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February 4, 2009

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

Re: **Technical Comments – House Bill No. 1175**

The following presents our analysis of the proposed changes found in House Bill No. ¹⁵⁷⁵~~1175~~.

Systems Affected: North Dakota Public Employees Retirement System (Hybrid Plan including the Main, Judges, Law Enforcement and National Guard retirement plans) and Highway Patrol Retirement System

Summary: The proposed legislation would allow the Board to provided for a one-time post-retirement payment equal to 75% of a retiree's or a beneficiary's current monthly benefit payment amount to be made in August 2009.

Actuarial Cost Analysis: The bill would increase the Unfunded Actuarial Accrued Liability (UAAL) for each plan by the amount of the one-time payment. If an additional contribution to the plans were made, the effect of the payment on future plan costs would be exactly offset by the contribution. If no contribution were made, the increase in the UAAL would be amortized over 20 years according to the funding policy. This would increase the actuarially determined contribution rate, as shown below, for 20 years. The increase in the UAAL could also be offset by increasing the statutory contribution rate for a period of two years. The following table summarizes the analysis of these costs.

Benefits, Compensation and HR Consulting ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, D.C.



Multinational Group of Actuaries and Consultants BARCELONA BRUSSELS DUBLIN GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE
MEXICO CITY OSLO PARIS

Plan Name	Amount of 13 th Check Payable 8/1/2009	Increase in Actuarially Determined Rate as of 7/1/2009	Cost as a Percent of Pay From 7/1/2009 to 6/30/2011
Main System	\$5,220,591	0.06%	0.42%
Judges	\$101,908	0.14%	0.98%
National Guard	\$6,873	0.02%	0.18%
Law Enforcement with prior Main service	\$23,785	0.03%	0.24%
Law Enforcement without prior Main service	\$180	0.00%	0.01%
Total PERS	\$5,353,337		0.42%
Highway Patrol	\$227,023	0.23%	1.75%
Grand Total	\$5,580,360		

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.

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

Benefits Policy Issues

➤ **Adequacy of Retirement Benefits**

No impact.

➤ **Benefits Equity and Group Integrity**

Post-retirement increases to the monthly benefits paid from the Hybrid Plan could create some level of benefit inequity between the Hybrid Plan and the Defined Contribution Plan because, although historical contributions to both Plans have been the same, there are no post-retirement increases paid from the Defined Contribution Plan.

➤ **Competitiveness**

No impact.

➤ **Purchasing Power Retention**

The proposed post-retirement increases continue the Board's policy of restoring purchasing power of retirement benefits through ad hoc increases when such are affordable. However, a one-time payment equal to 75% of current monthly benefits, is not anticipated to fully restore the purchasing power of retirement benefits whenever price inflation exceeds the amount of the post-retirement payment.

➤ Preservation of Benefits

It is clear that without some adjustment the benefits of the Hybrid Plan will be eroded by inflation.

➤ Portability

No impact.

➤ Ancillary Benefits

A 13th check at 75% of the retirees' current monthly benefits would amount to about \$5,580,360 in one-time payments. These additional payments into North Dakota's economy will generate additional economic activity as well as tax revenue to the State.

Funding Policy Issues

➤ Actuarial Impacts

The bill would have an actuarial impact on the System, as noted earlier.

➤ Investment Impacts

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

Administration Issues

➤ Implementation Issues

None.

➤ Administrative Costs

No impact.

➤ 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

No impact.

➤ Employee Communications

Employee communications will be necessary to explain the one-time post-retirement payment and increase(s) to monthly retirement benefits of judges, if applicable.

Please call if you have any questions or comments.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



Melanie Walker, JD
Vice President