NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, October 25, 2005
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Matthew M. Klein, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Matthew M. Klein, Joe Kroeber, Francis J. Wald; Senators Ray Holmberg, Ralph L. Kilzer, Karen K. Krebsbach, Carolyn Nelson

Members absent: Representatives Al Carlson, Ken Svedjan

Others present: Chris Conradi, Gabriel, Roeder, Smith and Company, Dallas, Texas

Steve Cochrane, Fay Kopp; Retirement and Investment Office, Bismarck

Sparb Collins, Public Employees Retirement System, Bismarck

Wayne Kutzer, Board for Career and Technical Education, Bismarck

Leslie Thompson, The Segal Company, Englewood, Colorado

Laurie Sterioti Hammeren, Ken Purdy; Human Resource Management Services, Bismarck

Sheila Vetter, Duane Broschat; Job Service North Dakota, Bismarck

Ardyth Pfaff, Information Technology Department, Bismarck

Tom Freier, Department of Transportation, Bismarck

Irish Linnertz, Department of Public Instruction, Bismarck

Kerry Olson, State Department of Health, Bismarck

Jeff Weispfenning, Agriculture Department, Bismarck

Dorothy Streyle, Parks and Recreation Department, Bismarck

RETIREMENT PROGRAMS

Mr. Chris Conradi, Enrolled Actuary and Senior Consultant, Gabriel, Roeder, Smith and Company, Dallas, Texas, presented the July 1, 2005, actuarial valuation of the Teachers' Fund for Retirement. Mr. Conradi said the benefit and contribution provisions of the Teachers' Fund for Retirement have not been materially changed since 2001. He said the following changes to actuarial assumptions were made this year:

1. Changed salary increase assumptions to reflect previous experience - Over the last 10 years, actual salary increases have been greater than previous actuarial assumptions; therefore, the assumptions for salary increases have increased.
2. Modified mortality rates to more closely match longer life expectancies.
3. Modified retirement rates to reflect earlier retirement rates - Approximately one-half of male teachers and two-thirds of female teachers retire when they reach the Rule of 85.
4. Decreased termination rates for causes other than retirement, death, and disability because turnover has been less than expected.

Mr. Conradi said the board overseeing the Teachers' Fund for Retirement has changed the factors included in the annual required retirement contribution calculation based on the Governmental Accounting Standards Board (GASB) Statement No. 25. He said the annual required contribution provides a guide for determining what the actual contribution to the retirement fund should be. Mr. Conradi said the board had been amortizing the unfunded liability of the plan using a level payroll over 20 years. This year, he said, the board is assuming a payroll increase of 2 percent per year and has increased the amortization period for the unfunded liability from 20 to 30 years.

Mr. Conradi said the actual employer retirement contribution to the fund is 7.75 percent. When calculating the annual required employer contribution based on the GASB statement, he said, the contribution for fiscal year 2005 should have been 11.34 percent. For fiscal year 2006, he said, the actual employer contribution of 7.75 percent is 63.9 percent of the annual required contribution calculated using the GASB statement of 12.12 percent.

From 2004 to 2005, Mr. Conradi said the number of active members in the Teachers' Fund for Retirement decreased by 25, from 9,826 to 9,801. For the same period, he said, payroll increased by 2.7 percent, from $376.5 million to $386.6 million. During this year, he said, the number of retirees increased by 213, or 4 percent, from 5,373 to 5,586. Over the last 10 years, he said, the number of retirees has increased by an average of 2.3 percent per year. He said the average annual retiree benefit is $15,710 and there are currently 1.8 active members for each retiree.

Regarding the fund's assets, Mr. Conradi said the fair market value of the fund's assets increased from $1.375 billion in fiscal year 2004 to $1.530 billion in fiscal year 2005. He said total contributions were $64.1 million for fiscal year 2005 compared to $63.7 million for fiscal year 2004. He said total distributions were $89.3 million. He said investment returns for recent years have been fiscal year 2003 - 2.1 percent, fiscal year 2004 - 18.9 percent, and fiscal year 2005 - 13.3 percent. He said the average return over the last 10 years has been 8.4 percent which is .4 percent over the assumed investment return rate of 8 percent. He said investment returns are averaged over a five-year period when determining actuarial asset value.

