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July 25, 2008

Representative Bette Grande, Chair
Legislative Employee Benefits Programs Committee
3510 42nd Ave S
Fargo, ND 58104-6669

Re: **Technical Comments – Bill Draft No. 90114.0100**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 90114.0100:

Systems Affected: Retiree Health Benefit Fund

Summary: The proposed legislation would increase the required monthly contribution to the Retiree Health Benefit Fund from 1.00% of monthly salary to 1.15% of monthly salary and increase the monthly retiree health credit from \$4.50 per year of credited service to \$5.00 per year of credited service. There are also corresponding contribution rate increases for both nonteaching employees of the superintendent of public instruction and employees of the state board for career and technical education, with higher contribution rates for these two groups for a specified period that are intended to fund past service.

Actuarial Cost Analysis: We have calculated that the additional contribution of 0.15% of salary would be sufficient to offset the cost of the additional monthly benefit of \$0.50 per year of credited service.

Technical Comments: Our comments on the bill are as follows:

General

The purpose of the provision of the bill that increases the required contribution to the Retiree Health Benefit Fund is to provide adequate funding for an increased monthly retiree health credit in order to help members keep up with the rising cost of health care.

Benefits Policy Issues

➤ Adequacy of Retirement Benefits

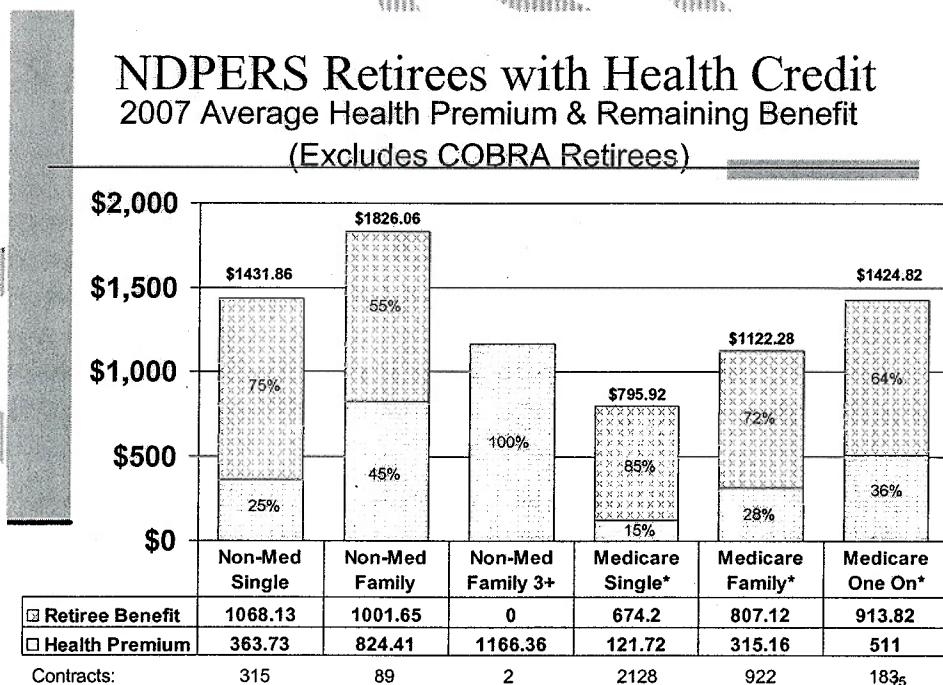
The bill has no direct impact on retirement benefits. However, the bill indirectly enhances retirement benefits by reducing the need for retirees to use their retirement benefits to pay for retiree health benefits.

➤ Benefits Equity and Group Integrity

The increase in contributions to and benefits payable from the Retiree Health Benefit Fund impact the Hybrid Plan, Highway Patrolmen's Retirement System and Defined Contribution Plan equally.

➤ Purchasing Power Retention

The retiree health credit has diminished in value over the years in terms of offsetting the cost of health insurance. Since the credit has remained fairly constant over time but the cost of insurance has continued to escalate, the percentage offset by the credit has been getting smaller. The following table⁺ shows the effect on retirement benefits of paying for health insurance:



* - Medicare contracts must pay \$93.50 per person for Medicare coverage.

The following table⁺ shows the effect that the rising cost of health insurance has had on the retiree health credit over time:

