

Bill Provisions	Actuarial Comments	PERS
<p>A BILL for an Act to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to non-Medicare retiree insurance rates.</p>		
<p>SECTION 1 - The proposed change in this section reduces the rate for premedicare retirees by changing the difference in the premedicare single to active single from 150% to 125%. This change also reduces the premedicare family rate.</p>	<p>The actuary notes the bill will have two impacts to the plan:</p> <ol style="list-style-type: none"> 1. The plan will need an increased subsidy to support the reduced rate 2. The cost of this increased subsidy will increase the OPEB liability of the plan to the state. 	<p>PERS is proposing to fund this bill from PERS reserves and the amount available is \$2 million. In order to balance the provisions of this bill with the available funding PERS is proposing to change to the ratio from the propose 125% to 130%</p>
<p>SECTION 2. EXPIRATION DATE - SUSPENSION. This provision set an expiration date which means if this bill is passed it would only be effective for one biennium</p>	<p>The expiration date will not effect the cost of the plan for the 09-11 biennium. However it could reduce the reported OPEB liability if this is done only the one time.</p>	

PROPOSED AMENDMENTS TO BILL NO. 90013.1

Page 1, line 18, replace "twenty-five" with "thirty"

Renumber accordingly

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October 20, 2008

Representative Bette Grande, Chair
Employee Benefits Program Committee
State of North Dakota
Bismarck, North Dakota

RE: North Dakota Public Employees Retirement System FY 2009 GASB 45 ARC – Impact of Legislative Bill #90113.0100

Dear Representative Grande:

North Dakota Public Employees Retirement System (“NDPERS”) has requested APEX Management Group (“APEX”), a division of Gallagher Benefit Services, Inc., to estimate the impact of Legislative Bill #90113.0100 on NDPERS’ fiscal year 2009 GASB 45 Annual Required Contribution (ARC). The intent of this letter is to present the results of the study.

Legislative Bill #90113.0100

Legislative Bill #90113.0100 is a bill intended to amend and enact section 54-52.1-02 of the North Dakota Century Code (Act) relating to non Medicare retiree insurance rates under the uniform group insurance program. Under the Act, the insurance rate for a non Medicare retiree choosing single coverage is to be 125% of the active member single plan rate. Currently, non Medicare retiree rates are 150% of the active member single plan rate. Furthermore, the Act states that the rates for a non Medicare retiree family of two and a non Medicare retiree family of three or more are twice and two and a half times the non Medicare retiree single plan rate, respectively. It should be noted that the bill does not change the relationship between the non Medicare two party and family rate and the non Medicare retiree rate. Rather, the bill changes the relationship between the non Medicare retiree single coverage rate and the active member single plan rate. The bill also provides an expiration date of June 30, 2011 for the Act.

NDPERS Fiscal Year 2009 GASB 45 ARC

Based on the July 2007 health insurance rates, a NDPERS non Medicare retiree would pay a monthly premium for single coverage of \$471.09. The \$471.09 represents the full monthly rate since NDPERS does not provide an explicit subsidy and requires retirees to pay the full rate. If the above Act were in effect in July 2007, the premium would be \$392.57, a decrease of approximately 17%. The decrease in the premium also represents an increase in the implicit subsidy provided by NDPERS to its non Medicare retiree population under GASB 45.

The table below provides an estimate of the fiscal year 2009 GASB 45 Annual Required Contribution (ARC), July 1, 2008 accrued liability and June 30, 2009 Net OPEB Obligation under two scenarios. To provide a basis of comparison, the baseline represents the status quo or the situation where there is no change. Scenario 1 assumes that the bill passes and once the Act expires, the non Medicare rate returns to 150% of the active rate. Scenario 2 assumes that the bill passes and the non Medicare rate is 125% of the active rate even after the Act’s expiration date.

