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September 13, 2010

Representative Bette Grande, Chair
 Legislative Employee Benefits Committee
 State Capital
 600 East Boulevard
 Bismarck, ND 58505-0360

Re: **Technical Comments – Bill Draft No. 10059.0100**

Dear Representative Grande:

The following presents our analysis of the proposed changes found in Bill Draft No. 10059.0100:

Systems Affected: North Dakota Public Employees Retirement System (PERS) Hybrid Plan, Defined Contribution Plan, Highway Patrolmen's Retirement System (HPRS) and Retiree Health Benefit Fund

Summary: The proposed legislation would make the following important changes:

- 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. (Section 1)
- 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. (Section 2)
- 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 (Section 4)



- 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. (Section 5)
- 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.
- 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. (Section 6)
- 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. (Section 7)
- Clarifies that a surviving spouse of a retiree may continue to participate in the uniform group insurance program by paying the required premium. (Section 9)
- Updates federal compliance provisions of the Hybrid Plan and HPRS. (Sections 3 and 8)
- Updates the employer contribution pick up process. (Section 10)

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

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

General

The bill generally clarifies existing statutory provisions to more accurately reflect actual operations of the Systems or to make the terms of various plans under the Systems more consistent with each other.

Benefits Policy Issues

➤ Adequacy of Retirement Benefits

Providing peace officers and correctional officers with unreduced normal retirement benefits even where retiring from other positions enhances retirement benefits for this limited group of members.

➤ Benefits Equity and Group Integrity

The bill enhances benefit equity between the HPRS and the Hybrid Plan by eliminating the 60-month certain option as a form of payment for surviving spouses in the HPRS and by no longer requiring the highest 36 months of salary to be consecutive for benefits purposes in the HPRS. Similar changes have already been made in the Hybrid Plan.

The proposed defined contribution plan change in Section 1 provides improved equity between the defined contribution plan and the Hybrid plan. The Hybrid plan currently allows members who leave covered employment with PERS and move to covered employment in Higher Education with benefits provided by TIAA/CREF the opportunity to elect to transfer their fund from PERS to TIAA/CREF. When the defined contribution plan was enacted, it did not include this provision. This bill would add that option to the defined contribution plan.

Competitiveness

No impact.

➤ Purchasing Power Retention

No impact.

➤ Preservation of Benefits

By no longer requiring peace officers and correctional officers in the Hybrid Plan to complete the required three years of employment in such officer positions immediately before retirement, this bill preserves the level of accrued benefits for this limited group of members.

➤ Portability

No impact.

➤ Ancillary Benefits

- ◆ No impact.
- ◆ Social Security: No impact.

Funding Policy Issues

➤ Actuarial Impacts

As previously noted, this bill would not have a significant actuarial impact on the Hybrid Plan and the Highway Patrolmen's Retirement System.

➤ Investment Impacts

- ◆ *Cash Flow*: No impact.
- ◆ *Asset Allocation*: The bill does not create new investment asset allocation issues.

Administration Issues

➤ Implementation Issues

This bill does not present any significant implementation issues for the PERS.

➤ Administrative Costs

The bill will have only a minimal impact on the administrative resources of the PERS. If the 60-month certain option for surviving spouses is eliminated, the HPRS will no longer be required to offer a direct rollover for each of the 60 payments made under this form of benefit. Calculating the 36 highest non-consecutive final average salary for HPRS members will require some additional programming and review time.

➤ Needed Authority

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

➤ Integration

No impact.

➤ Employee Communications

The PERS may need to update employee communications material to accurately reflect the following proposed changes in the bill:

- ◆ Eliminating the 60-month certain option as a form of payment for surviving spouses in the HPRS;
- ◆ Calculating benefits for members of the HPRS who have membership in more than one retirement system by using the highest salary received for 36 months, regardless of whether such months are consecutive; and
- ◆ Allowing peace officers and correctional officers in the Hybrid Plan to reach normal retirement date at age 55 by completing the three years of employment in such officer positions, regardless of whether employment in such officer positions immediately precedes retirement.
- ◆ Permitting conversion of sick leave to retirement credit under the Hybrid Plan at any time, rather than within 60 days of termination of employment only.

➤ Miscellaneous and Drafting Issues

This bill may need to be amended to include changes to the federal compliance provisions of the HPRS that have been requested by the IRS as part of the HPRS' favorable determination letter application.

The cost of the plan changes indicated in Bill 10059.0100 were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2009. Calculations were completed under the supervision of Kurt Schneider, ASA, MAAA, Enrolled Actuary.

Please call if you have any questions or comments.

Sincerely,

A handwritten signature in blue ink, appearing to read 'BRAMIREZ', is positioned above the typed name.

Brad Ramirez, FSA, MAAA, FCA, EA
Consulting Actuary