

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Thursday, June 7, 2012
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Dick Dever, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Dick Dever, Ray Holmberg, Ralph L. Kilzer, Carolyn C. Nelson, Ronald Sorvaag; Representatives Randy Boehning, Roger Brabandt, Betty Grande, Ron Guggisberg, Scott Louser, Ralph Metcalf, John D. Wall

Member absent: Senator Karen K. Krebsbach

Others present: See [Appendix A](#)

It was moved by Representative Grande, seconded by Senator Holmberg, and carried on a voice vote that the minutes of the January 12, 2012, meeting be approved as distributed.

At the request of Chairman Dever, Committee Counsel distributed a copy of the January 2012 *Report Card Newsletter* and a copy of the January 2012 *Retirement Today Newsletter* published by the Teachers' Fund for Retirement (TFFR) (on file in the Legislative Council office).

STATE INVESTMENT BOARD

Chairman Dever recognized Ms. Fay Kopp, Interim Executive Director, Retirement and Investment Office. Ms. Kopp said Mr. John Geissinger, former Executive Director and Chief Investment Officer, Retirement and Investment Office, resigned May 31, 2012, to return to the East Coast. Ms. Kopp said Mr. Geissinger enjoyed working in North Dakota but determined to return to the East Coast to be closer to his family members. She said the State Investment Board has established a committee to conduct a search for a new Chief Investment Officer. She said there is no timeline for selecting a new Chief Investment Officer. She said she will serve as Interim Executive Director of the Retirement and Investment Office and Mr. Darren Schulz will serve as Interim Chief Investment Officer until a replacement is found. She said the Retirement and Investment Office has an experienced staff which will ensure continuity while a new Executive Director and Chief Investment Officer is selected.

Chairman Dever recognized Mr. Schulz. Mr. Schulz reviewed investment returns for TFFR and the Public Employees Retirement System (PERS) retirement funds and the current investment climate. A copy of his PowerPoint presentation is attached as [Appendix B](#).

Mr. Schulz said TFFR had a return of 2 percent for the past year, and PERS had a return of 2.88 percent

during the same period. He said the long-term investment strategy remains sound. He said over the past 30 years, TFFR has returned 8.94 percent per year, and PERS has returned 9.68 percent per year. He said the State Investment Board has adopted a new target asset allocation framework for PERS, TFFR, and other pension clients. He said under the reallocation, commitment to real assets was increased, which will provide greater diversification and expected inflation protection. He said the fixed income portion of the assets was restructured to deliver enhanced risk-adjusted returns, and the performance monitoring process was enhanced to evaluate the risk-adjusted performance of portfolios. He said the global equity mandate structure is currently being reviewed, and restructuring is anticipated this fall.

Mr. Schulz said financial markets remain highly dependent on global monetary and fiscal policy. He said central banks have been aggressively combating inflation and slower growth, but it remains to be seen when the world is ready to shift into a self-reinforcing economic expansion. Given this backdrop, he said, investors are highly nervous and attuned to any signs of negative news. He said risky asset prices will depend upon the gravitational effects of a disorderly situation in the Euro-zone, economic growth in the United States and China, and further intervention by central banks.

Concerning the Westridge/WG trading issue, Mr. Schulz said the State Investment Board, along with other investor victims, has appealed the receiver's initial distribution of the Westridge/WG trading assets. He said oral arguments on the appeal were held by the Second Circuit Court of Appeals on May 16 with a decision by the court pending.

In response to a question from Senator Dever, Mr. Schulz said the long-term actuarially assumed rate of return of 8 percent is reasonable. He said long-term results have borne this out.

TEACHERS' FUND FOR RETIREMENT Employee Benefits Programs Committee Bill No. 99

Chairman Dever recognized Ms. Kopp. Ms. Kopp reviewed Employee Benefits Programs Committee Bill No. 99. She said the bill draft was submitted by the TFFR Board and makes a number of technical and administrative changes to the TFFR program. A copy of her written comments is attached as [Appendix C](#).

