EMPLOYEE BENEFITS PROGRAMS COMMITTEE

The Employee Benefits Programs Committee has statutory jurisdiction over legislative measures that affect retirement, health insurance, and retiree health insurance programs of public employees. Under North Dakota Century Code Section 54-35-02.4, the committee is required to consider and report on legislative measures and proposals over which it takes jurisdiction and which affect, actuarially or otherwise, retirement programs and health and retiree health plans of public employees. Section 54-35-02.4 also requires the committee take jurisdiction over any measure or proposal that authorizes an automatic increase or other change in benefits beyond the ensuing biennium which would not require legislative approval and to include in the report of the committee a statement that the proposal would allow future changes without legislative involvement.

The committee is allowed to solicit draft measures from interested persons during the interim and is required to make a thorough review of any measure or proposal it takes under its jurisdiction, including an actuarial review. A copy of the committee's report must accompany any measure or amendment affecting a public employee's retirement program, health plan, or retiree health plan which is introduced during a legislative session. The statute provides any legislation enacted in contravention of these requirements is invalid, and benefits provided under that legislation must be reduced to the level in effect before enactment.

Section 15-39.1-05.2 directs the Board of Trustees of the Teachers' Fund for Retirement (Board of Trustees) to report to the committee any necessary or desirable statutory changes relating to the Teachers' Fund for Retirement (TFFR), Section 15-39.1-35 requires the committee to approve terminology adopted by the Public Employees Retirement System Retirement Board (Retirement Board) for TFFR provisions to comply with applicable federal statutes or rules, Section 15-39.1-10.11 requires the Board of Trustees to provide to the committee an annual report regarding the annual actuarial test of the contribution rate for TFFR, Section 18-11-15 requires the committee to receive notice from firefighters relief associations concerning service benefits paid under a special schedule, and Sections 39-03.1-29, 54-52-23, and 54-52.1-08.2 require the committee to approve terminology adopted by the Retirement Board to comply with federal requirements.

The Legislative Management assigned the committee the responsibility under Section 54-06-31 to receive periodic reports from the Office of Management and Budget (OMB) Human Resource Management Services (HRMS) on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions.

The Legislative Management assigned the committee the responsibility under Section 54-06-32 to receive a biennial report from OMB summarizing reports of state agencies providing service awards to employees in the classified service.

The Legislative Management assigned the committee the responsibility under Section 54-06-33 to receive a biennial report from OMB summarizing reports of state agencies providing employer-paid costs of training or educational courses to employees in the classified service.

The Legislative Management assigned the committee the responsibility under Section 54-06-34 to receive a biennial report from OMB summarizing reports of executive branch state agencies paying employee membership dues for professional organizations and membership dues for service clubs when required to do business or if the membership is primarily for the benefit of the state.

Committee members were Senators Dick Dever (Chairman), Spencer Berry, Ralph Kilzer, Karen K. Krebsbach, David O'Connell, and Connie Triplett and Representatives Randy Boehning, Roger Brabandt, Jason Dockter, Jessica Haak, Scott Louser, Kenton Onstad, and Don Vigesaa.

BACKGROUND

Teachers' Fund for Retirement

Former Chapter 15-39 established the teachers' insurance and retirement fund. This fund, the rights to which were preserved by Section 15-39.1-03, provides a fixed annuity for full-time teachers whose rights vested in the fund before July 1, 1971. The plan was repealed in 1971 when TFFR was established with the enactment of Chapter 15-39.1.

The Teachers' Fund for Retirement became effective July 1, 1971, and is governed by its Board of Trustees. The State Investment Board is responsible for the investment of the trust assets, although the Board of Trustees establishes the asset allocation policy. The Retirement and Investment Office is the administrative agency for TFFR. The Teachers' Fund for Retirement is a qualified governmental defined benefit retirement plan. For Governmental

Accounting Standards Board (GASB) purposes, TFFR is a cost-sharing, multiple-employer public employee retirement system.

All certified teachers of a public school in the state participate in TFFR, including teachers, supervisors, principals, and administrators. Noncertified employees, such as teachers' aides, janitors, secretaries, and drivers, are not allowed to participate in TFFR. Eligible employees become members on the date of employment.

Prior to July 1, 2012, all active members contributed 7.75 percent of salary per year to TFFR. The employer may "pick up" the member's contributions under the provisions of Internal Revenue Code Section 414(h). The member contribution rate was increased from 7.75 to 9.75 percent effective July 1, 2012, and increased to 11.75 percent effective July 1, 2014. The 4 percent added to the member contribution rate will remain in effect until TFFR is 100 percent funded on an actuarial basis. At that point, the member contribution rate will revert to 7.75 percent. The member's total earnings are used for salary purposes, including overtime, and including nontaxable wages under a Section 125 plan, but excluding certain extraordinary compensation, such as fringe benefits or unused sick or vacation leave.

The district or other employer that employs a member contributes a percentage of the member's salary. This percentage consists of a base percentage of 7.75 percent, plus additions. Effective July 1, 2008, the employer contribution rate became 8.25 percent; effective July 1, 2010, the employer contribution rate became 8.75 percent; effective July 1, 2012, the employer contribution rate became 10.75 percent; and effective July 1, 2014, the employer contribution rate became 12.75 percent. However, the employer contribution rate will revert to 7.75 percent when TFFR is 100 percent funded on an actuarial basis. The contribution rate will not automatically increase if the funded ratio later falls below 100 percent.

Employees receive credit for service while a member. A member also may purchase credit for certain periods, such as time spent teaching at a public school in another state, by paying the actuarially determined cost of the additional service. Special rules and limits govern the purchase of additional service.

Members who joined TFFR by June 30, 2008, are Tier 1 members, while members who join after that date are Tier 2 members. If a Tier 1 member terminates, takes a refund, and later rejoins TFFR after June 30, 2008, that member is in Tier 2. As of June 30, 2013, Tier 1 members who are at least age 55 and vested--three years of service--as of the effective date, or the sum of the member's age and service is at least 65, are considered grandfathered, and previous plan provisions will not change. Tier 1 members who do not fit these criteria as of June 30, 2013, are considered nongrandfathered. These members, along with Tier 2 members, will have new plan provisions.

Final average compensation, for purposes of determining retirement benefits, is the average of the member's highest three plan year salaries for Tier 1 members or five plan year salaries for Tier 2 members. Monthly benefits are based on one-twelfth of this amount. Tier 1 members are eligible for a normal service retirement benefit at age 65 with credit for three years of service, or if earlier, when the sum of the member's age and years of service is at least 85--the Rule of 85. Effective June 30, 2013, Tier 1 members who are at least age 55 and vested--three years of service--as of the effective date, or if the sum of the member's age and service is at least 65, are eligible for normal service retirement benefits and are grandfathered. Those who do not meet these criteria as of June 30, 2013, (nongrandfathered) may retire upon normal retirement on or after age 65 with credit for three years of service, or if earlier, when the sum of the member's age is at least 90, with a minimum age of 60. A Tier 2 member may retire upon normal retirement on or after age 65 with credit for five years of service, or if earlier, when the sum of the member's age and years of service is at least 90--the Rule of 90. Effective July 1, 2013, Tier 2 members may retire upon normal retirement on or after age 65 with credit for five years of service, or if earlier, when the sum of the member's age and service is at least 90, with the added requirement that the member has reached a minimum age of 60.

The monthly retirement benefit is 2 percent of final average compensation (monthly) times years of service. Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's contributions plus interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's beneficiary.

A Tier 1 member may retire early after reaching age 55 with credit for three years of service, while a Tier 2 member may retire early after reaching age 55 with credit for five years of service. In this event, the monthly benefit is 2 percent of final average compensation times years of service, multiplied by a factor that reduces the benefit 6 percent for each year from the earlier of age 65 or the age at which current service plus age equals 85 for Tier 1 members or 90 for Tier 2 members. Effective July 1, 2013, for members who are either nongrandfathered Tier 1 or Tier 2, the monthly benefit is 2 percent of final average compensation times years of service multiplied by a factor that reduces the benefit 8 percent for each year from the earlier of age 65 or the age at which current service plus age equals 90 with a minimum age of 60.

