

NDPERS BOARD MEETING

Agenda

Bismarck Location:
ND Association of Counties
1661 Capitol Way
Fargo Location:
Sanford Health Plan
1749 38th Street South

Thursday, June 21, 2018

Time: 8:30 AM

I. MINUTES

- A. May 8, 2018 minutes

II. VENDOR INTERVIEWS

- A. 8:35 to 8:50: Review of Proposals *Executive Session
- B. 8:50 to 9:30: Dental Vendor A** Executive Session
 - 1. Presentation (20 minutes)
 - 2. Questions/Answers (20 minutes)
- C. 9:35 to 10:15: Dental Vendor B** Executive Session
 - 1. Presentation (20 minutes)
 - 2. Questions/Answers (20 minutes)
- D. 10:15 Discussion/Vendor Selection – Scott (Board Action) *Executive Session

III. RETIREMENT

- A. Employer Group Termination – MaryJo & Scott (Board Action)
- B. Quarterly Investment Report – Bryan (Board Action)
- C. Job Service Asset Allocation – Bryan (Board Action)

IV. GROUP INSURANCE

- A. Tobacco Cessation Program – Sharon (Board Action)
- B. Health Plan RFP – Bryan (Information)
- C. Retiree Subcommittee Update – Sharon (Information)
- D. Heart of America – Sharon (Information)
- E. Managed Care Option – Scott (Information)

V. FLEX COMP

- A. RFP Evaluations – Bryan (Board Action) *Executive Session

VI. MISCELLANEOUS

- A. Election Results – Jan/Election Subcommittee (Board Action)
- B. Budget – Derrick & Sharon (Board Action)
- C. Legislative Committees Update – Sharon (Information)
- D. Special Board Meeting – Scott (Information)

*Executive Session pursuant to NDCC §44-04-19.1(9) and §44-04-19.2 to discuss negotiating strategy or provide negotiating instructions to its attorney or other negotiator. (Motion is necessary)

** Executive Session pursuant to NDCC §§ 44-04-17.1(2) and (5), 44-04-18.4(6), and 44-04-19.2(1) and (6) to hear and discuss oral presentations regarding bids or proposals received by a public entity in response to a request for proposals and to sequester all competitors in a competitive selection or hiring process from that portion of a public meeting wherein presentations are heard or interviews are conducted. (Motion is necessary)

Any individual requiring an auxiliary aid or service must contact the NDPERS ADA Coordinator at 328-3900, at least 5 business days before the scheduled meeting.

Dental Plan Vendor

Executive Session
material to be sent out
under separate cover



North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • Box 1657
Bismarck, North Dakota 58502-1657

Scott Miller
Executive Director
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Memorandum

TO: NDPERS Board

FROM: MaryJo Anderson & Scott Miller

DATE: June 6, 2018

SUBJECT: Employer Group Termination

As discussed during the May NDPERS Board meeting, NDPERS has received inquiries from political subdivisions regarding withdrawal from the NDPERS retirement program. This is due to Government Accounting Standards Board (GASB) reporting, which requires employers to recognize their portion of net pension liabilities on employer financial statements. A copy of the May Board meeting memo and two documents provided by GRS previously are attached.

In reviewing the proposed employer withdrawal options, the Board directed staff to provide a summary of the withdrawal options so the more conservative actuarial calculation methodology could be implemented.

Summary of Risk Associated with Assumptions Used in Liability Calculations

	Type 1 – Partial Withdrawal	Type 2 – Full Withdrawal	Comments
Member Participation	Current members remain in the plan and continue to earn future benefit accruals, but no new members can join the plan	All members would have benefit accruals “frozen” as of date employer terminated and no new members can join the plan	NDAC 71-02-08-02 indicates non-vested members have the option of taking a distribution (refund or rollover) from the plan, which may imply Type 2 - Full Withdrawal of employer.
Investment Return	If plan assets earn less than assumed rate of return, may result in shortfall and actuarial loss	Same as Type 1	GRS recommends NDAC change to reflect “Withdrawal Valuation” rather than “Annual Funding Valuation” using lower interest rate assumptions

Pay Increases	Higher salary increases than assumed may result in loss to system	Future benefits are known and risk is limited to future pay increases	
Mortality	If fewer members die prior to benefit commencement or if member receives retirement benefits longer than assumed, a loss will occur	Same as Type 1	GRS recommends updating mortality table and generational mortality improvement scale to the most up-to-date versions.
Disability	If more receive benefits than assumed, a loss may occur	Limits risk to disabilities sustained before withdrawal and applied for within one year of withdrawal, but otherwise the same as Type 1	
Termination	If fewer members terminate prior to retirement, a loss may occur	Future benefits are known and risk is limited.	
Retirement / Benefit Commencement	(Active Member) If member begins receiving benefits earlier than assumed, a loss may occur *Additional assumptions would need to be considered as withdrawal and future accruals are assumed. Benefit commencement based upon the higher of either rates assumed in funding valuation liability or earliest eligibility.	(Deferred Member) If member begins receiving benefits earlier than assumed, a loss may occur *Accrued service and Final Average Salary (FAS) would be frozen. Benefit commencement based upon earliest eligibility.	
Calculation of Net Employer Withdrawal Liability to Plan	Less expensive to employer initially, but ongoing future statutory contribution requirements for current members	More expensive to employer initially but released from all future statutory contribution requirements	GRS recommends simplified asset allocation and calculation methodology indicated below.
GASB Liability for Employer	Employer's portion of the liability must continue to be recognized on annual financial statements	Eliminates liability for employer on future annual financial statements	Reviewed with Accountants

First, the Board would need to determine the type of employer withdrawal allowable under NDAC 71-02-08-02 – a partial withdrawal or a full withdrawal. The administrative code section outlining the employer withdrawal process seems to contemplate a full withdrawal rather than a partial withdrawal based upon the following:

- Liabilities are calculated for vested employees

- Non-vested employees are able to take a withdrawal of their account balance through refund or rollover indicating membership has ended; tax counsel has stated that allowing current members to take a withdrawal while still employed would most likely violate the Internal Revenue Code in-service distribution restrictions and create a qualification issue
- Terminated members are not eligible for future benefit improvements

Next, the board would need to provide guidance to GRS on the assumptions and calculation methodology to be used for the employer withdrawal policy. This includes the following four items as outlined by GRS in the May 2018 Board memo.

1. Type of Benefits Payable

- Full withdrawal – members treated as if deferred vested (retirement benefits, lump sum distribution, death benefits)
- Partial withdrawal – members treated as if active member
However, non-vested members are ineligible for lump sum distribution option under federal guidelines, despite what is stated in the NDAC.

2. Actuarial Assumptions (withdrawal valuation versus funding valuation)

- GRS recommends using a lower interest rate assumption (rules would need to be changed to allow)
- GRS recommends using updated mortality table and generational mortality improvement scale
- GRS recommends for full withdrawal that benefits are assumed to commence at earliest eligibility, and for partial withdrawal that the higher cost would be used by comparing both assumed retirement rates for funding valuation versus earliest eligibility for retirement.
- GRS recommends including a provision for future administrative expenses

3. Asset Allocation Methodology

- Not administratively possible to allocate actual assets
- GRS recommends adopting a simplified method. Allocated assets are equal to Main system funded ratio by member status (based upon market value of assets) times the actuarial accrued liability by member status (based on funding valuation assumptions and methods and assuming future benefit accruals) for all members of the withdrawing employers.

4. Calculation methodology

- GRS recommends frozen liability is calculated assuming no future benefit accruals after employer withdrawal date and withdrawal liability assumptions.
- GRS suggests an additional load of 5% to account for future administrative expenses. This is higher than the 0.24% (which can change each valuation) administrative expense figure we used during the last valuation to calculate contribution requirements.
- GRS recommends unfunded withdrawal liability as the cost of future benefits and expenses expected to be paid in the future for members that are not funded by assets allocated to the employer.
- GRS recommends that if total unfunded withdrawal liability is not paid as a lump sum, a payment schedule with appropriate interest charges be set up.

Board Action:

1. Determine the type of employer withdrawal allowable under NDAC 71-02-08-02 – partial or full withdrawal.
2. Determine assumptions, asset allocation and calculation methodology for employer group withdrawal based upon GRS guidance. This may include updating NDAC to reflect lower interest rate assumption for “Withdrawal Valuations” rather than using “Annual Funding Valuations”.



**North Dakota
Public Employees Retirement System**
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**Employer Group Termination
Attachment 1**

Sharon Schiermeister
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Fax: (701) 328-3920 Email ndpers-info@nd.gov Website <https://ndpers.nd.gov>

Memorandum

TO: NDPERS Board

FROM: MaryJo

DATE: April 30, 2018

SUBJECT: Employer Group Termination

NDPERS has recently received inquiries from political subdivisions regarding withdrawal from the NDPERS retirement program due to increased annual pension expenses being reported on employer financial statements.

With the financial reporting standards under Government Accounting Standards Board (GASB) Statement No. 68, employers must recognize their portion of net pension liability (similar to current unfunded actuarial accrued liability) on employer financial statements based on the prior fiscal year. Each employer's cost share of the net pension liability is based upon the employer's total pension contributions for the current year. With the current NDPERS unfunded liability, GASB requirements also require that a discount rate or blended long-term expected rate of return on plan investments to be used so net position is projected to be sufficient to make projected future benefit payments.

Since NDPERS has not experienced an employer group withdrawal from participation previously, we are looking for Board guidance. North Dakota Administrative Code 71-02-08-02 outlines the general process for a political subdivision to withdraw from participating in the NDPERS plan. This process requires that the political subdivision pay the plan costs for any cost incurred by the fund resulting from the political subdivision withdrawal.

71-02-08-02. Withdrawal.

Any political subdivision may discontinue participation in the fund if the following requirements are met:

1. The political subdivision must provide the board with a copy of a resolution adopted by the governing authority authorizing the termination of participation in the fund.
2. Upon receiving a copy of the written resolution, an actuarial study must be done by

the plan's actuary to determine the accrued benefit of all vested employees minus allocated assets from the date of participation. The interest assumption used must be the plan's interest assumption used for funding purposes.

3. Any costs incurred by the fund, resulting from a political subdivision ceasing participation, must be assessed against the political subdivision.

4. All employees of a political subdivision that has terminated participation in the fund must not be eligible for future benefit improvements granted to employees or former employees of participating governmental units after the date the employer's participation ceases.

5. An employee who is not vested at the time an employer ceases participation has the option of taking a refund or rollover of the employee's contribution plus interest.

The first area requiring clarification is whether an employer can discontinue participation in the retirement plan, but allow current employees to continue their participation. In reviewing this information with our actuary, Gabriel Roeder Smith & Company (GRS), it was indicated that discontinuing participation can fall under 2 categories: full withdrawal – where all employees would become inactive or “frozen” as of the date the employer terminates participation; or partial withdrawal – where current employees continue to participate in the plan, but no new employees can join the plan. The method for calculating the accrued benefits, used in determining the costs to be assessed against the employer, is different under each of these options.

The second area requiring clarification is how to allocate assets to the employer when determining the cost to cease participation. It may not be possible to determine what has actually been contributed and paid out for each employer, therefore, we have asked GRS to provide an alternate method for allocating assets.

Attached is the information prepared by GRS. They will also be available at the Board meeting to review the options and respond to any questions you may have.

Board Action Requested:

Determine what withdrawal options are available to employers who elect to discontinue participation in the retirement plan, how the accrued benefits will be calculated and how assets will be allocated.

May 4, 2018

Board Members
North Dakota Public Employees Retirement System
Bismarck, North Dakota

Re: North Dakota Public Employees Retirement System – Calculation Methodologies for Employer Withdrawal Valuations

Dear Members of the Board:

In accordance with your request, we are providing commentary on potential calculation methodologies that could be used for employers (political subdivisions) who withdraw from the North Dakota Public Employees Retirement System (NDPERS). Because NDPERS is a cost-sharing multiple employer plan, the remaining employers will bear future risks associated with withdrawn employers.

Background

Article 71-02 of the North Dakota Administrative Code provides the following guidance with respect to political subdivisions withdrawing from NDPERS.

71-02-08-02. Withdrawal.

Any political subdivision may discontinue participation in the fund if the following requirements are met:

- 1. The political subdivision must provide the board with a copy of a resolution adopted by the governing authority authorizing the termination of participation in the fund.*
- 2. Upon receiving a copy of the written resolution, an actuarial study must be done by the plan's actuary to determine the accrued benefit of all vested employees minus allocated assets from the date of participation. The interest assumption used must be the plan's interest assumption used for funding purposes.*
- 3. Any costs incurred by the fund, resulting from a political subdivision ceasing participation, must be assessed against the political subdivision.*
- 4. All employees of a political subdivision that has terminated participation in the fund must not be eligible for future benefit improvements granted to employees or former employees of participating governmental units after the date the employer's participation ceases.*
- 5. An employee who is not vested at the time an employer ceases participation has the option of taking a refund or rollover of the employee's contribution plus interest.*

Although there is guidance in the North Dakota Administrative Code with respect to certain aspects of the calculations for withdrawing political subdivisions, there are many details of the calculations for determining accrued benefits, allocating assets and costs resulting from a political subdivision ceasing participation that could be interpreted and implemented in different ways.

Different Types of Employer Withdrawals

There are different types of employer withdrawals from a retirement system:

1. Type 1: A political subdivision ceases participation in the plan for future members only. Current members, however, remain in the system and continue to earn future benefit accruals
2. Type 2: A political subdivision freezes participation for future benefit accruals of current members (as well as future members); however, frozen accrued benefits for the current members remain in the retirement system. Current members remain in the system and are eligible to begin receiving the benefit amount accrued at the time of withdrawal (frozen benefit) once age/service conditions are met

It is important to define what types of benefits (retirement, termination, disability, death) are paid or are not paid under each type of withdrawal (Type 1 or Type 2) because this will affect the calculation of the liabilities.

Under a Type 1 withdrawal, employers may make statutory contributions for their continuing active members (which would include normal cost and unfunded liability contributions that cease upon members terminating active employment) plus an additional withdrawal liability contribution.

Under a Type 2 withdrawal, employers may make a withdrawal liability contribution only.

The selection of appropriate assumptions depends on whether or not the withdrawing employer has ongoing contribution requirements or is released from all future obligations beyond the final withdrawal liability contribution.

Risks Associated with Assumptions Used in Liability Calculations

If the benefit obligations for members whose employers withdraw from NDPERS are left with the System, NDPERS assumes the risks and the additional costs if actual experience is unfavorable compared to the actuarial assumptions used to assess the employer's withdrawal liability. Therefore, it is important to understand the risks and to use assumptions in the calculation of the liabilities that will appropriately recognize these risks. There are risks associated with the following assumptions:

1. Investment return – if plan assets earn less than the assumed rate of return used in the calculation of liabilities for withdrawing members, there will be an actuarial loss to the System and therefore, a shortfall in the amount contributed by the withdrawing employer that will need to be paid by the remaining employers in NDPERS. However, the ND Administrative Code specifies that “The interest assumption used must be the plan's interest assumption used for funding purposes.” This rate is currently 7.75 percent.
2. Pay increases – if members are accruing future benefits, higher salary increases than assumed will result in a loss to the System. If benefits are frozen as of the employer withdrawal date, the future benefits are known and there is limited risk related to future pay increases.



3. Mortality – if a pre-retirement mortality assumption is used and fewer members die prior to benefit commencement than assumed, a loss may occur. If a member receives retirement benefits longer than assumed, a loss will occur.
4. Disability – if a disability assumption is used, a loss may occur if members receive disability benefits other than expected.
5. Termination – if members are accruing future benefits, fewer members terminating prior to retirement than assumed will result in a loss. If benefits are frozen as of the employer withdrawal date, the future benefits are known and there is limited risk related to more future service accruals than assumed.
6. Retirement/Benefit Commencement – if members begin receiving benefits earlier than assumed, a loss may occur.

Because an employer withdrawal valuation has a different purpose than the annual funding valuation, you may want to consider using different assumptions (that result in higher costs) than those used in the funding valuation. Using a different set of assumptions may help insure against the risk that there will be losses that the remaining employers in the System will have to fund on behalf of the withdrawn employer.

The attached November 2013 Issue Brief from the American Academy of Actuaries distinguishes between a “budget liability” such as the actuarial accrued liability used in the funding valuation and a “solvency liability” on a market basis. Page 3 of the Issue Brief states that “...an important characteristic of the solvency value is that it is intended to fulfill the benefit obligation without additional funds.” In the case of an employer withdrawal from NDPERS, it is our understanding that there would be no subsequent additional funds from the withdrawing employer. This is precisely the situation requiring a solvency liability calculation as described in the Issue Brief and is a strong rationale for using a lower investment return assumption for calculating the withdrawal liability.

Calculation of the Liabilities (Value of Accrued Benefits)

For a withdrawal in which current members remain in the system and earn future benefit accruals (Type 1), the corresponding liability calculation for active members should reflect projected future pay increases and increases in the annual benefit attributable to the member accruing additional service after the employer withdrawal date. There are additional assumptions applied in the actuarial valuation for the assumed rate of investment return, disabilities, pre-retirement death and pre-retirement terminations that would need to be considered as well.

For a withdrawal in which current members remain in the system but do not earn future benefit accruals and only receive their frozen accrued benefit upon satisfying eligibility conditions (Type 2), we recommend the following approach:

- Accrued service is equal to service as of the withdrawal date;
- Final average salary is calculated as of the employer withdrawal date; and
- Members are assumed to start receiving their frozen benefit at first retirement eligibility. Future service after the withdrawal date will apply towards eligibility to the extent allowed under ND law.



As previously indicated, because of the risks associated with the liability calculations for withdrawing employers, it may be appropriate to use different assumptions for withdrawal valuations than used in the funding valuation. The most common assumptions that vary from the funding valuation in order to add conservatism are the investment return assumption, the mortality assumption and the age at which benefits are assumed to commence. The ND Administrative Code states the following:

Upon receiving a copy of the written resolution, an actuarial study must be done by the plan's actuary to determine the accrued benefit of all vested employees minus allocated assets from the date of participation. The interest assumption used must be the plan's interest assumption used for funding purposes.

We recommend that a rate lower than 7.75 percent (the funding valuation interest rate) be used in employer withdrawal calculations. This would require a change to the ND Administrative Code. Currently, the RP-2000 mortality table with generational mortality improvements is used in the actuarial valuation. We recommend that an updated mortality table and generational mortality improvement scale be used in the withdrawal liability calculations. (Withdrawn employers would not be assessed an additional contribution in the future as a result of future assumption changes.) We recommend that for Type 2 withdrawals, the benefit is assumed to commence at earliest eligibility. For Type 1 withdrawals, we recommend reviewing the difference in liability between using the retirement rates assumed in the funding valuation and earliest eligibility for retirement and using the assumption with the higher cost.

Calculation of the Net Employer Withdrawal Liability

If employers are to fully fund the cost of benefits provided to their employees, the benefits and expenses paid should equal the contributions from the employers and employees plus investment earnings. In order to exactly know the current system assets attributable to a certain employer, we would need to know the total contributions received each year since the employer began participating in the system, the total benefits paid and expenses allocated to the employer each year and the accumulated investment earnings for each of those years. However, cash flows are typically not separately tracked each year by employer, so performing an exact calculation of employer assets is difficult. Therefore, using a simplified method which uses the system funded ratio (ratio of assets to liabilities) is typically used.

Following is an example of a methodology that could be used for **Type 2 employer withdrawals**. Because current assets are attributable to current retiree, inactive and active member liabilities, all liabilities (using the same assumptions from the funding valuation) should be considered in the allocation of assets to an employer. Because market value of assets is the actual value of the assets held in the trust, market value is typically used for withdrawal valuations. (Asset smoothing is used to limit volatility in future contribution rates and therefore, we don't consider it appropriate to use in a withdrawal valuation where ongoing contributions are not expected). The frozen liability should be based on the assumptions selected for this type of calculation. We have included commentary on assumptions for use for this calculation on the previous page.



