

# EMPLOYEE BENEFITS PROGRAMS COMMITTEE

The Employee Benefits Programs Committee was assigned the following responsibilities:

- Receive notice from the Teachers' Fund for Retirement (TFFR) Board of Trustees regarding any necessary or desirable statutory changes relating to the TFFR, pursuant to North Dakota Century Code Section 15-39.1-05.2.
- Approve terminology adopted by the Public Employees Retirement System (PERS) Board for TFFR provisions to comply with applicable federal statutes or rules, pursuant to Section 15-39.1-35.
- Receive a report from the TFFR Board of Trustees regarding the annual actuarial test of the contribution rate for TFFR, pursuant to Section 15-39.1-10.11.
- Receive notice from firefighters relief associations of the association's intent to provide a monthly service pension, pursuant to Section 18-11-15.
- Approve terminology adopted by the PERS Board to comply with federal requirements, pursuant to Sections 39-03.1-29, 54-52-23, and 54-52.1-08.2.
- Receive periodic reports from the Office of Management and Budget (OMB) Human Resource Management Services on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions, pursuant to Section 54-06-31.
- Receive a biennial report from OMB summarizing reports of state agencies providing service awards to employees in the classified service, pursuant to Section 54-06-32.
- Receive a biennial report from OMB summarizing reports of state agencies providing employer-paid costs of training or educational courses to employees in the classified service, pursuant to Section 54-06-33.
- Receive a biennial report from OMB summarizing reports of executive branch state agencies 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, pursuant to Section 54-06-34.
- Review legislative measures and proposals affecting public employees retirement programs and health and retiree health plans, pursuant to Section 54-35-02.4.

Committee members were Senators Karen K. Krebsbach (Chairman), Dick Dever, Ralph Kilzer, Carolyn C. Nelson, Erin Oban, and Nicole Poolman and Representatives Pamela Anderson, Randy Boehning, Jason Dockter, Jessica Haak, Gary Kreidt, Vernon Laning, and Kenton Onstad.

## BACKGROUND

The Employee Benefits Programs Committee has statutory jurisdiction over legislative measures that affect retirement, health insurance, and retiree health insurance programs of public employees. Under Section 54-35-02.4, the committee is required to consider and report on legislative measures and proposals over which it takes jurisdiction and which affect, actuarially or otherwise, retirement programs and health and retiree health plans of public employees. Section 54-35-02.4 also requires the committee take jurisdiction over any measure or proposal that authorizes an automatic increase or other change in benefits beyond the ensuing biennium which would not require legislative approval and to include in the report of the committee a statement that the proposal would allow future changes without legislative involvement.

The committee is allowed to solicit draft measures from interested persons during the interim and is required to make a thorough review of any measure or proposal it takes under its jurisdiction, including an actuarial review. A copy of the committee's report must accompany any measure or amendment affecting a public employee's retirement program, health plan, or retiree health plan which is introduced during a legislative session. The statute provides any legislation enacted in contravention of these requirements is invalid, and benefits provided under that legislation must be reduced to the level in effect before enactment.

## Teachers' Fund for Retirement

Former Chapter 15-39 established the teachers' insurance and retirement fund. This fund, the rights to which were preserved by Section 15-39.1-03, provides a fixed annuity for full-time teachers whose rights vested in the fund before July 1, 1971. The plan was repealed in 1971 when TFFR was established with the enactment of Chapter 15-39.1.

The Teachers' Fund for Retirement became effective July 1, 1971, and is governed by its board of trustees. The State Investment Board is responsible for the investment of the trust assets, although the TFFR Board of Trustees establishes the asset allocation policy. The Retirement and Investment Office is the administrative agency for TFFR. The Teachers' Fund for Retirement is a qualified governmental defined benefit retirement plan.

All certified teachers of a public school in the state participate in TFFR, including teachers, supervisors, principals, and administrators. Noncertified employees, such as teachers' aides, janitors, secretaries, and drivers, are not allowed to participate in TFFR. Eligible employees become members on the date of employment.

The district or other employer that employs a member contributes a percentage of the member's salary. This percentage consists of a base percentage of 7.75 percent, plus additions. Effective July 1, 2008, the employer contribution rate became 8.25 percent; effective July 1, 2010, the employer contribution rate became 8.75 percent; effective July 1, 2012, the employer contribution rate became 10.75 percent; and effective July 1, 2014, the employer contribution rate became 12.75 percent. However, the employer contribution rate will revert to 7.75 percent when TFFR is 100 percent funded on an actuarial basis. The contribution rate will not automatically increase if the funded ratio later falls below 100 percent.

Prior to July 1, 2012, all active members contributed 7.75 percent of salary per year to TFFR. The employer may "pick up" the member's contributions under the provisions of Internal Revenue Code Section 414(h). The member contribution rate was increased from 7.75 to 9.75 percent effective July 1, 2012, and increased to 11.75 percent effective July 1, 2014. The 4 percent added to the member contribution rate will remain in effect until TFFR is 100 percent funded on an actuarial basis. At that point, the member contribution rate will revert to 7.75 percent. The member's total earnings are used for salary purposes, including overtime and nontaxable wages under a Section 125 plan, but excluding certain extraordinary compensation, such as fringe benefits or unused sick or vacation leave.

