NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Wednesday, October 26, 2016
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Karen K. Krebsbach, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Karen K. Krebsbach, Dick Dever, Ralph Kilzer, Carolyn C. Nelson, Erin Oban, Nicole Poolman; Representatives Pamela Anderson, Randy Boehning, Jason Dockter, Gary Kreidt

Members absent: Representatives Jessica Haak, Vernon Laning, Kenton Onstad

Others present: See Appendix A

It was moved by Senator Dever, seconded by Senator Nelson, and carried on a voice vote that the minutes of the September 1, 2016, meeting be approved as distributed.

TEACHERS' FUND FOR RETIREMENT

Ms. Kim Nicholl, Senior Vice President, The Segal Group, Inc., presented information (Appendix B) regarding the Teachers' Fund for Retirement (TFFR) valuation process and the July 1, 2016, actuarial valuation of TFFR (Appendix C). She said in 2016 TFFR had approximately 10,800 active members with an average age of 42.3 years. She said the plan had over 8,200 retirees or beneficiaries and the total annual benefits paid was approximately $187.2 million. She said the net pension liability was approximately $1.47 billion as of June 30, 2016, an increase from the $1.31 billion net pension liability as of June 30, 2015. She said the funded ratio, as determined using the actuarial value of assets, increased from 61.6 percent as of June 30, 2015, to 62.1 percent as of June 30, 2016.

Mr. Matt Strom, Vice President, The Segal Group, Inc., presented additional information (Appendix D) regarding the July 1, 2016, actuarial valuation of TFFR. He said the market value of TFFR plan assets decreased from $2.14 billion as of June 30, 2015, to $2.12 billion as of June 30, 2016. He said the actuarial value of TFFR plan assets increased from $2.13 billion to $2.23 billion during that same time period. He said the actuarial value differs from the market value due to the use of a 5-year smoothing method which delays the full recognition of investment gains and losses.

In response to a question from Representative Kreidt regarding the use of a 24 percent rate of return for an example included in the presentation, Mr. Strom said the percentage was used to demonstrate the impact of a relatively large 1-year increase or decrease in the rate of return.

Ms. Nicholl presented information (Appendix E) on the actuarial review of the July 1, 2015, actuarial valuation performed by Cavanaugh Macdonald Consulting, LLC. She said the review identified The Segal Group, Inc., has provided an appropriate assessment of the health and funding requirements of TFFR. She said Cavanaugh Macdonald Consulting, LLC, did suggest certain changes be made by The Segal Group, Inc., including providing an actuarial report in addition to the presentation and conducting a study of retirement experience with results weighted by liability. She said The Segal Group, Inc., in consultation with TFFR, will be implementing the suggestions.

Ms. Fay Kopp, Chief Retirement Officer, Teachers' Fund for Retirement, presented information (Appendix F) regarding the review of the July 1, 2015, TFFR actuarial valuation report. She said TFFR Board policy requires an actuarial audit or review of TFFR's actuarial valuation be performed at least every 5 years. She said the TFFR Board and the Retirement and Investment Office staff were pleased with the results of the review. She distributed copies of the review report (Appendix G) to the committee.

In response to a question from Senator Dever, Ms. Kopp said no issues which would significantly affect the actuarial status of the TFFR plan were identified in the review. She said the review was in-depth and she is confident in the results.

In response to a question from Representative Kreidt, Ms. Kopp said TFFR has had discussions with The Segal Group, Inc., regarding potential changes resulting from the review.

EMPLOYEE BONUSES

Ms. Becky Sicble, Interim Director, Human Resource Management Services, Office of Management and Budget, presented information (Appendix H) regarding the effectiveness of the employee retention bonus program. She said of the employees who received a retention bonus during the 2013-15 biennium, 99 percent were still employed with the state as of October 1, 2016. She said the direct replacement costs for one employee can reach as high as 60 percent of an employee's annual salary, and total associated costs of turnover are up to 200 percent of an employee's annual salary. She said she has had discussions with various agency human resources personnel regarding retention bonuses. She said the human resources personnel stated they believe the bonuses assist employee retention and their agencies' would have incurred significant replacement costs and business and service delays if the employees had not been retained.

