EMPLOYEE BENEFITS PROGRAMS COMMITTEE

The Employee Benefits Programs Committee was assigned the following responsibilities:

- Receive annual reports from the Board of Trustees of the Teachers' Fund for Retirement (TFFR) regarding the annual test of actuarial adequacy of the TFFR statutory contribution rates, pursuant to North Dakota Century Code Section 15-39.1-10.11.
- Review legislative measures and proposals affecting public employees retirement programs and health and retiree health plans, pursuant to Section 54-35-02.4.
- Receive periodic reports from the Office of Management and Budget (OMB) Human Resource Management Services Division on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions, pursuant to Section 54-06-31.
- Receive a biennial report from OMB summarizing reports of state agencies providing service awards to employees in the classified service, pursuant to Section 54-06-32.
- Receive a biennial report from OMB summarizing reports of state agencies providing employer-paid costs of training or educational courses to employees in the classified service, pursuant to Section 54-06-33.
- Receive a biennial report from OMB summarizing reports of executive branch state agencies paying employee membership dues for professional organizations and membership dues for service clubs when required to do business or if the membership is primarily for the benefit of the state, pursuant to Section 54-06-34.
- Receive notice from the Board of Trustees of the TFFR of any necessary or desirable changes in statutes relating to the TFFR, pursuant to Section 15-39.1-05.2.
- Approve terminology adopted by the Board of Trustees of the TFFR to comply with applicable federal statutes or rules, pursuant to Section 15-39.1-35.
- Approve terminology adopted by the Public Employees Retirement System (PERS) Board to comply with federal requirements, pursuant to Sections 39-03.1-29, 54-52-23, and 54-52.1-08.2.
- Receive notice from firefighters relief associations of the association's intent to provide a substitution monthly service pension, pursuant to Section 18-11-15.

Committee members were Representatives Mike Lefor (Chairman), Randy Boehning, Jason Dockter, Vernon Laning, Alisa Mitskog, Mark S. Owens, and Roscoe Streyle and Senators Brad Bekkedahl, Dick Dever, Karen K. Krebsbach, Oley Larsen, Gary A. Lee, and Carolyn C. Nelson.

The committee submitted this report to the Legislative Management at the biennial meeting of the Legislative Management in November 2018. The Legislative Management accepted the report for submission to the 66th Legislative Assembly.

BACKGROUND

The Employee Benefits Programs Committee has statutory jurisdiction over legislative measures that affect retirement, health insurance, and retiree health insurance programs of public employees. Under Section 54-35-02.4, the committee is required to consider and report on legislative measures and proposals over which it takes jurisdiction and which affect, actuarially or otherwise, retirement programs and health and retiree health plans of public employees. Section 54-35-02.4 also requires the committee take jurisdiction over any measure or proposal that authorizes an automatic increase or other change in benefits beyond the ensuing biennium which would not require legislative approval and to include in the report of the committee a statement that the proposal would allow future changes without legislative involvement.

The committee may solicit draft measures from interested persons during the interim and is required to make a thorough review of any measure or proposal it takes under its jurisdiction, including an actuarial review. A copy of the committee's report must accompany any measure or amendment affecting a public employee's retirement program, health plan, or retiree health plan which is introduced during a legislative session. The statute provides any legislation enacted in contravention of these requirements is invalid, and benefits provided under that legislation must be reduced to the level in effect before enactment.

Teachers' Fund for Retirement

Chapter 15-39, which was repealed in 1971, established the teachers' insurance and retirement fund. This fund, the rights to which were preserved by Section 15-39.1-03, provided a fixed annuity for full-time teachers whose rights vested in the fund before July 1, 1971. The plan was repealed in 1971 when TFFR was established with the enactment of Chapter 15-39.1.

The Teachers' Fund for Retirement became effective July 1, 1971, and is governed by its board of trustees. The State Investment Board is responsible for the investment of the trust assets, although the TFFR Board of Trustees establishes the asset allocation policy. The Retirement and Investment Office is the administrative agency for TFFR. The Teachers' Fund for Retirement is a qualified governmental defined benefit retirement plan.

All certified teachers of a public school in the state participate in TFFR, including supervisors, principals, and administrators. Noncertified employees, such as instructional aides, facility maintenance, secretaries, and drivers, are not allowed to participate in TFFR. Eligible employees become members on the date of employment.

The district or other employer that employs a member contributes a percentage of the member's salary. This percentage consists of a base percentage of 7.75 percent, plus additions. Effective July 1, 2008, the employer contribution rate became 8.25 percent; effective July 1, 2010, the employer contribution rate became 8.75 percent; effective July 1, 2012, the employer contribution rate became 10.75 percent; and effective July 1, 2014, the employer contribution rate became 12.75 percent. However, the employer contribution rate will revert to 7.75 percent when TFFR is 100 percent funded on an actuarial basis. The contribution rate will not automatically increase if the funded ratio later falls below 100 percent.

Before July 1, 2012, all active members contributed 7.75 percent of salary per year to TFFR. The employer may "pick up" the member's contributions under the provisions of Internal Revenue Code Section 414(h). The member contribution rate was increased from 7.75 to 9.75 percent effective July 1, 2012, and increased to 11.75 percent effective July 1, 2014. The 4 percent added to the member contribution rate will remain in effect until TFFR is 100 percent funded on an actuarial basis. At that point, the member contribution rate will revert to 7.75 percent. The member's total earnings are used for salary purposes, including overtime and nontaxable wages under a Section 125 plan, but excluding certain extraordinary compensation, such as fringe benefits or unused sick or vacation leave.