Mr. Conradi said the unfunded actuarial accrued liability of the fund increased from $354.8 million in 2004 to $495.5 million in 2005. Over the same time period, he said, the funding ratio decreased from 80.3 to 74.8 percent. Mr. Conradi said that assuming the fund earns 8 percent in future years, the unfunded liability will increase from its current level of $495.5 million to approximately $530 million but thereafter will level off.

In response to a question from Representative Wald, Mr. Conradi said that assuming 8 percent investment returns in future years, in 20 years, the fund could have an unfunded liability of $1 billion. However, Mr. Conradi said that if an assumption of 8.45 percent annual market returns is assumed in future years, the fund's financial condition will improve from the current funding ratio of 74.8 percent to a funding ratio of 89 percent by 2035.

Mr. Conradi said the major reasons the fund's financial condition has decreased from having a 102 percent funding ratio in 2000 to its 75 percent funding ratio for 2005 is the result of:

- Lower investment returns over the last five years which averaged 3 percent rather than the assumed 8 percent.
- Changes in actuarial assumptions relating to higher salary increases, fewer members leaving before retirement, and members retiring earlier.
- Benefit improvements occurring in 2001 when the formula multiplier increased from 1.8 to 2 percent.

Mr. Conradi said the board is considering options to address the long-term financial concerns of the fund.

Regarding the long-term stability of the fund, Mr. Conradi said that projections indicate that the fund will be able to pay all of its promised benefits for the next 30 years. Even in 2035, he said, assuming 8 percent future earnings, assets are still projected to be more than 10 times annual distributions.

A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Wald, Mr. Conradi said the board has discussed a number of options for addressing the financial concerns of the fund, including increasing contribution rates, reducing benefits, and making asset allocation changes.

Ms. Fay Kopp, Deputy Executive Director, Retirement and Investment Office, presented information regarding the types of employee groups allowed to participate in the Teachers' Fund for Retirement and the possibility of allowing certain employee groups to participate in either the Teachers' Fund for Retirement or the Public Employees Retirement System.

Ms. Kopp said state statute defines teachers for Teachers' Fund for Retirement membership purposes. She said the definition includes superintendents, assistant superintendents, business managers, directors, coordinators, principals, classroom teachers, and special teachers.

Ms. Kopp presented the following schedule showing the number of employers and members by category:

	Employers	Members
School districts	207	9,250
Special education units	18	345
Counties	15	16
Vocational centers	4	64
State institutions	3	62
State agencies	3	46
Other	10	18
Total	260	9,801

Ms. Kopp presented the following schedule showing the number of members by state agency and institution:

Department of Public Instruction	0 (previously 22)
Department of Career and Technical Education	16
Division of Independent Study	30
North Dakota Vision Services - School for the Blind	15
School for the Deaf	20
Youth Correctional Center	27
Total	108

Ms. Kopp said in 1999 the Legislative Assembly approved Senate Bill No. 2204 which allowed new employees of the Department of Public Instruction hired after January 6, 2001, to join the Public Employees Retirement System rather than the Teachers' Fund for Retirement. As a result, she said, five new Department of Public Instruction employees elected to join the Public Employees Retirement System. In 2003, she said, the Legislative Assembly, in Senate Bill No. 2013, allowed 22 nonteaching Department of Public Instruction employees to transfer their retirement accounts to the Public Employees Retirement System. She said the actuarial analysis indicated that this was not a material change.

Ms. Kopp said the 2005 Legislative Assembly considered Senate Bill No. 2413 to allow new employees of the Board for Career and Technical Education to elect to join the Public Employees Retirement System and to allow current employees to transfer their retirement accounts and future participation to the Public Employees Retirement System. She said the bill was not approved.

Ms. Kopp said any future legislative changes made to the Teachers' Fund for Retirement membership provisions in allowing state agency or institution employees to transfer membership to the Public Employees Retirement System is likely to have a minimal actuarial impact on the fund.

A copy of the report is on file in the Legislative Council office.

