

August 2005

## EMPLOYEE BENEFITS PROGRAMS COMMITTEE - BACKGROUND MEMORANDUM

### STATUTORY AUTHORITY

The Legislative Council's Employee Benefits Programs Committee, formerly known as the Committee on Public Employees Retirement Programs or the Retirement Committee, resulted from a 1975-76 Legislative Council study undertaken by the interim Legislative Procedure and Arrangements Committee. The committee was established in response to difficulties experienced in past legislative sessions resulting from inadequate prior study of the actuarial impacts of proposed legislative changes on the retirement programs.

The 1977 Legislative Assembly approved Senate Bill No. 2061, which created the original committee. The provisions were codified as North Dakota Century Code (NDCC) Sections 54-35-02.3 and 54-35-02.4. Those sections were substantially amended by the 1981 Legislative Assembly to expand the scope of the committee's jurisdiction over retirement legislation during legislative sessions and to authorize the committee to establish rules for its operation. Sections 54-35-02.3 and 54-35-02.4 were again substantially amended by the 1991 Legislative Assembly to expand the jurisdiction of the committee to include review of health and retiree health plans of state employees or employees of any political subdivision as well as retirement programs. Section 54-35-02.4 was again amended by the 1999 Legislative Assembly to require the committee to take jurisdiction over any measure or proposal that authorizes an automatic increase or other change in benefits beyond the ensuing biennium which would not require legislative approval. The committee is required to include in the report of the committee a statement that the proposal would allow future changes without legislative involvement.

North Dakota Century Code Section 54-35-02.3 requires the Legislative Council during each biennium to appoint an Employee Benefits Programs Committee in the same manner as the Council appoints other interim committees. The membership of the committee consists of five members of the House of Representatives and four members of the Senate and is chaired by a legislator designated by the Legislative Council.

North Dakota Century Code Section 54-35-02.4(1) requires the Employee Benefits Programs Committee to "consider and report on those legislative measures and proposals over which it takes jurisdiction and which affect, actuarially or otherwise, the retirement programs of state employees or employees of any political subdivision, and health and retiree health

plans of state employees or employees of any political subdivision." The committee is required to make a "thorough review" of any measure or proposal that it takes under its jurisdiction, including an actuarial review, and is required to report its findings and recommendations, along with any necessary legislation, to the Legislative Council and to the Legislative Assembly. However, as noted above, the committee is required to take jurisdiction over any measure or proposal that authorizes an automatic increase or other change in benefits beyond the ensuing biennium which would not require legislative approval and include in the report of the committee a statement that the proposal would allow future changes without legislative involvement.

In carrying out its responsibilities, the Employee Benefits Programs Committee, or its designee, is authorized, pursuant to NDCC Section 54-35-02.4(2) to:

1. Enter into contracts, including retainer agreements, with an actuary or actuarial firm for expert assistance and consultation. However, each retirement, insurance, or retiree insurance program must "pay, from its retirement, insurance, or retiree health benefits fund, as appropriate, and without the need for a prior appropriation, the cost of any actuarial report required by the committee which relates to that program."
2. Call on personnel from state agencies or political subdivisions to furnish such information and render such assistance as the committee may from time to time request.
3. Establish rules for its operation, including the submission and review of proposals and the establishing of standards for actuarial review.

North Dakota Century Code Section 54-35-02.4(3) authorizes the Employee Benefits Programs Committee to solicit draft measures and proposals from interested persons during the interim between legislative sessions and to study measures and proposals referred to it by the Legislative Assembly or the Legislative Council. Subsection 4 requires that a copy of the Employee Benefits Programs Committee's report concerning any legislative measure, if that measure is introduced for consideration by the Legislative Assembly, be attached to the copy of that measure which is referred to a standing committee. In previous interims, the committee reports identify the sponsor of the proposal, summarize the proposal, present the actuarial analysis, and include the committee's recommendation. Subsections 5 and 6

prohibit the introduction or amendment of any legislative measure affecting a public employee retirement program, public employee health insurance program, or public employee retiree health insurance program unless it is accompanied by a report from the Employee Benefits Programs Committee. A majority of the Employee Benefits Programs Committee members, acting through the chairman, has sole authority to determine whether any legislative measure affects a public employees program.

Finally, NDCC Section 54-35-02.4(7) provides that any legislation enacted in contravention of that section is invalid and of no force and effect, and any benefits provided under the legislation must be "reduced to the level current prior to enactment" of the legislation.

