



THE SEGAL COMPANY
6300 South Syracuse Way, Suite 750 Englewood, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

January 28, 2009

Representative Bette Grande, Chair
Employee Benefits Programs Committee
State of North Dakota
Bismarck, North Dakota

Re: **Technical Comments – House Bill No. 1575**

The following presents our analysis of the proposed changes found in House Bill No. 1575:

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan) and Retiree Health Benefit Fund

Summary: The proposed legislation would transfer peace officers employed by the State Bureau of Criminal Investigation from participation in the Public Employees Retirement System (PERS) Hybrid Plan under the rules applicable to general State employees to participation under the rules applicable to peace officers and correctional officers of political subdivisions.

Actuarial Cost Analysis: The bill would transfer approximately 37 members of the Hybrid Plan from the Main System to the Law Enforcement Plan. Consistent with other such transfers we have assumed that assets equal to the actuarial accrued liability in the Main System would be transferred to the Law Enforcement With Prior Main Service Plan, and all service would be counted in the Law Enforcement Plan. This will result in a cost decrease in the Main System and a cost increase in the Law Enforcement Plan.

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

General

The Hybrid Plan provides very similar levels of benefits to both general State employees and peace officers and correctional officers of political subdivisions, including the benefit accrual formula (2% of final average salary times years of service), death benefits, and optional forms of retirement benefits. However, these employee groups have different normal retirement dates and early retirement dates. For general State employees, the normal retirement date is age 65 or attaining Rule of 85 eligibility, and the early retirement date is age 55 with three years of eligible

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employment. For peace officers and correctional officers of political subdivisions, the normal retirement date is age 55 with three consecutive years of eligible employment or attaining Rule of 85 eligibility, and the early retirement date is age 50 with three years of eligible employment. These differences may have important implications for the System, including actuarial costs.

Benefits Policy Issues

> Adequacy of Retirement Benefits

The bill will enhance retirement benefits for peace officers employed by the State Bureau of Criminal Investigation because they will now be able to retire (both reduced and unreduced retirement) at an earlier age.

> Benefits Equity and Group Integrity

Under the bill, peace officers employed by the State Bureau of Criminal Investigation would retire under normal and early retirement dates that are similar to the retirement dates of their peers (other peace officers and corrections officers in the State) who are employed by political subdivisions.

> Competitiveness

The bill may increase the benefits competitiveness of the System only for peace officers employed by the State Bureau of Criminal Investigation.

> Purchasing Power Retention

No impact.

> Preservation of Benefits

No impact.

> Portability

Since peace officers employed by the State Bureau of Criminal Investigation would participate under PERS rules for peace officers and correctional officers of political subdivisions, there would be complete portability of benefits between these two groups. That is, such officers could transfer employment one group to the other without affecting PERS benefits in any way.

> Ancillary Benefits

- ♦ No impact.
- ♦ Social Security: No impact.

Funding Policy Issues

➤ **Actuarial Impacts**

The following table illustrates the effect on the actuarially calculated cost of both plans had the transfer of members and assets been effective July 1, 2008. Note that while the Law Enforcement Plan shows a slight decrease in the actuarially determined contribution rate, the actual effect of the transfer is a cost increase, since members are switching from the less expensive plan to the more expensive plan.

	July 1, 2008 Before Transfer	July 1, 2008 After Transfer
Law Enforcement with Prior Main Service		
Actuarial accrued liability	\$10,557,744	\$14,291,243
Assets at market value	8,301,444	11,534,405
Assets at actuarial value	7,587,767	10,542,790
Unfunded liability	2,969,977	3,748,453
Amortization payment	207,275	261,605
Normal cost	448,849	612,756
Administrative expense	3,214	5,000
Total cost	659,338	879,361
Payroll	5,057,594	6,854,462
Total cost as percent of pay	13.04%	12.83%
Member cost as percent of pay	4.00%	4.00%
Employer cost as percent of pay	9.04%	8.83%
Main Plan		
Actuarial accrued liability	\$1,700,171,588	\$1,696,938,627
Assets at market value	1,718,937,287	1,715,704,326
Assets at actuarial value	1,571,159,912	1,568,204,889
Unfunded liability	129,011,676	128,733,738
Amortization payment	9,003,760	8,984,363
Normal cost	54,662,835	54,515,679
Administrative expense	710,000	710,000
Total cost	64,376,595	64,210,042
Payroll	627,601,090	625,804,222
Total cost as percent of pay	10.26%	10.26%
Member cost as percent of pay	4.00%	4.00%
Employer cost as percent of pay	6.26%	6.26%

The net effect of the transfer of members from the main retirement plan to the law enforcement plan is an increase in employer costs of \$53,470.

These cost estimates are based on the July 1, 2008 actuarial valuation results, including the participant data and actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

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➤ Investment Impacts

- ♦ Asset Allocation: The bill does not create new investment asset allocation issues.
- ♦ Cash Flow Impacts: The bill may create new cash flow needs, but the impact on the System is minimal.

Administration Issues

➤ Implementation Issues

The bill will require that the System reprogram the prior service of peace officers employed by the State Bureau of Criminal Investigation to be counted under the rules applicable to peace officers and correctional officers of political subdivisions. While this bill would have minimal impact on administrative costs of the System, it would have an effect on the participating employer since the required contributions would increase.

➤ Administrative Costs

The bill will have minimal effect on administrative resources. However, employer contributions for the State will increase, since the statutory employer contribution rate for those transferring will increase from 4.12% of salary to 8.31% of salary.

➤ Needed Authority

No impact.

➤ Cross Impact on Other Plans

The bill may have an impact on the Retiree Health Benefit Fund due to a specific group of employees being permitted to retire at an earlier age than under current rules, as noted earlier.

➤ Employee Communications

The bill will require employee communications to the peace officers employed by the State Bureau of Criminal Investigation to describe the new retirement rules applicable to them, including the normal retirement age and early retirement age.

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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Law Enforcement Plan Cost Increase - 2009-2011

1/28/2009 3:04 PM

Department	Employees	2009-2011 Monthly	0.00%	4.71%	Monthly Increase
		Salary	Cost	Cost	
Attorney General	37	\$ 177,911	\$0	\$8,380	\$8,380

Department	Biennium Increase	Funding Source Gen, Fed, Other	General Increase	Other Increase
125 - Attorney General	\$201,110	92.46% / 7.54%	\$185,946	\$15,164

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Law Enforcement Plan Cost Increase - 2009-2011

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Department	Employees	2009-2011 Monthly	0.00%	4.19%	Monthly Increase
		Salary	Cost	Cost	
- Attorney General	37	\$ 177,911	\$0	\$7,454	\$7,454

Department	Biennium Increase	Funding Source Gen, Fed, Other	General Increase	Other Increase
125 - Attorney General	\$178,907	92.46% / 7.54%	\$165,417	\$13,490

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