Members who joined TFFR by June 30, 2008, are Tier 1 members, while members who join after that date are Tier 2 members. Final average compensation, for purposes of determining retirement benefits, is the average of the member's highest three plan year salaries for Tier 1 members or five plan year salaries for Tier 2 members. Monthly benefits are based on one-twelfth of this amount. Tier 1 members are eligible for a normal service retirement benefit at age 65 with credit for 3 years of service, or if earlier, when the sum of the member's age and years of service is at least 85. Effective June 30, 2013, Tier 1 members who are at least age 55 and vested--3 years of service--as of the effective date, or if the sum of the member's age and service is at least 65, are eligible for normal service retirement benefits and are grandfathered. Those who do not meet these criteria as of June 30, 2013, may retire upon normal retirement on or after age 65 with credit for 3 years of service, or earlier, if the sum of the member's age is at least 90, with a minimum age of 60. A Tier 2 member may retire upon normal retirement on or after age 65 with credit for 5 years of service, or earlier, if the sum of the member's age and years of service is at least 90. Effective July 1, 2013, Tier 2 members may retire upon normal retirement on or after age 65 with credit for 5 years of service, or earlier, if the sum of the member's age and service is at least 90, with the added requirement that the member has reached a minimum age of 60.

The monthly retirement benefit is 2 percent of final average monthly compensation times years of service. Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's contributions plus interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's beneficiary.

To receive a death benefit, death must occur while being an active, inactive, or a nonretired member. Upon the death of a nonvested member, a refund of the member's contributions and interest is paid. Upon the death of a vested member, the beneficiary may elect the refund benefit or a life annuity of the normal retirement benefit "popping-up" to the original life annuity based on final average compensation and service as of the date of death, but without applying any reduction for the member's age at death.

A Tier 1 member leaving covered employment with fewer than 3 years of service and a Tier 2 member leaving covered employment with fewer than 5 years of service is eligible to withdraw or receive a refund benefit. Optionally, a vested member may withdraw the member's contributions plus interest in lieu of the deferred benefit otherwise due. A member who withdraws receives a lump sum payment of the member's employee contributions plus interest credited on these contributions. Interest is credited at 6 percent per year.

At times, TFFR has been amended to grant certain postretirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

### **Public Employees Retirement System**

The Public Employees Retirement System is governed by Chapter 54-52 and includes the combined PERS fund--PERS main system, the judges' retirement system, the National Guard retirement system, the law enforcement with prior main service system, the law enforcement without prior main service system, and an optional defined contribution

retirement plan--Highway Patrolmen's retirement system, Job Service North Dakota retirement plan, and retiree health benefits fund. The plan is supervised by the PERS Board and covers most public employees of the state, district health units, and the Garrison Diversion Conservancy District. Elected officials and officials first appointed before July 1, 1971, can choose to be members. Officials appointed to office after that date are required to be members. Most North Dakota Supreme Court justices and district court judges are members of the plan, but receive benefits that differ from other members. A county, city, or school district may choose to participate on completion of an employee referendum and on execution of an agreement with the PERS Board. Political subdivision employees are not eligible to participate in the defined contribution retirement plan. The PERS Board also administers the uniform group insurance, life insurance, flexible benefits, and deferred compensation programs.

Members of the PERS main system and judges' retirement system are eligible for a normal service retirement benefit at age 65 or when age plus years of service is equal to at least 85. Members of the PERS main system and judges' retirement system first enrolled after December 31, 2015, are eligible for a normal service retirement benefit at age 65 or when age plus years of service is equal to at least 90. Members of the National Guard retirement system are eligible for a normal service retirement at age 55 and three eligible years of service. Members of the law enforcement retirement system are eligible for a normal service retirement at age 55 and 3 eligible years of service or when age plus service is equal to at least 85.

The retirement benefit for a member of the PERS main system is 2 percent of final average salary multiplied by years of service. The retirement benefit for a member of the judges' retirement system is 3.50 percent of final average salary for the first 10 years of service, 2.80 percent for each of the next 10 years of service, and 1.25 percent for service in excess of 20 years. The retirement benefit for members of the National Guard and law enforcement retirement systems is 2 percent of final average salary multiplied by years of service.

The surviving spouse who is the sole refund beneficiary of a deceased member of the PERS main system, the National Guard retirement system, or law enforcement retirement system who had accumulated at least 3 years of service before normal retirement is entitled to elect one of four forms of preretirement death benefits. If the surviving spouse is not the sole refund beneficiary, the refund beneficiary may only choose a lump sum distribution of the accumulated balance. The preretirement death benefit may be a lump sum payment of the member's accumulated contributions with interest; 50 percent of the member's accrued benefit, not reduced on account of age, payable for the surviving spouse's lifetime; a continuation portion of a 100 percent joint and survivor annuity, only available if the participant was eligible for normal retirement; or a partial lump sum payment in addition to one of the annuity options. The surviving spouse of a deceased member of the judges' retirement system who had accumulated at least 5 years of service is entitled to elect one of two forms of preretirement death benefits. The preretirement death benefit may be a lump sum payment of the member's accumulated contribution with interest or 100 percent of the member's accrued benefit, not reduced on account of age, payable for the spouse's lifetime. For members who are not vested nor have a surviving spouse, the benefit is a lump sum payment of the member's accumulated contributions with interest.