### **PROCEDURES FOR SOLICITATION AND REVIEW OF RETIREMENT PROPOSALS**

Under NDCC Section 54-35-02.4, the Employee Benefits Programs Committee must consider and report on those legislative measures and proposals over which it takes jurisdiction and which affect, actuarially or otherwise, the retirement programs, public employee health insurance programs, or public employee retiree health insurance programs of state employees or employees of any political subdivision. The committee must make a thorough review of each measure or proposal, including an actuarial review. Under the law, the committee may solicit draft measures and proposals from interested persons during the interim.

The committee also has the authority to establish rules for its operation, including rules relating to the submission and review of proposals and the establishment of standards for actuarial review. During the 2003-04 interim, the Employee Benefits Programs Committee limited the persons and entities permitted to submit to the committee legislative proposals affecting retirement programs to legislators and state agencies with the bill introduction privilege, and required that the proposals be in bill draft form and submitted to the committee before April 1, 2004, to allow enough time for actuarial evaluation. The committee has the authority to waive its self-imposed deadline for proposals received after any deadline established by the committee.

### **ACTUARIAL SERVICES**

The Employee Benefits Programs Committee is empowered by NDCC Section 54-35-02.4 to retain actuarial assistance for the review of proposals submitted to the committee. As a result of 1987 House Bill No. 1680 that requires each program to pay for any actuarial reports required by the committee, much of the actuarial costs involved in the review of legislative measures and proposals have been paid

by the retirement, insurance, or retiree health insurance program affected by the proposal. During the 2003-04 interim, the Employee Benefits Programs Committee submitted retirement proposals to the affected retirement programs requesting that each affected program obtain an actuarial report for each proposal from that program's consulting actuary. Each retirement program bore the costs incurred in obtaining the actuarial reports.

Prior interim Employee Benefits Programs Committees, after obtaining actuarial information on the retirement proposals and receiving relevant testimony, have developed a report with respect to each proposal submitted. The report has included the sponsor of the proposal, a summary of the proposal, the actuarial analysis of the effect on the retirement program of the proposal, and a committee recommendation to the Legislative Council on the proposal's merits. A copy of the committee report must be attached to each proposal when it is introduced to the Legislative Assembly.

During the 2003-04 interim, the committee took jurisdiction over 12 proposals, 3 of which affected the State Investment Board or Teachers' Fund for Retirement and 9 of which affected the Public Employees Retirement System.

### **STATE EMPLOYEE COMPENSATION STUDY**

Section 28 of 2005 House Bill No. 1015 (attached as Appendix A) requires the Legislative Council to study issues relating to state employee compensation. The Legislative Council assigned this study to the Employee Benefits Programs Committee.

#### **Employees**

North Dakota state agencies are authorized to employ 10,631.95 full-time equivalent (FTE) positions for the 2005-07 biennium. Of this total, 2,194.42 relate to higher education positions paid for with funding from the general fund and 8,437.53 to positions in all other agencies.

There are two types of state employees--classified and unclassified. Classified state employees are under the jurisdiction of the classification system administered by Human Resource Management Services, a division of the Office of Management and Budget. The classification system includes 20 pay grades. Each job title is assigned to a pay grade and each pay grade identifies the salary range that employees within that pay grade may be paid. There are approximately 6,400 classified state employees. All other employees are considered unclassified. Unclassified employees include elected and appointed officials and their deputies; employees of the legislative and judicial branches; employees of higher education; the Mill and Elevator, Workforce Safety and Insurance, and Department of Commerce; and physicians and teachers. The University System

has its own system of categorizing employee positions called the "broadband" system.

**Compensation**

State employee compensation consists of two components--salaries and fringe benefits. Except for elected officials, whose salaries are set in state statute, all other state employee salary levels are set by the governing body or supervisory personnel of each agency. For classified state employees, salary levels are determined by supervisory personnel within the agency based on the salary range for the employee's assigned pay grade as established by Human Resource Management Services and total salaries for the biennium must be within the agency's salaries and wages line item appropriation approved by the Legislative Assembly. Unclassified employees' salary levels are determined by the governing body or supervisory personnel of the agency and total salaries for the biennium must be within the agency's salaries and wages line item appropriation approved by the Legislative Assembly.