Members who joined TFFR by June 30, 2008, are Tier 1 members, while members who join after that date are Tier 2 members. Final average compensation, for purposes of determining retirement benefits, is the average of the member's highest three plan year salaries for Tier 1 members or five plan year salaries for Tier 2 members. Monthly benefits are based on one-twelfth of this amount. Tier 1 members are eligible for a normal service retirement benefit at age 65 with credit for 3 years of service, or if earlier, when the sum of the member's age and years of service is at least 85. Effective June 30, 2013, Tier 1 members who are at least age 55 and vested--3 years of service--as of the effective date, or if the sum of the member's age and service is at least 65, are eligible for normal service retirement benefits and are grandfathered. Those who do not meet these criteria as of June 30, 2013, may retire upon normal retirement on or after age 65 with credit for 3 years of service, or earlier, if the sum of the member's age is at least 90, with a minimum age of 60. A Tier 2 member may retire upon normal retirement on or after age 65 with credit for 5 years of service, or earlier, if the sum of the member's age and years of service is at least 90. Effective July 1, 2013, Tier 2 members may retire upon normal retirement on or after age 65 with credit for 5 years of service, or earlier, if the sum of the member's age and service is at least 90, with the added requirement that the member has reached a minimum age of 60.

The monthly retirement benefit is 2 percent of final average monthly compensation times years of service. Benefits are paid as a monthly life annuity, with a guarantee if the payments made do not exceed the member's contributions plus interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's beneficiary.

To receive a death benefit, death must occur while being an active, inactive, or a nonretired member. Upon the death of a nonvested member, a refund of the member's contributions and interest is paid. Upon the death of a vested member, the beneficiary may elect the refund benefit or a life annuity of the normal retirement benefit "popping-up" to the original life annuity based on final average compensation and service as of the date of death, but without applying any reduction for the member's age at death.

A Tier 1 member leaving covered employment with less than 3 years of service and a Tier 2 member leaving covered employment with less than 5 years of service is eligible to withdraw or receive a refund benefit. Optionally, a vested member may withdraw the member's contributions plus interest in lieu of the deferred benefit otherwise due. A member who withdraws receives a lump sum payment of the member's employee contributions plus interest credited on these contributions. Interest is credited at 6 percent per year.

At times, the law relating to TFFR retirement benefits has been amended to grant certain postretirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

Public Employees Retirement System

The Public Employees Retirement System is primarily governed by Chapter 54-52 and includes the combined PERS fund--PERS main system, the judges' retirement system, the public safety system with prior PERS main system service, and the public safety system without prior PERS main system service --Highway Patrolmen's retirement system, Job Service North Dakota retirement plan (Job Service), and retiree health insurance credit fund (RHIC). The plan is supervised by the PERS Board and covers most public employees of the state, district health units, and the Garrison Diversion Conservancy District. Elected officials and officials first appointed before July 1, 1971, may choose to be members. Officials appointed to office after that date are required to be members. Most North Dakota Supreme Court justices and district court judges are members of the plan, but receive benefits that differ from other members. A county, city, or school district may choose to participate on completion of an employee referendum and on execution of an agreement with the PERS Board. Political subdivision employees are not eligible to participate in the defined contribution retirement plan. The PERS Board also administers the uniform group insurance, life insurance, flexible benefits, and deferred compensation programs.

Members of the PERS main system and judges' retirement system enrolled before January 1, 2016, are eligible for a normal service retirement benefit at age 65 or when age plus years of service is equal to at least 85. Members of the PERS main system and judges' retirement system first enrolled after December 31, 2015, are eligible for a normal service retirement benefit at age 65 or when age plus years of service is equal to at least 90. Members of the public safety retirement system are eligible for a normal service retirement at age 55 and 3 eligible years of service or when age plus service is equal to at least 85.

The retirement benefit for a member of the PERS main and public safety systems is 2 percent of final average salary multiplied by years of service. The retirement benefit for a member of the judges' retirement system is 3.50 percent of final average salary for the first 10 years of service, 2.80 percent for each of the next 10 years of service, and 1.25 percent for service in excess of 20 years.

The surviving spouse who is the sole refund beneficiary of a deceased member of the PERS main system or public safety system who had accumulated at least 3 years of service before normal retirement is entitled to elect one of four forms of preretirement death benefits. If the surviving spouse is not the sole refund beneficiary, the refund beneficiary only may choose a lump sum distribution of the accumulated balance. The preretirement death benefit may be a lump sum payment of the member's accumulated contributions with interest; 50 percent of the member's accrued benefit, not reduced on account of age, payable for the surviving spouse's lifetime; a continuation portion of a 100 percent joint and survivor annuity, only available if the participant was eligible for normal retirement; or a partial lump sum payment in addition to one of the annuity options. The surviving spouse of a deceased member of the judges' retirement system who had accumulated at least 5 years of service is entitled to elect one of two forms of preretirement death benefits. The preretirement death benefit may be a lump sum payment of the member's accumulated contribution with interest or 100 percent of the member's accrued benefit, not reduced on account of age, payable for the spouse's lifetime. For members who are neither vested nor have a surviving spouse, the benefit is a lump sum payment of the member's accumulated contributions with interest.

The standard form of payment for members of the PERS main and public service systems is a monthly benefit for life with a refund to the beneficiary at death of the remaining balance, if any, of accumulated member contributions. The standard form of payment for members of the judges' retirement system is a monthly benefit for life, with 50 percent payable to an eligible survivor. The final average salary is the average of the highest salary received by a member for any 36 months employed during the last 180 months of employment.

Retirement System Contributions

Except for the employer contribution rate for the public safety system plans, contribution rates are specified by statute. The statutory rates were increased effective January 1, 2014, to address needs of the funds. These January 1, 2014, increases are scheduled to revert to the contribution rates in effect on July 1, 2013, following the first valuation of the PERS main system showing a ratio of the actuarial value of assets to the actuarial accrued liability of the PERS main system which is equal to or greater than 100 percent.

