

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Thursday, October 26, 2017
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Mike Lefor, Chairman, called the meeting to order at 10:00 a.m.

Members present: Representatives Mike Lefor, Randy Boehning, Jason Dockter, Vernon Laning, Mark S. Owens; Senators Brad Bekkedahl, Dick Dever, Oley Larsen, Gary A. Lee

Members absent: Representatives Alisa Mitskog, Roscoe Streyle; Senators Karen K. Krebsbach, Carolyn C. Nelson

Others present: See [Appendix A](#)

It was moved by Representative Boehning, seconded by Representative Owens, and carried on a voice vote that the minutes of the September 21, 2017, meeting be approved as distributed.

Chairman Lefor summarized the committee's agenda and stated that with the goal of keeping open lines of communication, he invited the Public Employees Retirement System (PERS) Board members to attend the meeting.

OVERVIEW OF RETIREMENT AND INVESTMENT OFFICE

Chairman Lefor called on Mr. David J. Hunter, Chief Investment Officer and Executive Director, Retirement and Investment Office, for an overview ([Appendix B](#)) of the Retirement and Investment Office, including the State Investment Board (SIB), investments for the Teachers' Fund for Retirement (TFFR), and PERS.

In response to a question from Representative Owens, Mr. Hunter said, although each of the SIB clients sets its investment goals and expectations, the SIB works with its investment consultants along with the clients to make investment recommendations.

In response to a question from Representative Boehning, Mr. Hunter said the balance of the tobacco fund in June 2017 was approximately \$54.3 million, and today is approximately \$43 million. He said the fund balances are available online.

In response to a question from Chairman Lefor, Mr. Hunter said because the SIB is a long-term investor, if it seeks a change, it may take several months to seek a new manager and make the actual change.

In response to a question from Representative Dockter, Mr. Hunter said the SIB typically rebalances its portfolios on a monthly or quarterly basis.

In response to a question from Chairman Lefor, Mr. Hunter said although the SIB had a negative experience when it became aware it overpaid its timber manager, he is confident the manager is the best manager for the SIB and he is confident the SIB will not have a repeat occurrence of the fee problems. He said every 2 years the SIB's consultants do a "deep dive" to review manager fees and there is a second consultant that goes even deeper, which helps the SIB regularly improve its processes.

In response to a question from Senator Dever, Mr. Hunter said in North Dakota, the smaller funds benefit from having the pooling of resources available through the SIB.

Chairman Lefor called on Ms. Fay Kopp, Chief Retirement Officer, Teachers' Fund for Retirement, for an overview ([Appendix C](#)) of TFFR.

In response to a question from Senator Larsen, Ms. Kopp said she does not have data on the number of teachers who left the system as a result of the 2008 creation of membership tiers.

In response to a question from Representative Owens, Ms. Kopp reviewed the eligibility requirements for teachers to draw full retirement benefits.

In response to a question from Senator Larsen, Ms. Kopp said TFFR is not considering changing the retirement formula multiplier from 5 to 10 years.

In response to a question from Representative Boehning, Ms. Kopp reviewed how school districts are paying retirement contributions. She said there may be a benefit in better educating the public regarding what school districts are and are not paying relating to the retirement contribution. She said she can follow up with additional information regarding the break down of contributions.

Chairman Lefor requested the committee receive this additional information and TFFR supplement this information with additional information to help the committee members put into context the contribution data as it may relate to increased or decreased salary rates.

In response to a question from Senator Larsen, Ms. Kopp said the increased contribution rates are long term and are expected to be in place for an entire generation of teachers.

In response to a question from Representative Owens, Ms. Kopp said TFFR will be requesting stress testing regarding the risk of increased retirements due to the aging of baby boomers.

In response to a question from Senator Larsen, Ms. Kopp said although the cost of health insurance likely is a factor a teacher considers when determining whether to retire, TFFR does not track the role this factor plays in making these decisions.

In response to a question from Senator Dever, Ms. Kopp said the average age of the active membership population has been declining gradually.

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

Chairman Lefor called on Ms. Kim Nicholl, Senior Vice President, and Mr. Matthew A. Strom, Vice President, The Segal Group, Inc. (Segal), to provide an overview ([Appendix D](#)) of the TFFR valuation process and the July 1, 2017, actuarial valuation of TFFR.