A member is eligible for disability retirement benefits provided the member has credit for at least one year of service. The monthly disability retirement benefit is 2 percent of final average compensation times years of service with a minimum 20 years' service. Effective July 1, 2013, the disability retirement benefit is 2 percent of final average compensation times years of service. The disability commences immediately upon the member's retirement. Benefits cease upon recovery or reemployment. Disability benefits are payable as a monthly life annuity with a guarantee that, at the member's death, the sum of the member's contributions plus interest as of the date of retirement that is in excess of the sum of payments already received will be paid in a lump sum to the member's beneficiary. All alternative forms of payment other than level income and partial lump sum option also are permitted in the case of disability retirement. For basis recovery only, disability benefits are converted to a normal retirement benefit when the member reaches normal retirement age or age 65, whichever is earlier. A Tier 1 member with at least three years of service or a Tier 2 member with at least five years of service, who does not withdraw the member's contributions from the fund, is eligible for a deferred termination benefit. The deferred termination benefit is a monthly benefit of 2 percent of final average compensation times years of service. The final average compensation and service are determined at the time the member leaves active employment. Benefits may commence unreduced at age 65 or when the sum of the member's age and service is 85 for grandfathered Tier 1 members or 90 with a minimum age of 60 for nongrandfathered Tier 1 and Tier 2 members. Reduced benefits may commence at or after age 55 if the member is not eligible for an unreduced benefit. A member who dies after leaving active service but before retiring is entitled to receive a death benefit.

A Tier 1 member leaving covered employment with fewer than three years of service and a Tier 2 member leaving covered employment with fewer than five years of service is eligible to withdraw or receive a refund benefit. Optionally, a vested member may withdraw the member's contributions plus interest in lieu of the deferred benefit otherwise due. A member who withdraws receives a lump sum payment of the member's employee contributions plus interest credited on these contributions. Interest is credited at 6 percent per year.

To receive a death benefit, death must occur while an active or an inactive, nonretired member. Upon the death of a nonvested member, a refund of the member's contributions and interest is paid. Upon the death of a vested member, the beneficiary may elect the refund benefit or a life annuity of the normal retirement benefit "popping-up" to the original life annuity based on final average compensation and service as of the date of death, but without applying any reduction for the member's age at death.

There are optional forms of payment available on an actuarially equivalent basis. These include a life annuity payable while either the participant or the participant's beneficiary is alive, "popping-up" to the original life annuity if the beneficiary predeceases the member; a life annuity payable to the member while both the member and beneficiary are alive, reducing to 50 percent of this amount if the member predeceases the beneficiary, and "popping-up" to the original life annuity if the beneficiary predeceases the member; a life annuity payable to the member, with a guarantee that, should the member die before receiving 60 payments, the payments will be continued to a beneficiary for the balance of the five-year period; a life annuity payable to the member with a guarantee that, should the member die before receiving 240 payments, the payments will be continued to a beneficiary for the balance of the 20-year period; a life annuity payable to the member, with a guarantee that, should the member die prior to receiving 120 payments, the payments will be continued to the beneficiary for the balance of the 10-year period; or a nonlevel annuity payable to the member, designed to provide a level total income when combined with the member's Social Security benefit. The option to receive a life annuity payable to the member with a guarantee that should the member die before receiving 60 payments, the payments will be continued to a beneficiary for the balance of the five-year period is not available to employees who retire after July 31, 2003. Retirees who elected this option before August 1, 2003, were unaffected. In addition, members may elect a partial lump sum option at retirement. Under this option, a member receives an immediate lump sum equal to 12 times the monthly life annuity benefit and a reduced annuity. The reduction is determined actuarially. The member then can elect to receive the annuity benefit in one of the other optional forms, except that members who receive a partial lump sum option may not elect the level income option. The partial lump sum option is not available to disabled retirees or retirees who are not eligible for an unreduced retirement benefit. Actuarial equivalence is based on tables adopted by the Board of Trustees.

From time to time, TFFR has been amended to grant certain postretirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

Public Employees Retirement System

The Public Employees Retirement System (PERS) is governed by Chapter 54-52 and includes the combined PERS fund, which is made up of the PERS main system, the judges' retirement system, the National Guard retirement system, the law enforcement with prior main service, and the law enforcement without prior main service, and an optional defined contribution retirement plan; Highway Patrolmen's retirement system; Job Service North Dakota retirement plan; and retiree health benefits fund. The plan is supervised by the Retirement Board and covers most employees of the state, district health units, and the Garrison Diversion Conservancy District. Elected officials and officials first appointed before July 1, 1971, can choose to be members. Officials appointed to office after that date are required to be members. Most North Dakota Supreme Court justices and district court judges are members of the plan but receive benefits that differ from other members. A county, city, or school district may choose to participate on completion of an employee referendum and on execution of an agreement with the Retirement Board. Political subdivision employees are not eligible to participate in the defined contribution retirement plan. The Retirement Board also administers the uniform group insurance, life insurance, flexible benefits, deferred compensation, and Chapter 27-17 judges' retirement programs. The Chapter 27-17 judges' retirement program is being phased out of existence except to the extent its continuance is necessary to make payments to retired judges and their surviving spouses and future payments to judges serving on July 1, 1973, and their surviving spouses as required by law.

Normal Service Retirement Benefits

Members of the main system and judges' retirement system are eligible for a normal service retirement benefit at age 65 or when age plus years of service is equal to at least 85. Members of the National Guard retirement system are eligible for a normal service retirement at age 55 and three eligible years of service. Members of the law enforcement retirement system are eligible for a normal service retirement at age 55 and three eligible years of service or when age plus service is equal to at least 85. The retirement benefit for a member of the main system is 2 percent of final average salary multiplied by years of service. The retirement benefit for a member of the judges' retirement system is 3.50 percent of final average salary for the first 10 years of service, 2.80 percent for each of the next 10 years of service, and 1.25 percent for service in excess of 20 years. The retirement benefit for members of the National Guard and law enforcement retirement systems is 2 percent of final average salary multiplied by years of service. A member of the main system is eligible for an early service retirement at age 55 with three years of service, a member of the judges' retirement system is eligible for early service retirement at age 55 with five years of service, and members of the National Guard and law enforcement retirement systems are eligible for early service retirement at age 50 with three years of service.

Early Service Retirement Benefits

The retirement benefit for a member who elects early service retirement is the normal service retirement. However, a benefit that begins before age 65 or qualifying under the Rule of 85, if earlier, is reduced by one-half of 1 percent for each month before the earlier of age 65 or the age at which the Rule of 85 is met. The early service retirement benefit for a member of the judges' retirement system is the normal service retirement. However, a benefit that begins before age 65 or qualifying under the Rule of 85, if earlier, is reduced by one-half of 1 percent for each month before age 65 or the age at which the Rule of 85 is met. The early service retirement benefit for a member of the National Guard retirement system is the normal service retirement benefit. However, a benefit that begins before age 55 is reduced by one-half of 1 percent for each month before age 55. The early service retirement benefit for a member of the law enforcement retirement system is the normal service retirement benefit. However, a benefit that begins before age 55 or qualifying under the Rule of 85, if earlier, is reduced by one-half of 1 percent for each month before age 55 or the age at which the Rule of 85 is met.

Disability Benefits

A member of the main system, National Guard retirement system, or law enforcement retirement system with six months of service who is unable to engage in any substantial gainful activity is eligible for a disability benefit of 25 percent of the member's final average salary at disability minus workers' compensation benefits, with a minimum of $100 per month. A member of the judges' retirement system with six months of service who is unable to engage in any substantial gainful activity is eligible for a disability benefit of 70 percent of the member's final average salary at disability minus Social Security and workers' compensation benefits paid.

Deferred Vested Retirement Benefits

A member of the main system, National Guard retirement system, or law enforcement retirement system is eligible for deferred vested retirement at three years of service, and a member of the judges' retirement system is eligible for deferred vested retirement at five years of service.

For a member of the main system or judges' retirement system, the deferred vested retirement benefit is the normal service retirement benefit payable at age 65 or qualifying under the Rule of 85, if earlier. Reduced early retirement benefits may be elected upon attainment of age 55. The deferred vested retirement benefit for a member of the National Guard retirement system is the normal service retirement benefit payable at age 55. Reduced early retirement benefits may be elected upon attainment of age 50. The deferred vested retirement benefit for a member of the law enforcement retirement system is the normal service retirement benefit payable at age 55 or qualifying under the Rule of 85, if earlier. Reduced early retirement benefits may be elected upon attaining age 50.

Death Benefits

The surviving spouse who is the sole refund beneficiary of a deceased member of the main system, the National Guard retirement system, or law enforcement retirement system who had accumulated at least three years of service before normal retirement is entitled to elect one of four forms of preretirement death benefits. If the surviving spouse is not the sole refund beneficiary, the refund beneficiary may only choose a lump sum distribution of the accumulated balance. The preretirement death benefit may be a lump sum payment of the member's accumulated contributions with interest; 50 percent of the member's accrued benefit, not reduced on account of age, payable for the surviving spouse's lifetime; a continuation portion of a 100 percent joint and survivor annuity, only available if the participant was eligible for normal retirement; or a partial lump sum payment in addition to one of the annuity options. The surviving spouse of a deceased member of the judges' retirement system who had accumulated at least five years of service is entitled to elect one of two forms of preretirement death benefits. The preretirement death benefit may be a lump sum payment of the member's accumulated contribution with interest or 100 percent of the member's accrued benefit, not reduced on account of age, payable for the spouse's lifetime. For members who are not vested nor have no surviving spouse, the benefit is a lump sum payment of the member's accumulated contributions with interest.