Retiree Health Insurance Credit Fund

The 1989 Legislative Assembly established a retiree health insurance credit fund account with the Bank of North Dakota with the purpose of prefunding hospital benefits coverage; medical benefits coverage; prescription drug coverage under any health insurance program; and dental, vision, and long-term care benefits coverage under the uniform group insurance program for retired members of PERS and the Highway Patrolmen's retirement system receiving retirement benefits or surviving spouses of those retired members who have accumulated at least 10 years of service. The employer contribution under PERS was reduced by 1 percent of the monthly salaries or wages of participating members, including participating North Dakota Supreme Court justices and district court judges, and the money was redirected to the retiree health insurance credit fund. The 2009 Legislative Assembly increased the employer contribution to 1.14 percent of the monthly salaries or wages of participating members. The fund provides a monthly credit for health insurance benefits of $5 multiplied by the retired members' years of service.

ACTUARIAL REPORTS

Teachers' Fund for Retirement

The committee received annual actuarial valuation reports on TFFR dated July 1, 2017, and July 1, 2018. The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of TFFR, and to analyze changes in TFFR's financial condition. In addition, the report provides information required by TFFR in connection with the Governmental Accounting Standards Board (GASB) Statement No. 67 and various summaries of the data. Valuations are prepared annually, as of July 1 of each year, the first day of TFFR's plan and fiscal year.

Effective with the July 1, 2013, actuarial valuation, the TFFR Board of Trustees adopted an actuarial funding policy that provides direction on how to calculate an actuarially determined contribution. To determine the adequacy of the 12.75 percent statutory employer contribution rate, the rate is compared to the actuarially determined contribution. The actuarially determined contribution is equal to the sum of the employer normal cost rate and the level percentage of pay required to amortize the unfunded actuarial accrued liability over a 30-year closed period that began July 1, 2013. For this calculation, payroll is assumed to increase 3.25 percent per year. As of July 1, 2018, the actuarially determined contribution is 12.94 percent, compared to 12.99 percent on July 1, 2017. Therefore, the statutory employer contribution rate of 12.75 percent resulted in a contribution deficiency of .19 percent of payroll as of July 1, 2018.

As of June 30, 2017, the actuarial value of assets was $2.526 billion, representing 99.8 percent of the market value of assets of $2.531 billion. This 99.8 percent falls within the 20 percent corridor, so no further adjustment to the actuarial value of assets is necessary. Guidelines in Actuarial Standard of Practice Statement No. 44, selection and use of asset valuation methods for pension valuations, recommends asset values fall within a reasonable range around the corresponding market value. The actuarial asset method complies with these guidelines.

For the year ending June 30, 2018, the consulting actuary determined the asset return on a market value basis was 9.0 percent. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 7.9 percent, which represents an experience gain when compared to the assumed rate of 7.75 percent. Based on the actuarial value of assets, the funded ratio increased to 65.4 percent, compared to 63.7 percent as of July 1, 2017. The net pension liability decreased from $1,373,525,753 as of June 30, 2017, to $1,332,858,315 as of June 30, 2018.

The fund's cashflow (contributions minus benefit payments, refunds, and expenses) as a percentage of the market value of assets is a deficiency of 1.6 percent as of June 30, 2018, compared to a deficiency of 1.3 percent as of June 30, 2017. This decrease in net cashflow is primarily due to the growth of benefit payments and expenses. It is not unusual for a mature pension system to operate with minor negative cashflow as returns on investments generally exceed the net cash outflow and assets continue to rise; however, as the degree of negative cashflow increases, the plan's vulnerability to investment market volatility increases.

As of July 1, 2018, the fund had 10,881 active members, 1,623 inactive vested members, 971 inactive nonvested members, and 8,743 retirees and beneficiaries. Plan costs are affected by the age, years of service, and compensation of active members. The average age of active members was 41.9 years, and active members have 11.8 average years of service. Average compensation for active members was $60,055. As of July 1, 2018, 8,002 retirees and 741 beneficiaries were receiving total monthly benefits of $17,617,313, with the average monthly benefit amount for the retirees and beneficiaries being $2,015.

Public Employees Retirement System

The committee received annual actuarial valuation reports as of July 1, 2017, and of July 1, 2018, on the following PERS funds:

- Combined PERS fund:

  PERS main system;

  Judges' retirement fund;

  Public safety system with prior PERS main system service; and

  Public safety system without prior PERS main system service;

- Highway Patrolmen's retirement system;
- RHIC fund; and
- Retirement plan for employees of Job Service.

The actuarial valuations are performed to determine whether the assets and statutory contributions are anticipated to be sufficient to provide the prescribed benefits. The purpose of the actuarial valuations is to determine whether the contribution is sufficient to meet the long-term obligations to the members covered by the funds in accordance with the benefit provisions of the funds. This report reflects the data from the latest available valuation reports, dated July 1, 2018.

The actuarial valuations include consideration of covered member data, asset data, plan provisions, actuarial assumptions and methods, and funding policies. Actuarial assumptions should be reviewed at least every 3 to 5 years to ensure the assumptions continue to reasonably represent past and expected future experience. The most recent experience study covered the period July 1, 2009, through July 1, 2014, and the updated actuarial assumptions were adopted in the July 1, 2015, actuarial valuation.