The standard form of payment for members of the main, National Guard, and law enforcement systems is a monthly benefit for life with a refund to the beneficiary at death of the remaining balance, if any, of accumulated member contributions. The standard form of payment for members of the judges' retirement system is a monthly benefit for life, with 50 percent payable to an eligible survivor. The final average salary is the average of the highest salary received by a member for any 36 months employed during the last 180 months of employment.

### **Retirement System Contributions**

Except for the employer contribution rate for the National Guard and the law enforcement retirement systems, contribution rates are specified by statute. The statutory rates were increased effective January 1, 2014, to address needs of the funds. These January 1, 2014, increases are scheduled to revert to the contribution rates in effect on July 1, 2013, following the first valuation of the PERS main system showing a ratio of the actuarial value of assets to the actuarial accrued liability of the PERS main system that is equal to or greater than 100 percent.

- The contribution rate for a member of the PERS main system is 7 percent, and the employer contribution is 7.12 percent.
- The employee contribution for the judges' retirement system is 8 percent, and the employer contribution is 17.52 percent.
- The contribution rate for a member of the National Guard retirement system is 4.5 percent, and the employer contribution is 7 percent.
- The contribution rate for a political subdivision member of the law enforcement retirement system with prior main service is 5 percent, and the employer contribution is 9.81 percent.

- The contribution rate for a Bureau of Criminal Investigation member of the law enforcement system with prior main service is 6 percent, and the employer contribution is 10.31 percent.
- The contribution rate for a political subdivision member of the law enforcement retirement system without prior main service is 5.50 percent, and the employer contribution is 7.93 percent.

### **Retiree Health Insurance Credit Fund**

The 1989 Legislative Assembly established a retiree health insurance credit fund account with the Bank of North Dakota with the purpose of prefunding hospital benefits coverage; medical benefits coverage; prescription drug coverage under any health insurance program; and dental, vision, and long-term care benefits coverage under the uniform group insurance program for retired members of PERS and the Highway Patrolmen's retirement system receiving retirement benefits or surviving spouses of those retired members who have accumulated at least 10 years of service. The employer contribution under PERS was reduced by 1 percent of the monthly salaries or wages of participating members, including participating North Dakota Supreme Court justices and district court judges, and the money was redirected to the retiree health insurance credit fund. The 2009 Legislative Assembly approved Senate Bill No. 2154 to increase the employer contribution to 1.14 percent of the monthly salaries or wages of participating members. The fund provides a monthly credit for health insurance benefits of \$5 multiplied by the retired members' years of service.

## **ACTUARIAL REPORTS**

### **Teachers' Fund for Retirement**

The committee received annual valuation reports on TFFR. The latest available valuation report of the consulting actuary was dated July 1, 2016, and this report addresses the material presented in that most recent valuation report. The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of TFFR, and to analyze changes in TFFR's financial condition. In addition, the report provides information required by TFFR and various summaries of the data. Valuations are prepared annually, as of July 1 of each year, the first day of TFFR's plan and fiscal year.

Effective with the July 1, 2013, actuarial valuation, the TFFR Board of Trustees adopted an actuarial funding policy, which provides direction on how to calculate an actuarially determined contribution. In order to determine the adequacy of the 12.75 percent statutory employer contribution rate, the rate is compared to the actuarially determined contribution. The actuarially determined contribution is equal to the sum of the employer normal cost rate and the level percentage of pay required to amortize the unfunded actuarial accrued liability over a 30-year closed period that began July 1, 2013. As of July 1, 2016, the actuarially determined contribution is 13.22 percent, compared to 10.26 percent on July 1, 2013. Therefore, the statutory employer contribution rate of 12.75 percent resulted in a contribution deficiency of 0.47 percent of payroll.

As of June 30, 2016, the actuarial value of assets was \$2.23 billion, representing 104.9 percent of the market value of assets of \$2.12 billion. This 104.9 percent falls within the 20 percent corridor, so no further adjustment to the actuarial value of assets is necessary. Guidelines in Actuarial Standard of Practice Statement No. 44, selection and use of asset valuation methods for pension valuations, recommends that asset values fall within a reasonable range around the corresponding market value. The actuarial asset method complies with these guidelines.

For the year ending June 30, 2016, the consulting actuary determined the asset return on a market value basis was 0.4 percent. The market value of plan assets decreased from \$2.14 billion as of June 30, 2015, to \$2.12 billion as of June 30, 2016. However, due to the 5-year smoothing method used to determine the actuarial value of assets, the actuarial value increased from \$2.13 billion to \$2.23 billion over that same time period. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 6.2 percent. This represents an experience loss when compared to the assumed rate of 7.75 percent. Based on the actuarial value of assets, the funded ratio increased to 62.1 percent, compared to 61.6 percent as of June 30, 2015. The net pension liability increased from \$1,307,855,182 as of June 30, 2015, to \$1,465,058,563 as of June 30, 2016.

