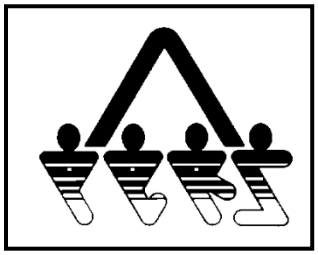
Legislative Employee Benefits Committee -June 2014

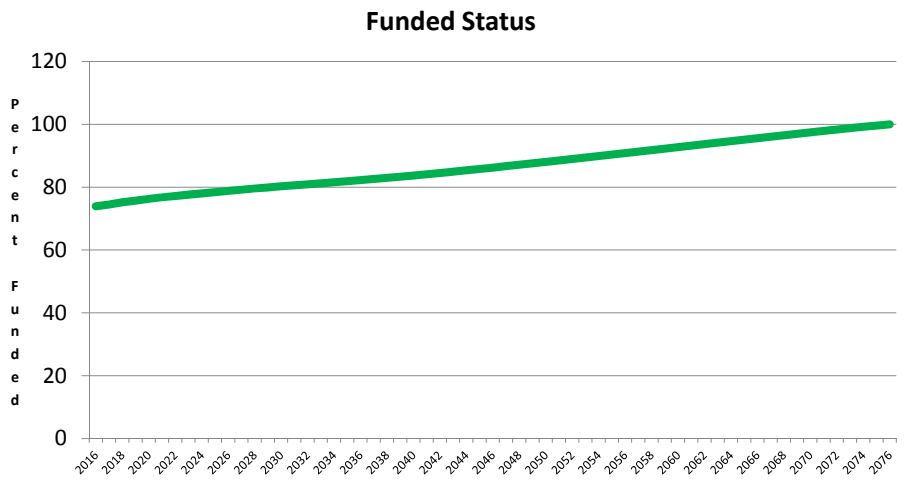


SEGAL PROJECTIONS

2

NDPERS – Main Systems

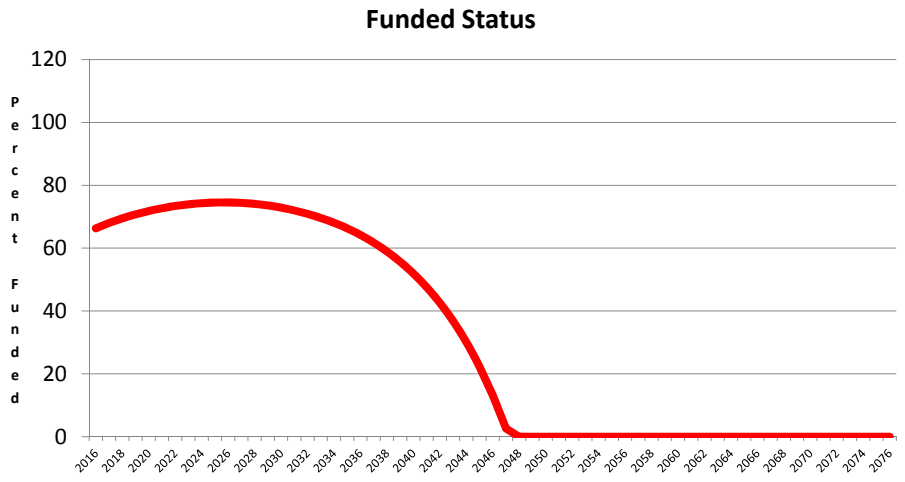
Existing Plan No Change



2076 Market Value of Assets: $125,373,000,000

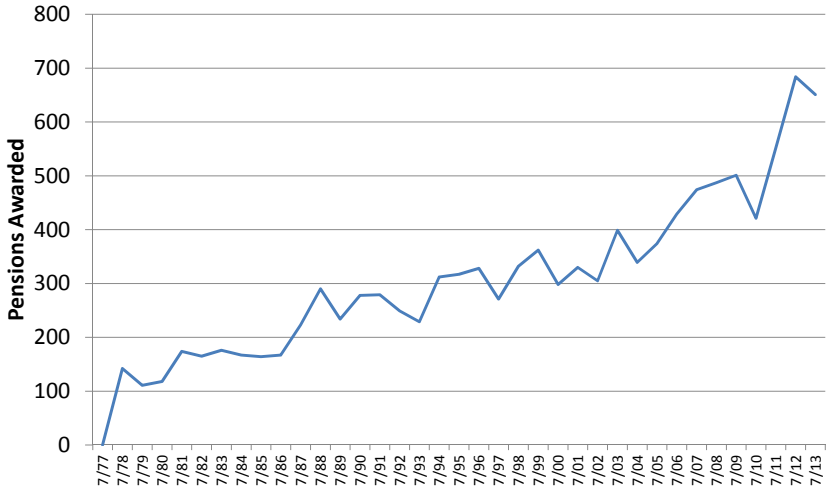
NDPERS – Main Systems

Plan Closed, Separated from Political Subs, No Payment



2100 Market Value of Assets: -$3,688,100,000

NDPERS Main System Annual New Pensions



Legal Considerations?

