MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
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GREAT SEAL 1889
STATE OF NORTH DAKOTA

ROLL NUMBER

DESCRIPTION

2153

2005 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2153

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **SB 2153**

Senate Government and Veterans Affairs

☐ Conference Committee

Hearing Date January 20, 2005

Tape Number	Side A	Side B	Meter #
1	x		526-1839
Committee Clerk Signature *Diane Davis*			

Chairman Krebsbach opens hearing on **SB 2153.**

Relating to participation by political subdivision employees in the uniform group insurance program.

Greg Sund, Dickinson City Administration - Testifying in favor of 2153. See written testimony.

(meter #526)

Senator Lee - Clarify 4th paragraph.

Senator Brown - Asked if the employee that took the annuity still alive.

Sund- Replied that he retired last year.

Senator Nelson - Asked what the average retirement age is.

Sund - Stated it depends on the employee, two plans in place, one for the police and the other for all other full time employees. Police can retire at age 55, all others 62. Must serve 15 years with the city to draw normal retirement.

Senator Syverson - Asked what would be the reductions to the retirements for either the police or others meeting the 15 year requirement.

Sund - To become vested in the plan they must be in the plan for 7 years.

Senator Syverson - Asked what the reduction would be.

Sund - Stated off hand does not know the reduction, its an actuarial determination of how much is reduced. There is a reduction on people who do not meet those requirements.

Senator Brown - Asked if the issue is how they get health insurance between 62 and 65.

Sund - Stated that is exactly the problem.

Senator Brown - Are they having trouble buying insurance.

Sund - Stated yes. Often times people get thrown into high risk categories.

Senator Brown - Asked if they had thought of raising the retirement age.

Sund - Said that has not been considered yet.

Senator Brown - Stated the social security is going the other way to almost 66.

Senator Syverson - Asked how health insurance is acquired at age 69. Do you cover till 62.

Sund - We do not offer any special benefits. The subsidy we provide to retirees is that we pay up to one half their health insurance if they meet the requirements.

Senator Syverson - Asked if they were picking up part of cost of health care insurance cost, are they also doing anything for those that retire at 62.

Sund - Stated regardless of the age their at they do subsidize the cost of health insurance to age 65.

Senator Syverson - Asked if that meant both the police and other employees.

Senator Brown - Thought they could take the Cobra plan for a period of time.

Sund - They can only get health insurance for 18 months.

(meter #1348)

Sparb Collins, Executive Director of the ND Public Employees Retirement System (PERS)

Opposing this bill, see written testimony.

Senator Kresbach closes the hearing on 2153

meter #1838

Discussion on 2153

(meter #3148) side A

Senator Krebsbach - States that you can't make changes to a plan to accomodate a single person or you end up with a lot of problems.

Senator Brown - Move for do not pass

Senator Syverson - second

Senator Nelson - Is bother by the kind of advice people are getting.

Senator Syverson - Told of optional choices from employers.

Senator Brown - Believes we are not educating people enough. Employers are encouraging employees to retire early. Blue Cross system had a plan that you work 30 years there wasn't much benefit to stay. They have recently changed this plan. People should go till 65 years of age so they can get Medicare.

Senator Nelson - Said you need both insurances.

Senator Krebsbach - Feels quite comfortable with the state educating people when they seek advice.

Senator Brown - Says we need to get away from early retirement.

Senator Nelson - Believes the cities need to educate more.

Senator Syverson - Maybe cities should pick up part of the health insurance on early retirement.

(meter #4180)

Discussion about people retiring too early. They need to look at health insurance before they retire. Someone needs to be educating these people.