Fringe benefits for state employees include:

1. Social Security/Medicare benefits - 7.65 percent of salary provided by the employee and 7.65 percent of salary provided by the state.
2. Retirement benefits - Percentage varies by type of employee. For the majority of employees, the amount provided is 9.12 percent of salary--4.12 percent contributed by the state, 4 percent employee

contribution for the retirement program, and 1 percent for the retiree health insurance benefit. The state chose to pay the employees' share in lieu of salary increases in 1983 and 1984.

3. Single or family health insurance policy paid for by the state.
4. Term life insurance policy with a value of \$1,300 at a cost of 28 cents per month per employee.
5. Employee assistance program paid for by the state at a cost of \$1.35 per month per employee. This program provides guidance and counseling or to determine the appropriate diagnosis or course of treatment to employees and their eligible dependents in cases of alcoholism, drug abuse, or other personal problems.
6. Annual leave, sick leave, family leave, funeral leave, and holiday leave.
7. Workers' compensation.
8. Unemployment insurance.

**Salary Increase History**

Appendix B provides a history of state employee salary increases.

The following is a summary of the cost of providing salary increases for the 1997-99 through 2005-07 bienniums:

STATE EMPLOYEE SALARY INCREASES				
Biennium	Percentage Increase	General Fund	Special Funds	Total
1997-99	3% on July 1, 1997 (includes 1.5% for merit) and 3% on July 1, 1998 (includes 1.5% for merit)	\$24,304,117	\$12,520,861	\$36,824,978
1999-2001	2% with a \$35 per month minimum on July 1, 1999, and 2% with a \$35 per month minimum on July 1, 2000	\$17,681,836	\$9,633,401	\$27,315,237
2001-03	3% with a \$35 per month minimum on July 1, 2001, and 2% with a \$35 per month minimum on July 1, 2002	\$27,043,178	\$12,493,632	\$39,536,810
2003-05	Up to 1% on January 1, 2004, and up to 2% on January 1, 2005, (based on the elimination of positions and savings from vacant positions)			\$0
2005-07	4% on July 1, 2005, and 4% on July 1, 2006	\$19,778,486	\$21,746,666	\$41,525,152

For the 2005-07 biennium, a 1 percent state employee salary increase, excluding higher education institutions, costs \$3.5 million, of which \$1.6 million is from the general fund and \$1.9 million from federal or special funds.

**Equity Adjustments**

In recent bienniums, the Legislative Assembly has provided funding, in addition to general

across-the-board salary increases, for pay or market equity adjustments for state employees. The funding has been appropriated either to OMB to distribute to classified state employees in various agencies or directly to selected agencies. The schedule below presents the funding appropriated by the Legislative Assembly for these equity increases since the 1999-2001 biennium:

	General Fund	Special Funds	Total
<b>1999-2001 Biennium</b>			
Equity adjustments - Classified employees	\$2,700,000	\$2,700,000	\$5,400,000
University System salary pool	2,685,227		2,685,227
Merit increases - Department of Transportation engineers		800,000	800,000

	General Fund	Special Funds	Total
Equity adjustments - Elected and appointed officials	77,000	22,000	99,000
Equity increases for Information Technology Department programmers and analysts		317,644	317,644
Equity increases for State Auditor's office	38,000		38,000
Public Employees Retirement System		33,574	33,574
Department of Public Instruction information technology staff	72,444		72,444
Agricultural Experiment Station/Extension Service, Transportation Institute, Northern Crops Institute	422,400		422,400
Total 1999-2001	\$5,995,071	\$3,873,218	\$9,868,289
<b>2001-03 Biennium</b>			
Equity adjustments - Classified employees	\$2,700,000	\$2,300,000	\$5,000,000
Pay grade minimum adjustments - Classified employees	360,797	131,505	492,302
Equity adjustments - Elected and appointed officials	142,697	35,536	178,233
Equity adjustments - Supreme Court and district court judges	724,451		724,451
Equity adjustments - Department of Corrections and Rehabilitation	422,528		422,528
Equity adjustments - Department of Transportation		1,200,000	1,200,000
Total 2001-03	\$4,350,473	\$3,667,041	\$8,017,514
<b>2003-05 Biennium</b>			
Equity adjustment - Legislative Council	\$150,000		\$150,000
Equity adjustment - Public Employees Retirement System		\$80,362	80,362
Equity adjustment - Attorney General's office for assistant attorneys general		241,024	241,024
Equity adjustment - Department of Human Services Program and Policy Division		131,784	131,784
Equity adjustment - Department of Financial Institutions		167,000	167,000
Equity adjustment - Department of Corrections and Rehabilitation Juvenile Services Division	99,856		99,856
Total 2003-05	\$249,856	\$620,170	\$870,026
<b>2005-07 Biennium</b>			
Equity adjustment - Department of Corrections and Rehabilitation (see attached Appendix C)	\$1,500,000		\$1,500,000
Equity adjustment - Highway Patrol	166,258	\$28,209	194,467
Total 2005-07	\$1,666,258	\$28,209	\$1,694,467