In response to a question from Senator Bekkadahl, Ms. Nicholl said the assumptions made by Segal makes are based on the most recent experience study for the state. For example, she said, if it is necessary to incent new teachers to come into the state and teach, that will be reflected in the assumptions.

In response to a question from Representative Laning, Ms. Nicholl said the the 30-year amortization method would reflect high or low rates of investment returns.

In response to a question from Representative Boehning regarding slide 15 of the presentation, Ms. Nicholl said the expectation is that in approximately 19 years the number of retired members will exceed active members. She said Segal will work with TFFR to perform additional modeling of the likelihood of certain events occurring.

In response to a question from Representative Dockter, Mr. Strom said although TFFR has been in existence for approximately 100 years, slide 19 of the presentation shows the recent average rate of return on the fund.

In response to a question from Representative Boehning, Mr. Strom said school districts are being impacted by the Governmental Accounting Standards Board accounting principals provisions, but to his knowledge they have not negatively affected the districts' ability to borrow.

Chairman Lefor called on Ms. Amelia Williams, Consultant, and Mr. Lance Weiss, Senior Consultant, Gabriel, Roeder, Smith & Company Holdings, Inc., to provide an overview ([Appendix E](#)) of the PERS valuation process and the July 1, 2017, actuarial valuations of PERS, the Highway Patrolmen's retirement system, Job Service North Dakota retirement system, and the Retiree Health Insurance Credit Program.

In response to a question from Senator Bekkadahl, Ms. Williams said although a change in the contribution rate for the judges fund could be considered, she would not recommend a decrease below the normal cost rate, and it would be valuable for the recommendation to take into account considerations beyond the fund's current funding level.

Chairman Lefor called on Ms. Sharon Schiermeister, Chief Operating Officer and Finance Manager, Public Employees Retirement System, to provide followup information from the September 21, 2017, committee meeting, including and overview ([Appendix F](#)) of the PERS high-deductible health plan and the historic rates of return under the PERS retirement plan.

In response to a question from Representative Laning, Ms. Schiermeister said the PERS high-deductible health plan falls within the statutory requirements for plan design.

In response to a question from Representative Boehning, Ms. Schiermeister said the incentive for an employer to opt to take the high-deductible health plan typically is the amount of the contribution to the health savings account.

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, said other incentives that could be used to increase employee participation in the high-deductible health plan would be to have the employer front load the health savings account so the employees have funds to pay unmet medical needs in early years of participation in the plan.

In response to a question from Representative Dockter, Ms. Schiermeister said the high-deductible health plan is financially neutral for the state as the employer.

Representative Boehning said he would like to receive additional information regarding the impact of copayments under the PERS traditional health plan and the lack of copayments under the high-deductible health plan.

Mr. Collins said PERS can run data comparing the average out-of-pocket expenses paid under the PERS traditional health plan and under the high-deductible health plan.

In response to a question from Senator Larsen, Ms. Schiermeister said under state law, PERS pays the full cost of a family or an individual plan for eligible state employees.

In response to a question from Representative Boehning, Ms. Schiermeister said that, unlike the traditional health plan, under which PERS pays a flat rate regardless of whether an individual or a family plan, under the high-deductible health plan, PERS pays for an individual or a family plan.

Representative Boehning requested additional information to more clearly compare the costs to the employee and the employer under the traditional and high-deductible health plans.

In response to a question from Representative Boehning, Chairman Lefor said PERS would be able to participate in an association health plan sold across state lines, it likely is an issue that would be within the Health Care Reform Review Committee's study charges.

Senator Larsen said he would like to have the committee consider his bill draft to remove the requirement the state pay for family health benefits for state employees.

Chairman Lefor thanked Mr. Collins for his public service and wished him luck on his upcoming retirement. He reviewed the next steps the committee will take to pursue its statutory duties. He said in the spring, the Legislative Council will send letters to agencies and legislators to remind them of the April 1, 2018, deadline for submission of proposed legislation to this committee.

No further business appearing, Chairman Lefor adjourned the meeting at 2:20 p.m.

Jennifer S. N. Clark
Counsel

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