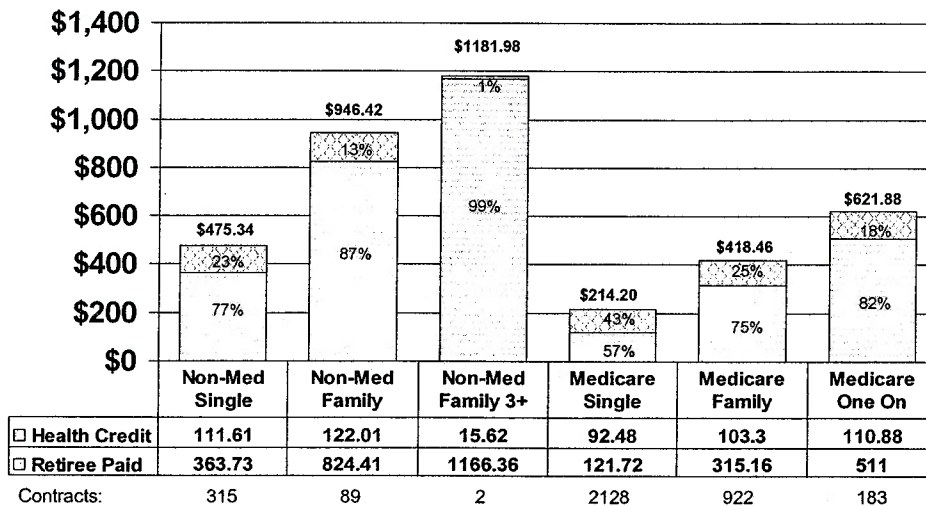
Example for 20-year employee

Year	Credit	Credit with 20 Years of Service	Non-Medicare 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	\$781.86	12%	\$427.24	21%
2006	\$4.50	\$90.00	\$781.86	12%	\$329.24	27%
2007	\$4.50	\$90.00	\$946.42	10%	\$418.46	22%
2008	\$4.50	\$90.00	\$946.42	10%	\$418.46	22%
2009	\$4.50	\$90.00	\$1,059.99	8%	\$468.68	19%
2011	\$4.50	\$90.00	\$1,187.19	7.5%	\$524.91	17%
2013	\$4.50	\$90.00	\$1,329.65	7%	\$587.91	15%

In addition, the following table⁺ shows the percentage of the premium paid by the retiree health credit for each premium category:

NDPERS Retiree Health Credit

2007 Average Premiums & Health Credit
(Excludes COBRA Retirees)



⁺ These three tables are based on information provided by PERS' staff that has not been independently verified by Segal.

➤ Preservation of Benefits

No impact.

➤ Portability

No impact.

➤ Ancillary Benefits

No impact.

Funding Policy Issues

➤ Actuarial Impacts

The benefit increase would increase the actuarially determined contribution rate by 0.15% of payroll, as illustrated in the table below. In order to maintain the current margin of 0.05%, the rate would have to increase from 1.00% to 1.15% of payroll.

	<u>\$4.50 Multiplier</u>	<u>\$5.00 Multiplier</u>
1. Actuarial accrued liability on July 1, 2007:	\$85,342,012	\$94,824,458
2. Assets at actuarial value (\$45,278,720 at market value):	38,882,121	38,882,121
3. Unfunded actuarial accrued liability - equals (1) minus (2):	46,460,891	55,942,337
4. Normal cost for ensuing year*:	2,698,131	2,997,923
5. Amortization payment - equals 23-year amortization of item (3) as a level percent of total payroll*:	2,945,326	3,546,390
6. Administrative expenses:	65,000	65,000
7. Total cost for ensuing year - equals (4) plus (5) plus (6):	5,708,457	6,609,313
8. Total payroll of covered members:	602,853,327	602,853,327
9. Total employer cost as percentage of payroll - equals (7) divided by (8):	0.95%	1.10%

* Adjusted for interest to recognize payments throughout the year.

Even though the additional contribution is sufficient to offset the additional cost, the bill would cause the funded ratio to decrease, since it causes an immediate increase in the actuarial accrued liability, but no corresponding immediate increase in fund assets.

These cost estimates are based on the July 1, 2007 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

➤ Investment Impacts

- ◆ Asset Allocation: The bill does not create new investment asset allocation issues.
- ◆ Cash Flow Impacts: The bill would have an immediate, positive impact on cash flow to the Retiree Health Benefit Fund that would be offset to some extent by higher benefit payouts in the future.

Administration Issues

➤ Implementation Issues

This bill would have minimal effect on PERS' administrative costs.

➤ Administrative Costs

The bill would have minimal effect on PERS' administrative costs, estimated at \$10,000 in technology costs. However, the contribution rate of participating employers would increase as follows:

NDPERS Main System Costs
\$5.00 Health Credit/1.15% Contribution

Group	Employees	Monthly Payroll	Biennial Payroll*	1.00% Health Credit	1.15% Health Credit	Increase	General Increase (45.83%)	Other Increase
State	7,252	\$23,051,516	\$553,236,384	\$5,532,364	\$6,362,218	\$829,854	\$380,322	\$449,532
Higher Ed	2,724	6,269,504	150,468,096	1,504,681	1,730,383	225,702	0	225,702
County	3,306	8,590,082	206,161,968	2,061,620	2,370,863	309,243	0	309,243
Schools	4,565	8,469,903	203,277,672	2,032,777	2,337,693	304,916	0	304,916
Cities	564	1,485,867	35,660,808	356,608	410,099	53,491	0	53,491
Others	461	1,182,874	28,388,976	283,890	326,473	42,583	0	42,583
Totals	18,872	\$49,049,746	\$1,177,193,904	\$11,771,940	\$13,537,729	\$1,765,789	\$380,322	\$1,385,467

* Assumes no increase in salaries over the 24-month period.

➤ Needed Authority

The bill appears to provide sufficient levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

➤ Cross Impact on Other Plans

As noted earlier, an increase in the monthly amount of the retiree health credit will reduce the need for retirees to use benefit payments from the retirement systems for retiree health benefits.

➤ Employee Communications

Employee communications will be necessary to describe the increase in the retiree health credit amount.

Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



Melanie Walker, JD
Vice President

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