

# TESTIMONY OF NDPERS

## Senate Bill 2023

Good morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS, and am here today to provide you with an overview of our agency as well as our work efforts.

With me today is Derrick Hohbein, our Chief Operating/Financial Officer, and he will provide you an overview of our budget request.

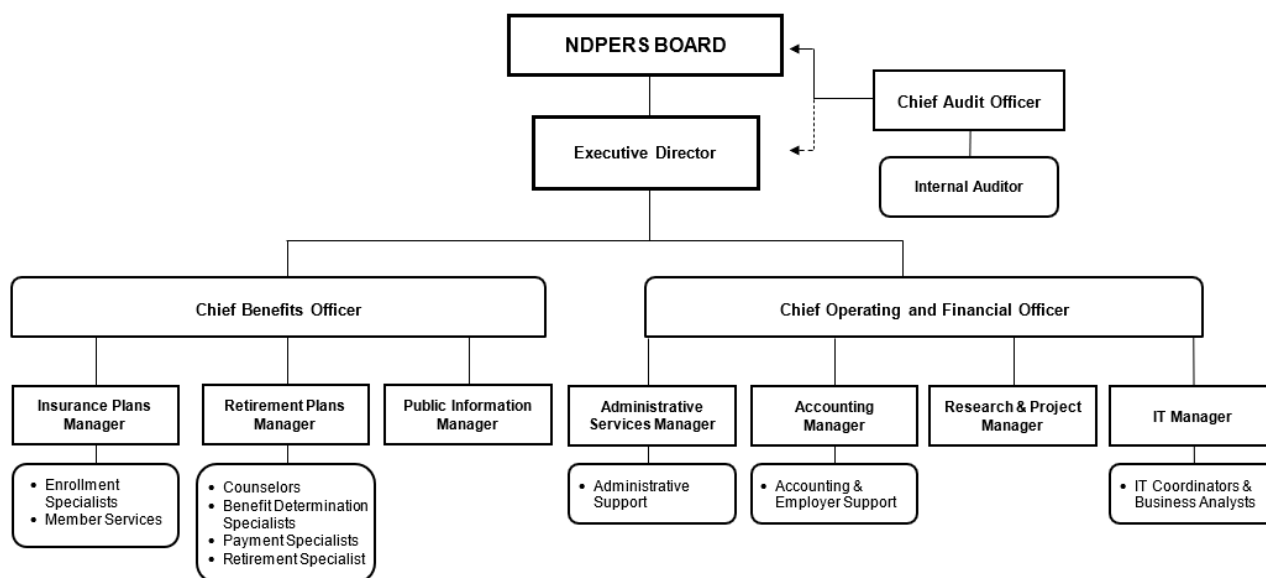
### **Agency Overview**

First let me start by providing an overview of our agency. PERS is directed by a nine member Board composed of the following members:

## NDPERS BOARD

 Mona Rindy Chair	 Casey Goodhouse Member Elected	 Adam Miller Member Elected	 Jason Grueneich Member Elected	 Yvonne Smith Member Elected
 Representative Gretchen Dobervich	 Representative Greg Stemen	 Claire Ness AG Appointee	 Dirk Wilke – State Health Designee	

The Board oversees a staff that has the following administrative structure:



The Board oversees the administration of the following North Dakota Century Code chapters: 39-03.1 (Highway Patrol Retirement), 52-11 (Job Service Retirement Plan), 54-52 (Main PERS Plan), 54-52.1 (Group Insurance Program), 54-52.2 (Deferred Compensation Plan), 54-52.3 (Pretax Benefits Program), and 54-52.6 (Defined Contribution Retirement Plan). As you can see, the PERS program responsibilities fall under two broad categories – retirement and group insurance.

Section 54-52-02 states that the overall mission for the retirement program is “to provide for the payment of benefits to state and political subdivision employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high grade men and women.” Similarly, section 54-52.1-02 establishes the overall mission for the group insurance plan as follows: “In order to promote the economy and efficiency of employment in the state’s service, reduce personnel turnover, and offer an incentive to high grade individuals to enter and remain in the service of state employment, there is created a uniform group insurance program”.

Concerning the retirement programs, the following table gives you an overview of the programs and some statistical information:

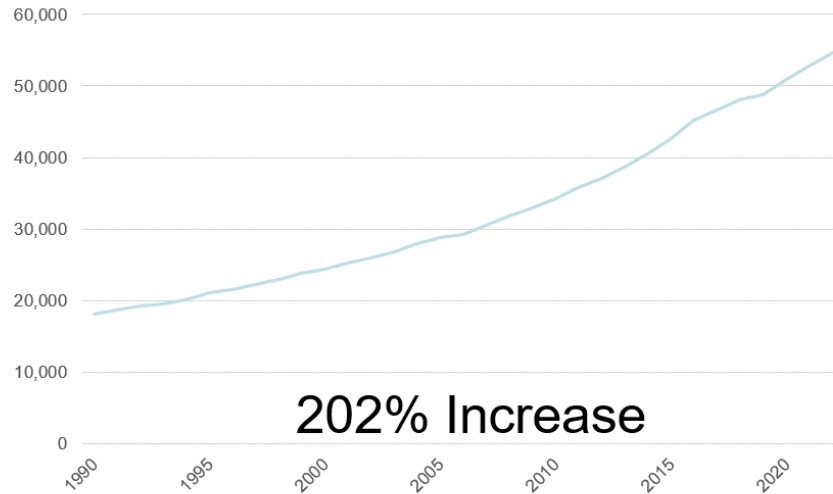
January 2022	RETIREMENT PROGRAMS									
	MANAGED AND ADMINISTERED BY NDPERS									
	<i>TOTAL</i>	<i>Main</i>		<i>Public</i>	<i>Highway</i>	<i>Job</i>	<i>DEFINED</i>	<i>DEFERRED</i>	<i>HEALTH</i>	
	<i>RETIREMENT</i>	<i>System</i>	<i>Judges</i>	<i>Safety</i>	<i>Patrol</i>	<i>Service</i>	<i>CONTRIBUTION</i>	<i>COMP</i>	<i>CREDIT</i>	
									<i>(RHIC)</i>	
<b>PARTICIPATING EMPLOYERS</b>										
State	97	97	1	5	1	1	97	97		97
Counties	52	52		20				34		52
School Dist	129	129						28		129
Cities	90	90		22				39		90
Others	90	90		1				46		90
TOTAL	<i>458</i>							<i>244</i>		<i>458</i>
<b>EMPLOYEES</b>										
State	10,361	9,992	57	79	151	0	82	6,841		8,674
Counties	4,242	3,695		546			1	821		3,557
School Dist	7,351	7,350					1	105		5,113
Cities	2,814	2,265		546			3	419		2,273
Others	846	834		12				341		641
Subtotal	25,614	24,136	57	1,183	151	0	87	8,527		20,258
Retirees	14,000	13,361	63	151	135	181	109			13,697
Subtotal	<b>39,614</b>	<b>37,497</b>	<b>120</b>	<b>1,334</b>	<b>286</b>	<b>181</b>	<b>196</b>	<b>8,527</b>		<b>33,955</b>
Deferred Members	15,020	14,477	1	493	49	0				7,112
TOTAL	<i>54,634</i>	<i>51,974</i>	<i>121</i>	<i>1,827</i>	<i>335</i>	<i>181</i>	<i>196</i>	<i>8,527</i>		<i>41,067</i>

As you can see, PERS is responsible for the administration of 10 different retirement programs. The Job Service Retirement Plan was assigned to our agency by the 2001 legislative assembly. The Public Safety Plan for political subdivisions was added by the 2003 legislative assembly and is divided into two plans, those with past service and those without. This plan has since been expanded to cover certain State employees and, most recently, was expanded to include firefighters during the 2017 session.