MEMBER BENEFIT CHANGES

Red (clearly illegal) ⟷ Green (clearly legal)

RETIREES	ACTIVE AND INACTIVE EMPLOYEES					NEW EMPLOYEES
No Benefit Changes	Vested Retirement Eligible (Normal)	Vested Retirement Eligible (Early)	Vested Accrued Benefits	Vested Future Benefits	Nonvested Any Benefits	Any Benefits
6,836	1,631	3,317	12,232		5,300	1,700 per Year

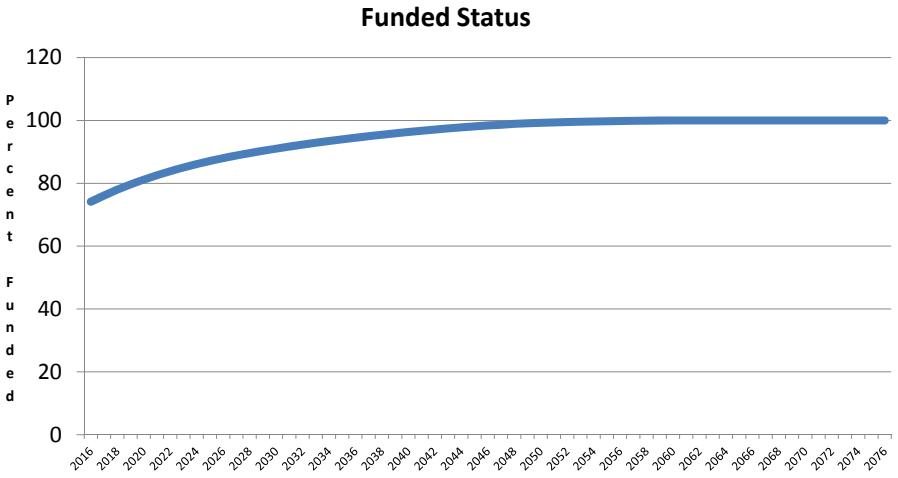
6

NDPERS Main System Active Members (Does not include deferred vested)	
13-May-14	
870	Age 65+
1,413	Rule of 85
523	Age 64 or Rule in 1 year
4,091	Age 55-63 Early Eligible
9,543	Vested
5,967	Non-Vested
22,407	Actives
2,806	Eligible in the next year

