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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: **Revised Technical Comments – Bill Draft No. 13.0102.02000**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 13.0102.02000:

Systems Affected: Retiree Health Insurance Credit Fund (RHIC)

Summary: The proposed legislation would:

- Eliminate coverage under the uniform group insurance program for employees who first retire after July 1, 2015 and are not eligible for Medicare upon retirement;
- Expand the permissible types of benefit payments from retiree health insurance credits to include contributions towards hospital and medical benefits and prescription drug coverage under any health insurance program; and
- Expand the permissible types of benefit payments from retiree health insurance credits to include contributions towards dental, vision and long-term care benefits coverage under the uniform group insurance program.

Actuarial Cost Analysis:

This bill would have an actuarial cost impact on the Retiree Health Insurance Credit Fund, as outlined below.

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

General

The purpose of the bill is to allow credits to be used for additional benefits or services for all retirees, and to close the uniform group insurance program to new, pre-Medicare retirees.

Benefits Policy Issues

- Adequacy of Retirement Benefits

  The bill would have no direct impact on retirement benefits. However, the bill would indirectly affect any retirement benefits for members by eliminating the availability of subsidized health coverage for pre-Medicare retirees who first retire after July 1, 2015, and therefore would likely increase the cost of retiree health benefits for those retirees.

- Benefits Equity and Group Integrity

  The bill would reduce the benefits equity of uniform group insurance coverage for new pre-Medicare retirees as compared to current State retirees.

- Competitiveness

  No impact.

- Purchasing Power Retention

  No impact.

- Preservation of Benefits

  New pre-Medicare retirees will not be eligible to receive health insurance coverage under the State's uniform group insurance program, but rather must find health care coverage after retirement from another source (e.g., under a state health care exchange).

- Portability

  No impact.

- Ancillary Benefits

  No impact.

Funding Policy Issues

> Actuarial Impacts

Since the bill would allow for additional coverage for current members, we have estimated the additional contribution requirement that would result. Since the bill would expand the allowable use of benefit credits, the participation in the plan would be expected to increase. In fact, it is likely that most, if not all, of participants would elect to participate.

To estimate this effect, we calculated the actuarial contribution requirement reflecting the additional eligibility. The assumptions used were those adopted by the Board for Main members in the July 1, 2011 valuation of the Retiree Health Insurance Credit Fund, except as follows:

- The participation assumption was increased to 100% for all members.

We applied the same increases to the July 1, 2012 valuation results. Under these assumptions, and based upon the 18-year amortization policy of the Retiree Health Insurance Credit Fund, the required annual contribution would be approximately $9.0 million, which is approximately 1.09% of payroll of all active members in the Retiree Health Insurance Credit Fund. This represents an increase of approximately 0.19% of payroll over the current actuarial rate of 0.90%. This is based on the projected annual payroll for the Main System from the July 1, 2011 valuation of $824,855,281. Based upon the current statutory rate of 1.14% of covered payroll, current contribution levels would be sufficient to meet the required annual contribution.

Please note that the change under the bill would take place on July 1, 2015. The cost increase calculated above would be expected to take effect on that date.

> Investment Impacts

- *Asset Allocation:* The bill would not create new investment asset allocation issues.
- *Cash Flow Impacts:* The bill would have a moderate, negative impact on cash flow to the Retiree Health Insurance Credit Fund from increased benefit payouts.

Administration Issues

> Implementation Issues

No impact.

> Administrative Costs

The bill would have minimal effect on the PERS' administrative costs.

> Employee Communications

Employee communications will be necessary to describe the new covered services for current numbers and to notify future retirees that coverage under the Uniform Group Insurance Program is no longer available.

> Miscellaneous and Drafting Issues

None.

The calculations were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2012 provided by the system and as shown in the July 1, 2012 valuation. Calculations were completed under the supervision of Tammy Dixon, FSA, MAAA, EA.

Please call if you have any questions or comments.

Sincerely,

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

Cc: Tammy Dixon
Melanie Walker
Laura Mitchell

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