

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, October 27, 2015
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Karen K. Krebsbach, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Karen K. Krebsbach, Dick Dever, Ralph Kilzer, Carolyn C. Nelson, and Nicole Poolman; Representatives Randy Boehning, Jason Dockter, Jessica Haak, Gary Kreidt, Vernon Laning, and Kenton Onstad

Members absent: Senator Erin Oban and Representative Pamela Anderson

Others present: See [Appendix A](#)

The Legislative Council staff reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#) for the 2015-16 interim.

At the request of Chairman Krebsbach, the Legislative Council staff reviewed a memorandum entitled [Employee Benefits Programs Committee - Statutory Responsibilities and Assigned Studies - Background Memorandum](#) describing the statutory responsibilities, past procedures, and assigned studies of the committee. The Legislative Council staff said the committee has the authority to establish rules for its operation, including rules relating to the submission and review of proposals and establishment of standards for actuarial review. In prior years, the committee has limited the persons and entities permitted to submit to the committee legislative proposals affecting retirement programs to legislators and state agencies with the bill introduction privilege and required the proposals be in bill draft form and submitted to the committee before April 1 of even-numbered years to allow enough time for actuarial evaluation. The committee has the authority to waive its self-imposed deadline for proposals received after any deadline established by the committee.

It was moved by Representative Laning, seconded by Senator Dever, and carried on a roll call vote that the committee accept only legislative proposals affecting retirement programs that are submitted to the committee by legislators and state agencies with the bill introduction privilege, that the proposals be in bill draft form, and that the proposals be submitted to the committee before April 1, 2016. Senators Krebsbach, Dever, Kilzer, and Nelson and Representatives Boehning, Dockter, Haak, Kreidt, Laning, and Onstad voted "aye." No negative votes were cast.

OVERVIEW OF RETIREMENT, INSURANCE, AND RETIREE HEALTH INSURANCE PROGRAMS

Mr. Sparb Collins, Executive Director, Public Employees Retirement System (PERS), presented information ([Appendix B](#)) regarding PERS. Mr. Collins said PERS programs include retirement, group insurance, flex comp, and employee assistance. Mr. Collins said PERS retirement programs serve 32,191 unique users, including 31,261 in the main defined benefit plan. He said as of July 2014, the main defined benefit plan had a fund balance of \$2,281.6 million. Mr. Collins said the PERS main defined benefit plan is funded with a 7.12 percent employer contribution, a 7 percent employee contribution (4 percent of the employee contribution is paid by the employer), and investment earnings. He said the retirement benefit payments of the main defined benefit plan are calculated by multiplying 2 percent of the employee's final average salary by the employee's years of credited service. Mr. Collins said a cost of living adjustment to maintain the purchasing power of retirement benefits had not been made since August 2001. He said the funded ratio, using market value, of the main defined benefit plan has fallen below 80 percent. He said a recovery plan was enacted during the 2011 and 2013 legislative sessions to improve the defined benefit plan's funded ratio. Mr. Collins said the last step of the recovery plan, an additional 2 percent contribution increase split between the employer and the employee, is still needed. If approved, he said this addition is anticipated to return the plan to a 100 percent funded ratio in the future.

Mr. Collins said the PERS deferred compensation plan is a voluntary, supplemental retirement plan which allows a member to make pretax deductions from the member's salary with the intent to receive the deferred amount at a later date, such as retirement.

Mr. Collins said the PERS defined contribution retirement plan has 240 active participants. He said 2015 Senate Bill No. 2015, approved by the 64th Legislative Assembly, allows active defined contribution retirement plan members to transfer back to the defined benefit plan.

Mr. Collins said the PERS group health insurance plan serves 28,603 employees, including 15,203 state employees, as of January 2015. He said other members of the group health insurance plan include counties, cities, school districts, legislators, retirees, and others. He said the monthly premium for the health insurance plan has increased from \$826 in the 2009-11 biennium, to \$887 in the 2011-13 biennium, to \$982 in the 2013-15 biennium, to \$1,130 for the 2015-17 biennium.

In response to a question from Representative Laning, Mr. Collins said the funding placed in health savings accounts under the high deductible health plan is the employees' money and is portable.

In response to a question from Representative Onstad, Mr. Collins said an employee can be enrolled in the defined benefit plan and still participate in the deferred compensation supplemental savings plan.

