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ROLL NUMBER

DESCRIPTION

1072

2005 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1072

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1072

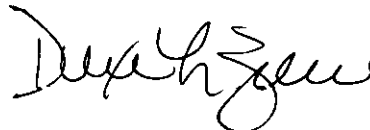
House Government and Veterans Affairs Committee

Conference Committee

Hearing Date 1/20/05

Tape Number	Side A	Side B	Meter #
1	x		14.4-46.4

Committee Clerk Signature



Minutes: HB 1072 Retiree health benefit fund. 12 members present, 2 absent.

Sparb Collins-Executive Director of the North Dakota Public Employees Retirement System/Pers-Testimony Attached

Rep. Kasper: We are a unitized monthly premium with Blue Cross for health insurance which, at this point and time is not the 835.00 dollars a month, I don't believe, when a retired employee retires, do you then develop a different tier of health employee rates for the retirees compared to the unitized.

Chairman Haas: This is the Medicare rate.

Sparb: Yes, when someone retires there is two things that happen and it depends on where their are, if you are before age 65 you become a pre Medicare retiree and pre-Medicare retiree, their rate is determined according to statues, the statue says their rate is 150% of the single rate for the activite employee, we pay what Medicare doesn't pay and we also pay on prescription drugs, that Medicare doesn't pay anything on prescription drugs.

Rep. Kasper: You said that there are 3607 retired employees, some are pre-Medicare, some are after Medicare, is that correct. Would you be able to break down that 3607, so before Medicare, before age 65 you would give us all the insurance rates, that these employees have to pay to participate in the PERS plan and how many numbers are in their and then after age 65 the same information, the rates each employee has to pay, how many fit in there, so we can get a feel for the cost of per employee and how the utilization is.

Sparb: I believe we could.

Rep. Kasper: How many bills did the PERS board submit to the employees benefits committee for review and out of the ones that were submitted could you give the committee and idea how many came forward with a favorable recommendation from the employee benefits committee and how many came forward with an unfavorable recommendation?

Sparb: I believe we submitted five bills and this bill was the only bill that got a non-favorable recommendation, of the PERS bills.

Rep. Kasper: Your opinion, that the members of that committee, in their recommendation expressing, the best legislation for the PERS bills?

Sparb: I think so.

Rep. Kasper: When the recommendation comes from the employee benefits committee and go back to your board, because a lot of time your board isn't there and get in this case an unfavorable recommendation, which obviously you have all the statistics and you provide it to your board and then your board, as your testimony says, chose to somewhat override the employees benefit committee with bringing the bill forward anyway. What was the process that your board used, we are going to do it anyway even though the employee benefit committee,

looking at the package that we produced, said OK to the other four, but this one really shouldn't go forward.

Sparb: The PERS board bringing this bill forward did not intend in anyway try to slight any of the work done by the employee benefits committee. The PERS board was in a predicament, we understood from the actuary report that this had a positive report, because of the additional funding, the board was hoping this would get positive consideration.

Rep. Kasper: You could have gone to any of your legislatures and submit the bill for you, could you not.

Sparb: Yes, you are correct.

Tom Tuppa-Association of Former Public Employees-For-Testimony Attached

Rep. Froseth: I don't believe the legislatures participate in the retirement fund and I don't believe they would be eligible.

Tom: You don't participate in the retirement fund, but in the retirement health plan.

Rep. Amerman: You haven't had an adjustment since 2001 in the retirement, does it take a bill to make the adjustment or is there something that kicks in or how does it work. Why hasn't there been as adjustment since 2001.

Tom: In the past, when retirees have received adjustments it has been tied to state employee compensation and the increase in the multiplier in the fund and that is driven by the performance of the fund.

Rep. Kasper: In your experience are you aware of any employer in the state of North Dakota that provides some dollars to help pay for health insurance, less the employee retires up to age 65 and after age 65.

Tom: I think there is a number of employers that provide some sort of health care contribution to their health plan after retirement.

Rep. Kasper: Would it be fair to say that it would be larger employers.

Tom: I think it would be larger, I don't know any employer larger than the state of North Dakota.

Rep. Amerman: Working at Bobcat and through the process of negotiations, the employee works at least 10 years and retirees at the age of 55 or older he gets his health insurance free of charge, when he retires at the age of 65 and then something else kicks in.

Chris Runge-Executive Director of the North Dakota Public Employees Association-For
I am just agreeing with what Tom and Pers Board have said.

Rep. Haas: Thank you very much. Any more questions?

Rep. Kasper: I move a Do Not Pass on HB 1034.

