

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, August 12, 1997
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Francis J. Wald, Chairman, called the organizational meeting of the Employee Benefits Programs Committee to order at 9:00 a.m.

Members present: Representatives Francis J. Wald, James O. Coats, Glen Froseth, Allan Stenehjem; Senators Karen K. Krebsbach, Ed Kringstad

Members absent: Representative Leland Sabby; Senators Elroy N. Lindaas, Carolyn Nelson

Others present: See Appendix A

At the request of Chairman Wald, committee counsel reviewed the *Supplementary Rules of Operation and Procedure of the North Dakota Legislative Council*.

Chairman Wald announced that the Legislative Council had appointed Senator Ed Kringstad as vice chairman of the committee. In addition to the committee's statutory responsibilities, he said, the Legislative Council had assigned a study of public employee health insurance benefits to the committee and also directed that the committee receive a report from the Office of Management and Budget and the Public Employees Retirement System on pension portability. He said this report should focus on issues of pension portability and how to balance the needs of long- and short-term employees within defined benefit or defined contribution plan concepts.

Chairman Wald called on committee counsel to present a background memorandum concerning the statutory duties and past procedures of the Employee Benefits Programs Committee. He also distributed copies of the June 30, 1996, audit of the Public Employees Retirement System Board, a copy of which is on file in the Legislative Council office.

At the request of Chairman Wald, Mr. Scott Engmann, Executive Director, Retirement and Investment Office, presented an overview of the Retirement and Investment Office and the state's investment program. A copy of Mr. Engmann's presentation is attached as a portion of Appendix B. He also distributed copies of the Retirement and Investment Office 1997-99 business plan and copies of the retirement benefits handbook for Teachers' Fund for Retirement members, copies of which are on file in the Legislative Council office.

In response to a question from Representative Wald, Mr. Engmann said the Retirement and Investment Office utilizes a number of methods to manage risk. He said the State Investment Board makes decisions based upon the actuarial value of assets rather than the market value of assets. Also, he said, the State Investment Board divides its assets into pension trusts and insurance trusts and employs different management goals based upon the purpose of the assets. He said the board employs sophisticated diversification and weighting techniques in order to control risk, utilizes professional outside money managers, and does not manage any of its funds "in-house."

In response to a question from Senator Krebsbach, Mr. Engmann said areas in which the Retirement and Investment Office and Public Employees Retirement System are combining resources include data processing, information technology, strategic planning, risk control audits, and member services.

At the request of Chairman Wald, Ms. Fay Kopp, Retirement Officer, Retirement and Investment Office, presented an overview of the Teachers' Fund for Retirement. A copy of her presentation is attached as a portion of Appendix B. She also distributed a report to the Teachers' Fund for Retirement Board of Trustees on Teachers' Fund for Retirement retirement statistics for 1987 through 1996, a copy of which is on file in the Legislative Council office.

In response to a question from Representative Wald, Ms. Kopp said the unfunded actuarial accrued liability of the Teachers' Fund for Retirement is a result of benefit enhancements enacted by the Legislative Assembly in the 1970s which were not completely funded. She said the Teachers' Fund for Retirement is using a 20-year funding schedule over which period the unfunded liability will be retired. She said current benefit enhancements are funded from available margins and do not add to the unfunded liability. However, she said, the unfunded liability could be reduced over a shorter period if the fund margin was used to reduce the unfunded actuarial accrued liability rather than for benefit enhancements.

In response to a request from Representative Wald, Ms. Kopp said she would have the Teachers' Fund for Retirement's actuaries present a primer on the concept of unfunded actuarial accrued liability when they present the July 1, 1997, actuarial valuation of the Teachers' Fund for Retirement at an upcoming meeting.

In response to a question from Representative Wald, Ms. Kopp said disability benefits are calculated using a formula of the final average monthly salary time service credit (with a minimum of 20 years) times 1.75 percent. She said the Teachers' Fund for Retirement Board does not view the number of disability retirements as a problem that needs to be addressed by the Employee Benefits Programs Committee.

