NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, October 24, 2006
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Matthew M. Klein, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Matthew M. Klein, Al Carlson, Joe Kroeber, Ken Svedjan, Francis J. Wald; Senators Ray Holmberg, Ralph L. Kilzer, Karen K. Krebsbach, Carolyn Nelson

Others present: See attached appendix

It was moved by Senator Nelson, seconded by Representative Wald, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

RETIREMENT PROGRAMS

Teachers' Fund for Retirement Actuarial Report

Mr. Chris Conradi, Enrolled Actuary and Senior Consultant, Gabriel, Roeder, Smith & Company, Dallas, Texas, presented the July 1, 2006, actuarial valuation of the Teachers' Fund for Retirement (TFFR). Mr. Conradi said the number of active members in the TFFR in 2006 is 9,585, a reduction of 216 or 2.2 percent from the number of active members in 2005 of 9,801. He said the reduction is partially due to new procedures used in the new TFFR computer data system which counts members who retire on July 1 of each year as a retiree rather than as an active member. Over the last 10 years, Mr. Conradi said active membership in the fund has decreased by an average of .2 percent per year.

For 2006, Mr. Conradi said payroll for active members increased by .9 percent, from $386.6 million to $390.1 million, compared to an average increase of 3.3 percent per year over the last 10 years. He said average active member pay increased by 3.2 percent, from $39,447 per year to $40,703 per year.

Mr. Conradi said the number of retirees in 2006 increased by 307 or 5.5 percent, from 5,586 in 2005 to 5,893 in 2006. He said the average annual retiree benefit is $16,595.

Mr. Conradi said there are 1.6 active members in TFFR for each retiree compared to 2.2 active members for each retiree 10 years ago.

Regarding fund assets, Mr. Conradi said the fair market value of the fund's assets increased from $1.53 billion in fiscal year 2005 to $1.72 billion in fiscal year 2006. Total contributions were $65.6 million for fiscal year 2006 compared to $64.1 million for fiscal year 2005. He said total distributions in fiscal year 2006 were $96 million.

Mr. Conradi said the Government Accounting Standards Board (GASB) Statement No. 25 provides a guide for determining the actual contribution rates for retirement funds. He said the actual employer contribution to the fund is 7.75 percent. When calculating the annual required employer contribution based on the GASB statement, the contribution for fiscal year 2006 should have been 12.12 percent. He said the difference of 4.37 percent is referred to as "negative margin."

Mr. Conradi said investment returns for recent years have been:

- Fiscal year 2003 - 2.1 percent,
- Fiscal year 2004 - 18.9 percent,
- Fiscal year 2005 - 13.3 percent, and
- Fiscal year 2006 - 14.6 percent.

Mr. Conradi said the average return over the last 10 years has been 8.3 percent, which is .3 percent more than the assumed investment return rate of 8 percent. He said investment returns are averaged over a five-year period when determining "actuarial" asset value.

Mr. Conradi said the unfunded actuarial accrued liability of the fund increased from $495.5 million in 2005 to $509.9 million in 2006. Over the same time period, he said, the funded ratio based on actuarial value increased from 74.8 to 75.4 percent. Using the market value of the fund's assets, he said, the funded ratio would be 83 percent.

Mr. Conradi said assuming the fund earns 8 percent in future years, the unfunded liability is estimated to increase from its current level of $509.9 million to $947.3 million in 30 years.

Mr. Conradi said the major reasons the fund's financial condition has decreased from having a 102 percent funding ratio in 2000 to its 75 percent funding ratio for 2006 are the result of:

- Lower investment returns during 2001 through 2003.
- Changes in actuarial assumptions reflecting larger salary increases, fewer members leaving the fund before retirement, and members retiring earlier.
- Benefit improvements authorized in 2001, when the formula multiplier increased from 1.8 to 2 percent of final average salary.

Regarding the long-term stability of the fund, Mr. Conradi said projections indicate that the fund will be able to pay all of its promised benefits for the next

30 years. Even in 2036, he said, assuming 8 percent future earnings, assets are still projected to be more than 10 times annual distributions. He said the board has a legislative proposal to improve the long-term financial condition of the fund. A copy of the report is on file in the Legislative Council office.

Bill No. 73

Mr. Conradi reviewed Employee Benefits Programs Committee Bill No. 73 [70073.0100]. He said the bill draft would allow employees of the State Board for Career and Technical Education to make an election to transfer from TFFR to the Public Employees Retirement System (PERS). For those employees who make the transfer, he said, TFFR would move their service, account balance, and pay and contribution history to PERS and PERS would be responsible for any benefits due based on each employee's service. He said the bill draft would also allow future employees hired by the State Board for Career and Technical Education to elect to join PERS rather than TFFR.