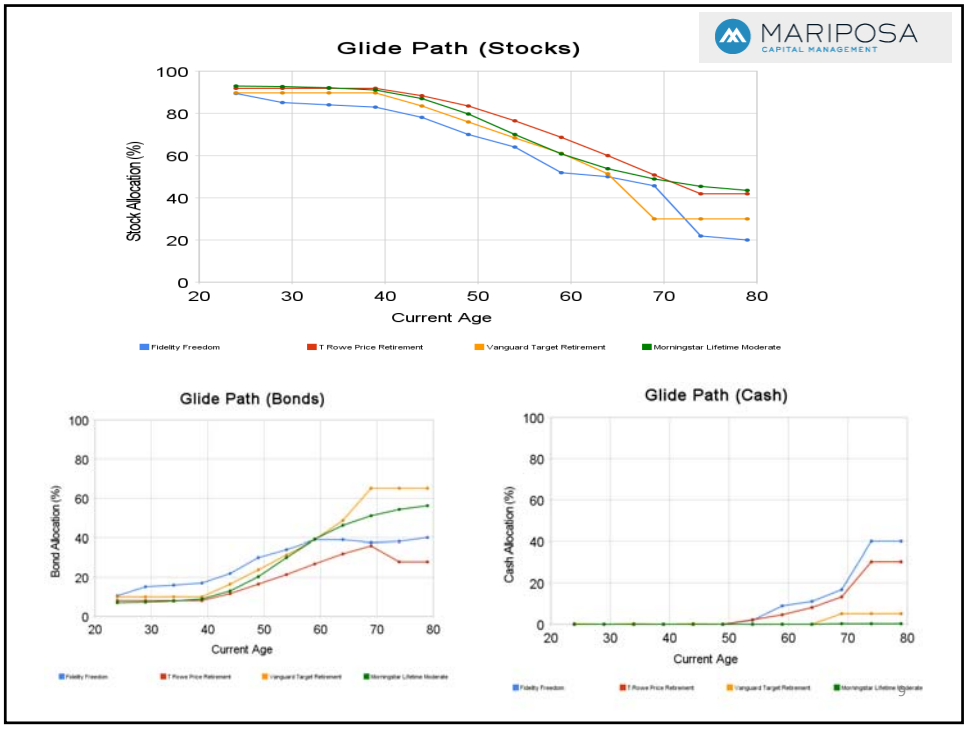
7

NDPERS – Main Systems

Plan Closed, Separated from Political Subs, $162.8 Million Payment

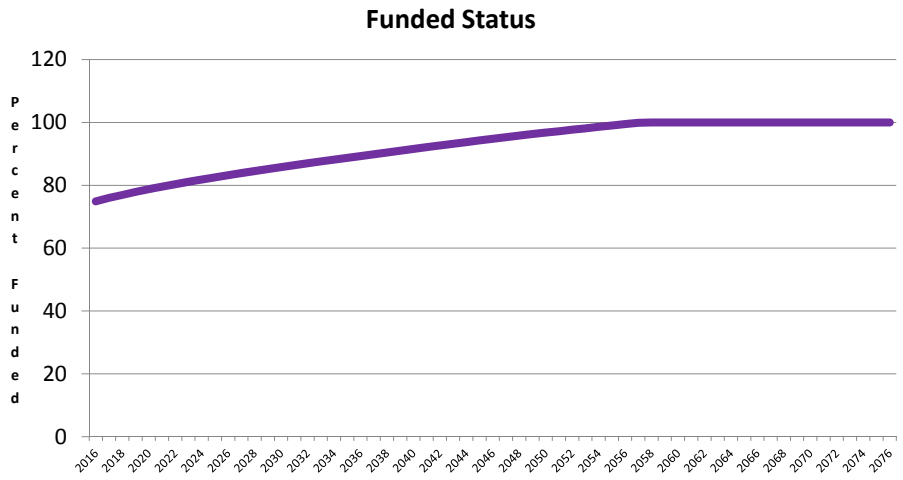


2100 Market Value of Assets: $0



NDPERS – Main Systems

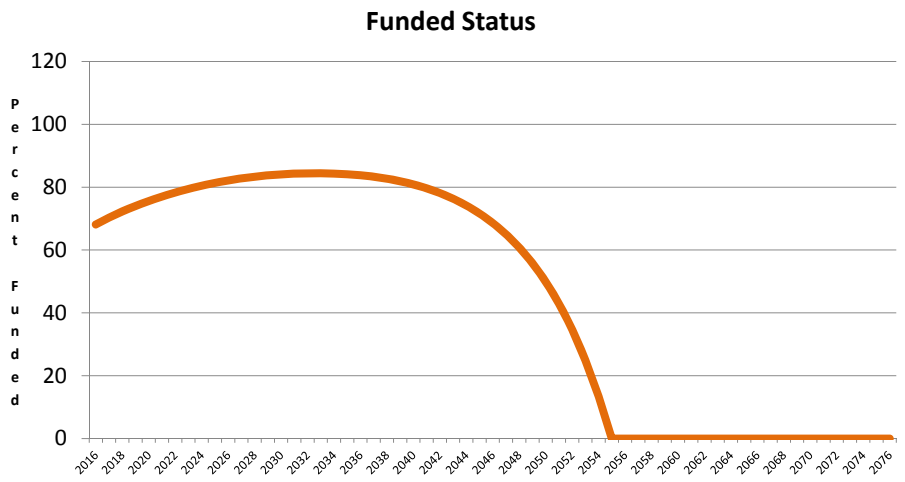
Political Subdivision Plan



2058 Market Value of Assets: $23,859,200,000

NDPERS – Main Systems

Existing Plan with No New Entrants



2100 Market Value of Assets: -$3,589,200,000

ACA

Health Premiums

Deloitte.

Deloitte Consulting LLP
555 12th Street NW
Suite 400
Washington, DC 20004
USA

Tel: +1 202 879 3094
Fax: +1 202 851 1111
www.deloitte.com

January 15, 2014

Sparb Collins
Executive Director
NDPERS
400 East Broadway Avenue
Suite 505
Bismarck, ND 58502
USA

Dear Sparb:

You asked Deloitte Consulting to prepare a letter explaining the changes that can be made to employee premium contributions to a grandfathered health plan without causing the plan to lose its grandfather status under the Affordable Care Act (ACA).

Following is a summary of the relevant rules relating to grandfather status under the ACA. It is for general information purposes only, and is not intended as legal or tax advice.

Overview of Grandfather Status Under the ACA

In general, a group health plan in existence on March 23, 2010 is eligible to be a "grandfathered health plan" for purposes of the ACA. A grandfathered plan is exempt from certain of the ACA's otherwise applicable group health plan mandates for so long as the plan remains grandfathered.

Briefly stated, there are five changes (measured from March 23, 2010) that will cause a plan to lose its grandfathered status. These are:

- Elimination of all or substantially all benefits to diagnose or treat a particular condition.
- Any increase in a percentage cost-sharing requirement (e.g., raising an individual's coinsurance requirement from 20% to 25%).
- Increase in a deductible or out-of-pocket maximum by an amount that exceeds medical inflation plus 15 percentage points.
- Increase in a copayment by an amount that exceeds medical inflation plus 15 percentage points (or, if greater, $5 increased by medical inflation).

- Elimination of all or substantially all benefits to diagnose or treat a particular condition.
- Any increase in a percentage cost-sharing requirement (e.g., raising an individual's coinsurance requirement from 20% to 25%).
- Increase in a deductible or out-of-pocket maximum by an amount that exceeds medical inflation plus 15 percentage points.
- Increase in a copayment by an amount that exceeds medical inflation plus 15 percentage points (or, if greater, $5 increased by medical inflation).
- Decrease in an employer's contribution rate towards the cost of coverage by more than 5 percentage points.

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There are currently 15,071 active State health contracts. Here is how a 5% premium cost shift would look:

Single: $472.74 X 5% = $23.64 X 3,384 = $79,988

Family: $1,139.34 X 5% = $56.97 X 11,687 = $665,773

Total: $ *745,761* per month

$ *8,949,136* per year

$*17,898,272* per biennium

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Plan Design

Plan Design Options - Grandfathered Status

	Existing Plan Design		Alt #1		Alt #2		Alt #3		Alt #4		Alt #5		Alt #6	
Cost Sharing	**PPO**	**Basic**	**PPO**	**Basic**	**PPO**	**Basic**	**PPO**	**Basic**	**PPO**	**Basic**	**PPO**	**Basic**	**PPO**	**Basic**
Single Deductible	$400	$400	***$450***	***$450***	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450
Family Deductible	$1,200	$1,200	***$1,350***	***$1,350***	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350
Single Coinsurance/ Max	80%/750	75%/1250	80%/750	75%/1250	***80%/900***	***75%/1500***	80%/900	75%/1500	80%/900	75%/1500	80%/900	75%/1500	80%/900	75%/1500
Family Coinsurance Max	80%/1500	75%/2500	80%/1500	75%/2500	***80%/1800***	***75%/3000***	80%/1800	75%/3000	80%/1800	75%/3000	80%/1800	75%/3000	80%/1800	75%/3000
Office call copayment	$25	$30	$25	$30	$25	$30	***$30***	***$35***	$30	$35	$30	$35	$30	$35
Emergency Rm copayment	$50	$50	$50	$50	$50	$50	***$60***	***$60***	$60	$60	$60	$60	$60	$60
RX: Formulary														
Generic	$5/85%	$5/85%	$5/85%	$5/85%	$5/85%	$5/85%	$5/85%	$5/85%	***$10/85%***	***$10/85%***	$10/85%	$10/85%	$10/85%	$10/85%
Brand	$20/75%	$20/75%	$20/75%	$20/75%	$20/75%	$20/75%	$20/75%	$20/75%	$20/75%	$20/75%	***$25/75%***	***$25/75%***	$25/75%	$25/75%
Co insurance Max	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	***$1,200***	***$1,200***
Nonformulary	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	$25/50%	***$30/50%***	***$30/50%***
Savings $1,001.72 BCBS State Premium			0.70%		0.60% 1.30%		0.55% 1.85%		0.80% 2.65%		0.30% 2.95%		0.13% 3.08%	
Plan Trend/ prem inc (7% estimate)	14.5% ($145.25)		13.8% ($138.24)		13.2% ($132.23)		12.65%($126.72)		11.85% ($118.70)		11.55% ($115.70)		11.42% ($114.40)	
$981.68 State Billed Premium Inc	$171.29		$164.28		$158.27		$152.76		$144.74		$141.74		$140.44	
Annual contract out of pocket (OOP) avg	$2,206.00 ($0.00)		$2,290.12 ($84.12)		$2,362.24 ($72.12)		$2,428.36 ($66.12)		$2,524.60 ($96.24)		2,560.60 ($36.00)		$2,576.20 ($15.60)	
Annual cost shift to OOP			$84.12		$156.24		$222.36		$318.60		$354.60		$370.20	
Avg annual % of pay ($50,844)	4.34%		4.50%		4.65%		4.78%		4.97%		5.04%		5.07%	
Total Add. State Premium (millions) (12,000 FTE's)	$49.3		$47.3		$45.6		$44.0		$41.7		$40.8		$40.4	
Total Add. State Premium - general funds (millions) (55%)	$27.1		$26.0		$25.1		$24.2		$22.9		$22.5		$22.2	
Total Additional State Premium (millions) (12,000 FTE's) ($26.04 Buydown Continued)	$41.8		$39.8		$38.1		$36.5		$34.2		$33.3		$32.9	
Total Add. State Premium - general funds (millions) (55%) ($26.04 Buydown Continued)	$23.0		$21.9		$20.9		$20.1		$18.8		$18.3		$18.1	

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2013-15 Premiums

BCBS Premium	**Sanford Premium**
12.98%	**25.49%**
$1001.72	$1112.62

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2009-11 Premium

$825.66

2011-13 Premium

$886.62

2013-15 PREMIUM

$981.68

•2009-11 to 2011-13 Two year increase is 7.38% or about 3.7% per year.
•Includes extending coverage to dependents and eliminating the lifetime max.
•The cost assumes we maintain our grandfathered status.

•2011-13 to 2013-15 Two year increase is 10.72% or about 5.5% per year.

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Active State Renewal Rate

NDPERS 2013- 2015 Allocation and 2015-2017 Projection	NDPERS 2015-2017 Planning Projections			
	5.0% Trend	7.0% Trend	9.0% Trend	10.0% Trend
2009-2011 rate	$825.66	$825.66	$825.66	$825.66
2011-2013 rate	$886.62	$886.62	$886.62	$886.62
2013-2015 rate ($998.92 BCBS)	$981.68	$981.68	$981.68	$981.68
2013-2015 % increase	10.72%	10.72%	10.72%	10.72%
Projected 2015-2017 rate	$1101.31	$1143.66	$1186.82	$1208.69
2015-2017 $ increase	$102.39	$144.74	$187.90	$209.77
2015-2017 % increase	12.19%	16.50%	20.09%	23.12%
Total State additional funds*	$29,488,000	$41,685,000	$54,115,000	$60,414,000
Total additional general funds**	$16,218,000	$22,927,000	$29,763,000	$33,228,000

* - For biennium assuming 12,000 State FTE's
** - Assumed to be 55% of total funds

Additional $ estimate assumes same level of buy down as this biennium

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PROPOSED LEGISLATION

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The Challenge

- Stop the downward trend
- Stabilize the plans
- Put them on a track back to 100%

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Retirement

Judges System

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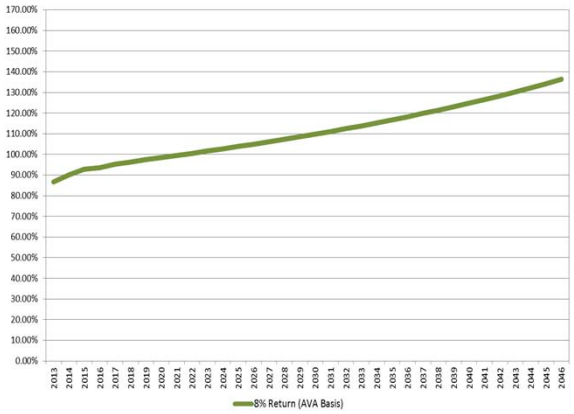
Judges Retirement Plan



- Stop the downward trend ☑
- Stabilize the plans ☑
- Put them on a track back to 100% ☑

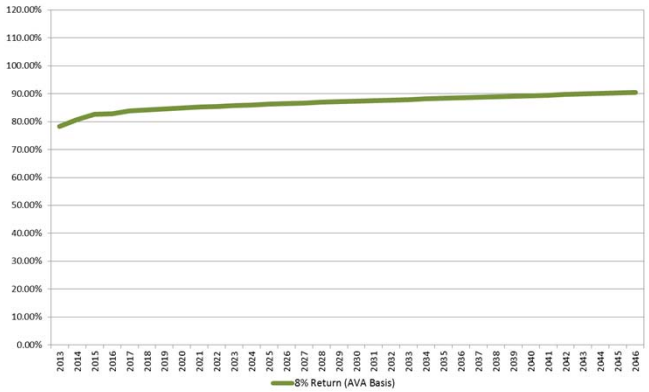
22

Retirement

National Guard

23

National Guard Retirement Plan



- Stop the downward trend ✓
- Stabilize the plan ✓
- Put them on a track back to 100%