	Main System		
	Actuarial Accrued		
	Liability	Market Value of Assets	Funded Ratio
Active Members	\$ 1,916,436,508	\$ 623,136,158	32.52%
Inactive Vested and Non-Vested Members	254,886,944	254,886,944	100.00%
Retired Members and Beneficiaries	1,446,760,521	1,446,760,521	100.00%
Total	3,618,083,973	\$ 2,324,783,623	64.25%
	Sample Employer Results		
	Based on Funding Valuation		
	Actuarial Accrued		Frozen Liability**
	Liability	Allocated Assets*	(Type 2 Withdrawal)
			Unfunded
			Withdrawal Liability***
Active Members	\$ 500,000	\$ 162,600	\$ 420,000
Inactive Vested and Non-Vested Members	8,000	8,000	9,240
Retired Members and Beneficiaries	400,000	400,000	420,000
Total	\$ 908,000	\$ 570,600	\$ 849,240
			\$ 278,640

*Allocated assets are equal to the Main System funded ratio (based on market value of assets) times the actuarial accrued liability (based on the funding valuation assumptions and methods and assuming future benefit accruals) for all members of the withdrawing employers.

**The frozen liability is calculated assuming no future benefit accruals after the employer withdrawal date and withdrawal liability assumptions. There is an additional load of 5% to account for future administrative expenses.

***The unfunded withdrawal liability is the cost of future benefits and expenses expected to be paid in the future for the members of the withdrawing employer that are not funded by the assets allocated to the employer.

For Type 1 withdrawals (current active members continue to accrue future service), we recommend the same general approach as Type 2 withdrawals:

1. Calculate a funded ratio by status for the System from which the employer is withdrawing based on the market value of assets
2. Allocate market value of assets by status to the withdrawing employer based on liabilities for all members of the employer and methods and assumptions consistent with the funding actuarial valuation (assuming future benefit accruals)
3. Calculate liabilities on a withdrawal basis for all members of the employer. For a Type 1 withdrawal, future accruals for active members would be assumed, and for Type 2, accrued benefits would be frozen as of the withdrawal date. A calculation of potential future disability and death benefits would be included if appropriate based on the provisions of the withdrawal. A different set of assumptions could be used to calculate the withdrawal liability, as discussed previously.
4. Calculate the unfunded withdrawal liability by subtracting the allocated assets (step 2) from the employer withdrawal liability (step 3).

Assuming that employers will continue to make the statutory contributions for their active employees for a Type 1 withdrawal, the following additional steps would be used for a Type 1 withdrawal for the cost of benefits earned in the future:

5. Calculate the present value of future normal cost using the same assumptions as under step 3, including a load for future administrative expenses
6. Calculate the present value of future employer statutory contributions and employee contributions using the same assumptions as under step 3



7. Calculate the expected present value of future unfunded liability by subtracting the future expected contributions (step 6) from the present value of benefits expected to be earned in the future (step 5)
8. Add the unfunded withdrawal liability attributable to past service (step 4) to the unfunded withdrawal liability attributable to future service (step 7) to get the total unfunded withdrawal liability for a Type 1 withdrawal

Following is an example of the additional steps for a Type 1 employer withdrawal:

Step 4 (Unfunded Withdrawal Liability)	\$	278,640
Step 5 (PV Future Normal Cost)		550,000
Step 6 (PV Future Contributions)		706,000
Step 7 (PV Unfunded Liability - Future Service)		(156,000)
Step 8 (Total Unfunded Withdrawal Liability)	\$	122,640

In this example, the employer would contribute the total unfunded withdrawal liability of \$122,640 at the time of withdrawal and then also continue to contribute the employer statutory contribution rate of 7.12% of pay for their active members. If the total unfunded withdrawal liability is not paid as a lump, a payment schedule could be set up which includes appropriate interest charges.

Summary and Conclusions

In order to develop and implement an employer withdrawal policy, the following steps should be taken:

1. Define the types of benefits payable under each type of withdrawal (for example, under a Type 2 withdrawal, are pre-retirement death benefits or disability benefits payable?)
2. Adopt assumptions to be used for employer withdrawal liability calculations (which may be the same or different than the assumptions used for the System funding valuation and may include a provision for future administrative expenses)
3. Adopt a methodology for the allocation of assets
4. Adopt a calculation methodology for the employer withdrawal liability and the calculation of the total unfunded employer withdrawal liability

We have outlined proposed methodologies and considerations for assumptions earlier in this letter.

Disclosures and Additional Information

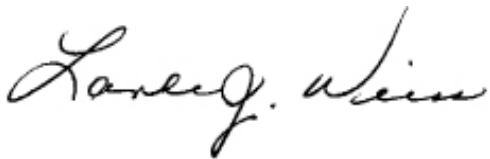
The signing actuaries are independent of the plan sponsor.

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

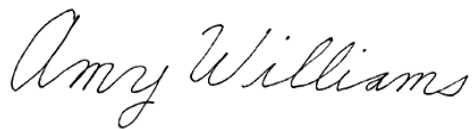


Please let us know if you have any questions or would like to discuss the considerations in this letter further.

Sincerely,



Lance J. Weiss, E.A., M.A.A.A., F.C.A.
Senior Consultant and Team Leader



Amy Williams, A.S.A., M.A.A.A., F.C.A.
Consultant



AMERICAN ACADEMY of ACTUARIES

ISSUE BRIEF

NOVEMBER 2013

Key Points

- Two common measurements of pension obligations have significantly different meanings.
- Market-based methods use a discount rate based on observable data from the financial markets. Expected return-based methods use a discount rate based on the estimated return of the plan's investment portfolio.
- The *solvency value*, a market-based measurement, determines an amount that a pension plan needs to invest in default-free securities to provide the benefits with certainty.
- The *budget value*, an expected return-based measurement, determines an amount that will be sufficient to provide benefits if the portfolio earns the expected return on assets.
- The difference between the two represents the gain the sponsor anticipates by taking on risk in a diversified portfolio.
- Plans funded at the budget level and invested in a diversified portfolio are likely to experience either insufficient or surplus assets, and benefit security is affected by the plan sponsor's ability to make additional contributions if an adverse investment experience materializes.

Measuring Pension Obligations

Discount Rates Serve Various Purposes

Tens of millions of U.S. workers and retirees belong to pension plans that are the subject of heated debates surrounding the discount rate used to measure pension obligations. The American Academy of Actuaries' Pension Practice Council developed this issue brief to inform public policymakers and the general public about different measurements of the obligations of defined benefit pension plans.

Put simply, a pension is a series of payments made to retirees, usually for their lifetimes. An actuary estimates the payments that will be made for all potential retirees from the plan in each future year. Although an estimate, considering these payments as a certain stream of future cash flows is helpful to understand pension measurement.

Expressing the value of this future series of payments as a single amount on a specific date is required for several purposes, including financial statement preparation, funding decisions and regulatory compliance. This amount is an estimate of the *present value* of the obligation and is dependent on the discount rate, the interest rate used to bring future cash flows to the present to account for the time value of money. The intended use of the estimated present value influences how the measurement is determined. Although the estimate is useful for several purposes, the actual obligation remains the payment of the benefits when due.

This issue brief explores two approaches for selecting discount rates when measuring pension obligations, describes the meaning

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David Goldfarb, Pension Policy Analyst

of each measurement, and characterizes the difference between them in terms of investment risk and potential gains and losses. Understanding the measurements of pension obligations requires recognizing the purpose and meaning of each one.

Two Measurements

The two approaches for selecting discount rates used to determine the present value are the *market-based method* and the *expected return-based method*.

Using a market-based method, a discount rate is selected by looking at observable data in the financial markets at the measurement date. Market-based methods use fixed-income yield data because fixed-income securities are similar to the pension obligations – both make fixed payments in future years. Market-based methods vary in the amount of default risk recognized. For example, financial statement disclosures for private-sector employers use AA corporate bond rates, plan-termination measurements use insurance company premium quotes, and solvency measures (discussed further below) often use U.S. Treasury bond rates.

Using an expected return-based method, a discount rate is selected by looking at the asset allocation of the pension plan investment portfolio and estimating the average return the portfolio is expected to produce during the time period in which benefits are paid. State and local government plans, multiemployer plans,

and some private sector plans not subject to the Pension Protection Act¹ funding rules commonly use expected return-based methods. The expected return-on-assets estimate is based on the assumption that the asset allocation will be maintained in the future.

The two methods may produce the same result if a pension portfolio is invested entirely in the same type and duration of fixed-income securities used to select the market-based discount rate, but this is uncommon. Usually, the actual investment portfolio contains securities expected to generate returns greater than the fixed-income returns used by the market-based methods. Thus, the expected return-based discount rate will be higher and the resulting measurement will be lower than the market-based method.²

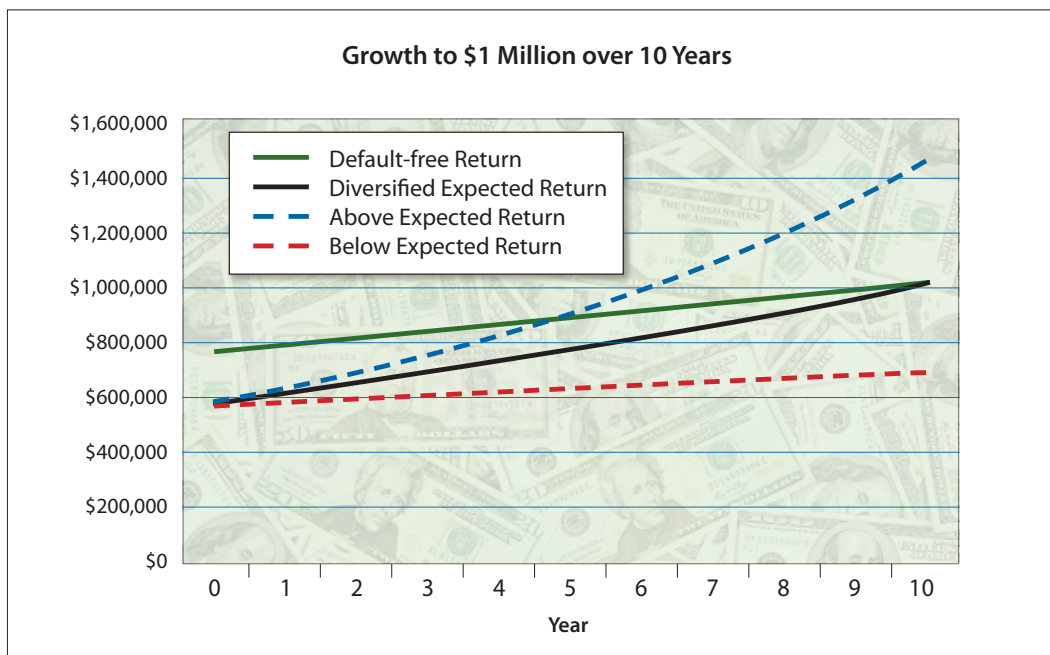
The two methods differ in the relative certainty (the confidence level or probability) that assets equal to the present value would grow as expected if invested as the method assumes. A simplified example is useful to illustrate the level of certainty associated with each.

Assume you promise to pay \$1 million to another party in 10 years and that you are deemed certain to pay your debt. You could fund this debt with a 10-year zero coupon Treasury note. If the note had an effective return of 3 percent, an investment of \$744,000 would be sufficient to fund the debt with 100 percent certainty. You might also fund the debt with a smaller amount invested in a diversified portfolio of assets. If you could reasonably expect the portfolio to return 6

¹Public Law 109–280 (Aug. 17, 2006).

²In some periods of high interest rates such as the early 1980s, many pension plans used discount rates less than default-free rates.

Members of the Pension Practice Council include: Stephen Alpert, MAAA, FSA, FCA, MSPA, EA; Michael Bain, MAAA, ASA, EA; Janet Barr, MAAA, ASA, EA; Eli Greenblum, MAAA, FSA, EA – vice chairperson; William Hallmark, MAAA, ASA, FCA, EA; Kenneth Hohman, MAAA, FSA, FCA, EA; Evan Inglis, MAAA, FSA, EA; Ellen Kleinstuber, MAAA, FSA, FCA, MSPA, EA; Gordon Latter, MAAA, FSA; John Moore, MAAA, FSA, FCA, EA – chairperson; Tonya B. Manning, MAAA, FSA, FCA, EA; Andrew Peterson, MAAA, FSA, EA; Jeffrey Petertil, MAAA, ASA, FCA; Michael Pollack, MAAA, FSA, EA; David Sandberg, MAAA, FSA, CERA; Tamara Shelton, MAAA, FSA, FCA, EA; John Stokesbury, MAAA, FSA, FCA, EA; James Verlautz, MAAA, FSA, EA



percent, an investment of just \$558,000 would be expected to fund the debt, but the ability to meet the obligation with the invested assets would be less certain. The portfolio might earn more or less than 6 percent over the 10 years.

Your creditor would be willing to accept the \$744,000 Treasury note in settlement of the debt now, since both your debt and the note are certain to pay \$1 million in 10 years. But your creditor would not accept the \$558,000 diversified portfolio in lieu of the debt because there is no longer certainty that \$1 million will be available in 10 years and there is no compensation for the additional risk accepted.³ The higher \$744,000 required using the Treasury investment can be considered the price of providing certainty and the \$186,000 reduction using the diversified investment is

the anticipated savings of the debtor that may result when the debtor accepts the additional investment risk.

Solvency Value – A Market-Based Measurement

The *solvency value*⁴ is the amount needed to fulfill all benefit obligations when invested in a portfolio of securities free of default risk whose cash flows match the future benefit payments.

An important characteristic of the solvency value is that it is intended to fulfill the benefit obligation without additional funds. This requires that the portfolio be free of default risk or else additional funds may be needed. Treasury securities are the only broadly available securities that are generally considered free of default risk. For the purposes of this brief, it is presumed

³A creditor willing to take risk could accept the \$744,000 Treasury note, sell the note and invest in a diversified portfolio.

⁴The terms “solvency” and “budget” (introduced in the next section) are used in the [Pension Actuary’s Guide to Financial Economics](#). The meaning in this paper is the same as in that guide. These terms may be used in other contexts with different meanings.

that a portfolio of Treasury securities that produces future cash flows with the same timing as the promised pension benefits would be certain to be capable of fulfilling the pension obligation.⁵

The discount rate used to calculate the solvency value is based on the Treasury yield curve or the return on the assets of the hypothetical Treasury portfolio. When expressed as the return of the hypothetical portfolio, the rate will vary depending on the timing of future benefit payments, or equivalently, based on the duration of the portfolio.

The solvency value, like any market-based value, will change when interest rates change but does not change merely because the asset allocation of the actual portfolio is changed. The solvency value is independent of the actual investments. In our example, the solvency value is \$744,000.

Valuing future pension benefits with a default-free discount rate such as the return on a hypothetical Treasury portfolio provides a reasonable measurement of the amount of assets needed today to provide the estimated benefits with no additional funds.

Budget Value – An Expected Return-Based Measurement

The *budget value* is the amount that is expected to be sufficient to pay all benefits when due if that amount is invested and earns the anticipated return of the plan's investment portfolio. When the portfolio is diversified⁶ and the return is uncertain, additional funds may be needed when returns are less, and surplus assets may develop when returns are greater than the expected return.

If the portfolio is diversified to include securities seeking greater returns, the anticipated

return will be higher and the budget value will be lower than the solvency value. Because of the risk aspects of the portfolio, insufficient or surplus assets may develop, and the budgeting process will have to be adjusted for this differential over time.

The budget value differs from the solvency value in that the selection of the discount rate is based on judgment of future market performance while the solvency discount rate is based on observable data in current markets. Selection of a reasonable rate is essential to the viability of the budget method. The expected return on assets often represents the median or the average of an array of estimated rates based on the potential variability of the return of the portfolio.

The diversified portfolio and the lower budget amount also result in greater uncertainty of the future contributions required of the plan sponsor. With a diversified portfolio and funding based on the budget measurement, the level of sponsor contributions are sensitive to total investment returns, which are affected by interest rates, defaults, and equity (including stock, real estate, hedge fund) price movements. Thus, returns in a diversified trust are expected to be variable, not consistently equal to the expected return. The inevitable result is that sponsor contributions to keep the plan funded at the budget value will be more volatile; or, if contributions are kept stable, unfunded or surplus amounts will develop. In practice, both volatile contributions and unfunded or surplus amounts are experienced by plans using the budget method.

The expected return on assets is often set as the median expected return of a wide range of possible outcomes. This means that perhaps 50 percent of the time the budgeted amount will be

⁵Constructing such a portfolio is not possible for most pension plans, partially due to the very long payment periods. Nevertheless, this hypothetical portfolio is useful for explaining solvency value and can be approximated in the markets with the use of derivatives.

⁶In this issue brief, diversified means any investments other than default-free assets that match the cash flow requirements of the benefit obligation.

insufficient and the sponsor will be called upon to make additional contributions. To the extent the plan sponsor cannot make additional contributions, the security of the benefits is at risk. The magnitude of the potential insufficiency is dependent on the actual return on investments compared to the expected return and can be significant.

Diversified portfolios are expected to have higher returns than Treasury securities. If the portfolio actually earns more than the solvency discount rate, benefits can be provided at a lesser cash cost than under the solvency model. In our example, the budget value is \$558,000, implying a targeted savings of \$186,000 compared to the solvency value. But this anticipated savings comes with added risk.

Valuing future pension benefits with the expected return on a diversified portfolio provides a reasonable measurement of the amount of assets needed today to provide the estimated benefits, but additional contributions may be required or surplus assets may develop.

Risk and Reward

The difference between the solvency value and the budget value provides insight into the risk and potential reward of the diversified portfolio. If a plan sponsor does not invest in a matching portfolio of Treasury securities but instead uses return-seeking assets in a diversified portfolio, several changes occur. First, the expected return on the portfolio is likely to be higher. Therefore, the sponsor's target for funding is lower. At the same time, the magnitude of potential unfunded or surplus amounts increases. This increases the potential demand on the sponsor and the risk to benefit security.

Rational investors do not take risk without the opportunity for a commensurate gain. In

this case, the difference between the solvency value of the pension obligation and the budget value of that same obligation (\$186,000 in our example) can be thought of as a *target gain* for the plan sponsor. This target gain can also be viewed as the market value of the additional risk in the diversified portfolio.⁷ Whether this potential gain is realized depends on the actual investment returns of the pension portfolio. The realized gains could be more or less than the target, and may be negative (i.e., the diversified portfolio may return less than the hypothetical Treasury portfolio). As in our example, the budget value would not be accepted as payment by another party to settle the pension obligation.

To reiterate, if the portfolio were invested as the solvency value anticipates, assets would accumulate to the amount needed to pay benefits since the return is certain. If the portfolio is diversified as the budget value anticipates, the asset accumulation is less certain and depends on the future return of the portfolio. Future returns less than the expected return will cause insufficiencies and additional contribution requirements. Future returns above the expected return will develop surplus assets and lower future contribution requirements.