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, presented information on the effect on the Public Employees Retirement System fund of allowing certain employee groups currently participating in the Teachers' Fund for Retirement to participate in the Public Employees Retirement System. Mr. Collins said the retirement fund's actuary has analyzed the potential impact to the fund of transferring 16 Department of Career and Technical Education employees from the Teachers' Fund for Retirement to the Public Employees Retirement System. He said there would not be any impact to the Public Employees Retirement System main system because the actuaries would calculate the appropriate amount to transfer from the Teachers' Fund for Retirement to the Public Employees Retirement System fund.

Mr. Collins said these employees would also be eligible to receive the retiree health insurance credit when they retire. He said the actuary calculated the present value of the benefits for the 16 potential transferring members at $102,154. He said the approach previously used by the fund to provide for this increased liability was to amortize the liability over the average working lifetime of the transferring group. As a result, he said, the actuary has calculated the effect as an increase in the required employer contribution to the retiree health insurance credit fund of 2.34 percent, from 1 to 3.34 percent for these transferring employees for a period of eight years. He said after the amortization period, the required contribution would return to the rate in effect at that time for all other participating employers. A copy of the report is on file in the Legislative Council office.

Mr. Wayne Kutzer, State Director, Board for Career and Technical Education, commented on the possibility of allowing certain employees of the Board for Career and Technical Education to participate in the Public Employees Retirement System. He said although the board has not taken formal action on the proposal, he believes the board will support it. He encouraged the committee to authorize this change.

Senator Holmberg asked whether employees of the Division of Independent Study are also interested in changing to the Public Employees Retirement System. Chairman Klein suggested the Division of Independent Study be asked to provide their comments regarding this issue at the next committee meeting.

Ms. Leslie Thompson, Senior Vice President, The Segal Company, Englewood, Colorado, presented the July 1, 2005, actuarial valuation of the Public Employees Retirement System main system, judges' retirement system, National Guard retirement system, law enforcement retirement systems, Highway Patrolmen's retirement system, Job Service North Dakota retirement system, and the retiree health benefits fund. Ms. Thompson presented the following information regarding the number of active members in each of the retirement systems:

Retirement Program	2004	2005
Main system	17,522	17,745
Highway Patrolmen's	132	125
Judges'	46	46
National Guard	17	14
Job Service North Dakota	60	52
Law enforcement with prior service	39	113
Law enforcement without prior service	12	13
Retiree health insurance credit fund	18,017	18,302

Ms. Thompson said the main system and the Highway Patrolmen's retirement system in 2005 had a 14.17 percent return on investment. She said the 10-year average rate of return has been 8.91 percent.

Ms. Thompson presented the following schedule showing the contribution cost rates, statutory contribution rates, and margins for 2005:

Retirement Program	Cost Rate	Statutory Rate	Margin
Main system	6.03%	4.12%	(1.91%)
Highway Patrolmen's	17.61%	16.70%	(.91%)
Judges'	11.62%	14.52%	2.9%
National Guard	1.58%	8.33%	6.75%
Job Service North Dakota	N/A	N/A	N/A
Law enforcement with prior service	12.03%	8.31%	(3.72%)
Law enforcement without prior service	7.61%	6.43%	(1.18%)
Retiree health insurance credit fund	1.00%	1.00%	0%

Ms. Thompson presented the following schedule showing the funding ratios for each of the retirement programs for recent years:

Retirement Program	2001	2002	2003	2004	2005
Main system	110%	104%	98%	94%	91%
Highway Patrolmen's	102%	97%	93%	90%	88%
Judges'	130%	122%	115%	113%	109%
National Guard	125%	139%	126%	120%	108%
Job Service North	121%	113%	109%	109%	109%

Retirement Program	2001	2002	2003	2004	2005
Dakota					
Law enforcement with prior service				87%	41%
Law enforcement without prior service				109%	48%
Retiree health insurance credit fund	37.8%	38.3%	38.2%	38.8%	39.6%

Ms. Thompson presented projections for the main retirement system based on various market returns. She said if the system experiences a 12 percent market investment return for fiscal year 2006 and 8 percent thereafter, by 2010 the funding ratio for the main system will increase from 91 percent in 2005 to 111 percent in 2010.