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Retirement

Law

Enforcement

Plans

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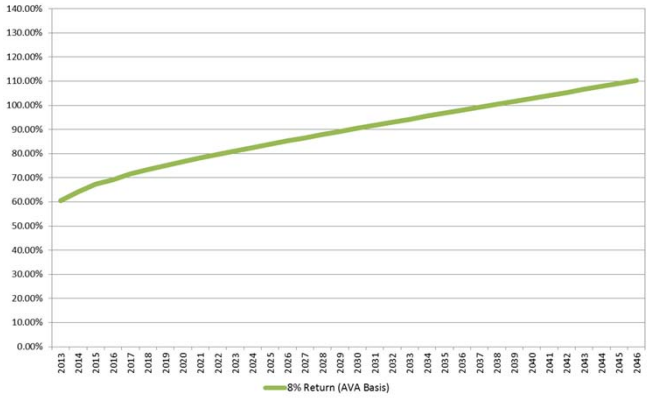
Law Enforcement Retirement Plan

with Prior Service



- Stop the downward trend ✓
- Stabilize the plan ✓
- Put them on a track back to 100% ✓

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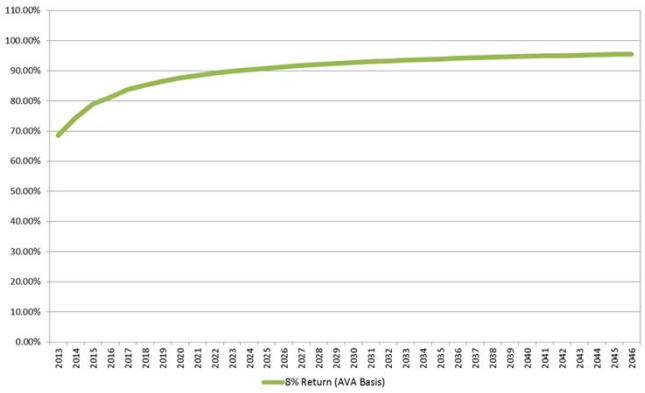
Law Enforcement Retirement Plan

no Prior Service



- Stop the downward trend ✓
- Stabilize the plan ✓
- Put them on a track back to 100%

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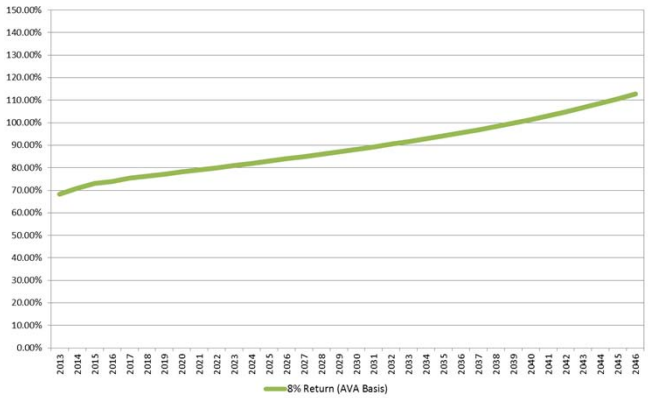
RETIREMENT

HIGHWAY PATROL
RETIREMENT SYSTEM

Highway Patrol Retirement Plan



- Stop the downward trend ☑
- Stabilize the plan ☑
- Put them on a track back to 100% ☑

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Where are we at

	Judges	Nat Guard	Law Enf (with)	Law Enf (without)	Highway Patrol
Stop downward trend	☑	☑	☑	☑	☑
Stabilize Plan	☑	☑	☑	☑	☑
Get on track to 100%	☑		☑	☑	☑

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Retirement

Main System

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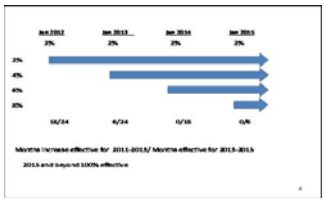
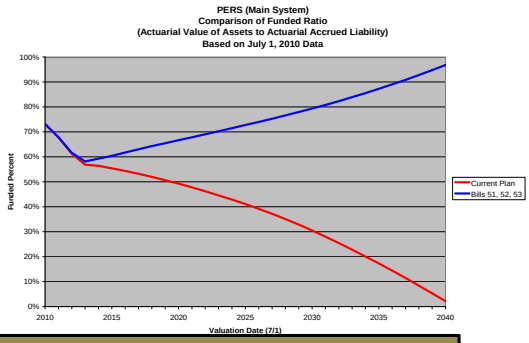
2011 Session Recovery Plan





SHARED RECOVERY PLAN

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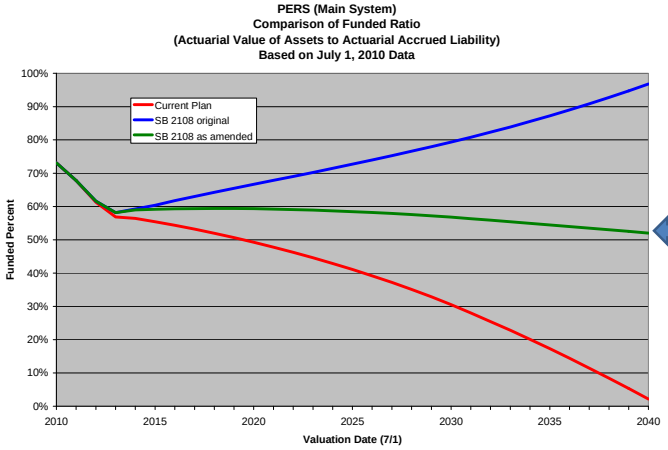
2011 Considerations



Passed 2 years of the 4 year recovery plan – deferred consideration of last 2 years to the 2013 session