Roll called for do not pass on 2153

Senator Brown will carry

(End meter #4720)

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

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

Senate **Government and Veterans Affairs** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 2153

Action Taken Do not Pass

Motion Made By Senator Brown Seconded By Senator Syverson

Senators	Yes	No	Senators	Yes	No
Karen K. Krebsbach, Chairman	X		Carolyn Nelson	X	
Richard L. Brown, Vice Chairman	X				
Judy Lee	X				
John O. Syverson	X				

Total (Yes) 5 No 0

Absent 0

Floor Assignment Senator Brown

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

REPORT OF STANDING COMMITTEE

SB 2153: Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman) recommends **DO NOT PASS** (5 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2153 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

SB 2153

REPORT OF THE LEGISLATIVE COUNCIL'S EMPLOYEE BENEFITS PROGRAMS COMMITTEE SENATE BILL NO. 2153

Sponsor: Senator Rich Wardner

Proposal: Provides that for purposes of a provision allowing retirees who have accepted a retirement allowance from a political subdivision's retirement plan to elect to participate in the uniform group insurance program without meeting minimum requirements at age 65, when the employee's spouse reaches age 65, upon the receipt of a benefit, or when the spouse terminates employment, retirement allowance means a payment or payments to a participant of an employer-sponsored pension or retirement plan who terminated employment by retirement on or after achieving normal retirement age and who was vested in the employer plan at the time of retirement.

Actuarial Analysis: The consulting actuary reported that its primary concerns with the bill is that it would expend the number of people eligible to a group that is not as healthy, it would create different coverage provisions for state and political subdivision employees, and it could result in the loss of coverage for some employees, e.g., disability and early retirees.

Under the bill as proposed, the consulting actuary reported that the number of early retirees who become eligible for the plan likely would increase. The bill could result in retirees joining the plan at much lower ages. Average health costs of the program could be adversely affected. Because early retiree premium rates are blended with the actives, any increase in costs due to an influx of early retirees could ultimately impact the costs paid by the state to fund the uniform group insurance program.

The Retirement Board's own claim experience points out the added costs of early retirees who do not qualify for the retiree health credit. Of the 619 non-Medicare retirees who were members of the plan in 2003, 305, or 49 percent, had no retiree health credits. The average cost in 2003 for this group was 17 percent greater than the 314, or 51 percent, of the members who had a retiree health credit due to meeting current age and longevity standards. Although not a sample size sufficient to draw any definite conclusions, the consulting actuary reported that it does support the general belief that retirees who are eligible for a credit are better risks than those who are not. To the extent this group grows and the costs increase due to adverse selection, the proposal would have an impact on the active employer rates since the premium for this group is set by statute. Any costs to this group beyond the premium become a cost to the active group.

Using the Retirement Board's own experience in enrollment and applying Blue Cross Blue Shield of North Dakota's proposed renewal rates gives some indication of the potential additional cost to the plan as the result of the proposed bill. An additional 50 early retirees who did not qualify for retiree credit would add almost $57,000 per year in costs to the plan. One hundred new early retirees would add almost $114,000 in new costs per year. Ultimately, these additional costs would have to be absorbed by the active employee group.

In conclusion, the consulting actuary reported that it was concerned that the proposal would expand access to the uniform group insurance program to more pre-Medicare retirees which would be harmful to the overall financial health of the program. The consulting actuary reported that to protect the integrity of the program, it suggested that the Retirement Board continue to apply actuarially determined and consistent standards for retiree health insurance eligibility.

Committee Report: Unfavorable recommendation.

TESTIMONY IN SUPPORT OF SB 2153

Chairperson Krebsbach and members of the committee for the record my name is Greg Sund. I am the Dickinson City Administrator. I am testifying in favor of SB 2153.

During the 2003 Legislative Session, I supported a bill that gave retirees of government subdivisions the right to continue their NDPERS Health Insurance following retirement. It was not until after the law took affect that I learned this law did not make continuation of NDPERS Health Insurance available to the majority of city of Dickinson retirees. The reason for this is the fact that one of the retirement options available to city of Dickinson retirees is cashing out of our plans upon retirement. According to interpretation of the term "retirement allowance" by NDPERS staff, only retirees, who selected an annuity retirement option would be eligible for continuation of NDPERS Health Insurance.

I learned that the state of North Dakota only considers a person a retiree if they accept an annuity payout upon retirement. Under this scenario, a person who retires from State employment after 40 years of service and elects to take a cash payout is not considered a retiree. In the State's opinion, that person simply quit. On the other hand, a person, who works for the State for three years between the ages of 21 and 25, then quits and seeks another career would be considered a State retiree, if that person left their retirement money in the State's plan and took it as an annuity upon reaching the State's retirement age. While I don't understand this interpretation of the term "retirement allowance", in my opinion, the State can adopt the rules they want regarding the way they treat their employees and retirees.