A review of the economic assumptions was conducted in 2017 and updated economic assumptions were adopted, effective with the July 1, 2017, actuarial valuation. The following changes in actuarial assumptions were included in the 2017 actuarial valuation and affected all plans:

- Decrease in the investment return assumption from 8.00 to 7.75 percent for PERS and Highway Patrolmen's retirement funds, 8.00 to 7.50 percent for RHIC, and 7.00 to 5.70 percent for Job Service;
- Decrease in the payroll growth assumption from 4.50 to 3.75 percent for all funds except judges' retirement fund, which decreased from 4.00 to 3.25 percent;
- Decrease in the price inflation assumption from 3.50 to 2.50 percent; and
- Update to the asset smoothing method.

The following changes in actuarial assumptions were included in the July 1, 2017, actuarial valuation:

- Update in the actuarial cost method from projected unit credit to entry age normal cost for RHIC;
- Decrease in the benefit indexing assumption for inactive members in Highway Patrolmen's retirement fund from 4.00 to 3.00 percent; and
- Decrease in the assumed rate of increase in the Internal Revenue Code Section 415 benefit limit from 3.50 to 2.50 percent, which affects the Highway Patrolmen's retirement fund.

In addition, the PERS Board adopted updated actuarial equivalence factors first used effective October 1, 2018; adopted updated service purchase methodology that incorporates updated assumptions first used effective January 1, 2018; adopted return-to-work methodology; and adopted employer withdrawal liability methodology.

The valuation reports stated causes of unfunded liability include not contributing at least normal cost plus interest on a fund's unfunded liability; actual experience less favorable than assumed, such as lower rates of investment earnings, higher salary increases, earlier retirement dates, and lower rates of non-death terminations; and granting initial benefits or granting benefits increases for service already rendered.

Plan Funding

The statutory or approved employer and employee contribution rates for fiscal year 2019 are:

	Employee Rate	Employer Rate
PERS main system	7.00%	7.12%
Judges' retirement system	8.00%	17.52%
Public safety system with prior PERS main system service	5.50%[1]	9.81%
Public safety system without prior PERS main system service	5.50%	7.93%
Highway Patrolmen's retirement system	13.3%	19.70%
RHIC	0%	1.14%
Job Service	7.00%	0%

[1]Contribution rate for Bureau of Criminal Investigation is 6.00%.

The comparison of total - employer and employee - statutory or approved contribution rates and the total actuarial contribution rates for fiscal year 2019 are:

	Actuarial Contribution Rate	Statutory/Approved Contribution Rate	Statutory Rate Excess - Deficiency
PERS main system	18.25%	14.12%	(4.13%)
Judges' retirement system	10.03%	25.52%	15.49%
Public safety system with prior PERS main system service	13.19%	15.36%[1]	2.17%
Public safety system without prior PERS main system service	11.70%	13.43%	1.73%
Highway Patrolmen's retirement system	38.80%	33.00%	5.80%
RHIC	1.09%	1.14%	0.05%

[1]Contribution rate for Bureau of Criminal Investigation is 10.31%.

Due to the overfunded status of the Job Service fund, an employer contribution is not required

The following is a comparison of this year's total actuarial contribution rates to last year's rates:

	Fiscal Year 2018	Fiscal Year 2019
PERS main system	18.20%	18.25%
Judges' retirement system	12.81%	10.03%
Public safety system with prior PERS main system service	13.80%	13.19%
Public safety system without prior PERS main system service	12.27%	11.70%
Highway Patrolmen's retirement system	39.21%	33.80%

Demographics

The following demographic data was reported for active members as of July 1, 2018:

Category	Year Beginning July 1, 2018
PERS main system	
Number of active members	22,711
Average age	46.5
Average service credit	9.8
Total compensation	$1,027,317,202
Average compensation	$45,234
Judges' retirement system	
Number of active members	55
Average age	55.9
Average service credit	9.0
Total compensation	$8,008,841
Average compensation	$145,615
Public safety system with prior PERS main system service	
Number of active members	598
Average age	36.6
Average service credit	6.1
Total compensation	$34,521,069
Average compensation	$57,728
Public safety system without prior PERS main system service	
Number of active members	119
Average age	38.7
Average service credit	3.7
Total compensation	$6,110,843
Average compensation	$51,352
Combined PERS fund	
Number of active members	23,483
Average age	46.3
Average service credit	9.7
Total compensation	$1,075,957,954
Average compensation	$45,819
Highway Patrolmen's retirement system	
Number of active members	154
Average age	37.4
Average service credit	10.6
Total compensation	$10,737,297
Average compensation	$69,723
Job Service	
Number of active members	7
Average age	63.1
Average service credit	42.0
Total compensation	$416,652
Average compensation	$59,522

Category	Year Beginning July 1, 2018
RHIC	
Number of active members	23,747
Average age	46.2
Average service credit	9.7
Total compensation	$1,094,216,774
Average compensation	$46,078

Funded Ratio

The following is a comparison of this year's actuarial funded ratio to last year's ratio:

	July 1, 2017		July 1, 2018	
	Unfunded Actuarial Liability	Funded Ratio	Unfunded Actuarial Liability	Funded Ratio
PERS main system	$1,088,452,965	69.9%	$1,089,647,874	71.6%
Judges' retirement system	($7,092,753)	117.4%	($10,128,128)	124.4%
Public safety system with prior PERS main system service	$12,289,006	80.0%	$11,199,434	83.5%
Public safety system without prior PERS main system service	($32,763)	100.5%	($412,933)	105.3%
Highway Patrolmen's retirement system	$23,324,776	75.2%	$22,278,028	77.4%
RHIC	$82,091,843	58.3%	$80,451,080	61.1%
Job Service	($34,533,415)	154.1%	($30,119,796)	144.1%

Combined Public Employees Retirement System Fund

The combined PERS fund is made up of the PERS main system, judges' retirement fund, public safety system with prior PERS main system service, and public safety system without prior PERS main system service. For the combined PERS fund, the present contribution rates are not sufficient to improve the funded ratio.