Benefits for Terminated Members

Terminated vested members who choose a refund and terminated nonvested members are entitled to a refund of member contributions. Member contributions through June 30, 1981, accumulate with interest at 5 percent; member contributions from July 1, 1981, through June 30, 1986, accumulate with interest at 6 percent; and member contributions after June 30, 1986, accumulate with interest at .50 percent less than the actuarial interest rate assumption.

Standard Form of Payment

The standard form of payment for members of the main, National Guard, and law enforcement systems is a monthly benefit for life with a refund to the beneficiary at death of the remaining balance, if any, of accumulated member contributions. The standard form of payment for members of the judges' retirement system is a monthly benefit for life, with 50 percent payable to an eligible survivor. Optional forms of payment are life annuity for judges, a 50 percent joint and survivor annuity with "pop-up" for members of the main, National Guard, and law enforcement systems; a 100 percent joint and survivor annuity with "pop-up" feature; a 20-year certain and life annuity; a 10-year certain and life annuity; partial lump sum payment in addition to one of the other annuity options; or an actuarially equivalent graduated benefit option with either a 1 or 2 percent increase to be applied January 1 of each year. The last option is not available for disability or early retirements or in combination with a partial lump sum option, or a deferred normal retirement option. The final average salary is the average of the highest salary received by a member for any 36 months employed during the last 120 months of employment.

Retirement System Contributions

Except for the employer contribution rate for the National Guard and the law enforcement retirement systems, contribution rates are specified by statute. The statutory rates were increased effective January 1, 2014, to address needs of the funds. These January 1, 2014, increases are scheduled to revert to the contribution rates in effect on July 1, 2013, on July 1 following the first valuation of the PERS main system showing a ratio of the actuarial value of assets to the actuarial accrued liability of the PERS main system that is equal to or greater than 100 percent.

- The contribution rate for a member of the main system is 7 percent, and the employer contribution is 7.12 percent.
- The employee contribution for the judges' retirement system is 8 percent, and the employer contribution is 17.52 percent.
- The contribution rate for a member of the National Guard retirement system is 4.5 percent, and the employer contribution is 7.0 percent.
- The contribution rate for a political subdivision member of the law enforcement retirement system with prior main service is 5.50 percent, and the employer contribution is 9.81 percent.
- The contribution rate for a Bureau of Criminal Investigation member of the law enforcement system with prior main service is 6 percent, and the employer contribution is 10.31 percent.
- The contribution rate for a political subdivision member of the law enforcement retirement system without prior main service is 5.50 percent, and the employer contribution is 7.93 percent.
- A part-time employee in the main system contributes 10.12 percent with no employer contribution.

Deferred Compensation Program

Effective January 1, 2000, a member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation program under Chapter 54-52.2. The vested employer contributions may not exceed $25 or 1 percent of the member's salary, whichever is greater, for months 1 through 12 of service credit; $25 or 2 percent of the member's monthly salary, whichever is greater, for months 13 through 24 of service credit; $25 or 3 percent of the member's monthly salary, whichever is greater, for months 25 through 36 of service credit; and $25 or 4 percent of the member's monthly salary, whichever is greater, for service exceeding 36 months. The vested employer contributions are credited monthly to the member's account balance. The fund may accept rollovers from other qualified plans under rules adopted by the Retirement Board for the purchase of additional service credit. For many employees, no deduction is made from pay for the employee's share. This is a result of 1983 legislation that provided for a phased-in "pickup" of the employee contribution in lieu of a salary increase at that time.

Retiree Health Insurance Credit Fund

The Legislative Assembly in 1989 established a retiree health insurance credit fund account with the Bank of North Dakota with the purpose of prefunding hospital benefits coverage, medical benefits coverage, prescription drug coverage under any health insurance program and dental, vision, and long-term care benefits coverage under the uniform group insurance program for retired members of PERS and the Highway Patrolmen's retirement system receiving retirement benefits or surviving spouses of those retired members who have accumulated at least 10 years of service.

The employer contribution under PERS was reduced from 5.12 percent to 4.12 percent, under the judges' retirement system from 15.52 percent to 14.52 percent, and under the Highway Patrolmen's retirement system from 17.07 percent to 16.07 percent or 1 percent of the monthly salaries or wages of participating members, including participating North Dakota Supreme Court justices and district court judges, and the money was redirected to the retiree health insurance credit fund. The fund provides a monthly credit for health insurance benefits of $5 multiplied by the retired members' years of service.

ACTUARIAL REPORTS

Teachers Fund for Retirement

The committee received annual valuation reports on TFFR. The latest available valuation report of the consulting actuary was dated July 1, 2014, and this report addresses the material presented in that most recent valuation report. The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of TFFR, and to analyze changes in TFFR's financial condition. In addition, the report provides information required by TFFR in connection with GASB Statement No. 67, and the report provides various summaries of the data. Valuations are prepared annually, as of July 1 of each year, the first day of TFFR's plan and fiscal year.

The member and employer contribution rates are established by statute. The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability over a period of 29 years beginning July 1, 2014, although at any given time the statutory rates may be insufficient.

In order to determine the adequacy of the 12.75 percent statutory employer contribution rate, the rate is compared to the actuarially determined contribution. The actuarially determined contribution is equal to the sum of the employer normal cost rate and the level percentage of pay required to amortize the unfunded actuarial accrued liability over a 30-year closed period that began July 1, 2013. For this calculation, payroll is assumed to increase 3.25 percent per year. As of July 1, 2014, the actuarially determined contribution is 11.57 percent, compared to 10.26 percent on July 1, 2013. This is less than the 12.75 percent currently required by law. Based on the market value of assets rather than actuarial values of assets, the funded ratio increased to 66.6 percent, compared to 61.4 percent last year.

The plan had a net asset gain of $151 million from previous years which has not yet been recognized in the actuarial value of assets because of the five-year smoothing method. This unrecognized asset gain is due to market gains during fiscal years 2011, 2013, and 2014, offset by an asset loss in fiscal year 2012. As these gains are recognized over the next four years, the funded ratio is expected to continue to improve, assuming the plan is able to earn 8 percent in the future.

The Teachers' Fund for Retirement is required to report in its Comprehensive Annual Financial Report, the net pension liability, the sensitivity of the net pension liability to changes in the discount rate, a schedule of changes in net pension liability, and a comparison of actual contributions to the actuarially determined contribution. The state and the school districts need to comply with GASB Statement No. 68, which also requires disclosure of certain actuarial information in their financial statements.

The actuarial valuation reflects the benefit and contribution provisions set forth in Century Code. These have not changed from the prior valuation. Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. On January 21, 2010, the Board of Trustees adopted new assumptions, effective for the July 1, 2010, valuation. The actuarial consultant reported the assumptions, as approved by the Board of Trustees, are reasonably related to the experience of the plan.

Effective with the July 1, 2013, actuarial valuation, the Board of Trustees adopted an actuarial funding policy, which provides direction on how to calculate an actuarially determined contribution. The actuarially determined contribution is compared to statutory contribution rates as a measure of funding adequacy.

The actuarial consultant identified several significant issues in the valuation year. The Governmental Accounting Standards Board approved two new statements affecting the reporting of pension liabilities for accounting purposes. Statement No. 67 replaces Statement No. 25 and is for plan reporting. Statement No. 68 replaces Statement No. 27 and is for employer reporting. Statement No. 67 is effective with the fiscal year ending June 30, 2014, for plan reporting. Statement No. 68 is effective with the fiscal year ending June 30, 2015, for employer reporting. The information contained in the valuation report is intended to be used, along with other information, to comply with both Statements Nos. 67 and 68.

The employer statutory contribution rate for the fiscal year beginning July 1, 2014, under Century Code is equal to 12.75 percent of payroll for employers. Compared to the annual required contribution of 11.57 percent of payroll, the contribution sufficiency is 1.18 percent of payroll as of July 1, 2014.

The 2011 legislative changes included increases to the statutory contribution rates, 2 percent each for employers and members effective July 1, 2012, and an additional 2 percent each for employers and members effective July 1, 2014. Employer and member contributions will be reset to 7.75 percent each once TFFR reaches a 100 percent funded ratio, measured using the actuarial value of assets.

