required to take formal, written action to elect to pick up the increased member contribution amounts for 2014 and 2015, in order for such contributions to be made on a pre-tax basis.

➢ Administrative Costs

No impact.

➢ Needed Authority

The bill appears to provide appropriate levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

➢ Integration

No impact.

> Employee Communications

Employee communications will be necessary to describe the impact of increased member contributions on employee pay.

> Miscellaneous and Drafting Issues

Since this bill would increase member contribution rates, participating employers (including the State) would need to determine whether they can pay for the increased member contributions from their own funds as a salary supplement or would reduce members' current or future salary, while also paying an increased employer contribution rate. Any participating employer that decides to reduce members' salary to pay for the increased level of member contributions must pay and report FICA taxes on the member contribution amounts made via salary reduction.

The projections were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2012 and asset returns through July 1, 2012 and use assumptions adopted by the Board for the July 1, 2012 valuation. Calculations were completed under the supervision of Tammy Dixon, FSA, MAAA, EA.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. 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.

The information contained in this letter is provided within our role as the plan's actuary and benefits consultant and is not intended to provide tax or legal advice. We recommend that you address all issues described herein with your legal counsel. Please call if you have any questions or comments.

Sincerely,

Brad Ramirez, FSA, MAAA, FCA, EA
Consulting Actuary

BZR/ht

cc: Tammy Dixon
Laura Mitchell
Melanie Walker

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