As a result of this funding ratio, there are GASB implications that affect the PERS main, judges' retirement, and public safety systems, including a discount rate of between 6.30 and 6.50 percent needs to be used to calculate the total pension liability and is expected to increase the net pension liability compared to the unfunded actuarial accrued liability from the funding actuarial valuation by an additional $600 million to $650 million. These GASB implications began affecting employers as early as fiscal year 2018.

Because the statutory employer contribution rates are lower than the actuarial employer contribution rates for the PERS main system, the PERS actuary consultant recommended the statutory contribution rates be increased so the unfunded liability is amortized over a period of no longer than a closed 30-year period, to reach 100 percent funded within 30 years. This contribution increase can be accomplished by increasing the employer rates, the employee rates, or both. The total actuarial contribution rate, based on 30-year amortization of the unfunded liability, is 16.69 percent for the PERS main system.

Because the statutory employer contribution rate is significantly higher than the actuarial employer contribution rate for the judges' retirement system and the funded ratio is currently over 120 percent, the PERS actuary consultant recommended the contribution rates for the employer or the employee be decreased. An option to decrease the contribution includes setting a total contribution rate at a certain percentage of the total normal cost rate. The percentage of the total normal cost rate could decrease as higher funded ratios are attained, and if all assumptions are realized and the funded ratio is over 100 percent, a contribution higher than the normal cost rate would result in increasing the funded ratio. In addition, the consultant recommended consideration of whether an additional decrease in the investment return assumption is appropriate, while maintaining a funded ratio above 100 percent.

Highway Patrolmen's Retirement System

The Highway Patrolmen's retirement system experienced an actuarial employer contribution rate decrease for fiscal year 2019 compared to fiscal year 2018. The actual plan experience contributed to a net decrease in the actuarial contribution rate compared to fiscal year 2018, with the investment rate of return approximately 9.1 percent on a market value of assets basis and 9.2 percent on an actuarial value of assets basis and salary increases lower than assumed.

Because the statutory employer contribution rates are lower than the actuarial employer contribution rates for the Highway Patrolmen's retirement system, the PERS actuary consultant recommended the statutory contribution rates be increased so the unfunded liability is amortized over a period of no longer than a closed 30-year period, to reach 100 percent funded within 30 years. This contribution increase can be accomplished by increasing the employer rates, the employee rates, or both. The total actuarial contribution rate, based on 30-year amortization of the unfunded liability, is 35.74 percent for the Highway Patrolmen's retirement system.

Retiree Health Insurance Credit Fund

The PERS actuary consultant identified several highlights in the valuation year. Although the fund had unfavorable demographic experience, the funded ratio increased by about 2 percent and the statutory contribution rate of 1.14 percent is higher than the actuarial contribution rate based on a 12-year amortization period.

The PERS actuary consultant recommended the PERS Board adopt RHIC participation assumptions and a lower investment return assumption. Additionally, the consultant recommended the PERS Board consider a 20-year amortization period for the RHIC in calculating the actuarial contribution rate as is done with the other PERS plans.

Retirement Plan for Employees of Job Service North Dakota

The Public Employees Retirement System Board assumed administration of the retirement plan for employees of Job Service pursuant to legislation enacted in 2003. This is a closed retirement plan for employees of Job Service.

The July 1, 2018, actuarial valuation reported the plan surplus decreased by about $4.4 million from July 1, 2017, to July 1, 2018, due to the decrease in the investment return assumption from 5.70 to 4.75 percent. The investment rate of return was approximately 4.8 percent on an actuarial value of assets. In addition, there was a cost of living adjustment gain due to cost of living adjustment increases effective December 1, 2017, granted on retiree benefits of 2 percent compared to the fiscal year 2018 actuarial assumption of 2.5 percent.

CONSIDERATION OF RETIREMENT AND HEALTH PLAN LEGISLATIVE PROPOSALS

The committee established April 2, 2018, as the deadline for submission of retirement, health, and retiree health proposals. The deadline is intended to provide the committee and the consulting actuary of each affected retirement, health, or retiree health program sufficient time to discuss and evaluate the proposals. The committee allowed legislators and those agencies entitled to the bill introduction privilege to submit proposals for consideration. The committee recognized the committee retains the authority to waive this self-imposed deadline. The committee reviewed each submitted proposal and solicited testimony from proponents, retirement and health program administrators, interest groups, and other interested persons.

Under Section 54-35-02.4, each retirement, insurance, or retiree insurance program is required to pay, from its retirement, insurance, or retiree health benefits fund, as appropriate, and without the need for a prior appropriation, the cost of any actuarial report required by the committee which relates to that program. The committee referred the submitted legislative proposals to the affected retirement or insurance program and requested the program authorize the preparation of actuarial reports. For technical comments, PERS used the actuarial services of Gabriel, Roeder, Smith, and Company Holdings, Inc., to evaluate proposals that affected retirement programs, and the services of Deloitte LLP to evaluate proposals that affected the public employees health insurance program. For technical comments, TFFR used the actuarial services of The Segal Group Inc., in evaluating proposals that affect TFFR.

The committee obtained written actuarial information on each proposal over which the committee took jurisdiction. In evaluating each proposal, the committee considered the proposal's actuarial cost impact; testimony by retirement and health insurance program administrators, interest groups, and affected individuals; the impact on the general fund or special funds, and on the affected retirement program; and other consequences of the proposal or alternatives to the proposal. Based on these factors, the committee makes a favorable recommendation, unfavorable recommendation, or no recommendation on each proposal.

