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September 13, 2012

Mr. Sparb Collins
Executive Director
State of North Dakota Public Employees' Retirement System
400 East Broadway, Suite 505
P.O. Box 1657
Bismarck, ND 58502

Re: **Technical Comments – Bill Draft No. 13.0100.01000**

Dear Sparb:

The following presents our analysis of the proposed changes found in Bill Draft No. 13.0100.01000:

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

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

- Eliminates the level social security option as a form of payment for new retirees in the Hybrid Plan.
- Updates federal compliance provisions of the Hybrid Plan and HPRS regarding Internal Revenue Code sections 401(a)(17), 401(a)(9), 401(a)(31) and 415(b) and (d) in North Dakota Century Code (NDCC) sections 39-03.1-11.2 and 54-52-28.
- Establishes a new section in NDCC chapter 54-52.6 for the Defined Contribution Plan regarding federal compliance provisions under Internal Revenue Code sections 401(a)(7), 401(a)(17), 401(a)(9), 401(a)(31) and 415(b) and (d).
- Clarifies the normal retirement date in the Hybrid Plan for national guard security officers and firefighters, peace officers and correctional officers of a political subdivision and peace officers in the bureau of criminal investigation to age 55 and three years of employment in such positions, regardless of whether employment in such positions immediately precedes retirement. Currently, the normal retirement date is age 55 with



completion of three consecutive years of service in that position immediately preceding retirement.

- For purposes of payment of a member's account balance at death from the Defined Contribution Plan, clarifies rules for beneficiaries, including: (1) how a member may designate a nonspouse beneficiary with spousal consent; (2) treatment of multiple beneficiaries and deceased beneficiaries and the lack of a designated beneficiary; and (3) that surviving spouses may only elect a periodic payment of the account balance (including retiree health insurance credits) if spouse is the sole refund beneficiary.
- Permits the Board to use fees collected from service providers to fund administrative expenses of the deferred compensation program.
- Permits the Board to pay for third-party vendor administration services of the flex comp program from revenue generated by that program.
- Updates the committee name in the PERS and HPRS statutes.

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 would generally clarify 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 national guard security officers and firefighters, peace officers and correctional officers in the Hybrid Plan 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 would enhance benefit equity between the HPRS and the Hybrid Plan by eliminating the level social security option as a form of payment in the Hybrid Plan.

The proposed Defined Contribution Plan changes regarding designated beneficiaries would improve equity between the Defined Contribution Plan and the Hybrid Plan. The Hybrid Plan currently only permits a surviving spouse to elect to receive a monthly benefit (including retiree health insurance credits) if the spouse is the sole designated beneficiary and elects a lifetime benefit payment option.

➤ Competitiveness

No impact.

➤ Purchasing Power Retention

No impact.

➤ Preservation of Benefits

By no longer requiring national guard security officers and firefighters, 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 would preserve the level of accrued benefits for this limited group of members.

➤ Portability

No impact.

➤ Ancillary Benefits

- ◆ No impact.
- ◆ *Social Security*: If the Hybrid Plan's level social security option is eliminated, retirees would be required to use other methods of leveling retirement income amounts before and after commencement of Social Security benefits. The Hybrid Plan offers a 10-year and 20-year certain option and a partial lump sum option that may be useful for this purpose.

Funding Policy Issues

➤ Actuarial Impacts

This bill would have no material actuarial impact on the Hybrid Plan or the Highway Patrolmen's Retirement System.

➤ Investment Impacts

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

Administration Issues

➤ Implementation Issues

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

➤ Administrative Costs

The bill would have no impact on the administrative resources of the PERS. If the level social security option is eliminated, PERS would no longer need to track ages of members receiving this form and then send a communication regarding the change in benefit amount at estimated Social Security commencement date.

➤ 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 and/or retirement benefit application forms to accurately reflect the following proposed changes in the bill:

- ♦ Eliminating the level social security option as a form of payment in the Hybrid Plan;
- ♦ Allowing national guard security officers and firefighters, 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; and
- ♦ New rules regarding beneficiary designations in the Defined Contribution Plan, including the requirement that the surviving spouse be the sole refund beneficiary in order to be permitted to elect a periodic payment from the Plan.

➤ Miscellaneous and Drafting Issues

None.

The calculations were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2011 provided by the system and use assumptions adopted by the Board for the July 1, 2011 valuation. Calculations were completed under the supervision of Tammy Dixon, FSA, MAAA, EA.

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Please call if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'BRAMIREZ', with a long horizontal flourish extending to the right.

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

cc: Tammy Dixon
Melanie Walker

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