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October 16, 2014

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

Re: Technical Comments – Bill Draft No. 15.0139.02000

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 15.0139.0020:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan)

Summary: The proposed legislation 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. In addition, the bill would also add Rule of 85 eligibility for normal retirement benefits to National Guard security officers and firefighters.

Actuarial Cost Analysis: The proposed legislation would not have a material impact on the overall actuarial cost of the Hybrid Plan. If assets are transferred between cost groups as a result of the bill, the cost rates associated with those groups could change as discussed below.

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

General

The Hybrid Plan provides very similar levels of benefits to National Guard security officers, firefighters, and law enforcement with prior main service members including the benefit accrual formula (2% of final average salary times years of service), death benefits, and optional forms of retirement benefits. By aligning 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 plan with prior main service members, National Guard security officers and firefighters would experience an increase in required member contributions from 4.5% of monthly salary to 6.0% of monthly salary in 2015 and then to 5.5%

of monthly salary in 2016 . We assume the employer contribution rate for National Guard security officers and firefighters will be identical to the employer contribution rate for law enforcement with prior main service members, as approved by the PERS board. Thus, the National Guard's employer contribution rate may also increase under this bill (from 7.00% to 9.81%).

Benefits Policy Issues

➤ Adequacy of Retirement Benefits

No impact.

➤ Benefits Equity and Group Integrity

Under the bill, National Guard security officers and firefighters would pay the same member contributions as law enforcement with prior main service members would become eligible to retire under the Rule of 85.

➤ Competitiveness

No impact.

➤ Purchasing Power Retention

No impact.

➤ Preservation of Benefits

Increased funding to the System in the form of additional member contributions from National Guard security officers and firefighters provides additional funds to pay down the unfunded actuarial accrued liability of the System at a faster rate. By setting up this additional funding mechanism it will help preserve the value of benefits from the System for future years.

➤ Portability

No impact.

➤ Ancillary Benefits

- ◆ No impact.
- ◆ Social Security: No impact.

Funding Policy Issues

➤ Actuarial Impacts

Given that the National Guard participants have similar same ages, service and salaries as the Law Enforcement with Prior Main Service participants, the bill does not create a material change in actuarial costs. The July 1, 2014 actuarial valuation shows the following information.

	National Guard	Law Enforcement with Prior Main Service
Average age	37.6	38.3
Average service credits	6.6	7.0
Average compensation	\$44,388	\$53,939
Total normal cost	10.30% of pay	10.62% of pay
Member contribution	4.50%	5.50%
Employer normal cost	5.80%	5.12%

➤ Investment Impacts

- ◆ Asset Allocation: The bill does not create new investment asset allocation issues.
- ◆ Cash Flow Impacts: The bill will create additional cash flow to the System.

Administration Issues

➤ Implementation Issues

Pursuant to rules under Internal Revenue Code section 414(h), the National Guard would be required to take formal, written action to elect to pick up the increased member contribution amounts, in order for such contributions to be made on a pre-tax basis.

➤ Administrative Costs

The bill will have minimal effect on administrative resources.

➤ Needed Authority

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

➤ Cross Impact on Other Plans

No impact.

➤ Employee Communications

Employee communications may be necessary to describe the impact of increased member contributions on pay to National Guard security officers and firefighters.

➤ Miscellaneous and Drafting Issues

Since this bill would increase member contribution rates for security officers and firefighters, the National Guard would need to determine whether they can pay for the increased member contributions from their own funds as a salary supplement or would reduce members' current or future salary, while also perhaps paying an increased employer contribution rate. If the National Guard decides to reduce members' salary to pay for the increased level of member contributions, they must pay and report FICA taxes on the member contribution amounts made via salary reduction.

Although North Dakota Century Code (NDCC) section 54-52-06.2 indicates that both National Guard security officers and firefighters will participate under NDCC section 54-52-06.4, the bill does not amend NDCC section 54-52-06.4 to include firefighters in the section title or substantive language describing employee contributions or with other references to security officers in this section.

The actuarial results summarized herein are based on the actuarial valuation as of July 1, 2013, which was completed under the supervision of Tammy Dixon, FSA, MAAA, EA.

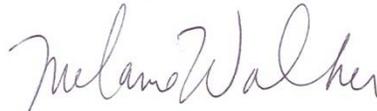
The information contained in this letter is provided within our role as the plan's actuary and benefits consultant and is not intended to provide tax or legal advice. We recommend that you address all issues described herein with your legal counsel. Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, FCA, EA
Vice President and Consulting Actuary

Sincerely,



Melanie Walker, JD
Vice President

/cz

cc: Tammy Dixon
Laura Mitchell