


**North Dakota  
Public Employees Retirement System  
Technical Review of Bill Drafts**

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## Summary of Bill Drafts

- Bill Draft 10001.0200 – Allows legislative assembly members to participate in the Retiree Health Insurance Credit Fund
- Bill Draft 10051.0100 – Increases member contributions 2% per year from January 2012 to January 2015 for a total of 8%
- Bill Draft 10052.0100 – Increases employer contributions 2% per year from January 2012 to January 2015 for a total of 8%
- Bill Draft 10053.0100 – Increases contributions 2% per year from January 2012 to January 2015 for a total of 8%, split between members and employers
- Bill Draft 10059.0100 – Miscellaneous technical updates
- Bill Draft 10080.0200 – Establishes a defined contribution (DC) plan for new employees hired after July 31, 2011 (analysis restricted to PERS Main members)

## Bill 1 - Summary of Bill Draft Provisions

- Establishes a monthly retiree health credit to former members of the legislative assembly (or their surviving spouses) who served at least four years in the legislative assembly.
- Benefit is equal to 50% of the monthly credit payable to other eligible members of the Retiree Health Insurance Credit Fund. The monthly retiree health credit would be \$2.50 multiplied by the member's years of service in the legislative assembly, not to exceed 25 years.
- No reduction for age at commencement, unlike PERS members.
- The bill also requires the legislative assembly to contribute monthly to the Retiree Health Insurance Credit Fund an amount determined by the board sufficient to actuarially fund participation by eligible members of the legislative assembly.

## Bill 1 – Actuarial Cost and Technical Analysis

- Analysis used demographic data for the 141 current members of the legislative assembly and 424 former members, 73 of whom are currently enrolled in the State's group health insurance plan. We have assumed only the 73 currently enrolled will continue in the group health insurance plan.
- The assumptions used were those adopted by the Board for Main members in the July 1, 2010 valuation of the Retiree Health Insurance Credit Fund, except for withdrawal and retirement:  
*After every four years of service a member of the legislature who is less than age 65 has a 10% chance of not being re-elected. The retirement assumption is 100% at age 65.*
- This would result in a required monthly payment of \$3,962 by the legislative assembly, which is approximately 1.85% of legislative assembly payroll. This is based on the total salary expenditures of the legislative assembly for the 2007-09 biennium of \$4,716,817.

## Bill 1 – Actuarial Cost and Technical Analysis

- If the cost of the proposed legislation were to be spread over the payroll of all active members in the Retiree Health Insurance Credit Fund, the cost would be less than 0.01% (.0059%) of payroll. This is based on the projected annual payroll from the July 1, 2010 valuation of \$793,633,973.

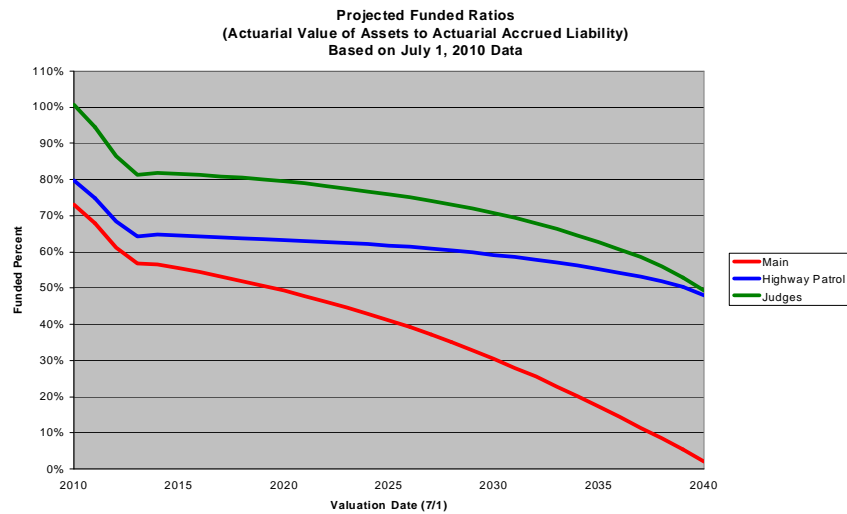
## Bills 51, 52, 53 – Summary of Bill Draft Provisions

Increases contribution rates mandated by statute, four annual increases beginning January 1, 2012 and ending January 1, 2015 for HPRS, Hybrid Plan (Main & Judges) and Defined Contribution Plan

- Bill 51 – Member rates increase by 2% per year up to 8%  
Peace & corrections officers employed by political subdivisions increase by 1% instead of 2%
- Bill 52 – Employer rates increase by 2% per year up to 8%  
Temporary employees in Hybrid Plan and DC plan also increase by 2% per year up to 8%. Board has indicated the rates for the law enforcement plans would increase in a similar manner
- Bill 53 – Member and employer rates increase by 1% each per year up to 4% each  
Peace & corrections officers employed by political subdivisions increase by 0.5% instead of 1%, and temporary employees in Hybrid Plan and DC plan also increase by 2% per year up to 8%

Analysis of these bills is the same in all three cases, with minor variations.