The funded ratio based on the actuarial value of assets over the actuarial accrued liability as of July 1, 2014, is 61.8 percent, compared to 58.8 percent as of July 1, 2013. This ratio is a measure of funding status, and its history is a measure of funding progress. The total 8 percent increase in the statutory contribution rates is expected to improve the funded ratio of the plan over time.

For the year ending June 30, 2014, the consulting actuary determined the asset return on a market value basis was 16.1 percent. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 12.6 percent. This represents an experience gain when compared to the assumed rate of 8 percent. As of June 30, 2014, the actuarial value of assets, $1.940 billion, represented 92.8 percent of the market value, $2.091 billion.

The portion of deferred investment gains and losses recognized during the calculation of the July 1, 2014, actuarial value of assets contributed to a gain of $80,084,128. The demographic and liability experience resulted in an $8,882,399 loss.

The current method used to determine the actuarial value of assets yields an amount that is 92.8 percent of the market value of assets as of June 30, 2014. This 92.8 percent falls within the 20 percent corridor, so no further adjustment to the actuarial value of assets is necessary. Guidelines in Actuarial Standard of Practice Statement No. 44, selection and use of asset valuation methods for pension valuations, recommends that asset values fall within a reasonable range around the corresponding market value. The actuarial asset method complies with these guidelines.

When measuring pension liability for GASB purposes, the same actuarial cost method, entry age normal, is used to determine the funded status of the plan, the actuarially determined contribution rate, and the effective amortization period. In addition, the GASB blended discount rate calculation results in the same discount rate, expected return on assets as used for funding purposes, 8.0 percent. This means that the total pension liability measure for financial reporting shown in this report is determined on the same basis as the actuarial accrued liability measure for funding. The same is true for the normal cost component of the annual plan cost for funding and financial reporting.

The net pension liability is equal to the difference between the total pension liability and the plan's fiduciary net position. The plan's fiduciary net position is equal to the market value of assets; therefore, the net pension liability measure is very similar to the unfunded actuarial accrued liability on a market value basis. The net pension liability decreased from $1,157,555,127 as of June 30, 2013, to $1,047,822,717 as of June 30, 2014.

The actuarial valuation report as of July 1, 2014, is based on financial data as of that date. Changes in the value of assets subsequent to that date are not reflected. The fund's cashflow--contributions minus benefit payments, refunds, and expenses--as a percentage of the market value of assets is 2.0 percent as of June 30, 2014, compared to

1.9 percent as of June 30, 2013. The increase in the employer and member contribution rates effective July 1, 2014, will improve the cashflow percentage, assuming all other experience emerges as expected.

As of July 1, 2014, the fund had 10,305 active members, 1,509 inactive vested members, 661 inactive nonvested members, and 7,747 retirees and beneficiaries. The average age of active members was 42.9 years, and active members have 12.8 average years of service. Average compensation for active members was $54,073. As of July 1, 2014, 7,120 retirees and 627 beneficiaries were receiving total monthly benefits of $13,814,311, with the average monthly benefit amount for the retirees and beneficiaries $1,722.

The assets at market value were $1.839 billion, with an actuarial value of $1.940 billion. The actuarial rate of return was 12.6 percent and the market rate of return was 16.1 percent.

Public Employees Retirement System

The committee received reports on actuarial valuations and reviews as of July 1, 2013, and of July 1, 2014, on the following four funds:

- Combined PERS fund;
- Highway Patrolmen's retirement system;
- Retiree health insurance credit fund; and
- Retirement plan for employees of Job Service North Dakota.

The valuations were performed to determine whether the assets and statutory contributions are anticipated to be sufficient to provide the prescribed benefits. The purpose of the actuarial valuations is to determine the contribution is sufficient to meet the long-term obligations to the members covered by the funds in accordance with the benefit provisions of the funds. This report reflects the data from the latest available valuation reports, dated July 1, 2014.

Each of the reports referenced that GASB recently approved two new statements. Statement No. 67 replaces Statement No. 25 and governs plan reporting. Statement No. 68 replaces Statement No. 27 and governs employer reporting. It is important to note that the new GASB rules only redefine liabilities and pension expense for financial reporting purposes, and do not apply to contribution amounts for funding purposes. These statements are applicable for preparing the 2013-14 fiscal year financial statements for the plan and for the 2014-15 fiscal year financial statements for contributing employers.

Each report clarified the actuarial valuation reports are based on financial and demographic information as of July 1, 2014. Changes subsequent to that date are not reflected and could affect future actuarial costs of the plans.

Combined Public Employees Retirement System Fund

The combined PERS fund is made up of the main system, judges, National Guard, law enforcement with prior main system service, and law enforcement without prior main system service. For the combined PERS fund, the present contribution rates are not sufficient to meet the actuarially determined requirement for 2014-15, based upon the actuarial assumptions and financing objectives approved by the Retirement Board. If unchanged, this difference will further increase the actuarial contribution requirement in future valuations.

The Retirement Board has recommended contribution increases in each of the last two legislative sessions and continues to review projected future performance to determine appropriate measures to mitigate the difference between the actuarial and statutory contribution rates.

The employer actuarial contribution requirements for 2014-15 are:

	Amount	Percentage of Payroll	Statutory/Approved Contribution Rate
Main system	$104,636,238	11.06%	7.12%
Judges	$1,030,705	14.80%	17.52%
National Guard	$97,523	8.14%	7.00%
Law enforcement with prior main system service	$1,479,482	9.52%	9.81%[1]
Law enforcement without prior main system service	$270,026	7.42%	7.93%

[1]Bureau of Criminal Investigation rate is 10.31 percent.

The following is a comparison of this year's actuarial contribution requirements to last year's requirements as a percentage of payroll:

	2013-14	2014-15
Main system	12.14%	11.06%
Judges	16.66%	14.80%
National Guard	9.07%	8.14%
Law enforcement with prior main system service	11.07%	9.52%
Law enforcement without prior main system service	8.11%	7.42%

The employer actuarial contribution requirement for the main system for 2014-15 is $104,636,238, or 11.06 percent of payroll, and exceeds the statutory rate of 7.12 percent of payroll as of the valuation date by 3.94 percent. Last year, the actuarial contribution requirement was 12.14 percent, and the deficit was 4.52 percent based on the ultimate statutory rates.

The demographic assumptions are reviewed every four or five years by the completion of an experience study. The most recent experience study was completed in 2010, and the actuarial consultant recommends an update to the experience study be performed in the 2014-15 plan year.

The return on the market value of assets for 2014-15 for the PERS fund was 16.14 percent, compared to 13.40 percent for the preceding year. The return on the actuarial value of assets for 2014-15 for the PERS fund was 12.19 percent compared to the investment return assumption of 8 percent. As a result, the PERS fund experienced an investment gain on actuarial value basis of approximately $70.6 million.

The following is a comparison of this year's funded ratio to the prior year's ratio:

	July 1, 2013	July 1, 2014
Actuarial value of assets	$1,682,958,527	$1,895,837,734
Actuarial accrued liability	$2,716,494,799	$2,938,752,157
Funded ratio	62.0%	64.5%

The ratio of the actuarial value of assets to the market value of assets for the PERS fund is 83.1 percent. Last year, this ratio was 86 percent. The unrecognized appreciation represents about 16.9 percent of the PERS fund market value of assets. A property of the asset smoothing method used by PERS is that the actuarial value of assets will tend to lag behind the market value of assets. The potential impact may be illustrated as follows:

- If the unrecognized appreciation were recognized immediately in the actuarial value assets, the funded percentage would increase from 64.5 percent to 77.6 percent.
- If the unrecognized appreciation were recognized immediately in the actuarial value of assets, the actuarial contribution requirement as a percent of payroll would decrease as follows:

	2014-15 Actuarial Contribution Requirement	2014-15 Contribution Reflecting Unrecognized Appreciation
Main system	11.06%	8.30%
Judges	14.8%	7.27%
National Guard	8.14%	5.07%
Law enforcement with prior main service	9.52%	7.88%
Law enforcement without prior main service	7.42%	6.70%

The following shows the age, service, compensation, and contribution account balance information based on date provided for active members as of July 1, 2013, and July 1, 2014:

Category	Year Beginning July 1		Change From Prior Year
	2014	2013	
Main			
Number	21,814	21,201	2.9%
Average age	46.7	47.1	N/A
Average service credit	10.1	10.4	N/A
Total compensation	$946,197,522	$865,868,265	9.3%
Average compensation	$43,376	$40,841	6.2%
Contribution account balance	$732,118,862	$674,447,937	8.6%
Judges			
Number	50	49	2.0%
Average age	58.7	58.6	N/A
Average service credit	16.8	18.3	N/A
Total compensation	$6,964,502	$6,598,981	5.5%
Average compensation	$139,290	$134,673	3.4%
Contribution account balance	$6,561,621	$6,936,518	-5.4%