A copy of the report is on file in the Legislative Council office.

Representative Klein asked how the financial condition of North Dakota's retirement program compares to other states. Ms. Thompson said that North Dakota's is one of the more positive presentations she has made this year. She said the North Dakota system has recovered more quickly from the marked downturn than most other states' systems. She said the Retirement Board has adopted conservative risk management policies for administering the fund.

Mr. Collins presented a schedule showing other states' age and service requirements for retirement benefits and information on recent benefit changes from other states. In summary, Mr. Collins said nine states have only an age requirement, 28 states have only a years of service requirement, and 13 states have a rule requirement considering age and years of service. He said five states have a Rule of 80, six states a Rule of 85, one state a Rule of 88, and one state a Rule of 90.

A copy of the report is on file in the Legislative Council office.

Senator Nelson asked whether there are concerns with increasing North Dakota's Rule of 85 to a Rule of 86 or higher. Mr. Collins said the committee may wish to ask the Attorney General for additional information but it is his understanding that once a retirement benefit is provided to an employee it becomes a contractual obligation for the employer to continue to provide that benefit. He said it may be permissible for a change to affect only new employees.

The committee recessed for lunch at 11:30 a.m. and reconvened at 12:30 p.m.

Mr. Collins presented information regarding prescription drug coverage for retirees of the Public Employees Retirement System after implementation of the Medicare Part D prescription drug benefit. Mr. Collins said the board has chosen, effective January 1, 2006, to provide prescription drug coverage for its retirees through a prescription drug plan offered by Blue Cross Blue Shield of North Dakota. He said this option will maximize the federal support for the prescription drug coverage for these retirees. He said the formulary offered by Blue Cross Blue Shield will be slightly more restrictive than the current formulary.

Mr. Collins said the out-of-pocket maximum for prescription drugs will increase from $1,000 to $3,000 per year; however, the monthly health insurance premium will decrease by 10 to 20 percent effective January 1, 2006. He said the board intends to continue to monitor and assess its options for providing prescription drug coverage to its retirees. A copy of the report is on file in the Legislative Council office.

The Legislative Council staff presented a memorandum entitled *Alaska Public Employees Pension Plan - Current Issues*. The Legislative Council staff said the Alaska pension plan provides retirement benefits based on an employee's average monthly salary of the highest 36 months of salary multiplied by 2 percent for the first 10 years of service, by 2.25 percent for the next 10 years of service, and by 2.5 percent for additional years of service. In addition, the Legislative Council staff said retirees receive full health insurance coverage as part of their retirement benefits.

The Legislative Council staff said the 2005 Alaska Legislature learned that the plan had an actuarial valuation of 75.2 percent and an unfunded liability of $5.7 billion. The Legislative Council staff said the Alaska Legislature learned that in order to address the unfunded liability, the employer contribution would need to increase from 11 percent to over 30 percent. As a result, the Legislative Council staff said the 2005 Alaska Legislature changed the retirement plan for employees hired on or after July 1, 2006, to a defined contribution plan and increased the employer contribution for current employees to 16 percent of salary. The Legislative Council staff said the employer and employee contribution rates have not yet been determined for the defined contribution plan. The Legislative Council staff said Alaska has a task force studying the development of this plan and how to address the unfunded liability of the defined benefits plan.

Representative Klein distributed a copy of a news article discussing concerns regarding state and local pension plans across the country. A copy of the article is on file in the Legislative Council office.

Ms. Kopp provided information on retired teachers returning to work. She said North Dakota law has, for many years, allowed retired teachers to return to work on a half-time or less basis. Although a few teachers have chosen this option in the past, in recent years, she said, more retired teachers are returning to work. She said the number of retired teachers returning to work has increased from 24 in the 1999-2000 school year to 138 in the 2004-05 school year. She said a 30-year teacher can receive a retirement benefit of 60 percent of average salary plus 50 percent of salary for working half time, for a total income of 110 percent of preretirement income.

