

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**EMPLOYEE BENEFITS PROGRAMS COMMITTEE**

Thursday, April 28, 2016  
Harvest Room, State Capitol  
Bismarck, North Dakota

Senator Karen K. Krebsbach, Chairman, called the meeting to order at 10:00 a.m.

**Members present:** Senators Karen K. Krebsbach, Dick Dever, Ralph Kilzer, Carolyn C. Nelson, Erin Oban, Nicole Poolman; Representatives Pamela Anderson, Randy Boehning, Jason Dockter, Gary Kreidt, Vernon Laning, Kenton Onstad

**Members absent:** Representative Jessica Haak

**Others present:** Todd Porter, State Representative, Mandan  
See [Appendix A](#) for additional persons present.

**It was moved by Senator Nelson, seconded by Representative Dockter, and carried on a voice vote that the minutes of the October 27, 2015, meeting be approved as distributed.**

**OVERVIEW OF RETIREMENT, INSURANCE, AND  
RETIREE HEALTH INSURANCE PROGRAMS**

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, presented information ([Appendix B](#)) regarding health insurance claims experience to date during the 2015-17 biennium, anticipated health insurance premium cost for the 2017-19 biennium, activities and timeline for preparing the health insurance plan for the 2017-19 biennium, and the number of individuals who transferred from the defined contribution to the defined benefit plan pursuant to 2015 Senate Bill No. 2015 and the effect on the funded status of the defined benefit plan.

Mr. Collins said paid claims per health insurance contract have exceeded projections. He said health insurance premiums for the 2017-19 biennium could be 14 to 18 percent more than the cost for the 2015-17 biennium. He said the timeline for renewal of the health insurance plan with Sanford Health includes the receipt and consideration of the proposed renewal in August or September 2016. He said the decision whether to renew with Sanford Health will be made by mid-September 2016. He said if the renewal is not approved, the North Dakota Public Employees Retirement System (PERS) will begin the bidding process immediately and the plan would be awarded in February 2017 for the 2017-19 biennium.

In response to a question from Representative Boehning regarding Sanford Health underestimating the average monthly incurred claims per contract, Mr. Collins said does not have an estimate of the amount that monthly health insurance premiums should have been set to equal claims costs. Mr. Collins said the difference between the actual and estimated costs is due in part to Sanford Health's negotiated costs with providers. He said Sanford Health is anticipating a \$60 million loss and the state is responsible for up to \$3 million of the loss. He said the PERS health insurance plan has approximately \$40 million in reserve that could be used to buy down future premium increases.

In response to a question from Representative Boehning regarding the potential to increase deductibles in order to limit premium rate increases, Mr. Collins said changes to deductibles may cause the health insurance plan to lose its grandfathered status under the federal Affordable Care Act. Mr. Collins said losing the grandfathered status could cause significant changes in coverage and premium cost.

Mr. Michael Klepatz, Sanford Health Plan, presented information ([Appendix C](#)) regarding the Sanford Health Plan. He said service utilization by PERS members has been greater than anticipated.

Mr. Collins said 223 defined contribution retirement plan members were eligible to transfer to the defined benefit plan. He said of the 223 eligible defined contribution plan members, 170 elected to transfer to the defined benefit plan, 40 elected to remain in the defined contribution plan, and 13 did not submit an election form and will remain in the defined contribution plan.

Mr. Collins said the actuary estimates members transferring from the defined contribution plan to the defined benefit plan brought a deficit of approximately \$109,000. He said after factoring in the 2 percent increased contributions of members who transferred plans, there should not be a significant cost to the PERS defined benefit plan.

Ms. Fay Kopp, Chief Retirement Officer, Teachers Fund for Retirement, presented information ([Appendix D](#)) regarding the status of the Teachers Fund for Retirement (TFFR) program. She said the number of retired TFFR members has increased from 3,663 in 1985, to 8,025 in 2015. She said the number of active members contributing to the plan has increased from 8,954 in 1985, to 10,514 in 2015. She said the funded ratio of the TFFR plan as of July 1, 2015, was 61.6 percent.

In response to a question from Representative Kreidt, Ms. Kopp said fully retired individuals who return to work full-time continue to receive their retirement benefits, but they also pay into the TFFR plan.

In response to a question from Representative Boehning, Ms. Kopp said the TFFR Board reduced the TFFR plan's investment return assumption from 8 to 7.75 percent in 2015.

In response to a question from Representative Boehning, Ms. Kopp said she would provide the committee with additional information regarding the cost to the school districts from the recent increases in contribution amounts.

