NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Thursday, June 24, 1999
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Jim Poolman, Chairman, called the meeting to order at 1:00 p.m.

Members present: Representatives Jim Poolman, Glen Froseth, Bette Grande, Joe Kroeber; Senators Ralph Kilzer, Karen K. Krebsbach, Carolyn Nelson

Members absent: Representatives Serenus Hoffner; Senator Herb Urlacher

Others present: See Appendix A

Representative Poolman announced that he had appointed Senator Karen K. Krebsbach to serve as vice chairman of the committee.

At the request of Chairman Poolman, Mr. John D. Olsrud, Director, Legislative Council, reviewed the Legislative Council rules of operation and procedure.

At the request of Chairman Poolman, committee counsel reviewed a memorandum entitled *Employee Benefits Programs Committee - Background Memorandum* describing the statutory duties and past procedures of the Employee Benefits Programs Committee. He said the committee was established in response to difficulties experienced in past legislative sessions resulting from inadequate prior study of the actuarial impacts of proposed legislative changes in retirement programs. He also reviewed the statutory authority of the committee, procedures for solicitation and review of retirement proposals, additional committee responsibilities, and actuarial services retained by the committee in the past.

It was moved by Senator Krebsbach, seconded by Representative Grande, 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, 2000. Representatives Poolman, Froseth, Grande, and Kroeber and Senators Kilzer, Krebsbach, and Nelson voted "aye." No negative votes were cast.

Chairman Poolman called on Mr. Scott Engmann, Executive Director, Retirement and Investment Office. Mr. Engmann said the Employee Benefits Programs Committee is a very important legislative committee in that it protects the pension systems under its jurisdiction by reviewing proposals affecting these systems prior to being introduced. He said the actuarial consultant for the Teachers' Fund for Retirement has noted that if other states followed the procedure followed in North Dakota, other pension plans would not be in actuarial trouble. He said when he became executive director of the Teachers' Fund for Retirement in 1981, its assets were approximately $89 million and today the assets of the Teachers' Fund for Retirement are over $1 billion. He said since 1977 the funding level of the Teachers' Fund for Retirement has gone from 35 percent to 90 percent. He also presented a general overview of the Retirement and Investment Office, a copy of which is attached as Appendix B. He noted that in addition to the prudent investor rule, the pension plans are governed by the exclusive benefit rule under which the investments of the fund must be for the exclusive benefit of the beneficiaries of the funds.

Mr. Engmann said he had informed the State Investment Board at its October 1998 meeting that he would retire on June 30, 1999, and that the board adopted a transition plan at its November 1998 meeting. He announced that the State Investment Board has appointed Mr. Steve Cochrane, the current Investment Officer for the Retirement and Investment Office as the new Executive Director/Investment Director for the Retirement and Investment Office and named Ms. Fay Kopp, the current Retirement Officer for the Retirement and Investment Office as the Deputy Executive Director/Retirement Officer for the Retirement and Investment Office.

Chairman Poolman called on Mr. Steve Cochrane, Investment Officer, Retirement and Investment Office, who presented an overview of the state's investment program. A copy of his presentation is attached as Appendix C. He described the Retirement and Investment Office, the State Investment Board, development and implementation of State Investment Board client investment policies, and investment performance for 1997 and 1998.

Chairman Poolman called on Ms. Fay Kopp, Retirement Officer, Retirement and Investment Office, who presented an overview of the Teachers' Fund for Retirement and Teachers' Fund for Retirement retirement trends. A copy of her presentation is attached as Appendix D. Ms. Kopp described the Teachers' Fund for Retirement program, the mission of the