The optional defined contribution plan for non-classified state employees was assigned to our agency in 1999. About 1% of eligible employees choose the DC plan. Eligibility for this plan was expanded to provide all new State employees with this option effective August 1, 2013 through July 31, 2017. Less than 3% of eligible employees chose the DC plan in that period. You will note the largest retirement plan we administer is the Main/Hybrid retirement system which provides services to not only the State, but also to political subdivisions. In this plan, about 41% of the active members are State employees and 59% are political subdivision employees. School districts are the second largest group followed by counties and cities. We continue to see growth as a result of political subdivisions joining the retirement plan. In the last two years we have added 12 new employer groups into our Defined Benefit plans, which shows that this continues to be an effective recruiting tool for our state.

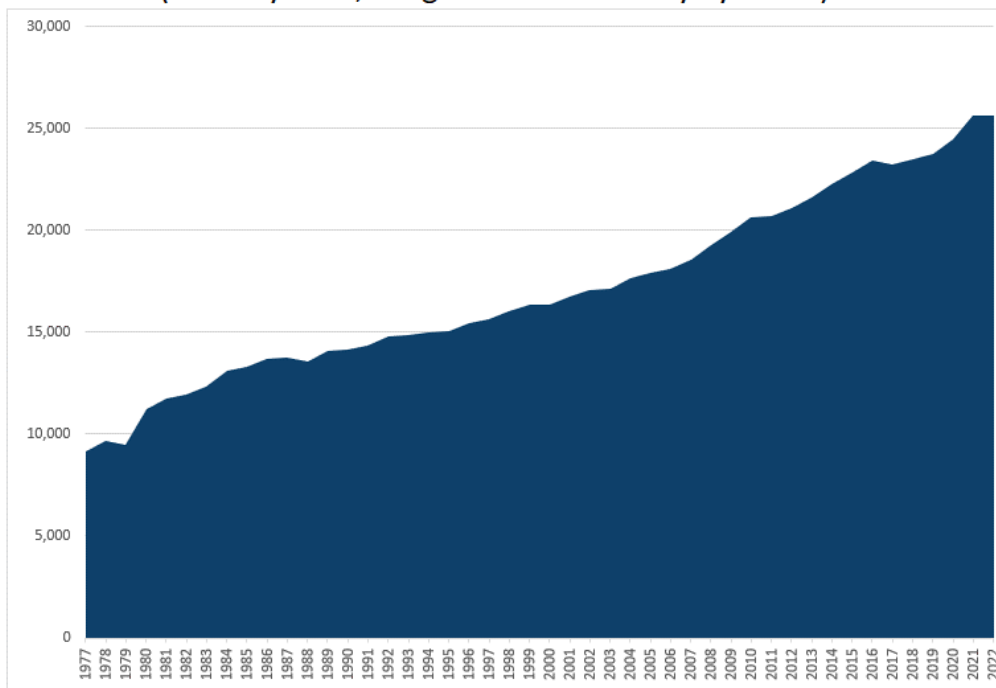
Some historical statistics about the retirement plan include membership:

## NDPERS Retirement Plan Membership (Active, Inactive, Retirees & Beneficiaries)



Of this, the number of active members has grown:

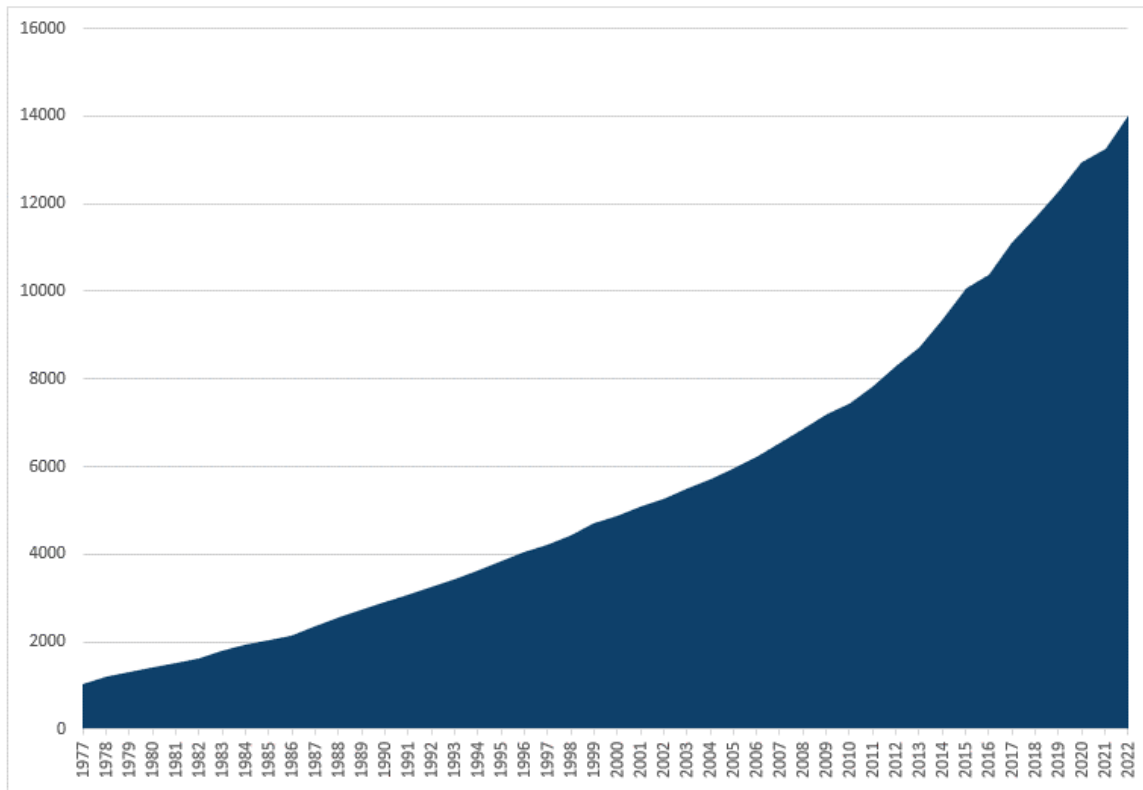
## NDPERS Retirement Actives (Main System, Judges & Public Safety Systems)



