NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Thursday, November 5, 1998
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Francis J. Wald, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Francis J. Wald, Glen Froseth, Leland Sabby, Allan Stenehjem; Senators Karen K. Krebsbach, Ed Kringstad, Elroy N. Lindaas

Members absent: Representative James O. Coats; Senator Carolyn Nelson

Others present: See Appendix A

It was moved by Representative Froseth, seconded by Senator Lindaas, and carried that the minutes of the October 14, 1998, meeting be approved as distributed.

At the request of Chairman Wald, committee counsel distributed a memorandum entitled *Employee Benefits Programs Committee Bills* summarizing the bill drafts that have been submitted for review by the committee.

At the request of Chairman Wald, Mr. J. Christian Conradi, Actuary, Watson Wyatt Worldwide, Dallas, Texas, presented the July 1, 1998, actuarial valuation of the Teachers' Fund for Retirement. A copy of the overheads used by Mr. Conradi in his presentation is attached as Appendix B and a copy of the actuarial valuation is on file in the Legislative Council office. He said that overall the experience of the Teachers' Fund for Retirement was very positive during the past year. He said the number of active members decreased from 10,010 in 1997 to 9,896 in 1998. He said the decrease resulted from a number of active teachers who were planning to retire on June 30, 1997, staying in service until July 1, 1997, in order to take advantage of the increase in the multiplier enacted by the 1997 Legislative Assembly. He said the number of retired members also increased from 1997 to 1998, from 4,462 to 4,585. He said the active payroll increased, the average salary increased, and the average annual benefit increased from $8,748 to $9,723.

In response to a question from Representative Wald, Mr. Conradi said the average annual salary for teachers in North Dakota used by Watson Wyatt Worldwide was $30,156 and is similar to other state teacher retirement systems for which Watson Wyatt Worldwide provides actuarial services. However, he cautioned the committee that this figure should not be used to compare teachers' salaries in North Dakota with those in other states as there are other preferable methods of doing so.

Mr. Conradi said the market value of assets on June 30, 1998, was $1,133,500,000 with an actuarial value of $928 million. He said it would take an extreme drop in the market, more than 10 percent, to cause the system not to meet the actuarial assumed rate of return in 1999. He said the estimated yield as of July 1, 1998, was 13.2 percent in market value of assets and 12.6 percent in the actuarial value of assets. He said there has been an 11.4 percent average compound rate of return on market value since 1989 and an 8.9 percent average compound rate of return on actuarial value since 1989. He said the unfunded actuarial accrued liability decreased from $153.6 million on July 1, 1997, to $105.1 million on July 1, 1998, and the governmental accounting standards board number 25 funding ratio increased from 84.3 percent to 89.8 percent during this period. He said the unfunded actuarial accrued liability as a percentage of payroll is 35.2 percent. He said the required contribution rate for 1998 is 4.78 percent of total covered compensation. He said this results in an available margin of 2.97 percent or 7.75 percent (the statutory contribution rate) - 4.78 = 2.97.

In response to a question from Senator Krebsbach, Mr. Conradi said the Legislative Assembly enacted an increase in the multiplier and provided an ad hoc increase of $30 per month for retirees in 1997. He said these benefit enhancements resulted in an increase in the unfunded actuarial accrued liability of the Teachers' Fund for Retirement.

In conclusion, Mr. Conradi said the Teachers' Fund for Retirement has a very high-funded ratio, is very well-managed, and is in fine shape.

In response to a question from Representative Wald on how legislators can respond to the question during the next legislative session of how can they support increasing the multiplier and providing an ad hoc benefit enhancement for retirees when there is a $105 million unfunded actuarial accrued liability in the Teachers' Fund for Retirement, Mr. Conradi said the unfunded actuarial accrued liability is not like an accounting liability. He said it is a device to bill out a contribution rate, and it is not appropriate to think of it as an accounting liability. He said if benefit enhancements are not granted until the unfunded liability is satisfied, what will happen is that no benefit enhancements will be granted until the unfunded liability reaches zero. However, he said, once the unfunded liability reaches zero if the Legislative Assembly were to enact a benefit enhancement, it would immediately cause an unfunded liability, and thus the Legislative Assembly would not be able to provide benefit enhancements until some point in the future at which time the Teachers' Fund for Retirement would be overfunded. He said it could take as long as 10 or 12 years to overfund the system until a benefit enhancement could be granted without creating an unfunded liability.