Teachers' Fund for Retirement, goals of the Teachers' Fund for Retirement Board, the plan design of the Teachers' Fund for Retirement, services that the Teachers' Fund for Retirement provides to its members, Teachers' Fund for Retirement program statistics, and information on the actuarial funding and financial condition of the Teachers' Fund for Retirement. She said one of the goals of the Teachers' Fund for Retirement Board is to provide a replacement income equal to 60 percent of the final average salary of a career employee who has 30 or more years of credited service. After the multiplier increase enacted by the 1999 Legislative Assembly, she said, the Teachers' Fund for Retirement will provide 56 percent of the final average salary of an employee with 30 years of service. She said it would take a multiplier of 2.0 percent of final average salary to provide 60 percent of final average salary for a teacher with 30 years of service. She also reviewed the history of retirement plan improvements, active and retired members, average benefit payments, benefit breakdown by county, retirement eligibility profile, and Teachers' Fund for Retirement retirement trends.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Chairman Poolman called on Mr. Sparb Collins, Executive Director, Public Employees Retirement System, who presented an overview of the Public Employees Retirement System. A copy of Mr. Collins' presentation is attached as Appendix E. He reviewed the structure of the Public Employees Retirement System Board and office, the defined benefit retirement plans administered by the board, the defined contribution plans administered by the board (the 457 deferred compensation plan and 401(a) defined contribution retirement plan), the retiree health credit program, the health insurance plan, employee assistance program, life insurance, flexcomp program, and volunteer insurance products (dental and long-term care insurance). He said the deferred compensation program is a supplemental retirement savings program offered by the state under Section 457 of the Internal Revenue Code. He said approximately 18 percent of eligible employees participate in the deferred compensation program and presently there are 12 different provider options plus the new Public Employees Retirement System companion plan. He said 250 investment products are offered by 175 different brokers under the deferred compensation plan. He noted that concerning provider selection under the deferred compensation program, the Attorney General has opined that although the board may impose program responsibilities on the various providers, it has no statutory authority to exclude providers who are willing to sign the administrative agreement and abide by its terms. However, he said, the board has the responsibility of determining the number of employees necessary to qualify for automatic payroll deduction. Thus, he said, the only responsibility of the Public Employees Retirement System Board concerning the deferred compensation program is developing the administrative agreement and determining the number of employees necessary to qualify for the automatic payroll deduction. Concerning provider selection, he said, prior to 1989 there was no minimum and the number of providers grew to 16. In 1989, he said, the Public Employees Retirement System Board established a policy that a provider must have a minimum of 50 participants in order to be a provider under the deferred compensation program. Since that time, he said, only one new provider has joined the board and there are 12 active providers presently in the program in addition to the companion plan. Disadvantages of the current deferred compensation structure, he said, include its high cost, confusion for new members, and administration. He said providers have informed him that if the deferred compensation program were bundled and bid and one provider were selected, it could save the program up to 30 basis points in administrative and recordkeeping costs.

In response to Mr. Collins' comments concerning the deferred compensation program, Representative Poolman said the low participation rate of approximately 18 percent may be because of the fees and complexity of choosing a provider and that if the program were "bundled" or consolidated and the plan were bid out by the Public Employees Retirement System Board, it may result in an improved deferred compensation program for state employees.

In response to a question from Representative Poolman, Mr. Collins said since its inception, $5 million has been either contributed or transferred to the Public Employees Retirement System companion plan.

VENDOR STUDY

At the request of Chairman Poolman, the Legislative Council staff presented a memorandum entitled *Defined Contribution Retirement Plan and Deferred Compensation Program Vendors Study - Background Memorandum* concerning the study of the number, qualifications, and selection criteria for vendors and providers selected by the Public Employees Retirement System Board for the defined contribution retirement plan and the deferred compensation program. The memorandum describes the defined contribution retirement plan; deferred compensation program; Minnesota deferred compensation program; and information concerning the number, qualifications, and selection criteria for vendors.

In response to a question from Representative Poolman, Mr. Collins said the objective of the Public Employees Retirement System Board in establishing the companion plan for the deferred compensation program was to provide a plan that consisted solely of mutual funds and that was selected on a competitive bid basis.

In response to a further question from Representative Poolman, Mr. Collins said one of the problems in attracting a bidder for the companion plan was the fact that the Public Employees Retirement System Board could not offer any funds to the successful bidder and that entity had to build the companion plan up from zero. He said if all of the assets public employees hold in the state's deferred compensation program had been available to a single provider, that provider could provide the administration and recordkeeping for the deferred compensation plan for 60 basis points as opposed to the 90 basis points that Valic, the current provider, is charging.

In response to a further question from Representative Poolman, Mr. Collins said it would take statutory authority for the Public Employees Retirement System Board to restrict or limit participation in the deferred compensation program to one vendor who would be selected through a bidding process by the board. He said this would be opposed by the existing providers and brokers and might be opposed by those participants who had developed a relationship with a local broker if that broker's company was not the successful bidder. Also, he said, many deferred compensation assets are held in annuities that may have an exit fee if a participant were required to transfer the assets to the successful bidder.

At the request of Chairman Poolman, Mr. Bill Abramowicz, Aetna, Hartford, Connecticut, addressed the committee. He said if the Public Employees Retirement System Board could bid the deferred compensation program like it is planning to do with the 401(a) defined contribution plan, it would result in lower costs to employees, increased education for participants, higher participation, and increased employee satisfaction.

At the request of Chairman Poolman, Ms. Chris Runge, North Dakota Public Employees Association, addressed the committee. She said the North Dakota Public Employees Association has undertaken an education program for its members to educate them concerning investments and retirement issues.

Chairman Poolman requested that the Public Employees Retirement System Board provide a summary of the incentives contained in 1999 Senate Bill No. 2071 for employees to participate in the deferred compensation program and the number of participants by provider at the next committee meeting.

No further business appearing, Chairman Poolman adjourned the meeting at 4:30 p.m.

Jeffrey N. Nelson
Counsel

John D. Olsrud
Director

ATTACH:5