The number of retired members has grown as well, and at an even greater rate than our active members:

## NDPERS Retirement Retirees

(Main System, Judges & Public Safety Systems)

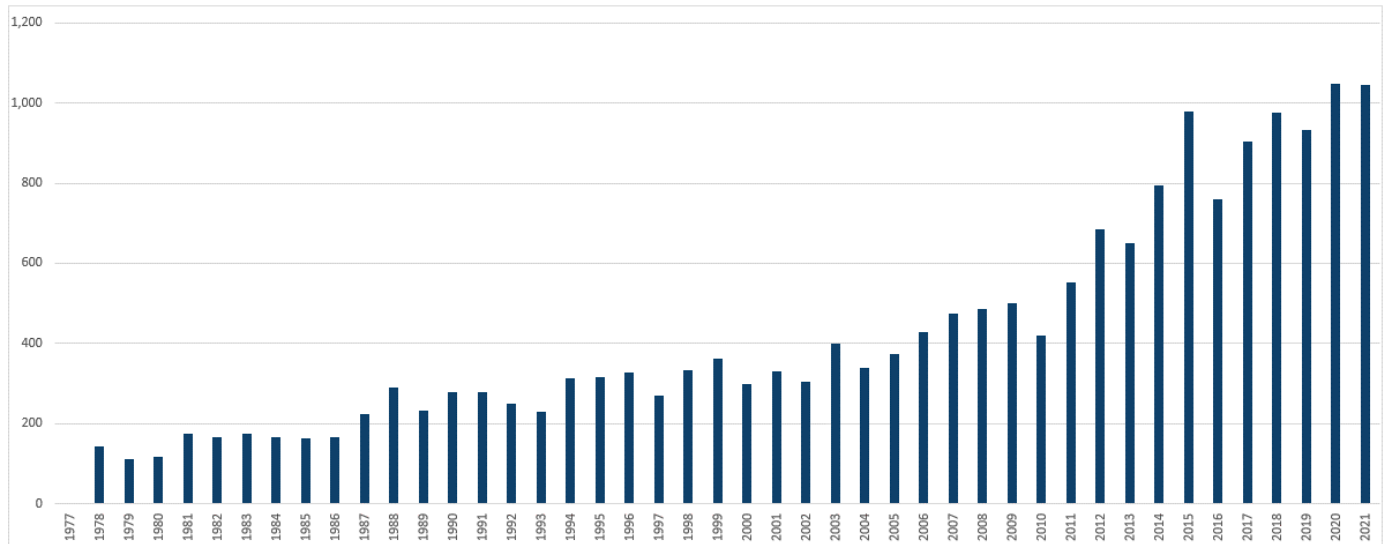


Another interesting statistic about the retirement plan is that since 1977 the PERS plan has received approximately \$2.67 billion in contributions, and as of the September 2022 we had \$3.54 billion in assets. During that same period we paid out about \$2.90 billion in benefits.

The number of new retirees each year continues to grow. The table below shows that in the last three fiscal years (July – June) there were 933, 1,049, and 1045 new retirees.

## NDPERS New Pensions

(Main System, Judges & Law Enforcement Systems)

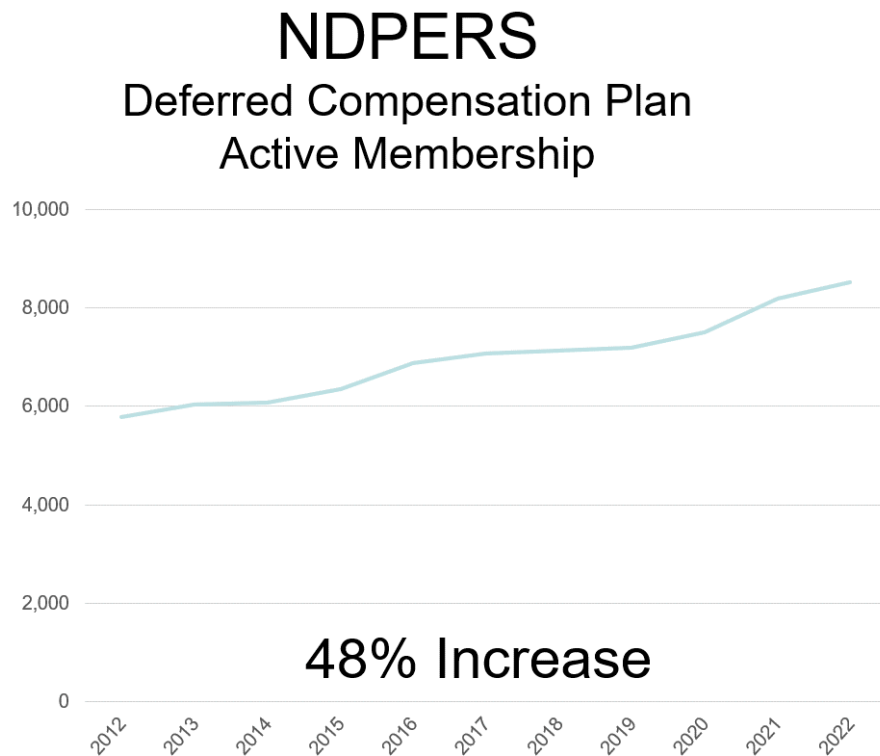


As we look to the future, we see the retired membership continuing to grow and the number of active members remaining about the same. The table below shows the number of members in the Main system who will be eligible to retire in the next 5 years:

	Age 65	Rule of 85	Total
Currently eligible as of June 2022	1,090	1,175	2,265
Newly eligible as of June 2023	284	305	589
Newly eligible as of June 2024	323	288	611
Newly eligible as of June 2025	378	276	654
Newly eligible as of June 2026	380	287	667
Newly eligible as of June 2027	341	305	646

Servicing the present and future needs of the retired membership is a growing challenge for PERS.

In addition to the administration of the traditional retirement plans, PERS administers the 457 Deferred Compensation Plan, which is the state's supplemental savings program. The membership in that program has also grown over the years as shown below:



We are pleased by this growth since it is important that our members have supplemental savings for retirement. During our annual benefit enrollment period conducted each Fall, we include targeted messaging to encourage members to take action to provide for a more secure financial future. In 1999, the Legislature enacted the Portability Enhancement Provision, or PEP, in our retirement plan, thereby turning the Main plan into a hybrid plan to encourage employees to do supplemental savings through the Deferred Compensation Plan.