The actuarial valuation report as of July 1, 2016, is based on financial data as of that date. Changes in the value of assets subsequent to that date are not reflected. The fund's cashflow (contributions minus benefit payments, refunds, and expenses) as a percentage of the market value of assets is a deficiency of 1.2 percent as of June 30, 2016, compared to a deficiency of 1 percent as of June 30, 2016.

As of July 1, 2016, the fund had 10,813 active members, 1,601 inactive vested members, 779 inactive nonvested members, and 8,249 retirees and beneficiaries. The average age of active members was 42.3 years, and active members have 12.1 average years of service. Average compensation for active members was \$57,986. As of July 1, 2016, 7,563 retirees and 686 beneficiaries were receiving total monthly benefits of \$15,602,746, with the average monthly benefit amount for the retirees and beneficiaries being \$1,891.

## Public Employees Retirement System

The committee received reports on actuarial valuations and reviews as of July 1, 2015, and of July 1, 2016, on the following four funds:

- Combined PERS fund;
- Highway Patrolmen's retirement system;
- Retiree health insurance credit fund; and
- Retirement plan for employees of Job Service North Dakota.

The valuations were performed to determine whether the assets and statutory contributions are anticipated to be sufficient to provide the prescribed benefits. The purpose of the actuarial valuations is to determine whether the contribution is sufficient to meet the long-term obligations to the members covered by the funds in accordance with the benefit provisions of the funds. This report reflects the data from the latest available valuation reports, dated July 1, 2016.

### Combined Public Employees Retirement System Fund

The combined PERS fund is made up of the PERS main system, judges, National Guard, law enforcement with prior main system service, and law enforcement without prior main system service. For the combined PERS fund, the present contribution rates are not sufficient, based upon the actuarial assumptions and financing objectives approved by the PERS Board. The board has recommended contribution increases in previous legislative sessions and continues to review projected future performance to determine appropriate measures to mitigate the difference between the actuarial and statutory contribution rates.

The employer actuarial contribution requirements for fiscal year 2017 are:

	Actuarial Requirement	Statutory/Approved Contribution Rate
PERS main system	10.48%	7.12%
Judges	8.90%	17.52%
Law enforcement with prior main system service	8.08%	9.81% <sup>1</sup>
Law enforcement without prior main system service	6.44%	7.93%

<sup>1</sup>Contribution rate for Bureau of Criminal Investigation is 10.31%.

The following is a comparison of this year's actuarial contribution requirements to last year's requirements as a percentage of payroll:

	Fiscal Year 2016	Fiscal Year 2017
PERS main system	12.21%	10.48%
Judges	10.75%	8.90%
Law enforcement with prior main system service	9.78%	8.08%
Law enforcement without prior main system service	8.03%	6.44%

The following shows the age, service, and compensation based on data provided for active members as of July 1, 2016:

Category	Year Beginning July 1, 2016
<b>PERS main system</b>	
Number of active members	22,762
Average age	46.5
Average service credit	9.6
Total compensation	\$1,007,764,043
Average compensation	\$44,274
<b>Judges</b>	
Number of active members	56
Average age	57.4
Average service credit	10.4
Total compensation	\$7,937,062
Average compensation	\$141,733
<b>Law enforcement with prior main system service</b>	
Number of active members	498
Average age	37.3
Average service credit	6.6
Total compensation	\$28,225,868
Average compensation	\$56,678

Category	Year Beginning July 1, 2016
<b>Law enforcement without prior main system service</b>	
Number of active members	100
Average age	37.6
Average service credit	3.7
Total compensation	\$4,621,494
Average compensation	\$46,215
<b>All active members</b>	
Number of active members	23,416
Average age	46.3
Average service credit	9.6
Total compensation	\$1,048,548,467
Average compensation	\$44,779

There are 10,460 retired members and beneficiaries receiving monthly benefits as of July 1, 2016. Additionally, there were three pensioners receiving benefits under the special prior service plan. The special prior service plan was in effect July 1, 1966, through June 30, 1977. Any employees who worked beyond June 30, 1977, were covered under the defined benefit plan rather than the special prior service plan.

The following is a comparison of this year's actuarial funded ratio to the prior year's ratio for the combined PERS fund:

	July 1, 2015	July 1, 2016
Actuarial value of assets	\$2,094,251,356	\$2,265,277,641
Actuarial accrued liability	\$3,052,446,539	\$3,396,565,467
Funded ratio	68.6%	66.7%

The return on the market value of assets for fiscal year 2016 for the PERS fund was 0.5 percent, compared to 3.6 percent for the preceding year. The return on the actuarial value of assets for fiscal year 2016 for the PERS fund was 6.6 percent compared to the investment return assumption of 8 percent.