Category	Year Beginning July 1 2014	2013	Change From Prior Year
National Guard			
Number	27	39	-30.8%
Average age	37.6	36.5	N/A
Average service credit	6.6	5.5	N/A
Total compensation	$1,198,481	$1,691,014	-29.1%
Average compensation	$44,388	$43,359	2.4%
Contribution account balance	$478,373	$567,302	-15.7%
Law enforcement with prior main system service			
Number	288	229	25.8%
Average age	38.3	38.5	N/A
Average service credit	7.0	7.3	N/A
Total compensation	$15,534,493	$11,703,913	32.7%
Average compensation	$53,939	$51,109	5.5%
Contribution account balance	$6,349,033	$5,534,559	14.7%
Law enforcement without prior main system service			
Number	83	70	18.6%
Average age	38.2	37.5	N/A
Average service credit	3.6	3.3	N/A
Total compensation	$3,641,404	$2,589,887	40.6%
Average compensation	$43,872	$36,998	18.6%
Contribution account balance	$1,004,240	$408,861	145.6%
All active members			
Number	22,262	21,558	3.1%
Average age	46.6	47.0	N/A
Average service credit	10.1	10.4	N/A
Total compensation	$973,536,402	$888,452,060	9.6%
Average compensation	$43,731	$41,155	6.3%
Contribution account balance	$746,512,129	$687,895,177	8.5%

The combined market value of net assets of the PERS fund and the Highway Patrolmen's retirement system was $2,347,301,808, an increase of $332.6 million compared to $2,014,714,110 a year earlier. This year's combined market value represents an increase of 16.5 percent from the market value one year earlier. The rate of return on the market value basis for the PERS fund was 16.15 percent for the year ended June 30, 2014. The actuarial value of assets is determined by spreading market appreciation and depreciation over five years beginning with the year of occurrence. Interest and dividends are recognized immediately. This procedure results in recognition of all changes in market value over five years. A characteristic of this asset valuation method is that, over time, it is more likely than not to produce an actuarial value of assets which is less than the market value of assets, if the investment return attributable to net interest and dividends is less than the assumed rate of return. This procedure is applied to the combined assets of the PERS fund and the Highway Patrolmen's retirement system income funds to determine the combined actuarial value of the systems. The combined actuarial value was $1,950,401,117 as of June 30, 2014. There is approximately $397 million of appreciation that will be recognized in future years. For the 10-year period ending June 30, 2014, the combined investment results yielded earnings of $879,027,400 on an actuarial value basis representing an average annual return of 5.79 percent. For the 2013-14 year, the actuarial rate of return on the combined value of assets was 12.20 percent.

There are 4,363 inactive members as of July 1, 2014, with vested rights to deferred retirement benefits. The average deferred monthly benefit for this group is $425. There also are 18 members from the main system, 1 member from the National Guard retirement system, and 1 member from law enforcement with prior main system service on leave of absence. For these groups, a liability is carried for the deferred retirement benefits for nine vested participants. The remaining 11 members from the main system are valued as due refunds. There are 4,039 inactive members who are due refunds. There are 8,535 pensioners and 820 beneficiaries receiving average monthly benefits of $1,034 as of July 1, 2014. During the year ended June 30, 2014, 793 members were awarded a pension. Additionally, there are seven pensioners receiving benefits under the special prior service plan.

The contribution requirement consists of the normal cost, administrative expense allowance, plus the cost of amortizing the unfunded actuarial accrued liability over a scheduled period of years. The Retirement Board has adopted an open amortization schedule of 20 years with increasing payments. For the main system, the total statutory contribution rate is 14.12 percent of payroll--7 percent for the member and 7.12 percent for the employer, as of July 1, 2014--resulting in a deficit of 3.94 percent. This and the Retirement Board's funding policy result in an infinite effective amortization period. The contribution net of normal cost and administrative expenses is never projected to exceed interest on the unfunded actuarial accrued liability, and the unfunded actuarial accrued liability is not being amortized. If deferred asset appreciation were taken into account on the valuation date, the effective amortization period would be

30.9 years. The total employer contribution requirement was 12.14 percent of payroll last year, resulting in a deficit of 4.52 percent based on the ultimate statutory contribution rates.

The total statutory contribution rate for the judges' retirement system is 25.52 percent of payroll--8 percent for the member, and 17.52 percent for the employer as of July 1, 2014--resulting in a margin of 2.72 percent of payroll and an effective amortization period of 9.7 years. If deferred asset appreciation were taken into account on the valuation date, the assets would exceed the actuarial accrued liability and no amortization would be required. The total employer contribution requirement was 16.66 percent of payroll last year, resulting in a margin of 1.36 percent based on the ultimate statutory contribution rate.

The total approved employer contribution rate set by the Retirement Board for the National Guard retirement system is 11.5 percent of payroll--4.5 percent for the member and 7 percent for the employer, as of July 1, 2014--resulting in a deficit of 1.14 percent of payroll and an infinite effective amortization period. The contribution net of normal cost and administrative expenses is never projected to exceed interest on the unfunded actuarial accrued liability, and the unfunded actuarial accrued liability is not being amortized. If deferred asset appreciation were taken into account on the valuation date, the assets would exceed the actuarial accrued liability and no amortization would be required. The total employer contribution requirement was 9.07 percent of payroll last year, resulting in a deficit of 1.82 percent based on the ultimate statutory contribution rates.

The contribution rate set by the Retirement Board for the law enforcement with prior main service system plan is 9.81 percent of payroll and 10.31 percent for Bureau of Criminal Investigation employees. The statutory member contribution rate is 6 percent of payroll as of July 1, 2014, for members employed by the Bureau of Criminal Investigation and 5.50 percent of payroll as of July 1, 2014, for all other members in this segment. The plan has a margin of 0.38 percent of payroll. Under the current policy and statute, this segment has an effective amortization period of 17.9 years. If deferred asset appreciation were taken into account on the valuation date, the effective amortization period would be reduced to 10 years. The total employer contribution requirement was 11.18 percent of payroll last year, resulting in a deficit of 1.06 percent based on the ultimate statutory contribution rates.

The total approved contribution rate set by the Retirement Board for the law enforcement without prior main service system plan is 13.43 percent of payroll--5.5 percent of payroll for the member and 7.93 percent of payroll for the employer--resulting in a margin of 0.51 percent of payroll and an effective amortization period of 10.7 years. If deferred asset appreciation were taken into account on the valuation date, the effective amortization period would be reduced to 1.3 years. The total employer contribution requirement was 8.11 percent of payroll last year, resulting in a margin of 0.07 percent based upon the ultimate statutory contribution rates.

Highway Patrolmen's Retirement System

The consulting actuary reported the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2014-15, based upon the actuarial assumptions and financing objectives approved by the Retirement Board. However, if the unrecognized asset appreciation were recognized immediately, the ultimate statutory contribution rate is projected to be sufficient.

The employer actuarial contribution requirement for 2014-15 is $2,201,479, or 21.70 percent of payroll, and exceeds the statutory rate of 19.70 percent of payroll as of the valuation date by 2 percent. Last year, the actuarial contribution requirement was 25.11 percent and exceeded the ultimate statutory rate of 19.7 percent by 4.91 percent.

The decrease in the contribution rate deficit this year was primarily due to the asset return. The return on the market value of assets for 2013-14 was 16.29 percent and was 13.52 percent for the previous year.

The return on the actuarial value of assets for 2013-14 was 12.60 percent compared to the investment return assumption of 8 percent. As a result, the system experienced an actuarial investment gain of $2.2 million.

For July 1, 2014, the actuarial value of assets is $54,563,383, the actuarial accrued liability is $75,464,668, and the funded ratio is 72.3 percent; for July 1, 2013, the actuarial value of assets was $49,039,331, the actuarial accrued liability was $71,892,312, and the funded ratio was 68.2 percent.

The ratio of the actuarial value of assets to the market value of assets was 83.1 percent. Last year, this ratio was 86.0 percent. The unrecognized asset appreciation represents about 16.9 percent of the market value of assets. A property of the asset smoothing method used by PERS is that the actuarial value of assets will tend to lag behind the market value of assets. This unrecognized appreciation will be recognized over the next five years. The potential impact may be illustrated as follows:

- If the unrecognized appreciation were recognized immediately in the actuarial value of assets, the funded percentage would increase from 72.3 percent to 87.0 percent.