The investment and recordkeeping services for the PERS Companion Plan are currently provided by TIAA. The Deferred Compensation Plan offers our members eight other providers to choose from in addition to the PERS Companion Plan:

Bravera Wealth	Jackson National (closed to new entrants)
AXA Equitable (closed to new entrants)	Nationwide Life
Bank of North Dakota	VALIC (closed to new entrants)
Mass Mutual (closed to new entrants)	Waddell & Reed (closed to new entrants)

Concerning the group insurance programs, the following gives you an overview of the programs and some statistical information:

January 2022	GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS					
	HEALTH	LIFE	DENTAL	VISION	EAP	FLEXCOMP
<b>PARTICIPATING EMPLOYERS</b>						
State	97	97	97	97	97	81
Counties	34	33				
School Dist	22	13				
Cities	30	29				
Others	50	32	20	20	20	5
<b>TOTAL</b>	<b>233</b>	<b>204</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>86</b>
<b>EMPLOYEES</b>						
State	14,362	15,027	8,879	9,314	15,074	2,363
Legislators	133	137				
Counties	1,618	2,807				
School Dist	797	100				
Cities	659	249				
Others	483	418			273	45
Retirees	6,835	3,216	3,981	3,779		
COBRA	138		41	44		
<b>TOTAL</b>	<b>25,025</b>	<b>21,954</b>	<b>12,901</b>	<b>13,137</b>	<b>15,347</b>	<b>2,408</b>
<b>Covered Lives</b>	<b>58,504</b>					

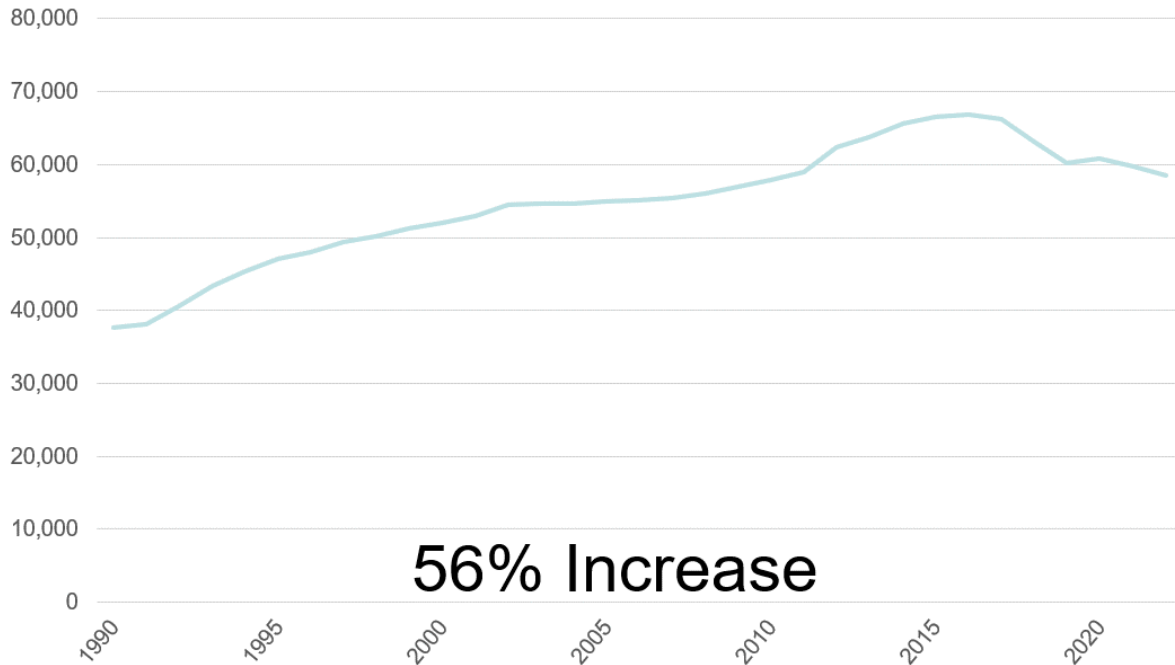
The group health and life insurance programs have been a part of the agency since the early 1970s. In the late 1990's the Employee Assistance Program, Dental Plan and Vision Plan were added to PERS. The FlexComp Program has been a part of the agency since 1989 and allows members to pretax eligible insurance premiums, dependent care expenses, and medical expenses.

As you will note, the largest responsibility in this area is the health plan. In this program about 57% of members are state employees and 43% are political subdivisions or other groups such as retirees. We continue to focus on compliance with the Affordable Care Act (ACA), which includes maintaining the grandfathered status of the plan, assisting our participating employers with compliance, and conducting a special enrollment each year for temporary employees.



The following table shows the history of the membership in the health plan:

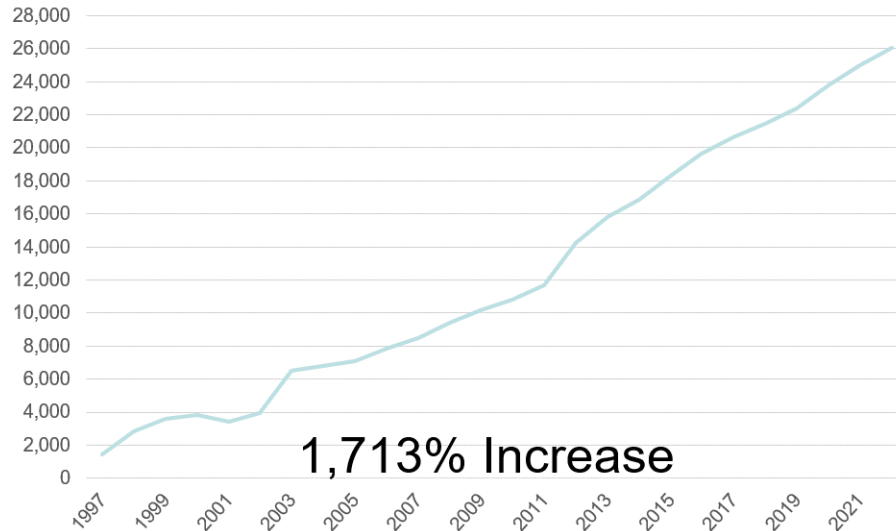
## NDPERS Health Plan Membership



This plan was last bid in 2020, and the PERS Board awarded the contract to Sanford Health Plan under the same hybrid fully-insured/self-insured arrangement that we have had for many years.