Rep. Grande: I second.

**VOTE: YES 12 NO 0 ABSENT 2 DO NOT PASS. REP. FROSETH WILL CARRY
THE BILL.**

FISCAL NOTE
Requested by Legislative Council
12/22/2004

Bill/Resolution No.: HB 1072

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$1,214,000	\$1,670,000	\$1,214,000	\$1,670,000
Appropriations			\$1,214,000	\$1,670,000	\$1,214,000	\$1,670,000

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$871,000	\$127,000	\$632,000	\$871,000	\$127,000	\$632,000

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

The proposed legislation increases the employer contribution to the retiree health fund from 1% to 1.45%. This increase would cause the above additional contributions.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The increase in expenditures is the .45% increase in the employer contribution to the retiree health program. This contribution increase is assessed against the covered payroll of the members participating in the program and would cause the above additional contributions.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Agency salary appropriation line items would need to be increased to provide the authority to pay the increased contributions for the bill if it is passed.

Name: Sparb Collins
Phone Number: 328-3901

Agency: Public Employees Retirement System
Date Prepared: 12/30/2004

Date: 1/20/05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1072

House House Government and Veterans Affairs

Committee

Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Rep. Kasper

Seconded By Rep Grande

Representatives
Chairman C.B. Haas
Bette B. Grande - Vice Chairman
Rep. Randy Boehning
Rep. Glen Froseth
Rep. Pat Galvin
Rep. Stacey Horter
Rep. Jim Kasper
Rep. Lawrence R. Klemin
Rep. Lisa Meier
Rep. Margaret Sitte

Yes No

Representatives
Rep. Bill Amerman
Rep. Kari Conrad
Rep. Louise Potter
Rep. Sally M. Sandvig

Yes No

Total (Yes) 12 No 0

Absent 2

Floor Assignment Rep Froseth

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
January 20, 2005 5:09 p.m.

Module No: HR-13-0811
Carrier: Froseth
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1072: Government and Veterans Affairs Committee (Rep. Haas, Chairman)
recommends **DO NOT PASS** (12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING).
HB 1072 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

HB 1072

TESTIMONY OF
SPARB COLLINS
ON
HOUSE BILL 1072

Mr. Chairman, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill

HB 1072 would make the following important changes:

- Sections 1 and 2 change the statutory language to refer to the required monthly contribution to the Retiree Health Benefit Fund, rather than the specific contribution percentage;
- Section 3 increases the required monthly contribution to the Retiree Health Benefit Fund from 1.00% of monthly salary to 1.45% of monthly salary; and
- Section 4 increases the monthly retiree health credit from \$4.50 per year of credited service to \$5.00 per year of credited service.

By way of background, in 1989 the North Dakota Legislature started the Retiree Health Credit Program. The purpose of this program was to help retirees pay the cost of health insurance. It was recognized at that time the cost of health insurance was becoming increasingly unaffordable for many retirees. A solution was the creation of the Retiree Health Credit Program. This program provides the following benefit to PERS retirees:

BENEFIT FORMULA:

\$4.50 for each year of credited service

Example: $\$4.50 \times 25 = \112.50

During the last year the program paid out the following benefits:

BENEFITS PAID

Avg benefit - \$95 per month to 3,607 members

The dilemma is the retiree health credit has diminished in value over the years in terms of offsetting the cost of health insurance. The reason this has occurred is the result of the credit remaining fairly constant over time but the cost of insurance continuing to escalate resulting in the out pocket expense to our retirees getting larger both in terms of percent paid and in absolute dollar amount paid. The following table illustrates this dilemma by showing the diminishing percentage of premiums being paid by the retiree health credit over time:

Retiree Health Credit Challenge – Support for retiree premiums

Year	Credit	Credit with 20 Years of Service	NonMedicare Family Premium	%	Medicare Family Premium	%
1989	\$3.00	\$60.00	\$360.07	17%	\$190.50	31%
1991	\$4.00	\$80.00	\$321.00	25%	\$230.00	35%
1993	\$4.50	\$90.00	\$368.00	24%	\$230.00	39%
1995	\$4.50	\$90.00	\$390.00	23%	\$239.00	38%
1997	\$4.50	\$90.00	\$438.48	21%	\$264.98	34%
1999	\$4.50	\$90.00	\$500.38	18%	\$308.62	29%
2001	\$4.50	\$90.00	\$570.00	16%	\$339.30	27%
2003	\$4.50	\$90.00	\$702.47	13%	\$415.18	22%
2005	\$4.50	\$90.00	\$835	11%	\$456	20%

As noted above, when the program started, the credit offset approximately 31% of the Medicare family premium. Today, it is around 20%. For the premedicare retiree there is a similar situation. While the Medicare retiree will get some assistance in

2006 as a result of the Medicare Rx bill the challenge will remain. For the premedicare retiree who will not get any assistance from Medicare, the premium costs will become increasingly more unaffordable.