### Retirement

North Dakota Century Code Chapter 54-52 provides that employees who are 18 years of age or older, whose services are not limited in duration and who are filling an approved and regularly funded position in an eligible governmental unit, and are **employed at least 20 hours per week at least 20 weeks each year** are eligible to participate in the state retirement system. The system consists of two plans--the defined benefits plan administered by the Public Employees Retirement System and the defined contribution plan. Only certain employees are eligible to participate in the defined contribution plan.

Pursuant to Chapter 54-52.6, a permanent state employee, except an employee of the judicial branch or an employee of the State Board of Higher Education and state institutions under the jurisdiction of the board, who is in a position not classified by Human Resource Management Services of the Office of Management and Budget may elect to participate in the defined contribution retirement plan.

The defined contribution plan allows the participating employee to control the investment of funds in the employee's own retirement account into which the employee and state contributions are deposited.

Retirement benefits are dependent upon the employee's account value at retirement.

Under the defined benefits plan, funds contributed are maintained by the employer and the investment of the funds is controlled by the employer. Retirement benefits are specified for participants in the plan. Separate retirement plans are maintained for state employees dependent on the type of position being filled, including the main retirement system (9.12 percent contribution), Highway Patrolmen's retirement system (21.7 percent contribution), judges' retirement system (19.52 percent contribution), National Guard retirement system (9.12 percent or 13.33 percent contribution), Teachers' Fund for Retirement (11.75 percent contribution), and higher education retirement (TIAA-CREF) systems (contribution varies based on position type from 9.12 to 16.4 percent).

Under the main retirement program, employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2 percent of their final average salary for each year of service. The plan permits early retirement at ages 55 to 64, with three or more years of service.

Benefit and contribution provisions to the plans are administered in accordance with NDCC

Chapter 54-52. This statute requires that 4 percent of the participant's regular compensation be contributed to the plan by the employee. During the 1983-85 biennium, the state implemented the employer pickup provision of the Internal Revenue Service Code whereby a portion or all of the required employee contributions are made by the employer. The state chose, in lieu of a salary increase during this biennium, to pay the full employee contribution. Employer contributions of 4.12 percent of covered compensation are set by statute. In addition to the 4.12 percent employer contribution, the state contributes 1 percent of each participating employee's gross wage to a prefunded retiree health insurance program.

As of December 2004 there were 9,868 state employees enrolled in the defined benefits retirement plan and 243 employees in the defined contribution retirement plan.

The following table shows the number of state agency employees and higher education employees that have retired and that were eligible for retirement in the years from 1997 through 2003, based on "normal" and "Rule of 85" "defined benefit" retirement, and employees under the 401(a) defined contribution plan who were age 65 or older or whose age plus years of service equaled 85 or more, as provided by the Public Employees Retirement System:

	1997	1998	1999	2000	2001	2002	2003	Seven-Year Average
Retired	109	131	117	134	100	115	158	123
Eligible <sup>1</sup>	227	291	325	408	473	633	780	448

<sup>1</sup>The number shown as being eligible for retirement are not those that become eligible in a given year but the total number eligible; as an example, if someone became eligible in 1997 but did not retire until 2001, the employee would be shown as eligible for each year 1997 through 2001.

**Health Insurance**

North Dakota Century Code Chapter 54-52.1 provides that group medical insurance and group life insurance is available to employees who meet the eligibility requirements of being a permanent employee of the state. A permanent employee is one whose services are not limited in duration, who is filling an approved and regularly funded position in a governmental unit, and who is employed at least 17.5 hours per week at least five months each year or for those first employed after August 1, 2003, is employed at least 20 hours per week and at least 20 weeks each year.