In response to questions from Representative Wald concerning the Asian financial crisis, the specter of worldwide recession, and uncertainties surrounding the year 2000 problem, and whether it is prudent to grant benefit enhancements at this time, Mr. Conradi said even if the fund experiences realized and unrealized losses of $100 million in 1998-99, reversing the gains of the last fiscal year, because of the five-year smoothing approach to computing actuarial assets, and because of the large gains recognized in the last several years, the fund's actuarial return next year would still exceed the eight percent investment return assumption. Also, he said, the benchmark contribution rate uses a level amortization period and a shorter period, 20 years, which is more conservative than many other states employ. He said many other funds use a 25- to 40-year amortization period.

In response to a question from Senator Krebsbach, Mr. Conradi said if there is a decline in the number of teachers and thus employee contributions as a result of declining enrollments, it will not greatly impact the Teachers' Fund for Retirement. He said the decline would be slow enough to be offset by increases in payroll as a result of inflation and thus is not material to the status of the Teachers' Fund for Retirement.

In response to a question from Representative Wald, Mr. Conradi said the recent benefit enhancements for the Teachers' Fund for Retirement may be higher than those granted in private industry. However, he reminded the committee that in private industry there are other forms of compensation, such as incentive bonuses, stock options, and 401k plans with employer matching, that are not available to sponsors of governmental plans. Also, he said, the purpose of the plan and overall compensation package must be analyzed in light of its intent. He said the intent of the Teachers' Fund for Retirement is to attract highly qualified teachers while a private corporation trying to attract assembly line workers or sales personnel may have different objectives in structuring its compensation package. Thus, he said, retirement benefits must be analyzed as a portion of the entire compensation package. Comparing the Teachers' Fund for Retirement to other public sector plans, he said the 1.75 multiplier is lower than most teachers' plans and that the national average is closer to two percent, the goal of the Teachers' Fund for Retirement Board of Trustees.

At the request of Chairman Wald, Mr. Scott Engmann, Executive Director, Retirement and Investment Office, reviewed Employee Benefits Programs Committee Bill No. 88. A copy of a proposed amendment and a letter from Watson Wyatt Worldwide discussing an alternate approach to retiree improvements is attached as Appendix C. He also distributed a cost analysis prepared by Watson Wyatt Worldwide for the bill, a copy of which is attached as Appendix D. He said the bill increases the benefit multiplier from 1.75 to 1.85 percent and provides a postretirement benefit increase of $50 per month. However, he said, in light of the actuarial valuation, the board is requesting that the multiplier be increased from 1.85 percent to 1.88 percent and that the postretirement benefit increase be changed to a monthly increase equal to an amount calculated by taking $2 per month multiplied by the member's number of years of service credit plus $1 per month multiplied by the number of years since the member's retirement. He said the current multiplier of 1.75 percent replaces 52.5 percent of final average salary, the proposed multiplier of 1.85 percent would replace 55.5 percent of final average salary, and under the proposed amendment a benefit multiplier of 1.88 percent would replace 56.4 percent of final average salary. He said the goal of the board of trustees is to replace 60 percent of the final average salary of a teacher with 30 years' service credit, which would take a multiplier of 2.00 percent. He said the cost of the bill is within the available margin.

In response to a question from Senator Krebsbach, Mr. Engmann said the cost of the bill as amended is 2.87 percent and the cost of Bill No. 89 is .05 percent, thus, he said if both proposals are enacted, as recommended by the board of trustees, the remaining margin in the Teachers' Fund for Retirement would be .05 percent.

It was moved by Senator Lindaas, seconded by Senator Kringstad, and carried on a roll call vote that the amendment requested by the board of trustees be approved. Representative Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." Representatives Wald, Froseth, and Stenehjem voted "nay."

At the request of Chairman Wald, Mr. Engmann reviewed Employee Benefits Programs Committee Bill No. 89 and distributed the cost analysis prepared by Watson Wyatt Worldwide, a copy of which is attached as Appendix E. He said the bill makes a number of technical changes in the statutes governing the Teachers' Fund for Retirement and the actuarial impact of the bill is .05 percent. He said the change to three-year vesting does not result in a change in the margin but changing the early retirement reduction factors would have a cost of .05 percent.