Ms. Kopp said beginning in the 2001-02 school year, retired teachers were allowed to return to work full time in critical shortage areas after being out of the workforce for one full year. She said for the 2004-05 school year, six teachers filled these types of positions.

Ms. Kopp said for the 2004-05 school year, a total of 146 retirees under the Teachers' Fund for Retirement returned to work, including 105 teachers, 19 administrators, and 22 superintendents.

In response to a question from Senator Nelson, Ms. Kopp said that for the 2004-05 school year, 89 employers employed 146 retirees, including 7 in Bismarck, 8 in Fargo, 1 in Grand Forks, and 3 in Mandan.

Senator Nelson asked for the number of first-year teachers hired across the state. Chairman Klein said the Department of Public Instruction will be asked to provide that information to the committee at its next meeting.

STATE EMPLOYEE COMPENSATION STUDY

Mr. Collins provided information regarding the state health insurance program. Mr. Collins said the North Dakota Century Code authorizes the Public Employees Retirement System to administer either a fully insured or a self-insured health insurance program. The Century Code also requires that if the Public Employees Retirement System administers a self-insured plan, that it have stop-loss coverage and that it maintain a contingency reserve fund of approximately three and one-half months of claims. He said based on current claims, the reserve fund would need to be approximately $30 million.

Mr. Collins reviewed the components of fully insured and self-insured health plans. He said the current Public Employees Retirement System health plan with Blue Cross Blue Shield of North Dakota could be considered a modified fully insured plan because the Public Employees Retirement System determines the plan design; losses are limited to the amount of premiums paid; the Public Employees Retirement System receives interest on plan holdings; and if expenses are less than premiums, the Public Employees Retirement System receives 50 percent of the first $3 million of gains and 100 percent of any excess.

For the 2003-05 biennium, Mr. Collins said premiums totaled $161.2 million while expenses are projected to total $152.8 million, resulting in a gain of $8.4 million.

Mr. Collins said any gains that are realized when claims are lower than premiums are used to reduce health insurance premiums for the subsequent biennium. For the 2005-07 biennium, Mr. Collins said realized gains reduced premiums by approximately $25 per month per contract.

Mr. Collins reviewed high-deductible health plans and health savings accounts. Mr. Collins said the following states have implemented high-deductible health plans or health savings accounts--Arkansas, South Carolina, South Dakota, Colorado, Wyoming, and Florida.

Mr. Collins said for the 2005 fiscal year, 20 percent of the Public Employees Retirement System health contracts accounted for 72 percent of claims costs. He said the average out-of-pocket payment for each of these contracts was $2,136. He said 80 percent of the health insurance contracts accounted for 28 percent of claims costs with the average out-of-pocket cost per contract being $758.

A copy of the report is on file in the Legislative Council office.

Mr. Ken Purdy, Compensation Manager, Human Resource Management Services, Office of Management and Budget, provided information on the average salary of North Dakota employees and health insurance premiums and employer contributions to health insurance premiums. Mr. Purdy said the current average salary of all state employees, excluding temporary employees, board and commission members, University System employees, and employees of the Mill and Elevator, is $36,332 per year. He said the average wage for all North Dakota workers for 2004 as reported by Job Service North Dakota was $28,987 per year. Mr. Purdy said reasons for the difference include Job Service North Dakota information includes part-time employees which lowers the average wage and the Job Service North Dakota information is for 2004, while the state employee information is for 2005. Mr. Purdy said the average classified employee wage in 2004 was $32,604. In addition, he said, 84 percent of North Dakota workers have completed high school compared to 99 percent of state employees having completed high school. He said 22 percent of North Dakota workers have bachelor's degrees or higher while 54 percent of state employees have bachelor's degrees or higher.

Mr. Purdy said that of the 50 states, six states, including North Dakota, pay 100 percent of employees' health insurance premium. He said the monthly cost to the state of these plans ranges from $280 to $1,683 per month. He said North Dakota's monthly cost is $554 per contract.

