

TESTIMONY OF SCOTT MILLER

Senate Bill 2045 – Deferred Compensation Expenses

Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I appear before you today in support of Senate Bill 2045.

During the hearing yesterday, Committee members asked a number of questions for which we did not have answers. We hope the below information provides what you need.

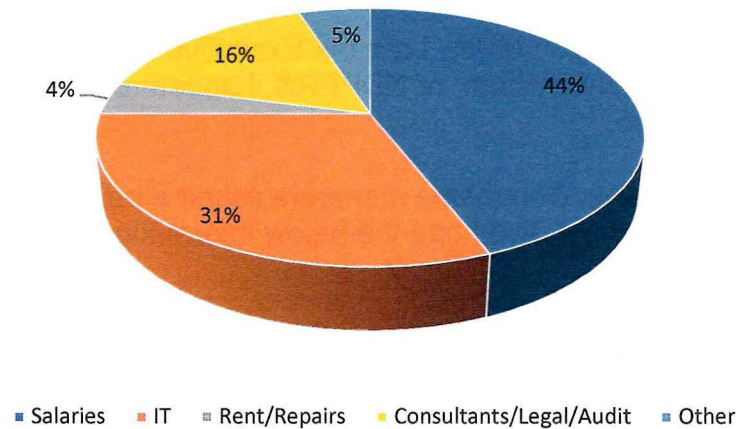
Deferred Compensation Plan Expenses:

The administration of our Section 457 Deferred Compensation Plan is both more complex and more sophisticated than most people think. We cannot simply insert a deduction into an employee's pay stub and have that amount routed to a provider, and we cannot do so for one simple reason: we are not the employer.

Instead, we are the administrator of a complex deferred compensation plan overseeing over \$320 million in assets for over 14,000 active and retired participants who are from 227 different employers and who have their assets with one or more of our 14 active and inactive providers. In performing that administration, we are tasked with a myriad of responsibilities, including: contracting and working with our 227 employers; contracting with providers; receiving and processing payroll reports on a daily basis; reconciling over \$320 million in assets on a quarterly basis for non-companion plan providers and monthly for our companion plan provider; entering the registration information for our 14,000 active and retired participants, running daily files to each provider, and being available to our participants and providers for questions and assistance; monitoring the investment options to insure we have a prudent and diverse mix of options; and ensuring we are in compliance with the Internal Revenue Code and NDCC provisions.

Those responsibilities take a great deal of employee time, a significant amount of IT resources, and the overhead necessary to administer such a complex plan. The percentage breakdown of all of those costs is in the below chart.

Deferred Comp Admin Expense Allocation



Because our office is responsible for the administration of a wide variety of benefits, very few staff are fully dedicated to a specific program. For instance, the 1.0 FTE equivalent shown below is allocated between four different individuals, three that each spend 10% of their day and one that spends 70% of their day on the deferred compensation plan. The total FTE breakdown for our deferred compensation program administration is:

Accountants: 1 – process incoming payroll reports from our 227 employers, reconcile over \$320 Million in assets from 14 different providers

Admin Services: .3 – process incoming and outgoing mail and scan records to member files

Member Services: .3 – take incoming phone calls with questions from members

IT: .15 – process payment files between our business system and the third party administrators

Administrators: .8 – ensure plan compliance

Enrollments: 1 – enter new hire information and elections and process annual enrollment elections