	Baseline	Scenario 1	Scenario 2
Estimated July 1, 2008 Accrued Liability	\$33,479,000	\$49,108,000	\$63,578,000
Estimated FY 2009 GASB 45 ARC			
Normal Cost	\$2,788,000	\$2,788,000	\$5,293,000
Interest on Normal Cost	\$139,000	\$139,000	\$265,000
Amortization of Unfunded Accrued Liability	\$1,278,000	\$1,874,000	\$2,426,000
Interest on Amortization	\$64,000	\$94,000	\$121,000
Total	\$4,269,000	\$4,895,000	\$8,105,000
Change in GASB 45 ARC	\$0	\$626,000	\$3,836,000
Change in June 30, 2009 Net OPEB Obligation	\$0	\$626,000	\$3,836,000

The estimated impact of the bill under Scenario 1 and Scenario 2 is to increase the July 1, 2009 accrued liability from \$33.5 million to \$49.1 million and \$63.6 million under Scenarios 1 and 2, respectively. The fiscal year 2009 GASB 45 ARC and June 30, 2009 Net OPEB Obligation will change by \$626,000 and \$3,836,000 under Scenarios 1 and 2, respectively.

The reason for the difference in the magnitude is that under Scenario 1, the change in the non Medicare retiree rate from 150% to 125% of active rate is temporary in that it only affects current retirees and *those actives expected to retiree prior to the expiration date of the Act*. Under Scenario 2, the change is permanent and will affect current retirees as well as *all NDPERS future retirees*. Note that the relative small decrease in the non Medicare retiree rate (17%) can have a potentially large impact on the GASB 45 ARC under Scenario 2 where the change in the GASB 45 ARC is \$3.8 million, almost a 90% increase.

As was noted above, the impact of the bill is to decrease the non Medicare retiree rate and increase the GASB 45 implicit employer subsidy. In this case, the implicit subsidy is the difference between the retirees' age adjusted health costs and the amount that the retirees pay for health coverage. The table below provides the projected implicit subsidy under the baseline and two scenarios for fiscal years 2009 to 2017.

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Fiscal Year	Baseline	Implicit Subsidy	
		Scenario 1	Scenario 2
2009	\$3,137,000	\$7,852,000	\$7,852,000
2010	\$2,257,000	\$7,915,000	\$7,915,000
2011	\$2,686,000	\$9,204,000	\$9,204,000
2012	\$3,129,000	\$3,129,000	\$10,606,000
2013	\$3,431,000	\$3,431,000	\$11,841,000
2014	\$3,700,000	\$3,700,000	\$13,063,000
2015	\$3,973,000	\$3,973,000	\$14,324,000
2016	\$4,286,000	\$4,286,000	\$15,638,000
2017	\$4,629,000	\$4,629,000	\$17,032,000

We include a corresponding analysis for the case where the insurance rate for a non Medicare retiree single coverage rate is 130% instead of 125% of the active member single plan rate. The corresponding estimated fiscal year 2009 GASB 45 ARC impact and projected implicit subsidies are shown in the appendix.

Assumptions and Methodology

The fiscal year 2009 GASB 45 ARC estimates are developed using the July 1, 2007 valuation results as well as the methods and assumptions from that valuation and an investment return assumption of 5%. The methods and assumptions are outlined in the report dated October 1, 2007.

2009-2011 Biennium Medical Plan Funding Impact

In addition to the GASB 45 impact noted above, the proposed bill would also affect the funding of the medical plan for the next biennium. The table below shows the estimated total premium for the for non Medicare retirees for the period July 1, 2009 to June 30, 2011 for five single plan rate caps, 120%, 125%, 130%, 135% and 140%. The assumed active renewal monthly premium for July 1, 2009 to June 30, 2011 is \$408.22.