Mr. Conradi said 16 employees of the State Board for Career and Technical Education who are members of TFFR would be eligible to make the transfer. As of June 30, 2006, he said, the average age for the group was 53, the average years of service were 20, and the average salary of the employees was $49,337 per year.

Mr. Conradi said the actuarial analysis determined the asset transfer amount would be $2,897,301 from TFFR to PERS for these employees if they all make the transfer.

Mr. Conradi said the actuarial analysis indicates that if the bill draft is approved, and all eligible employees transfer to PERS, TFFR will be "worse off" by $235,766, the unfunded actuarial liability will increase by $38,906, and the annual required contribution based on GASB Statement No. 25 for fiscal year 2007 would increase from 12.29 to 12.31 percent. A copy of the report is on file in the Legislative Council office.

Ms. Fay L. Kopp, Deputy Executive Director, Retirement and Investment Office, commented on Bill No. 73. Ms. Kopp said the actuarial analysis indicates that any changes made to TFFR membership provisions that result in a reduced number of participants in the plan will result in a small actuarial loss to TFFR. She said if other state agencies employing certified teachers request transfer options, the amount of potential loss would continue to increase for TFFR. She said to address the potential financial loss to TFFR relating to Bill No. 73, and possible future similar bills, the committee may wish to consider requiring the State Board for Career and Technical Education and possible future agencies to pay TFFR the amount of the anticipated actuarial loss which for this bill draft would be $235,766. A copy of the report is on file in the Legislative Council office.

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, commented on Bill No. 73. He said The Segal Company has conducted an analysis of the cost impact to the retiree health insurance credit fund relating to the transfer of TFFR employees to PERS. He said the present value of benefits accrued for the transfer of these employees is $115,016. As a result, he said, amortizing the present value of benefits accrued for these employees results in an increase in the required employer contribution of 1.85 percent, from 1 to 2.85 percent for these employees for a period of eight years. After the eight-year amortization period, he said, the required contribution would decrease to the rate in effect at that time for all other participating employers. A copy of the report is on file in the Legislative Council office.

Representative Klein expressed a concern that if the committee gives a favorable recommendation to this bill draft, employees in other similar agencies may request similar changes that will continue to negatively affect the financial condition of TFFR.

Mr. Wayne Kutzer, State Board for Career and Technical Education, encouraged the committee to give the bill draft a favorable recommendation. He said employees who are certified teachers in the Division of Independent Study, School for the Deaf, Vision Services/School for the Blind, and Youth Correctional Center are actively involved in teaching while employees who are certified teachers of the State Board for Career and Technical Education are not actively teaching. He said the change will result in less state funding being required for retirement contributions for employees of the State Board for Career and Technical Education.

It was moved by Senator Krebsbach, seconded by Representative Wald, and carried on a voice vote that the committee give Employee Benefits Programs Committee Bill No. 73 no recommendation. Representatives Klein, Carlson, Kroeber, Svedjan, and Wald and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." No negative votes were cast.

Bill No. 68

Mr. Conradi reviewed Employee Benefits Programs Committee Bill No. 68 [70068.0100]. He said major provisions of the bill draft:

1. Incorporate federal tax law changes to comply with Internal Revenue Service requirements.
2. Increase employer retirement contribution rates by 1 percent, from 7.75 to 8.75 percent of active members' salaries. The employee contribution remains at 7.75 percent.
3. Require employer contributions of 16.5 percent of a reemployed retiree's salary.
4. Provide that if a member elects a refund, the member waives any right to participate in the fund under the same membership provisions that existed when the refund was taken.
5. Create a new tier (Tier II) of reduced member benefits for TFFR members employed on or after July 1, 2007, by:

a. Modifying normal retirement benefit eligibility for new members (Tier II) to age 65 and five years of service or the Rule of 90 rather than the eligibility for current members (Tier I) of age 65 and three years of service or the Rule of 85.
b. Modifying the final average salary calculation for new members (Tier II) to provide for a five-year final average salary calculation rather than the three-year final average salary calculation for current members (Tier I).
c. Modifying the vesting schedule for new members (Tier II) to five years of service rather than the vesting schedule of three years of service for current members (Tier I).
d. Modifying the early retirement eligibility for new members (Tier II) to age 55 and five years of service rather than age 55 and three years of service for current members (Tier I).
e. Modifying the employer service purchase conditions for new members (Tier II) to age 55 and five years of service and a Rule of 82 rather than age 55 and three years of service with a Rule of 77 for current members (Tier I).