Despite the uncertainties, several elements remain constant when risk is added to the portfolio – the benefit payments owed to the pension plan's participants and the sponsor's obligation to provide those benefits remain unchanged. The solvency value, which is independent of the actual investments, does not change. But the present value of the pension obligation as measured by the budget value decreases. This anomaly between the unchanged solvency value and decreasing budget value is reconciled by the sponsor's promise to fund additional amounts, if necessary. In effect, the plan then has a con-

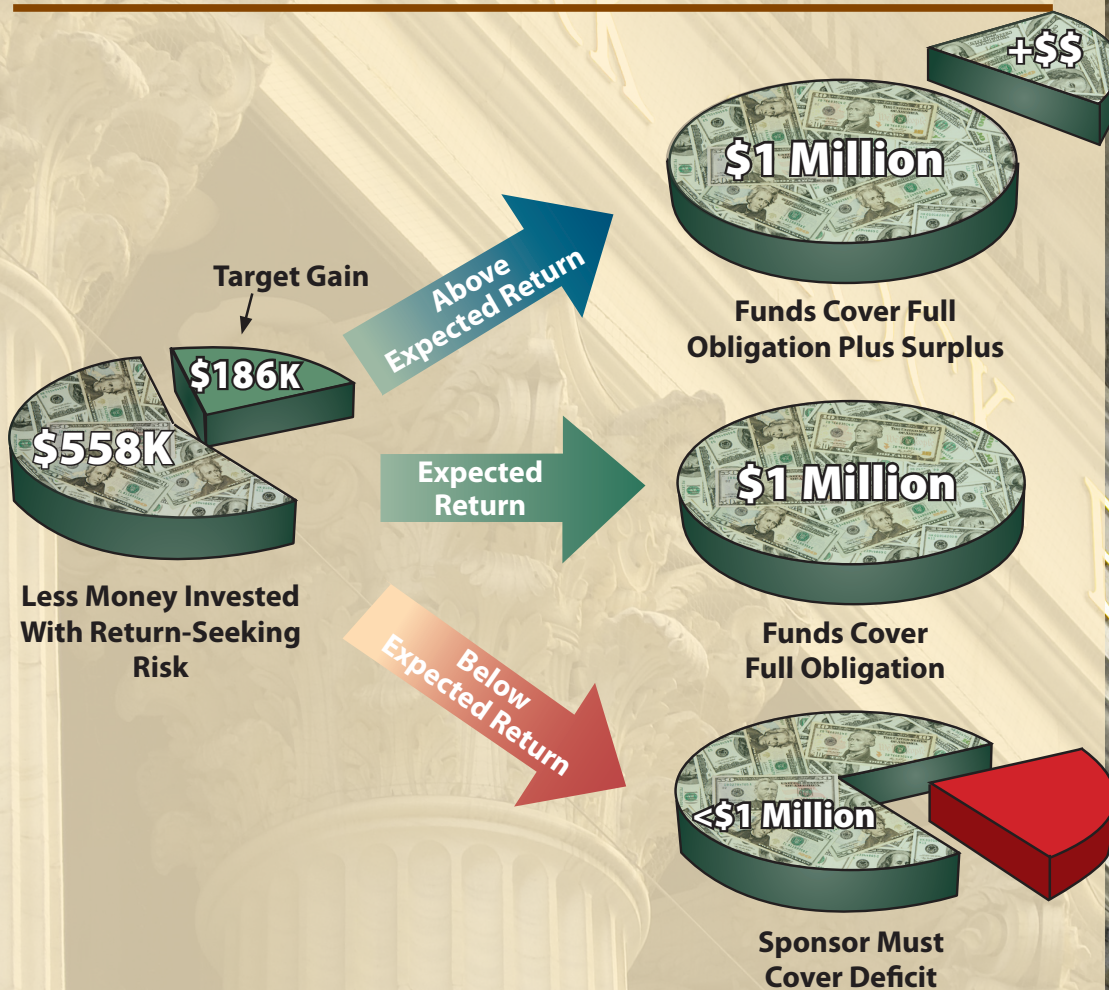
⁷In theory, the target gain is the price of a put on the portfolio to protect against deficiencies, less the price of a call to sell the potential surplus. In practice, no markets exist for such puts and calls.

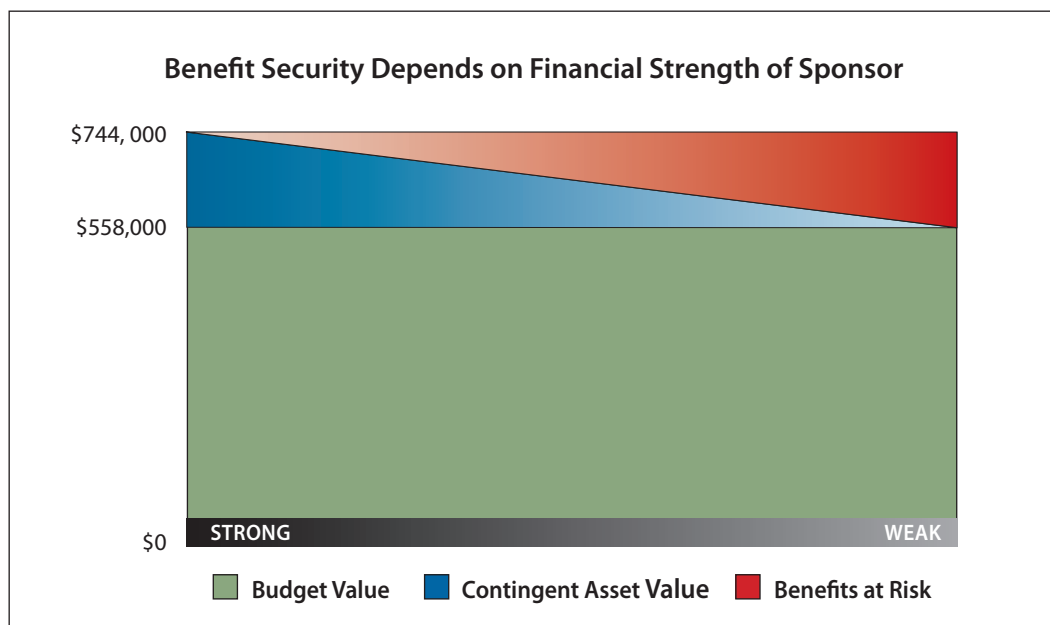
PENSION MEASUREMENTS

Solvency



Budget





tingent asset, the equivalent of a call option on the sponsor's assets if the budget amount proves inadequate.

This contingent asset can provide significant benefit security for plan participants if the plan sponsor is financially strong and remains capable of making any necessary additional contributions. In such a case, the budget value plus the contingent asset value is essentially equal to the solvency value. However, if the plan sponsor is financially weak or not capable of making additional contributions, the benefit security of the participants may be materially reduced.⁸

Summary

The market-based and expected return-based methods of measuring pension obligations both use a rate of return on assets to determine a present value of future pension benefits, but the assets of the portfolios differ. The solvency value uses a

hypothetical portfolio of default-free securities that is independent of actual investments, while the budget value uses the expected return of the actual portfolio. The solvency value, if invested in default-free cash flow matching securities, provides certainty that the assets will be adequate to provide the benefits. The budget value provides less certainty and depends on the ability of the plan sponsor to make additional contributions in the event adverse investment experience materializes. The difference between the solvency value and the budget value represents both the market value of the investment risk in the diversified portfolio and the target gain or reward that the plan sponsor anticipates. Each method is useful for its intended purpose although the measurements may differ significantly.

⁸To the extent the plan is funded at less than the budget value the contingent asset and the risk to benefit security further increase. For additional discussion about funded status and considerations about the health of the sponsor, see the Academy's issue brief [The 80% Pension Funding Standard Myth](#).



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Memorandum

TO: NDPERS Board

FROM: Bryan Reinhardt

DATE: June 21, 2018

SUBJECT: 457 Companion Plan & 401(a) Plan 1st Quarter 2018 Report

Attached is the 1st quarter 2018 investment report for the 401(a) & 457 Companion Plans. The reports are available separately on the NDPERS web site. The NDPERS Investment Subcommittee reviewed the 1st quarter reports. The two plans have 7,809 participants with over \$123 million in assets.

Assets in the 401(a) plan increased to \$13.6 million as of March 31, 2018. The number of active participants is at 113. The largest funds are the TIAA-CREF Lifecycle funds with 62% of assets.

Assets in the 457 Companion Plan increased to \$109.6 million as of March 31, 2018. The number of active participants is increasing and is now at 4,908. The largest funds are the TIAA-CREF Lifecycle funds with 72% of assets.

Benchmarks:

Fund returns for the quarter were mixed with growth outperforming value. Wells Fargo Growth - SGRKX and Brown Small Cap Growth - BCSIX had big quarters with returns of 6.60% and 6.85% respectively. Cohen & Steers Realty – CSRSX and AMG Mid Cap – ABMIX had the worst returns at -6.64% and -4.48% respectively. Core fund performance was mixed when compared to their benchmarks and peer funds. Note that index funds are expected to slightly underperform their benchmarks because of fund administration fees.

Fund / Investment News:

The NDPERS Investment Subcommittee received the 1st quarter 2018 plan review, field activity report, and investment overview from TIAA. It was noted that the fund revenue sharing is currently at the required 23 bps for administration. The Subcommittee reviewed the four funds under formal fund review. The Subcommittee marked PIMCO Real Return – PARRX, AMG Mid Cap – ABMIX, Prudential Jennison Mid Cap Growth – PEGZX, and Franklin Mutual Global

Discovery – MDISX as underperforming for the quarter. The Vanguard 500 index fund - VFIAX now has over \$5 million in assets. This qualifies us for a better share class. Vanguard 500 index fund – VINIX has a fee of .035% where the current fund (VFIAX) has a fee of .040%.

The investment subcommittee reviewed the SEI de-risking options for the Job Service plan and will bring this forward to the NDPERS Board.

BOARD ACTION

Approve the Investment Policies for the 457 Companion plan and 401(a) Defined Contribution plan that replace the Vanguard 500 Index fund – VFIAX with the Vanguard 500 Index fund – VINIX.

NDPERS
Quarterly Investment
Report
1st Quarter
1/1/2018 – 3/31/2018



North Dakota Public Employees Retirement System
400 E Bdwy, Suite 505
Box 1657
Bismarck, ND 58502

NDPERS 401(a) Defined Contribution Plan & 457 Companion Plan - TIAA-CREF

INITIAL OFFERING:				
	Hartford Dividend & Growth T.Rowe Price Equity Income	Vanguard 500 Index Signal Vanguard Dividend Growth	Franklin Growth Adv Wells Fargo Adv Growth Adm	LARGE
	Virtus Mid Cap Value Equity I	ASTON/Fairpointe Mid Cap I Columbia Mid Cap Index A	Prudential Jennison Mid Cap Growth Z	MEDIUM
	Allianz NFJ Small Cap Value	DFA US Small Cap	Brown Capital Mgmt Small Co Inv	SMALL
	VALUE	BLEND	GROWTH	
BALANCED FUND:	T.Rowe Price Capital Appreciation			
INCOME FUNDS:	Wells Fargo Stable Value Fund J	Vanguard Prime Money Market		
BOND FUNDS:	PIMCO Total Return Bond Fund	Vanguard Total Bond Index Fund	Templeton Global Bond	
	PIMCO Real Return Admin Bond Fund	Prudential High Yield Z		
REAL ESTATE:	Cohen & Steers Realty Shares			
INTERNATIONAL FUNDS:	Mutual Global Discovery Z	Vanguard Total Intl Stock Index	Oppenheimer Developing Markets Y	
LIFESTYLE FUNDS:	TIAA-CREF Lifecycle Ret Income	TIAA-CREF Lifecycle 2025	TIAA-CREF Lifecycle 2045	
	TIAA-CREF Lifecycle 2010	TIAA-CREF Lifecycle 2030	TIAA-CREF Lifecycle 2050	
	TIAA-CREF Lifecycle 2015	TIAA-CREF Lifecycle 2035	TIAA-CREF Lifecycle 2055	
	TIAA-CREF Lifecycle 2020	TIAA-CREF Lifecycle 2040	TIAA-CREF Lifecycle 2060	
FUND STYLE CHANGES:				
				LARGE
	ASTON/Fairpointe Mid Cap I			MEDIUM
				SMALL
	VALUE	BLEND	GROWTH	
OTHER FUNDS:				
CURRENT LINEUP:				
	Hartford Dividend & Growth T.Rowe Price Equity Income	Vanguard 500 Index Signal Vanguard Dividend Growth	Franklin Growth Adv Wells Fargo Adv Growth Adm	LARGE
	ASTON/Fairpointe Mid Cap I Virtus Mid Cap Value Equity	Columbia Mid Cap Index A	Prudential Jennison Mid Cap Growth Z	MEDIUM
	Allianz NFJ Small Cap Value	DFA US Small Cap	Brown Capital Mgmt Small Co Inv	SMALL
	VALUE	BLEND	GROWTH	
BALANCED FUND:	T.Rowe Price Capital Appreciation			
INCOME FUNDS:	Wells Fargo Stable Value Fund J	Vanguard Treasury Money Market		
BOND FUNDS:	PIMCO Total Return Bond Fund	Vanguard Total Bond Index Fund	Templeton Global Bond	
	PIMCO Real Return Admin Bond Fund	Prudential High Yield Z		
REAL ESTATE:	Cohen & Steers Realty Shares			
INTERNATIONAL FUNDS:	Mutual Global Discovery Z	Vanguard Total Intl Stock Index	Oppenheimer Developing Markets Y	
LIFESTYLE FUNDS:	TIAA-CREF Lifecycle Ret Income	TIAA-CREF Lifecycle 2025	TIAA-CREF Lifecycle 2045	
	TIAA-CREF Lifecycle 2010	TIAA-CREF Lifecycle 2030	TIAA-CREF Lifecycle 2050	
	TIAA-CREF Lifecycle 2015	TIAA-CREF Lifecycle 2035	TIAA-CREF Lifecycle 2055	
	TIAA-CREF Lifecycle 2020	TIAA-CREF Lifecycle 2040	TIAA-CREF Lifecycle 2060	

NDPERS Investment Benchmarks - 1st Quarter 2018

	<u>Quarter</u>	<u>Y-T-D</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
<u>Stable Value / Money Market Fund</u>					
Vanguard Treasury Money Market - VUSXX	0.33%	0.33%	1.02%	0.47%	0.28%
Wells Fargo Stable Return Fund J - WFSJ#	0.32%	0.32%	1.18%	1.00%	0.90%
3 Month T-Bill Index	0.35%	0.35%	1.07%	0.49%	0.31%
<u>Fixed Income Fund</u>					
PIMCO Real Return Admin - PARRX	-1.07%	-1.07%	0.72%	0.89%	-0.51%
PIMCO Total Return Bond Fund - PTRAX	-1.33%	-1.33%	1.87%	1.37%	1.57%
Vanguard Total Bond Market Index Fund - VBTXX	-1.47%	-1.47%	1.12%	1.12%	1.73%
Barclays Aggregate Bond Index	-1.48%	-1.48%	1.24%	1.20%	1.82%
Taxable Corporate Bond Fund Universe	-2.11%	-2.11%	2.42%	2.24%	2.93%
Prudential High Yield Z - PHYZZ	-0.48%	-0.48%	4.19%	5.52%	5.27%
ML High Yield Bond Fund Index	-0.91%	-0.91%	3.69%	5.18%	5.01%
High Yield Bond Fund Universe	-0.97%	-0.97%	3.20%	3.88%	3.82%
Templeton Global Bond Adv - TGBAX	1.36%	1.36%	-0.60%	2.02%	1.82%
Citi World Govt Bond Index	2.50%	2.50%	8.49%	3.45%	1.18%
World Bond Fund Universe	1.13%	1.13%	5.85%	2.80%	1.43%
<u>Real Estate Fund</u>					
Cohen & Steers Realty Shares - CSRSX	-6.64%	-6.64%	-1.47%	1.79%	6.69%
FTSE NAREIT All Equity REITs Index	-8.20%	-8.20%	-4.51%	1.08%	5.92%
Real Estate Fund Universe	-6.89%	-6.89%	-2.30%	1.26%	5.55%
<u>Balanced Fund</u>					
T.Rowe Price Capital Appreciation - PACLX	0.36%	0.36%	9.64%	8.27%	10.70%
60% Large Cap Value Univ & 40% Taxable Bond Universe	-2.37%	-2.37%	6.41%	5.49%	7.36%
60% Russell 1000 Value & 40% Agg Bond Index	-2.27%	-2.27%	4.64%	5.22%	7.21%
<u>Large Cap Equities - Value</u>					
Hartford Dividend & Growth - HDGTX	-2.01%	-2.01%	11.07%	9.46%	11.87%
T.Rowe Price Equity Income - PRFDX	-2.25%	-2.25%	9.94%	8.51%	9.66%
Russell 1000 Value Index	-2.80%	-2.80%	6.90%	7.90%	10.80%
Large Cap Value Fund Universe	-2.55%	-2.55%	9.07%	7.65%	10.32%
<u>Large Cap Equities - Blend</u>					
Vanguard 500 Index - VFIAX	-0.77%	-0.77%	13.95%	10.75%	13.27%
Vanguard Dividend Growth Fund - VDIGX	-1.06%	-1.06%	11.53%	8.91%	11.54%
S&P 500 Index	-0.76%	-0.76%	13.99%	10.78%	13.31%
Large Cap Blend Fund Universe	-0.98%	-0.98%	12.82%	8.89%	11.72%
<u>Large Cap Equities - Growth</u>					
Wells Fargo Adv Growth Adm - SGRKX <ON WATCH>	6.60%	6.60%	28.66%	11.83%	13.72%
Russell 3000 Growth Index	1.48%	1.48%	21.06%	12.57%	15.32%
Franklin Growth Adv - FCGAX	1.94%	1.94%	19.70%	11.67%	14.76%
Russell 1000 Growth Index	1.40%	1.40%	21.30%	12.90%	15.50%
Large Cap Growth Fund Universe	2.30%	2.30%	20.41%	10.64%	13.81%
<u>Mid Cap Equities - Value</u>					
Virtus Mid Cap Value Equity I - SMVTX	-0.87%	-0.87%	5.28%	7.61%	10.38%
Russell Mid Cap Value	-2.50%	-2.50%	6.50%	7.23%	11.11%
Mid Cap Value Fund Universe	-2.21%	-2.21%	7.30%	6.75%	10.06%
<u>Mid Cap Equities - Blend</u>					
Columbia Mid Cap Index A - NTIAX	-0.91%	-0.91%	10.48%	8.46%	11.45%
S&P Mid Cap 400	-0.77%	-0.77%	10.97%	8.96%	11.97%
AMG/Fairpointe Mid Cap I - ABMIX	-4.48%	-4.48%	0.60%	5.26%	10.59%
Wilshire 4500 Index	-0.13%	-0.13%	13.01%	8.86%	12.43%
Mid Cap Blend Fund Universe	-1.03%	-1.03%	10.13%	6.51%	10.43%
<u>Mid Cap Equities - Growth</u>					
Prudential Jennison Mid Cap Growth - PEGZX <ON WATCH>	0.84%	0.84%	13.95%	5.78%	10.19%
Russell Mid Cap Growth	2.17%	2.17%	19.74%	9.17%	13.31%
Mid Cap Growth Fund Universe	2.15%	2.15%	18.34%	8.28%	11.94%
Fund Returns in RED do not meet both benchmarks.					
Fund Returns in BLACK meet both benchmarks.					