A copy of the actuarial evaluation and the committee's report on each proposal will be appended to each proposal and delivered to its sponsor. Each sponsor is responsible for securing introduction of the proposal in the 66th Legislative Assembly.

Teachers' Fund for Retirement

The following is a summary of the proposal affecting TFFR over which the committee took jurisdiction, a summary of the actuarial analysis, and the committee's action on the proposal:

Bill No. 126

Sponsor: TFFR

Proposal: Updates statutes relating to the TFFR to remain in compliance with the federal Internal Revenue Code provisions regarding direct rollovers.

Actuarial analysis: The TFFR consulting actuary reported the bill does not have an actuarial cost impact on TFFR. The bill clarifies existing statutory provisions to more accurately reflect actual operations of the TFFR.

Committee report: Favorable recommendation.

Public Employees Retirement System

The following is a summary of the proposals primarily affecting PERS over which the committee took jurisdiction, a summary of the actuarial analysis, and the committee's action on each proposal:

Bill No. 19

Sponsor: Senator O. Larsen

Proposal: If a state employee elects family health benefits coverage, the employee pays the difference between the cost of the individual coverage and the family coverage.

Actuarial analysis: The PERS consulting actuary reported the bill would:

- Eliminate the composite rate used for individual and family plans and replace the rate with single and family plan rates.
- Shift significantly premium dollars from the state to employees.
- Have an unknown financial impact because it is not possible to estimate how many family contracts may opt for single coverage.
- Result in some adverse risk selection due to the mix of employees who would elect single versus family coverage.
- Result in the loss of federal Affordable Care Act grandfathered status, which will increase premiums approximately 3 percent.
- Beginning with the July 1, 2019, benefit plan, result in little time to adjust benefit plans and would not coincide with open enrollment.

Committee report: Unfavorable recommendation.

Bill No. 20

Sponsor: Representative Streyle

Proposal: Limits the authority of the Employee Benefits Programs Committee by removing the requirement legislators or the Legislative Management submit proposed legislative measures to the committee for review, but continue the requirement executive and judicial branches submit legislative measures affecting the retirement, health and retiree health plans to the committee for review.

Actuarial analysis: Both PERS and TFFR submitted analyses on this measure. The PERS consulting actuary reported risks associated with not performing an actuarial analysis of a bill before the bill is passed. There also may be tax qualification issues if legislative changes are made without the proper review or analysis.

The Teachers' Fund for Retirement consulting actuary reported although the bill does not have an actual cost impact, the bill could lead to a scenario that has a significant impact on the financial health of the TFFR and other retirement systems.

Committee report: Unfavorable recommendation.

Bill No. 117

Sponsor: Representative Kasper

Proposal: Provides contracts for the provision of PERS health benefits coverage may not exceed 2 years and may not be renewed, and revises the law relating to the PERS self-insurance health plans.

Actuarial analysis: The PERS consulting actuary reported the bill:

- Would not have a material actuarial impact on the health plan.
- Could affect the willingness of new carriers to bid on the plan and could have the unintentional effect of reducing future competition for the PERS health benefit plan.
- Could result in carriers being less aggressive in the bids knowing the carrier would face another bid in 2 years. A 6-year process may encourage carriers to invest in the relationship by being more aggressive in pricing and other guarantees.
- May be subject to constitutional challenge based on Section 18 of Article I of the Constitution of North Dakota, as it relates to possible impairment of contract.
- Does not clearly favor one health benefit model over another. The history of the health insurance bid process indicates full bids, partial bids, and renewals have been used during past bienniums, plan design has changed,

and PERS reserves have been used to mitigate premium increases. As a result, the history does not indicate if any method is more effective than the others in achieving lower premiums.

- Would have minimal effect on membership as a result of bidding the plan more often. However, if the result is changes in the carrier every 2 years, this proposal could have an effect on members since networks, formularies, and other items may change even though there may not be any changes in the plan design.

Committee report: Unfavorable recommendation.

Bill No. 128

Sponsor: PERS

Proposal: This technical corrections bill provides if health benefits are provided through a self-insurance health plan, PERS is not required to provide prescription drug coverage through a third-party administrator and is not required to provide stop-loss coverage for prescription drug coverage. The bill draft also clarifies only vested members of the Highway Patrolmen's retirement system are qualified to purchase service credit and retiree health benefits may be used for any dental, vision, and long-term care benefits.

Actuarial analysis: The PERS consulting actuary addressing health benefits reports the proposed amendments remove outdated language and clarify administrative aspects of the program, with no anticipated material actuarial impact due to these amendments. The Public Employees Retirement System consulting actuary addressing the retirement programs reports there is no actuarial impact expected to RHIC and the changes are designed to provide more parity with the other PERS retirement systems.

Committee report: Favorable recommendation.

Bill No. 129

The committee took jurisdiction over two versions of this bill draft. Both versions of Bill No. 129 are substantively the same, except for the effective dates of the revisions. The Public Employees Retirement System reported if it introduces this as part of its legislative package, PERS will pursue the second version and not the first version.

Sponsor: PERS

Proposal: The second version of this bill draft maintains RHIC benefits for employees hired before January 1, 2020; provides employees hired after December 31, 2019, do not receive RHIC benefits; and provides the 1.14 percent employer RHIC contributions for employees hired after December 31, 2019, are re-directed to the PERS retirement plan.

Actuarial analysis: The PERS consulting actuary reports:

- The RHIC fund remains solvent under current actuarial assumptions.
- The PERS main plan moves from becoming insolvent in 2106 to being fully funded in 2101.
- The bill draft lowers the PERS main plan's unfunded liability for GASB reporting.
- The bill draft increases benefits for defined contribution plan members.
- The bill draft creates benefit inequity between current and new employees.
- Future changes to actuarial assumptions, especially assumed rate of return, may create an unfunded liability.