At the request of Chairman Wald, Mr. Engmann reviewed Employee Benefits Programs Committee Bill No. 90. He said the bill provides that persons receiving monthly benefits from the Teachers' Fund for Retirement are entitled to receive a monthly credit toward hospital medical benefits coverage of $2.50 multiplied by the person's number of years of service. He also distributed a copy of the technical comments and cost analysis prepared by Watson Wyatt Worldwide, a copy of which is attached as Appendix F. He said the bill has no cost to the system because it calls for a general fund appropriation to fund the benefit.

At the request of Chairman Wald, Mr. Engmann reviewed the provisions of Employee Benefits Programs Committee Bill No. 54. He said the bill allows a retired member to return to teaching for up to one year without losing any benefits if at least 50 percent of the salary earned by that person is placed in a school district's educational foundation or a private educational foundation. He said the bill was drafted at the request of Senator Carolyn Nelson. He said the bill would have no cost impact on the Teachers' Fund for Retirement.

It was moved by Senator Krebsbach, seconded by Representative Sabby, and carried that Employee Benefits Programs Committee Bill No. 88 be given a favorable recommendation. Representatives Froseth and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." Representatives Wald and Stenehjem voted "nay."

In response to a question from Representative Stenehjem, Mr. Engmann said that since the Teachers' Fund for Retirement Board of Trustees has adopted the five-year smoothing actuarial method rather than using the market value of assets, it has often used the margin, and even more than the available margin in a recent legislative session, to fund benefit enhancements and that leaving a reserve of .05 percent while providing benefit enhancements is reasonable and prudent on the part of the board.

It was moved by Representative Froseth, seconded by Representative Stenehjem, and carried that Employee Benefits Programs Committee Bill No. 89 be given a favorable recommendation. Representatives Froseth, Sabby, Stenehjem, and Wald and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

It was moved by Representative Froseth, seconded by Representative Wald, and defeated that Employee Benefits Programs Committee Bill No. 90 be given an unfavorable recommendation. Representatives Froseth, Stenehjem, and Wald voted "aye." Representative Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "nay."

It was moved by Senator Krebsbach, seconded by Senator Kringstad, and carried that Employee Benefits Programs Committee Bill No. 90 be given no recommendation. Representatives Froseth, Stenehjem, and Wald and Senators Krebsbach and Kringstad voted "aye." Representative Sabby and Senator Lindaas voted "nay."

It was moved by Senator Kringstad, seconded by Senator Lindaas, and carried that Employee Benefits Programs Committee Bill No. 54 be given a favorable recommendation. Representatives Froseth, Sabby, Stenehjem, and Wald and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Roderick B. Crane, Vice President, The Segal Company, Englewood, Colorado, addressed the committee. A copy of the overheads used in his presentation is attached as Appendix G and copies of the actuarial valuations for the Public Employees Retirement System main system, Highway Patrolmen's retirement system, and retiree health insurance credit fund are on file in the Legislative Council office. He said The Segal Company is the actuarial consultant for the Public Employees Retirement System. He said the total number of active members of the Public Employees Retirement System main system increased 2.3 percent from June 30, 1997, to June 30, 1998, from 15,596 to 15,954. He said the market value of assets as of June 30, 1998, was $1,034,000,000 which had an actuarial value of $829 million. Thus, he said, the actuarial value is 80 percent of the market value of the assets. He said the rate of return on the actuarial value of assets was 14.02 percent which is 6.02 percent higher than the eight percent assumed rate of return. He said the employer cost rate as of June 30, 1998, was 2.51 percent of payroll which is less than the statutory contribution rate of 4.12 percent, creating a margin of 1.61 percent of payroll. He said the employer cost rate for the judges' system was 7.35 percent while the statutory contribution rate is 14.52 percent resulting in a margin of 7.17 percent. He said the employer cost rate for the National Guard retirement system was 3.44 percent while the contribution rate set by the Public Employees Retirement System Board is 8.33 percent resulting in a margin of 4.89 percent. He said the actuarial value of main system, judges' system, and National Guard retirement system assets was $801 million as of June 30, 1998, while the actuarial accrued liability was $720 million. Thus, he said, the main, judges', and National Guard retirement systems have a funded ratio of 111 percent.