**Employee Benefits Programs Committee
Bill No. 43**

Chairman Dever recognized Representative Louser. Representative Louser reviewed Employee Benefits Programs Committee Bill No. 43. He said the bill draft would extend the expiration of the increase in TFFR employer contributions until the ratio of the actuarial value of assets to the actuarial accrued liability of TFFR increases to 100 percent based upon the actuarial value of assets rather than 90 percent based on the actuarial value of assets.

**PUBLIC EMPLOYEES
RETIREMENT SYSTEM**

**Employee Benefits Programs Committee
Bill No. 100**

Chairman Dever recognized Mr. Sparb Collins, Executive Director, Public Employees Retirement System. Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 100. A copy of his PowerPoint presentation is attached as [Appendix D](#). He said this bill draft is the administrative bill for the Highway Patrolmen's retirement plan and PERS.

In response to a question from Senator Holmberg, Mr. Collins said PERS undergoes an experience review every five years. He said the board's actuarial consultants reviewed the actuarial assumed rate of return as well as economic and demographic factors. He said the most recent review was conducted two years ago, and there were no recommendations for change at that time.

Chairman Dever recognized Senator Holmberg who distributed a packet (on file in the Legislative Council office) of news articles compiled by the Council of State Governments concerning state efforts to stabilize pension plans.

In response to Mr. Collins' comments, Senator Holmberg said the 8 percent actuarial assumed rate of return is one assumption that should be reviewed.

**Employee Benefits Programs Committee
Bill No. 103**

Chairman Dever recognized Mr. Collins. Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 103. A copy of his PowerPoint presentation is attached as [Appendix E](#). He said the bill draft increases member employer and employee contributions under the Highway Patrolmen's retirement plan and PERS. He said the challenges faced by PERS are to reverse the funding trend, stabilize the retirement funds, and establish a positive trend moving forward.

**Employee Benefits Programs Committee
Bill No. 101**

Chairman Dever recognized Mr. Collins. Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 101. A copy of his PowerPoint presentation is attached as [Appendix F](#). He said the bill draft changes the definition of temporary employee to match that in the federal Affordable Care Act (ACA) and sets the premium level to that in the Act. He said the bill draft modifies the language for political subdivisions to allow them to set up their own health savings accounts instead of requiring them to join the state health savings account plan if they select the high-deductible health plan. Finally, he said, the bill draft sets the effective date relating to the ACA to match the federal implementation date. He noted the bill draft will evolve over the interim as federal regulations are adopted to implement the ACA.

**Employee Benefits Programs Committee
Bill No. 102**

Chairman Dever recognized Mr. Collins. Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 102. A copy of his PowerPoint presentation is attached as [Appendix G](#). He said the bill draft closes the pre-Medicare plan to retirees after December 31, 2013. However, he noted, legislators would still be able to participate in the plan. He said the bill draft would allow the retiree health credit to be used on additional coverages, such as prescription drugs, dental plans, vision plans, and long-term care insurance. In addition, he said, the bill draft allows the credit to be used for any health coverage. He said the bill draft would become effective January 1, 2014, contingent on implementation of federal ACA provisions.

In response to a question from Representative Grande, Mr. Collins said approximately 600 to 700 individuals are in the pre-Medicare group under the uniform group health care insurance program.

It was moved by Senator Nelson, seconded by Senator Holmberg, and carried on a voice vote that the committee assume jurisdiction over the bill drafts submitted to the committee and that the TFFR Board of Trustees and PERS Board, as appropriate, be requested to obtain an actuarial analysis of each bill draft submitted to the committee or, if the bill draft does not have an actuarial effect on a fund, to provide any other information that would assist the committee in making a recommendation concerning the bill draft.

No further business appearing, Chairman Dever adjourned the meeting at 11:40 a.m.

Jeffrey N. Nelson
Committee Counsel

ATTACH:7