Committee report: Unfavorable recommendation for the first version; favorable recommendation for the second version.

Bill No. 130

The committee took jurisdiction over two versions of this bill draft. Both versions of Bill No. 129 are substantively the same, except the first version has a trigger provision. The Public Employees Retirement System reported if PERS introduces this bill draft as part of its legislative package, it will pursue the second version and not the first version.

Sponsor: PERS

Proposal: For new hires, decrease the retirement multiplier from 2.0 to 1.75 percent. The first version of this bill draft provides for a trigger to return to a 2.0 multiplier if the PERS main plan reaches 100 percent funding. The second version of this bill draft does not contain this trigger.

Actuarial analysis: The PERS consulting actuary reports without any change, the PERS main plan will be insolvent in 2106; however, with this change, under current actuarial assumptions, the PERS main plan is projected to reach 100 percent funding in 2087.

Committee report: Unfavorable recommendation for the first version; favorable recommendation for the second version.

Bill No. 131

Sponsor: PERS

Proposal: Provides for a 1 percent increase in employee and a 1 percent increase in employer contribution for the PERS main plan and the defined contribution plan.

Actuarial analysis: The PERS consulting actuary reports:

- The current PERS main plan contribution rate is insufficient to pay off the $1.1 billion unfunded actuarial accrued liability.
- Under the current actuarial assumptions, the PERS main plan will be insolvent in 2106.
- With the contribution increase provided in this bill draft, under the current actuarial assumptions, the PERS main plan will be 100 percent funded in 2087.
- The bill provides for an increase of benefits for defined contribution plan members.

Committee report: Favorable recommendation.

Bill No. 135

Sponsor: PERS

Proposal: For purposes of PERS retirement benefits, prospectively changes the definition of "final average salary" to level salary fluctuations resulting from different pay schedules.

Actuarial analysis: The PERS consulting actuary reports no actuarial effect because the actuary determines liabilities using an annual salary. The proposed change is expected to treat members similarly regardless of pay schedule.

Committee report: Favorable recommendation.

Bill No. 146

Sponsor: Representative Boehning

Proposal: Requires PERS to develop a health savings account option for an employee to elect in lieu of taking health insurance and directs PERS to conduct a health benefits coverage study.

Actuarial analysis: The PERS consulting actuary reports because federal law provides for an employer to contribute funds to a health savings account, the employee must be enrolled in a high deductible health plan, as drafted, this option is not allowed under federal law.

Committee report: Unfavorable recommendation.

Bill No. 289

Sponsor: Legislative Management - Health Care Reform Review Committee

Proposal: Imposes new regulatory and statutory requirements regarding any self-insurance health plan administered by PERS; places the Insurance Department in a regulatory role over a self-insurance health plan; makes the purchase of stop-loss insurance as part of a self-insurance health plan optional; modifies the contingency reserve funds requirements for self-insurance health plans; changes guidelines for accepting a self-insurance bid; allows for a Bank of North Dakota line of credit if PERS implements a self-insurance health plan; and revises the PERS health benefit contract renewal considerations.

Actuarial analysis: The PERS consulting actuary reports removing the stop-loss requirement for self-insurance health plans is acceptable and could result in administrative savings; the self-insurance health plan reserve requirements are appropriate; and since the current PERS health benefits cover the health benefits that would be mandated coverage under a self-insurance health plan, there is no actuarial impact if PERS moves to a self-insurance health plan with these benefits.

Committee report: Favorable recommendation.

Bill Nos. 382, 383, and 388

The committee took jurisdiction over these three proposals during the interim; however, the committee did not receive an actuarial analysis or take committee action during the interim. The committee plans to schedule a meeting before the 2019 legislative session to receive the actuarial analysis and take committee action over these three proposals.

Bill Nos. 382 and 383 would provide for closure of the PERS main plan for new hires and provide for the use of legacy fund principal to pay the unfunded liability of the plan. The difference between the bill drafts is how each addresses the PERS main plan participation by political subdivisions.

Bill No. 388 would provide state employees who opt for family health insurance coverage would be responsible to pay 15 percent of the difference between the cost of an individual plan and a family plan.

ADDITIONAL COMMITTEE RESPONSIBILITIES

Recruitment and Retention Bonuses

Pursuant to Section 54-06-31, the committee received annual reports from the Human Resource Management Services Division on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions. During the period July 1, 2017, to June 30, 2018:

- The Department of Corrections and Rehabilitation made six referral bonus payments to its employees totaling $1,200, averaging $200 per payout.
- The following five agencies made recruitment bonus payments, totaling $269,061, and were reimbursed $18,157 from employees who did not fulfill the bonus agreement, for a net amount of $250,904:

  The Department of Human Services made 135 payments for a total of $248,952, an average of $1,403 per payment, and was reimbursed $14,604.

  The State Department of Health made one payment for $4,109 and was reimbursed $2,857.

  The Information Technology Department made seven payments totaling $14,000 to four new hires.

  The Department of Public Instruction made one payment of $2,000.

  The Department of Transportation received a reimbursement of $695.
- The following six agencies made retention bonus payments totaling $430,741:

  The Bank of North Dakota made one payment for $10,401.

  The Department of Agriculture made two payments for a total of $11,190, an average of $5,595 per payment.

  The State Department of Health made three payments for a total of $13,358, an average of $4,453 per payment.

  The Department of Human Services made 16 payments for a total of $150,011, an average of $9,376 per payment.

  The Department of Mineral Resources made 124 payments for a total of $233,781, an average of $1,885 per payment.