- If the unrecognized appreciation were recognized immediately in the actuarial value of assets, the actuarial contribution requirement would decrease from 21.70 percent of payroll to 14.06 percent of payroll.

Total active membership is 156, with an average age of 37.3 years and average years of service of 11.2. As of July 1, 2014, there are 113 pensioners and beneficiaries, with an average monthly benefit of $2,820, and an average age of 68.0.

The Highway Patrolmen's retirement fund had net assets with a market value of $65,666,865. This compares to $57,044,084 as of July 1, 2013. The rate of return on the market value basis for the Highway Patrolmen's retirement fund was 16.29 percent for the year ended June 30, 2014.

The actuarial value of assets is determined by spreading the market appreciation and depreciation over five years beginning with the year of occurrence. Interest and dividends are recognized immediately. This procedure results in recognition of all changes in market value over a five-year period. A characteristic of this asset valuation method is that, over time, it is more likely than not to produce an actuarial value of assets that is less than the market value of assets if the investment return attributable to net interest and dividends is less than the assumed rate of return.

The actuarial value of assets as of July 1, 2014, is $54,563,383. The actuarial value of assets was $49,039,331 on July 1, 2013. Thus, on an actuarial basis, the rate of return on the Highway Patrolmen's retirement fund was 12.60 percent for the year ended June 30, 2014.

Retiree Health Insurance Credit Fund

The actuarial consultant identified several highlights in the valuation year. The present rate of contributions is sufficient to meet the actuarially determined requirement for 2014-15, based upon the actuarial assumptions and financing objectives approved by the Retirement Board.

The actuarial contribution requirement for 2014-15 is $6.4 million, or 0.64 percent of payroll. The statutory rate of 1.14 percent of payroll is greater than the actuarially determined rate by 0.50 percent of payroll. Last year, the statutory rate exceeded the actuarially determined rate of 0.77 percent by 0.37 percent of payroll. The largest factor in the change in actuarial contribution requirement was the actual contributions being greater than expected.

The return on the market value of assets for 2013-14 was 15.94 percent, and was 12.11 percent for the preceding year. The return on the actuarial value of assets for 2013-14 was 11.56 percent compared to the investment return assumption of 8 percent. As a result, the fund experienced an investment gain on actuarial basis of approximately $2.4 million.

For July 1, 2014, the fund's actuarial value of assets is $77,925,234, the actuarial accrued liability is $116,663,623, and the funded ratio is 66.8 percent; July 1, 2013, the fund's actuarial value of assets was $65,972,463, the actuarial accrued liability was $114,052,953, and the funded ratio was 57.8 percent.

The recognized appreciation represents about 15.3 percent of the market value of assets. A property of the asset smoothing method used by PERS is that the actuarial value of assets will tend to lag behind the market value of assets. This unrecognized appreciation will be recognized over the next five years. The potential impact may be illustrated as follows:

- If the deferred appreciation were recognized immediately in the actuarial value of assets, the funded percentage would increase from 66.8 percent to 78.9 percent.
- If the deferred appreciation were recognized immediately in the actuarial value of assets, the actuarial contribution requirement would decrease from 0.64 percent of payroll to 0.53 percent of payroll.

Members of the optional defined contribution plan are also eligible to participate in the retiree health insurance credit fund. Based on the member data provided to the consulting actuary, 224 of these active members are included in this actuarial valuation.

The fund has 22,642 active members, with an average age of 46.6 years and average years of service of 10. On July 1, 2014, benefits are being paid to 4,828 individuals and the average benefit paid to these retired members and beneficiaries is $119 per month.

Draft financial statements as of June 30, 2014, show the market value of net assets of the fund is $92,013,709, an increase of $16.5 million from a year earlier. This market value represents an increase of 21.8 percent over the market value one year earlier. The rate of return on the market value basis was 15.94 percent for the year ended June 30, 2014. On an actuarial basis, the rate of return was 11.56 percent for the year ended June 30, 2014.

There is approximately $14.1 million of deferred appreciation that will be recognized in future years. For the prior year, there was approximately $9.6 million of appreciation to be recognized in future years.

The statutory contribution rate is 1.14 percent of payroll. The plan has a margin of 0.50 percent of payroll. If deferred asset appreciation were taken into account on the valuation date, the margin would be 0.61 percent of payroll.

Retirement Plan for Employees of Job Service North Dakota

The Retirement Board assumed administration of the retirement plan for employees of Job Service North Dakota from Job Service pursuant to legislation enacted in 2003. This is a closed retirement plan for employees of Job Service.

As of July 1, 2014, the plan has 13 active participants with projected compensation of $790,645. There is one inactive employee as of July 1, 2014, with vested rights. There are 140 pensioners and beneficiaries as of July 1, 2014, and 73 pensioners and beneficiaries receiving annuities from the Travelers Plan as of July 1, 2014. Thus, there are 227 plan participants as of July 1, 2014.

The scheduled contribution at the end of the year ending June 30, 2014, was zero, and thus the normal cost was zero. The July 1, 2014, actuarial valuation reported the actuarial value of assets at $78,157,302 with a market value of $97,696,628. The actuarial present value of projected benefits is $65,479,120. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits. If, in the future, the liabilities of the plan exceed its assets, a "scheduled contribution" will be determined based on the funding policy adopted by the Retirement Board.

As of July 1, 2014, the market value of assets is 149.2 percent of the actuarial present value of projected benefits. While there is no contribution due at this time, the consulting actuary reported the Retirement Board may wish to consider asset strategies to immunize the liabilities in order to reduce the risk of future contributions being required.

CONSIDERATION OF RETIREMENT AND HEALTH PLAN LEGISLATIVE PROPOSALS

The committee established April 1, 2014, as the deadline for submission of retirement, health, and retiree health proposals. The deadline is intended to provide the committee and the consulting actuary of each affected retirement, health, or retiree health program sufficient time to discuss and evaluate the proposals. The committee allowed legislators and those agencies entitled to the bill introduction privilege to submit proposals for consideration. The committee recognized that some interim committees, such as the interim Government Finance Committee, may submit proposals after this deadline and that the committee retains the authority to waive this self-imposed deadline.

The committee reviewed each submitted proposal and solicited testimony from proponents, retirement and health program administrators, interest groups, and other interested persons.

Under Section 54-35-02.4, each retirement, insurance, or retiree insurance program is required to pay, from its retirement, insurance, or retiree health benefits fund, as appropriate, and without the need for a prior appropriation, the cost of any actuarial report required by the committee which relates to that program.

The committee referred the legislative proposals submitted to it to the affected retirement or insurance program and requested the program authorize the preparation of actuarial reports. The Public Employees Retirement System used the actuarial services of The Segal Company in evaluating proposals that affected retirement programs and the services of Deloitte Consulting in evaluating proposals that affected the public employees health insurance program. The Board of Trustees and the State Investment Board also used the actuarial services of The Segal Company in evaluating proposals that affected TFFR and the State Investment Board.

The committee obtained written actuarial information on each proposal received by the committee's September 2014 meeting. In evaluating each proposal, the committee considered the proposal's actuarial cost impact; testimony by retirement and health insurance program administrators, interest groups, and affected individuals; the impact on state general fund or special funds and on the affected retirement program; and other consequences of the proposal or alternatives to the proposal. Based on these factors, the legislative proposals received a favorable recommendation, unfavorable recommendation, or no recommendation. The committee plans to hold a December 2014 meeting to receive actuarial reports and make committee recommendations on legislative proposals received by the committee after the September 2014 meeting.

A copy of the actuarial evaluation and the committee's report on each proposal will be appended to each proposal and delivered to its sponsor. Each sponsor is responsible for securing introduction of the proposal in the 64th Legislative Assembly.

State Investment Board

The following is a summary of the proposal affecting the State Investment Board over which the committee took jurisdiction and the committee's action on the proposal:

Bill No. 135

Sponsor: State Investment Board

Proposal: Updates Sections 21-10-02.1 and 21-10-06, relating to the duties of the State Investment Board.

Actuarial analysis: This bill would have no actuarial cost impact on the TFFR, PERS, or other investment clients of the State Investment Board.

Committee report: Favorable recommendation.

Teachers' Fund for Retirement

The following is a summary of the proposal affecting TFFR over which the committee took jurisdiction and the committee's action on the proposal:

Bill No. 140

Sponsor: TFFR

Proposal: In various sections of Chapter 15-39.1, the bill would automatically update federal compliance provisions of the TFFR plan regarding Internal Revenue Code Sections 401(a)(17), 401(a)(9), 401(a)(31), 402(c), and 415(b), (d), and (n), as amended, and would also automatically update Internal Revenue Code sections relating to salary reduction or salary deferral amounts, including Internal Revenue Code Sections 125, 132(f), 401(k), 403(b), 414(h), and 457, as amended.