The problem is NDPERS is unwilling to extend this same consideration to government subdivisions. Because the city of Dickinson maintains its own pension plans, as do other cities in the State, the language, requirements, and allowances of our plans ~~to do~~ match do not those in the NDPERS Retirement and Pension Plans. The city of Dickinson permits its employees to take their retirement in one of four different forms upon retirement. They can take a single life annuity with a 2/3 survivor benefit, a life annuity to the retiree and survivor at the same level, a ten-year guarantee benefit, or a cash payout. We have learned that by far the majority of our employees take the cash payout upon retirement because they are concerned that both they and their spouse will die before having the opportunity to draw much of their retirement benefit. Some people may consider this an irrational fear but it is real for our employees. In fact, only one retiree in the last 11 or 12 years has accepted one of the annuity forms of benefit. It is also true that an annuity payout does not meet every person's situation.

The city of Dickinson considers a cash payout at retirement the acceptance of a retirement allowance. For this reason, these people should be permitted to continue their NDPERS Health Insurance.

While investigating this matter, I learned that the State is likely to face this situation in the future when employees, who decided to join one of the State's defined contribution plans retires. In all likelihood, these people will cash out of their plans, as the annuity form of benefit is not normal to defined contribution plans.

Because the state of North Dakota in the future and government subdivisions, like Dickinson, now and in the future are facing or will face this situation, now is the time to address it rather than ignoring the issue until it becomes a retirement crisis for more employees. The purpose of this bill is to provide a definition of "retirement allowance" that it somewhat different from the one currently used by NDPERS. I encourage the committee to approve a "Do Pass" recommendation for this bill.

Greg Sund
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TESTIMONY OF
SPARB COLLINS
ON
SENATE BILL 2153

Madame Chair, members of the committee my name is Sparb Collins. I am the 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 opposition to SB 2153. The board opposes this bill for the following reasons:

- It would expand the number of political subdivision employees who can participate in the plan by including members who terminate their relationship with their employer. Our actuary noted this is unusual for an employer sponsored plan, and that the generally accepted methodology in other governmental plans and the private sector is the method presently used by PERS.

- It would increase the number of eligible retirees who do not get the retiree health credit which is a feature of the PERS retirement plan and is available to all member of that plan. ND PERS own claim experience points out the added costs of early retirees that do not qualify for a retiree health credit. Of the 619 non-Medicare retirees on the plan in 2003, 305 (49%) had no retiree health credits. The average cost in 2003 for this group was 17% greater than the 314 (51%) of the member that had a retiree health credit due to meeting current age and longevity standards. Although not a sample size sufficient to draw any definite conclusions, it does support the general belief that retirees that are eligible for a credit are better risks than those that do not. To the extent this group grows and the costs increase due to adverse selection this would have an impact on the active employer rates since the premium for this group is set in Section 54-52.1-02 and any costs to this group beyond the premium become a cost to the active group. Using NDPERS' own experience and enrollment and applying BCBSND's proposed renewal rates gives some indication of the potential additional costs to the plan as a result of this proposed bill. An additional 50 early retirees that did not qualify for a retiree credit would add almost $57,000 per year in costs to the plan if the above characteristics hold true. One hundred new early retirees would add almost $114,000 in new costs per year. Ultimately, these additional costs will have to be absorbed by the active employee group.

- The normal retirement age requirement in the proposed legislation could affect the eligibility of early retirees, retirees that meet age and rule requirements, surviving spouses and disability recipients.

- State and political subdivision employees would have different eligibility requirements under the proposed change creating a disparity between the two groups.

We note our actuary stated "for the reasons stated above, we are concerned that this proposed bill would expand access to the uniform health program to more pre-Medicare retirees which would be harmful to the overall financial health of the program. To protect the integrity of the program, we suggest that the Board continue to apply actuarially determined and consistent standards for retiree health insurance eligibility". PERS is opposed to this bill for the same reasons. Please note that the employees in question here can stay on the PERS plan by maintaining their relationship with their employer by staying in the employer's retirement plan. However if they do elect to cash out of their employer plan they can continue health coverage with BCBS through a conversion policy.

Madame Chair, members of the committee this concludes my testimony.