At the request of Chairman Wald, Mr. Sparb Collins, Executive Director, North Dakota Public Employees Retirement System, addressed the committee. He presented an overview of the Public Employees Retirement System including the structure of the Public Employees Retirement System Board, structure of the Public Employees Retirement System office, the retirement programs (including the Public Employees Retirement System main system, Highway Patrolmen's retirement system, judges' retirement system, National Guard retirement system, and prior service retiree system), the health insurance program, retiree health insurance program, deferred compensation program, life insurance program, voluntary programs, the flexcomp program, the employee assistance program, as well as general retirement system information. A copy of his presentation is attached as Appendix C. He also distributed a copy of the 1996 Comprehensive Annual Financial Report of the North Dakota Public Employees Retirement System and a copy of the North Dakota Public Employees Retirement System strategic plan. These documents are on file in the Legislative Council office.

Mr. Collins said approximately 180 political subdivisions, counties, cities, and school districts participate in the Public Employees Retirement System. He said one of the primary goals of the Public Employees Retirement System is to provide a retirement benefit of 90 percent of final average salary and to maintain the purchasing power of retirement benefits. He emphasized that with a defined benefit plan a retiree requires a supplemental defined contribution plan in order to achieve a retirement goal of 90 percent of the retiree's final average salary. He said the Public Employees Retirement System plan is a defined benefit plan but was a defined contribution plan from its inception in 1966 until 1977 when it was converted to a defined contribution plan.

In response to a question from Representative Coats, Mr. Collins said members of the Highway Patrolmen's retirement system receive a higher

benefit because they do not receive Social Security benefits.

Chairman Wald requested that the Public Employees Retirement System staff and the Legislative Council staff provide information on the rationale for the members of the Highway Patrolmen's retirement system not participating in the federal Social Security system and for converting the defined contribution plan to a defined benefit plan in 1977.

PUBLIC EMPLOYEES HEALTH INSURANCE BENEFITS STUDY

At the request of Chairman Wald, committee counsel presented a background memorandum concerning the public employee health insurance benefits study. He said this study was contained in Section 19 of House Bill No. 1015 and provides that the study must include a comparison of the costs of participating in exclusive provider organizations and preferred provider organizations as compared to participating in the standard indemnity plan; the extent to which members of the uniform group insurance program are now participating in exclusive provider organizations and preferred provider organizations; the number of public employees who are unable to participate in a preferred provider organization or exclusive provider organization because of geographical considerations; an analysis of any cost savings if all participants exercise the exclusive provider organization or preferred provider organization options; and methods by which the Public Employees Retirement System Board could encourage members of the Public Employees Retirement System uniform group insurance program to participate in exclusive provider organizations and preferred provider organizations. He said the study must include an analysis of general fund savings that could be realized if an additional copayment were required of all members not participating in an exclusive provider organization or preferred provider organization and an analysis of general fund savings that could be realized if members of the uniform group insurance program were permitted to participate in health maintenance organizations where such organizations are available.

At the request of Chairman Wald, Mr. Collins addressed the committee. He said the Public Employees Retirement System staff is beginning to compile this information for the committee.

In response to a question from Representative Wald, Mr. Collins said the Public Employees Retirement System Board requires a participating political subdivision to pay the entire premium for its employees. He said he did not know if any of the political subdivisions require individual employees to pay a portion of their uniform group insurance premiums.

Chairman Wald requested that the Public Employees Retirement System present information concerning the loss experiences for state employees, higher education employees, and political subdivision employees as well as the premium structure for political subdivisions and the requirements they must meet in order to participate in the uniform group insurance program at the committee's next meeting.

At the request of Chairman Wald, Mr. Howard Snortland, North Dakota Retired Teachers Association, addressed the committee. He noted that teachers do not participate in the retiree health benefits fund. He said that since teachers are public employees they should be treated the same as other public employees and the committee should examine establishing a retiree health benefits fund for teachers similar to that provided for state employees.

COMMITTEE DISCUSSION

It was moved by Representative Coats, seconded by Senator Krebsbach, and carried on a roll call vote

that the committee only accept legislative proposals affecting retirement programs that are submitted to the committee by legislators and state agencies with the bill introduction privilege, that the proposals must be in bill draft form, and that the proposals must be submitted to the committee prior to April 1, 1998. Representatives Wald, Coats, Froseth, and Stenehjem and Senators Krebsbach and Kringstad voted "aye." No negative votes were cast.

No further business appearing, Chairman Wald adjourned the meeting at 1:45 p.m.

Jeffrey N. Nelson
Counsel

ATTACH:3