Non-Medicare – Single Plan Rate Cap	150%	140%	135%	130%	125%	120%
Non-Medicare Retiree Renewal Biennium Premium ⁽¹⁾	\$14,916,356	\$13,921,932	\$13,424,720	\$12,927,508	\$12,430,297	\$11,933,085
Premium Impact ⁽¹⁾	N/A	\$994,424	\$1,491,636	\$1,988,847	\$2,486,059	\$2,983,271

⁽¹⁾ Total costs are estimated using all three Non-Medicare rate tiers and BCBSND renewal enrollment

The impact of the proposed legislation is to lower non Medicare retiree premiums for the two year period from \$14.9 million to \$12.4 million (125% plan rate cap).

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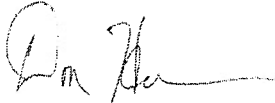
Representative Bette Grande

October 20, 2008

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If you have any questions, please call me at 609-452-2488 x212.

Sincerely,



Don Henson, FSA, MAAA
Consulting Actuary

cc: J. Sparb Collins, ND PERS
Bill Robinson, Managing Health Consultant, GBS
Mark Rosenberg, APEX
Mike Miele, APEX

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APPENDIX – Non Medicare Retiree Rate 130% of Active Rate

	Baseline	Scenario 1	Scenario 2
Estimated July 1, 2008 Accrued Liability	\$33,479,000	\$45,738,000	\$57,765,000
Estimated FY 2009 GASB 45 ARC			
Normal Cost	\$2,788,000	\$2,788,000	\$4,809,000
Interest on Normal Cost	\$139,000	\$139,000	\$240,000
Amortization of Unfunded Accrued Liability	\$1,278,000	\$1,746,000	\$2,205,000
Interest on Amortization	\$64,000	\$87,000	\$110,000
Total	\$4,269,000	\$4,760,000	\$7,364,000
Change in GASB 45 ARC	\$0	\$491,000	\$3,095,000
Change in June 30, 2009 Net OPEB Obligation	\$0	\$491,000	\$3,095,000

	Implicit Subsidy		
Fiscal Year	Baseline	Scenario 1	Scenario 2
2009	\$3,137,000	\$6,859,000	\$6,859,000
2010	\$2,257,000	\$6,723,000	\$6,723,000
2011	\$2,686,000	\$7,831,000	\$7,831,000
2012	\$3,129,000	\$3,129,000	\$9,031,000
2013	\$3,431,000	\$3,431,000	\$10,069,000
2014	\$3,700,000	\$3,700,000	\$11,090,000
2015	\$3,973,000	\$3,973,000	\$12,143,000
2016	\$4,286,000	\$4,286,000	\$13,246,000
2017	\$4,629,000	\$4,629,000	\$14,419,000