Concerning the actuarial valuation of the retiree health insurance credit fund, Mr. Crane said the total number of members increased by 2.2 percent from 1997 to 1998, from 15,801 to 16,156 members. He said the assets, at market value, of the retiree health insurance credit fund totaled $20.3 million with an actuarial value of $16.3 million as of June 30, 1998. He said the actuarial value of assets is 80.2 percent of the market value of assets. He said the market value rate of return was 18.41 percent while the actuarial value rate of return was 14.75 percent or 6.75 percent in excess of the eight percent investment return assumption.

Mr. Crane said the employer cost rate for the retiree health insurance credit fund as of June 30, 1998, was 1.02 percent while the employer contribution rate is 1.00 percent. Thus, he said, the margin is minus .02 percent. However, he said, The Segal Company is not concerned with the negative margin.

In response to a question from Representative Wald, Mr. Crane said The Segal Company conducts an experience study every five years to review the actual experience and adjust the actuarial assumptions used in calculating the actuarial valuation of the funds.

Concerning the actuarial valuation of the Highway Patrolmen's retirement system, Mr. Crane said the total number of members decreased from June 30, 1997, to June 30, 1998, from 124 to 121 or a 2.4 percent decrease. He said the employer cost rate for the Highway Patrolmen's retirement system is 11.99 percent which is less than the statutory contribution rate of 16.70 percent leaving a margin of 4.71 percent which would be available for benefit enhancements. He said the actuarial value of assets of the Highway Patrolmen's retirement system is $28.1 million and the system is 97 percent funded. He said the Highway Patrolmen's retirement fund is in very good financial and actuarial shape.

In summary, Mr. Crane said each of the plans had favorable experience and remains in a sound position for benefit enhancements to be considered by the Legislative Assembly.

At the request of Chairman Wald, Mr. Sparb Collins, Executive Director, Public Employees Retirement System, reviewed Employee Benefits Programs Committee Bill No. 101. He said the bill reduces the vesting requirement from five years to three years for nonjudge members of the Public Employees Retirement System main system, increases the benefit multiplier from 1.77 percent to 1.90 percent, and provides postretirement, disability, and prior service adjustments of nine percent of the present benefit. He said the Public Employees Retirement System Board is requesting that the bill be amended to reduce the increase in the benefit multiplier from 1.90 percent to 1.89 percent of covered payroll and to reduce the nine percent benefit adjustment to eight percent. A copy of the proposed amendment is attached as Appendix H. He said the available margin will then be sufficient to cover the cost of the bill.

At the request of Chairman Wald, Mr. Crane presented the actuarial review and technical comments for Employee Benefits Programs Committee Bill No. 101, a copy of which is attached as Appendix I. He said the cost of the proposed changes as a percent of covered payroll is 1.58 percent for the main system and 1.32 percent for the National Guard retirement system. He reminded the committee that the current actuarial funding margin for the main system is 1.61 percent of covered payroll, and thus if the proposed changes are enacted, the remaining margin in the main system will be .03 percent of covered payroll. He said the cost of the proposed changes for the National Guard retirement system is 1.32 percent of covered payroll, and the current actuarial funding margin for the National Guard plan is 4.89 percent of covered payroll. Thus, he said, if the changes are enacted, the remaining margin in the National Guard retirement fund will be 3.57 percent. He said the cost impact of the proposed changes on the retiree health insurance credit fund would be less than .01 percent. In summary, he said, the proposed changes can be funded within the available margin.

Mr. Collins distributed a schedule of retirement payments and average yearly payments by county based upon the proposed changes in Employee Benefits Programs Committee Bill No. 101. A copy of the schedule is attached as Appendix J.

In response to a question from Senator Kringstad, Mr. Collins said the proposed changes in the bill make the Public Employees Retirement System retirement plan a hybrid plan as it will have aspects of both a defined benefit plan and a defined contribution plan. Also, he said, the proposed changes make the employer contribution more portable to employees, thus addressing portability concerns expressed by the Legislative Assembly in requesting the Office of Management and Budget and the Public Employees Retirement System to undertake the portability study.

In response to a question from Representative Wald, Mr. Collins said the Public Employees Retirement System Board was concerned about the equity of the bill in that some people may not be able to afford to make the maximum use of the matching provisions of the bill by contributing money to a Section 457 plan account. However, he said, if these people participate in the flexible benefits program, they could use the money saved by participating in that program and contribute it to a Section 457 plan account and thus participate in the matching program. He said the goal of the Public Employees Retirement System Board is to increase overall retirement savings. In response to a further question from Representative Wald, Mr. Collins said net retirement savings may decrease under Employee Benefits Programs Committee Bill No. 122 because it allows a member to vest in the employer contribution, and people will be able to obtain the employer contribution when they leave state employment, cashing it out rather than leaving it with the system as a deferred benefit or transferring it to another qualified plan, and spending the money rather than saving it for retirement. Under Employee Benefits Programs Committee No. 101, he said, employees would be forced to save more money for their retirement.