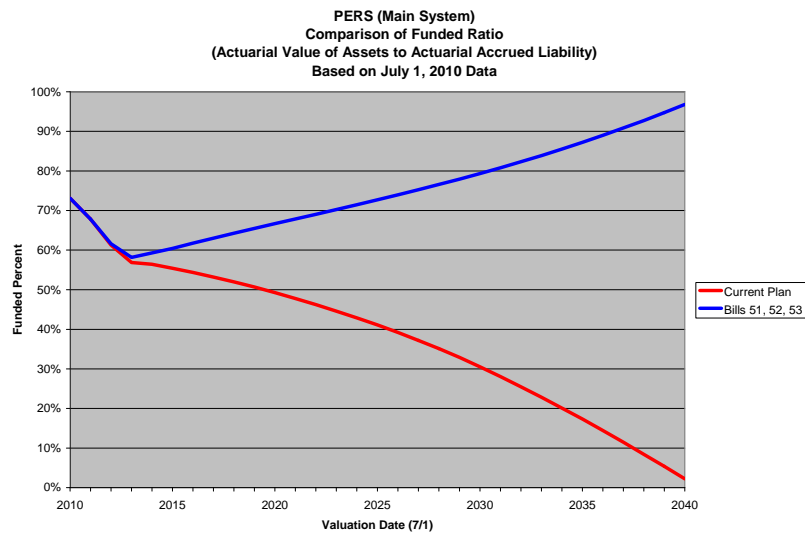
## Bills 51, 52, 53 – Current Plan Projections



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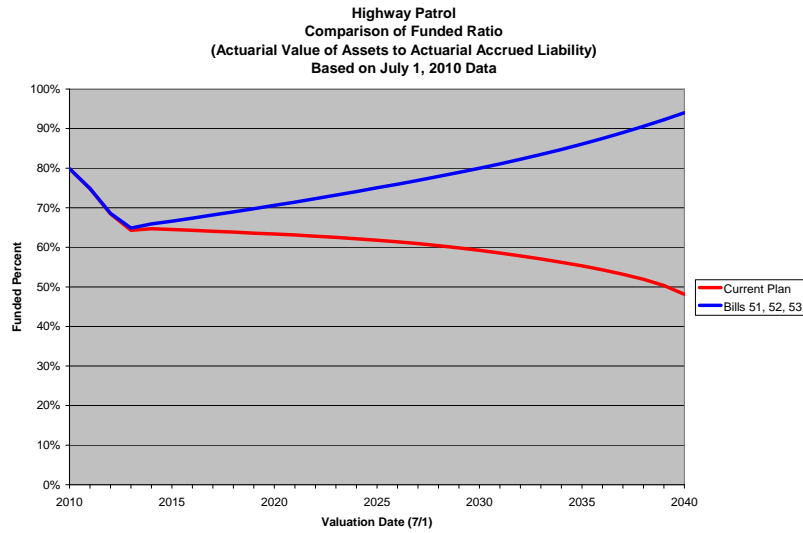
## Bills 51, 52, 53 – Actuarial Cost & Technical Analysis



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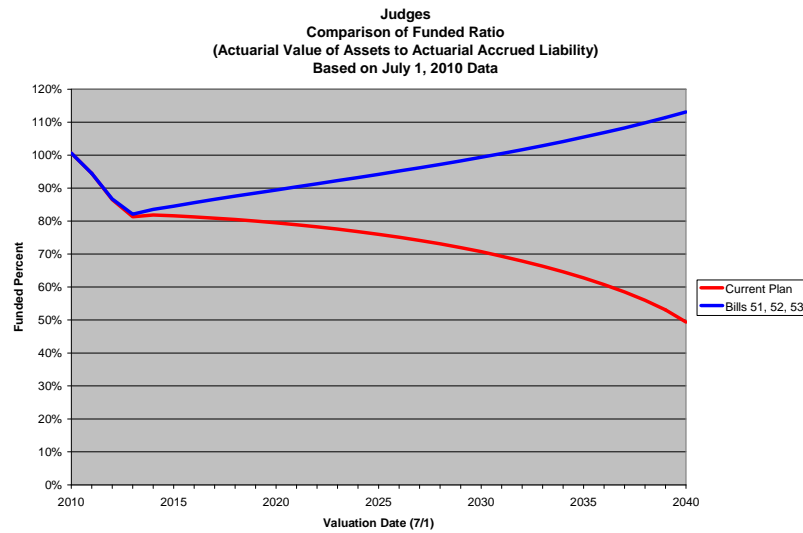
## Bills 51, 52, 53 – Actuarial Cost & Technical Analysis



