NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, September 20, 2011
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Dick Dever, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Dick Dever, Carolyn C. Nelson, Ronald Sorvaag; Representatives Randy Boehning, Roger Brabandt, Betty Grande, Ron Guggisberg, Scott Louser, Ralph Metcalf, John D. Wall

Members absent: Senators Ray Holmberg, Ralph L. Kilzer, Karen K. Krebsbach

Others present: See Appendix A

At the request of Chairman Dever, committee counsel reviewed the *Supplementary Rules of Operation and Procedure for the North Dakota Legislative Management*.

At the request of Chairman Dever, committee counsel distributed a copy of the December 2010 and June 2011 *Report Card* published by the Teachers' Fund for Retirement (TFFR), a copy of the December 2010 and June 2011 *Retirement Today* published by TFFR, and a copy of the December 2010 and March 2011 *Your Vested Interest* published by the State Investment Board. Copies of these newsletters are on file in the Legislative Council office.

At the request of Chairman Dever, committee counsel reviewed a memorandum entitled *Employee Benefits Programs Committee - Statutory Responsibilities and Assigned Studies - Background Memorandum* describing the statutory responsibilities, past procedures, and assigned studies 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 reviewed the statutory authority of the committee, procedures for solicitation and review of retirement proposals, actuarial services, and additional committee responsibilities. He said the committee has the authority to establish rules for its operation, including rules relating to the submission and review of proposals and establishment of standards for actuarial review. In prior years, he said, including the 2009-10 interim, the committee has limited the persons and entities permitted to submit to the committee legislative proposals affecting retirement programs to legislators and state agencies with the bill introduction privilege and required that the proposals be in bill draft form and submitted to the committee before April 1 of even-numbered years to allow enough time for actuarial evaluation. He said the committee has the authority to waive its self-imposed deadline for proposals received after any deadline established by the committee. In addition to the statutory responsibilities, he said, the Legislative Management has also directed that the committee receive a number of reports throughout the interim. **It was moved by Representative Grande, seconded by Senator Nelson, 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 be in bill draft form, and that the proposals must be submitted to the committee before April 1, 2012.** Senators Dever, Nelson, and Sorvaag and Representatives Boehning, Brabandt, Grande, Guggisberg, Louser, Metcalf, and Wall voted "aye." No negative votes were cast.

OVERVIEW OF RETIREMENT, INSURANCE, AND RETIREE HEALTH INSURANCE PROGRAMS

Mr. John Geissinger, Executive Director and Chief Investment Officer, Retirement and Investment Office, presented an overview (Appendix B) of the state's investment program and the current investment climate. He said the State Investment Board has $5,572,911,913 under management as of June 30, 2011. He said the market value of TFFR as of June 30, 2011, was $1,705,756,099, and the market value of the Public Employees Retirement System (PERS) on that date was $1,802,349,991. For the year ending June 30, 2011, he said, the total return net of fees for TFFR was 24.21 percent and 21.43 percent for PERS. He said the two pension trusts have different investment allocation policies which account for the slight difference in return. He said PERS has a lower exposure to real estate and non-United States stocks.

In response to a question from Senator Nelson, Mr. Geissinger said both pension trust funds initiated an asset allocation review last summer. He said the final allocation decision was delayed pending the outcome of the funding bills during the Legislative Assembly, but TFFR should complete its asset allocation review this week and PERS within the next month.

In response to a question from Senator Dever, Mr. Geissinger said the changes made by the

Legislative Assembly in 2011 are anticipated to move TFFR toward long-term solvency.

Ms. Fay Kopp, Deputy Executive Director, Retirement and Investment Office, presented an overview (Appendix C) of TFFR. She reviewed the history and structure of TFFR and presented a summary of the TFFR plan.

In response to a question from Senator Dever, Ms. Kopp said the contribution increases enacted by the Legislative Assembly in 2011 combined with benefit modifications should be sufficient to return TFFR to a 90 percent funded ratio based on long-term projections.

In response to a question from Representative Grande concerning return to teaching provisions, Ms. Kopp said the Education Standards and Practices Board has determined that all teaching occupations with the exception of elementary education and physical education are critical shortage areas.

Ms. Kopp said the actuarial accrued liability of TFFR is $2.6 billion, and the actuarial value of assets is $1.8 billion. Thus, she said, the unfunded actuarial accrued liability is $.8 billion, and the funded ratio based upon the actuarial value of assets is 70 percent. She said the market value of assets is $1.4 billion, and the funded ratio based upon the market value of assets is 55 percent. She said the 2011 valuation report is expected to show a funding level decline because the system is still recognizing 2008-09 investment losses in the valuation and only recognizing 20 percent of the 2011 investment gains. In addition, she noted, the 2011 legislative changes are not yet in effect. However, she said, the fund's long-term funding outlook is positive.

In response to a question from Representative Grande, Ms. Kopp noted that TFFR is changing actuaries and transitioning from Gabriel, Roeder, Smith and Company to The Segal Company. She said this change is not a result of any dissatisfaction with Gabriel, Roeder, Smith and Company, but that The Segal Company received the contract based upon a request for proposal and bidding process.

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, presented an overview (Appendix D) of PERS. He said the defined contribution and the hybrid plan/defined benefit plans are facing funding challenges. He said the Retirement Board's challenge is to reverse the funding trend, stabilize the funds, and improve the funded status. He said the board plans to put in place an action plan to achieve a 90 percent to 100 percent funded status and plans to do this by moving forward with additional contribution increases in 2014 and 2015. In addition, he said, the board plans to examine benefit adjustments instead of or in combination with contribution increases.

Concerning the PERS health insurance program, Mr. Collins said, the premium increased from $825 to $886 for this biennium. He noted this 7 percent increase is the third lowest increase since 1977. Concerning utilization, he said, 80 percent of premium dollars are used by 20 percent of the members. Thus, he said, most dollars going into the plan are expended on high-cost services.

In response to a question from Representative Boehning, Mr. Collins said in the last 10 years only two members at most have exceeded $1 million in claims.

RECRUITMENT AND RETENTION BONUS REPORT

Mr. Ken Purdy, Classification and Compensation Manager, Human Resource Management Services, Office of Management and Budget, presented a report (Appendix E) on recruitment and retention bonuses. For the July 1, 2009, to June 30, 2011, period, he said, the state paid 277 recruitment bonuses at a cost of $337,771, 46 referral bonuses at a cost of $10,129, and 381 retention bonuses at a cost of $1,533,593. He said the Department of Human Services is the largest user of the recruitment bonus and referral bonus programs, while the Department of Mineral Resources and the Department of Transportation are the largest users of the retention bonus program. The latter, he said, is due to strong competition for employees in the state's booming oil sector.

CLASSIFIED EMPLOYEE COMPENSATION INITIATIVES

Mr. Purdy reviewed the implementation (Appendix F) of the study recommendations for the classified employee compensation system presentation prepared by Hay Group.

In response to a question from Senator Dever, Mr. Purdy said Human Resource Management Services is not anticipating significant legislation as a result of the Hay Group initiative. He said there may be some adjustments to the statutes governing the State Personnel Board and the classification system but no major restructuring. Concerning funding, he said, there have been no promises or guarantees made to employees.

No further business appearing, Chairman Dever adjourned the meeting at 12:35 p.m.

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Jeffrey N. Nelson
Committee Counsel

ATTACH:6