The combined market value of net assets of the PERS fund and the Highway Patrolmen's retirement system was \$2,480,706,994, an increase of \$42,320,457 compared to \$2,438,386,537 a year earlier. This year's combined market value represents an increase of 1.7 percent from the market value 1 year earlier. The actuarial value of assets is determined by spreading market appreciation and depreciation over 5 years beginning with the year of occurrence. Interest and dividends are recognized immediately. This procedure results in recognition of all changes in market value over 5 years. This procedure is applied to the combined assets of the PERS fund and the Highway Patrolmen's retirement system income funds to determine the combined actuarial value of the systems. The combined actuarial value was \$2,327,011,551 as of June 30, 2016.

### Highway Patrolmen's Retirement System

The employer actuarial contribution requirement for fiscal year 2017 is 27.11 percent of payroll, and exceeds the statutory rate of 19.70 percent of payroll as of the valuation date by 7.41 percent. Last year, the actuarial contribution requirement was 21.42 percent and exceeded the ultimate statutory rate of 19.70 percent by 1.72 percent.

For July 1, 2016, the actuarial value of assets was \$61,733,910, the actuarial accrued liability was \$87,921,960, and the funded ratio was 70.2 percent; for July 1, 2015, the funded ratio was 73.5 percent. The actuarial value of assets is determined by spreading the market appreciation and depreciation over 5 years beginning with the year of occurrence. Interest and dividends are recognized immediately. This procedure results in recognition of all changes in market value over a 5-year period. On a market value basis, the assets had an investment return of approximately 0.46 percent in fiscal year 2016. The ratio of the actuarial value of assets to the market value of assets was 93.8 percent. Last year, this ratio was 88.3 percent.

Total active membership was 156, with an average age of 36.4 years and average years of service of 9.6. As of July 1, 2016, there were 123 pensioners and beneficiaries, with an average monthly benefit of \$3,107.

### Retiree Health Insurance Credit Fund

The actuarial consultant identified several highlights in the valuation year. The present rate of contributions is sufficient to meet the actuarially determined requirement for fiscal year 2017, based upon the actuarial assumptions and financing objectives approved by the PERS Board. The actuarial contribution requirement for fiscal year 2017 is 1.02 percent of payroll. The statutory rate of 1.14 percent of payroll is greater than the actuarially determined rate by 0.12 percent of payroll.

The return on the market value of assets for fiscal year 2016 was 0.79 percent. The return on the actuarial value of assets for fiscal year 2016 was 5.90 percent compared to the investment return assumption of 8 percent. For July 1,

2016, the fund's actuarial value of assets was \$97,782,124, the actuarial accrued liability was \$176,592,907, and the funded ratio was 55.4 percent; on July 1, 2015, the funded ratio was 69.4 percent. The primary cause of the reduction of the funded ratio was a relatively large increase in beneficiaries from 5,212 in 2015 to 10,220 in 2016. Senate Bill No. 1058 (2013), as approved by the Legislative Assembly, provided for the retiree health insurance credit to be portable to any health insurance programs beginning July 1, 2015. The ratio of the actuarial value of assets to the market value of assets was 95 percent.

The fund had 23,664 active members, with an average age of 46.2 years and average years of service of 9.5. On July 1, 2016, benefits were being paid to 10,320 individuals and the average benefit paid to these retired members and beneficiaries was \$100 per month.

#### **Retirement Plan for Employees of Job Service North Dakota**

The Public Employees Retirement System Board assumed administration of the retirement plan for employees of Job Service North Dakota pursuant to legislation enacted in 2003. This is a closed retirement plan for employees of Job Service North Dakota. As of July 1, 2016, the plan has nine active participants with projected compensation of \$564,684. There was one inactive employee as of July 1, 2016, with vested rights. There were 206 pensioners and beneficiaries as of July 1, 2016, receiving an average monthly benefit of \$1,864.

The July 1, 2016, actuarial valuation reported the actuarial value of assets at \$80,980,498. The actuarial accrued liability was \$61,371,296. Effective July 1, 1999, the "scheduled contribution" is zero as long as the plan's actuarial value of assets exceeds the actuarial accrued liability. If, in the future, the liabilities of the plan exceed its assets, a "scheduled contribution" will be determined based on the funding policy adopted by the PERS Board. As of July 1, 2016, the market value of assets was 132 percent of the actuarial accrued liability. Therefore, the scheduled contribution at the end of the fiscal year ending June 30, 2016, was zero.

### **CONSIDERATION OF RETIREMENT AND HEALTH PLAN LEGISLATIVE PROPOSALS**

The committee established April 1, 2016, as the deadline for submission of retirement, health, and retiree health proposals. The deadline is intended to provide the committee and the consulting actuary of each affected retirement, health, or retiree health program sufficient time to discuss and evaluate the proposals. The committee allowed legislators and those agencies entitled to the bill introduction privilege to submit proposals for consideration. The committee recognized that the committee retains the authority to waive this self-imposed deadline. The committee reviewed each submitted proposal and solicited testimony from proponents, retirement and health program administrators, interest groups, and other interested persons.