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## Bills 51, 52, 53 – Actuarial Cost & Technical Analysis



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## Bill 59 – Summary of Bill Draft Provisions

- Clarifies that employees of the university system who are members of the PERS, including members of the Defined Contribution Plan, and are entitled to participate in the alternate retirement programs, may make a special annuity purchase in such alternate retirement program.
- Eliminates the 60-month certain option as a form of payment for surviving spouses in the HPRS. Under current law, surviving spouses in HPRS get to elect either this benefit or a refund of member contributions or monthly payments of 50% of the normal retirement benefit for the surviving spouses lifetime.
- Calculates benefits for members of the HPRS who have membership in more than one retirement system using the highest salary received for 36 months, regardless of whether such months are consecutive, within the last 120 months of employment. This change was previously approved for the calculation of HPRS retirement benefits.
- Changes the pool of candidates for a board member that is elected by retirees to exclude those individuals who are eligible for a deferred vested benefit but not yet retired.
- Changes the normal retirement date for peace officers and correctional officers in the Hybrid Plan to age 55 and three years of employment in such officer positions, regardless of whether employment in such officer positions immediately precedes retirement. Currently the normal retirement date is age 55 and currently working in the retirement plan for the last three years.

## Bill 59 – Summary of Bill Draft Provisions

- For purposes of payment of a member's account balance at death, clarifies that any surviving beneficiary who dies before receiving a distribution of such account balance is treated as predeceasing the member.
- Permits conversion of sick leave to retirement credit under the Hybrid Plan at any time, rather than within 60 days of termination of employment only.
- Clarifies that a surviving spouse of a retiree may continue to participate in the uniform group insurance program by paying the required premium.
- Updates federal compliance provisions of the Hybrid Plan and HPRS.
- Updates the employer contribution pick up process.

**Actuarial Cost Analysis:** This bill would not have a significant actuarial cost impact on the Hybrid Plan or the Highway Patrolmen's Retirement System.

## Bill 80 - Summary of Bill Draft Provisions

- Per anticipated change to bill, analysis restricted to PERS Main Plan .
- Closes participation in the PERS Main Plan and establishes a new Defined Contribution (DC) Plan for employees hired after July 31, 2011.
- New employees of political subdivisions would still be eligible to participate in the Hybrid Plan. Currently, political subdivisions represent approximately 48% of the active population of the Main System.
- Temporary State employees hired after July 31, 2011 would only be able to elect to participate in the DC Plan.
- Contribution rates for new State employees in the DC Plan would be the same contribution rate as statutorily required under the defined benefit plans applicable to the appropriate employee group.
  - 8.12% of payroll for Main System members

## Bill 80 - Actuarial Cost & Technical Analysis

- If the Statutory Contribution Rate were adjusted to achieve full funding, the increase would be greater under the proposed legislation than it would be under the current plan.

Estimated Total\* Contribution Requirements to Achieve Full Funding

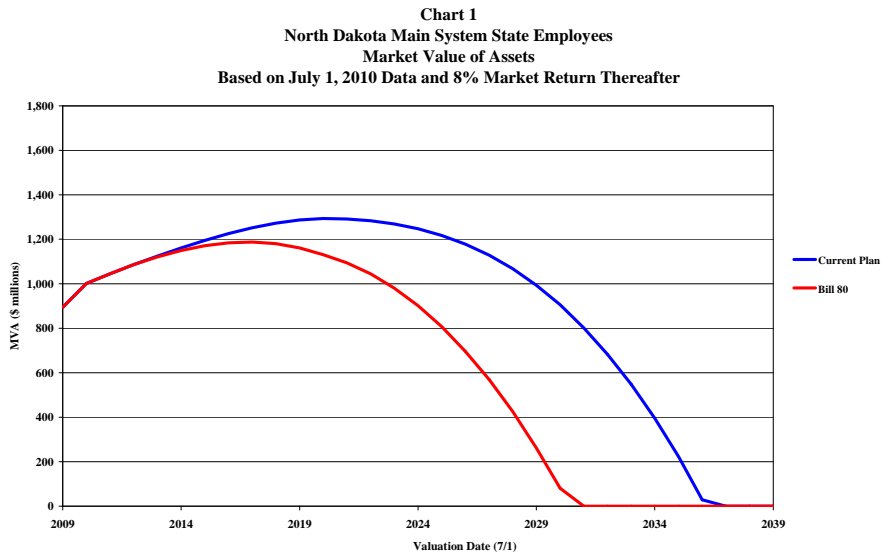
	Current Plan		Closed Plan	
	Amount (000's)	Percentage of Payroll	Amount (000's)	Percentage of Payroll
Main System (State Only)	\$80,252	17.41%	\$110,214	23.91%

\* Employer plus member contributions

- Using current Statutory Contribution Rates, Main System State assets exhausted in 2031 (proposed plan) vs. 2037 (current plan).