Mr. Purdy said that based on information provided by Job Service North Dakota, 73.8 percent of employers in North Dakota provide a health plan for full-time salaried employees. He said 21.9 percent of employers pay 76 to 100 percent of the premium, 12.2 percent pay 51 to 75 percent, 14.1 percent pay 26 to 50 percent, 5.9 percent pay 1 to 25 percent, and 17.4 percent pay nothing.

Mr. Purdy said Basin Electric Power Cooperative conducted a survey in July 2004 of 20 major North Dakota employers and found that family health insurance premiums ranged from $450 to $1,043 per month. He said that of the 20 employers, 7 paid 100 percent of the single premium and 5 paid 100 percent of the family premium.

A copy of the report is on file in the Legislative Council office.

Ms. Sheila Vetter, Human Resources Director, Job Service North Dakota, presented information on North Dakota's labor market. Ms. Vetter provided a 2005 report on salaries and fringe benefits provided by North Dakota employers. She said the information indicates that North Dakota employers provided a 5.2 percent average salary increase for salaried employees in 2005 and anticipate providing a 4.8 percent salary increase for 2006.

Ms. Vetter provided information on the average annual wage by county. She said the statewide average for 2004 was $28,987.

Ms. Vetter also provided a report showing North Dakota wages by occupation. She said the survey had an 81 percent participation rate by North Dakota employers. Copies of the reports are on file in the Legislative Council office.

The Legislative Council staff presented a memorandum entitled *State Agency Salary Increases - April Through September 2005*. The report summarizes state agency responses to a survey regarding salary increases provided to state employees during the April through September 2005 time period, excluding entities under the control of the State Board of Higher Education, except for the University System office.

The Legislative Council staff said that for the six-month period, 1,190 full-time equivalent positions received a salary increase in addition to the July 2005, 4 percent salary increase authorized by the Legislative Assembly. The cost to continue the additional salary increases for the 2005-07 biennium totals $2.7 million, $1.2 million of which is from the general fund. The Legislative Council staff said the total cost of these additional increases is approximately three-tenths of 1 percent of statewide salaries expenditures for the 2005-07 biennium.

The Legislative Council staff said that while funding for some of the additional increases was authorized specifically by the Legislative Assembly, the majority of the funding for the salary increases is being made available from vacant positions and anticipated employee turnover savings.

The Legislative Council staff said that some agencies have developed systems for providing salary increases separate from general legislatively authorized increases. Agencies with formalized systems of providing salary increases include the judicial branch, Board for Career and Technical Education, Workforce Safety and Insurance, Highway Patrol, and Adjutant General.

Senator Nelson commented that while large agencies have funding available from vacant positions and turnover, it is difficult for small agencies to generate any savings to provide additional salary increases.

Ms. Ardyth Pfaff, Human Resources Director, Information Technology Department, discussed the various types of positions of the Information Technology Department and whether the positions are recruited for from the public or private sector.

Representative Klein asked for the number of vacant positions of the Information Technology Department. Ms. Pfaff said currently 9 of the 265 authorized positions in the department are vacant. Recently, she said, the department is experiencing approximately 25 percent fewer applicants for job openings.

In response to a question from Senator Krebsbach, Ms. Pfaff said the turnover rate in the department is fairly stable.

Mr. Tom Freier, Department of Transportation, commented on workforce issues of the department. Mr. Freier said that younger workers are seeking jobs that pay high salaries, have an opportunity for advancement, are challenging, and utilize up-to-date technology. He said the department has the most difficulty retaining employees with five to six years of experience. He said within the next five years, 31 percent of the department's workforce will be eligible for retirement. He said the state retirement and health insurance benefits are no longer as attractive for recruiting and retaining employees because other employers are providing similar benefits. Mr. Freier suggested the Legislative Assembly allow agencies the flexibility to use salaries funding to reward high-quality employees; to respond to the hiring environment; and to adjust salaries of lower-paid workers, such as equipment operators and driver's license examiners to a more appropriate level.

A copy of the report is on file in the Legislative Council office.