Actuarial analysis: The bill would have an immaterial actuarial cost impact on TFFR.

Committee report: Favorable recommendation.

Public Employees Retirement System

The following is a summary of the proposals affecting PERS over which the committee took jurisdiction and the committee's action on each proposal:

Bill No. 136

Sponsor: PERS

Proposal: Would revise the definition of "salary" in the Highway Patrolmen's retirement system to exclude expense allowances; automatically update federal compliance provisions of the PERS hybrid plan, Highway Patrolmen's retirement system, and defined contribution plan regarding Internal Revenue Code Sections 401(a)(17), 401(a)(9), 401(a)(31), 415(b) and (d), and 402(c)(4), as amended, in Sections 39-03.1-11.2, 54-52-28, and 54-52.6-21; update federal compliance provisions for qualified military service in the PERS hybrid plan, Highway Patrolmen's retirement system, and defined contribution plan to comply with required amendments under the federal Heroes Earnings Assistance and Tax Relief Act of 2008 (HEART Act) in Sections 54-52-17.14, 39-03.1-10.3, and 54-52.6-09.4; require that employees of participating political subdivisions be enrolled in the PERS hybrid plan within the first month of eligible employment and that retirees returning to work must reenroll in the plan or permanently waive future participation in the plan within the first month of reemployment; provide clarifying language regarding determination of final average salary for participants in the Highway Patrolmen's retirement system and temporary employees in the PERS hybrid plan; and provide clarifying language indicating that the three eligible years of employment required to reach normal retirement date for a National Guard security officer or firefighter, a peace officer, or a correctional officer does not have to be earned in that specific job classification.

Actuarial analysis: The bill would not have a significant actuarial cost impact on the PERS hybrid plan or the Highway Patrolmen's retirement system.

Committee report: Favorable recommendation.

Bill No. 139

Sponsor: Adjutant General

Proposal: The bill would align the contribution structure of both member and employer contributions for security officers and firefighters employed by the National Guard with the contribution structure for law enforcement with prior main service members and would add Rule of 85 eligibility for normal retirement benefits to National Guard security officers and firefighters.

Actuarial analysis: The bill would not have a material impact on the overall actuarial cost of the PERS hybrid plan. If assets are transferred between cost groups as a result of the bill, the cost rates associated with those groups could change.

Committee report: Favorable recommendation.

Bill No. 137

Sponsor: PERS

Proposal: The bill would increase both the employer contribution rates and the member contribution rates that are mandated by statute in the PERS hybrid plan (main only) and defined contribution plan by 1 percent of the member's monthly salary beginning January 2016. The bill would also adjust member contribution rates for the following groups:

- Peace officers in the PERS hybrid plan employed by the Bureau of Criminal Investigation, for which member contributions would decrease by 0.5 percent of monthly salary, rather than increase. While not part of the bill, the consulting actuary assumed the employer contributions will not decrease in 2016 unless approved by the PERS Retirement Board; and
- Temporary employees in the PERS hybrid plan and defined contribution plan, for which the member contribution rate would increase by 2 percent of monthly salary in 2016, instead of 1 percent.

The bill would also make the following benefit modifications for hybrid plan members (except for National Guard security officers, peace officers, or correctional officers employed by the Bureau of Criminal Investigation or by a political subdivision, or a Supreme Court or district court judge) first enrolled after December 31, 2015:

- Final average salary would be based on the 5 highest periods of 12 consecutive months employed during the last 180 months immediately preceding retirement, excluding months without earnings. Currently, final average salary is based on the highest salary for any 36 months employed within the last 180 months of employment, with no requirement for any months to be consecutive;
- The minimum age at which unreduced benefits could begin (normal retirement date) would be increased to a combined total of years of service credit and years of age equal to 90 where a member is at least 60 years old (Rule of 90). Currently, normal retirement age requires attaining a Rule of 85 with no minimum age; and
- The early retirement reduction would be changed from an actuarial reduction to account for benefit payment before normal retirement date to a fixed rate of 8 percent per year benefit payments begin before normal retirement date.

Actuarial analysis: The bill would positively affect the current funding level of the PERS hybrid plan.

Committee report: No recommendation.

Committee Report Bill No. 79

Sponsor: Legislative Management (Health Care Reform Review Committee)

Proposal: The bill require the medical benefits coverage of services provided by the health care provider by means of telemedicine to be the same as the medical benefits coverage for the same services provided by the health care provider in-person.

Actuarial analysis: There are many different ways and mediums by which telemedicine is delivered today and there will likely continue to be additional advances in this regard. The current PERS medical benefits cover health care facility-based services from provider to members, and Blue Cross Blue Shield of North Dakota has therefore stated that there would be no cost impact if the coverage parameters are not changed. However, Blue Cross Blue Shield of North Dakota has stated that if the intent is to expand coverage of telemedicine mediums other than what is currently covered, there may be additional cost to the plan. Telemedicine providers claim impressive returns on investment; however, the equipment can be expensive. Therefore, the services and mediums by which telemedicine is delivered need to be specifically considered and defined in the plan.

Committee report: Favorable recommendation.

Bill No. 43

Sponsor: Representative Jessica Haak

Proposal: The bill would allow current active defined contribution participants the option to participate in the PERS hybrid plan. This election would take place during a three-calendar-month period beginning no later than February 1, 2016. Participants' defined contribution accumulated fund balances (less rollovers) would be transferred to the PERS hybrid plan, and the participant would be credited with benefits as if they had always participated in the PERS hybrid plan. The opportunity for defined contribution plan participants to participate in the hybrid plan is limited only to currently active employees with a participating employer whose defined contribution plan account balances are not subject to any court order, such as a qualified domestic relations order.

Actuarial analysis: The bill will have an actuarial cost impact on the hybrid plan. Due to the transfer of funds and the crediting of service, both the assets and the liabilities would increase as a result of the transfer. It is difficult to predict which participants will elect to participate in the hybrid plan. However, previous analysis has concluded that for nearly all defined contribution plan members, the account balance is less than the actuarial present value of comparable service under the hybrid plan. For this reason, it is assumed that 100 percent of defined contribution participants will elect to transfer in this analysis.

Based upon analysis, the unfunded actuarial accrued liability for members as of July 1, 2014, would be $40,506,274 offset by assets from the existing defined contribution plan of $27,952,921. If this were to be amortized using the current 20-year policy of the PERS plan for main members, the required annual contribution would be $876,102. In addition to this amortization amount, the annual employer normal cost (total normal cost less member contributions) would be $625,374. This would result in an annual required employer contribution of $1,501,476 on behalf of the defined contribution plan participants, which is approximately 8.5 percent of defined contribution plan participant payroll (a total of 15.5 percent of payroll including employee contributions). This is based on the projected annual payroll of $17,575,003 for defined contribution plan members.

If these participants were allowed to enter the PERS plan and were subject to the same contributions as current PERS main members, the resulting 14.12 percent of pay contribution would be approximately 1.38 percent of payroll less than actuarially required for these participants. Under the recommended 16.12 percent of contribution, the addition of these members would result in an actuarial gain to the system.

Committee report: No recommendation.

The committee took jurisdiction over the following bills, but due to the late date the committee received the bill drafts or bill draft revisions, the committee did not receive an actuarial analysis before the November 2014 Legislative Management meeting and therefore did not make a recommendation by the end of the interim:

Bill Draft No. 176

Sponsor: Legislative Management (Government Finance Committee)

Proposal: The bill draft would provide that an eligible state employee hired for the first time after December 31, 2015, would be required to enroll in the defined contribution plan rather than the defined benefit plan. The bill draft would not affect current or future Supreme Court or district court judges, employees eligible to participate in the National Guard retirement plan or the law enforcement plan, employees of a political subdivision, or employees of the State Board of Higher Education and state institutions under the jurisdiction of the State Board of Higher Education which are participating in the TIAA-CREF retirement plan. The bill draft would provide state employees currently participating in the defined benefit plan and those hired before January 1, 2016, who elect to participate in the defined benefit plan would continue to participate in the defined benefit plan; however, during the last six months of 2016, a state employee participating in the defined benefit plan may make an irrevocable election to transfer to the defined contribution plan; and the bill draft would provide the vesting period for employees in the defined contribution plan would be changed to allow employees to become fully vested in employer contributions after one year of service rather than a vesting schedule of 50 percent after two years, 75 percent after three years, and 100 percent after four years.