This bill proposes to address this situation in Sections 3 and 4. In section 3, the bill proposes an increase in contributions to 1.45%. The proposed level of increase will more than pay for the increase in the benefit level proposed in section 4. It will also provide additional funds to pay down the unfunded liability of the system at a faster rate. This in turn will free up additional funds that can be used to continue to increase the credit in future years above the \$5. By setting up this mechanism it will help to preserve the value of the benefit for the next six to 10 years. In section 4 of the bill the credit is increased from \$4.50 to \$5. In the above example this would increase the benefit from \$90 to \$100 per month or by a little over 10%. These two steps taken together will result in additional assistance both immediately and over time. Also as noted by the actuary, the bill would improve the funded status of the system and, therefore, have a positive actuarial impact on the fund.

These improvements would have a cost as noted in the fiscal report. Specifically, for all our participating employers, the cost would be additional contributions of:

\$5.00 Credit/1.45% Contr.	Employees	Monthly Salary	Annual Salary	Biennium Salary	Biennium Cost	General Fund	Other
State Employees	7,571	\$21,576,786	\$258,921,432	\$517,842,864	\$2,330,293	\$1,214,316	\$1,115,977
Higher Education	2,593	\$5,131,222	\$61,574,664	\$123,149,328	\$554,172		\$554,172
Political subdivisions	7,765	\$15,439,685	\$185,276,220	\$370,552,440	\$1,667,486		\$1,667,486
	17,929	\$42,147,693	\$505,772,316	\$1,011,544,632	\$4,551,951	\$1,214,316	\$3,337,635

The cost is slightly higher in the above table than it is in the fiscal note since other political subdivisions participate in our program in addition to counties, cities and school districts.

While there is a cost to this program, please note that the entire rate for this program and retirement program is 9.12%. Even with this increase to 9.57%, the proposed rate is below that of many other state sponsored programs

The provisions of this bill have been reviewed by the actuary for the Legislative Employee Benefits Committee and the proposal was determined to be actuarially sound and positive to the system with the additional level of contributions. As noted above and in the attached, the contribution requirements of our participating employers will increase. The bill was reviewed by the interim Legislative Employee Benefits Committee and given an unfavorable recommendation due to the cost.

Mr. Chairman and members of the committee this concludes my testimony and thank you for your consideration.

Do PASS

TESTIMONY ON HB 1072

HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE

January 14, 2005

Mr. Chairman and members of the committee, my name is Tom Tupa and I am representing the Association of Former Public Employees (AFPE). I am here in urging your support for HB 1072.

AFPE is a 1300 member organization made up of retired State employees. In 2004 they established two objectives for their membership. One was to seek an increase in the pre funded health care contribution from the current \$4.50 to \$6.00 per month.

The last pre funded health increase given to the retirees was in 1993 (12 years ago) when the pre funded amount was raised from \$4.00 to \$4.50 per month per year of service. The nonmedicare family premium at that time was \$368 per month. For a 20 year retired employee, the \$4.50 constituted a 24% share of the premium.

Today we are looking at \$835 per month premiums, which would bring that 24% share to 11% if the \$4.50 were not increased. While the nonmedicare premium more than doubled in the 12-year period, the health credit never changed. Clearly, this has a major impact on retirees in this nonmedicare group. For the Medicare group, the story is similar – increased premiums and no change in the pre funded credit.

Compounding the problem, out of pocket costs have increased and our former State employees have not had an adjustment to their retirement checks since 2001. Given the years since the last adjustment, we do not believe this is an extravagant request. In fact, I am asking that you consider amending the bill to go from the proposed \$5.00 to at least \$5.50 per month on the pre funded health credit.

(OVER)

I am also suggesting that you consider amending in language to cover State legislators with the same pre funded credit on a proportional basis. I think that would be an attractive incentive for legislative candidates.

Mr. Chairman and members of the committee, retirees are appreciative and thankful for the State health plan they have. And, they realize there is a cost to this bill and that it was given an unfavorable recommendation from the Interim Employee Benefits Committee. But, I ask that you look more favorable on the request and give HB 1072 a strong committee "do pass" vote.

Thank you, Mr. Chairman and committee members. I will try to respond to any question you might have.