The 1963 Legislative Assembly enacted NDCC Chapter 52-12 which authorized state agencies, either individually or jointly with other agencies, to enter a group hospitalization and medical care plan and group life insurance plan for each agency's employees. The agencies were required to pay \$5 per month for each participating employee's insurance premium. An employee could elect to participate in either a single or family plan. The 1971 Legislative Assembly repealed Chapter 52-12 and enacted

Chapter 54-52.1 establishing the uniform group insurance program. The program was placed under the authority of the Retirement Board. The board was required to solicit bids and contract for the provision of insurance benefits coverage with an insurance carrier determined by the board.

From 1971 to 1983 Blue Cross Blue Shield of North Dakota provided and administered the health insurance benefits plan for public employees. In 1983 the Retirement Board was authorized by NDCC Section 54-52.1-04.2 to establish a plan of self-insurance for providing health benefits coverage under an administrative services-only contract or a third-party administrator contract if the board determined during any biennium that a self-insured plan is less costly than the lowest bid submitted by an insurance carrier. The board exercised the option to implement a self-insurance health benefits plan and administered the program in that manner from July 1, 1983, through June 30, 1989.

Rising health care costs in the state were the primary reason for the cashflow difficulties experienced in the health benefits plan. In the 1985-87

biennium, the Legislative Assembly appropriated funds for a 20 percent premium increase, and claims costs increased 42 percent.

Although the board began its administration of the self-insured health benefits plan on July 1, 1983, with reserves of \$2,143,880, claim expenditures and other expenses of the program exceeded premium income and other revenue in 1984 and by June 1987 the fund balance, as indicated in audited financial statements of the plan, was a negative \$4,759,963 with estimated outstanding claims payable of \$4,600,000.

In 1987 the board incorporated various cost-containment components into the health benefits plan which included:

1. Implementation of a program of concurrent review of inpatient hospitalizations designed to eliminate unnecessary treatment or prolonged hospital stays and to allow consideration of less expensive appropriate treatment for long-term medical care.
2. Implementation of a program of mandatory second surgical opinions for certain elective surgeries. (This program did not generate anticipated results and after a one-year trial period was discontinued.)
3. Expansion of contract deductibles to include all inpatient, outpatient, and physician services.
4. Increase in the coinsurance base from the first \$2,000 in charges to the first \$4,000 in charges.
5. Implementation of a preferred pharmacy program.
6. Establishment of a separate premium rate for retirees, based on retiree claims experience.
7. Introduction of a \$25 copayment for each hospital emergency room visit.
8. Adjustment of the Medicare coordination of benefits formula applied to retiree members of the plan.

Due to the introduction of these cost-containment initiatives and the availability to public employees of a number of attractive health maintenance organization plans, approximately 3,350 membership contracts constituting 23 percent of the total contracts of the health benefits plan were lost during the 1987 open

enrollment period, resulting in a decrease of approximately \$563,000 per month in premium income.

The decision by the Medcenter One HMO, a health maintenance organization which had the largest Public Employees Retirement System-eligible enrollment, to discontinue its participation agreement with the Public Employees Retirement System as of July 1, 1988, and substantial increases in premiums charged by other HMOs, resulted in a substantial number of public employees choosing the Public Employees Retirement System health benefits plan during the 1988 open enrollment period.

In January 1989 the Retirement Board voted to end the state-funded health insurance program and buy the coverage from Blue Cross Blue Shield of North Dakota. Officials of the Public Employees Retirement System predicted the state would end the 1987-89 biennium with a \$3.5 million deficit and would need to increase premium rates by 65 percent in 1989-91. The Blue Cross Blue Shield of North Dakota bid of about \$35 million to fund state employees health insurance for the 1989-91 biennium included provisions that the company would absorb about \$5 million in unpaid claims when it took over in July 1989.

Senate Bill No. 2026 (1989) appropriated \$1.2 million from the fund for unemployment compensation claims to the Public Employees Retirement System for the state group health program for the period beginning January 1, 1989, and ending June 30, 1991.

Until 1993 the health insurance program charged premiums based on the employee's election of a single or family plan. Beginning in the 1993-95 biennium, the board began to charge a combination rate which is a blended rate per employee whether a single or family plan is chosen. The blended rate enables agencies to budget the same premium rate for all employees, therefore an agency's budget is not adversely affected if an employee electing to receive single health insurance coverage quits and is replaced by an employee electing to receive family coverage. The schedule below shows the premiums charged since the program began in 1963.