NDPERS Investment Benchmarks - 1st Quarter 2018

	Quarter	Y-T-D	1-Year	3-Year	5-Year
Small Cap Equities - Value					
Allianz NFJ Small Cap Value - PVADX <ON WATCH>	-2.41%	-2.41%	5.23%	5.66%	7.66%
Russell 2000 Value Index	-2.64%	-2.64%	5.13%	7.87%	9.96%
Small Value Fund Universe	-2.75%	-2.75%	5.71%	6.67%	9.10%
Small Cap Equities - Blend					
DFA US Small Cap - DFSTX	-1.52%	-1.52%	8.75%	8.06%	11.61%
Russell 2000 Index	-0.08%	-0.08%	11.79%	8.39%	11.47%
Small Blend Fund Universe	-0.93%	-0.93%	9.68%	7.21%	10.29%
Small Cap Equities - Growth					
Brown Capital Mgmt Small Co Inv - BCSIX	6.85%	6.85%	26.52%	15.71%	16.64%
Russell 2000 Growth Index	2.30%	2.30%	18.60%	8.80%	12.90%
Small Growth Fund Universe	2.28%	2.28%	18.07%	8.77%	11.88%
International Equity Funds					
Mutual Global Discovery Z - MDISX <ON WATCH>	-2.68%	-2.68%	2.36%	4.15%	7.35%
Vanguard Total Intl Stock Index Inv - VTIAH	-0.46%	-0.46%	17.05%	6.92%	6.41%
MSCI ACWI	-1.18%	-1.18%	16.53%	6.18%	5.89%
International Stock Fund Universe	-0.86%	-0.86%	15.20%	5.75%	6.21%
Oppenheimer Developing Markets Y - ODVYX	2.98%	2.98%	25.30%	9.18%	5.87%
MSCI Emerging Markets Index	1.42%	1.42%	24.93%	8.81%	4.99%
Diversified Emerging Mkts Universe	2.01%	2.01%	22.90%	8.23%	4.45%
Asset Allocation Funds:					
TIAA-CREF Lifecycle Ret Income - TLIRX	-0.42%	-0.42%	7.50%	4.74%	5.44%
Income Benchmark	-1.23%	-1.23%	6.06%	4.00%	5.12%
TIAA-CREF Lifecycle 2010 - TCLEX	-0.44%	-0.44%	7.87%	5.01%	5.92%
2010 Benchmark	-1.23%	-1.23%	6.46%	4.24%	5.41%
TIAA-CREF Lifecycle 2015 - TCLIX	-0.41%	-0.41%	8.69%	5.44%	6.48%
2015 Benchmark	-1.23%	-1.23%	7.12%	4.63%	5.89%
TIAA-CREF Lifecycle 2020 - TCLTX	-0.38%	-0.38%	9.84%	5.97%	7.20%
2020 Benchmark	-1.23%	-1.23%	8.07%	5.19%	6.55%
TIAA-CREF Lifecycle 2025 - TCLFX	-0.30%	-0.30%	11.16%	6.58%	8.00%
2025 Benchmark	-1.21%	-1.21%	9.20%	5.86%	7.34%
TIAA-CREF Lifecycle 2030 - TCLNX	-0.22%	-0.22%	12.49%	7.19%	8.72%
2030 Benchmark	-1.19%	-1.19%	10.33%	6.52%	8.13%
TIAA-CREF Lifecycle 2035 - TCLRX	-0.21%	-0.21%	13.81%	7.76%	9.41%
2035 Benchmark	-1.15%	-1.15%	11.46%	7.18%	8.90%
TIAA-CREF Lifecycle 2040 - TCLOX	-0.07%	-0.07%	15.05%	8.33%	9.97%
2040 Benchmark	-1.10%	-1.10%	12.59%	7.83%	9.66%
TIAA-CREF Lifecycle 2045 - TTFRX	-0.08%	-0.08%	15.63%	8.66%	10.16%
2045 Benchmark	-1.07%	-1.07%	13.14%	8.15%	10.03%
TIAA-CREF Lifecycle 2050 - TLFRX	-0.08%	-0.08%	15.86%	8.80%	10.25%
2050 Benchmark	-1.06%	-1.06%	13.31%	8.25%	10.14%
TIAA-CREF Lifecycle 2055 - TTRLX	0.00%	0.00%	16.11%	8.93%	10.33%
2055 Benchmark	-1.05%	-1.05%	13.47%	8.34%	10.25%
TIAA-CREF Lifecycle 2060 - TTRLX	-0.08%	-0.08%	16.23%	9.04%	N/A
2060 Benchmark	-1.05%	-1.05%	13.47%	8.34%	10.25%

Income Benchmark is comprised of 26.25% Wilshire 5000, 11.25% MSCI EAFE, 50.0% Ag Bond, 2.5% REIT Index, 10.0% 3 Month T-Bill

2010 Benchmark is comprised of 28.35% Wilshire 5000, 12.15% MSCI EAFE, 48.2% Ag Bond, 2.5% REIT Index, 8.8% 3 Month T-Bill

2015 Benchmark is comprised of 31.85% Wilshire 5000, 13.65% MSCI EAFE, 45.2% Ag Bond, 2.5% REIT Index, 6.8% 3 Month T-Bill

2020 Benchmark is comprised of 36.82% Wilshire 5000, 15.78% MSCI EAFE, 40.2% Ag Bond, 2.5% REIT Index, 4.8% 3 Month T-Bill

2025 Benchmark is comprised of 42.77% Wilshire 5000, 18.33% MSCI EAFE, 33.6% Ag Bond, 2.5% REIT Index, 2.8% 3 Month T-Bill

2030 Benchmark is comprised of 48.72% Wilshire 5000, 20.88% MSCI EAFE, 27.1% Ag Bond, 2.5% REIT Index, 0.8% 3 Month T-Bill

2035 Benchmark is comprised of 54.67% Wilshire 5000, 23.43% MSCI EAFE, 19.4% Ag Bond, 2.5% REIT Index

2040 Benchmark is comprised of 60.62% Wilshire 5000, 25.98% MSCI EAFE, 10.9% Ag Bond, 2.5% REIT Index

2045 Benchmark is comprised of 63.53% Wilshire 5000, 27.22% MSCI EAFE, 6.75% Ag Bond, 2.5% REIT Index

2050 Benchmark is comprised of 64.4% Wilshire 5000, 27.6% MSCI EAFE, 5.5% Ag Bond, 2.5% REIT Index

2055&2060 Benchmark is comprised of 65.28% Wilshire 5000, 27.97% MSCI EAFE, 4.25% Ag Bond, 2.5% REIT Index

Wilshire 5000 Index	-0.70%	-0.70%	13.65%	10.01%	12.84%
FTSE NAREIT Index	-8.20%	-8.20%	-4.51%	1.08%	5.92%
MSCI EAFE	-1.18%	-1.18%	16.53%	6.18%	5.89%
Barclays Aggregate Bond Index	-1.48%	-1.48%	1.24%	1.20%	1.82%
3 Month T-Bill Index	0.35%	0.35%	1.07%	0.49%	0.31%

Fund Returns in RED do not meet both benchmarks.

Fund Returns in BLACK meet both benchmarks.

NDPERS ANNUAL 2016 vs. 2017
COMPARATIVE STATS AS OF 12/31

401(a) Defined Contribution Plan:

	<u>2016</u>	<u>2017</u>	<u>% Diff.</u>
Assets	\$10,937,336.31	\$13,454,742.72	23%
Total Contributions	\$978,192.36 (243 members)	\$1,016,506.78 (122 members)	4%
Avg. Annual Contrib's	\$4,025.48	\$8,332.02	107%
Male Contributions	\$487,289.67 (88 members)	\$477,117.85 (51 members)	-2%
Male Avg. Contribution	\$5,537.38 (88 members)	\$9,355.25 (51 members)	69%
Female Contributions	\$490,902.69 (155 members)	\$539,388.93 (71 members)	10%
Female Avg. Contribution	\$3,167.11 (155 members)	\$7,597.03 (71 members)	140%

457(b) Deferred Compensation Plan (Companion Plan):

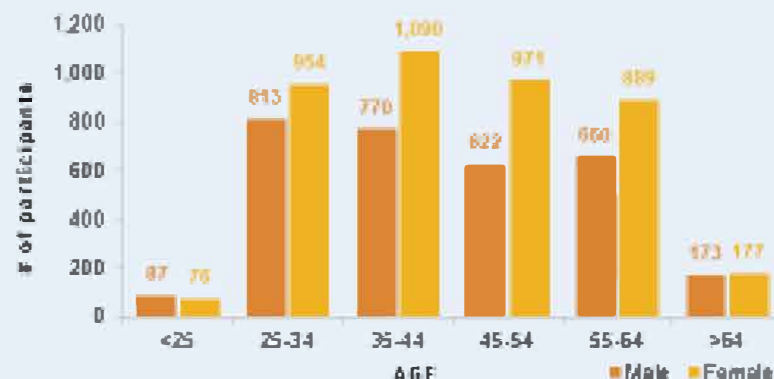
	<u>2016</u>	<u>2017</u>	<u>% Diff.</u>
Assets	\$86,050,328.10	\$108,893,701.81	27%
Total Contributions	\$9,170,039.43 (4893 members)	\$10,164,997.00 (5108 mbrs)	11%
Avg. Annual Contribs	\$1,874.11	\$1,990.02	6%
Male Contributions	\$4,615,647.18 (2117 members)	\$5,011,258.53(2209 members)	9%
Male Avg. Contribution	\$2,180.28 (2117 members)	\$2,268.56 (2062 members)	4%
Female Contributions	\$4,554,392.25 (2776 members)	\$5,153,738.47(2899 members)	13%
Female Avg. Contribution	\$1,640.63 (2776 members)	\$1,777.76 (2899 members)	8%

Plan Level Rates of Return:

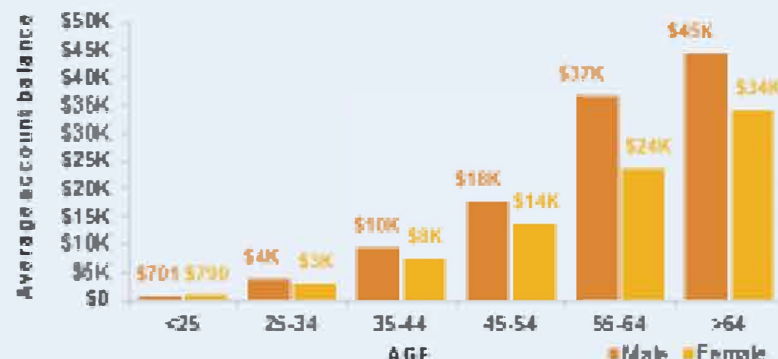
	<u>2015</u>	<u>2016 Q3</u>	<u>2017</u>
401(a) Defined Contribution	-.34%	3.00%	17.78%
457(b) Companion Plan	-.29%	3.07%	17.40%
Both Plans Combined	-.31%	3.05%	17.44%

Employee summary: Gender and age summary¹

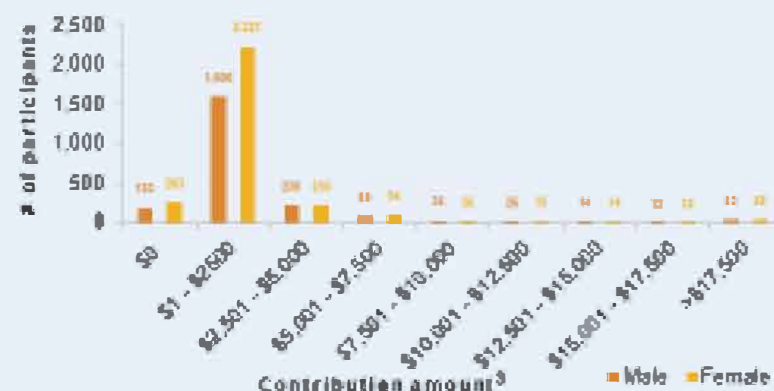
Demographics by age and gender



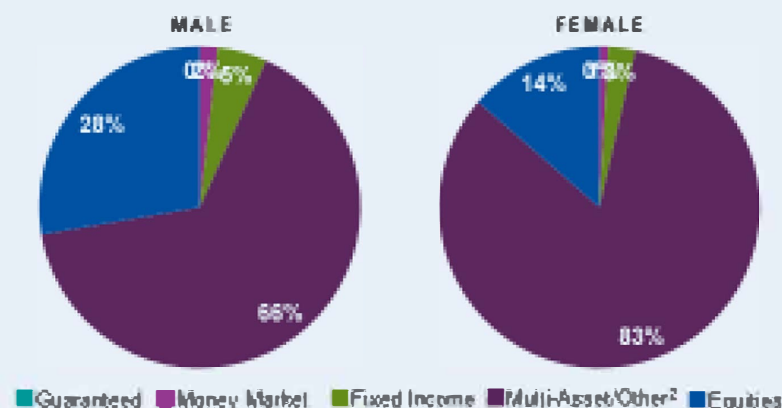
Average account balance by age and gender



Employee contribution amounts by gender



Diversification by gender

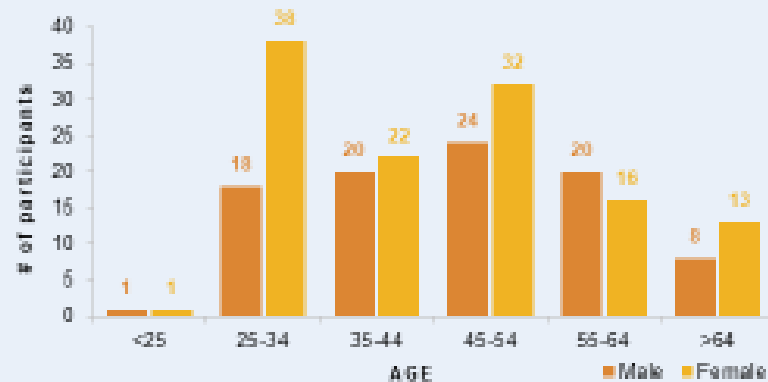


This report is as of the period ending 03/31/2016 and reflects the trailing 12 months of activity unless otherwise noted. The report includes all TIAA plans except 457(f), 457(b) Private, Nonqualified Deferred Compensation, and Retirement Healthcare plans. 1. Data reflected is for all participant statuses except Employee Contribution Amounts by Gender which includes only active or leave status. Does not include 392 participants with no age or gender on file. 2. Multi-Asset/Other includes Lifecycle, Real Estate, and Brokerage. 3. Contribution data reflects the trailing 12 months of data.

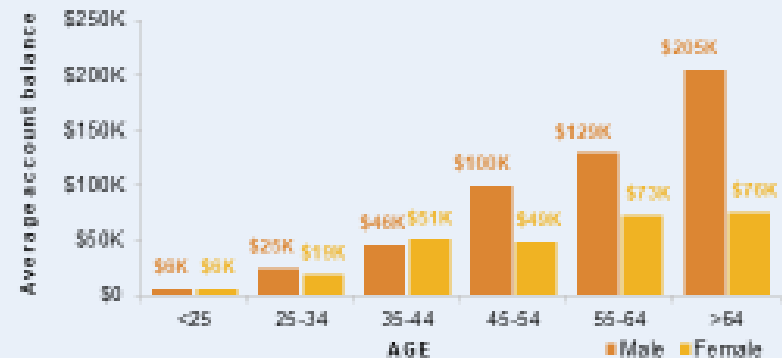
For institutional investor use only. Not for use with or distribution to the public.

Employee summary: Gender and age summary¹

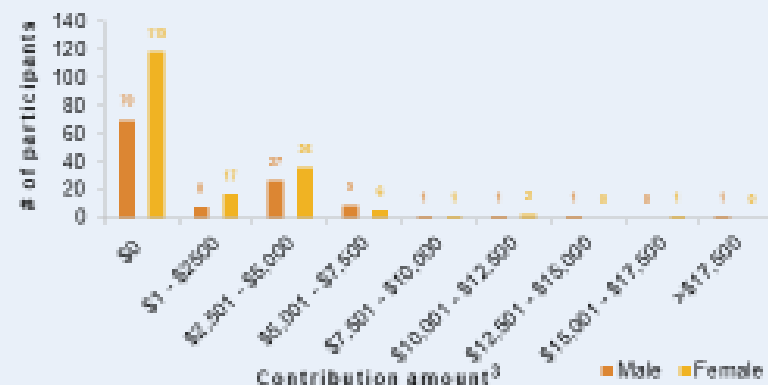
Demographics by age and gender



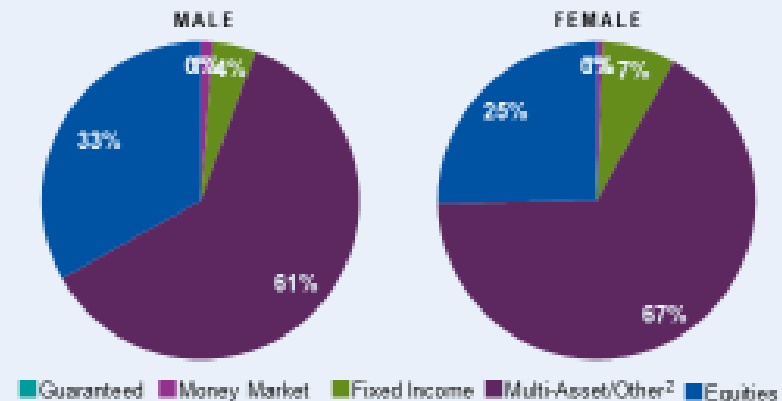
Average account balance by age and gender



Employee contribution amounts by gender



Diversification by gender



This report is as of the period ending 03/31/2018 and reflects the trailing 12 months of activity unless otherwise noted. The report includes all TIAA plans except 457(f), 457(s) Private, Nonqualified Deferred Compensation, and Retirement Healthcare plans. 1. Data reflected is for all participant statuses except Employee Contribution Amounts by Gender which includes only active or leave status. Does not include 2 participants with no age or gender on file. 2. Multi-Asset/Other includes Lifecycle, Real Estate, and Brokerage. 3. Contribution data reflects the trailing 12 months of data.

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457(b)	Assets	Pct
TIAA-CREF Lifecycle 2025 Fund Retirement	\$16,013,686	14.6%
TIAA-CREF Lifecycle 2020 Fund Retirement	\$15,665,774	14.3%
TIAA-CREF Lifecycle 2030 Fund Retirement	\$11,471,976	10.5%
TIAA-CREF Lifecycle 2015 Fund Retirement	\$8,197,672	7.5%
TIAA-CREF Lifecycle 2035 Fund Retirement	\$8,027,041	7.3%
TIAA-CREF Lifecycle 2040 Fund Retirement	\$6,684,375	6.1%
TIAA-CREF Lifecycle 2045 Fund Retirement	\$6,015,951	5.5%
Vanguard 500 Index Fund Admiral	\$4,468,007	4.1%
TIAA-CREF Lifecycle 2050 Fund Retirement	\$3,989,470	3.6%
Vanguard Total International Stock Index Fund Admiral	\$2,721,409	2.5%
Wells Fargo Stable Return Fund - J	\$1,822,102	1.7%
Brown Capital Management Small Company Fund Institutional	\$1,815,853	1.7%
TIAA-CREF Lifecycle 2010 Fund Retirement	\$1,601,094	1.5%
Vanguard Admiral Treasury Money Market Fund Investor	\$1,538,798	1.4%
Franklin Growth Fund Advisor	\$1,446,012	1.3%
Columbia Mid Cap Index Fund A	\$1,413,470	1.3%
Vanguard Dividend Growth Fund Investor	\$1,390,116	1.3%
AllianzGI NFJ Small Cap Value Fund Administrative	\$1,345,056	1.2%
Vanguard Total Bond Market Index Fund Admiral	\$1,161,741	1.1%
T. Rowe Price Equity Income Fund	\$1,161,130	1.1%
PIMCO Total Return Fund Admin	\$1,086,450	1.0%
T. Rowe Price Capital Appreciation Fund Advisor	\$1,003,395	0.9%
Wells Fargo Growth Fund Administrator	\$998,980	0.9%
TIAA-CREF Lifecycle 2055 Fund Retirement	\$931,126	0.8%
Oppenheimer Developing Markets Fund Y	\$929,660	0.8%
Hartford Dividend and Growth Fund R5	\$865,993	0.8%
Cohen & Steers Realty Shares	\$711,978	0.6%
Templeton Global Bond Fund Advisor	\$684,986	0.6%
PIMCO Real Return Fund Administrative	\$643,738	0.6%
TIAA-CREF Lifecycle Retirement Income Fund Retirement	\$635,547	0.6%
Prudential High Yield Fund Z	\$578,466	0.5%
Virtus Ceredex Mid-Cap Value Equity Fund I	\$532,514	0.5%
Franklin Mutual Global Discovery Fund Z	\$450,870	0.4%
Self Directed Brokerage Account	\$429,783	0.4%
AMG Managers Fairpointe Mid Cap Fund I	\$380,824	0.3%
Prudential Jennison Mid-Cap Growth Fund Z	\$369,526	0.3%
DFA U.S. Small Cap Portfolio Institutional	\$361,478	0.3%
TIAA-CREF Lifecycle 2060 Fund Retirement	\$65,540	0.1%
TIAA-CREF Money Market Fund Retirement	\$0	0.0%
Total	\$109,611,584	100.0%