  The State Auditor's office made four payments for a total of $12,000, an average of $3,000 per payment.

Service Awards, Tuition, and Professional Organizations

In accordance with Sections 54-06-32, 54-06-33, and 54-06-34, the Human Resource Management Services Division reported for the 2015-17 biennium, state employee service awards totaled $524,760.32; employer-paid costs of training or educational courses, including tuition and fees, totaled $6,343,598.37; and employer-paid professional organization membership and service club dues for individuals totaled $1,246,470.91. The following schedule is a summary of the information presented for the 2015-17 biennium:

Report on State Employee Service Awards, Employer-Paid Tuition, and Employer-Paid Professional Organization Membership and Service Club Dues July 1, 2015 - June 30, 2017 (Sections 54-06-32 to 54-06-34)				
Agency	**2015-17 Authorized Full-Time Equivalent Positions**	**State Employee Service Awards**	**Employer-Paid Costs of Training or Educational Courses, Including Tuition and Fees**	**Employer-Paid Professional Organizational Membership Service Club Dues for Individuals**
10100 Governor's office	18.00			$415.00
10800 Secretary of State	34.00	$2,047.45	$775.00	12,606.00
11000 Office of Management and Budget	122.50	2623.00	11,752.46	5,973.66
11200 Information Technology Department	350.30	27,743.00	465,989.52	66,990.42
11700 State Auditor's office	59.80	2,745.95	53,044.74	3,895.00
12000 State Treasurer	8.00		970.85	5,495.00
12500 Attorney General	250.00	3,950.00	7,477.75	30,771.00
12700 Tax Commissioner	136.00	12,486.50	33,079.72	4,625.00
14000 Office of Administrative Hearings	5.00	405.88		
18000 Judicial branch	391.00	19,125.85	155,113.28	333,854.97
18800 Commission on Legal Counsel for Indigents	40.00		3,362.95	24,902.55
19000 Retirement and Investment Office	19.00	1,670.93	27,651.00	13,630.00
19200 Public Employees Retirement System	34.50	2,959.00	20,205.75	22,253.00
20100 Department of Public Instruction	99.75	10,256.91	30,475.42	16,838.26
22600 Department of Trust Lands	33.00	2,445.69	54,131.58	13,960.00
24400 Forest Service	28.96			21,259.00
25000 State Library	29.75	1,301.60		18,319.00
25200 School for the Deaf	45.61		2,007.00	
25300 North Dakota Vision Services - School for the Blind	30.00	4,039.79	10,557.49	3,389.00
27000 Department of Career and Technical Education	26.50	1,249.95		6,605.00
30100 State Department of Health	365.00	29,700.50	143,402.42	44,923.50
30500 Tobacco Prevention and Control Committee	8.00	200.00	8,169.00	2,775.00
31300 Veterans' Home	120.72	4,100.00	17,808.38	965.00
32100 Department of Veterans' Affairs	9.00		1,070.00	3,715.00
32500 Department of Human Services	2211.08	141,783.60	424,789.24	81,574.49
36000 Protection and Advocacy Project	27.50	2,508.88		
38000 Job Service North Dakota	237.76	12,783.00	81,532.69	945.00
40100 Insurance Commissioner	49.50	1,733.70	17,291.20	8,511.00
40500 Industrial Commission	121.75	5,558.50	14,758.47	389.00
40600 Department of Labor and Human Rights	15.00	383.45	7,510.00	997.93
40800 Public Service Commission	46.00	3,799.50	11,700.67	2,905.00
41200 Aeronautics Commission	7.00	334.90	99.00	
41300 Department of Financial Institutions	30.00		24,060.00	
41400 Securities Department	9.00	686.00	3,945.00	4,380.00
48500 Workforce Safety and Insurance	260.14	23,090.66	394,990.55	63,851.39
50400 Highway Patrol	215.00		227,372.36	28,787.20
53000 Department of Corrections and Rehabilitation	836.29	61,177.24	192,318.22	114,627.10
54000 Adjutant General	234.00	14,293.65	3,070,264.97	22,759.00
60100 Department of Commerce	69.40	3,305.55	11,995.33	2,356.00
60200 Agriculture Commissioner	77.00	3,923.00	26,313.45	49,347.53
60700 Milk Marketing Board		450.00		
61600 State Seed Department		750.00	1,449.06	2,550.00
67000 Racing Commission	2.00	13.25		
70100 State Historical Society	78.00	6,688.00	35,150.61	156.28
72000 Game and Fish Department	163.00	17,867.56	12,604.98	95,542.66
75000 Parks and Recreation Department	66.00	9,327.88	19,209.68	46,574.95
77000 State Water Commission	97.00	8,375.00	17,206.77	35,833.02
80100 Department of Transportation	1080.50	76,875.00	701,991.81	47,482.00
Total	1486.50	$524,760.32	$6,343,598.37	$1,267,729.91

Compliance with Federal Law

Pursuant to Sections 15-39.1-05.2 and 15-39.1-35, the Board of Trustees of the TFFR reported no action by the committee was required regarding any necessary or desirable changes in statutes relating to the TFFR fund and there was no terminology adopted by the Board of Trustees to approve to comply with applicable federal statutes or rules. The Public Employees Retirement System Board reported no action by the committee was required under Section 39-03.1-29, 54-52-23, or 54-52.1-08.2 to approve terminology adopted by the PERS Board to comply with applicable federal requirements. However, the committee received regular status reports from TFFR and PERS regarding TFFR and PERS activities.

Firefighters Relief Associations

The committee was not notified by any firefighters relief association pursuant to Section 18-11-15(5), which requires the committee to be notified by any firefighters relief association that implements an alternate schedule of monthly service pension benefits for members of the association.