Under Section 54-35-02.4, each retirement, insurance, or retiree insurance program is required to pay, from its retirement, insurance, or retiree health benefits fund, as appropriate, and without the need for a prior appropriation, the cost of any actuarial report required by the committee which relates to that program. The committee referred the legislative proposals submitted to it to the affected retirement or insurance program and requested the program authorize the preparation of actuarial reports. The Public Employees Retirement System used the actuarial services of Gabriel, Roeder, Smith, and Company Holdings, Inc., in evaluating proposals that affected retirement programs and the services of Deloitte LLP in evaluating proposals that affected the public employees health insurance program. No legislative proposals affecting TFFR or the State Investment Board were submitted to the committee.

The committee obtained written actuarial information on each proposal over which the committee took jurisdiction. In evaluating each proposal, the committee considered the proposal's actuarial cost impact; testimony by retirement and health insurance program administrators, interest groups, and affected individuals; the impact on the general fund or special funds, and on the affected retirement program; and other consequences of the proposal or alternatives to the proposal. Based on these factors, the committee makes a favorable recommendation, unfavorable recommendation, or no recommendation on each proposal.

A copy of the actuarial evaluation and the committee's report on each proposal will be appended to each proposal and delivered to its sponsor. Each sponsor is responsible for securing introduction of the proposal in the 65<sup>th</sup> Legislative Assembly.

#### **Public Employees Retirement System**

The following is a summary of the proposals affecting PERS over which the committee took jurisdiction and the committee's action on each proposal:

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

**Sponsor:** Representative Todd Porter

**Proposal:** The bill would allow political subdivisions, on behalf of their firefighters, to enter into agreements with the PERS Board, for the purpose of extending the benefits of PERS to those firefighters.

**Actuarial analysis:** The consulting actuary reported the addition of a group of firefighters into either the law enforcement without prior main service system or the law enforcement with prior main service system does not add a new element of risk to either plan, assuming that the actual experience of firefighters (with respect to disability, death in service, retirement, etc.) is not materially different from that of other law enforcement entities participating in either plan. The actuarial impact of this change will depend specifically on the number and age of new members who would enter the law enforcement plan, whether or not the new members have participated in the PERS main system, and the amount of liabilities and assets (if any) that would be transferred into the law enforcement plan.

**Committee report:** Favorable recommendation.

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

**Sponsor:** Supreme Court

**Proposal:** The bill would amend Section 54-52-17 to allow an active Supreme Court or district court judge receiving disability retirement benefits to elect to continue participating in the uniform group insurance program for medical benefits coverage on the same basis the judge participated before becoming disabled. A judge who makes this election may continue participating in this uniform group insurance program for the remainder of their term of office or until age 65, whichever occurs first.

**Actuarial analysis:** The consulting actuary reported the amendment would not have a material actuarial impact on the health plan, as the employer would continue paying the health insurance premiums of the disabled judge.

**Committee report:** No recommendation.

#### **Bill No. 118**

**Sponsor:** PERS

**Proposal:** The bill would make the following changes:

- Change the definition of "retirement" and "retirement board;"
- Decrease the employee contribution rate on behalf of peace officers employed by the Bureau of Criminal Investigation by 0.5 percent of salary, from 6 percent of salary to 5.5 percent of salary, effective January 2018;
- Clarify disability benefits are only payable from the fund to which the member was actively contributing at the time the member became disabled;
- Add the same language to the defined contribution plan as the PERS main system defined benefit plan relating to the treatment of late payments of employer contributions;
- Allow the PERS Board to pay administrative expenses of the defined contribution plan from fines and fees collected from vendors; and
- Make other technical corrections and adjustments.

**Actuarial analysis:** The consulting actuary reported the only change with an actuarial impact is the reduction in the employee contribution rate on behalf of peace officers employed by the Bureau of Criminal Investigation by 0.5 percent. The reduction in the employee contribution rate is projected to slightly decrease the future funded ratio of the plan over the next 30 years. The funded ratio of the law enforcement with prior main service system is projected to decrease from 123.5 to 122.9 percent and the ratio of the law enforcement without prior main service system is projected to decrease from 138.9 to 138.2 percent.

**Committee report:** Favorable recommendation.

#### **Bill No. 119**

**Sponsor:** PERS

**Proposal:** The bill would make the following changes:

- Increase the employee contribution rate on behalf of temporary employees participating in the PERS main system and the defined contribution plan by 2 percent of salary, from 14.12 to 16.12 percent, effective January 2018;
- Increase the employee contribution rate on behalf of full-time employees participating in the PERS main system and the defined contribution plan by 1 percent of salary, from 7 to 8 percent, effective January 2018; and

- Increase the employer contribution rate for full-time employees participating in the PERS main system and the defined contribution plan by 1 percent of salary, from 7.12 percent to 8.12 percent, effective January 2018.