Mr. Conradi reviewed the actuarial impact of Bill No. 68, including the following charts comparing TFFR without provisions of Bill No. 68 and with provisions of Bill No. 68 over 10 and 30 years. He said the projections are based on current actuarial assumptions, including an 8 percent net investment return and active membership declining by .5 percent per year.

Item	July 1, 2006, Current Valuation	July 1, 2016, No Changes	July 1, 2016, With Bill No. 68
Funded ratio	75.4%	84.0%	86.0%
Unfunded actuarial accrued liability	$509.9 million	$482.5 million	$420.5 million
Annual required contribution	12.29%	10.17%	8.28%
Margin[1]	-4.54%	-2.42%	0.47%
Funding period[2]	Infinite	Infinite	24.8 years
Item	**July 1, 2006, Current Valuation**	**July 1, 2036, No Changes**	**July 1, 2036, With Bill No. 68**
Funded ratio	75.4%	82.4%	100.4%
Unfunded actuarial accrued liability	$509.9 million	$947.3 million	-$20.1 million
Annual required contribution	12.29%	10.35%	2.37%
Margin[1]	-4.54%	-2.60%	6.38%
Funding period[2]	Infinite	Infinite	0.0 years

[1]The margin is the difference between the statutory contribution rate and GASB's annual required contribution (ARC). It is the result of subtracting the ARC from 7.75% (or 8.75% under Bill No. 68). A negative margin represents a shortfall and a positive margin indicates the statutory contribution is sufficient.

[2]The funding period is the theoretical number of years required to amortize the unfunded accrued actuarial liability using the statutory contribution rate.

Ms. Kopp reviewed Bill No. 68 and presented an amendment to provide a $5,000 special funds appropriation from the Teachers' Fund for Retirement to pay administrative costs to implement provisions of the bill draft. A copy of the report and amendment is on file in the Legislative Council office.

It was moved by Senator Krebsbach, seconded by Representative Kroeber, and carried on a voice vote that the committee approve the amendment to Employee Benefits Programs Committee Bill No. 68 requested by the Teachers' Fund for Retirement Board of Trustees.

It was moved by Senator Nelson, seconded by Senator Krebsbach, and carried on roll call vote that the committee give Employee Benefits Programs Committee Bill No. 68, as amended, a favorable recommendation. Representatives Klein, Kroeber, Svedjan, and Wald and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." Representative Carlson voted "nay."

Bill No. 67

Mr. Conradi reviewed Employee Benefits Programs Committee Bill No. 67 [70067.0200]. He said the provisions of the bill draft reduces the number of hours a retired member of TFFR may work each year and continue to receive retirement benefits. He said the bill draft also limits the areas in which a retired member of TFFR may return to teach under the "critical shortage area" to only mathematics and science.

Mr. Conradi reviewed the actuarial analysis of Bill No. 67. He said provisions of the bill draft are estimated to potentially reduce the GASB annual required contribution by .38 percent, from 12.29 to 11.91 percent in 2007. He said the unfunded actuarial accrued liability would decrease by about $15 million and the funded ratio would improve from 75.4 to 76 percent. A copy of the analysis is on file in the Legislative Council office.

Because of changes included in Bill No. 68 which affect the retirement contributions for retired teachers returning to work, Representative Klein withdrew the bill draft.

PERS Actuarial Report

Mr. Michael Moehle, Vice President and Consulting Actuary, The Segal Company, San Francisco, California, presented the July 1, 2006, actuarial valuation of the Public Employees Retirement System main system, judges' retirement system, National Guard retirement system, law enforcement retirement systems, Highway Patrolmen's retirement system, Job Service North Dakota retirement system, and the retiree health benefits fund. Mr. Moehle presented the following information relating to the number of active members in each of the retirement plans:

Retirement Program	2005	2006
Main system	17,745	17,887
Highway Patrolmen's	125	127
Judges	46	47
National Guard	14	41
Job Service North Dakota	52	44
Law enforcement with prior service	113	113
Law enforcement without prior service	13	14
Retiree health insurance credit fund	18,302	18,465

Mr. Moehle said the main system and the Highway Patrolmen's retirement system in 2006 had a 12.04 percent return on investment compared to the 2005 rate of return of 14.17 percent. He said the 10-year average rate of return on an actuarial valuation basis has been 8.53 percent.

Mr. Moehle presented the following schedule showing the annual required contribution (ARC) rate based on GASB guidelines, the statutory contribution rate, and margin for 2006.