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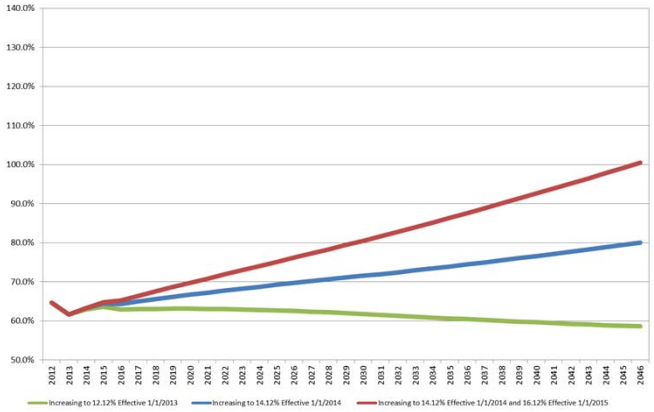
2013 Considerations

(projects assume DC plan option is funded in 2017 or not continued)

- Proposed last two years of recovery plan - Approved 1 year



As proposed in 2013

As approved in 2013

As approved in 2011

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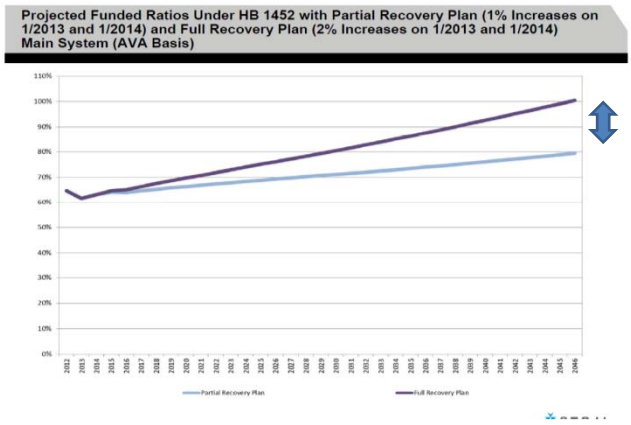
Going Forward

(projections assume DC plan option is funded in 2017 or not continued)

- How do we close the gap and get to 100%?



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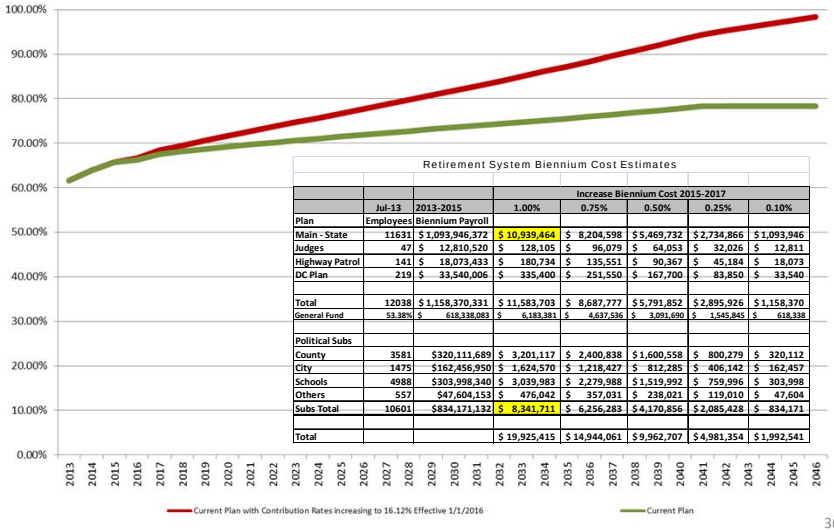
2013 Session Recovery Plan (last half)



Retirement System Biennium Cost Estimates

			Increase Biennium Cost 2015-2017				
	Jul-13	2013-2015	1.00%	0.75%	0.50%	0.25%	0.10%
Plan	Employees	Biennium Payroll					
Main - State	11631	$ 1,093,946,372	$ 10,939,464	$ 8,204,598	$ 5,469,732	$ 2,734,866	$ 1,093,946
Judges	47	$ 12,810,520	$ 128,105	$ 96,079	$ 64,053	$ 32,026	$ 12,811
Highway Patrol	141	$ 18,073,433	$ 180,734	$ 135,551	$ 90,367	$ 45,184	$ 18,073
DC Plan	219	$ 33,540,006	$ 335,400	$ 251,550	$ 167,700	$ 83,850	$ 33,540
Total	12038	$ 1,158,370,331	$ 11,583,703	$ 8,687,777	$ 5,791,852	$ 2,895,926	$ 1,158,370
General Fund	53.38%	$ 618,338,083	$ 6,183,381	$ 4,637,536	$ 3,091,690	$ 1,545,845	$ 618,338
Political Subs							
County	3581	$320,111,689	$ 3,201,117	$ 2,400,838	$ 1,600,558	$ 800,279	$ 320,112
City	1475	$162,456,950	$ 1,624,570	$ 1,218,427	$ 812,285	$ 406,142	$ 162,457
Schools	4988	$303,998,340	$ 3,039,983	$ 2,279,988	$ 1,519,992	$ 759,996	$ 303,998
Others	557	$47,604,153	$ 476,042	$ 357,031	$ 238,021	$ 119,010	$ 47,604
Subs Total	10601	$834,171,132	$ 8,341,711	$ 6,256,283	$ 4,170,856	$ 2,085,428	$ 834,171
Total			$ 19,925,415	$ 14,944,061	$ 9,962,707	$ 4,981,354	$ 1,992,541

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Going Forward

(projections assume DC plan option is funded in 2017 or not continued)