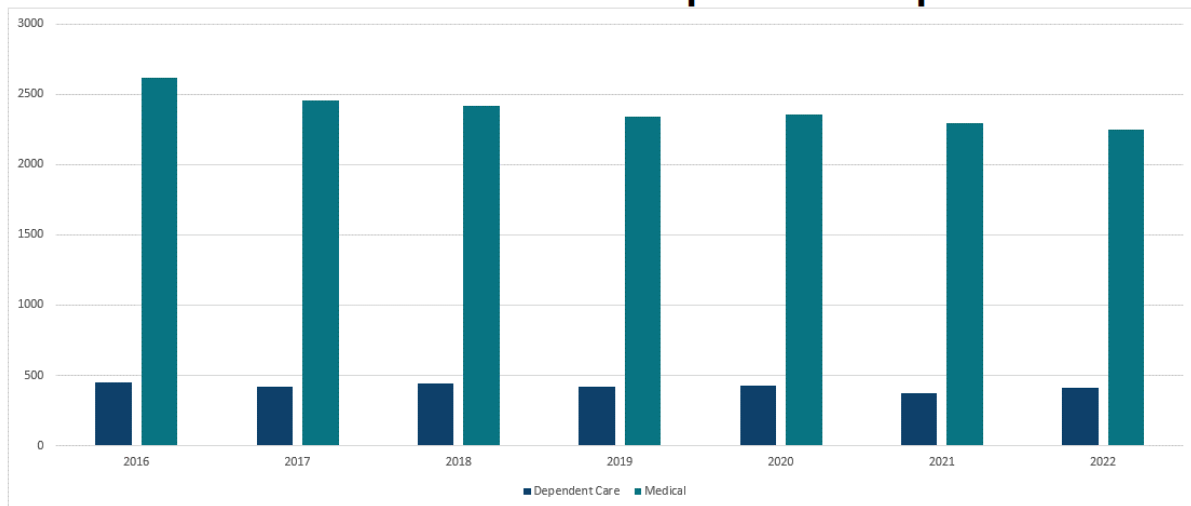
The following table shows the history of the voluntary programs. This program area continues to see significant growth.

## NDPERS Voluntary Insurance Plans Membership (Dental and Vision)



The following tables show the history of the number of members in the FlexComp program:

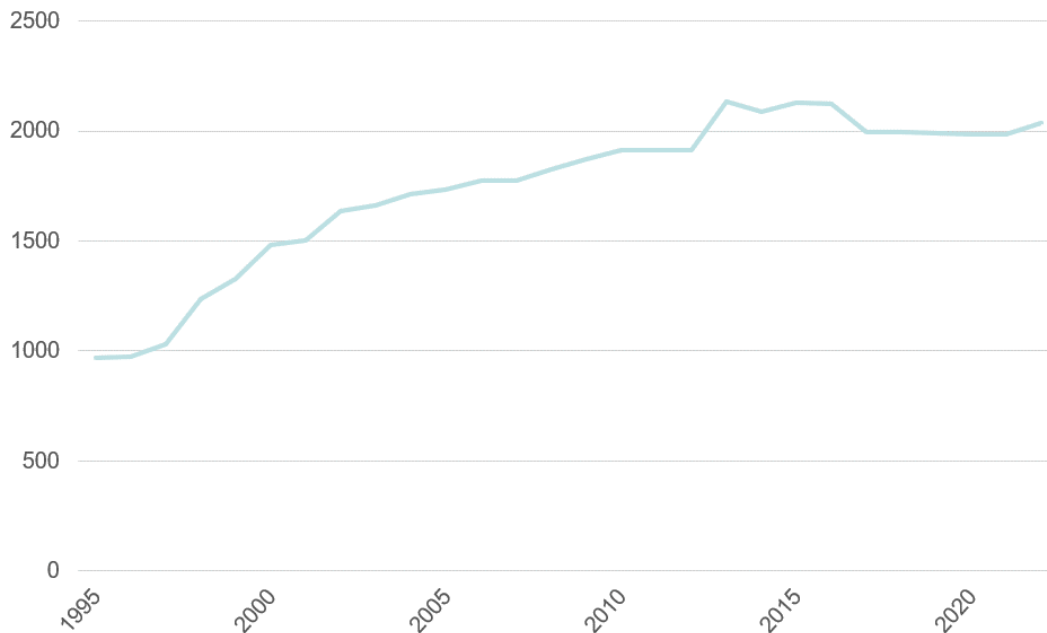
## NDPERS Flexcomp Participation



While we have been serving more members in more programs over time, we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):

# NDPERS

## Participating Employers (All Programs)



As shown above, PERS has faced two challenges over the years: the growth of program responsibilities, and the growing membership needs for assistance.

We are also concerned with maintaining the quality of what we do. To that extent, we have sought national review of our systems and other reviews as noted in the following:

- We have received the Public Pension Achievement Award and the Recognition Award for Administration.
- We have received the Certificate of Achievement for Excellence in Financial Reporting for the past 26 years (1996-2021).
- We have had unqualified audit opinions for over 30 years.
- We received favorable IRS determination letters for the PERS and Highway Patrol Retirement Plans.

In addition, we provide our members who request information from our office the opportunity to evaluate our customer service. Our average ratings for the past 8 years show overall satisfaction with our customer service. However, we have seen a slight decline in our ratings the past few years which we feel is reflective of reaching our capacity

to provide the exceptional level of customer service our members have come to expect. We will be presenting testimony on how we'd like to address these concerns when we discuss our optional change packages.

The ratings are shown below based on a scale of 1-4, with 4 being the most satisfied:

Year	# of responses	Courtesy received from NDPERS Staff.	Promptness of NDPERS response.	Information was properly explained.	Information easy to understand.
2015	464	3.82	3.67	3.73	3.62
2016	478	3.83	3.73	3.75	3.62
2017	540	3.83	3.76	3.69	3.58
2018 Sent via email	1,084	3.76	3.59	3.63	3.56
2019	2,392	3.75	3.48	3.63	3.59
2020	2,066	3.76	3.51	3.66	3.62
2021	2,268	3.74	3.49	3.60	3.56
2022 As of November	1,855	3.72	3.47	3.58	3.52

## **Work Efforts**

Following are some of the major work efforts since we last reported to you in the 2021 session:

- Group Insurance
  - Renewed with Sanford Health Plan to continue the hybrid fully insured/self-insured arrangement that exists today
  - Conducted a Request for Proposal (RFP) and selected a new Medicare Part D provider
  - Renewed our FlexComp, Dental, Vision, and Life insurance contracts with the incumbent providers
  - Continued to work with our participating employers on compliance with the provisions of the Affordable Care Act.
  - Collaborated with the State Auditor to perform an audit of our Pharmacy Benefit Manger, Optum Rx
  - Implemented processes and procedures to comply with the Federal mandates of the American Rescue Plan Act
- Retirement
  - Renewed the 457 Companion Plan and 401(a) Defined Contribution Plan contract with the incumbent provider
  - Continued to de-risk the Job Service Retirement Plan's investment portfolio by adopting and implementing a more conservative asset allocation
  - Conducted a RFP and selected our incumbent RHIC payment processing vendor
  - Reduced the long-term rate of return assumption on our Defined Benefit plans to adhere to the Actuarial Standards of Practice guidelines
- Administrative Accomplishments
  - Submitted administrative rule changes
  - Converted our website to be under the NDIT umbrella
  - Relocated our office to a state-owned building with a footprint that is roughly ½ the size of our previous office space
  - Performed disaster recovery testing, and brought live data into production from our backup servers

- Implemented a YouTube channel to better serve our employers and membership
- Converted our Board Election process into an electronic format
- Implemented Base Business Process Management in our business system
- Conducted a biennial strategic planning session with our Board
- Implemented a redesign of retiree federal tax withholdings to comply with IRS requirements
- Implemented a process to allow state employers to conduct ACA eligibility for temporary employees electronically
- Currently in the process of converting microfiche records into an electronic format that staff access on a routine basis
- Currently in the process of redesigning the ND Login process to better serve our membership
- Currently in the process of programming comprehensive new hire, annual enrollment, and retirement application wizards

At this time, I will turn the presentation over to Derrick Hohbein to review the PERS budget request.