Retirement Program	ARC Rate	Statutory Rate	Margin
Main system	6.90%	4.12%	(2.78%)
Highway Patrolmen's	19.03%	16.70%	(2.33%)
Judges	12.36%	14.52%	2.16%
National Guard	4.02%	6.50%	2.48%
Job Service North Dakota	N/A	N/A	N/A
Law enforcement with prior service	12.07%	8.31%	(3.76%)
Law enforcement without prior service	7.43%	6.43%	(1.00%)
Retiree health insurance credit fund	1.00%	1.00%	0%

Mr. Moehle presented the following schedule showing the actuarial funding ratio for each of the retirement programs for recent years:

Retirement Program	2002	2003	2004	2005	2006
Main system	104%	98%	94%	91%	89%
Highway Patrolmen's	97%	93%	90%	88%	87%
Judges	122%	115%	113%	109%	105%
National Guard	139%	126%	120%	108%	101%
Job Service North Dakota	113%	109%	109%	109%	101%
Law enforcement with prior service			87%	41%	45%
Law enforcement without prior service			109%	48%	59%
Retiree health insurance credit fund	38.3%	38.2%	38.8%	39.6%	41.2%

A copy of the report is on file in the Legislative Council office.

The committee recessed for lunch at 11:45 a.m. and reconvened at 12:30 p.m.

Bill No. 75

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 75 [70075.0100]. Mr. Collins said the bill draft provides a retiree of the PERS defined benefit retirement plan or the Highway Patrolmen's retirement system to receive an additional **one-time benefit** equal to 75 percent of the retiree's monthly retirement benefit in either January 2007 or January 2008 if the total return on the fund is 9.16 percent or more in the preceding actuarial report. A retiree of the judges' retirement system would receive a benefit adjustment of 2 percent of their retirement benefit in January 2008 and January 2009. These increases will be paid only if PERS determines there is sufficient actuarial margin to pay for the increases.

Mr. Collins said the actuarial analysis indicates the return on investment target to provide for the one-time payment may be adjusted from 9.16 to 9.06 percent. Mr. Collins presented an amendment to the bill draft to reduce the return on investment from 9.16 to 9.06 percent in accordance with the actuarial analysis.

Under the judges' retirement system, Mr. Collins said the actuarial analysis indicates the 2 percent benefit increase for each year of the biennium would cost .46 percent of payroll. Since the judges' retirement system has a margin of 2.16 percent, he said, this would be affordable.

Representative Carlson expressed concern that the "trigger" for determining whether the one-time payment is made under the main system and Highway Patrolmen's retirement system is based on market returns. He suggested the trigger be based on the actuarial valuation.

It was moved by Senator Holmberg, seconded by Representative Kroeber, and carried on a voice vote to approve the amendment to Employee Benefits Programs Committee Bill No. 75 requested by the Public Employees Retirement System Board.

It was moved by Representative Wald, seconded by Representative Carlson, and carried on a roll call vote that the committee give Employee Benefits Programs Committee Bill No. 75, as amended, no recommendation. Representatives Klein, Svedjan, and Wald and Senators Kilzer and Krebsbach voted "aye." Representatives Carlson and Kroeber and Senators Holmberg and Nelson voted "nay."

Bill No. 76

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 76 [70076.0100]. He said the bill draft includes technical corrections to the calculation of final average salary, allows an alternate payment method for those who delay taking retirement benefits after the normal retirement date, updates federal compliance provisions, and makes technical changes to sick leave conversion provisions. He said the actuarial analysis indicates the bill draft has **no actuarial impact** to the system.

Mr. Collins presented a proposed amendment to the bill draft continuing to limit purchase of service options to active contributing members and providing that members participating in the defined contribution plan vest at age 65, the same as the defined benefits plan. A copy of the report and amendment is on file in the Legislative Council office.

It was moved by Senator Holmberg, seconded by Representative Kroeber, and carried on a voice vote to approve the amendment to Employee Benefits Programs Committee Bill No. 76, as requested by the Public Employees Retirement System Board.

It was moved by Senator Nelson, seconded by Senator Kilzer, and carried on a roll call vote that the committee give Employee Benefits Programs Committee Bill No. 76, as amended, a favorable recommendation. Representatives Klein, Carlson, Kroeber, Svedjan, and Wald and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." No negative votes were cast.