Mr. Darren Schulz, Deputy Chief Investment Officer, Retirement and Investment Office, presented information ([Appendix E](#)) regarding the investment climate and the current status of PERS and TFFR investments. He said United States gross domestic product growth rates have been relatively modest, at approximately 2 percent. He said PERS and TFFR net returns were 0.53 and 0.64 percent, respectively, for the calendar year ended December 31, 2015. He said PERS and TFFR net investment returns have generally outperformed most other public pension plans and portfolio risk has declined significantly in recent years.

In response to a question from Representative Boehning, Mr. Schulz said the focus of the Retirement and Investment Office (RIO) timber investments is in the southeastern United States.

In response to a question from Representative Kreidt, Mr. Schulz said target investment asset allocations are recommended to the State Investment Board by RIO. Mr. Schulz said RIO works in collaboration with its consultant, Callan Associates, to determine appropriate asset allocation targets.

In response to a question from Senator Nelson, Mr. Schulz said final allocation percentages are approved by the State Investment Board. Mr. Schulz said RIO reviews the allocation levels monthly to determine whether rebalancing is necessary. He said RIO seeks to minimize fee and market impact costs caused by rebalancing.

In response to a question from Representative Boehning, Mr. Schulz said it will be a challenge to meet the TFFR investment return target of 7.75 percent in 2016. Mr. Schulz said it is important to remember the 7.75 percent target is long term and there may be years in which returns are higher than 7.75 percent.

## BILL DRAFTS

### Public Employees Retirement System

#### Bill Draft No. 118

Mr. Collins distributed a written summary ([Appendix F](#)) and reviewed Employee Benefits Programs Committee bill draft No. 118 [[17.0118.01000](#)], which was prepared for PERS. He said the bill draft provides for decreased employee contributions under PERS for peace officers employed by the Bureau of Criminal Investigation and security officers employed by the National Guard and makes other technical adjustments. He said the bill should not effect the funded ratio of the PERS plan.

#### Bill Draft No. 119

Mr. Collins distributed a written summary ([Appendix G](#)) and reviewed Employee Benefits Programs Committee bill draft No. 119 [[17.0119.01000](#)], which was prepared for PERS. He said the bill draft provides for increased employer and employee contributions under the PERS defined benefit and defined contribution plans.

#### Bill Draft No. 120

Mr. Collins distributed a written summary ([Appendix H](#)) and reviewed Employee Benefits Programs Committee bill draft No. 120 [[17.0120.01000](#)], which was prepared for PERS. He said the bill draft provides for individual and group health insurance coverage of telehealth services.

In response to a question from Senator Nelson, Mr. Collins said premiums for the PERS health plan did not increase as a result of the mandate for telehealth services. Mr. Collins said the Sanford Health Plan had already included telehealth services. He said this bill draft, to be considered by the 2017 Legislative Assembly, would apply the mandate to all health insurance policies issued in the state.

#### **Bill Draft No. 18**

Ms. Megan Laudenschlager, Executive Director, Strengthen ND, Minot, distributed a written summary ([Appendix I](#)) and reviewed Employee Benefits Programs Committee bill draft No. 18 [[17.0018.02000](#)], which was prepared for Senator Tim Mathern. She said the bill draft allows individuals employed by nonprofit organizations to participate in the PERS group health insurance program.

In response to a question from Representative Laning, Ms. Laudenschlager said she believes there is great support for an option for employees of nonprofit organizations to participate in the PERS health plan.

In response to a question from Representative Boehning, Ms. Laudenschlager said nonprofit organizations serve the community and should have the opportunity to participate in the state health insurance plan. Ms. Laudenschlager said nursing homes and long-term care facilities are some of the nonprofit organizations with larger numbers of employees.

#### **Bill Draft No. 109**

Representative Todd Porter reviewed Employee Benefits Programs Committee bill draft No. 109 [[17.0109.01000](#)]. He said the bill draft allows firefighters employed by political subdivisions to join PERS. He said current law allows political subdivision law enforcement officers to participate in PERS, but does not permit firefighters to participate in the plan.

Senator Nelson suggested PERS provide further information at a future meeting regarding inclusion of political subdivision employees in PERS.

In response to a question from Senator Dever, Representative Porter said the Mandan Fire Department employees are currently participating in the city of Mandan retirement plan. Mr. Collins said the bill draft would place the participating political subdivision fire departments under the law enforcement subdivision of the PERS plan. He said the law enforcement subdivision has nearly the same benefits as the PERS main plan, except for the normal retirement age. He said there is a slightly higher contribution rate due to the earlier retirement age.

In response to a question from Representative Laning, Mr. Collins said new members join the PERS retirement plans prospectively, so years of service begin after joining the plan and no liability is absorbed by PERS.