401(a)	Assets	Pct
TIAA-CREF Lifecycle 2025 Fund Retirement	\$1,599,979	11.7%
TIAA-CREF Lifecycle 2030 Fund Retirement	\$1,527,074	11.2%
TIAA-CREF Lifecycle 2035 Fund Retirement	\$1,273,191	9.3%
TIAA-CREF Lifecycle 2020 Fund Retirement	\$1,210,044	8.9%
TIAA-CREF Lifecycle 2010 Fund Retirement	\$821,068	6.0%
Vanguard 500 Index Fund Admiral	\$583,227	4.3%
TIAA-CREF Lifecycle 2040 Fund Retirement	\$583,209	4.3%
Vanguard Total International Stock Index Fund Admiral	\$548,130	4.0%
TIAA-CREF Lifecycle 2050 Fund Retirement	\$519,123	3.8%
TIAA-CREF Lifecycle 2045 Fund Retirement	\$493,158	3.6%
Brown Capital Management Small Company Fund Institutional	\$418,161	3.1%
Wells Fargo Growth Fund Administrator	\$332,658	2.4%
TIAA-CREF Lifecycle 2055 Fund Retirement	\$328,543	2.4%
Franklin Growth Fund Advisor	\$326,057	2.4%
T. Rowe Price Capital Appreciation Fund Advisor	\$324,634	2.4%
Prudential High Yield Fund Z	\$233,140	1.7%
PIMCO Total Return Fund Admin	\$222,673	1.6%
Franklin Mutual Global Discovery Fund Z	\$209,620	1.5%
Wells Fargo Stable Return Fund - J	\$206,009	1.5%
Hartford Dividend and Growth Fund R5	\$204,873	1.5%
Oppenheimer Developing Markets Fund Y	\$189,729	1.4%
Vanguard Admiral Treasury Money Market Fund Investor	\$151,798	1.1%
Cohen & Steers Realty Shares	\$141,218	1.0%
T. Rowe Price Equity Income Fund	\$133,817	1.0%
Vanguard Total Bond Market Index Fund Admiral	\$132,421	1.0%
AllianzGI NFJ Small Cap Value Fund Administrative	\$124,041	0.9%
AMG Managers Fairpointe Mid Cap Fund I	\$123,044	0.9%
Templeton Global Bond Fund Advisor	\$111,955	0.8%
Vanguard Dividend Growth Fund Investor	\$98,910	0.7%
Prudential Jennison Mid-Cap Growth Fund Z	\$94,024	0.7%
Columbia Mid Cap Index Fund A	\$88,888	0.7%
DFA U.S. Small Cap Portfolio Institutional	\$84,380	0.6%
PIMCO Real Return Fund Administrative	\$65,621	0.5%
Self Directed Brokerage Account	\$50,036	0.4%
TIAA-CREF Lifecycle 2015 Fund Retirement	\$40,406	0.3%
Virtus Ceredex Mid-Cap Value Equity Fund I	\$30,983	0.2%
TIAA-CREF Lifecycle 2060 Fund Retirement	\$5,562	0.0%
TIAA-CREF Lifecycle Retirement Income Fund Retirement	\$0	0.0%
TIAA-CREF Money Market Fund Retirement	\$0	0.0%
Total	\$13,631,404	100.0%
Grand Total	\$123,242,988	

Quarterly Investment Report
Defined Contribution Investment Policy Attachment

STATE OF NORTH DAKOTA
DEFINED CONTRIBUTION
PROGRAM

PUBLIC EMPLOYEES
RETIREMENT SYSTEM

Statement of Investment Policy

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STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

INTRODUCTION

The Public Employees Retirement System Board (Board) hereby adopts this Statement of Investment Policy for the Defined Contribution Plan (Plan).

Objectives of the Plan

The Plan is a long-term retirement savings option intended as a source of retirement income for eligible participants. The investment options available from the Plan cover a broad range of investment risks and rewards typical of this kind of retirement savings program. Participants bear the risks and reap the rewards of investment returns that result from the investment options which they select.

This Statement of Investment Policy:

- Establishes the parameters of an investment program that will allow plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances.
- Defines the investment categories offered by the Plan;
- Establishes benchmarks and performance standards for each investment category by which to evaluate each fund's performance;
- Establishes a procedure for reporting and evaluating the various funds and a methodology for monitoring their performance; and
- Defines the procedures for investment fund evaluation and formal fund review.

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

SELECTION OF INVESTMENT OPTIONS

Each investment option offered under the Plan must:

- Operate under its published prospectus;
- Have its performance results measured against the applicable performance standards described herein for that investment category.

The Board may add or replace investment options in any category using any or all of the following general criteria:

- A.** Historical performance over a reasonable time frame.
- B.** Investment manager performance and tenure.
- C.** Costs, including the expense ratio and any other fees.

Mutual fund options are selected through a comprehensive search process. Generally, the Board will first review the suitable offerings from the vendor's alliance family of funds. Absent a competitive offering from the vendor's list of alliance funds, the Board will select from qualified non-alliance funds.

INVESTMENT CATEGORIES:

The Board in its judgment selects the number, types, and status of individual investment offerings. In general, the Board will seek to offer a sufficient number of investment funds to allow each participant the ability to construct a diversified portfolio consistent with his/her reasonable investment objective. The selection and elimination of investment options will be guided by the following philosophies and principles:

- A.** The menu of offerings will be sufficient to allow each participant the ability to construct a diversified portfolio consistent with a reasonable investment goal. (See *Appendix 1* for a classification of the current offerings.) The menu will include at least one offering in each of the following asset categories:

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

- Stable Value Account
- Fixed Income
- Balanced
- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International Equity
- Asset Allocation

B. Within the domestic equity categories, the offerings may include funds that represent style subsets (value, growth, blend) of the broad market.

C. The offerings will include funds that offer pre-determined asset allocations of various risk tolerances or investment horizons.

D. The self-directed brokerage option is designed for a sophisticated, experienced and knowledgeable investor. Participants selecting this option will be required to sign an election form containing the following:

- (a) The participant understands and accepts any and all risks associated with this selection;
- (b) The participant understands and accepts that none of the mutual funds available in the self-directed brokerage option have been reviewed for suitability by the Board;
- (c) The participant is solely responsible for determining the suitability or appropriateness of any selected mutual fund; and
- (d) The participant agrees to hold the Plan and the Board harmless for any negative consequences resulting from use of the self-directed brokerage option.

REPORTING AND MONITORING PROCEDURES

The Board will designate the status of each investment fund offered as either open or closed:

- ☐ **Open** – Eligible for new investments.
- ☐ **Closed** – Not eligible for new contributions, not eligible for the establishment of new accounts, and may require the existing accounts be transferred.

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN

STATEMENT OF INVESTMENT POLICY

INVESTMENT FUND EVALUATION

The Board will at least annually review the plan and its investment funds, including investment performance. The investment performance review will include comparisons against the appropriate benchmark indices and peer groups over relevant time frames. The focus of the review will be to ensure that the Board is offering funds with competitive (average or above) performance within each category over reasonable measurement periods, typically encompassing a market cycle (3 to 5 years). The Board will also review the fund's investment style relative to its mandate and the stability of the personnel responsible for investment results. As the investment funds are retail mutual funds, the Board may rely on ratings produced by recognized performance evaluation services to evaluate long-term risk-adjusted performance relative to peers. Except for the annual review, the Board may delegate these duties to its investment sub-committee. The NDPERS Board will make the performance review available for the membership.

For performance benchmarks on current offerings, see *Appendix 1*. Funds meeting performance standards and policy objectives will be designated as open.

- A.** Funds rated as not meeting performance standards and policy objectives will, at the Board's discretion, either be placed in a closed status or on a "formal fund review list".
- B.** The Board, at its discretion, may remove funds from the "formal fund review list" should the fund's performance recover sufficiently to meet performance standards.
- C.** Funds that do not meet performance standards and/or policy objectives may be placed in the "Closed" status.
- D.** Failure by a fund to comply with these policy objectives and guidelines is cause for the Board to place the fund under formal fund review or close the fund.

The Board may place a fund under formal fund review, or immediately close a fund, for any reason, including:

- A. The fund has made significant changes in its investment management, or such change appears imminent;
- B. The fund has had a significant change in ownership or control;
- C. The fund has significantly changed investment focus or has experienced style drift, departing from the investment objectives;

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

- D. The fund has violated a SEC rule or regulation;
- E. The fund has experienced difficulty in transacting trades, fund transfers, or pricing;
- F. The fund has experienced other changes or problems in its procedures, operations, investing, or reporting which, in the Board's view, has or could detract from the objectives of the Plan;
- G. The fund has increased its fees or expenses.
- H. Other reasons the NDPERS Board deems requires such action.

The Board retains the right to waive any of the above policies if it deems that such waiver is in the best interest of the plan and/or its participants.

FORMAL FUND REVIEW

When a fund has been placed under formal review, the Board shall monitor the fund, its operations, and its performance. During this period the Board may close the fund.

CLOSED FUNDS

When the Board closes a fund it may direct that:

- A.** No new contributions may be made to the fund after a specified date;
- B.** The fund is terminated and participant account balances must be transferred to another fund option.

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

If the Board closes a fund to new contributions it shall:

- A.** Promptly notify the Plan provider;
- B.** Promptly notify plan participants who are currently investing in the fund or who have assets in the closed fund of the Board's action and if applicable that new investment monies must be redirected to another fund option under the Plan within a time specified by the Board.

If the Board closes a fund by terminating its participation in the plan and requires all account balances to be transferred to another fund it shall:

- A.** Promptly notify the Plan provider;
- B.** Promptly notify plan participants who are currently investing in the fund or who have assets in the closed fund that the Board has terminated the fund as an investment option under the Plan and that:
 - New investment monies must be redirected to another fund option under the Plan within a time specified by the Board and
 - After 90 days notice to an affected member by the Board, all assets remaining in the terminated fund will be transferred to the default option designated by the Board.

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

APPENDIX 1

Defined Contribution Plan Investment Options by Investment Category

Asset Class	Sector	Fund(s)	Benchmark(s)
Balanced	Balanced	T.Rowe Price Capital Appreciation	60% Large Cap Value Fund Universe and 40% Taxable Bond Fund Universe 60% Russell 1000 Value and 40% Barclays Aggregate Bond Index
Large Cap Equities	Value	Hartford Dividend & Growth	Russell 1000 Value Large Cap Value Fund Universe
		T.Rowe Price Equity Income	Russell 1000 Value Large Cap Value Fund Universe
	Blend	Vanguard 500 Index Signal Institutional	S&P 500 Large Cap Blend Fund Universe
		Vanguard Dividend Growth	S&P 500 Large Cap Blend Fund Universe
	Growth	Wells Fargo Adv Growth	Russell 3000 growth Large Cap Growth Fund Universe
		Franklin Growth Advisor	Russell 1000 growth Large Cap Growth Fund Universe
Mid Cap Equities	Value	Virtus Mid Cap Value Equity I	Mid Cap Value Universe Russell Mid Cap Value
	Blend	Columbia Mid Cap Index A	Mid Cap Blend Universe S & P Mid Cap 400
		AMG Fairpointe Mid Cap I	Mid Cap Blend Universe Wilshire 4500 Index
	Growth	Prudential Jennison Mid Cap Growth Z	Mid Cap Growth Universe Russell Mid Cap Growth
Small Cap Equities	Value	Allianz NFJ Small Cap Value	Small Value Universe Russel 2000 Value
	Blend	DFA US Small Cap	Small Cap Blend Universe Russel 2000 Index
	Growth	Brown Capital Mgmt Small Co Inv	Small Cap Growth Universe Russel 2000 Growth

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

Fixed Income	Wells Fargo Stable Return Fund J	3-Month T-Bill Index
	Vanguard Treasury Money Market Fund	3-Month T-Bill Index
	Vanguard Total Bond Fund	Barclays Aggregate Bond Index Taxable Bond Fund Universe
	PIMCO Real Return Admin	Barclays Aggregate Bond Index Taxable Bond Fund Universe
	PIMCO Total Return Bond Fund	Barclays Aggregate Bond Index Taxable Bond Fund Universe
	Prudential High Yield Z	BofAML High Yield Bond Index High Yield Bond Fund Universe
	Templeton Global Bond Adv	Citi World Govt Bond Index World Bond Fund Universe
Real Estate	Cohen & Steers Realty Shares	FTSE NAREIT All Equity REIT Index Real Estate Fund Universe
International Equities	Franklin Mutual Global Discovery Z	MSCI ACWI Index International Stock Fund Universe
	Vanguard Total Intl Stock Index	MSCI ACWI Index International Stock Fund Universe
	Oppenheimer Developing Markets Y	MSCI Emerging Markets Index Diversified Emerging Markets Universe
Asset Allocation	<u>TIAA-CREF Lifecycle Funds</u>	The TIAA-CREF Lifecycle Funds will be benchmarked using the Wilshire 5000 Index, MSCI Index, Aggregate Bond Index, High Yield Index, and 3-Month T-Bill Index. Each fund benchmark will be based on the fund allocation in Domestic Equity, International Equity, Fixed-Income, Inflation Protected Assets, and Short-term Fixed Income stated in the fund prospectus.
	Retirement Income Fund	
	2010 Fund Benchmark	
	2015 Fund Benchmark	
	2020 Fund Benchmark	
	2025 Fund Benchmark	
	2030 Fund Benchmark	
	2035 Fund Benchmark	
	2040 Fund Benchmark	
	2045 Fund Benchmark	
	2050 Fund Benchmark	
	2055 Fund Benchmark	
	2060 Fund Benchmark	

**Quarterly Investment Report
Companion Plan Investment Policy Attachment**

STATE OF NORTH DAKOTA
DEFERRED COMPENSATION
PROGRAM

PUBLIC EMPLOYEES
RETIREMENT SYSTEM
COMPANION PLAN

Statement of Investment Policy

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STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN STATEMENT OF INVESTMENT POLICY

INTRODUCTION

The Public Employees Retirement System Board (Board) hereby adopts this Statement of Investment Policy for the Deferred Compensation Companion Plan (Plan).

Objectives of the Plan

The Plan is a long-term retirement savings option intended as a source of retirement income for eligible participants. The investment options available from the Plan cover a broad range of investment risks and rewards typical of this kind of retirement savings program. Participants bear the risks and reap the rewards of investment returns that result from the investment options which they select.

This Statement of Investment Policy:

- Establishes the parameters of an investment program that will allow plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances.
- Defines the investment categories offered by the Plan;
- Establishes benchmarks and performance standards for each investment category by which to evaluate each fund's performance;
- Establishes a procedure for reporting and evaluating the various funds and a methodology for monitoring their performance; and
- Defines the procedures for investment fund evaluation and formal fund review.

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN STATEMENT OF INVESTMENT POLICY

SELECTION OF INVESTMENT OPTIONS

Each investment option offered under the Plan must:

- Operate under its published prospectus;
- Have its performance results measured against the applicable performance standards described herein for that investment category.

The Board may add or replace investment options in any category using any or all of the following general criteria:

- A. Historical performance over a reasonable time frame.
- B. Investment manager performance and tenure.
- C. Costs, including the expense ratio and any other fees.

Mutual fund options are selected through a comprehensive search process. Generally, the Board will first review the suitable offerings from the vendor's alliance family of funds. Absent a competitive offering from the vendor's list of alliance funds, the Board will select from qualified non-alliance funds.

INVESTMENT CATEGORIES:

The Board in its judgment selects the number, types, and status of individual investment offerings. In general, the Board will seek to offer a sufficient number of investment funds to allow each participant the ability to construct a diversified portfolio consistent with his/her reasonable investment objective. The selection and elimination of investment options will be guided by the following philosophies and principles:

- A. The menu of offerings will be sufficient to allow each participant the ability to construct a diversified portfolio consistent with a reasonable investment goal. (See *Appendix 1* for a classification of the current offerings.) The menu will include at least one offering in each of the following asset categories:

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM
PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN
STATEMENT OF INVESTMENT POLICY

- Stable Value Account
- Fixed Income
- Balanced
- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International Equity
- Asset Allocation

B. Within the domestic equity categories, the offerings may include funds that represent style subsets (value, growth, blend) of the broad market.

C. The offerings will include funds that offer pre-determined asset allocations of various risk tolerances or investment horizons.

D. The self-directed brokerage option is designed for a sophisticated, experienced and knowledgeable investor. Participants selecting this option will be required to sign an election form containing the following:

- (a) The participant understands and accepts any and all risks associated with this selection;
- (b) The participant understands and accepts that none of the mutual funds available in the self-directed brokerage option have been reviewed for suitability by the Board;
- (c) The participant is solely responsible for determining the suitability or appropriateness of any selected mutual fund; and
- (d) The participant agrees to hold the Plan and the Board harmless for any negative consequences resulting from use of the self-directed brokerage option.

REPORTING AND MONITORING PROCEDURES

The Board will designate the status of each investment fund offered as either open or closed:

- **Open** – Eligible for new investments.
- **Closed** – Not eligible for new contributions, not eligible for the establishment of new accounts, and may require the existing accounts be transferred.

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN STATEMENT OF INVESTMENT POLICY

INVESTMENT FUND EVALUATION

The Board will at least annually review the plan and its investment funds, including investment performance. The investment performance review will include comparisons against the appropriate benchmark indices and peer groups over relevant time frames. The focus of the review will be to ensure that the Board is offering funds with competitive (average or above) performance within each category over reasonable measurement periods, typically encompassing a market cycle (3 to 5 years). The Board will also review the fund's investment style relative to its mandate and the stability of the personnel responsible for investment results. As the investment funds are retail mutual funds, the Board may rely on ratings produced by recognized performance evaluation services to evaluate long-term risk-adjusted performance relative to peers. Except for the annual review, the Board may delegate these duties to its investment sub-committee. The NDPERS Board will make the performance review available for the membership.

For performance benchmarks on current offerings, see *Appendix 1*. Funds meeting performance standards and policy objectives will be designated as open.

- A.** Funds rated as not meeting performance standards and policy objectives will, at the Board's discretion, either be placed in a closed status or on a "formal fund review list".
- B.** The Board, at its discretion, may remove funds from the "formal fund review list" should the fund's performance recover sufficiently to meet performance standards.
- C.** Funds that do not meet performance standards and/or policy objectives may be placed in the "Closed" status.
- D.** Failure by a fund to comply with these policy objectives and guidelines is cause for the Board to place the fund under formal fund review or close the fund.

The Board may place a fund under formal fund review, or immediately close a fund, for any reason, including:

- A.** The fund has made significant changes in its investment management, or such change appears imminent;
- B.** The fund has had a significant change in ownership or control;
- C.** The fund has significantly changed investment focus or has experienced style drift, departing from the investment objectives;

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM
PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN
STATEMENT OF INVESTMENT POLICY

- D. The fund has violated a SEC rule or regulation;
- E. The fund has experienced difficulty in transacting trades, fund transfers, or pricing;
- F. The fund has experienced other changes or problems in its procedures, operations, investing, or reporting which, in the Board's view, has or could detract from the objectives of the Plan;
- G. The fund has increased its fees or expenses.
- H. Other reasons the NDPERS Board deems requires such action.

The Board retains the right to waive any of the above policies if it deems that such waiver is in the best interest of the plan and/or its participants.

FORMAL FUND REVIEW

When a fund has been placed under formal review, the Board shall monitor the fund, its operations, and its performance. During this period the Board may close the fund.

CLOSED FUNDS

When the Board closes a fund it may direct that:

- A. No new contributions may be made to the fund after a specified date;
- B. The fund is terminated and participant account balances must be transferred to another fund option.

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM
PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN
STATEMENT OF INVESTMENT POLICY

If the Board closes a fund to new contributions it shall:

- A.** Promptly notify the Plan provider;
- B.** Promptly notify plan participants who are currently investing in the fund or who have assets in the closed fund of the Board's action and if applicable that new investment monies must be redirected to another fund option under the Plan within a time specified by the Board.