Bill No. 80

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 80 [70080.0100]. He said the bill draft provides for a 2 percent increase in retirement benefits to retirees of the Public Employees Retirement System and the Highway Patrolmen's retirement system in 2009 and fully pays for the increase over two years by increasing the employer contribution. He said under provisions of the bill draft, the employer contribution rate under the Highway Patrolmen's retirement system will increase by 5 percent, from 16.7 to 21.7 percent, and the employer contribution rate for employees of the Public Employees Retirement System will increase by 1 percent, from 4.12 to 5.12 percent, in order to pay for the 2 percent increase within two years. He said the bill draft becomes effective August 1, 2009.

Mr. Collins reviewed the actuarial analysis. He said based on a two-year amortization schedule, the cost would be .64 percent of payroll for the main retirement system, .36 percent of payroll for the National Guard retirement system, and 3.95 percent of payroll for the Highway Patrolmen's retirement system.

Mr. Collins presented a proposed amendment to Bill No. 80 to reduce the employer contribution increase included in the bill draft effective August 2009 from 1 to .64 percent for the main retirement system and from 4.37 to 3.95 percent for the Highway Patrolmen's retirement system. He said the employer contribution increases are estimated to cost state agencies and higher education institutions $4.6 million per biennium, of which $1.9 million is from the general fund. A copy of the report and amendment is on file in the Legislative Council office.

In response to a question from Representative Wald, Mr. Collins said although the bill draft will not become effective until after the 2009 legislative session, the authorization is being requested from the 2007 Legislative Assembly in order to allow political subdivisions to plan for the increase when developing fiscal year 2009 budgets.

It was moved by Senator Nelson, seconded by Representative Kroeber, and carried on a voice vote to approve the amendment to Employee Benefits Programs Committee Bill No. 80 as requested by the Public Employees Retirement System Board.

It was moved by Representative Wald, seconded by Representative Carlson, and carried on a roll call vote to give Employee Benefits Programs Committee Bill No. 80 no recommendation. Representatives Klein, Carlson, Kroeber, Svedjan, and Wald and Senators Holmberg, Krebsbach, and Nelson voted "aye." Senator Kilzer voted "nay."

Bill No. 77

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 77 [70077.0100]. He said the bill draft provides for an automatic enrollment process for new employees in the deferred compensation program at $25 per month unless the employee elects not to participate.

Mr. Collins reviewed the actuarial analysis of the bill draft and said the actuarial analysis indicates the bill draft has no actuarial impact. A copy of the report is on file in the Legislative Council office.

It was moved by Senator Krebsbach, seconded by Senator Nelson, and carried on a roll call vote to give Employee Benefits Programs Committee Bill No. 77 a favorable recommendation. Representatives Klein, Kroeber, and Svedjan and Senators Kilzer and Krebsbach voted "aye." Representatives Carlson and Wald and Senator Holmberg voted "nay."

Bill No. 79

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 79 [70079.0100]. He said the bill draft provides for an increase in the monthly retiree health credit from $4.50 per year of credited service to $5 per year of credited service and pays for the increase by increasing the retiree health credit employer contribution by .15 percent, from 1 to 1.15 percent of payroll.

Mr. Collins reviewed the actuarial analysis of the bill draft and said the actuarial impact on the retiree health benefit fund is .15 percent of payroll. He said the estimated cost of increasing employer contributions by .15 percent for a biennium for state agencies and higher education institutions is $980,000, of which $354,000 is from the general fund. A copy of the report is on file in the Legislative Council office.

It was moved by Senator Krebsbach, seconded by Senator Holmberg, and carried on a roll call vote to give Employee Benefits Programs Committee Bill No. 79 no recommendation. Representatives Klein, Carlson, Kroeber, Svedjan, and Wald and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." No negative votes were cast.

Bill No. 71

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 71 [70071.0100]. He said the provisions of the bill draft authorize employees of the North Dakota Association of Counties to participate in the Public Employees Retirement System, the retiree health benefits fund, the uniform group insurance program, and the deferred compensation program.

Mr. Collins reviewed the actuarial analysis and said the bill draft has no actuarial impact on the retirement system. However, he said, the actuary questioned whether the North Dakota Association of Counties qualifies as a political subdivision of the state eligible to participate in the retirement system. A copy of the report is on file in the Legislative Council office.

Mr. Mark Johnson, Executive Director, North Dakota Association of Counties, presented a proposed amendment to Bill No. 71 to clarify that the Association of Counties is an instrumentality of government.

Mr. Johnson asked the committee to give a favorable recommendation for the bill draft as amended.

It was moved by Senator Nelson, seconded by Senator Holmberg, and carried on a voice vote to approve the amendment to Employee Benefits Programs Committee Bill No. 71 requested by the North Dakota Association of Counties.