Biennium	Single Plan	Percentage Change	Family Plan	Percentage Change	Combination Rate	Percentage Change
1963-65	\$5.00		\$21.00			
1965-67	\$8.55	71.0%	\$21.50	7.1%		
1967-69	\$10.75	25.7%	\$25.00	16.3%		
1969-71	\$14.45	34.4%	\$34.90	39.6%		
1971-73	\$15.95	10.4%	\$41.90	20.1%		
1973-75	\$14.46	(9.3%)	\$41.90	0.0%		
1975-77	\$19.50	34.9%	\$59.95	43.1%		
1977-79	\$25.50	30.8%	\$67.42	12.5%		
1979-81	\$34.84	36.6%	\$87.40	29.6%		
1981-83	\$42.68	22.5%	\$107.07	22.5%		
1983-85	\$50.28	17.8%	\$140.28	31.0%		
1985-87	\$60.00	19.3%	\$168.00	19.8%		

Biennium	Single Plan	Percentage Change	Family Plan	Percentage Change	Combination Rate	Percentage Change
1987-89	\$68.28	13.8%	\$191.28	13.9%		
1989-91	\$99.82	46.2%	\$280.39	46.6%		
1991-93	\$108.00	8.2%	\$304.00	8.4%		
1993-95					\$254.00	
1995-97					\$165.00	4.3%
1997-99					\$301.00	13.6%
1999-2001					\$349.72	16.2%
2001-03					\$409.09	17.0%
2003-05					\$488.70	19.5%
2005-07					\$553.95	13.4%

From 1963 through 1969, the state contributed \$5 per month toward the cost of health insurance for state employees. State employees paid any additional amount for single or family coverage. During the 1969-71 biennium, the state contributed \$7.50 per month. For the period 1973 through 1979, the state paid the cost of a single health insurance plan. Employees choosing a family plan paid any additional

cost. Since 1979 the state has paid the full cost of either a single or family plan for eligible state employees.

The schedule below provides information on health insurance premiums and the cost of health insurance increases since the 1997-99 biennium.

Biennium	Monthly Premium	Increase From Previous Biennium	Percentage Increase	General Fund	Special Funds	Total
1997-99	\$301	\$36	13.6%	\$7,026,674	\$3,619,802	\$10,646,476
1999-2001	\$350	\$49	16.2%	\$6,989,537	\$3,858,174	\$10,847,711
2001-03	\$409	\$59	17.0%	\$11,182,551	\$6,001,252	\$17,183,803
2003-05	\$489	\$80	19.5%	\$8,027,122	\$8,258,216	\$16,285,338
2005-07	\$554	\$65	13.4%	\$5,335,798	\$7,903,870	\$13,239,668

**Holiday Leave**

The following is a list of statutory holidays cited in NDCC Sections 1-03-01 through 1-03-02.1 on which North Dakota state offices are closed:

- Every Sunday.
- January 1 - New Year's Day.
- The third Monday of January - Martin Luther King Day.
- The third Monday of February - Recognition of the birthday of George Washington.
- The Friday preceding Easter Sunday - Good Friday.
- The last Monday of May - Memorial Day.
- July 4 - Independence Day.
- The first Monday of September - Labor Day.
- November 11 - Veterans Day.
- The fourth Thursday of November - Thanksgiving Day.
- December 25 - Christmas Day.
- Every day appointed by the President of the United States or by the Governor of this state for a public holiday.

If a holiday falls on Saturday or Sunday, the preceding Friday or following Monday, respectively, is considered the holiday. Also, state offices close at noon on December 24, but this is an office closure, not a holiday. The noon closure applies only on December 24 and is not moved to the preceding Friday or following Monday.

**Annual Leave and Sick Leave**

According to NDCC Section 54-06-14, annual leave and sick leave must be provided for all permanent employees of the state who are not employed under a written contract of hire setting forth the terms and conditions of employment.

According to North Dakota Administrative Code Chapter 4-07-12, all state and local government agencies, departments, institutions, and boards and commissions that employ individuals in positions classified by Human Resource Management Services are recommended to use the following annual leave schedule:

Years of Service	Hours Per Month	Hours Per Year
0-3	8	96
4-7	10	120
8-12	12	144
13-18	14	168
Over 18	16	192

According to North Dakota Administrative Code Chapter 4-07-13, all state and local government agencies, departments, institutions, and boards and commissions that employ individuals in positions classified by Human Resource Management Services are recommended to use the sick leave accumulation rate of eight hours per month.