## **PERS Budget**

**2021-23 Budget.** The PERS budget is all special funds. This biennium we do have one-time funding expenses for which we would like to provide updates.

Last session, PERS received \$104,500 to add an additional developer to help us address the backlog of system enhancements our agency has, to develop comprehensive new hire and annual enrollment wizards, and to help us redesign the workflows within our agency. We requested two additional developers, and the Legislature compromised by adding one developer and asked us to reassess whether the additional developer is still necessary for the 2023 – 2025 biennium.

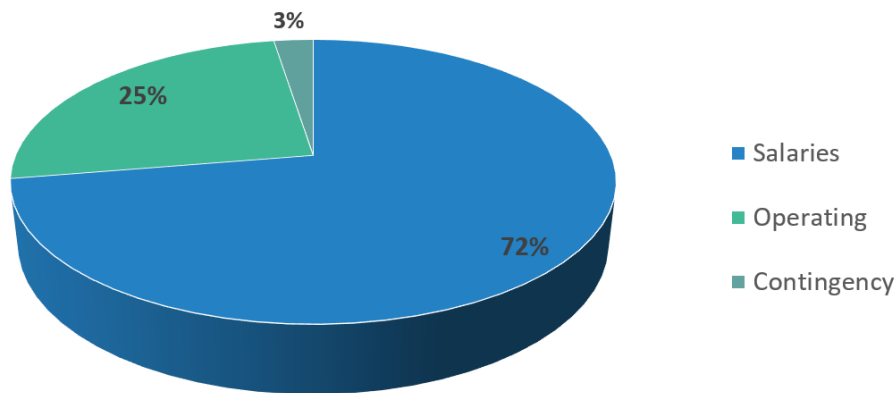
PERS also received \$257,600 to redesign the electronic workflows in our business system to base Business Process Management (BPM). This went live in May 2022 at the appropriated cost of \$257,600. We are now in the process of redesigning the 151 different workflows our agency is responsible for. We envision this being a 3-4 year work effort to fully implement.

## 2023-25 Budget.

The proposed legislative base budget before you today is all special funds.

	2021-23 Appropriation	One-Time Expenditures	2023-2025 Legislative Base Budget	% Increase/ (Decrease)
Salaries & Wages	7,209,060	-	7,209,060	0.0%
Operating Expenses	2,500,736	(104,500)	2,396,236	(4.2%)
Capital Expenditures	257,600	(257,600)	-	(100.0%)
Contingencies	250,000	-	250,000	0.0%
Total Special Funds	10,217,396	(362,100)	9,855,296	(3.5%)
FTE	35.5		35.5	

## NDPERS Budget Allocation

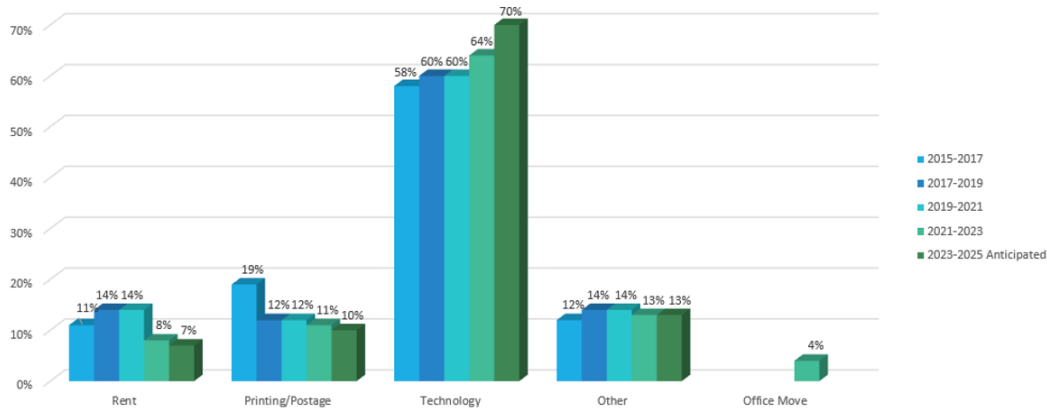


### Salaries and Wages

Salaries and wages account for 72% of the base budget and maintains funding for 35.5 FTE, two full time temporary employee, and a part time intern position. This biennium we are fitting three full time temporary employees into our organization. These temporary positions are serving as a retirement application processor, a receptionist, and a member services representative.



## Operating Expenses



Operating expenses account for 25% of the base budget. Looking into our operating line item:

- 70% is IT and shared services related (software, Sagitec, Statewide Cost Allocation)
- 7% is office rent
- 10% is printing and postage
- 13% are all other operating categories

IT is an area that our agency relies on heavily, and the business system is the heart of all the activity that takes place within our office. The costs of IT have continuously gone up, but we've been fortunate to be able to offset a good portion of these increases by working on the licensing arrangement we have with Sagitec – our business system vendor. These costs continue to be the most challenging budgetary constraint our agency experiences.

In July 2021 our agency moved into the WSI building. This allowed us to reduce our office footprint, and reduce our rent by nearly \$80,000 for the upcoming biennium. This rent savings was used to offset our technological increases for the upcoming biennium.

Since the legislative mandate in 2017 to become more efficient in our operations regarding our printing and postage costs, we are pleased to say we have reduced our printing and postage expenses by over \$240,000 (a 32% reduction) over the last 6 years. While we continue to explore ways to become more efficient in our operations, there are numerous physical communications we are mandated by law to send. We also know we have a significant retiree population that still prefers to be communicated with through printed materials.