It was moved by Senator Krebsbach, seconded by Senator Holmberg, and carried on a roll call vote to give Employee Benefits Programs Committee Bill No. 71, as amended, a favorable recommendation. Representatives Svedjan and Kroeber and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." Representatives Klein, Carlson, and Wald voted "nay."

Bill No. 78

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 78 [70078.0100]. He said the provisions of the bill draft create a tax-exempt trust into which an employee's unused annual leave and 10 percent of the employee's unused sick leave would be deposited into and used for qualified health care expenses during the employee's retirement. He said the bill draft also increases the term life insurance policy provided for employees by the state from a minimum of $1,000 to a minimum of $5,000; allows a separate prescription drug plan to be provided for retirees due to the establishment of the federal Medicaid Part D prescription drug program; allows the retiree health credit for employees and spouses, who are also state employees, to be combined; requires temporary employees to work a minimum of 20 hours per week and at least 20 weeks per year to be eligible to participate in the uniform group insurance program; and allows a temporary employee's employer to determine whether the temporary employee or the employer will pay the monthly premium for the health insurance coverage.

Mr. Collins presented a proposed amendment to Bill No. 78 to remove Sections 1 and 7 of the bill draft which relate to the creation of a trust into which an employee's unused annual leave and 10 percent of the employee's unused sick leave would be deposited into and used for qualified health care expenses during the employee's retirement. Mr. Collins said these sections are being removed because federal law does not allow employees to choose to withdraw mandatory payments from the trust in cash.

Mr. Collins reviewed the actuarial analysis that indicates most of the provisions in the bill draft are cost-neutral; however, he said, increasing the term life insurance policies from $1,000 to $5,000 is estimated to cost state agencies and higher education institutions approximately $280,000 per biennium, of which $61,000 is from the general fund. A copy of the report and amendment is on file in the Legislative Council office.

It was moved by Senator Krebsbach, seconded by Senator Holmberg, and carried on a voice vote to approve the amendment to Employee Benefits Programs Committee Bill No. 78 requested by the Public Employees Retirement System Board.

It was moved by Representative Carlson, seconded by Representative Wald, and failed on a roll call vote to give Employee Benefits Programs Committee Bill No. 78, as amended, an unfavorable recommendation. Representatives Klein, Carlson, and Wald voted "aye." Representatives Kroeber and Svedjan and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "nay."

It was moved by Senator Krebsbach, seconded by Senator Kilzer, and carried on a roll call vote to give Employee Benefits Programs Committee Bill No. 78, as amended, a favorable recommendation. Representatives Klein, Kroeber, Svedjan, and Wald and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." Representative Carlson voted "nay."

Bill No. 62

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 62 [70062.0100]. He said provisions of the bill draft authorize public health districts and the Garrison Diversion Conservancy District to participate in the uniform group insurance program under the same terms and conditions as state agencies, which will enable the public health districts to continue to pay the blended premium rate similar to state agencies rather than a separate single rate and family rate paid by other political subdivisions.

Mr. Collins proposed to amend the bill draft to require these districts to participate under the same terms and conditions as a state agency rather than making it optional.

Mr. Collins reviewed the actuarial analysis of the bill draft. He said the actuarial analysis indicates that, at current premium rates, if all public health units were required to pay the separate political subdivision single/family rates, PERS is estimated to collect an additional $218,000 per year in premiums. A copy of the report is on file in the Legislative Council office.

It was moved by Senator Krebsbach, seconded by Representative Kroeber, and carried on a voice vote to approve the amendment to Employee Benefits Programs Committee Bill No. 62 requested by the Public Employees Retirement System Board.

It was moved by Senator Krebsbach, seconded by Senator Holmberg, and carried on a roll call vote to give Employee Benefits Programs Committee Bill No. 62 a favorable recommendation. Representatives Klein, Carlson, Kroeber, Svedjan, and Wald and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." No negative votes were cast.

Bill Nos. 30, 31, 32, and 100

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 30 [70030.0200]. He said provisions of the bill draft expand the uniform group insurance program to allow participation by members of the North Dakota National Guard.

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 31 [70031.0100]. He said provisions of the bill draft expand the uniform group insurance program to allow participation by permanent employees of nonprofit organizations exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code.

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 32 [70032.0100]. He said the provisions of the bill draft expand the uniform group insurance program to allow participation by permanent employees of private sector employers in the state employing 50 or fewer employees.

Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 100 [70100.0100]. He said provisions of the bill draft expand the uniform group insurance program to allow participation by permanent employees of private sector employers in the state, by temporary employees of private sector employers, and to other residents of the state who do not have health insurance coverage through a private insurer or through a public benefits plan provided by a governmental entity.