It was moved by Representative Froseth, seconded by Senator Kringstad, and carried on a voice vote to approve the amendment requested by the Public Employees Retirement System Board to reduce the proposed multiplier from 1.90 percent to 1.89 percent and the increase for retirees, disability retirees, and special prior service retirees from nine percent to eight percent.

It was moved by Senator Lindaas, seconded by Representative Sabby, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 101 be given a favorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Crane presented the actuarial review and technical comments for Employee Benefits Programs Committee Bill No. 102, a copy of which is attached as Appendix K. He said the bill provides a two percent postretirement adjustment for participants in the judges' retirement system. He said the cost as a percentage of payroll for the proposed changes is 13.90 percent. He reminded the committee that the current statutory contribution rate is 14.52 percent, and thus if the bill is enacted, there would be a remaining margin or reserve in the judges' retirement system of .62 percent. In summary, he said, the benefit enhancements can be funded within the available contribution level while maintaining a margin.

At the request of Chairman Wald, Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 102. He said the bill provides that participants in the judges' retirement system are entitled to receive a two percent postretirement adjustment in their present monthly benefit and allows the board to suspend the increase for an upcoming year if it determines that the increase is not actuarially prudent. He said the cost of the bill is 13.90 percent of payroll and thus, if this bill is enacted, the remaining margin in the judges' retirement system will be .62 or 14.52 (the statutory contribution rate) - 13.90 (the cost of the bill) = .62. He said the bill can be funded within the statutory contribution rate while maintaining a positive margin.

In response to a question from Representative Stenehjem, Mr. Collins said the Public Employees Retirement System Board leaves a larger margin in the judges' retirement system than the Public Employees Retirement System main system because it is smaller and more volatile.

In response to a question from Senator Krebsbach, committee counsel said that prior to 1997, the judges received benefit enhancements in the form of an increase in the benefit multiplier. However, he said, the judges' system has achieved its goals, and thus the retirement board is recommending a two percent yearly adjustment as opposed to increasing the multiplier.

In response to a question from Senator Krebsbach, Mr. Collins said the goals of the main system, judges' system, and Highway Patrolmen's retirement system are to provide a pension when coupled with Social Security benefits equal to 90 percent of final average salary. He said the judges' system has achieved this goal, and thus the multiplier will stay the same, and retirees will get a two percent increase per year under the bill.

It was moved by Representative Froseth, seconded by Senator Kringstad, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 102 be given a favorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Crane reviewed Employee Benefits Programs Committee Bill No. 60 and presented the actuarial review and technical comments for the bill, a copy of which is attached as Appendix L. He said the bill would create a newly defined contribution plan for nonclassified state employees. He said The Segal Company calculated the cost of the proposal using two different scenarios. Under the first scenario, he said, The Segal Company assumed that five percent of eligible employees would elect to participate in the new plan, and under the second scenario, he said, The Segal Company assumed that 30 percent of eligible employees would elect to participate in the new plan. Also, he said, The Segal Company assumed that of the total elections, 43 percent would be over age 40 and 57 percent under age 40, similar to the election results for the recently implemented newly defined contribution plan for the state of Michigan. He said that based upon the July 1, 1998, valuation results, which shows the market value of assets equal to 138 percent for the main system and 141 percent for the National Guard retirement system of actuarial accrued liabilities, The Segal Company assumed that the transfer on behalf of each employee would be 138 percent and 141 percent, respectively, of the value of the employee's accrued benefit. Thus, he said, if five percent elect, it would result in a reduction in the actuarial required contribution rate of .02 percent or a benefit to the main system of .02 percent, and if 30 percent elect, it would result in a reduction in the actuarial required contribution rate of .12 percent or a benefit of .12 percent to the main system. For the National Guard retirement system, he said, if five percent elect, it will result in a reduction in the actuarial required contribution rate of .72 percent and 2.08 percent if 30 percent elect.

At the request of Chairman Wald, Mr. Collins addressed the committee. He distributed a schedule of nonclassified employees by department, a copy of which is attached as Appendix M.