Ms. Sharon Schiermeister, Chief Operating Officer and Finance Manager, Public Employees Retirement System, presented information (Appendix I) regarding the effect bonuses have on retirement plan contributions. She said recruitment and retention bonuses are not eligible for consideration as salary, and therefore no retirement contributions are paid on these bonuses. She said retirement contributions are paid on other types of bonuses, including performance bonuses.

In response to a question from Representative Anderson, Ms. Schiermeister said the bonuses paid to individuals appointed by the Governor in fiscal year 2015 were retention bonuses and no retirement payments relating to the bonuses were made.

UNIFORM GROUP HEALTH INSURANCE PLAN

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, presented information (Appendix J) regarding the wellness incentives program associated with the Public Employees Retirement System (PERS) uniform group health insurance plan. He said the federal Internal Revenue Service (IRS) recently issued a memorandum which advises that cash payments made to employees for gym memberships and other cash-equivalent incentives for participation in a wellness program are taxable income to the employee. He said the $250 Dakota Wellness Program incentive must be considered taxable income in the year received by a participant. Due to tax and payroll issues arising from this clarification issued by the IRS, the PERS Board has decided to temporarily suspend the Dakota Wellness Program, beginning January 1, 2017.

In response to a question from Senator Oban, Mr. Collins said the taxing of benefits associated with the Dakota Wellness Program is an IRS decision and is not the result of Sanford Health Plan providing the state employee health insurance benefits rather than Blue Cross Blue Shield of North Dakota (BCBSND).

In response to a question from Representative Boehning, Mr. Collins provided information regarding the uniform health insurance renewal with Sanford Health Plan. Mr. Collins said the PERS Board has approved renewal of the uniform group insurance contract with Sanford Health Plan and the premium increase for active state employees will be 17.4 percent for the 2017-19 biennium. He said the increase in premiums will result in an increase in general fund payments for employee health insurance of approximately $30 million. He said there are a number of options available to reduce the percentage increase in premiums without losing the grandfathered status of the uniform group insurance plan.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ms. Amy Williams, Gabriel, Roeder, Smith & Company Holdings, Inc., presented information (Appendix K) regarding the PERS valuation process and the July 1, 2016, actuarial valuation of the PERS main system, judges' retirement fund, National Guard retirement fund, Highway Patrolmen's retirement fund, and the retiree health benefits fund. She said in 2016 the PERS main plan had approximately 22,760 active members with an average age of 46.5 years. She said the main plan had 10,394 retirees or beneficiaries and the total monthly benefits paid was approximately $11.6 million. She said the funded ratio for the PERS main plan, as determined using the actuarial value of assets, decreased from 68.1 percent as of June 30, 2015, to 66.1 percent as of June 30, 2016. The market value of the combined assets for PERS administered retirement plans, including the PERS main system, judges' retirement fund, law enforcement, and Highway Patrol, increased from $2.44 billion as of June 30, 2015, to $2.48 billion as of June 30, 2016. The actuarial value of the combined assets increased from $2.15 billion to $2.33 billion in that same time period. The net pension liability was approximately $1.00 billion as of June 30, 2016, an increase from $694 million as of June 30, 2015.

In response to a question from Representative Boehning regarding the retiree health care credit, Mr. Collins said retirees receive a monthly health insurance credit of $5 per year of service. He said about 80 percent of retirees receive the credit.

BILL DRAFTS

Bill Draft No. 118

Mr. Collins presented information (Appendix L) regarding Bill Draft No. 118 [17.0118.02000], which decreases employee contributions under PERS for peace officers employed by the Bureau of Criminal Investigation and makes other technical adjustments. He said the actuarial analysis identified the bill draft would, after 30 years, result in a reduction of the actuarial funded ratio of the Law Enforcement with Prior Main System Service System from 123.5 percent to 122.9 percent.