**Actuarial analysis:** The consulting actuary reported the bill is projected to have the following effect on the funded ratios of PERS main system plan assets:

Year	PERS Main System					
	Funded Ratio (Actuarial Value of Assets)			Funded Ratio (Market Value of Assets)		
	Current Provisions	Bill No. 119 Proposed Provisions	Change	Current Provisions	Bill No. 119 Proposed Provisions	Change
2016	66.1%	66.0%	-0.1%	70.5%	70.4%	-0.1%
2017	66.6%	66.5%	-0.1%	71.2%	71.1%	-0.1%
2018	66.7%	67.0%	0.3%	71.9%	72.2%	0.3%
2019	65.9%	66.8%	0.9%	72.5%	73.5%	1.0%
2020	65.7%	67.1%	1.4%	73.2%	74.7%	1.5%
2021	66.2%	68.2%	2.0%	73.8%	75.9%	2.1%
2026	68.4%	73.2%	4.8%	76.3%	81.5%	5.2%
2031	70.2%	77.9%	7.7%	78.4%	86.9%	8.5%
2036	71.9%	83.0%	11.1%	80.3%	92.6%	12.3%
2041	73.6%	88.5%	14.9%	82.3%	98.7%	16.4%
2046	75.4%	94.6%	19.2%	84.3%	105.6%	21.3%

**Committee report:** Favorable recommendation.

**Bill No. 120**

**Sponsor:** PERS

**Proposal:** The bill would require the medical benefits coverage of services provided by a health care provider by means of telehealth to be the same as medical benefits coverage for the same services provided by a health care provider in-person. The bill mandates the medical benefits coverage for telehealth services be expanded to all medical insurance plans in North Dakota. The bill does not cover telehealth services that are not medically necessary or if the policy would not provide coverage if the health services or expenses for health services were provided by in-person means.

**Actuarial analysis:** The consulting actuary reported PERS covers health services that are delivered by telehealth in the same manner as health services provided in-person. Female infertility, behavioral health, and sleep apnea were the top three diagnoses for the first year of this program, with 431 claims totaling \$94,627. Telehealth has enabled patients in the rural and outlying areas of the state to continue to see their specialist residing in one of the state's four major cities without having to travel hundreds of miles.

**Committee report:** Favorable recommendation.

**Bill No. 172**

**Sponsor:** Representative Carlson

**Proposal:** The bill would amend Section 54-52.1-05, mandating that the term of a fully insured uniform group insurance contract for hospital benefits coverage, medical benefits coverage, or prescription drug coverage may not exceed 2 years. The amendment would require PERS to solicit bids for coverage after each biennium contract.

**Actuarial analysis:** The consulting actuary reported the amendment would not have a material actuarial impact on the health plan; however, there are potential implications to the health plan marketplace in North Dakota which could impact the long-term cost of coverage. The consulting actuary reported that health insurance carriers are less likely to competitively bid premium rates when the program will rebid in 2 years.

**Committee report:** Unfavorable recommendation.

**ADDITIONAL COMMITTEE RESPONSIBILITIES  
Compliance with Federal Law**

The Teachers' Fund for Retirement Board of Trustees reported no action by the committee was required regarding any statutory changes to comply with federal requirements under Section 15-39.1-05.2. The Public Employees Retirement System Board reported no action by the committee was required under Section 39-03.1-29, 54-52-23, or 54-52.1-08.2 to approve terminology adopted by the PERS Board to comply with applicable federal statutes or rules. The PERS Board reported no action by the committee was required under Section 15-39.1-35 to approve terminology adopted by the PERS Board for TFFR provisions to comply with federal statutes or rules.

### Firefighters Relief Associations

The committee was not notified by any firefighters relief association pursuant to Section 18-11-15(5), which requires the committee to be notified by any firefighters relief association that implements an alternate schedule of monthly service pension benefits for members of the association.

### Recruitment and Retention Bonuses

Pursuant to Section 54-06-31, the committee received periodic reports from Human Resource Management Services on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions. The following schedule is a summary of the information presented for the 2013-15 biennium and the first year of the 2015-17 biennium:

Agency	July 1, 2013, to June 30, 2015						July 1, 2015, to June 30, 2016					
	Recruitment		Referral		Retention		Recruitment		Referral		Retention	
	#	\$\$	#	\$\$	#	\$\$	#	\$\$	#	\$\$	#	\$\$
Governor					5	\$99,824					1	(\$5,339)
Office of Management and Budget					2	35,518						
Information Technology Department	11	\$15,250					10	\$13,000				
State Auditor					55	190,500						
Tax Commissioner	1	2,500			7	43,000						
State Department of Health	9	37,850			1	6,539	9	38,862			5	29,285
Veterans' Home	6	464										
Department of Human Services	158	321,486	103	\$41,713	16	212,765	99	153,476	60	\$45,300	15	132,773
Industrial Commission	3	6,000			144	632,977	2	3,000				
Public Service Commission	1	5,000			5	23,480						
Bank of North Dakota	12	36,136			11	85,528	5	29,863			4	28,190
Workforce Safety and Insurance	1	2,677			40	114,842	7	18,146				
Highway Patrol			6	2,000					3	1,500		
Department of Corrections and Rehabilitation			5	1,200			2	1,063	11	2,200		
Department of Commerce											1	25,450
Agriculture Commissioner					1	4,000					1	4,000
Department of Transportation	47	259,999			2	3,000	39	165,316				
<b>Total</b>	<b>249</b>	<b>\$687,362</b>	<b>114</b>	<b>\$44,913</b>	<b>289</b>	<b>\$1,451,973</b>	<b>173</b>	<b>\$422,726</b>	<b>74</b>	<b>\$49,000</b>	<b>27</b>	<b>\$214,359</b>

