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October 26, 2010

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

Re: **Technical Comments – Bill Draft No. 10001.0200**

Dear Representative Grande:

The following presents our analysis of the proposed changes found in Bill Draft No. 10001.0200:

Systems Affected: Retiree Health Insurance Credit Fund

Summary: The proposed legislation would provide 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 equal to 50% of the monthly credit payable to other eligible members of the Retiree Health Insurance Credit Fund. The monthly retiree health credit to members of the legislative assembly would be calculated at \$2.50 multiplied by the member's years of service in the legislative assembly, not to exceed 25 years. It appears that there would be 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.

Actuarial Cost Analysis:

This bill would not have a significant actuarial cost impact on the Retiree Health Insurance Credit Fund.



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

General

The purpose of the bill is to provide a monthly retiree health credit for a new group of employees in order to help members of the legislative assembly defray the cost of health care after employment, as well as provide for adequate funding of this benefit.

Benefits Policy Issues

➤ Adequacy of Retirement Benefits

The bill has no direct impact on retirement benefits. However, the bill indirectly enhances any retirement benefits for members of the legislative assembly by reducing the need for retirees to use retirement benefits to pay for retiree health benefits.

➤ Benefits Equity and Group Integrity

The bill enhances the benefits equity of retiree health credits for a specific group of State employees, members of the legislative assembly, as compared to other State employees. However, the resulting benefits for members of the legislative assembly would be one-half of the amount of other State employees.

➤ Competitiveness

No impact.

➤ Purchasing Power Retention

As this is a new benefit for members of the legislative assembly, there is no impact on the retention of purchasing power of existing retirement or retiree health benefits.

➤ Preservation of Benefits

No impact.

➤ Portability

No impact.

➤ Ancillary Benefits

No impact.

Funding Policy Issues

➤ Actuarial Impacts

Since the bill requires the legislative assembly to contribute to the Retiree Health Insurance Credit Fund, we have estimated what the contribution requirement would be.

The demographic data for the 141 current members of the legislative assembly was provided by PERS staff and included the gender, date of birth, marital status and years of legislative service. The PERS staff also included demographic data on 424 former members, 73 of which 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 as follows:

- The withdrawal and retirement assumptions were combined into a single assumption, since the only requirement for benefit eligibility is that the plan member be a former member of the legislative assembly with at least four years of legislative service and be enrolled in the State's group health insurance plan.
- The retirement assumption is that 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.

Under these assumptions, the Actuarial Accrued Liability for the current members as of July 1, 2010 would be \$522,191. If this were to be amortized using the current policy of the Retiree Health Insurance Credit Fund for Main members, the required annual contribution would be \$36,444. In addition to this amortization amount, the annual Normal Cost would be \$11,102. 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.

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% of payroll. This is based on the projected annual payroll from the July 1, 2010 valuation of \$793,633,973.

➤ Investment Impacts

- ◆ Asset Allocation: The bill does not create new investment asset allocation issues.
- ◆ Cash Flow Impacts: The bill would have a minimal, immediate, positive impact on cash flow to the Retiree Health Insurance Credit Fund that would be offset by additional benefit payouts in the future.

Administration Issues

➤ **Implementation Issues**

This bill would require the Public Employees Retirement System (PERS) to establish a recordkeeping system for tracking service of members of the legislative assembly.

➤ **Administrative Costs**

The bill would have minimal effect on the PERS' administrative costs. However, the contributions made by the legislative assembly for benefits to its members would increase as noted previously in the actuarial cost analysis.

➤ **Employee Communications**

Employee communications will be necessary to describe the eligibility requirements and monthly amount of the retiree health credit to members of the legislative assembly.

➤ **Miscellaneous and Drafting Issues**

None.

The calculations were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2010 and August 2010 provided by the system and use assumptions adopted by the Board for the July 1, 2010 valuation. 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 'BR Ramirez', with a stylized flourish at the end.

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