Mr. David J. Hunter, Executive Director and Chief Investment Officer, Retirement and Investment Office (RIO), presented information ([Appendix C](#)) regarding the state's investment program and the current investment climate. Mr. Hunter said the governing body of each fund (client) establishes policies for its investment goals and objectives and asset allocation. He said the State Investment Board (SIB) is responsible to accept and implement client asset allocations, approve general types of securities for investment, select investment consulting services, and create investment pools. Mr. Hunter said RIO staff is responsible for administering the overall investment strategy on behalf of SIB and acts as a liaison between SIB and the investment managers, consultant, and custodian. Mr. Hunter said the total market value of assets under SIB management is approximately \$10.7 billion. He said the Teachers Fund for Retirement (TFFR) fund has a 30-year rate of return of 8.4 percent and the PERS retirement fund has a 30-year rate of return of 8.7 percent. Mr. Hunter said investment fees and expenses have decreased from 0.65 percent for fiscal year 2013 to 0.47 percent for fiscal year 2015.

In response to a question from Senator Kilzer regarding the Tobacco Prevention and Control Board, Mr. Hunter said the agency became an account with SIB on October 1, 2015.

In response to a question from Representative Onstad, Mr. Hunter said SIB, under North Dakota Century Code Section 21-10-07, applies the prudent investor rule to legal investments. The prudent investor rule requires the fiduciaries to exercise the judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, considering probable safety of capital as well as probable income.

In response to a question from Representative Onstad, Mr. Hunter said the fee costs of investments is determined by the type of investment made. He said investment allocations seeking higher returns typically result in higher fees. He said SIB is experiencing returns in the top 30 percent of all public pension funds while risk is in the bottom 25 percent of all public pension funds. He said he would provide the committee with additional information regarding the fees paid by SIB, including how the fees and return on investment are related.

In response to a question from Representative Onstad, Mr. Hunter said Callan Associates has been under contract with the state for over 20 years. He said Callan Associates Inc. helps SIB with performance monitoring and the selection of investment managers.

In response to a question from Representative Boehning, Mr. Hunter said each fund managed by SIB is reviewed to ensure the actual and target allocations are aligned. He said he would provide the allocations for SIB's five largest funds to the committee.

Ms. Fay Kopp, Chief Retirement Officer, TFFR, presented information ([Appendix D](#)) regarding TFFR. Ms. Kopp said the TFFR plan is a defined benefit pension plan designed to provide lifetime retirement, disability, and death benefits for North Dakota public school educators and certain state teachers. She said the plan is funded with a 12.75 percent employer contribution, an 11.75 percent employee contribution, and investment earnings. Ms. Kopp said the TFFR plan has 10,514 active members and 8,025 retired members. She said in 2015 the average annual educator salary is approximately \$56,095 and the average annual retiree benefit is \$22,108. Ms. Kopp said the market value of TFFR assets is approximately \$2.1 billion. She said approximately 57 percent of the fund's revenue from 1990 to 2015 is investment earnings.

In response to a question from Representative Laning, Ms. Kopp said the TFFR retirement benefit does not include automatic cost of living adjustments. She said individuals retiring under TFFR generally receive

approximately 60 percent of their average final salary from TFFR. She said social security payments would increase the total retirement income to approximately 80 percent of the retiree's final working wage.

In response to a question from Senator Nelson, Ms. Kopp said less than 20 school districts in the state do not pay social security; therefore, the teachers from these schools do not receive social security benefits.

HUMAN RESOURCE MANAGEMENT SERVICES

Mr. Ken Purdy, Director, Human Resource Management Services (HRMS), Office of Management and Budget, presented information ([Appendix E](#)) regarding the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions. Mr. Purdy said Section 54-06-31 authorizes state agencies to pay recruitment and retention bonuses if the agency has a written policy in place identifying eligible positions or occupations and provisions for providing and receiving bonuses, the agency has filed a copy of the written policy with HRMS, and the agency reports to HRMS each bonus provided to an employee under the program. He said state agencies provided a total of \$1.53 million in retention bonuses to employees during the 2009-11 biennium, \$700,000 during the 2011-13 biennium, and \$1.45 million during the 2013-15 biennium. The following agencies awarded retention bonuses during the 2013-15 biennium:

Agency	Total Retention Bonuses Awarded
Governor's office	\$99,824
Office of Management and Budget	35,518
State Auditor	190,500
State Tax Commissioner	43,000
State Department of Health	6,539
Department of Human Services	212,765
Industrial Commission	632,977
Public Service Commission	23,480
Bank of North Dakota	85,528
Workforce Safety and Insurance	114,842
Department of Agriculture	4,000
North Dakota Council on the Arts	3,000
Total	\$1,451,973

In response to a question from Representative Boehning regarding housing allowances in the western portion of the state, Mr. Purdy said a separate appropriation was made for employee housing expenses due to oil activity. He said he would provide the committee with additional information regarding the payments for employee housing.