Employees who are eligible for annual and sick leave begin to accrue leave from the day of hire. The accrual of annual leave is limited in that no more than 240 hours of annual leave may be carried forward

from one year to the next, according to the cutoff date established by the agency. Any hours in excess of 240 will be lost. All accrued, unused sick leave may be carried over from one year to the next, and NDCC Section 54-06-14 provides for a lump sum payment equal to one-tenth of the pay attributed to an employee's unused sick leave accrued to an employee with at least 10 continuous years of state employment.

Under NDCC Sections 54-06-14.1 and 54-06-14.2, a state employee may, under certain instances, donate either annual leave or sick leave to another state employee who is suffering or has a relative or household member suffering from an illness, injury, impairment, or similar condition.

### **Family Leave - Family Sick Leave**

North Dakota Century Code Chapter 54-52.4 provides for family leave which is an unpaid leave of absence available to an employee for the birth, adoption, or foster placement of a child; or for the serious health condition of a parent, child, spouse, or employee to all state employees who have been employed by the employer for at least 12 months and who has worked at least 1,250 hours for the employer over the previous 12 months.

North Dakota Century Code Chapter 54-52.4 also provides that an employer who offers compensated leave to its employees for illnesses or other medical or health reasons should allow an employee to use that leave as family sick leave when there is an illness or medical need in the employee's family. Employees are limited to using 40 hours of sick leave for this purpose in any 12-month period.

### **State Employee Compensation Report**

During each legislative session, the Office of Management and Budget Human Resource Management Services reports to the Appropriations Committees regarding state employee compensation. The report includes information on salary ranges, salary distribution, turnover, and salary surveys and comparisons to other states and to Job Service North Dakota information.

## **ADDITIONAL COMMITTEE RESPONSIBILITIES**

In addition to the committee's other statutory duties:

- NDCC Section 54-52.1-08.2 requires the Public Employees Retirement System Board to obtain Employee Benefits Programs Committee approval of any terminology changes needed to Chapter 54-52.1 to comply with federal requirements.
- NDCC Section 18-11-15(5) requires that the Employee Benefits Programs Committee be notified by a firefighters relief association if it implements the alternate schedule of monthly

service pension benefits to members of the association as provided in this subsection.

- NDCC Section 39-03.1-08.1(6) requires that the Employee Benefits Programs Committee be notified by the Public Employees Retirement System Board of the date the board receives a letter ruling from the Internal Revenue Service that the section allowing a member to purchase service credit with pretax or aftertax money does not jeopardize the qualified status of the Highway Patrolmen's retirement system.
- NDCC Section 54-52-17.4(6) requires that the Employee Benefits Programs Committee be notified by the Public Employees Retirement System Board of the date the board receives a letter ruling from the Internal Revenue Service that the section allowing a member to purchase service credit with pretax or aftertax money does not jeopardize the qualified status of the Public Employees Retirement System.
- NDCC Section 54-06-31 requires Human Resource Management Services to periodically report to a legislative committee designated by the Legislative Council on the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs. The Legislative Council has assigned this responsibility to the Employee Benefits Programs Committee.

## **STUDY PLAN**

The committee may wish to proceed with its study and responsibilities as follows:

1. Establish rules for the committee's operations, including rules relating to the submission and review of proposals affecting retirement or health insurance programs. The committee may wish to consider a separate motion at its first meeting providing that the committee only accept legislative proposals affecting retirement programs that are submitted to the committee by legislators and state agencies with bill introduction privilege, that the proposals be in bill draft form, and that the proposals be submitted to the committee prior to April 1, 2006.
2. Review proposals and request actuarial reviews and receive testimony on the proposals.
3. Prepare and submit a report on each proposal, including the proposal's sponsor, a summary of the proposal, the actuarial analysis of the proposal, and the committee's recommendation.
4. Review current state employee compensation levels and policies.



5. Receive testimony on the appropriateness of current state employee compensation levels and policies and suggested changes.
6. Develop recommendations, if any, relating to state employee compensation.
7. Receive reports from Human Resource Management Services regarding the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs.
8. Receive any other statutorily required reports, if necessary.
9. Develop committee recommendations and any legislation necessary to implement the recommendations.
10. Prepare the committee report for submission to the Legislative Council.

ATTACH:3