Mr. Collins reviewed the actuarial analysis of each of these bill drafts and said the actuarial analysis is similar for each. He said the actuarial concerns are with expanding eligibility which could result in adverse selection that may increase plan costs. A second concern, he said, is that a governmental plan could lose its governmental status if nongovernmental employers are allowed. However, he said, Section 7 of the bill draft mitigates these concerns by providing the PERS Board authority to not implement the bill draft unless it can be done in a manner that will not impact the plan.

It was moved by Representative Wald, seconded by Representative Carlson, and carried on a roll call vote to give Employee Benefits Programs Committee Bill Nos. 30, 31, 32, and 100 unfavorable recommendations. Representatives Klein, Carlson, Svedjan, and Wald and Senators Holmberg, Kilzer, and Krebsbach voted "aye." Representative Kroeber and Senator Nelson voted "nay."

Bill No. 82

Mr. Steve Cochrane, Executive Director, Retirement and Investment Office, reviewed Employee Benefits Programs Committee Bill No. 82 [70082.0100]. Mr. Cochran presented a "hoghouse" amendment to the bill draft. He said the amendment provides specific statutory authority for the investment director of the State Investment Board to sign and execute all contracts and agreements relating to funds under the management of the board. He said provisions of the bill draft will have no actuarial impact to any of the funds invested by the State Investment Board nor will the Retirement and Investment Office incur any costs to implement provisions of the bill draft.

It was moved by Senator Nelson, seconded by Senator Holmberg, and carried on a voice vote to approve the amendment to Employee Benefits Programs Committee Bill No. 82 requested by the State Investment Board.

It was moved by Senator Nelson, seconded by Senator Holmberg, and carried on a roll call vote to give Employee Benefits Programs Committee Bill No. 82, as amended, a favorable recommendation. Representatives Klein, Carlson, Kroeber, Svedjan, and Wald and Senators Holmberg, Kilzer, Krebsbach, and Nelson voted "aye." No negative votes were cast.

Comments by Interested Persons

Mr. Tom Tupa, representing the American Federation of Public Employees, commented on the proposed bills and expressed support for Employee Benefits Programs Committee Bill Nos. 75, 79, and 80.

STATE EMPLOYEE COMPENSATION STUDY

Mr. Collins presented information on projected health insurance premium rates under the uniform group insurance program for the 2007-09 biennium.

Mr. Collins said the Blue Cross Blue Shield of North Dakota bid for the uniform group insurance program for the 2007-09 biennium is for a blended single/family rate of $681 per month, a $127.06 increase or 22.9 percent over the current monthly premium rate of $553.94.

Mr. Collins said the rate increase is estimated to cost state agencies an additional $24.4 million for the

2007-09 biennium, of which $11.2 million is from the general fund.

Mr. Collins said Medicare supplement premium rates will increase from the current rate of $169 per month for a single plan to $212 per month for the 2007-09 biennium. He said the family plan premium will increase from $329 per month to $414 per month, effective July 1, 2007.

Ms. Pam Sharp, Chairman, State Employees Compensation Commission, presented the recommendations of the State Employees Compensation Commission. Ms. Sharp said the State Employees Compensation Commission is recommending the 2007 Legislative Assembly provide a state employee salary increase of 5 percent on July 1, 2007, and 4 percent on July 1, 2008. In addition, she said, the commission is recommending an $8 million salary equity pool for classified state employees, $4 million of which is from the general fund and $4 million of special funds and is recommending continuing the full state payment of the single or family health insurance premium with no plan changes.

In response to a question from Representative Kroeber, Ms. Sharp said the estimated cost of the recommended increases is $40.2 million from the general fund, $25 million of which relates to the 5 percent and 4 percent salary increases, $4 million for the salary equity increases, and $11.2 million for health insurance premium increases.

The Legislative Council staff presented a memorandum entitled Agency Compensation System Recommendations and Statistics - 2005-06 Interim. The Legislative Council staff said the memorandum summarizes suggestions made by state agencies to the Employee Benefits Programs Committee relating to state employee compensation and includes turnover and retirement statistics for selected major state agencies for recent years and projections for future years.

Ms. Laurie Sterioti Hammeren, Director, Human Resource Management Services, provided information on administrative guidelines related to employee compensation and reported on the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs. Ms. Sterioti Hammeren distributed a copy of the administrative rules relating to salary administration procedures, including information on limiting salaries to authorized budgetary levels and to assigned salary ranges and guidelines relating to salary levels for employees and recruitment and retention bonuses. A copy of the administrative rules is on file in the Legislative Council office.