If the Board closes a fund by terminating its participation in the plan and requires all account balances to be transferred to another fund it shall:

- A.** Promptly notify the Plan provider;
- B.** Promptly notify plan participants who are currently investing in the fund or who have assets in the closed fund that the Board has terminated the fund as an investment option under the Plan and that:
 - New investment monies must be redirected to another fund option under the Plan within a time specified by the Board and
 - After 90 days notice to an affected member by the Board, all assets remaining in the terminated fund will be transferred to the default option designated by the Board.

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN STATEMENT OF INVESTMENT POLICY

APPENDIX 1

Companion Plan Investment Options by Investment Category

Asset Class	Sector	Fund(s)	Benchmark(s)
Balanced	Balanced	T.Rowe Price Capital Appreciation	60% Large Cap Value Fund Universe and 40% Taxable Bond Fund Universe 60% Russell 1000 Value and 40% Barclays Aggregate Bond Index
Large Cap Equities	Value	Hartford Dividend & Growth	Russell 1000 Value Large Cap Value Fund Universe
		T.Rowe Price Equity Income	Russell 1000 Value Large Cap Value Fund Universe
	Blend	Vanguard 500 Index Signal <u>Institutional</u>	S&P 500 Large Cap Blend Fund Universe
		Vanguard Dividend Growth	S&P 500 Large Cap Blend Fund Universe
	Growth	Wells Fargo Adv Growth	Russell 3000 growth Large Cap Growth Fund Universe
		Franklin Growth Advisor	Russell 1000 growth Large Cap Growth Fund Universe
Mid Cap Equities	Value	Virtus Mid Cap Value Equity I	Mid Cap Value Universe Russell Mid Cap Value
	Blend	Columbia Mid Cap Index A	Mid Cap Blend Universe S & P Mid Cap 400
		AMG Fairpointe Mid Cap I	Mid Cap Blend Universe Wilshire 4500 Index
	Growth	Prudential Jennison Mid Cap Growth Z	Mid Cap Growth Universe Russell Mid Cap Growth

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN STATEMENT OF INVESTMENT POLICY

Small Cap Equities	Value	Allianz NFJ Small Cap Value	Small Value Universe Russel 2000 Value
	Blend	DFA US Small Cap	Small Cap Blend Universe Russel 2000 Index
	Growth	Brown Capital Mgmt Small Co Inv	Small Cap Growth Universe Russel 2000 Growth
Fixed Income		Wells Fargo Stable Return Fund J	3-Month T-Bill Index
		Vanguard Treasury Money Market Fund	3-Month T-Bill Index
		Vanguard Total Bond Fund	Barclays Aggregate Bond Index Taxable Bond Fund Universe
		PIMCO Real Return Admin	Barclays Aggregate Bond Index Taxable Bond Fund Universe
		PIMCO Total Return Bond Fund	Barclays Aggregate Bond Index Taxable Bond Fund Universe
		Prudential High Yield Z	BofAML High Yield Bond Index High Yield Bond Fund Universe
		Templeton Global Bond Adv	Citi World Govt Bond Index World Bond Fund Universe
Real Estate		Cohen & Steers Realty Shares	FTSE NAREIT All Equity REIT Index Real Estate Fund Universe
International Equities		Franklin Mutual Global Discovery Z	MSCI ACWI Index International Stock Fund Universe
		Vanguard Total Intl Stock Index	MSCI ACWI Index International Stock Fund Universe
		Oppenheimer Developing Markets Y	MSCI Emerging Markets Index Diversified Emerging Markets Universe

STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN STATEMENT OF INVESTMENT POLICY

Asset Allocation

TIAA-CREF Lifecycle Funds

Retirement Income Fund

2010 Fund Benchmark

2015 Fund Benchmark

2020 Fund Benchmark

2025 Fund Benchmark

2030 Fund Benchmark

2035 Fund Benchmark

2040 Fund Benchmark

2045 Fund Benchmark

2050 Fund Benchmark

2055 Fund Benchmark

2060 Fund Benchmark

The TIAA-CREF Lifecycle Funds will be benchmarked using the Wilshire 5000 Index, MSCI Index, Aggregate Bond Index, High Yield Index, and 3-Month T-Bill Index. Each fund benchmark will be based on the fund allocation in Domestic Equity, International Equity, Fixed-Income, Inflation Protected Assets, and Short-term Fixed Income stated in the fund prospectus.



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Public Employees Retirement System**
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Scott Miller
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1-800-803-7377

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Memorandum

TO: NDPERS Board

FROM: Bryan Reinhardt

DATE: June 21, 2018

SUBJECT: Job Service Plan Asset Allocation

The Job Service retirement plan has about 200 retirees and only 8 active contributing members with total assets of \$97.3 million at market value (July 2017). Market value of assets as of December 31, 2017 were \$97.8 million. As this plan continues to mature, the NDPERS Board has worked to de-risk the asset allocation. SEI is the fund manager for the Job Service assets. Attachment 2 is a proposal to take the next step in de-risking the plan. The current asset allocation is a 70/30 stocks/fixed income ratio. The proposed portfolio B is an 80/20 allocation. This is projected to decrease the return by 0.3% points, but decrease the standard deviation (risk) by 1.1% points.

We had our consultant GRS analyze how this change would affect the plan. Their response is that the plan with the change would still be above 130% funded status (Attachment 1).

The NDPERS Investment Subcommittee reviewed this information and recommends the NDPERS Board approve Portfolio B to continue de-risking the Job Service plan. Attachment 3 is the updated JS Investment Policy.

Board Action Requested:

Approve the updated Job Service Investment Policy (Portfolio B 80/20 Asset Allocation).

Attachment 1



Mon 3/5/2018 1:07 PM

Lance.Weiss@grsconsulting.com

RE: SEI Presentation for 2/15 Meeting

To: Reinhardt, Bryan T.

Cc: Amy.Williams@grsconsulting.com; Schiermeister, Sharon L.; C3008@grsconsulting.com

i You replied to this message on 3/21/2018 9:44 AM.

CAUTION: This email originated from an outside source. Do not click links or open attachments unless you know they are safe.

Hi Bryan.

Although it is not completely compatible, the GASB Report for Job Service as of June 30, 2017 (Page D-2) shows that a one percent reduction in the Single Discount Rate from 5.70% to 4.70% reduces the net pension asset from \$33,635,942 to \$27,182,597, which is equivalent to reducing the funded ratio from 152.86 to 138.79%.

Therefore for funding purposes, we think it is safe to say that, based on an investment return assumption of 4.75%, and the market value of assets, the funded ratio as of July 1, 2017 for the Retirement Plan for Employees of Job Service North Dakota will be above 130%.

Regards,

Lance



Lance J. Weiss, EA, MAAA, FCA

Senior Consultant/Team Leader

120 North LaSalle Street | Suite 1350 | Chicago, IL 60602-3495

Phone: 312.456.9800 | Direct: 312.368.6784 | Cell: 847.217.8454

lance.weiss@grsconsulting.com

The above communication shall not be construed to provide tax advice, legal advice or investment advice.

Good afternoon Bryan.

In accordance with your request, we have modeled the revised asset Portfolio A (30% equity/70% fixed income) and asset Portfolio B (20% equity/80% fixed income) as described in the SEI Client Portfolio Management Fourth Quarter 2017 report) applicable to the Retirement Plan for Employees of Job Service North Dakota.

Based on our analysis, we recommend an investment return assumption of 5.0% in the event Portfolio A is chosen and an investment return assumption of 4.75% in the event Portfolio B is chosen.

Please note that the Retirement Plan for Employees of Job Service North Dakota was frozen to new members as of October 1, 1980. The plan, as of July 1, 2017, had a total of eight active members, 199 benefit recipients and one deferred vested participant entitled to a future benefit. All eight active members are eligible for retirement (normal, optional or early) as of July 1, 2017. Because of these demographics, we believe that more weight should be given to the shorter term expected returns rather than the equilibrium expected returns.

Based on the current investment return assumption of 5.70%, and the market value of assets, the funded ratio as of July 1, 2017 for the Retirement Plan for Employees of Job Service North Dakota was 152.4%. We estimate that, even with an investment return assumption of 4.75%, the Retirement Plan for Employees of Job Service North Dakota will still be well over 100% funded.

Please call us with any questions.

Regards,

Lance



Lance J. Weiss, EA, MAAA, FCA

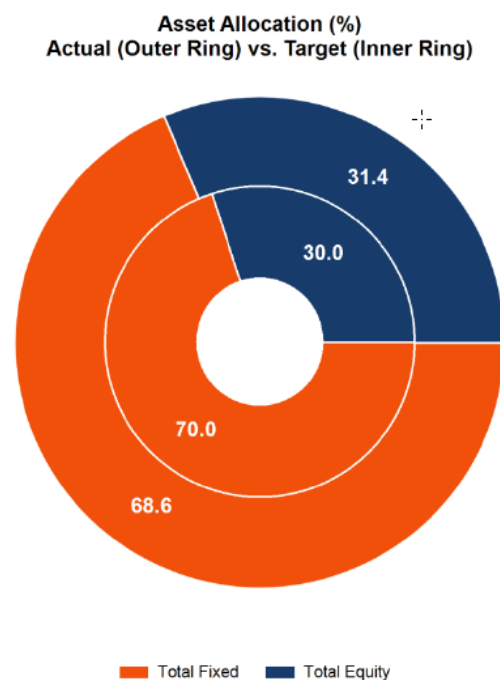
Senior Consultant/Team Leader

120 North LaSalle Street | Suite 1350 | Chicago, IL 60602-3495

Phone: 312.456.9800 | Direct: 312.368.6784 | Cell: 847.217.8454

Attachment 2

ND – Job Service Pension Portfolio summary: December 31, 2017



Summary for periods ending 12/31/2017			
	One Month	Three Month	Year To Date
Portfolio Value	\$97,904,168.43	\$97,160,466.49	\$95,295,462.45
Net Cash Flows	(\$500,000.00)	(\$1,300,000.00)	(\$4,925,000.00)
Realized Gains	(\$10,302.10)	(\$2,724.62)	\$944,074.82
Unrealized Gains	(\$2,132,630.83)	(\$1,038,982.93)	\$2,373,930.34
Interest	\$0.00	\$0.00	\$0.00
Dividends	\$2,542,784.94	\$2,985,261.50	\$4,115,552.83
Ending Portfolio Value	\$97,804,020.44	\$97,804,020.44	\$97,804,020.44

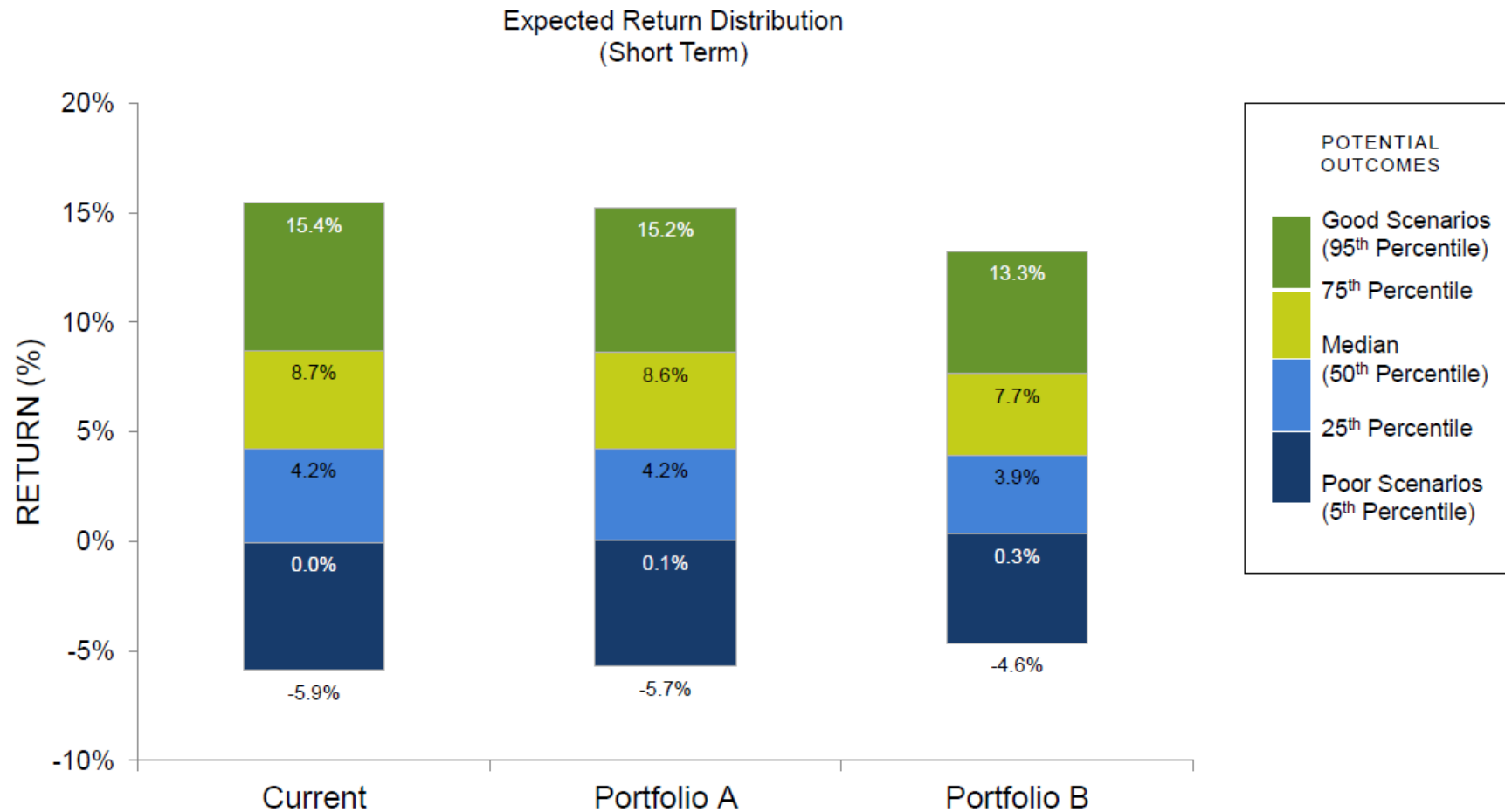
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Job Service: Modeled portfolios

Asset Class	Current	Portfolio A	Portfolio B
US Managed Volatility Equity	18	9	6
Global Managed Volatility Equity	12	21	14
Total Equity	30	30	20
US High Yield	3	3	3
Emerging Markets Debt	3	3	3
Core Fixed Income	23	23	26
Limited Duration Fixed Income	22	22	26
Diversified Short Term Fixed Income	12	12	12
Short Term Corporate Fixed Income	7	7	10
Total Fixed Income	70	70	80
Portfolio Metric (Net of Fees)			
Expected Return (Short Term)	4.2	4.2	3.9
Expected Return (Equilibrium)	6.7	6.7	6.4
Standard Deviation	6.5	6.4	5.4
Risk of Loss (5 th percentile-Short Term)	-5.9	-5.7	-4.6

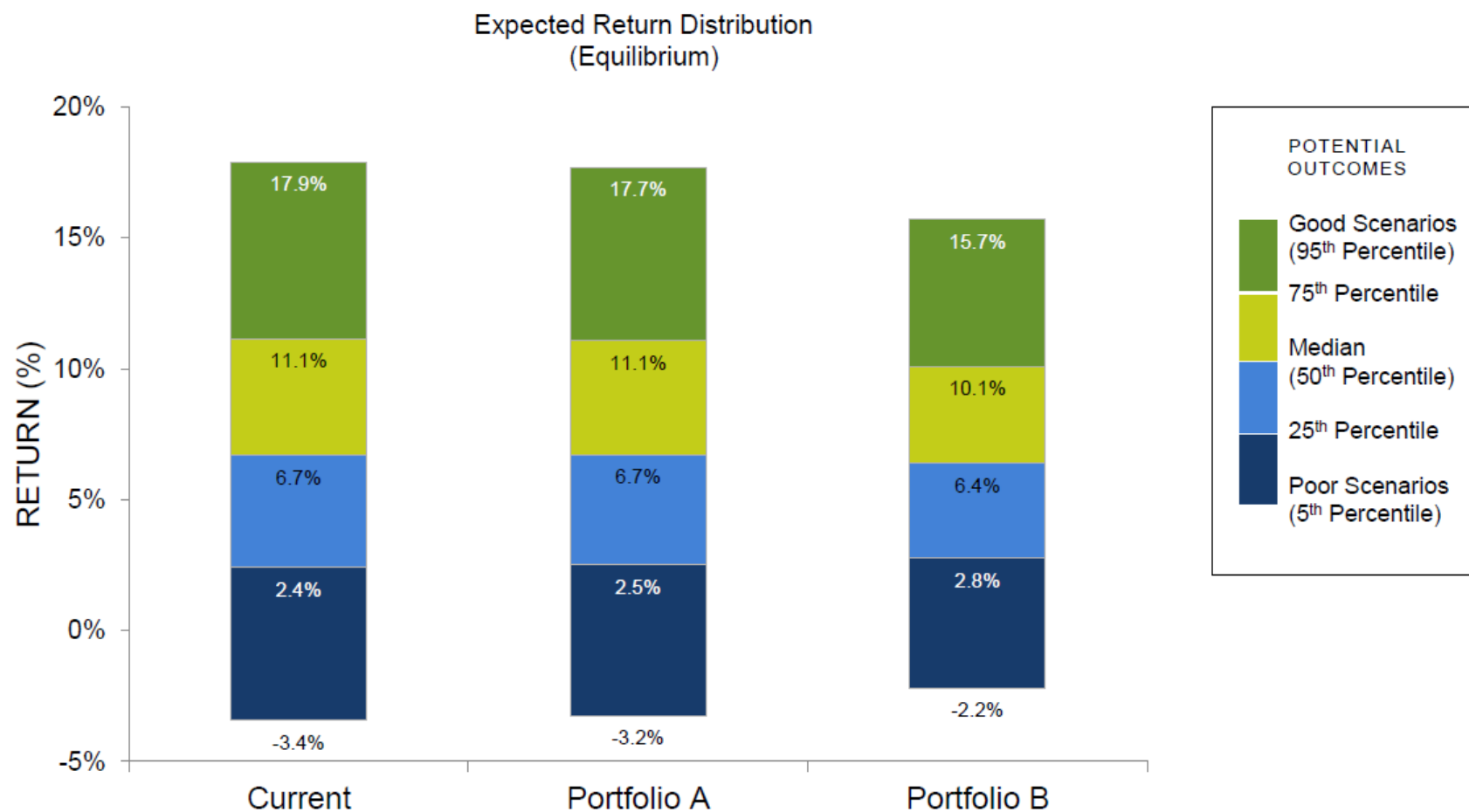
Source: SEI Capital Market Assumptions. Please see important disclosures at the beginning of this section and at the back of the presentation.

Job Service: Modeled portfolios



Source: SEI Capital Market Assumptions. Please see important disclosures at the beginning of this section and at the back of the presentation.

Job Service: Modeled portfolios



Source: SEI Capital Market Assumptions. Please see important disclosures at the beginning of this section and at the back of the presentation.

RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA

INVESTMENT POLICY STATEMENT

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The NDPERS Board (the Board) is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Job Service North Dakota as the employer contributes 4% of the active participant's salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

Each year the Plan has an actuarial valuation performed. The current actuarial assumed rate of return on assets is 5.75.4%.

2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

3. DELEGATION OF AUTHORITY

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

4. INVESTMENT GOALS

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price index (CPI), by 3.0 or more percentage points per year (based on current actuarial assumptions of 5.7% return and 2.5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plan's surplus to increase future benefit payments.

5. INVESTMENT PERFORMANCE OBJECTIVE

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a) The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

- b) The annual standard deviation of total returns for the Fund should not materially exceed that of the policy portfolio by more than 15%.
- c) Over 5-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation by more than 15%.