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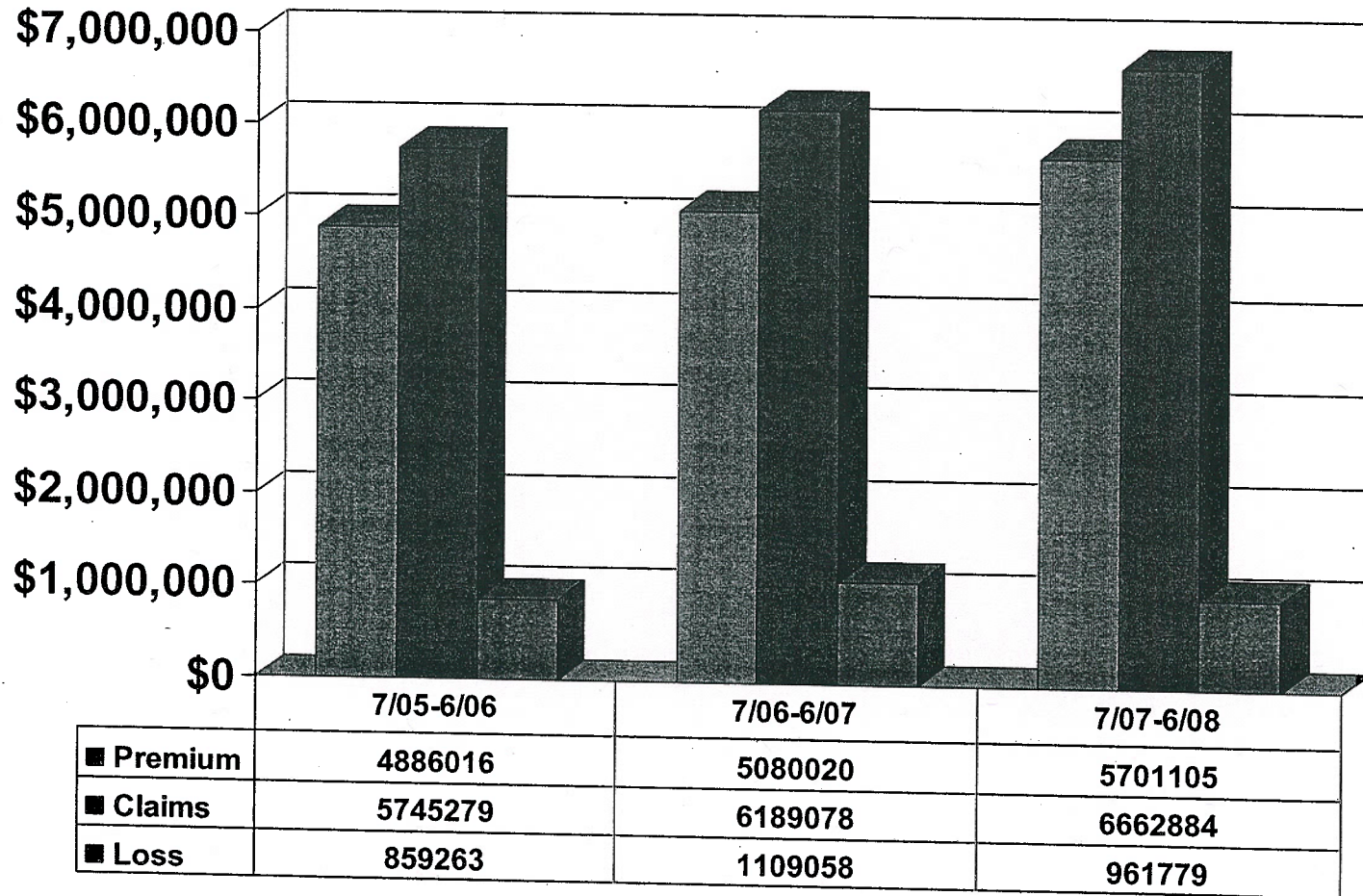
NDPERS Non-Medicare Rates 2009-2011 biennium (current plan design)

NM Active Single: \$404.16 Biennium
 Retirees

150% Single	548	\$606.24	\$332,220		28.69%
Family	226	\$1,212.48	\$274,020		
Family 3+	6	\$1,515.60	\$9,094		
			\$615,334	\$14,768,006.40	
140% Single	548	\$565.82	\$310,072		20.11%
Family	226	\$1,131.65	\$255,752		
Family 3+	6	\$1,414.56	\$8,487		
			\$574,311	\$13,783,472.64	
				\$984,533.76	
135% Single	548	\$545.62	\$298,998		15.82%
Family	226	\$1,091.23	\$246,618		
Family 3+	6	\$1,364.04	\$8,184		
			\$553,800	\$13,291,205.76	
				\$1,476,800.64	
130% Single	548	\$525.41	\$287,924		11.53%
Family	226	\$1,050.82	\$237,484		
Family 3+	6	\$1,313.52	\$7,881		
			\$533,289	\$12,798,938.88	
				\$1,969,067.52	
125% Single	548	\$505.20	\$276,850		7.24%
Family	226	\$1,010.40	\$228,350		
Family 3+	6	\$1,263.00	\$7,578		
			\$512,778	\$12,306,672.00	
				\$2,461,334.40	

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NDPERS Health Plan Non-Medicare Experience



Year

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