- *How do we get to 100%?:*
  - Option #1 - Submit a bill for last of recovery plan contributions or
  - **Option #2** - ***Submit a bill to enact some of the changes made by TFFR except have them apply to new employees only***
    - ***Decrease interest on member accounts to 6%***
    - ***Change early retirement reduction from 6% per year to 8% per year***
    - ***Change FAS to high 5 years instead of 3 years***
    - ***Change rule of 85 to 90 with minimum age of 60***

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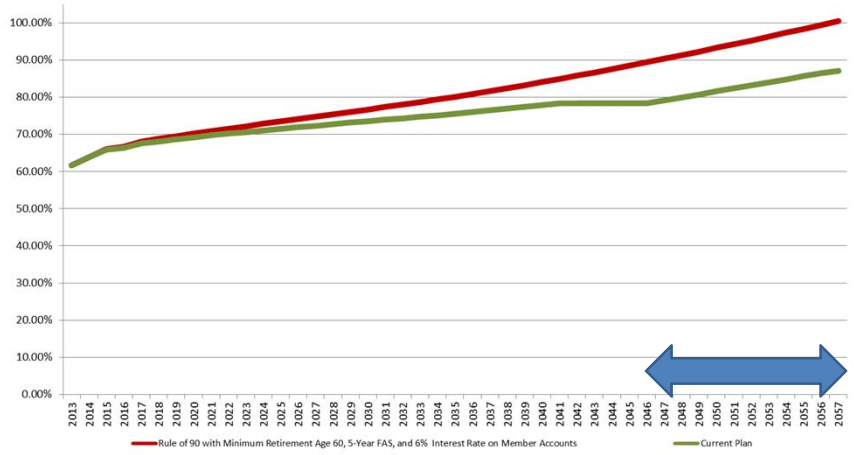
Projected Funded Ratios (AVA Basis) – Main System: 5-Year Final Average Salary, Rule of 90 with Minimum Retirement Age 60 (within 10 years), and 6% Interest Rate on Member Accounts



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Going Forward

(projections assume DC plan option is funded in 2017 or not continued)

- *How do we get to 100% ?:*
  - Option #1 - Submit a bill for last of recovery plan contributions or
  - Option #2 - Submit a bill to change to enact some of the changes made by TFFR except have them apply to new employees only
    - Decrease interest on member accounts to 6%
    - Change early retirement reduction from 6% per year to 8% per year
    - Change FAS to high 5 years instead of 3 years
    - Change rule of 85 to 90 with minimum age of 60
  - **Option # 3** – Make no changes - rely on investment returns

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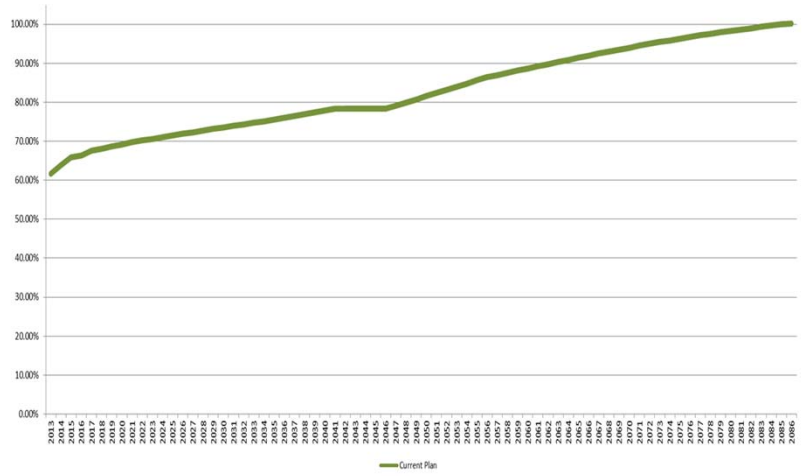
Projected Funded Ratios (AVA Basis) – Main System



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OPTION #1 & 2 are in the proposed bill

- *Will result in the plan becoming 100% funded sooner*
- *Reduce long term liabilities*
- *Lower long term contributions*
- *Eliminate GASB liability on State & PS financials sooner*

North Dakota Public Employees Retirement System
Projected Contribution Requirements Based on July 1, 2013 Actuarial Valuation
Main Systems – Includes Plan Changes Effective January 1, 2016* and
2% Increase to Contribution Rate effective January 1, 2016

Plan Year Beginning	Market Value of Assets (BOY)	Contributions	Earnings	Expenses (Benefits)	Market Value of Assets (EOY)	Funded Status
	(1)	(2)	(3)	(4)	(5)	(6)
07/01/2014	$2,048,700,000	$127,000,000	$164,000,000	-$125,400,000	$2,214,200,000	72.2%
07/01/2015	2,214,200,000	65,900,000	86,800,000	-67,700,000	2,299,200,000	73.1%
01/01/2016	2,299,200,000	75,300,000	90,500,000	-67,700,000	2,397,300,000	73.4%
07/01/2016	2,397,300,000	156,300,000	192,100,000	-147,600,000	2,598,200,000	74.2%
07/01/2017	2,598,200,000	162,300,000	208,000,000	-159,000,000	2,809,600,000	76.0%
07/01/2018	2,809,600,000	168,600,000	224,600,000	-171,700,000	3,031,100,000	77.4%
07/01/2019	3,031,100,000	176,200,000	242,100,000	-185,400,000	3,263,900,000	78.8%
07/01/2020	3,263,900,000	184,100,000	260,500,000	-200,300,000	3,508,200,000	80.1%
07/01/2021	3,508,200,000	192,400,000	279,700,000	-216,300,000	3,764,000,000	81.4%
07/01/2022	3,764,000,000	201,100,000	299,800,000	-233,600,000	4,031,300,000	82.7%
07/01/2023	4,031,300,000	210,100,000	321,000,000	-247,600,000	4,314,800,000	84.0%
07/01/2024	4,314,800,000	219,600,000	343,500,000	-262,500,000	4,615,300,000	85.3%
07/01/2025	4,615,300,000	229,400,000	367,300,000	-278,200,000	4,933,800,000	86.6%
07/01/2026	4,933,800,000	239,800,000	392,500,000	-294,900,000	5,271,100,000	87.9%
07/01/2027	5,271,100,000	250,600,000	419,200,000	-312,600,000	5,628,300,000	89.2%
07/01/2028	5,628,300,000	261,800,000	447,500,000	-331,400,000	6,006,200,000	90.6%
07/01/2029	6,006,200,000	273,600,000	477,400,000	-351,300,000	6,405,900,000	91.9%
07/01/2030	6,405,900,000	285,900,000	509,000,000	-372,300,000	6,828,500,000	93.3%
07/01/2031	6,828,500,000	298,800,000	542,400,000	-394,700,000	7,275,100,000	94.7%
07/01/2032	7,275,100,000	312,200,000	577,800,000	-418,400,000	7,746,700,000	96.1%
07/01/2033	7,746,700,000	326,300,000	615,400,000	-435,100,000	8,253,300,000	97.6%
07/01/2034	8,253,300,000	341,000,000	655,800,000	-452,500,000	8,797,500,000	99.1%
07/01/2035	8,797,500,000	356,300,000	699,200,000	-470,600,000	9,382,500,000	100.0%
Total		$5,114,600,000	$8,416,100,000	-$6,196,800,000		