## Attachment 1 – Senate Amendments

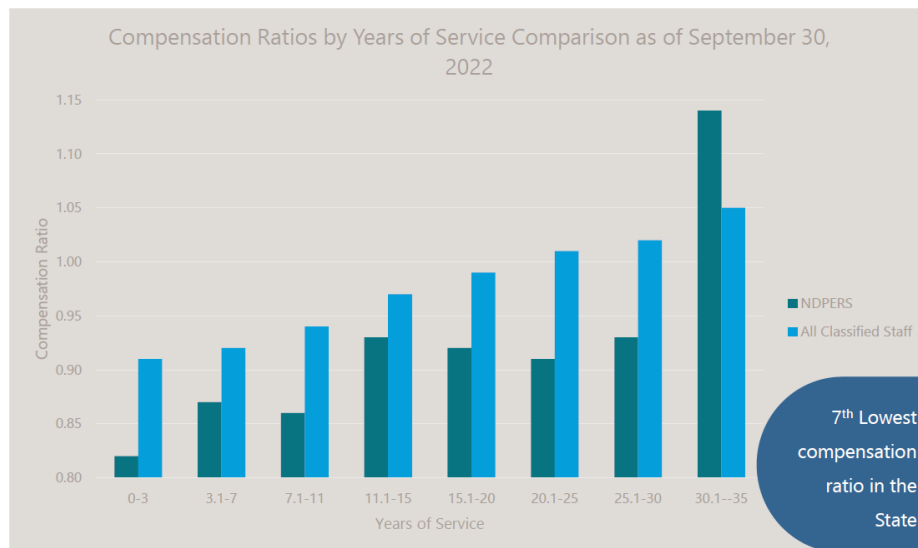
	2021-23 Legislative Base	Senate Amendments	2023-2025 Senate Version	% Increase/ (Decrease)
Salaries & Wages	7,209,060	1,262,868	8,471,928	17.5%
Operating Expenses	2,396,236	147,476	2,543,712	6.2%
Contingencies	250,000	-	250,000	
DB Closure Contingencies	-	1,006,839	1,006,839	
Total Special Funds	9,855,296	2,417,183	12,272,479	24.5%
FTE	35.5	6.0	41.5	

### **Analysis of the Senate Amendments:**

#### **Staff Equity Package - \$720,000**

Overall it is well known that state employee wages are falling behind the private sector, and recruiting and retaining state employees is becoming a serious concern. At NDPERS, we struggle to compete with state agencies given the salary appropriation authority our agency has.

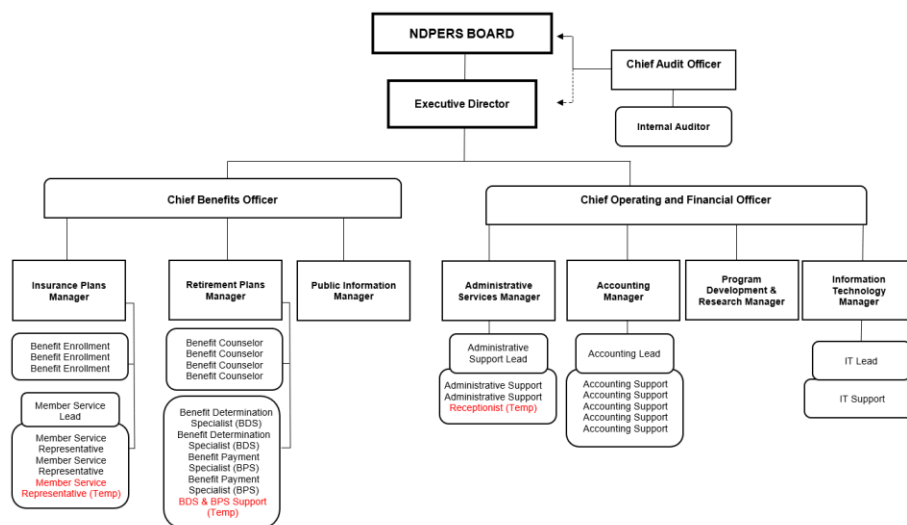
Our Board is seeking a 10% equity package for staff that would be targeted to distribute to employees that have C-Ratio concerns. Receiving a 10% equity package would help us align to the blue bars in the graph. Our goal is not to compete with the private sector; our goal is to be competitive across state agencies.



## FTE Authority for a Retirement Processing Lead

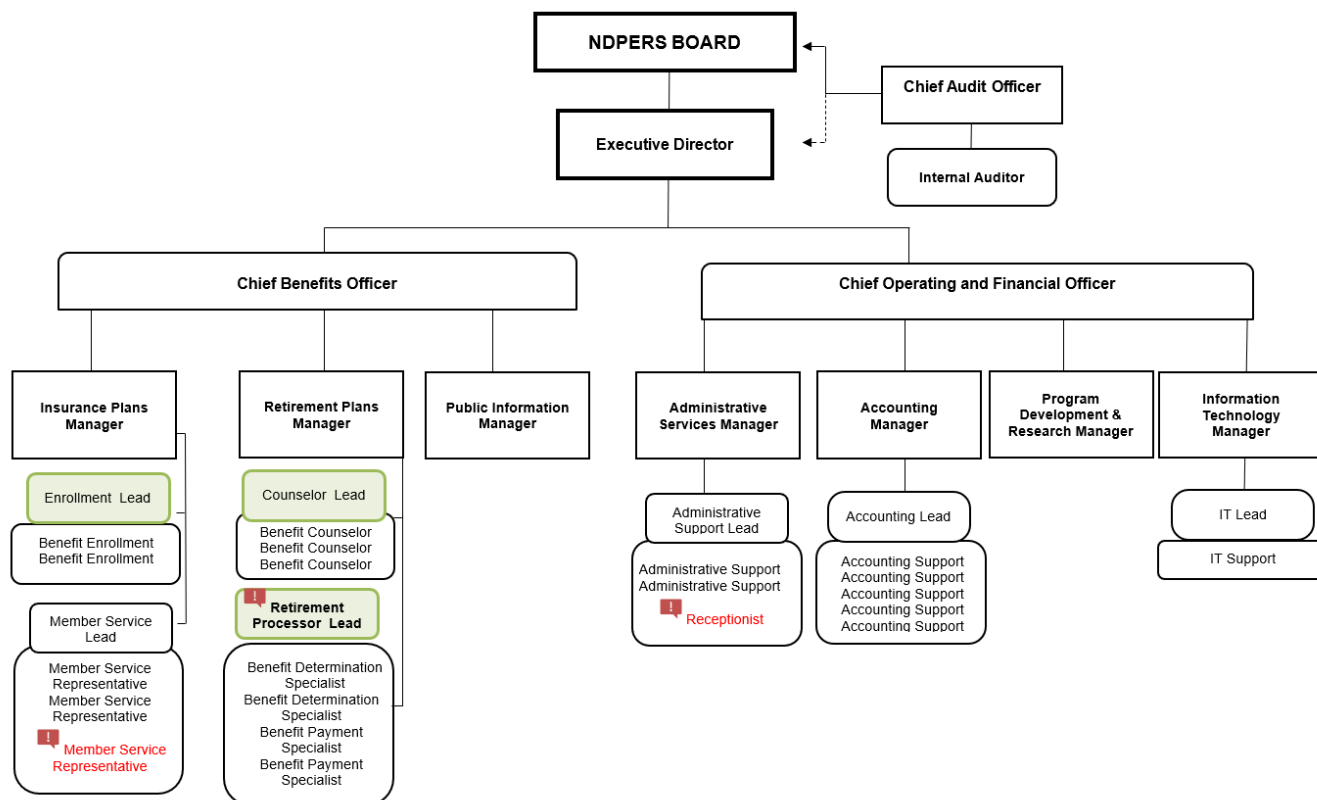
**Salary Appropriation - \$214,632**  
**Operating Appropriation - \$ 1,725**

Our current organizational structure is as follows:



Our Board has adopted an initiative to realign our organizational structure to transition to an environment that promotes internal growth, gives employees visible career planning paths in our agency, and allows our agency to properly succession plan in the event of staff turnover. Adding a Retirement Processing Lead in our agency is the one Lead position that we cannot achieve through attrition; we need the additional FTE authority and funding to make this structure possible.