It was moved by Senator Kringstad, seconded by Representative Wald, and carried on a voice

vote that Employee Benefits Programs Committee Bill No. 60 be amended at the request of the sponsor to remove Section 6, which contains a general fund appropriation to the Public Employees Retirement System for the purpose of administering the newly defined contribution plan.

It was moved by Senator Kringstad, seconded by Representative Wald, and defeated that Employee Benefits Programs Committee Bill No. 60 be given a favorable recommendation. Representative Wald voted "aye." Representatives Froseth and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "nay."

It was moved by Representative Froseth, seconded by Senator Krebsbach, and carried that Employee Benefits Programs Committee Bill No. 60 be given no recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach and Kringstad voted "aye." Senator Lindaas voted "nay."

At the request of Chairman Wald, Mr. Thomas Schoens, Secretary-Treasurer, Fargo Firefighters Relief Association, reviewed Employee Benefits Programs Committee Bill No. 87. He also distributed a memorandum from Mr. Kent Costin, Finance Coordinator, City of Fargo, to the Fargo Firefighters Relief Association, a copy of which is attached as Appendix N. Mr. Schoens said the bill provides that a firefighters relief association may adopt an alternate pension plan for its members with a normal retirement age of 55 years, a service benefit of 2.33 percent of a first-class firefighter's salary at the time of the member's retirement multiplied by the number of years of service employment up to a maximum of 30 years, deferred vesting after 10 years, vesting of 10 years, and postretirement adjustments provided on an actuarially sound basis.

At the request of Chairman Wald, Mr. Crane addressed the committee. He said The Segal Company also provides actuarial services for the Fargo Firefighters Relief Association. He said the proposal can be funded within the existing margin of the Fargo Firefighters Relief Association plan.

It was moved by Senator Krebsbach, seconded by Representative Stenehjem, and carried that Employee Benefits Programs Committee Bill No. 87 be given a favorable recommendation. Representatives Wald, Froseth, Sabby, and Stenehjem and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

It was moved by Senator Krebsbach, seconded by Senator Lindaas, and carried on a voice vote that Employee Benefits Programs Committee Bill No. 87 be reconsidered for the purpose of adding an emergency clause to the bill.

It was moved by Senator Krebsbach, seconded by Senator Lindaas, and carried on a voice vote that Employee Benefits Programs Committee Bill No. 87 be amended at the request of the Fargo Firefighters Relief Association to add an emergency clause.

It was moved by Senator Krebsbach, seconded by Senator Lindaas, and carried that Employee Benefits Programs Committee Bill No. 87 be given a favorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Representative David Drovdal reviewed Employee Benefits Programs Committee Bill No. 29. He said the bill allows cities with volunteer firefighter departments to form firefighters relief associations.

In response to a question from Representative Froseth, Representative Drovdal said it would be a local decision whether a firefighters relief association wanted to use the premium refund for pensions or equipment.

It was moved by Senator Lindaas, seconded by Senator Kringstad, and carried that Employee Benefits Programs Committee Bill No. 29 be given a favorable recommendation. Representatives Wald, Froseth, Sabby, and Stenehjem and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Crane reviewed Employee Benefits Programs Committee Bill No. 122 and presented the actuarial review and technical comments for the bill, a copy of which is attached as Appendix O. He said the bill would decrease the service requirement from five years to three years for all regular members and National Guard members for vesting eligibility and provide for an increased withdrawal benefit equal to 75 percent of the past and future employer contributions for members with less than three years of service and equal to 100 percent of the employer contributions for members with three or more years of service. He said the cost to the main system would be 2.33 percent of payroll and 5.84 percent for the National Guard retirement system.

It was moved by Representative Froseth, seconded by Representative Sabby, and defeated on a roll call vote that Employee Benefits Programs Committee Bill No. 122 be given a favorable recommendation. Representatives Froseth and Sabby voted "aye." Representative Wald and Senators Krebsbach, Kringstad, and Lindaas voted "nay."

It was moved by Senator Krebsbach, seconded by Senator Lindaas, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 122 be given an unfavorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Crane reviewed Employee Benefits Programs Committee Bill

No. 80 and presented the actuarial review and technical comments for the bill, a copy of which is attached as Appendix P. He said the proposed legislation would include payments for overtime within the definition of wages and salaries under the Public Employees Retirement System for purposes of contributions and benefits. He said the bill would increase the employer's contribution rate by .12 percent of payroll.