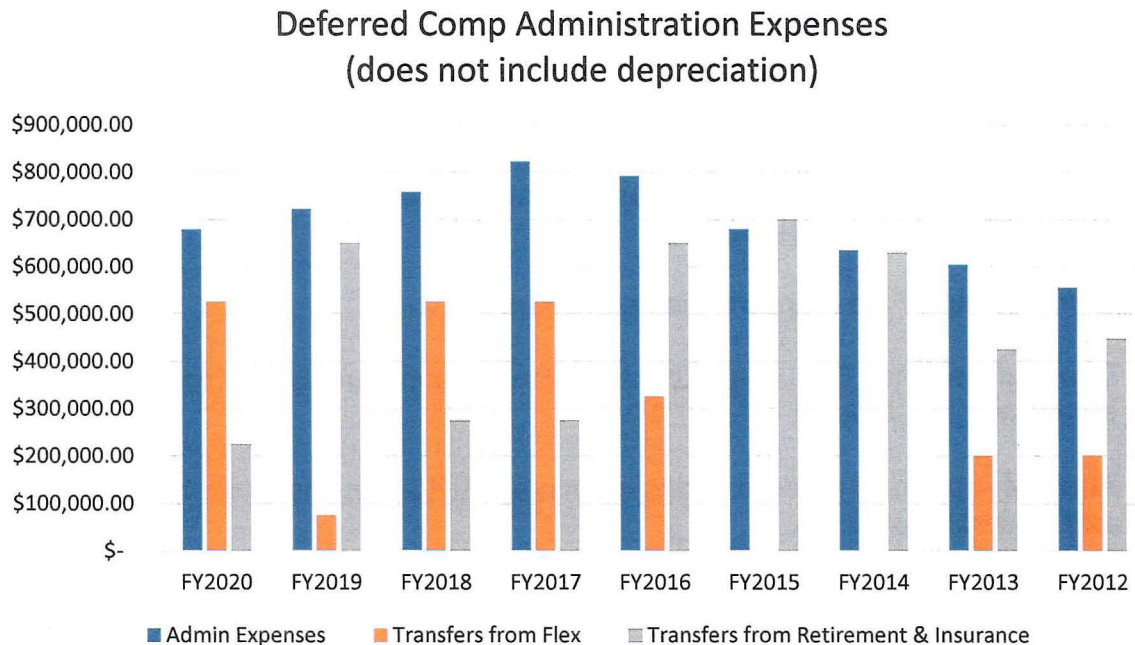
Communications: .3 – communicate with our membership and coordinate efforts with the TPA

Audit: .4 – perform random audits to ensure PERS complies with Statutory and Federal guidelines and PEP vesting

Investment Subcommittee Staff: .35 – staffs investment subcommittee, including providing meeting notices and creating meeting documents, tracking and monitoring fund performance

Total – 4.6 FTE

As I testified yesterday, the current statutory scheme for paying our administrative expenses is to first use the remaining balance of the monies available from the FlexComp program. If we need additional monies, we deduct an equal amount from both the health insurance reserves and the incoming retirement plan contributions. You can see the amounts from each resource in the graph below.



The reason we proposed SB 2045 is to have the people who are participating in the deferred compensation plan pay for the administration of that plan. Not all of our retirement plan or health plan participating employers also participate in the deferred compensation plan. But they and their employees are helping to pay the deferred compensation plan's administrative expenses. This will correct that. SB 2045 will implement the same cost funding structure as we have in the Defined Contribution plan for our deferred compensation plan, and have the participants pay for the cost of its administration.

Flexible Compensation Program Expenses:

The flexible compensation program, or "FlexComp", has 82 different participating employers and over 2,400 participants. Claims are processed by a third party administrator, ASI Flex. We pay ASI Flex \$2.35 per participant per month to process claims, or about \$5,600 a month. But even with their help, it is still a complex program to administer, primarily because it is not capable of being automated to the same level as the deferred compensation program. With that in mind, the below is the FTE breakdown for our FlexComp administration:

Accountants: .3 – process incoming payroll reports, record deposits

Admin Services: .55 – process incoming and outgoing mail, follow up on uncashed checks each month, and scan records to member files

Member Services: .3 – take incoming phone calls with questions from members

IT: .5 – process eligibility and payment files between our business system and the third party administrator, as well as process incoming files from employers not on PeopleSoft

Administrators: .35 – ensure plan compliance

Communications: .05 – communicate with our membership and coordinate efforts with the TPA