Here is the organizational structure our Board is trying to achieve:



This structure creates an environment where every division with two or more employees has a lead role. The expectations of the lead positions are that the employee has a well-rounded understanding of every process within their division, and serves as the primary backup in the event a staff member is out. Right now our employees have a hard time taking work off (or enjoying their time off) because we don't have ample backup support in our office. We believe that transitioning to this environment not only relieves the backup support concern, it also serves as a "junior management" program and allows employees to see a progression path that would allow them to be a part of the NDPERS team for their careers.

## FTE Authority for a Receptionist

<b>Salary Appropriation -</b>	<b>\$124,986</b>
<b>Operating Appropriation -</b>	<b>\$ 1,725</b>

Our office space within the WSI building has an area that is dedicated to incoming customers, and has an area for us to counsel our members and meet with our vendors that is not in the back office. The receptionist position screens incoming customers before allowing access to our office, greets and directs the customers where to go, and helps alleviate workload concerns across the entire agency by absorbing duties across all of our divisions.



We have had to recruit for this position as a temporary position twice, and have found that the candidate pool for entry level temporary positions is thin. Because we expect our receptionist to perform administrative and data entry functions in addition to greeting visitors, the skillset needed to be successful as a receptionist in our agency is unique. We believe having the ability to recruit this position as a permanent position will increase our candidate pool, and given our new office location it is a position that our agency now has to have.

## FTE Authority for Member Services Representative

**Salary Appropriation - \$161,592**  
**Operating Appropriation - \$ 1,725**

Currently we have a full-time temporary employee on staff serving as our Member Services Representative. This is a position we've had to recruit for multiple times, and is a position that is extremely difficult to fill as a temporary position. This position is a necessity for our agency to serve our membership and the variety of plans that we administer. As we alluded to earlier in our customer service survey, the ability for our office to get back to membership is becoming increasingly hard, and our customer service scores reflect this difficulty. Making this a permanent position will increase the candidate pool to help ensure we can fill this position when a vacancy exists.

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2015	464	3.82	3.67	3.73	3.62
2016	478	3.83	3.73	3.75	3.62
2017	540	3.83	3.76	3.69	3.58
2018 Sent via email	1,084	3.76	3.59	3.63	3.56
2019	2,392	3.75	3.48	3.63	3.59
2020	2,066	3.76	3.51	3.66	3.62
2021	2,268	3.74	3.49	3.60	3.56
2022 As of November	1,855	3.72	3.47	3.58	3.52

## Removal of \$110,368 of temporary salaries

NDPERS has funding for two full-time temporary employees and one part time intern to help with unexpected work efforts or unforeseen mandates that we have to comply with. NDPERS currently has three full time temporary employees on staff to keep up with our day-to-day work efforts. The Senate compromised by granting us FTE authority for those positions, and removing some of our temporary salaries since we'd no longer be employing three full-time temporary employees.

## **Additional Development Resources for PERSLink - \$125,000 Operating**

Funding was requested for an additional developer in our PERSLink business system. We will use this additional developer to continue transitioning our business system to a process referred to as Business Process Management (BPM). BPM automates data entry based on the business rules of our agency, and helps eliminate staff data entry as well as ensuring the accuracy of the records in our system. We anticipate the full conversion to BPM will take 3-4 years, even with the funding for additional developers. To continue moving forward in this development, we view this funding as a necessity for our agency.

## **DB Closure Bill**

Assuming the DB closure bill remains in the version it currently is, it is imperative both for our agency as well as the Legislature to make this as smooth of a transition as possible. Our agency views the following as necessities to ensure a seamless transition:

- FTE Authority
  - Benefits Manager – currently we have a Retirement Manager that is dedicated to our Defined Benefit Plans. Because the administration and requirements of a Defined Contribution Plan are drastically different than those of a Defined Benefit Plan, having a Defined Contribution Manager to properly oversee the new plan is a necessity.
    - Salary Appropriation - \$293,426
    - Operating Appropriation - \$ 1,725
  - Member Services Representative – we serve nearly 55,000 members in our retirement plans. Every single one of them will question what impact this Legislation will have on them. Earlier we spoke to the concerns in our call center staff and having the ability to timely get back to our membership. Adding another member services representative to help with this transition will be imperative to a successful conversion.
    - Salary Appropriation - \$161,592
    - Operating Appropriation - \$ 1,725

- Counselor – the educational efforts between a Defined Benefit plan and a Defined Contribution plan are drastically different. To help ensure our membership has the proper education and counseling to make appropriate decisions we feel that adding a counselor that can be dedicated to these efforts is essential.
  - Salary Appropriation - \$185,334
  - Operating Appropriation - \$ 1,725
- Temporary Staffing – to help through the transition we are seeking one-time funding totaling \$200,000 to secure temporary staff that can help us transition to the new Defined Contribution Plan
- Additional Sagitec Developer – a new resource will be needed to properly program not only our business system, but also every single payroll system that submits retirement reports to NDPERS. Every employer will have programming requirements on their end to accommodate this change as well. This would require an increase to our operating expenditures of \$125,000.



## **Summary of the Senate Version:**

### **Wages of \$1,262,868:**

- Cost to continue July 1, 2022 increases - \$53,963
- Compensation package of 4% & 4% increases as well as the increase for health insurance premiums - \$560,063
- Staff equity package to address C-Ratio concerns - \$258,000
- Retirement Processing Lead FTE - \$214,632
- Receptionist FTE - \$124,986
- Member Services FTE - \$161,592
- Removal of temporary salaries - \$(110,368)

### **Operating Expenses of \$147,476**

- Increases to NDIT - \$16,301
- Retirement Processing Lead addition - \$2,725 (\$2,000 is one-time funding)
- Receptionist Position - \$1,725 (\$1,000 is one-time funding)
- Member Services Position - \$1,725 (\$1,000 is one-time funding)
- Additional Sagitec developer - \$125,000

### **Expenditures Contingent on the DB Closure Initiative: \$1,006,839**

- Wages of \$875,764:
  - Temporary Salaries - \$200,000 (all one-time funding)
  - Benefits Manager - \$293,426
  - Counselor - \$185,334
  - Member Services Representative - \$161,592
  - Cost to continue the FTE - \$35,412
- Operating Expenditures of \$131,075:
  - Benefits Manager - \$2,025 (\$1,000 is one-time funding)
  - Counselor - \$2,025 (\$1,000 is one-time funding)
  - Member Services Position - \$2,025 (\$1,000 is one-time funding)
  - Additional Sagitec developer - \$125,000