For participants with less than 10 years of Vesting Service, Rule of 90 with Minimum Retirement Age 60 and 8% Early Retirement Reduction per year before Normal Retirement Age, 6% Interest Crediting on Employee Account Balances and 5-Year Final Average Salary Formula

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Where are we at

	Judges	Nat Guard	Law Enf (with)	Law Enf (without)	Highway Patrol	Main Retirement Plan
Stop downward trend	✓	✓	✓	✓	✓	✓
Stabilize Plan	✓	✓	✓	✓	✓	✓
Get on track to 100%	✓		✓	✓	✓	✓

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Retirement

DC Plan

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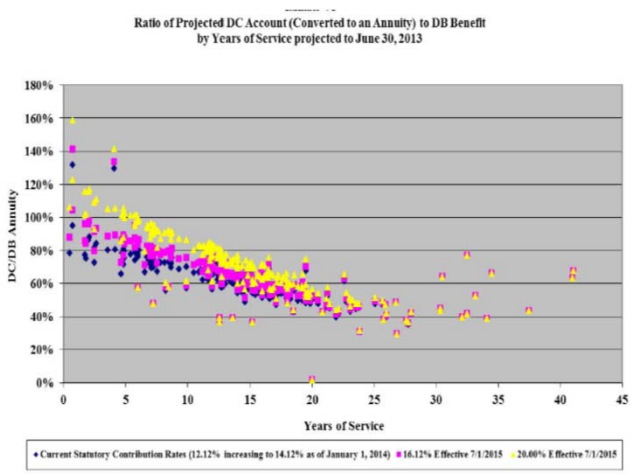

14.12 is providing about 80% of DB plan
16.12 would be closer to providing DB benefit.

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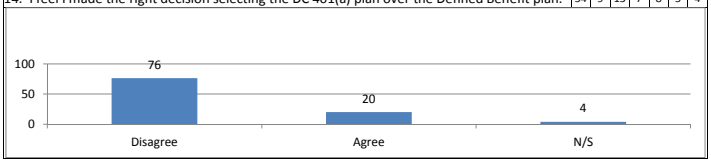
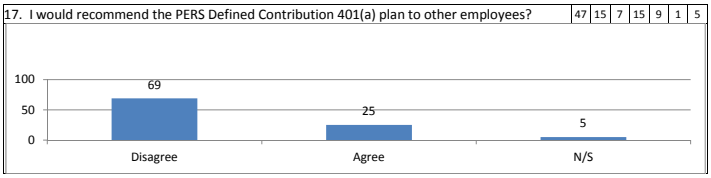
DC Questions

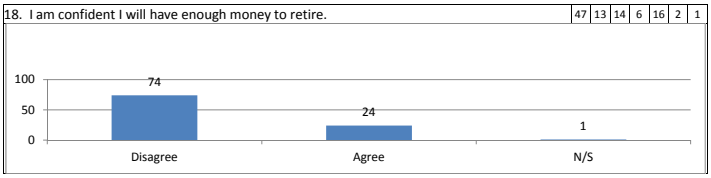
14. I feel I made the right decision selecting the DC 401(a) plan over the Defined Benefit plan.	54	9	13	7	8	5	4



17. I would recommend the PERS Defined Contribution 401(a) plan to other employees?	47	15	7	15	9	1	5



18. I am confident I will have enough money to retire.	47	13	14	6	16	2	1



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PLAN FEATURES/DESIGN

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Plan Features Considerations

- **Disability – DC plan is balance only; Hybrid plan is 25% of FAS @ 6 months**

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Plan Features Considerations

- Disability – DC plan is balance only; Hybrid plan is 25% of FAS @ 6 months
- **Leave time for financial planning – People in DC plan need to regularly engage in financial planning in order to be successful**

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Plan Features Considerations

- Disability – DC plan is balance only; Hybrid plan is 25% of FAS @ 6 months
- Leave time for financial planning – People in DC plan need to regularly engage in financial planning in order to be successful
- **Death Benefit – DC is cash balance; Hybrid plan is 50% of accrued benefit for life of spouse.**

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DC Plan Features

Option #1	Option #2	Option #3	Option #4
Increase contributions to the plan	Provide statutory language to provide time for financial planning	Increase life insurance paid by employer	Add employer paid disability coverage

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