Ms. Sterioti Hammeren presented the following schedule regarding the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs, pursuant to North Dakota Century Code Section 54-06-31:

	July 1, 2003, to June 30, 2005		July 1, 2005, to September 30, 2006	
Agency	**Recruitment (148 total)**	**Retention (31 total)**	**Recruitment (186 total)**	**Retention (0 total)**
Bank of North Dakota	$2,404.00	$41,400.34		
Department of Commerce			$2,000.00	
Department of Corrections and Rehabilitation	4,225.00		500.00	
Highway Patrol	2,250.00		3,500.00	
Department of Human Services	22,365.50	10,800.00	46,109.28	
Information Technology Department	15,550.00		14,900.00	
Job Service North Dakota	2,000.00			
Industrial Commission		20,000.00	300.00	
Department of Transportation	222,777.58		100,042.79	
Veterans Home	4,000.00			
Total	$275,572.08	$72,200.34	$167,352.07	0

A copy of the report is on file in the Legislative Council office.

Mr. Ken Purdy, Compensation Manager, Human Resource Management Services, provided information on state employees as of August 2006. Mr. Purdy said as of August 2006, state agencies employed 6,384 classified employees with an average employee age of 46.2, average years of service of 13.4, and an average annual salary of $35,640.

Mr. Purdy said for 2006, state employee salaries lag market salaries by 11.3 to 17.3 percent.

Mr. Purdy presented the following schedule comparing the value of fringe benefits of North Dakota state employees to the average employees in the 10 states of Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Oklahoma, South Dakota, and Wyoming. Mr. Purdy said the information is based on a state employee with five years of service and an annual salary of $40,035.

Benefit	North Dakota Per Hour Benefit Value	10-State Average Per Hour Benefit Value
Vacation leave	$1.11	$1.14
Sick leave	$.89	$.98
Holiday leave	$.78	$.79
Employer cost share of full family health insurance	$3.75	$4.34
Dental insurance	$0	$.12
Life insurance	Less than 1 cent	$.04
Retirement	$1.76	$1.58
Social Security	$1.19	$1.19
Total benefit value	$9.48	$10.02
Percentage of salary	49.23%	52.04%

Mr. Purdy presented information on the projected cost of increasing salary range midpoints to 90 percent of market, 95 percent of market, and 100 percent of market. He said increasing salary range midpoints to 90 percent of market would require 124 employees to receive salary adjustments to maintain their salaries within the salary range, requiring an estimated $246,000 per year of additional funding. To increase the midpoints of the salary range to 95 percent of market would require 516 employees to receive salary adjustments to maintain their salary levels within the salary range minimum, requiring an estimated $720,000 per year of additional funding. To increase the salary range midpoints to 100 percent of market would require 1,122 employees to receive a salary adjustment to maintain their salary levels within the salary range minimum at an estimated cost of $1.9 million per year.

Representative Svedjan said in addition to these costs, it may be necessary to provide salary increases to other employees within an agency to maintain salary equity within the agency. He suggested these additional costs need to be considered when developing a compensation plan. He said if the state chooses to proceed with one of these options, it will be necessary to have information on the total funding needed to implement the option so the Legislative Assembly can develop a plan for providing the funding over a specified period of time.

Mr. Bill Kalanek, representing the Independent State Employees Association, expressed support for the State Employees Compensation Commission recommendation.

Ms. Jodee Buhr, Executive Director, North Dakota Public Employees Association, said it is important for the state to address state employee salary levels which are currently below market salaries. She expressed support for the State Employees Compensation Commission recommendation and stressed the importance of continuing the fully paid health insurance plan for state employees as a recruiting tool.

Ms. Buhr said while state employees have continued to provide valuable service to the state when state revenues were not keeping pace with state funding needs and state employees received no salary increases, it is important now for the Legislative Assembly, when state revenues are adequate and large fund balances exist, to adequately reward state employees.

Ms. Buhr expressed support for Employee Benefits Programs Committee Bill Nos. 75, 79, and 80.

Ms. Ardyth Pfaff, Human Resources Director, Information Technology Department, expressed support for the State Employees Compensation Commission recommendation.

It was moved by Representative Carlson, seconded by Representative Kroeber, and carried on a voice vote that the chairman and the staff of the Legislative Council be requested to prepare a report and present the report to the Legislative Council.

The committee adjourned at 3:30 p.m.

____

Allen H. Knudson
Assistant Legislative Budget Analyst
and Auditor

____

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1