## Main System State Employees

Asset Exhaustion Date Based on Current Contributions – Current Plan and Bill 80



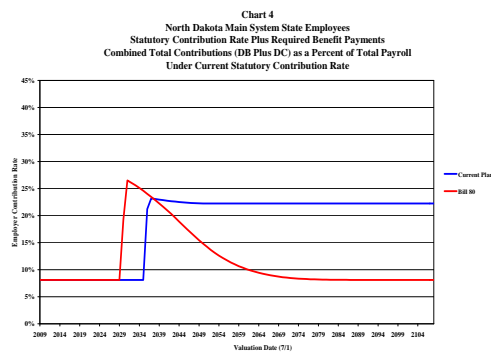
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## Main System State Employees

Total Contributions – Current Plan and Bill 80

- When assets are exhausted, the annual contribution will equal the annual benefit payments
  - Plan's liabilities must still be met
  - Under Bill 80, the employer contributions for the Main System are projected to rise to over 26% of payroll in the year that the funds are depleted
  - Under the Main System's current Plan, the employer contributions are projected to rise to 23% in the year that the funds are depleted



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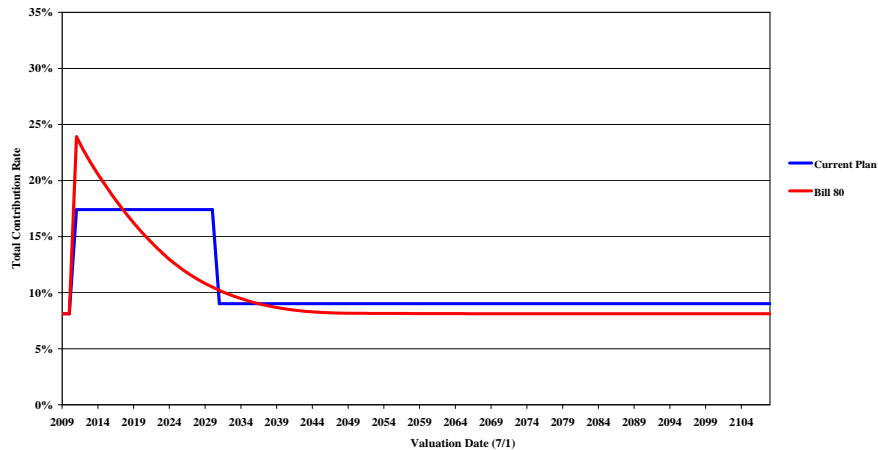
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## Main System State Employees

Contributions Needed to Amortize Plan over 20 Years – Current Plan and Bill 80

Chart 5  
North Dakota Main System State Employees  
Level Prefunding Contribution Rates  
Combined Total Contributions (DB Plus DC) as a Percent of Total Payroll  
20 Year Amortization for Current DB Plan



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## Bill 80 - Level of Retirement Benefits

### ➤ Proposed DC Plan provides lower retirement benefits

- To provide benefits comparable to the Hybrid plan would require greater DC Plan contributions
- Analysis of projected retirement benefits of 241 participants in DC plan compared to DB benefit that would have been earned
- Over 90% of the participants are projected to receive less than 50% of the DB benefit at the 8.12% contribution level

Ratio of DC to DB	Future Contribution Rate		
	Current Plan 8.12%	16.50%	20.00%
Less than 50%	227	59	39
50% - 75%	10	129	107
75% - 100%	3	51	71
100% and Over	1	2	24
Total	241	241	241

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## Bill 80 - Other Issues

- Ancillary benefits under the proposed DC Plan
  - Lower spouse and disability benefits equal to the member's account balance
  - Additional death and disability benefits must be provided outside of the plan
  - Eliminates Portability Enhancement Provision (PEP) – an incentive for supplemental retirement savings under the Hybrid Plan
- Ability to provide Ad Hoc adjustments to retiree benefits would be challenging since contributions to the Hybrid plan will be reduced
- Investment risk
  - Bill 80 shifts the investment risk from the employer to the members
  - Investment education will be needed to help the member with this added responsibility
- Retiree Health Benefits are currently coordinated with retirement eligibility under the Hybrid Plan