In response to a question from Representative Wald, Mr. Collins said the bill would require additional annual employer contributions of $489,000.

In response to a question from Representative Wald, Mr. Crane said overtime is usually excluded from covered compensation for purposes of benefits in order to preclude the timing by employees of overtime work near retirement to maximize retirement benefits. He said this situation, known as pension spiking, can create a higher benefit than has been adequately funded over the member's entire working career.

It was moved by Senator Kringstad, seconded by Senator Krebsbach, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 80 be given an unfavorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Crane reviewed Employee Benefits Programs Committee Bill No. 103 and presented the actuarial review and technical comments for the bill, a copy of which is attached as Appendix Q. He said the bill affects the Highway Patrolmen's retirement system and provides for distribution of a member's account upon termination before vesting either on application of the member or automatically within 30 days after termination if the member has not requested the money remain in the fund and increases the retirement benefit multiplier for active employees and retirees from 3.25 percent to 3.40 percent for the first 25 years of service. He said the cost of the proposal is 14.85 percent of payroll while the available margin is 16.70 percent of payroll.

It was moved by Representative Froseth, seconded by Senator Krebsbach, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 103 be given a favorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 104. He said the bill provides that the rate for a non-Medicare retiree single plan is 150 percent of the active member's single plan rate, that the rate for a non-Medicare retiree family plan of two people is twice the non-Medicare retiree single plan rate, and that the rate for a non-Medicare retiree family plan of three or more persons is two and one-half times the non-Medicare retiree single plan rate for purposes of determining health insurance premiums for retired public employees not eligible for Medicare. He said the bill would not have an actuarial cost impact on the uniform group insurance program.

It was moved by Senator Krebsbach, seconded by Senator Lindaas, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 104 be given a favorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Collins reviewed Employee Benefits Programs Committee Bill No. 114. He said the bill allows any person who is without health insurance coverage to participate in the uniform group insurance program subject to minimum requirements established by the Public Employees Retirement System Board. He said that based upon the conclusion that the federal Health Insurance Portability and Accountability Act's accessibility requirements do not apply to the groups contemplated by the bill, the proposed legislation would not have a negative impact on the Public Employees Retirement System's uniform group insurance program. However, he said, the Public Employees Retirement System Board's health care actuary has noted that if it is determined that the Health Insurance Portability and Accountability Act's requirements do apply to the uniform group insurance program, the proposed legislation would have a negative impact on the program's financial status.

It was moved by Senator Krebsbach, seconded by Representative Froseth, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 114 be given an unfavorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Ray Gudajtes, Job Service North Dakota, reviewed Employee Benefits Programs Committee Bill No. 58. He said the bill increases primary insurance benefits under the Old-Age and Survivor Insurance System fund by $66.66 per month, an increase of $50 per month for beneficiaries, and repeals the old-age and survivor insurance tax trigger. He also distributed an updated memorandum on Old-Age and Survivor Insurance System funding usage, a copy of which is attached as Appendix R.

It was moved by Senator Krebsbach, seconded by Representative Sabby, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 58 be given a favorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

At the request of Chairman Wald, Mr. Terry Traynor, Assistant Director, North Dakota Association of Counties, reviewed Employee Benefits Programs Committee Bill No. 53. He said the bill allows employers to pay Public Employees Retirement System employee contributions from the old-age and survivor insurance levy authorized by NDCC Section 57-15-28.1(5).

In response to a question from Representative Wald, Mr. Traynor said the levy is optional for employers, and the bill does not mandate that political subdivisions must pay the employee contribution if they participate in the Public Employees Retirement System.

It was moved by Senator Krebsbach, seconded by Representative Froseth, and carried on a roll call vote that Employee Benefits Programs Committee Bill No. 53 be given a favorable recommendation. Representatives Wald, Froseth, and Sabby and Senators Krebsbach, Kringstad, and Lindaas voted "aye." No negative votes were cast.

It was moved by Senator Krebsbach, seconded by Senator Lindaas, and carried that the chairman and the staff of the Legislative Council be requested to prepare a report and to present the report to the Legislative Council.

No further business appearing, Chairman Wald adjourned the meeting at 3:30 p.m.

Jeffrey N. Nelson
Counsel

ATTACH:18