6. ASSET ALLOCATION

The NDPERS Board as plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. The current asset allocation is based upon the asset/liability study completed by SEI Consultants in 2017. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes.

In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Equity – ~~186~~%
 Global Equity - ~~1214~~%
 U.S. High Yield Bonds - 3%
 Emerging Markets Debt - 3%
 Core Fixed Income - ~~2326~~%
 Limited Duration Fixed Income - ~~2226~~%
 Diversified Short Term Fixed Income - 12%
 Short Term Corporate Fixed Income - ~~710~~ %

Rebalancing of the Fund to this target allocation will be done in accordance with the SIB's rebalancing policy, but not less than annually.

7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- d. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- e. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

8. INTERNAL CONTROLS

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

9. EVALUATION

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with these investment goals, objectives and policies.
- A general market overview and market expectations.
- A review of fund progress and its asset allocation strategy.

In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.

~~Sharon Schiermeister~~Scott Miller
~~Interim~~ Plan Administrator and Trustee
 Retirement Plan for Employees of
 Job Service North Dakota

David Hunter
 Executive Director
 North Dakota Retirement and Investment Office

Date: _____

Date: _____



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • Box 1657
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Scott Miller
Executive Director
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1-800-803-7377

Fax: (701) 328-3920 Email ndpers-info@nd.gov Website <https://ndpers.nd.gov>

Memorandum

TO: NDPERS Board

FROM: Rebecca

DATE: June 21, 2018

SUBJECT: Tobacco Cessation Program

The Department of Health (DoH) notified us that the Tobacco Cessation Program funding will be continued for the second year of the biennium from July 1, 2018 through June 30, 2019. Funding approved for the upcoming year is \$25,000.00. The grant proposal has been signed by Sanford Health Plan and, at the time of this memo, was pending signature by the DoH. Attachment 1 is a copy of the agreement for the upcoming year.

Board Action Requested

Approve Tobacco Cessation program for 2018-2019 based on the DoH's budget recommendation.

NDPERS TOBACCO CESSATION PROGRAM FOR STATE EMPLOYEES

Contacts: Katie Nermoe
Sanford Health Plan
(605) 328-7166
katie.nermoe@SanfordHealth.org

Rebecca Fricke
Insurance Plans Manager
(701) 328-3978
rfricke@nd.gov

Address: Sanford Health Plan
300 Cherapa Place, Suite 201
Sioux Falls, SD 57103

NDPERS
400 E. Broadway, Suite 505
Bismarck, ND 58502
(701) 328-3900
Fax: (701) 328-3920

Source of Funding:

Section 23-38 of the NDCC relating to the community health grant program, to provide for an appropriation to the State Department of Health, \$25,000 or so much of the sum as may be necessary for the purpose of funding employee tobacco education and cessation programs for state employees beginning July 1, 2018 and ending June 30, 2019.

Program Sponsor and Administration:

NDPERS is proposing to sponsor a tobacco cessation program for its state employee members with Sanford Health Plan being the plan administrator and fiscal agent for the grant.

About NDPERS:

Based on its responsibilities related to management of the group health plan and the Board's objectives for monitoring and containing rising health care costs, NDPERS was selected as the plan sponsor for a tobacco cessation program for state employees.

NDPERS is a state agency responsible for the management and administration of the group employee benefit programs for state employees. The North Dakota Public Employees Retirement Board is the governing authority of NDPERS. One of the programs under its authority is the group health insurance plan. The Board supports wellness initiatives that may have a positive impact on containing rising health care costs. To further this objective, the Board submitted legislation during the 2003 session in SB 2060 that related to establishing an employer based wellness program that would provide an incentive for employers to establish these programs in order to involve them as a mechanism to encourage employees to develop and maintain healthy lifestyle habits.

Smoking is the single most preventable cause of disease, disability, and death in the United States. Given the documented medical evidence related to the adverse health effects related to nicotine dependence, and the expense for treatment of this disease, implementing a program to assist individuals to quit could improve the

overall health of these individuals and, thus contain rising health care costs both from a short and long-term perspective. Therefore, supporting a cessation program aligns with the Board's objectives.

About Sanford Health Plan:

Sanford Health Plan is a non-profit, taxable organization, and has been serving the Dakotas, Minnesota and Iowa for almost 20 years. Sanford Health Plan has office locations in Sioux Falls, SD, Fargo, ND and Bismarck, ND and was awarded the NDPERS health insurance contract for the 2015-2017 biennium. Sanford Health Plan is accredited by the National Committee for Quality Assurance.

Time Frame:

The NDPERS State Employee Tobacco Cessation Program is scheduled to begin July 1, 2018 and will be completed by June 30, 2019. Final invoice for services will be submitted to the Department of Health by July 15, 2019.

Program Description:

The member is eligible for two separate benefit periods as follows:

7/1/2018– 12/31/2018
1/1/2019 – 6/30/2019

The program will be a combination of counseling to include initial assessment, physician office visit, nicotine replacement therapy and prescription medication, if indicated, and follow-up support counseling as necessary by individual, group, or telephone. Re-treatment will be available within six months and will be the responsibility of the counseling program and reimbursement will be available on the same basis as during the initial treatment phase.

Program Services & Reimbursement:

Program services will be reimbursed as follows:

- \$200 per Member/per Benefit Period for Department of Health approved counseling services and/or office visits, if the provider charges for these services.
- \$500 per Member/per Benefit Period for prescription drugs and over-the-counter drugs prescribed for tobacco cessation.
- Total expenses reimbursed per Member/per Benefit Period shall not exceed \$700 per Benefit period.

Funds will be allocated on a first-come first-served basis until all available funds are exhausted.

Monitoring and Evaluation:

Sanford Health Plan will produce the following reports:

- Track each patient receiving therapy and level of therapy based on claims data.
- Report every six months to the PERS and DoH about results and participation rates.

Administration, Promotion & Budget:

Administration

All funds will be billed by and paid directly to Sanford Health Plan. Sanford Health Plan will be the contracting entity and will maintain all documentation relating to the projects costs. While PERS will sponsor the program it will not be charging any fees to the project nor will it be administering the funds for the program. As a result of the responsibilities assigned to Sanford Health Plan they will be charging an administrative fee for the project of 9% of claims paid to providers to pay its costs as program administrator and granting entity. Sanford Health Plan will reimburse providers monthly based upon the paper billings submitted. Sanford Health Plan will then submit to the Department of Health monthly the total claims for reimbursement. Final billing will be submitted no later than July 15, 2019.

Promotion

Sanford Health Plan will be responsible for the creation of all promotional materials. Sanford Health Plan will share the promotion schedule and obtain approval of all materials from DoH and NDPERS prior to printing. NDPERS will be responsible for the dissemination of materials.

Budget

Program Benefit Budget:
Sanford Health Plan Administrative Costs (9%)

Total Budget Request	\$ 25,000
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Reimbursement will be made to Sanford Health Plan monthly based on actual costs accrued by local programs for services provided to state employees plus a 9% administrative fee up to a maximum of \$25,000 (July 1, 2018 through June 30, 2019).



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Memorandum

TO: NDPERS Board

FROM: Bryan & Sharon

DATE: June 21, 2018

SUBJECT: Health Plan RFP

NDPERS staff along with Deloitte Consulting continue to work on the health plan request for proposals to have it ready in case the Board chooses to go out to bid. The following is a draft of the timeline:

Activity	Date/Time (All Times in CST)
NDPERS publishes Request for Proposals (RFP)	September 24, 2018
Vendor Conference	October 17, 2018
Vendor questions (in writing) due	October 24, 2018 (5 pm)
NDPERS distributes answers to Vendors' questions	November 9, 2018
Proposals due	November 26, 2018 (5 pm CST)
Finalist presentations (if requested)	Jan/Feb 2019
NDPERS notifies finalist of intent to negotiate	Feb 2019
Contractor and NDPERS complete negotiations	Feb/March 2019
Contractor and NDPERS begin implementation	March 2019
Contractor(s) begins providing services	July 1, 2019

If you have any questions we will be available at the NDPERS Board meeting.



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Memorandum

TO: NDPERS Board

FROM: Sharon Schiermeister

DATE: June 21, 2018

SUBJECT: Retiree Subcommittee Update

The NDPERS Retiree Subcommittee met on May 15, 2018. A copy of the minutes are attached. The Subcommittee reviewed three topics relating to the retiree health insurance and prescription drug plans and provided comments for the Board's consideration.

Medicare Supplement Plan

The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) states that on or after January 1, 2020, a Medicare supplemental policy that provides coverage of the Part B deductible may not be sold or issued to a newly eligible Medicare beneficiary. The NDPERS supplement plan is modeled after a Plan F plan, which does not have a Part B deductible. The Subcommittee felt that consideration should be given to offering a Part G plan which includes a Part B deductible.

Since the meeting, we have received clarification from Sanford that the phrase "Medicare supplemental policy" does not include a policy/contract issued to an employer for employees or former employees; therefore it would appear that this does not apply to the NDPERS plan. However, we will continue to clarify this with Deloitte and our attorney.

Since this law will affect other Part F products that are available in the market, the Board may want to look at options for the Medicare supplement plan. This topic will be added to a future board meeting agenda for further consideration.

Medicare Part D Plan

NDPERS has contracted with Express Scripts (ESI) for the Part D plan for the past 3 years. The Subcommittee discussed the renewal and RFP process and felt it may be beneficial to go out to bid. This will be added as an agenda item for the July 10, 2018 board meeting, for the Board's consideration.

Bundle/Unbundle

Historically, NDPERS has offered a Medicare Supplement that includes drug coverage. This was the case before Part D was created by the federal government. Our coverage is bundled, which means it includes both medical and Rx and, in electing this coverage, the member has to take both.

When Part D was implemented, the Federal government provided Medicare retirees with an annual open enrollment, giving them the opportunity to select Rx coverage from numerous Rx products in the marketplace with varying plan designs, formularies, and pricing. This open enrollment has resulted in confusion because our members receive information on the federal open enrollment and think this is something they can do and will enroll for other Part D coverage. A member cannot be enrolled in two Part D products, so CMS (Centers for Medicare and Medicaid Services) cancels the member's Part D coverage with NDPERS. The unintended outcome of this action is that the member's eligibility for continued medical coverage has been jeopardized because we cannot cancel Rx coverage without also cancelling the medical coverage because the product is bundled.

We also know that the premium for the NDPERS Part D plan may be higher for many members, and there may be different drug plans that have advantages over the NDPERS Plan.

The Subcommittee felt that there could be advantages to unbundling, but if the Board were to move forward with this, it is their recommendation to wait until the 2020 plan year. This topic will be added to a future board meeting agenda for further consideration.

NDPERS RETIREE BENEFITS COMMITTEE

May 15, 2018

MINUTES

* - Present

BOARD MEMBERS: *Yvonne Smith

STAFF: *Bryan Reinhardt, *Rebecca Fricke, *MaryJo Anderson,
*Sharon Schiermeister

Guests: *David Zimmerman – ND Insurance Department

Interest Groups:

Membership Representatives: *Dave Zentner, *Weldee Baetsch, *Bill Lardy, *Ron Leingang,
*Deb Knudsen, *Curt Zimmerman, *DeNae Kautzmann

ND Capitol Peace Garden Room

Minutes

10:00 – Sharon started the meeting and thanked everyone for coming. The presentation started with the health plan. In 2020, plans that cover the Medicare Part-B deductible will not be allowed for new retirees. This will include the NDPERS plan which is a Plan – F lookalike. NDPERS will need to plan for this. Planning for January 1, 2020 will come quickly. Maybe a Plan – G which is the same as a Plan – F except for the Medicare Part-B deductible. Sanford health noted a 10%-11% reduction in premiums for their Plan-G benefits. If NDPERS does nothing, new retirees would need to go to the market for coverage. The group felt this needs to be done. Discussion followed that a Plan-G might even be better than the current Plan-F if there is a reduction in premiums of 10% and the deductible is only \$183. NDPERS will need to look if any legislation will be required to offer this or change the plan. The group favored a G-Plan and full conversion of the current plan should be explored. There will be a Plan-G HDHP, but the group didn't feel this needed to be looked at immediately as the \$2,000+ deductible appears high.

The presentation moved to the Medicare Part-D plan. Early projections from Express Scripts Inc. (ESI) indicate that no increase in premium would be needed for 2019. Different plan designs were modeled, but the change in benefits didn't lower the premiums much. The group did not think any of the changes were worth further consideration. What if Sanford switched PBMs? The current contract with ESI for the retiree EGWP plan is between NDPERS and ESI. The group discussed the NDPERS renewal and RFP process. The committee felt it couldn't hurt to go out to bid. The timing for the upcoming year would be tight. If Sanford switched, it would start soon. Since the Federal subsidy is not known until late summer, NDPERS would not get the final rates from ESI until late August. The group further discussed the topic and felt it would still be good to see what other TPAs would have to offer.

10:50 – The presentation turned to keeping the retiree medical and RX coverage bundled or should the NDPERS Board consider unbundling it. The NDPERS requirement to have both under the plan is confusing to members. We know there are cheaper plans available and the best choice is typically an individual decision. Both Sanford and ESI noted no immediate rate increase for unbundling. If NDPERS did unbundle, they could still offer a plan or completely get out of the RX coverage. The committee discussed the Part-D enrollment and many retiree do not analyze their coverage each year. The group felt NDPERS should continue to offer coverage and if unbundling were to be looked at, the 2020 plan year would make sense to go along with the overall plan changes discussed earlier. Dave Zimmerman from the state insurance office noted that the Medicare.GOV site is good, but would still, hopefully, get better.

Staff noted that the NDPERS plan is not on this web site, so members can't compare it to the other plans available. We might be able to have the carrier do something, but it is unlikely the government site would allow it to be compared with the market plans, since it is only available to NDPERS members. The group thought it would be OK for the NDPERS Board to look into unbundling.

11:30 – Sharon continued to go through the presentation and gave an update on other plans. The NDPERS proposed legislation includes several bills that address the retirement funding.

- 4th year recovery plan additional contributions
- Reduce the multiplier for new hires (increase back when 100% funded)
- Discontinue RHIC for new hires and move contributions to the retirement plan

All of these would help the funded status trend move upward. A combination of these would help the funded status reach 100% faster.

Other legislation includes allowing RHIC for other insurance instead of only NDPERS Dental & Vision and miscellaneous administration changes. The new NDPERS director is scheduled to start in two weeks.

11:55 – Adjourn



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Memorandum

TO: NDPERS Board

FROM: Rebecca

DATE: June 21, 2018

SUBJECT: Heart of America (HOA)

At the February meeting, the Board took action related to the Heart of America (HOA) HMO and whether to renew the contract. The minutes from the meeting indicate the following discussion and action:

Heart of America Renewal

Ms. Allen indicated that the Sanford Heart of America Health Plan, which expires on June 30, 2018, has requested the continuance to offer its health plan to state and participating political subdivision employees in the Rugby service area. Ms. Allen reviewed the rate increase and further stated that the Insurance Department has not received any complaints or appeals filed against Sanford Heart of America over the past year. Ms. Allen also reported that currently there are no participants enrolled in the plan.

MS. GOODHOUSE MOVED NOT TO RENEW THE SANFORD HEART OF AMERICA HEALTH PLAN CONTRACT. THE MOTION WAS SECONDED BY MS. SMITH.

Ayes: Representative Anderson, Ms. Goodhouse, Mr. Miller, Ms. Smith, Ms. Tufte, Mr. Seibel, Ms. Wassim, Senator Dever and Chairman Dosch.

Nays: None

Absent: None

MOTION PASSED

Since that meeting, NDPERS and Sanford staff have been reviewing the steps necessary related to the above directive. As part of this review, the following has been determined:

- 1) Sanford has found that there is one NDPERS-eligible employee participating in the HOA product from Rolette County for the current plan year July 1, 2017 through June 30, 2018.
- 2) Federal law under 45 C.F.R. §147.106 requires the issuer of insurance (Sanford) to provide notice, in writing, to each plan sponsor (NDPERS) or participant(s) of the discontinuation of the product at least 90 calendar days before the date coverage will be discontinued. Further, the participant is eligible to continue coverage until their renewal period (1 year) has elapsed.
- 3) SHP is offering the 2017-2018 rates for the July 1, 2018 renewal to Rolette County. If the current participant elects to renew, he will be able to maintain insurance coverage in the HOA from July 1, 2018 – June 30, 2019, unless the member elects to cancel coverage before June 30, 2019.
- 4) The current HOA agreement will effectively sunset June 30th, 2018. The contract will not be renewed, prohibiting any new participant enrollment into the HMO on or after July 1st, 2018.

Staff wanted to update you on the progress of this Board action and is available to answer any questions that you may have. This item is informational only and does not require any action by the Board.



Memorandum

TO: NDPERS Board

FROM: Scott Miller

DATE: June 21, 2018

SUBJECT: Managed Care Option

At the July 2017 and May 2018 Board meetings, we discussed the health plan and the challenges it will be facing going into 2019-21. Specifically, we noted three items:

1. The early estimate is a 15% premium increases for the 2019-21 biennium, which would require \$70 million in new state funding, of which \$39 million would be general funds.
2. For the 2017-19 biennium, the premium increase for all members was reduced by 2%. If this is not done again, the full cost of the premium increase would need to be 2% more, or 17%.
3. The plan design changes that were made last biennium to reduce the overall premium increase were almost all that is allowed under the ACA without losing the plan's grandfathered status.

In recognition of the above, the Board considered numerous strategies for going forward. One was to explore implementing a managed care option in the health plan. This was previously done by NDPERS in the 1990s and was called the EPO at that time.

Pursuant to this directive, staff worked with Sanford, and in May we presented to you two options on how to proceed.

- **Option #1** - A traditional managed care option, like the EPO,
- **Option #2** - A managed care option that would apply across all of the plan designs, with a focused North Dakota network that provides enhanced wellness benefits and that would be budget neutral.

The board selected Option #2, and we have worked with Sanford since the last meeting to develop more details. Our discussion at this meeting is intended to give you an update on this new product. Since you have already approved this new arrangement, we are not asking for any action at this time, but rather to ensure your continued support of the decision and gain input on the direction we are going to implement your decision.

In this memo we will provide you information on the following:

1. The new managed care overlay to all plan designs, how it will work, provider expectations, carrier expectations, contracting arrangement, solicitation process, risk sharing arrangement, attribution process, and settlement process.
2. The new plan design with a North Dakota-focused provider network and its relationship to the existing plan designs.
 - a. Discussion of new wellness benefits
 - b. The out-of-area referral requirement
 - c. How it will be budget neutral
 - d. Discussion of the annual election process to enroll in this product

1. The new managed care overlay to all plan designs

This would be added to all plan designs and would provide for a closer relationship with health care providers that elect to participate. The goal of this new relationship is to reduce the long-term health care trend by working with the provider to provide high-quality services more efficiently than today. This arrangement would add a value-based payment system to our existing fee-for-service system which would share the risk with our providers. Those providers able to achieve positive outcomes will share in our gains and those that do not will share in our losses. The following is a brief description of the some of the components of this relationship:

- **Provider/Carrier/PERS Expectations relating to managed care:**

- **Enhanced Provider performance and Quality review reporting.**

The Total Cost of Care Reports suite provides total care performance information for a provider's attributed members/patients and compares it to that of the NDPERS average on a variety of metrics and on a risk adjusted basis. The following is a sample of the quarterly reporting package for the participating Health Systems.

1. The **Total Cost of Care Report** provides a comparison of a provider's overall performance.
2. The **Chronic Conditions Report** provides a comparison of a provider's performance for each of eleven specific chronic conditions and for those with none of the specified conditions.
3. The **Professional Services Provider Report** provides details on which provider groups provided professional services to a provider's members.
4. The **Specialty Care Provider Report** provides details on the top 10 provider specialties by spend, depicting the top 5 providers for each specialty type.