### **Supreme Court**

#### **Bill Draft No. 117**

Chief Justice Gerald Vandewalle, Supreme Court, reviewed Employee Benefits Programs Committee bill draft No. 117 [[17.0117.01000](#)], which was prepared for the Supreme Court. He said the bill draft allows judges taking disability retirement under North Dakota Century Code Section 54-52-17 to elect to continue participating in the uniform group insurance program. He said instances have occurred in the past where a judge would avoid being declared disabled in order to maintain health insurance.

In response to a question from Senator Nelson, Chief Justice Vandewalle said the court would pay the health insurance premiums for the disabled judge. Chief Justice Vandewalle said when a judge is declared disabled there are typically salary savings from the open position, so he did not expect the bill draft to have a significant fiscal impact.

### **COMMITTEE DISCUSSION AND DIRECTIVES**

Representative Boehning suggested the committee's decision to accept jurisdiction of each bill draft be considered and voted on separately by the committee.

**It was moved by Senator Nelson, seconded by Senator Oban, and carried on a roll call vote that the committee assume jurisdiction over bill draft No. 118 [[17.0118.01000](#)] and that the PERS Board be requested to obtain an actuarial analysis of the bill draft 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.** Senators Krebsbach, Dever, Kilzer, Nelson, Oban, and Poolman and Representatives Kreidt, Anderson, Boehning, Dockter, Laning, and Onstad voted "aye." No negative votes were cast.

**It was moved by Representative Anderson, seconded by Senator Nelson, and carried on a roll call vote that the committee assume jurisdiction over bill draft No. 119 [17.0119.01000] and that the PERS Board be requested to obtain an actuarial analysis of the bill draft 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.** Senators Krebsbach, Dever, Kilzer, Nelson, Oban, and Poolman and Representatives Kreidt, Anderson, Boehning, Dockter, Laning, and Onstad voted "aye." No negative votes were cast.

**It was moved by Senator Nelson, seconded by Representative Anderson, and carried on a roll call vote that the committee assume jurisdiction over bill draft No. 120 [17.0120.01000] and that the PERS Board be requested to obtain an actuarial analysis of the bill draft 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.** Senators Kilzer, Nelson, Oban, and Poolman and Representatives Anderson, Dockter, and Onstad voted "aye." Senators Krebsbach and Dever and Representatives Kreidt, Boehning, and Laning voted "no."

Representative Boehning suggested the committee not take jurisdiction over bill draft No. 18 [17.0018.02000], which provides for individuals employed by nonprofit organizations to participate in the PERS uniform group insurance plan. Representative Onstad expressed support for committee review of the bill draft, including an actuarial review. The Legislative Budget Analyst and Auditor described the duties of the committee and said the purpose of accepting jurisdiction of the bill draft is to obtain additional information regarding the potential effect of the bill draft on the PERS plan and after the information is reviewed by the committee to give the bill draft a favorable, unfavorable, or no recommendation.

**It was moved by Representative Boehning, seconded by Representative Dockter, and carried on a roll call vote that the committee not accept jurisdiction over bill draft No. 18 [17.0018.02000].** Senators Dever, Kilzer, and Poolman and Representatives Kreidt, Boehning, Dockter, and Laning voted "aye." Senators Krebsbach, Nelson, and Oban and Representatives Anderson and Onstad voted "no."

**It was moved by Representative Boehning, seconded by Senator Poolman, and carried on a roll call vote that the committee assume jurisdiction over bill draft No. 109 [17.0109.01000] and that the PERS Board be requested to obtain an actuarial analysis of the bill draft 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.** Senator Krebsbach, Dever, Kilzer, Nelson, Oban, and Poolman and Representatives Kreidt, Anderson, Boehning, Dockter, Laning, and Onstad voted "aye." No negative votes were cast.

**It was moved by Senator Dever, seconded by Senator Oban, and carried on a roll call vote that the committee assume jurisdiction over bill draft No. 117 [17.0117.01000] and that the PERS Board be requested to obtain an actuarial analysis of the bill draft 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.** Senator Krebsbach, Dever, Kilzer, Nelson, Oban, and Poolman and Representatives Kreidt, Anderson, Boehning, Dockter, Laning, and Onstad voted "aye." No negative votes were cast.

Chairman Krebsbach recognized Mr. Ken Purdy, Director, Human Resource Management Services, Office of Management and Budget, for his retirement and expressed thanks for Mr. Purdy's service to the state.

No further business appearing, Chairman Krebsbach adjourned the meeting at 1:10 p.m.

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Alex J. Cronquist  
Fiscal Analyst

ATTACH:9