Ms. Irish Linnertz, Human Resources Director, Department of Public Instruction, commented on hiring issues of the Department of Public Instruction. Ms. Linnertz said the position of superintendent of the School for the Deaf has been vacant since July 2005. She said the department has had no applicants for the position even after lowering the qualifications for the position and increasing the salary. She said the department also has difficulty filling special education positions and those that require master's degrees. Ms. Linnertz provided a comparison of 2003 salaries of selected positions in North Dakota school districts to Department of Public Instruction personnel, identifying the concerns related to department salaries.

Mr. Kerry Olson, Human Resources Director, State Department of Health, commented on the recruitment and retention challenges of the State Department of Health. Mr. Olson said approximately two-thirds of State Department of Health employees leaving state employment leave for other jobs providing a higher salary. He said in many cases state employees' salaries are less than those in city and county governments. In at least four classifications, he said, department salaries are as much as $1,000 per month less than positions in other states in the region. Based on an April 2004 survey of State Department of Health employees, although employees were satisfied with the state's benefits package, he said, their primary concern was the salary level.

Mr. Olson said the department experiences difficulty in recruiting and retaining health facilities surveyors, environmental engineers, public health nurse consultants, microbiologists, and epidemiologists. Mr. Olson said the State Department of Health has most difficulty retaining employees during their first five years of employment. He said approximately one-third of the department's employees have five or fewer years of service.

Mr. Olson suggested that the Legislative Assembly continue the current benefits package but allow agencies the flexibility to provide salary adjustments to attract and retain employees.

A copy of the report is on file in the Legislative Council office.

Mr. Jeff Weispfenning, Deputy Commissioner, Agriculture Department, commented on workforce issues of the Department of Agriculture. Mr. Weispfenning said during the 2003-05 biennium, the department lost 11 of its 61 authorized employees. Mr. Weispfenning expressed a concern regarding the cost of recruiting new employees and the related training costs incurred by the department when turnover occurs. Mr. Weispfenning suggested the committee provide funding for equity increases for positions that are no longer competitive in the marketplace and provide funding for merit increases for high-quality employees.

Ms. Dorothy Streyle, Parks and Recreation Department, commented on workforce issues of the Parks and Recreation Department. She said the department has experienced a 50 percent turnover rate in the past five years. She said 98 percent of the Parks and Recreation Department staff are below the midpoint of their salary range. She also commented regarding the difficulty the department has in recruiting seasonal staff due to competition, particularly from oil-related companies.

Representative Wald said during the 2005 legislative session, legislators were being encouraged to provide an across-the-board 4 percent per year salary increase. He said testimony received today has expressed the need for merit increases rather than across-the-board increases. Mr. Purdy said the 4 percent per year increase was needed to provide an adequate base salary since state employees were not authorized increases for the two previous years. He said once the base salary is adequate, then it is appropriate to provide funding for merit increases.

Senator Holmberg said during the legislative session, certain agencies expressed a concern with the level of salaries and wages funding approved by the Legislative Assembly; however, as reported in the Legislative Council's survey of state employee salary increases, he said, the same agencies have provided salary increases in addition to those approved by the Legislative Assembly.

In response to a question from Representative Wald, Mr. Collins distributed a schedule identifying the number of employees in the various groups served by the Public Employees Retirement System as of January 1, 2005. The information indicates a total of 24,484 employees are participating in the retirement program and 23,544 in the health insurance program.

A copy of the report is on file in the Legislative Council office.

For the next meeting, Chairman Klein said that the committee will receive additional information on retired teachers returning to work, an overview of the class evaluation system of Human Resource Management Services, and updated information from Human Resource Management Services on the 10 states' salary comparison survey.

Senator Nelson asked that the Public Employees Retirement System provide additional information at the next meeting on the status of the Medicare Part D prescription drug program implementation.

Senator Holmberg asked that for the next meeting, the Attorney General's office provide testimony on legal issues related to changing retirement benefits for current employees.

Representative Wald asked that at the next meeting the Public Employees Retirement System provide information on loss ratios of the Public Employees Retirement System health plan compared to other groups.

The committee adjourned subject to the call of the chair at 3:30 p.m.

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Allen H. Knudson
Assistant Legislative Budget Analyst
and Auditor

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Jim W. Smith
Legislative Budget Analyst and Auditor