In response to a question from Senator Nelson, Mr. Purdy said the State Auditor's office has increased the amount of retention bonuses awarded because the office has struggled to retain mid-level employees.

Mr. Purdy presented information ([Appendix F](#)) regarding reports of state agencies providing service awards to employees in the classified service, providing employer-paid training or educational courses to employees in the classified service, and 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. Mr. Purdy said the state paid \$453,674 for state employee service awards, \$4.42 million for employer-paid training or educational courses, and \$1.15 million for employer-paid professional organizational memberships and service club dues during the 2013-15 biennium.

In response to a question from Representative Boehning, Mr. Purdy said he would provide the committee with additional information regarding the amount spent for employer-paid training, educational courses, and tuition and fees by the Bank of North Dakota.

ACTUARIAL VALUATIONS OF THE TEACHERS' FUND FOR RETIREMENT AND PUBLIC EMPLOYEES RETIREMENT SYSTEM

Mr. Matthew A. Strom, Vice President and Consulting Actuary, The Segal Company, presented information ([Appendix G](#)) regarding TFFR actuarial valuation for the year ending July 1, 2015. Mr. Strom said in 2015 TFFR had approximately 10,500 active members with an average age of 42.5 years. He said the plan had over 8,000 retirees or beneficiaries and the total annual benefits paid was approximately \$177.4 million. He said the market value of TFFR plan assets increased from \$2.09 billion as of June 30, 2014, to \$2.14 billion as of June 30, 2015. He said the actuarial value of TFFR plan assets increased from \$1.94 billion to \$2.13 billion in that same time period. He said the actuarial value differs from the market value due to the use of a five-year smoothing method which delays the full recognition of investment gains and losses. He said the net pension liability was approximately \$1.3 billion as of June 30, 2015. He said the funded ratio, as determined using the actuarial value of assets, decreased from 61.8 percent as of June 30, 2014, to 61.6 percent as of June 30, 2015.

In response to a question from Representative Onstad, Mr. Strom said years of service of employees is considered when forecasting turnover rates.

In response to a question from Representative Laning, Mr. Strom said the TFFR fund was 100 percent funded in 2001.

Ms. Tammy Dixon, Vice President and Actuary, The Segal Company, presented information ([Appendix H](#)) regarding PERS actuarial valuations for the year ending July 1, 2015. Ms. Dixon said in 2015 the PERS main plan had approximately 22,380 active members with an average age of 46.5 years. She said the plan had 9,945 retirees or beneficiaries and the total monthly benefits paid was approximately \$10.8 million. She said the market value of the combined assets for PERS administered retirement plans increased from \$2.35 billion as of June 30, 2014, to \$2.44 billion as of June 30, 2015. She said the actuarial value of the combined assets increased from \$1.95 billion to \$2.15 billion in that same time period. She said the net pension liability was approximately \$680 million as of June 30, 2015. She said the funded ratio, as determined using the actuarial value of assets, increased from 64.5 percent as of June 30, 2014, to 68.6 percent as of June 30, 2015.

In response to a question from Representative Onstad, Ms. Sharon Schiermeister, Chief Operating Officer and Finance Manager, PERS, said retirement contributions are not made on recruitment bonuses, but retirement contributions are made on performance bonuses.

In response to a question from Representative Boehning regarding the effects of retirement incentives and buyouts on employee retirement benefits, Mr. Collins said he would provide additional information to the committee. Chairman Krebsbach said information requested by the committee could be emailed to the committee members.

In response to a question from Senator Dever, Ms. Dixon said the number of active employees compared to the number of retirees has an effect on the fund, but there is not a target ratio of active members to retirees that guarantees a healthy pension fund. Mr. Collins said TFFR has a higher ratio of retirees to active members than PERS, but TFFR also has significantly higher contribution rates.

Chairman Krebsbach said she is considering April 26, 2016, for the next meeting of the committee.

Chairman Krebsbach said she would like additional information regarding the investment returns and fees paid by the Board of University and School Lands compared to the investments made by SIB. Mr. Hunter said he would provide the information to the committee.

In response to a question from Senator Nelson, Mr. Hunter said he would provide historical background on SIB to the committee at its next meeting.

No further business appearing, Chairman Krebsbach adjourned the meeting at 3:00 p.m.

Alex J. Cronquist
Fiscal Analyst

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