It was moved by Senator Nelson, seconded by Senator Dever, and carried on a roll call vote that the committee give Employee Benefits Programs Committee Bill Draft No. 118 a favorable recommendation. Senators Krebsbach, Dever, Kilzer, Nelson, Oban, and Poolman and Representatives Anderson and Dockter voted "aye." Representative Boehning voted "nay."

Bill Draft No. 172

Mr. Collins presented information (Appendix M) regarding Bill Draft No. 172 [17.0172.01000], which eliminates the renewal process for the uniform group health insurance contract and limits the contract to 2 years. He said the bill draft would not have an actuarial impact on the PERS fund. He said the bill draft could potentially impact the willingness of new insurance carriers to bid on the insurance plan and could have the unintended effect of reducing future competition among health insurance carriers for the PERS plan. He said requiring a 2-year bid process rather than a 6-year bid process could result in insurance carriers being less aggressive in the bidding process. He said other statutory changes may be required if the bill is approved and the PERS Board would need to solicit bids on the health plan before the end of the 2015-17 biennium.

In response to a question from Representative Anderson, Mr. Collins said requiring an open bidding process every 2 years would result in additional expenses for PERS.

In response to a question from Representative Boehning, Ms. Megan Smith Houn, Blue Cross Blue Shield of North Dakota, said she believes the BCBSND premiums for small group plans will have an annual increase of less than 5 percent.

Senator Nelson suggested the bill receive an unfavorable committee recommendation.

Senator Dever expressed concern regarding the emergency clause in the bill draft. He said he believes it was the intent of the 2015 Legislative Assembly that the health insurance contract be renewed unless there is an apparent reason not to renew. He said he does not believe the possibility of obtaining a slightly lower bid is a valid reason not to renew.

Representative Boehning said if the bill is approved early in the legislative session, PERS would have time to solicit bids for the 2017-19 biennium. He said any additional laws requiring certain processes for renewal can also be changed. He suggested the bill draft receive a favorable recommendation.

Senator Dever expressed concern regarding a retrospective change in law that affects a contract currently in place.

Senator Kilzer expressed support for an unfavorable recommendation. He said frequent changes in insurance carriers make it difficult for the insurance carriers to provide consistent services since it is difficult for the carriers to retain employees.

It was moved by Senator Nelson, seconded by Senator Oban, and carried on a roll call vote that the committee give Employee Benefits Programs Committee Bill Draft No. 172 an unfavorable recommendation. Senators Krebsbach, Dever, Kilzer, Nelson, Oban, and Poolman and Representatives Anderson and Dockter voted "aye." Representative Boehning voted "nay."

Mr. Collins distributed an updated actuarial report (Appendix N) for Bill Draft No. 119 [17.0119.01000], which increases employer and employee contributions under the PERS defined benefit and defined contribution plans. The bill draft received a favorable recommendation from the committee at its September 1, 2016, meeting. He said PERS requested the bill draft actuarial report be updated to reflect the updated actuarial valuation of the PERS administered retirement plans. He said the updated actuarial valuation of the PERS plans did not significantly change the actuarial report for Bill Draft No. 119, but it did confirm the bill draft is necessary for the retirement plan to eventually be 100 percent funded.

In response to a question from Representative Boehning regarding state payment of 4 percent of the 7 percent retirement contribution, Mr. Collins said he would provide the committee with additional information regarding the cost to the state.

It was moved by Senator Nelson, seconded by Senator Dever, and carried on a voice vote that the Chairman and the Legislative Council staff be requested to prepare a report and present the report to the Legislative Management.

No further business appearing, Chairman Krebsbach adjourned the meeting at 2:35 p.m.

Alex J. Cronquist
Fiscal Analyst

ATTACH:14