5. The **Hospital Services Provider Report** details which hospitals a provider's members used.
 6. The **Percent Generic Report** provides details on generic drug use for a provider.
 7. The **Top 25 Drugs by Cost Report** gives details on the 25 highest spend drugs as well as total, brand, and generic costs.
- **Educational Programs**
Collaboration, education and measurement of new and existing NDPERS programs that promote healthy lifestyles, self-care, and preventative care, including but not limited to Healthy Pregnancy, Tobacco Cessation, Diabetes prevention and health screenings.
 - **Wellness Support**
All parties would work together in wellness education and initiatives surrounding the Dakota Wellness Program. We will collaborate and establish evidence-based, cost-effective wellness initiatives that focus on prevention, maintenance and improvement of health of the NDPERS population. Examples include establishing standards and treatment protocols for diabetes, obesity, nicotine use, bariatric surgery, etc.
 - **Program Support**
 - A dedicated team of subject matter experts will provide leadership, direction and support of the managed care product.
 - In addition, Sanford Health Plan has licensed HealthPartners' Total Cost of Care and Resource Use (TCOC) measurement tool to help design and measure NDPERS' total cost of care overlay. This analytical framework is designed to support affordability initiatives, to identify instances of overuse or inefficiency, and to highlight cost-saving opportunities—it is a full population, person-centered measurement tool that accounts for 100 percent of the care provided to a patient. Health Partners' TCOC measures were originally endorsed by the National Quality Forum in January, 2012 and most recently re-endorsed in September, 2017
 - **Case management and Quality Management**
Case management and quality activities will be aligned to address the sub-populations identified within the NDPERS population. This will include interventions to address the Performance Guarantees. The overall goals of these efforts will be to improve the quality, value and cost for the services members receive.
- **Value-Based Contracting Components**
 - **Total Cost:** Total Cost measurement begins by coupling administrative claims data with membership eligibility data. All administrative claims—for inpatient, outpatient, clinic, ancillary, pharmacy, and all other types of services—contribute to the total cost measure for these individuals. Population-level costs therefore reflect a per-member per-month (PMPM) sum, estimated by dividing members' total costs (or paid amounts) by total member months.

- **Risk Adjusted:** Risk adjustment refers to the adjustments made to measurements to reflect the health status of patients and allows for comparability of heterogeneous populations. In essence, it levels the playing field by accounting for health status differences, ensuring measured results reflect real differences in care provided and resources used. Sanford Health Plan will use Johns Hopkins' Adjusted Clinical Groups (ACG System) to assign everyone a risk score based on diagnoses, age and gender to account for the illness-burden of a Health System's attributed membership.
- **Risk sharing arrangement:**
 - Attribute members to a Health System
 - Compute current risk adjusted total cost of care PMPM
 - Determine risk adjusted PMPM target for measurement/performance period
 - Measure TCOC performance (Actual TCOC PMPM vs Target TCOC PMPM)
 - Level of trend increase will be dependent on historical PMPM cost relative to average of all eligible Health Systems
 - Measure quality performance, for example:
 - Optimal diabetes care
 - Optimal vascular care
 - Colorectal screening
 - Mammogram screening
 - Asthma
- **Settlement Process:** (we will provide a more detailed explanation of this next month however note the emphasis on quality necessary to get any gain sharing - this is the value/managed care emphasis)
 - Quality threshold must be met for Health System to receive shared savings
 - First dollar PMPM of savings to Health System
 - Remaining shared savings/loss will be determined based on:
 - Level of Risk share selected by Health System
 - Quality Performance
 - 50% of total quality points must be met before Health System can receive shared savings
 - Each 5% increase in quality performance above 50% will result in 1% additional share of savings for the Health System. For instance, if a Health System achieves 100% of its quality performance, an additional 10% of shared savings will be allotted to the Health System
- **Solicitation Process:**
 - All Health Systems with an attribution of 500 or more members will be invited to participate in the NDPERS TCOC overlay arrangement.
 - All Health Systems must be participants of the NDPERS PPO to be eligible.
 - All Health Systems must be credentialed and in good standing with Sanford Health Plan.
 - All eligible Health Systems will be provided the same agreement, including TCOC rules, requirements and performance measures.

- **Attribution Process:**
Members will be attributed to a single provider, to be deemed responsible for the patient's cost and quality of care. An algorithm will be used to identify each member's principal provider. Sanford Health Plan will utilize a retrospective (i.e. concurrent) attribution method that assigns patients to providers based on historical claims. In this case, attribution is performed at the end of the period measured, and thus ensures the patient received care from the attributed provider.
- **Member freedom of choice:**
The member will retain the same freedom of choice to select any provider they so elect as they have with the existing plan.

2. The new North Dakota-focused provider network option

The second aspect approved at the last meeting was a North Dakota-focused provider network. As stated in the memo last month, "a second component would be added to Option 2 whereby members pay higher cost share amounts for services rendered outside of North Dakota unless they received a referral". Also, this plan design will respond to members' requests to have more wellness benefits and birth control paid by the plan.

Option 2, which is budget neutral, is shown in the following table along with our two existing plan designs. Like the HDHP plan, a member would need to affirm the selection of this option and they would not be automatically enrolled.

Managed Care Plan - Illustration I							
	Existing PPO/Basic Grandfathered		Existing HDHP		TBD Non Grandfathered		
	PPO	Basic	PPO	Basic	PPO	*In-State (Basic)	Out of State (No referral)
Single Deductible	\$500	\$500	\$2,000	\$2,000	\$500	\$500	\$1,000
Family Deductible	\$1,500	\$1,500	\$4,000	\$4,000	\$1,500	\$1,500	\$3,000
Single Coinsurance Max	80%/\$1,000	75%/\$1,500	80%/\$1,500	75%/\$2,000	80% \$2,500	75% \$3,000	60% \$6,000
Family Coinsurance Max	80%/\$2,000	75%/\$3,000	80%/3,000	75%/\$4,000	80% \$5,000	75% \$6,000	60% \$12,000
Single OOPM	\$1,500	\$2,000	\$3,500	\$4,000	\$3,000	\$3,500	\$7,000
Family OOPM	\$3,500	\$4,500	\$7,000	\$8,000	\$6,500	\$7,500	\$13,000
Office Call Copayment	\$30	\$35	N/A	N/A	\$30	\$35	\$50
ER Copayment	\$60	\$60	N/A	N/A	\$60	\$60	\$60
Preventive Care	Standard Cost Share	Standard Cost Share	100%	100%	100%	100%	100%
Product Features							
Network Affiliation	Not Required		Not Required		Not Required		
Provider Network	No Change		No Change		No Change		
Health Savings Account	Not Applicable		Yes		Not Applicable		
Out of State Services	No Referral		No Referral		*Referral Required		
Network Risk Arrangement	Yes		Yes		Yes		
*OPTIONAL							
Care Management	Yes		Yes		Yes		
Special Programs	Yes		Yes		Yes		
Quality Management	Yes		Yes		Yes		
Wellness Programs	Yes		Yes		Yes		
Education Programs	Yes		Yes		Yes		

As the Board has heard in the past from both Sanford and BCBS, some members will go out of state for higher cost care that is available in state at equivalent quality. The new focused network on the right requires an approval to go out of state. This will result in savings to the plan. The other area of savings is from the out-of-pocket maximums. These savings will allow the plan to add the following additional benefits:

- No deductibles, copays, coinsurance, or other cost-sharing can be applied to in-network preventive care services. The services are mandated preventative benefits for non-grandfathered plans under the ACA and include additional well-child visits and immunizations among other required mandates.
- Contraceptive Benefits
- 100% coverage for colonoscopies at appropriate age
- Copays apply to Maximum out of Pocket (MOOP)

Summary

The above review is intended to give you an overview of the development of the program authorized at the May meeting. We would appreciate your thoughts and suggestions. At the July meeting we will give you a more detailed explanation of the value-based reimbursement/managed care methodology discussed above. If you have any additional ideas, suggestions or questions after the meeting please feel free to give us a call. We would appreciate your concurrence or approval that we continue to be moving in the correct direction.

FlexComp RFP Evaluation

**Executive Session
material to be sent out
under separate cover**



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Memorandum

TO: NDPERS Board

FROM: Jan Lund

DATE: June 21, 2018

SUBJECT: Board Election

The Election Committee met on May 9, 2018, to validate the nomination petitions received for the active opening on the NDPERS Board. The meeting minutes have been included for your review (attachment 1). Petitions were received from the following seven candidates and all were deemed eligible to have their names placed on the ballot.

Cade Jorgenson	WSI	Deon Vilhauer	DOT
Kim Wassim	HRMS	Krisanna Peterson	Bismarck Public Schools
Nicole Ralph	DOT	Parrell Grossman	Attorney General
Ryan Kamrowski	Ward Co		

The election ballots were mailed the week of May 21 and the deadline for voters to return ballots is June 15th. Pursuant to ND Administrative Code 71-01-02, the Election committee is scheduled to meet at 9:00 a.m. on Monday, June 18th to canvass the ballots received for the election of a new active member to the Board.

A full report of the results will be provided at the meeting.

MINUTES

North Dakota Public Employees Retirement System Election Committee

Wednesday, May 9, 2018

NDPERS Conference Room - Bismarck, ND

Members Present: Casey Goodhouse – Chair
Adam Miller
Yvonne Smith

Others Present: Jan Lund, NDPERS
Sharon Schiermeister, NDPERS
MaryJo Anderson, NDPERS
Anders Odegaard, Legal Counsel

Meeting was called to order at Casey Goodhouse at 4:35 p.m.

The Election Committee met to validate the nomination petitions received for the active opening on the NDPERS Board.

Legislative rules require at least 100 signatures of active eligible voters. Seven petitions were submitted that met these criteria:

Cade Jorgenson	WSI	Deon Vilhauer	DOT
Kim Wassim	HRMS	Krisanna Peterson	Bismarck Public Schools
Nicole Ralph	DOT	Parrell Grossman	Attorney General
Ryan Kamrowski	Ward Co		

Adam Miller moved to accept the seven petitions and that the candidates are eligible to be placed on the ballot. The motion was seconded by Yvonne Smith and carried by voice vote.

The Committee reviewed language in the Administrative Rules governing NDPERS board elections, specifically section 71-01-02-06.5 related to submitting a photograph and narrative. The Committee discussed the situation of a candidate who had submitted a valid petition meeting the requirement of 100 or more eligible voter signatures, the petition was accompanied by a photograph but no narrative was submitted by the May 4th deadline. It was noted in Rules that the absence of a photograph or narrative does not invalidate the candidate's eligibility but only the candidate's name will then appear with the other candidate's information that accompanies the ballots. Yvonne Smith moved to accept the late submission and allow the narrative to be included in the information sheet that accompanies the ballot. The motion was seconded by Adam Miller and carried by voice vote.

The meeting adjourned at 5:05 p.m.

Prepared by:

Jan Lund
Assistant to the NDPERS Election Committee



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Memorandum

TO: NDPERS Board

FROM: Sharon Schiermeister & Derrick Hohbein

DATE: June 21, 2018

SUBJECT: 2019-2021 Biennium Budget

As reported at the May board meeting, the Governor provided budget guidelines and is asking that all agencies, including special fund agencies, follow these guidelines. This requires PERS to develop a 90% base budget that also includes a 5% reduction in FTE. To meet the guidelines proposed by the Governor, our overall appropriation will need to be reduced by approximately \$930,000 and by at least 1 FTE.

PERS staff did a thorough analysis of the services that are provided and ways to reduce spending and gain efficiencies. The following operational savings can be realized, without reducing staff or services:

Organizational Restructure Savings	\$ 76,000
Operational Savings:	\$ 260,000
Reduced Office Rent	
No Board Elections	
Business System Licensing Fees	
One-time cost for securing reception area	
Total Operational Savings	\$ 336,000

To make up the remaining reduction requirement, staff looked at services provided and programs offered that would need to be discontinued in order to achieve the Governor's budget reduction objectives. We also took into consideration whether or not the service could be outsourced. The following three options are presented for the Board's consideration.

Option #1 – Reduce 3 FTE by discontinuing the health, Part D, dental, and vision insurance plans for retirees; eliminate temporary positions.

Budget Savings of \$603,000

- Pros

- Retiree insurance

- These insurance products are available to retirees through the individual marketplace
 - The pre-65 population will already be familiar with shopping the marketplace due to the suspension of the pre-Medicare coverage for new retirees since 7/2015
 - Eliminates mass mailings for rate change letters and creditable coverage notices
 - Increases the capacity of NDPERS counselors to meet with more new retirees since they no longer need to counsel on retiree insurance
 - Provides more business to the private sector

- Cons

- Retiree Insurance

- Significant disruption to the retiree population currently enrolled in the PERS plans
 - Savings are offset by the need for additional funds for call center help
 - Retirees will be required to substantiate all premiums for RHIC reimbursement – currently NDPERS “auto-substantiates” premiums for PERS-sponsored plan
 - If we plan on “steering” members to similar products, we may need to hire a vendor to assist NDPERS with closing these plans and offering advice to retirees
 - Concern that retirees aren't their own health care decision-maker and could leave members without coverage inadvertently

Temporary Staff

- Loss of temporary staff eliminates flexibility to meet peak work periods or special projects and also eliminates the assistance provided to the Internal Audit division by the intern

Loss of FTE

- Loss of 3 FTE could impact ability to meet remaining agency workload, as none of these positions are specifically dedicated to the retiree insurance programs

Option #2 – Reduce 2 FTE by no longer offering non-Companion Plan deferred comp providers and discontinuing the Part D plan; eliminate the PERSLink mobile app; eliminate temporary positions.

Budget Savings of \$593,000

- Pros

Deferred Comp

- A consolidated vendor platform is currently being used in 46 states; ND is 1 of 4 states to use multiple providers
- Reduce annual provider training efforts with 230 provider agents and 9 provider companies
- Streamline administration by only needing to coordinate with one vendor
- Enhance fiduciary oversight over all assets; improve overall plan performance and lower fee structure for all assets
- Simplify the plan from a plan participant and communication perspective
- More attractive for RFP negotiating with larger participant base and plan assets

Part D

- Part D open enrollment is confusing with members enrolling in another plan resulting in NDPERS health plan being cancelled inadvertently
- Same as Option #1

Mobile App

- Eliminating the PERSLink mobile app reduces the amount of staff time required for testing enhancements and reduces licensing and hosting costs

- Cons

Deferred Comp

- Member disruption of existing relationship with a local provider

- Members may not be able to exit their current product without incurring surrender fees
- Removing business from local brokers
- Reduce participant choice of providers

Part D

- Same concerns as Option #1

Loss of FTE

- Loss of 2 FTE could impact ability to meet remaining agency workload, as none of these positions are specifically dedicated to the Part D or deferred comp plans

Temporary Staff

- Same concerns as Option #1

Option #3 – Reduce 2 FTE by discontinuing or outsourcing the Internal Audit function; eliminate temporary positions.

Budget Savings of \$620,000

- Pros
 - Least member disruption
 - Cost of outsourcing is paid through continuing appropriation authority
- Cons
 - Internal Audit
 - Unacceptable level of risk if Internal Audit function is discontinued
 - Loss of internal consulting services to staff (5-10% of internal audit staff time)
 - Cost of outsourcing is estimated to be \$700,000 a biennium – so net increase in cost
 - Temporary Staff
 - Same concerns as Option #1

Staff will need direction on which option to include to meet the recommended budget reductions. A final budget will be presented at the July meeting for approval. In order to meet OMB's deadline to submit the budget, staff has received an extension, and will need to have the budget finalized by August 10th instead of July 15th.

Board action requested:

Provide direction on which budget reduction option to include.



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Memorandum

TO: NDPERS Board

FROM: Sharon Schiermeister

DATE: June 21, 2018

SUBJECT: Legislative Committee Update

Employee Benefits Programs Committee.

The Committee met on Tuesday, June 12, 2018. Attached is the agenda. The Committee took jurisdiction over all of the bills (19, 20, 117, 128, 129, 130, 131, 135 & 146). The next step will be for NDPERS to provide actuarial and technical comments on each of these bills at the Committee's next meeting. The next meeting is tentatively scheduled for October 24-25, 2018, and will also include a presentation by GRS on the 2018 valuation reports.

Administrative Rules Committee.

The Committee will meet on June 14, 2018. NDPERS will be presenting the proposed changes to the administrative rules that the Board approved at the December 2017 meeting. These rules will become effective July 2018. We will provide an update on the action taken by the Committee at the Board meeting.

Health Care Reform Review Committee.

The Committee will meet on Thursday, June 28, 2018. A copy of the agenda will be provided to the Board once it becomes available.

In addition, we have been asked to provide an update on the NDPERS retirement and insurance plans at the State Employees Compensation Committee meeting scheduled for Tuesday, June 19, 2018.

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Tentative Agenda

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, June 12, 2018
Roughrider Room, State Capitol
Bismarck, North Dakota

1:00 p.m. Call to order
Roll call
Consideration of the minutes of the October 26, 2017, and May 2, 2018, meetings
Comments by the Chairman

TEACHERS' FUND FOR RETIREMENT

1:05 p.m. Committee consideration of [Bill Draft No. 126](#), which updates North Dakota Century Code relating to the Teachers' Fund for Retirement to remain in compliance with the federal Internal Revenue Code

Comments by interested persons

Committee discussion and directives

PUBLIC EMPLOYEES RETIREMENT SYSTEM

1:10 p.m. Introduction of and comments by Mr. Scott Miller, Executive Director, Public Employees Retirement System, regarding Public Employees Retirement System activities

1:20 p.m. Committee consideration of:

- [Bill Draft No. 128](#), provides if health benefits are provided through a self-insurance plan, the Public Employees Retirement System 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 that retiree health benefits are able to be used for any dental, vision, and long-term care benefits.
- [Bill Draft No. 131](#), provides for an increase in employee and employer contribution for the main retirement fund and the defined contribution plan.
- [Bill Draft No. 130](#), for new hires, decreases the retirement multiplier from 2 to 1.75 percent until the main retirement fund is at 100 percent funding, at which time the multiplier increases back to 2 percent.
- [Bill Draft No. 129](#), for new hires, reallocates the 1.14 percent employer contribution currently allotted to the retiree health insurance credit fund to the general pool of funds in the main plan.
- [Bill Draft No. 135](#), for future terminations, provides final average salary is the higher of two alternative calculations.
- [Bill Draft No. 117](#), provides contracts for the provision of health benefits coverage may not exceed 2 years and may not be renewed and updates the law relating to self-insurance plans for health benefits coverage.
- [Bill Draft No. 19](#), provides 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.
- [Bill Draft No. 20](#), revises the duties of the Employee Benefits Programs Committee.

- [Bill Draft No. 146](#), provides for a health savings account alternative to the traditional health benefits coverage for state employees and provides for a report to the Employee Benefits Programs Committee.

Comments by interested persons

Committee discussion and directives

2:00 p.m.

Adjourn

Committee Members

Representatives: Mike Lefor (Chairman), Randy Boehning, Jason Dockter, Vernon Laning, Alisa Mitskog, Mark S. Owens, Roscoe Streyle

Senators: Brad Bekkedahl, Dick Dever, Karen K. Krebsbach, Oley Larsen, Gary A. Lee, Carolyn C. Nelson

Staff Contact: Jennifer S. N. Clark, Counsel



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Memorandum

TO: NDPERS Board

FROM: Scott Miller

DATE: June 21, 2018

SUBJECT: Special Board Meeting

There are two time-sensitive items requiring Board Action that make it necessary to hold a special Board meeting. Following are the two items:

1. FlexComp vendor interviews
2. Health Plan RFP

Staff has surveyed the members for their availability and provide the following suggested dates for your consideration:

8:30 a.m.	Wednesday, August 1, 2018	ND Association of Counties
8:30 a.m.	Thursday, August 2, 2018	ND Association of Counties
8:30 a.m.	Friday, August 3, 2018	ND Association of Counties

More information will be available at the June meeting. We would appreciate your input on the date and time for a special meeting.