Bill Draft No. 117

Sponsor: Representative Andrew G. Maragos

Proposal: The bill draft would require that for health insurance and the PERS uniform group insurance plan, the member cost-sharing for cancer medications administered by the patient not exceed member cost-sharing for cancer medications administered by a health care provider.

ADDITIONAL COMMITTEE RESPONSIBILITIES

Compliance with Federal Law

The Board of Trustees reported no action by the committee was required regarding any statutory changes to comply with federal requirements under Section 15-39.1-05.2. The Retirement Board reported no action by the committee was required under Section 39-03.1-29 or 54-52-23 to approve terminology adopted by the Retirement Board to comply with applicable federal statutes or rules. However, the committee did receive a report from the Retirement Board under Section 54-52.1-08.2 to approve terminology adopted by the Retirement Board to comply with federal requirements.

The committee reviewed the legislative history of House Bill No. 1059 (2013), which modified the PERS uniform group insurance program's eligibility provisions for temporary employees first employed after December 31, 2013, and limited the amount a temporary employee can be required to contribute toward the cost of coverage. The bill was introduced at the request of PERS with the intent of preventing the state from being subjected to the employer shared responsibility penalties under the federal Affordable Care Act (ACA).

On July 2, 2013, the United State Treasury Department announced it will not be enforcing the employer shared responsibility penalties in 2014. Therefore, as enacted, House Bill No. 1059 provided for a compliance date that was one year earlier than required to avoid penalties under the ACA, state and political subdivisions would incur premium costs that are not yet required under the ACA, and it is possible the final federal regulations will differ from the proposed regulations.

The committee authorized PERS to amend House Bill No. 1059 to delay the effective date of Section 2 of the bill to provide for a January 1, 2015, effective date, or the date the related federal rules become final, whichever occurs first.

Firefighters Relief Associations

The committee was not notified by any firefighters relief association pursuant to Section 18-11-15(5), which requires the committee to be notified by any firefighters relief association that implements an alternate schedule of monthly service pension benefits for members of the association.

Recruitment and Retention Bonuses

Pursuant to Section 54-06-31, the committee received periodic reports from HRMS on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions. The following schedule is a summary of the information presented for the 2011-13 biennium and the first year of the 2013-15 biennium:

	July 1, 2011, to June 30, 2013						July 1, 2013, to June 30, 2014					
	Recruitment		Referral		Retention		Recruitment		Referral		Retention	
Agency	#	$$	#	$$	#	$$	#	$$	#	$$	#	$$
Office of Management and Budget											1	$5,000.00
Information Technology Department	20	$28,000.00	1	$500.00			4	$6,000.00				
State Auditor					38	$105,000.00					26	76,500.00
Tax Department					2	12,000.00						
Commission on Legal Counsel for Indigents					4	10,000.00						
Retirement and Investment Office	1	5,000.00										
State Department of Health							4	16,800.00				
Department of Human Services	113	151,528.50	65	15,000.00	14	98,452.00	94	114,759.00	39	$9,750.00	3	24,581.00
Insurance Department	1	4,000.00										
Department of Mineral Resources	3	10,300.00			109	448,419.00	1	2,000.00			65	159,216.00
Bank of North Dakota	9	22,499.50			6	28,584.00	4	12,250.00			2	13,658.00
Highway Patrol			2	1,000.00								
Department of Corrections and Rehabilitation												
State Fair Association												
Department of Transportation	55	259,238.00					26	151,400.00				
Total	202	$480,566.00	68	$16,500.00	173	$702,455.00	133	$303,209.00	39	$9,750.00	97	$278,955.00

Service Awards, Tuition, and Professional Organizations

Human Resource Management Services officials reported for the 2011-13 biennium, state employee service awards totaled $495,126.55; employer-paid costs of training or educational courses, including tuition and fees totaled $5,645,862.21; and employer-paid professional organization membership and service club dues for individuals totaled $1,219,664.36. The following schedule is a summary of the information presented for the 2011-13 biennium:

Report on State Employee Service Awards, Employer-Paid Tuition, and Employer-Paid Professional Organization Memberships and Service Club Dues July 1, 2011, through June 30, 2013 (Sections 54-06-32 to 54-06-34)

Agency Number	Agency	Legislatively Authorized FTE Positions	State Employee Service Awards ($ Amount)	Employer-Paid Costs of Training or Educational Courses, Including Tuition and Fees ($ Amount)	Employer-Paid Professional Organization Membership and Service Club Dues for Individuals ($ Amount)
101	Governor	18	$0	$0	$390.00
108	Secretary of State	28	1,250.00	300.00	10,308.00
110	Office of Management and Budget	131.5	7,911.41	36,510.86	15,766.00
112	Information Technology Department	336.3	34,823.40	811,277.09	80,474.44
112.1	Center for Distance Education		10,399.09	19,392.96	11,941.65
117	State Auditor	50.8	4,830.33	21,284.02	27,946.18
120	State Treasurer	7	0	80.00	6,700.00
125	Attorney General	204	14,952.00	18,420.00	134,952.00
127	Tax Commissioner	134	12,900.00	64,967.25	3,436.00
140	Office of Administrative Hearings	5	39.00	4,440.00	2,140.00
188	Commission on Legal Counsel for Indigents	30	939.85	4,685.78	21,788.56
190	Retirement and Investment Office	18	1,345.00	17,229.00	10,755.00
192	Public Employees Retirement System	33	2,000.00	19,187.00	16,985.00
201	Department of Public Instruction	99.75	6,552.35	9,301.92	8,850.50
226	Department of Trust Lands	24.75	2,067.99	0	9,645.00
250	State Library	29.75	1,370.09	5,652.33	16,965.00
252	School for the Deaf	43.94	2,200.00	26,449.12	4,085.50
253	North Dakota Vision Services - School for the Blind	29.5	163.13	12,226.00	0
270	Board of Career and Technical Education	27.5	1,525.00	679.00	5,775.00
301	State Department of Health	344	22,150.00	93,984.00	23,515.00
305	Tobacco Prevention and Control Committee	5	250.00	6,052.00	385.00
313	Veterans' Home	120.72	4,811.70	26,569.25	21,688.15
316	Indian Affairs Commission	4	0	849.00	600.00
321	Department of Veterans' Affairs	7	0	0	1,900.00
325	Department of Human Services	2197.35	123,400.00	363,753.34	5,004.88
360	Protection and Advocacy Project	28.5	2,436.10	0	0
380	Job Service North Dakota	261.76	19,397.00	18,059.75	23,187.78
401	Insurance Commissioner	49.5	2,950.00	23,761.39	8,771.50
405	Industrial Commission	76.06	5,344.40	25,757.93	0
406	Department of Labor and Human Rights	12	514.03	3,371.00	5,250.00
408	Public Service Commission	43	3,927.92	25,447.03	888.00
412	Aeronautics Commission	6	0	1,177.00	2,088.00
413	Department of Financial Institutions	29	975.00	14,722.00	175.00
414	Securities Department	9	0	6,145.00	941.00
471	Bank of North Dakota	176.5	11,526.28	522,935.10	336,249.14
472	North Dakota Public Finance Authority	2.75	175.00	3,040.00	750.00
473	North Dakota Housing Finance Agency	46	4,200.00	19,437.95	450.00
475	Mill and Elevator	131	3,725.00	38,179.62	21,463.00
485	Workforce Safety and Insurance	247.14	12,500.00	313,151.55	68,158.04
504	Highway Patrol	198	6,482.00	335,344.00	360.00
530	Department of Corrections and Rehabilitation	794.29	46,730.00	240,806.51	101,670.00
540	Adjutant General	242	13,498.30	1,880,762.51	25,538.71
601	Department of Commerce	68.25	3,450.00	62,396.13	7,236.00
602	Agriculture Commissioner	77	2,250.00	48,438.00	10,062.00
607	Milk Marketing Board	6	200.00	0	0
611	North Dakota Soybean Council	7	0	3,696.00	80.00
616	State Seed Department	30	750.00	3,727.50	1,814.90
625	North Dakota State Wheat Commission	8	0	99.00	0
665	State Fair Association	27	0	0	1,651.45
670	Racing Commission	2	0	0	0
701	State Historical Society	63	3,014.64	37,255.85	688.94
709	Council on the Arts	5	151.50	72.00	0
720	Game and Fish Department	157	14,066.12	14,467.49	104,962.00
750	Parks and Recreation Department	54	3,205.17	17,858.00	10,496.49
770	State Water Commission	87	6,377.75	8,947.45	8,819.16
801	Department of Transportation	1063.5	71,400.00	413,516.53	35,916.39
	Total	7936.11	$495,126.55	$5,645,862.21	$1,219,664.36