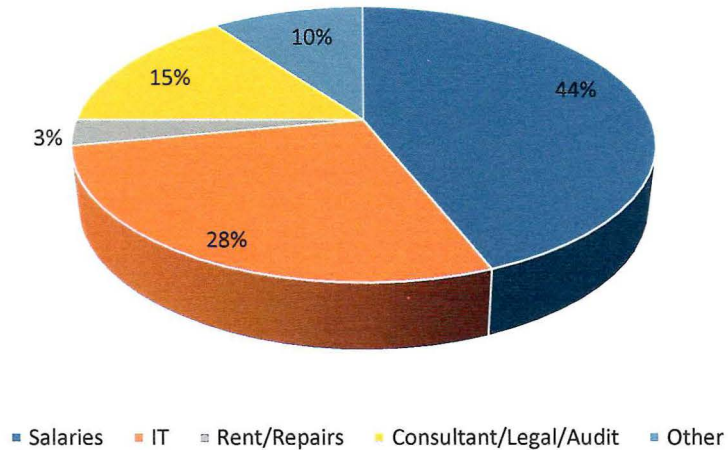
Audit: .4 – perform random audits to ensure PERS complies with Statutory and Federal guidelines

Program Monitor: .05 – non-discrimination testing and project manager

Total – 2.5 FTE

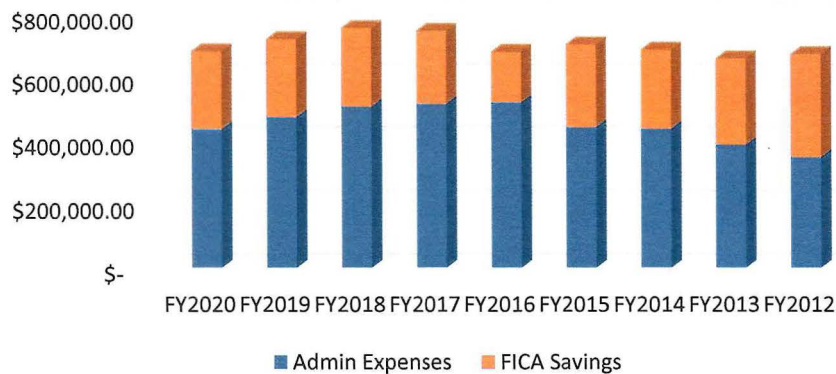
The expense breakdown is as follows:

FlexComp Admin Expense Allocation



Our total expenses for FlexComp administration are in blue below; the orange shows the total amount of FICA savings available to pay those expenses, and the amount of orange you can see is what is available to help pay deferred compensation administrative expenses when excess cash over expected FlexComp claims exist.

Flexcomp Administrative Expenses (does not include depreciation)



Deferred Compensation Admin Expenses

	Admin Expenses	Transfers from FlexComp	Transfers from Retirement & Insurance
FY2020	\$ 677,951.00	\$ 525,000.00	\$ 225,000.00
FY2019	\$ 720,616.00	\$ 75,000.00	\$ 650,000.00
FY2018	\$ 756,705.00	\$ 525,000.00	\$ 275,000.00
FY2017	\$ 821,297.00	\$ 525,000.00	\$ 275,000.00
FY2016	\$ 790,021.00	\$ 325,000.00	\$ 650,000.00
FY2015	\$ 678,144.00	\$ -	\$ 700,000.00
FY2014	\$ 633,935.00	\$ -	\$ 630,000.00
FY2013	\$ 603,831.00	\$ 200,000.00	\$ 425,000.00
FY2012	\$ 554,868.00	\$ 200,911.00	\$ 448,000.00

FlexComp Admin Expenses

	Admin Expenses	FICA Savings	Transfers to Deferred Comp
FY2020	\$ 433,184.00	\$ 806,833.00	\$ 525,000.00
FY2019	\$ 472,056.00	\$ 722,629.00	\$ 75,000.00
FY2018	\$ 505,854.00	\$ 758,280.00	\$ 525,000.00
FY2017	\$ 514,179.00	\$ 749,413.00	\$ 525,000.00
FY2016	\$ 518,383.00	\$ 681,806.00	\$ 325,000.00
FY2015	\$ 440,050.00	\$ 705,660.00	\$ -
FY2014	\$ 435,188.00	\$ 688,899.00	\$ -
FY2013	\$ 383,968.00	\$ 660,757.00	\$ 200,000.00
FY2012	\$ 345,404.00	\$ 675,046.00	\$ 200,911.00