### Service Awards, Tuition, and Professional Organizations

Human Resource Management Services officials reported for the 2013-15 biennium, state employee service awards totaled \$453,674; employer-paid costs of training or educational courses, including tuition and fees totaled \$4,417,719; and employer-paid professional organization membership and service club dues for individuals totaled \$1,149,860. The following schedule is a summary of the information presented for the 2013-15 biennium:

**Report on State Employee Service Awards, Employer-Paid Tuition,  
and Employer-Paid Professional Organization Memberships and Service Club Dues  
July 1, 2013, through June 30, 2015 (Sections 54-06-32 to 54-06-34)**

<b>Agency Number</b>	<b>Agency</b>	<b>Legislatively Authorized Full-Time Equivalent Positions</b>	<b>State Employee Service Awards (\$ Amount)</b>	<b>Employer-Paid Costs of Training or Educational Courses, Including Tuition and Fees (\$ Amount)</b>	<b>Employer-Paid Professional Organization Membership and Service Club Dues for Individuals (\$ Amount)</b>
101	Governor	18.00	\$0	\$0	\$770
108	Secretary of State	31.00	2,465	225	10,377
110	Office of Management and Budget	130.50	3,530	26,800	8,983
112	Information Technology Department	340.30	21,784	739,473	126,710
117	State Auditor	53.80	3,087	28,435	7,835
120	State Treasurer	8.00	275	1,640	13,520
125	Attorney General	213.50	5,469	134,745	44,366
127	Tax Commissioner	134.00	12,173	61,033	3,220
140	Office of Administrative Hearings	5.00	185	5,420	1,455
188	Commission on Legal Counsel for Indigents	33.00	675	10,044	27,607
190	Retirement and Investment Office	19.00	1,533	30,964	11,380
192	Public Employees Retirement System	33.00	3,049	19,846	19,470
201	Department of Public Instruction	99.75	9,254	24,744	11,347
226	Department of Trust Lands	31.00	3,056	37,225	4,650
250	State Library	29.75	1,100	5,430	17,065
252	School for the Deaf	44.61	3,814	16,860	6,464
253	North Dakota Vision Services - School for the Blind	30.00	338	10,287	
270	Board of Career and Technical Education	27.00	900	2,155	6,475
301	State Department of Health	354.00	22,221	69,729	23,737
305	Tobacco Prevention and Control Committee	8.00	350	1,969	2,710
313	Veterans' Home	120.72	2,000	32,410	2,250
316	Indian Affairs Commission	5.00			
321	Department of Veterans' Affairs	8.00		3,890	1,390
325	Department of Human Services	2,201.08	97,391	513,252	10,075
360	Protection and Advocacy Project	27.50	3,598		
380	Job Service North Dakota	250.76	19,412	54,823	5,523
401	Insurance Commissioner	49.50	3,384	20,351	9,793
405	Industrial Commission	98.75	5,161	73,845	920
406	Department of Labor and Human Rights	13.00	834	9,199	2,390
408	Public Service Commission	44.00	2,869	15,694	2,975
412	Aeronautics Commission	6.00		805	534
413	Department of Financial Institutions	29.00	1,200	17,431	
414	Securities Department	9.00	1,419	10,457	4,540
471	Bank of North Dakota	179.50	8,949	600,668	335,921
473	North Dakota Housing Finance Agency	46.00	2,700	23,203	465
475	Mill and Elevator	135.00	6,750	36,060	45,431
485	Workforce Safety and Insurance	250.14	16,267	484,535	53,133
504	Highway Patrol	213.00	9,989	132,397	14,960
530	Department of Corrections and Rehabilitation	814.29	49,548	191,029	116,724
540	Adjutant General	246.00	12,012	61,361	30,896
601	Department of Commerce	69.25	4,625	28,628	10,078
602	Agriculture Commissioner	77.00	3,383	19,228	54,172
665	State Fair Association	27.00		64,990	10,537
670	Racing Commission	2.00	204		
701	State Historical Society	69.00	6,373	33,852	3,242
709	North Dakota Council on the Arts	5.00	25	4,155	584
720	Game and Fish Department	158.00	12,893	4,525	
750	Parks and Recreation Department	55.00	2,121	32,299	26,127
770	State Water Commission	90.00	5,913	19,711	9,428
801	Department of Transportation	1,079.50	79,396	701,897	49,631
	<b>Total</b>	<b>8,021.20</b>	<b>\$453,674</b>	<b>\$4,417,719</b>	<b>\$1,149,860</b>