

July 27, 2008

Mr. William F. Robinson, RHU, FLMI  
Area Vice President  
Gallagher Benefit Services, INC.  
6399 South Fiddler's Green Circle  
Greenwood Village, Co 80111



**RE: North Dakota Public Employees Retirement System FY 2009 GASB 45 ARC – Impact of  
Legislative Bill #90113.0100**

Dear Bill:

North Dakota Public Employees Retirement System ("NDPERS") has requested APEX Management Group ("APEX"), a division of Gallagher Benefit Services, Inc., to estimate the impact of Legislative Bill #90113.0100 on NDPERS' fiscal year 2009 GASB 45 Annual Required Contribution (ARC). The intent of this letter is to document and present the results of the study.

**Legislative Bill #90113.0100**

Legislative Bill #90113.0100 is a bill intended to amend and enact section 54-52.1-02 of the North Dakota Century Code (Act) relating to non Medicare retiree insurance rates under the uniform group insurance program. Under the Act, the insurance rate for a non Medicare retiree choosing single coverage is to be 125% of the active member single plan rate. Currently, non Medicare retiree rates are 150% of the active member single plan rate. Furthermore, the Act states that the rates for a non Medicare retiree family of two and a non Medicare retiree family of three or more are twice and two and a half times the non Medicare retiree single plan rate, respectively. It should be noted that the bill does not change the relationship between the non Medicare two party and family rate and the non Medicare retiree rate. Rather, the bill changes the relationship between the non Medicare retiree single coverage rate and the active member single plan rate. The bill also provides an expiration date of June 30, 2011 for the Act.

**NDPERS Fiscal Year 2009 GASB 45 ARC**

Based on the July 2007 health insurance rates, a NDPERS non Medicare retiree would pay a monthly premium for single coverage of \$471.09. The \$471.09 represents the full monthly rate since NDPERS does not provide an explicit subsidy and requires retirees to pay the full rate. If the above Act were in effect in July 2007, the premium would be \$392.57, a decrease of approximately 17%. The decrease in the premium also represents an increase in the implicit subsidy provided by NDPERS to its non Medicare retiree population under GASB 45.

The table below provides an estimate of the fiscal year 2009 GASB 45 Annual Required Contribution (ARC), July 1, 2008 accrued liability and June 30, 2009 Net OPEB Obligation under two scenarios. To provide a basis of comparison, the baseline represents the status quo or the

situation where there is no change. Scenario 1 assumes that the bill passes and once the Act expires, the non Medicare rate returns to 150% of the active rate. Scenario 2 assumes that the bill passes and the non Medicare rate is 125% of the active rate even after the Act's expiration date.

	<b>Baseline</b>	<b>Scenario 1</b>	<b>Scenario 2</b>
Estimated July 1, 2008 Accrued Liability	\$33,479,000	\$49,108,000	\$63,578,000
<b>Estimated FY 2009 GASB 45 ARC</b>			
Normal Cost	\$2,788,000	\$2,788,000	\$5,293,000
Interest on Normal Cost	\$139,000	\$139,000	\$265,000
Amortization of Unfunded Accrued Liability	\$1,278,000	\$1,874,000	\$2,426,000
Interest on Amortization	\$64,000	\$94,000	\$121,000
Total	\$4,269,000	\$4,895,000	\$8,105,000
Change in GASB 45 ARC	\$0	\$626,000	\$3,836,000
Change in June 30, 2009 Net OPEB Obligation	\$0	\$626,000	\$3,836,000

The estimated impact of the bill under Scenario 1 and Scenario 2 is to increase the July 1, 2009 accrued liability from \$33.5 million to \$49.1 million and \$63.6 million under Scenarios 1 and 2, respectively. The fiscal year 2009 GASB 45 ARC and June 30, 2009 Net OPEB Obligation will change by \$626,000 and \$3,836,000 under Scenarios 1 and 2, respectively.

The reason for the difference in the magnitude is that under Scenario 1, the change in the non Medicare retiree rate from 150% to 125% of active rate is temporary in that it only affects current retirees and *those actives expected to retire prior to the expiration date of the Act*. Under Scenario 2, the change is permanent and will affect current retirees as well as *all NDPERS future retirees*. Note that the relative small decrease in the non Medicare retiree rate (17%) can have a potentially large impact on the GASB 45 ARC under Scenario 2 where the change in the GASB 45 ARC is \$3.8 million, almost a 90% increase.

As was noted above, the impact of the bill is to decrease the non Medicare retiree rate and increase the GASB 45 implicit employer subsidy. In this case, the implicit subsidy is the difference between the retirees' age adjusted health costs and the amount that the retirees pay for health coverage. The table below provides the projected implicit subsidy under the baseline and two scenarios for fiscal years 2009 to 2017.

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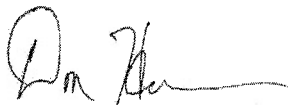
Fiscal Year	Baseline	Implicit Subsidy	
		Scenario 1	Scenario 2
2009	\$3,137,000	\$7,852,000	\$7,852,000
2010	\$2,257,000	\$7,915,000	\$7,915,000
2011	\$2,686,000	\$9,204,000	\$9,204,000
2012	\$3,129,000	\$3,129,000	\$10,606,000
2013	\$3,431,000	\$3,431,000	\$11,841,000
2014	\$3,700,000	\$3,700,000	\$13,063,000
2015	\$3,973,000	\$3,973,000	\$14,324,000
2016	\$4,286,000	\$4,286,000	\$15,638,000
2017	\$4,629,000	\$4,629,000	\$17,032,000

#### Assumptions and Methodology

The fiscal year 2009 GASB 45 ARC estimates are developed using the July 1, 2007 valuation results as well as the methods and assumptions from that valuation and an investment return assumption of 5%. The methods and assumptions are outlined in the report dated October 1, 2007.

If you have any questions, please call me at 609-452-2488 x212.

Sincerely,



Don Henson, FSA, MAAA  
Consulting Actuary

cc: Mark Rosenberg